

The background is a vibrant green, populated with several watercolor-style piggy banks in various shades of pink and purple. Interspersed among the piggy banks are several green dollar bills, each featuring a white dollar sign in a circle and the number '1' in the corners. The overall style is soft and artistic, typical of watercolor painting.

Capital and Interest

by Frédéric Bastiat



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Capital and Interest

I address this treatise to the workmen of Paris, more especially to those who have enrolled themselves under the banner of Socialist democracy. I proceed to consider these two questions:—

1st. Is it consistent with the nature of things, and with justice, that capital should produce interest?

2nd. Is it consistent with the nature of things, and with justice, that the interest of capital should be perpetual?

The working men of Paris will certainly acknowledge that a more important subject could not be discussed.

Since the world began, it has been allowed, at least in part, that capital ought to produce interest. But latterly it has been affirmed, that herein lies the very social error which is the cause of pauperism and inequality. It is, therefore, very essential to know now on what ground we stand.

For if levying interest from capital is a sin, the workers have a right to revolt against social order, as it exists. It is in vain to tell them that they ought to have recourse to legal and pacific means: it would be a hypocritical recommendation. When on the one side there is a strong man, poor, and a victim of robbery—on the other, a weak man, but rich, and a robber—it is singular enough that we should say to the former, with a hope of persuading him, “Wait till your oppressor voluntarily renounces oppression, or till it shall cease of itself.” This cannot be; and those who tell us that capital is by nature unproductive, ought to know that they are provoking a terrible and immediate struggle.

If, on the contrary, the interest of capital is natural, lawful, consistent with the general good, as favourable to the borrower as to the lender, the economists who deny it, the tribunes who traffic in this pretended social wound, are leading the workmen into a senseless and unjust struggle, which can have no other issue than the misfortune of all. In fact, they are arming labour against capital. So much the better, if these two powers are really antagonistic; and may the struggle soon be ended! But, if they are in harmony, the struggle is the greatest evil which can be inflicted on society. You see, then, workmen, that there is not a more important question than this:—“Is the interest of capital lawful or not?” In the former case, you must immediately renounce the struggle to which you are being urged; in the second, you must carry it on bravely, and to the end.

Productiveness of capital—perpetuity of interest. These are difficult questions. I must endeavour to make myself clear. And for that purpose I shall have recourse to example rather than to

demonstration; or rather, I shall place the demonstration in the example. I begin by acknowledging that, at first sight, it may appear strange that capital should pretend to a remuneration, and above all, to a perpetual remuneration. You will say,

“Here are two men. One of them works from morning till night, from one year’s end to another; and if he consumes all which he has gained, even by superior energy, he remains poor. When Christmas comes he is no forwarder than he was at the beginning of the year, and has no other prospect but to begin again. The other man does nothing, either with his hands or his head; or at least, if he makes use of them at all, it is only for his own pleasure; it is allowable for him to do nothing, for he has an income. He does not work, yet he lives well; he has everything in abundance; delicate dishes, sumptuous furniture, elegant equipages; nay, he even consumes, daily, things which the workers have been obliged to produce by the sweat of their brow, for these things do not make themselves; and, as far as he is concerned, he has had no hand in their production. It is the workmen who have caused this corn to grow, polished this furniture, woven these carpets; it is our wives and daughters who have spun, cut out, sewed, and embroidered these stuffs. We work, then, for him and for ourselves; for him first, and then for ourselves, if there is anything left. But here is something more striking still. If the former of these two men, the worker, consumes within the year any profit which may have been left him in that year, he is always at the point from which he started, and his destiny condemns him to move incessantly in a perpetual circle, and a monotony of exertion. Labour, then, is rewarded only once. But if the other, the ‘gentleman,’

consumes his yearly income in the year, he has, the year after, in those which follow, and through all eternity, an income always equal, inexhaustible, *perpetual*. Capital, then, is remunerated, not only once or twice, but an indefinite number of times!

So that, at the end of a hundred years, a family which has placed 20,000 francs, 1 at five per cent., will have had 100,000 francs; and this will not prevent it from having 100,000 more, in the following century. In other words, for 20,000 francs, which represent its labour, it will have levied, in two centuries, a tenfold value on the labour of others. In this social arrangement, is there not a monstrous evil to be reformed? And this is not all. If it should please this family to curtail its enjoyments a little—to spend, for example, only 900 francs, instead of 1,000—it may, without any labour, without any other trouble beyond that of investing 100 francs a year, increase its capital and its income in such rapid progression, that it will soon be in a position to consume as much as a hundred families of industrious workmen. Does not all this go to prove that society itself has in its bosom a hideous cancer, which ought to be eradicated at the risk of some temporary suffering?”

These are, it appears to me, the sad and irritating reflections which must be excited in your minds by the active and superficial crusade which is being carried on against capital and interest. On the other hand, there are moments in which, I am convinced, doubts are awakened in your minds, and scruples in your conscience. You say to yourselves sometimes, “But to assert that capital ought not to produce interest, is to say that he who has created instruments of labour, or materials, or provisions of any kind, ought to yield them up

without compensation. Is that just? And then, if it is so, who would lend these instruments, these materials, these provisions? who would take care of them? who even would create them?

Every one would consume his proportion, and the human race would never advance a step. Capital would be no longer formed, since there would be no interest in forming it. It would become exceedingly scarce. A singular step towards gratuitous loans! A singular means of improving the condition of borrowers, to make it impossible for them to borrow at any price! What would become of labour itself? for there will be no money advanced, and not one single kind of labour can be mentioned, not even the chase, which can be pursued without money in hand. And, as for ourselves, what would become of us? What! we are not to be allowed to borrow, in order to work in the prime of life, nor to lend, that we may enjoy repose in its decline? The law will rob us of the prospect of laying by a little property, because it will prevent us from gaining any advantage from it. It will deprive us of all stimulus to save at the present time, and of all hope of repose for the future. It is useless to exhaust ourselves with fatigue: we must abandon the idea of leaving our sons and daughters a little property, since modern science renders it useless, for we should become traffickers in men if we were to lend it on interest. Alas! the world which these persons would open before us, as an imaginary good, is still more dreary and desolate than that which they condemn, for hope, at any rate, is not banished from the latter." Thus, in all respects, and in every point of view, the question is a serious one. Let us hasten to arrive at a solution.

Our civil code has a chapter entitled, "On the manner of transmitting property." I do not think it gives a very complete nomenclature on this point. When a man by his labour has made some useful thing—in other words, when he has created a *value*—it can only pass into the hands of another by one of the following modes—as a gift, by the right of inheritance, by exchange, loan, or theft. One word upon each of these, except the last, although it plays a greater part in the world than we may think. A gift needs no definition. It is essentially voluntary and spontaneous. It depends exclusively upon the giver, and the receiver cannot be said to have any right to it. Without a doubt, morality and religion make it a duty for men, especially the rich, to deprive themselves voluntarily of that which they possess, in favour of their less fortunate brethren. But this is an entirely moral obligation. If it were to be asserted on principle, admitted in practice, or sanctioned by law, that every man has a right to the property of another, the gift would have no merit—charity and gratitude would be no longer virtues. Besides, such a doctrine would suddenly and universally arrest labour and production, as severe cold congeals water and suspends animation; for who would work if there was no longer to be any connection between labour and the satisfying of our wants? Political economy has not treated of gifts. It has hence been concluded that it disowns them, and that it is therefore a science devoid of heart. This is a ridiculous accusation. That science which treats of the laws resulting from the *reciprocity of services*, had no business to inquire into the consequences of generosity with respect to him who receives, nor into its effects, perhaps still more precious, on him who gives: such

considerations belong evidently to the science of morals. We must allow the sciences to have limits; above all, we must not accuse them of denying or undervaluing what they look upon as foreign to their department.

The right of inheritance, against which so much has been objected of late, is one of the forms of gift, and assuredly the most natural of all. That which a man has produced, he may consume, exchange, or give. What can be more natural than that he should give it to his children? It is this power, more than any other, which inspires him with courage to labour and to save. Do you know why the principle of right of inheritance is thus called in question? Because it is imagined that the property thus transmitted is plundered from the masses. This is a fatal error. Political economy demonstrates, in the most peremptory manner, that all value produced is a creation which does no harm to any person whatever. For that reason it may be consumed, and, still more, transmitted, without hurting any one; but I shall not pursue these reflections, which do not belong to the subject.

Exchange is the principal department of political economy, because it is by far the most frequent method of transmitting property, according to the free and voluntary agreements of the laws and effects of which this science treats.

Properly speaking, exchange is the reciprocity of services. The parties say between themselves, "Give me this, and I will give you that;" or, "Do this for me, and I will do that for you." It is well to remark (for this will throw a new light on the notion of value) that the second form is always implied in the first. When it is said, "Do this for

me, and I will do that for you,” an exchange of service for service is proposed. Again, when it is said, “Give me this, and I will give you that,” it is the same as saying, “I yield to you what I have done, yield to me what you have done.” The labour is past, instead of present; but the exchange is not the less governed by the comparative valuation of the two services: so that it is quite correct to say that the principle of *value* is in the services rendered and received on account of the productions exchanged, rather than in the productions themselves.

In reality, services are scarcely ever exchanged directly. There is a medium, which is termed *money*. Paul has completed a coat, for which he wishes to receive a little bread, a little wine, a little oil, a visit from a doctor, a ticket for the play, etc. The exchange cannot be effected in kind, so what does Paul do? He first exchanges his coat for some money, which is called *sale*; then he exchanges this money again for the things which he wants, which is called *purchase*; and now, only, has the reciprocity of services completed its circuit; now, only, the labour and the compensation are balanced in the same individual,—“I have done this for society, it has done that for me.” In a word, it is only now that the exchange is actually accomplished. Thus, nothing can be more correct than this observation of J. B. Say:—“Since the introduction of money, every exchange is resolved into two elements, *sale* and *purchase*. It is the reunion of these two elements which renders the exchange complete.”

We must remark, also, that the constant appearance of money in every exchange has overturned and misled all our ideas: men have ended in thinking that money was true riches, and that to multiply it

was to multiply services and products. Hence the prohibitory system; hence paper money; hence the celebrated aphorism, "What one gains the other loses;" and all the errors which have ruined the earth, and embued it with blood.² After much research it has been found, that in order to make the two services exchanged of equivalent value, and in order to render the exchange *equitable*, the best means was to allow it to be free.

However plausible, at first sight, the intervention of the State might be, it was soon perceived that it is always oppressive to one or other of the contracting parties. When we look into these subjects, we are always compelled to reason upon this maxim, that *equal value* results from liberty. We have, in fact, no other means of knowing whether, at a given moment, two services are of the same value, but that of examining whether they can be readily and freely exchanged. Allow the State, which is the same thing as force, to interfere on one side or the other, and from that moment all the means of appreciation will be complicated and entangled, instead of becoming clear. It ought to be the part of the State to prevent, and, above all, to repress artifice and fraud; that is, to secure liberty, and not to violate it. I have enlarged a little upon exchange, although loan is my principal object: my excuse is, that I conceive that there is in a loan an actual exchange, an actual service rendered by the lender, and which makes the borrower liable to an equivalent service,—two services, whose comparative value can only be appreciated, like that of all possible services, by freedom. Now, if it is so, the perfect lawfulness of what is called house-rent, farm-rent, interest, will be explained and justified. Let us consider the case of *loan*.

Suppose two men exchange two services or two objects, whose equal value is beyond all dispute. Suppose, for example, Peter says to Paul,

“Give me ten sixpences, I will give you a five-shilling piece.” We cannot imagine an equal value more unquestionable. When the bargain is made, neither party has any claim upon the other. The exchanged services are equal. Thus it follows, that if one of the parties wishes to introduce into the bargain an additional clause, advantageous to himself, but unfavourable to the other party, he must agree to a second clause, which shall re-establish the equilibrium, and the law of justice. It would be absurd to deny the justice of a second clause of compensation. This granted, we will suppose that Peter, after having said to Paul, “Give me ten sixpences, I will give you a crown,” adds, “You shall give me the ten sixpences *now*, and I will give you the crown-piece *in a year*,” it is very evident that this new proposition alters the claims and advantages of the bargain; that it alters the proportion of the two services. Does it not appear plainly enough, in fact, that Peter asks of Paul a new and an additional service; one of a different kind? Is it not as if he had said,

“Render me the service of allowing me to use for my profit, for a year, five shillings which belong to you, and which you might have used for yourself?” And what good reason have you to maintain that Paul is bound to render this especial service gratuitously; that he has no right to demand anything more in consequence of this requisition; that the State ought to interfere to force him to submit? Is it not incomprehensible that the economist, who preaches such a doctrine

to the people, can reconcile it with his principle of *the reciprocity of services*? Here I have introduced cash; I have been led to do so by a desire to place, side by side, two objects of exchange, of a perfect and indisputable equality of value. I was anxious to be prepared for objections; but, on the other hand, my demonstration would have been more striking still, if I had illustrated my principle by an agreement for exchanging the services or the productions themselves.

Suppose, for example, a house and a vessel of a value so perfectly equal that their proprietors are disposed to exchange them even-handed, without excess or abatement. In fact let the bargain be settled by a lawyer. At the moment of each taking possession, the shipowner says to the citizen, "Very well; the transaction is completed, and nothing can prove its perfect equity better than our free and voluntary consent. Our conditions thus fixed, I shall propose to you a little practical modification.

You shall let me have your house to-day, but I shall not put you in possession of my ship for a year; and the reason I make this demand of you is, that, during this year of *delay*, I wish to use the vessel." That we may not be embarrassed by considerations relative to the deterioration of the thing lent, I will suppose the shipowner to add, "I will engage, at the end of the year, to hand over to you the vessel in the state in which it is to-day." I ask of every candid man, I ask of M. Proudhon himself, if the citizen has not a right to answer, "The new clause which you propose entirely alters the proportion or the equal value of the exchanged services. By it, I shall be deprived, for the space of a year, both at once of my house and of your vessel.

By it, you will make use of both. If, in the absence of this clause, the bargain was just, for the same reason the clause is injurious to me. It stipulates for a loss to me, and a gain to you.

You are requiring of me a new service; I have a right to refuse, or to require of you, as a compensation, an equivalent service.” If the parties are agreed upon this compensation, the principle of which is incontestable, we can easily distinguish two transactions in one, two exchanges of service in one. First, there is the exchange of the house for the vessel; after this, there is the delay granted by one of the parties, and the compensation correspondent to this delay yielded by the other. These two new services take the generic and abstract names of *credit* and *interest*. But names do not change the nature of things; and I defy any one to dare to maintain that there exists here, when all is done, a service for a service, or a reciprocity of services. To say that one of these services does not challenge the other, to say that the first ought to be rendered gratuitously, without injustice, is to say that injustice consists in the reciprocity of services,—that justice consists in one of the parties giving and not receiving, which is a contradiction in terms.

To give an idea of interest and its mechanism, allow me to make use of two or three anecdotes. But, first, I must say a few words upon capital.

There are some persons who imagine that capital is money, and this is precisely the reason why they deny its productiveness; for, as M. Thoré says, crowns are not endowed with the power of reproducing themselves.

But it is not true that capital and money are the same thing. Before the discovery of the precious metals, there were capitalists in the world; and I venture to say that at that time, as now, everybody was a capitalist, to a certain extent.

What is capital, then? It is composed of three things:—

1st. Of the materials upon which men operate, when these materials have already a value communicated by some human effort, which has bestowed upon them the principle of remuneration—wool, flax, leather, silk, wood, etc.

2nd. Instruments which are used for working—tools, machines, ships, carriages, etc.

3rd. Provisions which are consumed during labour—victuals, stuffs, houses, etc.

Without these things the labour of man would be unproductive and almost void; yet these very things have required much work, especially at first. This is the reason that so much value has been attached to the possession of them, and also that it is perfectly lawful to exchange and to sell them, to make a profit of them if used, to gain remuneration from them if lent.

Now for my anecdotes.

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