

# **The Solution of the Social Problem**

[Excerpts]

Pierre-Joseph Proudhon

# Contents

<b>I. THE SOCIAL IDEAL</b>	<b>6</b>
<b>II. CREDIT</b>	<b>9</b>
<i>Origin and Development of the Idea of Credit</i> . . . . .	9
<i>Contradictions in the Idea of Credit</i> . . . . .	11
<b>III A THEORY OF MUTUALITY</b>	<b>14</b>
<b>IV. THE BANK OF EXCHANGE</b>	<b>16</b>
<i>The Bill of Exchange</i> . . . . .	16
<i>Products Exchange for Products</i> . . . . .	19
<i>General Objects of the Bank of Exchange</i> . . . . .	20
<i>Constituent Principles of the Bank of Exchange</i> . . . . .	21
<i>Circulating Notes</i> . . . . .	22
<i>Operations of the Bank of Exchange</i> . . . . .	22
<i>Discount</i> . . . . .	22
<i>Sales and Purchases of Consignments</i> . . . . .	23
<i>Secured Open Account</i> . . . . .	23
<i>Loans on Mortgages</i> . . . . .	23
<i>Credits on Accounts Current</i> . . . . .	24
<i>Limited Joint Stock Companies</i> . . . . .	24
<i>Organization and Administration of the Bank</i> . . . . .	24
<i>The Board of Directors</i> . . . . .	25
<i>The General Assembly</i> . . . . .	26
<i>Extension of the Organization</i> . . . . .	27
<i>Balance Sheet of the Bank of Exchange</i> . . . . .	27
<i>To Labor Is to Produce Something Out of Nothing</i> . . . . .	30
<i>To Give Credit Is to Exchange</i> . . . . .	31
<i>To Exchange Is to Capitalize</i> . . . . .	31
<i>A Consumer Is a Partner</i> . . . . .	31
<b>V. THE BANK OF THE PEOPLE</b>	<b>37</b>
<i>Declaration</i> . . . . .	37
<i>Formation of the Company</i> . . . . .	38
<i>Capital of the Company</i> . . . . .	39
<i>Transactions of the People's Bank</i> . . . . .	40
<i>Notes of the People's Bank</i> . . . . .	40
<i>Issue of Notes</i> . . . . .	41
<i>Discount of Cash</i> . . . . .	42

<i>Discount of Commercial Paper</i> . . . . .	42
<i>Advances on Merchandise</i> . . . . .	43
<i>Advances on Security</i> . . . . .	43
<i>Advances on Mortgages</i> . . . . .	44
<i>Credit on Accounts Current, Payments and Collections</i> . . . . .	44
<i>Functions</i> . . . . .	44
<i>Time Deposits, Checking Accounts, Insurance</i> . . . . .	45
<i>Profits</i> . . . . .	46
<i>Organization and Administration of the Bank</i> . . . . .	46
<i>Supervising Council</i> . . . . .	47
<i>The General Assembly</i> . . . . .	48
<i>Dissolution, Reorganization and Liquidation</i> . . . . .	49
<b>VI. INTEREST AND PRINCIPAL</b> . . . . .	<b>51</b>
<i>A Loan Is a Service</i> . . . . .	51
<i>The Circulation of Capital, Not Capital Itself, Gives Birth to Progress</i> . . . . .	55
<i>The Origin of Ground Rent</i> . . . . .	58
<i>Arguments Drawn from the Operations of the Bank of France</i> . . . . .	60
<i>Definition of Capital Substituted for the Inexact Definition of the Economists—Appeal to Double Entry Bookkeeping—Accountability of Social Classes—Proofs Derived Therefrom—Reconciling the Concessions on the Risks of Capital—Revolution, Political, Economic and Scientific</i> . . . . .	64
<b>ACCOUNTS Between A, Proprietor-Capitalist-Contractor, and B, C, D, E, F, G, H, I, K, L, Wage-Laborers</b> . . . . .	<b>71</b>
Chapter One. <i>Account and Summary of the Personal Operation of A, Proprietor-Capitalist-Contractor</i> . . . . .	71
1. <i>Cash Due A</i> . . . . .	71
2. <i>General Merchandise, to Cash</i> . . . . .	71
3. <i>The Following Laborers, to General Merchandise</i> . . . . .	71
4. <i>Credit, By Cash, to the Following Laborers</i> . . . . .	73
5. <i>Summary of the Operations of A, Proprietor-Capitalist-Contractor, for his Account of Stock December 31</i> . . . . .	73
Chapter Two <i>Account of the Operations of B, Laborer, with A, Proprietor Capitalist-Contractor</i> . . . . .	74
1. <i>Credit, by Cash, to B, January</i> . . . . .	74
2.— <i>System of Gratuity.</i> . . . . .	76
Chapter One <i>Account of the Operations of B, Laborer, with X, the National Bank</i> . . . . .	76
1. <i>Credit by Cash, January 1, to X, the National Bank</i> . . . . .	76
2. <i>Credit, by General Merchandise, to Cash</i> . . . . .	76
3. <i>Credit, by Cash, to General Merchandise</i> . . . . .	77
4. <i>Credit, by X, the National Bank, to Cash</i> . . . . .	77
5. <i>Summary of B's Operations for his Inventory</i> . . . . .	78
Chapter Two . . . . .	78
1. <i>Credit, by the following Laborers, to Cash</i> . . . . .	78

2. <i>Credit, by Cash, to the Following Laborers . . . . .</i>	78
3. <i>Summary of the Operations of X, the National Bank, for Its Inventory of Dec. 31</i>	80
Chapter Three . . . . .	80
1. <i>Credit, by General Merchandise, to A, Account of Capital . . . . .</i>	81
2. <i>Credit, by Cash, to General Merchandise . . . . .</i>	81
3. <i>Credit, by General Merchandise, to Cash . . . . .</i>	82
<i>Summary of the Operations of A, Proprietor-Capitalist Contractor, for His Inventory</i> <i>of December 31 . . . . .</i>	82
<b>NOTE</b>	<b>86</b>

P.-J. Proudhon's *Solution du Problème Social* consists of five sections: "Solution du Problème Social;" "Organisation du Crédit et de la Circulation;" "Résumé de la Question Social;" "Banque d'Échange;" and "Banque du Peuple." The collection does not seem to have been included in the Rivière edition of the *Oeuvres Complète*, so the standard French edition is vol. 8 of the edition by A. Lacroix, Verboeckhoven and Co. (1868) This edition is available on microfiche from John Zube's Libertarian Microfiche Project, and the major untranslated sections will also soon be available in pdf form from the Libertarian Labyrinth.

William B. Greene appears to have been one of the first to translate portions of the work, in his 1850 *Mutual Banking*. (The passages, from "Organisation du Crédit et de la Circulation," translate roughly pages 112–120 of the original, with minor omissions, mostly related to the specific politics of the 1848 Revolution.) Henry Cohen's *Proudhon's Solution of the Social Problem* consists of an extensive expansion of Greene's translation, together with Charles A. Dana's *Proudhon and His Bank of the People* (1849/1869), and an edited version of Greene's *Mutual Banking, Showing The Radical Deficiencies Of The Existing Circulating Medium, And The Advantages Of A Free Currency* (1871). Dana's work appears to be presented in its entirety. Greene's has been substantially reduced in length. (A full treatment of the edits will appear elsewhere, but it's worth noting that the removal of the sections by Proudhon, in order to expand them in a separate section, was accompanied by the removal of a short section, critical of Proudhon, which is worthy of attention. As the only modern reprints of Greene's mutual bank writings have been based on this edit, as further altered by the editors of the 1846 Indian edition, both the sections by and about Proudhon have essentially been lost for modern readers.) Clarence L. Swartz translated additional sections of *Solution du Problème Social*, as well as some short passages from the untranslated section volume of *The System of Economic Contradictions* (the first volume of which Benjamin Tucker had translated in 1888.) Cohen also gathered some or all of Tucker's translation from the Proudhon-Bastiat exchange on interest, which had originally appeared in the *Irish World*. The result is something of a hodge-podge, but it is certainly a useful expansion of Greene's initial translations.

A rough collation of *Solution du Problème Social* and *Proudhon's Solution of the Social Problem*: the opening section, "Solution du Problème Social," (pages 1–87 in the original) remains untranslated, except for its closing paragraph's which include the phrase "liberty not the daughter but the mother of order," which appeared on the masthead of Tucker's *Liberty*.

Of the section "Organisation du Crédit et de la Circulation," (pages 89–131 in the original) pages 94–111 and 120–131 remain untranslated. The portion that have been translated focus on the Bank of Exchange, and Proudhon's larger economic programme is largely ignored.

The section "Banque d'Échange" (pages 133–258 in the original) begins with an untranslated "Préface" by Alfred Darimon (pages 133–147). Three addition sub-sections — "Qu'est ce que la Propriété?" (147–155), "Comptabilité Propriétaire" (155–168), and "Identité de la Question Politique et de la Question Économique—Méthode de Solution" (168–180) follow. Swartz's translation picks up again with the sub-section "Banque d'Échange" (and about every third section seems to have some variation of this title) and covers, with minor omissions., the remainder of the section, omitting only a final section, "Autre Response au NATIONAL" (237–258). "Banque du Peuple," (259–284) which treats the mutual bank which Proudhon actually attempted, is translated in full, but the "Rapport de la Commission des Délégués du Luxembourg et des Corporations ouvriers" (284–312), which was published with it, is not.

—Shawn P. Wilbur

# I. THE SOCIAL IDEAL<sup>1</sup>

THE ideal republic is an organization which leaves all opinions and all activities free. In this republic, every citizen, by doing what he wishes and only what he wishes, participates directly in legislation and in government, as he participates in the production and the circulation of wealth. Here, every citizen is king; for he has plenitude of power, he reigns and governs. The ideal republic is a positive anarchy. It is neither liberty subordinated *to* order, as in a constitutional monarchy, nor liberty imprisoned *in* order. It is liberty free from all its shackles, superstitions, prejudices, sophistries, usury, authority; it is reciprocal liberty and not limited liberty; liberty not the daughter but the *mother* of order.

It has been proved that Socialist doctrines are powerless to relieve the people in the present crisis.<sup>2</sup> Utopia needs for its realization capital accumulated, credit opened, circulation established and a prosperous state. It has need of everything we now lack; and these it is powerless to create.

It has been proved that political economy, both descriptive and *routinière*, is as impotent as Socialism in the present situation. The school which is based wholly upon the principle of supply and demand would be without means or power on the day when everybody would demand and nobody would want to supply.

It has been proved, finally, that dictatorships, seizure of power, and all revolutionary expedients, are powerless against the universal economic paralysis, as moxa is without action on a corpse.

At present the field is open to other ideas, public opinion calls for them, their sway is assured. I no longer hesitate to propose that which speculative study of social economy shows me is most applicable to the situation in which we find ourselves; it rests with you, citizen reader, to see in my proposition a goal for our future.

Work is at a standstill—it must be resumed.

Credit is dead—it must be resuscitated.

Circulation is stopped—it must be reestablished.

The market is closed—it must be reopened.

Taxes never suffice—they must be abolished.

Money hides itself—we must dispense with it.

Or better still, since we should express ourselves in an absolute manner, for what we are going to do today must serve for all time:

Double, triple, augment labor indefinitely, and in consequence the products of labor; Give credit so broad a base that no demand will exhaust it; Create a market that no amount of production can supply; Organize a full, regular circulation, which no accident can disturb.

Instead of taxes, always increasing and always insufficient, abolish all taxes; Let all merchandise become current money, and abolish the royalty of gold.

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<sup>1</sup> From Proudhon's volume on *The Solution of the Social Problem*.

<sup>2</sup> The crisis was that of March, 1848—which enabled Proudhon to epitomize the Social Problem and point the way out in the exact terms of the moment.

But I must point out in advance some of the prejudices which, as the result of long habit, prevent us, at this time from seeing the true cause of the evil, and from discerning the remedy. To be on the look-out for error is to be half the way along the road which leads to truth.

The first of these prejudices consists in the desire to reform everything in detail, instead of attacking the whole; in taking up difficulties one after another, and resolving them in turn in the way common sense seems to indicate: whereas economic questions, essentially contradictory in themselves and among themselves, must be solved all at once, through some dominant principle which respects all rights, ameliorates all conditions, and conciliates all interests.

Another prejudice is the one which, attributing the cause of poverty to the imperfect organization of labor, concludes that labor should be regimented; that it is in that part of the social organism—labor—that the remedy should be applied. People will not understand that human labor and individual liberty are synonymous; that, except for fairness in exchange, the liberty of labor must be absolute; that governments exist only to protect free labor, not to regulate and to restrain it. When you speak in this way of organizing labor, it is as if you propose to put a strait-jacket on liberty.

A third prejudice, resulting from the preceding one, is that which, suppressing individual initiative, would seek to obtain everything through authority. One can say that this prejudice is the leprosy of the French spirit. We ask the State for everything, we want everything from the State; we understand only one thing, that the State is the master and we are the servants.

The analogy to this prejudice, in the field of economics, is that which makes gold the universal motivating force. Gold is for us the principle of production, the sinew of commerce, the substance itself of credit, the king of labor. That is why we all worship gold even as we worship authority.

It is the business of the State, I repeat, only to pronounce on the justice of economic relationships, not to determine the manifestations of liberty. Also in the matter of justice, the state has only the right to enforce the general will.

A fourth prejudice, finally, and the most deplorable of all, is that which, under the pretext of harmony and fraternity, tends to destroy in society the divergence of opinion, the opposition of interests, the battle of passions, the antagonism of ideas, the competition of workers. It is nothing less than the motion and life that would be thus cut off from the social body.

Therein lies the fatal error of communism.

A great effort of reflection is, however, not necessary to understand that justice, union, accord, harmony, fraternity itself, necessarily presupposes two opposites; and that, unless one falls into the absurd notion of absolute identity, that is to say, absolute nothingness, contradiction is the fundamental law, not only of society, but of the universe.

That is also the first law which I proclaim, in agreement with religion and philosophy: that is Contradiction—the universal Antagonism.

But, just as life implies contradiction, contradiction in its turn calls for justice; which leads to the second law of creation and humanity: the mutual interaction of antagonistic elements, or *Reciprocity*.

Reciprocity, in creation, is the principle of existence. In the social order, reciprocity is the principle of social reality, the formula of justice. It has for its basis the eternal antagonism of ideas, of opinions, passions, capacities, temperaments, interests. It is the condition of love itself.

*Reciprocity* can be expressed in the precept: *Do unto others as you would have them do unto you*: a precept which political economy has translated into this celebrated formula: *Products exchange for products*.

It is therefore not the *organization of labor* which we need at this moment. The organization of labor is the proper object of individual liberty. He who works hard, gains much. The State has nothing further to say, in this respect, to the workers. What we need, that which I call for in the name of all workers, is reciprocity, equity in exchange, the *organization of credit*.



## II. CREDIT<sup>1</sup>

### *Origin and Development of the Idea of Credit*

The point of departure of credit is money. By a combination of happy circumstances, the value of gold and silver having been the first to be constituted, money became the symbol of all doubtful and fluctuating values; that is to say, those not socially constituted or not officially established. It was there demonstrated how, if the value of all products were once determined and rendered highly exchangeable, acceptable, in a word, like money, in all payments, society would by that single fact arrive at the highest degree of economic development of which it is capable from the commercial point of view. Social economy would no longer be then, as it is today, in relation to exchange, in a state of simple formation; it would be in a state of perfection. Production would not be definitely organized, but exchange and circulation would, and it would suffice for the laborer to produce, to produce incessantly, either in reducing his costs or in dividing his labor and discovering better processes, inventing new objects of consumption, opposing his rivals or resisting their attacks, for acquiring wealth and assuring his well being.

We have pointed out the lack of intelligence of socialists in regard to money; and we have shown in going back (to the origin of this contrivance) that what we had to repress in the precious metals is not the use, but the privilege.

Indeed, in all possible societies, even communistic, there is need for a measure of exchange, otherwise either the right of the producer, or that of the consumer, is affected. Until values are generally constituted by some method of association, there is need that one certain product, selected from among all others, whose value seems to be the most authentic, the best defined, the least alterable, and which combines with this advantage durability and portability, be taken for the symbol, that is to say, both for the instrument of circulation and the standard of other values.

It is, then, inevitable that this truly privileged product should become the object of all the ambitions, the paradise in perspective of the worker, the palladium of monopoly; that, notwithstanding all warnings, this precious talisman should circulate from hand to hand, concealed from a jealous authority; that the greater part of the precious metals, serving as specie, should be thus diverted from their real use and become, in the form of money, idle capital, wealth outside of consumption; that, in this capacity as instrument of exchange, gold should be taken in its turn for an object of speculation and serve as the basis of a great commerce; that, finally, protected by public opinion, loaded with public favor, it should obtain power, and by the same stroke destroy the social fabric! The means of destroying this formidable force does not lie in the destruction of the medium—I almost said the depositary; it is in generalizing its principle. All these propositions are admitted as well demonstrated, and as strictly linked together, as the theorems of geometry.

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<sup>1</sup> From *The System of Economical Contradictions*, vol. ii, chap. x.

Gold and silver, that is to say, the merchandise whose value was first constituted, being therefore taken as the standard of other values and as universal instruments of exchange, all commerce, all consumption, all production are dependent on them. Gold and silver, precisely because they have acquired in the highest degree the character of sociality and of justice, have become synonyms of power, of royalty, almost of divinity.

Gold and silver represent commercial life, intelligence and virtue. A chest full of specie is an arch saint, a magic urn that brings wealth, pleasure and glory to those who have the power to draw those things from it. If all the products of labor had the same exchange value as money, all the workers would enjoy the same advantages as the holders of money: everyone would have, in his ability to produce, an inexhaustible source of wealth. But the religion of money cannot be abolished, or, to better express it, the general constitution of values cannot function except by an effort of reason and of justice; until then it is inevitable that, as in polite society, the possession of money is a sure sign of wealth, the absence of money is an almost certain sign of poverty. Money being, then, the only value that bears the stamp of society, the only merchandise standard that is current in commerce, money is, according to the general view, the idol of the human species. The imagination attributing to the metal that which is the effect of the collective thought toward the metal, every one, instead of seeking well being at its true source,—that is to say, in the socialization of all values, in the continuous creation of new monetary figures—busies himself exclusively in acquiring money, money, always money.

It was to respond to this universal demand for money, which was really but a demand for subsistence, a demand for exchange and for output, that, instead of aiming directly at the mark, a stop was made at the first term of the series, and, instead of making successively of each product a new money, the one thought was to multiply metallic money as much as possible, first by perfecting the process of its manufacture, then, by the facility of its emission, and finally by fictions. Obviously it was to mistake the principle of wealth, the character of money, the object of labor and the condition of exchange; it was a retrogression in civilization to reconstitute value in the monarchical regime that was already beginning to change. Such is the mother idea which gave birth to the institutions of credit; and such is the fundamental prejudice, which error we need no longer demonstrate, which antagonizes in their very conceptions all these institutions.

But, as we have often said, humanity, even when it yields to an imperfect idea, is not mistaken in its views. However, one sees, strange to say, that, in proceeding to the organization of wealth by a retreat, it has operated as well, as usefully, as infallibly as possible, considering the condition of its evolutionary existence. The retrogressive organization of credit as well as previous manifestations of economics, at the same time that it gave to industry new scope, had caused, it is true, an aggravation of poverty; but finally the social question appeared in a new light and the contradictions, better known today, give the hope of an immediate and complete solution.

Thus the ulterior object, hitherto unperceived, of credit is to constitute, with the aid and on the prototype of money, all the values still fluctuating whose immediate and avowed end is to furnish to that combination the supreme condition of order in society and of well being among the workers, by a still greater diffusion of metallic value. Money, the promoters of this new idea tell us, money is wealth; if then we can provide every body with money, plenty of money, all will be rich: and it is by virtue of this syllogism that institutions of credit have developed everywhere.

But it is clear that, to the extent that the ulterior object of credit presents a logical, luminous and fruitful idea, conforms, in a word, to the law of progressive organization, its immediate end, alone sought, alone desired, is full of illusion and, by its tendency toward the status quo, of perils.

Since money as well as other merchandise is subject to the law of proportionality, if its quantity increases and if at the same time other products do not increase in proportion, money loses its value, and nothing, in the last analysis, is added to the social wealth; if, on the contrary, with specie production increasing everywhere, population following at the same rate, there is still no change in the respective position of the producers, in both cases, the solution required does not advance a single step. *A priori*, then, it is not true that the organization of credit, in the terms in which it is proposed, contains the solution of the social problem.

After having related the development of and the reason for the existence of credit, we have to justify its appearance, that is to say, the rank to which it should be assigned in the category of science. It is here above all that we have to point out the lack of profundity and the incoherence of political economy.

Credit is at once the result and the contradiction of the theory of markets, since the last word, as we have seen, is the absolute freedom of trade.

I have said from the first that credit is the consequence of the theory of markets, and as such already contradictory.

At this point in this history of society, both real and fanciful, we have seen all the processes of organization and the means of equilibrium tumble one upon the other and reproduce constantly, more arrogantly and more murderously than before, the antinomy of value.

Arriving at the sixth phase of its evolution, social genius, obedient to the movement of expansion that pushes it, seeks abroad, in foreign commerce, the market, that is to say, the counterpoise which it lacks. Presently we shall see it, deceived in its hope, seek this counterpoise, this output, this guarantee of exchange that it must have at any price in domestic commerce, at home. By credit, society falls back in a manner on itself: it seems to have understood that production and consumption are for it identical and inadequate things; it is in itself, and not by indefinite ejaculations, that it ought to find the equilibrium.

### ***Contradictions in the Idea of Credit***

Credit is the canonization of money, the declaration of its royalty over all products whatsoever. In consequence, credit is the most formal denial of free trade, a flagrant justification on the part of the economists, of the balance of trade. Let the economists learn, then, to generalize their ideas, and let them tell us why, if it is immaterial for one nation to pay for the goods which it buys with money or with its own products, it always has need of money? How can it be that a nation which works, exhausts itself? Why is there always a demand from it for the only product that it does not consume, that is to say, money? How all the subtleties conceived up to this day for supplying the lack of money, such as bills of exchange, bank paper, paper money, do nothing but interpret and make this need more evident?

In truth, the free trade fanaticism, which today distinguishes the sect of economists, is not understandable, aside from the extraordinary efforts by which it tries to propagate the commerce of money and to multiply credit institutions.

What then, once more, is credit? It is, answers the theory, a release of engaged value, which permits the making of this same value, which before was sluggish, circulable; or, to speak a language more simple: credit is the advance made by a capitalist, against a deposit of values of difficult exchange, of the merchandise the most susceptible of being exchanged, in consequence

the most precious of all money, money which holds in suspense all exchangeable values, and without which they would themselves be struck down by the interdiction; money which measures, dominates and subordinates all other products; money with which alone one discharges one's debts and frees oneself from one's obligations; money which assures nations, as well as individuals, well being and independence; money, finally, that not only is power, but liberty, equality, property, everything.

This is what the human species, by an unanimous consent, has understood; that which the economists know better than any one, but what they never have ceased combating with a comical stubbornness, to sustain I know not what fantasy of liberalism in contradiction to their most loudly confessed principles. Credit was invented to assist labor, to bring into the hands of the laborer the instrument that destroys him, money: and they proceed from there to maintain that, among manufacturing nations, the advantage of money in exchange is nothing; but that it is insignificant in balancing their accounts in merchandise or specie: that it is low prices alone that they have to consider!

But if it is true that, in international commerce, the precious metals have lost their preponderance, this means that, in international commerce, all values have reached the Same degree of determination, and like money, are equally acceptable; in other words, that the law of exchange is found, and labor is organized, *among the various nations*.

Then, let them formulate this law; let them explain that organization, and, instead of talking of credit and forging new chains for the laboring class, let them teach, by an application of the principle of international equilibrium, all the manufacturers who ruin themselves because they are not exchanging' teach those workers, who die of hunger because they have no work, how their products, how the work of their hands are values which they can use for their consumption, as well as if they were bankbills or money. What! this principle which, following the economists, rules the trade of nations, is inapplicable to private industry! How is this? Why? Some reasons, some proofs, in the name of God.

Contradiction in the idea itself of credit, contradiction in the project of organizing credit, contradiction between the theory of credit and that of free trade: is this all for which we have to reproach the economists?

To the thought of organizing credit, the economists add another idea no less illogical. It is that of making the State organizer and prince of credit. "*It is for the State*," said the celebrated John Law, before the creation of national workshops and of the republicanization of industry, "*it is for the State to give credit and not to receive it*." Superb maxim, made to please all those who revolt against financial feudalism, and who would replace it by the omnipotence of government; but it is an equivocal maxim, interpreted in opposite senses by two kinds of persons; on one side the politicians of the public treasury and of the budget, who resort to any means to bring the people's money into the coffers of the State, because they alone can do so; on the other side, the partisans of initiative—I almost said of governmental confiscation—by which the community alone can profit.

But science does not inquire what pleases, it seeks what is possible; and all our feelings against bankers, our absolutist and communist tendencies, cannot prevail in its eyes upon the inmost reason of things. Now the idea of deriving all credit from the State, and consequently all guaranties, can be expressed in the following question: The State, an unproductive organism, an entity without property and without capital, cannot offer anything as security for a mortgage except its budget; always a borrower, always bankrupt, always in debt, it cannot involve itself, without in-

volving everyone with it. In consequence, the lenders themselves, outside of it, finally developed spontaneously all the institutions of credit. The State, by its resources its guaranty, its initiative, the solidarity that it imposes, can it become the universal partner, the author of credit? And if it could, would society tolerate it?

If this question were answered in the affirmative, it would follow that the State possesses the means to answer the prayer of society manifested by credit, when, renouncing its utopia of enfranchising the proletariat by the freedom of trade, and turning suddenly around, it seeks to re-establish the equilibrium between production and consumption by a return of capital to the laborer who has produced it. The State in constituting credit would have obtained the equivalent of the constitution of values; the economic problem would be settled, labor freed, poverty diminished.

The proposition to make the State at once source and distributor of credit, notwithstanding its despotic-communistic tendency, is, therefore, of supreme importance, and merits all our attention.

To treat it, not to the extent that it merits (because at the point where we have arrived, the economic questions have no limit). but with profundity and generality, which alone can supply all the details, we shall divide it into two periods: one, which includes all the past of the State relatively to credit; the other, which will have for its object to determine what the theory of credit means, and in consequence what can be expected of an organization of credit, either by the State or by free capital.

If to appreciate the power of organization which it has pleased the economists, in recent times, to attribute to the State in the matter of credit after having refused to do so in the matter of industry, it sufficed to invoke precedents, our case against our adversaries would be simple, requiring only that instead of arguments we oppose them with what would affect them more—experience.

It is proved, we would tell them, by experience, that the State has no property, no capital, nothing, in a word, on which it can base its letters of credit. All that it possesses, in movable and immovable values, have long been pledged: the debts that it has contracted are over and above its assets, and consequently the nation pays in France over four billions interest on it.

If, therefore, the State were to become the organizer of credit, the banker, it cannot become such with its own resources, but rather with the money of its customers; from which we must conclude that, in the system of the organization of credit by the State, by virtue of a certain imaginary or assumed solidarity, what belongs to the citizens belongs to the State, but not reciprocally; and that the governor of Louis XV was correct in saying to that prince, in showing him his realm; “All this, sire, belongs to you.”

Not only is property a nullity in the State; with it production no longer exists. The State is unproductive; through it no industry is exercised whose anticipated benefits could give value and security to its bills. It is thereafter universally recognized that all that is produced by the State, whether in works of public utility, or in objects of domestic or personal consumption, costs three times as much as it is worth. In a word, the State, as the unproductive organ of the government, as producer, lives only on subventions. How, by what magic virtue, by what unheard of transformation, can it become all at once the dispenser of capital, since it does not have a single *centime*? How could the State, absolutely unproductive, to whom, accordingly, savings are essentially antipathetic, become the national banker, the universal partner?

### III A THEORY OF MUTUALITY<sup>1</sup>

If I am not mistaken, the reader ought to be convinced at least of one thing, that social truth cannot be found either in utopia or in routine: that political economy is not the science of society, but contains, in itself, the materials of that science, in the same way that chaos before the creation contained the elements of the universe. The fact is that, to arrive at a definite organization, which appears to be the destiny of the race on this planet, there is nothing left but to make a general equation of our contradictions.

But what will be the formula of this equation?

We already foresee that there should be a law of *exchange*, a theory of *mutuality*, a system of guaranties which determines the old forms of our civil and commercial societies, and gives satisfaction to all the conditions of efficiency, progress and justice which the critics have pointed out; a society no longer merely conventional, but real, which makes of the subdivision of real estate a scientific instrument; that will abolish the servitude of the machines, and may prevent the coming of crises; that makes of competition a benefit, and of monopoly a pledge of security for all; which by the strength of its principles, instead of making credit of capital and protection of the State, puts capital and the State to work; which by the sincerity of exchange, creates a real solidarity among the nations; which without forbidding individual initiative, without prohibiting domestic economy, continuously restores to society the wealth which is diverted by appropriation; which by the ebb and flow of capital, assures political and industrial equality of the citizenry, and, through a vast system of public education, secures the equality of functions and the equivalence of aptitudes, by continuously raising their level; which through justice, well being and virtue, revives the human conscience, assures the harmony and the equality of the people; a society, in a word, which, being at the same time organization and transition, escapes what has taken place, guarantees everything and compels nothing.

The theory of *mutuality*, or of *mutuum*, that is to say, the natural form of exchange, of which the most simple form is loan for consumption, is, from the point of view of the collective existence, the synthesis of the two ideas of property and of communism, a synthesis as old as the elements of which it is constituted, since it is nothing more than the return of society to its primitive custom, through the maze of inventions and of systems, the result of a meditation of six thousand years on the fundamental proposition that A equals A.

Everything today is making ready for this solemn restoration; everything proclaims that the reign of fiction has passed, and that society will return to the sincerity of its nature.

Monopoly is inflated to world-wide proportions, but a monopoly which encompasses the world cannot remain exclusive; it must republicanize itself or be destroyed. Hypocrisy, venality, prostitution, theft, form the foundation of the public conscience; but, unless humanity learns to live upon what kills it, we must believe that justice and expiation approach...

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<sup>1</sup> From The System of Economical Contradictions, vol. ii, chap. xiv.

Already socialism, feeling the error in its utopias, turns to realities and to facts, it laughs at itself in Paris, it discusses in Berlin, in Cologne, in Leipzig, in Breslau; it murmurs in England, it thunders on the other side of the ocean; it commits suicide in Poland, it tries to govern in Berne and in Lausanne. Socialism, in pervading the masses, has become entirely different: the people will not bother about the honor of schools; they ask for work, education, well being, equality; the system does not matter so much, provided that the result is obtained. But when the people want something and it is only a question of finding out how to obtain it, the discovery does not wait; prepare yourself to see the coming of the grand masquerade.

## IV. THE BANK OF EXCHANGE<sup>1</sup>

Public credit organized, labor restored and value decreed, nothing is left but to organize circulation, in the absence of which production is impossible.

This point is the summit of the revolution.

We have driven out the last of our kings, we have cried: Down with monarchy! Long live the Republic! But you can believe me, if the doubt has come to you, there are in France, there are in all Europe only a few lesser princes. Royalty is always in existence. Royalty will subsist as long as we will not have abolished it in its most material and most abstract form—the royalty of gold.

Gold is the talisman which congeals life in society, which binds circulation, kills labor and credit, and makes slavery mutual.

We must destroy the royalty of gold; we must republicanize specie, by making every product of labor ready money.

Let no one be frightened beforehand. I by no means propose to reproduce, under a rejuvenated form, the old ideas of paper money, money of paper, assignats, bank-bills, etc., etc.; for all these palliatives have been known, tried and rejected long ago. These representatives on paper, by which men have believed themselves able to replace the absent god, are, all of them, nothing but a homage paid to metal—an

Let us return to our principle.

Let us now deal with the problem of the creation of a bank' considered no longer as a business house, but as an organ of credit, that is to say, in the new light as an organ of exchange, as an organ of circulation.

### *The Bill of Exchange*

Everybody knows what a bill of exchange is. The creditor requests the debtor to pay to him, or to his order, at such a place, at such a date, such a sum of money.

The promissory note is the bill of exchange inverted; the debtor promises the creditor that he will pay, etc.

“The bill of exchange” says the statute, “is drawn from one place on another. It is dated. It announces the sum to be paid; the time and place where the payment is to be made; the value to be furnished in specie, in merchandise, in account, or in other form. It is to the order of a third person, or to the order of the drawer himself. If it is by 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>d</sup>, 4<sup>th</sup>, etc., it must be so stated.”

The bill of exchange supposes, therefore, *exchange*, *provision* and *acceptance*; that is to say, a value created and delivered by the drawer; the existence, in the hands of the drawee, of the funds destined to acquit the bill, and the promise on the part of the drawee, to acquit it.

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<sup>1</sup> Here Proudhon presented his theory of the basic cause of the Social Problem and coupled with it the solution in the project of a Bank of Exchange of universal application, (Editor,) adoration of metal, which has been always present to men's minds, and which has always been taken by them as the measure or evaluator of products.



When the bill of exchange is clothed with all these formalities; when it represents a real service actually rendered, or merchandise delivered; when the drawer and drawee are known and solvent; when, in a word, it is clothed with all the conditions necessary to guarantee the accomplishment of the obligation, the bill of exchange is considered *good*; it circulates in the mercantile world like bank-paper, like specie. No one objects to receiving it under pretext that a bill of exchange is nothing but a piece of paper. Only—since at the end of its circulation, the bill of exchange, before being destroyed, must be changed for specie—it pays to specie a sort of seigniorial duty, called *discount*.

That which, in general, renders the bill of exchange insecure is precisely this promise of final conversion into specie; and thus the idea of metal, like a corrupting royalty, infects even the bill of exchange and takes from it its certainty.

Now, the whole problem of the circulation consists in generalizing the bill of exchange; that is to say, in making of it an anonymous title, exchangeable forever, and redeemable at sight, but only in merchandise and services.

Or, to speak a language more comprehensible to financial adepts, the problem of the circulation consists in *basing* bank paper, not upon specie, nor bullion, nor immovable property, which can never produce anything but a miserable oscillation between usury and bankruptcy, between the five-franc piece and the assignat; but by basing it upon *products*.

I conceive this generalization of the bill of exchange as follows: A hundred thousand manufacturers, miners, merchants, commissioners, public carriers, agriculturists, etc., throughout France, unite with each other in obedience to the summons of the government and by simple authentic declaration, inserted in the *Moniteur* newspaper, bind themselves respectively and reciprocally to adhere to the statutes of the Bank of Exchange; which shall be no other than the Bank of France itself, with its constitution and attributes modified on the following basis:

1<sup>st</sup>. The Bank of France, become the Bank of Exchange, is an institution of public interest.

It is placed under the guardianship of the state and is directed by delegates from all the branches of industry.

2<sup>nd</sup>. Every subscriber shall have an account open at the Bank of Exchange for the discount of his business paper; and he shall be served to the same extent as he would have been under the conditions of discount in specie; that is, in the known measure of his faculties, the business he does, the positive guarantees he offers, the real credit he might reasonably have enjoyed under the old system.

3<sup>rd</sup>. The discount of ordinary commercial paper, whether of drafts, orders, bills of exchange, notes on demand, will be made in bills of the Bank of Exchange, of denominations of 25, 50, 100 and 1,000 francs.

Specie will be used in making change only.

4<sup>th</sup>. The rate of discount will be fixed at — per cent, commission included, no matter how long the paper has to run. With the Bank of Exchange all business will be finished on the spot.

5<sup>th</sup>. Every subscriber binds himself to receive in all payments, from whomsoever it may be and at par, the paper of the Bank of Exchange.

6<sup>th</sup>. Provisionally and by way of transition, gold and silver coin will be received in exchange for the paper of the bank, and at their nominal value.

Is this a paper currency?

I answer unhesitatingly, No! It is neither paper money, nor money of paper; it is neither government checks, nor even bank-bills; it is not of the nature of anything that has been hitherto invented to make up for the scarcity of specie. It is the bill of exchange generalized.

The essence of the bill of exchange is constituted—first, by its being drawn from one place on another; second, by its representing a real value equal to the sum it expresses; third, by the promise or obligation on the part of the drawee to pay it when it falls due.

In three words, that which constitutes the bill of exchange is *exchange, provision, acceptance*.

As to the date of issue, or of falling due; as to the designation of the places, persons, object—these are particular circumstances which do not relate to the essence of the title, but which serve merely to give it a determinate personal and local actuality.

Now, what is the bank-paper I propose to create?

It is the bill of exchange stripped of the circumstantial qualities of date, place, person, object, term of maturity, and reduced to its essential qualities— *exchange, acceptance, provision*.

It is, to explain myself still more clearly, the bill of exchange, payable at sight and forever, drawn from every place in France upon every other place in France, made by 100,000 drawers, guaranteed by 100,000 indorsers, accepted by the 100,000 subscribers drawn upon; having provision made for its payment in the 100,000 workshops, manufactories, stores, etc., of the same 100,000 subscribers.

I say, therefore, that such a title unites every condition of solidity and security and that it is susceptible of no depreciation.

It is eminently solid; since on one side it represents the ordinary, local, personal, actual paper of exchange, determined in its object and representing a real value, a service rendered, merchandise delivered, or whose delivery is guaranteed and certain; while on the other side it is guaranteed by the contract, *in solido*, of 100,000 exchangers, who, by their mass, their independence, and at the same time by the unity and connection of their operations, offer millions of millions of probability of payment against one of non-payment. Gold is a thousand times less sure.

In fact, if in the ordinary conditions of commerce, we may say that a bill of exchange made by a known merchant offers two chances of payment against one of non-payment, the same bill of exchange, if it is indorsed by another known merchant, will offer four chances of payment against one. If it is indorsed by three, four or a greater number of merchants equally well known, there will be eight, sixteen, thirty-two, etc., to wager against one that three, four, five, etc., known merchants will not fail at the same time, since the favorable chances increase in geometrical proportion with the number of indorsers. What, then, ought to be the certainty of a bill of exchange made by 100,000 well-known subscribers, who are all of them interested to promote its circulation?

I add that this title is susceptible of no depreciation. The reason for this is found, first, in the perfect solidity of a mass of 100,000 signers. But there exists another reason, more direct, and, if possible, more reassuring; it is that the issues of the new paper can never be exaggerated like those of ordinary bank-bills, treasury notes, paper money, assignats, etc., for the issues take place against good commercial paper only, and in the regular, necessarily limited, measured and proportionate process of discounting.

In the combination I propose, the paper (at once sign of credit and instrument of circulation) grows out of the best business-paper, which itself represents products delivered, and by no means merchandise unsold. This paper, I affirm, can never be refused in payment, since it is subscribed beforehand by the mass of producers.

This paper offers so much the more security and convenience, inasmuch as it may be tried on a small scale, and with as few persons as you see fit, and that without the least violence, without the least peril.

Suppose the Bank of Exchange to start at first on a basis of 1,000 subscribers instead of 100,000; the amount of paper it would issue would be in proportion to the business of these 1,000 subscribers, and negotiable only among themselves. Afterwards, according as other persons should adhere to the bank, the proportion of bills would be as 5,000, 10,000, 50,000, etc., and their circulation would grow with the number of subscribers, as a money peculiar to them. Then, when the whole of France should have adhered to the statutes of the new bank, the issue of paper would be equal, at every instant, to the totality of circulating values.

I do not conceive it necessary to insist longer. Men acquainted with banking will understand me without difficulty, and will supply from their own minds the details of execution.

As for the vulgar, who judge of all things by the material aspect, nothing for them is so similar to an assignat as a bill of the Bank of Exchange. For the economist, who searches the idea to the bottom, nothing is so different. They are two titles, which, under the same matter, the same form, the same denomination, are diametrically opposed to each other.

There are two kinds of counter-revolutionists, according to whether we judge the counter-revolution from a political or from an economic point of view.

The first kind comprises all those who call themselves republican- *democrats*, because of an apparent opposition to the republican- *monarchists*, their opponents and their compeers.

We have said before that all economic negations overlap one another and generalize themselves, especially in the negation of money considered as an emblem of value and instrument of exchange. There are few economists today who, upon reflection, do not admit the possibility of such a reform; but it is no less true that in the theory of the old political economy—the highly praised English political economy, which they strive to implant among us as they already have implanted constitutional monarchy—the idea of abolishing specie is supremely absurd, as absurd as the thought of abolishing property.

Finally, it is objected that all bank paper is necessarily based on security either of specie or of bullion, or on personal or real values, realizable in coin. Outside of this there is nothing but collusion and fraud. Even now one sees bank paper diminishing in value, losing in confidence and falling below par, inasmuch as they have as security real estate, on which it is difficult to realize, or which has a possibility of depreciation. It is always money which determines the value of bank notes; consequently the axiom: no money, no credit; no credit, no circulation; no circulation, no work, is an absolute truth.

## ***Products Exchange for Products***

*Products exchange for products:* This aphorism of political economy is no longer contradicted. Socialists and economists are in accord with the fact and the law, it is common ground where theories are reconciled, and opinions unite on the same doctrine.

Exchange is direct or indirect: What must we do to make possible direct exchange, not only among three, four, six, ten or one hundred traders, but among one hundred thousand, between all producers and all consumers; simply this: centralize all the operations of commerce by means of a bank in which all the bills of exchange, drafts and sight-bills representing the bills and the

invoices of merchants, will be received. Then generalize or convert these obligations into paper of equivalent value, which, in consequence, will itself be a pledge of the products or real values that these obligations represent.

Bank paper so issued would have all the qualities of first class paper.

It would not be subject to depreciation since it would be delivered only against actual values and acceptable bills of exchange, and would be based, not on manufactured products, but on products sold and delivered, for which payment would be required. There would be no danger of excessive emission, since they would be delivered only against first class commercial paper—that is to say, against promises of certain repayment.

No one would refuse it, since, by the fact of the centralization of exchanges, all citizens would become members of the bank. The most remarkable fact to be noted in this constitution of the bank is not so much the idea in itself, an idea more simple perhaps than the one which gave birth to money, but the coincidence of the employment of specie with the regime of feudal property and with the monarchical organization of society.

We have pointed out several times and we cannot repeat it too often: as long as the family had to live, by its own activity and like a little world in itself, on property, property has been the principle and the cornerstone of the social order.

During that period, the infrequency of exchanges, the scarcity of transactions, called exclusively for the employment of specie. The agent of circulation had to carry in itself its guarantee so as to be accepted. That was the age of gold, even as it was the age of royalty.

But when, by the multiplicity of labor, by the division of industries, by the frequency of exchanges, circulation became the principal factor in the economy of nations, individual property became, as we have said, an obstacle to collective life, and the employment of specie became nothing but the sign of privilege and of despotism, the same as the royal prerogative was the sign of corruption and of tyranny.

Therefore, society, in its development, destroys or transforms its former work. It is when we have acquired full knowledge of this law that revolutions can come peacefully.

Royalty, property, specie, they are the monarchical trinity which we have to demolish, they are the triple negation which sums up for us entirely the revolutionary movement begun in February.

Because, as we shall prove, all negation—that is to say, all reform in religion, philosophy, rights, literature, art—brings us to the negation of property, and, property abolished, we shall see what we want to put in place of property, in place of authority, in place of God.

All this posited, and for the better understanding of what will follow, we place before our readers the project, as we had planned it, of a Bank of Exchange.

## ***General Objects of the Bank of Exchange***

The undersigned, merchants, artisans, contractors, manufacturers, proprietors, economists, lawyers, professors, writers, artists, laborers, and producers of all kinds, of every condition and profession, and all those who subscribe to the present by-laws, constitute themselves a commercial association under the name National Association of the Bank of Exchange.

The object of the Association is:

First, Particularly and immediately, by the institution of the Bank of Exchange, to procure for every member of the Association, without the aid of specie, all products, whether commodities, merchandise, services or labor.

Second, Ultimately, reorganize agricultural and industrial labor, by changing the condition of the producer.

The association is universal. All citizens, without exception, are invited to join. No funds are required; for membership it will suffice to sign the present by-laws, and to agree to accept, for all payments, the paper of the Bank of Exchange.

The association has no capital.

Its existence is perpetual.

The Bank of Exchange is an essentially Republican Institution, and is an active protest against any re-establishment of hierarchical and feudal principles: it is, in fact, the abrogation of all civil and political inequality. With the privilege of gold abolished, all privileges disappear. The equality in exchange, necessarily resulting from the mutuality of exchange, becomes in its turn the basis of the equality of labor, of real solidarity, of personal responsibility, and of absolute liberty. The Bank of Exchange, finally, is the principle, the means and the measure of wealth, of universal and perpetual peace.

### ***Constituent Principles of the Bank of Exchange***

The principles of the National Association of the Bank of Exchange are as follows: To work is to produce wealth from nothing.

To extend credit is to facilitate exchange.

To exchange is to create capital.

The method of the Association is reciprocity.

The Bank of Exchange is therefore a credit institution destined to effect the exchange of all products without the use of specie and as a result the unlimited multiplication of products without the backing of specie.

Instead of specie, the Bank of Exchange uses its notes.

This paper does not represent specie, like ordinary bank notes, but represents the various individual obligations of the members of the Association and the various products which they have pledged as security.

The notes of The Bank of Exchange, first accepted by all the members, circulate from hand to hand and serve to buy the products of the various members; in a word, they replace money as means of exchange.

The circulation can never be inflated, inasmuch as it is issued proportionally to the *delivery* of products and in exchange for warehouse receipts and other obligations resulting from such deliveries.

Finally, depreciation is impossible, since the paper is always secured by the product against which it is issued, and by the responsibility of the producer and his endorsers.

The Bank of Exchange will not make any profits.

## ***Circulating Notes***

The paper of the Bank will be called circulating notes.

The various denominations of these circulating notes will be 20, 100, 500 and 1000 francs.

The circulating notes are perpetually exchangeable at sight at the Bank and receivable by all members for merchandise and services of every kind. Reciprocally, goods and services of all kinds are perpetually exchangeable at the Bank for the circulating notes.

The circulating notes are not redeemable in specie.

Coin shall be used only in making change.

## ***Operations of the Bank of Exchange***

The principal operations of the Bank of Exchange are:

1. The emission of a currency called circulating notes.
2. The discount of commercial two-name paper of any maturity.
3. The discount of orders and acceptances.
4. Buying and selling of consignments.
5. Secured open accounts.
6. Loans on mortgages to landowners and farmers.
7. Payments and collection free of cost.
8. Encouragement of joint stock companies.

Only the members of The Bank of Exchange are entitled to these benefits.

## ***Discount***

Discount consists in exchanging the less well known paper of the individual members which has only an individual character for the paper of the Bank which is well known.

In all other banks, where discount is made in specie or in bank bills representing specie, there is a deduction from the face of the note, a toll taken in the name of that sovereign known as gold.

In the Bank of Exchange, where the circulation is effected without an intermediary, where the only money is a token not of gold, but of manufactured, delivered and accepted products, where payment is guaranteed by the producer, the consumer and all the endorsers; where, finally, by the mutuality of acceptance, every trader reciprocally acts with the Bank as a stockholder and as a capitalist, no discount is deducted but only a commission charged to defray the cost of conducting the Bank.

This commission is fixed provisionally at *one per cent* per annum.

The Bank will discount only bills or obligations representing products accepted or sold, delivered or immediately deliverable.

It will discount two-name paper of all maturities.

Discount credit is unlimited for real transactions; that is to say, for those for which there is previous acceptance of products by an actual buyer.

The notes or obligations with two signatures must always specify the kind or the quantity of goods for which they have been given.

All fraud and dissimulation committed in this connection will be prosecuted as forgery.

The Bank by this very means receives at a discount accepted orders and invoices.

### ***Sales and Purchases of Consignments***

The operation of sales and purchases of consignments is a means of lessening the congestion of warehouses, and to come to the aid of commerce and of industry, glutted with unsold products.

The Bank buys for 1/2, 2/3, 3/4, or 4/5 of the cost of manufacture according to the circumstances and the nature of the goods from members and consigns them under the act of privileged deposit (Article 1932 of the Civil Code).

Until the time fixed by the letter of consignment, the consignee has the right to sell on the best possible terms and will not be held for more than the amount advanced by the Bank.

After maturity the Bank will sell the consignment at public auction, to members or to others who wish to benefit thereby.

The excess of the price realized by the sale over the price fixed by the terms of the consignment shall be paid to the consignor, after a commission of s per cent on the said excess shall have been paid to the Bank for its services.

After the sale is made, the holder of the consignment must deliver the goods consigned.

The State for its bonds, the manufacturers for their products, the merchants for their goods, the workers for their labor, the artists for their works, the proprietors for the rental of their apartments, houses, lands, machines; the holders of titles to income, all citizens, in a word, can benefit by this contrivance of obtaining loans; and, reciprocally, all can benefit in obtaining a great reduction in the price of raw materials, as on the rental of machines and the hire of services, which they need in order to produce economically.

### ***Secured Open Account***

The Bank furnishes credit on open account.

The sole guaranty asked by the bank is to provide two or more sureties, as the Bank may deem prudent and necessary.

The sureties are jointly and severally liable.

The Bank accepts as sureties only members of the Association.

In case of nonpayment on the part of the borrowing member, the Bank will negotiate with the sureties, in a friendly way, for its reimbursement.

### ***Loans on Mortgages***

The Bank loans to land owners and farmers, on time notes and notes payable in annual installments.

Long term notes and installments are secured by mortgages or by obligations analogous to those of sales and purchases on consignment of merchandise.

The Bank buys property on time at 3/4 of its value, and consigns it to the proprietor, who becomes manager and responsible for its administration, while he enjoys all its products.

If at maturity the proprietor has not repaid the loans made to him, the Bank takes the property, and provides for its exploitation.

The proprietor in default has the privilege of the occupation and use of his property, for himself and his heirs, as tenant or manager, on conditions established by the bank.

### ***Credits on Accounts Current***

The Bank makes payments and collections gratuitously for all its members, in Paris and the provinces.

It opens for that purpose an account with each member. A simple transfer from one account to another suffices to balance the greater part of these payments.

### ***Limited Joint Stock Companies***

The Bank of Exchange by its influence promotes, creates, counsels, encourages, disburses, by virtue of its knowledge,

by its advances, all agricultural, manufacturing, commercial and scientific enterprises, etc., all efforts of associations of laborers, and organizations of workingmen, who, in everyday dealings, promise sufficient guaranties of success.

The Bank of Exchange, representing the most general interests of the country and being the tool of the collective judgment, is free from all predilection for any system. It has neither sympathy or antipathy for any idea, or for any school; and does not express any opinion on any doctrine.

Moreover, the Bank of Exchange, as the special organ of circulation and of credit, the point of convergence of all productive forces, does not devote itself to any enterprise; it does not mingle either directly or indirectly, in any trade, or in any business of whatever kind. It does not accept or submit to any responsibility except for those of its own operations.

It limits itself to passing upon the projects submitted to it, according to elementary principles of production or of distribution and consumption of wealth, representing itself as a type of an organization wherein liberty, equality, reciprocity, and impartiality are to be found in the highest degree.

### ***Organization and Administration of the Bank***

The Bank of Exchange has its principal office at Paris. It has a branch in each district.

The Bank of Exchange is an institution of public interest; as such, it is under the surveillance, but independent, of the State.

The State is a member of the same standing as all citizens. It takes no part in the management, and does not interfere directly or indirectly with its administration.

The State promises to receive the Bank's paper in payment for all public dues.



As a compensation, the Bank makes such loans to the State as the latter may need *without interest* on the sole condition of repayment in installments.

the amount of these advances is nevertheless provisionally limited to 500 millions.

The administration of the Bank is in the hands of a Board of Directors under the supervision of a Council of Surveillance.

### ***The Board of Directors***

The Board of Directors will be composed, at first, of the four principal founders of the Bank of Exchange.

The State is considered as an honorary founder, but it cannot become a member of the Board.

The Board of Directors superintends all the operations of the Bank. It can buy, sell, exchange, rent and lease, receive and pay, give receipts and releases, consent to all subrogations and compositions, renounce all privileges, release all titles, seizures and transactions, make all affirmations of credit, prosecute, compromise and negotiate in the name of the Association, and generally decide on all measures necessary for the welfare of the Association.

Special rules will define and limit the powers of the managers.

The Board of Directors makes the rules for the branch banks and by its instructions directs the operations of the branches.

It appoints and discharges the employees and agents of the Bank, fixes their salaries, commissions and gratuities.

The members of the Council of Administration will freely distribute the administrative functions among themselves, divided as follows:

1. General Direction;
2. Signing of documents and correspondence;
3. Discount;
4. Accounting and litigation.

The members of the Board are elected for five years by the General Assembly and are eligible for re-election.

Temporarily, they will not receive any salary. They will share, as remuneration, a part of the net proceeds of each

transaction. This commission will be fixed by the regular governing committee, who also shall determine, at the same time, the bonuses to be allowed to all employees and agents of the Bank, over and above their salaries, and also the disposition of all surplus funds.

Any member of the Board of Directors can be suspended from his office by the Council of Surveillance and can only be reinstated by a two-third vote of the General Assembly The Council of Surveillance

The Council of Surveillance shall be elected annually by the General Assembly.

It is composed, like the General Assembly itself, of delegates chosen by all branches of production and of the public service. The number of these delegates shall not at any time exceed thirty.

The State shall be represented by the Minister of Justice, who shall be chairman of the Committee by virtue of his office in the Government.

The Council of Surveillance shall have the absolute right of control.

This right can be exercised individually by each member of the Council, who can at any time examine the cash on hand, the records, the correspondence, the agreements and the portfolios both at Paris and in the provinces.

The greatest publicity shall be given by the Council of Surveillance to the condition of the Bank.

The Council of Surveillance is limited in the right of control, and shall not interfere in any way with the administration, nor participate in any act of management.

It has the right to convoke the General Assembly in extraordinary session, and to request the resignation of any or all of the members of the Board.

### ***The General Assembly***

The General Assembly is composed of the entire membership, who shall have a right to be present and take part.

They may delegate their powers and may be represented by proxy.

When, by the adherence of all producers to the Bank of Exchange, the General Assembly will become equal and identical with the totality of citizens, it will be composed of none but the representatives of production, named by each industry, the number of which shall be in proportion to its importance.

The General Assembly, thus composed, representing the general welfare and no longer the selfish interests, will be the true representative of the people.

The General Assembly shall meet on the first day of May of every year.

Its order of business shall be:

1. To hear the statement of the Board of Directors.
2. To hear the report of the Council of Surveillance.
3. To adopt, reject or modify this report.
4. To proceed with the election of members of the Board of Directors.
5. To elect the new delegates for membership of the Council of Surveillance.
6. To ratify the applications for loans made to the Association either by individuals or by companies, or by the State.
7. To regulate the rate of discount for the coming year.

The convocation and sessions of the General Assembly shall be governed by the rules ordinarily in use by commercial assemblies. A two-thirds majority shall rule.

Independently of the annual meeting of the General Assembly, special meetings may be called, either by the Board of Directors or by the Council of Surveillance.

## ***Extension of the Organization***

On the proposal of the Board of Directors, or on the request of the Council of Surveillance, changes can be made in the existing by-laws, by the General Assembly, in order that all agricultural, manufacturing, commercial companies,

corporations and associations, etc., may be placed under the patronage of and in partnership with the Association.

## ***Balance Sheet of the Bank of Exchange***

We will now compute the profits and losses that labor must unjustly bear from the use of metallic capital.

In our preceding articles, we proved that all methods of philosophic—and, we may add, mathematical—investigation proceed necessarily by elimination or negation that such is the revolutionary method by which society progresses, incessantly abolishing its own institutions, and securing the unlimited establishment of liberty.

According to this conception of progress, the ultimate goal of civilization would be the one in which society exists without government, without police, and without law, the collective activity exercising itself by a kind of immanent reflection; the exploitation of the earth would take place unitedly and in perfect harmony, and the individual, following only his own inclination, would attain the maximum of wealth, of science and of virtue.

Certain Socialists — and I must place in the first rank those of the phalansterian school — conceive nothing of this achievement of happiness and of liberty by this negation. The sublimity of the Fourierists' theories has made the elements of common sense unintelligible to them.

Those who for ten years have lived only on subventions, as did the Republic under the Provisional Government; those who have devoured millions only to show their incapacity; those who stand mute when their country asks of its children counsel and assistance, dare to vilify as powerless, as negative the economic means indicated by the universal need, by the spirit of the century and the progress of the age.

Further on we will show the Fourierists what is positive in a negation, what clothes emptiness with reality.

We will begin with the balance sheet of the Bank of Exchange.

Every one knows that if three or more traders, living in different places, had simultaneous knowledge of the need that each one has for the products of the other, they could contrive the manner of exchanging their products and services directly, without the intervention of money.

This is self-evident and incontestable in theory, since exchange among three or more is the same thing as exchange between two; it is practiced every day in the clearing of accounts.

On this point, then, there is not the least difficulty.

By this principle, which suppresses specie, the idea of the Bank of Exchange is easy to understand.

The Bank of Exchange offers its services because the Bank knows individually all the producers and consumers of the country, the state of their affairs, their capability, their solvency, the importance of their operations and, what is most important, their needs from day to day.

It is by aid of this knowledge that it possesses of production and of sales that the Bank of Exchange offers to put all producers and consumers at all times in communication with each other, without charge, so that no political upheaval can ever interrupt their relations, in the interchange of their products.

Such is the organization of the Bank of Exchange—operative everywhere, informed about everything, it says to every trader: give me your invoices, your bills of exchange, your orders, consign your merchandise to me, and, by my innumerable connections, I will conduct your transactions, without the aid of cash and consequently without discount, *without interest!*

Here, then, is the Bank of money converted into a Bank of Exchange, indirect exchange replaced by direct exchange, the role of metal suppressed and replaced by a method of clearing, the negation converted into an affirmation.

And now! What advantage can we derive from this reform? What would this do for labor?

What can the State, the people, society, liberty or morals gain when there are no more capitalists?

Let our adversaries follow our estimates closely.

First: *Circulation*—According to the best authorities, the total circulation in France—that is to say, the amount of its commercial bills presented for discount, at the Bank of France, at those of the provinces, in private banks—is about 20 billions. For this circulation, which means that for the exchange of their products, the producers pay to the capitalists in interest, commissions, costs of protests, losses, unpaid drafts, etc., etc., an average of 8 per cent, which totals 400 millions.

A deduction of 400 millions from the profit of the capitalists—this is the negative side of the idea.

An economy of 400 millions as the profit of the consumers—this is the positive side of the idea.

There is in all this only one amount, that of 400 millions, to be transferred from the debit of the association to its credit. And here is my answer to the good people who have asked me whom I would put in the place of the capitalists, who take from you these 400 millions: Yourself, citizens, for whom I would save 400 millions.

Second: *Loans on mortgages*—The amount of the debts contracted on mortgage by the agricultural, manufacturing and other producers is variously estimated at from 12 to 14 billions. The rural debt forms the greater part of this enormous burden. The debtors are generally peasants. The average rate of annual interest and costs for these kinds of loans is 10 per cent. Here is the statement:

1. Costs of the instrument	3 per cent
2. Commission to the intermediary	1/4 per cent
3. Annual interest	5 per cent
4. Contingent costs on sales, taxes, etc., etc., of 1/4 to 6 per cent say an average of	2 per cent
	10 1/4 per cent

The debtor borrows for three or four years at most, but the time stipulated is illusory, because the contract always provides that the advantage of the terms is forfeited when the interest is 30 days in arrears, and suit must be brought. And the peasant never pays at maturity!

The average rate of interest and costs for mortgage loans being 10 per cent, and the loans totaling 12 billions, here is a new tribute of 1200 millions which the country pays to the monetary parasite.

But why this tribute?

Because the peasant needs, in his operations, a quantity of products and services which he cannot obtain in exchange for his existing or expected products and which he is compelled to buy and pay for in money. The peasant builds, increases his stock, buys horses, cattle, pays interest, buys cotton, linen, etc., especially since the division of labor and the separation of industries have spread from the towns to the country. For all these things money is required. Products in themselves are of no use, as they cannot circulate except by the use of money.

With the Bank of Exchange, on the contrary, the peasant borrows at the same rate that the merchant discounts—that is to say, gratis. With an annual installment of less than one-half of the interest and charges that he pays to the capitalist, the notary, etc., the peasant will obtain from the Bank of Exchange the same credit, and in 21 years he will have the whole loan paid off.

Thus the mortgage credits, organized on the principle of the Bank of Exchange, would produce for the country a second economy of 1200 millions. This is another negative changed into an affirmative: 1200 millions that stays in our pockets, instead of going into those of the capitalists.

Third: *Pawnshops*—Here is another suppression capable of making the hearts of all the philanthropists bleed. The proceeds of loans made on pledges in the pawnshops were, in 1847, for all France, 42 millions. I suppress the pawnshops and restore to the workers who are paying them, 42 millions.

But, says the worker, impressed by the phalansterian argument, when I am on strike and have no money, I pawn my watch; the pawnbroker lends me 10 francs and gives me a receipt with the right to redeem.

If, when due, I am without funds, he extends the loan. You must admit this is an accommodation. What would you put in the place of the pawnshops?

Fellow citizens, I would put nothing at all. Far from it, I mean to change something else in your habits, and that is idleness. As two negatives make an affirmative, the result for you will be the abolition of the pawnshop and the end of idleness, as you would always have work and would never be in debt. Does that please you?

Fourth: *Public Debt*—It often happens that the taxes do not suffice and the State then finds itself in the same situation as the peasant who wants to build, increase his stock, repair the damages of the preceding year; it needs loans; and it borrows, and what does it borrow? It borrows money.

The State borrows money to pay its contractors, purveyors, engineers, laborers, soldiers; to buy horses, wagons, harness, lead, iron, copper, wood, hemp, linen, cloth, fodder, etc. etc., all things furnished by its citizens.

Why, then, does the State instead of applying directly to its citizens, apply to the men of money?

Because it has no other means of effecting transactions between itself and the producers.

With the Bank of Exchange, on the contrary, the State obtains directly from each citizen, who has become a creditor of the State, the latter repaying annually in installments and without interest, all the advances it wants. The State by this operation not only does not contract any new debts, but pays its old ones. According to the last budget presented by the Government of Louis Philippe the interest on the public debt is about 330 millions. This makes 330 millions less to be paid by the citizens. It is true that, with these 330 millions and the 1,200 millions paid for

the loans on mortgages, there will disappear also the deposit bank, the interest on the public debt, and quite a number of bankers, notaries, stock brokers, etc. What will become of us, when there are no more mortgages, no more stock jobbing, no more interest?

Fifth: *Customs*—In the destructive anti-monarchical and anti-financial proposals published under the title “Organization of Credit and of Circulation,” which preliminary articles have appeared under the name of *By-Laws of the Bank of Exchange*, we said that, the principle, *Products exchange for products*, becoming, by the use of bills of exchange, a reality, for the people as well as for the individual, imports and exports would always balance; that the correct way of protecting national industry consists in demonetizing gold and silver, and that thus the tariff would become, in fact as well as in law, unnecessary. If we add that the economies realized on all products by the establishment of the Bank of Exchange carry with them a considerable reduction in the net manufacturing cost of all products, we shall be immediately in a position to be able to meet foreign competition without risk to our own capital, and with immense benefit to our commerce. The reason for this is easy to grasp. If gold and silver have none but a commodity value as products whose price is governed by the costs of extraction and by the labor incorporated in them; if, consequently, money were daily sinking in value compared with bills of exchange, it is evident that, on one hand, we would have nothing to fear from the exportation of the precious metals, and that, on the other, the foreigner would have all the advantage of paying for our products with our own bank bills, instead of paying us in money. As these bills only represent products, foreign commerce will find itself freed, even as internal commerce is freed, from the domination of specie; exchanges will be effected directly between our products and those of the foreigner, and between our labor and that of other peoples.

### ***To Labor Is to Produce Something Out of Nothing***

Man, by this proposition, becomes equal to God. Like God, he creates things out of nothing. Thrown naked upon the earth, among briars and thorns, among tigers and serpents, finding hardly enough sustenance for one person on each square league; without tools, without patterns, with out supplies, without previous experience, he has had to clear, lay out, eradicate, cultivate his domain; he has embellished nature itself; he is surrounded by the unknown marvels of the ancient author of things, and has given birth to luxury where nature had given nothing but profusion. At the origin of society, there was only raw material, there was no capital. It is labor that has created capital; it is the laborer who is the real capitalist. Because to work means to produce something out of nothing, to consume without producing is not to exploit capital, it is to destroy capital.

Such, then, is the first principle of the new economy, a principle full of hope and of consolation for the laborer without capital, but a principle full of terror for the parasite and for the tools of parasitism, who see reduced to naught their celebrated formula: *Capital, labor, talent!*

Producing something out of nothing is the first term of a marvelous equation, which in these fundamental propositions we shall see unfold and yield, as a result and conclusion—wealth.

## ***To Give Credit Is to Exchange***

This axiom is, like the first, the overturning and the overthrowing of all economic and phalansterian ideas.

In the system of interest-bearing property, where capital, by a purely grammatical fiction, passes from the hands of the worker to those of a parasite who is for that reason called a capitalist, credit is *unilateral*, proceeding from the parasite, who possesses without producing, to the worker, who produces without possessing. Thus established, credit demands a tribute from the debtor, in exchange for the permission—which the parasite grants him—to make use of his own capital.

In the system of the Bank of Exchange, on the contrary, credit is *bilateral*: it flows from each worker and is directed

to all the others in such a manner that, instead of borrowing capital bearing interest, the workers mutually pledge each other their respective products, on the sole condition of equality in exchange.

Thus, in this system of credit, every creditor or mortgagee becomes a debtor in his turn; one thing is exchanged for another. In the other system, there is only one creditor and one debtor, and something is given in exchange for nothing. The one of the two contracting parties who gives without receiving is the worker, the one who receives without giving is the capitalist.

## ***To Exchange Is to Capitalize***

In the old political economy, this has no meaning. In the mutualist system, nothing is more rational.

In fact, if, as we have just shown, giving credit is the same thing as exchanging; if nothing should be given for nothing; if products can be delivered only for equivalent products, and not for an authorization to produce: the moment that direct exchange no longer encounters any obstacles, it is evident that the means for each individual laborer to obtain wealth is for him to acquire the greatest possible amount of different products, in exchange for his one unvarying product.

The contrary happens when exchanges can be made only by the intervention of money, and subject to the discount profit of the holder of coin, like the profit accruing to the holder of the tools of production. In this instance, it is clear that exchanges are infrequent and costly, because they are hampered. Conversion of the product is difficult, sales always restricted, demand always timid; capitalization takes place only in the form of money, consequently instead of having consumption active it has frugality for its only principle, and, like frugality, it is poor and indigent.

Whether one views it from one or the other standpoint, the savings bank is a philanthropic institution, or an economic absurdity.

## ***A Consumer Is a Partner***

This axiom is a consequence of the third paragraph— *To exchange is to capitalize*, as the latter is the consequence of the second, *Credit is exchange*. In reality, where, by the direct exchange of products, all producers are considered as creditors, the consumer becomes the sleeping partner of

those who, not having any products to offer for exchange, ask either for work or for instruments of labor. "What can you offer us?" one says to the idle worker.

"Some cloth, shawls, jewelry, etc.," he answers. "Very well; here are our orders: Take them to the Bank, and, on the guaranty of our signatures, you will get an advance, you will receive the means to work, to live, to cover your credit; in short, that which will enrich you."

Such is the very nature of credit.

Between the producer and the consumer, the current view places the capitalist; between product and product, it puts money; between the worker and the employer, that is to say, between labor and talent, it puts capital, property. What a splendid trinity! What a perfect triad! And how much does this synthesis of the three degrees outweigh the dualism of reciprocity!

If now from the principles of mutualism we pass to its forms, we find everything appropriate, that is to say, everything is contrary to the notions of the old jurisprudence as well as to the old political economy. Following the code and all the commentators, all civil or commercial societies, formed for any exploitation whatever, imply:

1. Contribution of capital.
2. Production in common for a definite object.
3. Limitation of the number of its members.
4. Limitation of the period of its existence.
- 5 Joint liability of its members.
6. Distribution of its profits.

It never occurred to anyone that a company can dispense with capital; that it may not have for its purpose the realization of profits, that the members need not be jointly liable; that their company does not engage in any special production; that it is not limited in the time of its existence or in the number of its members. All the transactions of the Company have no other purpose than to provide for the conditions and accidents which can give rise to any one of these conditions.

The mutualist association, for which the by-laws of the Bank offer a type, reverses all this.

It has no capital;

Its object is not production, but exchange;

It is unlimited, not in goods and profits, but in the number of its members; It is perpetual;

It binds its members in no way to each other;

It makes no profits.

The mutualist association has no capital, because to work is to produce something out of nothing, and any consumer, by virtue of his custom, becomes a partner.

Instead of production in common, the only aim of this association is the mutuality of services. Indeed, as all production results from a combination of separate functions, it involves, on the part of the co-producers, nothing more than the mutuality of labor.

It is universal in its tendency; all industries can be considered as dismembered from one another, and the same mutuality which exists between the co-producers of any one article exists among all industrial operations.



It is as perpetual as humanity itself, of which it is the image and the organ.

It does not involve its members in any joint liability. Against accidents, arising from the forces of nature, it is protected by a system of general insurance analogous to that of the Bank of Exchange; against the errors of individuals, it is protected by the limitation of their powers and by mutuality itself.

It makes no profits; and why? For the same reason that it has no capital, because *labor produces everything out of nothing*.

The mutualist association is like nature, which is wealthy beautiful and luxuriant, because she draws her wealth and her beauty from the creative force that is within her; in a word, because she produces everything from nothing. Nature in producing does not profit thereby.

On whom, on what would nature profit? On herself? To profit, for nature, would be to rest, to cease producing; profiting would be the same thing as impoverishing.

Likewise, in the association, profit is synonymous with poverty, since to profit can signify nothing for her, but to take from herself, as in trade profit is synonymous with taking from others. Profit is therefore here synonymous with theft, and what is true of society is true of the individual, who is always less wealthy and less happy in proportion to the poverty of his fellows.

Thus, production without capital, exchange without profit—these are the two terms between which social economy oscillates and whose result is wealth.

The two negations balance each other. The first shows the debit of the laborer, the second his credit. This is the principle of mutualist accounting.

How does the Bank of Exchange begin its bookkeeping? It is not with an account of *capital*, since it has no capital; nor with an account of stock, since it possesses nothing as yet, not even bills; nor with cash, since it has nothing in its till; nor with *general merchandise*, or *profits and loss*, since it has produced nothing, and before any operations it cannot lose or gain.

The Bank opens accounts by the process of drafts and remittances; that is to say, as soon as it begins to function, as soon as it operates, as soon as it has availed itself through the universal partnership of the special work done by circulation, receiving from some and supplying to others, the Bank retains from each transaction the price of its service, its own *wage*, *capital* and *profit*, three terms from now on synonymous. The greater number of transactions it performs, the greater number of emoluments it realizes, or, in other words, profits; and since working much is synonymous with working as cheaply as possible, the greater the reduction the Bank of Exchange makes in its discount, the more other associations, who in their own lines follow the same movement of reduction, will thrive.

Thus, by the sole fact of the inauguration of the mutualist principle and the abolition of specie, the relations of labor and capital are inverted; the principles of commerce are overthrown; the forms of society, both civil and commercial, are reversed; the rights and the duties of the members are changed, property revolutionized, accounting reformed; equity, hitherto hobbled, is reconstituted on a stable basis.

These principles once established, and we do not fear that they can be proven false, we come to the project of the mortgage bank—on which the National Assembly will, of course, endlessly debate.

Agricultural production pays its creditors 10 per cent interest. This is correctly determined to be too dear, and it should be reduced to at least one-half. To do that, people imagine nothing better than to found an agricultural bank or a Mortgage Bank, and to make the State the head and manager thereof.

But, first, how would such a Bank have to function?

It is not with specie. The amount of mortgage loans are today 14 billions; at 10 per cent this means 1400 millions that the capitalists levy on agricultural production. Now, not only does agriculture complain that money is too dear, but it also complains that there is not enough of it. If, then, the State could lend money at 5 per cent, all costs included, instead of 10 per cent, undoubtedly the totality of sums loaned would soon mount to 20 and perhaps to 30 billion, debts always increasing with the facility of contracting them. But such a bank is impossible.

There are not 20 billions of specie in all Europe, and when it came to gathering them, these 20 billions would soon represent value of only 3 or 4 billions; as money, like all merchandise, diminishes in value as it increases in quantity.

It is seen at once, by this simple observation, that mortgage credit, as understood in the ordinary conditions of credit, turns in a vicious circle; it is an idea that implies a contradiction by its very terms. Since, therefore, enough specie could neither be found to finance so vast an industry as agriculture, nor, even though the desired quantity existed, to preserve its exchange value, what means can be conceived?

It is to convert property itself into money; to free it, to mobilize it, to make it circulable like money. Shorn of technical verbiage, here is what the operation consists in: The borrower presents himself at the Bank with the titles to his property. A transcription of his title is made in a register with coupons of various denominations and according to his wishes there are detached from the register one or more coupons whose sum total equals either two-thirds or three-fourths of the value of the property, as may be determined.

And this coupon, this receipt or mortgage note, as it would be called, becomes a bank note; it is money. By virtue of the law, the person to whom it is issued and after him all the holders of the coupons have the right to have it accepted everywhere at its face value, in payment for all kinds of merchandise or services, and in settlement of all accounts, etc.

The loan, and in consequence the circulatory capacity of the note, is limited to a certain number of years, at the end of which period the borrower must repay to the bank the amount expressed in the note, in default of which the last holder has the right to require the sale of property.

In return for this service of coining money from property, the borrower pays to the State, during the time of the loan, and notwithstanding that the reimbursement terminates it, an interest of 3, 4 or 5 per cent. In the other systems, interest, instead of being paid to the State, belongs to the holders who collect it at the maturity fixed by the bank.

Be that as it may, in what manner it bears interest, or whether it goes into the coffers of the State or accumulates in the hands of the monopolizers of notes, is of little consequence; mortgage credits, established on this basis of the mobilization of property, are a heavy load for the worker, a deception for the borrower, a calamity for all.

The creditor, the man who gives credit, is you yourself, it is I, it is all the workers that the State, without warning, obliges to make advances of their day's work, of their products, of their services, to a proprietor who will never pay them either the principal or the interest. The

State possesses nothing, it has nothing but debts and bayonets. To discharge its debts, it becomes a banker, but a banker without capital. Its bills of credit are the notes that it draws at sight on all of us, as though it said to us, "I, the State, promise to pay to Jacques Fornachon, citizen at Palante, the sum of one thousand francs, the amount of which you will please pay to him at sight, in such merchandise, services or labor as he may require, in default of which I will compel you."

Such is the credit of the State.

Let this, then, be thoroughly understood. When the State becomes a banker, when it decides to give credit, it does nothing but seize, by the force of arms, the bread of the workers, the goods of the merchants, the products of the farmers, the commodities of the manufacturers, and to give them to the borrowers, who must first pay it interest, and then the principal.

What do you think, citizen reader, of this system of banking?

There is reason to believe that the debtors will be eager to free themselves and to run to the Bank of the State, but with the ease of borrowing that this new system holds out, together with the immense needs of agriculture, it is no exaggeration to say that, with borrowing made at half price and for twice as long, borrowing will be multiplied. The mortgage charge will not be diminished, and, the same causes still operating in the same manner, they will increase. They will increase also for another reason. Really, up to the present, we have reasoned on the supposition that the bills will be accepted at par everywhere. But it cannot be so; metallic money will always have, no matter what happens, a marked preference. It will, therefore, have discount and depreciation; consequently the interest that we suppose ought for instance, to be 5, will be 6, 7 or 8; therefore, deception for the borrower, who, thinking he borrows at 5, really borrows at 6 and higher.

Thus there will be pulling and hauling between the borrowers, interested in making the credit paper circulate, and the producers, interested in refusing it or in accepting it only at a discount; thence chaos, gambling, disintegration of medium sized and small properties, progressive increase in the costs of production, and, at the end of the account, universal bankruptcy.

The Bank of Exchange proceeds quite otherwise.

First of all, the Bank of Exchange does not function through the State, which possesses nothing, which cannot create credit out of anything, which exists but to devour, and which it is the aim of the Revolution to abolish. The Bank of Exchange represents the totality of the producers. It is through them that it exists and for them that it labors.

The Bank of Exchange loans on mortgages, *without interest*, accepting repayments in annual installments. This signifies that through the Bank of Exchange the whole of the producers voluntarily loan to the farmer, on a mortgage of his property, the amount he needs for supplies and help and other purposes in carrying on his affairs.

In exchange for this credit, the borrower each year repays the Bank—which means all the producer-lenders—the installment promised, so that the repayment to the creditor is as real as the credit. No longer will there be any parasitic middleman, usurping, like the State, the rights of the laborer, and absorbing, like the capitalist, a part of his product.

The State, as well as specie, being excluded from this regime, credit reduces itself to a simple exchange in which one of the parties delivers his product at one time, the other remits his in various installments, all without interest, without any other costs than those of accounting.

In this system, let the operations multiply themselves as much as they will, for, far from showing an increase of charges for the producer, like those which take place in the mortgage bank, this acceleration of business will be a sign of an increase of wealth, since credit is here nothing but exchange' and since products call for products.

The effect of the Bank of Exchange, where capital has need for no reserve, will be diametrically opposite to that of the mortgage bank, where the State, acting as a capitalist, exacts usury from the borrowers. Through the Bank of Exchange credit spreads activity and wealth everywhere; through the mortgage bank, it digs an abyss where both the producers and the State are fatally engulfed.

A crown has no sooner been snatched from the hand of the laborer, than it is placed at compound interest against the people. On this interest live and thrive all the swarm of parasites that suck the sap of humanity. From time to time the exhausted tree turns yellow, becomes scrawny, and stops bearing its fruit; then the parasites perish in myriads and soon the giant Nature reconstructs more vigorously and more magnificently. The people are never more fecund or more strong than on the morrow of a general bankruptcy.

## V. THE BANK OF THE PEOPLE<sup>1</sup>

### *Declaration*

I swear before God and man, upon the Gospel and on the Constitution, that I have never held nor professed any other principles of reform than those laid down in the present treatise, and that I ask nothing more, nothing less, than the free and peaceful application of these principles, and their logical, legal and legitimate consequences.

I declare that in my innermost thought, these principles and the results which flow from them, are the whole of Socialism, and that beyond is nothing but utopia and chimeras.

I vow that in these principles, and in all the doctrine to which they serve as a basis, nothing—absolutely nothing—can be found opposed to the family, to liberty, or to public order.

The People's Bank is but the financial formula, the translation into economic language, of the principle of modern democracy, the sovereignty of the People, and of the Republican motto, *Liberty, Equality, Fraternity*.

I protest that in criticizing property, or rather the whole mass of institutions of which property is the pivot, I have never intended either to attack individual rights, based upon existing laws, or to contest the legitimacy of acquired possessions, or to demand an arbitrary division of goods, or to place any obstacle to the free and regular acquisition, by sale and exchange, of property, or even to forbid or suppress, by sovereign decree, ground rent and interest on capital.

I think that all these manifestations of human activity should remain free and voluntary for all: I ask for them no modifications, restrictions or suppressions, other than those which result naturally and of necessity from the universalization of the principle of reciprocity which I propose.

What I say of property, I say of every political and religious institution as well. My sole aim, in passing through the crucible of criticism the different parts of the social structure, has been to discover, by a long and laborious analysis, yet higher principles, whereof the algebraic formula is announced in this treatise.

This is my testament in life and in death: he only may doubt its sincerity who can lie when on his death-bed.

If I am mistaken, the good sense of the public will soon dispose of my theories: there will be nothing left for me but to disappear from the revolutionary arena, after having asked pardon from society and from my brothers for the annoyance which I may have caused to their minds, of which I am, after all, the first victim.

But if, after being discredited by general good sense and experience, I should seek again some day to excite the feelings and arouse false hopes by other means or by new suggestions, I would invoke upon myself thenceforth the scorn of honest people and the maledictions of the human race.

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<sup>1</sup> In the section on the *Bank of Exchange* Proudhon had laid out the theoretical basis for the mutualization of credit. Here he lucidly and practically presented the organization itself. (Editor.)

P. J. PROUDHON.

## ***Formation of the Company***

In the presence of *Dessaignes* and his colleague, notaries at Paris, undersigned, appeared Citizen Pierre-Joseph Proudhon, representing the people, residing in Paris, 70 Mazarin Street, and requested the undersigned notaries to confirm the articles of incorporation of the present Company as follows:

*Article 1.*—BY these presents is founded a commercial company, under the name of the *People's Bank Company* between Citizen *Proudhon*, proponent, and such person or persons as shall accept these articles of incorporation by purchasing shares of stock therein.

*Article 2.*—The object of this Company is to organize credit democratically:

1. By procuring for everyone the use of the land, of buildings, machines, instruments of labor, capital, products and services of every kind, at the lowest price, and under the best possible conditions;
2. By facilitating for all the disposal of their products and the employment of their labor, under the most advantageous conditions.

*Article 3.*—The intention of the founders of the *People's Bank* is to have it incorporated eventually under the form of a joint stock company, and to accept all the principles of such a company, as defined by the existing commercial law, that is to say, that it shall be administered by officers, temporary and revocable, members or non-members, salaried or without salary, exempt from individual and joint obligation and responsible only for the duties of their office. But for the present the Company will be a company with a collective name, and also a partnership;<sup>2</sup> it will be in a collective name in relation to Citizen Proudhon, and a partnership in relation to others interested, who in no case shall be liable beyond the amount of their stock.

*Article 4.*—Citizen Proudhon shall be the sole responsible manager. He alone shall have the right of signature for the Company; and the general administration of the Company shall belong to him, under the title of General Manager. But he shall have the right to take as co-adjutors, two or four deputies, under the title of Assistant Managers, for whom he shall be responsible, and to whom he may delegate the right to sign for the Company.

*Article 5.*—The name of the Company will be *People's Bank*. The official designation will be P. J. Proudhon and Co.

*Article 6.*—Independently of the members of the Company properly so called, every citizen is invited to join the *People's Bank*, under the designation of cooperator. For this it is sufficient that they should support its by-laws and accept its paper.

The form of supporting is determined by a special rule of the Bank.

The position of shareholder carries with it all the obligations of supporter, unless reservation is made in this regard by the shareholder.

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<sup>2</sup> *Commandite*. A *commandite* is a partnership in which the active partners' liability is unlimited, while that of the sleeping partners is limited by the amount of their capital. *Tr.*

*Article 7.*—The People’s Bank being susceptible of indefinite extension, its existence is virtually perpetual. Nevertheless, in order to conform to the requirements of the law, its life is placed at ninety-nine years, to begin upon the date Of its definite incorporation, as hereafter stated.

*Article 8.*—The home of the Company and its legal domicile are at Paris, for the present, where its offices are at No. 25, Rue du Faubourg-sainte-Antoine.

## ***Capital of the Company***

*Article 9.*—The Company holds the following principles: That all raw materials are furnished to man by nature gratuitously.

That therefore, in the economic order, all products come from *labor*, and reciprocally, that all *capital* is unproductive.

That as every transaction of credit may be regarded as an exchange, the provision of capital and the discount of notes cannot and should not give rise to any interest.

In consequence, the People’s Bank could and should operate without capital; as it has for its *base* the essential gratuity of credit and of exchange; for its *object*, the circulation of values, not their production; for its *methods*, the reciprocal agreement of producers and consumers.

This end will be attained when the entire body of producers and consumers shall have become supporters of the by-laws of the Company.

Until that time, the People’s Bank will have a capital, in order to conform to established custom and the requirements of the law, but chiefly that it may more successfully solicit the support of citizens.

*Article 10.*—The capital of the People’s Bank will be five million francs, divided into one million shares of stock of five francs each.

These will be taken from a registry book with stubs, which will be kept at the office of the Company. They will be signed by the General Manager, or, with his authorization, by one of the Assistant Managers, and sealed with the seal of the Company.

Payment for stock may be made in several partial payments, according to the decision of the General Manager who should always take the advice and receive the preliminary assent of the Supervisory Committee in this matter.

Nevertheless, at least one-tenth should be paid at the time of subscription.

The Company will be definitely incorporated, and will begin operation when ten thousand shares shall have been subscribed for.

This incorporation will be declared by the Manager, in a document attached to these presents.

*Article 11.*—All shares will be registered, and transfer will be valid only when recorded on the books in the office of the Company.

*Article 12.*—All shares shall be issued at par. They bear no interest.

*Article 13.*—Partial reimbursement may be made to share holders upon the total amount of their stock. They may even be completely paid off, if the Company can be carried on with the assets of the firm, independently of the Corporate capital.

In this case, the holders of shares preserve their rights as beneficiary associates, and all the prerogatives of which the Company assures them.

*Article 14.*—The capital may also be increased upon the representation of the General Manager, and the vote of the General Assembly. This increase shall be obtained by a new issue of stock, wherein former stockholders shall have the preference.

### ***Transactions of the People's Bank***

*Article 15.*—The principal transactions of the Bank are

1. The increase of its cash on hand by the issue of notes;
2. The discount of commercial two-name paper;
3. The discount of orders and acceptances;
4. Advances on consignments;
5. Open accounts on security;
6. Advances on annuities and mortgages;
7. Payments and collections;
8. Transmission of orders;

To the above functions the People's Bank will add:

9. Bank for savings, mutual aid and resort;
10. Insurance;
11. Consignments and goods deposited;
12. Administration of the budget.

### ***Notes of the People's Bank***

*Article 16.*—The paper of the People's Bank will bear the name of circulating notes.

*Article 17.*—They will be of the denominations of five, ten, twenty, fifty and one hundred francs, with such modifications in these figures as the management may deem advisable, whether to diminish them or to augment them, after having consulted with the Supervisory Council.

*Article 18.*—Unlike ordinary bank notes, which are orders payable *in specie*, the notes of the People's Bank are orders for delivery, invested with social character, made perpetual and payable at sight by every member or supporter in the products or services of his industry or profession.

*Article 19.*—The notes of the People's Bank will have for security:

1. Commercial obligations and titles to property presented for credit and for discount, as will be hereafter explained;
2. Cash coming from the sale of shares forming provisionally the capital of the Bank;



3. Cash coming from the sale of notes for coin;
4. Cash and notes coming from loans, deposits, consignments, premiums on insurance, and other dealings with the public;
5. The mutual promise of acceptance by all members and supporters;

*Article 20.*—The circulating notes are accepted for all payments by all members of the company, both stockholders and supporters.

The Bank is not liable for their redemption in specie; such redemption is wholly voluntary; but it does guarantee their acceptance by its supporters. A full list of their names occupations and residences will be posted in the office of the Company.

*Article 21.*—Every supporter engages to make his purchases, of all articles which the Company can supply, from the supporters of the Bank, and to keep his orders for his fellow members or fellow supporters exclusively.

Reciprocally, each producer or merchant who is a supporter of the Bank, promises to sell at a reduced price to fellow members or fellow supporters the products of his trade or objects of his commerce.

*Article 22.*—The payment for all sales and purchases among the different members and supporters of the Bank, being the reciprocal exchange of their products and services, will be effected by means of the Bank's paper, that is, of the circulating notes.

### ***Issue of Notes***

*Article 23.*—Circulating notes will be delivered by the Bank:

1. For specie;
2. For commercial paper with two names;
3. Upon consignments of merchandise;
4. Upon the collective obligations of corporations or laborers' associations;
5. Upon security;
6. Upon annuities and mortgages;
7. Upon personal guarantee.

For the People's Bank all these transactions are only varieties of exchange, otherwise called discount.

## ***Discount of Cash***

*Article 24.*—All purchasers, members or non-members who wish to enjoy the low prices guaranteed by producers who are supporters of the People's Bank, will turn in at the counter of the Bank the cash intended for their purchases; and will receive in return an equal sum in circulating notes.

*Article 25.*—Workmen and salaried workers who wish to aid in the work of emancipation pursued by the People's Bank, may turn in every week a part or all of their pay at their convenience. They will receive an equal amount of circulation notes.

*Article 26.*—Merchants, manufacturers and producers of every sort, who wish to secure the custom of the holders of circulating notes, and to profit by this new mode of transferring products, will become supporters of the Bank, and thereby engage to accept the notes of the People's Bank for all payments.

*Article 27.*—To facilitate the use of the circulating notes, provision will be made for opening bakeries, groceries and other branches of industry of prime necessity, intended to serve the needs of those interested, and as a channel for circulating notes, either by the founders themselves, or by collateral institutions with which they may come to an understanding, or to which the Bank may give credit, as described hereafter.

*Article 28.*—These establishments will be and should remain independent of the Bank and of each other. They will be maintained and carried on at the risk and upon the sole responsibility of those who undertake them, without any privilege for any of them.

The People's Bank, while favoring workingmen's associations, maintains the freedom of commerce and emulative competition as the principle of all progress and the guaranty of good quality and low price of products.

*Article 29.*—To the end explained above, in article 27, provisional agreements may also be made with all tradesmen and dealers according to need.

*Article 30.*—The sums paid in, in exchange for the notes of the Bank, do not bear interest.

## ***Discount of Commercial Paper***

*Article 31.*—The greatest prudence should rule over the first transactions of the People's Bank; circulating notes will be delivered in the beginning exclusively:

1. In exchange for specie, in the manner and upon the conditions stated in the preceding chapter;
2. Upon good commercial paper to the extent of the means furnished by the paid up capital of the Bank.

*Article 32.*—In proportion to the paying in of capital for shares issued, to the increase of cash in hand by the discount of specie, as well as by loans, deposits and consignments and in proportion to the increase in the number of subscribers both in Paris and in the provinces, the discount of commercial paper, bonds, drafts, invoices, orders, promissory notes, and other securities, will be done to a greater and greater extent, with the usual precautions observed by bankers, and with those fixed by the administration of the Bank.

*Article 33.*—The People’s Bank discounts commercial paper with two names.

*Article 34.*—In accordance with the principle and aim of its institution, which is the absolute gratuity of credit, the People’s Bank can and will carry on discount and give credit at a continually decreasing rate of interest; replacing, in a continually increasing proportion, the security of specie by the security which results from the reciprocal, pre-arranged acceptance of its notes by all its subscribers.

*Article 35.*—This interest, commission included, is fixed provisionally at 2 per cent per annum. It will be reduced little by little, in proportion to the progress of the Company.

In any case, the rate of discount cannot fall below 1/4 of one per cent.

*Article 36.*—To be received for discount, notes or obligations with two names should specify the nature, quantity, and quality of the merchandise upon which they are based.

All fraud or misrepresentation as to this will be prosecuted at law.

The Bank will receive for discount, precisely for this reason, orders and bills that have been accepted.

### ***Advances on Merchandise***

*Article 37.*—Discount on consignments is a method of relieving the blocking-up of warehouses, and giving aid to Commerce and industry, overflowing with products without an outlet.

*Article 38.*—The People’s Bank makes no advances on pledges. It is neither a certified loan office nor a pawn shop. The circulating notes cannot in any case be compared to warehouse receipts.

*Article 39.*—The Bank will buy the products of customers on account, at full value, half, two-thirds, three-quarters or four-fifths of the selling price, according to the circumstances, and the nature of the merchandise; and will cause them to be deposited either in a public emporium or in a warehouse.

*Article 40.*—Up to the expiration of the time fixed by the contract of sale, the consignor is at liberty to repurchase the merchandise, reimbursing the Bank only the amount advanced by it.

Upon the expiration of this time, the Bank will sell the deposited merchandise at public auction. The excess of the price obtained at the sale above that fixed at delivery belongs rightfully to the consignor of the merchandise.

*Article 41.*—The State, upon its bonds; manufacturers, upon their products; merchants, on their merchandise; proprietors, farmers and laborers, upon their crops; security holders—in a word, all citizens—can profit by the institution to obtain advances.

### ***Advances on Security***

*Article 42.*—The People’s Bank discounts future products, that is to say, it carries open accounts with its supporters, either with security, or on titles to property, or personal guaranties of manufacture.

*Article 43.*—In the first case, the guaranty required consists of the presentation of two or more bondsmen, as the Bank may judge prudent and proper.

*Article 44.*—The bondsmen will be jointly and severally liable; each will answer for all.

*Article 45.*—In case of non-payment by the supporter, the Bank will look to the bondsmen, in a friendly manner, for reimbursement.

## ***Advances on Mortgages***

*Article 46.*—Although the People's Bank does not loan on real estate, no more than it loans on chattels, it may make loans by means of furnishing credit to owners, whether merchants or not, on mortgage securities having a long term to run and upon annuities.

*Article 47.*—If at the expiration of the term, the proprietor has not reimbursed the amount lent to him, or if for two consecutive years he has been unable to pay the agreed annual payment, the Bank will proceed to foreclose.

*Article 48.*—In case the Bank buys in the property, it holds, as a matter of principle, that the former owner shall have the preference, above all others, for occupancy and use as farmer or manager, upon conditions laid down by the Bank.

## ***Credit on Accounts Current, Payments and Collections***

*Article 49.*—The Bank makes payments and collections upon Paris, the provinces and abroad.

## ***Functions***

*Article 50.*—To transactions of mercantile credit, the Bank adds transactions of personal credit.

It provokes, arouses, encourages, protects and supports with its influence, with its official information and with its advances, every agricultural, industrial, scientific or other enterprise, and every attempt at a workingmen's association, which seems to it to offer sufficient promise of skill, integrity and Success.

*Article 51.*—Advances thus made by the Bank are not made as a joint stock company, and cannot be at all likened to redemption of shares of stock; they are, like advances on Consignments of merchandise, and like opening of accounts on real estate, simple discount transactions, and compose the proper function of the Bank.

*Article 52.*—For this purpose there is to be established at once in the office of the People's Bank, a special division under the name of General Syndicate of Production and Consumption.

It will be directed by Citizen Andre-Louis-Jules Lechevalier, Ex-Secretary of the West India Company. The powers of the Syndicate are for the present as follows:

1. To receive the declarations of manufacturers and dealers who desire to place themselves in relations with the supporters of the People's Bank and to enjoy the custom of the Company, and who therefore wish to give information as to their names, occupations, addresses, their special products or services, the qualities and prices of their merchandise, and the amount of their remittances and deliveries;
2. To receive the requests of consumers, and to make sure of the chances of success for new enterprises by exact investigation of the demand;
3. To publish a bulletin of commerce, agriculture, and industry, containing, together with the Bank's reports and the market quotations, all announcements and notices, such as demands for and offers of labor, demands for and offers of merchandise, reductions of prices, information of manufacturers and dealers newly admitted into the Company; this

bulletin to be inserted in the newspaper, *The People*, which is appointed by these presents the official organ of the People's Bank, in its relations with its shareholders, its supporters and the public;

4. To solicit the support of producers whose products and services are needed by the Company, and, in case of their refusal, to start, among the members, competing establishments in similar lines;
5. To begin a record of general, comparative and detailed statistics of commerce, industry and agriculture; in a word, to obtain, by every possible means, the extension and strengthening of the Company.

*Article 53.*—Finally, the People's Bank, as the special organ of circulation and credit, the point of convergence of all the productive forces, as well as of all the demands of the market, the connecting link between producer and consumer, does not itself engage in any enterprise.

It mingles neither directly nor indirectly in any speculation, nor in any business of whatever nature, except that of discount.

It neither accepts nor incurs responsibility, except for its own proper operations.

Its business is for it only a form of exchange, a discount transaction, the same as its consignments of merchandise, opening of accounts and annuities.

*Article 54.*—Whenever it shall seem desirable that the functions just now assigned to the General Syndicate of Consumption and production should be exercised by one or several establishments, having a commercial standing of their own, the People's Bank reserves the right to discontinue the General Syndicate, and to open accounts with the special, independent establishments which will take its place.

## ***Time Deposits, Checking Accounts, Insurance***

*Article 55.*—The People's Bank receives as checking accounts or time deposits, the savings of workmen, the balances of landlords and proprietors, and generally all funds, securities or cash capital, belonging to individuals or to associations or corporations of all kinds.

*Article 56.*—Sums of money or securities deposited will be repaid to depositors without interest, upon presentation of certificates after a week's notice.

Sums of money and capital confided to the People's Bank as deposits or loans, will be repaid to the owners upon conditions fixed by individual contracts between them and the bank.

*Article 57.*—Up to the day of repayment or reimbursement' sums, whether deposited or lent, remain at the disposition of the Bank, which has the right to use them as a pledge for its issues and discounts.

*Article 58.*—The People's Bank is not, and can never become, an insurance enterprise of any sort.

It receives, as time deposits or on checking account, the funds of mutual aid societies and of insurance companies.

It undertakes the payment of premiums and the bookkeeping.

It will pay pensions and indemnities of such companies that are due, upon the approval of the managers or secretaries of such companies, but only to the extent of cash deposited.

It will be, in a word, the bookkeeping agent and the cashier for societies that turn in their funds to it, but it will assume no responsibility for their losses or deficits.

*Article 59.*—In payment for its services, the People's Bank has the liberty to make use, in its transactions of credit and discount, of the sums turned over to it by societies and companies of insurance and mutual aid.

## ***Profits***

*Article 60.*—Every six months a summary, or general inventory will be made of the transactions and of the condition of the People's Bank.

This inventory will be published in the Bulletin and in the journal of the Company.

*Article 61.*—The profit upon the transactions of the Bank, after deductions for the cost of administration and for interest on such funds as are subject to interest, will be added to the capital of the Bank, or reserved to take the place of it, in case of the redemption of its shares, until the time when the Company, at a General Assembly, shall resolve to reduce the rate of discount to only the cost of service, and to carry on business in full accordance with its principles.

## ***Organization and Administration of the Bank***

*Article 62.*—The People's Bank has its principal establishment at Paris.

Its aim is to establish a branch in every province, and a correspondent in every town.

*Article 63.*—As soon as circumstances permit, the present Company will be changed into a joint-stock company, as this form will enable it to realize, in accordance with the desire of its founders, the triple principle, 1<sup>st</sup>, of election; 2<sup>nd</sup>, the division and independence of its functions; 3<sup>rd</sup>, the individual responsibility of each employee.

But inasmuch as at present the Company cannot be carried on except as a partnership, it will be represented, as above set forth, by the General Manager, with liberty to associate with himself two or four deputies, under the title of Assistant Managers.

*Article 64.*—The General Manager exercises, either in person or through his Assistant Managers, in virtue of the powers he may have granted them, all the rights and powers of the Company, including those of alienation, sale and hypothecation; but in such cases his action is not valid until the Supervising Committee, upon consultation, shall have expressed its consent.

*Article 65.*—The stipends of the General Manager and of his Assistant Managers will be fixed at the first meeting of the members of the Company.

*Article 66.*—The General Manager may be dismissed under the form provided hereafter in Article 81.

His dismissal involves by law the revocation of all powers that he may have granted to his Assistant Managers.

*Article 67.*—To aid the management in transactions of credit and discount, a Committee of Discount is hereby established, appointed by the delegates of commerce and industry, members of the Bank.

*Article 68.*—The functions of this committee are:

1. To examine the standing of notes presented for discount;

2. To determine the value of property or merchandise on which the Bank is asked to make advances;
3. To examine the security of each one who asks credit.

No transaction of credit or discount can take place without the previous approval of the Committee on Discount.

*Article 69.*—The function of the Committee on Discount is merely consultive; the responsibility for all transactions made with its approval rests entirely upon the General Manager.

### ***Supervising Council***

*Article 70.*—A council of thirty delegates will be created to supervise the administration, and to represent the sleeping partners in their relations to it.

They will be chosen by the General Assembly from among the shareholders or supporters in the various branches of production and of public service.

*Article 71.*—The Supervising Council will be renewed by thirds from year to year.

Departing members for the first two years will be selected by lot. A departing member may be re-elected.

In case of vacancy in the course of the year, the Council will fill it temporarily.

*Article 72.*—The Supervising Council will meet at least once a month, at such time and place as it may think fit. Its functions are:

1. To see that the by-laws are observed;
2. To have submitted to it, as often as it may think proper' but at least once every three months, a statement of accounts by the General Manager;
3. To verify the accounts presented by him, and to make report thereon to the General Assembly;
4. To represent the shareholders, whether as plaintiff or as defendant, in all differences with the General Manager;
5. To call special meetings of the General Assembly when it thinks proper;
6. To declare that it opposes or does not oppose propositions for sale, alienation or hypothecation which may be made by the General Manager; to provide judiciously for the replacement of the General Manager in case of death, resignation or dismissal, until the General Assembly shall have named another manager.

Each of its members, moreover, has the right to examine the books and documents of the Company whenever he may choose to do so.

The Supervising Council may delegate three of its members for a year, who shall be particularly charged with examining as often as possible, the books, the cash, and all the transactions of the administration.

Compensation for loss of time may be granted to the delegates, of which the amount shall be determined by the General Assembly.

*Article 73.*—In case new legislative provisions shall permit more extended powers to be conferred upon the Supervising Council than those which result from the present by-laws, without impairing their position as sleeping partners, the delegates then in office may, by virtue of a resolution of the General Assembly, exercise all or a part of these powers, as if they were laid down in said by-laws.

## ***The General Assembly***

*Article 74.*—The General Assembly shall be composed of one thousand delegates at most, named by the whole body of members and supporters;

*Article 75.*—The election of delegates shall be made by industrial classes, and proportionally to the number of members and supporters in each class.

The bulletin of the Bank will announce before the elections the number of delegates to be named by each profession and locality.

*Article 76.*—The Annual Meeting of the General Assembly shall take place regularly in the first month of each year.

Meetings shall take place upon calls issued either by the General Manager or by the Supervising Council. They shall be held at Paris, at the office of the Company, or where designated by the newspapers in which notice of the meeting is published.

The General Assembly, composed as above described, represents the whole body of shareholders and supporters.

No one can be represented by another shareholder or supporter.

*Article 77.*—The President of the Supervising Council, or, in his absence, the eldest of his two colleagues, shall preside over the General Assembly. The Board shall be composed of the President and four other members chosen by the Assembly, and fulfilling the functions of Secretary and Tellers.

*Article 78.*—Decisions shall be made by a majority of votes of members present, whatever their number.

*Article 79.*—In addition to the Annual General Assembly, there may be special General Assemblies, summoned either by the management, or by the Supervising Council.

*Article 80.*—The proceedings shall be recorded as minutes in a book kept for that purpose, and signed by the members of the Board.

*Article 81.*—The objects of the General Assembly shall be:

(1<sup>st</sup>.) To receive the accounts and reports of the management, and to approve them if possible, after having heard the advice of the Supervising Council;

(2<sup>nd</sup>.) To amend, if necessary, the by-laws, upon the motion of the Manager or of his delegates, all constitutional powers for that purpose being granted to him;

(3<sup>rd</sup>.) To deliberate upon all questions submitted to it, nevertheless without interfering with the management;

(4<sup>th</sup>.) To decide upon any increase in the capital, and to order the issue of additional shares in connection therewith;

(5<sup>th</sup>.) To order the recall of the Manager, upon the motion of the Supervising Council;



- (6<sup>th</sup>.) To appoint another Manager if necessary;
- (7<sup>th</sup>.) To appoint the members of the Supervising Council and to provide every year for replacing them;
- (8<sup>th</sup>.) To determine the rate of discount for the coming year;
- (9<sup>th</sup>.) To point out the general needs of the Company, and the means of satisfying them.

## ***Dissolution, Reorganization and Liquidation***

*Article 82.*—By the mere fact of the cessation of the functions of the Manager, whether caused by his dismissal, decease or resignation, both he and his representatives will have only the position and rights of simple partners.

*Article 83.*—Immediately upon the cessation of functions of the Manager, for any of the above-mentioned causes, the Company shall reorganize with the same by-laws and conditions, and under the name of the new manager, who shall give his name as that of the firm, and he shall be forthwith furnished with an inventory of the assets and liabilities of the Company, as upon its liquidation, to avoid the confusion of replacing the obligations of the former manager with those of the new manager.

*Article 84.*—In no case shall seals be placed upon the notes, books or papers of the Company.

*Article 85.*—If the Company reaches the point of dissolution, without such contemplated reorganization as was described above, it shall be liquidated under the supervision of the Council, by the person named for the purpose by the General Assembly, which will at the same time define the powers of the liquidator.

The assets of the Company shall be divided among those who are entitled to them, or devoted to institutions of public service, or used to found a new company, as decided by the General Assembly.

*Article 86.*—All differences which may arise between the shareholders and the Company's Managers, and in general all to which the carrying out of these presents may give birth, shall be finally determined, without appeal or recourse of any sort, by three arbiters, friendly compounders, who shall form a tribunal and court of last resort.

These arbiters shall be named by the Tribunal of Commerce of the Seine, at the request of the first-coming party, unless the parties have agreed upon arbiters themselves.

These arbiters shall dispense with all legal delays and formalities.

In case of such differences, each shareholder must choose a domicile in Paris, and all notices and appointments sent to such domiciliary address shall be valid, without regard to the real place of residence of said party, nor to the delays caused by distance.

Failing such choice of domicile, all judicial and extrajudicial notifications shall be made with full authority, at the office of the Procurator of the Republic at the Court of First Instance of the Seine.

*Article 87.*—In connection with the People's Bank there shall be appointed a committee of lawyers and arbiters, the latter chosen especially from among the workers, entitled: Council of Litigation and Arbitration.

The function of this committee shall be to give advice in all matters of law and of legislation; to secure conformity with the law of all actions of the Bank, and to settle, by friendly conciliation, differences that may arise between the Company and its members.

This committee shall be chosen by the Manager.

*Article 88 and last.*—As soon as circumstances permit the conversion of the present Company into a joint stock company, the formalities necessary for such conversion shall be discharged by the Manager and three other members of the Supervising Council.

Full power from today is granted to these four commissioners, for the purpose of taking up with the Government the authorizations required by law, of consenting to an changes and modifications in the present by-laws that may be demanded and of enacting definite by-laws, acceptable to the authorities, by an authorized document.

Done and approved at Paris, in the office of the notaries in the year one thousand eight hundred and forty-nine, the thirty-first day of January, and after reading, signed by the proponent, together with the notaries.

## VI. INTEREST AND PRINCIPAL

### INTRODUCTORY NOTE

The famous debate on “Interest and Principal” between Proudhon and Frederic Bastiat, the great economist, was first printed in the columns of Proudhon’s paper, *The Voice of the People*, in 1849. Each party wrote a letter weekly, alternating for twelve weeks. The former said that interest is paid for the use of the bank’s credit, which can be furnished gratuitously by a system of mutual credit. The latter contended that it is paid for the use of capital, which he claimed was productive and of which the capitalist “deprives” himself in order to lend it.

The following are extracts from Proudhon’s letters in refutation of Bastiat’s arguments.  
(Editor.)

### *A Loan Is a Service*<sup>1</sup>

On the one hand, it is very true, as you have unquestionably established, that a loan is a *service*. And as every service has a *value*, and, in consequence, is entitled by its nature to a reward, it follows that a loan ought to have its *price*, or, to use the technical phrase, ought to *bear interest*.

But it is also true, and this truth is consistent with the preceding one, that he who lends, under the ordinary conditions of the professional lender, does not *deprive* himself, as you phrase it, of the capital which he lends. He lends it, on the Contrary, precisely because the loan is not a deprivation to him; he lends it because he has no use for it himself, being sufficiently provided with capital without it; he lends it, finally, because he neither intends nor is able to make it valuable to him personally, — because, if he should keep it in his own hands, this capital, sterile by nature, would remain sterile, whereas, by its loan and the resulting interest, it yields a profit which enables the capitalist to live without working. Now, to live without working is, in political as well as moral economy’ a contradictory proposition, an impossible thing.

The proprietor who possesses two estates, one at Tours, and the other at Orleans, and who is obliged to fix his residence on the one which he uses, and consequently to abandon his residence on the other, can this proprietor claim that he deprives himself of anything, because he is not, like God, ubiquitous in action and presence? As well say that we who live in Paris are deprived of a residence in New York! Confess, then, that the privation of the capitalist is akin to that of the master who has lost his slave, to that of the prince expelled by his subjects, to that of the robber who, wishing to break into a house, finds the dogs on the watch and the inmates at the windows.

Now, in the presence of this affirmation and this negation diametrically opposed to each other, both supported by arguments of equal validity, but which, though not harmonizing, cannot destroy each other, what course shall we take?

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<sup>1</sup> From the second letter: Proudhon to Bastiat

You persist in your affirmation, and say: "You do not wish to pay me interest? Very well! I do not wish to lend you my capital. Try working without capital." On the other hand, we persist in our negation, and say: "We will not pay you interest, because interest, in social economy, is a premium on idleness, the primary cause of misery and the inequality of wealth." Neither of us is willing to yield, we come to a stand-still.

This, then, is the point at which Socialism takes up the question. On the one hand, the commutative justice of interest; on the other, the organic impossibility, the immorality of interest; and, to tell you the truth at once, Socialism aims to convert neither party — the Church, which denies interest, nor the political economy, which supports it—especially as it is convinced that both are right. Let us see now, how it analyzes the problem, and what it proposes, in its turn, that is superior to the arguments of the old money-lenders, too vitally interested to be worthy of belief, and to the ineffectual denunciations uttered by the Fathers of the Church.

Since the theory of usury has finally prevailed in Christian as well as in Pagan countries; since the hypothesis, or fiction of the productivity of capital has become a practical fact among nations—let us accept this economic fiction as we have accepted for thirty-three years the constitutional fiction and let us see what it results in when carried to its ultimate. Instead of simply rejecting the idea, as the Church has done—a futile policy—let us make from it a historical and philosophical deduction; and, since the word is more in fashion than ever, let us trace the evolution.

Moreover, this idea must correspond to some reality; it must indicate some necessity of the mercantile spirit; else nations never would have sacrificed to it their dearest and most sacred beliefs.

See, then, how Socialism, entirely convinced of the inadequacy of the economic theory as well as of the ecclesiastical doctrine, treats in its turn the question of usury.

First, it observes that the principle of the productivity of capital is no respecter of persons, grants no privileges; it applies to every capitalist, regardless of rank or dignity. That which is legitimate for Peter is legitimate for Paul; both have the same right to usury as well as to labor. When, then,—I go back to the example which you have used,—when you lend me, at interest, the plane which you have made for smoothing your planks, if, in my turn, I lend you the saw which I have made for cutting up my lumber, I also shall be entitled to interest.

The right of capital is alike for all; all, in the proportion that they lend and borrow, ought to receive and pay interest. such is the first consequence of your theory, which would not be a theory, were not the right which it establishes universal and reciprocal; this is self-evident.

Let us suppose, then, that of all the capital that I use whether in the form of machinery or of raw material, half is lent to me by you; suppose also that of all the capital used by you half is lent to you by me; it is clear that the interests which we must pay will offset each other; and, if equal amounts of capital are advanced, the interests cancelling each other, the balance will be zero.

In society, it is true things do not go on precisely in this way. The loans that the producers reciprocally make to each other are not always equal in amount, therefore the interests that they have to pay are also unequal; hence the inequality of conditions and fortunes.

But the question is to ascertain whether this equilibrium in the loaning of capital, labor, and skill, and, consequently, equality of income for all citizens, perfectly admissible in theory, is capable of realization in practice; whether this realization is in accordance with the tendencies of society whether, finally and unquestionably, it is not the inevitable result of the theory of usury itself.

Now, this is what Socialism affirms, now that it has arrived at an understanding of itself, the Socialism which no longer distinguishes itself from economic science, studied at once in the light of its accumulated experience and in the power of its deductions. In fact, what does the history of civilization, the history of political economy, tell us concerning this great question of interest?

It tells us that the mutual loaning of capital, material, or immaterial, tends more and more towards equilibrium, owing to the various causes enumerated below, which the most conservative economists cannot dispute:—

*First*—The division of labor, or the separation of industries, which, infinitely multiplying both tools and raw material, multiplies in the same proportion the loans of capital.

*Second*—The accumulation of capital, an accumulation which results from diversity of industries, producing between capitalists a competition similar to that between merchants and, consequently, effecting gradually a lowering of the rent of capital, a reduction of the rate of interest.

*Third*—The continually increasing power of circulation which capital acquires through the use of specie and bills of exchange.

*Fourth*—Finally, public security.

Such are the general causes which, for centuries have developed among producers a reciprocity of loans tending more and more to equilibrium and consequently to a more and more even balance of interests, to a continual diminution of the price of capital.

These facts cannot be denied; you yourself admit them only you mistake their principle and purport, by giving capital the credit for the progress made in the domain of industry and wealth, whereas this progress is caused not by capital, but by the circulation of capital.

The facts being thus analyzed and classified Socialism asks whether, in order to bring about this equilibrium of credit and income, it is not possible to act directly, not on capital, remember, but on circulation; whether it is not possible so to organize this circulation as to inaugurate, at one blow, between capitalists and producers (two classes now hostile, but theoretically identical) equivalence of loans, or, in other words, equality of fortunes.

To this question Socialism again replies: Yes, it is possible, and in several ways.

Suppose, in the first place, to confine ourselves to the present conditions of credit, the operations of which are carried on mainly through the intervention of specie—Suppose that all the producers in the republic, numbering more than ten millions, tax themselves, each one, to the amount of only one per cent of their capital. This tax of one per cent upon the total amount of the capital of the country, both real and personal, would amount to more than a thousand million of francs.

Suppose that by means of this tax a bank be founded, in Competition with the Bank (miscalled) of France, discounting and giving credit on mortgages at the rate of one-half of one per cent.

It is evident, in the first place, that the rate of discount on commercial paper, the rate of loans on mortgages, the dividend of invested capital, etc., being one-half of one per cent, the cash capital in the hand of all usurers and money-lenders would be immediately struck with absolute sterility; interest would be zero, and credit gratuitous.

If commercial credit and that based on mortgages—in other words, if money capital, the capital whose exclusive function is to circulate—was gratuitous, house capital would soon become so; in reality, houses no longer would be capital; they would be merchandise, quoted in the market like brandy and cheese, and rented or sold—terms which would then be synonymous—at cost.

If houses, like money, were gratuitous—that is to say, if use was paid for as an exchange, and not as a loan—land would not be slow in becoming gratuitous also; that is, farm-rent, instead

of being rent paid to a non-cultivating proprietor, would be the compensation for the difference between the products of superior and inferior soils; or, better, there no longer would exist, in reality, either tenants or proprietors; there would be only husbandmen and wine-growers, just as there are joiners and machinists.

Do you wish another proof of the possibility of making all capital gratuitous by the development of economic institutions?

Suppose that instead of our system of taxes, so complex, so burdensome, so annoying, which we have inherited from the feudal nobility, a single tax should be established, not on production, circulation, consumption, habitation, etc., but in accordance with the demands of justice and the dictates of economic science, on the net capital falling to each individual. The capitalist, losing by taxation as much as or more than he gains by rent and interest, would be obliged either to use his property himself or to sell it; economic equilibrium again would be established by this simple and more over inevitable intervention of the treasury department.

Such is, substantially, Socialism's theory of capital and interest.

Not only do we affirm, in accordance with this theory (which, by the way, we hold in common with the economists) and on the strength of our belief in industrial development, that such is the tendency and the import of lending at interest; we even prove, by the destructive results of economy as it is, and by a demonstration of the causes of poverty, that this tendency is necessary, and the annihilation of usury inevitable.

In fact, rent, reward of capital, interest on money, in one word, usury, constituting, as has been said, an integral part of the price of products, and this usury not being the same for all, it follows that the price of products, composed as it is of wages and interest, cannot be paid by those who have only their wages, and no interest to pay it with; so that, by the existence of usury, labor is condemned to idleness and capital to bankruptcy.

This argument, one of that class which mathematicians call the *reductio ad absurdum*, showing the organic impossibility of lending at interest, has been repeated a hundred times by Socialism. Why do not the economists notice it?

Do you really wish to refute the ideas of Socialism on the question of interest? Listen, then, to the questions which you must answer:—

1. Is it true that, though the loaning of capital, when viewed objectively, is a *service* which has its value, and which consequently should be paid for, this loaning, when viewed subjectively, does not involve an actual sacrifice on the part of the capitalist; and consequently that it does not establish the right to set a price on it?
2. Is it true that usury, to be unobjectionable, must be equal; that the tendency of society is towards this equalization; so that usury will be entirely legitimate only when it has become equal for all,—that is, non-existent?
3. Is it true that a national bank, giving credit and discount *gratis*, is a possible institution?
4. Is it true that the effects of the gratuity of credit and discount, as well as that of taxation when simplified and restored to its true form, would be the abolition of rent of real estate, as well as of interest on money?
5. Is it true that the old system is a contradiction and a mathematical impossibility?

6. Is it true that political economy, after having, for several thousand years, opposed the view of usury held by theology, philosophy, and legislation, comes, by the application of its own principles, to the same conclusion?
7. Is it true, finally, that usury has been, as a providential institution, simply an instrument of equality and progress, just as, in the political sphere, absolute monarchy was an instrument of liberty and progress, and as, in the judicial sphere, the boiling-water test, the duel and the rack were, in their turn, instruments of conviction and progress?

These are the points that our opponents are bound to examine before charging us with scientific and intellectual weakness; these, Monsieur Bastiat, are the points on which your future arguments must turn, if you wish them to produce a definite result. The question is stated clearly and categorically: permit us to believe that, after having examined it, you will perceive that there is something in the Socialism of the nineteenth century that is beyond the reach of your antiquated political economy.

### ***The Circulation of Capital, Not Capital Itself, Gives Birth to Progress<sup>2</sup>***

Thus it is with interest on capital, legitimate when a loan was a service rendered by citizen to citizen, but which ceases to be so when society has acquired the power to organize credit gratuitously for everybody.

This interest, I say, is contradictory in its nature, in that, on the one hand, the service rendered by the lender is entitled to remuneration, and that, on the other, all wages suppose either a production or a sacrifice, which is not the case with a loan. The revolution which is effected in the legitimacy of lending originates there. That is how Socialism states the question; that, therefore, is the ground on which the defenders of the old regime must take their stand.

To confine one's self to tradition, to limit one's self to saying a loan is a service rendered which ought, therefore, to be compensated, without entering into the considerations which tend to annihilate interest, is not to reply. Socialism, with redoubled energy, protests, and says: I have nothing to do with your service,—service for you, but robbery for me,—as long as it is possible for society to furnish me with the same advantages which you offer me, and that without reward. To impose on me such a service in spite of myself, by refusing to organize the circulation of capital, is to make me submit to an unjust discount, is to rob me.

Thus your whole argument in favor of interest consists in confounding epochs,—I mean to say, in confounding that which is legitimate in lending with that which is not,—whereas I, on the contrary, carefully distinguish between them. I will proceed to make this intelligible to you by an analysis of your letter.

I take up your arguments one by one.

In my first reply I made the observation that he who lends does not *deprive* himself of his capital. You reply: What matters it, if he has created his capital for the express purpose of lending it?

In saying that you betray your own cause. You acquiesce, by those words, in my *antithesis*, which consists in saying: The hidden reason why lending at interest, legitimate yesterday, is no longer so today, is because lending, in itself, does not involve privation. I note this confession.

<sup>2</sup> From the fourth letter: Proudhon to Bastiat.

But you cling to the intention: What matters it, you say, if the lender has created his capital for the express purpose of lending it?

To which I reply: And what do I care, indeed, for your intention, if I have really no need of your service, if the pretended service which you wish to do me becomes necessary only through the ill-will and incapacity of society? Your credit resembles that which the pirate gives to his captive, when he gives him his liberty in return for a ransom. I protest against your credit at five per cent, because society is able and ought to give it to me at zero per cent; and, if it refuses to do so, I accuse it, as well as you, of robbery; I say that it is an accomplice, an abettor, an organizer of robbery.

Comparing a loan to a *sale*, you say: Your argument is as valid against the latter as against the former, for the latter who sells hats does not *deprive* himself.

No, for he receives for his hats—at least he is reputed to receive for them—their exact value immediately, neither *more* nor *less*. But the capitalist lender not only is not deprived, since he recovers his capital intact, but he receives more than his capital, more than he contributes to the exchange; he receives in addition to his capital an interest which represents no positive product on his part. Now, a service which costs no labor to him who renders it is a service which may become gratuitous: this you have already told us yourself.

After having recognized the *non-privation* attendant upon a loan, you admit further “that *it is not theoretically impossible* that interest, which today constitutes an integral part of the price of commodities, *may become the same for all*, and thereby *be abolished*.” “But,” you add, “for this other things are needed than a new bank. Let Socialism endow all men with equal activity, skill, honesty, economy, foresight, needs, desires, virtues, vices, and chances even, and then it will have succeeded.”

So that you enter upon the question only to immediately avoid it. Socialism, at the point which it has now reached, justly claims that it is by means of a reform in banking and taxation that we can arrive at this balance of interests. In stead of passing over, as you do, this claim of Socialism, Stop here and refute it: you will thereby demolish all the utopias of the world. For Socialism affirms—and without this affirmation Socialism could not exist, it would be a nonentity — that it is not by endowing all men with equal “activity, skill, honesty, economy, foresight, needs, desires, virtues, vices, and chances even” that we shall succeed in balancing interest and equalizing incomes; it maintains that we must, on the contrary, begin by centralizing credit and abolishing interest, in order to equalize faculties, needs, and chances. Let there be no more robbers among us, and we shall be all virtuous, all happy! That is Socialism’s creed. I feel the keenest regret in telling you of it, but really your acquaintance with Socialism is so slight that you run against it without seeing it.

You persist in attributing to capital all social progress in the domain of wealth, while I, for my part, attribute it to circulation; and you say that here I mistake the cause for the effect.

But, in maintaining such a proposition, you unwittingly refute your own argument. J. B. Say has shown—and of this fact you are not ignorant—that the *transportation* of a value, be that value called money or merchandise, is a value in itself; that it is as real a product as wheat and wine; that consequently the service of the merchant and banker deserves to be remunerated equally with that of the husbandman and wine-grower. It is on this ground that you stand when you claim wages for the capitalist who, by lending his capital, the return of which is guaranteed him, performs the office of transportation, of circulation. In lending, you said in your first letter, I



render a service, I create a value. Such were your words, which we have admitted: in this respect we both agreed with the master.

I am justified, then, in saying that it is not capital itself, but the circulation of capital,—that kind of service, product, merchandise, value, or reality, which political economy calls *movement* or *circulation*, and which, indeed, constitutes the whole subject-matter of economic science,—that causes wealth. We remunerate all who render this service; but we affirm that, as far as capital, properly speaking, or money is concerned, it is society's duty to render it to us gratuitously; that if it does not do so, there is fraud and robbery. Do you now understand the real point on which the social question turns?

After having expressed your regret at the division of capitalists and laborers into two hostile classes,—which surely is not the fault of Socialism,—you take the very useless trouble of showing me by illustrations that every laborer is in some degree a capitalist, and does a work of capitalization,—that is, usury. And who, pray, ever dreamed of denying it? Who has told you that what we recognize as legitimate once in the capitalist, we condemn at the same time in the laborer?

Yes, we know that the price of all merchandise and service may be analyzed at the present day as follows:—

1. Raw material;
2. Compensation of tools, and incidental expenses;
3. Wages of labor.
4. Interest of capital.

Thus it is in all kinds of business,—agriculture, industry, commerce, and transportation.

These are the *fourches caudines* of every one who is not a parasite, be he capitalist or laborer. You need not enter into long details upon this subject, very interesting though they are and clearly delightful to your imagination.

I repeat: The problem of Socialism is to make this fourth element which enters into the price of commodities—interest on capital—equal for all producers, and consequently nugatory.

We maintain that this is possible; that, if this is possible, it is society's duty to procure gratuitous credit for all; that, failing to do this, it will not be a society, but a conspiracy of capitalists against laborers, a compact for purposes of robbery and murder.

Understand then, once for all, that it is not necessary to show us how capital is formed, how it accumulates through interest, how interest enters into the price of products, how all laborers are themselves guilty of the sin of usury: we have long known all these things, just as we are convinced of the personal honesty of annuitants and proprietors.

We say: The economic system based on the fiction of the productivity of capital, justifiable once, is henceforth illegitimate. Its inefficacy and malfeasance have been exposed; it is the cause of all existing misery, the present mainstay of that old fiction of representative government which is the last form of tyranny among men.

I will not detain myself with the purely religious considerations with which your letter closes. Religion, allow me to say, has nothing to do with political economy. A real science is sufficient unto itself; otherwise, it cannot exist. If political economy needs the sanction of religion to make

up for the inadequacy of its theories, and if, in its turn, religion, as an excuse for the barrenness of its dogmas, pleads the exigencies of political economy, the result will be that political economy and religion, instead of mutually sustaining each other, will accuse each other, and both will perish.

Begin, then, by doing justice, and liberty, fraternity, and wealth will increase; even the happiness of another life will be only the surer. Is the inequality of capitalistic income, yes or no, the primary cause of the physical, moral, and intellectual poverty which today afflicts society? Is it necessary to equalize the income of all men, to make the circulation of capital gratuitous by assimilating it to the exchange of products, and to destroy interest? That is what Socialism asks, and it must have an answer.

Socialism, in its most positive conclusions, furnishes the solution in the democratic centralization and gratuity of credit, combined with a single tax, to replace all other taxes, and to be levied on capital.

Let this solution be verified; let its application be tried. That is the only way to refute Socialism; except that is done,

we shall shout louder than ever our war-cry: *Property is robbery!*

### ***The Origin of Ground Rent***<sup>3</sup>

I said before that in ancient times the landed proprietor, when neither he nor his family farmed his land, as was the case among the Romans in the early days of the Republic, cultivated it through his slaves: such was the general practice of patrician families. Then slavery and the soil were chained together; the farmer was called *adscriptus glebæ*, joined to the land; property in men and things was undivided. The price of a farm depended (1) upon its area and quality of its soil, (2) upon the quantity of stock, and (3) upon the number of slaves.

When the emancipation of the slave was proclaimed, the proprietor lost the man and kept the land; just as today, in freeing the blacks, we leave the master his property in land and stock.

Nevertheless, from the standpoint of ancient law as well as of natural and Christian right, man, born to labor, cannot dispense with the implements of labor; the principles of emancipation involved an agrarian law which guarantees them to him and protects him in their use: otherwise, this pretended emancipation was only an act of hateful cruelty, an infamous deception, and if, as Moses said, interest, or the yearly income from capital, reimburses capital, might it not be said that servitude reimburses property? The theologians and the law-givers of the time did not understand this, and by an irreconcilable contradiction, which still exists, they continued to rail at usury, but gave absolution to rent.

The result was that the emancipated slave, and, a few centuries later, the enfranchised serf, without means of existence, was obliged to become a tenant and pay tribute. The master grew still richer. I will furnish you, he says, with land; you shall furnish the labor; and we will divide the products. It was a reproduction on the farm of the ways and customs of business. I will lend you ten talents, said the moneyed man to the workingman; you shall use them; and then either we will divide the profits, or else, as long as you keep my money you shall pay me a twentieth; or, if you prefer, at the expiration of the loan, you shall return double the amount originally received. From this sprang ground-rent, unknown to the Russians and the Arabs. The exploitation of man

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<sup>3</sup> From the sixth letter: Proudhon to Bastiat.

by man, thanks to this transformation, passed into the form of law: Usury, condemned in the form of lending at interest tolerated in the *contrat à la grosse*, was extolled in the form of farm-rent. From that moment commercial and industrial progress served to make it only more and more customary. This was necessary in order to exhibit all the varieties of slavery and robbery, and to establish the true law of human liberty.

Once engaged in this practice of *interesse*, so strangely understood, so improperly applied, society began to revolve in the circle of its miseries. Then it was that inequality of conditions seemed a law of civilization, and evil a necessity of our nature.

Two ways, however, seemed open to laborers to free themselves from exploitation by the capitalist: one was, as we said above, the gradual balancing of values and consequently a decrease in the price of capital; the other was the reciprocity of interest.

But it is evident that the income from capital, represented mainly by money, cannot be totally destroyed by decreasing it; for, as you well say, sir, if my capital brought me nothing,

instead of lending it I should keep it, and the laborer, in consequence of having refused to pay the tithe, would be out of work. As for the reciprocity of usury, it is certainly possible between contractor and contractor, capitalist and capitalist, proprietor and proprietor; but between proprietor, capitalist, or contractor, and the common laborer, it is utterly impossible.

It is impossible, I say, as long as in commerce interest on capital is added to the workingman's wages as a part of the price of merchandise, for the workingman to repurchase what he has himself produced. *To live by working* is a principle which, as long as interest exists, involves a contradiction.

Society once driven into this corner, the absurdity of the capitalistic theory is shown by the absurdity of its consequences; the inherent iniquity of interest results from its homicidal effects, and while property begins and ends in rent and usury, its affinity with robbery will be established. Can it exist under other conditions? For my own part, I say no: but this is an inquiry entirely foreign to the question now under discussion, and I will not enter upon it.

Look now at the situation of both capitalist and laborer, resulting from the invention of money, the power of specie and the established similarity between the lending of money and the renting of land and houses.

The first,—for it is necessary to justify him, even in your eyes,—controlled by the prejudice in favor of money, cannot gratuitously dispossess himself of his capital in favor of the laborer. Not that such dispossession is a sacrifice, for, in his hands, capital is unproductive; not that he incurs any risk of loss, for, by taking a mortgage as security, he is sure of repayment; not that this loaning costs him the slightest trouble, unless you consider as such counting the money and verifying the security; but because, by dispossessing himself for ever so short a time of his money,—of this money which, by its prerogative, is, as has been so justly said, *power*,—the capitalist lessens his strength and his safety.

This would be otherwise, if gold and silver were only ordinary merchandise; if the possession of coin was regarded as no more desirable than the possession of wheat, wine, oil, or leather; if the simple ability to labor gave a man the same security as the possession of money. While this monopoly of circulation and exchange exists, usury is necessary to the capitalist. His motives, in the light of justice, are not reprehensible when his money leaves his own vault, his safety goes with it.

Now, this necessity, which is laid upon the capitalist by an involuntary and widespread prejudice, is, as respects the laborer, the most shameful of robberies, as well as the most hateful of tyrannies, the tyranny of force.

What are, indeed, the theoretical and practical consequences to the working-class, to this vital, productive, and moral portion of society, of lending at interest and its counterpart, farm-rent? I today confine myself to the enumeration of some of them, to which I call your attention, and which hereafter, if agreeable to you, shall be the subject of our discussion.

And first, it is the principle of interest, or of net product, that enables an individual really and legitimately to live with out working: that is the conclusion of your last letter but one, and such, in fact, is the condition to which every one today aspires.

Again: If the principle of *net* product is true of the individual, it must be true also of the nation; for example, the capital of France, both real and personal, being valued at one hundred and thirty-two billions, which yields, at five per cent, an annual income of sixty-six hundred millions, at least half of the French nation might, if it pleased, live without working; in England, where the amount of accumulated capital is much larger than in France, and the population much smaller, the entire nation, from Queen Victoria down to the lowest hanger-on of the son of Liverpool, might live on the product of its capital, promenading with cane in hand, or groaning in public meetings. Which leads to this conclusion, evidently an absurd one, that, thanks to its capital, such a nation has more income than its labor can produce Again: The total amount of wages paid annually in France being in the neighborhood of six thousand millions, and the total amount of revenue yielded by capital being also six thousand millions, making the market value of the annual product of the nation twelve thousand millions, the producers, who are also consumers, can and must pay, with the six thousand millions of wages allowed them, the twelve thousand millions which commerce demands of them as the price Of its merchandise, and without which the capitalists would find themselves minus an income.

Again: Interest being perpetual in its nature, and never being regarded, as Moses wished, as a repayment of the original capital, and further, it being possible to place each year's income at interest in its turn, thus forming a new loan, and consequently giving rise to a new income, the smallest amount of capital may, in time, yield sums so enormous as to exceed in value a mass of gold as large as the globe on which we live. Price demonstrated this in his theory of liquidation.

Again: The productivity of capital being the immediate and sole cause of the inequality of wealth, and the continual accumulation of capital in a few hands, it must be admitted in spite of the progress of knowledge, in spite of Christian revelation and the extension of public liberty, that society is naturally and necessarily divided into two classes—a class of exploiting capitalists and a class of exploited laborers.

### ***Arguments Drawn from the Operations of the Bank of France***<sup>4</sup>

It is not true—and the facts just cited prove beyond a doubt that it is not—that the decrease of interest is proportional to the increase of capital. Between the *price* of merchandise and *interest* of capital there is not the least analogy; the laws governing their fluctuations are not the same; and all your dinning of the last six weeks in relation to capital and interest has been utterly devoid

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<sup>4</sup> From the eighth letter: Proudhon to Bastiat.

of sense. The universal custom of banks and the common sense of the people give you the lie on all these points in a most humiliating manner.

Now, would you believe, sir,—for indeed you do not seem to be well-informed about anything,—that the Bank of France, an association composed of honest people, philanthropists, God-fearing men, utterly incapable of compromising with their consciences, continues to charge four per cent on all its discounts without allowing the public to derive the slightest bonus therefrom? Would you believe that it regulates the dividends of its stockholders, and quotes its stock in the money-market, on this basis of four per cent on a capital of four hundred and thirty-one millions not its own? Say, is that robbery, yes or no?

But we have not reached the end. I have not begun to tell you of the crimes of this society of stock-jobbers, founded by Napoleon for the express purpose of supporting parasitic officials and proprietors and sucking the nation's life-blood. A few millions, more or less, are not sufficient to affect dangerously a population of thirty-six millions of men. That portion of the robberies committed by the Bank of France which I have exposed is but a trifle: only the results are worthy of consideration.

The fortune and destiny of the country is today in the hands of the Bank of France. If it would relieve industry and commerce by a decrease of its rate of discount proportional to the increase of its reserves; in other words, if it would reduce the price of its credit to three-fourths of one per cent, which it must do in order to quit stealing,—this reduction would instantly produce, throughout the republic and all Europe, incalculable results. They could not be enumerated in a volume: I will confine myself to the indications of a few.

If, then, the credit of the Bank of France, when that bank has become a National Bank, should be loaned at three-fourths of one per cent instead of at four per cent, ordinary bankers, notaries, capitalists, and even the stockholders of the bank itself, would be immediately compelled by competition to reduce their interest, discount, and dividends to at least one per cent, including incidental expenses and brokerage. What harm, think you, would this reduction do to borrowers on personal credit, or to commerce and industry, who are forced to pay, by reason of this fact alone, an annual tax of at least two thousand millions?

If financial circulation could be effected at a rate of discount representing only the cost of administration, drafting, registration' etc., the interest charged on purchases and sales on credit would fall in its turn from six per cent to zero,—that is to say, business would then be transacted on a cash basis: there would be no more debts. Again, to how great a degree, think you, would that diminish the shameful number of suspensions, failures, and bankruptcies?

But as in society *net* product is undistinguishable from *raw* product, so in the light of the sum total of economic facts capital is undistinguishable from product. These two terms do not, in reality, stand for two distinct things; they designate relations only. Product is capital; capital is product; there is a difference between them only in private economy; none whatever in public economy.

If, then, interest, after having fallen, in the case of money, to three-fourths of one per cent,—that is, to zero, inasmuch as three-fourths of one per cent represents only the service of the bank,—should fall to zero in the case of merchandise also, by analogy of principles and facts it would soon fall to zero in the case of real estate: rent would disappear in becoming one with liquidation. Do you think, sir, that that would prevent people from living in houses and cultivating land?

If, thanks to this radical reform in the machinery of circulation, labor was compelled to pay to capital only as much interest as would be a just reward for the service rendered by the cap-

italist, specie and real estate being deprived of their reproductive properties and valued only as products,—as things that can be consumed and replaced,—the favor with which specie and capital are now looked upon would be wholly transferred to products; each individual, instead of restricting his consumption, would strive only to increase it. Whereas, at present, thanks to the restriction laid upon consumable products by interest, the means of consumption are always very much limited, then, on the contrary, production would be insufficient Labor would then be secure in fact as well as in right.

The laboring class, gaining at one stroke the five thousand millions, or thereabouts, now taken in the form of interest from the ten thousand which it produces, plus five thousand millions which this same interest deprives it of by destroying the demand for labor, plus five thousand millions which the parasites, cut off from a living, would then be compelled to produce, the national production would be doubled and the welfare of the laborer increased four-fold. And you, Sir whom the worship of interest does not prevent from lifting your thoughts to another world,—what say you to this improvement of affairs here below?

Do you see now that it is not the multiplication of capital which decreases interest, but on the contrary, that the decrease of interest multiplies capital?

But all this is displeasing to the capitalists and distasteful to the bank. The bank holds in its hand the horn of plenty which the people have entrusted to it: that horn is the three hundred and forty-one millions of specie accumulated in its vaults, which testify so loudly to the power of the public credit. To revive labor and diffuse wealth everywhere, the bank needs to do but one thing; namely, reduce its rate of discount to such a figure that the sum total of the interest it receives shall be equal to four per cent of ninety millions It will not do it. For the sake of a few millions more to distribute among its stockholders, and which it steals, it prefers to cause an annual loss to the country of ten thousand millions. In order to reward parasitism, remunerate crime, satisfy the intemperate cravings of two millions of officials, stock-jobbers, usurers, prostitutes, and spies, and preserve this leper of a Government, it will cause, if necessary, thirty-four millions of men to rot in poverty. Once more, I ask, is that robbery? Is that rapine, plunder, premeditated and willful murder?

Have I told all?—No; that would require ten volumes; but I must stop. I will close by considering a stroke which seems to me a masterpiece of its kind, and to which I ask your undivided attention. A defender of capital, you are not acquainted with its tricks.

The amount of specie, I will not say existing, but circulating in France, including the bank's reserve, does not exceed, by common estimation, one thousand millions.

At four per cent interest—I am reasoning on the supposition of paid credit—the laboring people should pay forty millions annually for the use of this capital.

Can you, sir, tell me why, instead of forty millions, we are paying sixteen hundred millions—I say *sixteen hundred millions*—as the reward of this capital?

“Sixteen hundred millions! One hundred and sixty per cent! Impossible!” you exclaim. Did I not tell you, sir, that you knew nothing about political economy? This is the fact, though to you, I am sure, it is still an enigma.

The amount of mortgages, according to the most reliable authorities' is twelve thousand millions; some put it at fourteen thousand millions;

which agriculture, manufactures, and commerce, in a word, labor, which produces everything, and the State, which produces nothing and is supported by labor, owe to capital.

We will say	12,000 millions
Amount of notes of hand, at least	6,000 millions
Amount invested in sleeping partnership, about	2,000 millions
To which should be added the public debt	8,000 millions
Total	28,000 millions

All these debts—note this point—arise from money loaned, or said to have been loaned, at four, five, six, eight, twelve, and even fifteen per cent.

Taking six per cent as the average rate of interest on the first three items, which amount to twenty thousand millions, they would yield twelve hundred millions. Add the interest on the public debt, which is about four hundred millions, and we have altogether sixteen hundred millions of interest *per annum* on a capital of one thousand millions.

Now, then, tell me, is it in this case also the scarcity of specie that causes the enormous amount of interest? No, for all these amounts were loaned, as we have seen, at an average rate of six per cent. How, then, has an interest stipulated at six per cent, become an interest of one hundred and sixty per cent? I will tell you.

You, sir, who regard all capital as naturally and necessarily productive, know that this productivity is not possessed by all kinds of property in the same degree; that it belongs mainly to two kinds, the kind known as real estate (land and houses) if we have a chance to lease them (which is not always easy or always safe), and the kind known as money. Money, money especially! that is the capital *par excellence*, the capital which is lent, which is hired, which is paid for, which produces all those wonderful financiers whom we see maneuvering at the bank, at the stock exchange, and at all the interest and usury shops.

But money is not, like land, capable of cultivation, nor, like houses or clothes, can it be consumed by use. It is only a *token of exchange*, receivable by all merchants and producers, and with which a shoemaker, for example, can buy him a hat. In vain, through the agency of the bank, does paper, little by little and with universal consent, get substituted for specie: the prejudice sticks fast, and if bank paper is received in lieu of specie, it is only because the opinion prevails that it can be exchanged at will for specie. Specie alone is in demand.

When I lend money, then, it is really the power to exchange my unsold product of today or of the future which I lend: money, in itself, is useless. I take it only to expend it; I neither consume nor cultivate it. The exchange once consummated, the money again becomes transferable, and capable, consequently, of being loaned anew. Thus it goes on, and as, by the accumulation of interest, money-capital' in the course of exchange, always returns to its source, it follows that the new loan, always made by the same hand, always benefits the same persons.

Do you say that, inasmuch as money serves to facilitate the exchange of capital and products, the interest paid on it is a compensation not so much for the money itself as for the capital exchanged; and that, thus viewed, the sixteen hundred millions of interest paid on one thousand millions Of specie represent really the reward of from twenty-five to thirty thousand millions of capital? That has been said or written somewhere by an economist of your school.

Such an allegation cannot be sustained for one moment. How happens it, I ask you, that houses are rented, that lands are leased, that merchandise sold on credit bears interest? Just because of the use of specie; specie, which intervenes, as a fiscal agent, in all transactions; specie, which prevents houses and lands from being exchanged instead of loaned, and merchandise from being sold for cash. Specie, then, intervening everywhere as a supplementary capital, as an agent of circulation, as a means of security,—this it is precisely that we pay for, and the remuneration of the service rendered by it is exactly the point now in question.

And since in another place we have seen from an explanation of the workings of the Bank of France and the consequences of the accumulation of its metallic reserve, that a capital of ninety millions of specie, having to produce an annual interest of four per cent, admits of a rate of discount of three, two, one, or even three-fourths of one per cent, according to the amount of business transacted by the bank, it is very evident, further, that the sixteen hundred millions of interest which the nation pays to its usurers, bankers, bondholders, notaries, and sleeping-partners are simply the rent of one thousand millions of gold and silver, unless you prefer to acknowledge with me that these sixteen hundred millions are obtained by robbery.

***Definition of Capital Substituted for the Inexact Definition of the Economists—Appeal to Double Entry Bookkeeping—Accountability of Social Classes—Proofs Derived Therefrom—Reconciling the Concessions on the Risks of Capital—Revolution, Political, Economic and Scientific***<sup>5</sup>

Capital, according to J. B. Say, is *the simple accumulation of products*.

The idea of accumulation, then, as well as that of product, enters into the conception of capital. That is a second step. Now, all products are susceptible of accumulation; then all products may become capital; then M. Joseph Garnier's enumeration of the different forms that capital takes is incomplete, and, therefore, inexact, in that it excludes those produces which serve as the subsistence of laborers, such as wheat, wine, oil, food, etc. These products may be called capital as well as ships, tools, cattle, money, and all that is included under the name of instrument or raw material.

Rossi: Capital is a *product saved with a view to reproduction*.

Reproduction—in other words, the destiny of product,—that is a third idea involved in the conception of capital. *Product, accumulation, reproduction*,—three different ideas which enter into this seemingly simple notion of capital.

Now, just as all produces may be accumulated, so may they serve, and serve effectively, when consumed by the laborer, in reproduction. The bread which sustains the laborer, the grass on which animals feed, the coal which produces steam, as well as land, wagons, and machinery, all serve in reproduction, all, at the moment of consumption, are capital.

Everything which is consumed, indeed, is consumed, or is regarded as consumed, reproductively: that which serves to maintain or move machinery, as well as the machinery itself; that which nourishes the laborer, as well as the material on which the labor is expended. Every prod-

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<sup>5</sup> From the tenth letter: Proudhon to Bastiat.



uct becomes, then, at a given moment, capital: the theory which distinguishes between *reproductive* consumption and *unproductive* consumption, meaning by the latter the daily consumption of wheat, wine, meat, clothing, etc., is false. We shall see in a moment that there is no unproductive consumption save that of the capitalist himself.

Thus capital is not a specific and determinate thing, having an existence or reality of its own, like *land*, which is a thing; *labor*, which is another; and *product*, which is the shape given by labor to natural objects, which thereby becomes a third thing. Capital is not, as the economists teach, the fourth in a series the first three terms of which are land, labor, and produce: it signifies, as I have said, simply a condition, a relation; it is, by the confession of all authors, *product accumulated with a view to reproduction*.

One step more and we shall have our definition.

How does produce become capital? For the fact that product has been accumulated and stored is far from sufficient to warrant us in calling it capital. Neither is it sufficient that it is destined for reproduction: all produces are thus destined. Do you not hear it said every day that industry overflows with produces, while lacking capital? Now, such would not be the case if the simple accumulation of products, as Say says, or the intention to use them in reproduction, as Rossi would have it, alone sufficed to give them the character of capital.

Each producer would then have only to take his own produce, and credit himself with its cost, in order to enable himself to produce again, endlessly and unlimitedly. I, then, repeat my question: What is it that suddenly changes the idea of product into that of capital? The economists do not tell us what it is; they do not know what it is; I will even say that not one of them asks what it is.

Here comes in an intermediate idea, the special function of which is to convert produce into capital, precisely as a westerly wind has converted the snow which lately fell in Paris into a liquid state: this idea is that of value.

That is what J. Garnier dimly saw when he defined capital *as a sum of values used as advances in production*; that is

what you felt when you found the idea of capital, not simply with J. B. Say, in the *accumulation of products*, nor, with Rossi, in *products saved with a view to reproduction*, but in the unconsumed portion of the workingman's wages.—that is, evidently, in the value of his labor or produce.

In other words, product, to become capital, must be authentically valued, must be bought, sold, and appraised, and must have its price estimated and fixed by some sort of legal agreement. So that the idea of capital signifies a relation essentially social, a reciprocal act, in the absence of which product remains product.

Thus hides, on leaving the slaughter-house, are the product of the butcher; if you fill a market with them, they are still only hides, they have no value, or rather, no *settled* value; they are not capital, they are still product. But if the tanner buys these hides? He immediately puts them, or to speak more correctly, puts their *value* into his stock, into his advance, and consequently rates them as capital. By the labor of the tanner this capital again becomes product; which product, acquired in its turn, at a price agreed upon, by the bootmaker, passes anew into the state of capital, to become still again, by the labor of the bootmaker, product. This last product not being susceptible of receiving a fresh modification, its consumption is called, by the economists, *unproductive*, which is a deviation from the theory. The boot made by the bootmaker and acquired by the laborer is changed, by virtue of this acquisition, like the hide passing from the butcher to the tanner and from the tanner to the bootmaker, from a simple product into a value: this value forms a part of the advance of the purchaser, and aids him, like the other objects which he

consumes, like the house in which he lives and like the tools which he uses, but in a 'different way, in the creation of new products. Consumption, then, is always production, provided the consumer works. This movement once started, never ends.

Such is capital. It is not simply an accumulation of products, as Say calls it, nor is it even products accumulated with a view to subsequent reproduction, as Rossi would say: these definitions inadequately express the idea of capital.

That capital may exist, product, if I may venture to say so, must bear the endorsement of an exchange. All accountants know this perfectly well, when, for example, they enter upon their books the green hides bought by the tanner to his *debit*,—that is, as his capital,—and the tanned or dressed hides to his *credit*,—that is, as his product; the merchant and manufacturer know it still better, when, upon the slightest political disturbance, they find themselves dying at once of dullness and inertia by the side of the merchandise accumulated in their warehouses which they are unable to employ in reproduction,—a pitiful situation, which they describe by saying that the *engaged* capital refuses to disengage itself.

All capital is necessarily product; but all product, even if accumulated, even if destined for reproduction, like the tools in machine-shops, is not on that account capital. Capital, once more, supposes a previous valuation, an exchange, or a putting in circulation; otherwise, it is not capital. If there were only one individual in the world, a solitary laborer producing everything for himself alone, the product of his labor would remain product; it would not become capital. His mind would not distinguish between the following terms: *Product, value, capital, advance, reproduction, consumable funds, circulating funds, etc.* Such ideas would never enter the head of a solitaire.

But, in society, exchange once established, and value fixed by discussion, the product of one constantly becomes the capital of another; then, in its turn, this capital, be it raw material, machinery, or means of subsistence, is transformed anew into product. In a word, the idea of capital, in distinction from that of product, expresses the relation of exchanging parties to each other. As concerns society, or the collective man, which corresponds to the solitary laborer to whom I just referred, this distinction does not exist: there is an identity between capital and product similar to that between net and raw product.

I had, then, good grounds for saying, and I am astonished that, after your own explanation of capital, you should have misunderstood my words:—

“Capital is undistinguishable from product. These two terms do not, in reality, stand for two distinct things; they designate relations only. Product is capital; capital is product.”

And my friend Duchene, arguing the same point with Louis Blanc, had even better grounds for saying:—

“The distinctions between *capital* and *product*—remember it once for all—refer only to individual relationships: in society there is only *production, consumption, and exchange*. It may be said of all industries that they create capital and product indiscriminately. The machinist manufactures capital for railways, factories, and workshops; the clothier manufactures capital for the tailors; the maker of edge-tools manufactures capital for the joiner, the carpenter, and the mason; a plough is product to the manufacturer who sells it, and capital to the farmer who buys it. All professions

need *products in order to produce*, or, what amounts to the same thing, *capital in order to manufacture capital*.”

Does that seem unintelligible to you? There is no antinomy about it, at any rate.

From the standpoint of private interests, capital indicates a relation of exchange, preceded by a reciprocal valuation. It is product judicially appraised, so to speak, by two responsible judges, the seller and the buyer, and pronounced, in consequence of this appraisal, an instrument of reproduction. From the standpoint of society capital and product are undistinguishable. Products exchange for products and capital exchanges for capital are two perfectly synonymous propositions. What could be simpler, clearer, more positive, more scientific, indeed, than that?

I therefore call capital, every settled value, whether in land, machinery, merchandise, provisions, or money, serving, or capable of serving, in production.

Common language confirms this definition. Capital is said to be free when the product, whatever it may be, having been simply appraised by the parties, can be regarded as realized, or immediately realizable,—that is, converted into such other product as may be desired: in this case the form that capital most readily assumes is that of money. Capital is said to be *engaged*, on the contrary, when the value that constitutes it is employed definitively in production: in this case it assumes all possible forms.

Custom also sustains me. In every enterprise which is started, the contractor, who, instead of money, employs in his business machinery or raw material, begins by estimating it relatively to himself, his risks, and his dangers; and this estimation, one-sided so to speak, *constitutes his capital*, or his investment in business: it is the first thing which he makes account of.

We know what capital is; we must now draw the consequences of our conception so far as interest is concerned. The explanation will be a little long perhaps, but the reasoning employed will be very simple.

Products exchange for products, says J. B. Say; or, in other words, capital exchanges for capital; or yet again, capital exchanges for products, and vice versa: that is the bare fact.

The requisite condition, the *sine qua non*, of this exchange, that which is in fact its essence and its law, is the antagonistic and reciprocal valuation of products. Deprive exchange of the idea of price, and exchange disappears. There is transposition; there is no transaction, no exchange. Product, without price, is a nonentity: as long as it has not received, by the process of buying and selling, its authenticated value, it is regarded as of no effect, it is null.

That is the intelligible fact.

Every one gives and receives, according to J. B. Say’s formula announcing the material fact; but according to the idea of capital which we have just obtained by our analysis, every one ought to give and receive an equal value. An unequal exchange is a contradiction; universal consent has pronounced it a fraud and a robbery.

Now, from this primary fact that producers continually stand to each other in the relation of exchanging parties, that they are to each other, by turns and all at once, producers and consumers, laborers and capitalists; and from the precisely equal valuation which constitutes exchange,—it follows that the accounts of all producers and consumers ought to balance each other; that society, viewed from the stand point of economic science, is nothing else than this general equilibrium of products, services, wages, consumptions, and fortunes; that, in the absence of this equilibrium, political economy is but a meaningless word, and public order, the well-being of laborers, and the security of capitalists and proprietors, a utopia.

Now, this equilibrium, from which must spring a unity of interests and social harmony, today does not exist; it is disturbed by divers causes, which in my opinion may be easily destroyed, and in the front rank of which I place usury, interest, rent. There are, as I have so often said, errors and mismanagement in the bookkeeping, false entries upon the ledgers, of society. Thence arises the wrongfully-acquired luxury of some, the increasing poverty of others; for this reason we have in modern society an inequality of fortunes and all sorts of revolutionary agitation. I shall furnish you, sir, by commercial accounts, with the proof and the counterproof.

Let us first establish the facts. Products exchanged for products, or to speak more accurately, values exchanged for values: such is the law.

But this exchange is not always made, as we say, on the spot; both parties do not always transfer the objects exchanged at the same time, often, and indeed usually, there is an interval between the two deliveries. Now, strange things happen during this interval, things which disturb the equilibrium and falsify the balance. You shall see to what I refer.

It so happens that one party to the exchange has no product which the other needs, or, which amounts to the same thing, the latter, who is quite willing to sell, wishes to re-frain from buying. He intends to receive the price of his goods; but he wishes, for the present at least, to accept nothing in exchange. In both cases, the exchanging parties avail themselves of an intermediate commodity, which in commerce plays the part of a go-between, always acceptable and always accepted, and which is known as money. And as money, sought for by everybody, is scarce with everybody, the purchaser obtains it from a banker by giving him his note and paying a premium larger or smaller which is called *discount*. Discount is made up of two things: a *commission*, which is the reward for the service rendered by the banker, and *interest*. We will now tell what *interest* is.

It so happens that the buyer has neither product nor money to give in exchange for the product or capital of which he is in need; but he offers to pay at the end of a certain time in one or more installments. The two cases mentioned above were *cash* sales; in this case *credit* is given. Here, then, the buyer having the advantage of the seller, the inequality is compensated for by causing the product sold to bear interest until the time of payment. It was this compensatory interest, the primal origin of usury, that I referred to in one of my former letters as the agent which compels repayment. It lasts as long as credit; it is the reward of credit; but its especial object, remember, is *the abridgment of the duration of credit*. Such is the meaning, the legitimate significance, of interest.

It often occurs—and this is the extremity in which laborers are usually placed—that capital is absolutely indispensable to the producer, and that yet there is no probability that the latter, for a long time to come, will be able by his labor or his economy, still less by the money at his disposal, to gather together an equivalent, in a word, to repay. He needs twenty, thirty, fifty years, and sometimes a century; and the capitalist or proprietor is unwilling to allow him so long a time. How is this difficulty avoided?

Here begins usurious speculation. A moment ago we saw interest imposed upon the debtor as an indemnity for credit and a means of hastening repayment: now we shall see interest taken for itself, usury for usury, like war for war or art for art. By a formal, legal, and authentic contract, sanctioned by all jurisprudence, all legislation, and all religions, the borrower binds himself to the lender to pay him, *to the end of time*, interest on his capital, land, furniture, or money; he gives himself, body and soul, himself and his heirs, to the capitalist, and becomes his tributary *ad vitam æternam*. That is what is termed the *settlement of an annuity*, and, in certain cases,

*emphyteusis*. By this sort of contract the object passes into the possession of the borrower, who can never be dispossessed of it; who uses it as if he were its purchaser and proprietor; but who is bound forever to pay a revenue,—an endless liquidation, as it were. Such was the economic origin of the feudal system.

But now the thing is managed better.

Emphyteusis and the settlement of annuities are today, almost everywhere, obsolete. It was found that placing product or capital at perpetual interest was altogether too favorable to the capitalist: the need of an improvement in the system was felt. In our day capital and real estate are no longer placed at permanent rental, except with the State: they are LEASED,—that is, lent,—always at interest, but for a limited period. This new kind of usury is called *rent* or *farm-rent*.

Do you understand, sir, what lending at interest (rent or farm-rent) for a limited period is? In emphyteusis and the settlement of annuities, of which I have just spoken, though the rent was perpetual, the capital was surrendered for all time: between the payment and the enjoyment there was still a kind of equality. Here, however, capital never ceases to belong to him who lends it and who may demand the restoration whenever he chooses. So that the capitalist does not exchange capital for capital, product for product: he gives up nothing, keeps all, does no work, and lives upon his rents, his interest, and his usury in greater luxury than one thousand, ten thousand, or even a hundred thousand laborer, combined can enjoy by their production.

In this system of lending at interest,—farm-rent or rent,—with the power to demand at pleasure the restitution of the sum lent, and to expel the farmer or the tenant, the capitalist has invented something vaster than space, more lasting than time. There is no infinity equal to that of the usury paid by tenants, that usury which is as much worse than the perpetuity of rent as the latter is worse than the cash and credit systems of payment. He who borrows at interest for a limited period pays, pays again, pays continually, and he does not enjoy that for which he pays; he has only a glimpse of it, possesses only its shadow. Must it not have been this kind of usurer which the theologian took for his model when fashioning his god, that atrocious god who exacts eternal payment from the sinner, and never releases him from his debt? Always, forever!

Well, I say that all exchanges of products and capital can be effected by cash payment; That consequently the banker's discount should be just enough to defray the expenses of the bank and pay for the metal unproductively employed of which the money is made; And therefore that all interest, rent, or farm-rent is simply a refusal to redeem, a robbery of the borrower or the tenant, and the original cause of all the miseries and upheavals of society.

In my last letter I proved to you, taking the Bank of France as an illustration, that it was an easy and a practical thing to organize equality in exchange, or the gratuitous circulation of capital and products. You were able to see, in this conclusive and decisive fact, only a special instance of monopoly, having nothing to do with the theory of interest. What have I to do, you ask with an air of nonchalance, with the Bank of France and its privileges? I am discussing interest of capital. As if, after landed and commercial credit had been universally organized on a basis of one-half of one per cent, interest could exist anywhere! I will show you now, by the bookkeeper's method, that this special payment which always comes in between the two deliveries in an exchange; this tax imposed on circulation this duty levied on the conversion of products into values and of values into capital; this interest, in short; or, to call it by its own name, this commercial go-between (*interesse*), which you so obstinately defend,—is the identical grand forger which, in order to appropriate, fraudulently and with out labor, products that it does not create and services that it never renders, falsifies accounts, enters surcharges and suppositions upon the books, destroys

the equilibrium of trade, carries disorder into business, and inevitably brings all nations to despair and poverty. The following, as you will find, is a graphic representation of the workings of society as organized upon each of the two systems,—the system of *interest*, which now prevails, and the system of *gratuity*, which is the one that I propose. All arguments, all dialectic, all controversy must break down in the presence of this intelligible picture of economic movement.

I.— *System of Interest.*

In this system the production, circulation, and consumption of wealth are effected by the cooperation of two distinct and separate classes of citizens,—the proprietors, capitalists, and contractors on the one hand, and the wage-laborers on the other. These two classes, although bitterly hostile to each other, together constitute a close organization which acts in itself, on itself, and by itself.

It follows, therefore, that all the agricultural, commercial, and industrial operations which can be carried on in a country; all the accounts of every manufactory, workshop, bank, etc.,—

may be summed up and represented in a single account, the items of which I shall proceed to give.

I designate by A the entire class of proprietors, capitalists, hand contractors, which I regard as a single individual, and by B, C, D, E, F, G, H, I, K, L, the class of wage-laborers

# **ACCOUNTS *Between A,* *Proprietor-Capitalist-Contractor, and B, C, D,* *E, F, G, H, I, K, L, Wage-Laborers***

## **Chapter One. *Account and Summary of the Personal Operation of A, Proprietor-Capitalist-Contractor***

At the opening of the account A commences his speculation with a capital, I will suppose, of ten thousand francs. This sum constitutes his base of operations, with this he will work and begin his commercial transactions. This establishment of A is expressed in the following manner:—

### **I. *Cash Due A***

January I.—Account of capital	10,000 francs
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The capital formed, what will A do next? He will hire laborers, whose products and services he will pay for with his ten thousand francs; that is, he will convert these ten thousand francs into merchandise, which the accountant expresses as follows:—

### **2. *General Merchandise, to Cash***

Purchases of Products (cash or credit), during the current year, from the laborers hereinafter named:

The money converted into merchandise, the proprietor-capitalist-contractor A now has to perform the inverse operation, and convert his merchandise into money. This conversion implies a profit (premium, interest, etc.), since, by the hypothesis and according to the theory of interest, land and houses, capital, and the guaranty and judgment of the contractor are not to be obtained *gratis*. Admit, then, the profit to be ten per cent, according to ordinary commercial custom.

To whom will A sell his products? Necessarily to B, C, D, etc., laborers, for society is wholly composed of A, proprietor-capitalist-contractor, and B, C, D, etc., wage laborers, aside from whom there is nobody. This gives rise to the following account:—

### **3. *The Following Laborers, to General Merchandise***

The sale completed, it remains to collect the sums due from the purchasers. A new operation, which the accountant enters on his book in the following way:—

From B, X (days, of labor or product), in all	1,000 francs
From C, X (days, of labor or product), in all	1,000 francs
From D, X (days, of labor or product), in all	1,000 francs
From E, X (days, of labor or product), in all	1,000 francs
From F, X (days, of labor or product), in all	1,000 francs
From G, X (days, of labor or product), in all	1,000 francs
From H, X (days, of labor or product), in all	1,000 francs
From I, X (days, of labor or product), in all	1,000 francs
From J, X (days, of labor or product), in all	1,000 francs
From K, X (days, of labor or product), in all	1,000 francs
From L, X (days, of labor or product), in all	1,000 francs
Total	10,000 francs

My sales to B during the current year	1,100 francs
My sales to C during the current year	1,100 francs
My sales to D during the current year	1,100 francs
My sales to E during the current year	1,100 francs
My sales to F during the current year	1,100 francs
My sales to G during the current year	1,100 francs
My sales to H during the current year	1,100 francs
My sales to I during the current year	1,100 francs
My sales to J during the current year	1,100 francs
My sales to K during the current year	1,100 francs
My sales to L during the current year	1,100 francs
Total	11,000 francs



#### **4. Credit, By Cash, to the Following Laborers**

To B, his payment in specie, December 31, in settlement of his account	1,100 francs
To C, his payment in specie, December 31, in settlement of his account	1,100 francs
To D, his payment in specie, December 31, in settlement of his account	1,100 francs
To E, his payment in specie, December 31, in settlement of his account	1,100 francs
To F, his payment in specie, December 31, in settlement of his account	1,100 francs
To G, his payment in specie, December 31, in settlement of his account	1,100 francs
To H, his payment in specie, December 31, in settlement of his account	1,100 francs
To I, his payment in specie, December 31, in settlement of his account	1,100 francs
To J, his payment in specie, December 31, in settlement of his account	1,100 francs
To K, his payment in specie, December 31, in settlement of his account	1,100 francs
To L, his payment in specie, December 31, in settlement of his account	1,100 francs
Total	11,100 francs

Thus A's original capital—after being converted into products, after the sale of these products to the consuming laborers B, C, D, etc., and, finally, after payment by these laborers—returns to him increased one-tenth, which is shown on the account of stock by the balance given below:—

#### **5. Summary of the Operations of A, Proprietor-Capitalist-Contractor, for his Account of Stock December 31**

We see here, by the way, how and under what conditions products become capital. It is not the stock in hand which, in the inventory, is carried to the credit of the account of capital; it is the profit. The profit,—that is, the product sold, delivered, and paid for, or shortly to be paid for; in a word, the product become a value.

Let us now pass to the counterpart of this account, to the account of the laborers.

Dr. 10,000 francs.	Debit of this account to December 31. Profit on this account to be credited on the account of A's capital.	Credit of this account to December 31.	Cr. 11,000 francs.
1,000 francs.			
11,000 francs.		Balance	11,000 francs.

GENERAL MERCHANDISE

**Chapter Two Account of the Operations of B, Laborer, with A, Proprietor Capitalist-Contractor**

B, a laborer, without property, without capital, without work, is hired by A, who gives him employment and takes his product. First operation, which appears in B's account thus:—

**1. Credit, by Cash, to B, January**

**1.— Account of Capital**

Sale (cash or credit) of the entire product of his year's labor to A, proprietor-capitalist contractor.	1,000 francs.
---	---------------

In exchange for his product, then, the laborer receives one thousand francs, a sum equal to that which appears in the second article of the preceding chapter, *Account of general merchandise*.

But B lives on his wages,—that is, with the money given him by A, proprietor-capitalist-contractor, he procures from said A all the articles needed for his (B's) consumption, articles which are invoiced to him, as we saw above, in the third article of the first chapter, at an advance of ten per cent on the cost price. With respect to B, then, the operation would result as follows:—

**2. Due from B, Account of Capital, to A, Proprietor-Capitalist-Contractor**

Total provisions of all kinds received from the latter during the year	1,100 francs
--	--------------

<i>Dr.</i> 1,100 francs.	Debit of this account to December 31. Credit of this account to December 31 Loss on this account, which B can pay only by borrowing	<i>Cr.</i>  1,000 francs. 100 francs. 1,100 francs.
1,100 francs.		

ACCOUNT OF CAPITAL

**3. Summary of B's Operations for his Inventory.**

All the other laborers being in the same circumstances as B, their accounts show, each, the same result. The reproduction of each of these accounts is not necessary to a clear comprehension of the fact which I desire to bring out,—namely, the absence of equilibrium in general circulation in consequence of the exactions of capital.

The foregoing table, quite differently instructive and conclusive from that of Quesnay, is a faithful picture, presented algebraically, of the existing social economy. From it we may be convinced that poverty and the proletariat are not the effects of accidental causes only, such as floods, wars, and epidemics, but that they spring also from an organic cause, inherent in the constitution of society.

From the fiction of the productivity of capital and the numberless prerogatives which the monopolist arrogates to himself there results always and of necessity one of these two things.

First, the monopolist takes from the wage-laborer a portion of his social capital. B, C, D, E, F, G, H, I, K and L have produced during the year ten, and have consumed only nine. In other words, the capitalist has eaten up one laborer. Further, the interest being used as new capital, the situation of the laborers grows worse and worse year by year; so that if we push the argument to its logical extremity, we shall find that, towards the seventh year, the entire original investment of the laborers will have passed, in the name of interest and profit, into the hands of the proprietor-capitalist-contractor, showing that the wage-laborers, in order to pay their debts, must work every seventh year for nothing.

Or, second, the laborer, being unable to pay a price for his product larger than that which he has himself received, compels the monopolist to lower his prices, and consequently to disgorge the whole amount of interest, rent, and profit which the exercise of his right of property entitled and obliged him to take.

We are compelled, then, to admit that credit, under the system of interest, inevitably results in the spoliation of the laborer, and, as a corrective no less inevitable, in the bankruptcy of the contractor, the ruin of the capitalist-proprietor Interest is like a two-edged sword: whichever way it strikes, it kills.

I have just shown you what the condition of things is under the regime of interest. Let us now see what it would be under the regime of gratuity.

## 2.— *System of Gratuity.*

According to the theory of gratuitous credit the positions of wage-laborer and proprietor-capitalist-contractor are identical and equivalent; both are included in that of *producer-consumer*. The effect of this change is to reduce all the present operations of credit—loans, sales on time, speculations rent, farm-rent, etc.—to the simple form of exchange; like wise all banking operations to a simple transfer of debts.

Suppose, then, the Bank of France, the principal instrument of this system, reorganized on the basis of gratuitous credit and its rate of discount reduced to one per cent,—a rate which, for the time being, we will regard as the just reward of the special service rendered by the bank, and consequently as representing an interest equal to zero. Let us see

changes this will make in the accounts. Henceforth the exchanges will be effected through the intervention of the bank and its auxiliaries, superseding all the various forms of usurious credit; it is, then, with the bank that B, C, D, etc., laborers, whether associated, grouped, free, deal directly and immediately.

## **Chapter One Account of the Operations of B, Laborer, with X, the National Bank**

### **1. Credit by Cash, January 1, to X, the National Bank**

Amount advanced by the latter upon all the products of my year's labor, to be repaid as fast as

my sales warrant, 1,000 francs, less 1 per cent. discount	990 francs
---	------------

As we have already seen, B lives exclusively by his labor; that is to say, by guaranteeing his product to X, the National Bank, he receives in return either bank-notes or specie, with which he buys of A—a laborer like himself, but who, in the sales or exchanges of which we are about to speak, plays the part of proprietor-capitalist-contractor—all the articles needed in his business and for his consumption. In fact, B pays cash for all these articles, and therefore is able to make a better bargain.

These purchases, made with the bills or coin of the bank, cause the following account to be opened upon B's books:—

### **2. Credit, by General Merchandise, to Cash**

Amount of ready money paid A for my year's consumption	990 francs
--	------------

B sells his products as fast as he manufactures them. But production depends upon consumption; now, the latter being no longer embarrassed, as it was under the regime of interest by

usury,—that is, by credit sales, by the loan of tools and the charges which result therefrom, and especially by the preference for specie, which now has become barren and even useless,—it follows that B, as well as all other laborers, cannot only repurchase his own product, less a small fraction, but can give full scope to his energies and productive powers with out fear of creating non-vendible products or lowering prices but, on the contrary, with the well-founded hope of compensating himself by this increased production and exchange, for the small reward which he pays to the bank for negotiating his values. This will be made to appear in the next article of B's account.

All labor should leave an excess: this is a cardinal doctrine of political economy. It is founded upon the principle that, in the economic order, whatever be the capital employed, *all value is created by labor from nothing*; just as, according to Christian theology, everything in nature was created by God, likewise from nothing. In fact, product being defined by J. B.

Say and all the economists as the *utility added by labor to objects furnished by nature*, it is clear that all product is the result of the laborer's effort; and if the object to which this new utility is added is already itself a product, the value reproduced must of necessity be greater than the value consumed. Let us suppose that by his labor B adds ten per cent to the value which he consumes, and state the result in his books:—

### 3. *Credit, by Cash, to General Merchandise*

My cash sales to various persons for the current year	1,089 francs
---	--------------

This account shows that usury is a cause of poverty, in that it hinders consumption and reproduction, first by raising the market price of products to a higher point than is warranted by the increased value obtained by reproductive labor (the whole amount of usury in France on a total product of ten thousand millions, is six thousand millions, or sixty per cent), and then by embarrassing circulation by the various formalities of discount, interest, rent, farm-rent, etc., etc.,—difficulties which disappear entirely under the regime of gratuitous credit.

We now have reached the time when B has realized the entire products of his year's labor.

He must therefore settle With X, the National Bank,—an operation which is represented as follows:—

### 4. *Credit, by X, the National Bank, to Cash*

My deposit in settlement	1,000 francs
--------------------------	--------------

Now B must balance his account; he does it in the following way:—

Dr. 990 francs.	Debit of this account to Dec. 31	Credit of this account to Dec. 31	Cr. 1,089 francs
99 francs.	Profits on this ac- count		
1,089 francs		Balance	1,089 francs

#### GENERAL MERCHANDISE ACCOUNT

### **5. Summary of B's Operations for his Inventory**

The following year B, instead of operating with a product worth one thousand francs, will operate with a product worth one thousand and eighty-nine francs, which will give him a new increase of profit; then the same thing occurring in the third, fourth, fifth, etc., years, the progress of his wealth will keep pace with the progress of his labor, and so he will go on forever.

The other laborers, C, D, E, F, etc., being in the same circumstances as B, their accounts show each the same result; it is useless to reproduce them.

I now pass to the counterpart of the accounts opened b:, B, and first to that of the bank.

## **Chapter Two**

We have seen above that X, the National Bank, made an advance to B upon his labor or product; that it did the same for all the other laborers; and that subsequently it was remunerated and made whole by the redemption of the values deposited with it and by the discount of one per cent in its favor. This is the way in which these various operations would be represented on the books of the bank:—

### **1. Credit, by the following Laborers, to Cash**

Then from the redemption by the debtors arises a new operation, which the accountant enters upon his books as follows:—

### **2. Credit, by Cash, to the Following Laborers**

The credit given by X, the National Bank, after the conversion into products of the sum credited after the sale of these products to all the members of the society, producer-consumers, from A to L, and finally after the settlement of this sale by means of a sum equal to that furnished by the bank,— this credit, we say, returns to it in the form of notes or coin, increased by a discount of one per cent, with which the bank pays its employees and defrays its expenses. If, after having covered its expenses, there still remains to the bank a net profit, be it larger or smaller, it should reduce its rate of discount proportionally, so that the interest of capital received by the bank may always be zero.

B, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
C, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
D, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
E, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
F, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
G, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
H, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
I, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
J, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
K, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
L, the bank's advances on the product of his year's labor, secured by his note for 1,000 francs, discount deducted	990 francs
	9,900 francs

To B, his deposit in settlement	990 francs
To C, his deposit in settlement	990 francs
To D, his deposit in settlement	990 francs
To E, his deposit in settlement	990 francs
To F, his deposit in settlement	990 francs
To G, his deposit in settlement	990 francs
To H, his deposit in settlement	990 francs
To I, his deposit in settlement	990 francs
To J, his deposit in settlement	990 francs
To K, his deposit in settlement	990 francs
To L, his deposit in settlement	990 francs
To profits and losses, received from the afore- said laborers in the form of a discount of one per cent	100 francs
Total	10,000 francs

<i>Dr.</i> 100 francs.	Profit on this account	Product of the year's discounts	<i>Cr.</i> 100 francs
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#### PROFIT AND LOSS

### **3. Summary of the Operations of X, the National Bank, for Its Inventory of Dec. 31**

Going back to the cash account of X, the National Bank we see immediately that the excess of debit over credit is one hundred francs, a sum equal to that which appears in the profit and loss account as the discount profit.

## **Chapter Three**

We come finally to the account of A, proprietor-capitalist. contractor, who in no wise differs, as we have said already from B, C, D, etc., wage-laborers, and who assumes this title only fictitiously, in consequence of his transactions with the latter class.

Under the regime of gratuitous credit, A no longer lends his raw material, his tools, his capital, in a word; neither does he give them away; he sells them. When he has received the price he is stripped of his right over his capital; he can no longer compel the payment of interest upon it through all eternity and beyond.

Let us see, then, how A's account will appear under this new system.

First, specie being only a medium of exchange, and having become, by its accumulation in the bank and the almost universal substitution of paper for gold, common property, the use of which, being universally disdained, is gratuitous, the producer-consumers, B, C, D, etc., have no more



need of A's coins. What they need are the raw materials, tools, and provisions of which A is the possessor.

A begins business, then, with his merchandise capital, which by hypothesis we will fix at ten thousand francs. This commencement of operations is expressed on A's books in the following manner:—

**1. Credit, by General Merchandise, to A, Account of Capital**

Stock in hand on the 1 <sup>st</sup> of January last, according to inventory	10,000 francs
--	---------------

what does A do with this merchandise? He sells it to the laborers, B, C, D, etc.,—that is, to the society of consumers and producers which they here represent just as he, A, represents, for the time being, the society of capitalists and proprietors. A's accountant will exhibit this as follows:—

**2. Credit, by Cash, to General Merchandise**

Cash sale to B	990 francs
Cash sale to C	990 francs
Cash sale to D	990 francs
Cash sale to E	990 francs
Cash sale to F	990 francs
Cash sale to G	990 francs
Cash sale to H	990 francs
Cash sale to I	990 francs
Cash sale to J	990 francs
Cash sale to K	990 francs
Cash sale to L	990 francs
Total	9,990 francs

But if the laborers, B, C, D, etc., consume A's goods, the proprietor-capitalist-contractor A, in his turn consumes the products of the laborers B, C, D, etc., of whom he must buy them, as they themselves buy his. Now we have seen, in the third article of the first chapter, that the increased value given to the goods consumed by B, C, D, etc., being, by hypothesis and under a system free from all dullness, stagnation, and falling of prices, ten per cent, the capital of nine hundred and ninety francs which B has obtained from the bank on credit, on being reproductively consumed, is changed into another of one thousand and eighty-nine francs: the latter, then, is the price at which A makes his purchases of B and settles the bills.

Which is entered on the books as follows:—

### 3. *Credit, by General Merchandise, to Cash*

Cash purchases from the following laborers:

From B, his deliveries of various articles for my consumption	1,089 francs
From C, his deliveries of various articles for my consumption	1,089 francs
From D, his deliveries of various articles for my consumption	1,089 francs
From E, his deliveries of various articles for my consumption	1,089 francs
From F, his deliveries of various articles for my consumption	1,089 francs
From G, his deliveries of various articles for my consumption	1,089 francs
From H, his deliveries of various articles for my consumption	1,089 francs
From I, his deliveries of various articles for my consumption	1,089 francs
From J, his deliveries of various articles for my consumption	1,089 francs
From K, his deliveries of various articles for my consumption	1,089 francs
From L, his deliveries of various articles for my consumption	1,089 francs
Total	10,890 francs

To finish the demonstration we have only to draw up A's inventory.

#### ***Summary of the Operations of A, Proprietor-Capitalist Contractor, for His Inventory of December 31***

Now that we have made up both accounts, let us compare them and note the differences.

1. Under the *régime of usury* the account of each laborer is balanced by a loss of one hundred francs, or for the ten, one thousand francs.

At the same time that of A, proprietor-capitalist-contractor, is balanced by a profit of one thousand francs; which proves that the want and misery existing in a capitalistic society are due to interest.

2. Under the *régime of gratuitous credit*, on the contrary, the account of each laborer is balanced by a *bonus* of ninety-nine francs, or for the ten, nine hundred and ninety francs; and that of A, proprietor-capitalist, by a deficit of eight hundred and ninety francs, which with the hundred francs' worth of merchandise remaining on hand and helping to account for the year's deficit, make up the nine hundred and ninety francs by which the wealth of the ten laborers has been

<i>Dr.</i> 10,890 francs.	Debit of this account to Dec. 31	Credit of this account to December 31 Amount of mer- chandise remaining on hand from the inventory of the first of January last.	<i>Cr.</i> 9,900 francs
		Loss on this account	100 francs
10,890 francs		Balance	890 francs 10,890 francs

#### GENERAL MERCHANDISE

increased. Which proves that in a mutualistic society,—that is, a society in which there is equality in exchange,—the wealth of the laborer increases directly with his labor, while that of the capitalist diminishes directly with his unproductive consumption, and which demolishes Pierre Leroux’s criticism upon me, which he has not ceased to reiterate in all his discussions for the last two months, to wit, that gratuitous credit, the bank of the people, and mutuality are as much *proprietorship*, *bourgeoisisme*, and even exploitation as the system which the bank of the people pretends to abolish.

*Under the mutualistic system the wealth of the laborer increases directly with his labor, while that of the proprietor-capitalist diminishes directly with his unproductive consumption,—this proposition, mathematically demonstrated, answers all the incoherencies of Pierre Leroux and Louis Blanc concerning communism, fraternity, and solidarity.*

Let us now reverse the formula.

*Under the usurious system the wealth of the laborer diminishes directly with his labor, while that of the proprietor-capitalist increases directly with his unproductive consumption,—this proposition, mathematically demonstrated like the preceding one, answers all the incoherencies concerning the inequality of capacities, the compensations of another life, etc., etc. As a corollary to the foregoing, and still basing our selves upon the logic of figures, we say further:—*

In a capitalistic society the laborer, never being able to repurchase his product at the price at which he sells it, is constantly running behind, which compels him to continually decrease its production: whereby life is forbidden and the supply of capital and even of the means of subsistence is cut off.

In a mutualistic society, on the contrary, the laborer, exchanging without reserve product for product and value for value, paying only a trifling discount which is amply recompensed by the surplus which his labor leaves him at the end of the year, alone profits by his products: whereby he is enabled to produce a limitless amount, and society to increase to an indefinite extent its life and wealth.

Do you say that such a revolution in economic relations would be, after all, only a transfer of misery; that, instead of the poverty of the wage-laborer, who cannot repurchase his own product, and who grows the poorer the more he works, we shall have the poverty of the proprietor-capitalist-contractor, who will be compelled to encroach upon his capital and thus to gradually destroy, not only the material of products, but machinery itself?

But who does not see that if, as is inevitable under the gratuitous system, the two functions of *wage-laborer* on the one hand, and of *proprietor-capitalist-contractor* on the other, become equal and inseparable in the person of every workingman, A's deficit as a capitalist is immediately covered by his profit as a laborer; so that, while on the one hand by the annihilation of interest the sum of the *products* of labor is increased indefinitely, on the other, by the facility of circulation these products are incessantly converted into *values* and the values into *capital*?

Let every one, then, instead of charging spoliation upon socialism, make out his own account; let every one make an inventory of his wealth and his industry, of the amount which he gains as a capitalist-proprietor, and that which he can obtain as a laborer,—and either I am greatly mistaken, Or else out of the ten million citizens enrolled upon the electoral lists there will not be found two hundred thousand—one in fifty—for whose interest it is to sustain the usurious system and oppose gratuitous credit. Once again, whoever gains more by his labor, his skill, his industry, and his knowledge than by his capital is directly and especially interested in the most immediate and complete abolition of usury; he, I say, whether he knows it or not, is pre-eminently a partisan of the *democratic and social republic*; he is, in the broadest and most conservative acceptation of the term, a *revolutionist*. What then? Must it be true, because Malthus, with a handful of pedants at his heels, has said so and has wished it to be so, that ten millions of laborers, with their wives and children, ought forever to support two hundred thousand parasites, and that it is in order to protect this exploitation of man by man that the State exists, that it makes use of an armed force of five hundred thousand soldiers and one million officeholders, and that we pay to it two thousand millions of taxes?

But why do I need, after all that has been said in the course of this discussion, to keep up longer this purely artificial distinction between *wage-laborers and capitalist-proprietors*?

The time has come to put an end to all class antagonism, and to interest everybody, even the proprietors and capitalists themselves, in the abolition of rent and interest. The revolution, having assured its triumph through justice, may, without losing its dignity, address itself to personal interests.

Have we not seen that interest was born of industrial and commercial risks, that it originally appeared in the more or less speculative *contrats de pacotille* and *à la grosse*? Now, that which was at the beginning the inevitable effect of a state of war, and which must of necessity appear in an antagonistic society, will appear again and always in a harmonic and peaceful society. Progress, in industry as in science, is unlimited; labor knows no bounds to its bold enterprises.

But when we say enterprise, we always mean something more or less speculative, and consequently a greater or smaller risk of the capital employed, which necessitates a compensatory interest, a premium of insurance.

As a means for the action of capital under conditions more and more favorable, *sleeping-partnership* must take the place of rent, farm-rent, annuities, mortgages, mercantile speculation, stock-jobbing, and banking spoliation. Then capital divided into shares and furnished by the laboring masses, instead of robbing labor, will produce for labor; then the dividend, substituted for interest, will be only a method of allowing society as a whole to share in the profits of private speculations that will be the legitimate gain of genius over fortune. Let the capitalists of today, instead of crowding to the stock exchange opposing the revolution, and putting an embargo upon arms, dare to become our leaders: let them become, as in '92, our generals in this new war of labor against poverty, in the grand crusade of industry against nature. Is there, then,

nothing more to discover, nothing more to dare, nothing more to do for the development of our nationality for the increase of our wealth and glory?

## NOTE

This discussion, notwithstanding the lapse of time, still goes on. It is admitted that what the borrower wants is capital, that is, capital goods—raw materials, machines, tools and the like—and, by the process of borrowing, ultimately gets them; but he does not get them from the person who makes the loan to him.

To illustrate this, suppose a farmer is in need of additional capital at the beginning of the year. He borrows the money of the banker and gives his promissory note therefor. This note is usually secured by a lien on, or by the pledge of, certain property. The farmer's solvency is not generally known, so his note cannot circulate. The bank's solvency, however, is well known, and its notes are received by everybody. The banker exchanges his well known credit for the farmer's little known, but equally good, credit, and for this service, which is nothing more or less than making the farmer's credit generally known—advertising it, so to speak—the bank charges, let us say, seven per cent a year, which is about six per cent over and above the actual cost of conducting the bank. The element of risk, of course, also enters into the transaction, and a premium must be paid therefor; but where the security is ample this risk is small and its cost is correspondingly low.

Now, to follow the process a little further. With this money the farmer buys agricultural implements, seed, and fertilizer. These are all capital, but he does not *borrow* them from the people who deal in them, he *buys* them outright and pays for them, so the dealers do not expect and do not get any interest, but are glad to be “deprived” of their capital in this way.

That is what they are in business for.

If now this dealer in agricultural implements in turn needs more capital he must also go to the bank and borrow money in the first place, and buy the goods from those who have them to sell, and so must the seed man and so must every other user of capital of every kind.

If interest is paid for the use of capital and not for credit, why is it that the persons engaged in production, one and all, who together have all the capital, must first go to the bank, which has no capital but only a certain kind of credit, and exchange credit with it before they can get capital from one another?

This question the advocates of mutual banking have often asked but it has never been answered.

Another proof that interest is not paid for the use of capital is that the rapid increase of capital that has taken place since the time of this debate has not affected the interest rate.

From 1850 to 1910 the population of the United States quadrupled in number, and the amount of capital increased fifteen fold. The average purchasing power of a dollar was as great in 1910 as it was in 1850, so there was really a four-fold per capita increase of capital. If, then, interest must be paid because capital is scarce and is hard to accumulate an must be “saved,” as it becomes more plentiful there should be a tendency, at least, no matter how slight, toward a low rate of interest for the use of capital; but no such tendency can be seen. Interest was as high in 1910 as it was sixty years before.

(Editor.)

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