

Real Issues Concerning Interest

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Quarterly Journal of Economics, volume 10, pp. 98-102.

Professor v. Böhm-Bawerk is entitled to the last word in the pending discussion. I will neither repeat my former argument nor extend it, but will gladly accept the verdict to which readers may be led by a study of the discussion already published. It is desirable, however, that unnecessary misunderstandings should be removed. Evidently, I have not made my own meaning entirely clear to my eminent opponent; and a word of explanation may make it clear, and thus confine attention to real issues. I have not fallen into the particular misunderstandings of Professor v. Böhm-Bawerk's theory that in his last article he attributes to me.

1. Quoting from my article in the April number of this journal, Professor v. Bohm-Bawerk makes me say that he has recently "introduced into the problem for the first time" the case of money, for a certain test purpose. The important words "for the first time," do not occur in my article. Moreover, the term "introduced" was not used in that special sense which might have implied that the term had not been used before. The case of money was introduced, or inserted, into the argument in *The Positive Theory of Capital*, and again in the article referred to.

2 I hold an abstinence theory of the origin of capital. In this view, a man who accumulates capital denies himself some present gratification in order to do it. He very rarely goes hungry in consequence of saving. As a rule, he does not cut very deeply into his current indulgences. In every case in which he adds to his fund of productive wealth, he must cut off some pleasurable outlay that he might otherwise have made. By extending the lines of railroad that he owns, the

multi-millionaire denies himself the enlarging of his palatial residences.

I am, therefore, definitely precluded from attributing such an abstinence theory as this to Professor v. Böhm-Bawerk, and then criticising his system on that account. Moreover, it could never occur to me to attribute to him so crude an abstinence theory as the one that he has disclaimed and criticised. Not for a moment have I understood my clear-sighted opponent as claiming that the capitalist "suffers want or hunger during periods of production." I have understood that in Professor v. Böhm-Bawerk's theory the capitalist is made to relieve the laborer from the necessity of suffering want and hunger during such periods. It is my own claim that he could not do this without in some way trenching on his own immediate gratifications. If the so-called periods of production have the power to make laborers wait for consumers' goods, unless the capitalist relieves them, then the capitalist must wait for something if he does thus relieve them. Where A advances something to B, and later receives something from B, A does "vicarious waiting." The theory that the periods of production involve such waiting is what I have attributed to Professor v. Böhm-Bawerk; and my criticism would not be refuted if it were shown that the capitalist who takes the necessity of waiting upon himself does this without cutting off a single indulgence.

If we were to think of the capitalist as having in his possession concrete consumers' goods of a definite kind, and in such abundance that he could not possibly use them at once, he might then make over some of them to laborers with no abstinence whatever on his own part. If we think of him as having not usable goods of determinate kinds, but a command of wealth undeterminate in kind, we could not make him advance any of this wealth without abstinence. He would have to repress, for the time being, some of his own limitless wants. A man with a carload of bread at his disposal might feed laborers with the superfluity of it, and suffer in no wise there for himself. The man with a hundred thousand dollars' worth of whatever he wishes cannot take a part of this resource in the form of a carload of bread, and present it to laborers, without abstaining from the luxuries that the resource would otherwise have yielded.

3. The contention that vicarious waiting, if it is done at all, must involve abstinence, is mine. The view that such waiting is done independently of the question whether it costs the

capitalist anything or not is what I have attributed to Professor v. Böhm-Bawerk. The thought that a capitalist would need to go hungry in order to relieve hunger was so far from my mind that I may not have adequately guarded the language of the recent article against the danger of conveying such a meaning. On the other hand, the view that a capitalist, if he were to make an advance to laborers

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out of wealth that he can command in any form in which he may choose to take it, must do it at some present cost to himself, is inseparable from my thought; and in most statements on this point I should not find it necessary to make the distinction between vicarious waiting and vicarious abstaining.

For a phrase that is not carefully guarded against a misunderstanding the danger of which did not occur to me, I accept all due responsibility. What, as is to be hoped, may now be clear, is that I have attributed to Professor v. Böhm-Bawerk the theory that a capitalist does vicarious waiting. In my own view, he could not do this without a certain vicarious abstaining. In no possible view would the abstaining go to the length of assuming the privation from which the act relieves the laborer.

The entire point that I intended to raise is this: Where does waiting or abstinence in reality occur? Does it connect itself with the periods of production? Yes, if a capitalist advances wealth in some form to laborers at the beginning of such a period, and in return gets something from them in the end. No, if such an advance is not made. My whole contention here is that, in static industry, and in connection with the periods of production, no advance whatever is made. Just here the worker is not relieved from waiting, and the capitalist is not made to wait. In the original creation of capital there is abstaining, and here only. The periods of production do not inflict the necessity for abstaining or waiting on any one. The location of the abstinence or waiting is the sole point in question; and, as my view concentrates it into the act of creating new capital, which is a dynamic phenomenon, this view removes it entirely from static industry.

4. It is my contention that the average period of production, as well as particular periods, might conceivably be made longer without creating a condition in which either the burdens or the gains of industry would be larger than before. If the lengthening of the average period were accomplished in a way that entailed an accumulating of new capital, then there would be involved both abstinence and an increase of production. Conceivably, the lengthening might be effected without this. We might then have an unchanged rate of interest on a fixed amount of capital, with varying lengths of the average productive period. We have only to multiply such illustrations as were suggested in the former article to have in view one possible way in which the change of length of the average period might take place.

There are real and important issues to be settled. Is a distinction to be made between permanent capital and that perishable and renewable tissue of capital that I have called capital goods? Is waiting, or the postponing of pleasure, entailed solely by the original creation of permanent capital? Are we to distinguish between the static and the dynamic phenomena of industry, and connect time sacrifices wholly with the dynamic phenomena, while interest is static?

Would time sacrifices cease, and would interest continue, if industry were reduced to a static condition? Could the average period of production, which would exist in a static industry, be made longer without necessarily affecting the quantity of capital or the rate of interest? If these things are so, then the rate is not dependent on that average period. Again, could this period be made longer by means of an increase of capital without affecting the rate of interest? If so, the rate is dependent on the amount of the permanent fund. These are the issues. Germane to these are such further problems as the question whether time sacrifice, wherever it be located, involves abstinence.

In such discussion of these topics as I have offered, by no means all the considerations advanced have been offered as though they were in opposition to views of Professor v. Böhm-Bawerk. Certain points I should be certain in advance that he would agree with. The two theories under consideration have a large area of coincidence; and it is to be hoped that, by further and more complete formulation of the differing views, this area may be increased. There is a field of real disagreement, and here only one of the theories can be correct. The test that has to be made of them does not extend to an estimate of their value. It may be that the one that is the less correct may be scientifically the more fruitful.

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