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A Market Economy without Capitalism

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Contents

Money: From the Ruler of Markets ...	5
... to a Neutral Servant of Economic Activity . .	7
Land: A vital natural resource to be held in trust rather than as a tradeable commodity and object of speculation.	9
Economic Equality of Women and Men	9
Other Pioneers of a Market Economy without Capitalism	10
Free Economy Organisations in Germany and in Switzerland during the First World War	11
Between the two World Wars	12
After 1945: New Beginning, Neglect and Re- newal of Interest Towards the End of the 1970s	16
Suggestions for further reading	19

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- William Darity jr., *Keynes' Political Philosophy: The Gesell Connection*, in: *Eastern Economic Journal* Vol. 21, No. 1, Winter 1995, p. 27–41.
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Money: From the Ruler of Markets ...

In 1891 Silvio Gesell (1862–1930) a German-born entrepreneur living in Buenos Aires published a short booklet entitled *Die Reformation im Münzwesen als Brücke zum sozialen Staat* (Currency Reform as a Bridge to the Social State), the first of a series of pamphlets presenting a critical examination of the monetary system. It laid the foundation for an extensive body of writing inquiring into the causes of social problems and suggesting practical reform measures. His experiences during an economic crisis at that time in Argentina led Gesell to a viewpoint substantially at odds with the Marxist analysis of the social question: the exploitation of human labour does not have its origins in the private ownership of the means of production, but rather occurs primarily in the sphere of distribution due to structural defects in the monetary system. Like the ancient Greek philosopher Aristoteles, Gesell recognised money's contradictory dual role as a medium of exchange for facilitating economic activity on the one hand and as an instrument of power capable of dominating the market on the other hand. The starting point for Gesell's investigations was the following question: How could money's characteristics as a usurious instrument of power be overcome, without eliminating its positive qualities as a neutral medium of exchange?

He attributed this market-dominating power to two fundamental characteristics of conventional money:

Firstly, money as a medium of demand is capable of being hoarded in contrast to human labor or goods and services on the supply side of the economic equation. It can be temporarily withheld from the market for speculative purposes without its holder being exposed to significant losses.

Secondly, money enjoys the advantage of superior liquidity to goods and services. In other words, it can be put into use at almost any time or place and so enjoys a flexibility of

deployment similar to that of a joker in a card game.

These two characteristics of money give its holders a privileged position over the suppliers of goods and services. This is especially true for those who hold or control large amounts of money.

They can disrupt the dynamic flow of economic activity, of purchases and sales, savings and investment. This power enables the holders of money to demand the payment of interest as a reward for agreeing to refrain from speculative hoarding thereby allowing money to circulate in the economy.

This intrinsic power of money is not dependent on its actual hoarding, but rather on its potential to disrupt economic activity which enables it to extract a tribute in the form of interest in return for allowing the “metabolic exchange” of goods and services in the “social organism”. The “return on capital” is accorded priority over broader economic considerations and production becomes attuned more to the monetary interest rate than to the real needs of human beings. Long-term positive interest rates of interest disturb the balance of profit and loss necessary for the decentralized self-regulation of markets. Gesell was of the opinion that this led to a dysfunction of the social system exhibiting very complex symptoms: the non-neutrality of interest-bearing money results in an inequitable distribution of income which no longer reflects actual differences in productivity. This in turn leads to a concentration of monetary as well as of non-monetary capital and therefore to the predominance of monopolistic structures in the economy.

Since it is the holders of money who ultimately decide whether it circulates or stands still, money can't flow “automatically” like blood in the human body. The circulation and the correct dosage of the monetary supply can't be brought under effective public control; deflationary and inflationary fluctuations of the general price level are inevitable. In the course of the business cycle when declining interest rates cause large amounts of money to be withheld from the market

Suggestions for further reading

- Silvio Gesell, *The Natural Economic Order* (translation by Philip Pye). London: Peter Owen Ltd., 1958. > www.silvio-gesell.de
- Irving Fisher, *Stamp Scrip*, New York: Adelphi Company, 1933.
- John Maynard Keynes, *The General Theory of Employment, Interest and Money* London: Macmillan & Co. Ltd., 1935, Chap. 16, 23 and 24.
- Dudley Dillard, *Proudhon, Gesell and Keynes – An Investigation of some “Anti-Marxian-Socialist” Antecedents of Keynes’ General Theory*, University of California: Dr.-Thesis 1949. Hackbarth Verlag St.Georgen/Germany 1997. ISBN 3-929741-14-8.
- Dudley Dillard, *Gesells Monetary Theory of Social Reform*, in: *American Economic Review (AER)* Vol. 32 (1942), Nr. 2, p. 348–352.
- Roy Harrod, *Towards a Dynamic Economics – Some Recent Developments of Economic Theory and their Application to Policy*. London: Macmillan & Co., 1948, Chap. “Is Interest out of Date?”
- Leonard Wise, *Great Money Reformers – Silvio Gesell, Arthur Kitson, Frederic Soddy*. London: Holborn Publishing, 1949.
- Lawrence Klein, *The Keynesian Revolution*. London: Macmillan Press Ltd., 1966 and 7 1980, Chap. 5, p. 124–152.

doctrines critical of land speculation and the taking of interest. Margrit Kennedy, Helmut Creutz and other authors have examined the contemporary relevance of Gesell's economic model and tried to bring his ideas up to date. Of particular importance in this respect have been the various efforts to examine the correlation between the exponential growth of financial assets and debts and the environmentally-destructive "growth imperative" driving the real economy along with suggestions for overcoming the growth imperative and efforts to combine land and monetary reform ideas with proposals for an ecologically-based tax system. The book entitled *Gerechtes Geld – Gerechte Welt* (Just Money – Just World) offers a survey of the present state of theoretical developments. It is a compilation of essays and discussion papers examining the socio-economic implications of the monetary order presented at a congress commemorating the centenary of Gesell's first monetary reform publications held in 1991 in Konstanz under the title: *100 Jahre Gedanken zu einer natürlichen Wirtschaftsordnung – Auswege aus Wachstumszwang und Schuldenkatastrophe* (100 Years of Thought related to a Natural Economic Order – Solutions to the Growth Imperative and Debt Crisis).

The collapse of state socialism in Central and Eastern Europe has led to the temporary triumph of Western capitalism in the ideological struggle between competing economic models. However, as long as the disparity between rich and poor continues to increase, as long as exponential economic growth continues to cause accelerating environmental destruction and as long as the "developed" nations of the Northern hemisphere continue to ruthlessly exploit their "undeveloped" Southern neighbours, it remains necessary to search for alternatives to the prevailing economic order. Under these circumstances Silvio Gesell's Free Economy model retains its relevance and may yet begin to receive the wider recognition which it deserves.

until the outlook for profitable investments improves, the result is economic stagnation and unemployment.

... to a Neutral Servant of Economic Activity

In order to deprive money of its power, Gesell did not advocate recourse to measures aimed at outlawing the taking of interest such as the canonical prohibition of medieval. On the contrary, he envisaged structural changes in the monetary system involving the imposition of carrying costs on the medium of exchange, thereby counteracting the tendency to hoard and neutralising the liquidity advantage of conventional money. The imposition of such carrying costs on liquid monetary assets – comparable to a demurrage fee for freight containers in the field of transport economics – would deprive money of its power to dominate the market while allowing it to fulfil its designated function as a medium of exchange facilitating economic activity. Counteracting disruptions in the circulation of the medium of exchange due to speculative hoarding would allow the quantity and velocity of the monetary supply to be periodically adjusted to match the volume of production and the overall level of economic activity in such a way that the purchasing power of the monetary unit could be made to possess the same long-term stability as other weights and measures.

In his earliest works Gesell referred in particular to "rusting bank notes" as a method for implementing an "organic reform" of the monetary system. Money which had hitherto been "dead foreign matter" with respect to both the social system and the natural world, would thus be integrated into the eternal cycle of life and death, becoming transitory and losing its characteristic of limitless self-multiplication by means of simple and compound interest. Such a reform of the monetary system would constitute a regulative holistic therapy; by removing the cause

of disruptions in monetary circulation Gesell envisaged that the self-healing powers of the dysfunctional social “organism” would gradually increase allowing it to recover from the diverse economic and structural symptoms of crisis, ultimately reaching a state of equilibrium, in harmony with the rest of the natural order.

In his main work, *Die Natürliche Wirtschaftsordnung durch Freiland und Freigeld* (The Natural Economic Order through Free and Free Money), published in Berlin and Bern in 1916, Gesell explained in detail how the supply and demand of capital would be balanced in the case of uninterrupted currency circulation so that a reduction of the real rate of interest below the presently existing barrier of around 3–4% would become possible. Gesell used the term “basic interest” (Urzins) to denote this pure monetary interest rate of around 3–4% which is found to vary little historically. It represents the tribute of the working people to the power of money and gives rise to levels of unearned income far in excess of that suggested by its magnitude. Gesell predicted that his proposed currency reform would gradually cause the “basic interest” component to disappear from the monetary loan rate leaving only a risk premium and an administrative charge to allow lending institutions to cover their costs. Fluctuations of the market rate of interest around a new equilibrium point close to zero would allow a more effectively decentralised channeling of savings into appropriate investments. Free Money (Freigeld), a medium of exchange liberated from the historical tribute of “basic interest”, would be neutral in its impact on distribution and could no longer influence the nature and extent of production to the disadvantage of producers and consumers. Gesell envisaged that access to the complete proceeds of labour brought about by the elimination of “basic interest” would enable large sections of the population to give up wage- and salary-oriented employment and to work in a more autonomous manner in private and cooperative business organisations.

In this way it became possible to pass the insights of the Free Economy school onto a new generation.

In Switzerland, a significant collection of Free Economy literature is to be found in the Free Economy Library of the National Economic Archive in Basel. In Germany the Stiftung für Reform der Geld- und Bodenordnung, a foundation promoting the reform of the monetary and land order began to establish a German Free Economy Library in 1983. To provide a basis for academic research into Gesell’s life and work it also commissioned an 18-volume edition of his collected works in 1988. In addition to this, a series of secondary literature entitled *Studien zur natürlichen Wirtschaftsordnung* (Studies on a Natural Economic Order) is under development; the first two volumes published were a centenary review of the history of the Free Economy movement and an edition of selected writings by Karl Walker, Gesell’s most important student. The foundation also promotes other publications relating to land and monetary reform and in collaboration with the Sozialwissenschaftliche Gesellschaft (Social Sciences Society) publishes a quarterly periodical, *Zeitschrift für Sozialökonomie*, commenting on social and economic issues. It has awarded a Karl Walker Prize for academic papers dealing with the problems arising from the increased decoupling of financial markets from the real economy (1988) and with proposals for overcoming unemployment (1995). The Seminar für freiheitliche Ordnung (Seminar for a Liberal Order) is responsible for the issue of a series of publications entitled *Fragen der Freiheit* (Questions of Liberty). The Initiative für eine Natürliche Wirtschaftsordnung (Initiative for a Natural Economic Order) endeavours to promote popular awareness of Gesell’s ideas in cooperation with associated organisations in Switzerland and Austria. An association called Christen für gerechte Wirtschaftsordnung (Christians for a Just Economic Order) promotes the study of land and monetary reform theories in the light of Jewish, Christian and Islamic religious

After 1945: New Beginning, Neglect and Renewal of Interest Towards the End of the 1970s

Free Economy organisations were reestablished throughout post-war Germany. In the Soviet occupation zone they were outlawed in 1948; the Soviet authorities regarded Gesell either as “an apologist of the monopoly bourgeoisie” or, in the same way that Marx had dismissed Proudhon, as “a socialist of the petit bourgeoisie” whose aims were incompatible with “scientific socialism”. In Western Germany the majority of the surviving followers of Gesell voted to form their own political party to contest elections because of their negative experiences with the established political parties of the Weimar era. They founded the Radikalsoziale Freiheitspartei (Radical Social Liberal Party), which received just under 1 % of the votes at the first election to the Lower House of the German Parliament in 1949. The party’s name was later changed to the Freisoziale Union (Free Social Union) but its support remained at a negligible level in subsequent elections.

A Silvio-Gesell-Haus was established as a meeting center between Wuppertal and Neviges, where seminars and conferences on Free Economy and related topics are still held on a regular basis.

In spite of the fact that prominent economists like Irving Fisher and John Maynard Keynes had recognized the significance of Gesell’s work in the inter-war period, the West German economic miracle of the 1950’s and 60’s largely extinguished public interest in discussion of alternative economic models. It was only towards the end of the 1970’s that mass unemployment, environmental destruction and the growing international debt crisis led to a gradual revival interest in Gesell’s ideas which had suffered almost complete oblivion.

Land: A vital natural resource to be held in trust rather than as a tradeable commodity and object of speculation.

Towards the end of the last century Gesell extended his vision of socio-economic reform to include reform of the system of land tenure. He derived inspiration in this respect from the work of the North-American land reformer Henry George (1839–1897), author of *Progress and Poverty*, whose ideas about a Single Tax on the rental value of land became known in Germany through the activity of land reformers like Michael Flurschein (1844–1912) and Adolf Damaschke (1865–1935). In contrast to Damaschke, who only advocated taxing the increase in values for the benefit of the community while retaining the principle of private ownership of land, Gesell’s reform proposals followed those of Flurschein who called for the transfer of land into public ownership, compensating the former owners and thereafter leasing the land for private use to the highest bidder. Gesell argued that as long as land remains a tradeable commodity and an object of speculative profit, the organic connection of human beings with the earth is disturbed. In contrast to the proponents of nationalist or racially-oriented Blut und Boden ideologies, Gesell rejected the association of “blood” with “land”. As a widely travelled citizen of the world he viewed the whole earth as an integral organ of every individual. All people should be free to travel over the surface of the earth without hinderance and settle anywhere regardless of their place of birth, color or religion.

Economic Equality of Women and Men

Like the Single-Tax reformers of the Henry George school, Gesell was of the opinion that the rental revenue from the land would enable the state to finance itself without the

necessity to impose further taxes. In attempting to trace the rightful owners of these rental revenues in accordance with the principle of causality, he was led to the consideration that the amount of rental revenue depends on the population density and therefore ultimately on the willingness of women to bear and raise children. For this reason Gesell proposed to distribute the revenues from land rent in the form of monthly payments to compensate mothers for the work of rearing children in proportion to the number of their children under the age of majority. He advocated the extension of the scheme to include mothers of children born out of wedlock and foreign mothers living in Germany because his intention was that all mothers should be released from economic dependence upon working fathers and that the relationship between the sexes ought to be based on a love freed from considerations of power and economic dependency. In an essay entitled *Der Aufstieg des Abendlandes* (The Ascent of the West), written to challenge the cultural pessimism of Oswald Spengler's *Der Untergang des Abendlandes* (The Decline of the West), Gesell expressed the hope that the human race which had been physically, mentally and spiritually degraded under capitalism would gradually be able to regenerate itself under a reformed economic order and experience a new cultural renaissance.

Other Pioneers of a Market Economy without Capitalism

Gesell's theory of a Free Economy based on land and monetary reform may be understood a reaction both to the *laissez-faire* principle of classical liberalism as well as to Marxist visions of a centrally planned economy. It should not be thought of as a third way between capitalism or communism in the sense of subsequent "convergence theories" or so-called "mixed economy" models, i.e. capitalist market economies with global state

generated little or no response. As soon as the success of practical experiments with Free Money organised by the *Fysiokratische Kampfbund*, such as the reopening of a disused mine at *Schwanenkirchen*, began to attract public attention they were outlawed by the German Finance Ministry under the terms of the Emergency Decrees of the Brüning government in 1931.

A Free Economy party contested the 1932 Reichstag elections without success. After the Nazi Party's seizure of power by the in 1933 many Free Economy supporters suppressed their misgivings about the true character of the Nazi ideology and succumbed to the illusory hope, that Hitler might in fact act on the earlier rhetoric of Gottfried Feder concerning "the smashing of interest-slavery". They tried to exert influence on leading functionaries of the Nazi Party hierarchy in the hope of bringing about a change of course on economic matters. Despite rather dubious tactical efforts to conform to the requirements of the new order, in the spring of 1934 the various Free Economy organisations and publications which had not already voluntarily disbanded were finally outlawed.

Initial misjudgements concerning the totalitarian regime had been encouraged not only by the painful memories of rejection by the political parties of the Weimar era, but also by uncertainty about the most appropriate way to realize land and monetary reform. Free Economy associations in Austria (until 1938) and Switzerland continued their work. English, French and Spanish translations of Gesell's main work were published. Introductory brochures were produced in a wide range of languages including Dutch, Portuguese, Czech, Romanian and Serbo-Croat as well as Esperanto, reflecting the work of smaller groups in England, France, the Netherlands, Belgium, Czechoslovakia, Romania and Yugoslavia. In North and South America, Australia and New Zealand, Free Economy associations were established by German emigrants.

existing framework of unjust structures, or the present preparations for European Monetary Union, Gesell called for the establishment of an International Valuta Association, which would issue and manage a neutral international monetary unit freely convertible into the national currency units of the member states, operating in such a way that equitable international economic relations could be established on the basis of global free trade. Although the precise degree of influence cannot be established reliably, it is interesting to note that echoes of Gesell's ideas concerning the International Valuta Association can be found in J.M. Keynes' original Proposals for an International Clearing Union submitted on behalf of the British delegation but rejected by their American counterparts at the Bretton Woods conference.

The massive inflation of the early post-war years led to a rapid growth of interest in and support for Gesell's reform proposals, with the membership of Free Economy organisations reaching an estimated 15 000 persons. In 1924 a split occurred among Gesell's followers leading to the formation of the moderate liberal (Free Economy Federation) and the more radical individualist-anarchistic and militant-sounding Fysiokratische Kampfbund (Physiocratic Task Force). The split was caused in part by a heated controversy which had been sparked off by Gesell's treatise *Der Abgebaute Staat*, a wide-ranging polemic in favour of the "dismantled state". Internal power struggles weakened the Free Economy movement which failed to transform itself into a mass movement, but made continuous efforts to canvass support among the Social Democratic Party and the Trade Union movement as well as among the various peace, youth and female emancipation movements which flourished in the Weimar Republic. During the Great Depression the *Freiwirtschaftsbund* addressed memoranda to all parties represented in the parliament, warning of the terrible consequences of the deflationary policy being adopted that time, and submitting proposals for overcoming the crisis. These memoranda

supervision, but rather as an alternative beyond hitherto realized economic systems. In political terms it may be characterised as "a market economy without capitalism". In this sense as he later came to realise and acknowledge, Gesell had independently developed and extended the critique of capitalism formulated by Pierre Joseph Proudhon (1809- 1865), the French social reformer and contemporary of Marx who in the mid-19th century had cited the private appropriation of land and the power of interest-bearing money as being primarily responsible for the fact that a more egalitarian society had failed to evolve following the demise of feudal absolutism. Proudhon condemned privately appropriated ground-rent as robbery and denounced interest on money as cancerous usury. These forms of unearned income based on exploitation led to the emergence of the haute bourgeoisie as a new ruling class, which moulded the state and church into instruments of domination over the petit bourgeoisie and the working-class. Gesell's alternative economic model is related to the liberal socialism of the cultural philosopher Gustav Landauer (1870-1919) who was also influenced by Proudhon and who for his part strongly influenced Martin Buber (1878-1965). There are intellectual parallels to the liberal socialism of the physician and sociologist Franz Oppenheimer (1861-1943) and to the social philosophy of Rudolf Steiner (1861-1925), the founder of the anthroposophic movement.

Free Economy Organisations in Germany and in Switzerland during the First World War

Gesell's first co-worker, Georg Blumenthal (1879-1929), combined proposals for land and monetary reform with the concept of a *droit naturel* or natural social order, with which Francois Quesnay (1694-1774) and his fellow-Physiocrats had op-

posed feudal absolutism at the time of the French Enlightenment. In 1909 he founded the Physiokratische Vereinigung (Physiocratic Association) the first formal organisation of supporters of Gesell's Free Economy theory which drew its members from the ranks of land reformers, individual-anarchists and syndicalists in Berlin and Hamburg. As soon as the association's journal, *Der Physiokrat* (The Physiocrat), fell victim to censorship during the First World War, Gesell moved to Switzerland, where he found supporters among the local land reformers, educational reformers and other progressive circles. They organised themselves into the Schweizer Freiland-Freigeld-Bund (Swiss Free Land – Free Money – Federation). In two lectures entitled *Gold oder Frieden?* (Gold or Peace?) and *Freiland die eherne Forderung des Friedens* (Free Land – the Essential Condition of Peace), Gesell expounded in detail on the significance of his reform proposals as a way to social justice and peace among the nations.

Between the two World Wars

After the end of the First World War and the subsequent November Revolution in Germany, Gesell's connections with Gustav Landauer led to his short-lived appointment as People's Commissioner for Finance in the first Bavarian Räterepublik. Following the overthrow of the Räterepublik he was indicted for high treason but was acquitted of all charges. Afterwards Gesell took up residence near Berlin from where he observed and commented on the development of the Weimar Republic in numerous tracts and pamphlets. He suggested that by means of a graduated wealth tax of up to 75% an appropriate contribution to the economic consequences of the war should be extracted from the large landed estates and big business interests. At the same time he proposed to initiate the domestic accumulation of capital by means of his land

and monetary reform program in order to enable Germany to fulfill the reparation demands of the victorious Allied powers. He criticised what he perceived to be the disastrous errors in the economic policies of the rapid succession of unstable governments. These errors included the effective expropriation of large sections of the lower and middle classes by massive inflation instead of introducing effective currency reform, protraction of reparation payments, making Germany dependent upon an influx of foreign capital and abandoning the stable Rentenmark in favour of the crisis-prone gold standard.

From his earliest writings onwards Gesell distanced himself from racist ideologies, aiming to develop an objective critique of structural defects in the economic order free from the subjective racial prejudice of anti-Semitic demagogues whose diatribes against so-called "Jewish" usurers he criticised as a "colossal injustice". Like many of his contemporaries he was greatly influenced by Darwin's Theory of Evolution and viewed his program of reform as a means for encouraging a more healthy evolution of human society. However, Gesell should not be classified as a "Social Darwinist" because he believed that extremes of wealth and poverty reflect structural defects in the economic order rather than real differences in aptitude and productivity. Opposed to ultra-nationalist triumphalism he advocated the promotion of mutual understanding between Germany and its eastern and western neighbours. He called for the abandonment of expansionist politics and the formation of a voluntary confederation of European states to promote international cooperation. Gesell also drew up proposals for an international post-capitalist monetary order, advocating an open world market without capitalist monopolies, customs frontiers, trade protectionism and colonial conquest. In contrast to subsequently established institutions such as the International Monetary Fund and World Bank, which act on behalf of the powerful within the