DEBT SYSTEM OR PROPERTY SYSTEM

Rumble

SOCIAL ACTION SERIES NO. 12

By

RICHARD DANA SKINNER

Author of "Seven Kinds of Inflation"

The pamphlets in the *Social Action Series*, of which this is the **twelfth** number, are edited by the Social Action Department of the National Catholic Welfare Conference. They represent an effort to present to the general public, and especially to Catholics, a discussion of current economic facts, institutions and proposals in the United States in their relation to Catholic social teaching, particularly as expounded in Pope Pius XI's Encyclical "Forty Years After—Reconstructing the Social Order" *(Quadragesimo Anno)*. In the spirit of that Encyclical they are urged upon and recommended to individuals, study clubs, discussion groups and school classes.

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FOREWORD

Mr. Skinner has written a startling story here about the growing conflict within the property system itself between debt and property, between the mounting and prior demands of creditors and the claims of all others for livelihood from work and ownership. It throws a new light on the problem of establishing social justice in the United States.

Social Action Department
National Catholic Welfare Conference

Debt System or Property System?

By Richard Dana Skinner

FAR from achieving a constantly greater and greater stability, the twentieth century economic world shows every symptom of increasing the scale of its business booms and agonizing depressions. Even the boldest and most sincere efforts of governments to "make the system work" have met with sharp and challenging reverses. It is said that "capitalism is on trial." Every large scale business reversal, with its toll of lost jobs, mortgage foreclosures, bankruptcies and sheer human misery, has become a field day both for Communists and Fascists. The Communists would end the system of private property entirely, and the Fascists would place private property in virtual receivership under the strict administration of an all-powerful government. Both of them say that the present system is inherently unsound, that all attempts to patch it up are mere palliatives, and that social justice is doomed unless we establish a revolutionary new order. Is there an answer to their charges?

The purpose of this pamphlet is to present in the strongest possible terms at least one answer. It will not be the all too common answer that the present system would be quite all right if only the human beings involved would behave with patience, charity of heart and justice of intellect. Almost any conceivable system might work if men were angels! No. The unemployed, the dispossessed, the innocent victims of the economic machine demand a more realistic answer than that. They know from tragic facts that the present system *is* unstable, and they suspect very strongly that this instability is not due wholly to the injustice of men toward men, that something is inherently —and not just accidentally—wrong with the system, and they clamor to know the true nature of that monstrous defect. If they are to turn away from Communists and Fascists, they must turn toward something else. They are convinced from generations of harrowing experience that capitalism *as it now operates* is not the thing toward which they can turn with confidence or even with reasonable hope. This pamphlet will attempt to show the precise nature of a basic defect in the present system and to describe another kind of capitalism which the modern world has never yet given a chance to live and work.

A Preliminary Statement

Instead of leading up to conclusions, it is sometimes best to state them first in brief form, and then give the supporting evidence and argument. Following this method, the answer to both Communists and Fascists can be stated this way:

(a) Modern capitalism is *not* a system of the private ownership of means of production (as its most ardent supporters naïvely suppose) but a divided house in which private property ownership is alternately debauched and wrecked by the simultaneous existence of another kind of ownership, namely, private ownership of debt claims, or claims *against* privately owned property.

(b) This *inherent* division of interests (property owners against creditors) is the greatest single contributing cause, aside from human injustice and dishonesty, to the admitted instability of the modern system. It promotes exaggerated booms and necessitates cataclysmic depressions as a "corrective."

(c) The existence, side by side, of property capitalism and debt capitalism is wholly unnecessary, is unsound morally, is a relatively modern invention, and grew up in its present form only after John Calvin, in his *Defense of Usury,* threw over the earlier Christian doctrines against money lending.

(d) It is wholly feasible and practicable to have a system of private ownership of productive property in which all capital will have to accept the risks and responsibilities of ownership and in which there will be no conflicting ownership in the form of debt claims *against* property.

(e) Such a system—no longer divided internally against itself—would insure the integrity and preservation of private tangible property, would greatly enhance the degree of personal liberty and initiative, would vastly minimize the necessity for intervention and domination by central government, and, by lessening the channels for human greed, would enormously strengthen the chances for the spirit of social justice to prevail in modern society.

The Divided House of Modern Capitalism

The modern capitalist world is only one-half private property ownership; the other half is creditorship. In the United States this is not only true as a rough figure of speech; it is literally true in facts and figures. There are debt claims, direct and indirect, open and concealed, against one-half the appraised value of all tangible property. The condition was even worse in 1932 when the appraised value of properties had fallen very low. Then debts amounted to nearly 60 per cent of all property values. Here are the 1932 figures, with their sources:

(a) The National Industrial Conference Board appraised all tangible property, that is, farms, factories, railroads, merchandise on hand, etc., as worth........$230,600,000,000

(b) The Conference Board also estimated private long term debts (bonds, mortgages, etc.) as amounting to	$81,800,000,000	
(c) State and local debts (for which property owners were liable through taxes) amounted to	19,600,000,000	
(d) Federal debt (for which taxpayers were also liable) amounted to	19,200,000,000	
(e) Bank loans (excluding mortgages already counted under [a] above) for which property owners were directly liable amounted to	16,500,000,000	
(f) Total debts		$137,100,000,000

It is obvious that this debt total represented a claim, direct or indirect, concealed or open, against far more than half the appraised value of all the property in the United States. In exact figures, the debts were 59.4 per cent of the value of all property. Owners of private property in the aggregate were morally mortgaged to exactly this extent to the owners of the combined debt claims. After 1932, property values for several years rose faster than debt claims, but in the end of 1937 property values again declined as a result of the abrupt business recession. It is wholly reasonable to estimate that in early 1938, debt claims existed against at least one-half the value of all tangible property. So much, then, for substantiating the statement that in the United States, at least, the capitalist world is only one-half private ownership of tangible property; and that the other half is ownership of debt claims or creditorship.

But why should this be alarming? And in just what way does it create a divided house and inherent instability?

The bare facts are alarming—if for no other reason—simply because the proportion of debt claims against total property wealth has nearly doubled in the United States since the days before the Great War. In 1914, there were only $27 of debt claims against each $100 worth of tangible property. Thus this basic condition is not static nor stable but growing constantly in magnitude. If one owned a house and property in 1914 worth $10,000 and owed debts of $2,700, then one was "worth" exactly the difference between the two figures, or $7,300. But if, by 1938, one still owned a house and property worth $10,000 but had accumulated debts of $5,000, then, as an owner, one was "worth" only $5,000. Add a few zeros to these figures, and we can see at once that property owners today are worth far less, in proportion to the value of the property "owned," than they were in 1914. In our vast community, taken as a whole, the percentage share, or "stake," of private property owners in the tangible wealth of the country is far less than it was a few decades ago. The ownership of debt claims is slowly but surely displacing the responsible ownership of tangible property—and with the disappearance of that tangible property ownership goes the real heart and core of capitalism in its best and most creative sense.

How Creditorship Destroys Ownership

We have come to take the existence of debts so much for granted that the full import of a doubling of debt compared to property wealth in twenty-five years escapes most of us—including many of our esteemed economists, whose minds are so "debt-ridden" that they almost compose economic poems in its praise. At all events, debt as a "system" never seems to alarm them. It is only when debt grows "too large" (whatever that may mean!) that they show uneasiness. Even some of our most ardent social and monetary reformers rest content with attacking certain "kinds" of debt (such as Government bonds to finance wars or relief, or real estate mortgage debt) and never attack debt *as something wrong and harmful in itself*. For this reason, we had better try to think through, step by step, the nature of debt and the reasons why it destroys the integrity of that very private ownership of property which most of us regard as the basis of our whole society.

The real debt problem can be illustrated best by taking the case of a farmer. He has accumulated $1,000 and decides to move into a new community. He finds a tract of land which can be purchased for $2,000. As this is more money than he possesses, he decides to borrow the additional $1,000. (For our present purpose, it makes no difference whether he borrows by giving a mortgage on the new land or borrows simply on his note to a friend.) Having borrowed the money and purchased the land, he is still "worth" $1,000. That is, he owns property worth $2,000 but owes a debt of $1,000 which must be subtracted before arriving at his "net" or real worth.

We now move ahead five years. Our farmer has been moderately successful, and so has the community around him. The price of farm products has gone up steadily and with it the value of land. A new man arrives in the county and offers our farmer $4,000 for his tract of land—or twice what he paid for it five years ago. The offer is so tempting that our farmer accepts. He receives his $4,000 and, with due honesty, pays back that original loan of $1,000. That leaves him with $3,000—or just three times what he had five years ago. He has trebled his money. But in what way? Only thanks to the fact that while farm values were rising, the value of his loan *remained fixed!* At the time he made the loan, it amounted to half the value of his farm property. But now, being *fixed* in dollar amount, it represents only one-quarter of the value of the property. Our farmer has benefited enormously—trebling his wealth—by the simple fact *that debt remains fixed while all other values fluctuate.* Would you blame our farmer overly much for thinking that debt was a beneficent creation of human genius?

Suppose, originally, that our farmer had had the full purchase price of the farm, or $2,000, and had paid for it outright. Then, by selling it five years later for $4,000 he would merely have doubled his money instead of trebling it! But by borrowing half the purchase cost, or, as the phrase goes, by using "other peoples' money," he has made a profit of 200 per cent instead of a meager profit of only 100 per cent. The lender of the money has, of course, suffered by the transaction. When he gets his money back, it will buy only half as much farm property as it would have bought at the time he first made the loan. But that is no concern of our farmer. He grows enthusiastic over the idea of debt and all it can do to increase the proportion of his profits out of land speculation.

This, of course, is the first simple indictment against the debt system. *It increases the greed of property owners.* Considering greed as a sin, the debt system increases the "occasion of sin" by offering a chance to make far larger percentage profits with borrowed money than we could make by the outright use of our own funds only. Our farmer might not have been tempted to sell his farm for an offer that would only have doubled his own original investment. He might well have argued that continuity of living in one place had its compensating advantages, and that the value of land ownership comes quite as much from this inner and outer sense of continuity as from possible chances of profits. But a system which offers him a trebling of his original investment is a system which is fashioned to break down every last shred of moral resistance and to turn our farmer once and for all into a real estate speculator instead of a sturdy yeoman with his feet well planted in the soil.

It is well to take this aspect of the debt system first, precisely because it is the aspect usually ignored by all social demagogues. Money lending and the debt system at large have their origins in the increased greed of owners for inordinate percentage profits. The "hard-hearted creditor" phase is quite another matter, and although this phase is the usual caviar of the demagogues, there could never be any hard-hearted creditors if, in the first instance, there had been no eager borrowers, chasing the promised profits from the use of "other peoples' money." Indictment number one, then, is that the mere existence of the debt system increases the channels for human greed, and so weakens the moral fiber of the community in the general cause of social justice.

We now return to our prosperous farmer with his trebled fortune. Once more he moves into new fields, and this time buys a $6,000 tract of land, one-half with his own $3,000 and one-half with a new loan of $3,000. He figures, in the privacy of his own awakened speculative instinct, that if he can duplicate his previous performance and sell his new property in five years for $12,000 he will again have trebled his fortune and be the happy possessor of $9,000 after paying off his new loan.

But now a series of local droughts and a general decline in the prices of farm products due to competition in foreign lands promptly shatter his dreams. The local value of land goes down instead of up during the next five years. At the end of the period, the value of his farm has been cut in half. It is worth in the market only $3,000. But that is exactly the sum he owes to his creditor. Subtracting what our farmer owes from the value of what he owns, he is worth, net, precisely nothing at all! *The debt system has wiped him out!*

Of course, as we know, if he had been content to buy a smaller farm, a $3,000 farm outright, he would not be wiped out at all. He would have lost some of his dollar worth, of course. But his farm would at least be worth $1,500 and there would be no creditor at his door clamoring for repayment of a loan. But he was not content to be an outright owner. His first success with the debt system had beguiled him into further operations with its magic. And today he has lost everything. His creditor, of course, in this case has profited—having loaned half the value of the farm and being able now to claim, as a fixed debt, the whole value of the farm. This, then, is the ordinary, the popular and the readily understood indictment against the debt system. But, in its essence, it is like the first indictment reversed. This time, the debt after having previously debauched the farm owner and turned him into a greedy speculator now wipes him out, roots him up, and, by way of filip to the occasion, satisfies the greed of the creditor in the process.

Debt as an Inherent Destroyer

Now there are three special points to note in this sad —and wholly typical—illustration of the debt system. First, the economic interests of borrower and lender are at all times *inherently—and not merely accidentally—* opposed to each other. When the borrower profits, the lender loses, and *vice versa.* Hence the literal fact of the "divided house" in a community such as ours where ownership of debt claims and ownership of real property are equally distributed. Second, the principles underlying the farmer's debauching and final ruin are precisely the principles underlying our entire economic system. No matter how complex the structure and arrangement of our system, the genesis of the great booms is precisely like the genesis of the farmer's initial greedy purchase with borrowed funds, and the genesis of the great depressions is precisely like the second and disastrous operation of this same farmer. Third, it will be noted that we have considered the debt system quite independently of any question of interest "rates." Charges of "usury" are usually flung at high interest rates, and the pleas of the demagogues are all for lower interest rates. But the real evil is separate entirely from all question of interest and centers in the one simple fact that *debt claims remain fixed while all other values fluctuate*. But interest, being fixed, while income and earnings fluctuate, partakes, of course, of the essential evil of the capital debt problem itself.

Taking up these points in the same order, we can see, first of all, that the division within the present dual capitalist system is of the very kind calculated to create endless disorder and instability. If you happen to be the owner of a debt claim, such as a government bond or a real estate mortgage, it is to your selfish interest to have general prices decline. Your fixed debt claim then becomes worth much more in terms of what it will buy in goods and services. The private owner of tangible property suffers, but your own advantage comes out of his suffering. On the other hand, you suffer if general prices rise, because your debt claim, remaining fixed, becomes worth less and less in terms of what it will buy. But in this upward price cycle, your debtor doubles or trebles the profits he would have made without the use of your money, and out of your suffering during the price inflation, he builds a fortune.

Your position as creditor, and his position as owner can never be reconciled, not even by heroic efforts of "good will" and "cooperation." Personalities and intentions have nothing to do with the case. Your positions in our two-sided and divided economy are *inherently* opposed. Whatever hurts him benefits you. Whatever enriches him impoverishes you. The only difference between you is this, that as a creditor, you will always have some purchasing power left, no matter how greatly it may dwindle, whereas the pressure of your fixed debt against his property may cause him to lose everything. Hence the inevitable disorder; and hence, even more, the inevitable constant weakening of the whole principle of ownership of tangible property. In the end, the divided house can fall only one way and that is on the property owner, thus extinguishing what was once, in theory, the very essence of ownership capitalism. The situation is ironic, tragic and wholly indefensible and impracticable. Yet how often do you hear the "classic" economists point this out?

Perhaps the greatest irony of all lies in the further fact that owners and creditors are not divided into groups as separate people. On the contrary, the same individual is usually both a property owner and a creditor. He is literally pulled in two directions at once. A man may own a house, for instance, on which a savings bank holds a mortgage. At the same time, he may have money on deposit in that savings bank. In that case, his own mortgage—the money he owes the bank—may be part of the security behind the deposit which the savings bank owes him. In so far as the bank has invested his money for him in debt claims, this man is himself a creditor; but in so far as he owns property against which the bank has a mortgage claim, he is an owner-debtor. This is only one common instance of the impossible tangle of interests under which we live. It is also quite common for the same individual "capitalist" to own the stock (or ownership shares) of a railroad and also some bonds or debt claims against the same railroad. In that event, if the railroad is threatened with bankruptcy, he is forced as a bondholder creditor to proceed in court against himself as stockholding owner. Some fifty million life insurance policy holders in this country are dependent for the security of their insurance upon the investments of insurance companies in debt claims; yet out of these fifty million people, a vast number own small businesses or shares in large business and have major business interests as owners wholly at variance with their interests as insurance-holding creditors.

Small wonder, then, that this tearing apart of interests and these divisions between groups and within the minds of individuals bring recurrent economic disturbances which can be compared only to those mental states of internal conflict which the doctors call "neuroses." Our whole economy is literally "neurotic" and shows all the mass movements symptomatic of high neurotic tension and instability in the individual.

Our whole system is so complex, with tangible ownership and intangible creditorship so intermingled that it is often difficult to trace the destructive effects of the debt system, especially in exaggerating both booms and depressions. Nevertheless, if we are to understand just why the debt system opens us so wide to the charges and attacks of Communists and Fascists, we must try to understand the general principles at work. They are, as pointed out above, quite as simple as the case of the individual farmer we have reviewed. The complexity centers only in the methods and channels used for the financing and operations of trade and business.

But the broad principle remains just this, that people, as individuals, as corporations or as governmental units borrow money in the hope that rising prices and rising activity and values will enable them to pay off the debts with great profit to themselves. They expect values to rise while the debts remain fixed, and hope that this will double their percentage profits—exactly as in the case of the farmer. But if values and activity fall, instead of rising, all those who have borrowed stand to lose what they once owned just twice as rapidly as they would have otherwise. Then they scramble to pay off debts as rapidly as possible while the things they own still have some value greater than the debts. This forces down prices still faster—and eventually widespread bankruptcy and panic despair are the result. Finally creditors foreclose, take over properties in satisfaction of debts and become the new owners. Debts, for the time being, are wiped out or greatly reduced by this process, but only to have the whole cycle soon begin again as the new owners become ambitious in their turn to make money by fresh borrowings against their new properties.

Some cold-blooded economists tell us that there is no serious evil in all this, since real property is not destroyed in the turmoil and all we have, in fact, is "a change in ownership." What they obviously forget, in their isolated economic observation towers, is the human agony involved, the destruction of the life's savings of individuals, the destruction of the moral value of continuous creative ownership, and the ultimate human disillusionment with the whole "capitalist" system. It is no comfort to the man who has been urged to "own a home" to have that home taken away from him through foreclosure with the complacent remark that the house and land are not being destroyed. His personal ownership of it is destroyed—and that, nothing else, is the real tragedy. We cannot, at one and the same time, extol the principle of private ownership and cherish a system which is inevitably destructive of ownership.

Another way in which the debt system exaggerates both booms and depressions is through the operation of fixed interest. We have seen that the inherent evil of debt is quite distinct from the problem of the interest *rate*. But the mere fact that interest rates are customarily *fixed*, just as the principal of the debt is fixed, exerts a tremendous pressure (or "leverage" as it is often called) upon the whole system, both on the up-side of a boom and on the down spiral of a depression. Let us see just how this works.

The Social Menace of Fixed Interest

The actual case history of one of our largest railroad systems will illustrate the point. This road was originally financed, by much more than half, with borrowed funds. The stockholding owners put in only a small portion of the total funds used. The rest came from bondholders, who are now, of course, long-term creditors of the road. In the depression year of 1932, this road earned, over and above all operating expenses, some 52 million dollars—a tidy sum! But it just happens that the *fixed* interest on the road's bonds and notes amounted to 62 million dollars, or 10 million more than the earnings from operations. The owners were then faced with this dilemma: should they risk losing their ownership of the road by failing to pay the full interest due and so forcing the bondholders to foreclose—or should they meet the 10 million deficit from cash reserves and plan the most rigid and heroic economies the following year to recoup that cash? They did just what you and I would expect, humanly, under such difficulties. They paid the fixed interest out of reserves, and clamped on the economy lid.

But what did this involve? It meant, obviously, firing every last marginal worker in the shops and on the maintenance crews, in curtailing every possible order for new equipment. In this way, the owners hoped to squeeze out the difference between the 52 million earned and the 62 million owed in fixed interest. It was the human thing for them to do, as owners trying to keep their property. But it was also the inhumane thing to do as affecting not only the labor employed on the road, but also the labor employed in all the factories making equipment and supplies for the road. From the lumber camps supplying wood for cross ties, from the locomotive and car factories and the steel mills making rails, nuts and bolts, to the shops and crews of the road itself, the pressure was felt all along the line—a pressure that would never have been necessary had it not been for that huge total of *fixed* interest charges which had to be met if ownership was to be conserved. Thus it is very simple to figure how the pressure of this fixed sum—which, under our debt system had to be paid regardless of whether or not it was earned—enormously increased the existing unemployment all along the line and in every part of the country.

Yet (precisely as in the case of the farmer whose case we studied first) it is a brutal fact that if this railroad had been financed entirely by common stock (that is, by ownership instead of creditor capital) it would have had no crisis in 1932. The 52 million dollars of operating earnings would have provided enough for a substantial dividend to all stockholders, and still left enough over to maintain moderate employment schedules and moderate orders for new equipment and supplies.

The Moral Wrong of the Debt System

By this time, it must be superlatively clear that the moral wrong of the debt system lies in the *fixed* nature of all debt claims, both as to principal amount and as to interest. The fact that debts can and do remain fixed implies:

(a) that the owner of the debt claim divorces himself from all moral responsibility for the welfare of the tangible property against which his debt claim is created;

(b) that, in theory, at least, he assumes no share of the normal business risks involved in the operation of a property;

(c) that the whole community must pay the fixed tribute of interest, or the fixed amount of principal falling due, regardless of general conditions—these community payments being garnered indirectly through increased unemployment and through the cost of goods or services purchased (such as railroad transportation in the above example) and increased taxes paid to relieve the human demands of the unemployed.

These moral wrongs—irresponsibility and usurious exaction—are chargeable against the creditor's side of the debt picture. But, as we have seen, there are further moral wrongs chargeable against the borrower's side, and they also spring from the *fixed* nature of both principal and interest debt. In this case, the fact that debts can and do remain fixed implies:

(a) that the owner reaps more than his just share of percentage profits in times of rising activity and prices;

(b) that the owner is thus encouraged to keep his ownership stake as small and precarious as possible in order to make the percentage returns on his investment as inordinately high as possible;

(c) that this increases the employment hazards of everyone working directly on the debt-encumbered property, and working indirectly for that property in other contributing industries;

(d) that everyone in the entire community sooner or later becomes involved in the owner's added risks, that the cost of goods of all sorts carries the added burden of the owner's fixed interest charges, that reduced purchasing power from the layoff of one set of workers soon spreads distress even to industries that have no direct debt of their own; and

(e) finally, that human greed, avarice and selfishness are increased in the entire economic system by the very fact that fixed debts and fixed interest in their very nature create this stimulant or occasion for precarious gambling for high and unwarranted profits. This turns creative and constructive ownership into a wild scramble for speculative profits at the risk and often to the destruction of the entire economic community.

Are Debts and Capitalism One and the Same?

This all too brief summary of the debt system of the modern world at least shows us one reason why, judging from results and history, the Communists and Fascists have a strong *prima facie* case against "capitalism." But is the debt system actually an integral part of the capitalism of private ownership, or is it merely an accidental side growth? It is a gigantic *fact*—that we know. But is it a necessary fact? Could it be eliminated by a regular and orderly process so as to leave us with a pure capitalism of private ownership that would present a wholly different and far sounder economic structure?

We know that the Christian theologians and moralists of the days before John Calvin disapproved of borrowing and lending at interest. But it is often said that they were living in an entirely different type of society and that their arguments applied only to the economy of the Middle Ages. Moreover, most of their arguments applied to the question of interest itself, and less to the even greater question of the principal sum of a debt. Nevertheless, the nature of their objections, if studied carefully, applied very clearly to the moral values we have discussed just above. They held that money, of itself, did not and could not "fructify"—that a return on the use of money could be justified only by an assumption of a share of risk. They implied that the *fixed* quality of interest was, of itself, an admission of a rejected responsibility and risk. All in all, the theologians and moralists can fairly be said to have approved of the profit system and of private ownership, but to have rejected flatly, as morally wrong, any use of money which *dissociated* the claim of the lender from any share of either profits or losses, and from any share of responsibility toward the business enterprise itself and its effects upon the community.

We are on very safe ground in assuming that these same theologians, if faced by the conditions of today, would reassert the same principles. They would say, in effect, that

(a) Private ownership in productive property, with the attendant profit system, are sound principles because they promote individual independence and liberty, because with every ownership "right" goes a corresponding fair risk and a corresponding social responsibility.

(b) Ownership of "property" in the form of fixed debt claims at fixed interest rates is morally unsound, because it places discord between owner and borrower, because it undermines the integrity and continuity of tangible property ownership, and because the owner of the debt claim deliberately divorces himself from all fair risk and from all social responsibility for the use made of his money.

(c) An inherently divided economic house is inevitably headed for collapse.

(d) Such a division is wholly unnecessary, as well as immoral.

(e) A Christian economic society should recognize and tolerate legally only the one form of capitalism which provides ownership of tangible property and the full acceptance of risks and social responsibility.

All the facts of record since the widespread introduction of "debt financing" support the above conclusions. But a great many people still ask how it would be possible or feasible, now that the debt system has become so ingrained and so entangled with our lives, to get rid of it.

The simplest answer to this question is that we are already—though unconsciously—moving in the direction of eliminating fixed debts, and that we already have large scale precedent for financing growing industries without recourse to debt.

Widespread moratoria on mortgage debts, reorganizations of business without too strict a regard to the letter of the debt contracts, and the large scale financing of such an industry as aviation by common stock (*i. e.,* by ownership money) instead of by bonds (*i. e.,* debt claims) all give us important clues to the instinctive defense which our society is setting up against the inherent evils of the debt system and our divided house. But is this enough? Is a blind, stumbling, unconscious movement of this sort any effective defense against Communism and Fascism at a time of world-wide debt crisis? Quite obviously, it is not! Moreover, by failing to clarify the issues involved, any such movement of virtual debt "repudiation" merely imperils the integrity of all contracts, the good along with the bad, and further weakens the moral fiber of the whole community. We can only face an issue effectively, and with benefit to our moral natures, by facing it honestly and openly and in the full consciousness of where we are headed and why.

What we need, if we are to restore private property ownership to its proper moral value as a "way of life" and to its proper functioning as a social system, is an open declaration by the community itself of the following principles and projected action:

(a) That we wish, definitely and consciously, to work toward a system of ownership unencumbered by debt.

(b) That we desire this as much to protect the moral values of ownership itself as to remove the menace of creditorship—in other words, to eliminate a huge incentive to greed.

(c) That we also desire this in order to eliminate the precarious fact of an *inherently divided economic house.*

(d) That we wish to effect the change or transition from the divided into the unified system gradually *and with full regard for the moral obligations of existing debt contracts.*

(e) That to achieve this gradual change, we propose measures along the following lines:

1. To make the incurring of further debt obligations after a given date illegal—by the simple process of making debts created after that date uncollectible at law.

2. To encourage, in the interim, the financing of all new enterprise by ownership capital (common stock or partnership money).

Obviously, the whole transition would involve many gradual adjustments which, on the surface, would make the above suggestions seem unduly simple and hazardous. To illustrate only a few of the real difficulties, what are we to do about our outstanding insurance policies which involve the payment of fixed sums to beneficiaries? The insurance companies can meet these fixed claims only if they can invest, as they now do, in fixed debt at fixed interest, and so be sure of having the fixed dollar amounts when they fall due. Or, to take another complex point, what are we to do about the claims of bank depositors? These deposits can only be met if the banks, in turn, invest chiefly in fixed debt claims (*i. e.,* by making loans or by investing in bonds). As we have seen before, the debt system has already grown so huge and complex that, like a cancer growth, it reaches into every fiber of the system. It cannot be eliminated at one stroke of the knife without destroying both good and bad economic tissue.

But are these complications any greater than the danger to our whole existence involved in a continuation of the present divided system? Or, as complications, are they in fact as insoluble as they appear at first glance?

Both as to insurance policies and as to bank deposits, for instance, we find that these policies and deposits are, themselves, debt claims. Hence all present money values represented by them come under our general suggestion that—up to a specified date or dates—*all prior existing debt contracts should be scrupulously respected.* Repudiation is inherently an unjust means, no matter how desirable or urgent the end we have in view. As long as we definitely reject repudiation, the apparent complexities of readjustment become less and less.

For instance, if it were established that after ten years from now, no *new* insurance policies should be taken out *under present debt contract forms,* then all insurance after that date could be "written," as the phrase goes, on some different and more flexible basis, such as dollar payments based on the current cost of living at the time the policies fall due. This would certainly be no worse than the present system, under which the beneficiary of the policy is paid off in a fixed dollar amount, regardless of whether the cost of living has risen or fallen since the contract was first made. As matters now stand, insurance policy holders, being "creditors," stand to lose every time there is a sharp rise in general prices. Under the new system suggested, they would receive something approaching a fixed purchasing power. They would no longer have to fear "inflation."

The matter of bank deposits is more technical (though not really more complex in basic principle) and demands a detailed discussion far beyond the scope of this pamphlet.* But we might point out that it is perfectly fea-

* The author has discussed the technical details of non-debt banking in considerable detail in his book, *Seven Kinds of Inflation,* published in 1937 by the Whittlesey House division of the McGraw-Hill Book Company. In this book will also be found extended discussions of a non-debt capitalism in many other ramifications.

sible to separate deposit banks from lending banks. Under such a separation, those of us who wanted a place to deposit cash would simply use deposit banks, which would act as custodians of the cash for a service fee, permitting withdrawal and transfers by check. But these deposit banks would make no loans. Their sole revenue would come from the service fees. In place of the present lending banks, we would then have institutions which would invest depositors' funds at the depositors' own collective risk, the depositors to share in the profits and losses, exactly as they would if they took individual direct partnership interests in the business transactions of their neighbors. These banks would be merely investing agents for the temporarily idle funds of the community. If they provided money to a merchant for a transaction, they would share in his profits or in his losses. Thus the merchant could not increase his percentage profits through use of "other peoples' money"—nor would he risk being wiped out by fixed debts if his transaction showed a loss.

Apart from the complications presented by insurance and banking (neither of which, on close examination, presents insuperable obstacles) the transition to a non-debt system demands chiefly a full public understanding of what is being done and, with the recognition of existing debt contracts, a willingness to make the adjustment gradual enough to avoid severe intermediate shock. There remains, however, one serious objection commonly presented to the elimination of the debt system. It is said that our great "progress" of the last few centuries would have been impossible without the debt system, that only by borrowing against future hopes and developments have these hopes become realized.

This argument needs attention on two counts. First, our alleged "progress" has brought us to the point of threatened destruction of the whole capitalist system. Hence the reality of the "progress" is most dubious.

Second, if the argument held true, tangible property values over the last few decades would have increased approximately as rapidly as debts. But the exact contrary is true, as we have seen. Debts are twice as large in proportion to property values as they were some twenty-five years ago. Thus debts have not turned "hopes" into "realities." They have merely piled up increased creditor claims against realities.

The real increases in tangible wealth and standard of living come when the public at large invests its savings in the building of new enterprises. It is a most significant fact that, in spite of our huge debt total, many of our greatest industries have been built up entirely with the investment of real ownership capital at risk, and with no borrowed money to speak of. The entire aviation industry was built up this way, with the pleasing result that no major aviation companies went bankrupt even in the 1932 depression. The huge Ford motor industry grew out of ownership investment by a few men. Many of our largest industrial concerns have no funded debt outstanding in the form of bonds. Progress comes with ingenuity, courage and the taking of risks and responsibilities. Nothing could stifle real progress more effectively than the growing notion that money should be "invested" only by lending, with no responsibility for results, and with no theoretical risk.

We might add one last word by way of picturing the probable workings of a true ownership capital system without debts. As a system, it would probably be known as "equity capitalism," to distinguish it from our present divided house of equity owners and debt claim owners. In this newer system, so close to the heart of Christian ethics, no one group would be profiting in the rise and fall of activity and prices at the expense of any other group. If prices and activity fell, all incomes would be reduced, broadly speaking, but so would the cost of living, so that real buying power in terms of goods and services would decrease far less than under our present methods. The income of creditors would not remain fixed while prices fell, thus giving them an advantage over all others in the community. This fact alone would give the entire community a fresh sense of unity. There would still be struggles between capital and labor for a fair division of whatever earnings and profits existed. There would still be human dishonesty and greed. But the chances for greed to profit exorbitantly would be vastly less than they are today. The pressure (or "leverage") against employment in bad times would be infinitely less severe. Continuity and integrity of ownership would be enormously increased. This in itself would encourage small accumulations of property—in land and private houses, in small share holdings of larger businesses and in temporary transactions through the new types of banks as described above. Today, those who have been wiped out after years of attempted small-scale accumulation are cynical and afraid. Under the added security of an equity capitalism, their faith in the principles of ownership would be greatly restored.

Our answer, then, to both Communists and Fascists, to those who would destroy private property and to those who would place it under the direct control of an all-powerful State, is simply this: before you destroy or conscript anything so fundamental to human instinct as the accumulation of property, why not try the exciting experiment first *of strengthening private ownership*? The results of modern capitalism which you deplore are real enough. They have no excuse. But they are chiefly the results of a system of the private ownership of debt claims, and are in no important sense the result of private ownership of real property. Be fair. Distinguish between the two kinds of private ownership. Blame the modern system as much as you want for mixing up the two kinds. But recognize this mixing of the two for just what it is—a result of abandoning true Christian ethics of property, and a result of the most prodigious amount of fuzzy economic thinking that the world has ever endured in four consecutive centuries. Give true equity capitalism its day of fair trial. Join in a basic crusade of social justice to protect and conserve private ownership against the whole idea of fixed debts. Free our lives of the whole debt system, root and branch, and you will then have freed both our moral conscience and our vast constructive energies.

N. C. W. C. STUDY CLUB OUTLINE

I. OPERATION OF MODERN DEBT-CAPITALISM (Pp. 5-9)

1. What are the attitudes of Fascism and Communism to private property? How does the present operation of capitalism encourage these?

2. Discuss:

   (a) Division of property system by debt claims.

   (b) Division as cause of modern instability.

   (c) No necessity for division.

   (d) Practicability of system in which all capital accepts risks and responsibilities.

   (e) Advantages of such a system.

3. Show how modern capitalism is one-half private property ownership, the other half creditorship.

4. Discuss the growing nature of this division and its dangers.

II. HOW CREDITORSHIP DESTROYS OWNERSHIP (Pp. 9-19)

1. What has been the attitude of the economists toward debt?

2. Discuss example of loss and gain to individual farmer because *debt system remains fixed while all other values fluctuate.*

3. Discuss in detail with examples:

   (a) How economic interests of borrower and lender are at all times *inherently* opposed.

   (b) Analogy between examples of farmer and national booms and depressions.

   (c) The participation of interest (because fixed) in the essential evil of capital debt.

III. MORAL WRONG OF THE DEBT SYSTEM (Pp. 19-21)

1. Discuss the following moral wrongs ascribable to the fixed nature of debts and interest:

   (a) Throwing off of moral responsibility.

   (b) Avoidance of share of normal business risks.

   (c) Community and social payments.

(d) Excess profit in times of rising activity.
(e) Encouragement to restrict ownership.
(f) Increase of employment hazards.
(g) Community involvement in risks.
(h) Increase of human greed, avarice and selfishness in entire economic system.

IV. ARE DEBTS AND CAPITALISM ONE AND THE SAME? (Pp. 21-29)

1. How do the objections of the theologians to interest charges in the Middle Ages apply to our present system?

2. How are we now moving in the direction of eliminating fixed debts? Is this enough?

3. Discuss the proposals:

   (a) To make incurring of further debt obligations after given date illegal.

   (b) To encourage meanwhile financing of all new enterprise by ownership capital.

4. Picture the probable workings of this "equity capitalism."

Catholic Action for Social Justice *

HOW shall we know well the right moral principles and spread them?

We shall all be unified in our religious program and our work under the Bishops (48).

We shall join a Catholic lay organization working with and under the Church (31).

We shall get it to start, or we shall join, a program of training (31).

We shall take part in study clubs and industrial conferences and the like (8).

We shall spread books, newspapers, magazines, and pamphlets (8).

We shall get the help of a priest trained in this matter (46).

We shall start work among youth (47).

We shall attend lay retreats (47).

We shall be apostles to our own associates—workers to workers, employers to employers, and so on (46).

We shall ground all our ideas in the Encyclicals of the Popes (48).

We shall take on the social charity of brotherhood in God and in Christ (44).

We shall lead good Catholic lives (44).

We shall know the crisis facing us which has, with the grace of God, put the destiny of mankind in our hands (47).

We shall have hope, because the Christian spirit of the people is strong, ignorance and environment can be overcome, and even the most abandoned have in them the sparks of "a natural Christian soul" (45); and because already much has been done to make known and apply the social teaching of the Church (7-13; 45-6).

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* Numbers refer to page numbers of Pope Pius XI's Encyclical "Reconstructing the Social Order" (N. C. W. C. edition).

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