

**THE NATURE AND  
NECESSITY  
OF INTEREST**

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The nature and necessity of interest by G. Cassel

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## PREFACE

THERE are some scientific problems such, *e.g.*, as the "Squaring of the Circle" in mathematics, which seem to have engaged the attention of humanity since the very earliest stages of civilisation, but of which the definite solution has been reserved for the efforts of the present age.

The problem of Interest belongs to this class. Indeed we find it dealt with as early as modern historical research is able to go back ; and it reflects at every step of its development the attainments and the aims of contemporary life. Economic investigations of the last two or three centuries have thrown light upon almost every side of the problem ; and, to construct a theory, there hardly remains more than to present, as a consistent and systematic whole, what is already known as a multitude of scattered observations. It is incumbent upon the present generation to bring about this final solution of a problem which has claimed so large a part of the efforts of previous ages.

We devote considerable energy to the discovery of the North Pole or to the exploration of the deserts of Asia. We do not do this for any immediate practical benefit, but simply because we

cannot rid ourselves of the feeling that we are bound to know the globe on which it is our lot to dwell. Is it not, then, even more urgent that we should comprehend the nature of Interest, and enable ourselves to trace the causes and effects of a phenomenon so intimately connected with our everyday life?

The problem of interest presents, however, not only and not even primarily, this historical or philosophical aspect. It is most emphatically a practical problem. In its earlier stages the discussion of interest turns essentially on what we now call usury. Though this side of the problem has lost its previous pre-eminence, it still remains an important subject for practical politics, and we cannot hope to deal with it profitably without thoroughly knowing the nature of the evil and the end we wish to attain. In our days the problem of interest has, to a great extent, changed its nature and has become principally a problem of social distribution. Looked at from this point of view, interest can of course be studied only as an integral part of the problem of Distribution, which is again, as we shall see, only a side of a problem to which we shall have to pay special attention, the general problem of Prices.

It also follows from this modern view of the problem of interest, that we can never hope to get a really good grasp of what is called the Social Question, without having thoroughly penetrated into the nature of interest. The Socialist School of the 19th century has largely identified the Labour

Cause with the abolition of interest ; and the whole modern discussion of the Social Question has, mainly in consequence of this error, become so interwoven with allusions to the effects of interest and the right or wrong of it, that we cannot, at the present moment, enter on any investigation of the wages question without stumbling at almost every step on the problem of interest. This shows, perhaps better than anything else, the eminently practical value of a right theory of interest.

To write such a theory has seemed to me of such paramount importance that I have felt justified in devoting to the task the greater part of the last six years. The final issue of these efforts is given in the present volume. Some preliminary results have been published already ; and for the more intricate questions of the theory, the reader is referred to these publications. The work that has to be gone through, in order to get to the bottom of the interest question, is not always of the very lightest kind ; but I have endeavoured to make the present exposition of the matter as simple as possible, and I have not included in the text anything that might prove an obstacle to the ordinary reader.

I have devoted the first chapter to a survey of the historical development of the theory of interest. In this I have not tried to give anything like a complete history of the problem, my main purpose being to state the results hitherto obtained, and in this way to make the present investigation profit by the efforts of three centuries.

The positive theory of interest is preceded by a