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CAPITAL AND COMPENSATION.

By EDWARD R. PEASE.

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Capital



CAPITAL AND COMPENSATION.

SOCIALISM as a modern political force was born of a book, and that book was called "Das Kapital" because its author rightly conceived that Socialism is far more closely concerned with capital than with anything else.

The reorganization of society on Socialist lines is necessary because capital has reduced the majority of the people to workers dependent on others for their livelihood, and the chief demand of Socialism is that the powers now exercised by the owners of capital over the lives and liberties of others should be transferred to the community.

Socialism and Capital.

Socialists have opinions on all sorts of subjects, and sometimes sections of them make those opinions parts of their creeds. Socialist societies have taken upon themselves to formulate dogmas on war and peace, religion and materialism, monarchy and republicanism, marriage and the family, the citizenship of women, and the education of children. But on many of these subjects there is hardly more agreement amongst Socialists than there is among Liberals or Tories, or Nonconformists, or any other group of people. On one matter alone are all Socialists all the world over in complete accord, and that subject is what ought to be done with capital.

The chief purpose of all Socialists is to transfer the capital of each nation from the hands of private owners to the community organized as the State.

What "Capital" means.

But what is this capital which we desire to transfer to the community? How many of the Socialists who so often talk about it have a clear idea of what it means?

Unfortunately, the word capital has an endless variety of necessary and yet incompatible meanings, all good and useful and appropriate to particular purposes, but so numerous and contradictory that the wise man will never use the word capital without explaining at the same time exactly what he intends to denote or connote by it.

Here we are concerned with the capital which Socialists desire to nationalize, the capital which yields interest and profits, and enables its possessors, if they choose, to earn salaries out of proportion to the value of the work they do. It is unnecessary, therefore, to consider

whether the skill of a doctor or of a professional billiard player is or is not capital, because clearly it cannot be nationalized by an Act of Parliament. Nor need we discuss the capital value of the English climate, which some economists rate highly, nor of our natural harbors and navigable rivers, nor of the alleged moral and industrial superiority of our race, to which some writers, English and not foreign, attach much value.

Nor need we consider the claims of goodwill to rank as capital, since the goodwill, say, of a soapmaking company, consists for the most part in the advantages, acquired as a rule by lavish expenditure in advertisements, which one concern possesses over other makers of soap; and its existence is bound up in the continuance of a number of competing manufacturers. Under a complete monopoly, whether of a trust or of the State, goodwill ceases to exist.

Capital is Things.

Capital for our present purpose is all sorts of *things* in a certain aspect. Things have different aspects for different people or the same people in different moods. A steamer to the artist may be a color contrast on the horizon; to the engineer it is a means of livelihood; to the passenger a conveyance; to the investor it is so much capital. But although capital is all sorts of things in a certain aspect, its characteristics are chiefly determined by one sort of thing, and that is machinery.

This is a proposition to which Socialists should give ready assent. The capitalist system is recognized by them as an equivalent phrase to the régime of machine industry. The industrial revolution, the growth of the factory system, are their constant subjects of study. Machinery is not only the typical form of capital, but it is that which determines its chief characteristics. Subsistence, the food of the laborer, may be the seed; abstinence on the part of the owner may be a prerequisite; but the thing itself is neither abstinence nor food, but machinery.

Now the first thing to remember is that an aspect of a thing or a quality of a thing cannot exist apart from the thing itself. For instance, weight is a quality of things, and everybody at once realizes that if you want weight as ballast for your boat or your balloon, you have to get *things* that are heavy.

What is true of weight is equally true of capital. All capital, at any rate all that Socialists are concerned with, is *things* that are valuable.

Perhaps this statement may appear obvious and commonplace. Nobody supposed that capital was anything else. But is this so? Does everybody realize that when the London Joint Stock Bank takes up a block of £1,000,000 London County Council Stock, that transaction, represented by a few entries in a ledger, is in fact the transfer from the Directors of the Bank to the London County Council, not of so much gold, or of so much of an abstraction called capital, or of a still more elusive abstraction called credit, but of a claim upon a weirdly miscellaneous assortment of all sorts and kinds

of things—lands and houses, goods in warehouses and on the high seas, locomotives in Australia and elephants in India, in all of which the County Council proceeds to exercise certain possessory rights?

The Parable of a Plough.

Let me explain by a parable. Once upon a time in the Mid-Victorian Age there lived a farmer whom I will call A, an exceptional farmer because he was prosperous and kept accounts, who possessed a steam plough as good as new, which had cost him £100 and was worth to him, as he discovered from his accounts, £20 a year in increased yield from his land after providing for all repairs and expenses. He was so prosperous that he decided to retire, and rather than let his plough lie idle, he lent it to Farmer B for a payment of £10 a year. Farmer B also found that he got £20 a year profit out of the plough, and so he was £10 to the good by the transaction. Next year B thought he could do better still by buying the plough. A was willing to sell. So B borrowed £100 from the Banker C on the security of the plough at five per cent. per annum, bought the plough of A, and paid for it by a cheque on the Banker C. A paid the cheque also into the bank of C, and put it on deposit at three per cent.

Now this simple transaction in fact contains in a nutshell the essence of all finance.

In the first year there was one man owning a plough which yielded £20 of profit, a machine, that is, which produced so much wealth, all going to the owner, A.

In the second year two men were concerned, A, the owner, who still owned the plough, and got £10 a year for lending it to B. B had the use of the plough and netted £10 a year clear profit. Still there was only one plough, yielding one profit of £20.

In the third year things were still more complicated. A had £100 on deposit at the bank, and was drawing £3 a year interest. B had a steam plough, yielding £20 a year, out of which he paid £5 as interest to the Banker C. C, the Banker, had an increase of his deposits of £100 on one side, and on the other a new loan of £100 secured on the plough. He received £5 from the borrower and paid £3 to the lender, so that he had £2 clear profit on the operation. All these men felt rich and prosperous: all were making interest or profits; all could talk of their capital and their loans; and yet all the time there was but one steam plough, yielding as before a profit of £20.

What is true of this steam plough is true of all financial and commercial transactions. In the last analysis loans and bank deposits, stocks and shares, cheques and bills, mortgages and debentures, all are founded on things—real, tangible things like ploughs. Their capital value depends on the value of these things, and the interest that they yield is produced by the things they represent, or, in other words, is due to the fact that the man with a machine, of whatever sort, can produce more wealth than the man without the machine.

Capital : Land : Wealth.

Capital, then, is things and nothing else whatsoever : of course it includes land. For the purposes of this argument no distinction between land and capital is possible. The wealth or the capital of the country (and there is no clear distinction between the form of wealth usually called capital and any other forms of wealth) consists in houses and lands, in machinery and goods, in stone and iron and coal, in cattle and corn and cotton ; in gold and a little silver and bronze, all tangible things, and in nothing else at all. This is the capital with which finance is concerned ; and this is the capital which we Socialists desire to nationalize.

It is perhaps difficult to realize that the 50 millions of deposits in some London bank, apparently a series of figures in ledgers, all expressed in terms of money, and convertible at longer or shorter notice into gold sovereigns, are in reality not money, or some abstraction called capital, but nothing else than such things as ploughs and the land they plough.

One great reason for this confusion of thought, this idea that capital is something apart from tangible things, is the fact that there is in commercial and general language another and quite different significance of the word capital.

The Capital of a Company.

The capital of a company is not things, and bears no necessary relation to things. When a mining company is started, a number of people who have capital, that is things, contribute (or lend) their things, say fifty each lending £1,000 worth of things to the promoters ; and they are allotted shares in the mine in proportion to their contributions. But the promoters allot to themselves for their services, real or imaginary, for their concession, for the mine, and so on, such other shares as they think fit, say another £50,000.

The whole "capital" of the mine then stands at £100,000, and this means that the ownership of the mine and the profits, if any, are divided amongst the shareholders in proportion to their holding of the "capital." Every holder of £1 in shares is to get one one-hundred-thousandth of the profits.

This capital therefore does *not* represent things. And of course the commercial world instantly recognizes this. Once the mine is started the value for buying and selling bears no relation to the capital. The £1 share may sell at £30 or at 6d. Its market price depends on the actual earnings and the valuation attached to the right to these earnings ; it depends, that is, on the things which the company possesses.

The value of these things is not in any way affected by the capitalization of the mine. If its net earnings are £10,000, it will pay ten per cent. on a capital of £100,000 or twenty per cent. on a capital of £50,000 or one hundred per cent. on a capital of £10,000.

Railway Stocks.

It is particularly important for Socialists to realize that the "capital" of such concerns as railways is now nothing else than a means for determining how the profits and control of the company shall be divided. A £100 North Eastern Railway Stock is not so called because the original subscriber paid £100 into the company. The capital of a company was often issued at a discount; that is, £100 of stock was given by the company for £70 or £80 or £90 in cash. On the other hand it is sometimes issued at a premium. The North Eastern Railway some years ago sold to the public a quantity of stock at £150 for each nominal £100 of "North Eastern Consols" issued. It does not mean that that part of the property of the railway is now worth £100. Only by a rare and mere chance is £100 railway stock bought or sold for £100. It may be worth anything from £10 to £200.

The capital of a company can be written down or watered up, just as the owners please, and it makes no direct difference to anybody else.

It is not necessary to discuss here various other sorts of company capital, guaranteed, preference and debenture, and so on. Such stocks represent other claims in addition to shares in the property. But these are details not affecting the main argument, which is that the share capital of a company is altogether a different sort of capital from the capital which is the main theme of this paper.

Consols and Municipal Stocks.

There is another sort of capital of which a few words must be said. What relation, it may be asked, have Consols, or Turkish Bonds, or London County Stock to things? The relation is this. The loan of a State or municipality consists originally of things—currency representing things—lent by private citizens to the State. In exchange they receive a charge on the property of the State, which is, for this purpose, the property of all the citizens. In fact, an owner of private property only holds it subject to any claims of the State against it. This is a truth of which passive resisters, whether Free Churchmen or Tax-refusing Suffragettes, are made acutely conscious. The State, central or local, has a claim on, that is in fact owns, a part of the possessions of each citizen. It demands its rates and its income-tax. If the citizen pays its demand, all is well. If he neglects or refuses to pay, the State promptly seizes his silver spoons or any other property it can lay hands on, and sells them at auction. Consols or London County Council Stock represents those things which private persons hold, subject to the claim of the State. The owner of land has to pay one part of its produce to the local authority and another part as land and income taxes to the revenue; and if, on the average, landlords pay twenty-five per cent. of the value of their land to the State, we may properly say that the State owns a quarter share of the land, and that it has transferred this ownership to the holders of Consols and municipal

loans, who are the real recipients of the income-tax and the rates. It is the case of the plough over again. As A, in reality, had not £100, but a plough valued at £100 in his bank, so the holder of Consols possesses in reality the essence, as it were, of the land and the many other things on which his right is secured, and out of the profits of which his interest is paid.

Interest on Capital.

What is true of capital is equally true of interest and profit on capital. That also consists of the things which capital—machinery—adds to the product of labor. The steam plough in the parable, by enabling the soil to be cultivated more thoroughly, produced more grains of wheat, heavier turnips, a greater growth of clover. The value to the farmer of this extra product, after all extra expenses had been met, was £20. The interest, then, even that ultimately paid through the bank to the depositor, was in essence wheat and turnips and clover. The depositor could draw interest because the plough produced larger crops.

All commercial interest is of this character, and all capital can command interest because some capital can always produce things which without it would not exist at all.

It is a common idea amongst some Socialists that there is something rather wicked in interest. Indeed they often say that interest under Socialism would be forbidden. Sometimes they seem to fancy that interest is the same as repayment of capital, and argue that payment of five per cent. for twenty years should be held to pay off the loan. Again, our Anglican brethren quote with much gusto the strong language which the Fathers of the Church used about a very different matter—*usury*, that is, the taking of interest for the loan, not of capital, but of means of subsistence. The Shylocks of old and the modern money lender are quite proper subjects of denunciation by bishops and judges and other superior persons. But that sort of borrowing and lending of money, the pandering to the vices of the dissolute, or the battenning on the necessities of the unfortunate, is a quite different thing from the loan transactions of Lombard Street and the great commercial system of borrowing and lending for the purposes of business.

Interest as the yield of industrial capital is an ultimate fact. The man with the plough can raise more wheat than the man with the spade. The woman with a sewing machine can make more shirts than the woman who sews by hand. So long as more machinery is required, until the world has all the machines that anybody wants, the man or the department with a machine will be more efficient than the man or the department without it; and that efficiency, that larger product, is interest. Interest is no more anti-social than rent, and is practically as eternal. What Socialists properly denounce is the *private ownership* of capital and of the interest it yields, just as they denounce the private ownership of land and of the rent that accrues from it.

Capital isolated from Things.

I have said that capital is things and nothing else than things, and that it cannot be separated from things. That is a proposition, like so many in economics, which you have first to get thoroughly into your head and then to get out again.

It is true that Farmer A's £100 deposit in the bank was entirely dependent on the plough. In fact, it was the plough. Obviously there was nothing else but some orders written on paper.

But, none the less, those orders altogether changed the situation. In fact, A possessed not a claim on that particular plough, but equally on countless other things, all temporarily pledged to the bank. Moreover the transaction had, so to speak, extracted and isolated the capital out of the plough, so that A owned the qualities of the plough which are capital, and B owned and administered all the rest.

The whole secret of the financial system of the present day is this divorce between ownership and administration of capital. The banks are great pawnshops, where one set of people deposit as pledges cargoes of cotton and wool and wheat, lands and houses, ships and factories, the profits of which go in part to those who administer them, in part to the banker for his services and risks, and the rest to the depositors in the bank, who in the last resort have a right to them.

Everywhere this system prevails in name or in fact. Nominally the shareholders in a railway or a great joint stock "industrial" control their company through their elected board of directors. In fact, they do nothing at all but cash their dividend warrants.

In the case of bank deposits, municipal and Government loans, mortgages on land and houses, and many other things, the owner of the capital has no control whatever over the use which is made of it. He finds the money, but he does *not* call the tune. All he can claim is his pound of flesh, his half-yearly interest warrant.

Control divided from Ownership.

The importance of this distinction between the administration of capital and the ownership of capital has not, I think, been adequately recognized.

In the gradual transfer of capital from individual to communal ownership and control, it plays a principal part, because the ownership and the control of capital are transferred at different times and by different methods.

When, as recently happened in London, a waterworks company is taken over by the community, and water stock is given to the shareholders in exchange for their shares, the administration of industrial capital is transferred to the community, but the ownership may fairly be said to remain in private hands. London in 1908 was not only no richer, but even poorer than before the change was made. All the profits of the waterworks were needed to pay the interest on the water stock.

The position is exactly that described in the third year of the parable. London has the use of the water plant as Farmer B had the use of the plough, but London has to pay the real owner, the old shareholders, just as Farmer A still drew his share of the profits of the plough after he had sold it to B.

Transfer in Two Stages.

In practice, the transfer of capital to the community is always taken in two stages. At the first stage the State takes over the administration, as of gasworks, tramways, telephones, waterworks, and so on; and at this stage the State always compensates the dispossessed owner by giving him a charge on the profits of the thing transferred or, what is equivalent, by giving him cash.

In these cases compensation is always given because it accords with the sense of justice of the community to pay it; in other words, both parties to the transaction expect this course and are satisfied to take it. The city or community gets its waterworks and the shareholders get, what in reality is all they cared for before, an annual payment of interest and a saleable "stock," that is, saleable documents giving the right to receive this annual interest and an ultimate right to a lump sum.

We "compensate" then when we take over the administration of capital by dividing it into two parts; the State takes the control of the actual things, and leaves to the original owners their wealth producing qualities, that is, their capital value.

But how about the next stage?

We can give water stock in exchange for the plant of water companies, but when we want to take the water stock, what exchange *can* we give? To buy it is of no avail. The purchase by the State of £100 of stock at the market price does not affect the distribution of property. The private owner formerly possessed one sort of capital and later possessed another sort; but the amount he possesses is not altered. Capital in the form of stocks or Consols or cash is interchangeable because it is sublimated and refined till it may be said to be absolutely pure. It has no specific powers; it involves no duties; it requires no abilities. It is simply and purely the right to levy a tax on the labor of the community. It may be beneficial to that community if it is expended in scientific research or the endowment of education, or in the proper support of the old and the sick. But usually it is the means of livelihood of the idle rich.

This distinction* between ownership and administration of capital is the key to the compensation difficulty. It is found convenient to compensate when the administration of capital is transferred; but when the turn comes for the ownership also to be transferred, it will prove not only inconvenient, but impossible, to compensate, except on some such lines as a "time limit," which is not really compensation, but confiscation with notice.

* It is expressed in French by the contrast between "l'usufruit" and "la nue propriété."

Analysis of Ownership.

Ownership of capital, therefore, is by no means so simple a matter as is often supposed. It may be classified into four categories:—

The first is complete and undivided ownership. Such was Robinson Crusoe's ownership of his hut and his canoe, and even of his man Friday. No law or State Government controlled his power to do what he liked with his own: no landlord or mortgagee, no debenture holder or shareholder or stockholder had any claim on his wealth.

Outside fiction, the British factory owner a century ago, the Southern States factory owner of to-day, and, in practice, it is said, the American millionaire trust owner, is nearly in that position. These men can or could use their capital to achieve their ends as they think fit, and no power on earth or elsewhere holds them in check.

The second form of ownership is when a capitalist may only do with his own as far as the community thinks fit. The owner of a cotton factory in Lancashire or in Germany is subject to a quite stupendous code of laws, which tell him what he may do and what he may not do with his capital. One set of rules lays down how he shall build his factory; another set provides for the sort of machinery he must put in. The hour of opening and of closing is fixed by law, the place where he must pay his hands, and the form in which he is to pay them. Other laws regulate whom he may employ, and how many hours a week he may work children, young persons, and women. A quite other set of regulations is imposed on him by his employers' association and the trade union.

The second pair of categories which divide ownership of capital on a different plane has already been described. Farmer A at first owned his plough right out. All its profits went into his pocket. Except for the claims of the community for taxes, etc., he was full owner. At a later stage Farmer B also owned the plough, but it was charged with a loan from the bank, and part of the profits ultimately came to Farmer A as before. The possession was, in fact, divided; A owned, B administered.

The Politics of Capital.

The task of Socialism in relation to capital is therefore threefold.

It has to meet and overthrow the ideal of *laissez faire*, that of the capitalist who can do what he likes with his own. It clips and curtails his power to harm by Factory Acts, Sanitary Acts, Truck Acts, Minimum Wage Acts, Eight Hour Acts, and every other device that can be discovered for restraining his vicious propensities. It encourages trade unions, which regulate what the law cannot yet touch, and co-operative societies, which oust him from his most profitable preserves.

The next step is to seize on the administration of his property. It takes his gasworks and his waterworks, his trams and his tele-

phones and his railways. It no longer allows him to manage them even under the strictest of regulations, but transfers them to itself and pays him a fixed share of the profits as compensation for his property.

But it must here be noted that the share of the profits of capital, usually called *interest* in the narrower sense, which goes to "pure" capital is a small one. In the plough parable the yield of the plough was put at twenty per cent., and the interest received by A when he deposited his plough at the bank was only three per cent. The return on capital embarked in industry is very various, and the risk of its loss has always to be allowed for. But, as a rule, the trader earns between five per cent. and fifty per cent. on his enterprise; and if he uses capital lent to him, through a bank for example, the ultimate owner of the capital only receives three or four per cent.

The transfer to the community of the administration of industrial capital therefore involves the transfer of the administrator's share of the profits, and this is a large one. The gas and waterworks of our provincial towns, the electric lighting works and the tramways of London, yield very large profits indeed over and above the interest paid to the private persons who hold the municipal stock.

The transfer of the administration of industrial capital to the community is a comparatively simple process. It is going on around us every day. Parliament when it grants franchises for any local monopoly carefully provides nowadays, as French law has long provided with regard to the railways, that it may take place in due time.

We want to speed up the machinery, of course. We want to take over the railways next year and the mines the year after, and then the cotton factories; and we know that it will not be done at that rate. Still it is quite simple, if we steadily bear in mind that this step in the process is, and must be, separate from the step of transferring the ownership; and there is every possible disadvantage in confusing the two.

The last step is the transfer of ownership of capital from private persons to the State, and this the community has hardly yet begun. It has made some attempt to pay off its national debt, which may be regarded as a mortgage, in the first instance, on its industrial capital, such as the Post Office. Local authorities which borrow in order to purchase gasworks and trams, or to build houses or buy small holdings, are required to save out of their rates or their profits in order to repay the loan, that is, to buy out the real owners. Josiah Wedgwood, M.P., has made the useful suggestion that local loans should be arranged for short rather than for long terms of years, because the shorter the term the quicker the public authority is compelled to accumulate capital. But all this is the saving of new capital and not the transfer from private holders of existing capital.

If, however, the State constantly accumulates new capital and private persons gradually cease to do so, the share of the capital of the nation in private ownership will gradually decrease.

Quantity versus Quality of Capital.

But there is another consideration. It is commonly believed that the moral validity of the right of private ownership in capital varies according to the quality or kind of that capital. It is thought, for instance, that the moral right to ungotten minerals or mining royalties is highly disputable, since it is obvious that the owner took no part whatever in creating them. The case against private ownership of uncultivated land is scarcely less strong, and all land values are held by many people to belong properly to the State. But against this contention it is argued that all these rights have been bought and sold freely for generations, and since Consols, state obligations whose validity is generally held to be beyond dispute, can be sold and the proceeds invested in mining royalties, it is unfair to penalize the owner of one class of property at a given moment as compared with the owner of another class. In effect the State has guaranteed all classes of ownership equally, and it must not turn round and declare its sanction in one case less valid than in another.

On the other hand, we may have regard to the quantity of property in individual ownership. It has always been held that the rich should contribute more to the State than the poor. Excessive wealth is universally regarded as a public danger. By common consent the objectionable feature of modern civilization, as of that of ancient Rome, is the possession of great wealth by a few, with the accompanying poverty of the masses.

In this connection the kind or quality of the wealth is irrelevant. If some regard the great landlord with special disapproval, others concentrate their hostility on the Stock Exchange financier, and a third set reserve their censure for the trust magnate. This much, therefore, seems clear, that in the measures taken to transfer capital from private to public ownership, regard must be had in the main, not to the quality, but to the quantity, of the property owned by each person. We shall deal with the rich owner as opposed to the poor owner, and not with mining royalties or land values as opposed to steel trust stocks or steamship shares.

Capitalists as Bondholders.

There is another reason for this. We have already explained that whenever the community takes over any particular things—gasworks, tramways, railways—it compensates by giving stocks or borrowing the necessary money on stocks, and thus reduces ownership to a common denominator of annuities payable by the State. As this process goes on, the private owner of capital will become more and more a receiver of a fixed income from the State. The privately owned capital of the future will be gradually reduced to its simplest terms, the payment to individuals by the State of the income, or a part of it, from the property they or their predecessors formerly held, which has been taken over in exchange for water stock, or gas stock, or Consols.

All we shall then be able to consider is the quantity of State obligations held by an individual. Any differentiation between one

class of State guaranteed stock and another, any historical enquiry whether it was given in exchange for mining royalties or for inventions and patent rights, will be impossible.

Capital in Consols.

Consols are properly called Two and a half per cent. Annuities. In reality each £100 consists of the right to receive £2 10s. per annum, with the right *to the State* to redeem that payment by a lump sum of £100. Some stocks give rights to the holders to claim repayment after a term of years, but this right only has value when the market price of the security is below par. When it is above par, the right is useless; and if the company or corporation has the reciprocal right to pay off at par, it becomes a disadvantage. Moreover, public authorities nearly always extinguish their obligations by purchase, if the price is below par. We may therefore disregard the nominal capital amount of State obligations. Their only important feature is the annual payments. The nationalization of the ownership of capital will therefore gradually take the form of the extinction of annual payments made by the State to individuals, and it is easy to see that this will take place in two ways.

Income Tax and Death Duties.

Any deduction made by the State from these annuities is pro tanto an extinguishment of them. A two shilling income tax is a reduction of the State debt by ten per cent. Already the State has begun to differentiate against unearned incomes, and this process will no doubt continue.

The idle rich, the recipients of income which comes to them by inheritance or gift, pensioners of the community on account of ancestral rights to capital acquired under an ancient and abandoned system, will be regarded by our enlightened successors as obvious subjects for the heaviest taxation.

Secondly, there are the death duties. Already the State takes no inconsiderable share of property left at death. The time is not far distant when the right of inheritance will be still more narrowly limited. Before long the principle of the death duty and the super tax will be largely extended.

One millionaire has already enunciated the doctrine that no man should die rich. A simple deduction from this is that no man should live rich, and the habit of regarding millionaires as social pests is rapidly growing. Legislation deliberately directed to penalizing the wealthy in the interests of the community already commends itself to the community. The "vindictive" Budget of 1909 appears to be a popular measure.

Moreover, the right of inheritance and bequest should be closely limited. At present the State only puts in a claim when it has exhausted every effort to discover the remotest cousin of a dead property owner who has been too lazy to dispose of his own fortune. The press and the lady's maid novelists would no doubt deplore a world state in which rich uncles dying in Australia or remote

cousins slain in railway accidents were no longer possible rescuers of the poor but well-born hero, eager to wed the lovely daughter of the haughty earl. But such Ollendorfan occurrences will not be wanted to add zest to a world busy with the thrilling task of social reconstruction on a large scale. The State might well enact in a future not excessively remote that it should be the sole heir of all who die without children.

A third method, already adopted in the case of Indian railways, is to give terminable, or perhaps life, annuities in place of the perpetual annuities which we usually call stock or bonds.

Summary.

The argument is now concluded. It has been shown that the capital which we have to nationalize is exclusively tangible things, but that our financial system, the great structure of credit which economists describe with reverent wonder, consists of isolating the value of these things, so that the ownership can be separated from the control.

We have next seen that the State nationalizes capital in two stages. It first takes over the administration and control, and compensates the private owners by leaving to them the value of the capital in the new form of annual payments of interest. The second step is to transfer the ownership itself. In this distinction we have found the explanation of the confusion on the subject of compensation in the minds of Socialists, who maintain that compensation is both unjust and impossible, although they acquiesce in and sometimes advocate it in any particular instance of the taking over of the administration of actual things.

Compensation, we have shown, is both possible and proper when the State takes over the administration of capital. It is impossible when the ownership (in the sense just explained) is taken over, and therefore it is unnecessary to consider whether it is just or politic.

Finally, we have discussed the methods by which the ownership of capital will be transferred to the State, and have taken the view that no distinction can be drawn between various classes, or kinds, or sorts, or qualities of capital. All we should do is to differentiate between owners of much and owners of little; in other words, between the relatively rich and the relatively poor.

With the wide expansion of social reconstruction which must accompany this transfer of capital to the State we have here no concern. Nor is there space to deal with the new organization of industry which must follow it.

The purpose of this paper has been to indicate the nature of the capital which Socialists desire to socialize and the methods by which it is being and will be emancipated from private ownership and control and transferred to the community for the use and benefit of the whole people.

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