Interest and capital are two closely related topics that have been widely discussed by economists. Although in today’s economic literature interest is mostly identified with contract-interest on loans and its rate with the market rate of interest, the problem of its origin has still to be satisfactorily solved. Economists of the past struggled to argue the existence of an original interest enabling that of the interest on loans, where the latter is essentially nothing but the effect of the former. They all agreed that capital is at the origin of interest, yet they disagreed about the kind of causal link that exists between these two concepts. Is capital a direct or an indirect cause of interest? The question whether or not capital is a macroeconomic factor of production is still open today and, despite appearances to the contrary, still a subject of controversy. Indeed it is only thanks to Schmitt’s quantum macroeconomic analysis that a final answer is possible, the payment of human labour being the only transaction capable of transforming money into income.

In this chapter, we first review some of the main contributions of the past to the analysis of interest. The role played by capital and time is an essential part of these contributions and so is the debate about the relevance of physical productivity. What some of the greatest economists of the past teach us is that interest derives from capital and time, even though capital cannot be considered as a factor of production on a par with labour. They also distinguish this (original) interest from the interest on loans, which is considered a subsequent and logically secondary consequence of the former.

Keynes’s contribution differs from that of his predecessors mainly in that he does not consider the rate of interest as the balancing factor allowing for the equality between macroeconomic saving, $S$, and investment, $I$. He claims, on the contrary, that the relationship between $S$ and
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1 is an identity and thus sets a new logical framework within which interest has to be explained. For that reason, a section of this chapter is devoted to Keynes's contribution and to a critical appraisal of that of his followers.

Capital is formed through the investment of profit and defines a macroeconomic saving: this is what Schmitt (1984a) derives from Keynes's identities, both between global supply, \( Y \), and global demand, \( C + I \), and between \( S \) and \( I \). A correct analysis of interest has to respect these identities and show how it is possible to derive a positive macroeconomic value from capital given that labour is the sole macroeconomic factor of production. This is one of the main arguments developed in this chapter, an argument that leads to the analysis of the impact of interest rates on economic and financial crises. The last section of this chapter deals with this analysis and shows that capital accumulation tends to reduce the rate of profit of the economy taken as a whole, a tendency that, by narrowing the gap between the rate of profit and the market rate of interest, creates the conditions for an economic crisis bound to hamper economic growth to an increasing extent. As more and more capital is accumulated, it becomes increasingly difficult to remunerate it and the process of capital accumulation has to slow down. As the macroeconomic rate of profit gets closer to the market rate of interest, productive investment must be reduced, which has a negative effect on employment. The economic crisis engendered by the impact of capital accumulation on profit and interest rates is then worsened by the financial crises induced by the presence of a growing pathological capital and of the speculative transactions it feeds.

The theory of interest: Contributions of the past

Capitalization versus physical productivity

Let us attempt to clarify some of the main contributions to the analysis of interest provided by authors of the past by referring essentially to Böhm-Bawerk's and Fetter's contributions to the so-called capitalization approach. The views of these two authors are indeed particularly apt to emphasize the role played by time and capital in the determination of interest as opposed to that attributed to physical productivity.

Let us start with time. Both Böhm-Bawerk and Fetter recognize the centrality of time. The Austrian economist was arguably one of the first to develop a theory of interest in which time is the crucial element in the process leading to an increase in the macroeconomic income generated by production. According to his analysis, a difference in value

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