ADDRESS OF

JEROME N. FRANK

Before the

NATIONAL ASSOCIATION OF SECURITIES COMMISSIONERS

KANSAS CITY, MISSOURI
SEPTEMBER 22, 1938

TOO MUCH INTEREST IN INTEREST

Dante pictured money-lenders in one of the worst regions of Hell. That was a typical expression of the attitude of the European Middle Ages. Nor was that attitude unique. In those parts of the world in which we still find societies predominantly agricultural, the most hated man in the village is the money-lender. In the villages of India and China a strong moral condemnation of the community is still leveled at the pawnbroker, although he is, in a very real sense, the communities' only source of funds in times of economic stress. This same moral condemnation and bitterness of feeling was equally present in the western world when its economy was operated largely on an agricultural basis. In the western world, as well as in the East, prohibitions against taking interest on loans were written into philosophy, theology, literature, and law.

While in Greece and Rome the loaning of money at interest, at first prohibited, came to be accepted, yet many Greek and Roman thinkers still opposed it. Aristotle asserted that money is by nature "barren," and that the birth of money from money was therefore "unnatural" and should be prevented. And other leading thinkers of the Greco-Roman world reached a like conclusion, their views being based on sympathy with oppressed debtors, or dislike of money-lenders, or a general aristocratic contempt for trade. The Old Testament and the New condemned the taking of interest. In the Sermon on the Mount, as given by St. Luke, it was said, "Lend, hoping for nothing again." In the writings of the Church Fathers those expressions, combined with the views of Greek and Roman thinkers, led to a strong condemnation of interest-taking or usury as it was called. St. Basil announced interest as a "fecund monster." St. Chrysostom said, "What can be more unreasonable than to sow without land, without rain, without plows? All those who give themselves up to this damnable culture shall reap only tares. Let us cut off these monstrous births of gold and silver; let us stop this execrable fecundity." Lactantius called interest-taking "robbery"; and St. Ambrose said that it was as bad as murder. St. Thomas Aquinas followed in this tradition and lent the great weight of his authority to the denunciation of usury. There was a medieval legend that devils would pour molten gold down a dead money-lender's throat. To take interest was to commit a crime punishable by the state and also a mortal sin punishable by excommunication.

That animosity against interest is explicable thus: In an economy which was basically agricultural, most loans were made to needy borrowers, not for productive purposes but for consumption, and usually the borrower at the end of the loan period was worse off than at the beginning. The opposition to interest was thus based largely on solicitude for the poor and the oppressed. Moreover, due to the absence of business opportunities, one who possessed money lost no profits by temporarily parting with his capital. It was argued in the Middle Ages that a lender of money was a seller of money and was entitled to expect in return merely a fair exchange--and that meant the exact equivalent of the money he had advanced. That there was a lapse of time between the loan and the return of the principal was considered of no importance, it being contended that "man cannot sell time," for time was not a human possession, but something given by God. "Time," it was said, "was not of your gift to your neighbor, but of God's gift to you both."

For more than fifteen hundred years the hostility to interest-bearing loans found expression in innumerable decrees against usury. The opposition to interest-taking became a fetter on a developing commerce. Since money

could be loaned only at the risk of incurring opprobrium in life and damnation after death, the rates of interest were often exorbitant, at one time being as high as 40% in England and 10% a month in Italy and Spain.

Gradually, the opposition to interest began to wane. Modes of evasion were invented. Thus it came to be a doctrine that, if a lender suffered loss by the failure of the borrower to return a loan at a given date, compensation could be exacted; if, then, the date of payment was made to fall immediately after the date of the loan, the compensation for the anticipated delay in payment in effect became interest. There was also the doctrine that if a man, in order to lend money, was obliged to diminish his income from productive enterprises, he might receive in compensation an amount equal to such diminution.

Investing money in a partnership and receiving a profit was considered proper, if the person who furnished the capital took the risk of sharing in the losses as well as in the profits. A partner, however, could insure the principal against loss, and could also assure himself a fixed rate of return by lawfully selling a future uncertain profit for a definite sum. It came to be ruled that a man could combine the three contracts--the partnership agreement, the insurance contract, and the sale of a future uncertain profit. By this so-called triple contract, the prohibitions against usury were evaded. And there were other equally clever devices which legitimized interest-taking without running foul of human or divine law.

Protestantism at first agreed with the Church of Rome in denouncing interest. In answer to the contention that only "biting" usury was oppressive, Wilson, a noted upholder of the strict theological view, declared: "There is difference, in deed between the bite of a dogge and the bite of a flea, and yet, though the flea doth lesse harm, yet the flea doth bite after hir kinde, yea ; and draweth blood, too. But what a world this is, that men will make sin to be but a fleabite, when they see God's word directly against them!"

This attitude changed before long. In England under Henry VIII the prohibition against usury was replaced by a legal maximum. That legislation was later repealed, but was restored under Elizabeth. And other countries soon followed suit. Calvin became converted to interest-taking and Cotton Mather repudiated the traditional theological view.

By the middle of the 19th Century, interest-taking came to be regarded as unquestionably beneficent. Even those laws which set upper limits to the rate of interest were repealed in many European countries. The exaction of interest, which once, under the name of usury, had been regarded as a deadly sin and a crime, became a great virtue. A medievalist, revisiting the western world in the 19th Century, might have said that its motto was, "Blessed be the usurer, the guardian spirt of modern industry and trade."

Looking back upon this history, our own Andrew D. White, a typical 19th Century thinker, said that "The supporters of right reason in political and social science finally conquered theological opposition"; that Calvin, when he changed his mind and defended interest-taking, "turned finally in the right direction"; and that with the emergence of an attitude unhesitatingly favorable to interest"social science as applied to political economy had gained a victory, final and complete."

Thus most 19th Century writers, in Western civilization, fatuously assumed that they had reached the high point of complete rationality and absoluteness, and that preceding views concerning interest were largely irrational. Interest was considered the mainspring of that fully matured and stable economy at which the 19th Century thought it had arrived.

For that Century, although it sanctified the theory of evolution, was seldom able to perceive that its own economic ideas and moral attitudes were not absolute or eternal, but relative, and necessarily subject to change. And with changing conditions, its attitudes toward interest have come to be questioned. At first the questionings were not directed to fundamentals. In the latter part of that century, renewed recognition of the necessity for protecting the hard-pressed borrower led to the enactment or more strict enforcement of usury laws fixing maximum interest rates for certain kinds of loans. Generally speaking, however, those laws were inapplicable to or contained loop-holes with respect to, corporate borrowers. And those laws were the exception to the general approbation of the exaction of interest. More important, even those exceptional limitations were based upon regard for the borrower, the debtor,--and not upon any fundamental doubts as to the desirability of interest from the point of view of the creditor, the investor, or of the economy as a whole.

But in the 20th Century, such doubts have arisen. And it is now time that the following questions should be frankly and carefully considered: May it not perhaps be true that, in certain large areas of business, interest on long term debts plays altogether too large a part in our affairs, and that interest, far from being the mainspring of a profit economy, has today become a serious clog upon that economy, threatening perhaps, to endanger its continued existence? Do we not perhaps today have too much interest in interest?

Before I go on to discuss those questions, I must make clear what I mean by the word "interest." Sometimes, "interest" is defined so broadly as to include all returns on investment. Used in that broad sense, interest includes all profits including dividends. It is not in that wide sense that I am using the term. I am employing it to mean what bankers and business men mean, namely, a fixed amount payable for the loan of money. And I am referring to industrial long-term loans not to commercial short-term bank loans.

The question, then, which I want briefly and most tentatively to discuss, is this: Is it perhaps not desirable that the bulk of long-time financing of our major American industries should hereafter be done through the issuance of shares of stock, rather than by borrowings through the issuance of long-term bonds? Should not investors in such industries perhaps be stockholders, entitled to dividends payable out of earnings, rather than creditors legally entitled to demand payment of interest at fixed intervals, regardless of earnings?

Now, those are not wholly novel questions. Over many years, in the province of railroad finance, keen practical-minded men have said, recurrently, that it is imperative that too much of such financing should not take the form of bonds. The statutes of several states, enacted three or four decades ago, attempted, although most inadequately, to provide that no railroad could issue bonds unless they were balanced in some proportion by funds procured through the issuance of stock. One of the practical obstacles to

the accomplishment of that purpose was this: Bonds could be sold at a discount to meet fluctuating market rates; but shares of stock, since they had a par value, could not, in most states, be sold below that par value without subjecting the purchaser of the stock to a stockholder's liability equal to the amount of the discount.

Accordingly, early in this century, President Hadley of Yale, after a study of the railroad problem, made a report recommending that railroads be authorized to issue no par stock; in that way, he thought the obstacle I have referred to could be surmounted. (Parenthetically, it was that report which gave the initial impetus to the enactment of no-par statutes in this country). But it has turned out that the removal of that obstacle did not importantly further railroad stock financing. With one or two exceptions, the railroads of this country, as they have been cyclically reorganized, have continued to employ, to a very large extent, interest-bearing securities. And, while the present plight of many railroads involves causes which affect their very capacity to earn anything, no one can deny that one important cause of the difficulties of most railroads today is to be found in the terrific burden of interest charges, causing default, maturity of the principal of their debts, and bankruptcy - because conditions make it impossible to earn those fixed charges.

The English railroads sought to meet that difficulty through the issuance of bonds having no fixed maturity date as to principal. In that way, those railroads avoided the necessity of periodically refinancing when the due date of the *principal* of their bonds arrived. But even that English device does not go to the heart of the difficulty. For even such bonds bear interest which, unless paid upon a date certain, precipitates default and, in effect, matures the legal obligation to pay the principal. And it is the disastrous effect of defaults, which occur because of the inability to meet the legal requirement to pay fixed interest charges, even when not earned, which constitute the principal defect in the method of financing through interest-bearing securities.

Accordingly, for many years, the suggestion has bobbed up, again and again, that railroads be reorganized and subsequently financed through the issuance solely of shares of stock. And if we inquire into the reason for that recurrent suggestion, we might conclude that it is perhaps appropriately applicable not only to railroads, but to other major industries.

For it has been often observed that when a railroad is unable to meet its interest charges, and is forced into bankruptcy, so that the principal of all its debt matures, the bondholders are almost invariably injured. Immediately upon the appointment of a receiver or trustee, it is the usual practice to suspend in whole or in part the payment of interest, and in that manner the bondholders suffer. But there is a more important cause of injury to them. Theoretically the bonds call for the payment of the principal and interest of the bonds in cash, and theoretically, when there is a default the bondholders have a right to have the property sold for cash, and to receive the proceeds in cash until they have been paid in full. But everybody knows that a railroad, when it becomes financially embarrassed, is not, in anything but form, sold for cash, and that the bondholders do not receive payment of their bonds. The foreclosure is purely formal, and not real. What actually occurs is what is known as a reorganization. And the reorganization terminates in the formation of a new company which issues new

securities in exchange for the old bonds. Usually, those new securities are in part bonds and in part stock, and the new bonds are usually subordinated bonds, because new money is required, and for that new money prior lien bonds of the new company are issued, which rank ahead of the new bonds given to the old bondholders. Since reorganization of most of our railroads has been a periodic phenomenon, this may often be said: *A railroad bond is in fact not a binding promise to pay the principal and interest of the bond, but contains an implied option, running to the so-called borrower, to issue to the bondholder, in place of payment, a new, junior bond and some stock in a reorganized company.*

And the reorganization is not a speedy process. It usually occupies several years. The net result is that *the chief beneficiaries are the lawyers, the accountants and the reorganization bankers.*

The purchaser of a railroad bond thinks that he is receiving an unequivocal assurance of the payment of interest and also of the principal either at maturity or in the event of a default. He is, in fact, receiving nothing of the kind in most instances. The agreement to pay the interest and the principal cannot be carried out unless the earnings of the railroad are sufficient. And when hard times come, as they recurrently do, the earnings are not sufficient.

A railroad bond is therefore merely a claim to a portion of the income of the railroad, a claim which ranks ahead of the claim to a portion of that income which is represented by stock.

Every railroad bond is thus, in last analysis, merely an income bond of a certain kind. And the provision of the bond calling for the payment of interest, instead of being to the advantage of the bondholder becomes, in a period of drastically reduced earnings, a source of grave injury to the bondholder. He would often be far better off if, instead of having a theoretical right to interest which, when not realized, precipitates the railroad into wasteful and expensive reorganization, he had a claim to a portion of the profits, payment of which was not legally required except when sufficient profits were earned.

Now, there are such things as income bonds which expressly read in that manner as to interest - that is, bonds which say that the interest is to be paid only if it is earned. But experience has shown that those *income bonds are very much like preferred stock without voting rights.* And many students of railroad finance believe that bonds of that kind impede railroad financing and should never be employed.

The history of railroad finance, therefore, goes to show that, so far as railroads are concerned, the investors would perhaps be far better off if they realistically recognized that they had only a prior claim against earnings and if, therefore, the securities issued to them consisted of stock, entitled to earnings, but not so legally devised as to cause defaults and costly and wasteful reorganizations in the event of defaults. In other words, the history of railroad financing goes to show that maybe, at least with respect to railroads, *we need to take a new attitude concerning interest: that, while, in earlier periods, the condemnation of interest-taking -- whether it purported to be based on theological, or moral, or economic grounds -- was founded upon a regard for the borrower, today we may perhaps need to put*

severe restrictions upon interest-taking, out of regard for the welfare of the investor.

And if that should turn out to be true as to railroad financing, it may be that it would be equally applicable to the financing of our other great industries. For much the same conditions often maintain there as in the field of railroad finance: Defaults in the payment of interest on bonds often cause bankruptcy and reorganizations, injurious to the bondholder as well as to the stockholder.

At the annual meeting of the United States Steel Corporation on April 4, 1938, Mr. Myron C. Taylor, Chairman of the Board, made the following interesting remarks:

> "In 1929 the financial structure of the Corporation was materially changed through the redemption of the mortgage bonds of the Corporation to the value of $340,000,000. This was managed through the sale of $1,016,605 shares of common stock supplemented by a draft on current cash funds. Also $30,000,000 of the bonded debt of subsidiary companies was then retired.
>
> "That transaction relieved the Corporation of a charge of about $31,000,000 a year. *It is fortunately not necessary to speculate as to what would be the condition of the Corporation today, had it been required to pay this heavy interest charge during the depression years.*"

It would thus appear that for a time, at any rate, one of our greatest industrial corporations reverted, after a fashion, to the wisdom of the Church fathers with respect to interest.

Up to this minute, I have been calling your attention merely to the effect of defaults upon individual business enterprises. But the consequences are often of far greater magnitude. When a depression comes, then simultaneously, or almost simultaneously, the earnings of most industries begin to shrink to the point where interest charges cannot be met, and where defaults, over a wide area, accordingly occur. As a consequence, the kind of business paralysis happens which can be overcome only by bankruptcy, not only in one industry, but in numerous industries. And severe contractions in one sector of business augment the difficulties in other sectors so that the effects inter-act and are cumulative. A long and complicated series of bankruptcies begin, and grow longer and longer. And thus a depression, which might otherwise be restricted in scope, grows rapidly and disastrously. Default-creating interest charges make for bigger and deeper depressions. The creditor is, seemingly, victimized by interest, and the entire economy suffers from tragically serious spasms. Thus a large volume of long-term loans, because of their inelasticity, may threaten to impair the profit system.

The claim on the corporate earnings represented by a share of stock is of a different kind from that represented by a bond. The claim to dividends is elastic and varies with the corporate earnings. If a company fails to pay dividends when its earnings shrink, bankruptcy does not ensue.

The investors in bonds have often been fooled by what is often little more than a formal legal device. They have apparently given too much heed

to the words used by lawyers. They think that since they are called "creditors," and since the company has agreed in writing to pay them fixed sums on fixed dates, they are secure from the risks and uncertainties of the business and that their bonds put them in a position which is fundamentally different from that occupied by the stock holders whom they look upon, collectively, as their debtor. That is, the investor who invested in stocks is considered a part owner of the business which is indebted to the investor whose investment is in bonds and who considers himself separate and apart - as a creditor. Yet on the judgment day, when the company goes into bankruptcy, both creditors and stockholders become reduced to the common denominator of risk-sharers. By no mere legal verbiage can the creditor be guaranteed against, or insulated from, losses in the earnings of the company. The paper assurance, set forth in many long and complicated words by the lawyers, is meaningless in the absence of the brute fact of corporate earnings. The bondholder's secure and riskless creditor position is an illusion, a lawyer-made delusion. The truth of the matter would seem to be that the bondholder, the so-called creditor, is merely a preferred investor, one whose claims against the corporate income, if there is any income, ranks ahead of the claims against the corporate income which the stockholder possesses.

The bondholder, like the stockholder, is but a part owner in the enterprise. It might be said (again to dramatize by over-emphasis) that he is, in the last push, merely a peculiar kind of preferred stockholder without the right to select the management except in the event of default, bankruptcy, and reorganization.

It is true that when investments in a corporation consist entirely of stock, the power of the management may be considerably greater. For, when earnings fall off, the directors can fail to pay dividends. They cannot, however, refuse to pay interest on bonds without causing default, bankruptcy and reorganization. And, in such a reorganization, the bondholders are in a theoretical position to demand, and sometimes do demand, that a new management be installed. Reorganization thus creates an opportunity for a thorough scrutiny of the past conduct of the management. And this opportunity, which is sometimes availed of, may be highly desirable. But such scrutiny, via bankruptcy and reorganization, is an excessively wasteful means of obtaining such an investigation into the past conduct of the management. We may perhaps, conclude that, if possible, other devices for procuring such investigations should be devised.

It is also true that when a corporation is financed entirely through stock, an old management can often continue in power if it fails to earn or to pay dividends over a long period. But many corporate charters provide, and all corporate charters could be made to provide, that in the event of a failure to pay dividends on preferred stock for a given period, the voting power shifts and is restricted to that preferred stock which thereby, as a class, becomes vested with the power to oust the old management. The right to change the management can thus be procured for those having preferred claims against the earnings without the necessity of resorting to the hideously expensive and drastic remedy of bankruptcy and reorganization.

See where this may lead us: When all is said and done, the chief difference between the bondholders as a class and the first preferred stockholders as a class, is that the bondholders, if they do not receive an

agreed share of the earnings, are in a position to cause bankruptcy and, only in that manner, to oust the old management. As long as the bondholders receive their share of the earnings, they cannot disturb the management and have no right to participate in the election of the management. If, however - to put an extreme case, for purposes of dramatic emphasis - all investors now holding bonds were, instead, preferred stockholders and their preferred stock contained appropriate provisions for preferred or exclusive voting when dividends are in arrears, they would have virtually all the advantages which they would have possessed if they had been bondholders, and they, and the economy as a whole would not suffer from the periodic wholesale application of the disastrous remedy of bankruptcy and reorganization which occurs when a depression commences.

It should also be noted that the desire of management to avoid defaults in interest often puts such pressure upon management, in its desire to avoid criticism and ouster, as to induce management to skimp necessary and desirable expenditures for maintenance of plant and the like, in order that interest charges can be met. What has happened in recent years in the railroad field, because of that fact, goes to show how injurious such conduct may be both to the investors and to the whole economy. Once more then, the interest charge might be said to be an instrument of evil both with respect to the investor and to the successful conduct of a profit system.

It would seem to be untrue that large corporations cannot be financed solely through the issuance of stock. Some of our largest industrial corporations have been principally financed in that manner. Nevertheless, a considerable amount of financing of our industrials, and especially of our public utilities, has been done through the use of long-term bonds, and, not infrequently, with unfortunate consequences.

The same may be said with respect to the financing of real estate improvements. We are so accustomed to mortgages on real estate that we have given little critical reflection to the havoc often wrought by interest defaults, foreclosures, and insolvency, when building earnings proved periodically insufficient to meet fixed interest charges.

Whether companies finance through bonds or preferred stock or common stock is often determined not by "economic principles" but by custom, the habits of bankers and the current prejudices of investors. Accident, too, plays a part: In New England, for example, there was for a long time, and probably there still is, a prejudice against the issuance of bonds by a new manufacturing enterprise. This prejudice, it is sometimes thought, resulted, in some part, from the fact that, for a long time, most of New England states imposed a tax on bonds whereas stock was tax-free. There are fashions in securities just as in clothes or automobiles or many other things. For a while it was considered good financial merchandising to issue Class A and Class B stock; after a time this practice lost favor with investors. The use of income bonds, to which I referred a moment ago, is really a concession to investor-habits. The income bond, as I have said, is little more than a voteless preferred stock, but the name "bond" is retained largely to satisfy investors who want to buy bonds. It gives them visceral satisfaction.

The principal characteristics of a bond which distinguish it from stock are, first, that a bond contains a promise to pay fixed amounts, at fixed intervals, second, that it has, on paper, a fixed maturity date, and third, that the bondholders have a certain legal right -- the right to foreclose --

in the event of failure of the management to meet the terms of the bond. We have seen, in the income bond, a tendency, although inadequate, to get away from the fixed promise to pay. The British railroad bonds evidence, too, a desire on the part of British railroad corporations to avoid the burden of a stated maturity date. Just the other day an American industrial company announced its intention of issuing what is called "Debenture Shares" which the company described as "a corporate contractual obligation of indebtedness without fixed maturity." But both that type of bond and the British railroad bonds contain the troublesome feature that the bondholders have the legal right to demand payment of principal in the event of non-payment of interest. When bond-buyers can be made to realize that this feature of the bond is, often, without real meaning, then perhaps we shall see corporations and railroads giving up the bond as a means of raising capital.

To sum up: One of the most commonly accepted, and yet, apparently, one of the most disturbing, elements in our modern capitalist economy, is the recurrent necessity imposed on industry of meeting fixed interest charges on long-term debts. It seems to augment depressions by bringing upon us bankruptcies and receiverships, costly, wasteful, destructive. We have, perhaps, heretofore too uncritically accepted, as an inherent part of our profit system, that a large portion of investment in our industries should consist of such long-term interest-bearing obligations with a legal requirement to pay interest regardless of earnings.

It may be that that is an instance of a "cultural lag" -- the failure to adapt customs to altered conditions, a retention of social habits after they have become anachronistic and socially harmful. We can observe instances of that kind in primitive communities. "In a certain island of Oceania", says Ruth Benedict, "fish-hooks are currency and to have large fish-hooks came gradually to be the outward sign of possession of great wealth. Fish-hooks therefore are made very nearly as large as a man. They will no longer catch fish, of course. In proportion as they have lost their usefulness they are supremely coveted." Perhaps our devotion to interest is our kind of fish-hook -- which we do not recognize as such because it is imbedded in our own folk-ways. As Maitland said, "Superstitions look odd when they have ceased to be our own superstitions." Our own superstitions are often as odd as those we have discarded.

It would seem that perhaps it is time to consider carefully whether a movement away from such interest-bearing securities toward what are known as "equity" securities would not, because of the increased flexibility, bring greater security to all investors and do much to eliminate one important factor tending to undermine the profit system. I recall to you the fact that one of our best-loved popular philosophers, the late Will Rogers, was fond of saying, "The main trouble with the world is that Old Man Interest's got us."

Please understand that I am merely raising for discussion, and not purporting to answer, the question: Do we not have too much interest in interest? (And, even in raising it tentatively, any attitudes I intimate are to be taken not as an official statement but as personal to me.)

That question cannot be answered adequately without the most painstaking and elaborate study of insurance company investments. The S.E.C., in connection with the work of the so-called Monopoly Committee, is moving towards a beginning of such a study -- which will, of course, involve consultation with

insurance company executives and experts. As State laws stand today, life insurance companies cannot invest at all extensively in shares of stock. It is interesting to note that, to a considerable extent, fire insurance companies have invested in such shares. One of the questions that needs to be carefully canvassed is whether life insurance companies should not also make such investments.

In order, adequately, to comprehend what would be the effect of a substantial shift from bond financing to stock financing it would also be necessary to study, exhaustively, the needs of savings banks and of the savings departments of commercial banks. Laws regulating their investments and obligations should, of course, be carefully canvassed. And the same is true with respect to the statutes regulating the investment of trust funds.

In all of the foregoing, I am, of course, not dealing with commercial short-term loans by banks. For the financing of ordinary short-term commitments of industry (for working capital, purchase of materials and the like) through such commercial bank loans, bearing interest, is, of course, in an entirely different category.

CONCLUSION

The Communists insist that no profit economy can endure -- even in these United States. They base that conclusion on severe criticisms of certain unfortunate consequences of past operations of our profit economy. Those, like myself, who do not agree with their conclusion, and who believe that we can, by the careful use of intelligence, maintain a profit system inside our democracy, must pay heed to their criticisms, to the extent that they are valid, and show that a profit system can endure and that our population, inside a political democracy, can flourish by adaptation and changes in our conduct of our profit economy. We must, that is, answer their criticisms by deeds and not by mere angry words. We must reconsider certain of our customary habits and attitudes which grew up and have existed for only a relatively short time, and which today seem to produce highly undesirable effects. We must not be misled by foolish and short-sighted economists who insist that virtually all existing habits and attitudes constitute eternal and immutable principles of action. It has been well said that none of the afflictions of humanity are worse than its obsolete principles. A principle is what a principle does. And we must not be so unwise as to venerate all our customs, worshipping them under the name of fixed principles or economic "laws", regardless of their human consequences.

It is in that spirit of tentative critical scrutiny that I have suggested cautious inquiry into the device of long-term interest-bearing debts as a means of financing the activities of our major industries. To be sure, if we were, in the future, severely to restrict the use of that device, we would seem to be turning back, in part, to attitudes and habits cherished in the Middle Ages. But that fact would not necessarily indicate unwisdom. Practices once cherished and then abandoned can, sometimes, wisely be revived. Chesterton said that Medieval Christianity had not been tried and found wanting, but had been found difficult and left

untried. The future, he remarked, is often used as a refuge from the fierce competition of our forefathers; "the older generation is knocking at our door". To the comment that "you can't put the clock back", he replied: "The simple and obvious answer is, 'you can'. A clock, being a piece of human construction, can be restored by the human finger to any figure or hour." While that is, patently, a dangerously oversimplified statement (since modern industrialism has introduced novelties which block a reversion to many old ways of life, if we are to avoid chaos) yet there is some truth in Chesterton's attitude, as there is in his arresting statement: "I merely claim my choice of all the tools in the universe; and I shall not admit that any of them are blunted because they have been used." There is need for a change in some of our present customs and habits. And the change can consist, in some part, in the revival, and adaptation to current affairs, of past customs and habits. That portion of the Medieval outlook which led to a condemnation of interest we should perhaps return to -- returning, not full circle, but, so to speak, as if on an ascending spiral, returning, that is, on a more sophisticated level, to an appreciation of the fact that too much interest, if it be not a moral, may yet be an economic sin.

Jerome Frank

---oOo---