

The instability of the naturel rate of interest as a consequence of the nature of capital and of the social relations

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Abstract

Knut Wicksell (1851-1926) does not produce a systematic theory of economic crisis. Yet some element can be found with his cumulative processes, the business cycle, and the maladjustment of investments plans (Wicksell 1898a, chaps. 8–9, 1898b, 2001; Boianovsky 1995). I argue that one element is always present and central in his analysis of cycles: the natural rate of interest on capital. “Wicksell’s dilemma finally is: how to think about the stability of the natural rate” (Jenn-Treyer 2004, 177; see also De Bornier 2004, 163). In order to understand economic growth, political economy used to emphasize the significance of the rate of interest in the accumulation, or consumption of capital. But one has to properly distinguish between two issues: the existence of interest, and the level of the interest rate.

Two different traditions are opposed in the analysis of Wicksell theories. One argues that Wicksell does have a non-ideological approach of political economy insofar as he fulfills to distinguish his political commitment in Scandinavians countries and his theories. The other one argue that his theories are driven by his political commitment (Carlson and Jonung 2004, 37–38). I argue that by considering Wicksell political economy as a whole, it can be seen that his vision of justice drives his approach to theory. On the economic side, it cannot be denied that Wicksell is a marginalist. Yet, even if he says that the marginal principle governs each part of political economy, he is more cautious regarding capital and monetary theories. I argue that his description of the natural rate as constantly variable is embedded in value judgments. Indeed, this variability emerges as a consequence of social relations and of the nature of capital.

The rate of interest on capital – the natural rate – is depicted as the remuneration of the use of real capital in the process of production. Wicksell relevantly points the problem with the level of this rate and explains that “the natural rate is not fixed or unalterable in magnitude. [...] In

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general, we may say, it depends [...] on all the thousand and one things which determine the current economic position of a community; and with them it constantly fluctuates” (Wicksell 1898a, 106).

My paper aims at showing that the level of the interest rate on capital is dependent on the stability of the social relations. An enquiry into the nature of capital allows to understand the fundamental instability of economic processes of production as they depend on the natural rate of interest on capital. Its level can only be determined for the stationary equilibrium and only for the individual point of view. At best for the social level, some bounds can be given. This indeterminacy emerges as a consequence of the nature of capital considered as different length of time free to vary at will with classes’ anticipations. Indeed, the entrepreneurs’ decisions and anticipations of investment are funded on their will to maximize their income even though this may reduce the social product. Hence wrong anticipations are frequent and discrepancies between ex ante investment and ex post actual production arise that render the capitalistic process of production unstable.

First I argue that one has to study the nature of the “period of investment” to understand the nature of capital as temporal. The capitalistic process of production takes time. Advances have to be made by entrepreneurs and thus, investment to make those advances must be reckoned from the performance of the services of labour and land to the moment when the finished product is brought into being. This enables to stress the importance of investments’ decisions. Secondly, I show how Wicksell’s structure of capital through time could allow to theoretically determined the level of interest. Nonetheless the stationary state upon which the structure is built has to be discussed as it seems to contradict with his own definition of the nature of capital. Finally, I argue that once Wicksell’s political economy as a whole is reckoned, it sheds light on the unstable nature of the capitalistic production as the natural rate of interest changes continually and depends not only on physical forces, but mainly on psychic motives. Those motives take place in an uncertain world where the social classes act on conflicting interest.