

INTEREST.

USURY, or the exaction of interest for loans of money, or other valuable property, was at one time regarded as immoral; and a similar theory is now being revived in certain quarters, apparently because it is supposed that interest lowers wages. There are some grounds for this last opinion. Wages will be in the long run that portion of the produce of labour which remains after replacing the capital, paying the rent when necessary, compensating the capitalist for his risk and his labour in planning and superintending the work, and paying the interest on the capital invested in it. Other things being equal, an increase in any one of these items will diminish wages, and a decrease in any one of them will raise wages. But this property is not peculiar either to interest or to rent; and an attempt to depress unduly any one of the ordinary elements of production will often lessen production to such an extent as to depress rather than to elevate the remainder. Rent cannot, I believe, be got rid of; neither can wages of superintendence, nor insurance, which, as I have intimated elsewhere, would be better described as compensation for risk. This last element, indeed, enters very

largely into the cost of production, for it enters into interest and wages as well as into the profits of the capitalist. The rate of interest is always high when the risk is considerable, and it sinks to the lowest point where there is practically no danger of losing any part of the principal. So, too, the rate of wages is higher, not only in unhealthy and dangerous employments, but also in those where there is most risk of the labourer being out of work. The man who lives by picking up odd jobs must be remunerated, for the time during which he is at work, on a much higher scale than the man who is in constant employment. In fact, farmers find it best to hire some of their labourers by the year, though at particular seasons they have little or no work for them. And the influence of risk upon interest is evident from the fact that men often lend money without interest, not from motives of friendship or gratitude, but merely because they think it will be safer than if it remained in their own possession. This is the case when money is lodged in a bank which pays no interest on lodgments. It is left there because the bank is the safest place for it.*

It is, perhaps, this last circumstance which has enabled the theory that interest ought to be abolished to obtain some hold on the public mind. For we con-

* Also, perhaps, because the system of drawing cheques on a bank is one of the easiest methods of obtaining change for it. We can in this way always obtain, on the shortest notice, the exact amount of change which we require. If my possessions consisted of a £100 note, I might find it difficult to pay £19 5s. 2d.; but if the money is lodged in a bank, I have only to draw a cheque for that sum.

stantly see men lending money without interest, and not imagining that they are conferring any great favour on the borrower thereby. The capitalist, it may be said, would not be deterred from employing his wealth as capital even if interest was altogether abolished, because he could not otherwise earn the wages of superintendence which even at present often supplies his principal means of livelihood. He earns this wages at present, not only on his own capital, but on the capital which he borrows at interest; and it would be to his advantage if he could borrow the requisite amount of capital without interest. The abolition of interest, therefore, would not impede industry and commerce, provided we distinguish between interest and insurance. No man should be required to lend money without being insured against loss; but if interest was reduced to the sum which was necessary for this purpose, more would be left both for the working capitalist and for the labourer. The landlord might indeed come in for a share of the advantage, but I do not see how he could obtain more than a share of it.

Political economists, however, insist that the owner of wealth who prefers to lend it rather than to consume it requires some compensation for his *abstinence*. But if with a fortune of £10,000 I lend £5000 of it for a year, what credit do I deserve for my abstinence? If I spent all my property in a year, I would find myself a beggar at the end of it. A prudent man would preserve a part of his fortune to maintain himself in old age, and to provide for his family, even if lending money at interest

was made a capital crime. The abstinence which consists in not spending my wealth as fast as it comes in is not in any sense the source of interest. Bees and ants practise that kind of abstinence. But though the doctrine in question is badly expressed, it seems to me to be substantially correct. Men who lend money for productive purposes do in fact practise an abstinence or forbearance which merits a reward, and which would not be practised unless it was rewarded. This abstinence consists not merely in refraining from spending their wealth, but in parting, for the time at least, with their control over it. If I lend a man £1000 for a year, I cannot make any use of it during that year. I may meet with something which I desire to purchase in the meantime. I may meet with an investment which would induce me to become a capitalist and earn wages of superintendence. I may require money for an expensive lawsuit. I may have some special reason for travelling abroad. I may find a friend in distress and desire to assist him. I may wish to lay out money for some political, charitable, or religious purpose. But if I have lent the money for a year, I cannot obtain what I require for any of these purposes unless I can find someone who is willing to take the loan off my hands, which most probably he will only do on receiving a premium. Interest proper is compensation for parting with this control over my wealth, and its amount will of course depend on the length of time during which I am required to part with my control over it. No one would draw a distinction between parting with the control over his

wealth for 500 years, and losing it altogether; for we feel no interest in the persons who may be our heirs or representatives at the end of that period. The compensation for lending money for 500 years would not therefore be adequate unless it was equal, or almost equal, in value to the amount thus lent. Money is power. Its value arises from the power of exchanging it for other useful commodities. When this power is vested solely in me, I cannot be expected to share it with another without receiving compensation for so doing; and it is as much shared between myself and another man when he takes the whole for a time, and I am to enjoy it afterwards, as when he takes a part while I keep the remainder. If man was immortal, and the future was to him of equal value with the present, there might perhaps be no such thing as interest; but man is not immortal, and the value of the future decreases rapidly as that future becomes more remote. £1000, payable in fifty years, is not of the same value to me as £1000 payable now, because the chances are that I will not be alive when it becomes payable, while, even if living, my powers of enjoyment will be greatly impaired. Many of the friends, too, who might have derived a benefit from it if paid now, will then be dead also, or if living will be no longer capable of being assisted by it. The boy on whom that sum might now confer a liberal education will then be an ignorant elderly man, whose position in life cannot be materially improved. But supposing that the element of risk is excluded, the only difference between £1000 payable now, and £1000 pay-

able in fifty years, consists of interest, or rather discount. No one in his senses would pay £1000 now for the same sum, fully secured, but payable at the end of half a century. He would offer a much smaller sum; and the difference would then represent the discount arising from the condition of deferred payment. But discount is evidently interest in a different form.

It is now easy to explain why money is often lent to a banker without interest. It is simply because the lender does not part with the control over it. The banker is bound to pay it back whenever the lender requires him to do so. The latter has as much control over the money as if it remained locked up in his desk, while it is in a condition of greater security. But when the banker asks to have the money left undisturbed for three months, or for any other definite period, the question of interest immediately arises. The owner of the money ceases to have complete control over it, and demands and receives a compensation in consequence. And the same consideration enters into every description of hiring. No one would lend a piano, a horse and cart, or a sewing-machine, for a definite period, on terms that merely compensated him for the wear and tear of the article, and the risk of loss. He demands and obtains a further compensation for parting with the control over the article which he lends. This compensation is interest. Indeed, rent itself arises from a similar source; for if the future was of equal value with the present, why should not the landowner lend his land for a year on terms of getting it back in an equally good

condition, when that time had elapsed? No one, moreover, would pay rent for land if he was bound to give up possession whenever the landlord demanded it. On the contrary, he would probably ask for some remuneration as caretaker. It is because the landlord parts with the control over the land for a definite period that he exacts a compensation in the shape of rent, and the rent will naturally be higher or lower according as the control over the land has been more or less completely parted with.*

From these observations it seems pretty evident that interest must always form an element in the cost of production, though its rate may be higher or lower under different circumstances. Money repayable at call cannot be invested in useful works with advantage. I would not borrow the money which was required to build a house or a ship, if it was probable that I should be called on to repay it before the house or ship was completed, and in a saleable condition. I might possibly be able to effect a second loan in order to pay off the first, but it is more probable that I would be compelled to stop payment or to suspend the work. Unless, therefore, I could borrow the money for a definite time I would not borrow it at all, and the house or ship would remain unbuilt, unless I had enough money of my own for the purpose. Nor is the case materially

* And, as I have noticed elsewhere, when the actual rent is less than the economic rent, the explanation often is that the landlord has not completely parted with the control over the land even temporarily. He has let it subject to a number of restrictions which are often both useless and vexatious.

altered if I expend my own money for the purpose. I must evidently deprive myself of the control over the money until the house or ship is sold, and for this I require some compensation. Loans for a definite period, and interest as consequent on such loans, must therefore always occur when money is expended productively, and consequently interest always forms an element in the cost of production. The notion of getting rid of it altogether under any system which recognises private property is chimerical. Whether it could be dispensed with under a socialistic system I do not inquire.

While productive loans must always bear interest, however, it is evident that even if there were no means of expending wealth productively, loans at interest would still take place. Persons with fixed incomes would often find occasions for anticipating their incomes, as, for example, when a father wished to make some provision for a son or daughter. Or again, payment of his income might be delayed beyond the usual time, or the amount of it temporarily reduced, as in the case of a landlord after a bad harvest. Such landlords and many other persons might have occasion for loans for a definite period, although there had been no undue expenditure of money on their part; and persons who exceed their incomes often, for a time at least, possess sufficient credit to obtain loans on the ordinary terms. There would thus be a demand for loans of money at interest by persons capable of repaying them—or at least supposed to be so—even if what I may call mer-

cantile loans did not exist ; and it is probable that loans of this kind preceded mercantile loans in order of time. I am, therefore, unable to accept the theory of Mr. George, that interest arises from the natural tendency of certain things to improve with time—of a calf, for instance, to grow into a cow. To this theory various objections occur. We must, of course, in comparing the calf with the cow take into consideration the labour involved in feeding and taking care of the animal during the interval, and the risk of its dying ; and unless the land is rent-free, rent must also be included. This being premised, why should the value of the cow exceed the value of the calf by more than the rent, wages, and insurance required to convert the one into the other, unless we presuppose the interest which we are seeking to explain ? Mr. George likewise refers to wines, &c., which improve with age. But this in reality points to an exceptional case, in which a loan may be made without requiring any interest. I may safely lend a man a quantity of new wine on his undertaking to return me the same amount of ten years' old wine of the same quality in ten years' time, provided that the element of risk is excluded. Such a loan would save me the expense of storage, &c., in the meantime, and therefore if the return of the wine was secured, I would not only demand no interest, but probably offer a small premium to the borrower. If Mr. George had stated that the source of interest was the power of expending capital productively—expending it in such a manner that the new capital produced exceeds that which has been consumed

in producing it—he would have been nearer to the truth. It is this natural tendency to improvement that gives rise to the demand for what I have called commercial loans—loans effected by persons who are not even temporarily in want, but who borrow money in order to make a profit on it. The borrower in such cases is often a much wealthier man than the lender; but he wishes to add to his wealth and borrows for that purpose. And while there would be a demand for loans at interest in almost any conceivable state of society, it is evident that this demand will be greatly increased, and the rate of interest raised thereby in any country in which commercial loans are largely resorted to. For the rate of interest is regulated by the law of demand and supply. Supposing that the element of insurance is eliminated, there are some persons who would prefer to lend their money even for a long term at one-half per cent. interest to keeping it idle in their own hands; but a great part of what is lent when interest is higher would not be lent at that rate. The supply of money ready to be lent, therefore, varies with the rate of interest. And the demand varies with the rate of interest also. If that rate was raised to ten per cent. some solvent persons would still borrow money, but a great many of those who now borrow would not do so; while if the rate fell to one-half per cent., many solvent persons who borrow nothing at present would be tempted to borrow by the very low rate at which money could be procured. The current rate of interest (supposing the element of insurance excluded) is that at which the

supply of money on loan is equal to the demand. If the demand exceeded the supply, some of the borrowers would offer a slightly increased rate of interest in order to secure the loan. If the supply exceeded the demand, some of the lenders would offer to reduce the rate a little in order to make sure of lending their money. Where a demand for mercantile loans exists in addition to what I may call the ordinary demand, the rate of interest will of course be increased; but such a demand usually exists in wealthy countries where there is abundance of money seeking for investment at interest, and the increased supply may more than counterbalance the increased demand. In this case the rate of interest will be low. Interest is paid on loans of all kinds as well as on loans of money. Thus, when goods are sold on credit, a discount is often allowed if they are paid for within a limited time, and it is a common practice to charge interest on the balances on current accounts which have remained due for a certain time, or to pass bills of exchange or promissory notes which bear interest from the time when they become due. Sales on credit are thus, in fact, loans of goods at interest. Our law, too, charges interest on all judgment-debts from the time that judgment is marked. Wherever a discount is allowed on cash payments, interest is really charged on sales on credit, though the amount may not vary with the time as in the case of ordinary interest. Loans of all kinds of goods, generally speaking, not only bear interest, but bear interest at the same rate; and if other goods fluctuated in value as little as gold

and silver, interest on such loans might be charged in kind rather than in money. But if I borrowed 100 barrels of wheat on condition of returning 105 barrels at the end of 12 months, the value of wheat might have so altered by that time that instead of paying 5 per cent. interest I should be paying 25 per cent., while if it varied in the opposite direction the lender might not only receive no interest, but find his principal diminished. For this reason in lending goods it is usual to value them and to stipulate for payment in money; though, when the time for payment arrives, it is often effected, in great part at least, in goods, which are likewise valued and taken as so much money.

In countries like England the principal demand for loans arises from the increased efficiency of labour, resulting from the application of capital. How this affects the rate of interest is easily explained. Suppose that the labourer, when working for himself, either without capital or with the scanty capital which he can command, can earn £20 a-year, but that the application of an additional sum of £100 will raise the value of his labour to £30 a-year, it is evident that the extra £10 represents the increased efficiency given to his labour by the application of £100 capital, and that if the labourer could borrow £100 at any rate of interest (including insurance) lower than 10 per cent., he would be a gainer by doing so. If money was scarce in the neighbourhood the lender might hold out for $9\frac{1}{2}$ per cent., and would, no doubt, succeed in getting it; but if money was plenty, and many persons were trying to

lend it at interest, the labourer might succeed in procuring what he required at 3 per cent., thus increasing his own annual earnings from £20 to £27. But it is clear that there would be a demand for money on loan at all rates below 10 per cent., arising from the increased efficiency which it conferred on labour. Most probably, however, the labourer would not succeed in borrowing the money, because the insurance or compensation for risk would be so high in his case that a loan at 10 per cent. could not be effected. The money would be supplied by a capitalist, who would hire the labourer and then apply the requisite capital. The labourer might prefer working for himself at £20 a-year to serving a master at the same wages, but an increase of his earnings to £21 or £22 would probably induce him to enter the offered employment; and £8 or £9 would then go annually to the employer for every £100 of capital invested in the undertaking, the greater part of which would represent interest. Suppose that £6 of it represented interest, the balance sufficing to cover wages of superintendence, &c., it is evident that it would be for the advantage of the capitalist to borrow as much money as he could at any rate below 6 per cent.; for as long as the rate of profit remained unaltered he could make 6 per cent. on the borrowed money, besides earning additional wages of superintendence. A demand for loans would thus arise on the part of the capitalist if not on that of the labourer; and if the rate of profits became higher, this demand for money on loan would be increased. Money on loan is in fact capital on loan,

and the demand for capital on loan will be greatest when the demand for capital is greatest, or, in other words, when the rate of profit is highest. Assuming that the risk is equal in the cases of borrowed capital and of capital employed by the owner, interest will only differ from profits by what has been called wages of superintendence. In commercial loans, however, the risk is seldom as great in the former case as in the latter; for as the capitalist is bound to repay the loan in full, so long as he has the means of doing so, any losses which he may sustain will fall in the first place on his own capital. The borrowed capital only suffers (in the absence of dishonesty) when that is gone.

There are, indeed, certain occasions when there seems to be a special demand for money as such, and loans of money are supposed to be effected for short periods at a higher rate of interest than would be paid for a loan of any other commodity. This usually takes place on the occasion of a commercial crisis. The element of risk, no doubt, comes in here, for the chance of the borrower stopping payment is really greater than at other times, and is in consequence of the general panic deemed to be even greater than it is. But anticipated high profits come in also. This fact is concealed by the circumstance that there has already been a loss, and one which, perhaps, the anticipated profit will not be sufficient to make good. But if a man borrows money at 10 per cent. interest for three or six months, the reason probably is that he expects his goods at the end of that time to realize more than that sum over the amount

which they would produce if an immediate sale was insisted on. He expects a large increase in the present value, and borrows money at a high rate of interest in order to retain the goods long enough to obtain the benefit of this increase. Hence it would seem that the high rates of interest current at these periods do not really form any exception to the general rule. However low the price might be, men would sell their goods rather than borrow money if they did not expect it to rise. And the reason why they would not pay the same interest (supposing interest to be paid in kind) on loans of other commodities is, that the price of these commodities is expected to increase. Few persons are anxious either to sell or to buy commodities on credit at such periods; but no one could purchase goods on credit at a lower rate of interest than that current for money—the interest being computed in money not in kind. The seller, indeed, is anxious to get ready money, and would be unwilling to sell on credit unless the rate of interest was a very high one. The ordinary laws thus hold good, except that there is increased risk on the one side and increased distress on the other; and consequently there is an increased demand for loans accompanied by a diminished supply.*

Interest has its rise in the same natural causes with profits. Profits are usually divided into wages of super-

* Risk always diminishes the supply of money offered on loan, for there are some persons who will not invest their money in risky undertakings at any rate of interest. This is more especially the case with trustees, &c., who can gain nothing if the venture turns out successfully, but are certain to lose if it does not.

intendence, insurance, and interest, and it is as impossible to get rid of the last of these elements as of the other two. Whenever men become willing to lend money for commercial purposes without interest, they will also be ready to invest it on risky undertakings without insurance, and to undertake the work of supervision free of charge. Profits being the same, interest proper will be greatest when there is least risk, and when wages of superintendence is lowest. As regards this latter kind of wages, it is to be observed that in many cases a skilled manager will answer the purpose, though it may be desirable to give him a personal interest in the concern by paying him a share of the profits. Wages of superintendence will thus vary with the wages or salary of a skilled manager—the man who acts as his own manager earning more or less, just as the paid manager earns more or less. And, with material progress and advancing education, there seems to be little doubt that the number of persons capable of acting as skilled managers will increase rapidly, and that wages of superintendence will therefore fall. It would thus seem that, unless the ordinary investments for capital become more and more risky as society advances, a progressively larger proportion of the profits will go in interest, and the variations of interest and profits will follow each other more closely. Interest, indeed, depends on anticipated profits rather than on profits actually realised; for the rate of interest must be fixed at the time of making the loan, while the profit is seldom realised much before the time fixed for its repayment. But as

society progresses our power of anticipating future profits will be increased, and profits and interest will therefore conform to each other more closely than at present.

Interest and profits thus going hand in hand, and both depending on the increased efficiency of labour arising from the application of capital, we are again led to inquire what determines the proportion in which the value of this increased efficiency is divided between the capitalist and the labourer. If the capitalist got nothing he would not apply his capital to the purpose. If the labourer got nothing he would prefer to work for himself. But at this point we are, I believe, thrown back on the old law of demand and supply—the quantity of labour seeking employment on the one side, and the quantity of capital seeking investment on the other. And like other instances of the law, both demand and supply vary with the price. There is capital—or, if you prefer it, wealth—which men are willing to invest in anything that will produce a profit of 10 per cent., but will not invest at a smaller rate of profit; and there are labourers who are willing to hire at 2s. a-day, but will take no less, or who will work at extra hours at a certain rate, but will not do so at less than that rate. Leaving rent out of consideration for the present, demand and supply will be equal when the capital seeking investment at a given rate of profit suffices to employ all the labourers who are seeking employment at wages which will just suffice to leave that rate of profit, after deducting the wages from the produce of the labour. If more capital than this is seeking investment at the

supposed rate of profit, some of the capitalists, finding it impossible to realise that rate, will content themselves with a lower one. Profits will fall and wages will rise. If, on the other hand, more labour is seeking for employment, some of the labourers will accept lower wages, and profits will rise with falling wages until the equation of supply and demand is re-established. But the capitalist and the labourer have a common fund to divide between them, and the share of either of them can never exceed the whole fund, or even become quite equal to it. If, for example, the expenditure of £100 increases the value of labour from £20 to £30 a-year, the profits of the capitalist must always fall short of 10 per cent., while the wages of the labourer must always fall short of £30 a-year; but profits may vary to any extent between a nominal amount and 10 per cent., while wages will similarly vary between £20 and £30 a-year. These variations are determined by the law of supply and demand, and any attempt to render them independent of that law would be vain. Every increase of wages above the point fixed by this law would diminish the supply of capital, and thereby diminish the amount of employment offered; and this remark is as true of interest as of profits—of borrowed capital as of capital which is used by the owner. In these observations, however, I have assumed that the only demand for money on loan is of the kind which I have called commercial. But in no state of society is this true. If the demand for non-commercial loans is sufficient to keep the rate of interest at 2 per cent., even though

the commercial demand was entirely withdrawn, the rate of interest must always be higher than 2 per cent., and the labourer's wages, in the case which I have been examining, must always fall short of £28 a-year

If we now suppose that the number of labourers in the district remains constant or increases slowly, while capital increases rapidly, a fall in the rate of interest will take place. Capitalists will compete with each other for the labour which is to be had, and wages will rise; while the increased produce arising from the expenditure of a larger capital will probably not possess the same proportionate value as before, and profits will be still further retrenched. At first each labourer (we will suppose) earned £21 a-year, and the capitalist derived £9 profit from his labour; but competition ultimately forces wages up to £24, while the produce of the labour is only value for £26, and the capitalist has now a profit of £2 on each £100, instead of £9 as before. But the low rate of profit has checked the growth of capital, and persons who would use their wealth as capital, if profits were higher, now prefer to consume it unproductively, or to seek investments for it in some distant locality. The increase of wages and diminution of profits must thus ultimately cease; and though interest has been greatly reduced during the process, it has not disappeared, nor can it possibly do so. There is no longer an increasing demand for labour, because capital has ceased to increase. The annual profits only suffice to pay the ordinary annual expenditure of the capitalists; and assuming that the population does not

increase, and that no improvements are made, a stationary condition is the result.

This gradual decrease of profits or interest, and tendency towards a stationary condition, however, are always interrupted by other changes. Suppose that when the produce of each man's annual labour has fallen to £26, and his wages have risen to £24, a new discovery is made which renders the produce of each man's annual labour worth £35. The gain is at first almost entirely on the side of the capitalist. By leaving his employment, the labourer cannot earn more than the £24 which he already receives—perhaps not so much. Interest, therefore, rises, while wages remains stationary. But at the new rate of profit capital increases rapidly, not only because the present employers add their savings to their capital, but because capital is attracted from a distance by the high rate of interest or profits. There is, accordingly, an increased demand for labour, and wages begins to rise whilst interest falls—a larger and larger proportion of the total produce going in wages* every year, though the whole can never do so. In these remarks, however, I have assumed the number of labourers to be constant, or nearly so. In point of fact, however, it usually increases, and increases most rapidly when wages is highest; for not only do men with high wages find it easier to marry and bring

* I mean the wages of labourers, not wages of superintendence as it has been called. The competition of capitalists raises the wages of labourers, but it lowers wages of superintendence. The variations of these two kinds of wages are thus often inversely related to each other.

up families, but high wages attract labourers from other districts. As increased competition among capitalists raises wages and lowers interest, so increased competition among labourers raises interest and lowers wages. Capital is subject to more frequent and violent fluctuations than the number of labourers. When speculation is rife, the amount of capital in use in any particular place or any particular branch of industry may be largely increased by loans, or by diverting capital from other places or other uses. A great failure may throw a large number of labourers out of employment, and a great deal of capital is often withdrawn from use, at least for the time, on the occasion of a commercial crisis. Wages, therefore, may fluctuate violently when the progress of population has been pretty steady, and can hardly be regarded as excessive. A fall in prices may indeed lead to the temporary abandonment of some branch of industry altogether. Suppose that when a given quantity of any commodity sells, after replacing the capital, for £25, the amount which goes in wages is £21, it is evident that if the price falls to £20 either the labourers must submit to a considerable reduction, or else the production of the article in question must be given up. The current rate of wages at other occupations or in neighbouring places may induce the labourers to refuse to submit, or they may be induced to do so by some demagogue or some association—in all of which cases the works are closed. As a rule, interest only falls when capital is increasing faster than the labouring population ; in which case wages will

rise at the same time. But to this rule there are many exceptions, some of which I have indicated when treating of Capital and Labour.

But what has Land or Rent to do with it? Economic rent, I believe, has no effect whatever either on wages or on interest; for economic rent is the surplus which some land produces after paying the wages of the labourer and the insurance, wages of superintendence, and interest to the capitalist. It thus presupposes both wages and interest, and consists of the balance which remains after deducting them. Thus, suppose that there is some land of such a quality that the expenditure of £100 on it will increase the value of the labourer's wages from £20 to £40 a-year, while the ordinary applications of capital will only increase it from £20 to £30 as in our former example, this land will manifestly be worth £10 a-year to the owner, after providing for wages and profits, on the same scale as when the capital is applied in a manner which does not involve the payment of any rent. This at least will be the case unless the risk and wages of superintendence are greater when the capital is applied to the land in question. Suppose, then, that the value of the labour resulting from the expenditure of £100 without paying rent falls to £26, the return from the good land being still one-third greater as before, the rent will now have fallen to £8 13s. 4d. Agricultural land is not the only thing that bears a rent in this sense. Lines of railway, for example, are often rented by one company from another. If the current rate of interest is 5 per cent., and an annual outlay of £10,000

in working and repairing the line will produce an annual revenue of £15,000 the rent of the line will be £4500 a-year. This rent is the surplus which remains after payment of the working expenses, and of interest on the capital used by the renting company. And a line of steamships might be similarly rented, though the element of land here disappears. As a rule, anything in which fixed capital is invested is capable of being rented; for it will in general return a surplus over the working expenses, and the interest on the capital which is now required to work it. Land, moreover, usually derives a great part of its value from fixed capital invested in it, though the investment may have taken place long ago. But even when this is not the case, there is no distinction between land and investments of fixed capital as regards the present question. Rent in both cases is what remains after wages and interest have been paid. It falls, indeed, when wages and interest rise, and rises when they fall; and of course the variations of wages and interest also correspond inversely with those of rent. But the variations of wages and interest are the causes, and those of rent the effects, and not *vice versá*. Wages and interest are the primary elements. Rent is the residue or surplus which remains after deducting them. I speak of economic rent. A combination of land-owners might succeed in producing a monopoly rent which would have the effect of lowering both wages and interest; but no such combination has, I believe, ever taken place in this country. On the contrary, the actual rents are, I believe, usually lower

than the economic rents; though this, as already noticed, is partly caused by the restrictions commonly imposed on the tenant in dealing with the land. These restrictions are, in fact, the principal defect in the system which is known as 'Landlordism.' To make the best use of land the occupier must have absolute control over it, even though the period during which this control is to be exercised is of limited duration.* When any person whose remuneration does not depend on the profits is allowed to interfere with the management of the land, these profits are almost certain to be less than they would otherwise be; and even if their average amount is not diminished, the element of risk or insurance is augmented.

Interest therefore is, generally speaking, an element in production, and both it and wages are unaffected by rent. It cannot be abolished, and if unduly kept down it will probably lower wages by diminishing the amount of capital applied to labour. It is evident, however, that except in certain rare contingencies—when temporary loans at very high rates of interest may be justifiable and necessary—interest ought never to exceed the current rate of profits. Profits include wages of superintendence, insurance, and interest proper; and even if we include the two latter elements under the name of interest (as it is frequently impossible to distinguish between them in practice), wages of superintendence can

* Provided, of course, that the use is not such as to produce a present profit at the cost of permanent injury to the soil. But restrictions in leases usually go much beyond this.

never be wholly eliminated. The current rate of profits thus affords a test for distinguishing between reasonable and unreasonable rates of interest on loans ; and when a loan is made at a rate of interest manifestly exceeding the current rate of profits, I think the *onus* of proving the fairness of the transaction should be thrown upon the lender. Such loans, as I have noticed elsewhere, are often made, without any serious expectation of receiving payment at the extravagant rate agreed upon. The intention, rather, is to obtain payment of a part of the loan before the debtor fails, and to be in a position to keep this, and to prove and obtain dividends on more than the entire debt when bankruptcy supervenes. Thus, A lends B £100, at 100 per cent. interest, payable quarterly ; he receives the first quarter's interest, thus really reducing the debt to less than £80. At the end of a year B becomes bankrupt, and A proves in the bankruptcy, and obtains dividends, not on £80, but on £175. Such a transaction appears to me to be a fraud on the other creditors of B, even though B himself may have entered into the contract with full knowledge of the facts, and without undue pressure or misrepresentation. It would therefore, I think, be reasonable to enact that high rates of interest should not be allowed in bankruptcies until all ordinary creditors have been paid in full ; and it might also be provided that the total amount to be recovered from a debtor in any form of action should not exceed twice the amount of the original loan—meaning by the original loan the sum of money which actually changed hands. Interest might be

permitted to run upon the amount thus recovered until it was paid off, but only at the Court rate of 4 per cent. The reasonableness of such an enactment is shown by the general practice with respect to bonds.

I may remark that, as regards loans at extravagant rates of interest, the debtor can in many cases escape with payment of the principal, together with interest at a moderate rate, by appealing to a Court of Equity. The cases in which he can and cannot escape in this manner are, however, by no means clearly defined. But the point with which I am at present concerned is that payment in full of the original loan, together with interest at a moderate rate, is always insisted on as a condition of setting aside the nefarious bargain. This is on the principle that 'he that seeks equity must do equity,' which principle is no doubt correctly applied when the borrower is a solvent man; but when he is not solvent the real equity would be, not that the lender should be paid the proper amount of his demand in full, but that he should be paid the same dividend on it that the other creditors receive on their debts. This equity, however, has not yet been recognised, and there seems to be no alternative except to pay the amount really due in full, or else to pay a dividend on the whole of the iniquitous demand. This is another result of regarding the whole question as one between plaintiff and defendant, the assignees or trustees in bankruptcy being regarded as merely standing in the bankrupt's shoes. Sooner or later it will become necessary to take a wider view, but until then I fear great injustice will continue to be done

to deserving creditors. Owing to the excessive rates of interest charged in certain cases, the professed equality of the present law is often in practice the grossest inequality. Here, at least, a certain revival of the Usury Laws would be desirable.