offensive that arms cannot counter. Discontent can be fanned into revolution, and revolution into social chaos. The sequel is dictatorial rule. Against such tactics exclusive reliance on military might is vain.

'The areas in which freedom flourishes will continue to shrink unless the supporters of democracy match Communist fanaticism with clear and common understanding that the freedom of men is at stake; meet Communist-regimented unity with the voluntary unity of common purpose, even though this may mean a sacrifice of some measure of nationalistic pretensions; and, above all, annul Communist appeals to the hungry, the poor, the prosecuted for the elimination of social and economic evils that set men against men.'

Military preparedness alone is inadequate, says Eisenhower. Communism inspires and enables its militant preachers to exploit injustice and inequity among men. Let us then treat men with justice! Henry George has shown us how!

In all countries, where people live in oppression and possess neither land nor freedom, there they will prefer Communism to capitalistic democracy, seeing that Capitalism only offers them freedom without land, whereas Communism offers them land without freedom. The day we offer the people *both* land and freedom, that is the day when justice has won and Communism lost.

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INTEREST AND ITS CAUSES

By A R CANNON

To the classical economists, there were three parties— landlords, labourers and capitalists who respectively furnished the three factors of production— land, labour and capital. They received three rewards— rent, wages and interest. Rent was considered as due to the difference in value between divers parcels of land and the poorest land in use, (i.e. the law of rent) and wages as the reward for labour. But there was no consensus upon the reason for interest.

Consequently, many diverse opinions arose, such as Bastiat's 'plank and plane theory' and also 'the reward for abstinence', both of which were ably dispelled by Henry George. In his turn, George settled upon another fallacy by describing interest as due to 'natural increase'. But in his later writings, he rejects this by declaring that, if a jack-knife were thrown upon the ground and greww into a tree of assorted cutlery, only landlords would benefit. What better example of natural increase could one find.

However, despite George's disproof of the abstinence theory, it lingered on in orthodox circles for quite a while. Elderly citizens will remember the advertising propaganda of a certain money lending organization, which depicted and elderly gentleman and, presumably, wife, who had lived prudently and saved all through their lives, sitting comfortably by their fire and enjoying, in their old age, the income of savings invested at interest.

The trouble with this type of sophistry is that it is worse than a direct lie, as it is a half-truth. We are all aware of those middle and low income recipients who, through years of penny-pinching, scraping and saving have managed to accumulate modest reserves.

But eventually, about the time of Keynes, this fallacy was exposed. It was found that by far the greatest amount of saving was done by wealthy individuals and corporations, who, in the case of individuals, fared sumptuously, far beyond the wildest dreams of most of us, had all they wanted in the shape of material goods— homes, cars, household appliances, sporting goods etc, and in the case of firms, had luxurious offices and amenities, capital equipment, etc and yet had enormous surplus of income, which through different forms of investment, went on increasing steadily.

However, in his turn, by postulating interest as 'the price paid for the use of money', Keynes makes his own mistake, for, if this were true, interest would tend to rise, or fall inversely to increase, or decrease in money volumes. In fact the opposite is true.

Consequently, contemporary orthodox economists (now the neo-Keynesians) have to search for a new interest theory. In the lack of alternatives, they resort to a subterfuge. They return to the old 'reward for abstinence' theory and alter just one word. "Interest", they now say, "is the reward for 'waiting'."

In some ways the word 'waiting' means the same as 'abstinence', and in the above case it is absolutely interchangeable. So, let us examine *Progress and POverty* and quote some lines upon 'abstinence', except that we substitute 'waiting' for that word. (The excerpt is taken from *P & P, Book 3, Chap 3*— 'Interest and the Cause of Interest').

"'Waiting' is not an active, but a passive quality; it is not a doing— it is simply a not doing. 'Waiting' in itself produces nothing. Why, then, should any part of what is produced be claimed for it?"

But, in order to reinforce their opinion of the importance of 'waiting', the conservatives tell us that 'time is involved'. If I lend $100 at 5% for a year, of course time is involved— fully twelve months in fact. Similarly, if I engage a labourer by the hour, or rent a piece of land by the month is time involved. In fact, every material action, human or otherwise, involves time. After all, we live in a four dimensional world—at least. So, why do they single out interest in relation to time. Is it because they cannot find any better argument?

To confuse the issue still further, they say that part of interest is due to risk and that there are always different rates arising from various degrees of risks. They waste much valuable time deliberating upon the subject.

This is about as naive as telling a mathematics professor that one and one make two. It must have been very early in economic history that risk was noticed. Since then, all economists have been aware and agreed that there is such a phenomenon. But, risk is specific as to incident and time, as each loan has its own risk rate. So it is primarily a micro and not a macro economic concern and, beyond noting it, we may put it aside and get on with the examination of that part of commercial interest, which is not risk.

<u>Firstly</u>: there are charges incurred by banks and other finance agents, in procuring and maintaining loans. Actually, these are business costs and not interest, although they are usually included, along with risk, in 'commercial' interest.

<u>Secondly:</u> nowadays, certain pressure groups use their political muscle, to corrupt politicians into arranging lower than average interest rates and higher than normal advances, to the benefit of these groups. Also governments, with Canute like intent, lower, or raise interest rates by decree, in the false hopes that they can control the economy thereby. Consequently, we have a new variant— 'political interest', which, as far as economics is concerned, only adds to the confusion.

However, the primary concern of the macro-economist is neither commercial nor political interest, but 'pure' or 'economic' interest, which consists of the remainder after risk, charges and political interest are allowed for. As to its nature and causes, there is no consensus of opinion. Consequently, we return to the postulates of the early classical economists and start again from there.

Capital, which is used by labour in production, is not an active factor, such as labour itself is. In fact, it is doubtful whether capital is a factor at all. Certainly, it is not a primary factor, as it is the product of land and labour. They are the primary ones. Capital use is part of the normal method that workers employ in the production of goods and services, but it is not absolutely essential to production.

However, some may consider its yield, interest as a reward for shrewdness, in that the transactor may know better than the market and shift his 'assets' about, to his advantage, from one form of holding to another, which includes lending at interest. But this is speculation and not production.

Consequently, unless someone can come forward with a new 'reward' theory, interest cannot be considered as such. Furthermore, I daresay that all reward theories were intended to pander to vested interests, and the classical postulates have fooled many well meaning people and have led them up the garden path to nowhere.

* This is the Keynesian method of account, in which interest is not included as a prior cost to profit, but is considered in a category of its own, so that it may be compared with profit, or expected profit. However, a similar conclusion, but with a different form of wording may be arrived at, if the alternative method, in which interest is included as a prior cost is used. (i.e. An entrepreneur is not likely to engage in a capital project, if he considers that it will return a loss and not a profit.)

But once we discard the idea of reward for capital's part in production, then the whole matter of interest shows up in a clearer light. In the first place, interest is not confined to capital use only, but may be payable on funds lent out for any purpose whatsoever—production, direct consumption, purchase of privilege, war, gambling, crime, to name some.

At base, interest is the price paid for the use of wealth, irrespective of the type of use to which that wealth is put. It comes into account, because of the overall shortage of wealth compared to the demand for it. In other words, if the wealth requirements of everyone were satisfied, there would be no need for borrowing and no cause for interest. This means that under the present social set up, there just isn't enough wealth to go around. Some, either do not have the wherewithal to buy directly, or do not find such buying to their convenience. And therefore, have to borrow, or go without.

In monopoly society, a disproportionate share of available income flows to the monopolists or wealthy class. This in turn, is lent back to those who produce wealth, i.e. the workers, for a consideration called interest. To this extent, interest is of monopoly.

Although the origin of interest lies in the shortage of wealth, yet if we regard money as the measure of value and medium of exchange, then we must quote all values in it, including interest. In this respect, interest is expressed as the money percentage of a money sum, i.e. the principal. Nevertheless, we can imagine a 'goods rate of interest'. At, or over,

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any given time, each type of commodity has its own rate and, according to Keynes, in some cases, particularly with food-stuffs, it may be negative, as here the carrying costs are very high. However, strictly speaking, carrying costs are primary costs, i.e. inroads to labour and natural resources, in order to keep up the condition of that particular type of commodity.

As there are so many 'own' rates, which in themselves are almost impossible to measure, we cannot assess a general, or average goods rate. But with money, bank rates and short, or long term bond rates, which are published daily, are excellent indicators of the (money) rate and changes in same. With these money transactions, risk and charges are very slight and the variations and comparisons between interest rates and other forms of gain, which are a major concern of economists, are easily computed.

However, the value relationship between money and goods at any given time, is not interest, but is price; nor are alterations between money and goods values over a period of time, interest; they are inflation, or deflation. Inflation tends to lower money values and increase interest rates and deflation tends to produce the opposite.

When discussing interest, there are two aspects of which we should be aware. The first consists of the nature of interest and the second of the rate of interest.

To the dreamer, secure in his ivory tower, the first of these may be enough, but to those concerned with applied economics, the interest rate and what from time to time determines it is of equal importance.

This is because the rate plays such a vital part in decisions of whether, or not, wealth production is to take place. An entrepreneur is not likely to borrow to engage in a capital project, unless the rate of interest is less than the prospective yield.* Even if he can furnish the whole of the required capital himself, he will rather lend it, than proceed with the project under such circumstances.

To any sensible business man, this decision forms the final, which arises out of a number of considerations, upon the suitability, or otherwise, of industrial expansion at a given time and place and hence has a very important effect upon depression, inflation and employment, Though, of course, not the only one.

If interest rates were set by what entrepreneurs could afford to pay, they would always be below the average rate of profit expectations. But in a monopoly society this is not so. Interest, like anything else subject to a market, depends upon supply and demand (or effective demand) factors.

The potential borrower seeks the lowest rate commensurable with desired borrowing conditions and the potential lender seeks the highest rate. Eventually, the actual rate settles at a mutually acceptable position, or the transaction is not proceeded with.

Supply consists of the amount of wealth coming to the loans market. It is offset by diseconomies, eg. war, strikes, depressions, monopolies, insurrections, state bungling, etc; and disaster, e.g. inclement weather, pests, disease, fires, etc; all of which tend to restrict supply and so increase interest rates. Good management, both political and private, good seasons, industrial peace, etc, have the opposite effect.

But demand is governed not only by what entrepreneurs can pay and yet show an increase, but also by what all the others, seeking loans, can afford. In the later stages of a boom, land title prices rise at a faster rate than any other factor of economic consequence. This creates an elevating effect upon interest rates. Not only do land speculators enter the loan market as competitive borrowers, but they are able and willing to pay high and rising interest rates. This lifts the rate above what competitive industry can afford and here, economic stagnation sets in. If allowed to continue, it spreads throughout all industry.

However, since the second world war and up till recently, governments, when faced with such a predicament, have stepped in and flooded the market with money, thereby increasing prices of most goods and allowing most industries to show sufficient profit to carry on for the immediate future, despite rising interest rates. But due to the acceleration of inflation, this ploy is just about played out.

Wants grow with the growth of civilization. The ancients didn't want such things as cars, washing machines, TV sets, etc, because these things had not been then invented and, except in some possible but rare form of obscure dream, were beyond their comprehension. Consequently, their wants were simpler, consisting of such as food, clothing, housing, horses, carriages, etc. But, since those times, innovations have increased enormously and whole new industries, with their supporting trades, have sprung up to satisfy and be satisfied by growing needs.

It is the opinion of most great economists that the capacity to produce would, if left unimpeded, be greater than the growing demand of wants. In other words, that wealth (and capital) would accumulate, thus tending to increase supply and decrease interest rates.
Consequently, the latter is, to this extent, the the result of present adverse pressures between the 'pro' and 'anti' forces of production.

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INTEREST AND ITS CAUSES *(Cont. from page 6)*

If we assume (and hope) for a world in which war is no more; that the rate of growth in population is not increasing rapidly and that there is justice in our political institutions, these anti forces will decline and the pro forces will grow. Thus a decline in the rate of interest will become apparent.

Apart from another possible influence, which we have not so far discussed, there is no reason to assume that decline will stop, at least until interest rates reach zero.

This other possible influence lies in the question of whether, or not, a considerable portion of the population will still have such an inferiority complex, as is expressed in vain ostentation, to the extent of an insatiable desire for wealth. One that no possible rate of production can satisfy. Although this, in turn could be limited by the credit-worthiness of such people.

In our society, where, due to social injustice, wealth production is held short and its division is unjust, its possession becomes an obsession and we are apt to imagine that such will always be the case. But, would this be so in a situation where wealth is very easily produced, remained in the possession of the producers and where all other social barriers to equality have been put down? I would say that the flaunting of wealth, particularly that which had been borrowed with the purpose of 'showing off', would look ridiculous.

While, in the short run, the effect of the proclamation of social justice upon an economy that is short of goods, may be increased interest rates, that is, until the supply of goods catches up with demand, yet the experience of Denmark, even when only a measure of social justice was proposed, was that interest rates fell.

However, no matter what the rate of interest is, under such circumstances, it will always be less than what the majority of entrepreneurs can afford and not subject to the influence of land speculators.

Letters To The Press

SYDNEY UNIVERSITY SENATE

(To The Editor, 'The Herald')

Sir — The approaching Senate election again confronts us with the primitive electoral system which persists in the University. Although it is over a century since modern scientific voting was introduced to the civilised world by Thomas Hare of Oxford. Australia's senior university still adheres to the mediaeval illiterates' crosses and to the totally inept first-past-the-post block system. In addition, our venerable university fathers are apparently unconscious of the serious and growing totalitarian threat to the world's democracies by the use of this primitive, misleading and unjust voting system in South Africa, Britain and many other reactionary places.

It is the more extraordinary, because in Australia our 'uneducated' political public has discarded this crude system long ago. It would seem that our more 'educated' classes are the least cognisant. We are electorally advanced in our Commonwealth, but retarded in our mother university. This curious pattern is also seen in other 'upper stratum' bodies, such as the the Law Society and the Synod of the Diocese of Sydney which some years ago rejected reform of its unjust block voting.

W A DOWE — Lakemba NSW
(Director, Australian School of Social Science)

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A READER'S GLOSSARY OF COMMON PHRASES

(From the Sydney Morning Herald)

Sir — Like the old grey mare, the English language ain't what she used to be. To assist your readers who may be confused by today's terms, I have prepared the following glossary.

Provocative statement: Any statement with which a union official disagrees.

Real: A term widely used to describe wages, but not relevant when referring to profits.

Government grants: Money demanded by groups who surprisingly never plead for corresponding taxation to provide the money.

Bashing: Any criticism of a trade-union, particularly justified criticism.

People's Republic: A system of government in which the people have no choice of leadership.

Rights: Any claims by minority groups, regardless of justification.

Penal clauses: Fines violently opposed by trade-unions which they nevertheless impose on their own members.

Racist: Any white person who says anything critical about coloured people, particularly the truth. For some reason the term is not applicable to a coloured person who criticises white or other coloured races.

Flat-rate interest: A special type of interest reserved for those who can't afford the loan repayments.

Communists: People who can be 'democratically' elected to trade-union positions, but are unable to gain democratic representation in Australia's parliaments.

Perhaps your readers can add to the list.

M B WELLINGTON — St Ives NSW

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