

610

C O P Y

G E O R G E L. R U S B Y

Agent

THE NORTHWESTERN MUTUAL
LIFE INSURANCE CO2

Towaco, N. J.
February 13, 1938

Dear Mr. Fairchild:

Have just ben reading your contribution to the Interest muddle in Land & Freedom, latest edition.

What a sorry mess one necessarily makes of the subject, when endeavoring to use George as an authority! As it is possible to prove anything that it is desired to "prove" by quoting or interpreting to one's taste (in the realm of religion), the Bible, so is it possible to "prove" almost anything relating to interest, by reference to Henry George. As full of contradictions as a tick of feathers!

You give so many references in support of your contentions, why didn't you give reference to what he said about interest being what is paid for the loan of capital, page 188, last line? There, he flatly and unequivocally contradicts your contention that interest is NOT what is paid for the loan of capital,-- as he also flatly contradicts what he himself elsewhere states. Starting with any other definition than "what is paid for the loan of Capital", one, anyone, must likewise fall into a morass of contradictions. The definition that I have always used, as so many others have, "That which is received in return for the use of capital", is utterly worthless, being capable of various interpretations and leading only to the miserable hodge-podge of views on the subject that is in evidence everywhere. With a clear perception of interest being what is paid for the loan of capital, and of the fact that it can be nothing else, everything becomes logical, systematic, understandable, coherent, defensible, harmonious, and so simple that a child can comprehend all that is involved. This definition jibes with all else within the scope of the science of economics,--and no other definition does.

This would be of great interest to me: to have you point out a single instance where, to your knowledge, interest has ever been paid. I know of only one, in all my life, where I can put my finger on any specific portion of a payment and identify it as pure economic interest. If you have never seen it dissociated from insurance, replacement of wear and tear, and all those things that go to make the heterogeneous mass that passes for "interest" (money-hire), how do you KNOW what the rate is at any given time? Or, whether, when wages or commercial interest is going up, true interest is not ~~stationary~~ stationary, or even going in the opposite direction? Please tell me.

As for the cause of interest, that, too, becomes as simple as a, b, c. when we start with a clear idea as to what interest actually is. What a mess I made of it in my little treatise on economics! It will all be cleared up in the next edition, if I live to make atonement.

With best wishes, Sincerely,

George L. Rusby (signed)

Mr. Dorn
Carter

and

March 8, 1938

Mr. George L. Rusby

Towaco, New Jersey

Dear Mr. Rusby:

I have your interesting letter of February 13, 1938 in regard to interest.

My purpose in placing page citations of Progress and Poverty is the hope that some of the good single tax friends would take the trouble to read from Henry George. I have had the experience which is perhaps common to a great many of making pencil notations on the margin of Progress and Poverty where I disagree at the moment.

After getting your letter, I took down my Memorial edition of Progress and Poverty and turned to the pages on interest. I was amused at myself to find that I had, from time to time, creased my pencil criticisms of Henry George.

I have found that my temporary objection was based on a superficial reading and as Tolstoi said, I failed to "understand what Henry George tried to say."

I think we should not fall into the common error of taking a detached word or sentence out of Henry George but should read the full text to get the full meaning. This is only fair to any author.

March 8, 1938

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For example, you referred me to page 155, last line, where Henry George speaks of the loan of capital. I read at page 155 the following:

"They who talk about abolishing interest fall into an error similar to that previously pointed out as giving its plausibility to the doctrine that wages are drawn from capital. When they thus think of interest, they think only of that which is paid by the user of capital to the owner of capital. But, manifestly, this is not all interest, but only some interest. Whoever uses capital and obtains the increase it is capable of giving receives interest. If I plant and care for a tree until it comes to maturity, I receive, in its fruit, interest upon the capital I have thus accumulated--that is, the labor I have expended. If I raise a cow, the milk which she yields me, morning and evening, is not merely the reward of the labor then exerted; but interest upon the capital which my labor, expended in raising her, has accumulated in the cow. And so, if I use my own capital in directly aiding production, as by machinery, or in indirectly aiding production, in exchange, I receive a special and distinguishable advantage from the reproductive character of capital, which is as real, though perhaps not as clear, as though I had lent my capital to another and he had paid me interest.

Here you see, Henry George carefully explains that interest on the loan of capital is some interest but not all of interest and that interest is earned whether capital is loaned or used by its owner.

Another writer, in the same issue of LAND AND FREEDOM, Mr. Thompson of Canada, asks us to use the definition for interest as a payment made for the "loan of wealth."

As between the three of you, that is, Mr. Rusby, Mr. Thompson and Mr. George, I am constrained to feel that Henry George has the best of the logic.

The reason that the Henry George School is such a great success is that it requires its students to read the text of

Mr. Rusby


-3-

March 8, 1938

Progress and Poverty in the same way that I was required to read when taking my economics course in college and the same way students of economics are required to read in Harvard, Cornell and Princeton. We are asked in all of these institutions to accept nothing on authority as Henry George himself urges but to subject all matters to the test of first principle.

With kindest regards.

Very truly yours,



Walter Fairchild

WF:k

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Towaco, N.J.
March 13 1938

Dear Mr. Fairchild:

I have your letter of the 5th. You evidently do not get the significance of what I intended to say in my last.

I was not criticising Mr. George, - for as you say, anybody is likely to make an occasional slip. But it is up to the Rusby's and the Fairchild's to ascertain, when an author contradicts himself, which IS the "slip". Here, where Mr. George endorses the view that interest is what is paid for the loan of capital, you call it a "slip". How are we to decide whether this is the slip, or the positions taken, contradictory to this? For instance his claim that what is produced BY capital (not what is gotten FOR capital) enters into interest? It is obvious that both cannot be true.

I ask again, how is one to decide in which one of the contradictory positions we are to follow the author? We are not justified in just letting it go unanswered, - the question I ask.

We can only follow out both arguments and satisfy ourselves which one, if either, harmonizes with the body of economics. and when we do this we find, or rather when I do this I find, that while one of the positions taken by George, or rather, all of the positions taken by him excepting the one referred to, lead to contradictions and conclusions unacceptable, this one taken by him is found basically sound and in harmony with all else taught by the same author. I hold that it is impregnable to attack from any and all directions.

As to the argument that when the owner and user of capital are identical, of course that question answers itself as in the case of rent, when owner and user are the same, - the user as such, pays to himself as owner. That is in perfect harmony with Mr. Georges position that interest is what is paid for the loan of capital.

We had Mr. McNally out at Newark a week or so ago, to address a selected group on the subject, interest. He demolished every other theory of interest, as I had done to my own satisfaction, previously. He did not accept the above theory, endorsed by George, and accepted by me, ~~xxxxxxx~~, and therefore, having no theory, he holds that there is no such thing as interest. *My proposition was new to him; I persuaded him to*

Consider it carefully.

It is extremely unfortunate that Georgists are so divided on the subject. These differences grow out of the tendency to follow an authority. This tendency, as to interest, leads one to follow one of Mr. George's theories and another to follow one of his other theories. The result is deplorable, and brings our whole position into disrepute. This one position, that interest is what is paid for the loan of capital, whether endorsed by George or not (he actually does endorse it) is logical, demonstrable, in harmony with all else that we teach, and it offers, because it is TRUE, the one ground on which Georgists can all get together on the subject.

I would like to know if you see how it can be punctured. If it can be, I want to know it, and how.

Sincerely, *George L. Rusby*

Accepted to interest of General

C
P
Y
WALTER FAIRCHILD
ATTORNEY AT LAW
11 FINE PLACE
NEW YORK CITY

March 29th, 1938

Mr. George L. Rusby,
Towaco, New Jersey.

Dear Mr. Rusby:

Referring to yours of March 18th, 1938, I got your point the first time you wrote, I got it the second time and I am quite sure I have gotten it now. I have simply disagreed with you at all points.

I do not think you got my point which is that you have quite explicitly misquoted Henry George at page 188. He says exactly the opposite of what you claim he said. You have also misquoted my letter of March 8th, because I do not think that Henry George made a "slip". I did not use that word nor did I think Henry George made a slip. I think he means exactly what he says and on reflection I am satisfied that what he says is true. That is what makes the writings of Henry George so powerful.

You say in your letter, "When capital is used by the owner, what he gets is wages, less rent, and less the loaning value, at that time and place of the capital used, -interest."

If you would have stopped at the word wages you would have agreed with Henry George who says that there are two primary factors of production, to wit, land and labor. Labor is all human effort applied to productive industry.

I remember your lecture at the Henry George School in which you used charts showing the division between wages and rent. You used these two terms only. You did not use the third called interest, but you explained that the reason you did not do this was because capital is included in labor, being a product of labor. Therefore interest is included in wages which is payment for labor. All labor applied to land in economics brings an increase of interest. Capital gets the same proportion of that increase as the direct labor gets for using capital. That is the only purpose of capital-, to aid labor in the production of wealth.

Although your letters are loosely written and your logic at times runs in the well-known circle, and the writings of Mr. McShelley are abstruse, you both get around to the same point that wages and interest are identical in the least analysis and wages, including interest, which is a part of wages in the broad sense, are governed by the same

law, which is that as rent rises, wages fall and that as the private appropriation of rent decreases wages and interest will rise. When we speak of a subject in this way we refer of course, to the tendency of the law or the general average and not to a particular case. We also mean proportionately, which means the rate of compensation.

Your bugaboo seems to be the loaning of capital as distinguished from the use of capital. On the average, the rate for the loan of capital must approximately equal the return for the use of capital. It is the amount of the return for the use of capital which determines what a person may get for the loan of capital. The use of capital brings an increase when applied to land, just as all labor brings an increase when applied to land. Under the Law of Exchanges it is not a particular use, but the use on the average which controls.

I venture again to quote from Henry George trusting that you or someone else will be tempted to again go to the book and read intensively.

"No one, for instance, would grind wheat into flour and keep it on hand for the convenience of those who desire from time to time to exchange wheat or its equivalent for flour, unless he could by such exchange secure an increase equal to that which, all things considered, he could secure by planting his wheat."--Progress and Poverty, Book III, Chapter III, Paragraph 19.

This particular paragraph was applicable to that function of capital which is directly used to utilize the reproductive powers of nature.

Many otherwise good single taxers fail to understand or have failed to study Henry George with respect to the function of capital. Usually the argument is that capital is a tool or a labor-saving device. This is only one of the functions of capital. The second function of capital is the use of capital for storage for more convenient distribution such as in the work of a storekeeper. The third function of capital is the utilization of the reproductive forces of nature. (Progress and Poverty, page 79) This is illustrated by planting a grain of wheat in order to get more wheat. A grain of wheat planted may have been eaten but when it is used by planting it in the ground it becomes capital. Capital used in this way comes neither under the category of tool nor under the category of capital used for storage.

Because of the Law of Exchanges the return in interest for the use of capital tends to be the same in all the applications or functions of capital.

In reading your articles and listening to your talks on the subject of interest I feel that you often confuse the particular with the general; as they taught us in college, one cannot argue from the particular to the

George L. Rusby

-3-

3/29/38

general; secondly you often confuse bookkeeping with economics. This is quite a common fault in the colleges where the science of economics in many places is degenerating into a system of accounting rather than a study of the law which governs the production and distribution of wealth.

With kindest personal regards,

Yours very truly,

Walter Fairchild

WF:eh

P.S. In spite of all that I have said, I feel that you, Mr. McHalley and Mr. Thompson and others who spend so much time on the academic discussion of interest have gotten that way because of your acceptance of the basic teaching of Henry George which is that the rise of economic rent and the appropriation of rent by private individuals, is the cause of our economic difficulties. What happens to interest and wages or any other matter may safely be left to the operation of the law which governs the subject, provided this basic law which Henry George teaches is obeyed.

P.P.S. In your letters you speak of the Law of Supply and Demand. Have you ever formulated in words what is the Law of Supply and Demand? If you have, I would be greatly obliged to receive it from you. I do not mean a dissertation on the effect of the Law of Supply and Demand but by question is:

"What is the Law of Supply and Demand?"

I have never been able to get this question answered by anyone even to the satisfaction of the person who promulgates it.

In a similar way very few people are able to state what is the Law of Gravity or the Law of Inertia. Everyone speaks of the Law of Gravity and the Law of Inertia but very few people know what either of these laws are when stated precisely.

You would help out my own mind if you have evolved a statement of the Law of Supply and Demand. I do not say this facetiously. I sincerely would like a statement of that law set down in form of words in the same style that Henry George has set forth the Law of Rent and the Law of Wages.

P.P.P.S. As far as I am concerned I would prefer to limit the correspondence to my last P.P.S.

WALTER FAIRCHILD

COUNSELLOR AT LAW
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March 30th, 1938

Mr. Otto K. Dorn,
c/o Henry George School,
211 West 79th Street,
New York City.

Dear Otto:

I enclose correspondence with Mr. Rusby. I hope this will be placed with your data on the Manual. It would be a great mistake to make any change in our Manual which should strictly follow the book "Progress and Poverty" which the Manual is teaching.

Yours very truly,



Walter Fairchild

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Enclosures/2