

fact in connection with the "first"; because price is determined by actual costs on free marginal (no-rent) land, where *there is no rent cost to include* though other costs are relatively high. In fact the rent costs which come in only on better sites, simply make the total costs there equal the marginal (no rent) costs and the seemingly inconsistent facts are actually in full accord. Marginal costs determine price everywhere; the advantages of better sites determine the equalizing rent cost.

But it must be borne in mind that this "second" fact ("that no rent is included in the determining of price") does not tell the whole truth. As to the "first" fact ("that all rent must be included in the determining of cost"), it does not matter whether this rent goes to private owners or to government, for it must in any case be included in costs; but it does very much matter *where this rent goes to* in the determining of *total costs and price*. For if this rent does not go to government (as it now does not) then government must raise that amount of revenue otherwise; and the whole amount so raised *must be added* to costs all along the line,—including the marginal costs which determine price. This addition does not appear as rent but as "taxes" (*substituted for diverted rent* which has already been included in costs).

Notwithstanding the obvious fact that rent cannot directly enter into price at the price-fixing margin where there is no rent, it is true that such a bald statement of the law is a misleading "half-truth." For it ignores the further fact that rent can (and now does) indirectly enter into costs and price everywhere—*when it is diverted from government uses*; its entering being in the form of substituted taxes fully equalling the diverted rent and further raising costs and prices everywhere as Mr. Jorgensen mainly contends. It is important to know that Single Tax will reduce costs and prices everywhere by fully appropriating rent to public use and so cutting off these substituted taxes on production from marginal as well as other costs.

Reading, Pa.

WALTER G. STEWART.

THE TIME ELEMENT IN INTEREST

EDITOR LAND AND FREEDOM:

In the last issue of LAND AND FREEDOM our fellow Georgist, Raymond V. McNally, completely disposed of numerous theories dealing with the cause of interest. His arguments are unanswerable. It is to be regretted that even Henry George with all his ability to analyze should set up a theory regarding the cause of interest that is no more tenable than the ones he so successfully demolished. His interest theory is the one weak link in his great book, "Progress and Poverty." Mr. McNally has very ably disposed of this theory.

On the other hand I am not so sure that there is not a law of interest. Neither am I convinced by Mr. McNally's argument that what we term interest is merely "compensation for risk." If what we term interest is merely compensation for risk, then it occurs to me that under existing conditions interest rates would be much higher than they are, as the element of risk has steadily increased since the last industrial breakdown. Instead of going up as the element of risk has increased they have fallen, which only proves Mr. George's contention that wages and interest tend to rise and fall together. Surely no one will contend that investments are more secure now than they were during the years preceding the depression and that this accounts for the present lower interest rates. As a matter of fact investments are not nearly as secure, not even investments in government bonds, yet the interest rate is lower. If Mr. McNally is right they should be higher.

While it is true that part of the commercial interest rate consists of insurance to cover risk, I am convinced that in addition to this there is true interest, which is payment for the use of capital.

Despite the fact that Mr. McNally has upset the Bohm-Bawerk time theory as a cause of interest, I am still persuaded that the element of time does account for interest. Even Mr. George saw this dimly but confused it with his "reproductive forces of nature" theory. Time is a most important factor in the satisfying of human wants. A saving in time in the satisfaction of human desires is equivalent

to greater earnings. We want things now and not ten to twenty years hence. This being the case we are willing to pay a premium for the use of capital or wealth, so as to more quickly satisfy our wants. Thus interest arises. I want a home, I can secure one by going to work over a period of years, but I want it now, hence I am willing to pay some owner of a home a premium for the use of it over and above the cost of depreciation and insurance to cover risk, and this premium is interest. It is quite obvious that as long as people feel that they are obtaining an advantage by borrowing, they will be willing to pay for this advantage. Interest therefore is natural and it is just. It is a reward for accumulation. It gives encouragement to store up capital in excess of personal needs. If it is natural, then it can be said that there is a law of interest.

Spokane, Washington.

D. L. THOMPSON.

THE PITTSBURGH PLAN

EDITOR LAND AND FREEDOM:

I notice in the May-June, 1937, issue of LAND AND FREEDOM, article by Mr. Lawson Purdy on the subject of the assessment of land. In this article, Mr. Purdy notes the obvious fact that an increase of the rate of taxation on land values causes a reduction in the selling price of land. As Mr. Purdy expresses it, "our tax base will shrink as the tax rate increases."

I enclose a study made by this project entitled, "Practical Application of the Pennsylvania Graded Tax Plan." In this study we call attention to the effect of a land tax rate upon the base of taxation and recommend that the tax department shall assess land at its full economic value and then apply the increased tax rate to that base.

In Pittsburgh, it has been noted that the decrease of the rate of building tax to one half that on land has not brought the result which was popularly expected.

Although the tax rate on land is twice that on buildings, the amount collected from the land has not been doubled. There are three reasons for this: First, mathematically, assuming land value and improvement value to be approximately equal in amount, the reduction on buildings to one-half the tax on land has the result of reducing the tax burden on buildings to one-third of the total tax; second, reduction in the selling price of land which is used as the land tax base; third, an increase in the value of buildings and improvements due to the encouragement to improvers to build more and better buildings.

A form of graded tax law is in preparation which will correct the difficulty to which Mr. Purdy calls attention.

N. Y. City.

WALTER FAIRCHILD.

WHAT IS INTEREST?

EDITOR LAND AND FREEDOM:

In your May-June issue appeared a long article by Raymond V. McNally with the above caption. It shows much reading and thought, but is more clear in proving what interest is not than what it is. His conclusion seems to be that interest is "very likely nothing else but compensation for risk." That risk has much to do with the rate of interest I heartily agree, but I also believe that there is a fundamental reason for interest which Mr. McNally has not made clear.

The primary cause of interest is the service rendered by the lender to the borrower, which enables the latter to overcome the disutility of time. For example—A has land but little money. By working for a year he could accumulate money enough to cultivate his farm, but in the meantime the land would lie idle. He knows that B has capital and persuades B to lend him \$500 for one year at 6 per cent. With this A purchases the necessary stock, seed and tools and then plants and tills his land. Within the twelve month's period he sells the produce of his farm for \$1,000. He pays B principal and interest (\$530) and finds himself the possessor of a stock of tools and several hundred dollars in cash. Both A and B are benefited—A by the use of his own labor and land to advantage; and B by the interest added to his principal. Moreover the community is benefited by the increased production of food.

It is true that A might have had a bad season and could not have done so well; but the above shows that B rendered a service to A and that I claim is the true cause of interest.

In reflecting upon the interesting letter of C. H. Kendal (Interest and the Rate of Interest) in the same issue, I can agree with him only in part. He says, "There is but one interest, and that is the increase which labor produces when it uses capital, over the same labor not using capital." This I believe to be untrue. It gives the idea that all of said increase is interest, which manifestly is not so. Of what aid would it be to the borrower if all the gain be obtained from the use of borrowed capital be paid to the lender in the form of interest? The advantage to the borrower would be nil. On the contrary I contend that all the gain obtained by the borrower, from the use of capital, is his own; being the result of his labor, although that labor be amplified by the use of borrowed capital. The sum he pays as interest may or may not come out of his gains from the use of said capital. His plans may go awry, but he will still be obligated for interest due.

No! Interest is payment for service rendered to the borrower by the lender—that service enabling the borrower to overcome the disutility of time.

As to the rate of interest, I agree with him that this depends upon supply and demand. Moreover the element of risk enters into the equation. A lender who would not be willing to accept 5 per cent might be persuaded to take 6 per cent, even though the risk be greater. The rate of interest however is not the matter of chief importance; the primary cause of interest is the main thing, and that is the service rendered the borrower by the lender—at least that is my contention. New Haven, Conn.

HENRY P. SAGE.

MR. KENDAL FURTHER ELUCIDATES

EDITOR LAND AND FREEDOM:

My letter on Interest in your May-June issue caused some comments, and a supplementary letter may be in order.

In economics, capital is always something tangible. Money, stocks, bonds, notes are neither wealth nor capital. They are tokens, receipts, credits, evidences of wealth or of ownership. The term Labor in its economic sense includes all human effort (brain and brawn) used in production and its return to labor is wages.

Capital is the *assistant* factor only and when used by Labor the product is thereby increased and the gross result is wages. That increase of wages obtained from the use of Capital is interest. Capital of itself is dead, useless until it is utilized by Labor. It then partakes of the properties of the lever and with a given effort raises the productivity of labor.

When capital is borrowed, the lender transfers the "tool" temporarily. For this temporary loss of use and or enjoyment he receives interest. However he can collect only that part of interest for which he has relinquished the above equivalent, but he cannot collect in equity any part of the net increase of production which is the result of the labor of the borrower when using the borrowed capital. This net increase which labor may obtain furnishes the incentive for the borrowing of capital, viz., causes demand and increased or decreased demand causes interest rates to rise or fall according to the quantity supply. A low interest rate is not necessarily a desirable thing. The objective is that labor shall produce exchangeable things for consumption and the supply of wealth, diverted to use as capital, should never exceed the efficiency point. A normal quantity of capital used all the time at an adequate rate is preferable to an excessive quantity at a lower rate and idle part time. Over the years there is an increasing demand for both consumers goods and capital goods but the law governing their *varying* proportions is not a part of the present subject.

Summit, N. J.

C. H. KENDAL.

IN RETROSPECT

EDITOR LAND AND FREEDOM:

In placing my order for the "Life of Father McGlynn," may I be permitted a few words in retrospect?

When George and McGlynn were working in the Anti-poverty Society the spirit of the crusade was felt outside New York, perhaps in many lands, and grandchildren of those inspired are now taking their places in the ranks of the workers.

In a Delaware farm home William and Mary Brothers eagerly awaited every issue of the *Standard*. Each issue was read aloud to the assembled family. My father and mother, the two brothers Al and Joe, have all been laid to rest, but the seed that was sown was not all wasted.

Father had been a cabinet maker and in his best workmanship he made a box in which he carried George's works and such tracts as "The Case Plainly Stated," "What It Is and Why We Urge It," etc. The box when opened displayed George's picture surrounded by his works. Each Saturday afternoon father went to Dover where he set up his box and talked Single Tax, selling or loaning books and giving tracts. Not until near the end of the second year did he ever meet a soul who knew anything about the movement, except those he had interested. Then a man from Rochester gave him encouragement. Not that he needed it. But it does help as I so often realize when the LAND AND FREEDOM comes. So often people write as though the progress has been slow. Has it really? What is half a century in the history of mankind? And what have I seen in my own life time?

Not one but many of the people then interested have grandchildren teaching in the Henry George Schools. Names change and one does not recognize, for instance, that Henry George Gieser, teacher of a class in Cincinnati, is a grandson of that William and Mary Brothers who so earnestly worked so long with George, and great-grandson of Thomas Brothers who published a newspaper in Philadelphia within a stone's throw of George's birth place and at the time of his birth.

When I pick up one of grandfather's books, "The Rights and Wrongs of the Poor," or his "Radical Reformer," it seems inevitable that we should be Single Taxers. Such is the human mind. Acting and reacting one upon another, truth prevailing, error eliminated. Lintlaw, Sask., Canada.

ALBERTA GIESER.

NEWS NOTES AND PERSONALS

A DINNER was tendered to the teachers and trustees of the Henry George School on June 17. About forty were present. There was a general discussion of the policies of the School in which all present took part, among them being Frank Chodorov, Director of the School, Gaston Haxo, Mr. Christensen, Mr. Seif, Mr. Dingman, Otto Dorn and others. It was an interesting and profitable occasion.

THE Single Tax Association of Canada has addressed letters to the Mayor, Board of Control and City Council of Toronto showing how the present system of financing is enriching a few citizens at the expense of the majority. The Association points to the example of the London County Council which last winter petitioned the British Parliament for legislation to enable them to adopt land value taxation. We are pleased with this evidence of activity on the part of our Canadian co-workers. A bequest recently received has been followed by the establishment of a Henry George Foundation to receive similar bequests. The securing of a central home is contemplated and an appropriation of \$1,500 has been made to advance the work of the Henry George School in Toronto and elsewhere in Canada.

WILLIAM D. RAWLINS, executive secretary of the Realty Advisory