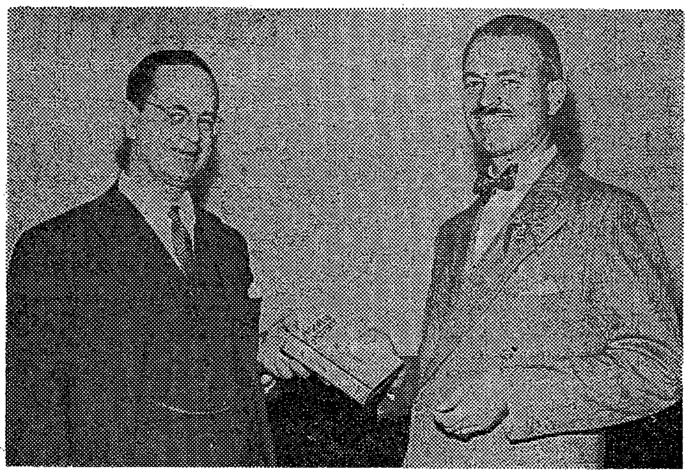

Lancaster M. Greene, a trustee of the Henry George School in New York, is shown at the right presenting a copy of "Progress and Poverty" to John Story Wright, partner in the firm of Morgan Stanley & Co., investment bankers. Mr. Wright became the 1700th member of the New York Society of Security Analysts of which Mr. Greene is an executive member. Mr. Greene has presented each 100th member with a copy of this book by Henry George.

The Interest-Due-to-Savings Theory

By VICTOR STANLEY WASICKI

IT is a little late to be acknowledging my indebtedness to Harry Gunnison Brown for writing his article on "Henry George and the Causation of Interest" [Henry George News, October, 1948—a few reprints are still available on request]. But if he had not questioned George's cause-of-interest view I might not have done so either.

Professor Brown pointed out that with a correct theory regarding interest and the laws of distribution, the student of political economy can at once realize that, if capital is productive, such productiveness is a quality of all forms of capital. He must then see that capital is a contribution to production and justly demands a return.

Interest Is Social Phenomenon

The significance of this interest theory is that capital in the absence of *monopoly power* (not the same as monopoly, for some forms of monopoly are economically desirable, particularly in transportation and communication) would tend to flow to those best qualified to use capital for the best good of society.

Interest, like wages and rent, is a social phenomenon. It arises only in a society where the private possession and exchange of capital is allowed. The much quoted plane and plank case from *Progress and Poverty,* provides a favorite example of Henry George's incomplete view:[1]

"One carpenter, James, at the expense of ten days' labor, makes himself a plane, which will last in use for 290 of the 300 working days of the year. William, another carpenter, proposes to borrow the plane for a year, offering to give back at the end of that time, when the plane will be worn out, a new plane equally as good. James objects to lending the plane on these terms, urging that if he merely gets back a plane he will have nothing to compensate him for the loss of the advantage which the use of the plane during the year would give him."

But William points out to James that since it took ten days' labor to make the plane, he would give him the equivalent value of ten days' labor. James could then take ten days to make another plane and have its advantage for the remainder of the year. Since this is the cost to James in making the plane, this is the least he will accept, if refusal to accept implies loss through lack of use or depreciation. On the other hand, James figures the advantage due to the use of the plane for a period of ten days necessary for him to build another plane to replace the one under consideration, as being equal to five days of labor.

So James asks for fifteen days' labor value equivalent, the cost, plus the loss of advantage over a period of ten days. Now William may or may not accept this latest counter offer and he may reason thus: He wants fifteen days' labor value, how many days would it take me to make the plane? If I can make the plane in less time and not lose the advantage of the ready made plane to the extent of fifteen labor days I'll make my own plane. Say that William can make the plane in eight days, and can gain an advantage of two to one. In the remaining two days he gains two, for a total twelve in ten days. By borrowing the plane he would gain ten in ten days so it would be better for him to borrow at a cost of fifteen days.

To recapitulate, the cause of interest is due to a difference in the capacity to produce, and/or use of capital.

If both James and William need the same amount of time to make a plane and both can only extract the same advantage from use of the plane, there will be no incentive for either to make a trade. Each will simply make and use his own.

Someone Must Save

Harry Gunnison Brown made it clear in his article, that capital formation depends upon saving. Someone must save. Less must be consumed than is produced before capital can come into existence. But saving is not the cause, as Brown claims, of interest. It is the *process* of capital formation.

Henry George had an inkling of the true cause of interest as evidenced by his statement: "There is also in the utilization of the variations in the power of nature and of man which is effected by exchange an increase which somewhat resembles that produced by the vital forces of nature."[2]

The distinction which Henry George makes between purely mechanical capital such as planes and factories, on the one hand, and, on the other, things biological which grow in number or size during a period of time, is of no signifiance whatever as far as the phenomenon of interest is concerned. Each member in an exchange of nature's capital would still figure on the advantage or disadvantage of a trade, say so many bushels of seed potatoes for a calf, or a plane, or a suit of clothes.

1. P. 177, *fiftieth anniversary edition.*
2. *Ibid.* pp. 182.