

As to Interest

I

DEAR A—

IF, as you claim, the interest question is a purely academic question, then the whole subject may well be left to the time when ground rent is taken for public uses. But like Banquo's ghost this question comes to plague us and will not go down. A question cannot be put aside as purely academic which has already led to a clear division in our ranks. Anger reddens the face of many a Single Taxer when the slightest criticism is ventured against those sacred chapters in "Progress and Poverty" in which the theory of interest is laid down. "Traitor! disturber! fool! imbecile! falsifier! enemy of science!" are the outbursts we seem to remember hearing.

As a well-informed student you will recall that from the very first appearance of "Progress and Poverty" there were not wanting critics who pointed out that the vulnerable spot in the shining armor of Henry George was to be found in his defense of interest. Especially did the Germans, who had greeted the book with enthusiasm (its sale was enormous everywhere), object to the dictum that interest is not an arbitrary but a natural thing; it is not the result of a particular social organization but of laws of the universe which underlie society. It is, therefore, just." This pronouncement estranged the working classes of the world and weaned them away from a movement which suddenly ceased to interest them. They have been cold to it ever since.

You may say that, after all, a defection such as this is a matter of minor importance. But is it? When Henry George said he was "for men" and not for a class, did he expect that so large a class as the working class, whose poverty was the very cause of all his labor as thinker and writer, would be alienated and continue indifferent? One cannot believe this, flattering as it may be to the selecter circles of our Georgist intelligentsia.

What was it that cooled the ardor of the working masses to the "Henry George theory"? Was it some weakness discovered in the book itself, some train of illogical reasoning that led to strange and unexpected conclusions, some fatal flaw that vitiated an otherwise noble and beautiful work of art? Such indeed appears to have been the case.

How can this be explained?

Henry George, while in fact proposing a most radical change in the current postulates of political economy, a complete reversal of accepted dogmas and a profound alteration of society's basic structure, yet was not keen enough to see that his proposals were utterly impossible of execution within the strangling bonds of the existing society. He proposed to proceed step by step, an attempt to reduce taxes, in order that a greater amount of economic rent might be collected in their place—a futile plan, which after fifty years of devoted propaganda has

not yet even begun to function. He would, for some occult reason, adopt the conventional terminology of a political economy which he wished to undermine, involving himself in a struggle to make plausible and more readily acceptable conclusions that were utterly worthless. For example, he stated that "in truth, the primary division of wealth in distribution is dual, not tripartite—not between land, labor and capital, but between land and labor." Yet essaying to add improvements to the structure already reared by the great writers on political economy rather than to bring their edifices crashing down to ruin, he must needs retain one important prop or shoring from their lumber-yard which has rendered his own tower of very doubtful stability. What I particularly refer to is his whole treatment of capital and interest.

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"To what are we to attribute the present-day persistence and continuance of interest in the midst of plenty such as the world has never before seen or dreamed of, and in spite of powers of production, of powers of Nature, such as the greatest seers and wisest men of prior generations could never conceive of? Is this due, as so many suppose, and as even that great economist Henry George contended, "to the laws of the universe which underlie society," or is it but the result of our particular social organization, the main peculiarities of which, partially adapted though it has been to modern requirements, we have inherited from bygone generations? In other words, is interest natural and therefore unavoidable and equitable—or is it merely one of those symptoms which betray the presence of special privileges in the body politic?"—Lewis H. Bercus, "Toward the Light," p. 161.

II

DEAR A—

With parrot-like reiteration comes the tiresome formula: "The three factors are land, labor and capital; the return to capital is interest." A slight variation, hailed by its author as a great scientific discovery, is the following: "Wealth used as a tool in the production of more wealth is capital; and in the wealth so produced is the interest due the owner of the capital and the wages due labor for the effort involved." A very favorite illustration given is that of the little child who goes into the berry-patch with a basket and gathers berries—the result of the picking being both wages and interest. No need here to include the idea of borrowing and lending. The "interest" just attaches itself to those berries, the amount of said interest being well recognized by the little girl or her parents, as the case may be. Now I could never see why the child's pinafore would not have sufficed, or if necessary even its fist, save that the labor expended in bringing home the berries would have been less efficient. If there was no monopoly in baskets, then the use of baskets was the conventional way of gathering or producing berries, an extension of the earlier mode of putting them in a big leaf for conveyance or into one's mouth for immediate consumption. Query: Should our economist not also include the child's clothes as part of its tools, since they protect the child from the briars during the operation of gather-

ing? The fact is that without a monopoly or a patent right, tools become part and parcel of society's inheritance from the past, the knowledge how to use them becoming an easy conventional acquisition, and labor, while certainly being thereby rendered more efficient, can gain no special advantage under the law of supply and demand. Every advantage derivable from the growth of the arts in production, in invention and in the advances of scientific knowledge is absorbed in rent.

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"As everybody knows, Nature yields more to labor when making use of tools than when working unaided; and this increase in the productive power of labor was confidently regarded as ample justification of interest, of that portion of the produce of labor which under existing conditions accrues to the owners of capital as a premium for the use of their possessions. This theory was strenuously upheld by Bastiat, who was indeed so confident of its truth that, as far as he was concerned, he practically staked the reputation of the existing social organization on its correctness. Henry George refutes this theory in a manner which leaves nothing to be desired. After pulverizing Bastiat's off-quoted illustration of the Plane, George concludes as follows: 'Is interest, then, natural and equitable? There is nothing in this illustration to show it to be so. Evidently what Bastiat (and many others) assigns as the basis of interest—the power which exists in the tool to increase the productiveness of labor—is neither in justice nor in fact the basis of interest. The fallacy which makes Bastiat's illustration pass as conclusive with those who do not stop to analyze it, is that with the loan of the plane they associate the transfer of the increased productive power which a plane gives to labor. But this is really not involved. The essential thing which James loaned to William was not the increased power which labor acquires from using planes. To suppose this we should have to suppose that the making and using of planes was a trade secret or a patent right, when the illustration would become one of monopoly, not of capital. The essential thing which James loaned to William was not the privilege of applying his labor in a more effective way, but the use of the concrete result of ten days' labor.'"—Lewis H. Berens, "Toward the Light," pp. 163-166.

III

DEAR A—

If you mean that under the existing system of private ownership of land interest is inevitable, you are certainly right, the all-sufficient reason being that the investor can now freely traffic in land rents and many forms of spurious capital, and he would be foolish not to look for an equal return for his money in the note, loan or bond market—and he gets it.

In the happier time to come, while land rent will greatly increase, it will accrue only to the public, the selling price of land disappearing and no income from this source being available to the private investor or speculator. Thereby the ground will be cut from under the feet of the would-be interest-monger.

Moreover, wealth (which includes capital) will be vastly more abundant and more evenly distributed—while he who saves wealth for any reason whatever will be confronted with the inevitability of its disintegration. Instead of increasing with time it will tend with time naturally to fade away. It takes continuous watching and labor to preserve wealth from decaying, moulding, rusting,

dry-rotting, withering, spoiling, corroding, wearing out, or going to ruin. Its final disappearance is inevitable. Labor is kept at work incessantly reproducing the capital of the world. Geo. L. Rusby in his book "Smaller Profits," 4th edition, p. 27, says, "Indeed, one would look far to find in use today any capital two generations old." So it seems to me that he who happens to have a surplus of saved wealth will think himself fortunate if, by loaning it to a borrower, the latter assumes the burden of its maintenance and restores it at the expiration of the term in the same condition it was in when he received it.

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"Henry George essayed to explain and uphold interest as follows 'While many things might be mentioned which, like money or planes or engines or clothing, have no innate power of increase, yet other things are included in the terms wealth and capital which, like wine, will of themselves increase in quality up to a certain point, or like bees or cattle, will of themselves increase in quantity; and certain other things, such as seeds, which, though the conditions which enable them to increase may not be maintained without labor, yet will, when these conditions are maintained, yield an increase or give a return over and above that which is to be attributed to labor.' Let us examine seriatim each one of the illustrations advanced by George in support of his view. 'If I put away wine,' he says, 'at the end of a year I will have an increased value, for the wine will have increased in quality.' Well, we would advise our readers to consult a wine-grower as to the force of this argument as a defense of interest: he would tell us that any such appreciation was the reward of his labor, not of his capital—was wages, not interest. Moreover, if wine-storers were enabled to earn specially high wages, more people would be attracted to that calling, more wine would be stored, until the value of wine and the earnings of wine-storers were both reduced to the normal level. Again he tells us that 'supposing that in a country adapted to them I set out bees; at the end of a year I will have more swarms of bees and the honey which they have made.' Quite so, but a beekeeper would smile at this 'illustration'; for, without having studied political economy, experience would have taught him that, despite the fact that his bees collect their spoils heedless of the legalized privileges of neighboring land-holders, all the honey, etc., he obtains is but the reward of the labor necessary to look after his swarms and collect the honey; that in fact his gains are wages, not interest. And moreover, that if his earnings exceeded those obtainable in other similar pursuits, some of his neighbors would also set out bees, until the market value of honey, which depends on supply and demand, would be reduced, as well as the earnings of those engaged in its production. Lastly, he argues that, 'supposing where there is a range I turn out sheep or hogs or cattle; at the end of the year I will, upon the average, also have an increase.' The same reasoning applies to this illustration. If such animals are turned out on a range on the margin of cultivation, any such natural increase would represent the natural wages of those who devoted their labor to turning them out and collecting them in. If such animals are turned out upon better land, any such increase represents wages and rent. If those engaged in these industries are earning more than their brother-workers engaged in similar pursuits, some of these will be attracted to these more remunerative industries, until the increased supply reduces the market value of commodities they produce, as well as their earnings; or, owing to the increased demand for the use of such 'natural opportunities' the rental value of the land is increased. From all of which it is evident that this natural increase which Henry George advances as the natural basis of interest is in truth the natural recompense or wages of those engaged in certain departments of industry. As already repeatedly emphasized, Man can create nothing. All he can do is

collect the material Nature provides and adapt it to his requirements, and to avail himself of the natural reproductive forces, the active power of Nature, the principle of growth, of reproduction, that those engaged in certain of the primary industries, as farmers, cattle-raisers, agriculturists, horticulturists, apiarists, etc., have to rely on for their wages. Hence they cannot be invoked as the natural basis of interest, or as any 'justification' of interest as both natural and just."—Lewis H. Berens, "Toward the Light," pp. 167-171.

IV

DEAR A—

It is also held by Georgists that the element of time enters into the phenomenon of interest. But Time cannot be differentiated nor considered apart from the methods of Nature. When we speak of Land we include the whole gamut of natural forces, processes as far apart in the element of Time as the ages-long laying down of the coal-measures from the instantaneous energy of electricity. It seems to me, on the contrary, that, far from being allied to the ways of Nature, and partaking of its manifestations, interest finds its origin in adventitious circumstances and persists under unnatural surroundings. It is all very well to say that capital is wealth used in the production of more wealth—such a description would seem to define tools and machines—but capital in itself produces nothing, it wears out, and even so it takes labor to set the machine going, and the machine itself is but a combination of modes of energy and mechanical advantages. Everything in the universe is of energy compounded, a machine being but an extension of human energy. The multiform modes of power that so distinguish modern invention are upon analysis all to be found acting within the human microcosm. So that the economic factors of land and labor are sufficient to cover the case. I think that a treatise on political economy might be written in which no mention need be made of either capital or interest, and I feel sure the terms would not be missed. The utmost that can be expected from the use of wealth is its maintenance or replacement. Otherwise, whether it be the product of land and labor devoted to the satisfaction of human desires or that form that is designated as wealth in the course of exchange, in neither case is there increase in measurable energy—nothing is discoverable beyond an interchange of one form of energy into the other, viz., the interchange from kinetic energy into potential energy, or vice versa. Leaving aside what is called Spurious Capital, which is a compound of monopoly and special privilege, with a power to levy tribute in the shape of dividends, interest and profits, what is the "interest" we are here concerned with and what is its origin? It is a convention of modern times springing from poverty (lack of wealth) on the one hand and superabundance of unearned possessions on the other. Its beneficiaries are landlords, bankers and investors who in the current maldistribution of wealth find easy and willing clients in the millions of the poor. If one

were asked to describe as tersely as possible the world as it is in essence, one would make no mistake by calling it a world of debt and a world in debt. From the treasuries of the greatest nations down to the slim resources of the average man, all are head and shoulders in debt. The borrower must have money; the lender is ready to accommodate at a price. Debtor and creditor. Do we have here an equally balanced twain, a double-star that might have swum into the ken of Emerson while writing his essay on Compensation? Not so, unless in the equilibrium of forces we are to justify master and slave, rent-lord and serf, conqueror and conquered, executioner and victim. For the debtor is ever the product and the sign of poverty. For him prisons have been built. He is the outcast, the broken man, the bankrupt. Our debts are not forgiven, for we never forgive our debtors—not for us the Lord's Prayer in this practical, business age!

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"The gains of banking usually take the form of interest, and interest is money paid for the use of money. Money has no power of increase in itself, but its power to draw interest depends upon the fact that it can be exchanged for sites, which produce rent. (It is curious to note that interest has always been looked at askance in all ages, forbidden by religion after religion.) The fact that it enables so many people to lead a life of permanent idleness, supported by the labor of others, is another reason for criticising interest. If I save ten thousand dollars from my earnings, by all means let me spend it; but to tell me that I and my heirs are thereby entitled to six hundred dollars a year for a million years, and then for another million years thereafter, is pure moonshine on its face. (But is the allowance of interest necessary to the saving of sufficient capital to keep our industries in a state of efficiency and provide for their expansion?) Squirrels and bees save without receiving any bonus upon their savings, and men can doubtless acquire the same wisdom if they try. It is sometimes stated that the essence of interest consists in the fact that men prefer to enjoy a thing now to postponing the enjoyment of it to the future, and hence that they will always pay a bonus for anticipating the use of it. But may we not expect the advent of a more philosophical frame of mind which will allow the trouble of preserving the desired thing to offset the annoyance of waiting for it?"—Ernest Crosby, "Labor and Neighbor," pp. 143-147.

"All commodities as soon as produced inevitably tend to deteriorate and decay. Houses, machinery, clothing, food, etc., how long will these remain serviceable or enjoyable unless constantly subject to that care and supervision which the labor of men can alone bestow? Hence if it be argued that the lender renders the solvent honest borrower a service by transferring to him the use or command of enjoyable or serviceable commodities without the immediate return of their value, it may be answered that the borrower also renders the lender a service by preserving his possessions or their value for him for future use and enjoyment. For unless those desirous of preserving their savings for future use can find someone else willing to undertake this necessary work, they would themselves have to devote some of their own labor to the preservation of their possessions. The question therefore really resolves itself into this: Under natural and equitable conditions, would possible lenders be able to command a premium for the loan of their possessions; or would honest and solvent borrowers be able to command a premium for preserving the possessions of their fellows for future use? Or would the one service, the loan, counterbalance the other service, the preservation; and hence neither a

premium for the use nor a premium for the preservation be obtainable, but both parties to the transaction be satisfied by the return of the commodity lent, or its value in some other commodity that may be mutually agreed upon?—Lewis H. Berens, "Toward the Light," pp. 158-161.

"Interest is a product of the private appropriation of rent, and would disappear with the public collection of rent. So long as it is possible to exchange the tokens of wealth or capital for a piece of the earth's surface which humanity must have in order to live and reproduce its kind, nobody will lend his wealth for any other purpose, unless he can get a return for it equivalent to what he can get by investing it in land values; but if you take that right away from him by collecting the full annual value of land and using it for public purposes, then the people with capital would either need to work themselves in order to preserve their wealth or get somebody to take it and preserve it for them. It is a characteristic of all wealth that as soon as production ceases decomposition sets in, and with nearly all wealth that decomposition is very rapid. Under such conditions the natural relationship between capital and labor would soon be established, and that relationship might be expressed thus: the service which labor renders to capital by preserving it would be the equivalent of the service which capital renders to labor by increasing its productive power. With rent collected and used for community purposes, and capital available to any one who wanted to use it by simply giving adequate guarantee of returning it when it was required by its owner, all power of economic exploitation of man by his fellows would disappear."—Sir George Fowlds, in *Auckland* (New Zealand) *Liberator*.

V

DEAR A—

Finally let us consider another phase of the interest question which Georgists are prone to belittle—just that common garden variety of interest which the borrower pays to the money-lender. This sort of interest is, according to our friends, a mere side issue, unworthy of scientific classification—a case of the tail wagging the dog. It is in vain that you point out that the common man understands what you are talking about when you mention this kind of interest; the answer is that the common man is a negligible person in this great argument, and that it must be repeated that capital bears interest because we tell you so; we feel it, we believe it, we know it. Besides, we never discuss this branch of the subject with the common man. It would be only waste of time.

Let me sum up before I close. In maintaining that the interest question is a purely academic question, orthodox Georgists from their point of view appear to be right. Aloft in their ivory towers, within their sacred groves, they look out upon the world with a calm, positive, secure and disinterested spirit, as befits philosophers absolutely satisfied that truth is theirs, theirs is truth—that this is all they know on earth, and all ye need to know.

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"As to interest, they could fix it themselves in precisely the same manner as they fixed the rent, and as in the case of rent the highest offer would of course be accepted, everything below par being prudently declined. I should then have them by the wool, and if they failed in their payments it would be the easiest thing in the world to sell them out. They might bewail their lot, but business is business. They

should have worked harder and been more provident; whatever inconvenience they might suffer, it would be their concern and not mine. What a glorious time I would have of it! Rent and interest, interest and rent, and no limit to either, excepting the ability of the workers to pay."—Mark Twain, "The Story of Archimedes."

"A capitalist primarily lends money, and before he can lend it it must be spare. The borrower merely pays usury; to what use he puts the money does not enter into the question. It will be apparent that the 'Capitalistic System' is a delicate term for a colossal pawn-broking business.—R. F. Dyson, "Natural Prosperity," p. 41.

"Once spare money commences to bear interest, interest soon becomes the Pirate King. Every industrial enterprise or business has to pay its pound of flesh, which must be passed on to the consumer. Taxes are similarly handed on. It is the consumer who pays the final snowball of tribute over the counter."—Ditto, p. 49.

"If it were not for the Bankruptcy Law and Court, producers who could not meet their obligations would then become the chattels of their creditors. That is what happened in the days of ancient Rome. Our present Bankruptcy Court is about the only mark of social progress which this civilization can show."—Ditto, p. 75.

"This system concentrates ownership and control of capital in the hands of people who had nothing whatever to do with its production. As a consequence, those who produce the wealth get little, if anything, more out of it than they must spend on their living. As a result, when a productive enterprise of any magnitude is to be started little money is to be found among those who are to do the productive work. It must be financed principally if not wholly by outsiders who neither can nor will take any part in the production, but expect to divide between themselves as much as possible of the proceeds. As shareholders, bondholders and capitalists generally, they are in matter of fact nothing but money-lenders to the producers who by their labor pay them dividends, interest and taxes out of the wealth they produce—and have not a voice in the councils of the business or an interest in its welfare. Finance is the ruling power; labor skill and productive intelligence are but tributary subjects, tolerated because useful and more or less abused and despised."—S. Tideman "Radicalia," pp. 54-55.

"In the vicissitudes of business, which such a system necessarily entails, the smaller and weaker members and groups of the financial element will from time to time be crowded out and their holding absorbed by the larger and stronger ones, until finally the whole machinery of finance becomes centered and controlled by a small group forming a distinct class as useful to the producers as rats in the pantry. Ditto, pp. 64-65.

"As a standing fiscal policy the Credit System is deservedly popular, for it is the finest shell game that was ever invented. With infallible certainty Finance accumulates the producer's money and nothing can beat it. No law can circumvent it as long as the rental value of land is treated as private property."—Ditto, pp. 61-62.

"A little thought shows that the producing part of the population cannot, under the present system, accurately speaking, enter into the market as consumers of any of the commodities which they have produced any more than can machinery. That portion of commodities which they consume as producers represented by salaries and wages is only their upkeep and replacement. Strictly speaking, producers they are only machines, and machinery cannot be said to enter into the market in a commercial sense as a consumer of the commodities it produces. The salaries and wages they get represent the commodities necessary for their upkeep and replacement, the same as any other industrial machinery, and no more and no less."—"T

Fundamental Principles of Economics," Charles J. Townsend and Walter L. Sinton, p. 19.

"Nothing can prevent the destruction of civilization unless the commodities which now go into the possession of the landowners, under the names of rent, dividends, interest and profits, as unearned increment, are returned into the public treasury for the common use of all the people."—Ditto, p. 21.

"To sum up, then, it is obvious that when all land rent goes into the public treasury, when taxes are abolished and all land is opened up for use to the highest bidder, interest, dividends and profits will disappear and be absorbed in rent, owing to the competition for any and every kind of natural advantage. We see what a tremendous revolution the Land Values regime will bring. In fact the whole social system as we know it will disappear utterly and an era of voluntary cooperation in industry will be ushered in, allowing full scope for the individual while at the same time providing fully for the common needs of all."—Ditto, p. 27.

E. WYE.

As to Interest: Reply to E. Wye

IN the illustration of the little child going berry picking (Chap. II), E. Wye says: "Now, I could never see why the child's pinafore would not have sufficed, or if necessary its fist, save that the labor expended in bringing home the berries would have been less efficient." Exactly! And it was to obtain efficiency that a basket was sought and obtained. This basket was produced by labor, and labor is entitled to wages which it would have received had the basket been bought, or to interest (partial wages) as the basket was merely borrowed.

E. Wye continues: "If there was no monopoly in baskets, then the use of baskets was the conventional way of gathering or producing berries." If the use of baskets were sufficiently "conventional" to be general among berry pickers, then every berry picker would have a basket—having bought it. The fact that a basket is borrowed discloses both need and lack of baskets. Baskets for sale in a store that sells baskets is not necessarily an evidence of monopoly of baskets, and E. Wye will admit the equity in the storekeeper asking payment for his baskets. Would a stock of baskets in a store kept in stock to loan them as required be any more evidence of monopoly? And would payment for their temporary use, instead of purchase for permanent use, be any less equitable? There are stores that lend camp chairs for funerals and parties. Is the payment charged for these inequitable?

Similarly, water filters and coolers, gas stoves for apartment dwellings, towel racks for offices, and other articles of this nature, are loaned out for pay. The houses and apartments and offices and lofts that are rented are in themselves wealth hired out for pay. Is there anything wrong about that?

E. Wye says that putting berries in baskets is "an extension of the earlier mode of putting them in a big leaf for conveyance," but how does that affect the situation? If big leaves were not at hand, and one had to make a day's

journey to obtain such a leaf, would not the possessor of such a leaf be entitled to one day's berry pickings as payment for it, or to a small share of a day's pickings for the use of the leaf?

E. Wye asks: "Should our economist not also include the child's clothes as part of its tools, since they protect the child from briars during the operation of gathering?" If the clothes protect the child from the briars, then there is wear and tear on the clothes in the process of picking, and the clothes must be replaced. There would then naturally be special clothing used for the purpose of berry picking, and if some one had such clothing handy that fitted the child, and the loan of this clothing was asked, the purpose would be to save the child's other clothing, and as the lender could have legitimately come into the possession of such clothing only by producing them with his labor or purchasing them, which is the same thing in economics, he would be entitled to wages for the sale, or interest for the loan.

E. Wye's next sentence is rather surprising: "The fact is that without a monopoly or a patent right, tools become part and parcel of society's inheritance from the past." Isn't this rather socialistic? In what manner or by what process do tools become part and parcel of society's inheritance from the past? This implies social ownership of tools and the machinery of production.

It is true, as E. Wye further says, "Every advantage derivable from the growth of the arts in production, in invention and in the advances of scientific knowledge is absorbed in rent." But the rent *having been paid by the labor that produced* the "arts" and the "inventions," labor has become quit with society, and society having so absorbed its part in the "advances of scientific knowledge" leaves labor in the undisputable and equitable possession of the tools and machinery it has produced, with no further rightful claim on the part of society.

In the quotation from Lewis H. Berens' "Toward the Light," in Chap. II, the opening statement that "Nature yields more to labor when making use of tools than when working unaided" expresses the reason why labor seeks capital; while the closing statement of the quotation, "The essential thing which James loaned to William was not the privilege of applying his labor in a more effective way, but the use of the concrete result of ten days' labor," contains the justification for the payment of the use of capital—in this case partial wages for ten days' labor.

In Chap. III E. Wye's explanation of the "inevitability" of interest "under the existing system of private ownership of land" can apply only to the *rate* of interest, not to its equity. Naturally, lenders of capital, especially in the form of money, will not lend out at a lower rate than the "market." And as long as land monopoly furnishes a fruitful market they would be foolish to lend at any lower rate than they can obtain in land investments.

E. Wye himself senses this, for in the next two para-