

## CHAPTER XVI

### OF INTEREST

Why should solvent borrowers be called upon to repay to lenders more than they have received? This question is one which harsh facts must from time to time have forced upon the mind of every business man. To put it somewhat differently, we may ask ourselves: Is "interest," or the premium now obtainable for loans, which has now to be paid for the use of "wealth," a natural or an arbitrary thing? Is it the result of "laws of the universe which underlie society, and therefore, just"? or is it but the result of a particular social organisation, and therefore but a robbery of labour which, under social conditions based upon natural law, upon Justice, would tend to disappear?

This is one of those questions that have troubled the hearts and perplexed the understanding of almost all who have reflected and written on economic questions, and on which there is still no unanimity of opinion, even amongst those whose minds are comparatively freed from the blinding influence of custom and prejudice. In the next chapter we shall briefly review the different explanations of this phenomenon advanced by the various writers on the subject; in the present, we shall briefly consider the question in the light of the conclusions we have already established.

To attempt to decide this question from a consideration of existing social phenomena would be a mere waste of labour. Owing to causes already indicated, notably to our treating land as property, and the consequent private appropriation of the natural public revenues, there is a constant tendency of the products of labour to gravitate into the possession, not of the industrial classes, not of those who can themselves reproductively employ, who, indeed, urgently require the use of any such accumulations in order to facilitate their future labours, but into the possession of a privileged class or caste. Hence, we have a few rich and many poor; a comparatively few possible lenders, and an indefinite number of would-be borrowers.<sup>1</sup> Under such conditions, more especially when other privileges securing unearned revenues can be secured in exchange for any accumulations, the continuance of "interest" is only to be expected. But its continued existence under such conditions, despite a superabundant supply of both enjoyable and serviceable commodities, can hardly be accepted as any proof that "interest" is due to natural causes, and is, therefore, unavoidable and equitable.

<sup>1</sup> It is to this inequality that the great John Locke unhesitatingly attributed the phenomenon of "interest." He says (See "Several Papers relating to Money, Interest, Trade, etc.," p. 55): "Money, therefore, in buying and selling, being perfectly in the same condition with other commodities, and subject to the same Laws of Value, let us

next see how it comes to be of the same nature with land, by yielding a certain yearly income, which we call Use or Interest. . . . That which occasions this is the unequal distribution of money; which inequality has the same effect too upon land that it has upon money. . . . For as the unequal distribution of land (you having more than you can or will manure, and another less) brings you a Tenant for your land; and the same unequal distribution of Money (I having more than I can or will employ, and another less) brings me a Tenant for my Money." And he concludes that "borrowing Money upon Use is not only by the necessity of affairs, and the constitution of human society, unavoidable to some men, but that also to receive profit for the loan of Money is as equitable and lawful as receiving Rent for Land, and more tolerable to the Borrower, notwithstanding the opinion of some over-scrupulous men." (Italics are ours.) A notable conclusion, and well worthy the consideration of both Economists and Divines.

In a community such as we have depicted in the previous chapter, however, the fundamental constitutional principle of Justice, of Equal Freedom, accepted and respected by all, would effectually exclude any claims to individual property in land, the use, as well as the annual rental value, of which would thus be entailed, as it were, on all future generations. Some portions of the public revenue would almost necessarily be expended on permanent improvements, or "reproductively," as it may be termed, on public works of different sorts, such as roads, railways, water-works, gas-works, drainage-works, public halls, institutes, parks, libraries, etc. These would represent the savings, would form the true "capital" of the community as a whole. In such undertakings the labour of the community would be accumulated and made to minister to their future desires. By such means the gratifications within the reach of all would be materially increased, and the labours of each and all be made more productive; the country as a whole would be made a more desirable home, as well as a more efficient workshop and store-house; its value, and more especially of the more favourably situated portions of it, would be materially increased, which increased value, appropriated as it would be for the common benefit of all, would still further tend to increase the public revenues of the community.

Moreover, with an ever-increasing natural revenue, there would be no necessity, real or imaginary, for the present generation to attempt to mortgage the fruits of the industry of future generations, by what are now known as National and Municipal Debts. There would, therefore, be no means by which any individuals, or class of individuals, would be able to secure to themselves special privileges, giving them power over the liberties and over the results of the exertions of future generations. Hence, in such a community there would be no means by which any individual could specially provide for the future of himself or descendants other than the natural one of storing up the proceeds of past labour for future use. Under such conditions, all

savings, all the "wealth" of the individual and of the community would have to be real, not fictitious. They could not be represented, as is so large a portion of the "wealth" of which today we hear so much, by the capitalised or selling value of liens over the industry of future generations, but would have to consist of, or be represented by, real, existing "wealth," or real, existing "property."<sup>1</sup> That is to say, all savings would have to be embodied in some of the various forms in which labour can be stored up and made available for future use. As already mentioned, the savings, the "wealth," or the "capital," of the community as a whole would be found in the permanent improvements it had constructed, as well as in the increased value given to its land by such improvements. While the savings of the individual would have to be fixed or embodied in improvements in or on the land, in buildings serviceable to himself or his fellows, in stores of merchandise, or of gold and silver, or in shares or interests in certain private undertakings. These latter, however, under such conditions, would only be profitable in exact proportion to the value of the services such undertakings were rendering the community.

1 The control of the land of Great Britain today secures to its owners a revenue of over £250,000,000 sterling, which at 3% represents a "capital value" of over £8,000,000,000 sterling: a fact which should make the courageous and generous advocates of Land Nationalisation by means of purchase, pause and reflect. Such an amount can only be paid by bonds disposing of the fruits of the labours of future generations. Are we justified in forging such chains for them, when all that is necessary can more speedily, and with greater justice, be secured by the Taxation of Land Values? This is the question we should like such advocates to take into consideration.

The function of all such accumulations, of all savings, is to be of service to those to whom they belong, to those who have taken the pains to earn or to preserve them. Such stores can advantage their owners either by giving them the means of enjoyment without further exertion, or by making their labours more productive. Stocks of what have been termed "enjoyable commodities" would serve the one purpose; stocks of what have been termed "serviceable commodities" would serve the other.

As pointed out in the opening chapters, in order that a diversity of industrial operations shall be concurrently undertaken, in order that some, without fear of want, shall be enabled to devote their labour-force and labour-time exclusively to pursuits other than that of food producing, it is necessary that the community as a whole shall be able to command, or that some of their number shall be able to produce, sufficient food supply to satisfy the wants of all; and also that those otherwise employed shall be able confidently to anticipate being enabled to share in it in return for the services they are rendering. Without such assurance, food being the first essential to existence, each man would have to devote some of his energies to its production.

Moreover, besides the necessary food supply, a large store of buildings, merchandise, tools, machinery, etc., as well as of various materials in all the different stages of production, is a necessary condition of any great diversity of industrial operations; the possession or command of such a stock is the necessary pre-requisite of anything approaching our modern industrial life. Merchants and other traders require a stock of finished commodities; manufacturers a large stock of different machines, as well as of "raw" or "primary" material to work up into the different forms that are desired; engineers, machine and toolmakers, etc., require a stock of iron; the iron-smelters a stock of coal, iron-ore, etc., and so on, ad infinitum. To supply these wants is the main function of such accumulations; it is the purpose for which they are intended, and to which they are devoted; and, as already pointed out, those who own such stocks of existing material and commodities can rightfully claim to be secured, not only their full possession and enjoyment, not only their exchange value, but also, under normal conditions, any and all advantages which the possession and control of such accumulations may yield.

When considering this question of "interest," there are two points which should not be overlooked. The one is, that not only is it labour which produces all commodities, all "wealth," and, when produced, has to preserve them from deterioration and decay, but also which employs all auxiliaries of production, all serviceable wealth already produced. In other words, it is labour which employs "capital," not "capital" which employs labour. On the other hand, in every large industrial enterprise — such as the building of railways, the opening up of mineral deposits, the establishment of any new business, whether of production or of distribution — there is always a certain amount of "dead" work to be done, and of stores of value or stocks of commodities to be provided, before it can yield its fruits, or be of service to the community. Hence, manifestly, before any such undertaking can be inaugurated, a certain store or command of accumulated wealth, immediately to remunerate or to maintain those at first employed, and so on, is necessary. Those providing the necessary stores, or funds, or "capital," will naturally expect to be able to command some equivalent counter-service. And, as seems to us almost self-evident, the amount of counterservice they will expect or be able to command will be determined by the Law of Supply and Demand; in other words, it will be determined by the amount of accumulated wealth seeking reproductive employment and the available outlets to same — which latter will be determined by the available labour competent and willing to make use of it.

Of course, rational parents, possessed of ordinary prudence and foresight, would endeavour to provide for the future wants of their children, and to supply them with such stores of tools and materials as are necessary to the occupations they are likely to follow. Some, however, from misfortune or extravagance, may fail to do so; or some

of the more energetic or enterprising workers may be able profitably to employ a greater store or value of commodities than they personally possess. Such men would naturally have recourse to those who may possess or control stores of the things they want; and if they desire that these should transfer to them the control or use of their possessions, would-be borrowers would have to come to terms with possible lenders. In other words, if they desire a favour or a service from some of their fellows, they must be prepared to render equivalent counter-services.

This way of stating the case may not commend itself to many of our readers, more especially to those who avow to hold "advanced views" on the social question; but we maintain that it is a correct one. For the man who lends a spade to another who has not a spade, and has nothing to give in exchange for a spade, is certainly rendering him a service, and, under certain conditions, a most valuable service, too. The same is true of a man who lends a steam-loom, or the necessary means to acquire a steam-loom, to another who has not a loom, or sufficient looms, of his own, nor anything to give in exchange for one. As also of the man who gives the manufacturer, the trader, or the distributor, the command of a greater store of commodities or materials than he otherwise could control. All such lenders are, in truth, rendering services to the borrowers; from whom, therefore, they can justly expect counter-services. And what we are desirous of ascertaining is: What is the nature of the counter-service such borrowers can naturally and equitably expect to receive.

We have seen that, owing to the natural flow of labour from the less productive to the more productive branches of industry, under equitable conditions there would be a constant tendency of earnings to a natural level, viz., to the level of those engaged in the primary industries, in producing direct from Mother Earth. That, owing to the same causes, the exchange value of all commodities would also constantly tend to a natural level; that is to say, all commodities would tend to exchange one for the other proportionately to the amount of labour they respectively represented. Apart from deviations due to variations in supply and demand, this would determine the relative values of different commodities. But what we are here concerned with is, not the natural value of any given commodity, but of "credit," that is, of the temporary command of any marketable commodities without the immediate return of their value.

Obviously enough, supply and demand, which, as we have seen, temporarily determines the exchange value of any given commodity, would at any given time also determine the market value of loans or credit; or, in other words, it would determine the current "rate of Interest," which is, in reality, nothing more nor less than the price of credit to an undoubtedly solvent individual or community. As Mill expresses it: "The rate of interest will be such as to equalise the demand for loans with the supply of them." If there are more would-be lenders than there are would-be borrowers, the

"rate of Interest" — or the premium for the temporary command of "wealth" without the immediate return of its value — will be "low"; if the reverse, it will be "high."

"High" and "low," however, are relative terms. Things are only "large" or "small," "heavy" or "light," "hot" or "cold," "high" or "low," according to their relation to some standard with which they are compared, or to which they are actually or mentally referred. Hence "Interest," like everything else, can only be "high" or "low" as it temporarily stands above or below a certain level. Hence the question with which we are here confronted is as to whether there is any level to which under natural and equitable conditions the "rate of Interest" would constantly tend.

Apart from the notable and telling fact, to which attention has already been called, that under such conditions all savings would have to be real, not fictitious, there are two other important considerations which have a material bearing on the question we are here considering. In the first place, it must not be overlooked that, inasmuch as variations in supply and demand affect the value of any given commodity, accumulations, beyond the normal demand, of any given commodity or commodities, would inevitably tend to decrease their exchange value. Other things being equal, large stocks mean low values, small stocks high values. This is universally true; it is true whether the commodity in question be the staple food or the current money of the community, whether it be corn or gold, rice or silver.<sup>1</sup>

1 "Money is a commodity, and its value is determined like that of other commodities, temporarily by demand and supply, permanently, and on the average, by cost of production. ... If the whole money in circulation was doubled, prices would be doubled. If it was only increased one-fourth, prices would rise one-fourth." — "Principles of Political Economy," Book III., chap. vi., § 3, and chap. vii., § 2 (J. S. Mill).

Besides this tendency to depreciation in value of all commodities accumulated in any considerable quantity, that is, in any quantity markedly greater than is necessary to supply the current demands of the market, all commodities — which, after all, are nothing but accumulated labour, nothing but man's power to minister to his wants stored up or embodied in material, but perishable form — 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 labour of man can alone bestow? Hence, to preserve such commodities, or their value, for future use, requires labour. For labour is not only the original consideration that has to be given by man for all "wealth," for anything and everything that can in any way minister to his desires and promote his material

wellbeing, but it is the toll that has constantly to be paid in order to preserve any form of "wealth " — other than bonds over the labour of future generations — from depreciation, deterioration, and decay.

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 pos-, sessions, 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 labour-force and labour-time 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 majT be mutually agreed upon?

This question, of course, as already pointed out, supply and demand can alone decide. "Interest," or a premium for the loan of "wealth," would be obtainable if there were temporarily more would-be borrowers than possible lenders. "Discount," or a premium for the preservation of "wealth," would be obtainable if the reverse were the case; whilst if neither lenders nor borrowers predominated, the return of the commodities lent, or their value, would be acceptable and advantageous to all concerned.

Moreover, if we bear in mind that a high premium for the use of wealth would naturally serve as a great inducement to further accumulation, and that, conversely, a high premium for its preservation would tend to check further accumulation, and act as an incentive to immediate consumption, it is manifest that the mere return of the commodities borrowed would be the natural level to which "interest" would constantly tend, any deviations therefrom being directly attributable to variations in supply and demand. In other words, under equitable conditions, the market value of credit, to an undoubtedly honest and solvent borrower, would constantly tend to the

return of the value borrowed: the service rendered by the lender, in granting the use of the commodity, being counterbalanced by the service rendered by the borrower, in preserving the commodity, or its value, for future use and enjoyment.

According to this view, under equitable social conditions, a premium for the temporary use or control of "wealth" would be obtainable only in a time of scarcity, or in communities in which accumulations were but small or in but few hands, and the power to produce is limited in proportion to the requirements of the people. Whilst in a time of plenty, and in communities in which accumulations were large and general, a premium for the preservation of "wealth," or of value, would have to be paid by those desirous of having their possessions preserved for future use and enjoyment. In other words, "interest" would be a sign of scarcity, and act as an incentive to increased production and increased accumulation. "Discount" would be a sign of plenty, and have the opposite tendencies. Whilst the return of the value borrowed would be a sign that as far as both production and distribution were concerned, the community was in a sound, healthy, and normal condition.

But if this be true, 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 over Nature, such as the greatest seers and wisest men of prior generations could never have conceived 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 organisation, 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? Is it, in fact, but an effect of those artificial, man-made laws and institutions, causing an unnatural and unjust distribution of "wealth," of the commodities and gratifications at the disposition of the community, and due to the united exertions of its working members?

To throw further light on this important question, we shall devote the next chapter to a consideration of some current justifications of "interest" as both natural and equitable.