

CHAPTER XVII

OF INTEREST

(continued)

Under equitable conditions "interest" would only be obtainable in a time of scarcity, or in communities in which accumulations were small and in but few hands, or in which the power of production was temporarily checked or permanently limited. This is the conclusion to which our investigations have led us, and from which there seems to us no escape. Before attempting to trace the causes to which are due its persistence and continuance in spite of our enormous stores of almost every conceivable forms of "wealth," and in spite of powers of production which to the philosophers of old would have seemed superhuman, we deem it advisable briefly to consider some current vindications of "interest" as both natural and equitable.

The unfortunate students of the current Political Economy are taught that "capital" is the result, and "interest" is the reward of abstinence. As we have already shown, "capital," as all other "wealth," is the result or product of labour; and the most ordinary common sense tells us that the natural reward of abstinence consists in the continued possession of the thing we might have consumed, or its value. As Henry George puts it¹ —

1 "Progress and Poverty," Book III., chap. iii.

"Abstinence is not an active, but a passive quality; it is not a doing — it is simply a not doing. Abstinence in itself produces nothing. Why, then, should any part of what is produced be claimed for it? If I have a sum of money which I lock up for a year, I have exercised as much abstinence as though I had loaned it. Yet, though in the latter case I will expect it to be returned to me with an additional sum by way of interest, in the former I will have the same sum, and no increase. But the abstinence is the same. If it be said that in lending it I do the borrower a service, it may be replied that he also does me a service in keeping it safely — a service that, under some conditions, may be very valuable, and for which I would willingly pay rather than not have it; and a service which, as to some forms of capital, may be even more obvious than as to money. For there are many [query, all ?] forms of capital which will not keep, but must be constantly renewed; and many which are onerous to maintain if one has no immediate use for them. So if the accumulator of capital helps the user of capital by loaning it to him, does not the user discharge the debt in full when he hands it back? Is not the secure preservation, the maintenance, the re-creation of capital, a complete offset to the use? Accumulation is the end and aim of abstinence. Abstinence can go

no further, and accomplish no more; nor of itself can it even do this. If we were merely to abstain from using it, how much wealth would disappear in a year? And how little would be left at the end of two years? Hence, if more is demanded for abstinence than the safe return of capital, is not labor wronged? Such ideas as these underlie the widespread opinion that interest can only accrue at the expense of labor, and is, in fact, a robbery of labor which, in a social condition based on justice, would be abolished."

After this all-sufficient refutation of what may be termed "The Abstinence Theory," George turns his attention to the theory that vindicates "interest," from the charge of being merely a legalised robbery of labour, by attributing it to the power which exists in tools and other forms of accumulated "wealth" to assist industry and increase the productiveness of labour. In other words, as everybody knows, Nature yields more to labour when making use of tools than when working unaided; and this increase in the productive power of labour was confidently regarded as ample justification of interest, of that portion of the produce of labour, 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 organisation, of which he was a staunch and able defender, on its correctness. For, in a controversy on this question with the celebrated Proudhon, he admitted that: "If levying interest from capital be a wrong, the workers have a right to revolt against the social order as it exists": a statement which, coming from so eminent and yet so conservative an authority, when first we read it, gave us much to think and ponder over.

Henry George, however, refutes this theory, too, in a manner which leaves nothing to be desired; and before considering his own justification of this much questioned and important social phenomenon, we cannot do better, in order to clear up some of the confusion that still surrounds it, to quote his refutation in full. Immediately after the paragraph last quoted, he continues:

"The attempts to refute these views do not appear to me always successful. For instance, as it illustrates the usual reasoning, take Bastiat's oft-quoted illustration of the plane. 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. William, admitting this, agrees not merely

to return a plane, but, in addition, to give James a new plank. The agreement is carried out to mutual satisfaction. The plane is used up during the year, but at the end of the year, James receives as good a one, and a plank in addition. He lends the new plane again and again, until finally it passes into the hands of his son, 'who still continues to lend it,' receiving a plank each time. This plank, which represents interest, is said to be a natural and equitable remuneration, as by giving it in return for the use of the plane, William 'obtains the power which exists in the tool to increase the productiveness of labor,' and is no worse off than he would have been had he not borrowed the plane; while James obtains no more than he would have had if he had retained and used the plane instead of lending it.

"Is this really so? It will be observed that it is not affirmed that James could make the plane and William could not, for that would be to make the plank the reward of superior skill. It is only that James has abstained from consuming the result of his labor until he had accumulated it in the form of a plane — which is the essential idea of capital.

"Now, if James had not lent the plane he could have used it for 290 days, when it would have been worn out, and he would have been obliged to take the remaining ten days of the working year to make a new plane. If William had not borrowed the plane he would have taken ten days to have made himself a plane, which he could have used for the remaining 290 days. Thus, if we take a plank to represent the fruits of a day's labor with the aid of a plane, at the end of the year, had no borrowing taken place, each would have stood with reference to the plane as he commenced, James with a plane, William with none, and each would have had as the result of a year's work 290 planks. If the condition of the borrowing had been what William first proposed, the return of a new plane, the same relative situation would have been secured. William would have worked for 290 days, and taken the last ten days to make the new plane to return to James. James would have taken the first ten days of the year to make another plane which would have lasted for 290 days, when he would have received a new plane from William. Thus the simple return of the plane would have put each in the same position at the end of the year as if no borrowing had taken place. James would have lost nothing to the gain of William, and William would have gained nothing to the loss of James. Each would have had the return his labor would otherwise have yielded, viz., 290 planks, and James would have had the advantage with which he started — a new plane.

"But when in addition to the return of a plane a plank is given, James, at the end of the year, will be in a better position than if there had been no borrowing, and William in a worse. James will have 291 planks and a new plane, and William 289 planks and no plane. If William now borrow the plank as well as the plane, on the same terms as

before, he will, at the end of the year, have to return to James a plane, two planks, and a fraction of a plank, and if this difference be again borrowed, and so on, is it not evident that the income of the one will progressively decline, and that of the other will progressively increase, until the time will come when, as the result of the original lending of a plane, James will obtain the whole result of William's labor; that is to say, William will become virtually his slave.

"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 analyse it, as we have done, 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."

This last sentence, which we have placed in italics, admirably sums up the whole question. What James lends to William is the concrete result of ten days' labour, and what William is expected to return to James is the concrete result of eleven days' labour. But, strange though it may appear, after thus demonstrating that any such premium for the use of "wealth" cannot be regarded as a reward of abstinence, nor as due to "the power which exists in tools to increase the productiveness of labour," Henry George convinced himself, and asked his followers to believe, that, in a social condition based upon justice this premium for the use of "wealth" would still continue; that with equal freedom of action, and with the natural sources available to all on equitable terms, the Williamises who work would still have to give the Jameses, who happen to have some accumulations, the concrete result of eleven days of their labour in return for the use of things which they could produce for themselves by working for ten days; that this is not due to any flaw in our social organisation, but "to the laws of the universe which underlie society," and that it is, therefore, natural and equitable.

In short, after his complete overthrow of the current justifications of "interest," Henry George enters the lists on its behalf, and sets up a special defence of his own, a

defence which seems to us as untenable as those he had just confuted, and which we regard as the main flaw and blemish in his soulawakening, epoch-making, classical work, "Progress and Poverty," which we ourselves hold in almost religious reverence and sacred respect.

Let us now examine this defence. Immediately after the paragraph from which we have just quoted, George continues:

"And I am inclined to think that if all wealth consisted of such things as planes, and all production was such as that of carpenters — that is to say, if wealth consisted but of the inert matter of the universe, and production of working up this inert matter into different shapes, that interest would be but the robbery of industry, and could not long exist." But he argues that: "While many things might be mentioned which, like money, or planes, or planks, 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."

It is here where we are compelled to join issue with George. We deny that there is in the cases mentioned any more than in any other branch of productive industry, any return "over and above that which is to be attributed to labour" over and above that which is the natural reward, or "wages," of the labour necessary to prepare or to maintain those conditions without which, as George himself is careful to point out, any such increase in quality or quantity either will not take place at all, or cannot be made available to mankind. As we have repeatedly pointed out in the opening chapters, and as George himself was never weary of emphasising, Man can create nothing, neither material nor forces. For both materials and forces he is in all cases entirely dependent on Nature. Strictly speaking, the labour of man is entirely restricted to moving natural objects to or from each other. As Mill expresses it¹ —

1 Ibid., chap, i., § 3.

"This one operation of putting things into fit places for being acted upon by their own internal forces [as in the case of wine, seeds, cattle, etc.], and by those residing in other natural objects [such as in the case of planing, carpentering, or any other process of manufacturing], is all that man does, or can do with matter." Moreover, as the same close and clear reasoner continues: "The part which nature has in any work of man is indefinite and incommensurable. It is impossible to decide that in any one thing nature does more than in any other. One cannot even say that nature does less. Less labour

may be required; but if that which is required is absolutely indispensable, the result is just as much the product of labour as of nature. When two conditions are equally necessary for producing the effect at all, it is unmeaning to say that so much of it is produced by the one, and so much by the other; it is like attempting to decide which half of a pair of scissors has most to do in the act of cutting."

Besides, if there were really any such difference, if Nature could be said to yield special advantages to those working in certain branches of industry, it would not affect the question at issue. For, as we have already shown in the chapter "Of Wages," in a free market the "price," or exchange value, of different commodities constantly tends to be determined by the amount of labour they respectively represent. Thus, any advantage Nature may be supposed to yield to any special branch of industry would tend to be distributed, or to distribute itself, amongst all those who were exchanging services or commodities one with the other.

To express our deviation from George's views somewhat differently. We hold that "the active power of Nature, the principle of growth, of reproduction, which everywhere characterises all the forms of that mysterious thing or condition which we call life," — which George claims as "the cause of interest" — to be, in fact, the cause or source of the earnings, or "wages," of agriculturalists, horticulturalists, cattle-raisers etc., without the aid of which, seeing they cannot create anything, their labours cannot be made to minister to their own wants or to those of their fellow-creatures. And, economically, we see no difference between the reproductive powers inherent in "living" matter, of which we avail ourselves to produce food, etc., and the expansive power of steam, etc., of which today we avail ourselves in almost every branch of industry.

Let us now 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 defence of interest. For his practical acquaintance with the facts would have taught him that, to say nothing of the labour required to provide suitable cellarage for his stock, a certain amount of skilled and well-directed labour is a necessary condition of any such improvement in quality and consequent increase in value. Hence, any such appreciation seems to us the natural reward of labour, not of capital — to be "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 an apiarist 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 legalised privileges of neighbouring land-holders, all the honey, etc., he obtains is but the reward of the labour 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 neighbours 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 wage" of those who devoted their labour 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 brotherworkers engaged in similar pursuits, some of these will be attracted to these more remunerative industries, until the increased supply reduces the market value of the 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 has 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 emphasised, Man can create nothing. All he can do is to collect the material Nature provides, and adapt it to his requirements, and to avail himself of the natural reproductive forces to obtain increased supplies. And it is upon these natural reproductive forces — "the active power of Nature, the principle of growth, of reproduction, which everywhere characterises all the forms of that mysterious thing or condition which we call life" — that those engaged in certain of the "primary" industries, as farmers, cattle-raisers, agriculturalists, horticulturalists, apiarists, etc., have to rely 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.

That what George mistook for the natural basis of "interest," is, in truth, the natural

basis of certain "wages," is clearly shown in the illustrations with which he closes the chapter from which we have already quoted at such length. He says: "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 labour I have expended." Mark well the words we have placed in italics. *Interest upon the labour I have expended* Why, no one has shown more clearly than Mr. George that the earnings of labour — including the legitimate profits of traders, and rewards for superintendence and organisation — are "Wages." He should, therefore, be the last economist to designate the reward of any labour as "Interest." The fruits of such a tree, if planted upon land on the margin of cultivation, form the natural recompense, or "wages," of all the labour necessary to its production and preservation, as well as of the labour necessary to collect such fruits. If planted upon better land, such fruits represent "wages" and "rent."

Finally, as if desirous to leave no room for mistake as to his meaning, Mr. George continues: "If I raise a cow, the milk which she yields me morning and evening is not merely the reward of the labour then exerted, but interest upon the capital which my labour, expended in raising her, has accumulated in the cow." No one would contend that the milk a cow yields morning and evening is "merely the reward of the labour then exerted." It may or it may not be; it really all depends on circumstances. But if not, then it is also part of the reward, of the natural recompense, of the labour previously expended in raising and looking after the cow. The corn, wine, oil, etc., we reap at harvest-time, are not merely the reward of the labour then exerted, but, as we have already shown, of all the past labour expended in making the necessary tools, preparing the ground, sowing the seed, attending to the crops, etc. And if reaped from land on the margin of cultivation, the whole harvest represents the natural recompense, or "wages," of labour; if reaped from better land, "Wages" and "Rent."

In conclusion, we think we may claim to have shown that, whatever may be the cause of the persistence and continuance of "Interest" in the midst of plenty, and in spite of our practically infinite powers of production, the reproductive forces of Nature cannot be held responsible. They are the sources of all material blessings. Without them we should be poor indeed; without them, in fact, as constituted, we could not exist. As already shown, Nature and Labour are the two essential elements of all production. And "Nature" is simply the personification of these natural forces, reproductive and otherwise, taken as a whole. Hence, it is certainly not to their existence, though perhaps to their monopolisation, that this peculiar phenomenon of the persistence of "interest" in the midst of plenty is due.

We hope to be able to throw more light on this mysterious social phenomenon as we proceed with our investigations. In the history of the development of society, the men who first found themselves enabled to live, without working themselves, on the "premium," "rent," or "revenue" obtainable for the use of their possessions, were the owners of the land. Hence it is that so large a number of wars, public and private, have been waged to decide the question, not as to who should use, but rather as to who should control the use of the land. Those who own the land virtually own the people, who can only live on and from the land. At its best, the fruits of the private ownership of land is equivalent to a lien over the labour of others. Hence it is that we regard the private ownership of land, when accompanied by the private appropriation of its rental value, as the primary source, cause, and parent of "interest."

As already pointed out in the chapter "Of Rent," in communities where the private ownership of land, and the consequent appropriation of its rental value, is treated as "property," where it can be bought and sold, or exchanged against commodities, then any sum of value, any accumulations, any "capital," represents, or is equivalent to the possession of a piece of land of an equivalent value. And, manifestly, no one will employ such accumulations for any other purpose, or allow others the use of them, for a less return than he could gain by securing therewith, "investing" it in the possession of, a piece of land of equivalent value.

Moreover, we must not lose sight of the fact that what are known as National Debts, more especially, perhaps, such portions of them as are not represented by any tangible public property, are equivalent to the creation of similar liens over the present and future industry of the Nation. And again, it is manifest that so long as such liens are being manufactured wholesale by almost every government in the civilised world, and so long as they are obtainable in exchange for any accumulations a man may possess, such accumulations will not be employed to promote any industry, or lent to others, for a less return than is obtainable by the acquisition of such liens.

To the question of National Debts we may have occasion to refer again. Here, however, it may be well to point out that the increased productive power which the enfranchisement of the land would give to the industry of the nation, would enable them easily and speedily to rid themselves of these mortgages on the fruits of their toil, these inheritances of past misr government. The enfranchisement of the land is, in truth, the first necessary step towards Social Justice and Economic Freedom; it is the step which will make all other necessary reforms both easy and effective, but without which nothing can permanently and materially improve the condition of those "hewers

of wood and drawers of water," the toiling masses of the community, upon whose impoverishment and degradation our present civilisation is founded.

Thus, "interest" is not any reward of abstinence, any tribute due to the good boys who save their cakes instead of eating them, nor is it due to the increased productive power which the use of tools gives to labour, nor can it be attributed to the reproductive forces of Nature. Like poverty in the midst of plenty, of which it is the necessary corollary, it is the direct result of privilege and monopoly, the direct offspring of the private appropriation by some of those natural sources and opportunities essential to the life of all. It is not a natural, but an arbitrary thing; it is not the result of laws of the universe which underlie society, but of a particular social organisation. It is, therefore, not natural and equitable, but unnatural and unjust.

Many earnest Social Reformers may, however, still remain of the opposite opinion. It is, therefore, a matter of congratulation that differences of opinion on this somewhat abstract, if not merely academic, question cannot be any real cause of antagonism or separation between any who are seriously desirous of establishing Justice, and of securing to mankind the fruits of Justice. All can unite to attain this end; and when, it is attained, then if "interest" continues, we shall know that it is both natural and just; whilst if it disappears, we shall know that it was unnatural and unjust; that it was, in truth, but one of the fruits of privilege and monopoly, of that unjust social system which produced poverty in the midst of plenty, and which conferred advantages and privileges on the few, at the cost and to the detriment of their "disinherited" fellow-citizens.