Interest Isn't New

A HISTORY OF INTEREST RATES, by Sidney Homer. Rutgers University Press, New Brunswick, New Jersey, 1963. 617 pages. $10.

Reviewed by
CHARLES F. LEONARD

WHAT would it cost you, as a Sumerian peasant in the year 1500 B.C. to borrow a few fig seeds and some grain with which to make a planting, repayable at harvest time? or as an ambitious but inexperienced young Italian prince in the year 1500 A.D. to arm a battalion of men and set out on a military foray against a neighboring princedom? or as a "dealer in greatest respectability and opulence" in the City of London in the year 1850, to close a deal for a large shipment of silks from halfway 'round the world? In this excellent history, Sidney Homer answers these and many other questions. His stuay is at once meticulously detailed and documented in its analysis of, and at the same time vibrantly alive with, the political, military, social, technological and economic undercurrents, that both underlie and are themselves occasionally influenced by, that mercurial quantity, the rate of interest.

Mr. Homer makes clear the imoortance of having a broad understanding of the concept of interest. He points out that it is not a modern invention nor is it confined to the civilized world. Like its twin, credit, it is present in various primitive customs, in loans of land under numerous forms and rules, and in ordinary loans of money.

Throughout history, monetary loans fall into four types: long-term productive loans, short-term working capital loans, non-productive or consumer loans, and loans to governments. The author cites historical evidence as far back as Hammurabi to show that *rates of interest* have in all times been both dependent on and inseparable from the *instruments of credit* and the *market methods* in use at the time.

Tracing the flow of commerce and custom through the ancient world, Mr. Homer notes another fact of economic life that was universally important then, and is of wide importance today. In areas far removed from major financial centers and money markets (and in the ancient world there were no money markets), credit dealings become purely individual, and are unaffected by remote market forces, or they become merely stagnant—indices more of the role of tradition than of the rate of commerce.

Modern finance developed over many centuries and in many countries, at great cost in lost fortunes and ruined kingdoms, culminating in an efficient, responsive and adaptable system of financing private trade and public expenditure on an international scale. The author specifies three essential elements of this system of finance as it had evolved down to the year 1900, largely under the guidance of the British:

1, a public which saved regularly and sought safe income from its savings through the obligations of a trusted and respected government
2, a funded national debt largely in the form of uniform and marketable perpetual annuities
3, a money market designed to promote trade and dominated by a central bank which provided funds at varying rates of interest

While this volume gives no capsule summary of historic interest rates, it does supply several generalizations as to the factors that determine rates of interest, either on individual loans or in particular financial markets. Some of these factors include:

1, the term of the loan
2, the credit of the borrower
3, the resources of the lender
4, the risk involved in the project being financed
5, the demands of competing borrowers and lenders
6, the technical convenience or cumbersomeness of the credit instrument being employed.

Regarding factors that affect money conditions, the author cites the near universal decline in long-term interest rates that occurred in Europe during the 19th century. He attributes this to a stable political environment, improvements in market methods, extension of trade under peaceful conditions, and to the minimal demands of governments for military financing. All of these factors contributed to the general availability of funds whenever and wherever needed. Local volatile or aberrant conditions could be traced to political or other disturbances.

The question of the "real" rates of interest—not for land or profits or risk or government bonds—but on real capital, remain unanswered here. But the student of Henry George can read Mr. Homer's History with profit and then form his own answer to that question.

More Income from Slum Property

Although the new House & Home magazine (now published by McGraw Hill superseding Time and Perry Prentice) has put the brakes on land value taxation, it still accords some recognition to a partial application, along with community planning, zoning and a federal bureau on housing.

In an editorial in the February issue, currently rising property taxes are criticized as a deterrent to home building and sales. The editorial states:

"So it's clear that some of the burden of local taxes must be shifted from housing to a broader tax base. The easiest way to broaden the base would be to relate assessments more closely to market value—particularly assessments on vacant land, which are sometimes as little as one per cent of the true value. A better, but politically less popular, way to broaden the base would be to shift more of the assessment from improvements on the land to the land itself. This would produce more income from vacant land held by speculators—and thus drive down the price of the land. It would also produce more income from slum property—and thus help eliminate slums."

Al Martinez, in a column in the Oakland (California) Tribune of January 15th writes petulantly about his property tax bill and feels "faced with the possibility of being taxed into extinction." One thought that occurs to him is to "slowly destroy parts of the house . . . smash up a bedroom and leave it thus in a state of chaotic disrepair for the assessor to see . . . the kitchen, and after that the living room and the bathrooms, the garage, the other bedrooms, the roof and the garden [to effect] a veritable orgy of property tax reduction."

"An assessor, as you know," he writes, "is a man who comes around in the dead of night to see how you have improved your property. He must come around at night, because I've never seen one in the daytime. Perhaps he is a vampire. I wouldn't be surprised.

"He checks to see if you have made any improvements at all, and if you have, your taxes are increased. A new window sill? Fine, fine. A lovely flower bed? Excellent. Elegant. A new bedroom? Beyond his wildest dreams. Every little bit helps. Pay up."

This column was clipped by Irene Fontaine Won, a correspondence student in Pittsburg, California. We are indebted to our correspondence students who send very timely clippings.