

CHAPTER XV.

OF GROUND RENT, WAGES, AND INTEREST.

Let us, then, seek the true laws of the distribution of the produce of labor into wages, rent and interest. The proof that we have found them will be in their correlation—that they meet, and relate, and mutually bound each other.

Henry George.

People who have at home some kind of property to apply their labor to, will not sell their labor for wages that do not afford them a better diet than potatoes and maize.

Laing's Notes of a Traveler.

We have seen that when use is made of a land-form which yields more than the marginal return, ground rent emerges and manifests itself in an annual value which, in present conditions, may be collected from a tenant, or may be enjoyed by the owner as a differential value, if he uses the land-form. In either case future ground rent is anticipated and appears as the ground value of the land-form; and in any event, the starting point in the study of the phenomenon of ground rent is the upper limit of the marginal return.

In a new country where but few land-forms are utilized, and these are of substantially equal utility, no one receives anything in excess of the marginal return, and land-forms neither bear ground rent nor have ground value. But as soon as it becomes necessary for some settler to occupy and use a land-form of inferior quality or

position, or both, a distinction arises, and his annual product becomes the marginal return. All the superior land-forms now bear ground rent. But as the community grows, not only do other and still inferior land-forms necessarily come into use, but the land-forms of the original settlement cease to be of equal utility, and differences of ground rent arise among them. The general store, the blacksmith shop, the railroad station, and the post-office appear, and nearness to these becomes a principal element of land value in that community. As the community grows, the difference in ground rents becomes greater and greater, and the question of location rather than of fertility becomes of greater and greater importance. But in any community, however great, that value which lies back of the entire question of ground rent is the marginal return. When a farm tenant gives half his crop for the exclusive use of a given land-form for one year, it is because he can do so and, all things considered, still retain as his own an amount equal to the marginal return.

We have so far considered men as exerting their labor-power for their own direct benefit or, in other words, as employing their own labor. All men do not do this, however. Instead of producing some labor-form for exchange, many men sell their labor-power to others, or as it is commonly expressed, work for wages, for a salary, or for a commission. In all such cases the amount of wages, salary or commission—we shall use “wages” as an inclusive term—in normal conditions is governed by the marginal return. An employer of labor offers as compensation the lowest sum which he can induce another to accept. But in ordi-

nary circumstances no one will work for wages which are less than the marginal return to self-employed labor of the same grade. On the other hand, if wages should become perceptibly greater than such marginal return, men upon the economic margin would cease self-employment and seek service with others. The marginal return to self-employed labor is the determiner of wages. The solution of the wages question is contained in this simple statement. It is not our present purpose, however, to attempt to solve, in detail, this and related questions, but to furnish data for their solution.

When a man has stored up the utility of his labor-power in capital-forms, he may seek advantage of this stored up utility by using such capital-forms himself, or by selling them to another, either outright, or for a limited time. If he sells them outright, he receives his pay in market price, which is determined by the marginal pair, and these, as we have seen, are the occupiers of the economic margin, and receive for their labor the marginal return; if he sells them for a limited time, he receives his return in the form of interest. The amount of this return is subject to the universal law of the market. As a capitalist he seeks as great a return as he can induce any other person to give; the borrower, on the other hand, gives as little as possible. The method of the market is then precisely the same as if the capital-forms were for sale outright. The price—the rate of interest—is fixed by the marginal pair. The marginal buyer, or borrower of pure capital, tends to be the user of the economic margin.

Upon the margin the opportunities for the reduction

of the disutilities of time are less than upon superior land-forms, and the return for the use of capital-forms is there least of all. If the bidding of the marginal producer is necessary to exhaust the supply of pure capital offered, his bid fixes the rate of interest for the whole market, and all borrowers take advantage of this rate. If the supply of pure capital is so small that the lowest necessary borrower is found before the marginal producer is reached, still it is this lowest borrower, whose demand is necessary to exhaust the supply of such capital, that fixes the rate of interest for the entire market. He occupies the marginal land-form among those land-forms upon which borrowed capital is used.

Whether used to assist labor-power in overcoming the disutilities of matter, or directly in overcoming the disutilities of time, the return to capital-forms is governed by the same laws as the return to labor-power. Like labor-power, the amount and efficiency of capital-forms tends to increase with increase of population and with progress in the industrial arts. In a new community nearly all production is necessarily directed toward acquisition of satisfirms. But as the community grows, more and more labor-forms are diverted for use as capital-forms. While the community is new and capital-forms scarce, the marginal producer occupies one of the most advantageous land-forms and can pay as high rate of interest as any one in the community. The little pure capital, therefore, that is available will bear a high rate of interest.

When the community has reached that stage of growth in which all land-forms available are occupied, the mar-

ginal producer occupies the poorest land-forms of all and pure capital used by him will give a comparatively small return. In the meantime the amount of pure capital for investment has increased in proportion to the growth of the community, and the marginal producer must use such capital in order to exhaust the supply. In such circumstances he becomes the marginal bidder for pure capital, and his bid fixes the rate of interest. The return to pure capital in the hands of the marginal user is the determiner of the rate of interest for all such capital. This marginal return is governed by the return to pure capital which can be acquired upon the land-form occupied by such marginal user. So that whether we consider the question of ground rent, of wages, or of interest, we are carried back to the return of labor-power and capital-forms upon the land-forms at the economic margin.

The nature and laws of wages, interest, and ground rent may be epitomized in the following descriptive statements:

Wages in any given case are determined by the marginal return open to similar labor-power.

Interest in any given case is determined by the marginal return open to pure capital.

Ground rent in any case is determined by the excess of net value or net salvage acquired upon the land-form in question over that acquired with like disutility upon the marginal land-form put to similar uses.

The law of wages which we have formulated may be applied to the compensation received for any exertion of labor-power, physical or mental. It does not imply that the compensation of a skilled physician, the superintendent

of a large business, or of a college professor, is determined by the return which would be open to that particular physician, superintendent, or professor, if he were compelled to become a day laborer upon a marginal land-form. This is not true. There is no room for the exertion of the distinctive labor-power of any of these men upon the marginal land-form used for the raising of potatoes, corn or wheat. But there is somewhere in the society in which they labor an opportunity which is the least remunerative of all those open to men of similar skill and ability, and it is the return resulting from this marginal opportunity which constitutes the marginal return for their respective professions. The return to a professional man is greater, however, in a community where the artisan is well paid than where he is poorly paid; and the artisan fares better where the wages of common labor are high than where they are low. So that although wages in any given case are directly determined by the marginal return open to *similar* labor-power, yet, in the last analysis, the prosperity of all men not the beneficiaries of artificial conditions is based upon the return acquired by the man who exerts common labor-power at the economic margin.

Not only has the nature and origin of the economic basis of interest furnished the basis of interminable disputes, but the very existence of any such economic basis has been denied. Boehm-Bawerk in an exhaustive treatise of two volumes classifies and criticises the leading economic writers with reference to eleven different theories of capital and five of interest, and then expounds a twelfth theory of capital and a sixth theory of interest

as essentially his own. Notwithstanding all these theories of interest, we have been obliged to work out another in conformity with our definitions and doctrines of utility, disutility, value and cost, in order accurately to classify all the phenomena of the normal market, and to bring Economics into harmony with related sciences.

By the assistance of auxiliary capital, labor-power acquires more utility in the same time; by the use of pure capital an additional utility is acquired and enjoyed now rather than at some future time. The utility of auxiliary capital does not differ from that of labor-power in kind, but simply adds to its effectiveness; while the utility of pure capital is essentially different in kind and accomplishes an end which is impossible to labor-power alone. It overcomes the disutility of time by rendering unnecessary, or by diminishing, the irksomeness of waiting—that irksomeness which Milton aptly recognized when he said:

“They also serve who only stand and wait.”

Interest does not arise from any productivity of capital, either natural or artificial; nor is it the reward of abstinence upon the part of the lender; nor simply an agio or premium arising from the exchange of present for future goods (Boehm-Bawerk); nor is it that part of the product which results from the use of capital-forms in production as is commonly believed. It is the net value which arises in production from the utility of capital-forms in overcoming the disutility of time. Were it not for this distinctive disutility, the utility of pure capital-forms would

not arise, the phenomenon of economic interest would not exist.

Interest, in the first instance, applies only to the use of pure capital. But since all values are resolvable into money, and since all capital-forms are interchangeable in the market and may be used interchangeably as auxiliary or pure capital in production, commercial interest is paid upon all borrowed capital regardless of the use to which it is put. Its price—the rate of interest—is determined by the distinctive utility of capital-forms to the marginal user, and this is their utility to him as pure capital. After money is borrowed it may be invested in pure capital, auxiliary capital, or not used at all. The result, so far as commercial or legal interest is concerned, is the same—it must be paid. But only when borrowed money is invested in pure capital does any economic interest arise out of which commercial interest can be paid without loss to the borrower. This accounts for the fact that so many commercial enterprises based upon borrowed capital fail. In order to succeed it is not enough that such capital is used to assist labor-power in changing the form and position of material substances. All that capital-forms are worth for this purpose is covered by their price when, in the form of machinery, etc., they are bought in the open market. When bought with borrowed money, capital-forms must be used to overcome the disutility of time as well as of matter. Their utility for the former purpose is paid for in interest; for the latter, in price. Unless put to both uses borrowed capital must necessarily result in loss, and the commercial interest must be paid, if at all,

from other earnings. It is for this reason that those omni-socialists are substantially right who say that the average man can not pay interest and survive in present business conditions. But present conditions are influenced by juridical laws, and so are not within the province of our immediate inquiry.

It ought to be perfectly clear from what has been said that what is commonly denominated *rent* is usually made up of both ground rent and interest. Ground rent is paid for the use of *bare land-forms*, irrespective of any and all improvements thereon. All buildings or other improvements which have been added to the original land-form by labor-power are labor-forms, and when used as capital-forms their distinctive return is interest and not ground rent. Unless this distinction is clearly perceived and constantly kept in mind, no final conclusions worthy to be called scientific are possible. In the study of Economics we must habitually think and speak in the terms of the science.