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Henry George and Interest
By Benjamin Tucker

When Henry George was conducting his *Standard* some of his correspondence inveigled him into a discussion of the question of interest, in which he attempted to prove that interest is a vital reality apart from the money monopoly. The editor of *Liberty* at once took issue with him there;

The Standard now acknowledges that “The theory of interest as propounded by Mr. George has been more severely and plausibly criticized than any other phase of the economic problem as he presents it.” When we consider that George regards it as an economic law that interest varies inversely with so important a thing as rent, we see that he cannot consistently treat as unimportant any “plausible” argument urged in support of the theory that interest varies principally, not with rent, but with the economic conditions arising from a monopoly of the currency.

It appears that all the trouble of the enemies of interest grows out of their view of it as exclusively incidental to borrowing and lending, whereas interest on borrowed capital is itself “incidental to real interest,” Which is “The increase that capital yields irrespective of borrowing and lending.” This increase, Mr. George claims, is the work of time, and from this premise he reasons as follows:

“The laborer who has capital ready when it is wanted, and thus, by saving time in making it, increases production, will get and ought to get some consideration — higher wages, if you choose, or interest, as we call it, — just as the skillful printer who sets 1500 ems an hour will get more for an hour’s work than the less skillful printer who sets only 1000. In the one case greater power due to skill, and in the other greater power due to capital, produce greater results in a given time; And in neither case is the increased compensation a deduction from the earnings of other men.”

To make this analogy a fair one it must be assumed that skill is a product of labor, that it can be bought and sold and that its price is subject to the influence of competition; otherwise it furnishes no parallel to capital. With these assumptions the opponent of interest eagerly seizes upon the analogy as entirely favorable to his own position and destructive of Mr. George’s. If the skillful printer produced his skill and can sell it, and if other men can produce similar skill and sell it, the price that will be paid for it will be limited, under free competition, by the cost of production, and will bear no relation to the extra 500 ems an hour. The case is precisely the same with capital. Where there is free competition in the manufacture and sale of spades, the price of a spade will be governed by the cost of its production, and not by the value of the extra potatoes which the spade will enable its purchaser to dig. Suppose, however, that the skillful printer enjoyed a monopoly of skill. In that case, its price would no longer be governed by the cost of production, but by its utility to the purchaser, and the monopolist would extract nearly the whole of the extra 500 ems, receiving which hourly he would be able to live for the rest of his life without ever picking up a type. Such a monopoly as this is now enjoyed by the holders of capital in consequence of the currency monopoly, and this is the reason, and the only reason, why they are able to tax borrowers nearly up to the limit of the advantage which the latter derive from having the capital. In other words, increase which is purely the work of time bears a price only because of monopoly. Abolish the monopoly, then, and what becomes of Mr. George’s “real interest” except as a benefit enjoyed by all consumers in proportion to their consumption? AS far as the owner of the capital is concerned, it vanishes at once, and Mr. George’s wonderful distinction with it.

He tells us, nevertheless, that the capitalist’s share of the results of the increased power which capital gives the laborer is “not a deduction from the earnings of other men.” Indeed! What are the normal earnings of other men? Evidently what they can produce with all the tools and advantages which they can procure *in a free* *market* without force or fraud. If then, the capitalist, by abolishing the free market, compels other men to procure their tools and advantages of him on less favorable terms than they could get before, while it may be better for them to come to his terms than to go without the capital, does he not deduct from their earnings?

But let us hear Mr. George further in regard to the great value of time to the idler.

"Suppose a natural spring free to all, and that Hodge carries a pail of water from it to a place where he can build a fire and boil the water. Having hung a kettle and poured the water into it, and arranged the fuel and started the fire, he has by his labor set natural forces at work in a certain direction; and they are at work for him alone, because without his previous labor they would not be at work in that direction at all. Now he may go to sleep, or run off and play, or amuse himself in any way that he pleases; and when an hour--a period of time-- shall have elapsed, he will have, instead of a pail of cold water, a pot of boiling water. Is there no difference in value between that boiling water and the cold water of an hour before? Would he exchange the pot of boiling water for a pail of cold water, even though the cold water were in the pot and the fire started? Of course not, and no one would expect him to. And yet between the time when the fire is started and the time when the water boils he does no work. To what, then, is that difference in value due? Is it not clearly due to the element of time? Why does Hodge demand more than a pail of cold water for the pot of boiling water if it is not that the ultimate object of his original labor — the making of tea, for example — is nearer complete than it was an hour before, and that an even exchange of boiling water for cold water would delay him an hour, to which he will not submit unless he is paid for it? And why is Podge willing to give more than a pail of cold water for the pot of boiling water, if it is not that it gives him the benefit of an hour's time in production? And thus increases his productive power very much as greater skill would? And if Podge gives to Hodge more than a pail of cold water for the pot of boiling water, does Podge lose anything that he had, or Hodge gain anything that he had not? No. The effect of the transaction is a transfer for a consideration of the advantage in point of time that Hodge had, to Podge who had not, as if a skillful compositor should, if he could, sell his skill to a less skillful member of the craft."

We will look a little into this economic Hodge-Podge.

The illustration is vitiated from beginning to end by the neglect of the most important question involved in it, — namely, whether Hodge's idleness during the hour required for the boiling of the water is a matter of choice or of necessity. It was necessary to leave this out in order to give time the credit of boiling the water. Let us not leave it out, and see what will come of it. If Hodge's idleness is a matter of necessity, it is equivalent from the economic standpoint to labor, and counts as labor in the price of the boiling water. A storekeeper may spend only five hours in waiting *on* his customers, but, as he has to spend another five hours in waiting *for* them, he gets paid by them for ten hours' labor. His five hours' idleness counts as labor, because, to accommodate his customers, he has to give up what he could produce in those five hours if he could labor in them. Likewise, if Hodge, when boiling the water for Podge, is obliged to spend an hour in idleness, he will charge Podge for the hour in the price which he sets on the boiling water. But it is Hodge himself, this disposition of himself, and not the abstraction, time, that gives the water its exchangeable value. The abstraction, time, is truly at work when Hodge is bringing the water from the spring and starting the fire as when he is asleep waiting for the water to boil; yet Mr. George would not dream of attributing the value of the water after it had been brought from the spring to the element of time. He would say that it was due entirely to the labor of Hodge. Properly speaking, time does not work at all, but, if the phrase is to be insisted on in economic discussion, it can be admitted only with some such qualification as the following: The services of time are venal only when rendered through human forces; when rendered exclusively through the forces of nature, they are gratuitous.

That time does not give the boiling water any exchangeable value becomes still more evident when we start from the hypothesis that Hodge's idleness, instead of being a matter of necessity, is a matter of choice. In that case, if Hodge chooses to be idle, and still tries, in selling the boiling water to Podge, to charge him for this unnecessary idleness, the enterprising Dodge will step up and offer boiling water to Podge at a price lower than Hodge's, knowing that he can afford to do so by performing some productive labor while waiting for the water to boil, instead of loafing like Hodge. The effect of this will be that Hodge himself will go to work productively, and then will offer Podge a better bargain than Dodge has proposed, and so competition between Hodge and Dodge will go on until the price of the boiling water to Podge shall fall to the value of the labor expended by either Hodge or Dodge in bringing the water from the spring and starting the fire. Here, then, the exchangeable value of the boiling water which was said to be due to time has disappeared, and yet it takes just as much time to boil the water as it did in the first place.

Mr. George gets into difficulty in discussing this question of the increase of capital simply because he continually loses sight of the fact that competition lowers prices to the cost of production and thereby distributes this so-called product of capital among the whole people. He does not see that capital in the hands of labor is but the utilization of a natural force or opportunity, just as land as in the hands of labor, and that it is as proper in the one case as in the other that the benefits of such utilization of natural forces should be enjoyed by the whole body of consumers.

Mr. George truly says that rent is the price of monopoly. Suppose, now, that someone should answer thus; You misconceive: you clearly have leasing exclusively in mind, and suppose an unearned bonus for a lease, whereas rent of leased land is merely incidental to real rent, which is the superiority in location or fertility of one piece of land over another, irrespective of leasing. Mr. George would laugh at such an argument if offered in justification of the receipt and enjoyment of unearned increment of economic rent by the landlord. But he himself make an equally ridiculous and precisely parallel argument in defense of the usurer when he says, in answer to those who assert that interest is the price of monopoly; "You misconceive: you clearly have borrowing and lending exclusively in mind, and suppose an unearned bonus for a loan, whereas interest on borrowed capital is merely incidental to real interest, which is the increase that capital yields, irrespective of borrowing and lending."

The truth in both cases is just this, — that nature furnishes man immense forces with which to work in the shape of land and capital, that in a state of freedom these forces benefit each individual to the extent that he avails himself of them, and that any man or class getting a monopoly of either or both will put all other men in subjection and live in luxury on the products of their labor. But to justify a monopoly of either of these forces by the existence of the force itself, or to argue that without a monopoly of it any individual could get an income by lending it instead of by working with it, is equally absurd whether the argument be resorted to in the case of land or in the case of capital, in the case of rent or in the case of interest. If any one chooses to call the advantages of these forces to mankind rent in one case and interest in the other, I do not know that there is any serious objection to his doing so, provided he will remember that in practical economic discussion rent stands for the absorption of the advantages of land by the landlord, and interest for the advantages of capital by the usurer.

The remainder of Mr. George's article rests entirely upon the time argument. Several new Hodge-Podge combinations are supposed by way of illustration, but in none of them is there any attempt to justify interest except as a reward of time. The inherent absurdity of this justification having been demonstrated above, all that is based upon it falls with it. The superstructure is a logical ruin; it remains only to clear away the *debris*.

Hodge's boiling water is made a type of all those products of labor which afterwards increase in utility purely by natural forces, such as cattle, corn, etc.; and it may be admitted that, if time would add exchangeable value to the water while boiling, it would do the same to corn while growing, and cattle while multiplying. But that it would do so under freedom has already been disproved. Starting from this, however, an attempt is made to find in it an excuse for interest on products which do not improve except as labor is applied to them, and even on money itself. Hodge's grain, after it has been growing for a month, is worth more than when it was first sown; therefore Podge, the shovel-maker, who supplies a market which it takes a month to reach is entitled to more pay for this shovels at the end of that month than he would have been had he sold them on the spot immediately after production; and therefor the banker who discounts at the time of production the note of Podge's distant customer maturing a month later, thereby advancing ready money to Podge, will be entitled, at the end of the month, from Podge's customer, to the extra value which the month's time is supposed to have added to the shovels.

Here Mr. George not only builds on a rotten foundation, but he mistakes foundation for superstructure. Instead of reasoning from Hodge to the banker, he should have reasoned from the banker to Hodge. His first inquiry should have been how much, in the absence of a monopoly in the banking business, the banker could get for discounting for Podge the note of his customer; from which he could then have ascertained how much extra payment Podge could get for his month's delay in the shovel transaction, or Hodge for the services of time in ripening his grain. He would then have discovered that the banker, who invest little or no capital of his own, and, therefore, lends none to his customers, since the security which they furnish him constitutes the capital upon which he operates, is forced, in the absence of money monopoly, to reduce the price of his services to labor cost, which the statistics of the banking business show to be much less than one per cent. As this fraction of one per cent represents simply the banker's wages and incidental expenses, and is not payment for the use of capital, the element of interest disappears from his transactions. But, if Podge can borrow can borrow money from the banker without interest, so can Podge's customer; therefore, should Podge attempt to exact from his customer remuneration for the month's delay, the latter would at once borrow the money and pay Podge spot cash. Furthermore Podge, knowing this, and being able to get ready money easily himself, and desiring, as a good man of business, to suit his customer's convenience, would make no such attempt. So Podge's interest is gone as well as the banker's. Hodge, then, is the only usurer left. But is anyone so innocent as to suppose that Dodge, or Lodge, or Modge, will long continue to pay Hodge more for his grown grain than his sown grain, after any or all of them can get land free of rent and money free of interest, and thereby force time to work for them as well as for Hodge. Nobody who can get the services of time for nothing will be such a fool as to pay Hodge for them. Hodge too, must say farewell to his interest as soon as the two great monopolies of land and money are abolished. *The rate of interest on money fixes the rate of interest on all other capital the production of which is subject to competition and when the former disappears the latter disappears with it.*

Presumably to make his readers think that he has given due consideration to the important principle just elucidated, Mr. George adds, just after his hypothesis of the banker's transaction with Podge:

"Of course there is discount *and* discount. I am speaking of a legitimate economic banking transaction. But frequently bank discounts are nothing more than taxation, due to the choking up of free exchange, in consequence of which an institution that controls the common medium of exchange can impose arbitrary conditions upon producers who must immediately use that common medium."

The evident of the purpose of the word "frequently" here is to carry the idea that, when a bank discount is a tax imposed by monopoly of the medium of exchange, it is simply a somewhat common exception to the general rule of "legitimate economic banking transactions." For it is necessary to have such a general rule in order to sustain the theory of interest on capital as a reward of time. The exact contrary, however, is the truth. Where money monopoly exists, it is the rule that bank discounts are taxes imposed by it, and when, in consequence of peculiar and abnormal circumstances, discount is not in the nature of a tax, it is a rare exception. The abolition of money monopoly would wipe out discount as a tax and, by adding to the steadiness of the market, make the cases where it is not a tax even fewer than now. Instead of legitimate, therefore, the banker's transaction with Podge, beings exceptional in a free money market and a tax of the ordinary discount type in a restricted money market, is illegitimate if cited in defense of interest as a normal economic factor.

In the conclusion of his article Mr. George strives to show that interest would not enable its beneficiaries to live by the labor of others. But he only succeeds in showing, though in a very obscure, indefinite, and intangible fashion, — seemingly afraid to squarely enunciate it as a proposition, — that where there is no monopoly, there will be little or no interest. Which is precisely our contention. But why, then, his long article? If interest will disappear with monopoly, what will become of Hodge's reward for his time? If, on the other hand, Hodge is to be rewarded for his mere time, what will reward him save Podge's labor? There is no escape from this dilemma. The proposition that the man who for time spent in idleness receives the product of time employed in labor is a parasite upon the body industrial is one which an expert necromancer like Mr. George may juggle with before an audience of gaping Hodge's and Podge's but can never successfully dispute with men who understand the rudiments of political economy.