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Author(s): Robert V. Andelson

Source: *The American Journal of Economics and Sociology*, Vol. 51, No. 3 (Jul., 1992), pp. 379-384

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3487319>

Accessed: 28-03-2022 23:07 UTC

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# Interest Originating from Invested Rent: *Social or Private Property?*

By ROBERT V. ANDELSON\*

ABSTRACT. *Henry George* contends that *rent*, even when derived from land purchased with the fruits of honest toil, cannot justly be privately appropriated, because *land* (not being a labor product) can have no clear moral title, and because its value is not produced by the owner but by society. Although he does not explicitly address the ethical propriety of interest earned by *capital* originating from invested rent, his writings yield the following implicit analysis: Even as rent should be returned to the community, abstract justice also demands that *interest* on capital that stems from rent should be returned to the community. But there is no feasible way in which to implement this demand, since it is scarcely ever possible to separate interest derived indirectly from private rent, from interest not so derived. However, this poses no real problem if we seek *justice* for the present and the future instead of reparations for *injustice* in the past. For the socialization of rent would render accumulations of private capital, regardless of how obtained, impossible to sustain (absent special privileges conferred by government) unless directed toward the satisfaction of public demand as reflected in the marketplace.

PASSAGES in at least three books by Henry George assert that rent cannot justly be privately appropriated even when it is derived from land purchased in good faith with the fruits of honest toil.<sup>1</sup> This is because land is a good to which, by its very nature, there can be no clear title, and the value of which is produced, not by the owner as such, but by the community.

Moreover, says George, the assertion applies much more strongly to rent than it does to stolen labor products:

For this robbery is not like the robbery of a horse or a sum of money, that ceases with the act. It is a fresh and continuous robbery, that goes on every day and every hour. It is not from the produce of the past that rent is drawn; it is from the produce of the present. It is a toll levied upon labor constantly and continuously.<sup>2</sup>

To produced commodities, the principle of statutes of limitation may be germane:

\* [Robert V. Andelson, Ph.D., is professor of philosophy, Auburn University, Auburn, AL 36849.] This is a slightly amended version of a paper presented on June 13, 1991 at the First Lafayette College Conference on Henry George, Easton, PA.

American Journal of Economics and Sociology, Vol. 51, No. 3 (July, 1992).  
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A question of the ownership of a coat, a tool, a house, a bale of goods, is a question of the ownership of the concrete results of past labor. We know from the nature of the thing that it must be owned by somebody, but after a lapse of time we cannot from the weakness of human powers undertake in case of a dispute to determine who that may be; and hence, refusing to inquire so far back, we assume the right to be in the possessor, of which we have at least presumptive evidence. But a question of the maintenance or abolition of slavery or private property in land, of the continuance or non-continuance of a trade monopoly, a hereditary pension, or a protective duty, is a question whether the state shall or shall not in the future lend its power for the wrongful appropriation of the results of labor yet to be performed. There is in this no place for the principle of statutes of limitation. No indistinctness as to the past can affect the decision. It is not a question of what has been done in the past, but of what shall be done in the future. And so far from the presumption being that the possessor of this species of property is entitled to it, the moral certainty is the other way.<sup>3</sup>

Although I agree with George's views on land and rent, my purpose here is not to argue for them. Rather, I wish to consider a contrasting parallel which George, to my knowledge, did not directly or explicitly address—to wit, the moral case of interest earned by capital which had its origin in invested wealth derived from rent.

The parallel appears at least superficially, to be morally correlative: On the one hand, wealth with a clear moral title is exchanged for something to which, according to George, there can be no moral title; and the return to that something, namely, rent, cannot be legitimately appropriated privately, inasmuch as it arises from the effect of public activity and demand upon a passive source that was never legitimately owned privately. On the other hand, the return from something to which there is no clear moral title is exchanged for wealth to which there can be a clear moral title, and this wealth is used to produce more wealth.

How would George respond to this? Assuming, for purposes of discussion, that the drug traffic is not only legally but also morally illicit, should not consistency oblige him to concede that interest originating from invested rent is analogous to laundered drug money, and that the state would be justified in confiscating such interest on the same grounds that it confiscates the houses, automobiles, legitimate businesses, and other assets of convicted drug dealers?

This question would be obviated if we could accept the contention of writers such as Michael Flürscheim and Lewis H. Berens<sup>4</sup> that pure interest would simply disappear if rent were publicly appropriated (and other types of monopoly income extirpated). The basis for this contention (advanced by them in 1891 and 1903, respectively) is the observation that the rate of pure interest tends to be driven upward by privately-appropriated rent, since wealth will not be invested as capital unless it yields thereby a return at least as high as it would obtain if invested in land, plus a premium ("insurance") for risk and depreciation. In a letter to me, a learned friend has criticized this observation because, as he puts it, "buying land does not, *per se*, abort capital formation; it is a zero-sum trans-

action: one buys, another sells." But the proceeds from the sale of land do not *usually* go into capital formation. When not consumed, or channeled into such "safe" but often unproductive assets as government bonds, they are likely to be spent to purchase other land (and this not necessarily for speculation), frequently thus putting increased pressure on the margin. If, conversely, more wealth is made available as capital because nothing can any longer be gained by investing it in land, the rate of interest, all other things being equal, will decrease. This seems sound to me, and is supported by the analysis of the 1988 Nobel laureate in economics, Maurice Allais.<sup>5</sup> But the contention based upon it is a *non-sequitur*. The fact that an alternative investment option (land) reduced the supply of capital and thus kept interest rates high does not establish that interest would cease to exist if this option were withdrawn. This, too, is consistent with Allais' analysis.<sup>6</sup>

Flürscheim and Berens did not, of course, maintain that borrowing and lending would cease, or that wealth would be lent with no expectation that it would be restored to the lender. Their position, rather, is that the natural rate of pure interest is zero—an equilibrium between a premium for the use of wealth, and what is technically called "discount," that is, a premium for the preservation of wealth. That equilibrium, they say, is the return of the value of the principal, and the existence of any premium for either use or preservation signals some maladjustment in the economic structure.

A much earlier economist, known as Jesus of Nazareth, observed in his Parable of the Talents that wealth, when used productively, yields, on the average, a return over and above that represented by its mere preservation.

My own opinion is that even if non-capital avenues for investment were foreclosed, time-preference would still enable disposable wealth, made available by its owners to others, normally to command *some* premium in addition to its replacement value. Otherwise, there would be less incentive to make it available, saving would be discouraged, and disposable wealth would tend to be consumed rather than invested. So I conclude that under a Georgist system, and barring extraneous determinants, the rate of interest would incline to be lower but interest would not disappear.

Granting George's premise that the private appropriation of rent is unjust, and taking as a given the proposition that a thoroughgoing Georgist regime would not bring about the automatic disappearance of interest, what would be his verdict as to the private appropriation of that interest earned by capital which had its origin in invested wealth derived from rent?

This issue may be divided logically into three discrete questions: the question of abstract justice, the question of implementation, and the question of practical necessity. As I indicated earlier, George did not, so far as I know, directly or

explicitly address any of these. Yet I shall show that his writings yield implicit answers to all of them.

The answer to the first (regarding abstract justice) is so obvious as to require no demonstration. Even as rent as a social product should be returned to the community, so abstract justice demands that interest from such capital as may stem from rent should also be returned to the community. This is a simple deduction from many statements in his work.

But abstract justice is one thing; real-life implementation, quite another. The fact is that, by-and-large, there is no feasible way by which to separate interest derived indirectly from private rent from interest with the most Geographically-impeccable antecedents. Land titles may be traced with relative ease, but capital, being, as a rule, less fixed and subject to fewer legal formalities of transfer, usually undergoes so many combinations and permutations that even to attempt to trace all its titles to their origins would be so complicated and burdensome as to defy the most resourceful and determined efforts. Thus, to this problem, part of the passage quoted earlier from *A Perplexed Philosopher* is surely apposite: "We know from the nature of the thing that it must be owned by somebody, but, after a lapse of time we cannot from the weakness of human powers undertake in cases of dispute to determine who that may be; and hence, refusing to inquire so far back, we assume the right to be in the possessor, of which we have at least presumptive evidence." Should it be objected that these words are immediately followed by a statement to the effect that statutes of limitation cannot properly apply to property in land or to rent, and the implication be drawn that they cannot apply to wealth derived from invested rent, the response must be that the line between forms of wealth the possession of which initially derived from rent, and forms of wealth the possession of which is not so derived, is so unclear and indistinct that seldom can it be drawn at all.

The impossibility of implementing the distinction need not disconcert those who are more eager to stop current wrongs and prevent future wrongs than to punish old wrongs. Note the words of George in *Progress and Poverty*:

. . . if Quirk, Gammon and Snap can mouse out a technical flaw in your parchments or hunt up some forgotten heir who never dreamed of his rights, not merely the land, but all your improvements, may be taken away from you. And not merely that. According to the common law, when you have surrendered the land and given up your improvements, you may be called upon to account for the profits you derived from the land during the time you had it. . . . But I do not propose, and I do not suppose that any one else will propose, to go so far. It is sufficient if the people resume the ownership of the land. Let the landowners retain their improvements and personal property in secure possession.<sup>8</sup>

And, even more emphatically in *A Perplexed Philosopher*: "We propose to leave to landowners whatever they actually have, even though it be in their hands the fruits of injustice."<sup>9</sup> And again in *The Condition of Labor*:

We are willing that by-gones should be by-gones and to leave dead wrongs to bury their dead. We propose to let those who by the past appropriation of land values have taken the fruits of labor to retain what they have thus got. We merely propose that for the future such robbery of labor shall cease—that for the future, not for the past, landholders shall pay to the community the rent that to the community is justly due.<sup>10</sup>

Why does George, that inexorable nemesis of privilege, take in this instance such a mild, irenic stance? Is it merely a matter of expedience, stemming from the realization that to demand compensation for past wrongs would place his program politically forever out of reach? I think not. The answer is that there is no practical necessity for such measures.

Justice for the present and for the future can be fully served without insisting upon reparations for the past. For, as George points out in *The Land Question*, “The right to possess and to pass on the ownership of things that in their nature decay and soon cease to be is a very different thing from the right to possess and to pass on the ownership of that which does not decay, but from which each successive generation must live.”<sup>11</sup> Once severed from its landed base, and unsupported by political favoritism that insulates it from competition, the advantage afforded by possession of capital cannot be long sustained except through the *use* of it in ways that redound to the felicity of the public in terms of the only way in which such felicity can be really measured, namely, through the choices freely made according to their perceived marginal utility by people in the marketplace. Under such circumstances, accumulations of capital, regardless of how obtained, are soon dissipated unless directed toward the satisfaction of consumers’ wants. Berens does not greatly overstate the case when he says that shares or interests in private undertakings “would only be profitable in exact proportion to the value of the services such undertakings were rendering the community.”<sup>12</sup> Otherwise, the adage, “from shirtsleeves to shirtsleeves in three generations,” generally applies.

Let us conclude by returning to the analogy of laundered drug money. It is an analogy that can be pressed only so far. The primary reason for confiscating legitimate assets purchased with drug money is to help stop the drug traffic by removing an incentive for supplying drugs. But George’s “remedy” would already have removed any incentive for the socially harmful activity that was the focus of his concern. A secondary reason for such confiscation is to punish those who flout the law. But the private appropriation of rent is not against the law. Let us by all means seek to make it so. But if we were to do so retroactively, we should be guilty of *ex post facto* justice, which is no justice at all.

#### Notes

1. *Progress and Poverty* (1879; New York: Robert Schalkenbach Foundation, 1954), pp. 366–67; *The Land Question* (1881), in *The Land Question [and Other Essays]* (New York: Robert

Schalkenbach Foundation, 1954), p. 46; *A Perplexed Philosopher* (1892; New York: Robert Schalkenbach Foundation, 1946), pp. 225–32, especially pp. 225–26. *The Land Question* was originally published under the title, *The Irish Land Question*. In the Schalkenbach collection cited, each essay is paginated separately.

2. *Progress and Poverty*, p. 364. See also *The Land Question*, pp. 43–46.

3. *A Perplexed Philosopher*, p. 229.

4. Michael Flürscheim, *Rent, Wages, and Interest* (1891; 3rd ed. rev.; London: William Reeves, 1895); Lewis Henry Berens, *Toward the Light* (London: Swan Sonnenschein & Co., 1903).

5. Maurice Allais, *Économie et Intérêt* (Paris: Imprimerie Nationale, 1947), pp. 479, 499, 549, 566ff. and *passim*.

6. *Ibid.* I am indebted to Prof. Leland B. Yeager for directing my attention to these passages. See also another Nobel laureate in economics, Paul A. Samuelson, “Land and the Rate of Interest,” in Harry I. Greenfield *et al.*, eds., *Theory for Economic Efficiency: Essays in Honor of Abba P. Lerner* (Cambridge, MA: MIT Press, 1979), pp. 167–185. Cited by Fred Foldvary in *The Georgist Journal* (Fall, 1991).

7. Parenthetically, it may not be irrelevant to mention that Marx viewed capital, even in its initial formation, less as the stored-up product of its owner’s own labor than as part of the expropriated product of the labor of others. To the extent that he was correct in this, the expropriation, as he shows, may be laid chiefly at the door, not of the capitalist but of the landlord, or perhaps, of the owner in the capacity as landlord rather than as capitalist. But I shall not pursue this topic here, since Marx’s main line of argument against capitalism as a system of exploitation rests upon his theory of surplus value, not upon his opinions regarding initial capital formation. For corroboration of these views please see Karl Marx, *Pre-Capitalist Economic Foundations*, a section of the *Grundrisse der Kritik der Politischen Ökonomie*, 1857–58; trans. Jack Cohen, ed. E. J. Hobshawm (London: Lawrence & Wishart, 1964), pp. 107, 110–11, 113, 115; *Capital*, I, 1867; trans. Samuel Moore and Edward Aveling; rev. by Ernest Untermann according to the 4th German (1890) edition, Friedrich Engels, ed. (New York: The Modern Library, copyright Charles H. Kerr & Co., 1906), pp. 651, 787, 805, 815; *Capital*, III, trans. anon. with corrections, from the German original, Friedrich Engels, ed., 1894 (Moscow: Foreign Languages Publishing House, 1959), pp. 792–801. Cf. *Capital*, I, pp. 623–24, for an apparent admission to the contrary, which is then discounted. See also *Capital*, I, pp. 637–40; and *Theories of Surplus Value (Capital, IV)*, 1862–63; trans. Emile Burns.; ed. S. Ryazanskaya (Moscow: Foreign Languages Publishing House, n.d., Part I, p. 59. See also, *Capital*, I, pp. 787–805; *Capital*, III, pp. 792, 801.

8. *Progress and Poverty*, pp. 366–67.

9. *A Perplexed Philosopher*, p. 240.

10. *The Condition of Labor: An Open Letter to Pope Leo XIII* (1881) in *The Land Question* [and Other Essays], p. 54.

11. *The Land Question*, in *The Land Question [and Other Essays]*, pp. 43f.

12. Berens, *Toward the Light*, p. 153.

### ***Nabokov on Democracy***

Democracy is humanity at its best, not because we happen to think that a republic is better than a king and a king is better than nothing and nothing is better than a dictator, but because it is the natural condition of every man ever since the human mind became conscious not only of the world but of itself.

VLADIMIR NABOKOV (1899–1977)