superb - just what I was thinking

There Is No Interest

only wages & rent - very good

By M. S. LURIO and SANFORD FARKAS

Based on reasoning similar to that of Mr. Paul Peach in his article, "The Nature and Causes of Interest," in the September Freeman, we reach a different conclusion, namely that interest must tend to zero in this economy, as well as in a free economy.

Of the three factors of production, only land and labor are unique categories. Capital is the product of land and labor. With two unique factors producing wealth, how can there be three unique sharers of the product?

good

Interest refers to the return to capital after its replacement. There is no more reason to deduct replacement than there is to deduct maintenance or subsistence of labor from what we call wages. Political economy is not directly concerned with consumption or depreciation. Distribution takes place as wealth disapduced; consumption and depreciation are "sinks"* wherein wealth disappears only after production and distribution.

Replacement is the share of wealth that covers the rent and wages for the land and labor required to restore capital used up in production. Our position is that wealth is distributed only as rent and wages, for the land, labor and replacement of capital used in production; that there is no surplus above replacement ascribable to the contribution of capital and given the name of interest.

This is borne out by the following excerpt from George's, discussion of interest, which was also cited by Mr. Peach: "I have endeavored at this length to trace out and illustrate the law of interest more in deference to the existing terminology and modes of thought than from the real necessities of our inquiry .... In truth, the primary division of wealth in distribution is dual, not tripartite. Capital is but a form of labor, and its distinction from labor is in reality but a subdivision ....In our examination, we have reached the same point as would have been attained had we simply treated capital as a form of labor, and sought the law which divides the produce between ment and wages; that is to say, between the possesors of the two factors, natural substances and powers, and human exertion—which two factors by their union produce all wealth." (Page 203, Progress and Poverty).

Is this not a denial of interest, which is neither rent nor wages? If all wealth is divided between rent and wages, then interest cannot be.

Incidentally, there may be a little confusion in the reference to capital as but a form of labor. While capital is resolvable into labor alone in the sense that the rent belongs to the community and the balance is labor, from the point of view of the individual producer capital is is generally produced by labor on and from land that commands rent, and he must get both the rent and the wages for the land and the labor required in the production of wealth used as capital.

The importance of proving the nonexistence of interest lies not merely in resolving a moot point. It effec-

(*Mathematicians and physicists use the tem" as points of creation and extinc- words "sources" and "sinks" in a "sys- tion of the thing under discussion.).

tively disposes of the Marxist conclusion that interest is the means whereby the Capitalist **may continue to reap without continuing to sow;** and it enormously simplifies the statistical study of distribution.

Even after analyzing Bastiat's illustration of the plane, and concluding that interest could not be "if wealth consisted but of the inert matter of the universe," George, aking interest for granted, felt constrained to find its cause, justification and law. "It seemed" to him that there was an "increase" or increment to capital used in the reproductive mode (over replacement) that did not belong to land and hence belonger to capital. The proof that interest exists, therefore, is made to hinge upon the existence of this increment in what he calls the second and (similarly) third mode of production.

This classification of production into adapting, growing and exchanging seems to hav no essential purpose other than to serve to explain the cause of interest, a case of cutting the suit to fit the cloth.

If we go back to the meaning of the term land, we need not concern ourselves with the boundary line between reproductive and non-reproductive forces, for

"The term land necessarily includes, not merely the surface of the earth as distinguished fro mthe water and the air, but the whole universe outside of man himself (and his products) ... embraces, in short, all natural materials, forces, and opportunities." (Page 38, P. & P.)

Hence the reproductive forces of nature, just as the mechanical, chemical or eletrical forces, are land, by definition. All of them are utilized by labor in its various applications. Where such forces are freely available to everyone, as air or sunshine, they command no rent. There may be a physical increment due to growing forces, but it can have no extra value in the marketplace if no extra rent is paid for permission to use these forces.

This is clearly seen in the very simple example of wild berries beginning to ripen on free land. There is an increase in the sense of size and ripeness. But the price paid in the market is simply the wages for the labor of gathering and marketing. The same thing is true if the berries are planted on free land — the market price covers only the labor of cultivation and gathering and marketing; otherwise labor would flow in that direction for more than prevailing wages.

The law of interest, as given in Progress and Poverty, is not expressed in the same dimensions as the laws of rent and wages. There is no necessary relationhip between the average power of increase which attaches to capital from its use in reproductive modes, and the margin of cultivation (or at least no attempt has been made to prove the necessary relationship).

Consider some examples to show that replacement is all that is necesary sfor the production of capital. A primitive man gathers mussels—his wages. In his spare time he may cultivate berries or hollow out a log as a canoe. If by exchanging the berries or the canoe, he receives more than average wages and possesses only average quality of labor, others will do the same until wages reach a common level.

Suppose he hires out the boat. He now gets in installments the wages of building, negotiating the hire and trying to maintain its continuous hire. The tendency is for his return to be the same, all things considered, whether he sells the boat or hires it out. He will continue generally in any pursuit, laboring for immediate consumption or in the production of capital, as long as he gets the prevailing rate of wages for his labor.

So may we take any modern productive enterprise, whether involving reproductive or non-reproductive forces. The capital used may have been produced on the spot, purchased from another outright or on the installment plan, or borrowed. There must be a return to capital to cover the labor in the capital—if more, that is, if interest exists, labor will turn to producing that form of capital; if less, labor will go elsewhere to get the prevailing return.

If interest rose as wages rose, according to George's law, then in a free economy, there would be higher wages and higher interest and an ever-growing class of capitalists supported by and increasing their capital without working, which ultimately leads to absurdity. But if there is no interest, Georgists then can logically maintain that the so-called capitalist cannot exploit labor as a capitalist but only as a landowner or the possessor of other privileges.

Why, then, does the lender of capital in our present economy get a commercial return for the use of his capital which appears to contain an ingredient over and above that of replacement and compensation for risk? The answer, it seems to us, lies in privilege, which yields a spurious interest. Large corporations, for example, usually have valuable lands and patents. They can afford to distribute a small part of this privilege to the public in the form of securitiees, the proceeds from the sale of which usually enable them to acquire additional privileges. It should be noted, too, that if their calculations go astray our laws of reorganization are such that the public investment takes the shrinkage, while the privileges remain with the privileged or the insiders. Thus commercial interest is made up of compensation for risk, wages of superintendence and replacement of capital, plus a return due to privilege. Borrowers of capital generally must compete with those who borrow on privilege—hence all commercial interest must contain this ingredient.

There may be an occasional or fortuitous examples of what appear to be unusual rates of interest, but windfall interest, like windfall profits, are partly compensation for risk and partly higher wages temporarily paid in special fields of production.

With interest eliminated, George's philosophy is simpler and sounder than ever. A perplexing factor disappears. The vision of things that might be—on Earth—takes clearer outline.