

land, labor and capital as separate factors of production. The efficiency of production depends on the quality and quantity of the land used, the labor employed and the capital used. When any of these three items is increased in either quality or quantity, more production of wealth results; when any of these items is decreased, less wealth is produced. Since a change in any one of the three affects the output in the same manner as a similar change in any other one, it follows that if any one is a factor of production, then all three must be factors.

Ricardo has given us the law of rent. If we can also discover the law of interest we will have a complete answer to the problem of distribution, since wages must be that which is left after rent and interest are paid. The natural law of economic interest must be that law which requires labor to pay for the advantage which it derives from the capital it employs. It is easy to jump to the conclusion that in the case of manufacturing this advantage is measured by the difference between what can be produced with tools as compared with what can be produced without tools. Let us find out how much the advantage of tools really is.

Suppose that a man is producing wealth with the aid of a tool.⁴ Each time the tool wears out, he makes a new one. If it requires T days to make the tool and if the tool wears out in W days then in a cycle of T plus W days the man spends W days in producing wealth and T days in making the tool. The tool is also wealth but this need not confuse us, since it is not of itself useful to the ultimate consumer and has exchange value only because of its usefulness to labor. Now suppose that just as a tool wears out, the man requires a new one from someone else and therefore does not have to stop to make a new one, and suppose also that in the future he is able to spend all his time in producing wealth since he is not obliged to stop to make a tool when one wears out. Therefore the advantage of acquiring the tool is measured by the amount of wealth that could be produced with the tool during the time required to replace the tool—in other words, the advantage represented by possession of the tool.

Most of the difficulty we have had in understanding the law of interest has resulted from the false assumption that interest is payment for the advantage resulting from the *use* of capital. We have shown, however, that in the case of tools, the only advantage to labor is that which results from the *possession* of capital. Since use is predicated on possession, the error is easy to make. However, we all recognize that rent arises from the possession of land regardless of how much wealth is produced from it, and it should not be difficult to apply the same reasoning to interest and capital. Payment for possession of land and capital rather than payment for use is the basis for the natural laws of rent and interest because payment for use implies by definition that the amount paid will be in proportion to what is produced and would therefore be a tax on production, which of course, has no place in distribution.

Let us now determine the law of interest by finding out how much labor must pay for the possession of its capital. It is obvious that no one needs to pay more for any tool which he desires to possess than the exchange value of that tool. He will pay that much in the value of his own labor whether he produces the tool himself or acquires it through exchange. When the tool has worn out, he must again pay that same exchange value if he wishes to continue to possess a tool, and subsequently, each time the tool wears out, he must again pay the exchange value of a tool if he wishes to continue to use it. This routine is nothing more nor less than what we are accustomed to call "amortization." Since economic interest is wealth paid for permission to use capital, in excess of the repayment of the capital, it is now evident that economic interest is zero.

We agree with Mr. Haxo's refutation of George's contention that

the forces of nature give an increase to capital which justifies interest. There can be no doubt that the cooperation of nature which gives more produce for the same amount of labor and capital does not increase the return to the producer but does tend to lower the exchange value of his product.

Commercial interest is what the creditor receives in addition to the return of his capital. Without attempting a complete analysis of commercial interest, let us point out that under our present system, the owner of wealth may purchase a monopoly (exchange wealth for the title to land). So long as this opportunity exists, the owner of wealth will not use it as capital unless commercial interest rates are as high as the return he can get from the monopoly. Therefore, the artificially high commercial interest rates in existence today are the result of our land policy. Commercial interest rates are generally thought to contain an insurance factor, but this would tend to disappear in a free economy due to the pressure of loanable funds. Since individuals desiring to preserve wealth for use in old age or for other purposes would have no choice but to loan it for use as capital, and since labor would find it much easier to produce wealth, it might be that those desiring to loan might find it necessary to pay a service charge to the borrower who contracts to preserve the original value of the wealth borrowed.

We agree with Mr. Haxo that the type of loan made by loan shark companies to distressed individuals is a social phenomenon. Wealth loaned for such purposes is not used as capital in production and is outside the field of political economy. Therefore, the rate charged for such loans does not need to agree with the prevailing commercial interest rate. That this business would decrease if the number of distressed individuals were reduced, is another argument for the removal of monopoly privileges and restrictions.

Towaco, N. J.

E. L. ERWIN
H. M. THOMSON
P. WINSOR, JR.

(The "Theory of Interest" article by Gaston Haxo, appearing in our previous issue, resulted in a not unwelcome avalanche of letters to the editors. The letters were preponderantly in favor of the views expressed by Mr. Haxo, though several took strong exception. The one above has been set up as typical of the "dissents." —ED.)

THE "ISLAND" CONTROVERSY

EDITORS LAND AND FREEDOM:

Regarding the island illustration, Beckwith is drawing largely on a fertile imagination for his "facts." He calmly assumes that the product of the island is more than Brown and Jones can consume. How does he know that? He did not get it out of the 56-word paragraph I wrote. I was challenged to show "a single instance" where land had a value, and I am entitled to set up any hypotheses I choose, provided the conditions are not impossible. If Beckwith will read the paragraph again he will not find anything to indicate what is the total product of the island. He will, however, find that Jones is using all the land that "is available to him". Ignoring these facts, Beckwith has set up a "straw man" and knocked him down. He is like a chess player who being checkmated, calmly gets out of his difficulties by moving his opponent's pieces! The hypotheses I set up were made very brief for the purpose of forestalling attempts to bring in irrelevant matter, but even so, Beckwith's versatile imagination was not to be denied. Now to elaborate, let us suppose that Jones makes a living worth 1 X, and Brown 10 X. The question is, is the difference of 9 X wages, interest or rent? We may rule out interest as it is merely a subdivision of wages. This leaves only wages or rent. Now it is obvious that Jones will be willing to pay Brown anything up to 9 X—let us say 8 X for

convenience—for the mere permission to use Brown's land. In this case Jones' standard of living will be doubled while Brown gets 8 X for nothing. This 8 X, therefore, cannot be wages since Brown (now) does no work. Jones supports both himself and Brown by his "labor applied to land". If this 8 X (or 9 X) is not rent, then all theories of rent must be scrapped. The truth is that the hypotheses I have set up are "fool proof" and there is no escape for Beckwith unless he can show that conditions such as I postulate cannot exist. Brown is simply using land that is ten times more productive than any Jones can obtain. That is not an impossible condition and must be accepted. Of course, it is almost needless to say, that this island merely serves as an illustration. I am prepared, when the proper time comes, to show that the value which is inherent in Brown's holding applies generally to all farm lands. Where social services are supplied they will cause a value to "attach" to the land, but over and above this, there will be an added value in respect of exceptional natural advantages, where such exist. I think I can prove this with the same Euclidian precision as I have used in the island example.

(I note Beckwith does not refer to my contention that rent may be taken in instalments as effectively as by the one-step method. Has he been educated?)

Auckland, New Zealand.

C. H. NIGHTINGALE.

EDITORS LAND AND FREEDOM:

In his original premise, Mr. Nightingale stipulated that there is no social service on his suppositional island, which is occupied by these two men and no others. This means that they had no commerce, or communication, with other human beings, and that means that, except insofar as they themselves consumed their product, that product went to waste. Any surplus over this consumption could not be sold.

Therefore, the only way that the man on the better end of the island could make a better living than the other would be by being a better worker or hunter, or better cook, or by being able to eat more, or by having more leisure. If, therefore, they exchanged ends, and the man who at first had the poor end paid the other something to compensate him for surrendering the good end of the island, this exchange would not make the poor worker, the poor hunter, and the poor cook good at these callings. The only way this man could get a better living as a result of that exchange and that payment would be by being able then to lie abed longer in the morning and spending more hours lying in the shade on hot days. But, if this resulted, the payment should be fair; which means that it would equal the advantage thus gained. This would mean that it would compensate the other man for the disadvantages thus incurred and this would mean that it would pay the man who then went to the poor end of the island for the increased effort required to make a living there.

That would mean that the man of leisure were paying the other to work that he himself might rest. That payment would be, not rent, but wages. It would be an exchange between two men, with no third parties involved. Such a payment cannot be rent; for rent is paid because of surrounding conditions, and necessarily involves other persons beside the payer and payee. Where only two are involved, the payment must be either wages or interest.

Mr. Nightingale mentioned no improvements; and it may be assumed that none are involved. But if they were involved, the corresponding payment would be interest. In this case the wages due the man who works that the other may rest and the interest (if any) accounts for the entire payment; there is nothing left of the payment that could, even in imagination, be termed rent.

Stockton, Calif.

L. D. BECKWITH.

NEWS NOTES AND PERSONALS

FREDERIC C. HOWE, noted liberal reformer, and a devoted Georgeist, died August 3 at the age of 72. His ardent work in many progressive movements gained for him a reputation as an aggressive champion of the "average man." He was the author of many books containing Georgeist principles, such as "The Confessions of a Reformer," "The Confessions of a Monopolist," "Denmark—a Co-operative Commonwealth," and many other works. All his life he had fought monopolies, and for six months before he died had been working with the Federal Monopoly Committee. Previous to that he held many official positions, among them U. S. Commissioner of Immigration, adviser to Secretary of Agriculture Wallace, and member of the Ohio State Senate. Dr. Howe was one of Tom L. Johnson's enthusiastic supporters during the latter's fight for municipal government reforms in Cleveland.

We have recently secured a new special correspondent for Brazil—Prof. Fidelino de Figueiredo. Formerly a resident of Portugal, Prof. de Figueiredo is now teaching at the Faculties of Philosophy of Sao Paulo and Rio de Janeiro, at the invitation of the Brazilian government.

It has been difficult to communicate with our French correspondent, Pavlos Giannelia, but recently we have received word from him. He continues to supply us with articles, and tells us that we may now communicate with him. At present he is residing at Neuilly-le-Real, France.

DR. J. J. PIKLER, our Hungarian correspondent, recently celebrated his 76th birthday. It is still difficult to contact Hungary, but we are glad to know that he is alive and well. An article by Dr. Pikler recently appeared in *Land & Liberty*.

OUR new British correspondent, Douglas J. J. Owen, is a member of the Society of Friends. Apparently, the Society is aware of basic principles, for they have been circulating a poster which reads:

REMOVE A BASIC CAUSE OF WAR

Provide Access for All Nations
to the

World's Resources and Markets
Will You Pay This Price
For Peace?

HARRY C. MAGUIRE has written to the Federal Unionists urging them to consider the proposition that the democracies declare world free trade and free movement of peoples among the civilized nations immediately. "After that," says Mr. Maguire, "Federal Union is inevitable. With no such action, the war will end with another treaty of revenge, and the whole dreary, bloody business will start over again in 1960."

SOME copies of the Pan-American number of LAND AND FREEDOM were distributed at the Inter-American House at the New York World's Fair, and some were sent to the Pan-American Union in Washington, D. C. In both cases, the magazine was well received. Dr. Rowe, Director General of the Pan-American Union, expressed his interest in the issue.

THE Tax Policy League, 907 Broadway, New York City, is an organization devoted to tax research. Its members conduct researches into existing tax conditions, and compile valuable statistics. Harold S. Buttenheim is president of the League. Among the publications of the League are periodic popular releases, known as "Taxes for Democracy." These include, in digested form, the findings of the League. They occasionally contain illustrations by Robert Clancy. The subscription rate of "Taxes for Democracy" is \$1.00 per year.