

THE SINGLE TAX REVIEW

A Record of the Progress of Single Tax and Tax Reform
Throughout the World.

INTEREST AND THE REFORM OF HENRY GEORGE.

(For the Review.)

By P. H. ELBAEK.

Our present society is generally called the "capitalistic," a characterization probably originated by Karl Marx, and from him adopted by the Socialists as a shibboleth, or rather as a term of abuse against society in its present state. This characterization, however, has to a certain degree been naturalized all over. The "capitalistic system" is especially due to the invention and utilization of the steam-engine, which has been the cause of the greatest social and economic revolutions in the 19th century. The steam engine, as a means of communication, as moving power for machinery of different kinds for the procuring and refining of raw materials, manufacture of all sorts of goods, tools and instruments, has superseded handicraft and home-work, put them aside as unprofitable, and concentrated production in relatively fewer hands. Machinery is regarded as having made superfluous more and more workmen, thereby causing lack of work, and depressing wages for the hands remaining at work, the result of which is an ever increasing social misery—in spite of the enormous progress in production of wealth.

This misery seems to be an immediate issue of great industry and its methods, making it not only possible, but necessary to accumulate and concentrate capital in few hands, effacing independent small tradesmen, and utilizing them afterwards as workmen in its own service as long and as far as their labor may be desirable. Great capital becomes the enemy of labor and the capitalist the oppressor of the workmen. The profit of capital is considered a robbery of labor, as it is asserted that wealth is produced solely by land and labor, and that therefore the third person capital asking a share may only act as a robber or a parasite on production. It is in other words only interest or the profit on capital that is objectionable.

That the cause of social depression and want is different, has been clearly shown by Henry George. But for the Socialists it is not enough to appropriate rent for society. Most of them are inclined to think this measure would only benefit the "hereditary enemy" and make capital still more predominant.

If it therefore could be proved, or at least be made probable, that interest would vanish by appropriating rent for society, no doubt a great many Socialists would turn from Karl Marx to Henry George. But this is an impossible task, as capital, as such, doubtless would benefit by this reform, although it would not become predominant thereby. On the contrary, it would lose any predominance which it seemingly has now, and be put in its right place, which is that of a servant, not a master!

Henry George himself gives the precedence in production to labor preferably to capital. This is one of his great merits, but at the same time he maintains that labor and capital are natural friends and allies, so that what benefits or hurts the one will also benefit or hurt the other. When this is incontestably proved, any objection to interest must disappear. Unfortunately Henry George's definition of the natural cause of interest is a weak point with him, and his otherwise clear and keen logic seems in this respect to have failed him. Explaining the functions and use of capital Henry George says that capital is not a necessity to labor; it is labor that produces and is necessary to capital. But capital multiplies the productiveness of labor directly by means of tools and machinery, and indirectly by allowing the division of labor and exchange, and by enabling labor to draw the highest possible advantage from the natural sources of riches. But, afterwards, demonstrating the natural cause of interest and why interest must be, he rejects the element of use altogether, saying, that if all production consisted in adapting or changing natural products and inert matter, either in form or in place so as to fit them for the satisfaction of human desire, there would be no room for interest, because the benefit is in the use and goes to labor. But now all matter is not inert matter, and all productive power is not with man. In these circumstances we must seek the cause of interest. It is to be found in the reproductive power of nature yielding an increase to capital; and that increase, achieved independently of human exertion, means interest.

Such natural increase takes place, for example, by growing corn and breeding cattle, as corn will grow and cattle thrive according to nature and without aid from man. The like happens when wine is put aside to improve by storing, or when a northern country gets sugar from a southern in exchange for ice. In all such cases there is an increase in value, not due to labor but only to capital. Labor is of course necessary at all points. But while all the benefit goes to labor in all cases where the whole benefit is in the use, then, on the other hand, labor has but a share where there is an increase in value owing to the reproductive powers of nature, or to similar natural circumstances. This increase, as solely due to the aid of capital, therefore belongs to capital alone and is called interest. That capital nevertheless gives interest also in industry and manufacture, is explained thus: If we can obtain interest, spending our capital in some ways, then we will not spend it in other ways without receiving interest, and that is the reason why capital yields interest when employed in industry and manufacture.

This reason is unsound. It might as well be said that as we can get wool

by shearing sheep, then we will not shear swine without getting wool, and this is the reason why the swine, against nature, bear wool. Then as little as the swine for that reason would give us wool would capital used in industry and manufacture yield interest.

Henry George evidently falls into an error and contradiction on this point. He shows us the use in explaining the functions of capital, and declares afterwards capital to be useless, that is, not use-bringing, nor interest-bringing. And where he demonstrates the natural increase in connection with time, he partly confounds interest with rent, as nobody would or could pay rent for land if corn could not be grown or cattle be bred, that is, if the natural qualifications for growth were not connected with the soil.

Henry George's definition is therefore incorrect. The cause of interest cannot be the increase in value owing to the reproductive powers of nature in connection with time, whereas it partly may be due to the exchangeability of capital and to the increase in value which capital may get in certain shapes by storing, and which cases Henry George calls analogous to a natural increase in value.

He has so explained the cause of interest in some instances, but not in all. But the fact that interest issues under certain circumstances is insufficient to enforce interest under all circumstances. If interest, therefore, is natural, then the cause must be different. Before proceeding I should explain the conception of capital. By capital is conceived material things having come into form and shape by intellectual and bodily efforts of man, and serving labor in its exertions to produce new things, wealth, direct or indirect, in connection with land and from land. In this production of wealth we find three factors; Labor, Land and Capital, which participate in the result. The share of labor we call wages, that of land, rent, and that of capital, interest.

The question to be answered now is whether interest is natural, that is, just, or if it is only a sort of encroachment on the weak by the strong, a fruit of injustice in social affairs, and accordingly must disappear as soon as society is brought into accord with justice. In my opinion interest is not only natural, but an economic law of nature, which we cannot possibly put out of existence, at least, as long as society is progressing. The fact is, that interest is the mark of progress, its figure indicating the share of capital in progress. Now somebody will say, that progress means only higher wages, and if it means anything besides, then it is due to labor, as all wealth is produced by labor and land, and that therefore these two ought to divide the result of their united powers.

But this is incorrect. Progress means accumulation of capital—the only way and means of increasing the productiveness of labor. If labor and capital be united in one person, it might be said to make no difference: capital is the child of labor, and a man using his capital is only using the fruit of his labor in order to increase the fruit of labor. But even in such case a discrimination must be made, as here also capital is a real factor—the fruit of labor, indeed, but not therefore the same as labor. If a man loses his capital, this

circumstance does not interfere with his working ability, but it may interfere with his earnings to a very high degree. In order to increase his earnings again, he must either accumulate capital anew, or borrow. Capital is accumulated; it is realized intellectual and bodily labor, a child of labor and land. But as parents and children are not identical one with another, so labor, land and capital are three separate partners in production, under all circumstances. They must co-operate, but the satisfactory result of the co-operation depends upon each getting his natural share.

It may be said that all this is no demonstration why interest must be. It is sometimes asserted that interest is a remuneration for abstinence in consuming, a reward for economy, and as these virtues are only negative virtues and do not produce anything positively, then the capitalist ought to be glad if somebody would keep his savings safe for him till he asked for them. He should be thankful into the bargain if he has not to pay something for the trouble of keeping them. But such cases have nothing to do with capital. When wealth is used in production, or destined to the aid of production, we call it capital. If, on the contrary, it is set apart for our personal use to gratify our wishes and necessities at present or in future, it remains unproductive and is but wealth or property. And for storing such property, free of cost and risk, we would at all times be thankful. But interest is not a reward for economy and abstinence, which Henry George has clearly shown. It is the element of use in capital in connection with time that is the real cause of interest.

When Bastiat in his well-known example of the plane says that the board which A pays B in addition to the equally good plane which he borrowed from B for a year, is a reward to B for his abstinence (for not consuming the value of the plane) and is called interest, the conclusion is wrong, but his premises are right, though he does not demonstrate it. On the contrary, his demonstrations only disqualify his premises.

To have made a plane is the same as to have made progress, and it must be considerably easier to make a second plane, directly or indirectly, by means of the first than it is to make the first plane. It does not even alter the case if the plane in question be not the first plane. When A has no plane and wishes to have one, then he must buy or borrow one on such conditions as free competition open to him, or otherwise make one himself, but without the aid of a plane. He will then do that which is most advantageous to him, and that will always be to increase the productiveness of his labor by means of progress—in this case to borrow the plane, yielding a board as interest.

If the first iron hammer were made with great trouble by means of stones or stone hammers, then the maker would not lend it for a year, getting an equally good hammer back, and a piece of iron as interest, as the use of the hammer would be worth infinitely more. This hammer would be an invention, or, at least would mark enormous progress by means of which not only iron hammers could in future be made far more easily than before, but also a good many other things. If the maker were a Robinson Crusoe, the hammer would

only increase the productiveness of his labor. Did he, on the contrary, live in a society, he would probably furnish this society with iron hammers, making a living in that way, and by further progress also with knives, axes and other things. He would in this way increase the productiveness of the whole society to a high degree, benefiting all, harming none. For if he did not ask a return for his hammers, knives or axes, that left no benefit to the borrowers or buyers, then none of his products would find customers, to the detriment of both parties, but most to the "capitalist," as the capital, the hammers, would be corroded by rust, whereas labor would live as hitherto in the old conditions. It is therefore evident that capital can never do labor any harm, where the access to land is an equal right for all.

Land is common, capital is individual property, and nobody has the slightest moral right to the use of the capital of another person save on such conditions as are mutually agreed upon, that is to say, on the payment of interest fixed by free competition.

Capital, realized progress and interest, is only the share of capital in new progress. The way for society as for single persons to make progress is to save. Even if it be possible to increase income and consumption by borrowing capital, there would be no real progress, no advance, without saving. If a man earns £600 yearly by means of his labor and capital (both of course used in the best way possible), but at the same time wishes to have his capital increased, he must save. He can, however, attain his object in two ways only; either by saving and using only his own capital, or by borrowing.

If in the first case we suppose that he can raise his yearly income by £10 for each £100 that he saves, then he will, by limiting his consumption to £100 less than his yearly earnings, in the course of 20 years, have increased his capital by £2,000 and his income by £190, while his consumption has advanced from £500 to £690 yearly.

In the other case, we have presumed that capital increases the productiveness of labor by 10% of the value of capital net. If the capital owner asked the whole net proceeds, labor gains nothing and accordingly does not borrow. But as labor may get on without the loan of capital, whereas capital may not get on without labor, then they will probably agree upon sharing the net proceeds as good comrades, getting 5%. If the man borrows £2,000, he may save £100 yearly without diminishing his consumption at starting. And if he then acts as stated in the first case, he will in the course of twenty years have increased his capital by £2,000, and his income by £290, while his consumption has advanced from £600 to £790 yearly. He has on the whole been considerably better situated during the twenty years, thanks to the borrowed capital, than if he had not borrowed. That other people have saved capital before us may consequently be a benefit also to us. Our civilization is due to an accumulation of capital. Had our forefathers not accumulated capital or wealth, then our existence would be that of the primitive man, if we did exist at all. Capital is realized progress.

If we do away with interest, then we must do away with progress. We

do not get rid of progress when we do not increase capital, but at the same time we do place a cord round the neck of mankind. Attempting to bring society into conformity to justice, and at the same time attempting to do away with interest, may be compared with an attempt at releasing a man sentenced to death in order to compel him to commit suicide! Now there are people who cannot endure the thought of a capitalist sitting "without stirring" and drawing interest from his capital to the end of his days, even his descendants doing the same through innumerable generations. If this were possible, I do not see any real or just objection to it. But, to console the anxious, there will be certainly no such possibility.

Land has, as we know, the faculty of absorbing progress as the latter becomes general, transforming it into land value; rent takes the place of interest. And when it is impossible to exchange capital-value for land-value, to sell and buy land, then it is impossible for capital to go to sleep as an eternal, everlasting heritage. Capital is realized progress, and will always be in peril of being swallowed up by advancing land-value, rent absorbing interest as society moves onward. Capital, therefore, is dependent on progress, and must always be busy, always renewing and increasing itself, always going ahead, as it would otherwise vanish or go from the individuals into the possession of society as valueless (like old houses, for example, on valuable ground) or, at the highest, to be consumed as wealth once for all.

And as it is with capital and interest, so it is with labor and wages—advancing rent also threatens them, the division of shares taking place as follows: The minimum share of labor, fixed by the common progress in relation to rent, is paid first, then rent, and finally comes the new progress, out of which the minimum or current interest is paid, after which the remainder belongs to labor as labor's share in progress. The minimum wages of labor, which are fixed by common progress, should be the wages of mere bodily labor, whereas that part of the new progress going to labor should be the wages of intellectual labor. If there be no perpetual progress, the wages of individuals will diminish, going into society as rent, in the same way as interest. But this would, in my opinion, mean death. Such a phenomenon could not, as now, be the result of private persons having the power to deprive labor and capital of their lawful earnings. It would mean the decay of mankind. Capital and labor are thus inseparably connected. They are representatives of progress, of life. Should we come to a point where capital does not yield interest, when production gives less back than it receives then society must file a declaration of bankruptcy.

In the future, when the reform of Henry George is realized all over the world, when all work is remunerated justly, everybody will, as a rule, become a capitalist, more or less. But this need not mean that lending and borrowing of capital would cease. Perhaps a future might be imagined where nobody had initiative beyond his own means. But I have a better faith in man. If such a future should be, then interest would in so far vanish, as far as it is connected with the loan of capital, but the profit of capital would exist as

long as production yielded a surplus to the capital spent therein. Turning to the idea of capital per se it will be manifest that economic and even intellectual progress is dependent on accumulation of capital and without interest or profit on capital there is no accumulation. Land and labor are, to be sure, the origin of capital, but only as the latter in co-operation with the former is growing and thriving, do labor and land also progress in strength and productiveness. Whether capital is to co-operate directly with the individual "parent," or by him to be put into the service of other people as the disinterested and obedient "son" who always brings his wages to his "parent"—that is a question which we must leave to any person and any time to solve for themselves.

ANOTHER VIEW OF INTEREST.

(For the Review.)

By J. H. SHEETS.

In one of the numbers of the SINGLE TAX REVIEW Bolton Hall "ventures to think" that the adoption of the Single Tax would cause the rate of interest on capital to fall, which is contrary to the teachings of Henry George. For some time I have ventured to think as Mr. Hall does, but I have never ventured to say so. Among Single Taxers to question any of the doctrines of Henry George is much the same as to question the decalogue. But of late I have come to believe that the question of interest ought to be discussed, and if Mr. Hall's position is found to be right—and that of Henry George wrong, our articles of faith should be revised. One of the objections to the Single Tax philosophy urged by the Socialist is this doctrine of interest, which, if correct, proves that under Single Tax conditions, it would be possible for the owners of capital to live without labor and to pass on to their descendants the power to live in idleness at the expense of others. To me it would be most welcome if some one competent to present the truth clearly could prove that under full Single Tax conditions economic interest would disappear.

In my own mind I am convinced that interest, aside from that portion which may be considered insurance against loss and also the wages of superintendance, is merely one form of rent, and that if rent were eliminated by the adoption of the Single Tax, the owners of accumulated capital would be willing to lend it without interest and perhaps even pay the borrower for caring for their wealth and returning it unimpaired at a specified date.

Henry George asserts that interest is just and natural because capital has the power of increase—that in some forms, as wine, it becomes more valuable with the lapse of time, or as in the form of domestic animals or growing crops there is an increase in value without continuous labor on the