

The Interest Question An Australian Comment

By A. G. HUIE

FOR years the wrangling over interest has had a hamstringing effect upon efforts to spread a knowledge of Henry George's principles among the people. It is all the more difficult to understand Mr. Gaston Haxo's attitude following his admissions in the opening paragraphs of his article, "A Theory of Interest", in the July-August 1940 issue of *LAND AND FREEDOM*.

He admits (1) that the interest question has been the subject of discussion for many centuries without reaching agreement; and (2) that today interest is more firmly established than ever. It is under these conditions that he adds to the dissension among those who feel that land rent should be shared by the people and that taxes upon labor should be abolished.

A man may be quite a good George propagandist but someone whispers to him that George was wrong on the interest question. It is plausibly put up that there are other unearned increments apart from those arising in land. So a promising man goes astray, no good to the cause, only a faultfinding critic, and really helping the land monopoly which he claims to oppose.

It seems to me that the attack upon George's views upon interest is really based upon Marx's confusion of land with capital. No man ever did the workers of the world greater disservice than Karl Marx. He gave them a wrong outlook. Unless you have a clear understanding of (1) what constitutes the resources of nature provided free for the use of men, called in economic terms "land", and (2) what is capital, i.e., wealth used to aid production, you are liable to go astray on the question of interest.

Anyone possessing a sense of justice recognizes that labor is entitled to all that it produces. In order that it may do so, equal right of access to the resources of nature is the first essential. The second is that the earnings of labor shall not be subject to any deductions because of taxes imposed by Governments or through special privileges granted to vested interests.

Now Mr. Haxo appears to have failed to understand the logical effect of putting George's proposals into practice. The sources of unearned incomes would be dried up. His assumption, therefore, that a man and his children after him indefinitely could live without working is ill-founded. The income that they get comes from the use of land in some form which is now held to return ground rent to the owner. Such conditions would not exist with ground rent as the natural revenue of society. The capital associated with such land has but a limited life.

Mr. Haxo asserts that the premise that nature gives an increase to capital apart from the return to labor is false. Very well, then, what would be the return to labor without the use of capital? Is it not clear that the use of capital results in an economic advantage to labor? If that advantage is to be enjoyed only by the labor that uses the capital, is it not at the expense of the labor that produces the capital?

The object of production is the satisfaction of human wants. The element of time explains why there is an increase due to capital apart from labor. Capital rightly understood is always a labor product. If the maker of any form of capital uses it himself he enjoys the economic advantages which its use enables him to gain. If he uses capital that another's labor has produced he can only enjoy the economic advantages due to its use at the expense of the labor producing the capital unless he pays interest.

Labor does not produce capital for the sake of allowing other labor to be enriched. If that were so then the mainspring of hu-

man action, that men seek to gratify their desires with the least exertion, is also false and economic science rests on a foundation of sand.

That Mr. Haxo has failed to appreciate the effects of applying George's principles is seen where he asserts that the forces of nature outside man himself which increase the productiveness of labor "will accrue, not to capital or labor, but to monopoly in the form of extraordinary profits or in the form of rent," adding, "if this principle is economically sound."

Yes, "if." But there would be no extraordinary profits or rents to monopolists with George's principles in force so that both producers and consumers would share the economic advantages of labor exerted in production, whether that labor was in the accumulated form of capital or in the working form of labor.

After quoting the definition of capital Mr. Haxo proceeds to ask a question: "We are confronted with the task of determining how much of the produce shall go to capital in interest and how much shall go to labor in wages. Justice demands that each shall receive what it produces, but what has capital produced?" If there were no increase accruing from the use of capital, the answer would be, that capital should receive nothing. The assumption, however, is an absurdity.

Production is carried on by labor, but labor is in two forms, passive in the shape of capital and active in the shape of human effort. If the former had no productive power, as asserted, the latter could do without it. Any practical man knows that the passive form of labor, which we call capital, confers upon the user economic advantages in addition to those due to the active form of human exertion. For that reason men are willing to pay interest, because paying it means more to them than they could earn without paying it.

For the same reason men are willing to pay rent for land above the margin of production. As Patrick Edward Dove put it, "The land produces, according to the law of the Creator, more than the value of the labor expended on it and on this account men are willing to pay a rent for land."

In the same way men are willing to pay for the use of capital because of the increase in results to them. Interest then, is as inevitable and unavoidable as rent. All that we can do is to see that those who are rightly entitled to both interest and rent shall receive them.

The attitude of Mr. Haxo towards capital is of the hair-splitting type, which is of no value if we are to regard George's proposals as practical and capable of realization. He denies that capital is a factor of production but asserts that it is an instrumentality of labor—quite a fine distinction. He is at pains to assert that capital itself produces nothing, and is not entitled to any part of the product. If that is so, then labor could do without it. The practical man knows better. He is not deceived by the finesse of the hair-splitter.

Let me give an example. A party of prospectors discover a good mineral deposit. To develop it so that they can get wages out of it, capital is a vital necessity. They have not got the capital. Without it they are powerless and the riches in the land are no good to them or anyone else.

But other men have the necessary capital which labor had produced. So a bargain is struck. Capital is provided, the mine is developed, and it becomes profitable to the labor that works it, to the labor that has provided the capital and to the community generally.

But Mr. Haxo asks, What has this thing called capital produced? He says that it "has no productive power" and that of "itself produces nothing". All the natural riches of the earth produce nothing, in the same sense, until labor is applied. The earth is as

inanimate as "this thing called capital" until man puts forth his hand—his labor power—to gather fruits, catch fish, snare animals, or do anything else towards satisfying even primitive needs.

If we Georgeists are to accomplish anything worthwhile we must be practical instead of being merely doctrinaires. In putting forward his proposals, Henry George was practical. He recognized that rent was an inevitable payment where competition set up a demand for the opportunity to use land. Rent, therefore, should be shared by the people through being used to provide public works and services. He also recognized that capital was essential in the production and exchange of wealth. He did not refer to it contemptuously as "this thing called capital" and he did not deny that it was a factor in production. He saw that there was an increase in wealth production because of its use apart from rent to land and wages to labor, and that payment because of that increase was both just and inevitable. What that interest will be is determined in the same way as rent for the right to use land and wages to the laborer—by the natural law of competition.

In his efforts to justify his attitude Mr. Haxo appears to me to reach the limit of absurdity. He says that it is just as natural for a laborer to have capital to work with as it is for a buffalo to have horns or for a tiger to have claws. The horns of a buffalo and the claws of a tiger are essential parts of those animals. A man's finger nails are also parts of a man. Capital is not part of a man. It has to be produced by the application of man's labor power to the raw materials of the earth. To the extent that a man produces tools, for example, they are his and he is entitled to the economic advantages which they enable him to gain.

That is clear, but the point at issue is where others produce the tools that a man needs to use. Suppose a man buys tools or a machine or any other article properly defined by George as capital. What is he paying for? Not merely for the labor of making it but rent and interest also. Under present conditions all parties also pay taxes in addition.

But instead of paying the interest when he buys the goods he acquires their use on loan. There are no horns or claws about that. He gets the economic advantages due to the use of the capital he has borrowed, produced by other labor and he pays for it. If he did not pay for it he would be loafing on the labor that produced that capital.

Proceeding to discuss the nature of interest Mr. Haxo indulges in some more hair-splitting in his efforts to show that land and labor only should be considered in the distribution of wealth. Let it be understood that I am not an advocate of the interests of capital. I simply recognize inescapable facts.

Anyone using his own capital reaps such economic advantage as it is capable of yielding. Mr. Haxo asserts that the producer who uses his own capital is not concerned as to the amount of that advantage. Nevertheless, he would be seriously concerned if he did not get it.

It is only when the capital is borrowed that objection is raised to the payment of interest. That is a common objection held by socialists, communists and an assortment of money cranks.

No doubt borrowing is greatly promoted by the private ownership of land, for it severely restricts labor's field of operations and undoubtedly prevents many men from accumulating and using their own capital. That, however, has no bearing upon the inevitable payment of interest.

It is an effect of that basic monopoly of the earth which is the foundation source of economic evils. The original and primary factors of production are land and labor. In modern production, however, there arises the need for an additional force which is indispensable if land is to be made to yield what labor needs.

Trying to dismiss it with contempt as "this thing called capital" and denying that it is a factor in modern production shows failure to face practical realities and failure to concentrate on eliminating the primary evil of monopoly of natural resources which has led to so much borrowing of capital when under natural conditions it would be reduced to a minimum.

It is asserted "those who need capital goods buy them from those who produce them and whose return is therefore wages and not interest." What of the business man who carries on so as to avoid insolvency and prices his goods so as to cover wages? It is a recognized principle of business that you must have a return upon the capital utilized in order to succeed. The purchaser of the printing plant, therefore, pays interest when he buys it and if he is to successfully carry on business he must include it in the prices he charges for his printing.

We come now to the assertion that it is money or its equivalent—purchasing power—that is borrowed. It is followed by this remarkable statement, "If actual capital were borrowed we would have an independent rate of interest for each form of capital." The man who was growing wheat, for example, would have to pay a different rate of interest for the capital he had to borrow than the man who was keeping sheep or another who was making machinery. It is not really money that is borrowed, but wealth expressed in money terms. For if the wealth were not in existence a loan would be impossible.

This attempt to make a distinction between the borrowing of wealth and wealth expressed in money terms is one of the commonest and most fallacious errors of our time. It leads to many fantastic and impractical proposals put forward by men who fail to go down to the root causes of social injustice. They see the effects, which they deplore, and mistaking money and currency for wealth, propose to manipulate them to make conditions better.

So Mr. Haxo reaches the conclusion that the return for money lending—interest—is an unearned increment. That, however, is based upon the fallacy that it is money that is borrowed—not wealth that the money represents. Let us again try to get back to practical realities. A man is acquiring a shop or a small factory. He has part of the means to pay for it, say half, which he is willing to pay down. He must then get a loan upon such terms as may be agreed upon. It is paid over in money by an individual, a firm, or a bank.

But how does the lender find himself in a position to make that loan? Only because of wealth produced and accumulated. What he does is to transfer the right to use it expressed in money terms. It is not money that the borrower wants and pays interest for, but the right to use a certain amount of wealth belonging to others.

Now we come to the conclusion which in my opinion disposes of the attack made upon George's explanation of the cause of interest. Asking the question, is interest equitable, Mr. Haxo answers it in these words: "This depends on whether we are considering interest as a private business transaction or as an institution. The former is equitable because it is a contract freely entered into by two parties". Then he goes on to say that the latter is inequitable because it is forced upon the people as a result of social and economic injustice. Thus we have a clear admission that where interest payments are said to be inequitable it is an effect, not a cause, of social injustice.

So that instead of arguing about interest, the real work is to arouse the people as to the primary causes of poverty in a world where labor is becoming more efficient and wealth is increasing.

The distinction between interest as a private transaction and as an institution seems to me to be purely artificial. It is true that public debts would tend to disappear and that much borrowing would

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side, it costs twenty cents. In Gibraltar, a pound of coffee costs seven cents. On the Spanish side it costs three dollars. In the Dominican Republic, a pork costs two dollars. In New York, the same pork costs fifteen dollars. In Greece, a box of cigarettes costs two cents; in Spain, two dollars. In the United States a woman's dress can be bought for two dollars; a woman in Venezuela has to pay fifteen dollars. Etc., etc.

There is a great deal of information at this time about the restriction of commerce by the State. The merchants of the world are our allies, and it is time that we make use of this great force.

New York, N. Y.

ROGELIO CASAS CADILLA

AGAIN THE ISLAND

EDITORS LAND AND FREEDOM:

Mr. L. D. Beckwith, presumably by exercising a power of clairvoyance, says that because two men on an island live to themselves, there must be waste of products. Why? Is there any reason to suppose that Brown is not exploiting his holding to the full and consuming all his products, and that Jones is doing likewise? Here we see Mr. Beckwith again shifting his opponent's pieces in an endeavor to avoid checkmate. What he says about one being a better worker than the other is entirely irrelevant. Both may be equally skillful, equally industrious and equal in every other way and yet, because of better natural advantages resident in his land, Brown makes a living worth, say, £500 a year, while Jones ekes out a bare subsistence worth £50. Clearly the difference is rent; it cannot be wages, as equal work is posited. In both of Mr. Beckwith's replies he has endeavored to make out a case by assuming things which are not in my hypothesis, a clear indication that he is in difficulties. He asserts that when only two people are involved there cannot be rent. (When would rent start, with three, four, five?) George held that when two men want the same piece of land, rent exists. Poor Henry George! what did he know about rent! He, at any rate, has "not advanced since 1897!" I don't think your readers will have any difficulty in deciding who is right as regards this island illustration, and to elaborate the point further would be like whipping a dead horse, so, with your permission, I will now show that what applies to the island also holds in settled communities.

Mr. Beckwith props up his claim that "land can never have any value" by the theory that the higher the rent of a block the more that block will be found to use public (or other) utilities, let us say roads for short. Let us test this. Block A is fertile and needs no artificial manure. Its product is 10 X, cost of production 5 X, rent therefore 5 X. Block B is less fertile, but by using the roads and carting in fertilizer its production is brought up to 10 X. Both blocks will therefore (other things the same) use the roads equally so far as distribution of their products is concerned, but the poorer block—B—will, in addition, use the roads for bringing in fertilizer. The costs of production in this case are 5 X plus 1 X for fertilizer, rent therefore 4 X. Thus we see that the land with the higher rental makes less use of the roads. Q.E.D.

Now, another illustration. Suburban home sites with good soil will command a higher price (rental) than those with poor soil. This is because the home owner knows he can produce vegetables, etc., for his own use with less trouble and expense. He is not looking to market any of his crops and consequently does not use the roads for such purpose. On the poorer soil he would have to cart in manure, use more water, etc. Here again, higher rental value, less use of roads, etc. Again Q.E.D.

One more instance. Here in Auckland a quarter acre home site fetched £1500 while a similar site, abutting onto it at the back, was sold for £650. Why the difference in price? There are just two reasons and neither of them has anything to do with public (or other) services rendered at the site. Both blocks are identical in these things. The higher value (or rental) is due to the fact that the site faces the sun and affords an uninterrupted view of the Auckland harbour and the magnificent Hauraki gulf. The lower price site has its water view largely built out and faces away from the sun. I do not say that in this case the extra value is in the soil, but obviously it has nothing whatever to do with "services rendered at the location," which Mr. Beckwith asserts is the sole cause of the existence of rent. Still again Q.E.D.

Auckland, New Zealand

C. H. NIGHTINGALE

[The above letter closes the controversy between Messrs. C. H. Nightingale and L. D. Beckwith in the pages of LAND AND FREEDOM—Ed.]

EDITORS LAND AND FREEDOM:

Have you ever considered the similarity of the teachings of Jesus with those of Henry George? Jesus said: "I have come that they may have life and have it more abundantly." "Pray ye thus: Thy kingdom come, thy will be done on earth as it is in heaven." "It is easier that a camel pass through the eye of a needle than that a rich man enter the kingdom of heaven."

Jesus gave us a law by which we must live in order to avoid the hell of poverty and war. Henry George gave us a system which would be Jesus' law applied—a system which would give us the Kingdom of God on earth. Under his plan—to remove the taxation of labor products and place it on land values—poverty would be abolished, peace and harmony assured, and human beings would tend to "love one another," as Jesus urged.

St. Louis, Mo.

A. L. PICKHARDT

EDITORS LAND AND FREEDOM:

I think that LAND AND FREEDOM is not only the best organ of the Single Tax movement, but really it is the only one of any intrinsic value. Frankly, it is the only one I ever read.

Pittsburgh, Pa.

JOHN C. ROSE

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be unnecessary with a just distribution of wealth—rent to governments to pay for public works and services, wages to labor, and interest for the use of certain wealth which we call capital.

Experience, however, does not favor the idea of what is really economic interest disappearing. For, as George has so clearly shown, wages and interest rise and fall together. In new communities where land is cheap and easily accessible, they are high. When land is dear, because privately monopolized, they are low. Interest, however, would not trouble labor or be a burden to labor where rent was used for its proper purpose. Under such conditions labor would get its full earnings as natural resources would be open to men.

I submit that arguing about interest, wasting time over money and currency are lamentable deductions from the efforts necessary to remove the basic injustice—the monopoly of natural resources. While this idle disputation goes on, the great masses of mankind have to pay to live and work on the earth, fight for it when occasion arises, and eke out a very bare existence in old age.