

WHAT CAUSES INTEREST?

(For the Review.)

By **WM. RYAN.**

In *Progress and Poverty* Henry George justifies interest on the ground that there is an increment in certain natural products such as the increase of bees, the increase of cattle upon a ranch, the increased value of wine due to its ageing, and certain other increases which come to the owners of such wealth without any labor on their part. This increment, Mr. George says, is not an increase of rent nor of wages, but is interest.

As all products of wealth are interchangeable, and as any person can secure this increment who will devote his time and faculty to the production of such things as will of themselves bear a natural increase, he will not produce other things and exchange them with the owners of such wealth as yields increase, without securing a portion of this increase for himself. If Smith, the owner of such wealth, refuses to share the interest with Brown, in exchanging for Brown's wealth, which has no natural increment, Brown will refuse to produce such wealth for Smith and will produce for himself as much of the kind of wealth which will bear increment as he needs. This natural increment must be interchangeable. Therefore the sum total of their production must be equivalent. Competition assures this.

Let us consider Mr. George's deductions, that this natural increase is the cause of interest. Interest stripped of all the elements of risk, service, etc., cannot possibly be less than 2 per cent. today. Scarcely any nation in the world can borrow money at less than 3 per cent.* And while the bonds of nations are not absolutely free from risk, still they are more secure than any other form of credit, because behind the bonds lies the taxing power of the government, and the taxing power of the government can be used to the extent of confiscation of all property, should necessity require it. Let us, therefore, assume that 2 per cent. is pure interest. It therefore follows that 2 per cent. of all borrowed capital in the world is pure interest or a value due entirely to the natural increases in the forces of nature.

This total interest is such a tremendous amount that it does not seem that it can be accounted for through the increase in the natural phenomena, to which Mr. George attributes it. The amount of natural increase must be infinitesimal as compared with the total amount of interest paid in the world.

Again if all persons were engaged in the occupation of raising bees, grazing cattle, ageing wine, etc., the net value of their product could not be counted anything else than wages. The introduction of different forms of industry

* The United States is no criterion, because the bonds of the United States are the basis of the issue of currency by national banks and, as such, command a premium rate of interest.

which have no such natural increase does not affect the situation, because competition must reduce the net value of the products of all industries to the same basis. So that, because of the interchangeability of wealth, the natural increase is diffused among all the industries, not as interest, but as wages.

WHAT, THEN, IS THE EXPLANATION OF INTEREST?

A certain amount of capital is needed in the world in order to produce wealth profitably. If that much capital exists, there will be no interest. If there is less, there will be interest. If there is more, either a premium will be paid to those who will take it and return it at a certain time, or it will be consumed as wealth.

With the exception of savings banks and life insurance companies, the vast volume of capital is loaned by the direct owners of the natural resources. To begin with, these people own the land on which and from which their fellow-men must draw their sustenance. They charge a rent which leaves the user of "their" land no more than he could produce upon the best free land he could obtain. The result is that the owner of the land obtains more wealth than he consumes, and the average user of the land is deprived of his product, except a bare living.

If the entire human race were placed upon land of uniform desirability, but of no better kind than the best free land which is accessible today, the race would be unable to produce enough capital to satisfy its needs. Consequently it is only on land which is better than the best free land that surplus wealth in the form of capital is produced.

It might be argued, therefore, that this surplus wealth is rent; but the surplus is gained only by using the land with capital. Because the capital loaned by the land owners is not always used on their land nor in the same proportion, it is better to subdivide the return into rent and interest. The users of land can produce more wealth by employing capital, therefore they borrow from the owners of land that portion of the product of their own labor which was taken from them and not consumed by the owner of the land. The rough average of the amount of surplus wealth which can be produced in this way in the world amounts to about 3 per cent. of the total available capital. More than this cannot be extracted because the user of land finds that he cannot afford to give more and work the land profitably, so an equilibrium is established. If this were not so, the owners of capital would raise the rate now. It must be noted that the producers of wealth in maintaining this rate of interest are borrowing back only part of the product of their labor. If conditions were so changed that they could retain their whole product, they would not only have the portion which they are borrowing back, but would have the portion which the owner of the land takes in rent and squanders in luxurious living. The available capital in the world would thereby so vastly increase, that there would be more capital than the producers need, at least there would be enough. If there were more, the surplus would be consumed as wealth instead of being turned into capital, and the equilibrium would

be maintained with interest at zero. If more wealth were available and there were no need for it as capital, it would be necessary to pay a premium to someone to take it off their hands, else it would go to destruction with the inevitable tending of all things to decay.

Should the Single Tax be adopted suddenly, there would be a tremendous increase in the demand for capital. The number of parasites finding it necessary to go to work would make an increased demand for capital. This increased demand would be stimulated by the renewed energy with which all humanity would work, and for quite a time there might be a larger demand for capital which would disturb the present equilibrium of capital to production. But soon the increased production of wealth would meet the requirements of capital, and the equilibrium would again be established and interest would sink to zero.

There are two factors in the production of wealth—land and labor. Without these no wealth can be produced. Capital is not a factor in the production of wealth, it is a tool in the hands of one of the factors in the production of wealth. Consequently, the division of the wealth should go only to the factors which produce it, as rent of land and wages of labor.

ANTEDELUVIAN ECONOMICS.

(For the Review.)

By **W. A. DOUGLAS.**

Of all the impediments to the progress of religion, that which stands out as preeminently the worst, is our bad social conditions. In vain do we preach brotherhood so long as we keep alive the forces which inevitably split society into lords and serfs. In vain do we pray for the coming of the kingdom of righteousness or urge the injunction, Render to every man his due, or denounce covetousness as the very poison of the soul, so long as we maintain the conditions which make justice an impossibility and which inevitably arouse covetousness to the highest intensity.

It is a matter, therefore, of the first importance that the books dealing with the social application of Christianity and provided specially for the ministry, should make some approach to adequacy. In this respect the student has only to look through a number of these works to discover that many of them are very disappointing.

One of the latest publications of this character is a work of 230 pages by W. Cunningham, D.D., F.B.A., Archdeacon of Ely; Fellow of Trinity College, etc., etc.

With such a plethora of titles the reader has a right to look for a well arranged scientific treatise fully up to date and exhibiting the results of the