Lesson II - Laws of Rent, Wages & Interest

In our last lesson we considered how Wealth is produced. We saw that there must be Land before Labor can be exerted; Labor must be exerted before Wealth can be produced; Wealth must be produced before part of it can be saved to be used as Capital; and Labor must use this Capital before the Capital can have any effect in Wealth production.

We will now consider what becomes of this Wealth after it has been produced. The things which we call Wealth have been produced in o order to satisfy certain human desired;(people would not work except that they wanted to get their desires satisfied and these desires will not be satisfied until the things which have been made (wealth) are in the hands of the people who want them. Therefore after objects have bee produced they must, in some way, be distributed. Now by the distribution of Wealth we mean the assigning of ownership in that Wealth, and the laws of distribution will be those laws which determine property the things produced. Since there are but three factors in production the laws of distribution must determine what part of the wealth produced belongs to the land-owner, what part belongs to Labor, and what part o it should go to Capital.

That part of the Wealth produced which is paid for the use Land we call Rent. Remember that Rent is never paid for products of man production. People often speak of renting a house, or a store, or an automobile, or a dress suit, etc. etc., but the word which should used here is "hire". In economics "rent" refers only to that which is paid for the use of things not produced by man.

That part of Wealth which is received for Labor performed is called Wages; and since L abor consists of both the physical and mental energy exerted in the production of Wealth, then wages are the payment made to anyone whose work has resulted in increasing the wealth of the world. Under certain conditions this payment may be called a salary, or a commission, or a bonus, but it matters not what it is commonly called, any payment made for energy expended in producing Wealth is, in Political Economy, wages.

The return which is paid to the Capitalist for the use of his Capital, is interest. As we said in our last lesson, much of what the term "interest" includes when used commercially, is not true interest. A large proportion of what is called Interest is really Rent, because i is a return paid for the use of land and not a return paid for the use of Capital.

Who is it, or what is it, that determines how large a percent age of the Wealth that has been produced shall go to the land-owner, to Labor, or to the Capitalist? Can the land-owner compel its user to pay any price he chooses to set for the use of his land? Can Labor fix its own wages? Can the Capitalist set his own interest rate? Each one of these classes often feels that his return is fixed by one or both of the other classes, but each class knows that it cannot fix the return which it gets, because each one of these classes would be perfectly willing to take for itself the whole 100% of the wealth produced, if i could.

By our legislators, in the press, and among our people as a whole, we hear much blame given to one or the other of these factors for wanting and trying to get an exorbitant percentage of the wealth produ

This same law holds true, as true today as in [illegible], if one wanted to go into business, one would pay nothing [illegible] no matter how well situated it might be, if one could [illegible] site, equally as good, without cost. It is not the productiv[illegible] land which fixes either its rental or its selling value. ([illegible] later that it is that fix[illegible] [illegible]).

What will wages be under the conditions described? If a man works for himself, he has no rent to pay, and he will get for himself all that he produces, which is 100. If one man wishes to hire another, what wages will he need to pay to this other? The second man will not be willing to work for another for less than he can make working for himself, therefore the employer will need to pay to the employee the full product of his labor, 100, in order to get him to come to work at all. Therefore wages will be 100, not only the wages of the man who works for himself but also the wages of any man who works for another. Wages will continue to be 100 and rent 0 so long as there is [illegible] surplus of the 100 land.

Now some new colonists, with D & E, start for this country. D with his colony arrives first, and these people take up all of the remaining 100 land. What can the people with E do when they arrive? They too, would like to have the best land to use, but there is no more of it free. These people can do one of five things:

1 - They can come with guns and battleships and drive away some of the people now on the 100 land to make room for themselves. If you will get the facts behind any war which ever occurred, and analyze them carefully, you will find that practically without exception, every war has had behind it some economic factor which can be traced back to the land. This is one choice E and his people can make, but let us suppose they are a peaceable people who will try to adjust themselves to conditions as they exist; what other four choices have they?

2 - A second choice, and this is probably the one most of the these people will tkae, is to settle upon the second best, 75 land, which is still free to them but where, even though they exert the same amount of labor as the people working on the 100 land, they can produce but 75. This second grade land is free therefore they will need to pay no rent and they can keep for themselves all they produce. Their wages will now be 75.

3 - Suppose one of these people had some particular reason for wishing to live upon the 100 land. He could go there, find a man who is holding more land than he can use and ask permission to use it for himself, but the permission is denied; he then will offer to pay something for this permission if he can get it. Yesterday this land had no rental or selling value, but here is a man now offerring to pay for the use of some of it. How much can he be made to pay? This land is no more productive than it was yesterday, but now it does have an advantage over that land which can be gotten for nothing. This advantage amounts to the difference between what can be produced from the 100 land and what can be produced, by the same effort, from the 75 land, or 25. If E wants to use this land, A, or B, or C, or D can compel him to pay 25 for its use. If more than 25 is asked for the land E will not pay it, because he could go back to the 75 land, take up a plot and keep the whole 75 for himself. The rent of the whole 100 land would, therefore, now be 25.

This shows the working of the Law of Rent. This law was formulated by Ricardo and has never been disproved because it cannot be. The law can be stated thus: "The rent of any given piece of land is fixed by the excess of its productivity over what the same labor could produce from the least productive land in use.

The 4th choice: Suppose, instead of renting this 100 land, E should wish to buy it, how much would E need to pay? If the rental value of a piece of land is each year 25, and the prevailing rate of interest is 5% (let us suppose for this illustration that there are no taxes), then the selling value of the land would be very close to (since 5% is 1/20 of 100%) 20 x 25 or 500; because the selling value of land is fixed by the return it will bring to its owner (or by what its owner hopes it will bring in the future). The selling value of this land, which yesterday was nothing, is now 500.

The 5th choice: If E does not care for agriculture, and does not have the capital or the inclination to start in some other business for himself, he may decide to get his living by working for others. What wages can he charge? The man who hires others does not wish to pay any more than he must, - the wage earner wishes to get all he can. Wages heretofore have been 100, but now men competing with each other will gradually bring them down, - down to how much? Wages will come down to 75, but below that they cannot be driven, because here is free land to which a man can go, where by working he can keep the whole product for himself, and no average man will work for another for less than he can make working for himself; therefore, in this condition, wages can go down to 75, but no amount of pressure can drive them lower than that

And what about the men on the 100 land, who heretofore have been getting wages of 100 when they worked for another, - can they still get wages of 100? Quite evidently, no, - their wages also must come down to 75, else the employer will hire someone living on the 75 land who will work for 75. The rent line fixes absolutely the amount which any employee can successfully demand from his employer, and what the employer must pay. And this shows us the Law of Wages, formulated by Henry George about 50 years ago: "Wages depend upon the productivity of the best free land", or, stated in another way: "No man can successfully demand from his employer more than he can make working on the best land which is free to him".

Thus we see that the Law of Rent and the Law of Wages supplement each other perfectly, - each is but the other half of the same thing. Rent of any given land is fixed by the excess of its productivity over that of the poorest land in use, and wages are what is left over. So far as financial benefit is concerned, it makes no difference to these people in this colony whether they take up the free, second grade, land, where their work will produce 75; whether they rent from A, B, C, or D, when they will be able to keep 75 for themselves, or whether they work for wages for another, when their wages will be 75. The laws of rent and wages will fix their return in any of these conditions.

To further illustrate this point, let us suppose some one

should start a grist mill on a stream running through the land,
which would employ 30 men. What would be the wages in this mill?
They must be 75, so long as there is 75 land to be had free. No
matter how large the mill should become, nor how greedy its owner,
wages could not be forced below 75, so long as men could get the
75 land for nothing.

Suppose that A should discover a gold mine on one corner of
his land, where the same amount of labor will produce three times as
much as formerly from the same land, - how much wages will be paid in
this mine? Wages will still be 75, - what the laborer can make on the
best land which is free to him. The rent of this portion of the land
will now rise to 225.

Suppose there should come a prairie fire which swept the
whole land and burned all the improvements made! This probably would
not affect the rental value of the land at all, because its relativ[illegible]
ability to produce would remain the same. But suppose, instead, a
severe drought of some years duration should develop! This probably
would destroy the productivity of the poorer land more than it would
that of the better land, so that labor of the same efficiency could,
possibly, produce but 80 from the best land and 50 from the second [illegible]
land. This calamity would actually raise the rent which could and
would be charged for the best land, and wages would drop to 50; but
when the rains came again as before, and the productivity of 100 and
returned, rents would go back to 25 and wages to 75.

If other colonists come, take up all of the 75 land and over
flow into the 50 land, the rent of the 100 land will go up to 50, the
rent of the 75 land will be 25, and all wages will be 50. When popu-
lation spreads to the 25 land, then all wages will be down to 25,

This clearly shows that the rent of land does not depend
upon its possible productivity, nor upon the use made of land, but [illegible]
only upon how much more the same labor can produce from it than labo[illegible]
can produce from the least productive land in use. Nor do wages de-
pend upon how much Labor can produce from any given land, but wag[illegible]
do depend upon how much rent must first be paid, - i.e., wages de[illegible]
upon what is termed the rent line. On one side of that line all of
produce goes to rent, and all that is on the other side goes to La[illegible]
as wages.

Does this not show the close relation between the Law of
and the Law of Wages? One begins where the other ends: together
compose the whole of distribution.

How what is the Law of Interest and how does it fit
into the Laws of Rent and Wages?

In order to understand this clearly we must always dis-
tinguish with certainty between what is and what is not Capital.
Land value is never Capital though it is often called Capital.
Nor are a man's abilities his Capital though they are sometimes
called such. Bonds, mortgages, notes, stock, and things of this
nature are not capital, though the money gotten from these things
may be exchanged for wealth which is used in productive work. Me
this case these things merely represent evidences of ownership

of Capital. Money is not Capital, it is but a certificate which can be turned into Capital.

Government bonds are not Capital, nor do they represent Capital unless the money realized from them has been used for actually productive enterprises. A government bond which has been sold to raise money for any purpose other than a truly productive enterprize is, in effect, only a promise to levy taxes on producers, - an evidence that the government will take, by taxation, so much wealth from some of its citizens and turn it over to the holder of the bond, in exchange for the money he has loaned to the government.

True Capital is but one thing, - that part of wealth which is used to produce more wealth. If everyone used up all of the wealth he received as fast as he received it, there would never be any wealth left which could be turned into Capital. Capital can be accumulated only when some people save a part of what they receive.

To illustrate: Here are some individuals who wish to save a part of the wealth they have received (whether it was received in the form of Rent, Wages, or Interest, matters not) in order to have it for use at some future time, - they may wish to send their children to college, they may wish to guard against being dependent in old age or in sickness, they may wish to travel or to build a home. The reason is immaterial, the wealth is saved. But wealth, as soon as it is produced, begins to disintigrate. What can a man do with wealth he has saved in order to have it in the future when he wants it? He can usually find some person, often many people, who would like to have, for use in their businesses, more wealth than they have had the ability, or the inclination, to save for themselves. This saved wealth can in this way be converted into Capital, - it is put to use in production; and after being so used will be returned intact to the lender for his own use at some future time.

These people who want to use Capital are, of course, Laborers, - no one else would have any use for Capital. By its use Labor can produce much more wealth than it can without the use of Capital; therefore it would be profitable for a man who has not been able to save enough Capital for his own use, to borrow the wealth he needs in his business from someone who has saved it, and also to pay for the use of this wealth until he can return it later. And this which Labor pays for the use of Capital, we term Interest.

How much will Labor pay for the use of Interest. Of course it will pay no more than it must. The very maximum that could be paid would be the whole increase in the production of wealth, which the use of Capital makes possible. More than this could not be paid without Labor being worse off than if it had not used Capital at all. The least that could be paid would be zero, that is, nothing above that which is required to maintain and replace the Capital itself. If less than this were paid it would mean that the borrower was keeping for himself a part of the wealth which the lender had saved from his own store. The actual rate of interest will lie somewhere between these two extremes, and this rate will be fixed by the higgling of the market (as is the price of everything else.

We saw that land had no rental value so long as land of equal value could be had free of charge. When the demand for any grade of land became greater than the supply of that land in the market, then that land would have a price, and this same thing is true of Capital.

true of Capital. When, in relation to demand, there is little wealth in the market to be used as Capital, interest rates will be high, and vice versa. Capital is not a fixed quantity as is land, - the amount available can be changed by taking wealth out of, or putting wealth into the field of production. The amount of Capital available for use can be increased or decreased at the will of man; therefore when the rates are high, more wealth will be converted into Capital, in order to take advantage of these rates. Conversely, when interest rates are low, or when the terms upon which people are willing to Capital are not favorable, then many people will not bother to save wealth at all, or if they do save it, may use it, in the near future, to buy pictures, or diamonds, or yachts, or country estates, or to endow museums or hospitals, or for some similar purpose, if the amount be large. Smaller amounts saved might be used to satisfy lesser desires

Whenever the terms offered to the saver of wealth are not sufficiently attractive to induce him to permit his wealth to be used for productive purposes, it will be taken out of the market, thus lessening the supply of Capital there, and this in turn will tend to raise interest rates again. The actual rate of interest in any time or place will be whatever amount is required to induce wealth to be re-entered into the field of production, as Capital.

The rate of interest will not depend upon the increased product which can be gotten BY the use of Capital; it will depend upon what Labor must pay to the savers of wealth to induce them to permit their wealth to be used as Capital. If it were true that the ability of Labor to increase production by using better tools were the factor which fixed the rate of interest, then the interest rate would increase with the march of invention, but this does not occur. Improvements in tools add to the productive power of labor; this will increase the amount of wealth in the world; which increased wealth, even if but partly saved and devoted to productive uses, will tend to decrease the interest rate because it will increase the supply of Capi[tal]

However, so long as people can take their saved wealth and exchange it for land, from which they will (or will hope to) receive rent; the prevailing interest rate will be correspondingly affected: but if this opportunity for investment were eliminated, it is possible that since accumulated wealth tends to deterioriate so quickly, after all that would be necessary in order to get wealth to use as capital would be the assurrance that the Capital borrowed would be returned [in] the same quantity and condition as when borrowed. This would merely mean that the interest rate then would have declined to zero.

Sinc it is always Labor which uses Capital, and Labor which pays for the use of Capital, interest will always be paid out of that part of wealth on the wage side of the rent line. That is, all of [the] produce on one side of this line will go as rent; from that on the ot[her] side of theline must come not only wages, but also the amount of inte[r]est which Labor must pay for the use of Capital.

Where Land is free & no Capital is used, all wealth produced is wag[es]
" " " " " Capital is used, Labor can keep for itself all [wealth] produced except what it needs to pay for the hire of [Capital]
" best " " owned and more is needed, wages will depend upon what [labor] can produce upon the best land free to it, out of thi[s it] must pay interest for the Capital it uses;
" " " all monopolized, wages will be forced by competition a[mong] laborers, down to a point of bare subsistence, and Ca[p]ital will suffer proportionately.