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HOW COMPETITION FOR SALES FORCES

ECONOMIC INTEREST DOWN TO ZERO

(Talk delivered by M. S. Lurio at a meeting May 26, 1956 of the Henry George School of Social Science at Montreal, Quebec)

A few months ago I heard Mr. William Buckley, Jr. (author of "God and Man at Yale") start his talk at the Harvard Law School Forum in Cambridge, Mass. by saying: You probably expect me to say something outrageous - - - I shall try to oblige. So, with little modesty, I'll start by saying that you probably expect this discussion of economic interest to be abstruse and ponderous - - - I shall try not to oblige.

Before plunging into the subject, I would like to state that in my opinion George's proposal or remedy is sufficient unto itself, regardless of our differences as to whether pure economic interest exists or not, and if deemed to exist, our differences as to its cause and law. George, to borrow from the language of Mr. John S. Codman, long the dean of the Henry George movement in Boston, seeks to abolish the continuous robbery of all of us, which robbery is due to our permitting the private collection of a considerable part of rental values, thus depriving the community of its proper source of revenue, and causing the different branches of government unnecessarily to confiscate ever larger portions of the products of our labor in taxation. Stated in this manner it is seen that the essence of George's proposal lies in asserting the individual right to the full product of his labor, and the community's right to the bounties of nature by the taking of rental values for public uses. Whether the balance of the product, after deducting rental value, is all wages or both wages and interest, is a separate problem that needs to be solved if one is seeking a more complete and scientific theoretical foundation of economics.

I think that most of us would like to find the answer to the question of economic interest. And the answer that I have come to accept - though it seemed fantastic when the idea was first brought to my attention - throws a flood of light all over the economic field and answers many other economic questions.

Let us begin by going back to the definition or the concept of economic interest. I don't want to be a perfectionist - a person who has been defined as one who takes infinite pains and gives them to everyone around him. It seems to me that much of our difficulty lies in our failing to keep in mind all aspects of this concept. George calls interest as well as wealth abstract terms, by which he means that he is talking of a category or a class, distinguished by certain common qualities, peculiar to each class.

At times we may find it convenient and helpful to discuss individual examples of wealth or interest, but it is important that we keep in mind that we are seeking information as to the totality of the items included in each concept. When the whole of economic interest is considered, the premium for risk is cancelled out, for what one gains another loses, and in the summation these offset each other. When we consider individual examples, there must first be a deduction of the premium for risk which everyone agrees is at least a considerable part of individual commercial transactions in which interest is considered to be involved.

There is another aspect of the concept of economic interest that requires consideration. George, in Progress and Poverty, page 156, says: Interest "implies the return for the use of capital, exclusive of any labor in its use or management, and exclusive of any risk, except such as may be involved in the security." What does he mean by excepting "the risk that may be involved in the security"? This is understandable only in special cases, such as eggs or gold, which can be duplicated in practically identical form at any future date (or at least in the near-future), but it is not clear in the case of machines, metals, textiles or inventory in general. The new products are not like the old because of improvements in technology. The original piece of capital may not be duplicated at a later date because it is outmoded and would have little value. Some decision, therefore, has to be reached as to the definition and measurement of replacement of capital which must first be recovered before there can be economic interest.

If there were such a thing as a constant dollar (commodity price indexes are often used to define a constant dollar, but these indexes are many and arbitrary estimates which break down over long periods of time), we could use dollar values to measure replacement. Gold would undoubtedly be a better measure than dollars, judging by events in our own lifetime as well as the historical record of money, but I think that the best theoretical unit would be some labor unit. Karl Marx and John Maynard Keynes proposed labor units, and although I think their conclusions completely fallacious, it seems to me that a labor unit does have the essence of what we are looking for.

To illustrate: if I loaned $1000 to a producer or enterpreneur who used it to buy machinery or inventory at a time when unskilled labor in his area was getting 75¢ an hour; and if I got back a certain number of dollars some years later, when unskilled labor was getting 90¢ an hour, or 20% more, then I should get at least $1200 to replace the original capital before I could begin to get any economic interest. It is true that such a unit as an hour of least-skilled labor is difficult to define accurately and to measure with precision, but this is not a perfect world and the best we can do is to get the closest approximation for our purpose.

One more point in connection with George's concept of economic interest: he states explicitly that he is discussing what takes place in a free market, the result of voluntary trading where there is no monopoly or privilege, and this must always be kept in mind.

What we are thinking of then, in connection with the concept of economic interest, is the changing configuration of wealth that is being produced and simultaneously being distributed in a free market to the owners of land, labor and capital. Just as in physics, one theorizes about a perfect gas or a frictionless surface, with valuable results in application (though there is no perfect gas or frictionless surface), we are considering economic interest in a perfectly competitive society. We are trying to determine whether or not under these circumstances there would be anything over replacement and wages received by the owners of capital. The imperfections of competition may yield a payment which is in the nature of accidental gains or losses.

The first step would be a demonstration that interest exists. This is the first question, completely ignored by practically all economists, including George, who, assuming that interest exists, sought its cause and its law.

Most of those who take positive interest for granted beg the question by the assumption that a dollar today is more valuable than just as big a dollar a year from today - therefore he who lends a dollar's worth of capital today would not consider doing so unless he could get more than a dollar in return at a later date. Otherwise, the reasoning goes, he would not save the dollar, or - if he did - he would not lend it.

Here again, George, while discussing the failure of abstinence to explain interest, inadvertently supports the position that it is difficult to preserve wealth even without interest and without risk. To quote from Progress and Poverty, page 176: "If it be said that in lending it I do the borrower a service, it may be replied that he also does me a service in keeping it safely - a service that under some conditions may be very valuable, and for which I would willingly pay, rather than not have it; and a service which, as to some forms of capital, may be even more obvious than as to money. For there are many forms of capital which will not keep, but must be constantly renewed; and many which are onerous to maintain if one has no immediate use for them. So, if the accumulator of capital helps the user of capital by loaning it to him, does not the user discharge the debt in full when he hands it back? Is not the secure preservation, the maintenance, the re-creation of capital, a complete offset to the use? Accumulation is the end and aim of abstinence. Abstinence can go no further and accomplish no more; nor of itself can it even do this. If we were merely to abstain from using it, how much wealth would disappear in a year! And how little would be left at the end of two years! Hence, if more is demanded than the safe return of capital, is not labor wronged? Such ideas as these underlie the widespread opinion that interest can accrue only at the expense of labor, and is in fact a robbery of labor which in a social condition based on justice would be abolished."

There are many reasons why people try to preserve part of the wealth they earn. These are enumerated in a similar manner in most text-books. J. M. Keynes lists them in a picturesque Bunyan style as the motives of Precaution, Foresight, Calculation, Improvement, Independence, Enterprise, Pride and Avarice. Keynes adds what most writers do not emphasise - the motives of business to accumulate: more capital for investment in plant and supplies, better liquidity, investment in securities to obtain a more constant income to stabilize the fluctuating income in its own operations, and prudent writing off of fixed assets as they depreciate.

But seldom does the emphasis appear where it should appear. Business men have no choice. They must augment their capital in order to compete and to survive with changing conditions. They won't even get their wages unless their equipment and inventory are adequate for their particular level in a competitive world, which is always changing technologically.

If, then, there are many who wish to preserve part of their earnings, if producers must maintain and omprove their capital facilities just to compete regardless of interest, if there is genuine competition and a never-ceasing pressure to increase one's sales, if prices are forced down by competition so that there are many marginal enterprises which just barely yield marginal wages, then there is no economic interest. Those which earn more are those with a higher quality of management, which is labor. There is no reason why we should assume that after the deduction of rent there is left anything more to the least skilled laborer than subsistence and anything more to the owner of capital than replacement. A greater deduction makes it impossible for labor to continue or capital to be maintained so that competitive pressure downward must bring economic interest to its lowest point which is zero.

Those who do not have capital and need it are those to whom it is risky to lend. Where the safety is relatively high, the rate is relatively low, but there is always some risk involved and some labor in the management of capital.

A trust company officer once jocularly remarked that the function of his company was, with dignity and grace, slowly to dissipate the funds left in its care. And people in older countries, who have learned from longer experience than ours how money deteriorates, will not give up their gold, but keep it buried in secret hiding places as the best way to preserve part of their earnings ignoring interest.

I would like to sum up some of the significant conclusions and implications of the acceptance of the conclusion that pure economic interest is zero:

1) By removing the distinction between wealth and capital, thus eliminating many thorny questions of exact definition (where none seems possible anyway), it simplifies the study of economics, and makes George's proposal easier to understand.
2) It refutes Marx's doctrine of surplus value - because there is nothing left to producers who have no privileges except wages they have earned.
3) Land and labor are like atoms, and wealth is like molecules, combinations of atoms. Logically, therefore, rent and wages are like atoms, each containing no part of the other, but interest must really be rent and wages, just as wealth or capital is really land and labor.
4) From the point of view of justice as that condition in which no one obtains something for nothing, which must be taken away from somebody else, the existence of interest asserts the necessary condition of a perpetual income without labor or risk to someone who merely is the owner of a large amount of wealth.

Justice is the primary reason our efforts are made to spread George's reasoning and remedy. The non-existence of interest removes the last obstacle to a unified and consistent theory that is in accordance with our perceptions of logic and justice.