200 West 54th Street
New York 19, N.Y.
June 25, 1963

Mr. Samuel Blumenfeld
111 East 26th Street
New York, N.Y.

Dear Sam:

As we discussed several weeks ago over the 'phone, I am trying to obtain a foundation grant for the purpose of revising my doctoral dissertation into a form suitable for publication. The foundation has requested that I give them some idea of my publication plans.

I would be very grateful to you, if, without committing yourself, you could convey to the foundation an interest in this prospective book, in your capacity as a publisher. In order to give you a more specific idea of its contents, I am enclosing a synopsis of the dissertation. (The term "originary interest" is more or less interchangeable with "the general level of profits.")

The man to write to is: Mr. Richard Ware, Relm Foundation, First National Building, Ann Arbor, Michigan.

Best wishes for an enjoyable summer.

Sincerely,

George

George Reisman.

GR:mc
Att.

A Synopsis of The Theory of Originary Interest

by George Reisman

Originary interest, for practical purposes, may be taken to mean what Ricardo meant by the expression "profits generally," namely, the difference between receipts from the sale of products and cost of production in the economic system as a whole. The central question which my dissertation asks and, I believe, answers, is: how is it possible for all business enterprises taken together regularly and consistently to sell their products for more than they have expended on the physical means necessary to their production, in the absence of increases in the supply of money; or, in other words, how is it possible for the sum of surpluses earned by some enterprises regularly and consistently to exceed the sum of deficits incurred by other enterprises, in the absence of increases in the supply of money?

Before attempting to supply the solution to this problem, I devote approximately 200 pages to a critique of theories of loan interest and originary interest which have or have had a considerable influence on economic thought. Among the theories considered are the use, abstinence, remuneration, liquidity preference, exploitation, productivity, and time preference doctrines. In this section I closely follow the system of classification used by Boehm-Bawerk in volume I of his *Kapital und Kapitalzins*, and in many instances am indebted to him for specific criticisms. However, I have found it necessary to make a number of radical departures from Boehm-Bawerk, and the bulk of this section, therefore, is given over to a critique of his own, positive doctrines and those of his followers, such as Wicksell, Fisher, and Fetter. Of salient significance in this section are the critiques of net productivity as the source of originary interest, and the higher valuation of present over future goods as the source of originary interest. The former doctrine, I submit, is based on the unrealistic assumption of physical homogeneity between the consumers' goods forgone in order to produce capital goods and the additional quantities of consumers' goods produced with the aid of the capital goods; moreover, I hold that it is based on a naive theory of imputation and factor price determination, and, going still further, could never explain the existence of "profits generally," but, at most, only of particular profits fully offset by losses elsewhere. The latter doctrine, I argue, starts out with a false identification of originary interest, and as a result confuses changes in prices with changes in it, and in a totally contradictory manner. Moreover, I argue that the higher valuation of present goods is not the cause, but the effect of originary interest (and increasing production as well). Finally, I criticize the closely connected "discounting approach" to factor price determination on the grounds that changes in the rate of originary interest are necessarily accompanied by changes in the values of consumers' goods, which are supposed to constitute the fixed magnitudes to be discounted. In opposition to the "discounting approach," I argue that factor prices are determined by supply and demand in the same way as those of consumers' goods, and that the rate of discount is the effect of a difference between the demand for products and the demand for means of production.

The answer I offer, in the second section of the dissertation--Chapter V and part of Chapter VI -- to the central question I have raised, is: the consumption expenditures of the owners and creditors of business enterprises, which I term net consumption, constitutes a demand for the products of business enterprises, but is not and does not correspond to a demand for factors of production by business. Hence, it is responsible for an excess of sales over outlays for means of production in the economic system as a whole and for the general excess of product price over unit cost of production. This conclusion, I attempt to show, is perfectly compatible with, indeed, is implied in the writings of Ricardo and J. S. Mill. Considerable space is then devoted to a critique of the vital respects in which my own theory differs from that of Ricardo.

In Chapter VI, I consider the determinants of originary interest other than net consumption, such as net investment. These I find to be of a temporary nature in the absence of changes on the side of money; and thus my conclusion is that net consumption is the one permanent and abiding source and determinant of originary interest. In this chapter, moreover, I develop the implications of the fact that net investment would disappear in the absence of increases in the quantity of money, for the theory of capital and the theory of economic progress. In the course of this development, I am led to the conclusion that economic progress depends not on the dollar amount of capital, but on the ratio of capital to consumption. Moreover, I am led to the conclusion that the entire traditional approach to the subject of capital and its relation to originary interest is grossly misleading, and, therefore, I offer new definitions of my own for the basic concepts employed in this area. Finally, on the basis of the above, I consider the respective roles of capital and technological progress and their mutual relationship as causes of economic progress.

In Chapter VII, I attempt a full integration of my theory of originary interest and my theory of capital for the purpose of refuting what I consider to be leading economic fallacies, such as the belief that capital accumulation implies or causes a fall in the rate of originary interest, that falling prices due to increased production cause a fall in the rate of originary interest, that technological progress raises the rate of originary interest, that inflation and deflation refer to price changes, that business prosperity depends on consumer demand, that national income is a measure of prosperity, that socialism means the abolition of originary interest, that net investment has a multiplier effect on the national income, that wage cuts are incapable of increasing employment. All the argumentation of this chapter is intimately connected with the preceding chapters, and represents an application of the theories contained in them.

COLERIDGE PRESS INCORPORATED
60 East 42nd street
New York, N. Y.

July 3, 1963

Mr. Richard Ware
Relm Foundation
First National Building
Ann Arbor, Michigan

Dear Mr. Ware:

George Reisman has asked me to write you concerning the possible publication by Coleridge Press of his doctoral dissertation, The Theory of Originary Interest. We are interested in the work if it can be revised for readership by a wider audience generally interested in problems of economics. The market we envisage for the book is primarily in the universities and colleges. Should the book prove to attract a large readership, a quality paperback edition would subsequently be brought out.

As you, no doubt, recall, some months ago I wrote to you about our publishing plans, and you were most kind in your expression of interest. We plan to do a series of books on free-market economics. Dr. Reisman is a member of our Editorial Advisory Board and will assist us in developing this program.

Sincerely yours,

Samuel L. Blumenfeld
President

SLB/hs