

NCS, UNUSED

Chap. 6 Rhetoric of Scientism How John Muth persuades

87 Muth, 1961, "Rational expns. & the Theory of Price Movements." Ecta. - modestist jrd.

Ignored until ca. 1975. Badly written

Muth scolded arrogance of eco. profs who think they see future better than others.

90 The usefulness of future knowledge is to speculate profitably (Aha! Old fallacy that all spec. is ecly functional.)

(Arbitrage anticipates all price movements, so there are no unearned incomes.)

Neoclassicals, by saying only alloc. matters, & distribn.
doesn't matter, allow for immediate land tax.

They are hypocritical. They oppose LVT on moralistic, value-
laden grounds!

List how neo-classicals contradict selves in compulsion to
refute HG.

1. Land tax forces premature dev. - bad.

Land spec. incites early dev. - good.

2. Their cos. is value free

Land tax is immoral

3. Good alloc. is sole objective - distribn. no object
Must honor existing entitlements

4. Progress are bygone

Must honor prop. acquired in past.

5. LVT maldistribn. popn. - bad

Land spec. rent-seeking speeds pioneering - good

6. LVT creates K - good

Exempting K - bad.

7. Taxing K mixed in land - bad

" other K - good

ROBERT SCHALKENBACH FOUNDATION

To Promote the Economics of Henry George

41 East 72nd Street, New York, N.Y. 10021

212 - 988-1680

May 21, 1991

Dr. Mason Gaffney
PO Box 7998
Riverside, CA 92513-7998

Dear Mason,

At the Annual Meeting would you be kind enough to give us a short report at the Tuesday morning meeting, June 11th, on your activities on the projected conferences next fiscal year.

It has been suggested that those making reports send in a written one to be distributed to the Directors before the meeting so that they can be prepared with comments and questions. I realize this may be difficult to do but, if you can, please send it early enough so I can distribute it to the Directors.

We are looking forward to seeing you at the meeting, I am,

Sincerely,



Oscar B. Johannsen
Executive Director

. . . Liberty means Justice, and Justice is the natural law . . .

from Progress and Poverty by Henry George

In a divist
Mill toast
Non ferment
Theater

Non threatening
Harmless

unapplied

Ectoplasm

lucious

✓ pumpcat

Evocator or
temperance
Flounder
Falter

synchad
metonym
code word

✓ proxy
sculptor

I expected an audience of skeptical acad, crsts, college profs.
Neo classical Ec. as a reaction to H.G.

(Lafayette)

Intro: SPE: - sense a megalomaniac? Paranoid?

I. Assoc. w. H.G.

(A) Leaders of ^{neo-classical} school were ^{personally} involved w. H.G., mostly as antagonists.
J.B. Clark. K is not the material K-goods, but "the abstract quantity of wealth (value) that resides in it." This abstraction "transmigrates." It is "pure K."
~~Wicksteed~~ It is "transmuted" into land (alchemy!)

~~A. Marshall~~

~~F. Walker~~

~~R.T. Ely~~

~~Sinton Patten, Frank Patten,~~

~~Lawrence Langdon~~ - Fr. Knight

~~E.A. Seligman~~. A nemesis: ^{H.G. was an obsession,} like Insp, Jewett. Sacrificed his own consistency
(~~Pareto~~ was an Italian crsts.)

Wicksell, pro lvt

3 Ws of Eur. { Walras, ardent pro lvt - ^{major commitment,} ^{flamboyance,} (turned to hypermathy. forms of expression to recoup his lost prof. standing. cf. L. Klein.)
~~Wicksteed~~

(B) Rules of common courtesy, ^{civility,} & decorum, ^{+ scholarly accuracy} were ~~not~~ ^{suspended} when dealing w. H.G. or anyone who agreed w. him. Open season - campaign of acad. terrorism.

~~Walker~~ - steeped in infancy

1s no evidence Marshall - joined in, or did not rebuke Oxford students jeering, trashing. Marshall admonished his supporters to be courteous.

~~Ely~~ - did ^{hominine} attacks, personal abuse. Grace Jaffe antoking.

Knight - addresses "the single tax" w/o cit'g anyone. In spite any wild idea to this anon. stereotype, & get it published.

ROBERT SCHALKENBACH FOUNDATION

To Promote the Economics of Henry George

41 East 72nd Street, New York, N.Y. 10021

212 - 988-1680

May - 1991

MEMORANDUM

To: The Directors

From: Oscar B. Johannsen

Enclosed herewith are the following reports:

9-month Financial Report for the
period July 1, 1991 to March 31, 1992

Proposed budget for the fiscal year
1991-1992

Enclosures (2)

... Liberty means Justice, and Justice is the natural law ...

from *Progress and Poverty* by Henry George

~~H. Brown~~: mind as twisted as his leg, AER,
Proctor Thomson, WEG. The J.C. Lincoln Prof.
Milliman, imputed belief, "The single tax". To him it became a thing.

~~Have to conclude~~, ~~entab.~~ & ~~prof.~~ felt peculiarly threatened. a stereotype, subhuman.

(C) ~~The N.Y.C. crisis, political.~~

~~NY was most immediately threatened.~~ Seligman & Clark
led the counterattack. Chronic: Haig, Hottelling, Vickrey &
Harris came along in next 2 generations, after last mtg. of the Manly
Single Tax Club. Was also a Chi. S.T. Club which may explain something about Clark
Clark from Smith. Nature of acad. freedom at Smith. Columb. had probs. too.

(D) They all wrote about him. See 2 cuts. Mostly attacked.

~~Clark, Knight, Stigler, F.A. Fetter, Hobson, Fagan, Plehn, Patten, Edwin Johnson, Ratchford,~~
~~H.L. Shannon, Seligman, Cannon, Edgeworth, Ely, Marshall, Walker, Spahr,~~

II. H.G. & Classics. He wrote & thought in their lineage.

A. Classical Expts. were radical by today's standards. All favored
tax on l.v. Quesnay

Smith
even Malthus?
Richards (?)

Mill. Esp. Mill. H.G. only carried Mill half a step onward
to logical conclusion. He set stage for H.G. completely. Love-hate relation-
ship.

B. Eng. inc. taxes of 1798, Pitt: 1844, Peel: pref. rates on wages,
higher rates on land, bes. only rent was pure income. (Wm. & Mary had
an urban land tax, 1689-1713. to fight Louis XIV)

C. Classic underpinnings of H.G. had to be undone, & in a
fairly subtle way, to seem evolutionary. Give legitimacy of
apostolic succession, while simul. nodding to cult of progress:
hence "Neo-Classical" - an ^{inspired} marketing tool, like "conservation."

ROBERT SCHALKENBACH FOUNDATION

BUDGET 1991 - 1992

ANTICIPATED INCOME

\$ 544,000

EXPENDITURES

General Expenses \$ 278,000

Taxes 22,000

American Journal of
Economics & Sociology 70,000

Grants 174,000

\$ 544,000

III What was classical? (in neo-classical eccs.)? i.e., what did they keep?

~~A. Dim. m.u. Was in A. Smith, re wtr. + diamonds. New name for old idea - a simple, obvious one.~~

~~B. Austrian K thy~~

~~1. Not new - found in Ricardo Ch. 1. They refined it.
 ~~acknowledged Ricardo, wrote of Ricardo effect.~~
 ~~F. von Wiesner, 1848~~~~

~~g.w.s. restates Ricardo~~

~~2. Is bound up w. wages-fund idea.~~

~~C. K can be land-saving, refuting H.G.~~

~~This was in J.S. Mill, + H.G. overlooked it. Major error:
 "all-devouring rent" thy, in Chap. "Effect of Improvement in the Arts."
 Acc'ts. for orig. shock effect of the book, but also for later anti-George reaction: "See, he misled you."~~

~~F. Walker (Cord, 41-2); R.M. Harg, cheap xptn. destroys rent; Tolley et al.
 more severely. Keynesians loved inv. opps. Took environmentalists finally to
 McGill's. blow whistle on this nonsense.~~

~~obvious dev. of laws of rent of Ricardo, von Thünen, et al.~~

~~Wages = MP is H.G. law of wages. Clark + Wicksteed
 both acknowledged their debt.
 Euler's Theorem is H.G.'s Coordn. of Laws of Distribution.~~

D. Disposal emphasis

Expenditures (Continued)

AMERICAN JOURNAL OF ECONOMICS
AND SOCIOLOGY

Deficit	\$ 60,000
Will Lissner Honorarium	10,000

\$ 70,000

GRANTS

Public Revenue Education Council	\$ 5,000
Center for the Study of Economics	30,000
Education Activities- Walt Rybeck	60,000
The American School of Classical Studies at Athens	17,000
Projects approved by the Executive Committee and/or Board	<u>62,000</u>

174,000

\$ 544,000

IV. What did they discard?

A. Wages - fund thy. I will be misunderstood on this. 7 points.

① Found in Quesnay, Smith, Ricardo, & Mill, ~~forwards~~.
Never said ~~K~~ limited wages.

② Was converted into a travesty, to ^{exploit & then to} discredit it. Fund fixed.

(Same as done to philos. of HG - we know this process)

③ It was this travesty that HG attacked. Never understood ~~was~~ thy. proper.

④ Thy. proper is right, & important, & needs to be intd. w. HG thy. of slumps. To make a correct thy.

⑤ Austrians revised & improved on thy: J. von, BB, & esp. Wicksell. Acknowledged debt to Ricardo. (but not to M. Faustmann)

⑥ HG attacked Austrians w/o reading them. A touch of intellectual chauvinism. Sld. have allied w. them. Austrians were conservative but were defending vs. Marx, not HG.

⑦ Clark & Knight tried to ~~root out~~ Austrian pol. of prodn. as part of their campaign to equate land & K. The anti-Gsts. vs. the anti-Marxists.

They well succeeded. Micro has no relations of sequence, only of coexistence. Thus destroyed the macros of classical. Had no macro when 1929 hit. Fell on their faces. So did Georgists.

Field wide open for Keynesians.

ROBERT SCHALKENBACH FOUNDATION, INC.
Notes to Financial Statements
March 31, 1991 and 1990

Note 1 - Significant Accounting Policies

Basis of Accounting

The Foundation's policy is to prepare its financial statements on the cash basis but includes depreciation, accounts receivable, liabilities for payroll withholdings and a liability for employees' pension. Under this basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Inventory

The inventory of books and pamphlets is carried at cost.

Investments

Investments are carried at cost if acquired by purchase, or at market value at time of acquisition if acquired by gift. Gain or loss is recorded only when realized. Short-term investments include accrued interest receivable.

Depreciation

Depreciation is computed using the straight-line method. One-half of the depreciation is allocated to the American Journal of Economics and Sociology, Inc., a related entity.

Note 2 - Remainder Interest in Trust

The remainder interest in Trust represents the Foundation's remainder interest, at nominal value, in a trust established by Francis Neilson on November 15, 1946 as amended March 17, 1958.

Note 3 - Revocable Trust

During 1976, the Foundation created a revocable trust with the Bank of New York, to partially fund the nonqualified pension plan. The trust income is used to pay F. Soriero the monthly payment of \$972 during her lifetime.

IV (cont.) What discard?

B. Bus. Cycles

Marx & George had both brought them in.
W. Mitchell was militantly Baconian, never developed a
theory.

C. Wholistic view of econ.

Began compartmentalizing, like Protestant Churches.

"Land Econ." survived, w. R.T. Edy. ~~Mean~~ Same time,

F. Knight says there is no land. Both avidly anti-George, but in
case G. won vs. Edy, they were sealed off. Something like

Madison on separation of powers
Otherwise, is spaceless - both time & space, the dimensions of land, ~~eliminated!~~ → Even "g.c. theory" became a compartment.

"Pub. force" a compartment.

"M & B" a compartment, - then, l.v. is basis of credit.

D. Undermine ^{vocab} in which H.G. ~~reasoned~~ expressed himself.

Rent: land; measured Δ (becomes K gains)

We will see how they subverted them.

E. Functional distribn. of ~~the~~ income.

Replaced w. personal distribn. Not of land, but of income.

~~F. Dim. rets.~~

F. 3 factors of prodn., each limitational; all mutually
exclusive; inconvertible.

G. History. Cf. H.G., who devoted more pp. to hist. of prop. in land than
to any other subject.

ROBERT SCHALKENBACH FOUNDATION

To Promote the Economics of Henry George

41 East 72nd Street, New York, N.Y. 10021

212 - 988-1680

DATE: May 29, 1991

TO: Directors

FROM: Oscar Johanssen

RE: President's Report

Enclosed herewith is the President's report.

... Liberty means Justice, and Justice is the natural law ...

from *Progress and Poverty* by Henry George

H. Ethics, Justice. affect to be "value-free."
I. Policy activism. Instead, fatalism.

V. What was new.

III B

A. Land $\equiv$ K. (Was implicit, then for landowners to tax K - they weren't taxing labor.)
1. Clark on Transmigration. (Reincarnation) + transmutation (alchemy).

Rpt. K is not the concrete K goods, but "the abstract qty. of wealth (value) that resides in it."

This abstract qty. "transmigrates" from one material thing to another. It is "pure K" (cf. Kant's Critique of Pure Reason). Curiously, this concept comes from K. Marx, (1867, Das Kap.)

It is "transmuted" into land, by exchange.

2. Debating BB, says K has no pd. of life. Lives forever.

The pt. of this is to make it like land, never wear out. [By implication, ALV. creates K, too, - but no utn.]

3. Is no Δ of K possible from extracting it. - Spahr, Seligman. Fixed - cf. Harbinger today: T.S. Adams, 1967, vs. Fillebrown.

4. Land is all man-made: grading, filling, fertilizing, draining, exploring, discovering.

III, C

B. Land has a MP

is part of Euler. MP = resid. rent, same owner. Nominally, just confirms ~~the~~ ^{our} HG's coord. of laws of distribution. Helps a cause in one way - shows you can impute.

Refutes onelette School, including Seligman. Wicksteed saw this.

Hunts us in other ways: In practice, removed dist. trtmt. of land as a residual, assuming above cost.

1) Psychologically, undercuts classical idea of rent as surplus

ROBERT SCHALKENBACH FOUNDATION, INC.

Financial Statements
and
Supplementary Financial Information
(Cash Basis)

Nine Months Ended March 31, 1991

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1) Land is now "productive" in its own right, parallel to labor & K. Does it mean the owner is productive, but raises the possibility of confusion.

2) Land has an o.c., its MP in highest alt. use. It must be pd. its MP to have it from alt. use. Now it has a "cost," instead of being supplied freely by nature.

3) Landowner now has social functions.

a) Allocate land to best use.

b) Reserve for higher future use - avoid premature under-improvement. E.g. Paul Smith, ~~writing~~ in pamphlet pub. by J.C. Lincoln 1950.

c) Prevent overuse of best land, aka Tragedy of Commons.

~~This~~ This is often carried so far as to set Max GP as a norm. Formally the thg. precludes that, but in practice is very common: goal is to max ~~the~~ "productivity," meaning labor productivity.

Result: underuse.

d) Explore & discover.

e) Conquer (Frank Knight, "kill ^{previous claimants} or drive off")

f) Conserve soil (Davenport, et al.) (gradually de-emphasized)

as landowners wanted to dig

g) ~~heavy~~ Absentee landlord bears ~~fixed~~ burden & risk of price, ownership of land. Spurs the tenant to this burden.

h) Rent must be high enough to yield a fair return on price of land.

ROBERT SCHALKENBACH FOUNDATION, INC.
Statement of Assets and Liabilities Arising from Cash Transactions
March 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Assets:		
Cash and short-term investments:		
Checking account	\$ 11,509	\$ 7,673
U.S. treasury bills	3,880,096	2,449,965
Money market funds	556,558	804,079
Custodian accounts	12,548	14,657
Petty cash	<u>50</u>	<u>50</u>
Total cash and short-term investments	4,460,761	3,276,424
Investment in stocks (Note 1)	1,831,221	1,339,035
Investment in bonds (Note 1)	472,941	498,366
Revocable trust (Note 3)	173,438	174,437
Inventory of books and pamphlets (Note 1)	82,170	81,749
Due from American Journal of Economics and Sociology, Inc.	39,954	30,213
Equipment, at cost less accumulated depreciation of \$10,646 in 1990; \$7,410 in 1989 (Note 1)	3,073	5,480
Prepaid excise taxes	10,500	3,750
Miscellaneous receivable	-	5,000
Advance to publisher	9,300	3,000
Accounts receivable	2,762	2,808
Remainder interest in trust - at nominal value (Note 2)	<u>1</u>	<u>1</u>
Total assets	<u>\$7,086,121</u>	<u>\$5,420,263</u>
Liabilities:		
Payroll taxes payable	\$ 4,306	\$ 2,416
Commitment (Note 6)		
Fund balance, unrestricted	<u>7,081,815</u>	<u>5,417,847</u>
Total liabilities and fund balance	<u>\$7,086,121</u>	<u>\$5,420,263</u>

See accountants' compilation report and notes to financial statements.

(C) Unit of Analysis: "The Firm"

1. Is a disembodied spirit, hires everything.

Related to Eng. "farmer" of classics, but farmer always had land, usually fixed.
 Ignores actual nature of most business: big chunk of r.e., looking for a use.

2. Replace chin. r.e.s. w. variable props.

a) Is more abstract

b) Presumes it is just as easy to vary all inputs, contrary to fact. "Factor symmetry" carried to falsehood.

c) Cost of inputs all given from outside — no endog. determination. No insight into how rent is determined. No presumption that land supply is fixed. Labor & K are mobile & elastic.

d) Emph. mainly on tradeoffs & substn., a remaining const.

(E) (A) ~~Alloca.~~ Redefn. of Subject

Ecs. is study of "alloca. of scarce means among competing ends."

(1) Distribn. out. except as publ. distribn. Pareto said that never changes, no matter what you do, all times & places the same (bunks!)

ROBERT SCHALKENBACH FOUNDATION, INC.
Statement of Revenues Collected, Expenses and Changes in Fund Balance
(Cash Basis)
For the nine month periods ended March 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Revenues collected:		
Dividends and interest	\$ 354,745	\$ 337,958
Gain on sale of securities	1,561,091	258,975
Contributions and legacies	1,917	3,051
Income distribution from Francis Neilson Trust	62,278	61,765
Net income (loss) from books and pamphlets sold and donated	<u>8,027</u>	<u>(8,260)</u>
Total revenues collected	<u>1,988,058</u>	<u>653,489</u>
Expenses:		
Salaries - executive secretary and office	53,426	50,952
Office temporaries	7,684	5,322
Payroll taxes	<u>5,490</u>	<u>5,736</u>
Total payroll expenses	66,600	62,010
Functional expenses	159,414	89,232
Administrative expenses	71,167	48,816
Federal excise tax (Note 5)	<u>13,764</u>	<u>4,947</u>
Total expenses	<u>310,945</u>	<u>205,005</u>
Excess of revenues collected over expenses	1,677,113	448,484
Fund balance, unrestricted, beginning of period	<u>5,404,702</u>	<u>4,969,363</u>
Fund balance, unrestricted, end of period	<u><u>\$7,081,815</u></u>	<u><u>\$5,417,847</u></u>

See accountants' compilation report and notes to financial statements.

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(D) New meanings for rent

Stimulably stole the word, issued new defn. on authority.

Rent now $\equiv$ excess of MP over O.C.

O.C. of land defined as = current use, Rent = 0.

O.C. of black athletes defined as much lower, rather than playing for another team. Hence, wages are now all unearned rents; ^{land} rents are all earned inc.

Examples are usually basketball players.

Pareto did this. Subtle! Descended from Machiavelli, César Borgia, & Roman Scarpia, Rinouldi, Cagliostro & Paganini.

"Faculty" rent. If born smart, shd. pay. If born w. innate self-discipline, work hard, shd. pay (M. Friedman).

"Revealed pref." If work hard, reveals a pref. for work, it's really cons. you shd. pay. "The Chicago Tautology."

Sources of wrong ideas: 1) Kuznow, Keiper, Segal & Clark - pd. by J.C. Lincoln Fdn. 2) John Cunniff, John Murphy, & Andrew Schmitz

III, B { (E) Pick up p. 8, btm,
Macro out.

Growth, K factor out

Boom & Slump out - aided by missing bust of 1912.

ROBERT SCHALKENBACH FOUNDATION, INC.
Statement of Changes in Financial Position
(Cash Basis)
For the nine month periods ended March 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Sources of cash:		
Excess of revenues collected over expenses	\$ 1,677,113	\$ 448,484
Add (deduct) non-cash items:		
Depreciation	812	1,175
Net (gain) on sale of securities	<u>(1,561,091)</u>	<u>(258,975)</u>
Total from operations	116,834	190,684
Proceeds from disposition of securities	2,738,750	296,247
Decrease in accounts receivable	-	3,961
Increase in payroll taxes payable	2,533	-
Decrease in notes receivable	-	30,507
Decrease in prepaid excise taxes	-	8,058
Decrease in revocable trust	-	181,402
Charges to American Journal of Economics and Sociology, Inc., for equipment use	<u>812</u>	<u>-</u>
Total sources of cash	<u>2,858,929</u>	<u>710,859</u>
Uses of cash:		
Increase in advance to publisher	3,000	3,000
Increase in miscellaneous receivable	-	5,000
Increase in inventory of books and pamphlets	4,767	7,228
Increase in investment in bonds	-	181,402
Increase in accounts receivable	283	-
Decrease in payroll taxes payable	-	6
Increase in due from American Journal of Economics and Sociology, Inc.	39,954	29,038
Purchase of equipment	-	925
Decrease in liability for employees' pension	-	15,995
Increase in prepaid excise taxes	5,750	-
Purchase of securities	<u>1,653,427</u>	<u>-</u>
Total uses of cash	<u>1,707,181</u>	<u>242,594</u>
Increase in cash and short-term investments	1,151,748	468,265
Cash and short-term investments, beginning of period	<u>3,309,013</u>	<u>2,808,159</u>
Cash and short-term investments, end of period	<u>\$ 4,460,761</u>	<u>\$ 3,276,424</u>

See accountants' compilation report and notes to financial statements.

III, c

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(F) Pareto optimality. All the rage.

No changes are desirable unless no one loses, b.c. you can't cf. individuals' subjective feelings. Only win-win changes: popularized Pareto.

No changes from what? Status quo, endorsing all existing entitlements.

E.g.

1. Should have freed slaves w/o compensating owners (No one ever mentions compensating slaves. That is backward looking -- bygones are forever bygones. Double standard.)

2. Old tax is a good tax.

3. Never prohibit pollute. Rather, give pollute. rights based on history of pollute. (Never compensate those polluted on)

4. Never break a monopoly - buy it out.

5. Never lower a tariff.

6. " Withdraw a subsidy, e.g. to rice growers, or wtr. customers.

Wicksell proposed unanimity rules but made one exception: land rents.

In practice, raid Tsy & public domain are allowed. E.g. EDF on CVP.

6. Landowner bears full burden & risk of ownership. Is entitled to fair return on price of land. This ^{not only} validates ~~entitlements~~ ^{entitlements}, but

ROBERT SCHALKENBACH FOUNDATION, INC.

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Validators asking prices at any level. They keep vatching up.

(G) Rent-seeking is good (Lord 59)

(H) Inc. includes wages

Classics had deducted "subsistence" or maintenance.
Only land rent was pure inc.

Debates on inc. taken of 1798-1815 (Pitt); 1844 (Peel).
Eccles. had classified inc. by source.
Recently, only wages are inc. Equity means = trtmt. of equals,
+ equality are defined on Form to co.

(I) L.V. is basis of credit.

(J) Land rent & land value are
~~is~~ ~~approaching~~ zero.

Walker

Willford King

Ray Goldsmith

Ernest Kurnow (J.C. Lincoln Edtn)

T. Schultz

RFF

Critics of Dennis Meadows

In this, they were + are more anti-Malthusian
than H.G. Remember, H.G. used Malthus as ~~an~~ entire, to focus
atten. on fixity + importance of land.

BT&CO.

BUCHBINDER TUNICK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

ONE PENNSYLVANIA PLAZA, SUITE 5335, NEW YORK, NY 10119-0219 212-695-5003 • FAX 212-695-4638

ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors
Robert Schalkenbach Foundation, Inc.

We have compiled the accompanying statements of assets and liabilities arising from cash transactions of Robert Schalkenbach Foundation, Inc. as of March 31, 1991 and 1990 and the related statements of revenues collected, expenses and changes in fund balance, and changes in financial position (cash basis) for the nine month periods then ended, and the accompanying supplementary schedules on pages 8 through 10, which are presented only for supplementary analysis purposes, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

BUCHBINDER TUNICK & COMPANY

May 3, 1991

(K.) Backward-bending S curve of labor.

S not only fixed, like land, but perverse. Pay less, get more. Labor the ideal tax base.

(Keynes, other extreme, inf. elast. S of labor. No one we tried to reconcile, that I know. They just throw these arbitrary assns. at you, in diff. compartments of econ.)

(L.) In pub. face, ability to pay = liquidity:

(M) "Unearned Δ to L.V." replaced by "K gain"

(N) Land equally distrib. ~~At~~ Poor people own all the land. F. Walker: U.S. Census of Ag. Phyl. Oct. Conf.

(O) K supply unaffected by i, r.

ROBERT SCHALKENBACH FOUNDATION

To Promote the Economics of Henry George

41 East 72nd Street, New York, N.Y. 10021

212 - 988-1680

9-11

May 23, 1991

Dr. Mason Gaffney
POB 7998
Riverside CA 92513-7998

Dear Mase:

A single room is being reserved for you for the Annual Meeting of the Robert Schalkenbach Foundation for the night(s) of June 10th at the University Club, 1 West 54th Street, New York, New York 10019. The Club's telephone number is 1-212-247-2100.

The Foundation will pay all reasonable costs for your stay. It is not necessary for you to pay the Club.

We are looking forward to seeing you again.

Sincerely,



Oscar B. Johannsen
Executive Director

. . . Liberty means Justice, and Justice is the natural law . . .

from *Progress and Poverty* by Henry George

III. How NCE superseded George and the Classics

NCE is a stroke in PR

Strategy. Need for subtlety, slyness. Avoid frontal assaults, direct confrontations like those that so embarrassed Francis Walker. Avoid drawing attention.

Rewriting the dictionary: semantic cleansing.

A. What they kept (by topic)

Need to compensate landowners for being taxed - came from Mill, who thus earned being called "the saint of socialism." A red herring, application selective: no need was seen to compensate workers for being taxed, nor owners of capital. Only landowners, somehow, ...

Dim. m.u. They called it new, but it is in Adam Smith.

Occasionally, inconsistently, said land tax can be shifted. Atkinson. Shows up again in Musgrave, de facto, who has property tax shifted forward. Musgrave's model followed by most; taken up by Jarvis.

B. What they discarded (by topic)

1. Pressure of population. Walker said rent has not risen faster than wages. More anti-Malthusian than George.

Walker was correct to point out that labor (did he also say capital?) may be land-saving, not just land-using.

2. Fixed land supply. P.W. replaced the frontier. Urban growth as new frontier (borrowed from George, but used against him).

C. What they added (by topic)

1. Capital as substitute for land, without limit. Hanson and frontier (Webb). Tolley.

2. Concern for soil conservation. Walker; Davenport; Frenchmen criticized by Walras.

3. L.V. as basis of banking, from lenders view, and of credit extension, from borrowers' view (Edgeworth).

4. Every factor has a MP.

I-G. Suspension of Decorum

1. Attitude towards HG shown by extraordinary personal discourtesy displayed. "Drawing-room violence." Subtle belittling. Academic terrorism? The sneer, the lifted eyebrow, the horse-laugh, the jeer, the giggle, the simper, the feigned astonishment ... "That's not done here."

Examples:

W.I. King, recap Heavy sarcasm. Out of step, to the tune of an ethnic "joke."

"Mr." George, recap

Francis Walker's condescension, recap

Brown's mind as twisted as his leg - handicap-bashing

2. Failure to give credit - blot out his name

Turner thesis (for better or worse)

Wicksteed's coordination

Marginal cost pricing, Tom Johnson

Frontier as source of invt. opps.

3. Blatant misstatements of his position

Agrarian

Socialist

Anti-tenure

I-H. Economists on George's side; their reinterpretation through selective use of their works

Walras - Jaffe's selective translation

Wicksell - the profession's selective use of him

Brown - recap

Hotelling - attacks by Frisch and Little; the timid soul

Vickrey - a math wizard treated like an eccentric

Proudhon - dismissed by Marx

Quesnay et al - focus on their errors

Wallace - a great evolutionist treated like a throwback

Clawson - editing George out of his works

Gesell - Keynes selective treatment

Commons - omission of his Georgism from bio?
Veblen - neglect of his last book, Absentee Ownership
Adam Smith - a reformer coopted by Neanderthals
Mill - nibbled at at every opportunity, from all sides

II. George and the Classical Economists

They were his reference group: Quesnay, Smith, Malthus, Ricardo, Mill, Cairnes

Their radicalism. They struggled against land concentration, and exploitation.

Locke
Quesnay
Smith
Ricardo
Malthus?
Mill
Cairnes

①

Mary J. Furner (1975). Advocacy + Objectivity - A
Crisis in the Professionalization of American Social
Science, 1865-1905. The University Press of Kentucky.
Kentucky.

Furner, starting from mid-1800s, tries to indicate the path major social sciences / scientists took in development. Namely sociology, political science, and economics are the social sciences in question and especially economics due to the rigor and pace of its development is uppermost in the discussions. She traces out the emergence and significance of "academic social scientists" in terms of their domination in the study of the society and setting the standards for what was "acceptable" in science, society and politics.

Dr. Grayney,
You have mentioned you were interested in her discussion of J.B. Clark and H. George. Hence, I concentrated on the sections that were relevant to these two scholars.

Henry George is cited as a radical and social reformer who was rather vocal about the rights of labor. His works are stated to be among those ostracized by the more mainstream theorists (in fact, A. Smith is said to be "warned" against this evil strand in theory). Whenever he is mentioned by Furner, it happens to be as a contrast to the ongoing trends (e.g. ^{his supporters} as a party to the 1890 tax debate) and never as the subject of some lengthy discussion.

coauthoring the
Federal Trade
Commission Act
with Jensen

On the other hand, J.B. Clark is a frequent name throughout the book. He is mentioned in two capacities: Firstly, while discussing his economic (strictly theoretical views) like his views on profit, the fact that he was among those who recognized the existence of natural monopolies, his concern for the ~~absence~~^{with} of Christian principles in economic life (along ^{with} H.C. Adams, James, Ely). Secondly as an outspoken scholar in terms of freedom of expression in the academia and a moderator in his capacity as the president of AEA. Although, he is cited as refuting socialism and developing an attitude against Lenin as his radical ideas surfaced, he is also presented as a supporter of Ely in his efforts to dilute the impact of his speeches and diffuse the negative reactions of the mainstream theoreticians. This image is supported further with a lengthy discussion of his reaction to the Ross case (petitioning against those who fired him from Stanford because of his political views). All in all, he is presented as a mainstream economist who was closer to laissez-faire than the "rights of labor" literatures and yet was an avid fighter for the freedom of expression for all those in the profession.

①

"The Theory of Urban Ground Rent", F.F. von Wieser. In Essays in European Economic Thought, Louise Sommer (ed.). D. Van Nostrand Company, Inc. Princeton, New Jersey. 1960. (Chapter 2, pp. 39-80)

Von Wieser starts his discussion of urban rent from a part of the rent literature that seems to be better established (to him, at least) - the rural ground rent. And from a brief comparison of the two, he moves on to an exclusive discussion of the urban rent.

The first point he draws attention to is the fact that rural land is appraised according to the quality of the soil whereas for urban land location is the decisive factor. In fact, in the case of the urban land, rent becomes exclusively a "phenomenon of the market" as appraised ^(vs. ~~by the~~ productive process for rural land) by the consumers according to its location. From the supply side, the same building (in terms of comparable costs of construction) can bring a higher return if it's at a "favorable" (e.g. close to shopping centers, schools) location. Similarly, from the demand side, it might mean lower costs (e.g. costs of transportation).

Von Wieser asserts that "urban ground rent... is that part of the residential rental which is offered as a premium, over and above the basic cost, for comparatively favorable locations" (p. 47). He offers a "case study" from towns of Austria up to 1848 (the years of economic upswing), duly noting that given the available land at the outskirts of the towns negated a possible scarcity notion in

the discussion of urban ground rent. (as is seen in the rural / land rent discussions). On the contrary, the value of the residential units depended on their relative proximity to "work and social activities". Then he points out that partial markets were formed for these residential units given the area they claimed and their architectural style as indications of the social status of their owners.

Next he takes up the "economic rent" to be gained from the skyscrapers in the inner core of cities where the most favorable land is, pointing out that but for the laws and regulations against them, these buildings would have reached a point at which the marginal revenue would have equalled marginal cost of construction.

The higher returns from commercial buildings (with offices only) as opposed to residential ones in the inner cities coupled with the ebbing importance of the proximity of houses to workplaces (thanks to better transportation facilities and long working hours), he claims, were the reasons for consumers to seek residential units as far from the center of the city as possible and feasible (economically and physically). In fact, in this more contemporary framework, von Wieser notes that social stratification rather than proximity to the center plays the leading role in the choice of "neighborhoods" to live in - ~~simultaneously~~ breaking the concentric arrangement of the earlier cities.

As for the question of speculation over land, he tends to be rather dismissive about the subject.

"The so-called 'prohibition on construction' allegedly dictated by speculators enjoying monopolistic advantages proves to be nothing more than a decision of business policy that the urgency of the demand forces³ upon competitors on the side of supply" (p. 72)

The connection between the rise in rents and the increase in land values should be interpreted as a two-tier process according to von Wieser. The development of the ultraperiphery (land surrounding the city) and the speculation in this land increases the "lower limit" on rents and coupled with the increase in the inner city population, hence demand, the rent in the inner cities are forced up.

Furthermore pointing^{out} a crucial difference between urban and rural rent. In the latter case, all "purchasers of the same produce bear an equal share of the burden of agricultural ground rent included in its price. The curve of urban rent, on the other hand, rises in such a way as to burden tenants according to their ability to pay" (p. 78)

✓ In his concluding remarks, he (quite suddenly!) notes that if incomes could be equalized, through transportation facilities(!) class stratification is eliminated, then urban rent could be "reduced to the insignificant premium that in any case has to be offered over and above the value of arable land." - which is unexpected and certainly not very well supported given the rest of the article.

A.S. Johnson (1902). Rent in Modern Economic Theory: An Essay in Distribution. AEA Publication. III. Series, Vol. 3, No. 4. Macmillan Company. New York.

As he himself states in his introductory remarks, Johnson tries to give a synopsis of the "essential elements of the theory of rent", relying heavily on the views of J.B. Clark and E.R.A. Seligman. His discussion of the issue comprises of the economic surplus (surplus income, 'product net', surplus from a historical perspective, surplus energy, utility, dynamic and pseudo-surplus); land as an independent factor in production (distinctions between land, labor and capital in static and dynamic senses); rent as unearned or exploitative income (he questions rent as a necessary income and as an exploitative one in production); rent as a differential or residual income (his discussion includes such questions as whether or not rent enters into price and whether rent is the mere income to monopoly factors); the relation of rent to price (and cost, for that matter); and rent, profit, monopoly return (analyses the relation of pure profit to rent, and the income of the "superior" entrepreneur) in turn.

After arguing that immobility and ^{relation to} prices (price-determined or price-determining) cannot be the decisive factors in setting rent (and land) apart from wages and interest, he concludes that "the laws of dynamic change... furnish a basis for giving to rent the position of an independent form of income." (p. 128)

H. Douglas Bernheim, John L. Weinberg, Professor of Economics and Business Policy at Princeton University, and Marc E. Lackritz, president of the Securities Industry Association, listen as Arnold C. Harberger, professor of economics at the University of California-Los Angeles, explains his findings



Security benefit statements could discourage personal saving. First, most recipients of these statements would be pleasantly surprised by the apparent generosity of the system. Second, the benefit statements may enhance people's confidence that benefits will not be reduced or eliminated. Professor Bernheim concludes that the benefit statement policy might depress personal saving because virtually all saving among the baby-boom generation is undertaken by those who have little or no confidence in the Social Security system (see Table 1). As of age thirty, there are only minor differences between the wealth-to-earnings ratios for those who expect no Social Security benefits, those who expect lower benefits than current retirees, and those who expect the same benefits as provided under current law. However, by age forty-seven (the maximum age of respondents in the data sample) the differences are enormous. The estimates

indicate that, over the intervening seventeen years, those with the least confidence in Social Security (i.e., those who say they expect to receive no benefits) accumulate incremental wealth equal to slightly more than one year's worth of earnings.

Dr. Bernheim concludes that since the government policies currently under serious consideration may well prove ineffective for raising personal saving, more ambitious information policies—including promotion and the provision or facilitation of explicit advice and guidance—deserve serious consideration.

Commenting on Dr. Bernheim's paper were Arnold C. Harberger, professor of economics at the University of California-Los Angeles; Joyce Manchester, principal analyst with the Congressional Budget Office; and John B. Shoven, dean of the College of Arts and Sciences at Stanford University. The session was chaired by Marc E. Lackritz, president of the Securities Industry Association.

Corporate Taxes: Who Pays?

Professor Arnold C. Harberger presented a new study on the incidence of the corporate income tax (CIT) in an open economy, where capital is free to flow across borders. This new study extends Professor Harberger's earlier analysis of this topic, which has served as the foundation for much of the modern research on the incidence of the corporate tax burden. His analysis concludes that U.S. corporate taxes may be depressing U.S. wage rates—that in fact, the true incidence of the CIT is on labor rather than capital. As a result, it might be desirable to consider a unilateral reduction of the U.S. CIT and adoption of a consumption tax (if revenues are needed) with the aim in mind of generating a positive impact on U.S. wages. This is a thoroughly legitimate thought, in the sense that as long as the rest of the world does not follow the United States in its reduction of the CIT, the contemplated benefits to labor will in fact ensue. The tantalizing truth, however, is that the ultimate incidence effects of, for example, a 10 percentage point reduction in the U.S. CIT will not be determined in Washington but in the other major capitals of the world, as they decide whether or not to follow

Table 1 Asset Accumulation and Confidence in Social Security

Individual's Expectation About Future Social Security Benefits	Wealth/Earnings Ratio		
	Age 30	Age 47	Change
No future benefits	0.320	1.865	1.045
Lower future benefits	0.283	0.846	0.563
Same future benefits	0.367	0.455	0.088

Washington's initiative in reducing this tax. (Professor Harberger's study is summarized in the enclosed Special Report, "The ABCs of Corporation Tax Incidence: Insights Into the Open-Economy Case.")

Respondents to Professor Harberger's paper were Thomas A. Barthold, economist with the Joint Committee on Taxation; David F. Bradford, professor of economics at Princeton University; and Mark Weinberger, chief of staff for the Bipartisan Commission on Entitlement and Tax Reform. Barry K. Rogstad, president of the American Business Conference, moderated the panel.

U.S. Tax Policy & Foreign Direct Investment: Incentives, Problems, & Reform

Professor R. Glenn Hubbard's paper addresses the question of whether the current system of taxing international income is viable in a world of significant capital market integration and global commercial competition. As multinational corporations play a larger role in the business activities of the global economy, interest in international aspects of capital income taxation has been stimulated as well, he notes. In the United States, debate has centered on the competitive position of U.S. firms in international product and capital markets. This concern is accompanied by complaints that U.S. international tax rules have become more complex and more distorting in the past



Professor Harberger presents his study on the incidence of the corporation income tax in an open economy.

American Council for Capital Formation

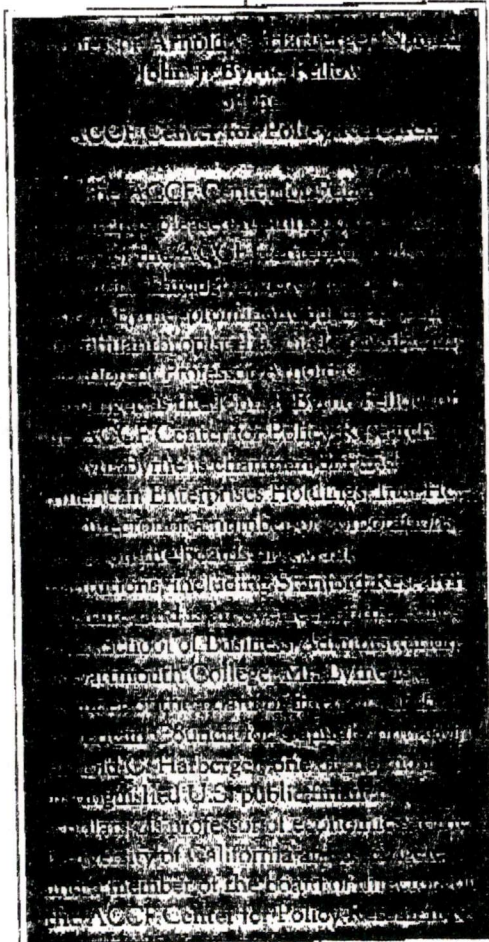


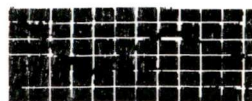
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several years, particularly since the passage of the Tax Reform Act of 1986. Discussions in Congress and the administration since 1992 indicate a willingness to consider significant reforms.

The Cost of Capital and Investment by Multinational Firms

Professor Hubbard's analysis shows that the investment decisions and capital costs of U.S. multinationals are profoundly impacted by the tax laws in both the host country and in the United States. In one example, increases in the availability of investment incentives (investment tax credits or accelerated depreciation) in the host country reduce the cost of capital and stimulate foreign direct





AMERICAN COUNCIL FOR CAPITAL FORMATION
CENTER FOR POLICY RESEARCH



SPECIAL REPORT

June, 1994

Corporate and Consumption Tax Incidence In An Open Economy

by Arnold C. Harberger

The ACCF Center for Policy Research is pleased to announce that UCLA Professor Arnold C. Harberger has been named the John J. Byrne Fellow of the ACCF Center for Policy Research. Mr. Byrne, a member of the board of the American Council for Capital Formation, is a prominent business leader and philanthropist. Professor Harberger, the widely recognized "dean" of public finance economists, is a member of the board of the ACCF Center for Policy Research.

As the John J. Byrne Fellow at the ACCF Center for Policy Research, Professor Harberger has undertaken significant new research on the incidence of the corporate income tax (CIT) and value-added tax (VAT) in an open economy where capital can flow freely across international borders. This work extends Professor Harberger's seminal analysis of the corporate tax incidence which has served as the foundation for much of the modern research on the incidence of the corporate tax burden. These new findings will be invaluable as the policy debate about the incidence of consumption taxes versus income taxes accelerates in Congress, the press, and the private sector.

Corporate Tax Incidence

The best way to visualize the incidence of a tax is to think of it as a "wedge," Professor Harberger observes. For example, taxes on cigarettes, liquor, and telephone calls introduce a wedge between the price paid by the buyer and the price that is received by the seller. In the simplest textbook example involving supply and demand for just one commodity, adding a tax causes the price to go up for the buyer and down for the seller. That is, the burden of the tax is divided between the buyer and the seller. In more complicated situations, the concept of the wedge remains equally valuable, but the ramifications of inserting that wedge extend beyond the simple case just described.

For example, when a 50 percent corporate income tax is inserted into a previously tax-free country with no such tax on the non-corporate sector, the rate of return in the two sectors will eventually be equalized because suppliers of corporate capital will not be content to earn a return less than that received by suppliers of noncorporate capital. Capital moves out of the taxed sector and into the untaxed sector, leading to a situation in which the gross rate of return goes up in the taxed sector (because the corporate capital stock is smaller) and the general rate of return in the untaxed sector goes down (because its capital stock is now larger). After-tax returns are equalized again and the government now receives tax revenues. Thus, whatever burden is being borne by corporate capital will be borne by all capital, not just the capital that is in the corporate sector.

Prior to the development of general equilibrium analysis, in which Professor Harberger was a pioneer in the 1960s, economists maintained that part of the corporation income tax was borne by labor, part by consumers, and part by shareholders (or by capital). That led to the thinking that the worst that could happen is that capital would bear the entire tax, Professor Harberger observes. In contrast, general equilibrium analysis leads to the conclusion that capital can bear less, an equal amount, or more than the full burden of the corporate income tax.

Tax Incidence in a Small Developing Country

Setting the stage for his analysis of a large country such as the United States, Professor Harberger begins with a simple example of the incidence of a corporate income tax in a small, developing country. He notes that when we speak of corporation tax incidence in an open economy, we are considering two major links between this economy (the one where the tax change is taking place) and the rest of the world. The first is the capital market, linking the rates of return to capital here and in the rest of the world. The second is the market for tradable goods, linking their prices in this market with those that prevail abroad for the same goods. The example also assumes that the rates of return to capital are governed by a worldwide market wherein the after-tax rates of return to capital in the principal world centers tend to be brought to equality.

Professor Harberger sets up four sectors—corporate tradable (manufacturing), corporate nontradable

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Professor Harberger sets up four sectors—corporate tradable (manufacturing), corporate nontradable

(transport and public utilities), noncorporate tradable (agriculture) and noncorporate nontradable (services and housing). A small developing country is one in which the return on capital lies beyond its influence. Thus, putting a tax on the income from corporate capital would simply lead to adjustments whereby less capital would be at work in that country.

Once we realize that the presence of the tax implies that significantly less capital will be combining with the same amount of total labor (in the small developing country), we should not be surprised that the equilibrium real wage has to be lower. But there is an additional and more critical reason (above and beyond simple capital-labor substitution) why labor's wage must fall. This is because of the need to compete with the rest of the world in the production of manufactures (corporate tradables). The tax is a wedge that has been inserted into the preexisting cost structure. The prices of corporate tradable products cannot go up because they are set in the world marketplace; the after-tax return to capital cannot go down (except transiently), because capital will not be content to earn less in the small developing country than

abroad. Some element of cost has to be squeezed in order to fit the new tax wedge into a cost structure with a rigid product price at one end and a rigid net-of-tax rate of return to capital on the other. The only soft point in this cost structure is wages. If they do not yield, the country will simply stop producing corporate tradables. If the country indeed continues to produce such goods, then wages must have yielded—by just enough to absorb the extra taxes that have to be paid (see Table 1, panel A).

If the after-tax rate of return to capital does not change and the price of the product does not change, and wage costs, per unit of product, are reduced by exactly enough to pay the newly inserted tax, then the activity will be able to survive, even in the presence of the tax. But it is not consistent with market processes for wages (of any given kind of labor) to go down drastically in one sector and to just stay the same in the rest of the economy, Professor Harberger states. The post-tax equilibrium will not come about instantaneously, but when it does finally emerge it should be characterized by equal pay for equal work, for each type of labor, no matter in what industry that work is performed.

Price Formation Before and After Corporation Tax is Imposed

Before	After	Before	After Price Up ↑ ↑
<div>Net Return</div> <div>Wages</div>	<div>Net Return</div> <div>Taxes</div> <div>Wages</div>	<div>Net Return</div> <div>Wages</div>	<div>Net Return</div> <div>Taxes</div> <div>Wages</div>
A. Corporate Tradable Sector—(Manufacturing)		B. Corporate Nontradable Sector—(Public Utilities and Transportation)	
Before	After	Before	After Price Down ↓ ↓
<div>Net Return</div> <div>Wages</div> <div>Land Rent</div>	<div>Net Return</div> <div>Wages</div> <div>Land Rent</div>	<div>Net Return</div> <div>Wages</div>	<div>Net Return</div> <div>Wages</div>
C. Noncorporate Tradable Sector—(Agriculture)		D. Noncorporate Nontradable Sector—(Services and Housing)	

Table 1 presents a visual picture of price formation in the four sectors, before and after the tax is imposed. The significant story here is that labor in manufacturing bears exactly the full burden of the tax in manufacturing. If this means a fall of 10 percent in real wages, so be it. That fall, however, extends to the entire labor force. In public utilities and transportation, this fall in wages is matched (or more than matched if Sector B is more capital-intensive than Sector A) by tax payments to the government. (The more-than-matching part is passed on to consumers of the sector's product.) Put another way—labor's loss in manufacturing is exactly equal to corporation income tax collections from manufacturing. All other labor bears losses that match those of labor occupied in manufacturing. The manufacturing sector is invariably much larger, relative to the total corporate sector than is the manufacturing labor force relative to the total labor force. Plausible orders of magnitude are one-half for the former fraction and one-fifth to one-fourth for the latter one. Using these numbers we would have labor bearing 2 to 2 1/2 times the burden of the corporation income tax in a typical developing country.

An Exploration of the United States' Case

The most significant feature that distinguishes the case of the United States from that of a small developing country is the relative importance of the United States in the world capital market. There was a time, during the years following World War II, when the United States may have accounted for more than half of the total capital stock in the non-Communist world. Today, the fraction is considerably less, probably more like 30 to 40 percent. But this is still a large fraction, and it signifies that disturbances originating in the United States will almost automatically affect the equilibrium of the world capital market.

To address the case of the United States, Professor Harberger presents an exercise in which, owing to the capital market consequences of a U.S. CIT, world rates of return to capital fall, leading to a loss by owners of capital worldwide that is equal to what the U.S. government collects from the tax. Thus it is fair, in a sense, to say that owners of capital worldwide bear the full burden of the tax. But this inference is misleading because the mechanisms described in the preceding paragraphs are also at work. In particular, Professor Harberger concludes that labor's wage in the United States must fall very sharply in order to absorb the tax wedge being inserted into the price structure of that part of the corporate tradables sector where final products are substantially homogenous (e.g., steel, electrical wiring, powdered milk) and whose prices are basically set in the world market (see Table 2). This wage fall is likely to mean that labor will bear 2 to 2 1/2 times the full burden of the U.S. corporation income tax. Who benefits as a consequence of this huge burden on labor plus the additional amount borne by capital located in the United States? Mainly, it is consumers of the products of the noncorporate, nontradable sector (whose prices unequivocally fall as both wages and net returns decline), and the owners of agricultural land whose economic rents rise to reflect both the fall in wages and that in the net rate of return.

Professor Harberger's analysis of the United States case is framed as if there were no existing CIT anywhere, and then a 50 percent CIT were inserted into the United States. This brings out the essence of the equilibrating process very sharply but it is not an experiment likely to be conducted in the real world. In the real world what we see is changes in tax rates in one or several countries. This analysis applies intact, he concludes, when corporation income taxes are changed in any one country.

Price Formation Before and After Tax is Imposed

Before	After	Before	After
Net Return	Net Return	Net Return	Net Return
	Taxes		
Wages	Wages	Wages	Wages
U.S. Corporate Tradable Sector—World Prices Fixed		Corporate Tradable Sectors in Other Countries—World Prices Fixed in Each Country	

Price Formation Before and After Tax is Imposed

(A) Before

Net Return
Wages

(B) After

Value-Added Tax
Net Return
Wages

If factor prices do not change

(C) After

Value-Added Tax
Net Return
Wages

If factor prices change favoring capital

(D) After

Value Added Tax
Net Return
Wages

If factor prices change favoring labor

Incidence of a Value-Added Tax

Professor Harberger also examines the incidence of a broad-based consumption tax using the same analytical framework. As before, the imposition of the VAT, in this case, inserts a wedge between the prices paid by buyers and the prices received by sellers. A major difference between the case of a corporate income tax and a VAT is that the latter can be reflected easily in the final product price. This is true whether the products are nontradable or tradable, or whether their prices are totally fixed in world markets or can vary. Border tax adjustments, through which the VAT is added to the price of imports (and deducted from exports) permit a country's price level to be above the world price level. Professor Harberger illustrates this with the example of an above-ground swimming pool, in which, assuming a 15 percent VAT, the water level of the pool is 15 percent above the water level of the rest of the world (see Table 3).

In contrast to the incidence of a CIT, the safety valves through which the tax wedge caused by a VAT work their way through in the price structure is simply the price paid by consumers. This does not mean that a VAT has no effect on factor prices. Table 3 illustrates three possible scenarios if the U.S. imposes a VAT. In the first instance, a U.S. value-added tax just adds to the price paid by consumers, leaving factor prices unchanged (see panel B). In the second case, wages fall slightly and the rate of return rises (see panel C). In the third instance, the net return to capital falls and wages rise (see panel D). But in all cases, the rise of the price is basically sufficient to cover the value-added tax and

what happens between wages and net returns to capital is sort of a secondary story, not the primary story.

The primary story is that the value-added tax will cause the United States price level to rise above that of the rest of the world. That is the way the wedge is reflected and while it is going to be borne by U.S. consumers, it does not have the huge ramifications on factor prices of the corporation income tax in an open economy.

Conclusions

If U.S. labor bears a burden equal to 2 or 2 1/2 times the revenue proceeds of the U.S. corporation income tax, it might be attractive to consider a unilateral reduction of the U.S. CIT with the aim in mind of generating a positive impact on U.S. wages. Professor Harberger states, "As long as the rest of the world does not follow the U.S. in its reduction of the CIT, the contemplated benefits to labor will in fact ensue. The tantalizing truth, however, is that the ultimate incidence effects of, say, a 10 percentage point reduction in the U.S. CIT, will not be determined in Washington but in the other major capitals of the world, as they decide whether or not to follow Washington's initiative in reducing this tax."

In contrast, if the United States were to implement a VAT, which more than half of the world already has, and simultaneously lower individual and corporate income tax rates by a moderate amount, it seems unlikely that the rest of the world would follow. Such a change has the potential to increase both investment and wages in the United States. ♦

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Chapter Six

The

Mysteries of the Land

Ricardo calls the powers of the soil "original and indestructible." However, modern economics must stress the point that valuation and appraisal do not differentiate between original and produced factors of production and that the cosmological indestructibility of mass and energy ... does not enjoin upon land utilization a character radically different from other branches of production.

• LUDWIG VON MISES (1966)

There is no socially-created unearned increment in the possession of landowners.

• FRANK H KNIGHT (1953)

Knowing the necessary relationship between ownership and control should keep us alerted to disguised alternative methods of nationalisation. There is a group of unwitting advocates of nationalisation who have been misled by a false distinction between manmade and natural factors of production – that is, between capital and land. They have thus provided ammunition for socialist advocates who are targeting land and natural resources for nationalisation and redistribution.

Although the distinction between land and capital is important in some contexts, it is irrelevant when discussing intervention and taxation: the consequences will be the same for any asset. Nevertheless, many attempts are made to treat land differently. Every few years, Henry George's idea of a "single tax on land rent" comes back into fashion. Economists then expose its faults and it goes back into hibernation until it can be foisted on the next generation.

Recent supporters such as Stephen Meintjes and Michael Jacques (1990) have even tried to pretend that the land tax is not a tax at all; they euphemistically call it a "user charge". They claim to be neither

capitalist nor socialist, yet they say that "the community" has a rightful claim on the land-related incomes of individuals. Their proposal is just another way of nationalising land, *de facto*.

Land effectively nationalised

Rent is a general phenomenon that applies to all assets, not only land. Within a category of assets, some are better suited to their particular uses than are others. The benefit or return that accrues to an asset reflects this, and the *economic rent* is the difference between the return to one asset and the return to the poorest asset being used for the same purpose. If the rent were taxed away, all assets of that type would have the same private return as the poorest asset and would be treated accordingly.

The most obvious error of Georgists is to claim that a land tax would not create distortions in the market: it would. The suitability of different plots of land for various uses is reflected in the land value and the rent paid on that land.

It does not astonish the farmer that buyers pay higher prices and tenants higher leases for more fertile land than for less fertile. The only reason why the old economists were puzzled by this fact was that they operated with a general term *land* that neglects differences in productivity. (Mises 1966, p636)

To ignore these differences in productivity and attempt to tax away *all* the rent would, as in the case of state ownership of the land, leave no differential rent for purposes of economic calculation (Hoff 1949). This would subject land use to the same difficulties associated with the socialist calculation problem: market information is not properly disseminated. The tax would be capitalised so as to make the price of land the same everywhere, regardless of location or quality. With this artificial levelling of relative prices, the property market would thus be "blinded" with respect to quality. Poor land would have the same price as good land.

Meintjes and Jacques seem oblivious to this problem. Speaking on behalf of the "community", they explain: "What is this rent? It is the benefit the owner derives from occupying better land, and since it is the community that determines which land is superior to other land, this natural rent is due to the community" (p13). What they mean is that any benefit that a landowner derives from land that is better than the worst land in use is to be taxed away.

They continue:

Imagine that one man owned all the land; he would still let others use it, but he would charge them for the use of each piece of land. We call that rent. Natural rent is based on the same principle, except that although the land does not belong to the community, and individuals have title deeds which give them unrestricted use of their land for as long as they want it, the difference in the value between the least productive piece of land in use and all the others, is due to the community (p13).

By admitting that the "community" would collect all the rent, just as a landlord would, they are admitting that the state will be acting as if it were the owner of all the land. What good are title deeds if the government takes all the net income above that earned by the poorest piece of land in use? What incentive would any "owner" have to behave like an owner? Thus the authors are also contradicting themselves when they say the owners would have "unrestricted use of their land for as long as they want it". How long would you *want* to hold an asset from which the income is expropriated? Furthermore, one stated purpose of the "user charges" is to "penalise the idle hoarder and weed out the inefficient" (Meintjes and Jacques 1990, introduction). Although it would fail, this is clearly *intended* to exercise control over land use. It is not at all neutral.

By what standard do the Georgists and other interventionists label someone an "idle hoarder" or "speculator"? And by what right would they penalise these people? Doing so would require some standard superior to the market, but they cannot demonstrate what that is. Not only do they not have any superior standard, their intervention would also interfere with the market process. Speculators may be envied and despised by those who lack their skills, or those who have a different approach to life. Nevertheless, they provide a valuable service, and in fact most of them do not earn the great profits that are the object of envy. As Professor Frank Knight points out:

[G]eneral reasoning indicates and statistics fairly well prove that the actual outlay cost of the land, the investment of labor and capital, with interest while "waiting" for the increase, and the taxes paid, add up to the actual value, over any representative sample, without counting the subjective costs not measurable in money. Of course there is a large element of luck in all exploration and development activities. Some did make very high returns on their outlay; others lost their all, and often health or life besides. If society proposes to confiscate the gains of the winners it must compensate the losers – or not only work arbitrary injustice but set a precedent that would warn anyone against undertaking risky ventures. This would at once force establishment of outright socialism or put a stop to all forward-looking activity.

Men do hold land 'speculatively' for an expected increase in value. This is a

social service, tending to put ownership in the hands of those who know best how to handle the land so that the value will increase. And the familiar psychology of gambling makes speculation in general a losing business to the whole body of those who engage in it. They obviously do not need to keep it idle to get the increase, and do not, if there is a clear opening for remunerative use. (Knight 1953, p810)

Thus we must admit that "speculation" is not a costless activity; nor does it often lead to *extraordinary* profits.

Those who see "idle" land and condemn the act of speculation for this apparent under-employment of resources are mistaken on two counts. First, the accusers have no way of knowing how the land *should* be used and, second, by hampering speculation they are disturbing the process whereby the market searches for the best use.

If land having value for use is not used by an owner, it is because of uncertainty as to how it should be used, and waiting for the situation to clear up or develop. An owner naturally does not wish to make a heavy investment in fitting a plot for use which does not promise amortization before some new situation may require a different plan. (Knight 1953, p811)

As Professor Knight makes clear, "speculation" is an integral part of the resource allocation process. It is productive activity. And even though a particular piece of land may appear to be "unused", the owner (who bears the costs of his actions) is making what he judges to be the best use of the information available to him. There is no reason to believe that a government, using a single tax or any other device, could make better decisions about land use.

Because land is still relatively abundant, only the most productive pieces of land are currently in use. For the time being, land that people consider to have too low a physical productivity or to be poorly located will not be cultivated. The "marginal" soil (i.e., the poorest soil cultivated) yields no *pure economic rent*. The submarginal (unused) land also yields no rent and would be considered entirely worthless if one were not to recognise its potential for use in the future (Mises 1966). By thinking ahead and offering a positive price for such land, so-called speculators actually protect properties from present abuse, in anticipation of better-valued uses as development expands. In other words, they develop land at the rate desired by consumers (Rothbard 1970).

The constantly-repeated argument that the single tax on land would force idle land into use is simply not true. The tax would lower the returns on *all* land that is used. It may even render the returns on

some projects negative, due to the likelihood that errors in assessment will result in taxes of more than 100%, thereby forcing a change of ownership. There is no reason to consider this a social benefit. And, more importantly, raising costs does not necessarily increase either innovation or productivity.

Land that is not earning economic rent creates no tax liability, so no land of this sort would be forced into use by a rent tax. The relevant factor, with respect to changing land usage, is cashflow. If the tax liability is greater than net cashflows, and/or greater than the owner's ability or willingness to sustain the cash drain, then the owner will seek to sell. Thus, the tax merely raises the *required* pre-tax rate of return of all projects without increasing the ability to achieve higher returns.

It is clear that the 100%-tax-on-land-rent proposal, if applied, would distort land use in the same way that land nationalisation or "rent control" would, keeping the best land out of the hands of the most productive users and thereby encouraging crowding and deterioration. Proponents of this tax insist that nationalisation, and such distortions, are not their intention. But intentions are not sufficient to bring about desired results.

Just as importantly, with respect to consequences, beliefs do not override reality. But beliefs are the determining factor in the choice of actions and policies. The land issue has long been quite muddled, and this can be traced to what seems to be the key premise held by the advocates of the land-rent tax. Professors James Buchanan and Marilyn Flowers have identified this premise:

The origins of the taxation of land stem from medieval conceptions of land as being held in "common" ownership. The rights to private property in land have been suspect in almost every age, and land has been given mysterious qualities which set it apart from other real assets. (Buchanan and Flowers 1975, p411)

The Georgists have apparently forgotten that we are no longer a hunter-gatherer society; we have agriculture and industry. Even though all land may once have been common "property," this does not give to every newborn today a share in everyone else's property. The whole meaning, and practical virtue, of private property is that it is privately owned *and* controlled. Our present population and standard of living (not to mention our values) could not be supported in the absence of private property. The collective farms of the old Soviet Union prove this.

A drive through the tribal lands of (the now former) Lebowa is very instructive on the issue of common property. What was once considered high-quality agricultural land is now largely red dust and stumps. The grass has been overgrazed and the trees are steadily disappearing into cooking fires to cook food that largely comes from elsewhere. If the new provincial and national governments were to perpetuate this system of undeveloped property rights, the local economy will remain stagnant and workers will continue to commute, further than any suburbanite, to work on farms far from their homes.

It is in those regions where property rights are suppressed or undeveloped that no one laughs at Malthus. With minimal surpluses, there is little margin for error; the slightest climatic change can throw survival into jeopardy. This is the nature of the world we live in, and it is not exclusive to humans. Even leopards and wild dogs urinate to mark their territories.

Mysticism and positive externalities

The only benefit of the single tax is that all other forms of tax would be eliminated (assuming their benevolent despot can, indeed, restrain himself); but Georgists sometimes give the impression that their "user charge" creates good in and of itself. They blame poverty on "the failure of the community to collect its revenue from its natural source," as if rent springs, unearned, from nature and failure to collect it gives idle speculators an advantage at the expense of others.

Lacking a clear understanding of what economists call "positive externalities", some Georgists honestly believe that they would not be taxing labour and capital. Positive externalities are those benefits that a person bestows on others while working on his own behalf. For example, if your neighbour takes extra care to make his property aesthetically pleasing, you will also benefit (whether he intended it or not) and *your* property value will be commensurately higher. Symmetrically, if you also take extra care of your property, your neighbour will benefit. But it must be emphasized that these benefits result, not from the existence of some abstract "community", but from the efforts of real individuals.

The Georgists, thus, stumble into a fallacy of composition. By attempting to tax only the "site-value" of a property, they claim not to be taxing the labour and capital used on that property. But whenever they tax one person's property, they are in fact taxing *everyone else's* labour and capital that have contributed to its value.

Meintjes and Jacques make this mistake:

"[T]o whatever land man has the right of access, he has it on account of other people. Not only do they agree not to take away his land or its produce, but his land also enjoys many things other people have done over the years, such as build roads, bridges, railways, airports or large cities. Even if his land was bare it would be just as valuable according to how much his land benefited from these things. For by definition all land values, I mean of ground only, not the buildings and other improvements on it, are wholly and entirely due to the work and development of the community over the years. Whatever land a man has, its unimproved value is on account of other people.

"This account must, therefore, be settled – not with another man, but with Mankind, to whom the Maker has given dominion over all the earth. And as the family is the unit of the nation, so the nation is the unit of Man. Therefore, in practical terms, this account must be settled with the nation – the community, the people. It is the community that provides benefits to the landowner, and therefore it is only a matter of common sense that he should pay the community for them." (Meintjes and Jacques 1990, p13)

This is a case of a little knowledge being a dangerous thing. The Georgists are attempting supply-side social engineering on the shaky foundations of methodological collectivism. They fail to see that *their* "community" is an abstraction, not an acting entity that can create value.

It is ridiculous to suggest that any income accrued through land ownership is unearned. The normal way of acquiring land ownership is to *pay for it*. The market price already has capitalised into it the expectations of future income accruals. Thus, as Professor Knight emphasizes:

the value alleged to be socially created is always paid for before it is received – as far as the parties most interested are able to predict its arising. (Knight 1953, p809)

This is true whether the land was at some stage transferred through inheritance or whether we trace the sequence of ownership back through time to the conditions of original exploration and settlement. Professor Knight continues:

The allegation that our pioneers got the land for nothing, robbing future generations of their rightful heritage, should not have to be met by argument. The whole doctrine was invented by city men living in comfort, not by men in contact with the facts as owners or renters. How many preachers of single-tax doctrine would care to live their lives and bring up their families under the conditions of the frontier, fight off ... enemies, and occasionally be massacred, suffer the hardships, overcome the difficulties or succumb to them, do without

the amenities of civilization, including medical attention for their families – for what the average pioneer got out of it? The question answers itself. Their heirs, near or remote, often got unearned wealth, but again that is not a sequel peculiar to land. Consequently, if society were later to confiscate the land value, allowing retention only of “improvements” or their value, it would ignore the costs in bitter sacrifice and would arbitrarily discriminate between one set of property owners and another set, where there is no difference to justify the action. (Knight 1953, p810)

Thus, the “user charge” has no claim to elevated moral status. Indeed, it is not a land user charge at all, but merely a tax that goes to the government, thereby lowering returns to all capital and labour used on that property. The purpose of owning superior property is defeated if the benefits are taxed away. The owner effectively ceases to be the owner, and will act accordingly.

An invisible line

One reason Georgists prefer their “user charge” to income tax is, they claim, that income is virtually impossible to measure. But their natural rent is even more difficult to measure. As Professor Trygve Hoff pointed out:

From a business point of view, rent on land and interest on capital in the private capitalist society tend to merge. This is partly because both are expressed in money (in purchasing power) and partly because rent on land does not figure as such either in the recipient's or in the payer's accounts. (Hoff 1949, p120)

Thus, economic rent is an abstract concept that does not appear separately in the market. Assessors can't truly separate it from the return on capital: the line between them is invisible for practical purposes. Assessments would be arbitrary, leading to favouritism, collusion and bribery. A tax system constructed on this basis would tend to consolidate power in the hands of those who act for the “community” – the government. As Professor George Break has noted:

The more the tax base is taken out of the economic arena, i.e., the market-place, and made a matter of political decision-making, i.e., how land is zoned and what it “ought to be” worth, the less objective, certain, and efficient the tax process is likely to be. (Break 1982, p135)

In other words, politicisation would destroy any “objectivity” in land pricing, and battles over land zoning and assessments would rage. This is not merely a minor theoretical problem. It is very real and has serious implications.

The price of a property is truly known only at the time it is sold, because that is the only time someone pays real money for it. In the interlude between sales, only an educated guess can be made as to what the property would fetch on the market. It is difficult enough to give an accurate assessment of the potential market value of the *whole* property, let alone to break that assessment into separate land and capital components – neither of which can appear separately on the market. Professors Buchanan and Flowers explain:

The difficulty of imposing taxes on economic rents lies in the impossibility of distinguishing those returns to resources which constitute true rents and those which constitute genuine opportunity costs of production. (Buchanan and Flowers 1975, p415)

At the time of its imposition, there is no escape from the tax. The owner at that time will suffer a once-off capital loss on the property value and there is unlikely to be much shifting of ownership. But over time, as events unfold in the economy, there will be no mechanism to direct land into its most valued uses. Even though properties have different use-values, the unit-prices of all properties will be the same. Any buyer knows that the more he pays for any property, the more rent he will be forced to pay. Thus, no one will offer more for a property unless all property prices are rising.

The formal land market would largely break down. Nevertheless, land use would still be essential to man's survival (Opitz 1957), so some form of “underground” trade in property rights would continue. But this would be far from business-as-usual. Trade would be effected through hidden payments, either directly or through under- or over-invoicing for other services. This type of operation, although helpful, can never make up for the loss of efficiency caused by the confiscatory taxation. Aside from the “clandestinisation” of business, the corrupting temptations placed before government officials are obvious.

What conspiracy?

The fact that most economists reject the Georgist doctrine is not in itself a refutation of George and his followers. But at the same time, neither is it proof of a conspiracy as some Georgists seem to believe. Meintjes and Jacques suggest the existence of some conspiracy of silence when they quote Leo Tolstoy and take it on his authority that George's idea is “expressed so convincingly and effectively” that the only way to “fight against it” is “to falsify it and keep silent about it”. (p33)

Economists have utterly refuted much of what George had to say about the "single tax". The reason so few economists talk about it is the same reason that so few astronomers argue about whether or not the Earth is flat: the discipline has advanced greatly. Henry George himself lived most of his life before the "marginal revolution" in economics in which the labour theory of value was supplanted by the subjective theory of value. He did not have the benefit of the knowledge that we, over one hundred years later, have to assist our thinking. George was a well-versed economist *for his time*, and his errors can be sympathetically understood. But those of his modern followers are inexcusable. Indeed, many of these modern followers seem not only to be unaware of modern economics but not even to have understood George.

The followers claim that their plan is not socialist. They seem unable to comprehend that their methods, though slightly different from socialism, would lead to the same results. About this, George was both more aware and more honest. He was quite clear that he differed with the socialists not on their ends but only with respect to their methods. In *Progress and Poverty* he writes: "To extirpate poverty, to make wages what justice commands they should be, the full earnings of the labourer, we must therefore substitute for the individual ownership of land a common ownership" (p328). In other words, he wanted to nationalise all land.

He favoured nationalisation without compensation:

And by the time the people of any such country as England or the United States are sufficiently aroused to the injustice and disadvantages of individual ownership of land to induce them to induce its nationalisation, they will be sufficiently aroused to nationalize it in a much more direct and easy way than by purchase. They will not trouble themselves about compensating the proprietors of land.

Nor is it right that there should be any concern about the proprietors of land. (pp362-3)

Though he railed against the private ownership of property, George was well aware that open and honest nationalisation of the land would "arouse the most bitter antagonism" (p329). Thus he proposed a more subtle means of achieving the same result: appropriation of the rent. He declared:

I propose to accomplish the same thing in a simpler, easier, quieter way, than that of formally confiscating all the land [p404] Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to

call *their* land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.* (p405)

Thus George did not oppose the objectives of socialism. He simply proposed a more practical and efficient means of achieving them. He was also much more honest about describing his proposal as a way "*to appropriate rent by taxation*" (p406), rather than evading the obvious, as his modern supporters do, by calling it a "user charge".

In adopting the term "user charge", Meintjes and Jacques seem to have been more taken in by the Marxist approach, which holds that the state is the true owner of the land. It is this same reasoning that enables socialists to claim that there would be no taxation in their state. After all, if the state is already entitled to what it is taking, how can one call it a tax?

Meintjes and Jacques suggest that the problems of Western Europe arose because "they listened to the socialists instead of people like Henry George". But how could listening to George protect them from the socialists when he himself was, at heart, a socialist? Through their character, Chaka, they say:

"Socialism did give some of the benefits of industrialisation to the people, but if governments had simply collected the natural rents in the first place, the need for redistributing wealth via socialism would never have arisen." (Meintjes and Jacques 1990, p35)

Thus, Meintjes and Jacques perpetuate the fallacies that socialism promoted industrialisation and that because their policies weren't followed, there arose the "need for redistributing wealth via socialism". They do not oppose socialism, they are merely quibbling over the methods used.

Georgists are aware of the "supply-side" effects on all the other tax bases, but why would the famous Laffer Curve not also apply to their single tax? As a tax rate approaches 100% of any tax base, revenues will approach zero in the long run. This tax on rent is not compatible with a market economy because it would eliminate any incentive for landlords to charge rent that would be captured by the government. This would destroy rent as a tax base and thus would yield no revenue at all, without the government taking direct control of rental assessments. It is therefore impossible for such a tax to be based on proper market values. To obtain revenue, government assessors would

have to set the level of tax arbitrarily, thereby placing virtual control of the land in the hands of the state. Professor Knight puts it bluntly:

To collect such rent, the government would in practice have to compel the owner actually to use the land in the best way, hence to prescribe its use in some detail. Thus, we already see that the advantage of taxation over socialization of management has practically disappeared. (Knight 1953, p809)

We must be aware, then, that any government that imposes a 100% tax on land rent will, whether it intends to or not, be forced into the central planning of land management. Such a tax will not only destroy any private-sector incentive to charge rent, it will make efficient allocation and valuation of land impossible (Rothbard 1970). Regardless of what its advocates call it, the 100% single tax on land rent will have the same effect, *de facto*, as overt nationalisation of the land.

Reduce the tax

Perhaps it is for this reason that some supporters of the single tax now propose to collect only 80% of the rent (Harrison 1983, Dunkley 1990). Without fanfare, they are in retreat. The shift from 100% to 80% suggests a recognition that land rent does not have mystical properties that allow it to be “harvested” without disruptive consequences. It could also mean recognition that the rent is not measurable with any accuracy, the 20% reduction providing an allowance for error to reduce the chance of mistakenly charging *more* than 100%. This is a move in the right direction and is to be welcomed. It is also compatible with the logic of those Georgists who are both honest and of a free-market disposition.

The movement away from 100% is a qualitative change – not merely a matter of degree. But once the mystical character of the tax is broken, the tax on land rent becomes a tax like any other. The expected economic consequences will be weighed by those active in the political process, and an agreement on the actual rate to be levied will be derived accordingly.

The lower the tax rate, the less it matters what is being taxed. In other words, as the rate falls, the tax on land rent comes to approximate a tax on property values – at the limit. It will not remove the need for assessments, but it will lower the stakes. This is not to say that taxpayers won't be irritated by the tax, but at least they will be in a position to influence the rate instead of being forced to accept a mystical 100% rule.

Towards Common Sense

If pretended Revelations have caused Wars where they were opposed, and Slavery where they were received, the pretended wise Inventions of Politicians have done the same. But the Slavery has been much heavier, the Wars far more bloody, and both more universal by many Degrees.

• EDMUND BURKE (1757)

To promote freedom and the higher standard of living that comes with it, we must not only stop nationalisation but reverse it. In terms of policy action, this means denationalisation and deregulation – or, more positively put, privatisation and liberalisation.

In plain and simple terms, the goal of these twin processes is a reduction in political power. The hostility directed at so-called “economic power” is badly off the mark (Mises 1966). We have nothing to fear from private traders and producers who “mind their own business” – they are ultimately subordinate to their customers. But we have everything to fear from power-hungry politicians. Anyone who is truly interested in ending exploitation must also be interested in limiting the size of the political sphere.

Reactionary socialists

Vested interests will continue to dream up reasons why some assets should not be released to the private sector. These reasons are never defensible on economic grounds although they are presented as such. The real motivation is invariably political, to benefit a narrow interest group at everyone else's expense.

There is no good reason to delay privatisation. The common suggestion that a company remain nationalised until it can be made

Foreword to the German Edition¹

Alfred Marshall, on whose *Principles of Economics* the education of all contemporary English economists has been based, took particular pains to call special attention to the relationship of his thought to that of Ricardo. His work consisted for the most part in stuffing the law of limited use [*Grenznutzen*] and the law of substitution into the Ricardo tradition, and his theory of production and of consumption as a whole—contrary to his theory of producing and distributing a *given* production—has never been laid open. I am not certain whether he himself ever perceived the need for such a theory. But his immediate successors and disciples surely have abandoned it and evidently never perceived its absence. I was educated in this atmosphere. I have taught these doctrines myself and it was only in the course of the last decade that I became aware of their inadequacy. In my own thought and development, this book, therefore, presents a reaction, a transition and a disengagement from the classical English (or orthodox) tradition. How I have stressed this and the points in which I deviate from the recognized doctrine has been regarded by certain circles in England as extremely controversial. But how could someone educated in English economic orthodoxy, who was even once a priest of that faith, avoid some controversial emphasis, if he becomes a protestant for the first time?

I can, however, imagine that all this may concern the German readers somewhat differently. The orthodox tradition which reigned in the England of the 19th century never had such a strong influence on German thought. In Germany there have always been important schools of economics which strongly questioned the adequacy of classical theory for the analysis of contemporary events. The Manchester School as well as Marxism, have, after all, stemmed from

¹[The expert assistance of Robert H. Beebe and Mabel E. Narjes in the preparation of this translation is gratefully acknowledged. The German text is reproduced with the express permission of the publisher, Duncker & Humblot (Berlin and Munich), from whom a 1955 edition of *Allgemeine Theorie der Beschäftigung, des Zinses und des Geldes* containing this foreword may still be obtained. The full extent of the circulation of the German edition will probably never be

Ricardo—a conclusion that need cause surprise only when superficially considered. But in Germany there has always been a majority of opinion which adhered neither to one school nor the other.

However, it can hardly be contended that this school of thought ever established a theoretical counter-structure, nor did it ever attempt to do this. It has been skeptical and realistic, satisfied with historical and empirical methods and results which reject a formal analysis. The most important unorthodox discussion on the theoretical level has been that of Wicksell. His books (until recently not available in English) were available in the German language; one of his most important was in fact written in German. His successors, however, were mainly Swedes and Austrians; the latter linked his ideas in with a substantially Austrian theory, and thus in reality actually brought them back to the classical tradition. Germany thus has—in contrast to her custom in most fields of science—contented herself for a whole century without a dominant and generally recognized formal theory of economics.

I may, therefore, perhaps expect to meet with less resistance on the part of German readers than from English, when I submit to them a theory of employment and production as a whole which deviates in important particulars from the orthodox tradition. But could I hope to overcome the economic agnosticism of Germany? Could I convince German economists that methods of formal analysis constitute an important contribution to the interpretation of contemporary events and to the shaping of contemporary policy? It is, after all, a feature of German character to find satisfaction in a theory. How hungry and thirsty German economists must feel having lived all these years without one! It is certainly worthwhile for me to make the effort. And if I can contribute a single morsel to a full meal prepared by German economists, particularly adjusted to German conditions, I will be satisfied. For I must confess that much in the following book has been mainly set forth and illustrated in relation to conditions in the Anglo-Saxon countries.

The theory of aggregate production, which is the point of the following book, nevertheless can be much easier adapted to the

known. According to a letter from the publisher of November 4, 1966, figures on the distribution between 1936 and 1945 are missing because all pertinent documents were destroyed during the war. An edition of 1,000 copies was printed in 1952, and one of 2,000 copies in 1955, with another printing of 2,000 copies to appear in 1967.]

conditions of a totalitarian state [*eines totalen Staates*] than the theory of production and distribution of a given production put forth under conditions of free competition and a large degree of laissez-faire. This is one of the reasons that justifies the fact that I call my theory a *general* theory. Since it is based on fewer hypotheses than the orthodox theory, it can accommodate itself all the easier to a wider field of varying conditions. Although I have, after all, worked it out with a view to the conditions prevailing in the Anglo-Saxon countries where a large degree of laissez-faire still prevails, nevertheless it remains applicable to situations in which state management is more pronounced. For the theory of psychological laws which bring consumption and saving into relationship with each other, the influence of loan expenditures on prices, and real wages, the role played by the rate of interest—all these basic ideas also remain under such conditions necessary parts of our plan of thought.

I would like to take this opportunity to thank my translator, Mr. Waeger, for his excellent effort (I hope that his vocabulary at the end of this book will prove useful beyond its immediate purpose), as well as my publishers, Messrs. Duncker & Humblot, whose enterprising spirit ever since the days sixteen years ago when they published my *Economic Consequences of the Peace*² has made it possible for me to maintain my contact with German readers.

7 September 1936

J. M. KEYNES

²[The English language edition of this book was published in the United States by Harcourt, Brace (New York) in 1920 under this title.]