



## **Employment, Capital Shortage, and Tax Incentives**

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## EMPLOYMENT, CAPITAL SHORTAGE, AND TAX INCENTIVES

Mason Gaffney

*financial*  
"Nation in midst of worst ~~fuel~~ crisis since '29"  
-- W. M. Martin, early 1968

Introduction

The last decades have witnessed an endless dilemma of trade-off between, on the one hand, unemployment and retarded growth, and on the other hand, inflation and international dollar crises. We alternate from one bad to the other, but never achieve both goods. Indeed, we spend much of our time in a state of inflation without full employment, with mounting threats of runaway problems like soaring interest rates, and he must be complacent or partisan indeed who would hold that fiscal-monetary policy as presently understood and practiced is sufficient to our needs: and there are some who find grounds to argue with their purgative effects that, by overcoming minor crises, it is merely storing up crises for a greater one later.

The quality of what we call full employment is not fully worthy the name. The specter of unemployment haunts everyone. Make-work rules. Debilitating emphasis on job security; resulting revolt of youth against age, and rejection by youth of adult personalities trapped inside the walls they have built to protect themselves from the challenge of youth. Growth of crime, vandalism, nihilism, Report from Iron Mountain--belief in necessity of war. Idled capacity in oil; agriculture; cities; all cartelized industries. Survey of economists showed most voted that retarded growth was the number one economic problem. Rediscovery of poverty.

Disguised unemployment and underemployment. A man adding \$1.50 per hour to output when he could be adding \$8 in a better organized

society is more unemployed than employed, even if he doesn't show up in figures. Also, discouraged people who leave "labor force." Involuntary short hours. Early retirement, late entry. Invisible submarginal people.

Thus, the riots of the long hot summer may be a truer index of adequacy of fiscal monetary policy than are official figures on unemployment. Growing difficulty of defending the dollar tells more about the success of Neo-orthodox fiscal-monetary policy (NOFM) than the uncritical enthusiasts and text writers who assure young students that modern economics has learned, and taught the world, how to regulate economic growth optimally.

The limits of NOFM are suggested by Latin America, where inflation is a way of life, but unemployment and poverty are rampant. NOFM is overloaded. Most of its practitioners, as well as critics, agree. "Wage-price restraint," structural reform, institutional changes, etc., are needed, so they say.

The great weakness of their approach, however, is that it shunts the ultimate responsibility to the other fellow's specialization. "Men esteem truth remote, in the outskirts of the system. . . ." - Thoreau. NOFM people simply shove away the dirty work, the nub of the problem-- and it doesn't get done.

The present paper purports to pursue this problem to its lair-- but simultaneously to maintain communication with the starting place in NOFM. Avoid compartmentalization.

Far from a forced marriage, fascinating discovery that NOFM may be modified in its own terms.



NOFM is overloaded. So, present paper looks outside conventional bounds of NOFM. Brings in factor proportions. Not rejecting NOFM, but integrating--a vital distinction. Not a separate compartment for "structural" questions, to be relegated to the outskirts of the system. Rather, modify NOFM theory in its essence and its own terms.

### Summary of Thesis

A. Employment, national income, and the wage-salary share of national income are all positive functions of effective land supply, and institutions permitting its use at optimal intensity. Inert land is of no use to labor. Safety-valve doctrine; law of diminishing returns. This principle often explicitly avowed, to hold down wages. Explicit policies of Wakefield, Hamilton, Valuev, containment forces. ← Mercantilism, as per Schmoller. This theory in simple form must surmount a paradox. Land being abandoned for taxes, and (maybe) for sale cheap in depression, but unemployment prevailed. Caused it to be bypassed as full or primary explanation. Indeed, concept of limited market prevailed, wherein land could be more a substitute than a complement for labor. Present paper presents resolution of the paradox and reintegrates with NOFM.

B. "Land-use intensity, replacement, and macro-economics."

Intensity defined as share of non-land inputs in gross value-added on a site. Its temporal aspect is especially important: improvements of shorter life (and given value) represent greater intensity. Show by (a) annualizing, (b) staggering. Equations, formal models, several kinds of assets. Thus reinvestment frequency and land-use intensity are positively related. Thus free market has a thermostat driving

toward full employment. And intensity, a micro concept, has macro aspect (per replacement frequency), so the effect is powerful, balanced, and adequate. Makes Says Law work: replacement supply creates own demand. Equally important today, demand creates own supply: i.e., A demand without inflation.

Note how the idea of alleviating unemployment by raising land use intensity now integrates micro and macro economics. An important aspect of higher intensity is higher replacement frequency. The power in the idea is macro: It means higher gross investment spending.

Note how the concept of capital turnover integrates two rival approaches to unemployment: the aggregate and the structural. "Automation," mechanization, etc. are the substitution of capital for labor. Their effect on factor proportions depends on their durability. Another structural problem, declining industries and regions, is a problem in slow replacement of obsolete plant and equipment.

C. The paramount tax incentives today bias landowners against intensive use and frequent replacement. Specify. Other policies do the same. Specify: farm; oil; urban zoning; subsidies to forestry. <sup>(Cite</sup> ~~These~~ inadequacy of vague "frictions" of Bohm-Bawerk and Wicksell.) <sup>There</sup> policies clash directly with announced national goals, and create an artificial scarcity of land. Cite evidence from my oil, farm and urban studies.

D. Over-compensating <sup>ory</sup> territorial expansion. This artificial scarcity is partly countered by an artificial abundance, the product of excessive investment in public and private developmental works, or "infrastructure." Thus the counter-dominant pattern: artificial scarcity inside a framework of artificial abundance. Clay vs. Hamilton.



This cheap land reduces durability--especially when value is rising.

The net result is an overallocation of capital to developing new lands--infrastructure--and an underallocation to buildings, inventories, and other circulating capital. Today, part of the new land is overseas-- hurts American labor.

E. In the aggregate this retards reinvestment frequency. Thus reduces employment. "Inert" capital is the bane. Thus the paradox of vacant lots and unemployed men. Dead lands of 1930's the evidence, it can happen. [An important aspect of both parts of contrast is favor to larger firms. Penalties on intensive use hit small firms; extending public works and A land values helps large firms.]

F. Capital as infrastructure is complementary to capital on private land. Increasing returns, a point usually wrong in macro texts. Thus increases demand for capital but reduces supply available because of slow payout. Result is tight money pushes up interest. To limit increasing interest, FRS increases money supply. Result is inflation. [Even though Fed. is said to be for tight money (1)]. Throws more load on monetary policy than it can handle.

G. Is even a threat of immobilization crisis and collapse. (WNN e.g., a stretch-out) High interest acts to balance supply and demand ~~savings and deposits~~ in three ways, of which the most important is the least understood. In rising order of importance: (1) increasing new new saving, (2) reduced demand, (3) increasing recycling. A crisis can arise when too much capital is frozen irreversibly, as in unfinished public works, and the s.r. effect of high interest is not to speed its recovery for recycling, but to postpone completions, and so to prevent or retard it.

(Western Water News)

↓

This is the most <sup>dramatic</sup> ~~damaging~~ thing that can happen, and in some ways the worst. But if adroit macro management avoids it, need not congratulate ourselves on maximizing national income. Still have a slow economy of slow capital turnover, chronically.

H. To remedy, alter tax policy to stop regarding reinvestment frequency. Evaluate individual taxes. Disavow broken-window fallacy. But what if there is a bias vs. tur nover? Should oppose on both micro and macro grounds.

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1. It is mainly getting the blame as a thermometer for hot weather. By critics who, implicitly, advocate low interest, regardless of supply of demand.