Foreword to Fernando Scornik-Gerstein and Fred E. Foldvory, The Marginalists and the Special Status of Land as a Factor of Production

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This article was first published in GroundSwell, a publication from Common Ground, USA. The Robert Schalkenbach Foundation has received approval from Common Ground, USA to republish this article at no cost for educational purposes.

Article citation:
Gaffney, Mason. “Foreword to Fernando Scornik-Gerstein and Fred E. Foldvory, The Marginalists and the Special Status of Land as a Factor of Production.” *GroundSwell*, March 2010, pp. 7–10.

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INSIGHTS

FOREWORD TO FERNANDO SCORNIK-GERSTEIN AND FRED E. FOLDVARY, THE MARGINALISTS AND THE SPECIAL STATUS OF LAND AS A FACTOR OF PRODUCTION

Book Review by Dr. Mason Gaffney, Riverside, CA

This is a fascinating and insightful study of how the radical egalitarian views of three beautiful minds were bowdlerlzed by homelier minds and passed forward to modern students as complacent rationalizations of the status quo. These three were the continental Europeans Hermann Heinrich Gossen, Friedrich von Wieser, and Léon Walras. To them the authors add the fascistic mind of Vilfredo Pareto, and how this last is what shaped the modern economic canon. The Anglophonic clerisy, beholden to geocratic patrons, beatified Pareto and overlooked his fascism because his ideas helped them merge land with capital goods and thus stymie the most dangerous challenge to the ruling classes. This challenge was not Marxism, not in America or Britain, but the one posed by Henry George and like-minded activists in the Populist-Progressive Era in America. Under other names this movement had counterparts in most advanced and developing nations in the same period.

Desk-bound scholars will also value new translations of fragments, at least, from Spanish, French, German, Italian and even Russian sources: a pan-continental smorgasbord of economic thought.

Hermann-Heinrich Gossen was, like the better known Ernst Engel (of "Engel's Law"), a Prussian bureaucrat. Writing in 1854 Gossen developed the equimarginal principle. Others neglected his ideas almost entirely until Jevons unearthed them in 1879 - but only to praise his mathematics and his conceptual insights, not the controversial part of his work that caused it to be so neglected. This was his proposal to nationalize land.

Gossen's proposal did not cause him to be imprisoned or shot because its implementation was to be less drastic than it sounds. The state was not to administer enterprises on its lands, but make them available to private enterprise by leasing them out - much as the U.S.A. leases out parts of its vast remaining public domain today, only better and more efficiently. He would compensate present owners. His thinking was that the state could do this and profit because of its better credit rating and longer time-horizon. Later writers Walras and Alfred Russel Wallace advanced the same idea - and met the same oblivion. What we know of prodigal states today makes one doubt the realism of the postulate, but it was a tribute to the Prussian administration of his day that he could entertain such a thought. To demonstrate the point Gossen worked out the mathematics of discounting cash flows under conditions of rising rents. His mathematical skill was also a tribute to the numeracy of German education, for German forest economists, notably Martin Faustmann, were at the same time pioneering the use of mathematics in forest valuation and management.

Friedrich von Wieser was a pioneer of the "Austrian" school of thought. Unlike Menger and Bohm-Bawerk, Wieser harbored egalitarian thoughts based on the idea of diminishing marginal utility. He wrote specifically about taxing urban land rents. Scornik-Gerstein and Foldvary note that modern leaders and exemplars of the Austrian school neglect Wieser relative to its other pioneers. This writer notes with regret - and without knowing if the authors of this work will agree - that the moderns make "Austrian" almost synonymous with "libertarian". Presumably the recent debacle led by Greenspan and other libertarians in Washington will force some rethinking of this policy, but like other intellectual changes it will take time while the world will move on ahead of it.

Walras found himself unemployable in this native France because of his ideas on nationalizing land. He found refuge at Lausanne, in Switzerland, over heavy opposition, so he and his ideas are identified with Lausanne, although his acceptance there was marginal and his successor, Pareto, was in important ways his opposite. After retiring he expressed his ideas on nationalizing land with unmistakable conviction and élan in his Études d'Économie Sociale, a compilation of previous writings. He pictures himself there as a faithful successor to Quesnay and other Physiocrats who had sought in vain to save and reform l'ancien régime at Versailles by substituting l'impôt unique on land for the inherited tangle of taxes on business and labor that were choking French enterprise and weakening the state. He singles out for special censure J.B. Say, whom he calls a sell-out.

At Lausanne, Walras turned to pure theory and mathematics. Unsatisfied with the equilibrium of individual markets equating supply and demand through price flexibility, Walras asked how the whole system works, when everything depends on everything else. Our authors compare this with Zen; one might also mention Alexander von Humboldt's pioneering work on what he called Kosmos, a predecessor of modern ecology. Walras, at any rate, put his case mathematically, satisfying a compulsion of economists to have a model they can call a proof, and satisfy physicists on interdisciplinary committees that economics is "really" a "science". He asked if he could compose an equation for supply meeting demand in each individual market, then solve them all simultaneously to prove that the whole system creates the best of all possible worlds. Then it is just a matter of having as many equations as unknowns. This became known as "general equilibrium" in contrast with the previous "partial equilibrium" of one market at a time.

Essentially general equilibrium is merely formalizing what is inherent in Adam Smith, and intuitively so evident one hardly needs to formalize it, but perhaps that was tit for tat. Smith had merely popularized what the Frenchman, Quesnay, had earlier essayed to state more formally, so Walras was merely reclaiming what was originally French anyway – except that Quesnay, aka "The French Confucius", owed a good deal to the philosophy of Lao-tze. Ideas are indeed international.

Anglophones got to know Walras mainly through the translations of William Jaffe of Northwestern University, who made a career of translating Walras. Jaffe replicated for Walras the experience of Gossen, that is he translated the mathematics and ignored the works on (continued on page 8)

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land reform. In 1975 Jaffe did publish in The Economic Journal a short piece, "Leon Walras: Economic Adviser Manqué", wherein he refers to Walras' ideas on land reform, but only in a demeaning, mocking manner, and with no reference to Walras' major works like Études d'Économie Sociale. No one has translated the latter into English (it is likely that Routledge will publish Jan van Daal's translation in 2010, and there is an extract in Hillel Steiner and Peter Vallentyne (eds.), 2000, The Origins of Left Libertarianism). Generations of students have thus come and gone thinking of Walras as another incomprehensible apologist for the ruling class instead of the radical land reformer he was. The idea that we can have land reform and free markets at the same time has been erased from the minds of economic thinkers and policy makers - it no longer even can occur to them, so successful has this kind of brainwashing been.

Some unfortunate lacunae in Walras' system are time and information. Simultaneous equations are, well, simultaneous, while markets and their adjustments are not. Capital is formed and depreciates over time, so any model based on simultaneity is acapitalistic. DCF valuation of land calls for forecasting both rents and interest rates over infinite future time, which would entail not just perfect knowledge but Divine omniscience, a tall order even in "pure" theory. Thus Walras' general equilibrium, at least as passed down by others, deletes both capital and land values from the economy, contradicting Walras' other work on land values - but making his work all too acceptable as the plaything of later model-builders and taste-dictators of the clerisy beholden to the ruling class of rentiers.

Scornik and Foldvary emphasize that Walras in his Études d'Économie Sociale showed that land rents and values, rather than wages and interest, capture the major gains of social and technological progress. At the present (2010) conjuncture of the giant swings of the land cycle one might note that land values fall as well as rise, and their instability, and their use as loan collateral, are problems, too. Henry George opened his major work on Progress and Poverty by calling it "an inquiry into the cause of industrial depressions", but did not develop that thoroughly enough to be remembered as a cycle theorist. Many of those who quote George today - and there are still a good many - are libertarians like Arthur Laffer, Jr., who use George selectively as though he were like them, an enemy of all taxes. It is to be hoped that the present generation of analysts will see and fill the need to use George to find the cause of depressions - and the cure.

Scornik and Foldvary conclude from the ill-treatment of Gossen, Wieser, Walras, and George that the geocratic establishment will reject, and induce others to reject any variation on the theme of land nationalization. Suppression of Walras' radical works demonstrates, for them, how "the power of landownership drives publication and education" - i.e. how the geocracy controls the clerisy. There will always be some of us, including I think Scornick and Foldvary, who won't take that fate supinely. Indeed, Adam Smith himself scolded the landowners of England for their "indolence". He was not referring to their slack usage of their superabundant inherited lands, but their failure to grasp the Physiocratic principle of tax incidence, that all taxes of whatever kind are passed through to landowners in lower rents. Along with the taxes themselves, their Excess Burdens are also passed through, so the way to maximize rents is to adopt a tax without excess burden, namely a tax on rents. Thus, by Smith, the most rational landowner will favor taxes that fall directly on land and thus are free of excess burdens.

Vilfredo Pareto is the fourth economist whom Scornik and Foldvary treat. It is not crystal clear why they picked him for this study, unless for contrast. He was, as they tell us, a "total reactionary" who supported Mussolini, and whom Mussolini patronized: i.e. he was a Fascist. That a person of such views should dominate economic theory today speaks volumes about the persons who weave the screens that filter admission to leadership in the profession - and the ovine majority who take their cues from such leaders.

Pareto advanced a claim that distributions of wealth and income are equally skewed in all times and places and under whatever tax regimes or other institutions. The claim is conspicuously untrue - one need only contrast Wisconsin and Florida, for example, as this writer has in "Rising Inequality and Falling Property Tax Rates" (in Wunderlich, Gene (ed.), Ownership, Tenure, and Taxation of Agricultural Land. Boulder: Westview Press, 1992). Scornik and Foldvary cite the case of Taiwan in the last half of the 20th Century. Yet learned professors soberly present "Pareto's Law" to graduate students along with its inference that any effort to abate the concentration of wealth and income must fail. Classical economics dealt with the production AND DISTRIBUTION of wealth. Neo-classical economists have slowly eased Distribution out of the curriculum, replacing it with Growth. Pareto taught that only "growth", overall growth, can ever ease the lot of the poor. In politics, this became "A rising tide lifts all boats".

Pareto threw out all interpersonal comparisons, thus undercutting the traditional case for progressivity in taxation. The traditional case was based on the intuitive idea of diminishing marginal utility: the more you have, the less you need more. It was based on proverbial wisdom dating back ages, as in Virgil's deploring *auri sacra fames*, the accursed lust for gold; or as in the story of King Midas. It was based on Hebrew prophets like Isaiah and Amos cursing those who "lay field to field until there be no place". It was based on military traditions of equal rations for each soldier. It was based on dozens of observers like Bentham who anticipated what is now called Maslow's "Hierarchy of needs". It was based on Tolstoy's popular short story, 'How much land does a man need?". It was so obvious, so intuitive, it seemed to need no proof.

Pareto, like a clever lawyer, put the burden of proof on the other side, and the clerisy has followed. How can you prove, he asks, that taking an ounce of the miser's gold to save the lives of a hundred starving widows or trapped quake victims will raise the sum of human welfare? It seems never to have occurred to any leading economist to raise the obvious reply: how can you prove that the inherited distribution of wealth is better than any alternative distribution? Without interpersonal comparisons one can't prove anything, so it's back to diminishing marginal utility. This involves feelings of empathy, common humanity, and brotherhood.

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> are U.S.-owned, can get away with it."

One thing is clear, as George told us long ago:

> And so, whatever be the character of the improvement (of machinery), its benefit, land being monopolized, must ultimately go to the owners of land.

New Yorkers, of course, long ago mostly stopped working on actual land, so the owners are those who own the land where their factories reside, and pay so little for the privilege, that they can exploit garment workers at subsistence wages, or less, even here, in one of the most expensive cities in the world.

When even *these* owners finally cannot make a profit having factories in New York, they, or their competitors, find new land abroad, displace the peasants from that, and send them to work in new factories in distant lands – where the sight of suffering workers, or workers leaping to their deaths from fires, will not upset squeamish Americans.

Women, in particular, are subject to grueling labor conditions, often enticed with false promises to leave their home countries, only to have their passports and money confiscated when they arrive in Southeast Asian or Middle Eastern countries. They are subject to sexual and physical abuse, being bought and sold like slaves, and incarceration. Often, their wages are under a dollar a *day*.

It gets still worse.

In Myanmar - formerly known as Burma - villagers can be rounded up at any time, forced to work on roads, pipelines, or whatever else the military Junta deems necessary to satisfy its customers – including China, where it is not presenting a humanistic face for the West. People who refuse are beaten, often to death, imprisoned, and tortured. In this country, we do not call this Labor, we call it Slavery, for that is what it is. George, who saw American chattel slavery ended in his lifetime, would have recognized this form of slavery instantly. It is also beyond the scope of this paper to prove this, but it is my feeling that conditions of enforced labor have reached a level of depravity and abuse even worse than in George's time. The ferocious hunger for the world's diminishing resources, combined with the ready supply of people – considered disposable by dictatorships in favor of resources throughout history – has made vicious brutality a business practice in parts of the world Americans would prefer not to imagine, even if they could.

One cannot consider the condition of labor without considering the value of the Land they labor upon, as George stressed relentlessly from Progress and Poverty forwards. In fact, he makes the point that a laborer cut off from the fruits of Land is actually *worse* off than a slave:

> So long as a plump, well-kept, hearty negro was worth $1000, no slave-owner, selfish or cold-blooded as he might be, would keep his negroes as great classes of "free-born Englishmen" must live. But these white slaves have no money value. *It is not the labor, it is the land that commands value*" (emphasis added).

It is worth noting in this regard that it is the *resource-rich* regions, not the resource-poor ones, where labor conditions are the most appalling. In fact, we can narrow George's strong implication into an axiom: Wherever the relationship between Land and the human labor to develop that Land is the least, the degree of human suffering will be the greatest.

Myanmar, for example, has the following resource wealth:

Copper, gypsum, barite, and cement. Steel and iron make up 6% of the country's exports. Myanmar is second in opium production only to another bastion of horrid labor conditions, Afghanistan. Despite an import ban, one can regularly find Burmese Teak in the United States. Myanmar also has rubies, jade, pearls and fish – which it exports to the Middle East and Asia, while a third of its own children are malnourished. Natural Gas accounts for 40% of Myanmar's exports, flowing to China...and to Chevron. Myanmar is resource-wealthy, but its people are impoverished. In fact, when one reads of the atrocious working conditions in Myanmar, one longs for the relative comfort of resource-poor nations that only have sweatshops! At least there, the middlemen sweatshop managers, and factory-owners, act as buffers between the rapacious landowners and laborers.

What has happened to the dream of ever-increasing prosperity for all since George's time? Didn't the neoclassical Chicago School economists and the Free Market economists tell us that as bad as things may seem, that wealth would trickle-down – *eventually* – from the top income earners to the bottom, as they developed new businesses? Wasn't it supposed to be that, as Julian Simon famously said in 1997:

> The material conditions of life will continue to get better for most people, in most countries, most of the time, indefinitely. Within a century or two, all nations and most of humanity will be at or above today's Western living standards.

Indeed, Business Week warned us in a 2006 article on Chinese Factory Workers, that:

> ...companies across the board are feeling the squeeze. Last year turnover at multinationals in China averaged 14%, up from 11.3% in 2004 and 8.3% in 2001. Salaries jumped by 8.4%, according to human resources consultant Hewitt Associates LLC.

So, maybe it is onward and upward for everyone after all...eventually. All we have to do is run out of dark corners where people can be creatively exploited and *then, finally,* conditions will improve for those who labor so that, so we are told, we can live in relative splendor, here in the developed countries.

China may indeed, be coming around to recognizing Workers' Rights, although Venture Outsource – which bills itself as "an Authoritative Source for Decision-Makers" (Read: CEOs of multinational companies) - tells us Chinese labor rates for manufacturing are still below a dollar an hour - this in a country that ranks fifth in the number of millionaires, as of 2007. China's Labor Bureau, optimistically, recommends setting the "minimum wage at about 40 to 60 percent of average monthly wages" but this recommendation is regularly flouted, and perhaps most (continued on page 10)

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rigorously enforced only where high-profile factories producing goods for American manufacturers are concerned. In the more remote provinces, just as in the more remote regions of the U.S., people, often children, regularly work at or well below the minimum wage. In the countries that China itself outsources to – the fourth world – conditions are even worse, as previously described. Instead of free markets providing better lives for "most people, in most countries, most of the time," an increasing number of regions, and even countries, has instead provided more ways to exploit the people within them.

Even where our better-known American brands are concerned, like Apple, conditions in China can easily fall behind the standards of the client company:

> In its (own) report, Apple revealed the sweatshop conditions inside the factories it uses. Apple admitted that at least 55 of the 102 factories that produce its goods were ignoring Apple's rule that staff cannot work more than 60 hours a week...these guidelines are already in breach of China's widely-ignored labour law, which sets out a maximum 49-hour week for workers.
>
> Apple also said that one of its factories had repeatedly falsified its records in order to conceal the fact that it was using child labour and working its staff endlessly.

Before we leave this depressing litany of abuse and human degradation, let us be clear, it is *not* a given that resource-rich countries *must* always exploit the people within them. Near war-torn Congo's southern border,

> Botswana has used its mines, which are partially owned by the state, to fund infrastructure, education, and health care, as well as set aside a rainy-day fund of nearly $7 billion....But, Botswana has something essential Congo does not: a government known for being both functional and honest.

One might add that Botswana has another thing that Congo and almost every other country doesn't have: a recognition that the value of the Land belongs to all of its people equally.

There is still something else that doesn't seem quite right about Simon's promise, aside from the fact it has become awfully stale in the hundred years or so since value-free economics pushed aside Georgism and the other classical economists.

Consider that the average American CEO's pay rose nearly 300% from 1990-2005, while the average American production worker's pay rose only 4.3%, both figures adjusted for inflation (though inflation has been considerably higher for the lower and middle classes than for the tax and land-advantaged upper classes). It seems those in the highest balloon rise the fastest. Yet, people are generally more in debt, the middle class feels more vulnerable, and, so we are repeatedly told, we cannot afford our profligate ways *any longer*! Finally, household debt has risen from under 25% of GDP in 1954 to 99% in 2008. Does this seem 'onward and upward' to you?

We come full circle to George again. Without justice in the distribution of Land, unskilled labor will be forced to a subsistence level, or, in the case of the middle class, be forced to borrow ever more to support a debt-ridden lifestyle for themselves, while enhancing an ever-more opulent one for the rich and grasping. If the middle class ever gets to the point where they finally cannot afford the shirts on their backs, where their ability to purchase becomes more closely aligned with third world labor's ability to earn, it will be the middle class that sees its lifestyle go down, not the Land-owning elite. Improvements, or "mechanization" will not change that. Efficiency measures won't even dent it – American workers are already among the most efficient workers in the world. Without redistribution of *the value* of Land to all, who are both equally entitled *and* equally responsible for its rise in value, those without Land will always be forced to compete near the bottom just to survive, while "improvements" will only guarantee an even more obscene level of living for those who own the resources and charge others rent upon it.

Man without Land cannot survive, no matter how vigorously he labors. This was true in George's day. It is true today.

(Editor's note: GroundSwell does not have room to publish footnotes. They are available from the author. Scott Baker may be emailed at ssbaker305@yahoo.com. He is the chairman and IT director of the Common Ground NYC chapter. He is a writer and the senior editor for OpEdNews, http://opednews.com. He blogs at http://newthinking.blogspot.com. His latest novel, NeitherWorld, is for sale on Amazon.com.)

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INADVERTENT MISTAKE

In the Jan.-Feb. 2010 issue of GroundSwell the article, "Who Put the 'Capital" in "Capital-ist'?" was sent to your GroundSwell editor by and published with a byline by Dr. Bill Batt. At the time he emailed it, he commented he didn't remember writing the article which was dated Jan. 16, 2009. Publication in GroundSwell jogged his member, and to set the record straight, he wishes to apologize to Georgists because he now recalls spotting the piece online and downloading it into his own folder, after which he forgot about it, until your editor asked for a contribution from him to publish in GroundSwell. The original publication on INSTEAD OF A BLOG by "A Man Too Busy to Write One" is posted on line at http://insteadofablog.wordpress.com/2009/01/16/who-put-the-capital-in-capital-ist/ . Apologies herewith to all and especially the unknown author. <<