

Ec. 217, F-82, Old Notes, Pub. Fnce.

a

$$a_1 = a(1 + 0.02)$$

$$PV \text{ of } a_1 = a \frac{1.02}{1.10} \stackrel{a}{=} a \frac{1}{1.10 - 0.02} = \frac{1}{1.08}$$

$$\frac{1.02}{1.10} \stackrel{>}{=} \frac{1}{1.08}$$

1. Chang on Roskin
2. Coqswell on Mieszkowski
3. Coqswell on Break

1. Roskin
2. Mieszkowski
 - a. Exempt savings.

1. Roskin
 - a. Introduces book
 - b. Govt. Intervention.
 - c. A good tax system.
 - d. Tax Reform
- a. Fed. issues only.
- c. Neutrality.

3. Break

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1. Bret's qn.

How does buying govt. bonds take K from prt. sector?

Sources of funds

a. New saving

b. Provision for replacement

If they go to govt., prt. K ~~is~~ is drawn down.

2. Put H.G. Brown in perspective.

3. Taxes, K , & Jobs

1. What makes jobs is the flow of K , not the fund.

2. Flow of K is invt.

Gross, not net — i.e., includes replacement

3. K (fund) may displace labor

I (flow) always uses ..

4. Tax prefs. for K are regressive.

5. ~~Govt~~ not really, prefs. for I —

e.g. Tax Lives by Class of Asset (ADR)

Cap. gains for Timber

Tax exemption for local bonds.

6. Tax prefs. for land do no good at all

- cap. gains.

- lowering rates to compensate for phantom profits

7.. Tax pref. for land & K cause substr. vs. labor.

8. Combo. of bads:

a. Tax-exempt bonds for p.w.

b. Cap. gains for Δ to land.

c. Approp. doctrine of intr. law.

(Symptomatic of other rules of capture)

Max's lobbying, & K-intensity.

9. a. Smith. K sets labor in motion.
(Same as $I \rightarrow Y$.)

Fr. Trade vs. Home trade.

10. q. labor vs. 100-yr. tree.

11. Mill (also Ricardo, Jevons, Wicksell. Stops abruptly
w. J.B. Clark, a baneful influence. Lived on in
Hayek & Keynes, but in disguised form.)
Fixed v. Circ. K.

12. Mill thought in categories: fixed v. circ.
 Ricardo + ~~the~~ Wicksell thought in Newtonian
 terms, continuous variation.

Ea. has its place. Learning to drive.

13. Faster recovery means ^{a)} you have more to spend
 on next yr's payroll.

b) Return goods, so payroll means
 something.

(Classicals lived under track system, or
 co. store, wages in kind.)

c) You create rephnt. demand.

Demand-side ecs. has focussed on (c).

- Δ rephnt. demand.

But this led to bad incye,
 waste ecs., planned obsolescence.

Environmentalists Twisted view
 of macro-econs. is based on this, + w.
 some justice. Commoner v. Heller.

Elitist war. v. unions.

Is a false issue if we look at
 (a) + (b).

Also note that removing old sites lowers infrastructure, like pulling a sick tooth.

14. Demand-siders put no value on (b).
More, they valued it negatively. They prefer sequestering K , ~~as~~ & military. (Kupersman Hawks, e.g. L. K. Lin.)

Thus, there is a true ~~place~~^{need} for supply-side — a true supply side econ., not the travesty of Reaganomics.

(b) says that ΔM is no subst. for Δ flow of cap. recovery

15. Theory A. Need Δ of K , the fund.
Policy: reduce taxes on prop. Laffer, Reagan, Jarvis.
Errors: exempt land (except ITC)
" K & sea.
distorts K structure
allocates land to slow K , e.g. timber
Taxn labor. "Criminalizes work".

Causes sub. of K & land for labor.

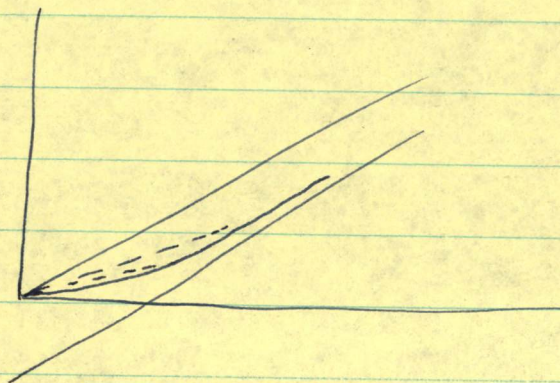
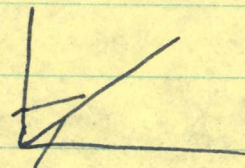
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Insert paper on semi-log

16. Heavy B

Use K better.

Show Haig-Simons bias



The mkt. will adjust, change value, soak up surplus.

Remove fat from K structure.

17. Remove tax bias + c. instl. bias.

18. Phantom profits, may offset other benefits for K.
a. Long gains already sheltered, by time.
b. Short gains do suffer

So cap. is driven from firms most comply. to labor.
Low on space pent - the Russian disease.
K.C. Airport case.

Midterm, Ec. 211.

1. Explain how the Fed. tax system affects employment of labor.
 - a. W.r.t. tax treatment of land
 - b. W.r.t. tax " " " " K
 - c. " " " " " " labor
2. Explain eq. mech. by which ^{mbt. forces match} any labor supply ~~is matched~~ w. any given K supply.

Explain the "Wicksell Trans.", & how it integrates & reconciles

 - horiz. int. view & vert. int. view
 - macro & micro
3. If ~~the~~ pop. pressure on land causes unempl., how does territ. expansion affect empl.
4. Summarize Brown & Barro's views on public debt; & your valuation

19. Is no phantom ^{profit} ~~loss~~ in rents, bcs. no replant.

Upshot: is a case for lower tax on cap. of short life; but none other.

Tax system works other way.

20. Shd. also exempt phantom wages

Tax disposable income, D

$$T = tD = t(G - T) = tG - tT$$

$$T(1+t) = Gt$$

$$T = G \frac{t}{1+t}$$

21. Cf. prop. tax, escape thru capm.

22. Theory A: Cap shortage as quantitative.

I. Horiz. intd.

a. Cobb-Douglas.

$$P = C H^d K^B$$

$$\frac{dP}{dH} = C d H^{d-1} K^B$$

b. Or, assume fixed propns. w/ "requirements."

c. Or, Harrod-Roman

II. Vert. int.

a. Labor produces K. H. George

b. Inv. hires labor. A. Smith, Keynes.
Marx -- outlet for surplus.

c. Problems w. paradigm.

ΔV , ΔM

Super Say's Law: new demand fails to create
own supply.

How explain K shortage?

23. Theory B: K structure + jobs

I. Horiz. Int.

Instl. bias to:

Replace person by machines

K-int. intcls. for labor-int. intcls.

More durability at front-end, reduce labor mntce. later.

Swimming pool, paint vs. cement

Houseing, new vs. rehab.

Excess capacity

vs. conservation

vs. later swimming

Add value on stump vs. in mill

Replace labor by wr. in ag.

" " " energy

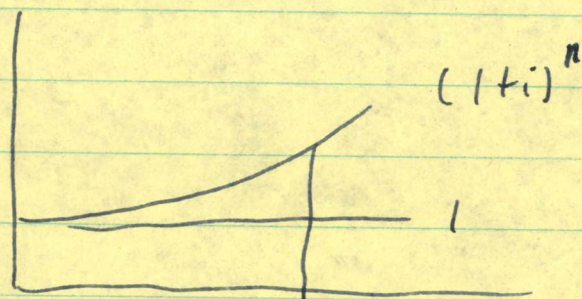
" " " biol. K: cattle, trees.

II. Vert. Int.

all those things that displace labor are produced by labor.

So, what is labor content of v.a.?

a. PIP0

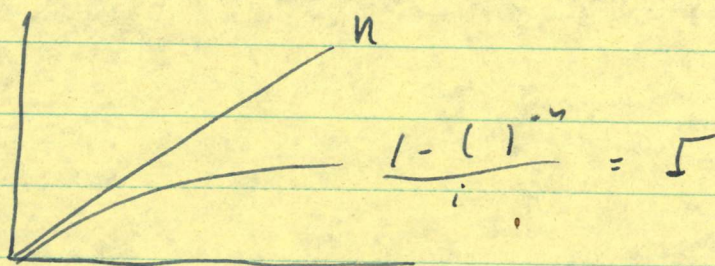


$$\text{Labor share} = \frac{1}{(1+i)^n}$$

$$K \text{ share} = \frac{(1+i)^n - 1}{(1+i)^n} = 1 - (1+i)^{-n}$$

Values, from rule of 72

b. Depreciating IC



$$\text{Labor share} = \frac{wI}{n} = w \frac{1-L}{ni} \quad p. 29$$

$$K \text{ share} = \frac{n}{n} - \frac{(1-L)^n}{ni} = 1 - \frac{1 - (1+i)^{-n}}{ni}$$

Face house over 30 yrs.

$$\sum \text{pmt}_t = n = 30$$

$$K_s = \frac{1 - (1.10)^{-30}}{.10} = \frac{1 - \frac{1}{2^4}}{.10} = \frac{1 - \frac{1}{16}}{.10} \approx 9.43$$

$$\frac{9.43}{30} = .314$$

$\therefore$ hsq. very sensitive to i.r.

K_s creates jobs, but only once every 20 yrs. or so, (when half recovered.)

K_o in hsq. etc. switched from other uses.
Mid. worst of all.

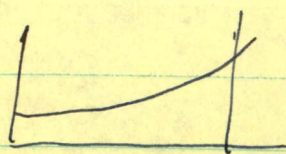
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Turnover is good

But e.g. turnover creates "taxable events".

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$$K = \sum_i (1+ri)^n$$

$$= \frac{(1+ri)^n - 1}{r}$$

$$K_i = (1+ri)^n - 1$$

$$\frac{K_i}{TP} = 1 - (1+ri)^{-n}$$

$$\frac{W_{ape}}{TP} = \frac{1}{(1+ri)^n} = (1+ri)^{-n}$$

This integrates horiz. & vertical views of factor props. Is perfectly comprehensive.

It also integrates micro & macro approaches to full empl.

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K:O ratio = mean payback time. Use Bean Column to illustrate.

Go to p. 2 of 100 B notes for 1/21/81.

Midterms, comments.

1

1.

a. Tax treatment, land.

1. Deduct prop. tax + int.

(Why bad?)

- Imputed inc. no tax [≠]
- Non-synch. of recognition
- Ordly. dedn. vs. cap. gain

2. Deferral of tax on gain. (buy in advance of need.)

3. 60% gain exempt.

4. Shippage, land into bldg. (trees, vines, etc.)
(perpetual exemption follows)

5. Step-up of basis at death

6. Requirement: deduct mkt. value; no tax on gain.

7. Defer tax beyond date of sale

E.g. by installment sale: inflate price, deflate int.

8. Deferral: ~~in~~ cash flow land uses.

E.g. mixed-use land dev. build losses first.

9. Deduct acqu. costs

- Water rts. acquired by use.

≠ Land gets more imputed inc. than depreciable cons. durables.

Rent, no phantom profit.

- Lease acqu.
80% exensible, by abandonment
200 M a. under lease.

- Dry holes

- 10. Capm. of prop. tax

- 11. Take out cash by borrowing; effect by lower w.r.

Effect 1.

Can't create land. ① Pressure to spread out is offset by lower w.r.
② But can ^{also} spread out.

- More mil. outlays

- " xpt. K + energy + pollution

- " exph.

1. Tax treat. K

- 1. Tax-exempt bonds

(In Re El Camino (I.D.))

- 2. Accel. deprec.

Life

Path

Some is expensed, (e.g. intangibles, R&D, advertising,)

- 3. Repeat deprec.

- 4. I T C

- 5. Growg K, deferred to sale

K gains rates for some

6. ADR, asset classes
7. Cons. durables, imputed inc.
(Imputed labor also, but need prop. to use it on.)
8. Interest + prop. taxes deductible, expensable.
9. Improvements to bldgs etc., K gives it sold.

But, unsold inventories in effect taxed -- can't deduct cost. In general, buy & sell in same year, no time difference.

Thus working K, that moves w. labor, is taxed hardest.

[Thus big stores, no clerks, out of stock.

K.C. Airport syndrome. Russian disease.

c. Labor

Payroll Tax

W/h

Tax phantom inc.

No shelters

Commuting, no dedn.

Mort. inadequate dedn.

Labor inc., rising share of inc. tax base.

Inc. tax rising compared to corp. tax.

Payroll tax rising " " inc. tax.

Sales tax required to convert cash to goods.

Prop. tax falling.

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2. a. Eg. mech., mkt. matches labor to K.

Two steps required.

a. K moves labor when recovered & replaced.
Empl. caused by Flow. Raise Flow/Fund ratio.

b. Lower labor cost & higher i.r. cause ~~it~~
faster turning.

Use 2 semi-log graphs to show.

B. Wicks x fctn.

$$K \Sigma = \frac{(1+i)^n - 1}{i}$$

$$K i = (1+i)^n - 1$$

$$\frac{K i}{\text{output}} = 1 - (1+i)^{-n}$$

3. Pop. pressure on land

a. More land does help. One paper went overboard, said it limit. (Can only make this case by bringing in (G.) Fallacy of magnified compensatory force. ~~limit~~ "supply of land")

b. Freezing K a big problem.

Sprawl noted, in various industries.

- Urban
- Ag.
- Minerals
- Water
- Forests
- Harbors

c. Frontier a continuous process.

d. Lowering cost of labor is only helpful & relevant relative to demand for labor.

Raising demand is way to go. An. should focus ~~on~~ on this.

The "Float"

Price of silver: "The actual float is very small."

Only a small % of stock is "floating" in any pd. —

i.e. moving.

The float is the supply that meets current demand,
sets price.

W. silver, there is ~~extra~~ holding demand, too, for
the hoard at rest, on hold. And this, being a true
fund, can be activated quickly.

W. K in general, the float is that which ripens
in any pd.

Unlike silver, the hoard is not easily activated.

How tax policy can Δ empl.

1. Land.

Encourage full use, hi intensity (esply. labor-int.)

a. Tax w/o "announcement effect".

Taxable event is calendar

Prop. tax; (death tax not as good as seems)

Income effect; cash flow effect; risk effect.

b. Tax in rem

This stops avoidance. (Net proceeds effect)

applies uniform pressure by neighborhoods, unlike inc. tax.

c. Tax as % of cap. value.

This gets imputed income

also gets unrealized accruals

(Beware of bias in using cap. value for residences,
inc. capd. for ag. & retail, list. cost for indy.)

d. Use bldg. - resid. method

Today we are coasting on inertia of great cities
created by using right principles; also, structure of
family farms.

2. Capl.

Stop favouring long over short.

a. Inc. tax, key write-off to actual life
tax accruals grow K .

b. Use prop. tax

c.

3. Labor

Credit for earned inc.

Neg. inc. tax, ease way off welfare

Face. social security some other way.

Wood fire & cap. thy.

Many Faces

1. Ontario tax on A.L.V. on sale.
2. Older experience. W. Canada.
Elsewhere
Frontier areas, growth-oriented, wealth-creating.
Sun-yat Sen; Kiao-chuan
3. Is administrable. Can assess L.V.
4. Is potent. Lindsay-Strathmore, etc.

ELEMENTS.

1. Higher share from prop.
Not just the absence of bldg. taxes
alt. form of tax.
2. Higher share from land
"Broadly construed".
Tax presumptive capl.
Exempt utilities, dec'y cost, pass thru.
This principle orig. good, I.D.s; ~~not~~ prevented by
MWD et al.

(Tannyan
Commons)

3. Base tax on land capacity, not present use.
Taxable event is calendar.
Announcement Effect = 0

2
No negl. disincentive. Cut-off grade is unaffected.
Highly developed. (but also removes older centers.)
Latitude of assrs. defining tax base.

Capacity means net income, not gross.

Assess plottage, both kinds.

Exempt street improvements

Not synch. w. taxpayer's liquidity. Thus,
forces owner to remain more liquid - shortens
payback pd.

Effect of taxing land: cash flow, wealth, liquidity
effects - all build fire.

Annual value vs. cap. value.

4. Succession premium included. "Green premium".
Premature conversion? Not likely.

Removal + infilling most likely.
Land in Milw. on eve of demolition.

5. Uniformity

Shd. be national,

" " uniform.

L.V.T. can be uniform; tariff it can never be.

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3:30 Mtg.

1. Distrib.

- a. Taxes, K + Jobs
- b. TMJAW
- c. TISTOC

Announce Lake-tooth Clinic.

2. Debt, public.

a. Brown

1. Avoids bulges in taxes, ~~rather~~ protects wealthy vs. cap. levies.

2. Zero-sum xfr. prt. to public, of p.p.

3. Taxes from prt. cap. fund; allows higher

cons. Net effect: xfr. cap. to public sector.

Neither Brown nor Bano go on

a. Govt. consumes. Net social loss, of K.

b. " invests wisely. Maybe an allocational gain. A taxpaying capacity.

4. Gov. sells to Fed.

b. Barro

1. Knowledgeable taxpayer, knows future taxes must rise, $\therefore$ is no change of wealth.

a. Omits effect of initial xfr. to govt. -
Brown's point.

~~Barro~~ Considers later wealth effects - neglected by Brown.

b. Assumes debt is visible.

An ideologue's dogma. Not really so.
E.g. \$80 M in San Diego. Ponzi force.

E.g. Take-or-pay, off-balance sheet.

E.g. long leases; contingent liabilities.

c. Assumes taxes lower asset values.

But Wage tax doesn't.

Rdgs.

Borkin + Brown are incidental, to get started
Main rdgs. are reserve.

But begin w. Public Debt.

Banks

Chap. in Brown

Why tending a log fire teaches K theory & macro.

Large logs contain more locked-up value (energy). They burn longer. Thus they save labor - needn't refuel so often.

Problems w. large logs.

1. Uneven demand on labor. (OK if you have something else to do, but not so good if logs rep. entire economy.)

2. Only the surface burns. Most of the energy is idle, locked up in storage, wasting ^{& preheating} space. Heat output does not Δ , but K input does.

4. Can't burn big ones w/o small. Fixed K requires working K to unlock the value that is in it. If one short of small logs, kindling, can't get more from big logs to substitute. Can contrive, get less, worsens ^{and they preheat space.}

3. Rate of release not ~~controllable~~ ^{increasable}, above a fixed max. Not available for contingencies; not easy to stop, if a surplus. Not controllable.

5. How to start, stop,
∴ starts after you need it, & continues when
you're gone.

6. Big logs don't pack well, preempt space
w/o filling it.

7.