



Review of the Book: *The Marginalists and the Special Status of Land as a Factor of Production* by Fernando Scornik-Gerstein and Fred E. Foldvary

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Review of the Book:
The Marginalists and the Special Status of Land
as a Factor of Production
by Fernando Scornik-Gerstein and Fred E. Foldvary

Mason Gaffney

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This is a fascinating and insightful study of how the radical egalitarian views of three beautiful minds were bowdlerized 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 his 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 — 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 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 Scornik 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.

Scornik and Foldvary go on with Pareto at some length, justified more by his reputation and influence within the profession than by his merits. They are able by diligent searching to extract a few concessions from Pareto on the unique characteristics of land, but then find many reservations, leaving "an ocean of confusion and contradictions". The last is a fair characterization of mainstream economics today, helping explain its utter shame and uselessness in forecasting the present great recession, and prescribing measures for recovery.

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