

Ec 1 F-00 Used Notes

Lecture Notes, Friday, 17 Nov. 2000, Ecs. 1, Re J.B. Clark

A. Tag end of Wednesday's lecture

1. Clark narrowed the definition and scope of economics to "Allocation": "The study of the allocation of limited resources among competing ends." That is a useful study, but it leaves out a great deal that was previously part of classical political economy. The new study, with all its limitations, was (and is) called "Neo-classical economics" (for short, NCE).

2. What Clark cut out of NCE makes a long list.

a. Land as a distinctive factor of production, and as an ideal tax base, and as a limit on growth.

b. Dynamics

i. Cycles of boom and bust

ii. Long term "Laws of Motion"

Clark bypassed both the above by limiting his analysis to "statics." He said statics is the basis, and he would treat dynamics "later": but later never came.

c. Turnover and replacement of capital. In Clark, capital is deathless - a mystical kind of spiritual essence, measured by value, that "transmigrates" from one object to another. He and his followers took this concept much more seriously than you might expect from its merits. When an owner exchanges capital for land, the value "transmigrates" into land and "vests itself" in land, whereby the land becomes a form of capital.

d. Substitution of capital for labor. In Clark (as in Adam Smith), capital accumulation is an unqualified benefit to labor: capital always complements labor; never substitutes for it. (Recall that Heilbroner has the modern market system "born in agony" as capital, in the form of sheep, displaced labor from its traditional roots in the land.) Ricardo had raised the possibility that machinery might displace labor; Clark dismisses this totally (he would have called it "Luddism").

e. Distribution of wealth and income

i. Factoral distribution. Having eliminated one factor, land, the only question for Clark was, how are wealth and income divided between the remaining two, capital and labor. As to wealth, obviously it is all capital. As to income, Clark showed no interest in the actual division - he was a pure theorist, not a statistician.

He did, however, develop a "symmetrical" theory of marginal productivity, which treated property income as a correctly measured return for the contribution of property to output. This meant that all property income was just as "earned" as labor income, thus removing from land rent the stigma of being unearned (as it was in classical political economy). In this short course we have to bypass this fascinating theorem

identified with Clark.

ii. "Personal" distribution - i.e., what % of income goes to the top, say, 5%. Clark and other NCEconomists assumed wealth was very equally distributed. As to income, any inequalities were mainly the result of unequal abilities and efforts in the production of wealth.

Having rationalized the system as a younger man, Clark in his later years developed a healthy interest in making it work the way he said it would. The second half of his career was therefore devoted to fighting monopolies. Unfortunately for him and the country, he failed in this, and by 1932 American industry was highly cartelized.

f. "Institutions"

"Institutions" are the law, corporations, the family, land tenure, contracts and their enforcement, debt collection, churches, schools, charities, ... all the messy little details of real life that are omitted from Clark's "pure" theory. We will soon look at Clark's contemporary, Thorstein Veblen, whose economics focused on institutions.

g. Capital formation and loss, maintenance, turnover, etc. Clark bypassed all that by assuming a fixed supply of capital. (Modern followers at Chicago, notably Arnold Harberger, have developed a whole theory of tax incidence based on assuming a fixed supply of capital. You may have heard of Harberger: he is the "Chicago Boy" who worked closely with Gen. Augusto Pinochet, the Chilean dictator who made several thousand of his critics "disappear.")

h. Reconciliations? There aren't many in Clark: privatization is the panacea. He did, however, view his system as aiding all parties and leading to an ideal society.

i. Conservation, the environment, ecology. As a byproduct of identifying land with capital, Clark viewed Nature as an infinite wasteland into which human habitation could expand indefinitely - something like the desert around Las Vegas. Clark wrote that nature as such has no value; humans create value by privatizing it. This was the prevailing view among economists until very recent times, when biologists organized and rebelled and forced them to reconsider.

B. Main items from COE

1. Clark stressed the social value of privatizing land. (Clark, an active Protestant layman, shared this view with Pope Leo XIII, whose encyclical, Rerum Novarum, appeared in 1891, and has dominated Catholic social thinking ever since.)

Clark saw "free trade in land" as a panacea for all land problems, which he attributed to barriers to exchange, like entails and primogeniture. (He would not have liked zoning, but that postdated him.)

He would have liked the recent "Sagebrush Rebellion," and

the "New Resource Economics," movements for privatizing what remains of the Public Domain.

(Clark was a Democrat - of the conservative branch, which was paramount in his day. Times and labels change! The National Parks and National Forests were reserved from the Public Domain by Progressive Republicans, T. Roosevelt and W.H. Taft, 1901-13. Hard to believe today, but in those days the "Progressive Movement" was powerful in the Republican Party.)

2. Clark was in part reacting to Henry George, who was running for Mayor of NY, where Columbia University was the bastion of defending property, and the status quo.

3. Clark, like Ely whom we study next, was an active Christian layman. Yet, ironically, both were involved in a movement of secularization in the colleges, where wealth replaced religion as the guiding force.

4. There was little academic freedom in those days. College Trustees were self-perpetuating, and above judicial or legislative review, thanks to the Dartmouth College Case Decision of 1819.

5. Clark, although conservative in many senses, was not anti-Marxist. He borrowed his capital theory from Marx. The most consistent and devoted anti-Marxists were the "Austrian School" economists. Instead of joining them and attacking Marx, Clark attacked the Austrians.

6. Although a free market defender, Clark was not anti-statist. Like most ambitious American intellectuals of the period, he studied in Germany, where he absorbed the statist and mercantilist ideas of Kaiser Wilhelm II, and the "Iron Chancellor," Otto von Bismarck, a Prussian Junker. If Clark ever resolved the contradictions in his philosophy, I am not aware of it. The most consistent theme I see is that Clark, like Talleyrand and the Vicar of Bray, "survived."

7. Clark favored taxing capital.

That should warn us, beware of stereotypes. Clark and the Chicago School (his modern followers) have the image of favoring property over people, and markets over charity. Yet they favor taxing capital (cf. Harberger, above). This follows from their belief that the supply of capital is fixed (or "inelastic," as economists say).

At the same time, the followers of Keynes (whom we study soon), are viewed as liberal or radical - yet they favor UNTaxing capital, at least new capital. Go figure - and again, BEWARE OF STEREOTYPES! Life is much too complicated and interesting to trap yourself in oversimplifications.

8. "Factor symmetry"

This is an important side of Clark, but this course is too short to develop it.

Econ. 1, Wed., Oct.

Model #2

Ricardo's Law of Rent, and Taxes

Tax Base is C ; Tax Rate (t) is 10%.

Rival Land Uses on High-grade Land

Rival Use	A	B
G	100	14
C	90	7
N	10	7
NAT	$10 - 9 = 1$	$7 - .7 = 6.3$

With no tax, "A" is the higher use of this high-grade land. It yields more Net Yield (N), and also produces much more gross product (G) and absorbs much more labor (C).

The tax on C , induces the manager to prefer use B. He lays off most of his workers. They then move to lower-grade land, and accept lower wages. The wage rate falls. They produce less, so prices rise.

Useful Equations:

$$N = G - C$$

$$NAT = G - C - tC = N - tC$$

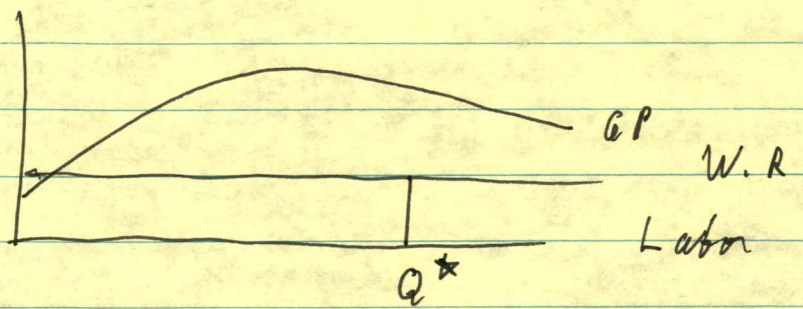
$$NAT/N = 1 - t \frac{C}{N}$$

$$1 - \frac{NAT}{N} = t \frac{C}{N}$$

This is the fractional

tax-caused drop in Net Yield. For Use A, it is $9 \times 10\%$, or 90%. For Use B, it is $1 \times 10\%$, or just 10%.

1.



- a. Draw MP curve.
- b. Show rent.

2. ^{conditions on} Show no-rent land.

3. Note how people modify factor combos in response to changing conditions (parameters).

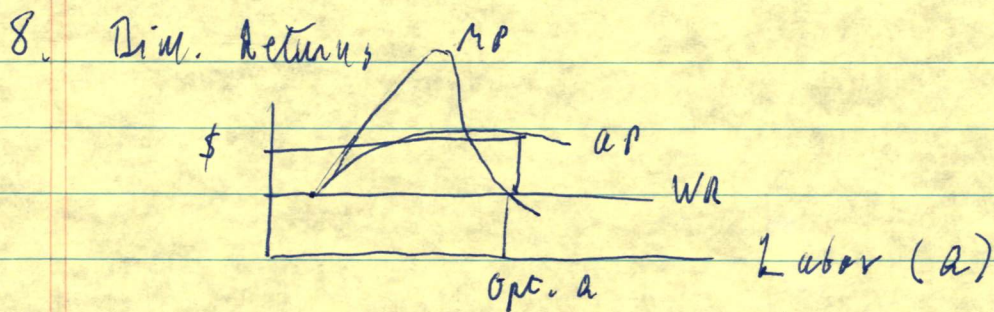
MP, TP, QP

1. ^{Δ Pop} Raising rents 4 ways
- Given labor now costs less
 - Hire more labor
 - Sell for higher price
 - Sell more

2.

Farms	Mfg Enter
Capital	
Labor	
Land	← MP ←

In fact, it required special land, overlooking quality wtr. Not Liverpool, but in land
 Potteries required riparian land, canal, rail access



$$(AP - WR) \times L = \text{Rent}$$

2 Aspects:

- Intensive As $w.r.$ falls, use more labor
- Extensive " " " " " land

Fri, H.G.)

Jesus Medina ~~Protagonist~~

1

1. Notes on Organizing study at M + R
- ✓ 2. Bussey at Hookston
3. Hurlbrow is puzzling. H & on cover, along w. Smith, Munk, Keyser, Malchuk, Mill - the only American.

Then moves at to teach him.

4. The ~~very~~ most democratic of the lot
 ~~He~~ Ran for office, nearly won, key slot
 Had 6 committed Cong., 1892, + 50 allies
 Direct election of Senators
 ~~He~~ Limit, Ref. + Recall
 Secret ballot
 Civil rights of priests
 Descendant - Agnes de Mille

5. Hurlbrow.

Was a journalist, investigative. He covered corruption in Cal. Got 1st Pres. fired - Gilman.

Lots of practical experience, & guts. H. seems to think this unfit him for serious thinking.

Main work, on land frauds in Cal.
RR land grants.

6. Studied Mill + Ricardo.

Ricardo ~~said~~ stressed how rent share grew at expense of capst's share. H & said, at expense of labor.

2. H. misleads

Says H & G equate rent & sin.

H. does not understand H & G. G. says
we should rent by introducing H. then
socialize rent. Distrib. Socism.

8. Serious use of fact - rent is 2% of u.c.
How much of your inc. goes for rent?

~~Ec. 1, Mon. Nov. 6~~ Wed, 15 Nov. 2000

Begin p. 18

2.

Universalizing rent

Used to be open mises.

Now, basketball players

Underground race prejudice.

Re cap. futur., no reward needed for saving. OK to
tax it all away. Harbinger.
Chicago School.

3.

Justity: TANSTAAFL

4.

Inequality is inevitable & universal. Pareto.

Fatalism - a form of determinism.

Equity v. Efficiency

5.

~~No div. m.u.~~ ~~to~~

No interpersonal flows

∴ no redistrib.

∴ " changes.

6.

LC futur. is good; ~~the~~ ^{offsets or more than offsets} div. sets to labor,

Same time, is no div. sets to LC bcs can make
more land

No problem of course.

7.

No problem of hoorn & hirst (as in Marx &
George)

8.

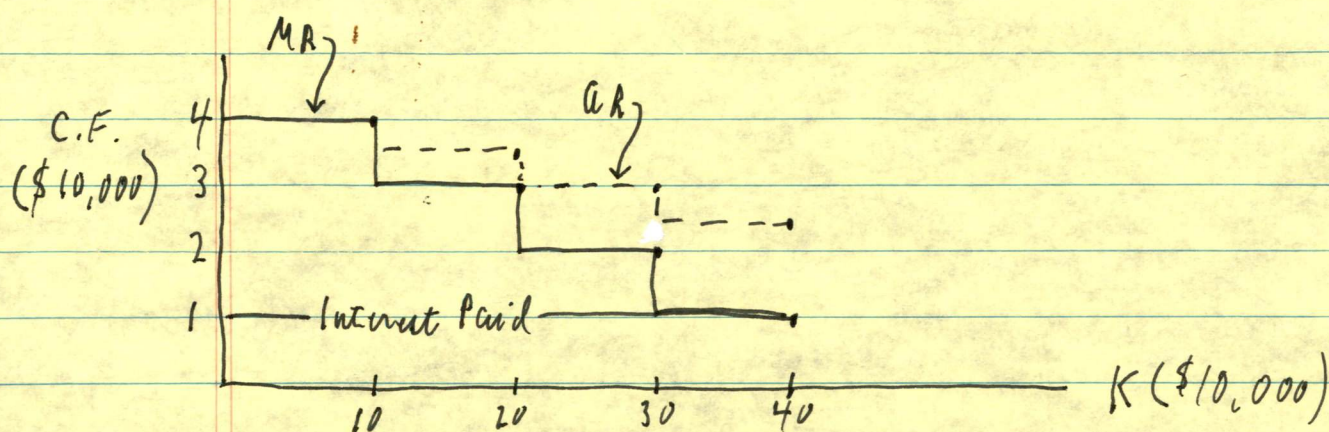
Compartmentalism: Micro & Macro

9.

Corps are people.

10. Tax inc. from all sources the same (Seligman)
(Now, has evolved into taxing labor move.)

Building Model, Ecs. 1, 28 Oct. 00



C.F. = Cash Flow

MR = Marginal Revenue -- (same as Marginal C.F.)

AR = Average Revenue -- (same as Average C.F.)

Unit is \$10,000

<u>K</u>	<u>MK</u>	<u>MR</u>	<u>A</u>	<u>AR</u>	<u>MROA</u>	<u>AROR</u>	<u>Rent</u> <u>Marg.</u>	<u>Total</u>
10	10	4	4	4	40%	40%	3	3
20	10	3	7	3.5	30%	35%	2	5
30	10	2	9	3.0	20%	30%	1	6
40	10	1	10	2.5	10%	25%	0	6

$$R_{\text{rent}} = [AR - MR] \times K = [\$25,000 - \$10,000] \times 4 = \$60,000$$

$$R_{\text{rent}} = \sum_1^4 (MR - \text{Interest}) = \$30,000 + \$20,000 + \$10,000 = \$60,000$$

$$R_{\text{rent}} = R - \sum_1^4 \text{Interest} = \$100,000 - \$40,000 = \$60,000$$

NB: This is a 3-factor (Trinitarian) model. Wages of labor are there as a subtraction from C.F.
(We could also enter them by depreciating the building, but to simplify, I have omitted this.)