

## HOW INCOME IS DISTRIBUTED IN THE U.S.A. THE PART LAND VALUE PLAYS IN NATIONAL WEALTH

What is the total annual income of the people of the United States and how is this income distributed? Since 1886 these questions have evoked a number of detailed statistical investigations which Dr. Roy A. Foulke reviews and evaluates in his essay, *A Study of the Concept of National Income*.\*

Despite its unexciting title and its brevity, this pamphlet must be considered a major contribution to modern economic thought deserving the wide circulation which the eminence of Dun & Bradstreet, Inc., ensures. Dr. Foulke, a Vice-President of that influential corporation, is an economist with a rare respect for his science and his readers' intelligence, happily combined with a lucid style of writing.

The dominant theme of this pamphlet is that political economy *is* a science and that if confusion is to be avoided and valid conclusions reached, the social scientist must employ methods comparable with those used by the physical scientists.

"Could one physicist define a hydrogen atom or a plutonium atom in one way, and another physicist in another way?" he asks. "If that were done there would be no science in physics. Every particle, every element, every compound can have one and only one definition, and that definition, if it is the true definition, must be the same yesterday, to-day and tomorrow, and the same in the United States, Indonesia and Morocco" (p. 10). As in physics, so in economics. "Wealth, like a hydrogen or plutonium atom, must be the same yesterday, to-day or tomorrow, in the United States, in the wildernesses of Africa and South America, and in European society in both the tenth and the twentieth centuries, if we are searching for the natural laws of economics. And that definition is anything produced by man from land or the products of land which has exchange value. It is not the gamut of satisfactions, it is not services, it is the tangible items which go into a stockpile of things for a day, for a year, or for a hundred years, until used up by some form of consumption" (p. 31).

That a modern author should find it necessary to write in this vein is sufficient comment on the sorry state of economics as taught and practised to-day. The quotations illustrate Dr. Foulke's approach to economic problems, reflecting the profound influence which Henry George's great work, *The Science of Political Economy*, has had on his thinking. His extensive quotations and frequent references to that book ensure that a valuable incidental consequence of this outstanding critique is likely to be an awakening of new interest in George's contribution to the study of the science that deals with the production and distribution of wealth.

Dr. Foulke reviews the works of the economists from 1896 to 1951 and finds that, with the exception of Dr. Frank Streightoff, whose book, *The Distribution of Incomes in the United States*, was published in 1912, all of them fell into inevitable error and confusion resulting from their initial failures when defining their terms. An error they share in common (Dr. Streightoff excepted) is the assumption that since the nation comprises a number of individuals, the national income is therefore synonymous with the aggregate of individual incomes. Thus in a community of two where A produces 10,000 bushels of wheat with the

assistance of B to whom he pays 2,000 bushels, the total production of 10,000 bushels would be shown statistically as a community income of 12,000 bushels. The grouping together of goods and services on the grounds that both yield satisfaction has led to further inaccuracy. Dr. Foulke points out that "satisfactions" might more properly form the basic subject matter of sociology or psychology; they have no place in the science that treats of the production and distribution of wealth which, by definition, comprises tangible things. Thus if C joins our community of two, receiving 50 bushels from A for cleaning his boots, and 50 bushels from B for making his bed, the community's income is not thereby increased by 100 bushels of wheat.

A further, and perhaps more serious, cause of error has been the inclusion by each economist in his calculations of national income of various of the self-cancelling "obligation values," or evidences of the indebtedness of one section of the community to another, the destruction of which would not reduce the true national wealth or income by one cent. Interestingly, Volume I of *Income in the United States* (National Bureau of Economic Research, 1921) recognized that "an advance in the selling price of town lots, farm lands or other property does not represent an increase in the National Income unless it results from improving the property"—in other words, land values do not constitute wealth and should not be included in any computation of national income. Yet, as recently as 1951 *National Income* (Department of Commerce) included "rental income flowing to persons" although various other "obligation values" were eliminated in this latest survey, among them being government subsidies paid to private enterprises and interest payments on government debt.

Dr. Foulke concludes with an appeal that an attempt should be made to translate into mathematical facts the elementary theory of economics that the production of all wealth flows naturally into three streams as returns to land, labour and capital. If that were to be done "then for the first time in the history of man, and generations after Adam Smith made his first approach to a science of the productions and distributions of wealth, we would have basic facts which are essential to understand that science."

Every tutor in the Henry George Schools throughout the world and advanced students of economics should possess a copy of *A Study of the Concept of National Income*. As the pamphlet is not priced we assume that it is freely circulated to all who make application. We will endeavour to obtain a supply to meet the demands of interested readers who enclose threepence to cover cost of postage and packing. Transatlantic readers are advised to make direct application to Dun & Bradstreet, Inc., New York.

P. R. S.

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\* Published, 1952, by Dun & Bradstreet, Inc., New York. 80 p.p.