

George's Terms Clarify Accounting Confusion

The following article by Roy A. Foulke, retired vice president of Dun & Bradstreet, appeared in the NEWS back in 1949. We think it worth repeating.

In *The Wealth of Nations*, Adam Smith pointed out, over and over again, that all production is divided into three streams: one in the form of wages to employees, one in the form of rent to landowners, and one in the form of *profits* to suppliers of capital.

These terms, as used by Adam Smith, carry connotations that are somewhat different from their meaning in our presentday industrial life. In wages to employees is included payments to officers of corporations, to proprietors and to partners for their services, as well as to labor. The payment of rent represents the return to the landowner on the value of the land in its natural state without improvements of any kind, and not the payment of a monthly or yearly sum, which today has generally come to include two payments, economic rent on the value of the land, and a return on capital (i.e. the improvement). Profit, according to Adam Smith, is the return to capital after the payment of all wages and the rent of the land in its natural state has been deducted from production.

Then Smith carefully observed, "When those three different sorts of revenue belong to different persons, they are readily distinguished; but when they belong to the same they are sometimes confounded with one another, at least in common language."

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Dr. Schwartzman, this time to a smaller group for more intense discussion of the issues. All together the Academic Program has over 100 students, vivid illustration that the School has many new things to offer adult education in New York.

Meanwhile, the basic course centered on George's works titled "Reform for our Time," this semester drew almost 300 students, and the set of "practical" courses has over 75 students, for a grand total of almost 500 registered students. This is a large increase over past years' enrollment.

Because of the confusion in the term "profit" as used by Smith in 1776 as the return to capital, and by the general public as the excess of income over cost, Henry George in 1879 decided to substitute the word "interest" in place of the word "profit" as used by Smith to represent return on capital.

It is possible that that substitution in terms—although carefully explained with great clarity—has been the source of steadily increasing confusion in the mind of the pragmatic businessman. The *accounting* profit of business, representing the excess of income over cost, is a heterogeneous mathematical term and has nothing to do with economics.

Few business corporations were in existence in 1879. Not until 1886 did the Supreme Court decide that a corporation was a person in the meaning of the "due process" clause of the Federal Constitution. That decision gave an element of unprecedented security to the existence of the large corporation, which was just becoming a dynamic power in our economic life.

NO ACCOUNTING FIRMS

In 1879, there was no firm of public accountants in the United States. The first firm of public accountants of consequence was organized in 1883 in New York City. It was not until 1896 that the accounting profession was legally recognized; it was then that New York State first granted certificates of qualification.

From the viewpoint of classical economics, it is understandable that we fail to ascertain reliable figures for aggregate profits (George would say "interest") under the mathematics of accountancy as practiced today. The reason is that the "accounting" profits of corporations, which own land where some of their plants, warehouses or other installations are located, actually encompass economic rent. Moreover, we lack even a faint idea as to what represents rent earned on the value of land in its natural state and what part represents the return on capital invested in a business which includes improvements on the land.

What we run up against today is the confusing reality that "accounting" or the businessman's profit, in addition to being a relative mathematical concept, is not economic profit or, in the words of Henry George, is not "interest."

Phillip H. Cornick

Phillip H. Cornick, a member of the Board of Trustees of the Robert Schalkenbach Foundation and a leading student of Henry George, died at the age of 87 on October 24, 1971.

A former member of the research staff of the Institute for Public Administration, Mr. Cornick was frequently on loan from the Institute to government and quasi-government bodies. In the early 1930s he was responsible for a study of the Tennessee Valley Authority that led to many reforms in its administrative practices. He was also active in the work of the Federal Housing Authority.

Before his retirement in 1949 he helped a number of states develop land value taxation codes. He was the author of one of the first authoritative books on urban sprawl, *Premature Subdivision and its Consequences*.

H. Bronson Cowan

H. Bronson Cowan, former Research Director of the International Research Committee of Real Estate Taxation, non-agenarian and life-long student of Henry George, recently died in Ottawa, Canada.

His book, *A Graphic Summary of Municipal Improvement and Finance as Affected by the Untaxing of Improvements and the Taxation of Land Values*, which was published in 1958, clearly illustrates the beneficial application of the land value tax principle of Henry George in cities, both large and small, in Australia, New Zealand, South Africa, and Western Canada, and serves as a testimony to H. Bronson Cowan's dedication to the principles of Henry George which he helped to implement in his lifetime.

Philipp Knab

Philipp Knab died at the age of 83 on August 7, 1971 in Hallein, Austria.

Mr. Knab, a devoted student of Henry George, used a Marxist theory of monopoly to explain land rent. He wrote trenchant articles for various newspapers including *The Austrian Economist*; *Reports and Information*: the London newspapers *Land and Liberty* and the daily, *The Press*. One of his papers appeared in a Georg Fromme volume: *Taxes in the Light of Natural Right*.

Philipp Knab was a holder of the Iron Cross and was quoted as saying: "The Kaiser decorated me with one of the highest honors, but the republic does not thank me for a lifetime of work freely given."