

Pareto's Power

We turn to Vilfredo Pareto, whom the dark thoughts of Edgeworth evoke. The thoughts suggest that Edgeworth's affinities with Pareto were more than methodological. Pareto's philosophy reads like a tour between Nicolo Machiavelli and Benito Mussolini, with detours through Friedrich Nietzsche. A wealthy heir who married a Russian Countess, he has been judged by some as the first fascist, but that label, like most, is too simple. His ideas sound fascistic in internal affairs, on the model of a Latin American dictator; but they lack the populism that gave European fascism mass support, as well as the imperialism that was its downfall. He was anti-militaristic, consistent with his contempt for government in general. "Pugnacious elitist misanthropic libertarian" might be a better fit: it seems to fit many of his modern followers, the NCEists. Here are some of his words: let the reader judge.⁵⁸

... no social class can for long hold its property or its power if it does not have the strength and vigor necessary to defend them. In the long run only power determines the social forms; the great error of the 19th century will be to have forgotten this principle (1906: 361).

Society has a dominant class, A, and a subject class, B. Class A divides into A-alpha and A-beta. The alpha part "still has enough strength and energy left to defend its share of authority;" the other part, beta, "is made up of degenerated individuals, with feeble intelligence and will, *humanitarians*, as is said today" (1927: 91).

The A-alpha try to make people believe that they are working for the common good, ... [but] it [this effort] also decreases the energy of the A-

beta, who take as true what is only a pure fiction and can only be useful as such (1906 p.92).

The error of the humanitarians ... is not in having a religion, ... but in having chosen a religion which is appropriate only to weak beings lacking in all energy and courage, ... (p.364).

One wonders, after that, how Pareto would class those who fancy they have found in "Pareto-optimality" a value-free technique to evaluate issues of public policy? More relevant today, how should *we* view them? Pareto would only appear value-free to those who share his values so thoroughly that they cannot even see that they are value-judgments. It might be fair to say that Pareto disclaims all ethical positions and value-judgments save one: private rent-taking is sacred. In this, of course, he has company; it is a powerful company with most of the world's discretionary income at its disposal to impose its message on impressional young students of economics.

Pareto expressed grudging admiration for the B-alphas, or leaders of the lower classes, so long as they were driven by narrow self seeking, as he assumed they were. The weak whom "humanitarians" defend are "degenerates". The self-seeking proletarian leaders, or B-alphas, are different. "They are energetic and robust he-men who want to eat when hungry, drink when thirsty, and make love when it suits them...". "It is self-interest which rules the conduct of the B's, not sentimental twaddle" (p.360).

... the struggle to appropriate the goods of others may be favorable to (genetic) selection (p.341).

The numerous cases in which the mob wants to *lynch* malefactors demonstrate clearly that the populace still retains the vigor of the race, vigor which the upper classes have lost (p. 360n).

Pareto does not comment directly on George, but he rejects most of the value premises that might lead one to Georgism, in the following.

Equality before the law ... is not ... advantageous to society; ... (p.95).

Tories and Whigs "compete for the favor of the common people".... they "fight to see which will prostrate itself more humbly at the feet of the common man"(p.100).

When the suffrage has been given to all men, including madmen and

criminals, when it has been extended to women, and, if you like, to children, it will have to stop. One cannot go any lower, unless the suffrage is extended to animals, ..(100).

... liberals ... have paved the way for the demagogical oppression which is now dawning". Taxes on the rich are voted on "by those who do not pay them, ... shamelessly ..." (93).

In 1904 in England, "all the parties ... vie with each other in flattering the workers. The Liberal party, which ... has given up its principles, moved to socialism ..." (345).

I will intercede here for historical accuracy. Actually, the English Liberal Party did not move to socialism, it moved towards Georgism (Douglas, 1976; Lawrence, 1957: 37,63,73,105-06,111,126). The "famous Newcastle Programme" of the Party, first adopted in 1891, put both rating (local) and taxing (national) of land values into the Liberal Platform (J.D. Miller, 1917: 102; Douglas, 1976: 114-15; Lawrence, 1957: 171), where it stood for thirty years. That is why people like Pareto's friend Edgeworth (1906) were writing articles against "Recent Schemes for Rating Urban land Values," and Cannan (1907) was writing against "The Proposed Relief of Buildings from Local Rates". Georgists and Socialists had long since fallen out (Lawrence, 1957: 37,63,73), and it was the Georgists who were accepted into the Liberal Party. Gladstone was not keen on them, but lost out and retired to Hawarden in 1894.

From 1906-14, under successive Prime Ministers Campbell-Bannerman, Asquith, and Lloyd George, the Radical wing of the English Liberal Party came close to implementing Georgist reforms - in the process drawing the teeth from the House of Lords. This did not come out of nowhere, but out of 25 years of organizing and propagandizing, which was no secret. Among other prominent English statesmen supporting land taxation were Winston Churchill, Philip Snowden, Ramsay MacDonald, Josiah Wedgwood, Clement Attlee, and Stafford Cripps - a conspicuous group. George Bernard Shaw, a highly visible Fabian leader, sustained his support for George (Lawrence, 1957: 85-86,171). Presumably Pareto knew something of these facts, and was using "Socialist" as a pejorative for "Georgist," as Clark and Ely did.

It was, rather, Bismarck's Germany that adopted socialism. Bismarck had triumphed by swallowing his enemies whole, and announcing their

program as his own. As we have seen, this had an enormous influence on American education in economics.

Returning the floor to Pareto, he says *Tolstoyism* led Russia to lose the war with Japan (358n). Tolstoy was George's apostle to the Russians (Geiger, 1933: 459-61); we may presume Pareto knew this - his wife was a Russian countess.⁵⁹ Pareto goes on, "But among the leaders some enriched themselves through customs protection and corruptions, others were besotted by their humanitarian faith" (358n).

"... consumers suffer less harm from (monopolies) perhaps than from shopkeepers and trade unions". We should deplore "the contemporary humanitarian mania to excuse ... all harm caused by workers or by persons of little affluence, ..." (p.338).

Those five quotes leave little doubt that Pareto diametrically opposed most values associated with Georgism, or "The Single Tax".

Next let us look at what economic techniques to associate with Pareto. He makes no bones about how he sees the purpose of techniques.

Men follow their sentiment and their self-interest, but it pleases them to imagine that they follow reason (p.95)

With that avowal, it would be prudent to be chary, and interpret Pareto's choice of techniques in the light of what we know about *his* sentiment and self-interest. All the techniques to be described have been accepted by NCEists, and folded into the body of NCE.

(1) "Pareto's Law" of distribution tells us that unequal wealth is inevitable, and remains the same between times and places, regardless of human institutions. To Pareto, "leveling" is all sham, it is just the rhetoric of the outs trying to become the ins. The overtones of this kind of fatalism are heard in today's "rational expectations" dogma, which says that all government actions are offset by private investors and other economic agents who anticipate them. However, Pareto's "Law" is demonstrably contrary to fact, e.g. among the 50 American states. Detailed data on this are presented in Gaffney, 1992.

(2) Political economy deals only with how "to compare the sensations of one man in different situations, and to determine which of these he would choose". A second class of theories compares the sensations of one person with another, but these are "most unsatisfactory" (105). This converts

economics from a social science to a study in individual psychology (a bad one, according to psychologists). It dismisses in one stroke all traditional American notions and egalitarian ideals, such as expressed by Charles Spahr, above, who wrote that low incomes are insufficient for healthful and decent living, while high incomes and properties are "morally perilous to their possessors" (Spahr, 1896: 159). "... the ability to pay taxes increases faster than the private fortune" (Spahr, 1896: 160).

Clearly, too, Pareto's view is totally at odds with the case for public education, national defense, social security, universal health care, veterans' benefits, and anything else with any element of social dividend. One could never lead a crew or team, or provision a platoon or a division, or teach a class without comparing the sensation of one person with another. Pareto would seem to have wanted to eliminate both the welfare state and the warfare state, maintaining the military for the prime purpose of putting down domestic insurgencies. The purest applications of his philosophy may be observed today in Guatemala, Honduras, or El Salvador.

(3) Pareto redefines rent as the gain from reallocating a resource - any resource. It is the excess of its current return over its "opportunity cost". He belittles "Ricardian rent" as just a particular case of that (247). This, of course, is calculated to divert attention from land rent as a taxable surplus. This altered definition of rent used often to be called "Paretian rent," or "transfer rent," but modern NCEists have gradually got round to calling it just "rent," as though there were no other meaning.

Logically speaking, that involves the trick of taking a concept appropriate to "partial equilibrium analysis" (theory of exchanges, centered on the firm and the industry) and transplanting it, without advising the reader, to "general equilibrium analysis" (social distribution theory, covering all firms and industries) (Gaffney, 1962: 145-46). It is quite inconsistent for Pareto, who is generally known as a writer on general equilibrium. Frank Knight, as we will see, carried it to the greatest extreme possible.

It has been wrongly imputed to Joan Robinson, who actually saw right through it. Robinson wrote, "From the point of view of society, land ... is provided free, and the whole rent is a surplus and none of it is a social cost" (1933: 107). Another good treatment is by Bronfenbrenner (1971: Ch.14). Ground rent applies to the whole class of land incomes without reference to allocation among different uses. It would obtain even if all land and labor

were homogeneous, and produced but one commodity.

Ground rent is distinguished from wages by the curse of Adam, that labor towards supertime grows irksome, entails sacrifice of comfort, vacations, desired location, self-direction, often personal safety, and at all times represents a sacrifice of pleasant diversions. Wages are also a return on all the costs of rearing and maintaining the worker, and the future costs of retirement. For increasing numbers of people, work also represents a sacrifice of time spent on lucrative or destructive untaxed activities like stealing, rioting, vandalism, looting, mobbing, arson, smuggling, tax evasion, barter, etc. Idle hands are not just wasted, they make mischief. For many, work represents a sacrifice of welfare payments, whether from parents or the state (Gaffney, 1962: 146).

The issue is often couched in terms of whether rent is a "cost" to the individual "firm". That is something of a red herring. Land always has a cost in the sense that use A must preempt land from use B. Land never has a cost of being produced. These are simply two different meanings for one word, "cost"; no one should be bamboozled by that. Joan Robinson was not fooled. To repeat her wisdom (which warrants repeating), "From the point of view of society, land ... is provided free, and the whole rent is a surplus and none of it is a social cost" (Robinson, 1933: 107).

The operational question is for tax policy, which the diversion about rent as a cost is designed to obscure. This question is, what will happen to the supply of land if you focus the property tax on land value, exempting capital? How will the tax affect the allocation of land? (The effect is at worst neutral, and will probably improve it because of the pressure of the cashflow effect.) How will the relief of capital from taxation affect the supply of capital, and the allocation of land and capital? (It will raise the supply of capital, and improve the allocation of both land and capital.) It is really not so complicated. Long-winded disputes over the meaning of "rent" are beloved by abstract theorists. They just distract us, as intended, from getting to the nub of the central question of public policy.

(4) Pareto introduces the use of indifference curves, crediting the device to F.Y. Edgeworth (1879: 119). The "indifference curve" technique is a way of recasting the discipline in several ways, too long and tedious to recount in full detail. Perhaps foremost, it makes it technically more difficult to explain and perceive simple points, thus excluding more people

from understanding, and facilitating obscure manipulations, insider argot, and unsupportable statements from authority.

The technique helps us shift from "cardinal" to "ordinal" rankings of welfare, avoiding those dangerous interpersonal comparisons (such as that every human body needs about the same daily bread to avoid hunger). It lets us escape from diminishing returns of labor or capital applied to fixed land, and refocus the analysis on the disembodied "firm" as the basic unit. These "firms" pick and choose among "inputs" or "resources," which are treated as perfectly symmetrical, and none of which needs to be called land any more. All can be had in any amount by the firm, and society is just a collection of firms so the society can have any amount of land at any time. Optimal substitution or trade-off is the main emphasis. Technically, the ideas of land rent and taxable surplus can still be expressed by use of the "indifference curve" technique, but only laboriously, obscurely, and indirectly, as intended.

Such is the heritage of the cynical misanthrope, Vilfredo Pareto, who wrote,

Men follow their sentiment and their self-interest, but it pleases them to imagine that they follow reason (95).