LAND and LIBERTY

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LOST REALITY

ECONOMICS is branded the "dismal" science. The fault lies with its practitioners, who – despite advocating the need for objectivity – smuggle value-laden perspectives into their deliberations.

Teachers like Professor Paul Samuelson have a special responsibility. They shape the attitudes of the young, who earnestly wish to combine the wisdom of age with the enthusiasm of youth.

Young people, alas, are often misled by the gurus. Take, for example, the general wish to reduce taxation. Economists have some important scientific statements to make about how the tax system can be re-aligned.

The first question is this: What are the most efficient taxes?

Professor Samuelson acknowledges that a tax on pure economic rent is the most efficient tax. This fiscal policy was most elaborately developed by American economist Henry George.

Other economists have slightly expanded his theoretical formulation to advocate this:

Put the heaviest taxes on those inputs and outputs that are most inelastic in supply or demand.

If land and cigarettes have very inelastic supply and demand curves, tax them heavily. If airline travel and cars are very price-elastic (i.e., people are quicker to reduce their demand for these items if the price goes up), tax them lightly.

Professor Samuelson notes that this rule is similar to the single-tax thesis, in which Henry George advocated that a society's public spending needs could be wholly and efficiently financed out of land values.

Does Samuelson the scientist leave his instruction of economic students at that? No. For he then goes on to assert that "the weakness" of this tax rule "is exactly parallel to that of the single-tax movement; a good tax system depends not only on its efficiency but also on its perceived fairness."

This is twaddle, and the professor must know it!

A good tax system either passes the efficiency tests (and is therefore "good") or it does not. But its success in doing so does NOT depend on what people think about it.

People have been known to be wrong. But whether they are, or not, is irrelevant to both the intrinsic merits of a tax system and the scientist's role. Samuelson's bias emerges with his elaboration of the acceptability of a good tax system:

"If the necessities of life are the most inelastic in demand, this suggests that poor families spend a disproportionate part of their incomes on them. But then efficient taxes would be very regressive, hitting the poor harder than the wealthy. Would that satisfy conventional standards of fairness?"

The irresistible conclusion is that a good tax system is in practice out of reach because poor people would suffer!

In reality, the tax rule need not be invoked against poor people's necessities (such as food). It can be restricted solely to land which would be perfectly fair, in Samuelson's terms, because the value of land that people occupy generally corresponds with their income.

The professor's rebuttal would be that rent constitutes but 5% of the nation's income – insufficient to meet government expenditure, which is around 50%. He is wrong, deceived by appearances.

Government statistics do not reflect reality: rental income disguised by the most inefficient tax system imaginable is around 30%.

The experts ought to restrict themselves to unravelling the reality from the appearances, to help people draw their own conclusions about what would be an acceptable tax system.