



● Samuelson, left, and Nordhaus

Confusion maestros!

INSITE REPORT by Peter Poole

THINGS are not always as they seem, and the primary purpose of a scientific discipline is to objectively perceive facts.

Reality, however, can be a many-faceted thing – and we end up relying on the “expert’s” judgment on which facts can be taken at their face value.

For example, Britain has more than three million people officially classified as unemployed. Commonsense suggests that this means the free market economy at any rate, as it is structured and administered in Britain is guilty of wasting resources.

That perception may be too naive, in the view of an expert like Paul Samuelson, the professor who founded the graduate department of economics at Massachusetts Institute of Technology. Such an assessment, it seems, can only be “alleged”: for the sake of scientific objectivity, we must not jump to rash conclusions of the commonsense sort.

Leave the facts to the scientists – the men who know how to separate empirical facts from value judgments.

Samuelson’s book on economics, however, which on a worldwide scale has been studied by more students than any other text on the subject, is a classic example of how the innocent can be misled by the expert.

It is impossible to know how much damage – as well as good – has been done to generations of students, who think that the master’s rigorous analysis has equipped them to think objectively about the burning economic issues of the day.

PAUL SAMUELSON was the first American to receive a Nobel Prize in economics (1970).

He has communicated to a large audience, through a column in *Newsweek*, and he has kept the Washington power-brokers informed of his views through his testimonies before Congress.

As an academic consultant to the

Federal Reserve and the U.S. Treasury, and economic adviser to President John F. Kennedy, his credentials are impeccable.

His primary influence on the world, however, has been through *ECONOMICS*, first published in 1948 and now into its 12th edition.

Students who pick up his book, then – students whom, the professor notes, will “for the most part, never be going on to further formal study in economics” – expect objective guidance on the principal economic issues that confront society.

Economics, the professor informs them, is one of the tools at our disposal in “the endless quest for the good society.” We all want the good society, of course, and that is why politicians place alternative policies before the people to enable them to choose the strategy which they think will take them closer towards that goal.

And the contribution of the economist is to “make an effort to cultivate an objective and detached ability to see things as they ARE, regardless of our likes or dislikes.” Judged by this standard, we think that Professor Samuelson’s book fails to guide people along the path towards the ideal society.

WHILE most men would probably agree about what constitutes the principal elements of the ideal society, serious disputes arise when we try to talk about the social and economic rules that would be necessary to help us to achieve our aspirations.

Most men would say that their

primary goal is to be free to enjoy wealth, while fulfilling their civic duties as they perceive them.

★ **OBSTACLES** in the way of economic activity ought to be eliminated, so that people can deploy their material resources and labour energy in the most creative way possible.

★ **GOVERNMENT** restraints on personal freedom ought to be reduced, if not eliminated – such action has to be consistent with the maintenance of an orderly society (few people advocate anarchy).

★ **LEGITIMATE** social activities (defence of the realm; political leadership; the judicial system) have to be financed out of the public coffers, which means the acceptance of a certain amount of revenue-raising taxation.

Professor Samuelson, in the most recent edition of his book, co-authored with Professor William Nordhaus of Yale, boldly describes how this ideal society can be achieved. Two things have to be done.

First, all three factors of production – land, labour and capital – have to be priced on the basis of the interaction between supply and demand.

Second, pure rental income has to be taxed away, in order to both equalise the rewards to workers on the basis of their individual contributions to the wealth-producing process, and to finance the national exchequer.

YOU WOULD think that such an elegant solution to the major economic problems of the day would be worth trumpeting to the keen young minds searching for ways to improve society.

Wrong.

Samuelson and Nordhaus readily concede that a tax on the pure rent of land – a factor in elastic supply (i.e. impose a tax on rent and you would

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ARGUING that the new Irish tax on the annual value of farmland should be both increased and extended to all types of land is rather like arguing that Brendan Behan should be posthumously decorated by the Temperance Society.

In the words of the *Irish Times*, "agriculture is still a major force in this country; a sense of property more so."¹ The property editor refers to "those who meddle with the mechanisms of a free market" as "the people who would nuke the temple to get rid of the money-changers."²

Clearly, only a demonstration that the institution of landownership itself is the **primary** cause of Ireland's continuing economic woe can possibly justify a call for an increase in the taxation of land values.

IRELAND is famous for its "Land Question".

The irony is that the 19th century

Land tenure

By **DAVID RICHARDS**

landlord/tenant system which the reformers blamed for the country's economic backwardness probably benefited the economy more than the peasant proprietorship which succeeded it.

The academic interpretation of Irish history, which had been dominated by nationalist writings, has undergone serious revision in the last 20 years. Michael Winstanley, sum-

marising the state of the art, concludes that

The traditional view that Irish development was retarded by the oppression and exploitation carried out by a small landowning class has been largely discredited by recent research... The British Government's land reforms, while ultimately contributing to the rapid expansion of owner-occupancy, had little impact on agricultural efficiency or economic prosperity.³

Does this mean that the arrangements made for ownership and occupation of land have no bearing on the state of the economy?

Evidently that is not the implication, for Winstanley also notes that

Unedifying edicts!

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not reduce the supply of land to users – unlike a tax on wages or profits, would not distort production incentives or efficiency (p.605).

And they readily acknowledge one of the theoretically most solid economic laws – a tax on the value of land in its unimproved state cannot be passed on to anyone (it falls on the landowner (p.402).

Having pushed themselves to the limits of their expertise, however, the authors see fit to set aside their mortar boards and don the mantle of the cautionary sage.

"We thus see a valid and important element in the single-tax movement: taxation of pure economic rent does not impair economic efficiency. But people do not live on bread alone, and an economy cannot run on efficiency alone.

"While a stiff tax on land rents may be an efficient tax, it may also be perceived as unfair. Many voters will feel that landowners are just as deserving as are investors who have put their money into other things." (p.606).

Delightful the way the objective scientist subliminally suggests that the adoption of an efficient fiscal policy which would benefit everyone except

that minority which happens to monopolise a natural resource may not be FAIR!

But they are not finished with the process of smuggling in value judgments for the benefit of the students. For they suggest that "in many countries, particularly in Latin America, the bounty from oil, gas and other subsoil assets is considered a national patrimony; turning these over to private individual owners would be close to sacrilege."

A generous concession, you might think, but the authors then employ their observation to further shape the reader's attitude towards the ideal tax policy by implying that it is inconsistent with "the predominantly free enterprise approach of the United States."

IN FACT, we are explicitly told that the ideal society is a "planned" one – and that concept, of course, is a buzz word for the Marxism with which no patriotic person would flirt.

This attempt at conditioning the reader emerges in the parable of the identical twins. Each of them works land of different fertility (p.689).

In order to achieve maximum out-

put, and to ensure a fair distribution of wages (in this case, similar sums for the equally hard-working identical twins) it is necessary to put a price on land (economic rent) and then tax it.

"Our ideal society finds it essential to put a rent on land as a way of maximising the total consumption available to the society. But these efficiency rents need not go to the privileged – they can go to the state (in rents or in taxes on rents) and be distributed as a social dividend or be used to buy public goods." (p.690).

Fine in theory, it seems, but we are told that this is a "Utopian" society – which is one way for the teacher to influence the minds of his innocent readers who are more concerned about learning how to get to grips with the "real world."

Time and again, Professor Samuelson repeats that it is not his job to sway readers with his personal values. And then he goes and spoils it all by admitting (10th edn., p.8, n.2) that "Which questions we ask, and from what perspective we photograph the 'objective reality' – these are themselves at bottom subjective in nature."

Which is a nice way of saying that people should not uncritically abandon their commonsense judgments in favour of the edicts of experts!