

HENRY GEORGE NEWS

Vol. 13—No. 10

AUGUST, 1950

10¢ A COPY—\$1.00 A YEAR

The Educator and Economic Reform

By PINKNEY C. WALKER

Professor, Department of Economics, University of Missouri

I AM very happy to be here this evening and have this opportunity to discuss some of the problems that confront us as teachers. Our objectives are the same; and the problems which we must meet in accomplishing our objectives are, I think, very similar.

Our objectives, as I see them, are as follows: as teachers we want to help our students acquire a better understanding of the economic forces at work in our society. An understanding of cause-and-effect relations in the economic world is of vital importance. For we cannot hope for intelligent public policy unless those who formulate policy have some notion concerning the economic consequences of their decisions. You and I—and your students and mine—all have some influence on policy formation in our democratic society. If we would choose wisely among our alternatives, we must be aware of the probable consequences of our choice; we must be informed.

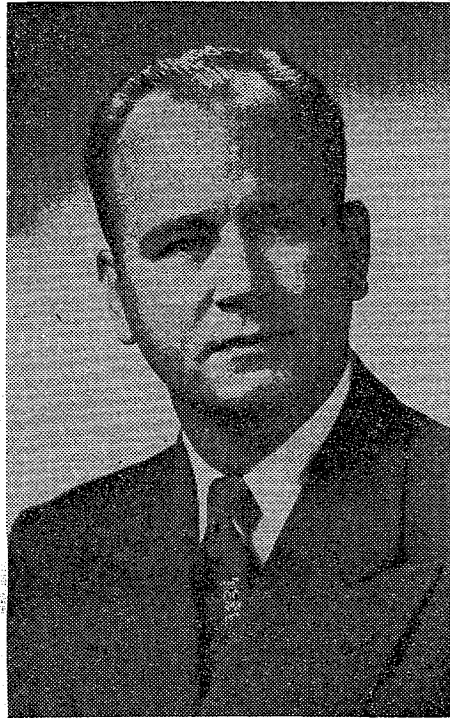
But we must also help them in the philosophical sphere—in their quest for an economic philosophy. The citizen must have an appreciation of the implications of his choice among alternative goals as well as in an ability to analyze cause-and-effect relations. Without such appreciation his ability to foresee the economic consequences of alternative social policies is of little use. In short, he must have some more or less definite conception of what constitutes the ideal—a conception which can serve him as a basis for appraisal of the *status quo* and of alternatives to the *status quo*. What is our proper role, as teachers, in this connection?

It is certainly not the proper function of the teacher to try to superimpose his own philosophy on the student. The student must find his own answers—he must forge his own philosophy.

It is not difficult to reach common ground as to goals when we phrase the goals in general terms: What are the criteria of a good economic system? Obviously, we want to utilize our scarce means of production in the most efficient and economic way so as to maximize the satisfaction of human wants. Further, we want a just system of distribution of the commodities and services turned out by our economy. So far, there is little room for disagreement. But what is a just system of distribution? Here we have a philosophical question—and a question which the economist *qua* economist cannot resolve. The question nevertheless requires an answer. Let us consider some of the alternatives:

1. *equal sharing*

One possibility is the sharing of income on an equal basis. If we were to accept this as our ideal, we should strive for a distributive system whereby everyone would receive the same value of economic goods regardless of the role he played in the economic process. The typical student reaction to this alternative is in the form of a question—"Do you mean that if I work



harder and produce more I don't get anything out of it?"

2. *sharing on the basis of need*

The advocates of this alternative argue for a distributive system in which income varies with the needs of the recipient. This requires the establishment of a criterion by which "need" can be measured. Who is to say whether Jones' needs are greater than Smiths'? Whoever the decision maker, he is almost certain to have a brother-in-law; and the brother-in-law influence has no place in the making of decisions regarding the distribution of our national output.

3. *sharing on the basis of contribution*

A major fault of the two bases of distribution mentioned above is their adverse effect on incentive. Both arrangements would very likely sharply reduce national output. Sharing on a contribution basis would mean that the performance of any function resulting in an increase in output would result in an increase in income to the one who performs the function. Under this criterion, one would be deserving of his income even though he greatly enjoyed performing the function.

The contribution basis of income sharing seems to be in accord with our ordinary notions of justice and equity, and it has the further advantage of being consistent with personal gain as a motivating factor. Let us assume that we have general agreement as to this choice among the alternative bases of income sharing. We can now formulate a criterion of an earned in-

come. An income is earned when its recipient contributes as much in value to the national income as he draws. In other words, his reward or share is a reflection of, and equal in value to, the value of his productive contribution. Such an income receiver could hardly be said to be "exploiting" anyone. If he had not performed his function, the product value which makes up his reward would not have existed. If he gets more than this, he is an exploiter of others, who must necessarily receive less than the value of their contributions. If he gets less than this, he is among the exploited, and someone else is receiving more than the value of his contribution.

I should like to repeat that we cannot properly present a student with a ready-made philosophy; though we can, as I mentioned before, help him to realize the implications of his choice among goals. But regardless of what conclusions he reaches in his philosophical inquiry, until he arrives at some conception of the ideal, he is not in position to pass judgment on proposals of economic reform. A proposed economic reform cannot be appraised without some basis for the appraisal; the student must have some conception of what sort of economic society he wants before he can pass judgment as to the desirability of any suggested modification of our economic system. Whether one approves or rejects a suggested program of economic reform will depend very largely on the philosophical position which serves as the basis of his appraisal.

Let us now turn to the question of economic reform and let us assume that we have general agreement as to our goals. Specifically, let us say that our aim is to utilize our scarce resources so as to maximize the production of economic goods and divide out the economic product on the basis of productive contribution. In terms of these goals, let us consider the land value tax proposal and some of the problems confronting the teacher in connection with the discussion of it. I think it is important to stress the distinction between the economic and ethical aspects of the proposal.

Considering first the ethical aspect—before we can apply our earned income criterion, we must first classify incomes according to source. Apart from transfers such as gifts, a person may receive income in three basically different capacities. He may receive income in the form of wages in his capacity as a worker. He may receive income in the form of interest in his capacity as a capital owner. And he may receive income in the form of economic rent in his capacity as a landowner.

If we include all effort that goes into the productive process in our labor category, all man-made wealth used in production in our capital category, and all "gifts of nature" involved in the economic process in our land

(Continued on Page Three)

The Educator and Economic Reform

(Continued from Page One)

category, then our three classes of productive factors are all-inclusive. Thus the sum of wages, interest and rent must equal the value of the national income. Let us apply our criterion of an earned income to each of these three functional distributive shares. Wages are received for a positive productive contribution on the part of the worker and tend to be set by the market at a level which reflects the value of that contribution. Thus, according to our criterion, wages constitute an earned income.

Similarly, interest on capital is a reward for the performance of an essential function by its recipient, the saver. Capital is productive in the sense that an addition to capital makes possible a greater value output than we would otherwise have. Since saving is essential to capital formation, and since the use of capital makes for greater output, interest must be regarded as earned in the same sense that wages are earned. In both of these cases, the income recipient performs an essential function which adds to the value of society's economic product. And in both cases, the market tends to fix the reward to the factor owner at an amount which is equal to the value of the productive contribution.

What do we find when we apply our criterion to land rent? Does the landowner, as such, make a productive contribution in the same sense as do the worker and saver? No effort or saving are involved in bringing land into existence, and the value of land is independent of its owner's effort and thrift. Here we have a real difference. Land has value because of geological factors, such as oil lands or coal deposits, or its value is attributable to community growth and development. In either case, the landowner is not responsible for the land's existence and he is not responsible for its value. Clearly, the application of our criterion must force us to conclude that land rent is an unearned income: if the landowner is permitted by custom and law to appropriate economic rent for his own purposes, he is being permitted to take without giving—to enjoy a share of the goods created by society for which he makes no corresponding contribution.

Once the student gets clearly in mind the distinction between land and capital and between rent and interest, he is in a position to compare our existing tax system with a land value tax system from the ethical point of view. He can see that our current tax system takes a large slice of wages, leaving the worker a share of the national income which is much less than the value of his contribution to it. He can see that our tax system takes a considerable part of the interest yielded by capital, thus reducing the saver's income to an amount considerably less than the value of his productive contribution. And he can see that the landowner, even after paying his taxes, is left with a big percentage of his rent, thereby receiving a net income after taxes for which he makes no productive contribution whatsoever.

He can see, too, that the adoption of George's proposal—to untax labor and capital and raise our public revenue so far as possible by taxing land rent—would modify the incomes of all three of these groups of income receivers in such a way as to make their share of the social product more nearly equal to their contribution to it. If he accepts the idea of sharing income on a contribution basis, he will

see that this simple modification of our tax system is the only way to establish a truly just system of distribution.

Let us now turn from the ethical aspect of the land tax question and give some consideration to the economic aspect. Here we are concerned with the economic consequences of George's proposal. I think it should be stressed that there is a great difference in the nature of these two questions—the ethical question and the economic question.

These are in a real sense independent questions. Our conclusions in the cause-and-effect inquiry must be accepted if our assumptions are realistic and our logic is rigorous. They must be accepted regardless of our philosophical position. When we pose the question, "If we adopt such and such a policy, what will be its effects", we are posing a question in pure science. If we can say "If A, then B", we have a scientific law. A scientific inquiry, conducted properly and based on realistic assumptions, yields results which we are forced to accept. Whether we like the results, whether we consider them socially good or socially harmful, has no place in the inquiry. Thus, when we ask what would be the economic consequences of the adoption of the land value tax proposal we are posing a proposition in pure theory and our answer, if scientifically derived, must be accepted regardless of our philosophical conceptions.

The first important effect which we should expect to result from imposing taxes on the economic rent that land is capable of yielding, and reducing or removing other taxes, is that there would be more good land forced into use. More good land in use means a larger social output. It means a higher standard of living. And it indicates that the adoption of the land value tax proposal means more than a mere redistribution of income, for the increase in national income which would result from its adoption necessarily involves a net social gain.

Wages—the share of the national income which goes to those who contribute to the economic process through their efforts—would rise, for two reasons. Since the market tends to fix wages at a level which reflects the contribution of the worker to production, a worker's wage tends to vary directly with the value of his productive contribution. Because the land tax would force more good land into use, we should expect the marginal productivity of labor to be higher. That is to say, we should expect laborers to be more productive at the margin working with better land than they would be if they worked on poorer land.

Now let us consider briefly the effect on the receiver of interest. Capital will be more productive at the margin as a result of better land in use and the rate of return to savers will, at least for a time, tend to be higher. Also, the reduction or removal of taxes which now tends to reduce interest would give the saver a larger part of the increase in production which his capital makes possible. Perhaps it should be mentioned that such an increase in capital would logically tend to raise the marginal productivity and the wages of labor even higher, thus giving us another reason for expecting wages to go up to add to the two reasons listed above.

To sum up this part of our inquiry, it would appear that the adoption of the land value tax proposal would result in an increase in wages,

and increase in the interest return to the saver, and a great reduction in the sale price of land. Also, since it would increase the reward for effort and thrift and since it would force more good land into use, we should reasonably expect a considerable increase in the total value of goods turned out by our economy. This increase in output means a higher standard of living. It is another way of saying that the total gain on the part of those who gain from this reform exceeds the total loss of the losers. There is a net social gain; it is not a mere redistribution.

So much for the economic or cause-and-effect aspect of the proposal. Do we want these results? Would one not have to have a very peculiar philosophy if he were to consider socially undesirable such effects as the following: higher wages to workers and wages more nearly in line with the value of the laborers' productive contribution; increased returns to savers and interest receipts more nearly in line with the contribution of the saver to the productive process; a net increase in total output and in the standard of living; a great reduction in the cost of acquiring decent housing, since the high price of the land is one of the main obstacles to the solution of our housing problem; a system where the industrious and the thrifty are rewarded for their industry and thrift; and a system which is consistent with personal gain as a motivating force? Do we want these results? Ask your students; they will give you the answer.

There is a strong movement underway in the world today—a movement toward communism. Communism in practice must necessarily be a coercive system. It is a system in which the realm of choice of the individual is very greatly restricted. To one who puts a high value on individual freedom and the dignity of the individual, it is a vicious system. As a political system, it is inconsistent with the principles of democracy. As an economic system it is inconsistent with our aim of utilizing our scarce means of production in such a way as to maximize the satisfaction of human wants and it is inconsistent with the philosophical postulate that a just system of distribution is one in which individuals share in the national income on the basis of their contribution to it.

How are we to fight this menace? Our real danger, as I see it, is from within. What are our weapons and who are our troops in this ideological battle? Knowledge and truth are our weapons and our teachers are our troops. It is our job, as teachers, to get across to our students a clear and accurate picture of what life would be like under a true free enterprise system. We must help them to see what our system could be like with a few basic modifications in our existing institutions. We must make it clear that our alternatives are not confined to a choice between communism and the *status quo*—that there is a third alternative which is much to be desired over either communism or the *status quo*. If we present these three pictures clearly and accurately, we need not fear what the choice will be. Free people will never choose communism if they are informed and fully realize the implications of their choice. To inform them is our job—yours and mine. And it is a job at which we must not fail.

[The full text of this address by Professor Pinkney C. Walker at the St. Louis Conference banquet on July 15, 1950, will be published by the Schalkenbach Foundation. Professor Walker is an associate of Professor Harry Gunnison Brown, in the Department of Economics, University of Missouri, at Columbia, Missouri.]