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### The Educator and Economic Reform

I am very happy to be here this evening and have this opportunity to discuss some of the problems that confront us as teachers. As teachers we have much in common. Our objectives are the same; and the problems which we must meet in accomplishing our objectives are, I should 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 this is not all. If we do not do more than this for our students, we have failed. 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 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, we 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,

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cess. There are a number of cogent arguments against this basis of distribution; among them is the argument that it would almost certainly have the effect of reducing total output -- perhaps very greatly reduce it --, as it would seriously reduce the incentive of the individual to work and to save. Further, absolute equality in income-sharing seems to strike most people as inherently unjust; it does not seem to be in accord with our ordinary concepts of justice and equity. The typical student reaction to this alternative is in form of a question-- "Do you mean that if I work harder and produce more I don't get anything out of it?" Of course one might argue that such questions will not arise once the communist dream of "socialization of motivation" becomes a reality. This is of course true, in the same sense that it is true that when the sun stops shining no one will inquire where he can purchase sun glasses. But the facts are that the sun does shine and that people are motivated by personal gain; and we will do well to take account of such facts in our reasoning.

## 2. sharing on the basis of need

Consideration of this alternative need not detain us long. The advocates of this basis of income distribution argue for a distributive system in which income varies with the needs of the recipient. Both of the arguments mentioned above also apply here. There is a further difficulty here, however; the adoption of this basis of income-sharing requires the establishment of some sort of a criterion by which "need" can be measured. Who is to say whether Jones' needs are greater than Smiths'? Who is to make the decisions and how can we objectify the criterion? 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.

A number of other bases of income distribution could be considered; let us consider only one more: **OVER**

more than this, he is an exploiter of others, who must necessarily  
 value which makes up his reward would not have existed. If he gets  
 the "anyone. If he had not performed his function, the product  
 tion. Such an income receiver could hardly be said to be "exploit-  
 tion of and equal in value to the value of his productive contribu-  
 as he withdraws. In other words, his reward or share is a reflec-  
 its recipient contributes as much in value to the national income  
 formulate a criterion of an earned income. An income is earned when  
 choice among the alternative bases of income sharing. We can now  
 factor. Let us assume that we have general agreement as to this  
 advantage of being consistent with personal gain as a motivating  
 our ordinary notions of justice and equity, and it has the further  
 The contribution basis of income sharing seems to be in accord with  
 function which resulted in the contribution.  
 income even though he greatly enjoyed performing the  
 the contribution criterion, one would be deserving of his  
 effort wasted, and is hardly deserving of reward. Under  
 ward; effort which does not result in contribution is  
 the effort involves that is the justification of the re-  
 that it is the contribution and not the sacrifice which  
 society's total output, he reaps a larger reward. Note  
 If Jones works harder and contributes a greater value to  
 increase in income to the one who performs the function.  
 sulting in an increase in output would result in an in-  
 basis would mean that the performance of any function re-  
 not subject to this criticism. Sharing on a contribution  
 basis of their contribution to the production process is  
 A system of distribution where individuals share on the  
 ments would very likely sharply reduce national output.  
 above is their adverse effect on incentive. Both arrange-  
 A major fault of the two bases of distribution discussed

3. Sharing on the basis of contribution

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 our students with a ready-made philosophy; but 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.

Let us first consider 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 economic rent

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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 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 owners effort and thrift. Here we have a real difference. Land has value because of geological factors, such as old sands 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.

The distinction between land and capital and the corresponding distinction between rent and interest are extremely important. If we want our students to gain a clear understanding of the land value taxation proposal we must be very careful to bring out this distinction clearly. Capital is man-made; land is not. Capital construction requires saving, whereas land exists independently of saving. The individual who saves makes possible the construction of capital which in turn adds to total output; he is thus performing an essential function and our criterion requires that we consider his interest income earned. The landowner's rent, on the other hand, arises from factors independent of anything he, as a landowner, does. If the landowner had never existed, the land would still be here, it would still have value, and it would still yield rent; land rent is, then, not related to a positive productive contribution on the part of its recipient, in the same sense as are wages and interest.

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,

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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 insofar 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.

Before we leave the ethical aspect of the land value tax proposal, let us briefly consider the so-called vested rights argument. How many times have I heard this argument -- and I am sure you have had the same experience. It is usually phrased somewhat as follows: "But many people have worked and saved and put their hard earned money into land. Would it not be unfair to heavily tax their land? would such a policy not greatly reduce their incomes and the value of their property?" It is of course true that many landowners would lose by the adoption of a land value tax. It is interesting to note, also, that many landowners would actually gain from its adoption. Whether an individual owner would gain or lose would depend on the relative importance of rent among his sources of income. But this is of course not an answer to the vested rights argument. How shall we answer it? I believe that the most effective answer is to show that the logic of the argument, if one is consistent, dictates against any kind of economic reform whatsoever. It is difficult to conceive of a proposal of economic reform that does not injure somebody in one way or another. Removal of protective tariffs, for example, although clearly in the interest of society, would injure some of the protected producers. Thus one who argues vested rights against



the land value tax proposal must logically argue vested rights against free trade. The regulation of the rates of monopolies, though clearly in the best interest of society, would result in financial loss to monopolists not previously regulated. One who opposes land value taxation on the basis of vested rights would logically have to oppose regulation of the rates on monopolies if such regulation would lower their returns and the value of their stock. Indeed, a thorough-going adherent of the vested rights argument would have to argue that society had no right to free the slaves, for surely this caused a financial loss to many slave owners! In short, the vested rights argument is applicable to any significant change in public policy, and one who uses it puts himself in the very untenable position of defending the status quo, or else laying himself open to the charge of inconsistency. We might as well face up to the facts of the case; if any group in society is in a position to exploit -- to reap where they have not sown -- it is impossible to establish a just system of distribution and at the same time avoid financial loss to the exploiters. If A is in a position to rob B, even though he purchased the privilege from C, we cannot logically protect him in his privilege; to do so would mean that B must forever remain a victim of exploitation. To do so would mean that we could never achieve a system in which goods are apportioned on the basis of services rendered. Justice requires that society take away from A this privilege, even though it involves financial loss to him.

As a matter of fact, society has never in the past let the vested rights consideration stand in the way of changes in public policy. Vested rights are violated in every new tax bill and in every new spending measure passed by our legislatures and by congress. I have found it puzzling that the vested rights argument seems never to be used in opposition to these measures -- to taxes which fall on wages, to excise taxes, income taxes, and to price

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supports for farmers. It is just as applicable in principle to these as it is to taxes on land values, but for some reason the argument seems to be invoked only when the land value tax proposal is up for discussion.

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. They 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.

We shall not have time to elaborate completely our assumptions and method. We can, however, consider in summary form some of the probable economic consequences of the substitution of taxes on economic rent for taxes which fall on wages and interest and present some of the reasons for these consequences. Along with this summary we shall also consider some of the problems that confront the teacher in dealing with this aspect of the proposal.

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. Since the tax would apply to idle land, if supra-marginal, it would force into productive use land which is now withheld from use because it would make it highly unprofitable for land speculators to hold valuable land idle. Suppose a given piece of land would yield, if put to its best use, an annual income of \$2,000 over and above repairs, depreciation, the going rate of return on capital, and wages at the market rate. An annual tax imposed on the land of, say, \$1800 would certainly discourage the landowner from holding it out of use. He would be forced, by the burden of the tax, to put the land into productive use or sell it to someone who would use it. In either case, there is a net gain to society, as we shall see.

It is very important that we help our students see the full significance of the above observation. 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.

Let us next consider briefly the effect on wages. Wages -- the share of the national income which goes to those who contribute to the economic process thru 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.

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The second reason why we should expect the wages received by the worker to be higher is because of the reduction or removal of taxes which now fall on wages. To illustrate, let us suppose that a certain worker, with present taxes, produces a marginal value-product of \$4,000 per year. He does not receive the full \$4,000; he gets, instead, the \$4,000 less taxes the incidence of which fall on his wage income. Thus he receives, say, \$3,600, while he actually contributes \$4,000 in value to the total annual production of goods. The combined effect on his wages of forcing idle, supra-marginal land into use and removing taxes which reduce his wages might well result in a wage of, say, \$4,200 -- a very considerable increase over the \$3,600 he is now receiving.

Now let us turn to the effect on the receiver of interest. The benefits to the saver, or capital owner, which would result from the adoption of a land value tax in lieu of other taxes parallel to those which we have discussed for the wage earner. Capital will be more productive at the margin as a result of better land in use and the rate of return to savors will, at least for a time, tend to be higher. Also, the reduction or removal of taxes which now tend to reduce interest would give the saver a larger part of the increase in production which his capital makes possible. To illustrate these two effects, let us suppose that the marginal capital is contributing \$50 to the national income, since the capital adds a value of \$50 to output -- i.e., the capital makes possible the production of \$50 worth of goods which would not have been produced if the capital had not existed. Suppose, now, that taxes reduce his interest return to, say 3 per cent or  $\frac{3}{100}$  per cent. The combined effect of removing or reducing taxes on capital and forcing better land into use might well result in an interest re-

turn to the saver of more than 5%. Of course this increase in the

net return on saving might result in more saving thus tending to reduce the rate to something below 5%. But if this were to occur, it would mean that society would have more capital, which in turn would mean a still larger national income. 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.

Let us now briefly consider the effect of the adoption of the land value tax proposal on the sale price of land. The market tends to fix the sale price of land at a point where it is equal to the capitalized value of the anticipated net rent. The interest rate used in the capitalization of the anticipated rent is the net rate which reflects the alternative return one could drive from other investments. To illustrate with a simple case, a piece of land which is expected to yield an annual net rent of \$1,200 per year would be worth \$40,000 if capitalized at a 3% rate. What would be the effect of the adoption of the land tax proposal on the sale price of this piece of land? It would greatly lower the sale price for several reasons. First, by forcing more land into use, the marginal productivity of the land would be reduced, thus tending to reduce the anticipated net rent. Second, the heavy tax on rent would further reduce the anticipated net rent. Further, as we saw above, the proper interest rate for capitalizing the net rent would, for the two reasons noted above, be greater. With the anticipated net rent greatly reduced and with the capitalization rate increased, the result is a very great reduction in the sale price of land. Indeed, as the tax rate approached the point where it takes all of the anticipated economic rent, the sale price of the land would approach zero.

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

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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. It is a system, in practice, where the individual is told what to do. 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

they will give you the answer.  
a motivating force. Do we want these results? Ask your students;

and thrift, and a system which is consistent with personal gain as the industrious and the thrifty are rewarded for their industry obstacles to the solution of our housing problem. A system where housing, since the high price of the land is one of the main

of living. A great reduction in the cost of acquiring decent live process. A net increase in total output and in the standard nearly in line with the contribution of the saver to the production. Increased returns to savers and interest receipts more nearly in line with the value of the laborers productive contribution.

socially undesirable? Higher wages to workers and wages more a very peculiar philosophy if he were to consider these effects proposal. Do we want these results? Would one not have to have

So much for the economic or cause-and-effect aspect of the There is a net social gain; it is not a mere redistribution.

who gain from this reform exceeds the total loss of the losers. another way of saying that the total gain on the part of those

This increase in output means a higher standard of living. It is increase in the total value of goods turned out by our economy. more good land into use, we should reasonably expect a considerable increase the reward for effort and thrift and since it would force a great reduction in the sale price of land. Also, since it would in wages, and increase in the interest return to the saver, and

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.

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