

## Re: von Mises Institute on Henry George

**Source:** <http://sci.tech-archive.net/Archive/sci.econ/2004-08/1226.html>

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**From:** RueTheDay ([ruetheday\\_at\\_outgun.com](mailto:ruetheday_at_outgun.com))

**Date:** 08/21/04

Date: Fri, 20 Aug 2004 21:54:35 -0400

"Grinch" <[oldnasty@mindspring.com](mailto:oldnasty@mindspring.com)> wrote in message  
news:katci0hpicdbahm0nsf340chdq6rkl66rr@4ax.com...  
> On Fri, 20 Aug 2004 17:21:39 -0400, "RueTheDay" <[ruetheday@outgun.com](mailto:ruetheday@outgun.com)>  
> wrote:  
>  
> > "Grinch" <[oldnasty@mindspring.com](mailto:oldnasty@mindspring.com)> wrote in message  
> > news:c6mci0p1beu2qlnd2dln4dltec2f37c42i@4ax.com...  
> > > On Fri, 20 Aug 2004 10:48:09 -0400, "RueTheDay" <[ruetheday@outgun.com](mailto:ruetheday@outgun.com)>  
> > > wrote:  
> > >  
> > >  
> > > *BUT NOW let us imagine a 100% profit tax is imposed on the seller on  
> > > all transactions, so no profit is possible.*  
> > >  
> > > *Imagine, say, an auto dealer with a big inventory of new cars on the  
> > > lot at the time a 100% tax on all profit from the sale or lease of  
> > > cars is imposed.*  
> > >  
> > > *Now his profit motive to bring cars to market is gone. \*poof\**  
> > >  
> > *Right. Cars have a production cost, land does not.*  
> >  
> > *Cars \*in inventory\* have no production cost.*

But they certainly have a carrying cost.

> *Do you know what sunk cost is?*

Yes. Do you know what depreciation is?

> *The question is what happens to the market price of the cars in  
> inventory?*

That depends on market demand and the rate at which they are deteriorating  
in the parking lot.

> > *Is he going to pay to advertise the cars to find those potential*

- > >> *buyers and lessors to whom they are worth the most, and who would be*
- > >> *willing to pay the highest price? Is he going to pay marketing costs*
- > >> *for those cars? Is he going to make an effort haggling to get the*
- > >> *price up?*
- >
- > *Answer please?*

Of course he is. He's racing against the clock as the cars are depreciating on his lot. Land, however, does not depreciate. On the contrary, it tends to appreciate.

- > >> *Why would he? His return from any effort is \$0 -- that means any*
- > >> *effort is unreimbursed and creates a loss.*
- > >>
- > >> *With \$0 return from selling cars, why wouldn't he just walk away from*
- > >> *them? Well, probably not, because he can still get a personal return*
- > >> *by disposing of them to friends, the brother-in-law, and whatnot. The*
- > >> *cars will move off the lot one way or another.*
- > >>
- > >> *But the seller has \*zero incentive\* to bring them \*to market\*,*
- > >> *literally.*
- > >>
- > >> *Isn't it a little bit naive to think the \*market price\* of these cars*
- > >> *will be unchanged? ; -)*
- > >
- > > *Of course it would be naive. The supply of cars is elastic.*
- >
- > *The supply of cars in the dealer's inventory is NOT elastic.*

You're creating an artificial restriction. If you really want to stretch, you can say that any good, once it is produced, will be supply inelastic for a discrete period of time (from the time it is produced until the time it is fully depreciated) because its quantity will be fixed. However, that is not the true definition of supply elasticity. If the market price of cars jumped to \$1 million each, the dealer would find a way to procure more, if it dropped below zero (due to excessive carry costs) he would get rid of the cars. So the supply would vary with price. The same cannot be said for land.

- > > *A tax on the seller does not alter the slope of the*
- > > *supply curve, it shifts the supply curve upward by an amount equal to the*
- > > *tax; the slope remains the same.*
- >
- > *Uh, oh, but we are not talking about "a tax on the seller", such as a*
- > *percentage or dollar tax that merely shifts the curve. The tax reduces*
- > *the price received by the seller to \$0.*

So what. That's a 100% tax on the seller. If it fell on the buyer, it would shift the demand curve with the same end result. It would never change the slope of either the supply or the demand curve. Just admit you were wrong and move on.

- > *We are talking about confiscation of proceeds to the seller -- \$0 net*
- > *revenue from sale specified at \*all\* prices.*

Right. A 100% tax.

- > *What is the slope of the supply curve when price is always \$0? The*
- > *supply line never extends above \$0 price?*

You are conflating two different definitions of price here. The supply and demand curve each show a quantity that will be supplied or demanded as a function of price. The actual market price is where the supply and demand curves intersect.

- > *How much is supplied at \$0?*

That is the first definition. The answer is 0. That has absolutely nothing to do with the slope of the supply curve.

- > *>In the extreme case of 100% taxation that*
- > *>you cite, the supply curve will intersect the demand curve where the*
- > *demand*
- > *>curve intersects the Y axis*
- >
- > *But I'm just as happy using your derivation!*
- >
- > *What is your number for "quantity" at the point where the demand curve*
- > *intersects the Y axis?*

Zero.

- > *Does the Y axis mark 0 (zero) on the quantity line?*

Yes.

Of course, in the case of land, the supply curve is a vertical line. It intersects the X axis at whatever the quantity of land is. That number is fixed and does not vary based upon the price or anything else.

- > *>and the equilibrium quantity produced will be*
- > *>zero.*
- >
- > *> I suggest you either take a first course in microeconomics or stick*
- > *>to practicing law.*
- >
- > *Actually sometimes I have a problem with vertical and horizontal. ;-)*

You seem to have a number of problems.

- > *But, you see, we get the same intersection either way! Where the*
- > *demand line crosses the Y axis. As long as the answer is right! And*
- > *it is...*

No. Where the demand curve intersects the SUPPLY CURVE not the Y axis.

> *"quantity produced will be zero."*

Wrong again. You are in effect arguing that a tax on land would result in the quantity of land decreasing to zero. Do you see the problem here?

> *>Of course there is. The supply curve for land is a vertical line. You*

> *>can't shift it upwards.*

>

> *Hey, the total existent supply curve for the cars sitting in dealer*

> *lots now is a vertical line too, eh? If that makes you happy.*

I showed why that is incorrect earlier in this thread.

> *As we agree with our mutual derivations reaching the same intersect,*

> *"No cars will be produced" due to the full tax on all net revenue from*

> *sales ... but the cars in the lot are \*already produced\*.*

>

> *They are in fixed, inelastic supply, just like land, if that makes you*

> *happy.*

>

> *But they are not produced to and marketed \*in the market\*, yet. They*

> *are still stuck in the lot.*

>

> *There still have to be the supply demand interactions to set their*

> *price.*

>

> *But with a net price to the seller set at \$0, how many cars does your*

> *supply–demand line derivation lead you to believe the dealer will*

> *incur costs to bring \*to the market\*?*

Zero. And that is the key distinction. Cars must be brought to market.

Land does not. It simply exists.

> *The point is landlords must \*incur costs\* to market their properties*

> *in order to discover the market price for them -- just as all sellers*

> *must incur costs to do the same. As you agreed above!*

You seem to think that land would not exist were it not for landlords. That view is appropriate for cars/car manufacturers not land/landlords.

> *Obviously, they incur these costs \*only\* because they expect a return*

> *realized in price or rent -- return, price, rent, those are OK words*

> *with you aren't they? -- that \*exceeds\* the cost incurred. They aren't*

> *always right of course, but either way that's how they discover the*

> *\*market prices\* of their properties. And how the tax assessor does*

> *to.*

A manufacturer must cover his costs (including his cost of capital) or it will not make sense for him to produce. You're forgetting that the landlord

does not produce land.

- > *But if all positive return to owning all land is taken away from them,*
- > *then that is impossible.*
- >
- > *So why would they incur costs to discover the market price?*

They wouldn't. There would be no idle ownership of land under a 100% LVT.

- > *And if they don't, what's the market price become?*

\$0 under a 100% LVT.. As it creeps above \$0, that is a sign that the tax rate must be increased. The tax, in effect becomes a negative price, and serves the same allocative function as a positive price.

- > *Because it's all worth the same to him after-tax, exactly 0% of the*
- > *rent. \$0.*

Rent is not a return on the value of the land, it is a measure of the marginal productivity of the land.

- > *And after this rents will stay exactly the same, you say! No change!*
- >
- > *Well, that may take some squaring. ;-)*

No change whatsoever. See above.

- > *In fact, as the land owner can gain exactly \$0 increment in rent from*
- > *incurring positive costs to bring the land to market to find a maximum*
- > *market price, he has no reason to participate in the market all!*

There would be no such thing as idly owning land, that is true.

- > *So you've destroyed the pricing and allocation system.*
- >
- > *Way to go!*

See above comment about negative prices.

- > *But no problem, we know there are plenty of \*other ways\* to allocate*
- > *properties rather than through market prices.*
- >
- > *Here's a clue: the party in your scenario that has \*all\* the incentive*
- > *to \*maximize\* rents is the "taxing body" that collects them all -- the*
- > *government.*

If they set the tax above the properties rental value, people will abandon land, so they won't do that.

- > *You are going to have the government auctioning off all the land*
- > *leases. And with the price of land \$0, as you say, you are going to*

- > *have no private "land owners" at all, since they will have neither*
- > *equity in the land, nor the ability (nor any incentive) to lease it.*

You will have private land users.

- > *So why do you keep talking about the fiction of having "land owners"?*
- >
- > *You aren't going to have any. You are nationalizing the land which*
- > *will be leased off by the government. Something the world has plenty*
- > *of experience with, alas.*

You would still have land privately held and used. Holding land would simply be contingent upon paying the tax, but you'd still have titles and such.

- > *And nationalization was of course what George himself was proposing*
- > *his system as an \*alternative\* to.*

He was correct. George in no way advocated a nationalized "commons" approach. He believed in the private holding of land. He just believed that the rent should go to the community.