

Re: von Mises Institute on Henry George

Source: <http://sci.tech-archive.net/Archive/sci.econ/2004-08/1237.html>

From: Grinch (*oldnasty_at_mindspring.com*)

Date: 08/21/04

Date: Sat, 21 Aug 2004 06:27:34 GMT

On Fri, 20 Aug 2004 21:54:35 -0400, "RueTheDay" <ruetheday@outgun.com> wrote:

>"Grinch" <oldnasty@mindspring.com> wrote in message
>news:katci0hpjcdabhm0nsf340chdq6rkl66rr@4ax.com...
>> On Fri, 20 Aug 2004 17:21:39 -0400, "RueTheDay" <ruetheday@outgun.com>
>> wrote:
>>
>>>"Grinch" <oldnasty@mindspring.com> wrote in message
>>>news:c6mci0p1beu2qlnd2dln4dltec2f37c42i@4ax.com...
>>>> On Fri, 20 Aug 2004 10:48:09 -0400, "RueTheDay" <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.*

Are you trying to imply that carrying cost forces the car dealer to put the cars on the market, and work to get their highest market price, in spite of the 100% tax on their sale????

More like if he's incurring carrying cost every day and can't get any of that cost back from sales due to the 100% tax, he's got a growing incentive to abandon them, or if he must, sell them for the giveaway price of \$1, or "take what you can drive".

That way he ends the carrying cost and also avoids incurring sale costs he can't recoup due to the 100% tax, right?
So he does the best he can.

And you imagine that is going to produce the same market price as if there was no 100% tax?

Because the supply of cars hasn't been changed by the tax?

>> *Do you know what sunk cost is?*
>
>Yes. *Do you know what depreciation is?*

Not on those cars I don't.

Depreciation is decline in market value — but those cars have a market value of \$0 to the owner due to the 100% sales tax.

They can depreciate all they want — doesn't cost him nothin' from what he can get for selling them.

Forget depreciation — stick with carrying cost!

>> *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.*

And whether or not they are actually *brought to market* in spite of the 100% tax specified on them eh?

Do you think the car dealer is going incur any costs to do that — and to whip up the best market price for them — for \$0 in return?

So if he doesn't, what's their market price going to be again?

BTW, when the owner can get only \$0 from selling the cars after tax, how much do you figure their "deteriorating" in the parking lot really costs him?

>> >> *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.*

Great!!! OK.

Let's make **very clear** what you have just said:

1) The owner is going to seek out the buyers and lessors to whom the cars are worth the most, and who would be willing to pay the **highest price**, the **best market price**.

2) He's going to incur a **loss** doing this because he must incur costs to get that highest price — advertising, effort, time to find the best buyers (while the carrying cost runs), etc., — but he can't recover those costs due to the 100% sales tax.

3) He makes all the effort and incurs the loss in #2 to avoid the loss that would result if he holds the cars while they depreciate on his lot.

Except **no**, there is no depreciation, as noted above, so lets stick with carrying cost. He does #2 to avoid the carrying cost of the cars...

4) Because he is so **stupid** that he doesn't realize he could avoid the losses in both #2 sales costs **and** the carrying costs by abandoning the cars or giving them for \$1 to anyone who would drive them off (or give him "trade" under the table).

THUS, the 100% tax on sales does not affect the actual market price at which the cars are sold, being that the quantity of these cars is inelastic and demand has not been changed by the tax.

And **this** is the logic of modern-day Georgism.

Poor Henry.

*>Land, however, does not depreciate. On the contrary, it tends
>to appreciate.*

>> >>...

*>> >> 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.

An 1870s insight! Huzzah!!

Yes, supply of everything is inelastic in some time frame. And every such thing collects rent just like land does, more or less, it's only a difference of degree. "quasi rent".

>However, that is not
>the true definition of supply elasticity.

Sure it is. Time scale matters. You define it for a given purpose, there are quantitative results.

> If the market price of cars
>jumped to \$1 million each, the dealer would find a way to procure more,...

OK, OK, so lets for fun take something for which there is a truly inelastic supply and real functioning market.

Say, 1850s US gold coins.

Impose a 100% tax on all gain from the sale of them.

Quantity of them is unchanged, demand for them is unchanged, they don't depreciate.

So you suppose that *thus* the numbers of reported sales of them in the market and the prices of such sales will be unchanged too??

Do ya' think?

Or do you think there might suddenly be a lot fewer reported sales in the open market than before -- because, after all, sellers now have *a lot less* incentive to make such sales. Maybe coins will start changing hands in, oh, other ways... so their reported market prices and allocations of them will change? A wee bit?

In spite of unchanged demand and unchanged quantity in existence?

So if it happens to 1850s gold coins -- totally inelastic in supply, not subject to depreciation, no change in demand due to the 100% tax -- might a similar thing happen with land?

Or will a 100% sales tax really have *no effect* on sales of such coins??

>>> 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.

How does a specified revenue of \$0 per sale for the seller "fall on
the buyer"?

That's some kind of tax.

>It would never
>change the slope of either the supply or the demand curve. Just admit you
>were wrong and move on.

Wrong about what?

Saying quantity produced for sale would be zero, as seen by how the
demand curve crosses the vertical axis directly above the \$0, 0q point
of origin? Since the only supply provided at \$0 is 0, so you look
vertically straight up following 0 quantity.

Which you *corrected* by saying no!, no!, properly derived curves will
show quantity supplied where the demand curve crosses the y axis —
which is vertically directly straight up above the \$0, 0q point of
origin — with the supply thus being zero.

Well, **I sit corrected**!!! :-)

>
>> 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.

In general...

But we are talking about a special case where price is specified as
\$0.

Which you use to construct a horizontal sloping curve running from
price \$0 to price \$0?

Methinks you are thinking of the a–b–c rules of normal line
construction and not of this very special case — which, being you
also think depreciation is a "cost" to an owner of property who can

receive only \$0 revenue from selling it, is not entirely surprising.
When you think depreciation is a "cost" in such an instance, you are not appreciating the details.

>> *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.*

The fact that supply is *zero* at the *only* price allowed has absolutely nothing to do with the shape of the supply curve.

Fine! I'm happy with that. I know what you are driving at and whatever, it doesn't matter, because we *agree* on the intercept -- vertically over \$0,0, -- and we *agree* on the result: supply is zero.

Your "correction" confirmed exactly what I said on both points, thank you very much!

So... auto inventory, 1850s gold coins, land leases, whatever -- with \$0 returns specified to the sellers, they are going to provide "zero supply" of costly effort to maximize prices they receive from market sales, to discover true market prices.

So they won't find the true market prices.

And prices and rents and allocations won't change??

Ha, Ha. ;-)

>

>> *>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.*

Gee, what brutal corrections. Have mercy!

>*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.

Right, the quantity of land doesn't change. Duh. Who cares?

But the allocation of land sure will change.

Because the 100% tax eliminates all return on efforts by sellers to find market prices for sales and leases. So they will supply zero quantity of such effort, as we agree from that y intercept!

They won't try to find market prices, so there **won't be** any — well, not any corresponding at all to the prices that would exist if they **did** make such effort, as they do in our world. QED.

So Rothbard was right.

As noted elsewhere, with your "100% of rent goes to the tax agent" proposal the one party who has **all** the incentive to maximize rents is the tax agent.

So the government will be auctioning off land for revenue, trying to maximize same, and there will be no private ownership of land at all. Land will have \$0 sale value so nobody will have any equity in it, and nobody but the tax man will have any interest in finding good paying tenants for it.

It is a nationalization proposal. Just drop the fiction that "private land owners" have anything to do with it, admit that the idea is "nationalize and auction", and we can be friends. ;-)

>...

>Wrong again. You are in effect arguing that a tax on land would result in >the quantity of land decreasing to zero.

Oh, don't be dim.

How would a huge, confiscatory tax on rents ever affect the quantity of physical land?

It would just hammer the pricing system of land and its resulting allocation of land. Obviously.

Two entirely different things. Anyone can see that. ;-)