

Re: Taxing Intelligence/Talent (was: 'Waterhole' and land rents)

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Source: <http://sci.tech-archive.net/Archive/sci.econ/2007-01/msg00291.html>

- *From:* "Andy F." <never.mind@xxxxxxxxxx>
 - *Date:* Tue, 23 Jan 2007 14:01:08 -0000
-

"S. Doo" <none@xxxxxxxxxxxxx> wrote in message
news:bvuar21m8qssa07bradj43aem8sn9n8c6@xxxxxxxxxx

On Tue, 23 Jan 2007 02:06:53 -0000, "Andy F." <never.mind@xxxxxxxxxx>
wrote:

"S. Doo" <none@xxxxxxxxxxxxx> wrote in message
news:7t18r21t35v5lu7qt2g5pt80efslrnu8up@xxxxxxxxxx

On Sun, 21 Jan 2007 14:08:48 GMT, "Dan in Philly"
<[djrr8@xxxxxxx](mailto:djr8@xxxxxxx)>
wrote:

"Dan in Philly" wrote in message

That's why a tax on
intelligence/talent may be
unworkable. I don't see
any
way to separate earnings
due to intelligence from
earnings due to
effort.

Self-correction: effort is easy to measure
(just add up hours worked).

Hmmm... You don't know the difference between working
hard and
punch-clocking a lot of hours with your feet up on a desk?

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The real problem is this: some jobs are cushy whereas some are dirty/difficult/dangerous. So we need some measure of how yucky a job is before we can tax the 'rent.'

Not at all, you are forgetting what "rent" is: "payment made to a factor of production in excess of what is required to elicit the supply of that factor".

So the measure of the rent to the labor of a worker is simple: It's the amount he is actually paid minus the minimum pay he would accept to do the same work.

Determining the amount of that rent is simple too: Just keep telling him "You're fired unless you take pay cut of \$X". As long as he says "OK, then I'll take it", then you say it again. When he says "Damn, that's too little, I quit", you give him back the minimum pay he accepted.

Now you've identified the former rent to his labor and have taken it away from him.

Whether the job is cushy or dirty/difficult/dangerous has nothing to do with it.

The whole procedure is simple and accurate.

Though I'm not sure it is a practical way to run a business or administer tax policy.

In that case there's hardly any labor rent, since a rational employer will only pay the minimum they have to. There would only be 'rent' if the employer made a mistake or was unusually generous.

Not at all -- there's plenty of such rent collecting all over the place.

You are assuming that it isn't rational for an employer to pay a high

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price that includes a huge amount of rent — but it can be entirely rational, profit maximizing and unavoidable.

Keep the definition in mind: "payment made to a factor of production in excess of what is required to elicit the supply of that factor".

Consider the water well in the desert town again. The well can produce exactly so much, and *will* produce that much, for a very minimal marginal cost, say \$0.01 per liter. But due to the limited supply of water in the town, the fair market price of water by supply-and-demand might be \$1 per liter.

The extra \$0.99 that the well owner receives per liter — a huge 99x marginal production cost! — is rent, as it elicits zero extra production compared to a price of only \$0.01.

Yet it is also a true fair market price, and nobody is being stupid or generous to pay it. In fact, the market price of the water had *better* be the full fair market price — if it is cost-controlled downward as a matter of "fairness" due to its low production cost, there are going to be shortages, misallocation problems, and a black market for it.

It's all the same with labor.

A MLB backup utility infielder might happily play pro ball for \$100k or less a year just as his kind did for generations before — but to a team like the Yankees, the *one* game he might win (or lose) for them over a season could be worth literally millions of dollars if it makes the difference between making the playoffs or not, or winning in the playoffs or not. So if he's the best utility infielder available, it can be entirely rational for the Yankees to pay him a couple million dollars, as the result of rational bidding for his services against other teams like the Red Sox to whom that game is worth almost as much.

But then your method of finding out the rent wouldn't work. If you offer the Yankees player a pay cut, he refuses and goes to work for the Red Sox.

That near \$2 million extra the player gets won't increase the amount or quality of his play by a single iota —

No, it almost certainly does improve his play. There are many thousands of talented players working hard at their game in the hope that they might hit the big time and become millionaires. If the big money wasn't there, there would be less competition and the top players wouldn't have to work as hard.

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and since the excess

payment will result in no more production, it is rent to the player --
but that doesn't mean it isn't rational and even smart for the Yankees
to pay it.