

# GUSTAV CASSEL: IN DEFENSE OF PRIVATE PROPERTY RIGHTS

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In their book on property rights, Terry Anderson and Fred McChesney (2003: 13) make the following statement:

The idea that property rights might themselves be a distinct and explicit area of economic inquiry is relatively recent. In classical economics, well-defined and secure property rights were typically assumed to exist, not analyzed or explained.<sup>1</sup>

That statement may have some element of truth, but it is not difficult to find economists from “the old days,” a century or so back, who emphasized the importance of secure property rights.

In Sweden, Gustav Cassel, probably the most famous political economist in the world in the years immediately after World War I, was the most outspoken economist in this respect. He vigorously defended the importance of private property rights for economic growth and progress. In this article, I review his arguments and his evolution from a radical liberal to a conservative liberal (in the European sense of the word).

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<sup>1</sup>Nonetheless, the book contains a chapter on “Property Rights in the History of Economic Thought,” written by Edwin G. West and focusing on John Locke, Adam Smith, Jeremy Bentham, and John Stuart Mill.

## Before World War I: A Different Vein

Gustav Cassel was not always a vigorous proponent of private property rights. At the turn of the 20th century, he argued that local authorities should have the right to appropriate the incremental value of land, at least in urban areas where rising site values could be assumed almost without exception to be the result of local authority action (for example, the laying-out of streets, bridges, and parks). Cassel (1900: 485) held that it was necessary to “keep a much keener eye on the superior rights of the community at large” and cited authorities such as John Stuart Mill, Gustav Schmoller, Adolph Wagner, and Karl Bücher. In his view, one cannot give “an unlimited scope to private property rights to land” (p. 486). He went on to argue that

some lawyers are obsessed by the idea that private landed property grants its owner an absolute and exclusive right to rule over a piece of our planet all the way down to the centre of the Earth, and see no difference between this right and the right to a piece of money, but this idea should not and must not be allowed to dominate our national way of thinking generally. . . . The right to dispose of some of society’s land can to a lesser extent than any other right be granted free of all those limitations which are determined by society’s interests and a view to sound social development [Cassel 1900: 486].

In his programmatic book entitled *Social Policy* (1902: 110), Cassel stated: “The city has a *right* to the incremental value, which is a fruit of the costs it has laid down. One can put property rights on any philosophical footing, yet one will still not arrive at any other result.”

In 1906, a land reform association was formed in Stockholm and Cassel became its first chairman. During the early years of the association’s activities, he expended a great deal of energy pleading for an incremental land-value tax. In the first issue of the association’s series of pamphlets, Cassel (1906: 5–6) wrote that far too much mischief had been made by the phrase “sanctity of property,” which the influence of “the dogmatism of the liberal political economy” had extended beyond all reasonable bounds. “Property rights to speculation are placed on an equal footing with property rights to tilled land and a home of one’s own.”

Cassel's call for a tax on incremental values was a consequence of his overarching principle that taxation must be imposed wherever it does not hinder growth, an argument he explained in a newspaper article: "Fiscal policy must . . . understand how to place tax burdens so as to form the least possible impediment to a productive society. Thus taxes should not be imposed primarily on the results of productive work but on unearned incomes" (Cassel 1908).

Cassel's campaign set the political machinery moving. In 1907, several motions were proposed in the First Chamber of the Swedish Parliament for taxation of land values or incremental land values. Cassel himself was officially appointed to draft a review of taxation of unearned incremental values in certain other countries. A committee on which Cassel sat was appointed in 1909 to formulate proposals for a local incremental land-value tax. A new committee, again with Cassel as a member, was appointed in 1910 to carry the work further. In 1912, the committee submitted a report proposing statutes for an incremental land-value tax, which seems to have been written by Cassel. However, time passed, the war came, the value of money fell, and the idea of an incremental land-value tax fell into oblivion (Carlson 1994: 193–94).

## After World War I: Capital and Progress

The war and its revolutionary aftermath had another effect: it changed Cassel's whole conception of the role of government and made him put his weight behind a different set of arguments regarding questions of property rights. In a booklet entitled *On Capital and Progress* (Cassel 1920), he stated his intention to explain the importance of private property rights for capital formation. Private property rights supplied the incentives necessary for work and thrift. The individual's assurance of being able to retain for himself the fruits of his efforts spurred him on in making these efforts, and thereby "humanity's whole economic life is being constantly raised to a higher intensity." Economic self-interest propelled entrepreneurs to make innovations; it lay behind most productive labor and induced people to hold back their consumption, to save, and to make capital formation possible. "Human society cannot reap the benefit of all these essential and in reality indispensable advantages without secure private property rights."

Where the major threat against private property came from was at this time no big secret. Cassel (1920) embarked on a life-long battle against socialism:

A socialist society which abolished private property rights would soon find that it had cut away the roots of economic life and would therefore be condemned to wither away fairly rapidly. This has been predicted over and over again by economic science, but people have refused to believe it. Now Europe is crowded with examples. He who wants to see with his own eyes the effect of secure property rights being trampled underfoot now has a splendid opportunity: complete chaos where there used to be order, need and despair where there used to be wealth and confidence, hopeless indolence in work which used to be varied out with force and persistence.

Every serious threat against property rights and every arbitrariness in the legal treatment of property rights would hamper entrepreneurship and economic progress, and so cause unemployment and reduce the standard of living. But what about all those who had no property, no capital? Cassel's answer was this: instead of undermining ownership, the solution must be to increase interest in ownership in all classes of society. "A more even distribution of fortune or income is unthinkable unless this interest becomes general." Without an interest in creating a fortune people would consume their income and there would be no capital formation.

### The Mid to Late 1920s: Socialism or Progress

Cassel's most uncompromising attack upon socialism came in 1928, in a book entitled *Socialism or Progress*, in which he collected a series of articles from the daily *Svenska Dagbladet* from 1925 and onward. Earlier he had dubbed his own blend of economic science "social economics" in his major scientific work *The Theory of Social Economy* published in German in 1918, and in English in 1932.

Cassel (1928: 59) argued that socialism and social economics could to some extent agree in principle, but that they differed in practical application:

Social economics must necessarily recognize the value of society's institutions and laws according to the importance

that—as a long experience has shown—they have for a society's economy, and consequently the discipline must attach a very high value to private entrepreneurship and secure property rights as important foundations for what has been, in economic terms, without comparison the wealthiest period humanity has ever experienced.

In an article entitled “After and Before,” written in 1926 and reprinted in 1928, Cassel emphasized the importance of property rights to land, but mentioned only farmland, not urban land. Over and over, he hammered out the importance of property rights for different sections of society: “The whole of the modern economy rests upon the security of the laborer, farmer, entrepreneur and capitalist to be able to harvest the fruits of the efforts they each make according to the conditions that applied when these efforts were made” (Cassel 1928: 96). This did not, of course, mean that these conditions could not be changed. However, any restructuring of conditions had to stay within certain limits, so that new conditions would make possible the continuation of productive labor. Economic life had to be guided by a certain conservatism. The big mistake made by radicals was that they were always “keen on appropriating what seems advantageous at the moment,” regardless of future consequences. It was very easy for a government to tax an entrepreneur or depositor *after* they had made their efforts, but any responsible government had to have in mind what had come *before* in order not to eradicate incentives necessary for progress.

### The 1928 Elections: Showdown with Socialism

In 1928, political antagonisms in Sweden became keener. Both conservatives and socialists were on the offensive in view of the upcoming parliamentary elections, the so-called Cossack elections. According to Cassel, the Social Democrats were no better than the Bolsheviks; they were only slower:

Socialists of the Western world want to proceed with certain moderation and carry out their program piecemeal. This moderation should not be highly appreciated. The method used by the Bolsheviks of immediately eliminating private property rights has the advantage of immediately demonstrating the complete impoverishment of society which must follow from it. . . . Either we acknowledge that private property rights have

fundamental importance for our entire social economic order and thereby also for the well-being of our entire nation, or we want to get rid of private property rights as being detrimental to society's interest. In the latter case Bolshevism shows the way. However, in the former case we must, in the interest of all social classes, stand up for a powerful and steadfast defense of private property rights and in no way accept the gradual undermining and piecemeal deconstruction of this legal system, which is now pursued by doctrinaire socialists keen on experimenting but without any real insight into the deeper context of the social economy [Cassel 1928: 179].

Cassel launched a powerful onslaught against the Social Democrats' tax motions in several articles during the spring and summer of 1928. In a motion on the inheritance tax, Ernst Wigforss, a leading Social Democrat, argued that "poverty is endured with equanimity when it is shared by all." Cassel (1928: 196) sarcastically replied, "And this is the social economic wisdom on which the Sweden of the future is to be built!" Socialists wanted to abolish private fortunes, but at the same time imagined that these fortunes would always be there as objects for plundering. And once again Cassel raged against the "piecemeal frittering away" with which socialists pursued their tax policy. "Let us rather at once decide the whole question of whether private property rights have any justification or not." Secure property rights were the foundation on which present society was built. "One must be very easy-going to embark on a policy which must eventually end in the annihilation of these private property rights, rights so extraordinarily important for the social economy" (Cassel 1928: 199).

In August, close to the elections, Cassel (1928: 201) dubbed Swedish socialists "enemies of property rights" in the headline of an article and made the following appeal: "The ballot must be cast for or against the preservation of private property rights in this country." If a temporary socialist majority in Parliament could decide by how much an individual would be allowed to raise his or her income or fortune over the medium level, then the essence of property rights would evaporate. As Cassel (1928: 203, 205) wrote, "The essence is *security* in the possession of what one has acquired. If this security is lost, the basic motive for all economic effort surpassing the needs of the moment is eliminated, and property rights will thereby have lost their value as a social institution. . . .

Undermine private property rights and the whole social economy is doomed to slide into an indescribable chaos.”

Cassel’s final appeal before the elections was headlined “In Defense of Enterprise.” Once again, he stated that a weakening of private property rights would weaken entrepreneurship and thereby reduce production, national income, and the standard of living. “This result is unavoidable and will present itself quite independently of clumsy attempts by socialist prophets to draw up lines between different kinds of property rights” (Cassel 1928: 216).

Why, then, were private property rights so essential? Cassel (1928: 213, 227) had a couple of answers. First, private ownership is vital to the human appetite for working and saving. “The socialists’ ideal man, who merely toils away and saves in order to let a socialist government commandeer what he has saved and then is ready at once to resume his work of Sisyphus . . . is really quite rare.” Second, public capital formation is generally less effective than private; it often results in ostentatious buildings and other luxuries to show off to “astounded foreigners.”

### After 1928: Triumph and Retreat

After the elections, which were a success for the Conservative party, Cassel (1928: 230) was triumphant: “The elections of 1928,” he exclaimed, had finally “done away with the stupid socialist preaching, aimed at dividing us into a small privileged class on the one side and on the other side the so-called ‘people,’ fighting to ‘become master of their own house.’”

However, Cassel’s moment of joy did not last for long. One year later, the Wall Street crash marked the beginning of the Great Depression and an era of exceptional government activity. In 1932, the Social Democrats came to power in Sweden, a power they would retain without interruption for 44 years. Cassel was forced into a long retreat, but never surrendered his ideals. He did not develop his arguments concerning property rights any further than he had done at the height of his day, in his book published in 1928, but he kept on repeating his warnings into old age. In 1942, when he was 76 years old and had only three more years to live, he wrote:

If one denies private property rights, one is obliged to demonstrate how a social economy will be able to flourish without such rights. If one admits that one cannot dispense

with the present social economy, and that, on the contrary, it is of essential importance for national wealth and continued progress, then one must also accept private property rights, which is one of the basic prerequisites for our social economy. Socialism does not want to accept this inevitable either-or. It wants to have the blessings of private property rights and at the same time be free to deny its justification and curtail it all the way to annihilation [Cassel 1942: 137].

## Conclusion

If economists have only recently focused on property rights, and in the past just assumed the existence of secure property rights, Gustav Cassel must be the exception that proves the rule. (One might suspect that there are more exceptions and perhaps thus no rule.) He did not assume their existence. He defended them vigorously and spared no pains in convincing the general public of their importance for economic growth and progress.

Cassel's argumentation went in very different directions before and after World War I. Before the war, he had been a radical liberal who argued for a tax on incremental land values in cities. After the war, he turned into a conservative liberal, his reasons being the experiences of "wartime socialism," revolutionary outbursts in Europe in general and in Russia in particular, and the political advance of the Social Democrats and other socialists in Sweden. He now focused on the importance of private property rights, the rights of workers, farmers, entrepreneurs, depositors, and capitalists. Without secure property rights, these people would have no incentives—other than that of mere subsistence—to work, innovate, save, and invest.

According to Cassel, socialists did not grasp the importance of *before* and *after*. After all efforts had been made by members of society, government could very well tax or confiscate income and wealth. However, there would then be no future incentives for people to work and save, and thus no more wealth to grab. Secure property rights lay behind the amazing economic growth in Western societies; arbitrariness in this area would lead to a poverty "shared by all" as expressed by such leading Social Democrats as Ernst Wigforss.

Cassel, of course, did not see the existing distribution of property as fixed once and for all. He felt, however, that instead of aiming at destroying private ownership one ought to try to increase general public interest in it. The structure of ownership could be changed

over time, but only within certain limits so that incentives were not eliminated for those who still had the efforts they would make before them. Nonetheless, at the height of his campaign against socialism in 1928, he raged against the piecemeal method of Social Democrats; the Bolshevik method had “the advantage of immediately demonstrating the complete impoverishment of society which must follow from it.”

Cassel’s focus as a radical liberal was thus very different from his focus as a conservative liberal, but his views were hardly inconsistent over time. His basic argument was that secure property rights must guarantee that whoever makes an effort should be able to reap most of the fruits thereof and be assured of this before that effort is made.

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