UNDERSTANDING ECONOMICS

HGS (AV)

Program I

"Money, Money, Money:

Misconceptions About Wealth"

In economics, and in most other things, we often fail to properly define what we talk about. This is particularly true of the most important concept in our studies -- wealth.

Many definitions have been used, but our's must be specific and consistent. It can't change from one moment to the next, as that would create confusion and throw mud in our eyes at the very beginning of our exploration of economics.

Moreover, it is essential to distinguish between the world of nature and the world of people. Consider for a moment our planet without men and women and without all they have ever created. What is left is the world of nature.

With this in mind, for something to be considered "wealth", it should meet several important criteria:

a.) It must be man-made.
b.) It must have exchange value.
c.) It must satisfy a desire.
d.) It must be material.

Many economists spend immeasurable time in areas that fall outside our concept of wealth. For example, although money is essential in our economy, it is not wealth. Stocks and bonds, a barometer followed every day by many, are not wealth because they do not meet our criteria.

However, no criteria are valid unless they can meet the test of logic and common sense -- which we hope to illustrate as we study the production and distribution of wealth in forthcoming lessons.

In brief, wealth can only emanate from one source -- nature.

Test your understanding of the concept we call "wealth". For each of the following, check off whether it meets our four criteria, then answer "yes" or "no" to the question, "Is it wealth?"

	Man-made	Exchange value	Satisfies	Material
An old car in a junk yard				
Jewelry in a vault				
A government bond				
A grove of fruit trees				
Gasoline in a storage tank				

To be considered "wealth", <u>all four</u> criteria must be checked.

ECONOMICS BROUGHT TO LIFE

"This was getting ridiculous, I said to myself. I got a shave one morning and my barber was talking to his partner about a hot new stock he was watching. The more he talked the more excited he became-- and the bloodier my chin. My driver asked me whether I had any good information. I threatened to fire him. My butcher gave me a tip on a hot little apparel company. My doorman was too busy reading the Wall Street Journal to open the door. My cat wouldn't use his litter box until he'd read the morning's quotations lining the bottom.

"Chico was suspicious of the market, but we didn't pay him any mind--he was suspicious of everything.

"'It's gotta give,' he said more than once. 'The guy who does my laundry owns stock and can't buy a cigar--what gives?'

"But it was only Chico, so we continued to buy. We even thought of doing a routine about it, a crazed investor buying everything in sight.

"Then I woke up one morning and I was poor.

" I couldn't get anymore leverage, I couldn't sell anything because the bottom was already in the basement. Monday I was wealthy, Tuesday I was poor."

-- Groucho Marx, in his book, Groucho and Me.

Discussion Questions

1. When Groucho wrote, "Monday I was wealthy...", what was he referring to?

2. Why are some nations so wealthy and others so poor?

3. Is there a difference between the wealth of an individual and the wealth of a country?

4. Discuss some reasons "money" is often confused with "wealth".

5. When the stock market rises, is there more wealth in a country?

6. Let's see if you've sharpened your understanding of wealth. Which of these items is wealth?

   a. an automobile

   b. a diamond ring

   c. a Picasso painting

   d. oil in the ground

   e. $250,000 in cash

   f. General Motors stock

   g. a school of tuna in the ocean

   h. the same school at a Bumble Bee plant

   i. part of the same school in a can in your kitchen

   j. the contents of that can on whole wheat bread

7. Why is it important, in economics,to be precise about terms?

UNDERSTANDING ECONOMICS

Program II

"Dirt Cheap Isn't Cheap Anymore"

In sharpening our definition of wealth, we came to better understand the concept. So it is with one of its basic components -- land.

Economists consider all things which mankind did not create "Land". All planets and stars, all wild animals, all grasses and trees, fish and the oceans they inhabit -- all are considered land.

Thus, strange as it may sound at first, the sea is land. The air we breathe (unless it is coming out of an oxygen mask) is also land.

Think about it....

We rely on nature (land) for the creation of all wealth. Indeed, it is essential to our survival. Yet, its importance often escapes us.

From land we created the first primitive club and the most sophisticated nuclear weapon. All our food, clothing and shelter derive from land. The ground upon which we stand, the air that sustains us, the sun which keeps us from freezing to death -- all land.

And that's all the land we will ever have.

Land can not be destroyed -- it lasts forever. We can certainly alter its shape, turning water into gas, converting solids to liquids, and the like. But there isn't one ounce less land today than there was when the earth was formed several millenia ago.

And there isn't an ounce more either. There is a fixed amount of land -- a totally inflexible constant in the economic picture.

Certainly those who own the land exert a powerful influence in the creation of wealth.

WHO OWNS THE LAND?

"True or False"

1. Three percent of the population owns roughly 95 percent of private land in America?

2. The federal government owns more than a third of all U.S. Land?

3. Less than three percent of all American land is classified as residential?

4. Non-farmers own 40 percent of U.S. farmland?

5. The Exxon Corporation owns U.S. land equivalent to the size of the state of Maine?

Answers: With the exception of Question 5, the answer is <u>true</u>. In fact, Exxon owns land equivalent to twice the size of Maine.

ECONOMICS BROUGHT TO LIFE

"Why is the land so rich and we're so poor?"

Poverty-stricken residents of Appalachia have asked that question for decades. At first glance it seems incongrous: rich land and poor people.

Perhaps the key to unravelling this anomaly lies in the ownership of the rich land. Here is a list of 20 largest landowners in the Appalachian region.

COMPANY	HEADQUARTERS	ACRES
1. Continental Oil	Stamford, Ct.	784,437
2. Norfolk & Western RR	Roanoke, Va.	546,689
3. Georgia Pacific	Portland, Or.	401,712
4. Chessie System	Baltimore, Md.	374,969
5. Pittston	New York, NY	352,336
6. Eastern Gas & Fuel	Boston, Ma.	248,968
7. Penn Virginia	Philadelphia, Pa.	230,742
8. Westvaco	New York, NY	204,510
9. J M Huber	Rumson, NJ	177,699
10. Bethlehem Steel	Bethlehem Pa.	154,460
11. US Steel	Pittsburgh, Pa.	146,765
12. National Steel	Pittsburgh, Pa.	130,000
13. Occidental Petroleum	Los Angeles, Ca.	108,324
14. Blue Diamond Coal	Knoxville, Tn.	107,652
15. Cabot	Boston, Ma.	107,470
16. Berwind	Philadelphia, Pa.	103,682
17. Kentucky River Coal	Lexington, Ky.	93,887
18. Stearns Coal & Lumber	Stearns, Ky.	91,390
19. Savoy Industries	Long Island City, NY	78,857
20. American Association	London, England	72,968

DISCUSSION QUESTIONS

1. How many of these landowners have their headquarters in Appalachia?

2. Does the chart suggest an answer to the "mystery" of poverty in the region?

3. Are radio frequencies land?

4. Is the planet Jupiter land?

5. How can we add to the supply of land?

6. We said earlier that the amount of land is fixed. Yet we now have weapons that can, in a flash, disintegrate an entire village. Comment.

7. Our economy is in constant flux. The available capital fluctuates and the labor supply shifts to reflect the marketplace. How does land react to market forces?

8. Are wild animals land?

9. What about domesticated animals?

SUGGESTED READINGS: "Land Rush", Harper's

UNDERSTANDING ECONOMICS

PROGRAM III

"People": The Real Value Makers"

Two events that occur one after the other are called a sequence. If the first caused the second, we have a consequence. A consequence that always repeats is said to be a natural law.

The physical sciences abound in natural laws. We live by them every day-- often without even knowing it. For example, we don't have to know Issac Newton's Laws of Motion to realize that we must slow down before making a sharp turn in our automobiles.

Although harder to identify, harder to prove, the social sciences have their share of natural laws too. And just as we have no choice but to abide by the laws of gravity, we must observe these natural laws-- even though we don't know them! They are part of what makes us humans.

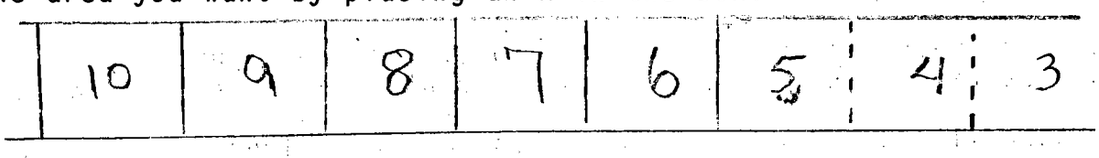
Trying to do something contrary to natural law can prove disasterous. Often we realize this and respond to it, as when we patiently explain to a small child that Superman is only make believe, that nobody can really fly and that he would get seriously hurt if he tried to fly.

For some reason, though, we fail to recognize the existence of natural economic laws, even though they are as important to the well-being of our economy as the physical laws are to our bodies. Our government adopts laws and tariffs and restrictive regulations without regard to their eventual consequences.

The failure to recognize natural laws in economics has contributed to long-range problems in our economy (inflation, unemployment and high taxes, to name just three). The conscious decision to circumvent them with man-made substitutes has only made things worse.

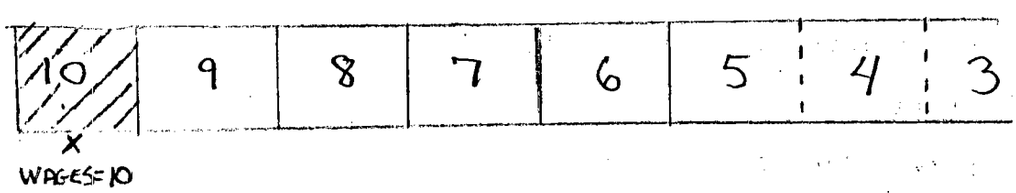
THE LAW OF RENT -- Part one

You are the first settler on a vast expanse of land. The drawing represents how fertile each section of land is. As the first arrival, choose the area you want by placing an X in the box.



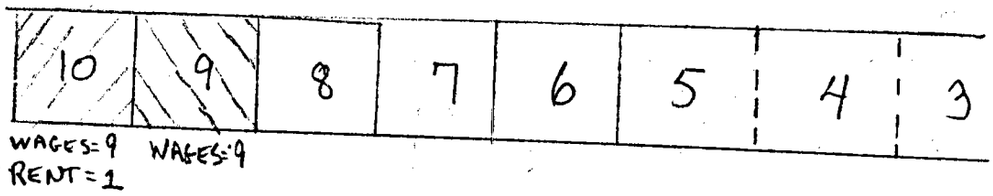
Your land yields 10 bushels of wheat per month. You work it by yourself and keep all the wheat for yourself. That wheat is called "wages" because it is the return for your exertion.

Mister Y arrives and must choose the land he will work. What are his choices? What would he likely choose? Why?



Seeking to satisfy his desires with the least posssible exertion, Y claims the 9-bushel land. But suppose you wanted him to do your work. How much would have to pay him to even consider your offer?

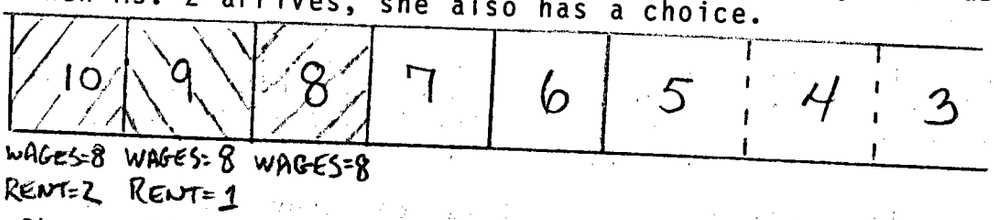
Obviously, you would have to offer Y at least as much as he could make on his own, otherwise why would he bother?



If Y rejects your offer and settles the 9 land, the 9 bushels he produces each month become his wages. If he accepts your offer and works your land for the same 9 bushels he could grow on his own, who would keep the 10th bushel your more fertile land would produce?

You would, of course. That 10th bushel is called rent because it represents the difference in your location. It is determined by the difference between your location and the best freely-available location.

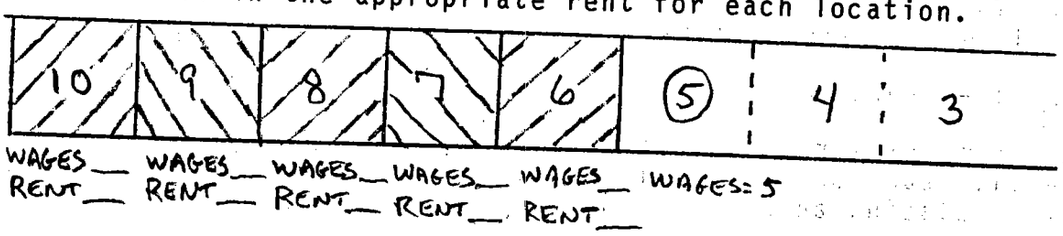
When Ms. Z arrives, she also has a choice.



She could work the 8 land by herself. Or, she could work for you or Mr. Y. Her wages would be the same no matter what she decided (eight bushels). But look what has happened to your rent.

As settlers arrive and land becomes somewhat more scarce, the location value of your land increases and so does the rent you can collect. And 9 land, which could be had for the asking when Y arrived, now commands rent.

Of course, not all land is capable of producing enough to live on. Let's assume that people need 5 bushels of wheat each month to survive. Other settlers arrive and quickly snap up the 7 and 6 land. The margin has reached the subsistence level. The next group can choose between working the marginal land for a marginal existence or working for one of the landowners. Fill in what you think these people ae likely to be paid for working each parcel of land. And fill in the appropriate rent for each location.



The rent on your 10-bushel land has soared to 5. Half of your land's prouctive value comes right back to you. And you don't have to do a thing to get it.

Wages have steadily come down while rent has gone up. Thus, the Law of Rent and Wages:

Rent is the difference between your land and the best available land. Wages are fixed at the margin of production.

DISCUSSION QUESTIONS

1. What conclusions can you draw from the Law of Rent?
2. Can you think of any exceptions to the law?
3. Is this a natural law?
4. How does it apply to urban areas?
5. What makes a location valuable?

UNDERSTANDING ECONOMICS

Program IV

"When Natural Allies Clash"

Imagine you are shipwrecked on an unchartered island. You have nothing but the clothes on your back. Also on the island are the ship's first mate (who was seriously injured and who drifted ashore clinging to his tool chest) and a native who is twice your size and rather unfriendly.

You have to provide for essentials until a search party arrives. The first mate can't work, but he will give you the tools you need to build a crude hut, to chop open coconuts, etc. You realize that it would take you forever to accomplish such things on your own, so you take him up on it.

But the native has other ideas for "his" island. He'll let you build a shack, but only if he can sleep there too. He'll let you crack open the coconuts, but he'll take the ripest ones. He'll permit planting a simple crop, but demands control of the harvest.

There is a great deal of hatred on your island, and quite logically it is directed at the native. How strange it would be if animosity prevailed in your dealings with the handicapped first mate. He is helpless without you, and vice versa.

In our country today, labor and capital are often at odds. But can a worker function without tools, a farmer without fertilizer? Can an owner of capital prosper without someone willing to put that capital to use?

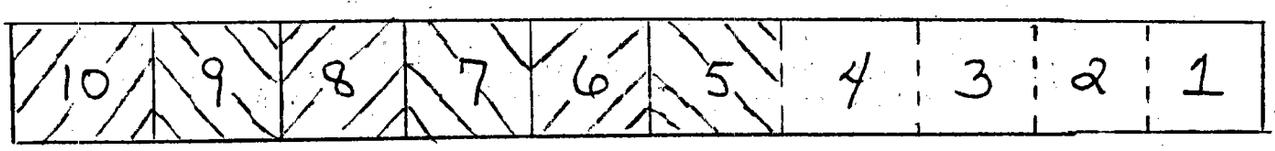
THE LAW OF RENT -- Part two

We witnessed that rent absorbs all wealth above that which can be prodcued at the margin. But what happens when capital enters the picture?

Lets assume that a capitalist arrives in our model community bearing a new type of machinery that will increase production by threefold.

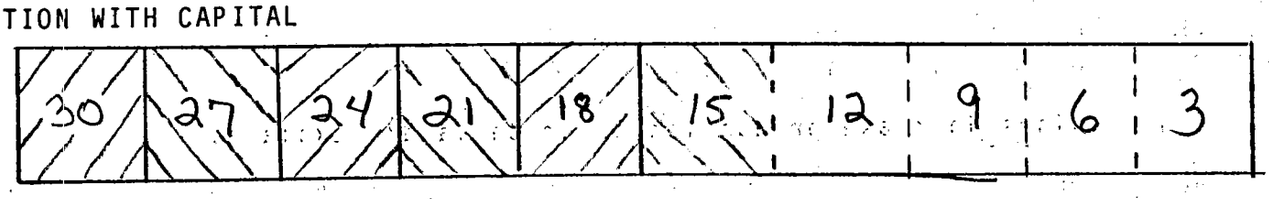
Thus its use will make possible a 30-bushel crop on 10 land, 27 bushels from 9 land, etc. But how much of this increase will the capitalist get?

PRODUCTION BEFORE CAPITAL



Obviously the capitalist won't get the entire increase, otherwise there would be no advantage to labor for using the machinery. And certainly the capitalist will get <u>something</u> for his machinery. He didn't go into business to lose money.

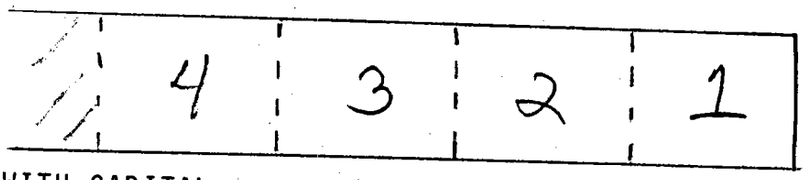
PRODUCTION WITH CAPITAL



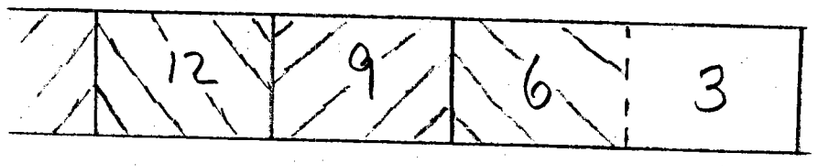
Because of capital, production at the margin has been raised to 15 without an increase in labor. Thus, capital makes it possible for labor to work the land more efficiently and to vasely increase the potential yield from that land.

But look at what has happened to the land to the right of the margin:

BEFORE CAPITAL



WITH CAPITAL



In the past, this land was capable of producing only four or fewer bushels of wheat-- not enough to live on. Perhaps the four-land was marshy, the three-land rocky and the two-land arid. The introduction of machinery to remove wild grass from the marsh, bulldoze the rocks and irrigate the desert areas opens them up for wheat farming. Thus, capital has also made it possible to bring submarginal land into productive use.

We see what capital has done for labor, but what effect does its introduction have on the landowner?

Remember that he already absorbs all production above the margin as rent. Whether production at the margin occurs purely through phsyical exertion or with the aid of the most sophisticated equipment is immaterial. The difference goes to rent.

BEFORE CAPITAL

10	9	8	7	6	5
WAGES=5 RENT=5	WAGES=5 RENT=4	WAGES=5 RENT=3	WAGES=5 RENT=2	WAGES=5 RENT=1	WAGES=5 RENT=0

WITH CAPITAL

30	27	24	21	18	15
WAGES=15 RENT=15	WAGES=15 RENT=12	WAGES=15 RENT=9	WAGES=15 RENT=6	WAGES=15 RENT=3	WAGES=15 RENT=0

So rent on our best land has increased to 15. The introduction of capital has made it possible for labor to increase its wages without increasing its exertion. It has also increased rents.

DISCUSSION QUESTIONS

1. Are there circumstances in which labor is better off not using capital?

2. Can you think of specific examples of how the introduction of capital has brought unproductive sites into use?

3. Why do many people confuse the capitalist and the landowner? Is it important to maintain a distinction?

4. Can machines increase production on urban land? Explain.

5. Who stands to gain the most from new "labor-saving" inventions?

6. If labor and capital are indispensible to each other, why are they so often at each other's throat?

7. In the long run, do concessions gained at labor's expense benefit the capitalist? Do concessions gained at capital's expense benefit workers?

8. Who is hurt least by protracted disputes between labor and capital?

UNDERSTANDING ECONOMICS

PROGRAM V

"Space Invaders: How Land

Speculation Keeps Americans Out Of Work"

We know two things to be indispensible in the creation of wealth. Labor is needed to mold and shape nature into the things we desire. And nature (land) herself is needed.

The labor supply is not fixed. Population shifts, demographic trends, and job training initiatives are all examles of our fluctuating labor supply.

The capital that makes it possible for labor to work more efficiently is far from fixed in supply. In fact, it ebbs and flows in correlation to the amount needed in the production of wealth.

Land, however, is unique in that there is only so much of it. We can't create more to meet the demand; we can't effectively move it to where more is needed. It is the only static force in the production of wealth. As such, it is worthy of special attention.

The owner of land is the only passive force in the production of wealth. He dosen't have to work or invest to reap a large portion of the wealth pie. All he has to do is to allow his land to be used. And sometmes he chooses not to.

When product prices rise, producers rush to the market to take advantage of the generous price. In doing so, they satisfy the demand somewhat and prices fall. In addition, rising prices tend to speed production. And when these new goods reach the marketplace, prices fall still further.

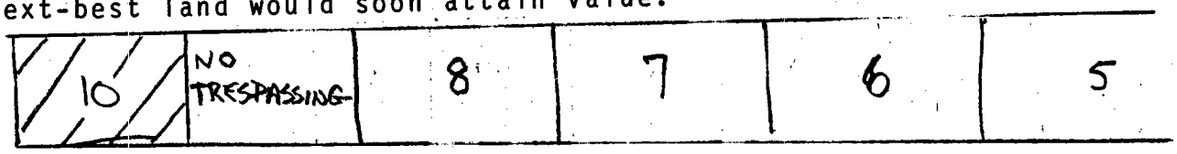
In the land market, rising prices can't stimulate the production of new land. There are no expenses involved in keeping land off the market. If the landowner dosen't sell during a time of peak demand, fresh supplies can't materialize and quench that demand. Land prices will keep rising.

The market forces that regulate our economy break down when it comes to land. Demand does not dictate supply -- nothing does. The owner of land very often exploits this fact by deliberately keeping prime locations off the market so that prices may continue to soar.

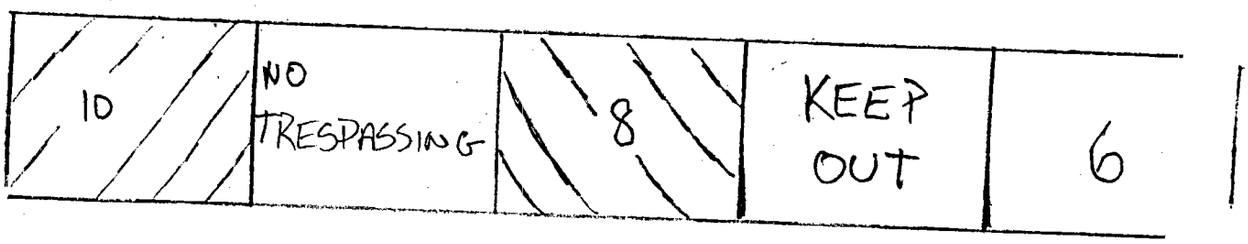
In doing so, he may become rich. But he also denies everyone else access to the most basic ingredient in the creation of wealth.

THE LAW OF RENT --III

Experience tells us that the first settler in our model community might have done more than settle on the 10-bushel land if he realized that the next-best land would soon attain value.

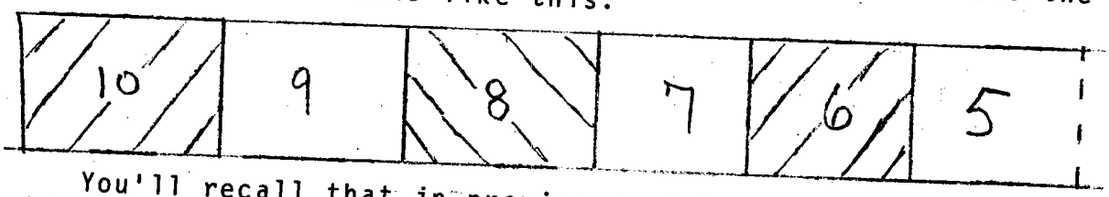


In this way, he could earn his living off the ten land and hold the nine land for speculative reasons. When the second settler arrives, his choices have already been narrowed considerably.



By settling the best available land (eight land) our newest arrival was seeking to satisfy his desires with the least amount of exertion, which is only natural. But if like his predecessor he realizes that the seven land would soon hold value, he would put his claim on that tract as well.

The third settler arrives and she, of course, chooses the 6 land. Our model community now looks like this:



You'll recall that in previous models, five people were settled and working by the time we reached this point in our example. However, as a result of land speculation, only three settlers are working the land. When the fourth person shows up he won't have access to the seven land as he did before. He'll be forced to the margin and will have to work for five bushels.

BEFORE LAND SPECULATION

LOTS IN USE: 5
TOTAL BUSHELS YIELDED: 40 (10+9+8+7+6)
TOTAL WAGES PAID: 30 (wages of 6 bushels on each lot in use)

WITH LAND SPECULATION

LOTS IN USE: 3
TOTAL BUSHELS YIELDED: 24 (10+8+6)
TOTAL WAGES PAID: 18 (wages of 6 on each lot in use)

DISCUSSION QUESTIONS

1. How does land speculation force more people into a marginal existence?

2. What has happened to the aggregate production of wealth in our community as a result of land speculation?

3. What has happened to the total wages paid in the land speculation model?

4. An exercise in logic: Is land essential to the production of wealth? Does speculation keep valuable land out of use? Does the total wealth of our society (its GNP) decline as a result of speculation?

5. How successful would an attempt to stimulate the economy be if it ignores the role of the landowner in the production of wealth?

UNDERSTANDING ECONOMICS

Program VI

"Adding Up Our Losses -- The Cost of Growth"

It seems sometimes, judging solely by the headlines, that we've done a poor job of absorbing our nation's growth. Inflation and stagflation, recession and depression, unemployment and underemployment, as well as toxic wastes and other environmental maladies, are all symptoms of a society that has grown too large too quickly.

But has it?

Since the beginning of time, mankind has sought ways to satisfy his desires with the least amount of effort. This urge, which is common to us all, helped us discover the benefits of working together, dividing labor for the common good. It also goaded us to invent machines that would do several years of work in a few days.

Without necessarily realizing it, all men and women are perfectionists. We all have limitless desires (which differ among individuals, of course) and we are constantly seeking to satisfy them with as little work as possible.

That is largely what makes us human.

So we strive to turn coal and oil and natural gas and even the sun into useable energy which drives our cars and propels our hairdriers and which also powers the dialysis machines that sustain life. And we are left with an advanced society with environmental problems and economic problems that loom so large they make us wonder if it was all worth it.

We know that as an economic concept, land includes all of nature. The pollution of our air and water are all problems of land management, which point clearly to a consideration of the role of land ownership in these problems.

For example, would energy companies leave strip-mined hills barren and useless if those hills belonged to their consumers? Would the hazards of production be as extreme if better-quality land was more efficiently used?

We have already begun to uncover the economic hazards that result from the present system of land ownership. But as a society we seem dimly aware of the larger implications of monopolization.

BASIC ASSUMPTIONS

1. Man's desires are unlimited.

2. Man seeks to satisfy his desires with the least exertion.

Do they apply?	Assumption 1	Assumption 2
To a distance runner		
to a holy man		
to a sculptor		
to a child		
to a scientist		
to a shoe salesman		

ECONOMICS BROUGHT TO LIFE

"If Man's having the power to reason were all that marked the difference between his nature and that of other animals, he would still be a naked filthy Yahoo searching the woods for grubs, beetles and roots for his food. A rotted log or smelly cave would still be his shelter. Fortunately, besides havig reasoning power, man has unlimited desires for more, for something that looks, tastes, sounds, smells or feels better than that which he already has.

"Anthropologists tell us that since earliest times man's companion was the dog. But in spite of the countless centuries that have passed since man and his dog became buddies, the dog hasn't improved its lot. It is still satisfied to eat the few scraps of food man gives it from the dirty ground. Man, who had no more than the dog in the beginning, wouldn't think of eating like a dog...Because the dog lacked man's reasoning power and unlimited desires for clothing and specially designed shelter, it never learned to provide itself with either.

"Some writers credit man's progress to his having been given hands by his creator. They imply that if the dog had been created with hands, it, like the man, might have improved its environment, made itself clothes, an so on. But if that were true, monkeys would have progressed faster than man, for besides having been equipped with twice as many fingers and thumbs as the human, some monkeys also have tails to serve as a fifth hand. Moreover, the beaver, bee, spider and ant build rather well without any hands at all. Yet even these builder-animals haven't improved their condition. Lacking the desire for better, prettier and more efficient things, they do their building today exactly as they did a million years ago."

--Phil Grant, The Wonderful Wealth Machine

DISCUSSION QUESTIONS

1. Does the first basic assumption, Man's desires are unlimited, imply that mankind is greedy?

2. Does the second assumption, Man seeks to satisfy his desires with the least exertion, imply that mankind is lazy?

3. Do the assumptions state a trait common to all people or a general rule which applies to many?

4. Phil Grant makes the case that unlimited desires have played a greater role in mankind's progress than the ability to reason. Do you agree? How could you defend his argument?

5. Overpopulation has often been blamed for the rampant poverty in much of the world. Are there too many people?

6. Worldwide food production has outpaced population growth by more than six times. But why don't all the people have enough to eat?

7. How might land concentration affect food distribution?

8. Let's accept, for a moment at least, the first assumption. If everyone's desires are unlimited -- if we all want to buy more and better goods-- we would create a powerful demand. Businesses, themselves propelled by the desire for more, would rush to satisfy those demands. Jobs would be created; workers would be in demand. Their desires would create a need for steady wages with which they would pay for their goods. If workers and their employers, consumers and producers all have unlimited desires, why do we have unemployment?

UNDERSTANDING ECONOMICS

Program VII

"Yes, Virginia, There Is A Remedy"

Of the 496,000 words in the English language, none sparks more fear, loathing or anxiety than "taxes".

Taxes are levied on all of us nearly all of the time. We lose a sizeable chunk of our wages to the Federal government; we lose a smaller chunk to the state and sometimes the city. Then, come April, many of us have to pay still more. We pay taxes on our homes and our gasoline and our whiskey and our bank account interest. We pay taxes every time we go to the store to buy household goods. We pay taxes for trying to launch our own businesses. We pay taxes in the form of lotteries. We pay taxes for inheriting money. We pay taxes on gambling winnings and appreciating investments. The Beatles once sang, "If you drive a car I'll tax the street, if you try to walk I'll tax your feet."

There's no getting around it, we are heavily taxed.

But the government does need money to function. It needs funds to provide services and protection, to pay salaries and to buy and maintain equipment. And it has to get these funds from somewhere. Is there a formula that might point out the best source of revenue?

Adam Smith, the Father of Modern Economics, proposed four guidelines, or canons, of taxation. He believed that a fair and efficient tax should meet each requirement.

According to Smith, taxes should be:

1. light on production;
2. easily and inexpensively collected;
3. equitable;
4. certain, or free of evasion.

Complete this chart to determine how well each tax fits Adam Smith's Canons of Taxation.

TAX	LIGHT ON PROD.	COLLECTIBLE	FAIR	CERTAIN
Income tax				
Sales tax				
Corporate taxes				
Property taxes				
Land value taxes				

ECONOMICS BROUGHT TO LIFE

"We propose to abolish all taxes save one single tax levied on the value of land, irrespective of the improvements in it or on it.

"What we propose is not a tax on real estate, for real estate includes improvements. Nor is it a tax on land, for we would not tax all land, but only land having a value irrespective of its improvements, and would tax that in proportion to that value.

"Our plan involves the impopsition of no new tax, since we already tax land values in taxing real estate....

"From the Single Tax we may expect these advantages:

"1. It would dispense with a whole army of tax gatherers and other officials which present taxes require, and place in the treasury a much larger proportion of what is taken from the people, while making by making government simpler and cheaper, it would tend to make it purer.

"2. It would enormously increase the production of wealth --

"(a) By the removal of burdens which now weigh upon industry and thrift. If we tax houses, there will be fewer and poorer houses; if we tax machinery, there will be less machinery; if we tax trade, there will be less trade; if we tax capital, there will be less capital; if we tax savings, there will be less savings. All the taxes we should therefore abolish are those that repress industry and lessen wealth. But if we tax land values, there will be no less land.

"(b) On the contrary, the taxation of land values has the effect of making land more easily available by industry, since it makes it more difficult for owners of valuable land which they themselves do not care to use to hold it idle for a large future price."

"The Single Tax", an article by Henry George, 1890

Discussion Questions

1. Are all taxes coercive?

2. Is the land value "tax" actually a fee imposed by the community for the private use of valuable land?

3. Who pays for taxes levied on producers?

4. A tax is "progressive" if it bears heaviest on those best able to pay, "regressive" if it weighs on those who can least afford it. Are the taxes listed on the reverse side progressive or regressive?

5. If a land value tax is indeed progressive and fares well under Adam Smith's canons, why do you think it hasn't replaced income taxes?

6. Can you think of ways to reform any of the more common forms of taxation to bring them in line with the canons?

UNDERSTANDING ECONOMICS

Program VIII

"Taxing Land, Not People"

We explored how well a number of taxes fared under our four guidelines. Only one seemed to meet each criteria -- a tax on the value of land.

Think about this: A land value tax would reduce or eliminate the tax on improvements. This would encourage landowners to make the most efficient use of their most valuable land to maximize profits. Expanding the factory would no longer bring a tax penalty. Adding half a dozen stories on an office building would be worth it because it would carry no larger tax bill. Land value taxes are especially light on production. That is why they are often referred to as Incentive Taxes.

Our governments already record the assessed values of land and improvements. To initiate a land value tax, they have only to establish a new tax rate and apply it to the land-only portion of the assessment. Your tax bill is far more complicated as it appears today than it would be under a land value tax, which is extremely easy to collect.

A progressive tax, which hinges on one's ability to pay, is generally considered the most equitible type of tax. And who would be taxed the most under a land value tax? The owners of the most valuable land (usually downtown parcels, those in the central business districts). These individuals indeed appear able to absorb a tax on these valuable locations.

Finally, the land value tax is loophole-free. It is impossible to conceal the land you own -- its is right out there in the open. The land value tax is perhaps the most certain of all taxes.

Everyone has had some experience (usually bad) filling out tax returns. Wading through pages of bureaucratese, cross-checking tax tables and calculating often complex formulae for deductions leave almost as bad a taste in the mouth as having to pay the tax in the first place.

But imagine the standard tax form under a land value tax:

MODIFIED 1040

1. Name
2. Address
3. Social Security Number
4. Do you own land? Location
5. Assessed value of land only
6. Pay 10% of line 5.

Simplicity offers yet another strong argument for the land value tax. But can it work?

ECONOMICS BROUGHT TO LIFE

"Shifting the property tax (which now taxes both equally) all or mostly onto the land itself would benefit both the decaying city and the vanishing countryside. The tax would act on the landowner as both stick and carrot. In and around the cities, where vast amounts of potentially valuable land are vacant or underused, a high tax on land value would force the landowner to put it to its most economic use, while less or no tax on buildings would reduce or remove the present penalty he pays for improving the property. This is land that, being strategically located in terms of transportation, should be used intensively: that's why a city grew up there in the first place. Since there is only so much demand for factories and stores and homes, the more intensive use of the best-located land would reduce the pressure on outlying areas. Thus, in the country, the land tax would discourage the phenomenon of sprawl, so costly in land and energy and money, and save some of the areas now disappearing under the suburban bulldozer. Some, not all: people have to live and work somewhere, so the most desireable land now farmed (and often in fact held for speculation) would go to other, more intensive uses. But because the high tax on the most valuable land would encourage thrifty use of it, much larger amounts of land would be saved for open space or agriculture."

From "The Tax To End All Taxes" by David Hapgood in American Heritage magazine.

Discussion Questions

1. How does a land value tax differ from a tax on land?

2. Is it wiser for a society to encourage or penalize its members for working harder and earning more? What about entrepreneurs?

3. Who benefits from taxes on workers and businesses? Who benefits from a land value tax?

4. Can you think of ways a landowner might try to evade paying taxes on the value of his land?

5. Tax fraud is a major problem under our present system. Would it be so under a land value tax? Why?

6. Under a land value tax, what would prevent everyone from building up all of the land, thus destroying the environment?

8. Do you think the average homeowner would pay more or less in shifting from the present property tax to a land value tax?

UNDERSTANDING ECONOMICS

Program IX

"Watching It Work"

When taxes on improvements are lowered or eliminated and taxes on land values are increased, we already know what to expect. But let's take the exploration of land value taxes out of the realm of theory and examine its practice in the marketplace.

Fortunately there are a number of locations that already tax land values intensively, and we can perhaps learn from them.

New Zealand and Denmark have been taxing land values for so long and so extensively that it has become a way of life in those countries. As a result, it becomes hard to gauge the impact land value taxes have on the production and distibution of wealth in those countries.

Australia is a different case. Twenty-four cities in the state of Victoria switched from taxing land and buildings to taxing land values only between 1954 and 1975. Not only did all 24 experience a construction boom within three years of the switch, but in each case they showed a stronger and longer spurt than neighboring and comparable cities which did not switch.

Closer to home, five Pennsylvania cities have adopted land value taxation as a means of stimulating their depressed economies. The results could hardly be more encouraging. Two examples:

Total building permits issued in Pittsburgh:

Year	Number	Dollar value
1976	3,179	$ 55,794,694
1977	3,819	101,458,569
1978	3,622	89,264,159
1979	4,420	108,398,188
1980	4,804	297,484,884
1981	4,335	563,072,735

In Pittsburgh, new construction soared by 590 percent within three years of their first land tax increase in 1979. The nation-wide average was 84 percent.

Value of building permits in Scranton and Wilkes-Barre.

City	1977-79	1980-81	%
Scranton	$8.6 million	$10.5 million	+ 22%
Wilkes-Barre	$14.5 million	$8.1 million	- 44%

In Scranton, the number and value of taxable building permits rose 14 and 22 percent, respectively, following the shift to land taxes in 1980. Neighboring Wilkes-Barre, which still taxes the old way, declined by 30 and 44 percent.

ECONOMICS BROUGHT TO LIFE

"McKeesport (pop. 31,000), 12 miles up the Monongahela River from Pittsburgh, was on the verge of municipal bankruptcy in 1980 when it switched to split-rate real-estate taxation and increased its property tax revenues by more than 50%. The city raised taxes on land from 2.45% to 9% of assessed value, but cut taxes on existing buildings from 2.45% to 2% and granted a three-year tax exemption to all new construction. Neighboring Clairton (pop. 12,200) and Duquesne (pop. 10,000), where steel is also the main industry, left their 1-to-1 real estate tax alone. Compared with the annual average for 1977-79, the dollar value of construction in McKeesport rose by 38% in 1980-82. Clairton suffered a 28% decline, Duquesne a 22% decline....

"Businessmen understandably recoil at the suggestion of tax reform. At the state and local level, "reform" has become virtually synonymous with tax increases. Real estate taxes in particular have grown increasingly unpopular in recent years, and genuine reform remains elusive because people prefer the devil they know to the devil they do not understand. But higher land taxes, especially when accompanied by reduced taxes on structures, look like an idea businessmen ought to embrace and promote. The benefits in the form of more jobs and increasingly compact development are not only lasting, but flow to the whole community."

"Higher Taxes That Promote Development", by Gurney Breckenfeld, in Fortune magazine, August 8, 1983

Discussion Questions

1. How might businesses benefit from a policy of taxing land at higher rates than buildings?

2. In this country, land value taxes have been implemented very gradually. What would be the benefits and drawbacks to immediately wiping out improvement taxes and basing the entire property tax on land values?

3. New construction has risen in all five U.S. cities that have launched land value tax programs. Studies constructed in other countries echo these results. Are there other factors that may influence a spurt in development?

4. Land & Liberty magazine examines the implications of this tax in both urban and rural areas. After reading through the magazine, list four ways a land value tax would benefit farmers.

5. During the 1920s, New York City removed taxes on many newly-constructed buildings which, in effect, acted like a land value tax. Why hasn't such an idea been dusted during the city's present struggle to lure development?

UNDERSTANDING ECONOMICS

Program X

"The New Slavery"

Self-evident truths are the cornerstones of our Constitution. Before drafting the document that would steer the nation on its course for the next century or two, the framers used logic and natuarl law as their guide. Nevertheless, it took some 80 years before the country officially acknowledged that liberty was an inalienable right for blacks as well as whites.

Using the same guides, we can reflect on the nature of land ownership in America. Men and women, it is generally agreed, have a right to what they have created -- the fruits of their labor. That the government taxes away up to a third of such wages appears in contrast to this shared view.

By extension, we generally agree that those who start their own businesses have a right to keep what they create. This is both an ethical and practical consideration. Taxing away what the businessman earns is as incongruous as taking the laborer's wages. And practically speaking, it makes no sense to discourage those who employ workers from making their businesses more successful.

But who created the land?

Whether your answer is God or nobody, it is clear that the owners of land had nothing to do with its creation. As for the value attatched to that land, it is largely the result of society. When people want or need to live in a certain area (because of its proximity to the workplace, for example) or when society as a whole spends tax dollars to create schools, roads, subways, airports and the like in and around that area, the land has achieved a value purely attributable to its location. Society has created the value, not the owner.

And if the above logic holds true, society, like the businessman and the laborer, should have a right to what <u>it</u> created -- the location value of land.

Both Karl Marx and Henry George were concerned with the production and distribution of wealth. How did they differ?

GEORGE	MARX
Labor to have free access to natural material and freedom to choose direction of effort. Private ownership of capital. Private ownership of land with due regard to the rights of others. Use controlled by individual title-holder.	Labor to be directed by the state: "From each according to his abilities." Government ownership of capital. Government ownership of land with its use controlled by the state.

ECONOMICS BROUGHT TO LIFE

"Robinson Crusoe, as we all know, took Friday as his slave. Suppose, however, that instead of taking Friday as his slave, Robinson Crusoe had welcomed him as a man and a brother, had read him a Declaration of Independence and Emancipation Proclamation and a Fifteenth Ammendment, and informed him that he was a free and independent citizen, entitled to vote and hold office; but had at the same time informed him that that particular island was his (Robinson Crusoe's) private and exclusive property. What would have been the difference? Since Friday could not fly up into the air nor swim off through the sea, since if he lived at all he must live on the island, he would have been in one case as much of a slave as in the other. Crusoe's ownership of the island would be equivalent of his ownership of Friday...

"[Today, landowners] no longer have to drive their slaves to work; want and the fear of want do that more effectively than the lash. They no longer have the trouble of looking out for their employment or hiring out their labor, or the expense of keeping them when they cannot work. That is thrown upon the slaves. The tribute that they still wring from labor seems like voluntary payment. In fact, they take it as their honest share of the rewards of production -- since <u>they</u> furnish the land!"

<u>Social Problems</u>, by Henry George

<u>Discussion Questions</u>

1. Henry George wrote, "Private property in land, no less than private property in slaves, is the violation of the true rights of property." Does it seem farfetched to equate the ownership of land with the ownership of people?

2. What rights do the owners of property have?

3. In what ways are these rights routinely abridged?

4. From whom do landowners receive <u>their</u> rights?

5. What current actions do local governments employ to limit the use of land?

6. Are there natural limits built into the market system which can do this work for the government? Are they foolproof? Explain.

UNDERSTANDING ECONOMICS

Program XI

"The Mother of All Monopolies"

The monopolization of land is behind many of history's greatest conflicts, including those that took place in this country's embryonic period.

During the end of the 16th Century and the beginning of the 17th Century, European monarchs encouraged and subsidised expeditions to the New World. Discoveries were made in the name of the sovereign and all lands belonged to the monarch, to be dispensed at the will of the crown. In all cases, land that had been discovered and distributed had been occupied for centuries by various Indian tribes whose cultures included ideas quite different from the English concept of individual ownership of land.

Long before the first Europeans arrived, Indians had developed an advanced economy, having passed from nomadic food gathering to food producing. Hunting and fishing were an integral part of their lives, affording a livelihood to all members of a tribe. Without nature there was no life, and nature was not something denied to one and granted to another. Land, a part of the universe, belonged to all, particularly the tribe. Individual land ownership did not exist, since all were entitled to the fruits of nature.

Inevitably, as settlements grew and the desire for further expansion increased, these two cultures conflicted. Treaty after treaty moved the Indans further west and robbed the of their habitat. Corrupt and devious means were used to compel them to forfeit their lands. In many cases, the Indians had little idea of what the settlers meant in denying them access to their lands. No match in power, the Indians were eventually limited to an area of only 200,000 square miles, in a continent of 3,600,000 square miles which they had once wholly occupied.

In 1787, the Northwest Ordinances were issued, declaring:

> "The utmost good faith shall always be observed towards the Indians; and their land and property shall never be taken from them without their consent, and in their property rights and liberty, they shall never be invaded or disturbed, unless and in just and lawful wars authorized by Congress."

To what degree has the United States observed the Northwest Ordinances? To what extent have they been ignored?

ECONOMICS BROUGHT TO LIFE

Many in this country believed that in taking the red man's land and bringing it under white civilization a higher, nobler purpose would be served.

Among those were John Quincy Adams, our 6th President:

"What is the right of a huntsman to the forest of a thousand miles over which he has accidentally ranged in quest of prey? Shall the lordly savage not only disdain the virtues and enjoyments of civilization himself, but shall he control the civilization of a world?"

John Marshall, Chief Justice of the United States Supreme Court, expressed a different opinion in a case between the Cherokee nation and the State of Georgia:

"The Cherokee Nation is a distinct community, occupying its own territory, with boundaries accurately described...and which the citizens of Georgia have no right to enter, but with the assent of the Cherokees themselves, or in conformity with treaties, and with the acts of Congress."

Chief Tecumseh of the Shawnee tribe summed it up this way:

"...The way, the only way to stop the evil is for the red man to unite in claiming a common and equal right in the land, as it was at first, and should be now -- for it was never divided, but belongs to all. No tribe has the right to sell, even to each other, much less to strangers. Sell a country! Why not sell the air, the great sea, as well as earth?"

Discussion Questions

1. State the basic differences concerning land ownership as expressed in the above readings.

2. To what degree has the views held by John Quincy Adams changed concerning other cultures?

3. Do you know of any current cases dealing with the question of land as it pertains to Native Americans?

4. Comment on the quote by Chief Tecumseh in the above reading.

5. Can you think of any other nations or cultures that view land as the Indians do?

UNDERSTANDING ECONOMICS

Program XII

"Looking Forward:

The Road To Economic Independence"

Our history is dotted with great civilizations. The Egyptians, Greeks, Romans, the early Chinese dynasties -- all once ruled their world, advancing to unheard-of levels of cultural and technological progress.

None of them survived.

Is there a common thread running throughout the sequence of great civilizations? Can we identify reasons for their seemingly inevitable demise? And is our own civilization also in danger of crumbling?

Henry George believed he uncovered the link between civilizations, the primary reason none of them survived. He traced the laws of human progress down two adjacent and essential paths:

1. Association. Isolate men completely and, given the opportunity, he will produce enough to survive. Put him among others and he will cooperate, specialize and exchange, vastly increasing his ability to produce and that of the others he comes in contact with. His unlimited desires stir him ever forward; his seeking to satisfy them with the least necessary effort brings about cooperation.

2. Equality. Despite the progress that arises from the association of individuals, our history is also the story of strong groups overpowering weak ones, the rich exploiting the poor. Central in all of these conflicts is land. Because control of land implies control over those who live on the land, and because no group has ever or will ever remain subservient to another without revolt, the fall of these great civilizations has been almost inevitable. The inequalities which arise out of private monopoly of land has stunted progress every time.

So, Henry George believed, association in equality is the key to continued progress.

Our civilization has often been characterized as one in decline. A list of indicators appears below. For each, elaborate on how they represent a sign of the decline of our civilization. Rank them in order of importance.

street crime
white-collar crime
drug and alcohol abuse
divorce and the decline of family life
turning away from religion
economic injustice
nuclear weaponry

ECONOMICS BROUGHT TO LIFE

"To compare society to a boat. Her progress on the water will not depend upon the exertion of her crew, but upon the exertion devoted to propelling her. This will be lessened by any expenditure of force required for bailing... in fighting among themselves or in pulling in different directions.

"Now, as in a separated state the whole powers of man are required to maintain existence, and mental power is only set free for higher uses by the association of men in communities..., association is the first essential of progress. Improvement becomes possible s men come together in peaceful association, and the wider and closer the association, the greater the possibilities of improvement. An as the wasteful expenditure of mental power in conflict becomes greater or less as the moral law which accords to each an equality of rights is ignored or recognized, equality (or justice) is the second essential of progress.

"Thus association in equality is the law of progress. Association frees mental power for expenditure in improvement, and equality... prevents the dissipation of this power in fruitless struggles....

"The law of human progress, what is it but the moral law? Political economy and social science cannot teach any lessons that are not embraced in the simple truths which... underlie every religion that has ever striven to formulate the spiritual yearnings of man."

Social Problems, by Henry George

Discussion Questions

1. How does our civilization's development compare with that of the Romans? The Greeks? In what ways do we differ?

2. It should be significant that we can learn from the mistakes that led to the decline of previous civilizations. Do we show signs of avoiding previously unsuccessful paths of social development, or are we following those very paths?

3. An argument can be made that each of the problems listed on the previous page are actually the prime reason we are in decline. Can you make an argument that we are not in decline at all?

4. Can you assert that each may be a symptom of a much larger problem? What might that problem be?

5. In the above passage, Henry George establishes his law of progress and claims that "every religion that has ever striven to formulate the spiritual longings of man" has emphasized these beliefs, although perhaps differently. Can you think of an exception?