The Henry George School of Social Science

WELCOME ALL!

Fundamental Economics: First Principles

Instructor: Anthony Persaud

Introduction

Class Formalities:

- Participation is highly encouraged
- Respect for classmates during discussions
- Current events briefly discussed at beginning of class
- ❖ Bring all life, work and academic experience
- Review important points from previous lesson(s)
- There are no grades in this class or at the school
- Students will receive a certificate after 5 weeks

CLASS PURPOSE AND STRUCTURE:

The purpose of this course is:

- study fundamental economic principles
- and to apply them in solving today's economic problems;
 - Poverty,
 - unemployment,
 - * recessions,
 - slums,
 - high taxes,
 - inflation, etc.

We will focus on the following:

- What is wealth? How is it created and increased?
- Trace the root causes of the business cycle and social ills such as unemployment and poverty.
- Learn why the earth's natural resources are fundamentally different from the wealth people create.
- See how to raise incomes and encourage responsible development.
- ❖ We will strive to accomplish this in 5 weeks using a variety of mediums including videos, news and magazine articles, sections of Progress and Poverty, and various other sources.

Book, Progress and Poverty:

- ❖ Book available at front desk for \$10 at front desk.
- Progress and Poverty online: http://schalkenbach.org/
- A condensed version:
 http://www.henrygeorge.org/pcontents.htm
- Audio: http://hgchicago.org/links/henry-georges-majorbooks/progress-poverty-audiobook

5 WEEKS - 1 LESSON EACH WEEK

LESSONS ARE AS FOLLOWS:

- 1. PROBLEM AND DEFINITIONS; PRODUCTION AND WAGES
- 2. POPULATION; THE LAW OF RENT, WAGES AND INTEREST
- 3. THE EFFECTS OF PROGRESS ON DISTRIBUTION AND DEPRESSIONS AND RECESSIONS; PROPOSED REMEDIES
- 4. THE REMEDY; ITS JUSTICE AND APPLICATION
- 5. EFFECTS OF THE REMEDY AND THE LAW OF HUMAN PROGRESS

Tell the class something about yourself:

- ❖ How did you hear about the Henry George School?
- What do you expect to learn in this class?
- Any experience in economics/something about what you do?

LESSON 1: THE PROBLEM

Objectives:

- ① Key Question Henry George raised
- 2 What is Economics Why Henry George?
- 3 How is Economics Taught today?
- 4 Why have definitions: Exercise
- (5) Definitions in Fundamental Economics

OBJECTIVE 1

THE PROBLEM: WHY, IN SPITE OF PROGRESS, DOES POVERTY PERSIST?

THE ASSOCIATION OF PROGRESS WITH POVERTY IS THE GREAT ENIGMA OF OUR TIMES. IT IS THE CENTRAL FACT FROM WHICH SPRING THE INDUSTRIAL, SOCIAL AND POLITICAL DIFFICULTIES THAT CONFRONT THE WORLD.

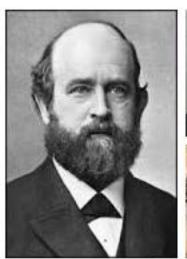
Excerpt from Progress and Poverty by Henry George:

"Who could have foreseen the steamship, the railroad, the tractor? Or factories weaving cloth faster than hundreds of weavers? Who could have heard the throb of engines more powerful than all the beasts of burden combined? Or envisioned the immense effort saved by improvements in transportation, communication, and commerce? Surely, these new powers would elevate society from its foundations, lifting the poorest above worry for the material needs of life. Imagine these new <u>machines relieving human toil</u>, <u>muscles of iron</u> making the poorest worker's life a holiday, giving our nobler impulses room to grow. Given such bountiful material conditions, surely we could anticipate the golden age long dreamed of. How could there be greed when everyone had enough? How could things that arise from poverty — crime, ignorance, brutality — exist when poverty had vanished? Such were the dreams born of this wonderful century of progress.

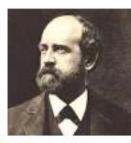
WHAT CAN WE SAY ABOUT THIS PASSAGE?

WHAT ABOUT THE PERSON WHO WROTE IT?

WHO WAS HENRY GEORGE?



















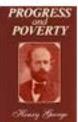












- Unknown printer in San Francisco
- Wrote after his daily working hours, in the only leisure open to him for writing
- No real training in political economy
- Stopped schooling in the seventh grade in his native Philadelphia,
- Shipped before the mast as a cabin boy complete voyage around the world
- Read what he needed to read, and understood what he read
- Lived and worked in a rapidly developing society
- Had the unique opportunity of studying the formation of a civilization -- the change of an encampment into a thriving metropolis
- He saw a city of tents and mud change into a fine town of paved streets and decent housing, with tramways and buses
- He saw the beginning of wealth & noted the first appearance of pauperism
- He saw degradation forming, the advent of leisure and affluence; felt compelled to discover why they arose concurrently
- Wrote other books such as, Social Problems, The Science of Political Economy, The Land Question, A Perplexed Philosopher and many articles, etc.

WHY DID GEORGE WRITE PROGRESS AND POVERTY, 1789?

NATURAL RESOURCES AND LAND?

"We have reached the deplorable circumstance where in large measure a very powerful few are in possession of the earth's resources, the-earth's resources, <a href="mailto:the-ear

TAXATION?

WE ARE TAXED AT EVERY POINT OF OUR LIVES, ON EVERYTHING WE EARN, ON EVERYTHING WE SAVE, ON MUCH THAT WE INHERIT, ON MUCH THAT WE BUY AT EVERY STAGE OF THE MANUFACTURE AND ON THE FINAL PURCHASE. THE TAXES ARE PUNISHING, CRIPPLING, DEMORALIZING. ALSO THEY ARE, TO A GREAT EXTENT, UNNECESSARY.

GOVERNMENT?

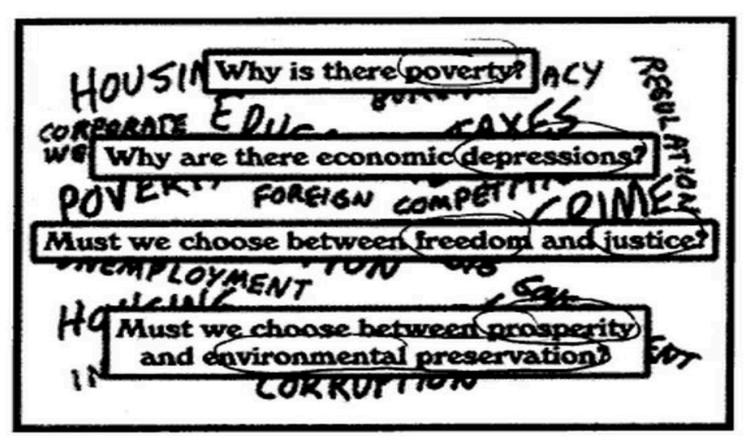
But our system, in which state and federal taxes are interlocked, is deeply entrenched and hard to correct. Moreover, it survives because it is based on bewilderment; it is maintained in a manner so bizarre and intricate that <u>it is impossible for the ordinary citizen to know what he owes his government</u> except with highly paid help. We support a large section of our government (the Internal Revenue Service) to prove that we are breaking our own laws. And we support a large profession (tax lawyers) to protect us from our own employees. College courses are given to explain the tax forms which would otherwise be quite unintelliaible." from HGS website

COULD WE NAME ALL OF THE ECONOMIC PROBLEMS OF TODAY?

Would we say that these are essentially the core of the problems we face today in American society?

WELFARE

If we were to consolidate society's problems, would you say this is good way to narrow them down, so we can approach getting an understanding of them...?



OBJECTIVE 2

WHY STUDY ECONOMICS - WHY HENRY GEORGE?

What is Economics?
Why study Economics?
Why Henry George?

A BRIEF SURVEY OF ECONOMIC THOUGHT

EARLY ECONOMIC THOUGHT:

Aristotle's Politics (c.a. 350 BC) Thomas Aquinas (1225–1274)

MERCANTILISTS AND NATIONALISM

Thomas Mun English businessman (1571–1641) Philipp von Hörnigk (1640–1712) Jean-Baptiste Colbert (1619–1683)

BRITISH ENLIGHTENMENT

John Locke (1632–1704) Dudley North (1641–1691) David Hume (1711–1776)

THE CIRCULAR FLOW - PHYSIOCRATS

François Quesnay (1694–1774) Jacques Turgot (1727–1781)

ADAM SMITH AND THE WEALTH OF NATIONS

Adam Smith (1723–1790) william Pitt 1780s

CLASSICAL POLITICAL ECONOMY

Jeremy Bentham (1748–1832) Jean-Baptiste Say (1767–1832) Thomas Malthus (1766–1834) David Ricardo (1772–1823) John Stuart Mill (1806–1873) Henry George

CAPITALISM AND MARX

Karl Marx (1818–1883)

NEOCLASSICAL THOUGHT

Carl Menger (1840–1921) do Pareto (1848–1923) Joseph Alois Schumpeter (1883–1950) Ludwig von Mises (1881–1973)

DEPRESSION AND RECONSTRUCTION

Alfred Marshall (1842 - 1924) John Maynard Keynes (1883–1946)

THE "AMERICAN WAY"

Thorsten Veblen (1857–1929)
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John R. Commons (1862–1945)
John Kenneth Galbraith (1908–2006)
Paul Samuelson (1915–2009)

MONETARISM AND THE CHICAGO SCHOOL

Ronald Coase (born 1910) Milton Friedman (1912–2006)

GLOBALIZATION

Amartya Sen (born 1933) Joseph Stiglitz (born 1943) Paul Krugman (born 1953)

EARLY ECONOMIC THOUGHT:

Aristotle's Politics (c.a. 350 BC)

- concerned to analyze different forms of a state (monarchy, aristocracy, constitutional government, tyranny, oligarchy, democracy) as a critique of Plato's advocacy of a ruling class of "philosopher-kings".
- In particular for economists, Plato had drawn a blueprint of society on the basis of common ownership of resources.
 Aristotle viewed this model as an oligarchical anathema.

Thomas Aquinas (1225–1274)

- Italian theologian and writer on economic issues
- In the treatise Summa Theologica, Aquinas dealt with the concept of a <u>just price</u>, which he considered necessary for the reproduction of the social order which he considered necessary for the reproduction of the social order.

MERCANTILISTS AND NATIONALISM

Thomas Mun English businessman (1571–1641) represents early mercantile policy in his book England's Treasure by Foraign Trade

Philipp von Hörnigk (1640–1712)

In Austria Over All, If She Only Will) he laid out one of the clearest statements of mercantile policy **He listed nine principal rules of national economy**:

- (1) To inspect the country's soil with the greatest care, and not to leave the agricultural possibilities of a single corner or clod of earth unconsidered...
- (2) All commodities found in a country, which cannot be used in their natural state, should be worked up within the country...
- (3) Attention should be given to the population, that it may be as large as the country can support...
- 4) gold and silver once in the country are under no circumstances to be taken out for any purpose...
- (5) The inhabitants should make every effort to get along with their domestic products...
- (6) [Foreign commodities] should be obtained not for gold or silver, but in exchange for other domestic wares...
- (7) ...and should be imported in unfinished form, and worked up within the country...
- (8) Opportunities should be sought night and day for selling the country's superfluous goods to these foreigners in manufactured form...
- (9) No importation should be allowed under any circumstances of which there is a sufficient supply of suitable quality at home."

Jean-Baptiste Colbert (1619–1683)

- Minister of Finance under King Louis XIV of France
- He set up national guilds to regulate major industries: Silk, linen, tapestry, furniture manufacture and wine
- According to Colbert, "It is simply, and solely, the abundance of <u>money within a state</u> [which] makes the difference in its <u>grandeur and power</u>."

BRITISH ENLIGHTENMENT

JOHN LOCKE (1632–1704)

 Locke believed that people <u>contracted</u> into society which was bound to protect <u>their rights of property</u>

DUDLEY NORTH (1641–1691)

- A wealthy merchant and landowner.
- He worked as an official for the Treasury and was opposed to most mercantile policy.
- Trade, he argued, benefits both sides, it promotes specialization, the division of labor and produces an increase in wealth for everyone.
- Regulation of trade interfered with these benefits by reducing the flow of wealth.

DAVID HUME (1711-1776)

- agreed with North's philosophy and denounced mercantile assumptions.
- His contributions were set down in Political Discourses (1752), later consolidated in his Essays, Moral, Political, Literary (1777).
- Added to the fact that it <u>was undesirable to strive for a favorable</u> <u>balance of trade</u> it is, said Hume, in any case impossible.

THE CIRCULAR FLOW - PHYSIOCRATS

François Quesnay (1694–1774)

- was the court physician to King Louis XV of France.
- He believed that <u>trade and industry were not sources of wealth</u>, and instead in his book, <u>Tableau économique</u> (1758, Economic Table) argued that <u>agricultural surpluses</u>, by <u>flowing through</u> the economy in the form of <u>rent</u>, <u>wages</u> and purchases were the real economic movers.

Jacques Turgot (1727–1781)

• <u>developed Quesnay's theory that land is the only source of</u> wealth.

ADAM SMITH AND THE WEALTH OF NATIONS

Adam Smith (1723–1790)

popularly seen as the <u>father of modern political economy</u>. His publication of the <u>An Inquiry Into the Nature and Causes of the Wealth of Nations in 1776</u> happened to coincide not only with the American Revolution, shortly before the Europe wide upheavals of the French Revolution, but also the dawn of a new industrial revolution that allowed more wealth to be created on a larger scale than ever before.

William Pitt 1780s

based his <u>tax proposals on Smith's ideas</u> and <u>advocated free trade</u> <u>as a devout disciple of The Wealth of Nations</u>.

CLASSICAL POLITICAL ECONOMY

Jeremy Bentham (1748–1832)

- was perhaps the most radical thinker of his time, and developed the concept of **utilitarianism**.
- Bentham was an atheist, a prison reformer, animal rights activist, believer in universal suffrage, free speech, free trade and health insurance at a time when few dared to argue for any.

Jean-Baptiste Say (1767–1832)

- was a Frenchman, born in Lyon who helped to popularize Adam
 Smith's work in France.
- His book, A Treatise on Political Economy (1803) contained a brief passage, which later became orthodoxy in political economics until the Great Depression and known as <u>Say's Law of markets</u>: <u>products are paid for with products</u>" and "<u>a glut can take place only when there are too many means of production applied to one kind of product and not enough to another</u>".

Thomas Malthus (1766–1834)

 was a Tory minister in the United Kingdom Parliament who, contrasting to Bentham, believed <u>in strict government abstention</u> <u>from social ills.</u>

David Ricardo (1772–1823)

 Ricardo's best known work is his <u>Principles of Political Economy</u> and <u>Taxation</u>, <u>which contains his critique of barriers to</u> <u>international trade and a description of the manner the income</u> <u>is distributed in the population</u>

John Stuart Mill (1806–1873)

- dominant figure of political economic thought of his time
- Mill's early economic philosophy was one of free markets
- he <u>accepted interventions</u> in the economy, such as a tax on alcohol, if there were sufficient utilitarian grounds.
- Mill originally believed that "<u>equality of taxation" meant "equality of sacrifice"</u> and <u>that progressive taxation penalized those who worked harder and saved more</u> and was therefore "a mild form of robbery".

CAPITALISM AND MARX

Karl Marx (1818–1883):

- Was and still remains the pre-eminent socialist economist
- His combination of political theory represented in the <u>Communist Manifesto</u> and <u>the dialectic theory of history</u> inspired by Friedrich Hegel
- provided <u>a revolutionary critique of capitalism</u> as he saw it in the nineteenth century.

NEOCLASSICAL THOUGHT

Carl Menger (1840–1921)

- an Austrian economist stated the <u>basic principle of marginal</u> <u>utility</u>
- Consumers act rationally by seeking to maximize satisfaction of all their preferences.

Vilfredo Pareto (1848–1923)

- was an Italian economist, best known for developing the concept of an economy that would permit maximizing the utility level of each individual, given the feasible utility level of others from production and exchange.
- Such a result came to be called "Pareto efficient".

Joseph Alois Schumpeter (1883–1950)

- was an Austrian economist and political scientist most known for his works on business cycles and innovation.
- He insisted on the role of the entrepreneurs in an economy.
- In Business Cycles: A theoretical, historical and statistical analysis
 of the Capitalist process(1939), Schumpeter <u>made a synthesis of</u>
 the theories about business cycles

Ludwig von Mises (1881–1973)

- was an Austrian economist who contributed the idea of praxeology, "<u>The science of human action</u>". Praxeology views economics as a series of voluntary trades that increase the satisfaction of the involved parties.
- Mises also argued that <u>socialism suffers from an unsolvable</u> <u>economic calculation problem</u>, which according to him, <u>could</u> <u>only be solved through free market price mechanisms.</u>

DEPRESSION AND RECONSTRUCTION

Alfred Marshall (1842 - 1924)

- He desired to improve the mathematical rigor of economics and transform it into a more scientific profession
- Marshall hoped to reconcile the classical and modern theories of value
- Alfred Marshall was the first to <u>develop the standard supply</u> <u>and demand graph</u> demonstrating a number of fundamentals regarding supply and demand including:
 - the supply and demand curves,
 - market equilibrium,
 - the relationship between quantity and price in regards to supply and demand,
 - law of marginal utility,
 - law diminishing returns,
 - and the ideas of consumer and producer surpluses

John Maynard Keynes (1883–1946)

- His observations were laid out in his book The Economic
 Consequences of the Peace....During the Great Depression,
 Keynes had published his most important work, The General
 Theory of Employment, Interest, and Money(1936).
- From the end of the Great Depression to the mid-1970s, Keynes provided the main inspiration for economic policy makers in Europe, America and much of the rest of the world
- Keynesian ideas became so popular that some scholars point to Keynes as representing the ideals of modern liberalism, as Adam Smith represented the ideals of classical liberalism.

THE "AMERICAN WAY"

Thorsten Veblen (1857–1929)

- In The Theory of the Leisure Class (1899) he scorned materialistic culture and wealthy people who conspicuously consumed their riches as a way of demonstrating success
- The Theory of Business Enterprise (1904) Veblen distinguished production for people to use things and production for pure profit, arguing that the former is often hindered because businesses pursue the latter

John R. Commons (1862–1945)

- Underlying his ideas, consolidated in Institutional Economics (1934)
 was the concept that the economy is a web of relationships between
 people with diverging interests.
- There are monopolies, large corporations, labor disputes and fluctuating business cycles.
- They do however have an interest in resolving these disputes.
 Government, thought Commons, ought to be the mediator between the conflicting groups.

John Kenneth Galbraith (1908–2006)

- one of the standard bearers for pro-active government and liberaldemocrat politics.
- In The Affluent Society (1958), Galbraith argued voters reaching a certain material wealth begin to vote against the common good.
- the "conventional wisdom" of the conservative consensus was not enough to solve the problems of social inequality

Paul Samuelson (1915–2009).

- His Ph.D. was an attempt to show that mathematical methods could represent a core of testable economic theory.
- It was published as Foundations of Economic Analysis in 1947.
- two assumptions.
 - First, people and firms will act to maximize their self interested goals.
 - Second, markets tend towards an equilibrium of prices, where demand matches supply.
- He extended the mathematics to describe equilibrating behavior of economic systems, including that of the then new macroeconomic theory of John Maynard Keynes.

MONETARISM AND THE CHICAGO SCHOOL

Ronald Coase (born 1910)

- His first major article, The Nature of the Firm (1937), argued that the reason for the existence of firms (companies, partnerships, etc.) is the existence of transaction costs.
- Rational individuals trade through bilateral contracts on open markets until the costs of transactions mean that using corporations to produce things is more cost-effective.

Milton Friedman (1912–2006)

- stands as one of the most influential economists of the late twentieth century. He won the Nobel Prize in Economics in 1976, among other things, for A Monetary History of the United States(1963).
- Friedman argued that the Great Depression had been caused by the Federal Reserve's policies through the 1920s, and worsened in the 1930s.
- Friedman argues that laissez-faire government policy is more desirable than government intervention in the economy

GLOBALIZATION

Amartya Sen (born 1933)

- is a leading development and <u>welfare economist</u> and has expressed considerable skepticism on the validity of neo-classical assumptions.
- He was highly critical of rational expectations theory, and devoted his work to development and human rights.
- He won the Nobel Prize in Economics in 1998

Joseph Stiglitz (born 1943)

- Received the Nobel Prize in 2001 for his work in information economics.
- served as chairman of President Clinton's Council of Economic Advisors/chief economist for the World Bank.
- taught at many universities, including Columbia, Stanford, Oxford, Manchester, Yale, and MIT.
- an <u>outspoken critic of global economic institutions</u>

Paul Krugman (born 1953)

- is a contemporary economist
- His textbook International Economics (2007) appears on many undergraduate reading lists.
- Well known as a <u>representative of progressivism</u>, he writes a weekly column on economics, American economic policy, and American politics more generally in the New York Times.
- He was awarded the Nobel Prize in Economics in 2008 for his work on <u>New Trade</u>
 <u>Theory and economic geography</u>.

Section Cited from wikipedia: http://en.wikipedia.org/wiki/History_of_economic_thought

OBJECTIVE 3 HOW IS ECONOMICS TAUGHT TODAY?

MICROECONOMICS:

Markets
Production, cost, and efficiency
Specialization
Supply and demand
Firms - Corporations
Uncertainty and game theory
Market Failure
Public sector

MACROECONOMICS:

Growth (GDP, EMPLOYMENT, INFLATION)
Business cycle/Economic Cycle (depressions, recession, bust, booms, bubbles)
Inflation and monetary policy
Fiscal policy and regulation
International economics

OBJECTIVE 4

Definitions: Why have definitions: Exercise: hand out index cards

Step 1. Please take one or more index cards. We will draw a table on the whiteboard with the following categories: Wealth, Land, Labor, Capital/Interest, and Other.

Step 2. Place the card in the category, on the whiteboard, you think it belongs in.

Step 3. How did everyone arrive with the decision as to which category to place the card?

Step 4. Do you think that your index card should remain in the category you choose? Why?

WHAT BASIC QUESTION/ OBSERVATION, DO YOU THINK, EMERGES FROM THIS EXERCISE?

a surface-to-air missile
a sandwich
merchandise for sale
a truck
a subway car
an old house, which you
rent to tenants
gasoline in your car
Windows Vista

a \$100 bill
a Microsoft stock certificate
a US Savings Bond
playing guitar for your friends
playing volleyball on the beach
your unpublished novel
your old teddy bear

LAND/LABOR/CAPITAL a stock dividend a geosynchronous orbit
oil in the ground
a broadcast frequency
121 East 30th Street (maybe part
wealth)
a building site
a cultivated field (land and wealth)
the atmosphere
fish in the ocean

teaching
ditch digging
Bill Gates
playing music in the subway
serving in the US Senate
an insurance policy
computer programming
advertising

WEALTH/CAPITAL

a surface-to-air missile
a sandwich
merchandise for sale
a truck
a subway car
an old house, which you
rent to tenants
gasoline in your car
Windows Vista

OTHER

a \$100 bill
a Microsoft stock certificate
a US Savings Bond
playing guitar for your friends
playing volleyball on the beach
your unpublished novel
your old teddy bear

LAND/LABOR/CAPITAL a stock dividend

LAND

a geosynchronous orbit
oil in the ground
a broadcast frequency
121 East 30th Street (maybe part
wealth)
a building site
a cultivated field (land and wealth)
the atmosphere
fish in the ocean

LABOR

teaching
ditch digging
Bill Gates
playing music in the subway
serving in the US Senate
an insurance policy
computer programming
advertising

OBJECTIVE 5:

Definitions in Fundamental Economics

We shall examine each category in the exercise:

- a) Wealth,
- b) Production
- c) Distribution
- d) Factors of Production: Land, Labor Capital
- e) Avenues of Distribution: Rent, Wages, Interest

Where should we start with Economics?

We establish; Economic Axioms (self-evident truths):

- 1 People seek to satisfy their desires with the least exertion.
- 2 Human desires are unlimited.

WHAT IS ECONOMICS?

- 1 Political economy is the science that examines and deals with the nature of wealth and the natural law and common law governing the production and distribution of wealth.
- 2 Political economy is the explanation of a certain set of facts. It is the science which, in the sequence of certain phenomena, seeks to trace mutual relations and to identify cause and effect, just as the physical sciences seek to do so in other sets of phenomena.

What is meant by Natural Laws?

Natural law, or <u>the law of nature</u> is a system of law which is purportedly <u>determined by nature</u>, and thus <u>universal</u>:

- A. Classically, natural law refers to **the use of reason to analyze human nature** -- both social and personal -- and deduce binding rules of moral behavior.
- **B.** <u>Natural law</u> is contrasted with the positive law (meaning "man-made law", not "good law") of a given political community, society, or nation-state...
- C. <u>Natural law</u> is often conflated with <u>common law</u>, the two are distinct in that natural law is a view that certain rights or values are inherent in or <u>universally cognizable</u> by virtue of human reason or human nature, while <u>common law</u> is the <u>legal tradition</u> whereby certain rights or values are legally cognizable by virtue of <u>judicial recognition</u> or <u>articulation</u>.
- D. (See entry here: http://en.wikipedia.org/wiki/Natural_laws)

A. Wealth:

- 1. Any material thing
- 2. Produced by labor
- 3. Which satisfies human desire
- 4. Having an exchange value

B. Production:

All the processes involved in making wealth and bringing it from its place of origin to the ultimate consumer.

C. Distribution:

The division of wealth among the factors that produce it.

Factors of Production:

(inputs used to produce goods and services)

1) <u>Land:</u>

The entire material universe, excluding people and their products.

2) Labor:

All human exertion, mental and physical, in production. Note: The demand for consumption determines the direction in which labor will be expended in production. [P&P P77]

3) Capital:

Wealth that is used to produce more wealth, or wealth in the course of exchange.

Note: All capital is wealth, but not all wealth is capital. [P&P P42]

Avenues of Distribution

1) <u>Rent:</u>

That part of wealth which is the return for the use of land.

- only that realized from land can be properly termed wealth

2) <u>Wages:</u>

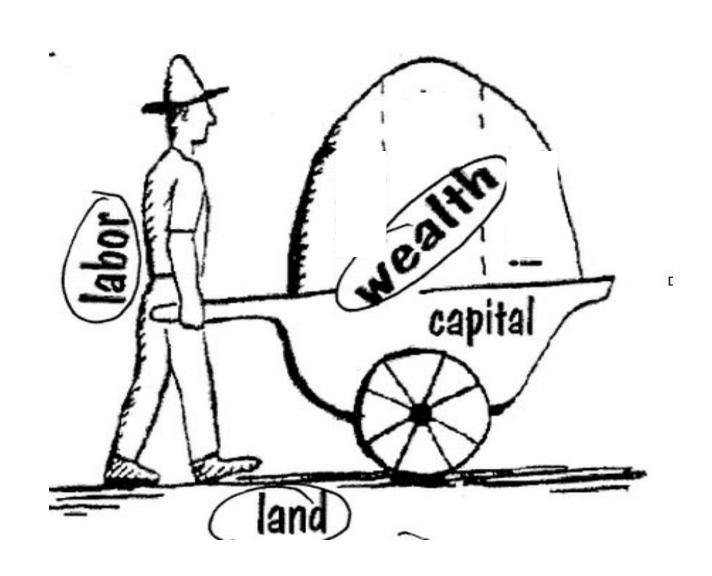
That part of wealth which is the return to labor.
-economically speaking, wages include: earnings from labor which produced wealth

Note: Production is always the mother of wages. Labor always precedes wages. [P&P P57]

3) <u>Interest:</u>

That part of wealth which is the return for the use of capital, excluding compensation for risk.

- money is not capital

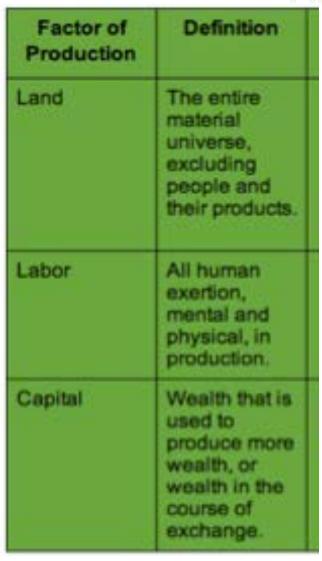


Summary

key points

Certain words — such as <u>wealth</u>, <u>capital</u>, <u>rent</u>, <u>and wages</u> — require a much more specific meaning in economic reasoning than they do in everyday speech. Unfortunately, even among economists, there is no agreement on the meaning of these terms. Different writers give different meanings to the same term. Even worse, one author will use the same term in different senses. Nothing shows the importance of precise language like the spectacle of the brightest thinkers basing important conclusions on the same word used in different senses.

OBJECTIVE 5:



Summary - key points Certain words — such as **wealth**, capital, rent, and wages — require a much more specific meaning in economic reasoning than they do in everyday speech. Unfortunately, even among economists, there is no agreement on the meaning of these terms. Different writers give different meanings to the same term. Even worse, one author will use the same term in different senses. Nothing shows the importance of precise language like the spectacle of the brightest thinkers basing important conclusions on the same word used in different senses.

Fundamental Economics; First Principles Instructor: Anthony Persaud

Welcome to Lesson 2

LESSON 2: POPULATION; THE LAW OF RENT, WAGES AND INTEREST

OBJECTIVES:

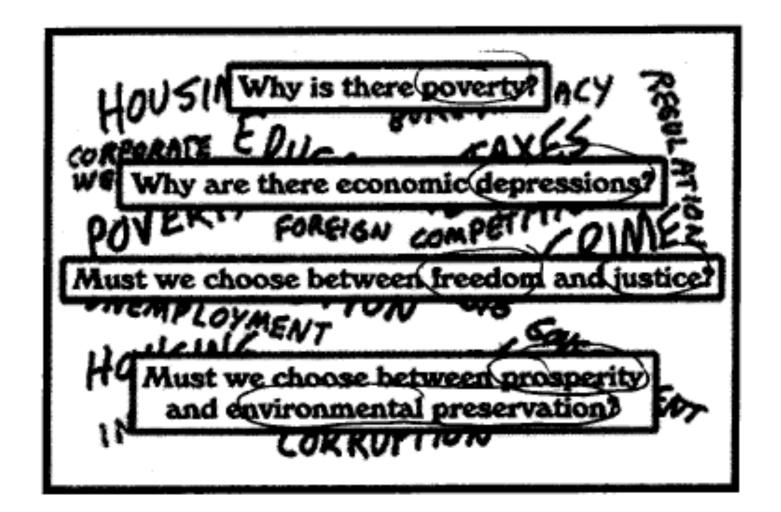
- 1 LET'S TAKE A LOOK AT CURRENT EVENTS
- 2 REVIEW: PROBLEM, DEFINITIONS AND AVENUES OF DISTRIBUTION
- 3 POPULATION: AN ECONOMIC CONNECTION TO POVERTY?
- 4 THE LAW OF RENT, WAGES AND INTEREST: HOW TO END POVERTY
- 5 SUMMARY, AND WHAT'S AHEAD FOR LESSON 4?

OBJECTIVE 1 LET'S TAKE A LOOK AT CURRENT EVENTS

OBJECTIVE 2

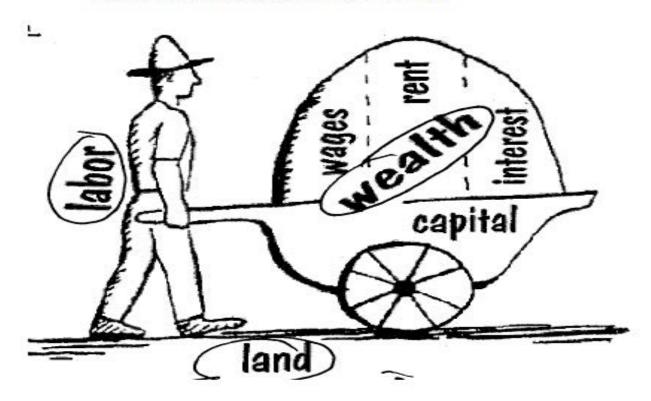
REVIEW: THE PROBLEM, DEFINITIONS, AND AVENUES OF DISTRIBUTION

What is the problem?



TO ANALYZE AND UNDERSTAND THE PROBLEM WE STUDY ECONOMICS

POLITICAL ECONOMY IN EFFECT



THREE TIERED ECONOMY:

<u>Primary</u> - cycles of nature-natural resources

Non renewable: rocks, minerals, fossil fuels

Ecosystem services:

Purification of air and water

Maintenance of soil fertility

Pollination

Mitigation of floods and droughts

Pest control

Climate stability

Secondary – transformation of primary -wealth creation

labor (mental and physical) and capital used

<u>Tertiary (financial)</u> - catalyst - claim on wealth;

(The tertiary economy is made up of Rentiers - those who have a claim on nature resources and thereby charges rent for its use)

Monetary goods

Mortgage loans

Insurance policies

Securities

ANOTHER ASPECT OF THE ECONOMY

From simplicity to complexity

Measuring what we owe each other i.e. a claim overtime

Trust is one of the foundations of an economy

How do humans do this?

Humans organize based on laws, rules, and procedures Higher Laws drawn from great teachers, sages,

prophets: ten commandments, laws of dharma, laws of Manu, Tao de Ching

Man made law based on laws and principles based on natural law/observed law

Magna Carta, declaration of dependence, us constitution, declaration of human rights

A. WEALTH:

- 1. Any material thing
- 2. Produced by labor
- 3. Which satisfies human desire
- 4. Having an exchange value

B. PRODUCTION:

All the processes involved in making wealth and bringing it from its place of origin to the ultimate consumer.

C. DISTRIBUTION:

The division of wealth among the factors that produce it.

Wealth

The product of LAND transformed by LABOR and CAPITAL to satisfy human desires ...

HOW IS WEALTH PRODUCED?

Factors of Production

LAND LABOR CAPITAL

FACTORS OF PRODUCTION

(inputs used to produce goods and services)

1) **LAND**:

The entire material universe, excluding people and their products.

2) LABOR:

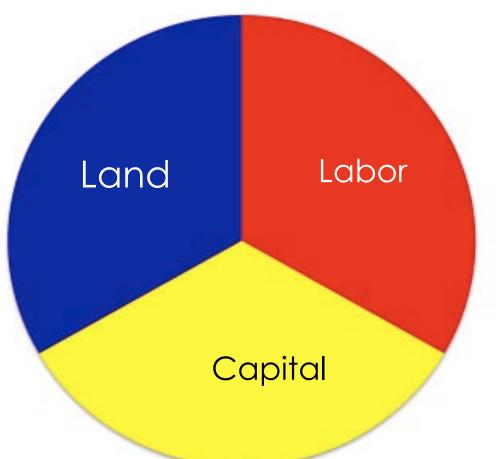
All human exertion, mental and physical, in production. Note: The demand for consumption determines the direction in which labor will be expended in production. [P&P P77]

3) CAPITAL:

Wealth that is used to produce more wealth, or wealth in the course of exchange.

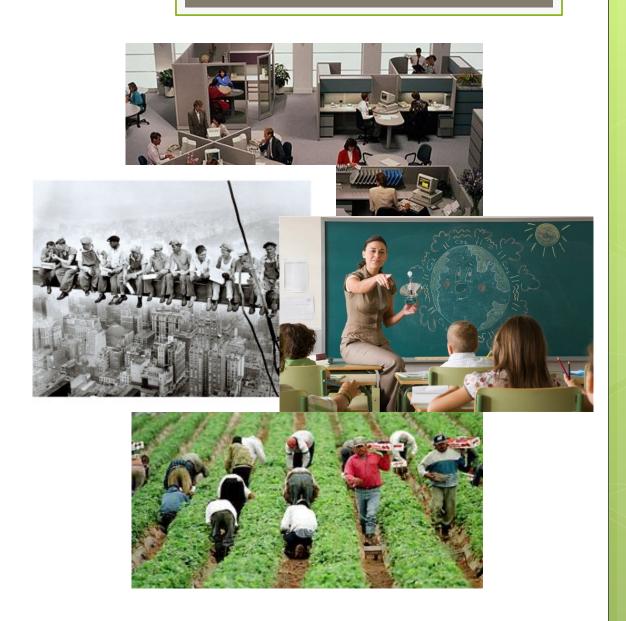
Note: All capital is wealth, but not all wealth is capital. [P&P P42]

Production of Wealth



Labor

All human exertion, mental and physical, in the production of wealth.



Capital

Wealth
that
is used to
produce
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wealth



Avenues of Distribution

1) <u>Rent:</u>

That part of wealth which is the return for the use of land.

- only that realized from land can be properly termed wealth

2) <u>Wages:</u>

That part of wealth which is the return to labor.
-economically speaking, wages include: earnings from labor which produced wealth

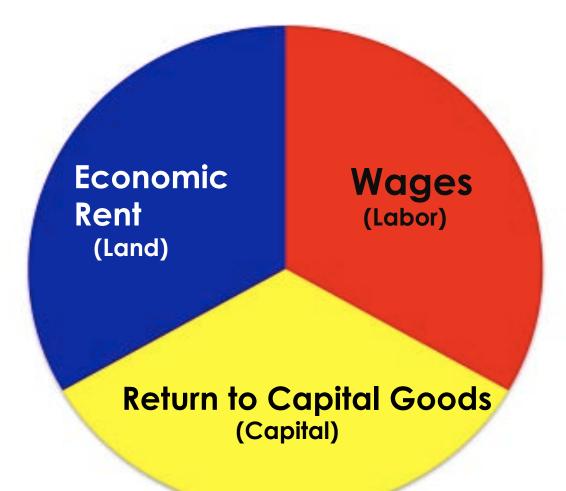
Note: Production is always the mother of wages. Labor always precedes wages. [P&P P57]

3) <u>Interest:</u>

That part of wealth which is the return for the use of capital, excluding compensation for risk.

- money is not capital

Distribution of Wealth



OBJECTIVE 3 POPULATION, IS THERE AN ECONOMIC CONNECTION TO POVERTY?

Population, is there an economic connection to poverty?

In our quest for a solution to poverty, we now examine a theory that is often put forward that the world is becoming overpopulated?

- Is the world becoming overpopulated? and does overpopulation affect poverty? _
- Are people having too many children causing them to go into poverty?
- Are the poor the victims of their own circumstance?
- What about here in the United States? Around the world
- Are governments the cause of poverty?
- How about rich people?

Are the above really the causes/contributing factors to poverty? why? Or, why not?

The **world population** is the sum of all <u>humans</u> on <u>Earth</u>. As of today, it is estimated to number **7.01 billion** by the <u>United States Census Bureau</u> (USCB). The USCB estimates that the world population exceeded 7 billion on March 12, 2012. According to a separate estimate by the <u>United Nations Population Fund</u>, it reached this milestone on October 31, 2011

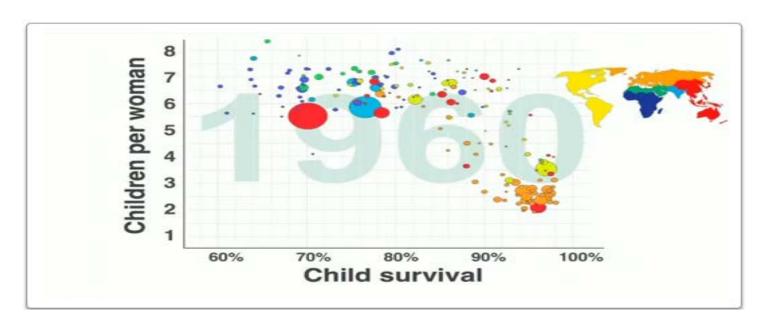
Population by continent

[edit]

Continent name	Density (inhab./km²)	Population (2011)	Most populous country	Most populous city
Asia	86.7	4,140,336,501	People's Republic of China (1,341,403,687)	• Tokyo (35,676,000)
Africa	32.7	994,527,534	■ Nigeria (152,217,341)	Cairo (19,439,541)
Europe	70	738,523,843	Russia (142,905,200)	Moscow (14,837,510)
North America	22.9	528,720,588	United States of America (308,745,538)	Mexico City/Metro Area (8,851,080 / 21,163,226)
South America	21.4	385,742,554	Brazil (190,732,694)	São Paulo (19,672,582)
Oceania	4.25	36,102,071	Australia (22,612,355)	Sydney (4,575,532)
Antarctica	0	4,490 (varies) ^[14]	N/A ^[15]	McMurdo Station (955) ^[16]

Reference: http://en.wikipedia.org/wiki/World_population

Hans Rosling on global population growth:



The world's population will grow to 9 billion over the next 50 years -- and only by raising the living standards of the poorest can we check population growth. This is the paradoxical answer that Hans Rosling unveils at TED@Cannes using colorful new data display technology (you'll see). In Hans Rosling's hands, data sings. Global trends in health and economics come to vivid life. And the big picture of global development—with some surprisingly good news—snaps into sharp focus

http://www.ted.com/talks/hans_rosling_on_global_population_growth.html

Who was Malthus?



- A. "The Reverend **Thomas Robert Malthus** (1766 1834) was an English scholar, influential in political economy and demography. Malthus popularized the economic theory of rent.
- B. His <u>An Essay on the Principle of Population</u>, published from 1798 to 1826, observed that sooner or later population gets checked by <u>famine</u> and <u>disease</u>. He wrote in opposition to the popular view in 18th-century Europe that saw society as improving and in principle as perfectible.
- C. Malthus thought that the dangers of <u>population growth</u> would preclude endless progress towards a <u>utopian</u> society, or a notheavenly earth: "<u>The power of population is indefinitely greater than the power in the earth to produce subsistence for man".</u>
- D. Malthus became hugely influential, and controversial, in economic, political, social and scientific thought.
- E. Malthus remains a writer of great significance and controversy.

Reference: http://en.wikipedia.org/wiki/Malthus

A. Many of those whom subsequent centuries term evolutionary biologists read him, notably Charles Darwin and Alfred Russel Wallace, for each of whom Malthusianism became an intellectual stepping-stone to the idea of natural selection.

WHAT IS THE MALTHUSIAN THEORY?

Malthus Theory on Population:

Malthus theory is the doctrine that poverty is due to the pressure of population against subsistence, or, to put it in its other form, the doctrine that the tendency to increase in the number of laborers must always tend to reduce wages to the minimum which laborers can reproduce. [P&P P101]

George's response:

"I assert that the new mouths which an increasing population brings into existence require no more food than the old ones, while the hands they bring with them can in the natural order of things produce more." [P&P P141]

Let labor again exert itself, and wealth will almost immediately reappear. [P&P P148]

What does George mean by the above?

Even if the increase in population does reduce the power of the natural factor of wealth (land), by compelling a resort to poorer soils, etc., it yet so vastly increases the power of the human factor as more than to compensate. [P&P P149]

OBJECTIVE 4:

THE LAW OF RENT, WAGES AND INTEREST: HOW TO END POVERTY

The Laws of Distribution:

- The division of wealth among the factors that produce it
- The natural laws which determine what proportion of wealth produced is the return to each <u>factors or production</u>, namely <u>land</u>, <u>labor and capital</u>.
- The laws of distribution must account for the distribution of the entire product.

Law of Rent:

- The rent of land is determined by the excess of its produce over that
 which the same application of labor and capital can secure from the
 least productive land in use.
 In other words, that part of wealth which is the rent for the use of land.
- The **margin of production** is the least productive land in use, or the best land to be had for nothing.
- Rent, in short, is the share of the wealth produced which is the exclusive right to the use of natural capabilities gives to the owner.
- Whenever <u>land has an exchange value</u> there is <u>rent</u> in the economic meaning of the term
- Whenever land having a <u>value is used</u>, either by the owner or a hirer, <u>there is rent</u> actual; wherever <u>land is not use</u>d, but still <u>has a value</u>, there is <u>rent potential</u>. Until its ownership will confer some advantage, land has no value. [P&P P166]

How to end poverty:

http://www.henrygeorge.org/vid12711.htm

"A teaser introducing the reform needed to end poverty. The monopoly man is often times a bank or financial institution, the de facto landlords via mortgages.

http://howtoendpoverty.info/"



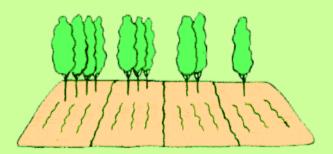
The Basic Insight: The Law of Rent

Here we have a very simple, ten-screen model in which we explore the Law of Rent. The law of what? You mean you have never heard of it? It's odd, but although the Law of Rent is every bit as fundamental as the laws of supply and demand, or motion, or thermodynamics, a great many people have never heard of it. Why do you suppose that is?

Could it be because the *Law of Rent* has to do with land, and land is not so important anymore, in today's "information age"? No. Land won't ever become "less important." How could it? Land — the physical universe, uncreated by humans — is the only ground we can stand on, and the only stuff we can make things out of.

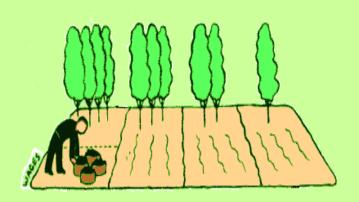
So why, then, have most people never heard of the Law of Rent? That is one of the great "intellectual detective stories" of modern times. To understand why, we must come to grips with this simple principle. So let's go!

1. Different Grades of Land



Here are four sections of a piece of land, with natural resources (fruit trees). Let us assume you can get one bushel of fruit from each tree. On the best section, you can get four bushels in one day. On the next section, with the same day's labor, you can get only three bushels.

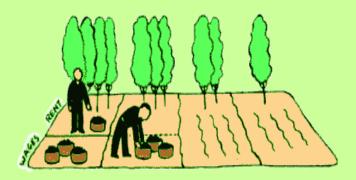
2. First Comer - All Wages



So far, all this land is free. The first person who comes to pick fruit will appropriate the best land available. It is then the margin of production (indicated by the dotted line). One day's labor gains four bushels: the worker's wages.

What happens when more settlers arrive?

3. Second Comer - Rent Begins



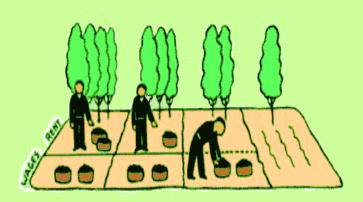
The next comer has to be content with the three-tree section. (This now becomes the margin of production.) On this land, three bushels are the reward for one day's labor.

These two people do the same work, yet one gets four bushels and the other only three. Why? Because of the difference in the land. Since the best land is superior by one bushel, its rent is one. Wages are three on both lands.



OK, I guess I'll take the 2-tree land.

4. Third Comer - Further Rise of Rent

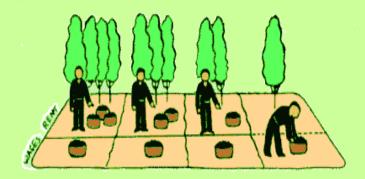


The third comer has to use the two-bushel land (which now becomes the margin). Wages on all lands are now two - for that is the most that can be had without the payment of rent. If the third comer wanted to work on the three-bushel land, its owner would take one bushel as rent. The rent represents what the landowners can get without working, but solely by virtue of their ownership.



What if all the land is taken?

5. Fourth Comer - All Land Used

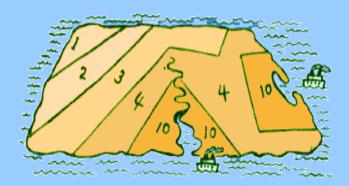


When the fourth comer arrives, the only land left is the one-bushel land. Now, all the other lands have a rent in proportion to their superiority over this land, which is now the best land available without the payment of rent: the margin of production.



What about other kinds of land?

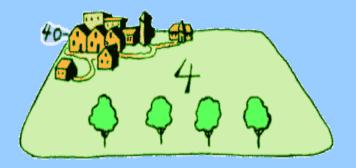
6. Other Natural Differences



These examples are very simple. In the real world, the operation of rent applies with any of the great variety of factors that make one piece of land superior to others. A good harbor or a navigable river, for example, makes the surrounding land valuable.

How do natural differences combine with increased population?

7. Growth of Population

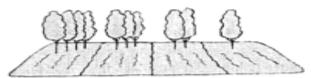


Assume that a good piece of agricultural land (as in our earlier charts) yields four. People settle in one section of it, and a town grows up there. The land within the town is no more fertile than any other - but productiveness of a new kind has arisen there. Because of the economies of cooperation and specialization of labor, it now yields forty instead of four. If the four land were free, what would be the rent in town?

How do labor-saving inventions affect rent and wages?

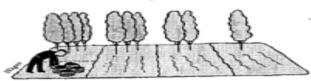
The Law of Rent

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Second Comer — Rent Begins



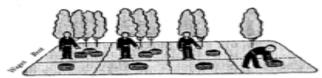
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Fourth Comer — All Land Used



When the fourth comer arrives, the only land left is the one-bushel land. Now, all the other lands have a rent in proportion to their superiority over this land, which is now the best land available without the payment of rent: the margin of production.

Other Natural Differences



So far our examples have been very simple, using only one variable. In the real world, that never happens! The operation of rent is influenced by the great variety of factors that make one piece of land superior to others. A good harbor or a navigable river, for example, makes the surrounding land valuable.

A Closer Look at the Law of Rent

Adding a few specific factors can help us to understand how land speculation works in real life. Here is a model with five different grades of land. Workers are more productive on better land (each worker can produce more units of wealth) — because the best workers tend to win the competition for the best locations, where more capital is used. And, on the better grades of land, more workers can be employed on each "plot" (unit of area).

But the cost of public services (infrastructure) is greater in proportion to the amount of production and the number of workers. In this model there are four plots of each grade of land, and one of each four has been held out of use.

Let's further suppose that unemployment is a part of our economic model — and that society uses some of its tax revenues to ease the burden of poverty. Let's assume that out of 500

willing, able workers, 50 of them can't find jobs. We'll say that the return to labor and capital at the lowest-quality land in the chart (1 per day) equals the payment to "welfare recipients." Thus, 50 units per day will have to be taken in taxation and redistributed to the unemployed. By eliminating wasteful hoarding of land by speculators, we can increase production, reduce infrastructure costs, and raise wages!

What happens when this



...becomes this?



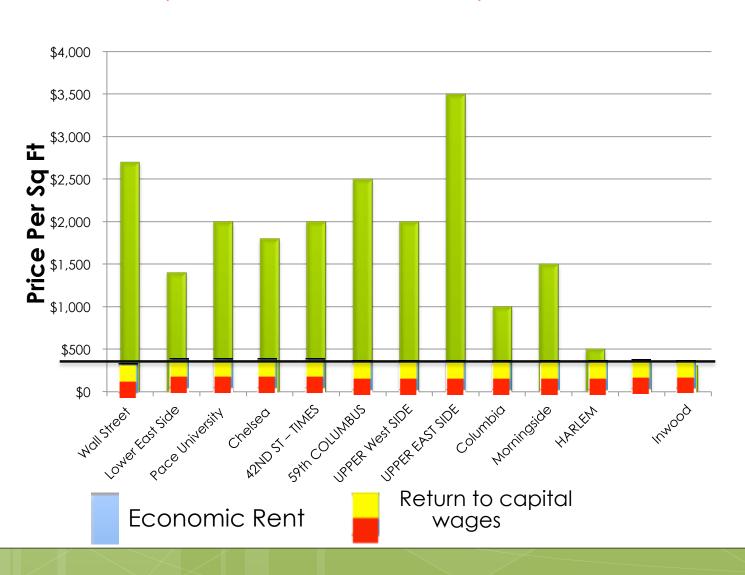
Rumor has it that Peter Minuit bought Manhattan for \$24 worth of trinkets

The "sale" of Manhattan was a misunderstanding.... At that time Indians did everything by trade, and they did not believe that land could be privately owned, any more than could water, air, or sunlight. But they did believe in giving gifts for favors done. The Lenni Lenape—one of the tribes that lived on the island now known as Manhattan—interpreted the trade goods as gifts given in appreciation for the right to share the land.

—Georgetta Stonefish Ryan (Delaware Indian)

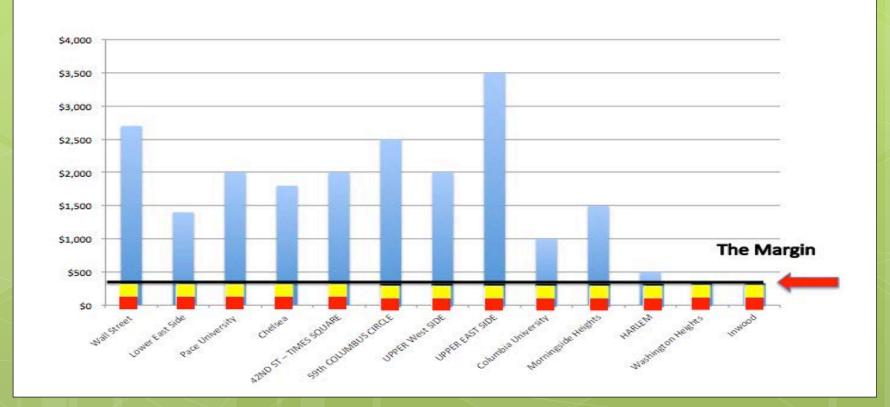


The Margin The least productive site under equal market conditions



Economic Rent

That portion of the wealth yielded on a piece of land in excess of that yielded at the margin under equal market conditions.



see image below from booklet graphically explaining Law of Rent

A graphic web based illustration: http://www.henrygeorge.org/rent1.htm

The Law of Wages and Interest:

Law of Wages

What is the law of Wages?

"People seek to satisfy their desires with the least exertion" sets the stage for the labor market.

Differences between wages:

Agreeable / disagreeable
Expense of learning the skill or profession
Security of employment
Trust
Probability of success
Cost of living
Age / race / gender / legal status

Law of Interest:

What are the meaning of these terms?

CAPITAL CAPITALIST CAPITALISM INTEREST PROFIT

Capital:

The **return for capital** depends upon the increase of capital at the margin of production.

Does labor employ capital or does capital employ labor? Capital increases the power of labor to produce wealth by:

- 1. Enabling labor to apply itself in more effective ways.
- 2. Enabling labor to avail itself of the reproductive forces of nature.
- 3. Permitting the division of labor. [P&P P80]

The amount of capital used in an economy is variable:

- · Capital is increased by being produced.
- Capital is decreased by being used up, destroyed, or becoming obsolete.
- Maximum rate of interest: increase capital will bring
- Minimum rate of interest: replacement of the capital
- Labor and capital are different forms of the same thing human

- Capital is a subset of wealth; it is produced by labor.
- Labor uses capital; capital does not use labor.
- --- Capital is exchangeable; it can be converted into many different forms, or into money.
- Some forms of capital yield higher returns than others,
- But, in order to use capital in these high-yield forms, lower-yield forms of capital are needed;
- --- Therefore, the return to capital in any form will tend to equal the return to the same value of capital in its highest-yield form
- Capital cannot be used without land;
- Therefore, the return to capital in general will tend to equal the return to capital in its highest-yield form where the land is free.
- The return to capital at the margin of production is not the full increase of production that capital makes possible, because producers of capital compete to supply it.
- Interest does not include compensation for risk, or a premium for any form of monopoly.
- In the absence of a viable margin of production, interest falls to the minimum that capital owners will accept to loan capital, or is set (and manipulated) by central banks.

Factor of Production	Definition	Laws of Distribution	Ave of Distribution	Definition
Land	The entire material universe, excluding people and their products.	The rent of land is determined by the excess of its produce over that which the same application of labor and capital can secure from the least productive land in use.	Rent	That part of wealth which is the return for the use of land.
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LESSON 3:

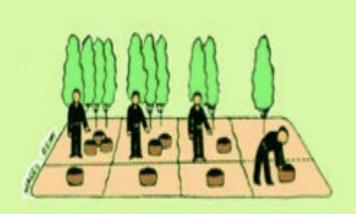
THE EFFECTS OF PROGRESS ON DISTRIBUTION & DEPRESSIONS AND RECESSIONS

OBJECTIVES:

- 1. REVIEW: LAW OF RENT, LAW OF WAGES AND INTEREST
- 2. THE STORY OF STUFF -ANNIE LEONARD
- 3. EFFECTS OF PROGRESS ON DISTRIBUTION
- 4. DEPRESSIONS & RECESSIONS; TERMS: SPECULATION, COMMODITIES, BUSINESS CYCLE
- 5. SUMMARY

Objective 1: Review: Law of Rent, Law of wages and Interest

The **rent of land is determined by the excess of its produce** over that which the same application of labor and capital can secure from the least productive land in use. In other words, that part of wealth which is the rent for the use of land.



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Objective 2: The Story Stuff video - 20 mins

http://www.storyofstuff.org/movies-all/story-of-stuff/

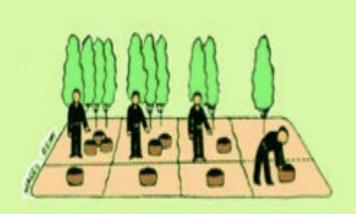
From its extraction through sale, use and disposal, all the stuff in our lives affects communities at home and abroad, yet most of this is hidden from view. The Story of Stuff is a 20-minute, fast-paced, fact-filled look at the underside of our production and consumption patterns. The Story of Stuff exposes the connections between a huge number of environmental and social issues, and calls us together to create a more sustainable and just world. It'll teach you something, it'll make you laugh, and it just may change the way you look at all the stuff in your life forever.

Objective 3: The Effects of Progress on Distribution:

- ♦ What are the effects of progress?
- ♦ Does population have an effect on progress?
- ♦ Technology? Education?
- ♦ Does land play any role in progress?
- Can we look at the law of rent and speculation as a basis for understanding distribution?

Law of Rent, Law of wages and Interest

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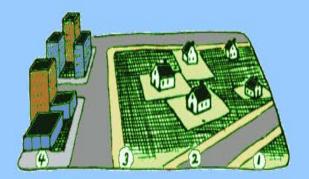


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Land speculation and Its effects:

- ◆ Margin of production lowers the margin of production
- ◆ Rent- It raises rent
- ◆ Wages and Interests It lowers wages and interest

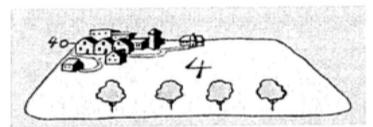
9. Land Speculation



When landowners keep land out of use, waiting for a higher price, people who wish to use land must resort to poorer lands, because the price asked for better lands is more than they can pay. This creates an artificial scarcity of land, and forces wages down.

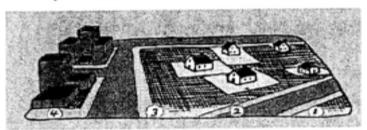
1. Effects of Progress and Speculation

Growth of Population



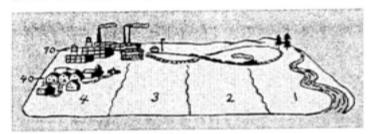
Assume that a good piece of agricultural land (as in our charts from Lesson III) yields four units of wealth. People settle in one section of it, and a town grows up there. The land within the town is no more fertile than any other — but productiveness of a new kind has arisen there. Because of the economies of cooperation and specialization of labor, it now yields forty instead of four. If the four land were free, what would be the rent in town?

Land Speculation



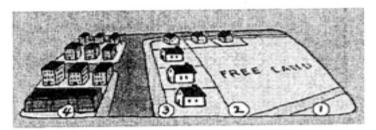
When landowners keep land out of use, waiting for a higher price, people who wish to use land must resort to poorer lands, because the price asked for better lands is more than they can pay. This creates an artificial scarcity of land, and forces wages down. It also creates an enormously inefficient use of energy and public infrastructure.

Effect of Industrial Growth



Industries grow, new labor-saving devices are invented, and much more can be produced. The productivity of industrial lands has now become seventy. Since more is produced, new materials are needed — and population continues to increase. This greater demand for land extends the margin of production to land that yields only one.

Land Speculation Abolished



If there were no land speculation, people would use land whenever it was needed. There would be no artificial obstacle. This would cause only the best lands to be used. There would be no overcrowding, and no unnatural sparseness of population. Rents would advance normally (according to the land's current, not future value) and wages would not be forced down. There would be far less wasting of energy and natural resources.

Some Effects of Land Speculation on Modern Economies

- New Construction is Limited. If builders must pay too much for building sites, it takes from their profit by raising their costs. Their profit on investing in the building itself is what stimulates investing, which in turn is what makes jobs and incomes.
- Business Costs Go Up. Businesses that rent their premises also get squeezed by rising rents. Here's an example: A merchant goes into a new shopping center with a long term lease. His rent is often higher than his business can profitably support, but he pays it to hold his position for the later term when he hopes the rent will be a bargain. Landlords writing long-term leases get used to this, and hold out for high rentals.
- Nonproductive Investments Become More Profitable than Productive Ones. Consider those who already own land that they might improve. They have the option of selling the land to a speculator. Why would they want to improve the land if the profits on their improvements would yield little more than merely collecting the speculation-hyped value of the vacant site? Landowners will "site-sit" and wait, if they believe future development will be much more gainful than development for the current market. When the workaday facts

of today begin looking dull and prosaic next to the gleaming expectations of tomorrow, look out.

— Banking and Credit is Destabilized. Builders need land, and borrow to buy it, even though the price is too high, gambling that future rises in rents will let them repay the loan. If these rent rises fail to happen, they go bankrupt. Their buildings are not destroyed, but the capital they used to build them was misdirected, so much of it is economically lost: the buildings lose their market value.

When speculation first starts to raise land prices beyond the sites' current use values, credit is extended farther in order to accommodate it. That is, banks lend on overpriced land, counting on a further rise. When the rise slows, they extend the loans, sometimes even granting new loans for paying interest on old loans. They use political pressure to get governmental agencies (e.g. the World Bank) to extend or underwrite these risky loans (e.g. in Latin America). When the bubble bursts, the loans are not repaid. This destroys financial capital. A great deal of capital value has been destroyed in the "Great Recession" of 2010.

Progress:

Is there a connection to education, healthcare, life expectancy, infrastructure, environment, and culture?

Poverty:

And in contrast to progress, how does one measure poverty? an absence of education, life expectancy, healthcare, infrastructure, environment, culture?

What is the definition of wealth, again? How is it created?

Why is it important to use the factors of production, Definitions and Laws of Distribution as a basis for understanding economics?

Objective 4: Depressions and Recessions; terms: speculation, Commodities, business cycle

Business Cycle:

The term **business cycle** (or **economic cycle**) refers to economy-wide fluctuations in production or economic activity over several months or years.

- fluctuations occur around a long-term growth trend,
- typically involve shifts over time between periods of relatively rapid economic growth (expansion)
- periods of relative stagnation or decline (a contraction or recession)
- usually measured by considering the growth rate of <u>real</u> gross domestic product.

What is Speculation?

- In finance, **speculation** is a financial action that does not promise safety of the initial investment along with the return on the <u>principal sum</u>.
- Speculation typically involves the lending of money for the purchase of <u>assets</u>, <u>equity</u> or <u>debt</u>
- The term, "speculation," contrasts with the term "investment," which is a financial operation promises safety of principal and a satisfactory return.
- Speculation can also cause prices to deviate from their intrinsic value if speculators trade on misinformation, or if they are just plain wrong.
- This creates a <u>positive feedback</u> loop in which prices rise dramatically above the underlying value or worth of the items.
- This is known as an <u>economic bubble</u>. Such a period of increasing speculative purchasing is typically followed by one of speculative selling in which the price falls significantly, in extreme cases this may lead to <u>crashes</u>.

What are commodities?

- In <u>economics</u>, a **commodity** is the generic term for any marketable item produced to satisfy <u>wants</u> or <u>needs</u>.
- Economic commodities comprise goods and services.
- The more specific meaning of the term commodity is applied to goods only.
- Basic resources and <u>agricultural</u> products such as <u>iron ore</u>, <u>crude oil, coal, salt, sugar, coffee beans, soybeans, aluminum,</u> <u>copper, rice, wheat, gold, silver, palladium</u>, and <u>platinum</u>.
- Soft commodities are goods that are grown, while hard commodities are the ones that are extracted through mining.
- Energy commodities which includes electricity, gas, coal and oil.

What is a Depression?

Depression:

A stoppage of production (or a failure of production to increase

proportionately to the growth of the community) causing a cessation of demand and resulting in a general economic paralysis.

What is a Recession?

Recession:

The term "recession" usually refers to a milder form of depression,

with the same symptoms in milder form.

Some Facts and debates about the Great Depression:

- devastating effects in virtually every country, <u>rich</u> and <u>poor</u>.
- <u>Personal income</u>, tax revenue, profits and prices dropped, while international trade plunged by more than 50%.
- Unemployment in the U.S. rose to 25%, and in some countries rose as high as 33%.
- historians emphasize structural factors: major bank failures and the stock market crash
- economists (such as <u>Barry Eichengreen</u>, <u>Milton Friedman</u> and <u>Peter Temin</u>) point to monetary factors: actions by the US <u>Federal Reserve</u> that contracted the money supply,
- Britain's decision to return to the <u>Gold Standard</u> at pre–World War I parities (US\$4.86:£1).
- Was it primarily a failure on the part of <u>free markets</u> or a failure of government efforts to regulate <u>interest rates</u>, curtail widespread bank failures, and control the money supply.

.

The Basic Cause of Depressions:

Some Theories:

First, demand-driven theories, most importantly

- <u>Keynesian economics</u>- the breakdown of international trade,
- <u>Institutional economists</u> who point to <u>underconsumption</u>
- over-investment (causing an economic bubble),
- malfeasance by bankers and industrialists,
- or incompetence by government officials.

Secondly, the <u>monetarists</u> say:

- Started as an ordinary recession;
- Policy mistakes caused a shrinking of the money supply (feds)
- Exacerbated a recession to descend into the Great Depression
- Debt deflation borrows to owe ever more in real terms

Lastly, <u>heterodox theories</u> that downplay or reject the explanations of the Keynesians and monetarists:

- some <u>new classical macroeconomists</u> have argued that various labor market policies imposed at the start caused the length and severity of the Great Depression.
- The <u>Austrian school of economics</u> focuses on the <u>macroeconomic</u> effects of <u>money supply</u>, and how <u>central banking</u> decisions can lead to over-investment (<u>economic bubble</u>).

Henry George's analysis of Basic Cause of Depressions:

- The growing complexity of <u>production</u> which makes each <u>stoppage</u> propagate itself;
- defective **currencies**;
- sharp alternations in the volume of <u>credit</u>;
- protective <u>tariffs</u>
- Denial of access to <u>land</u> because <u>rents</u> are too high In effect a "lockout" of <u>labor</u> and <u>capital</u> by landowners.
- Check to production, propagates itself from exchange point to exchange point until unemployment is widespread.
- A cessation of production; likewise a cessation of production a cessation of demand.

The Recession of 2008

The Great Recession (also referred to as the Lesser Depression, the Long Recession, or the global recession of 2008 is a marked global economic decline that began in December 2007 and took a particularly sharp downward turn in September 2008

The central debate about the origin has been focused on the respective parts played by the public monetary policy (in the US notably) and by private financial institutions practices

- Excessive <u>debt levels</u> as the cause
- **Sub-prime** lending as a cause
- Government **deregulation** as a cause
- Over-leveraging, credit default swaps(CDS) and collateralized debt obligations(CDO) as causes
- Credit creation as a cause
- Oil prices
- Emigration
- Overproduction

Causes of the Great Recession

Let's look at the causes individually:

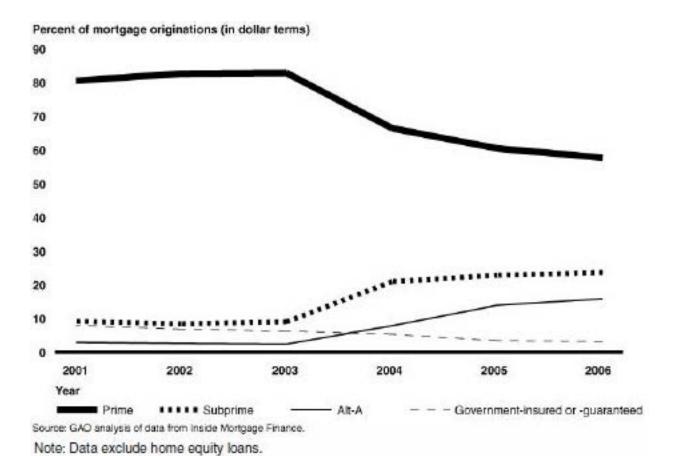
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- Over-leveraging, credit default swaps and collateralized debt obligations as causes
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- Overproduction

Excessive debt levels as the cause

- In order to counter the Stock Market Crash of 2000 and the subsequent economic slowdown, the Federal Reserve eased credit availability and drove interest rates down to lows not seen in many decades.
- These low interest rates facilitated the growth of debt at all levels of the economy, chief among them private debt to purchase more expensive housing

Sub-prime lending as a cause

- Clinton Administration may be partially to blame. This GAO chart plainly demonstrates that sub-prime and Alt-A loans clearly peaked after 2003.
- the passage of the Gramm–Leach–Bliley Act by the 106th Congress, and over-leveraging by banks and investors eager to achieve high returns on capital



Government deregulation as a cause

In 1992, the Democratic-controlled 102nd Congress under the George H. W. Bush administration weakened regulation of Fannie Mae and Freddie Mac with the goal of making available more money for the issuance of home loans.

In 1999, the Republican-controlled 106th Congress, under Bill Clinton, passed the Gramm-Leach-Bliley Act, which repealed part of the Glass–Steagall Act of 1933. This repeal has been criticized by some for having contributed to the proliferation of the complex and opaque financial instruments which are at the heart of the crisis

Over-leveraging, credit default swaps and collateralized debt obligations as causes

widespread miscalculation by banks and investors of the level of risk inherent in the unregulated Collateralized debt obligation and Credit Default Swap markets. Under this theory, banks and investors systematized the risk by taking advantage of low interest rates to borrow tremendous sums of money that they could only pay back if the housing market continued to increase in value.

the risk was further systematized by the use of David X. Li's Gaussian copula model function to rapidly price Collateralized debt obligations based on the price of related Credit Default Swaps.

Credit creation as a cause

Austrian economics argue that the crisis is consistent with the Austrian Business Cycle Theory, in which credit created through the policies of central banking gives rise to an artificial boom, which is inevitably followed by a bust; the monetary policy of central banks creates excessive quantities of cheap credit by setting interest rates below where they would be set by a free market.

Feds kept interest rates very low for a long period of time to blunt the recession of the early 2000s. The resulting mal investment and over-consumption of investors and consumers prompted the development of a housing bubble that ultimately burst, precipitating the financial crisis

Oil prices

Economist James D. Hamilton has argued that the increase in oil prices in the period of 2007 through 2008 was a significant cause of the recession.

Emigration

- A significant reverse migration of illegal immigrants from the US back to Mexico began in 2006.
- Approximately 0.5 million dwellings have become permanently vacant as a result of a reduction in the illegal immigrant population.
- The greatest impact has been on the California economy, where illegal immigrants comprise approximately 1/3 of the total population.
- The reduced demand for housing created permanent unemployment for hundreds of thousands of building contractors, realtors, and mortgage brokers

Overproduction

the root cause of the crisis is overproduction of goods caused by globalization (and especially vast investments in countries such as China and India by western multinational companies over the past 15–20 years, which greatly increased global industrial output at a reduced cost)

Professor Herman Daly suggests that it is a crisis of overgrowth beyond sustainable ecological limits

References: http://en.wikipedia.org/wiki/Causes_of_the_Great_Recession

List of recessions in the United States http://en.wikipedia.org/wiki/List_of_recessions_in_the_United_States

Name	Dates ^[nb 2]	Duration \$	Time since previous + recession	Characteristics
Copper Panic of 1789	1789–1793	~4 years	~0 years	Loss of confidence in copper coins due to debasement and counterfeiting led to commercial freeze up that halted the economy of several northern States and was not alleviated until the introduction of new paper money to restore confidence.
Panic of 1797	1796–1799	~3 years	~4 years	Just as a land speculation bubble was bursting, deflation from the Bank of England (which was facing insolvency because of the cost of Great Britain's involvement in the French Revolutionary Wars) crossed to North America and disrupted commercial and real estate markets in the United States and the Caribbean, and caused a major financial panic. [11] Prosperity continued in the south, but economic activity was stagnant in the north for three years. The young United States engaged in the Quasi-War with France. [9]
1802–1804 recession	1802–1804	~2 years	~3 years	A boom of war-time activity led to a decline after the Peace of Amiens ended the war between the United Kingdom and France. Commodity prices fell dramatically. Trade was disrupted by pirates, leading to the First Barbary War. ^[9]
Depression of 1807	1807–1810	~3 years	~3 years	The Embargo Act of 1807 was passed by the United States Congress under President Thomas Jefferson as tensions increased with the United Kingdom. Along with trade restrictions imposed by the British, shipping-related industries were hard hit. The Federalists fought the embargo and allowed smuggling to take place in New England. Trade volumes, commodity prices and securities prices all began to fall. Macon's Bill Number 2 ended the embargoes in May 1810, and a recovery started. [9]
1812 recession	1812	~6 months	~18 months	The United States entered a brief recession at the beginning of 1812. The decline was brief primarily because the United States soon increased production to fight the War of 1812, which began June 18, 1812. ^[12]
1815–21 depression	1815–1821	~6 years	~3 years	Shortly after the war ended on March 23, 1815, the United States entered a period of financial panic as bank notes rapidly depreciated because of inflation following the war. The 1815 panic was followed by several years of mild depression, and then a major financial crisis – the Panic of 1819, which featured widespread foreclosures, bank failures, unemployment, a collapse in real estate prices, and a slump in agriculture and manufacturing. ^[9]
1822–1823 recession	1822–1823	~1 year	~1 year	After only a mild recovery following the lengthy 1815–21 depression, commodity prices hit a peak in March 1822 and began to fall. Many businesses failed, unemployment rose and an increase in imports worsened the trade balance. [9]
1825–1826 recession	1825–1826	~1 year	~2 years	The Panic of 1825, a stock crash following a bubble of speculative investments in Latin America led to a decline in business activity in the United States and England. The recession coincided with a major panic, the date of which may be more easily determined than general cycle changes associated with other recessions. ^[8]
1828–1829 recession	1828–1829	~1 year	~2 years	In 1826, England forbade the United States to trade with English colonies, and in 1827, the United States adopted a counter-prohibition. Trade declined, just as credit became tight for manufacturers in New England. ^[9]
1833–34 recession	1833–1834	~1 year	~4 years	The United States' economy declined moderately in 1833–34. News accounts of the time confirm the slowdown. The subsequent expansion was driven by land speculation. ^[13]

US recessions, Free Banking Era to the Great Depression

US recessions, Free Banking Era to the Great Depression						
Name	Dates ^[nb 2] ◆	Duration +	Time since previous \$ recession	Business activity [nb 3] \$	Trade & industrial activity ^[nb 3]	Characteristics
1836–1838 recession	_	~2 years	~2 years	-32.8%	<u>=</u> :	A sharp downturn in the American economy was caused by bank failures and lack of confidence in the paper currency. Speculation markets were greatly affected when American banks stopped payment in specie (gold and silver coinage). [3][14] Over 600 banks failed in this period. In the South, the cotton market completely collapsed. [9]
late 1839– late 1843 recession	,-	~4 years	~1 year	-34.3%		This was one of the longest and deepest depressions. It was a period of pronounced deflation and massive default on debt. The Cleveland Trust Company Index showed the economy spent 68 months below its trend and only 9 months above it. The Index declined 34.3% during this depression. ^[15]
1845-late 1846 recession	8 - 3	~1 year	~2 years	-5.9%	- 2	This recession was mild enough that it may have only been a slowdown in the growth cycle. One theory holds that this would have been a recession, except the United States began to gear up for the Mexican–American War, which began April 25, 1846. ^[13]
1847–48 recession	late 1847-late 1848	~1 year	~1 year	-19.7%	<u>=3</u> 3	The Cleveland Trust Company Index declined 19.7% during 1847 and 1848. It is associated with a financial crisis in Great Britain. ^[15] [16]
1853–54 recession	1853 –Dec 1854	~1 year	~5 years	-18.4%		Interest rates rose in this period, contributing to a decrease in railroad investment. Security prices fell during this period. With the exception of falling business investment there is little evidence of contraction in this period. [3]
Panic of 1857	June 1857– Dec 1858	1 year 6 months	2 years 6 months	-23.1%	=	Failure of the Ohio Life Insurance and Trust Company burst a European speculative bubble in United States' railroads and caused a loss of confidence in American banks. Over 5,000 businesses failed within the first year of the Panic, and unemployment was accompanied by protest meetings in urban areas. This is the earliest recession to which the NBER assigns specific months (rather than years) for the peak and trough. ^{[5][8][17]}
1860–61 recession	Oct 1860- June 1861	8 months	1 year 10 months	-14.5%		There was a recession before the American Civil War, which began April 12, 1861. Zarnowitz says the data generally show a contraction occurred in this period, but it was quite mild. ^[15] A financial panic was narrowly averted in 1860 by the first use of clearing house certificates between banks. ^[9]
1865–67 recession	April 1865- Dec 1867	2 years 8 months	3 years 10 months	-23.8%		The American Civil War ended in April 1865, and the country entered a lengthy period of general deflation that lasted until 1896. The United States occasionally experienced periods of recession during the Reconstruction era. Production increased in the years following the Civil War, but the country still had financial difficulties. ^[15] The post-war period coincided with a period of some international financial instability.
1869–70 recession	June 1869– Dec 1870	1 year 6 months	1 year 6 months	-9.7%		A few years after the Civil War, a short recession occurred. It was unusual since it came amid a period when railroad investment was greatly accelerating, even producing the First Transcontinental Railroad. The railroads built in this period opened up the interior of the country, giving birth to the Farmers' movement. The recession may be explained partly by ongoing financial difficulties following the war, which discouraged businesses from building up inventories. ^[15] Several months into the recession, there was a major financial panic.
Panic of 1873 and the Long Depression	Oct 1873 – Mar 1879	5 years 5 months	2 years 10 months	-33.6% (-27.3%) ^[nb 3]	<u>=</u> 2	Economic problems in Europe prompted the failure of Jay Cooke & Company, the largest bank in the United States, which burst the post-Civil War speculative bubble. The Coinage Act of 1873 also contributed by immediately depressing the price of silver, which hurt North American mining interests. [18] The deflation and wage cuts of the era led to labor turmoil, such as the Great Railroad Strike of 1877. In 1879, the United States returned to the gold standard with the Specie Payment Resumption Act. This is the longest period of economic contraction recognized by the NBER. The Long Depression is sometimes held to be the entire period from 1873–96. [19][20]

1882–85 recession	Mar 1882 – May 1885	3 years 2 months	3 years	-32.8%	-24.6%	price depression than a production depression. From 1879 to 1882, there had been a boom in railroad construction which came to an end, resulting in a decline in both railroad construction and in related industries, particularly iron and steel. [21] A major economic event during the recession was the Panic of 1884.
1887–88 recession	Mar 1887 – April 1888	1 year 1 month	1 year 10 months	-14.6%	-8.2%	Investments in railroads and buildings weakened during this period. This slowdown was so mild that it is not always considered a recession. Contemporary accounts apparently indicate it was considered a slight recession. [22]
1890–91 recession	July 1890 – May 1891	10 months	1 year 5 months	-22.1%	-11.7%	Although shorter than the recession in 1887–88 and still modest, a slowdown in 1890– 91 was somewhat more pronounced than the preceding recession. International monetary disturbances are blamed for this recession, such as the Panic of 1890 in the United Kingdom. ^[22]
Panic of 1893	Jan 1893 – June 1894	1 year 5 months	1 year 8 months	-37.3%	-29.7%	Failure of the United States Reading Railroad and withdrawal of European investment led to a stock market and banking collapse. This Panic was also precipitated in part by a run on the gold supply. The Treasury had to issue bonds to purchase enough gold. Profits, investment and income all fell, leading to political instability, the height of the U.S. populist movement and the Free Silver movement. ^[23]
Panic of 1896	Dec 1895 – June 1897	1 year 6 months	1 year 6 months	-25.2%	-20.8%	The period of 1893–97 is seen as a generally depressed cycle that had a short spurt of growth in the middle, following the Panic of 1893. Production shrank and deflation reigned. [22]
1899–1900 recession	June 1899 – Dec 1900	1 year 6 months	2 years	-15.5%	-8.8%	This was a mild recession in the period of general growth beginning after 1897. Evidence for a recession in this period does not show up in some annual data series. [22]
1902–04 recession	Sep 1902 –Aug 1904	1 year 11 months	1 year 9 months	-16.2%	-17.1%	Though not severe, this downturn lasted for nearly two years and saw a distinct decline in the national product. Industrial and commercial production both declined, albeit fairly modestly. [22] The recession came about a year after a 1901 stock crash.
Panic of 1907	May 1907 – June 1908	1 year 1 month	2 years 9 months	-29.2%	-31.0%	A run on Knickerbocker Trust Company deposits on October 22, 1907, set events in motion that would lead to a severe monetary contraction. The fallout from the panic led to Congress creating the Federal Reserve System. ^[24]
Panic of 1910– 1911	Jan 1910 – Jan 1912	2 years	1 year 7 months	-14.7%	-10.6%	This was a mild but lengthy recession. The national product grew by less than 1%, and commercial activity and industrial activity declined. The period was also marked by deflation. [22]
Recession of 1913–1914	Jan 1913–Dec 1914	1 year 11 months	1 year	-25.9%	-19.8%	Productions and real income declined during this period and were not offset until the start of World War I increased demand. [22] Incidentally, the Federal Reserve Act was signed during this recession, creating the Federal Reserve System, the culmination of a sequence of events following the Panic of 1907. [24]
Post-World War I recession	Aug 1918 – March 1919	7 months	3 years 8 months	-24. 5 %	-14.1%	Severe hyperinflation in Europe took place over production in North America. This was a brief but very sharp recession and was caused by the end of wartime production, along with an influx of labor from returning troops. This, in turn, caused high unemployment. ^[25]
Depression of 1920–21	Jan 1920 – July 1921	1 year 6 months	10 months	-38.1%	-32.7%	The 1921 recession began a mere 10 months after the post-World War I recession, as the economy continued working through the shift to a peacetime economy. The recession was short, but extremely painful. The year 1920 was the single most deflationary year in American history; production, however, did not fall as much as might be expected from the deflation. GNP may have declined between 2.5 and 7 percent, even as wholesale prices declined by 36.8%. [26] The economy had a strong recovery following the recession. [27]
1923–24 recession	May 1923 – June 1924	1 year 2 months	2 years	-25.4%	-22.7%	From the depression of 1920–21 until the Great Depression, an era dubbed the Roaring Twenties, the economy was generally expanding. Industrial production declined in 1923–24, but on the whole this was a mild recession. ^[22]

LESSON 4: THE REMEDY; ITS JUSTICE AND APPLICATION

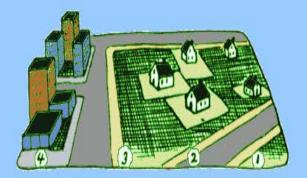
OBJECTIVES:

- 1. CURRENT AFFAIRS
- 2. LAND SPECULATION AND ITS EFFECTS
- 3. COMMON PROPERTY IN LAND
- 4. THE REMEDY: HOW DO WE DIVIDE THE FRUITS OF LABOR?
- 5. HISTORY OF LAND VALUE TAX

2. Land speculation and Its effects:

- ◆ Margin of production lowers the margin of production
- ◆ Rent- It raises rent
- ◆ Wages and Interests It lowers wages and interest

9. Land Speculation



When landowners keep land out of use, waiting for a higher price, people who wish to use land must resort to poorer lands, because the price asked for better lands is more than they can pay. This creates an artificial scarcity of land, and forces wages down.

What are the consequences of speculation?

- higher rents,
- urban sprawl,
- pollution,
- long commutes, etc.

Would you agree? Are there any examples in NYC?

What role does land play in speculation?

Henry George identifies land price fluctuations as the primary cause of most business cycles. [32] The theory is generally ignored in most of today's discussions of the subject [33] despite the fact that the two great economic contractions of the last 100 years (1929–1933 and 2008–??) both involved speculative real estate bubbles.

George observed that:

- one of the factors that is absolutely necessary for all production land
- has an inherent tendency to rise in price on an exponential basis as the economy grows.
- The reason the quantity of land (the stock of locations and natural resources) is fixed, while its quality is improved due to improvements such as transportation infrastructures and economic development of the surroundings.
- Investors see this tendency as the economy grows and they buy land ahead of the boom areas, withholding it from use in order to take advantage of its increased value in the future.
- Because housing and commercial real estate provide collateral for a large portion of lending, there is a tendency for real estate prices to rise faster than the rate of inflation in business cycle upswings.

- Speculation in land concentrates profits in landholders and diverts economic resources to speculation in land, squeezing profits away from production that has to occur on this land.
- In effect, land speculation creates a built-in supply shock, that squeezes the economy just as economic output increases.
- This is a systemic retardation of the economy, placing a sharp brake on further economic expansion.
- This shock to the economy occurs as long as there is land speculation, creating an underlying tendency toward inflation and recession late in the growth phase of the business cycle.

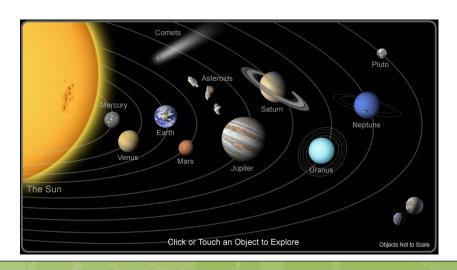
- Land speculation, according to George, is always the cause of economic downturns. There are any number of contributing causes; things like oil price shocks, consumer confidence crises, international trade fluctuations, natural disasters — but none of these things creates the underlying weakness.
- Land speculation slows the economy in two ways. It increases production costs by making land in general more expensive (shifting the AS curve upward) as well as decreasing productivity by denying access to the best locations, shifting the AS curve to the left and lowering "potential output".

Ref: http://en.wikipedia.org/wiki/Business_cycle#cite_note-33

WHAT IS LAND?

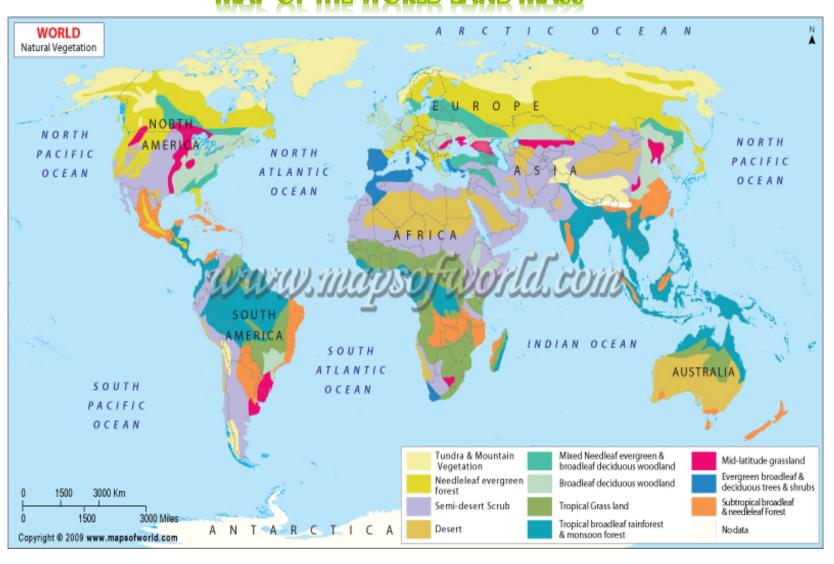




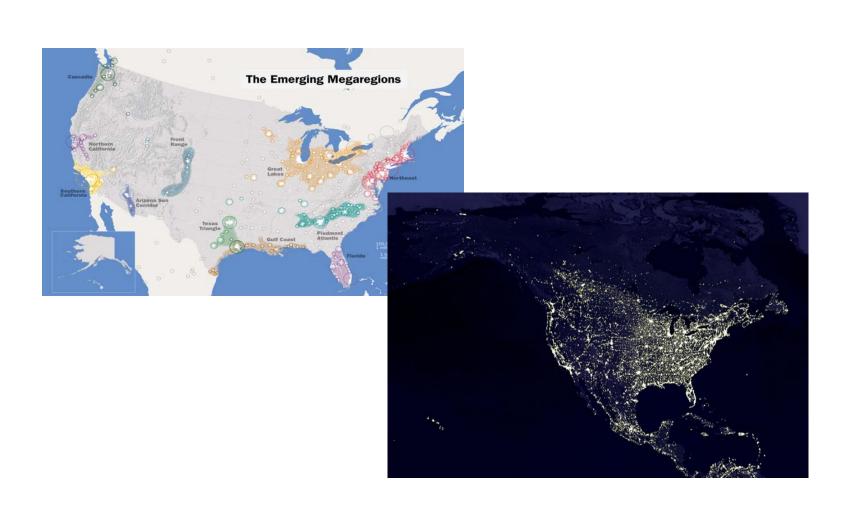




MAP OF THE WORLD LAND MASS



IS THIS LAND? WHOSE LAND?





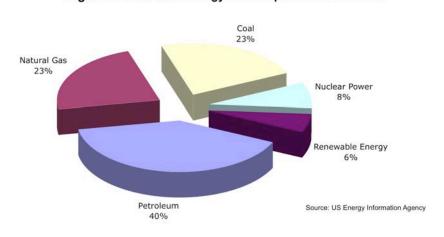
WHAT ABOUT ROCKS, METALS, AND MINERALS?

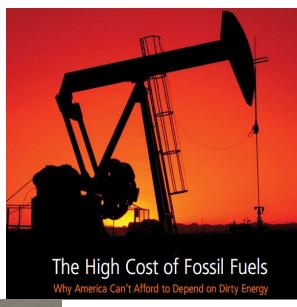




WHAT ABOUT FOSSIL FUELS: COAL, OIL, GAS?

Figure 1: 86% of US Energy Consumption Is Fossil Fuels







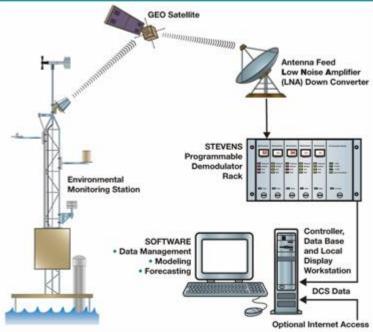






THE AIR? ATMOSPHERE? ETHER?

Geostationary 'GEO' Satellite Data Collection System





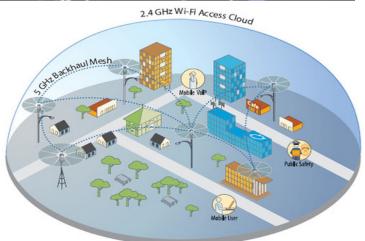


Image: SkyPilot Networks



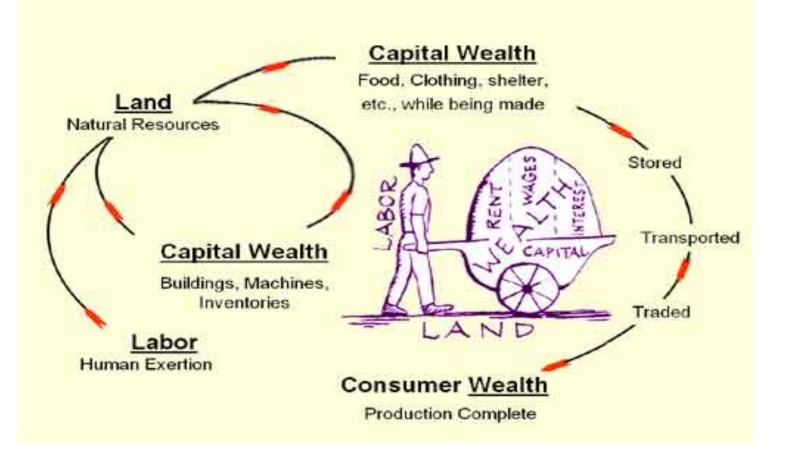
WHAT ABOUT ANIMALS?



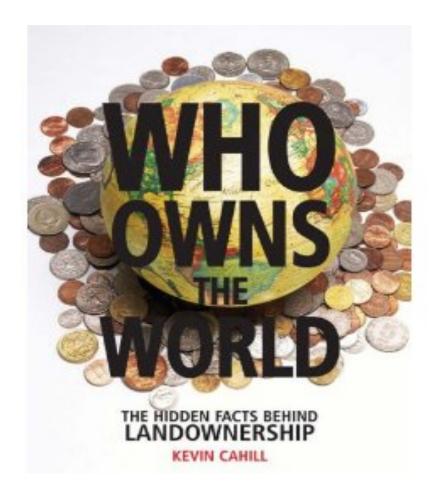
SO WHAT IS LAND?

THE ENTIRE MATERIAL UNIVERSE, EXCLUDING PEOPLE AND THEIR PRODUCTS.

Remember the Factors of Production? The basic concept for understanding the relationships in economics \rightarrow creation of WEALTH to satisfy \rightarrow Human Desires?



Some interesting facts to consider when thinking about wealth and the creation of wealth...



Landownership in history through time and across the planet

History, seen from the perspective of the mass of the landless, is a record solely of those who "owned," in whatever form, all land. These were mostly emperors, kings, queens and aristocrats, constituting less than 3% of the earth's population at any one time and often a much smaller percentage than this.

For about 9,800 years of known history, humanity on the planet's surface was divided into those claiming ownership of land—a figure of between 0.2% and 3% of the planetary population—and the remaining 97–99% of humanity, which owned nothing. The function of humanity itself—was threefold: to grow produce and generate tax for the owners, to pay loyalty to those owners, and to be cannon fodder for those owners. Beginning with the American Revolution, the relationship between the masses and the owners began to change. In 2007, about 16% of the planetary population have a fingerhold on land, by way of a domestic dwelling. Recalling that, historically, the assets of the owners were in fact the entire sum of assets on the planet, and that the assets of the rest of humanity were zero, or near it, this is actually the most profound economic change ever to occur.

The 26 Largest Individual Landowners on Earth

	Name	Country	Legal claim on land in acres	Approx. value
1	Queen Elizabeth II of the UK, Australia, Canada, New Zealand and 28 other countries and territories	UK and all of its territories and dependencies: \$5,000 per acre	6,698,146,531	\$33,490,732,655,000
2	King Abdullah of Saudi Arabia	Saudi Arabia: \$5,000 per acre	580,000,000	\$2,900,000,000,000
3	The Pope	Vatican City plus church	177,000,000	\$1,700,000,000,000
4	King Mohammed VI of Morocco	Morocco: \$15,000 per acre	110,000,000	\$1,650,000,000,000
5	King Bhumibol	Thailand: \$10,000 per acre	126,000,000	\$1,266,000,000,000
6	King Abdullah	Jordan: \$15,000 per acre	24,000,000	\$360,000,000,000
7	Sultan Qaboos	Oman: \$5,000 per acre	52,000,000	\$260,000,000,000
8	Sheikh Zaid	Abu Dhabi: \$5,000 per acre	16,635,000	\$83,175,000,000
9	Emir Jabir	Kuwait: \$15,000 per acre	4,400,000	\$66,000,000,000
10	Grand Duke Jean	Luxembourg: \$100,000 per acre	638,742	\$63,000,000,000
	(Bill Gates)	By way of wealth	Comparison	\$50,000,000,000
11	King Gyanendra of Nepal	Nepal: \$1,000 per acre	36,300,000	\$36,000,000,000

12 Sultan of Brunei	Brunei: \$25,000 per acre	1,400,000	\$35,000,000,000
13 King Wangchuck	Bhutan: \$2,500 per acre	11,000,000	\$27,500,000,000
14 King Letsie	Lesotho: \$2,500 per acre	7,000,000	\$17,500,000,000
15 Sheikh Hamad	Qatar: \$5,000 per acre	2,700,000	\$13,500,000,000
16 King Mswati	Swaziland: \$2,500 per acre	4,200,000	\$10,500,000,000
17 Sheikh Maktoum	Dubai: \$5,000 per acre	963,300	\$4,816,000,000
18 Prince Hans Adams	Liechtenstein: \$100,000 per acre	39,520	\$3,952,000,000
19 Sheikh Sultan bin Mohhamed Al- Qasimi	Sharjah: \$5,000 per acre	642,200	\$3,211,000,000
20 Sheikh Hamad al Khalifa	Bahrain: \$15,000	171,418	\$2,571,000,000
21 Sheikh Saqr bin Mohammed	Ras al-Khaimah: \$5,000 per acre	419,000	\$2,095,000,000
22 Sheikh Hamad bin Mohammed	Fujairah: \$5,000 per acre	284,050	\$1,420,000,000
23 Sheikh Rashid bin Ahmad al Mu'alla	Umm al-Qaiwain: \$5,000 per acre	185,250	\$926,000,000
24 Prince Albert	Monaco: \$2,000,000 per acre	247	\$494,000,000
25 King Tupou	Tonga: \$2,500 per acre	184,509	\$461,000,000
26 Sheikh Humaid bin Rashid	Ajman: \$5,000 per acre	61,750	\$308,750,000
Total (excl. Bill Gates)		7,854,371,517	\$42,049,162,405,000

3. Common Property in Land

Common vs. Government Property?

Henry George that the purpose of government is to secure: equal rights of all people

there can be no meaningful distinction between common and government property.

The government's role is to administer the common property of the peoplle

to hold certain areas off the market for public use The only non-governmental common property is the unclaimed frontier

No individual, corporation or government can legitimately claim sovereign control over land except in its just role of securing the equal rights of all people...

Many Great Thinkers and Economists Have Realized that Landed Property is Different.

Moses: The land shall not be sold forever; for the land is Mine; for ye are strangers and sojourners with Me.

Leviticus XXV

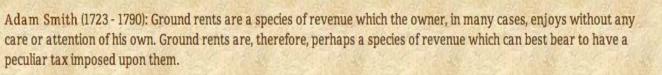
John Locke (1632 - 1704): God gave the world in common to all mankind. When the "sacredness" of property is talked of, it should be remembered that any such sacredness does not belong in the same degree to landed property.

Thomas Jefferson (1743 - 1826): The earth is given as a common stock for men to labor and live on.



Mark Twain (1835 - 1910): The earth belongs to the people. I believe in the gospel of the Single Tax

peculiar tax imposed upon them.





Tom Paine (1737 - 1809): Men did not make the earth.... It is the value of the improvement only, and not the earth itself, that is individual property.... Every proprietor owes to the community a ground rent for the land which he holds.



Leo Tolstoy (1828 - 1910): Solving the land question means the solving of all social questions... possession of land by people who do not use it is immoral - just like the possession of slaves.



Winston Churchill (1875 - 1965): Land, which is a necessity of human existence, which is the original source of all wealth, which is strictly limited in extent, which is fixed geographical position — land, I say, differs from all other forms of property in these primary and fundamental conditions.

Seattle (ca. 1854): Every part of this earth is sacred to my people. Every hillside, every valley, every clearing and wood, is holy in the memory and experience of my people. Even those unspeaking stones along the shore are loud with events and memories in the life of my people. The ground beneath your feet responds more lovingly to our steps than yours, because it is the ashes of our grandfathers. Our bare feet know the kindred touch. The earth is rich with the lives of our kin.

Mikhail Gorbachev (b. 1931): Natural rent must be a part of public revenue — what they don't earn but rather what they simply receive from the nation, from nature.

Sun Yat-Sen (1866 - 1925) The land tax as the only means of supporting the government is an infinitely just, reasonable, and equitably distributed tax, and on it we will found our new system. The centuries of heavy and irregular taxation for the benefit of the Manchus have shown China the injustice of any other system of taxation.



Ambrose Bierce (The Devil's Dictionary, 1911) "LAND, n. A part of the earth's surface, considered as property. The theory that land is property subject to private ownership and control is the foundation of modern society.... Carried to its logical conclusion, it means that some have the right to prevent others from living; for the right to own implies the right exclusively to occupy; and in fact laws of trespass are enacted wherever property in land is recognized. It follows that if the whole area of terra firma is owned by A, B and C, there will be no place for D, E, F and G to be born, or, born as trespassers, to exist."

Shall ye alone dwell upon the earth? - Isaiah 5:8

Some quotes supporting common property in land:

Leviticus XXV: "The land shall not be sold forever; for the land is Mine; for ye are strangers and sojourners with Me."

John Locke: "God hath given the world to men in common ... Yet every man has a property in his O\Nn person. The labor of his body and the work of his hands are properly his." (Civil Government)

William Blackstone: "The earth, therefore, and all things therein, are the general property of all mankind ... from the immediate gift of the Creator." (Commentaries on the Laws of England)

Thomas Jefferson: "The earth belongs in usufruct to the living ... The earth is given as a common stock for men to labor and live on." (Letters to James Madison)

Abraham Lincoln: "The land, the earth God gave to man for his home, sustenance and support should never be the possession of any man, corporation, society or unfriendly government, any more than the air or water, if as much. An individual, or company, or enterprise requiring land should hold no more than is required for their home and sustenance." (Lincoln and the Men of His Time by Robert H. Browne)

4. The Remedy

To raise wages, increase the earnings of capital, give employment to whoever wishes it:

- 1. Appropriate **rent by taxation**.
- 2. Abolish all taxation save that upon land values.

Adam Smith's Canons of Taxation:

The best tax by which public revenue can be raised is evidently that which will closest conform to the following conditions:

- 1. That it **bear as lightly** as possible upon production so as to least check the general fund from which taxes must be paid and the community maintained.
- 2. That is **be easily and cheaply collected**, and fall as directly as it may upon the ultimate payers so as to take from the people as little as possible in addition to what it yields to the government.

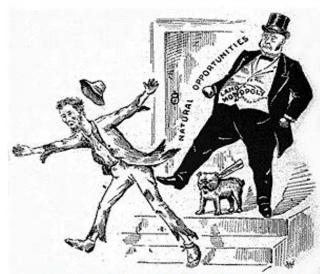
- 3. That it be certain so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to law breaking and evasion on the part of the taxpayers.
- 4. That is **bear equally** so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Source: [P&P P 408]

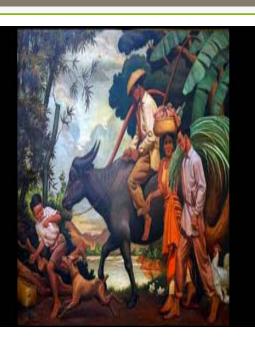




Land Reform



At the turn of the 20th century, a worldwide movement emerged for the implementation of George's remedy, called the Single Tax. In this 1898 cartoon from the Australian magazine *The Beacon*, the Land Monopolist, aided by his vicious mutt "Protection," locks labor out from the natural opportunities.



http://www.henrygeorge.org/rem2.htm

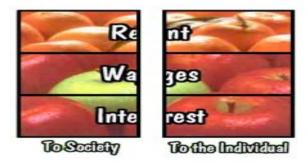
HOW DO WE DIVIDE THE FRUITS OF LABOR?





"left-wing" proposals call for society to achieve jus-tice by redistributing most of the wealth. No dis-tinction is made between the sources of income (land, labor or capital), and individuals control only a small portion of the wealth. In most cases this en-tails a large measure of social control, and a "planned economy."

"Right-wing" proposals hold that efficiency requires more wealth to remain in private hands (also mak-ing no distinction between rent, wages and interest), and that society, or government, should only get the minimum it needs for necessary. services, e.g., the role of "traffic cop." This implies leaving the running of the economy to private interests.



"Middle-ofthe-road"



The Georgist Proposal

"Middle-of-the-road" proposals seek a "balanced sys-tem" in the distribution of wealth and power be-tween individuals and society - but make insufficient distinctions between earned and unearned in-comes, and do not carefully define the proper spheres of society and the individual. The result is a hodge-podge in which efficiency and justice always appear to be at odds.

<u>The Georgist proposal</u> is different from all these ide-ologies in that it makes a distinction between the unearned income of land (rent) and the earned in-comes of labor and capital (wages and interest). Rent to society, wages and interest to the individuals who earned them.

In the Georgist proposal, the proper spheres of society and the individual are clarified. The Georgist proposal achieves the goal of "left-wingers" for security and social action, but without restrictions on liberty. It achieves the goal of "rightwingers" to attain freedom, but without privilege and monopoly. And it achieves a balanced system sought by "middle-ofthe-roaders," but in a just rather than arbitrary way.

OBJECTIVE 5: HISTORY OF LAND VALUE TAX:

Pre-modern

Land value taxation has ancient roots, tracing back to after the introduction of <u>agriculture</u>.

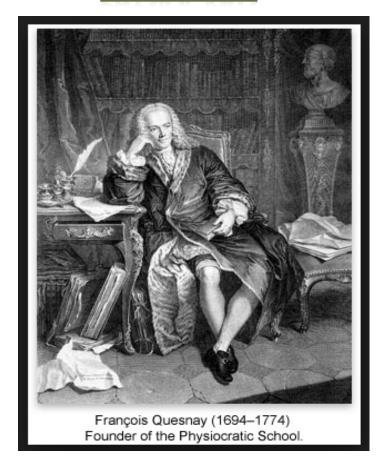
One of the oldest forms of taxation, it was originally based on crop yield.

This early version of the tax required simply sharing the yield at the time of the <u>harvest</u>, akin to paying a yearly rent.

Ancient China

Mencius was a Chinese philosopher who advocated for land tax around 300 BCF.

PHYSIOCRATS



Anne Robert Jacques Turgot:

- believed that the wealth of nations was derived solely from the value of land <u>agriculture</u> or <u>land development</u>.
- called for the abolition of all existing taxes, completely free trade, and a single tax on land;
- they did not distinguish, however, between intrinsic value of land and ground rent.
- also highly influential in the early history of land taxation in the United States.

Classical economists

It was <u>Adam Smith</u>, in his book <u>The Wealth of Nations</u>, who first rigorously <u>analyzed the effects of a land value tax</u>:

- pointing out how it would not hurt economic activity, and how it would not raise land rents.
- ground-rents are a still more proper subject of taxation than the rent of houses.
- A tax upon ground-rents would not raise the rents of houses.
- It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist, and exacts the greatest rent which can be got for the use of his ground.
- In every country the greatest number of rich competitors is in the capital, and it is there accordingly that the highest ground-rents are always to be found.
- As the wealth of those competitors would in no respect be increased by a tax upon ground-rents, they would not probably be disposed to pay more for the use of the ground.
- Whether the tax was to be advanced by the inhabitant, or by the owner of the ground, would be of little importance.
- The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground; so that the final payment of the tax would fall altogether upon the owner of the ground-rent.

[—] Adam Smith , The Wealth of Nations, Book V, Chapter 2, Article I: Taxes upon the Rent of Houses

Georgism



Henry George (September 2, 1839 – October 29, 1897) was perhaps the most famous advocate of recovering land rents for public purposes.

An <u>American journalist</u>, <u>politician</u> and <u>political economist</u>, he advocated a "<u>Single Tax</u>" on <u>land</u> that would eliminate the need for all other taxes.

In 1879 he authored <u>Progress and Poverty</u>, which significantly influenced land taxation in the United States.

Meiji Restoration in Japan:

After the 1868 Meiji Restoration in Japan, Land Tax Reform was undertaken.

A land value tax was implemented beginning in 1873. By 1880 initial problems with valuation and rural opposition had been overcome and rapid industrialization was underway.

The period spanned from 1868 to 1912 and was responsible for the emergence of Japan as a modernized nation in the early twentieth century.

<u>Liberal and Labor Parties in the United Kingdom</u>

In the <u>United Kingdom</u>, LVT was an important part of the platform of the <u>Liberal Party</u> during the early part of the twentieth century: <u>David Lloyd George</u> and <u>H. H. Asquith</u> proposed:

"to free the land that from this very hour is shackled with the chains of feudalism.

It was also advocated by Winston Churchill early in his career. support for the idea to a local form of land value taxation. The 1931 Labor budget included a land value tax, but before it came into force it was repealed by the Conservative-dominated National Government that followed shortly after An attempt at introducing site value taxation in the administrative County of London was made by the local authority under the leadership of Herbert Morrison in the 1938–9 Parliament, called the London Rating (Site Values) Bill. Although it failed, it sets out detailed legislation for the implementation of a system of land value taxation using annual value assessment...the Labor Party adopted the policy... was repealed when the Labor government lost power in 1951

Canada

Land value taxes were common in Western Canada at the turn of the twentieth century:

In Vancouver LVT became the sole form of municipal taxation in 1910 under the leadership of mayor, Louis D. Taylor.

Gary B. Nixon (2000) states that the rate never exceeded 2% of land value, too low to prevent the speculation which led directly to the massive 1913 real estate crash. All Canadian provinces now have moved back to taxing improvements.

Existing tax systems:

A comprehensive and detailed survey of land value taxation around the world was published in 2001.

Australia

The state of New South Wales levies a state land value tax. However unlike council rates, farmland and a person's principal place of residence are generally exempt and the state tax is only levied on value over a certain threshold.

In New South Wales determination of land value, for tax purposes at a state and local level, is the responsibility of the Valuer-General.

The cities of Sydney, Canberra, and others in Australia use LVT.

An in-depth study under the Chairmanship of Sir <u>Gordon Chalk</u> issued a report [45] in 1986 on the subject of local taxation for the city of <u>Brisbane</u>, <u>Queensland</u>. The report, which examined many alternative means of local finance, sets out comprehensive and concise arguments for LVT.

By revenue, property taxes represent 4.5% of total taxation in Australia.

United States

Main article: <u>Land value tax in the United States</u>:

Land value taxes are used in various jurisdictions of the United States, particularly in the state of Pennsylvania. In the late 19th century followers of Henry George founded a single tax colony at Fairhope, AL. Although the colony, now a nonprofit corporation, still holds land in the area and collects a relatively small ground rent, the land is still subject to all other state and local taxes. [47]

Hong Kong

In Hong Kong:

- a government rent, formerly the crown rent, is levied in addition to Rates.
- For properties which are located in the New Territories (including New Kowloon), or located in the rest of the territory and of which the land grant take place after 27 May 1985, the government rent is levied at 3% of the rateable rental value.

Other countries Pure LVT, apart from real estate or generic property taxation, is

used in Taiwan (<u>Republic of China</u>), <u>Singapore</u>, and <u>Estonia</u>. Several cities around the world also use LVT. It has also been used in <u>Mexicali</u>, <u>Mexico</u>.

Countries with active discussion: Ireland

In 2010 the then government of the Republic of Ireland announced that it would:

- introduce an LVT, beginning in 2013.
- However following a change in government in 2011 this commitment has been weakened.
- The current, 2011 Programme for Government states only that the government will "consider ...various options for a site valuation tax". It continues "Any site valuation tax must take into account the significant number of households in mortgage distress and provide local government with a reliable stream of revenue".

Scotland

Since the turn of the new century, with <u>devolution</u> and the reestablishment of the <u>Scottish Parliament</u>, there has been interest and political pressure in Scotland to introduce land value taxation:

- In February 1998 the pre-devolution UK government in Scotland (the <u>Scottish Office</u>) launched a far-reaching public consultation process on the broad question of land reform.
- A survey of the record of the public response found that: "excluding the responses of the lairds and their agents, reckoned as likely prejudiced against the measure, 20% of all responses favored the land tax" (12% in grand total, without the exclusions).
- The government responded by announcing "a comprehensive economic evaluation of the possible impact of moving to a land value taxation basis".

- However, in a welter of published Land Reform Action Plans, concrete, positive public outcomes failed to materialize.
- In 2000 the Parliament's Local Government
 Committee [58] held an inquiry into local government
 finance. Its terms of reference explicitly included land
 value taxation [59] but the Committee's final report did
 not comment on the system. [60]
- In 2003 the Scottish Parliament passed a resolution: "That
 the Parliament notes recent studies by the
 Scottish Executive and is interested in building on them by
 considering and investigating the contribution that land
 value taxation could make to the cultural, economic,
 environmental and democratic renaissance of
 Scotland."[61]

- In 2004 a letter of support was sent from a group of members of the Scottish Parliament to the organisers and delegates of the IU's 24th international conference being held in Madrid—signed by members of the Scottish Green, Socialist and Nationalist parties.
- The policy was considered in 2006 by banker <u>Sir Peter Burt</u>'s government-appointed Scottish Local Government Finance Review.
- The Review's 2007 Report concludes that "although land value taxation meets a number of our criteria, we question whether the public would accept the upheaval involved in radical reform of this nature, unless they could clearly understand the nature of the change and the benefits involved....
- We considered at length the many positive features of a land value tax which are consistent with our recommended local property tax [LPT], particularly its progressive nature."

- In 2009, Glasgow City Council resolved that it wished to introduce a tax based on land values: "the idea could become the blueprint for Scotland's future local taxation"
- The Council has agreed a "long term move to a local property tax / land value tax hybrid tax": its Local Taxation Working Group also states that simple [nonhybrid] land value taxation should itself "not be discounted as an option for local taxation reform: it potentially holds many benefits and addresses many existing concerns".

United Kingdom

The Labor Land Campaign campaigns within the Labor party and the broader Labor movement for :

- "a more equitable distribution of the Land Values that are created by the whole community" through an annual tax on land values.
- Its membership includes members of the British Labor Party, Trade Unions and Cooperatives as well as individuals.

The Liberal Democrats' ALTER (Action for Land Taxation and Economic Reform) aims to improve the understanding of and support for Land Value Taxation amongst members of the Liberal Democrats; to encourage all Liberal Democrats to promote and campaign for this policy as part of a more sustainable and just resource based economic system in which no one is enslaved by poverty; and to cooperate with other bodies, both inside and outside the Liberal Democrat Party, who share these objectives

Courses in "Economics with Justice" with a strong foundation in LVT are offered at the <u>School of Economic Science</u>, which has historical links with the Henry George Foundation.

*Source: http://en.wikipedia.org/wiki/ Land_value_tax#Other_countries_2



Common Ground NYC

http://www.commongroundnyc.org/

Adventures around Murray Hill

http://www.commongroundnyc.org/murray.htm

LESSON 5: EFFECTS OF THE REMEDY AND THE LAW OF HUMAN PROGRESS

OBJECTIVES:

- 1. REVIEW REMEDY AND HISTORY OF LVT
- 2. APPLICATION OF THE REMEDY
- 3. REVIEW PURPOSE AND SUMMARY OF COURSE
- 4. LET'S TAKE A LOOK AT GEORGE'S SOCIAL PHILOSOPHY; LAW OF HUMAN PROGRESS

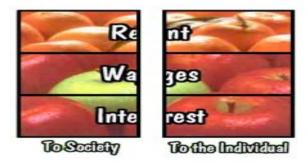
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EFFECTS OF THE REMEDY:

- a. The Effect on Production
- b. The effect on the Distribution of Wealth
- c. The Effect on Individuals and Classes
- d. Changes in Society

EFFECTS OF THE REMEDY:

a. The Effect on Production

The **ADVANTAGES OF A SINGLE TAX** on land become increasingly clear the more they are considered:

- removing an immense weight from a powerful spring.
- hamper every type of exchange and every form of industry.
- production would proceed at an unimaginable pace.
- would further increase land values, and create an even bigger surplus for common purposes
- lift the whole enormous weight of taxation from productive industry

The state currently tells producers: "The more you add to the general wealth, the more you will be taxed." The state should say:

- "Be as industrious, thrifty, and enterprising as you choose. Keep your full reward.
- You won't be fined for adding to the community's wealth"
- Let the individual producer keep all the direct benefits of exertion
- Let the worker have the full reward of labor
- Give the capitalist the full return on capital
- The more labor and capital produce, the larger the commonwealth in which all share
- The selling price of land would fall
- Land speculation would receive its death blow
- Land monopolization would no longer pay
- Millions of acres, where others are now shut out by high prices would be abandoned or sold at trivial prices

b. The effect on the Distribution of Wealth:

All civilized countries have an unequal distribution of wealth that grows steadily worse. The cause, we have found, is that ownership of land provides greater and greater power to appropriate the wealth produced by labor and capital as material progress goes on.

<u>Wealth</u> produced in every community would be divided into two parts.

- One part would <u>be distributed to individual producers</u>—as wages and interest—according to what each had contributed to production.
- The other part—<u>land rent collected as taxes</u>—would go to the community as a whole, rightly and justly so.

Wages and interest represent the result of individual effort. Land rent represents the increased power that the community, as a whole, provides to the individual.

<u>Wages and interest</u> are set by the margin of production—what can be made on land with no rent. Labor and capital keep only what is left *after* rent and taxes. Collecting rent through taxes would virtually abolish private ownership in land, because it would destroy speculative monopolization and reduce the price of land.

- This would <u>increase wages and interest</u>, by opening opportunities that are now monopolized.
- A new equilibrium would be established, with wages and interest much higher.

<u>Productivity increases with population</u>, with labor saving invention, with improved methods of exchange. These benefits could no longer be monopolized. Any increase in rent arising from these advances would benefit the whole community. All would be richer, not just one class.

c. The Effect on Individuals and Classes:

We WOULD <u>CONFISCATE RENT</u> by placing <u>taxes only on land</u>. On first hearing this, landholders are likely to be alarmed; small farmers and homeowners will be told this would rob them of their hard-earned property. But a moment's reflection will show something different though taxes on land will be higher, she will be free from taxes on the house and improvements, on furniture and personal property, and on all she and her family eat, drink, and wear.

- A single tax on land values would fall hardest not on agricultural districts, where land is comparatively cheap, but on towns and cities, where prices are high.
- Taxes, being levied on the value of bare land, would <u>fall as heavily on unimproved</u> as <u>improved land</u>.
- Acre for acre, the improved and cultivated farm—with its buildings, fences, orchards, crops, and stock—would be taxed no more than unused land of equal quality.
- Thus, speculation would be reduced.
- <u>Destroying speculative land values</u> would tend to <u>diffuse population where it is too</u> <u>dense, and concentrate it where it is too sparse</u>.
- City tenements would give way to homes with gardens.
- People in the country would share more of the economies and social life of the city
- Not only would <u>wealth increase enormously</u> it would be <u>equally</u> <u>distributed</u>
- wealth would be <u>distributed in accordance</u> to how much each contributed
- This would vary with the industry, skill, knowledge, or prudence of each individual

WEALTH:

- would <u>no longer concentrate</u> in those who do not produce, taken from those who do.
- The idle rich would no longer lounge in luxury, while those who actually produce settle for the barest necessities.
- Any <u>inequalities</u> that continued to exist <u>would be of</u> <u>natural causes</u>.
- They would <u>not be artificial inequalities</u>, produced by denial of natural law. The <u>great cause of inequality</u> monopoly of land—

d. Changes in Society:

- government could be vastly simplified
- administration of justice
- Wages would rise and everyone would be able to make an easy and comfortable living
- The legislative, judicial, and executive functions of government would be vastly simplified
- Society would approach the ideal of Jeffersonian democracy; repressive government would be abolished

HISTORY OF LAND VALUE TAX:

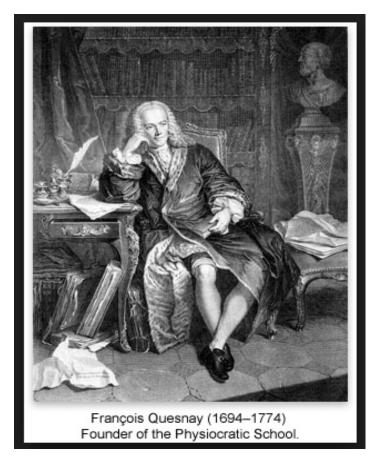
Pre-modern

Land value taxation has ancient roots, tracing back to after the introduction of <u>agriculture</u>.

Ancient China

Mencius was a Chinese philosopher who advocated for land tax around 300 BCE.

Physiocrats



Anne Robert Jacques Turgot:

- believed that the wealth of nations was derived solely from the value of land <u>agriculture</u> or <u>land development</u>.
- called for the abolition of all existing taxes, completely free trade, and a single tax on land;
- they did not distinguish, however, between intrinsic value of land and ground rent.
- also highly influential in the early history of land taxation in the United States.

Classical economists

It was <u>Adam Smith</u>, in his book <u>The Wealth of Nations</u>, who first rigorously <u>analyzed the effects of a land value tax</u>:

- pointing out how it would not hurt economic activity, and how it would not raise land rents.
- ground-rents are a still more proper subject of taxation than the rent of houses.
- A tax upon ground-rents would not raise the rents of houses.
- It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist, and exacts the greatest rent which can be got for the use of his ground.
- In every country the greatest number of rich competitors is in the capital, and it is there accordingly that the highest ground-rents are always to be found.
- As the wealth of those competitors would in no respect be increased by a tax upon ground-rents, they would not probably be disposed to pay more for the use of the ground.
- Whether the tax was to be advanced by the inhabitant, or by the owner of the ground, would be of little importance.
- The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground; so that the final payment of the tax would fall altogether upon the owner of the ground-rent.

[—] Adam Smith , The Wealth of Nations, Book V, Chapter 2, Article I: Taxes upon the Rent of Houses

Georgism



Henry George (September 2, 1839 – October 29, 1897) was perhaps the most famous advocate of recovering land rents for public purposes.

An <u>American journalist</u>, <u>politician</u> and <u>political economist</u>, he advocated a "<u>Single Tax</u>" on <u>land</u> that would eliminate the need for all other taxes.

In 1879 he authored <u>Progress and Poverty</u>, which significantly influenced land taxation in the United States.

Meiji Restoration in Japan:

After the 1868 Meiji Restoration in Japan, Land Tax Reform was undertaken.

A land value tax was implemented beginning in 1873. By 1880 initial problems with valuation and rural opposition had been overcome and rapid industrialization was underway.

The period spanned from 1868 to 1912 and was responsible for the emergence of Japan as a modernized nation in the early twentieth century.

<u>Liberal and Labor Parties in the United Kingdom</u>

In the <u>United Kingdom</u>, LVT was an important part of the platform of the <u>Liberal Party</u> during the early part of the twentieth century: <u>David Lloyd George</u> and <u>H. H. Asquith</u> proposed:

"to free the land that from this very hour is shackled with the chains of feudalism.

It was also advocated by Winston Churchill early in his career. support for the idea to a local form of land value taxation. The 1931 Labor budget included a land value tax, but before it came into force it was repealed by the Conservative-dominated National Government that followed shortly after

An attempt at introducing site value taxation in the administrative County of London was made by the local authority under the leadership of Herbert Morrison in the 1938–9 Parliament, called the London Rating (Site Values) Bill. Although it failed, it sets out detailed legislation for the implementation of a system of land value taxation using annual value assessment.

After 1945, the Labor Party adopted the policy, against the opposition of a substantial body of MPs, of attempting to collect "development value": the increase in land price arising from planning consent. This was one of the provisions of the Town and Country Planning Act 1947 and it was repealed when the Labor government lost power in 1951

Canada

Land value taxes were common in Western Canada at the turn of the twentieth century:

In Vancouver LVT became the sole form of municipal taxation in 1910 under the leadership of mayor, Louis D. Taylor.

Gary B. Nixon (2000) states that the rate never exceeded 2% of land value, too low to prevent the speculation which led directly to the massive 1913 real estate crash. All Canadian provinces now have moved back to taxing improvements.

Existing tax systems:

A comprehensive and detailed survey of land value taxation around the world was published in 2001.

Australia

The state of New South Wales levies a state land value tax. However unlike council rates, farmland and a person's principal place of residence are generally exempt and the state tax is only levied on value over a certain threshold.

In New South Wales determination of land value, for tax purposes at a state and local level, is the responsibility of the Valuer-General.

The cities of Sydney, Canberra, and others in Australia use LVT.

An in-depth study under the Chairmanship of Sir <u>Gordon Chalk</u> issued a report in 1986 on the subject of local taxation for the city of <u>Brisbane</u>, <u>Queensland</u>. The report, which examined many alternative means of local finance, sets out comprehensive and concise arguments for LVT.

By revenue, property taxes represent 4.5% of total taxation in Australia.

United States

Land value taxes are used in various jurisdictions of the United States, particularly in the state of <u>Pennsylvania</u>.

In the late 19th century followers of Henry George founded a single tax colony at Fairhope, AL.

Although the colony, now a nonprofit corporation, still holds land in the area and collects a relatively small ground rent, the land is still subject to all other state and local taxes.

Other countries

Pure LVT, apart from real estate or generic property taxation, is used in Taiwan (<u>Republic of China</u>), <u>Singapore</u>, and <u>Estonia</u>.

Several cities around the world also use LVT. It has also been used in <u>Mexicali, Mexico</u>.

COUNTRIES WITH ACTIVE DISCUSSION:

<u>Ireland</u>

In 2010 the then government of the Republic of Ireland announced that it would:

- introduce an LVT, beginning in 2013.
- However following a change in government in 2011 this commitment has been weakened.
- The current, 2011 Program for Government states only that the government will "consider ...various options for a site valuation tax". It continues "Any site valuation tax must take into account the significant number of households in mortgage distress and provide local government with a reliable stream of revenue".

Scotland

Since the turn of the new century, with <u>devolution</u> and the reestablishment of the <u>Scottish Parliament</u>, there has been interest and political pressure in Scotland to introduce land value taxation:

- In February 1998 the pre-devolution UK government in Scotland (the <u>Scottish Office</u>) launched a far-reaching public consultation process on the broad question of land reform.
- In 2000 the Parliament's Local Government Committee held an inquiry into local government finance. Its terms of reference explicitly included land value taxation but the Committee's final report did not comment on the system.
- In 2003 the Scottish Parliament passed a resolution: "That the Parliament notes recent studies by the <u>Scottish Executive</u> and is interested in building on them by considering and investigating the contribution that land value taxation could make to the cultural, economic, environmental and democratic renaissance of Scotland."

- In 2009, Glasgow City Council resolved that it wished to introduce a tax based on land values: "the idea could become the blueprint for Scotland's future local taxation"
- The Council has agreed a "long term move to a local property tax / land value tax hybrid tax": its Local Taxation Working Group also states that simple [nonhybrid] land value taxation should itself "not be discounted as an option for local taxation reform: it potentially holds many benefits and addresses many existing concerns".

United Kingdom

The Labor Land Campaign campaigns within the Labor party and the broader Labor movement for:

• "a more equitable distribution of the Land Values that are created by the whole community" through an annual tax on land values.

The Liberal Democrats' ALTER (Action for Land Taxation and Economic Reform) aims to improve the understanding of and support for Land Value Taxation amongst members of the Liberal Democrats; to encourage all Liberal Democrats to promote and campaign for this policy as part of a more sustainable and just resource based economic system in which no one is enslaved by poverty; and to cooperate with other bodies, both inside and outside the Liberal Democrat Party, who share these objectives

Courses in "Economics with Justice" with a strong foundation in LVT are offered at the <u>School of Economic Science</u>, which has historical links with the Henry George Foundation.

^{*}Source: http://en.wikipedia.org/wiki/Land_value_tax#Other_countries_2

WHAT WE INITIALLY SET OUT TO ACCOMPLISH IN THIS COURSE:

- 1. What is wealth? How is it created and increased?
- 2. Trace the root causes of the business cycle and social ills such as unemployment and poverty.
- 3. Learn why the earth's natural resources are fundamentally different from the wealth people create.
- 4. See how to raise incomes and encourage responsible development.

Why did George write Progress and Poverty?

Progress and Poverty, Published in 1880

Natural Resources? Land?

"We have reached the deplorable circumstance where in large measure a very powerful few are in possession of the earth's resources, the land and its riches and all the franchises and other privileges that yield a return. These positions are maintained virtually without taxation; they are immune to the demands made on others. The very poor, who have nothing, are the object of compulsory charity. And the rest -- the workers, the middle-class, the backbone of the country -- are made to support the lot by their labor...

Taxation?

We are <u>taxed at every point of our lives</u>, on everything we earn, on everything we save, on much that we inherit, on much that we buy at every stage of the manufacture and on the final purchase. The taxes are punishing, crippling, demoralizing. Also they are, to a great extent, unnecessary.

Government?

But our system, in which state and federal taxes are interlocked, is deeply entrenched and hard to correct. Moreover, it survives because it is based on bewilderment; it is maintained in a manner so bizarre and intricate that it is impossible for the ordinary citizen to know what he owes his government except with highly paid help. We support a large section of our government (the Internal Revenue Service) to prove that we are breaking our own laws. And we support a large profession (tax lawyers) to protect us from our own employees. College courses are given to explain the tax forms which would otherwise be quite unintelligible." from HGS website

WHAT IS PROGRESS?

How do we measure it? Is there a connection to wealth?

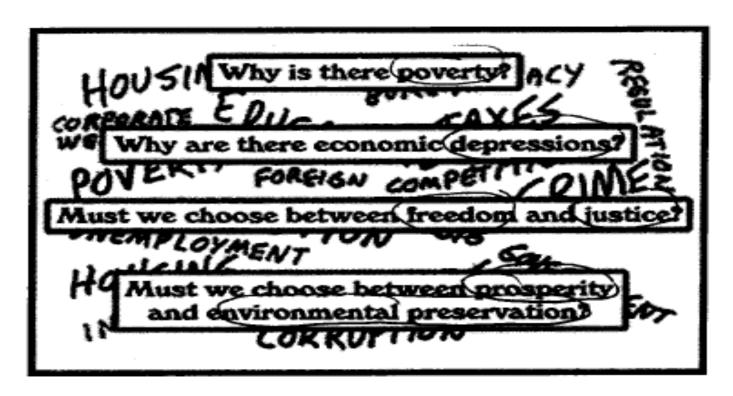
- Access to Employment?
- Access to affordable Housing?
- Access to Healthcare?
- Access to education?
- Access to commerce?
- Technology?
- Governmental structure: Democratic?

WHAT IS POVERTY?

What is basis by which we measure it? Or quantify it? Is there a connection to wealth? Is it by a definition based on country or region of the world? Does it tell whether or not a society is just?

- -Unemployment?
- -lack of healthcare?
- -lack of housing?
- lack of education?
- -lack of commerce?
- lack of technology?
- government: dictatorship?

THE PURPOSE OF THE COURSE IS TO APPLY ECONOMIC FUNDAMENTALS TO CURRENT PROBLEMS, PARTICULARLY THE PROBLEM OF "PROGRESS AND POVERTY": WHY, WITH OUR GREAT INCREASES OF PRODUCTIVE POWER, IS IT STILL SO DIFFICULT TO MAKE A LIVING?



Upon examination, we find:

- 1. that the explanation is not that we have **insufficient capital** or **low productive capacity**;
- 2. nor that there are **too many people** in relation to the world's resources.

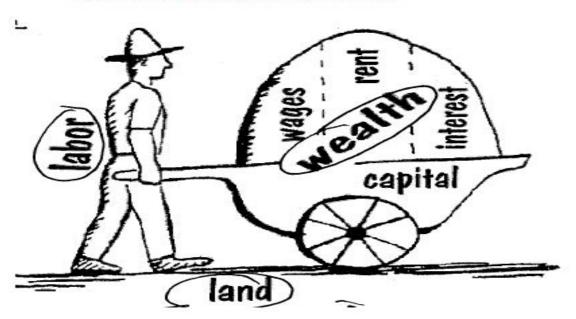
Malthus theory is the doctrine that poverty is due to the pressure of population against subsistence, or, to put it in its other form, the doctrine that the tendency to increase in the number of laborers must always tend to reduce wages to the minimum which laborers can reproduce. [P&P P101]

3. Poverty cannot be explained **by an incapacity to produce sufficient wealth**

Economic Axioms (self-evident truths)

- People seek to satisfy their desires with the least exertion.
- Human desires are unlimited.

POLITICAL ECONOMY IN EFFECT



We therefore turn to the <u>laws of</u> <u>distribution f</u>or an answer

Factor of Production	Definition	Laws of Distribution	Ave of Distribution	Definition
Land	The entire material universe, excluding people and their products.	The rent of land is determined by the excess of its produce over that which the same application of labor and capital can secure from the least productive land in use.	Rent	That part of wealth which is the return for the use of land.
Labor	All human exertion, mental and physical, in production.	Wages depend on the margin of production: the most productive land available without the payment of rent.	Wages	That part of wealth which is the return to labor.
Capital	Wealth that is used to produce more wealth, or wealth in the course of exchange.	The return to capital depends upon the increase of capital at the margin of production.	Interest	That part of wealth which is the return for the use of capital, excluding compensation for risk.

In studying these laws we find that wages and interest rise and fall together with the margin of production; and that rent rises and falls inversely as the margin falls and rises.

- 1. Interest the return to capital, which is a form of human exertion tends to be equally attractive with wages,
- 2. just as <u>wages</u> tend to be equally attractive with those available in comparable alternative occupations.
- 3. As civilization advances and land becomes more valuable, **rent** increases and is privately appropriated.

9. Land Speculation

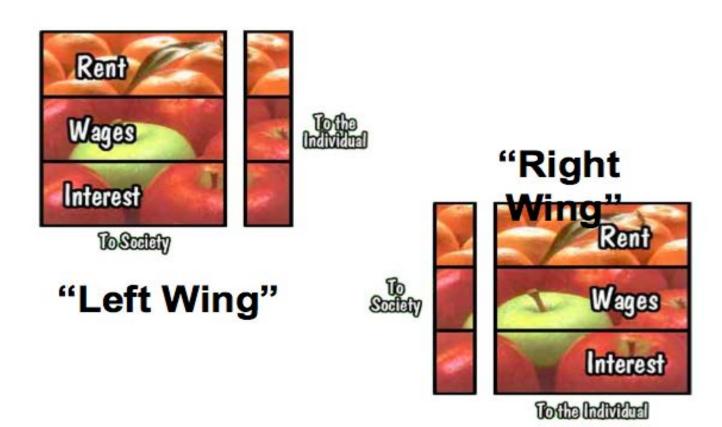


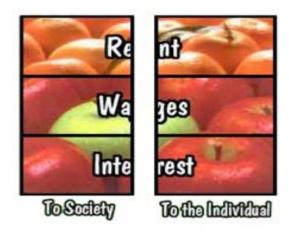
When landowners keep land out of use, waiting for a higher price, people who wish to use land must resort to poorer lands, because the price asked for better lands is more than they can pay. This creates an artificial scarcity of land, and forces wages down.

This lowers the proportionate return of wealth going to labor and capital as wages and interest. The anticipated increase of rent leads to land speculation which holds land out of use and further increases rent at the expense of wages and interest.

Land speculation pushes the price of land to the point where it is no longer profitable for labor and capital to continue producing, and a stoppage of production occurs. Though there are other proximate causes, this is the basic cause of depressions and of the mal-distribution of wealth.

<u>To remedy this situation</u> and to raise real wages we look at how the fruits should be divided:





"Middle-ofthe-road"





The Georgist Proposal

- 1. we must eliminate **land monopoly** and **land speculation**.
- 2.The most effective way to do this is by <u>community collection of</u> <u>rent (land value taxation)</u> and <u>abolition of all other taxes.</u>
- 3. This proposal is further justified by the fact that <u>land values are</u> <u>produced by the growth and activities of the community as a whole, not by the efforts of landowners.</u>
- 4. The rent of land properly belongs to the community to defray communal expenses.
- 5. Abolition of taxes on labor and the products of full fruits of their toil.

Adoption of **this proposal** (called the "single tax") **would greatly encourage**:

- a. PRODUCTION:
- **B. WAGES AND INTEREST WOULD RISE;**
- C. LAND, FREED OF THE BURDENS OF MONOPOLY AND SPECULATION, WOULD BE EASIER TO ACQUIRE FOR PRODUCTIVE PURPOSES AND FOR HOMES;
- D. "BOOMS AND BUSTS" WOULD BE REPLACED BY CONTINUOUS GROWTH;
- E. GOVERNMENTS WOULD BE GREATLY SIMPLIFIED

With equal economic opportunities open to all, with <u>people</u> <u>associating in equality</u>, <u>society would be elevated to new heights economically</u>, <u>intellectually and morally</u>.

WHAT, THEN, IS THE LAW OF HUMAN PROGRESS?

- CIVILIZATION IS COOPERATION.
- UNION AND LIBERTY ARE FACTORS OF CIVILIZATION.
- WHAT HAS DESTROYED EVERY PREVIOUS CIVILIZATION HAS BEEN THE TENDENCY TO THE UNEQUAL DISTRIBUTION OF WEALTH AND POWER.
- THIS SAME TENDENCY, OPERATING WITH INCREASING FORCE, IS OBSERVABLE IN OUR CIVILIZATION TODAY.

This law **not only describes how civilization advances** –

- 1. it must also account for arrested, decayed, and destroyed civilizations.
- 2. Since mankind presumably started with the same capacities at the same time, it <u>must explain the great</u> <u>disparity in social development that now exists.</u>
- 3. It must account for <u>regression</u>, as well as <u>progression</u>; for different rates of progress; and for the <u>bursts and starts and halts</u>.
- 4. In short, it must tell us what the <u>essential conditions</u> of progress are -- and which <u>social arrangements</u> advance it and which retard it.

People **progress by cooperating** with each other to increase:

- the mental power that may be devoted to improvement.
- However, as conflict is provoked, or as inequality (of power or condition) develops, this tendency is lessened, checked, and finally reversed.
- The rate of development will depend on the resistance it meets.
- Obstacles may be external and internal.
- In earlier stages of civilization, external forces tend to be greater. Internal obstacles grow more important in later stages.

This tendency to resist innovation, even though it is improvement, is observable in every social organization - in religion, in law, in medicine, in science, in trade guilds, and it becomes intense, just as the organization is close. [P&P P519]

Association frees mental power for improvement. Equality keeps this power from dissipating in fruitless struggles.

We thus arrive at our law:

ASSOCIATION IN EQUALITY IS THE LAW OF HUMAN PROGRESS.

The law that can explain:

- 1. all diversities.
- 2. all advances,
- 3. all halts, and
- 4. all retrogressions.

Some philosophical reasoning about a just society:

Where Liberty rises:

- there virtue grows,
- wealth increases,
- knowledge expands,
- invention multiplies human powers and in strength and spirit the freer nation rises among her neighbors.

Where Liberty sinks:

- there virtues fade,
- wealth diminishes,
- knowledge is forgotten,
- invention ceases and empires once mighty in arms and arts become helpless prey to freer barbarians.

And so we end with: Liberty calls to us again...

It is <u>not enough</u> that men and women <u>should vote</u>; it is <u>not enough</u> that they should be theoretically <u>equal</u> <u>before the law</u>.

They must have <u>liberty to avail themselves</u> of the <u>opportunities</u> and <u>means of life</u>; they must <u>stand on equal terms</u> with reference to the bounty of nature.

This is the universal law.

This is the lesson of the centuries.
Unless its foundations be <u>laid in justice</u> the social structure of the United States or any other country cannot stand.

THANK YOU FOR YOUR TIME AND PARTICIPATION IN THIS CLASS