

Inter Student

Six: Environment, Cash Crops, Boom, Slump, Chicago

Arbiter : _____
 Period : _____
 Student : _____
 Group : _____
 Date : _____

Stock Markets and Production:

Every few years, the economy slows down, or crashes. No-one seems to know what causes it, although there are many theories. One suggests that factory closures are triggered by a stockmarket crash. We'll find the reverse is true. Closures cause the crash.

When car sales sag, dealers' lots are full, and factories jam with unsold cars. Economists claim there is *overproduction* (too many cars) or *underconsumption* (not enough buyers).

Yet, people still want cars, so why aren't they

sold? Why aren't they bought? If the factory is producing too many cars, why not have a sale (reduce Market Clearing Price) for eager customers?

The problem is that customers can't buy anyway because *they haven't produced*.

Without any production to offer, they cannot buy cars. With nothing to supply, they have no way to demand.

This Cycle, we'll find why people who want to produce are unable to do so.

6a : Last to sell

Argument : The speculative activities of the first Island family can be seen around us. Many of the problems we encounter in the U.S. - including the Business Cycle - are not really problems at all. They are the *effects* of a basic land problem.

Interrogator

- In an advancing community, with ever increasing population and rising productivity, do land prices *rise* or *fall*? _____
- Do the greatest and most visible increases take place in the *centers* of cities, or *far out*, among the redwoods? _____
- You need a site for your factory. You need land serviced by fire and police departments. You want high voltage electricity and good sewers. You also need a nearby freeway to move goods to customers. Do all these improvements increase land value? _____
- When widget and gadget prices rise, does the price mechanism draw fresh supplies to market - bringing down the price? _____
- When land prices rise, is it possible for the price mechanism to draw fresh supplies of land to market - dropping prices? _____

More Interrogator

- As prices keep rising, is the cost of the choice industrial land likely to be too much for you? _____
- Land acts like a collectible. In a collectible market, who gets the highest price - the *first*, or the *last*, to sell his collectible? _____
- Will a market where most sellers are trying to be last to sell, lead to *spotty* sales all over the map - or will it promote efficient and *orderly* growth? _____
- The value of the site you want has risen higher each year. The holder's *anticipated future value* has risen even higher. Is it likely that the price he wants for the land will make your factory too costly to build? _____
- In a modern city does the site you want produce its *own* value, or does its value arise from services *others* provide? _____

Test - 1 : Do *you*, or does the *community*, provide your site with police and fire services, sewers, schools and nearby freeways?

Test - 2 : Does a landholder (as a landholder) sell his contribution to the worth of the site, or the contribution of the community around it?

6b : Home In Indiana

Argument : You live, not on Fantastic Island but in the United States. However, even though population density is low, free land is long gone.

Just like the Island, General Level workers get wages which are close to subsistence.

However, we are an enlightened democracy and help the poor with government programs. These cover much of everyday living, and can include food stamps, subsidized accommodation and direct grants of money.

Welfare shows heart, but little understanding of economics. This is what happens.

Interrogator

1. You get the General Level of Wages. You, your wife and children, live on \$220 a week (40 hours x \$5.50). After taxes and work expenses, you take home \$170. Of this, apartment rent takes \$80 (less than national average for poor people).

You have \$90 for everything else. Are you close to the edge of survival? _____

2. Next door, the family have no jobs and live on welfare payments. Their apartment is subsidized, they get food-stamps and money.

After basic expenses are paid they have about \$90 a week. Are they close to the edge of survival? _____

3. There seems little difference in your return from work, or from welfare. You are about to go on welfare, when you are offered a better job for \$260 a week. Your choices are:

- a) You could stay home with welfare; or
- b) You could work 40 hours at the new job and get an extra \$40.

You might take the job out of pride, but why does it make no economic sense? _____

4. You are not allowed to work AND collect welfare. Might you take a 'secret' part-time job at less than Minimum Wage to get some extra money? _____

Test - 3 : Do you resent not enjoying the good life you see pictured on television?

Test - 4 : Ted earns above General Level but finds it tough to make a living. His taxes rise to pay for welfare. Does he resent hard-earned pay going to non-workers?

Test - 5 : Might resentment from you at the General Level, and from middle-class Ted be dangerous to the community?

6c : Wages and Prices

Argument : Economic consequences are often ignored, which can be dangerous! Also, consequences may not be recognized. For example, raising prices is often easier to do than cutting wages.

The effect is the same. Whether wages are cut, or prices increased you can buy less. Your work gets you less bacon and fewer eggs. Your real wages (what you can actually buy for your exertion) have decreased.

Interrogator

1. If tomatoes flood the market, would you expect their market value to drop? _____
2. If dollars flood the market, would you expect their value to drop? _____
3. Do you work for dollars, or for food, clothing, shelter, and other things? _____
4. If the same work is getting you more dollars, but fewer things, have your wages increased or decreased? _____
5. Which is more important to your wage, the dollars you get, or the food, clothing, shelter, etc, you get? _____
6. You get more dollars than last month. But, food prices have risen, so you can actually buy less food. Have your real wages risen, or fallen?

Test - 6 : The government issues more dollars into the economy each year. Would this gradual increase in dollars be raising your wages, or would it actually be reducing your real wages - that is the actual food, clothing, and shelter you need?

6d : Pressure

Argument Real wages are measured, not in dollars earned, but by the goods you can get for the exertion you expend. The downward pressure on wages shows up as greater difficulty in making a living. At the General Level of Wages, labor is barely able to survive.

Yet, even those with special aptitudes, better educations, and greater skills, find paying their mortgage is more difficult. They find running their cars is a drain, enjoying their lives is harder.

The middle-class wife no longer works to get luxuries. She works to make the payments, because her husband's pay is not enough.

Interrogator

1. People at the General Level are pressed down by the 'Iron Law'. Might some of them become homeless? _____
2. You earn above the General Level. Your pay is the same but apartment costs rise. You must move to a smaller apartment. Have your wages fallen? _____
3. Productivity may be increased by free trade, invention, innovation, or clever enterprisers. At first, is the effect of these productivity increases to raise the returns to labor and capital? _____

Test - 7 : Remember what happened on Fantastic Island when Wages were forced down. In the United States, when the downward pressure of the Iron Law of Wages makes itself felt, what happens to Rent?

6e : Never Had It So Good

Argument : Rent measures the worth to production of a location. Rent is determined by the free market. But, Land is a collectible and is not controlled by the price mechanism - as are products.

So, instead of market value (Rent), we get Rent plus collectible cost, or something we call **Land-Value**.

Land value is Rent plus a speculative premium. Land value can be huge. Appraisers of land-value find, for example that the cost of a site may be from 50% to 70% of the cost of a house. This means the contractors and their bricklayers, carpenters, and other workers, and the construction materials get half the price of the house. The other half must be paid for the right to begin work.

Interrogator

1. When you buy a house, rent an apartment, build a factory, or start a business, do you pay **Rent** or **Land-Value**? _____
2. Pretend you can make land. Would you look for the market clearing price that would keep your land production flowing into the hands of the consumer? _____
3. If land was controlled by the price mechanism, would you expect it to act like products and find its **market clearing price**? _____
4. Would your land at its market clearing price move into the hands of builders, who then would provide job opportunities? _____
5. However, you can't make land! Nor can anyone else. So, you believe the value of the land you hold will keep rising as more and more people chase after the limited amount.
Do you **lower** your price to 'clear your shelves' of the land - or do you **raise** your asking price to the higher **future anticipated value** which is the personal value in your mind? _____
6. What can anyone do without land? _____
7. When you pay Land Rent, are you simply paying for something you get - such as a better location? _____
8. Land is a collectible and can demand a premium on top of Rent. What is the name for this Rent + Premium payment? _____
9. When you pay the higher Land-Value, are you getting something more than when you simply pay Land-Rent? _____
10. If the landholder demands not Rent, but Land-Value, from what incomes will the extra payment have to come? _____

Test - 8 : Land values keep rising, taking more from production. What two other Factors of Production must get less and less when Land is taking more and more?

6f : Tomatoes In the Store

Argument : Collectible land increases rent and presses down wages. It also causes poor land use. When landholders hoard land, labor and capital must use second or third best sites because land-value demands are too high.

Interrogator

1. You shop for tomatoes. Do you buy the **first** six tomatoes you find - or do you pick the **best** six from the bin?

Test - 9 : If city sites were chosen like tomatoes, we might expect orderly growth. Builders would choose the best sites before the second best. All the '8 land' would be used before building on '7 land'. Does your city show this **orderly** growth, or is it a **mish-mash** of skyscraper, next to small building, next to vacant lot, next to a high building, next to slum?

6g : Specific and General

Argument : Malthus and Ricardo showed how increasing population forced people to poorer land, pushing down the wage they could earn. Henry George showed that holding unused land off the market would speed up this process.

Builders and other producers need specific sites. If they are forced to take second best, or third best, their efficiency drops - which means lower wages and interest from the project.

Interrogator

1. Is demand for land **specific**, or **general**? _____
2. Do these specific demands for particular locations raise their Rents - and therefore their sale-prices? _____
3. You specialize in gem sales. Do you locate your office in the intensely competitive jewelry **district**, or in another part of town where there are **no other** jewelers? _____
4. You have grade-school children. Must you live near a grade school? _____
5. You **must** locate at a specific location. Will your Rent be **higher**, or **lower** than if you could choose anywhere? _____

Cash Crops

A Cash Crop is a one that requires minimum investment, but which will return a quick income.

An apple orchard or grape vines need careful nurturing for several years before they return an income. Other crops simply need plowing and seeding, with a harvest later in the season.

Any production that returns a quick income with small investment and little thought for the future is a cash cropping venture.

Test - 10 : City land is expensive on which to build your skyscraper. Would it be better to build in the scarcely populated desert where land is much cheaper and your costs would be much lower? Explain

6h : Cash Cropping

Argument : Speculative land isn't always left vacant. Often, to get an income, it is given a temporary use. Landholders don't want to invest much in land they hope soon to sell, because their investment would be wasted. So, they 'cash crop'.

This gives them immediate return from little investment. If a sale occurs, they can dump the land with little loss. Meantime the land is used well below its potential.

Interrogator

1. You have a very good city site, but no-one yet will pay your price. Might you put in a bill-board, or parking lot, while you are waiting for the expected bonanza? _____
2. You have a well located suburban corner lot, but no-one has yet made an offer. Might you install a service station, or some other temporary income producer while you wait for your price to be met? _____
3. Your farm is in the path of urban expansion. Will you invest in drainage, fences, barns, or will you sow quick cash-crops with minimum capital improvement, so a big offer could be accepted without too much of an investment loss? _____
4. Is a 'cash-crop' economy (in city, suburbs, and rural areas) the most efficient way, to use valuable land for the well being of the community? _____

Test - 11 : Instead of an office building, there's a parking lot. Instead of a supermarket, there is a junk-yard. In the city, vacant land is fenced for storage use. Out of the city, trees are being bulldozed for housing. What is the name for this poor land usage?

6i : Environmental

Argument : On Fantastic Island land was fenced and kept from market, while it rose in value. It is reasonable for modern landholders to adopt the same policy, either holding land vacant, or 'cash-cropping' it. Industry, unable to afford preferable industrial sites, is forced out to the countryside, looking for affordable locations. You want to build a factory, but can't afford the industrial land price. You must search for a site for your factory somewhere else.

Interrogator

1. In the country, you find a site that will do, although with fewer services than a city site. Will lack of services limit your production? _____
2. You buy the site. You think, perhaps, that other entrepreneurs will join you and share the cost of installing additional services (wider roads, better utilities, etc.) But, once you've bought and start to build, what happens to the asking prices of similar suitable sites in your vicinity? _____
3. When they find higher prices in your neighborhood, will other industries looking for land likely to be forced further out to places even less desirable for industry - but perhaps very desirable for residential or recreational land? _____
4. You're on your own. Your costs are burdensome in your less than best location. Will it be a struggle to keep your business alive? _____
5. Is it likely that your factory will bring pollution, toxic substances, and heavier traffic into the countryside? _____
6. Protests are made against your degrading the environment. Are you in any position to incur extra expenses to repair or reduce any damage you are causing? _____

7. Forty families rely on the paypackets you provide. If you pay the anti-pollution costs, you may have to fire employees, or even close down. Will you pay the costs? _____
8. Downwind, endangered by your smokestack, the last remaining pair of Null-Colored One-Winged NipHatch nest. Is this of great importance to you? _____
9. Do they matter to the forty families who work for you - or to the local grocery stores? _____

Test - 12 : Environmentalists will try to close your factory to save the the Null-Colored One-Winged NipHatch. You tell them they want to ruin you and put 40 families on the unemployment line. Each will blame the other. What's the real cause of the fight between you and environmentalists?

6j : Urban Sprawl

Argument : It was a pity about the Null-Colored One-Winged Niphatch, but as people move into the country, animals, birds and other creatures pay a price, as do people, when country is replaced by concrete.

Yet, we need places to live, to work, to shop, and play. If high land prices shut us out of locations we would prefer, we must search further and further afield. Houses, commercial projects and industry gobble up the countryside. This process is called **Urban Sprawl**.

Interrogator

1. People sprawl across a wide area. Will this mean roads, utility services, and fire and police protection, must extend much further than should normally be necessary? _____
2. Cross out the wrong words. When urban sprawl occurs the costs of basic community services are likely to rise / fall . Also, their efficiency is likely to improve / decline .
3. Rapid transit bus and subway lines are a cheap and fast way to travel, but to be economic, they need dense populations. If these services must cover wide, sparsely populated areas, would you expect them to need subsidies from some agency of government? _____

Test - 13 : What is the best transportation system for a widespread area such as Los Angeles?

Test - 14 : What noticeable environmental effect results from vastly increased use of this 'best transportation system'?

6k : Consequences

Argument : Whether land is vacant, or 'cash-cropped', makes little difference. Land held from proper use causes problems.

Land speculation drives people more quickly out to less productive land. They move from city to suburbs, from the suburbs into the country - looking for less expensive places to live and work.

Environmental policies tend to concentrate on the act of development in green areas. It would be more sensible to ask why the development doesn't take place in more economic locations.

Test - 15 : Show the effects of land speculation by inserting (M) more or (L) less (fewer) below:

- energy use _____ suburbs _____ homes _____
- conservation _____ commuting _____ smog _____
- countryside _____ freeways _____ taxes _____
- rapid transit _____ building _____ wages _____

6l : Call the Roofer

Argument : Any product tied directly to land acquires a value which includes the value of a site. A house price is a combination of building and site values. The building value will likely drop over the years, the site value will likely appreciate over the years. When the house is sold, the price of the land won't be mentioned, yet the realtor will be happy to point out the great location of the property!

Interrogator

1. Your house gets older. Does this mean the plaster cracks, the caulking leaks, and the electrical wiring becomes dangerous? _____
2. Might the house become weathered, needing paint, repair of window frames, perhaps replacement of stucco? _____

More Interrogator

3. Is an old house likely to contain fewer of the advantages of invention and innovation, such as microwaves, separate showers, that we have come to expect? _____
4. Does this sound a little like the place you live in? _____
5. Would you expect an old house to lose value, just like other old equipment? _____
6. Do values of used houses rise, or fall? _____
7. Is a house just a house, or is it really house and site? _____
8. Do you usually buy a house 'in place'? _____
9. You find the old house you want costs \$20,000 more than last year. Why? _____
10. Unaffordable housing is a major national concern. Is the problem caused by the high cost of **building**, the high cost of **land**, the high cost of **union** labor, or the high cost of big **profits**? _____
11. We can compare a house, which is tied to a site, and an automobile which is not. You lease a new car for \$3,000 a year. After five years, the lease must be renewed.
 - a) Has the car suffered wear? _____
 - b) Is it an old automobile, rather than a sparkling new one? _____
 - c) Do you expect the lease to be renewed at a higher rate? _____
12. You lease a house for \$3,000 a year. After five years the lease must be renewed.
 - a) Has the house suffered wear? _____
 - b) Is it an old building, rather than a sparkling new one? _____
 - c) Do you expect the lease to be renewed at a higher rate? _____

Test - 16 : Re-leasing an old car costs less, but re-leasing an old house costs more. For a 5 point bonus - why?

6m : Don't Get Depressed

Argument : Every few years, price mechanism control of the market seems to fail completely, and a booming economy falls into recession. Usually, the recession ends with another boom - and another recession.

Many theories have been advanced as the reason for periodic boom and recession. Economist Paul Samuelson suggests that a diligent student could prepare a list that would 'run into dozens'.

This wouldn't include the 'stock market crash', however, for the stock market is no more than a mirror of activity (just as a thermometer indicates a change of temperature.)

Interrogator

1. General Widget (GW) is producing well, but you and 500 other shareholders decide to sell all your shares. You unload. What happens to the value of GW shares? _____
2. Does this fluctuation in share value affect GW's production? _____
3. Does it affect widget buying? _____
4. Do changes in ownership of GW's shares lead to production slowdowns and labor layoffs? _____
5. Now, people stop buying GW widgets, so the firm stops production. Does this affect GW shares? _____
6. Do changes in **production** affect share values, or changes in **share** values affect production? _____

Test - 17 : . Monday evening, many people decide to sell their \$30 billion worth of shares. Tuesday, they unload - at a 10% loss because of the huge sales volume. On Wednesday, peace is restored and share prices have returned to Monday's level.

a) Wednesday evening, brokers totalled results of the market 'spasm'. What net **loss**, or **gain**, did they find? _____

b) Did the spasm have any serious effect on production? _____

c) Which is worse, heavy **buying**, or heavy **selling**, of shares?

6n : Optimism and Pessimism

Argument : Most recession theories are variations of two arguments. The **overproduction theory** suggests that factories produce too much, outstripping demand and must slow, or stop, production - leading to unemployment.

The **under-consumption theory** is the same argument viewed from the opposite direction. It suggests that consumers stop buying, goods pile up and production grinds to a halt. Both arguments miss the point.

Interrogator

1. You go to market with the chairs you make. Can you trade them for food? _____
2. You cannot produce. You get to the market without goods. Will you still get **food**, or will you go **hungry**? _____
3. You bring your goods to market to exchange with other traders. What 'allows' you to demand their goods? _____
4. Does your inability to produce goods lead to your 'under-consumption'? _____
5. Would other traders' unsold goods look like '**over-production**'? _____
6. Which is the problem: '**overproduction**', '**under-consumption**', or your '**under-production**'? _____
7. Trade is an exchange of goods. Will anyone trade with you, if you have nothing to give in return? _____
8. For some reason you are unable to produce. So, you have nothing to trade. Can you demand goods from others if you have nothing to give in return? _____

Test - 18 : Many people find themselves unable to produce, so they cannot demand and business sags. Other people with fewer people to trade with, cut back production and lay off workers. Fewer houses are being sold and building slows, leading to more layoffs. Banks find their loans are not repaid and some are about to fail. As people are not producing, they can't pay taxes, so governments begin spending more than they have.

Would you say that the economy is **stable**, experiencing **difficulty** or is it an **accident** waiting to happen?

Test - 19 : Might any political, economic, or natural shock, send an unstable economy 'over the brink' into depression?

Test - 20 : Anything can be a trigger to crash the economy. Should we spend much time looking at 'triggers', or should we try to find the cause of the shaky economy - why are people unable to produce and earn a living?

And why? _____

60 : Sunspots, Peace, and War

Argument : Outbreaks of peace or war, migration, stockmarket crash, invention, innovation, sunspots, population increase, political change, psychological problems, are among dozens of theories of boom and slump. These are triggers, but not the reason for economic instability.

Modern economic theory seems unaware of the cause of cyclical slowdown, or actual stoppage, of production. Any of the above theories may trigger the downturn. We must find out why the economy becomes so unstable the 'triggers' cause trouble.

Interrogator

1. Is trade usually considered to be the exchange of products? _____
2. Is it possible for people to exchange exertion? _____
3. Is all trade, including products, really an exchange of 'exertions'? _____
4. Can a product exchange for exertion? _____
5. If you are unable to exert, will you have anything to exchange? _____
6. Which comes first, (**P**)roduction of goods, or (**C**)onsumption of goods? _____
7. People produce their goods and supply market demand. In their exchanges at the market, which is the greater, supply or demand?

Test - 21 : Explain your answer to question #6.

6P : Underproduction

Argument : Anything can push an unstable economy over the brink. Among them are Presidential heart attacks, assassinations, weather, or taxes. Each of these are triggers which have been blamed for the onset of recession, or depression.

All may cause a glitch in the continuing economy, yet the price mechanism is supposed to respond to glitches, - and correct it. If the supply of cars is not enough to serve the market, demand sends the price up. Car manufacturers put on extra shifts to rush cars to the market. This supplies the demand and the price drops again. The price mechanism handles fluctuation.

Interrogator

1. You come to the market with your products and there you meet another producer. You want his goods. How do you get them in the market? _____
2. Is your activity at the market an exchange of your production for his? _____
3. You cannot produce. You arrive at the market without goods. Do you have any right to demand goods from others? _____
4. Does your inability to produce goods lead to your 'under-consumption'? _____
5. Would this leave other producers with unsold goods and an impression that there is 'over-production'? _____
6. Is the source of the problem the fact that you have made too many goods, or is it that (for some reason) you are not able to produce goods for exchange? _____
7. Is 'under-consumption' the result of **dieting**, or does it occur because people who wish to consume have **nothing** to exchange in the market? _____
8. Even if producers have nothing that other people want, might they survive by producing for themselves?

Test - 22 : This gets you a 5 point bonus. Warehouses are full of goods consumers want to buy, yet the goods aren't selling. Producers, searching for a market clearing price, have dropped their prices well below cost. Is the problem they are facing underproduction, overproduction, or under-consumption?

69 : Making Work for All

Argument : Orthodox political remedies for the business cycle focus on the consumer's inability to buy - and try to place buying power in his hands. Assume that 100 workers produce 200 widgets - worth \$100. Another 100 workers are unemployed.

Interrogator

1. To help the unemployed, the employed are heavily taxed and the proceeds given to the unemployed. What does this do to solve the problem of unemployment? _____
2. Producers protest the heavy taxes, so extra taxation is ended. Instead, a policy is adopted which prints money and gives it to the unemployed. Now, the unemployed have as much money as the producers. Will they now be able to buy widgets? _____
3. Are there any more widgets than before? _____
4. Is there a lot more money? _____
5. With a lot more money trying to buy the same number of widgets, will widget prices **rise**, or **fall**? _____
6. Does this mean that government action (printing money) is taking more money from people for the same goods? _____
7. Even though wages in dollars are the same, have wages been effectively **reduced**, or **increased**? _____
8. Is printing more money a form of taxation? _____
9. Business people are bringing in more dollars than they did. Does this mean they are making more profit - or does it mean they are making more lower value dollars? _____
10. Workers do not see the problem as a wage cut. They're getting the same dollars as before, but prices are higher. What might they think has happened? _____
11. Are they likely to go on strike for higher wages? _____

Boom and Slump

It happens when everything seems good. Factories are busy buying materials and turning them into goods for eager consumers. Government services, such as education, transit, fire and police, are well-funded - fueled by an advancing economy.

Then the economy sags, factories lay off workers, bankruptcies increase, many people face unemployment, and the infrastructure seems ignored by money-short governments. Nobody wants this, but it happens.

The boom has been ended by the slump.

There are dozens of theories as to why it happens. So many, in fact, that obviously few have a solid and persuasive case.

Some theories are the '*Monetary*' (money and credit become tight, forcing cutbacks and stoppage of production); '*Innovation*' (clusters of inventions such as the railroad overstimulate business, which reacts with a post-stimulus slowdown); '*Psychological*' - (everyone has optimistic, or pessimistic expectations at the same time, thereby stimulating or stopping production).

'*Overproduction Theory*' (producers make so much that they outstrip demand and must stop production) along with '*Underconsumption Theory*' (that people stop buying causing goods to pile up and production to stop) are descriptions of consequences.

We prefer '*Underproduction Theory*'. Producers are unable to produce goods to buy other goods. This leaves unbought goods in the market, which looks like overproduction or underconsumption.

12. Leading to (**M**)ore, or (**F**)ewer widgets? _____
13. Lord Keynes suggested that when no jobs are available, it is better to give the unemployed work first digging holes, then filling them up. Does this show that Keynes had an understanding of the unemployment problem? _____
14. Do modern governments try to 'create work' for the unemployed? _____
15. Do government projects usually produce Wealth, or do they simply provide jobs? _____

Test - 23 : More people are working on government projects. Does this mean the cost of living for the producers will **increase**, or **decrease**?

Test - 26 : When a prospective factory builder wants a site, will the landholder demand his personal value, or will he ask for the market value of the land?

Second Producer

1. I need a place to produce. I can afford 10% of my production for Rent. The landholder demands 12%. Is this his personal value, or is it market value? _____
2. I can pay 12% if I cut other costs. I go to the bank which has advanced my 'Capital' and ask them to take less Interest. They refuse. Is my problem the high Interest demanded by greedy capitalists? _____
3. I ask the union to cut Wages. They refuse. Is my problem the high Wages demanded by dictatorial Labor? _____
4. What is causing my problem, banking insensitivity, or union unfairness? _____
5. Fuel becomes cheaper, so my production cost drops a little. I can now afford the 12% Rent. Can I now produce? _____
6. I'm committed to paying 12% Rent. Should my 'advantage' fail me (fuel costs rise) could I find myself in trouble? _____

Test - 27 : Am I securely in business, or am I pretty insecure?

Third Producer

1. I finance myself. I'm a good producer, so I can pay the 12% Rent. Am I ready to start production? _____
2. Producer #2 paid 12%. Was this present market value, or the landholder's anticipated future value? _____
3. If 12% Rent has actually been paid, does it now become the 'market value' of a similar site? _____
4. The anticipated Rent value of the next landholder had been 12%. Does this become his market value? _____
5. Might his anticipated future value of his site change to (say) 14% Rent? _____
6. Will I probably have trouble meeting the 14% Rent payment? _____

7. I refuse Interest due to me on my Capital investment and won't take my Wages. Might these economies enable me to pay Rent and start production? _____
8. Am I happy to pay the extra Rent out of my own pocket? _____

Test - 28 : Am I securely in business - or am I pretty uncomfortable?

Fourth Producer

1. For me, Rent demanded rises to 16%. There is no way I can pay this much Rent and run a business. Will I begin production? _____

Test - 29 : The government is alarmed by my failure to start a business. It helps me with a protective tariff, and cuts my taxes. Now, I can pay the 16% rent, build a factory and put people to work. Has government action solved the immediate, or the basic, problem?

Fifth Producer

Test - 30 : I'm asked to pay 18% of my production as Rent for a factory location. I can't afford it. It's too much.

I ask government for help. Both Republican President and Democan Congress say times are so hard they have cancelled all tax breaks and tariff protection.

They point out the budget deficit must be cut. Public education must have heavier funding. Social Security and other pensions must be maintained or older people will suffer.

The bank system is near failure because speculative loans are not being repaid. A universal health system requires big money. Yet, taxes cannot be raised without economic collapse.

With no government help, you must cancel plans to build your factory and 5,000 jobs are lost. With 5,000 fewer people able to buy, producer #4 loses sales, can't stay in business, and lays off 3,000 workers.

Producer #3, badly hit by sagging sales, lays off half his labor force. Economic depression is upon us. For 5 bonus points, what principal cause is pushing the the nation into economic depression?

Cycle Six Ketchup

Argument There are no penalties attached to Ketchup questions. Good answers will earn you points, perhaps enough to 'Catch Up' the front runners. Choose any questions you think you can answer.

Ketchup Tests

1. (This can get you a 10 point bonus.) Any 'trigger' might push an unstable economy over the brink into a deep depression, with high unemployment, and ever increasing poverty. What is the basic cause of instability in the economy, and how does it create the conditions that lead to an eventual crash? Explain your answer. _____

2. Famous economist Paul Samuelson suggested that a diligent student could prepare a list of business cycle theories that would 'run into dozens'. Many have been mentioned in Cycle Six. Get four of them for 1 point. For each additional 'theory', you'll get another point.

3. On Page 13 is a history of 100 years of Chicago Land Values. They show how land prices get higher and higher until Labor and Capital can no longer afford to produce. At that point, in the middle of the boom, the economy crashes. Eventually, however, the economy starts a recovery. Explain why production begins again and the economy begins to climb out of the depression for 30 points! _____

4. On Page 14 is the story of some of the richest men in the United States. What event occurred which answers the question 'What Went Wrong?'

It's time to be Jeopardized!

Pages 1-2:

"the Business Cycle" "he gets the highest price" "it shows little understanding of economics"

Pages 3-4:

"real wages" "it rises when wages fall" "the worth of a location" "cash crop"

Pages 5-6:

"poor land usage" "it's harmful to the environment" "urban sprawl" "unaffordable housing"

Pages 7-8:

"dozens" "overproduction theory" "you have nothing to trade" "triggers"

Pages 9-10:

"It happens when the boom ends" "underproduction theory" "fine-tuning"
"they fail even though the economy is booming"

One Hundred Years of Fluctuating Chicago Land Values

1830 - Land value of the entire area NOW covered by Chicago (about 211 square miles) \$168,800.

1832 - Chicago Canal authorized as a war-time transportation link. Those who had followed the history of the Erie Canal - with its tremendous increase in land value - persuaded the federal government to do the same for Chicago, then bought land along its proposed course. The land was advertised, offered for sale, and the boom began. Population of Chicago was 500.

1836 - Soaring land values reached \$10,500,000 and profitable use of the land became impossible. Population was up to 4,000.

THEN CAME THE FIRST MAJOR DEPRESSION

1842 - Land values were down to \$1,400,000. At this price labor and capital could again afford to produce: business improved.

1848 - Chicago Canal opened. The city had no railways but in 6 years became the railroad center of the West. Plank roads replaced muddy streets; thoroughfares were lighted; a widespread sewer system was beginning - and land values soared. Population was up to 80,000.

1856 - The value of land had reached \$126,000,000. Again labor and capital were unable to afford the cost.

THEN CAME THE SECOND MAJOR DEPRESSION

1858 - Many bank and 15 railroad failures occurred. There was great unemployment as land values dropped steeply.

1860 - Illinois bank failures reached 96, but European demand for wheat - sparked by British free trade 'cheap food' policy - reversed the trend. Civil War demand for food multiplied shipments of hogs, corn, wheat. Land prices followed this trio and moved upward.

1871 - Chicago fire and the post-war boom. Many parks and boulevards built by the city. About \$76 million of new building construction over 7 years fired further land value increases as population reached 187,000.

1873 - Chicago land values reached \$575,000,000, which again was too much for Labor and Capital to pay.

THEN CAME THE THIRD MAJOR DEPRESSION

1876 - Land value fell to \$250,000,000 and 21 Chicago banks failed.

1884 - The upward curve began once more as many new manufacturing enterprises and 7 new railroads were built. The first sky scrapers reared upward, a World's Fair was projected, and a wild orgy of land speculation began. Population reached 600,000.

1892 - Land values burst through the one billion dollar barrier.

THEN CAME THE FOURTH MAJOR DEPRESSION

1909 - With great unemployment and many industrial failures the value of Chicago land dropped to half the pre-depression level - though population had doubled. But gradually the upturn became apparent as business and employment improved.

1916 - World War I, followed by the post-war boom. Enormous American and European demand for war material and food was succeeded by equally heavy peace-time needs. The activity was accompanied by much apartment construction and once again land values rose to \$2 billion by 1921. Also, in this year farm values began a decline driving many farmers to the city, this influx raised land value still higher.

1928 - Land value in Chicago reached \$5 billion with many records of 1,000% increases from 1915 to 1928. Modern industrial techniques could raise productivity, but not enough to pay such prices.

THEN CAME THE FIFTH MAJOR DEPRESSION

1932 - Foreclosure suits involved more than \$2 billion of land value. Thirty banks failed, heavy unemployment, poverty and starvation. Conditions remained bad throughout the thirties, in spite of heavy government interference from the *New Deal*. Best year was 1937 - still with heavy unemployment. In 1938, the economy again went downhill until saved in 1939 by trade with the Allies in the Second World War.

Based on "One Hundred Years of Land Values in Chicago" - by Homer Hoyt.

Business Cycle - Who is safe? Who is secure?

“Poverty is the open-mouthed, relentless hell which yawns beneath civilized society . . . the sting of want and the fear of want make men admire above all things the possession of riches, and to become wealthy, is to become respected, and admired, and influential.”

Henry George

In 1923 a group of the world's most successful financiers met at the Edgewater Beach Hotel in Chicago. These were present at the meeting :

- The President of the largest steel company;**
- The President of the largest utility company**
- The President of one of the largest gas companies;**
- The greatest of all the wheat speculators;**
- The President of the New York Stock Exchange;**
- A member of the President's Cabinet;**
- The greatest ‘bear’ on Wall Street;**
- The head of the world's greatest monopoly;**
- The President of the Bank of International Settlements.**

Collectively, these tycoons controlled more wealth than there was in the United States Treasury. For years newspapers and magazines had been printing their success stories and urging the Nation's youth to follow their example. Surely, here was a group of men who had found the secret of full living and personal security.

- *The President of the largest independent steel company (Charles Schwab) died a bankrupt and lived on borrowed money for five years before his death.*
- *The President of the largest utility company (Samuel Insull) died virtually in exile.*
- *The President of the largest gas company (Howard Hopson) had become insane.*
- *The greatest wheat speculator (Arthur Cutten) died abroad - insolvent.*
- *The President of the New York Stock Exchange (Richard Whitney) served a term in Sing-Sing Prison.*
- *The member of the President's Cabinet (Arthur Fall) was pardoned from prison so that he could die at home.*
- *The greatest of the ‘Wall Street Bears’ (Jesse Livermore) died a suicide.*
- *The head of the greatest monopoly (Ivan Krueger) died a suicide.*
- *The President of the Bank of International Settlements (Leon Fraser) died a suicide.*

. **What Went Wrong?**