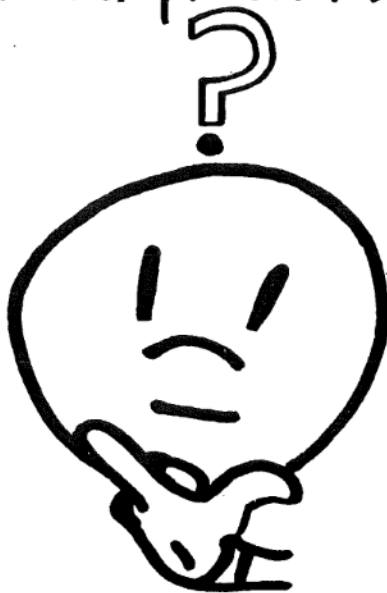


# Economics Made Simple Part 1 'The Problem'

Why in times of greatest need (recession) is it also the time of highest unemployment?

Why does dishonesty and criminal activity increase in proportion to higher tax levels?



Why do higher taxes and/or spending cuts cause more inflation and unemployment?

Why do limits on earnings using taxes and regulations mean a loss of freedom?

## THIS 10 PART SERIES SHOULD HELP YOU ANSWER THESE QUESTIONS

Part 1 - The Problem

Part 2 - Definitions; Production and wages

Part 3 - Population; The Law of Rent

Part 4 - The Laws of Interest and wages

Part 5 - Effects of Progress on Distribution

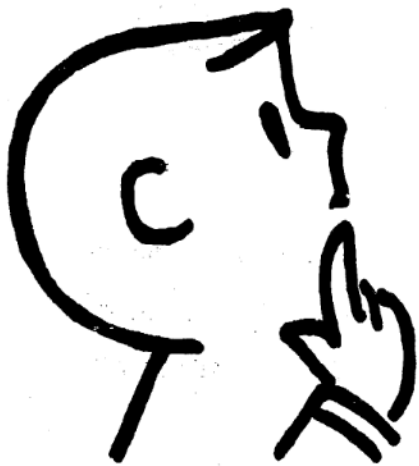
Part 6 - Depressions and Recessions

Part 7 - The Remedy; It's Justice

Part 8 - Application of the Remedy

Part 9 - Effects of the Remedy

Part 10 - The Law of Human Progress



Do you really believe traditional government social programs like unemployment insurance, subsidized housing, food banks, Roe Days, minimum wages, job training, casinos and your favourite... will ever solve chronic social problems like poverty, inflation, slums, unemployment and crime?

## AND THE QUESTIONS CONTINUE...

- Are farm prices low because farmers are producing too much food?

- Are wages low because the world has too many people?

WHO HAS THE ANSWERS?



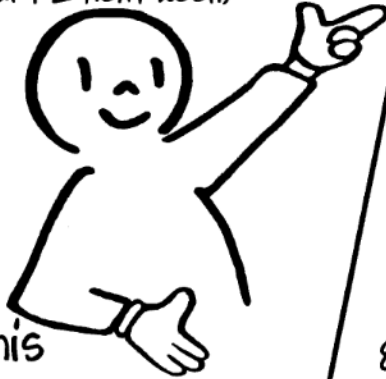
# Part 1 - The Problem

What is Economics? - The study of wealth and the natural laws governing its production and distribution

Would you define these items as WEALTH?

Would a definition help you make a better decision?

(Answers in Part 2 next week)



wealth	Yes or No
1. Virgin forest	<input type="checkbox"/>
2. A house	<input type="checkbox"/>
3. Lot under house	<input type="checkbox"/>
4. Fish in ocean	<input type="checkbox"/>
5. Fish in market	<input type="checkbox"/>
6. Money	<input type="checkbox"/>
7. Slaves	<input type="checkbox"/>
8. A tractor	<input type="checkbox"/>
9. The Prime Minister	<input type="checkbox"/>
10. Clouds	<input type="checkbox"/>

What people in this list are Labour?

- doctor
- slave
- president of G.M.
- farmer
- hockey player

**STILL CONFUSED?** (You are not the only one!)

Over the next 9 weeks this basic economics series will define terms, outline economic laws and deal with current economic/social issues. Later in the series a remedy will be offered to the age old question, 'Why in spite of great economic progress does poverty still persist?'

This was the central theme in the book, Progress and Poverty (1879) written by the American economist Henry George.

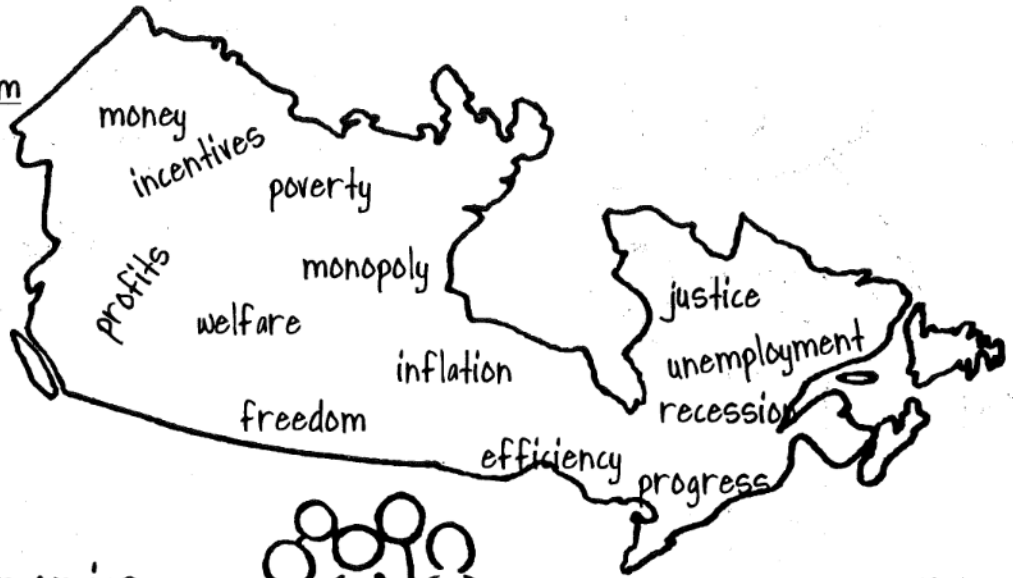
**KEEP ALL PARTS OF THIS SERIES FOR REFERENCE!**

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# Economics Made Simple

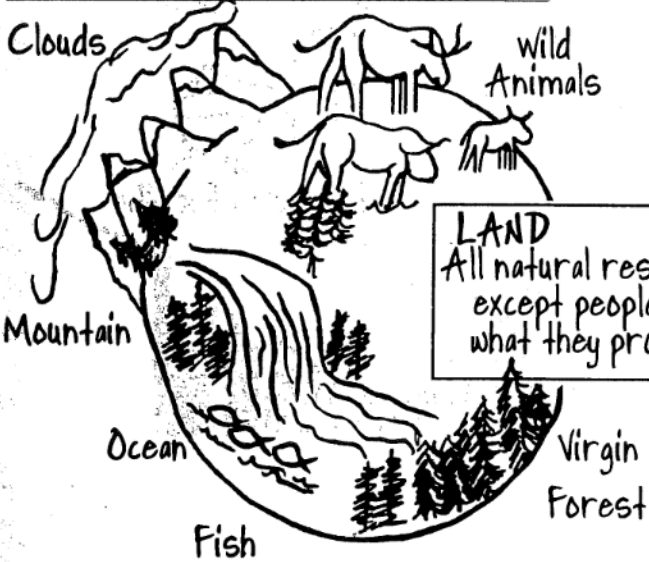
## Part 2 - Definitions: Production and Wages

### About our Economic System



### Basic Factors in Economics

Clouds



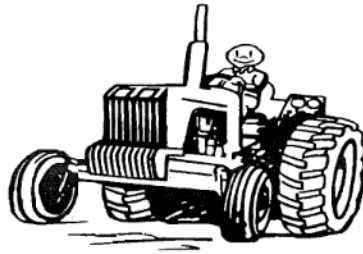
**LAND**  
All natural resources  
except people and  
what they produce



**LABOUR** (mental or physical)  
Any human effort in the  
production of **WEALTH**

**WEALTH**  
All material things produced by  
**LABOUR** from **LAND** for the  
satisfaction of needs and desires  
and having an exchange value.  
(clothes, house, car, food etc.)

**CAPITAL**  
wealth used to make more wealth or wealth in the process of exchange



Using Capital (Technology) increases productivity

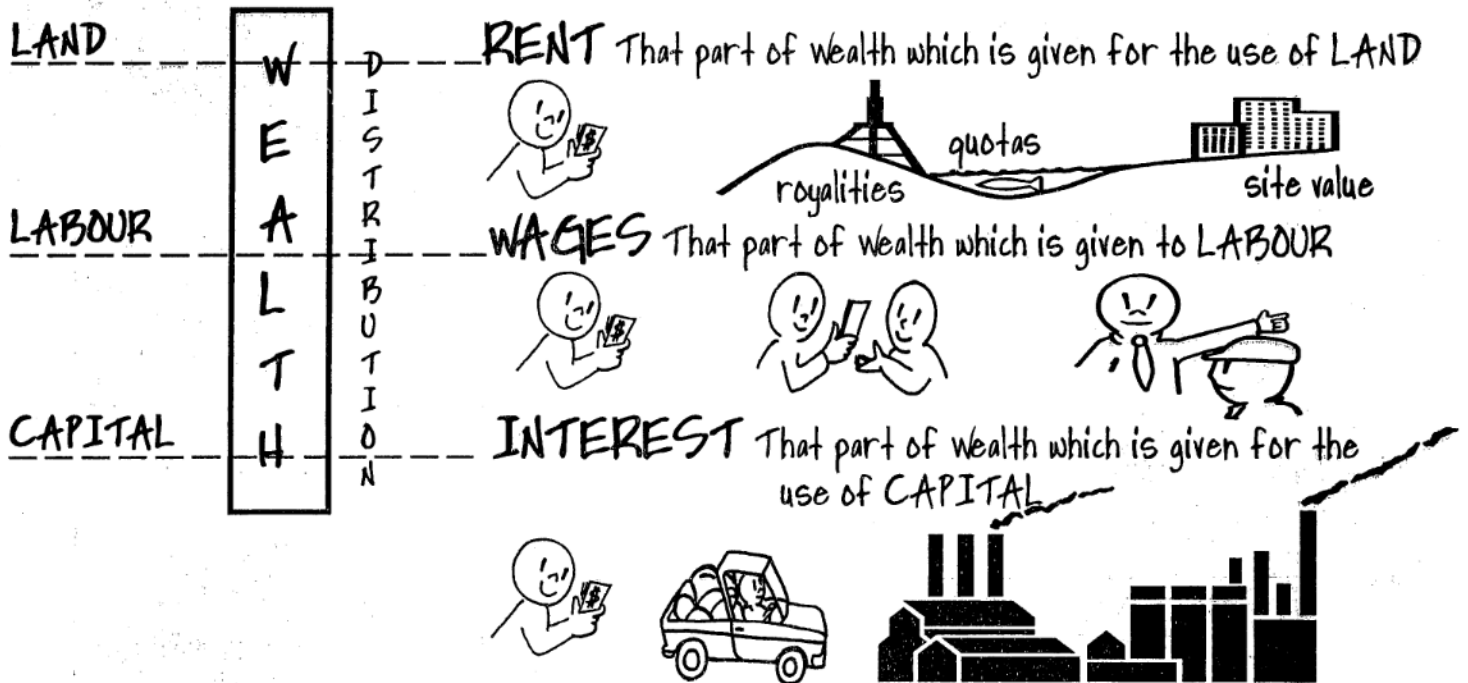
## Part 2 - Definitions: Production and Wages



### Production:

Bringing WEALTH from its place of origin to the ultimate consumer

The Distribution of WEALTH to the factors which produced it



### By Definition

\* LAND is not CAPITAL!

\* LAND is not WEALTH!

\* MONEY is not WEALTH

It simply represents the value of various forms of wealth

\* MONEY makes the exchange of goods & services easier

\* WAGES come from WEALTH which in turn can only come from the efforts of LABOUR

KEEP ALL PARTS OF THIS SERIES FOR FUTURE REFERENCE

NEXT WEEK: Population: The Law of Rent

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# Economics Made Simple

## Part 3 - Population: The Law of Rent

### Top 10 Countries by Area

All have less than 225 people per sq.km and together cover 50 per cent of the world's land area.

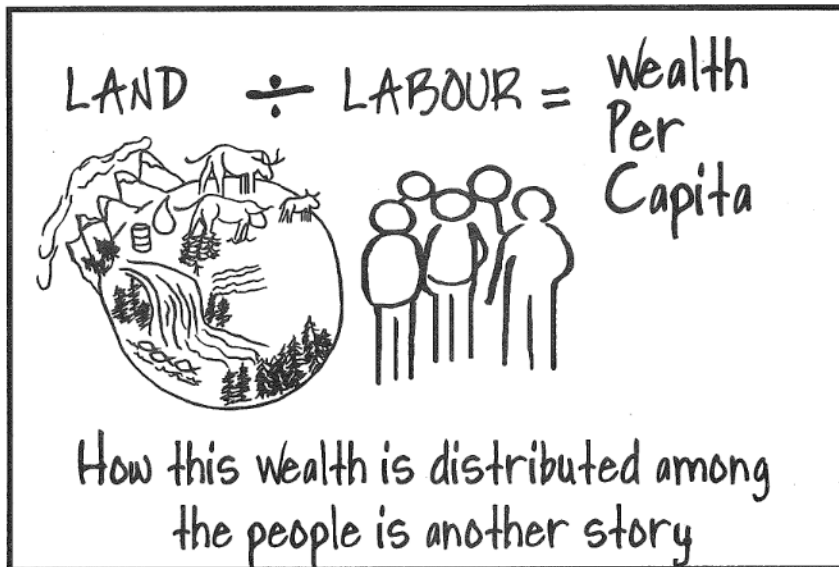
Russia  
Canada  
China  
U.S.A.  
Brazil  
Australia  
India  
Argentina  
Sudan  
Saudi Arabia

### Top 10 Countries by Population Density

All have density of over 350 people per sq. km.

Singapore  
Malta  
Barbados  
Maldives  
Bahrain  
Mauritius  
Taiwan  
Netherlands  
South Korea  
Uganda

### To Calculate Wealth Per Capita



In each of these lists there are countries with developed economies and high standards of living (Canada, U.S.A., Netherlands, South Korea).

In each of these lists there are countries with struggling economies and low standards of living (China, India, Maldives, Uganda).



There are many factors which cause poverty but simply "too many people is NOT one of them".

Still unanswered "Why In Spite of Great Economic Progress Does Poverty Still Persist?"

# Part 3 - Population: The Law of Rent

Settlers arrive in the 'new world' where land is free. Naturally they settle where they can 'satisfy their needs and desires with the least effort' which is on the best land available. The location of the best and poorest land will vary depending on the type of land use (industry farm, residential etc.). In the early days of settlement CAPITAL is scarce and everyone works equally hard. Variations come later.



## The First Settler Arrives!

RENT 0 harbour

Best land per unit of labour ie. yields 8 pumpkins for day's work	Second best land per unit of labour ie. only 7 pumpkins per day of work	Third best land per unit of labour yields only 6 pumpkins	Poorest land per unit of labour yields only 5 pumpkins
8	7	6	5

WAGES 8

## The Frontier (Settlement Margin) Expands!

RENT 1

0

When best land '8' is occupied the next settler must go to margin ('7' land)		wages drop to 7 on '7' and '8' land as owner(s) of '8' land will pay 7 in wages and keep 1 in rent because labour can get no more than 7 by working on free land	
8	7	6	5

WAGES 7

7

## Settlement Continues!

RENT 3

2

1

0

Settlers keep coming of production even when as people are forced to use poorer locations.	always pushing out to free (but poorer) land on the margin all land is occupied. RENTS GO UP AND WAGES GO DOWN		
8	7	6	5

WAGES 5

5

5

5

## LAW OF RENT

Economic RENT is a measure of natural resources or Land value as created by the presence and activity of the community as a whole.

Rent increases as wages fall and is determined by the difference in production between the best and poorest Land in use.

Next week: The Laws of Interest and Wages

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# Economics Made Simple

## Part 4 - The Laws of Interest and Wages



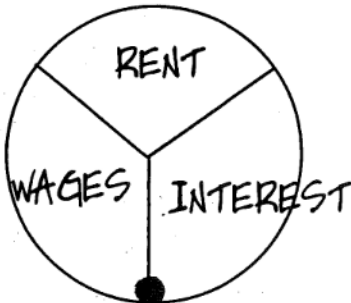
Factors of Production

LAND	LABOUR	CAPITAL
W E A L T H		
RENT	WAGES	INTEREST

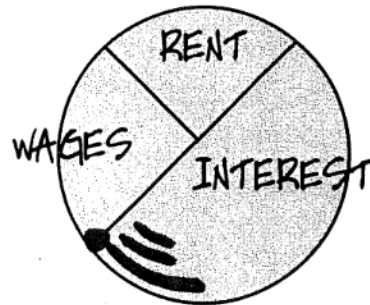


### INTEREST AND WAGES

**A** The Pot of wealth



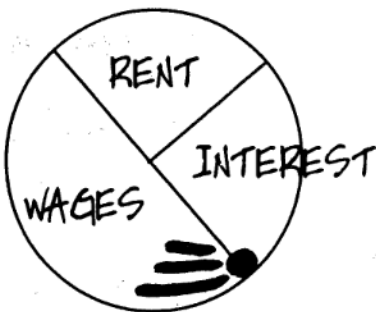
**B** The Pot of wealth



The reward (Interest) for human effort in the form of CAPITAL will balance with the reward (Wages) for human effort in the form of LABOUR. Effort tends to be applied at the point of highest return (WAGES or INTEREST)

Higher Interest means more CAPITAL will be supplied and less demanded. Lower wages means less LABOUR supplied but more demanded. Thus a balance is restored between INTEREST and WAGES

**C** The Pot of wealth



**D** The Pot of wealth



The reverse of diagram B will happen

While WAGES and INTEREST tend to balance, RENT will increase at the expense of both WAGES and INTEREST, because LAND is fixed in quantity. As RENT rises, INTEREST and WAGES will fall or will be determined at the margin of production. (see Law of Rent, Part 3)

# Part 4 - The Laws of Interest and Wages

## REVIEW

A

Land is not a product of Labour  
Therefore it is not Capital



B

Capital is a form of wealth because  
it is a special product of Labour



C

Labour employs Capital  
Capital does not employ Labour



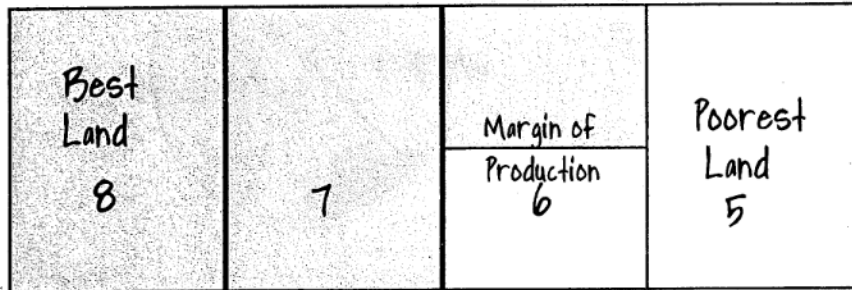
D

Law of Rent

Rent 2

1

0



wages 6

6

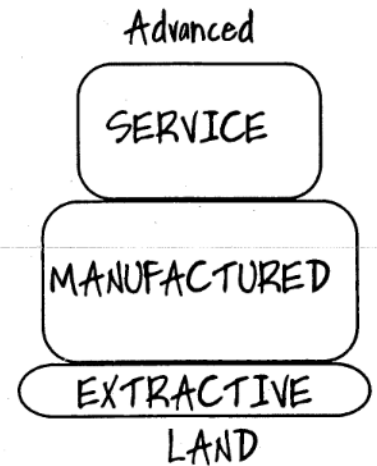
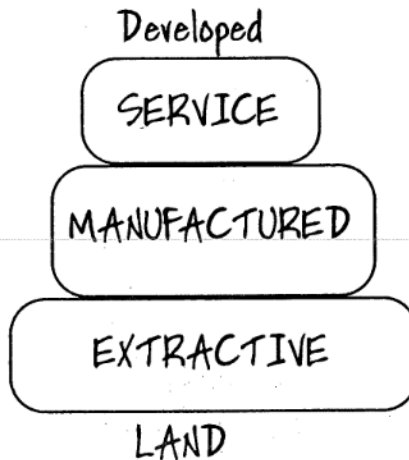
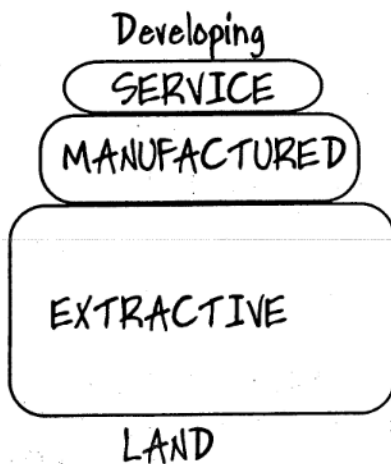
6

Examples of  
Limits or Margins

- The margin is where urban and rural land use meet
- The margin is determined by good or poor conservation practices
- The natural soil/climate limits to cropland

## ECONOMIC STRUCTURES

The world's nations can be divided into 3 types  
Can you name countries that fit each type?



NOTE: All productive activities are based on LAND

Next week: Effect of Progress Upon Distribution

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# Economics Made Simple

## Part 5 - Effect of Progress on Distribution

### Specialization (Division) of Labour

- without Specialization -

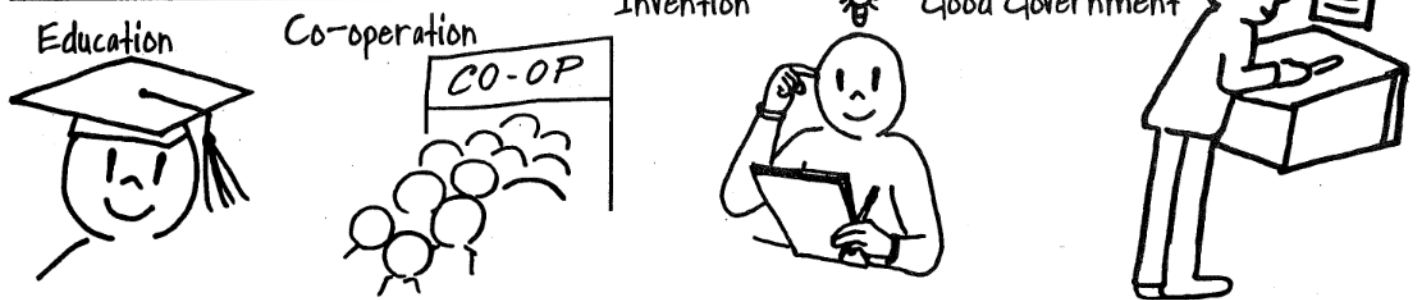
Mechanic		Cook	
fix bike	1 hr.	fix bike	2 hr.
bake cake	2 hr.	bake cake	1 hr.
Total	3 hr.	Total	3 hr.

- with Specialization -

Cook makes 2 cakes/Mechanic fixes 2 bikes  
Then they exchange or trade. Each saves time (1 hr.) or they can increase production by one-third (another cake or bike repair)

Increased population allows easier trade and makes possible more specialization - thus an increase in total production in the community (ie. group work can do what one alone cannot). However this puts pressure on land which increases Rent as the margin is pushed to poorer locations.

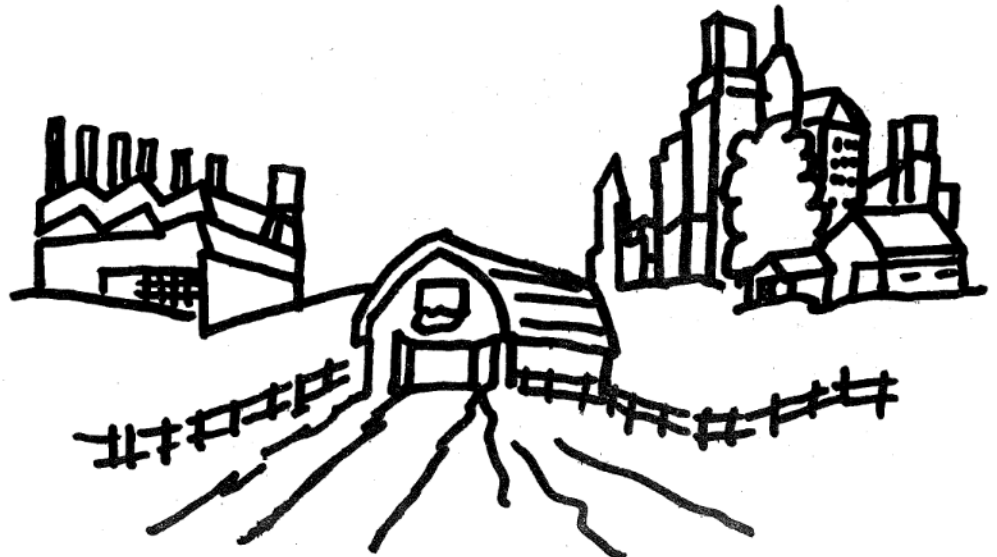
### Advancement in the Arts



Progress in the arts increases the productive powers of the community. However more homes, factories etc. need more land and these pressures push out the margin of production and raise economic rent!

### Settlement Patterns

Best locations are naturally more developed and populated (see Law of Rent, Part 3)



Can you find the margin of production for each economic activity?

As the economy grows, subdivisions and industrial parks sprawl into the countryside covering good farmland (see foreground of above sketch). This sprawl pushes out the margin of production and you guessed it, raises economic rent!



### Part 5 - Effects of Progress on Distribution

**LAW OF RENT:** Rent (wages) is determined at the Margin of Production

RENT	3	2	1	0
UNITS OF PRODUCTION	8	7	6	5
WAGES	5	5	5	5

With progress (including the use of Capital) production on all grades of land increases. (Production, Rent and wages are measured in units)

#### A Progressive Society with Land Speculation

	Rent 20,000	12,000	-	1,500	0
Number of workers on Land in Use	1,000	800		300	100
No workers with Land Speculation	40 land grade	35 land grade	30 land grade	25 land grade	20 land grade
Wages (and Capital) Each	20	20	(20)	20	20
Total Wages (and Capital)	20,000	16,000	-	6,000	2,000
Total Production	40,000	28,000	-	7,500	2,000

LAND GRADE	# OF WORKERS	PRODUCTION	WAGES	RENT
40	1,000	40,000	20,000	20,000
35	800	28,000	16,000	12,000
25	300	7,500	6,000	1,500
20	100	2,000	2,000	0
ALL GRADES	2,200	77,500	44,000	33,500

SUMMARY:

#### B Progressive Society without Land Speculation

	Rent 10,000	0			
Number of workers on Land in Use	2,000	200			
	40 land grade	35 land grade	30 land grade	25 land grade	20 land grade
Wages (and Capital) Each	35	35			
Total Wages (and Capital)	70,000	7,000			
Total Production	80,000	7,000			

SUMMARY

LAND GRADE	# OF WORKERS	PRODUCTION	WAGES	RENT
40	2,000	80,000	70,000	10,000
35	200	7,000	7,000	0
ALL GRADES	2,200	87,000	77,000	10,000

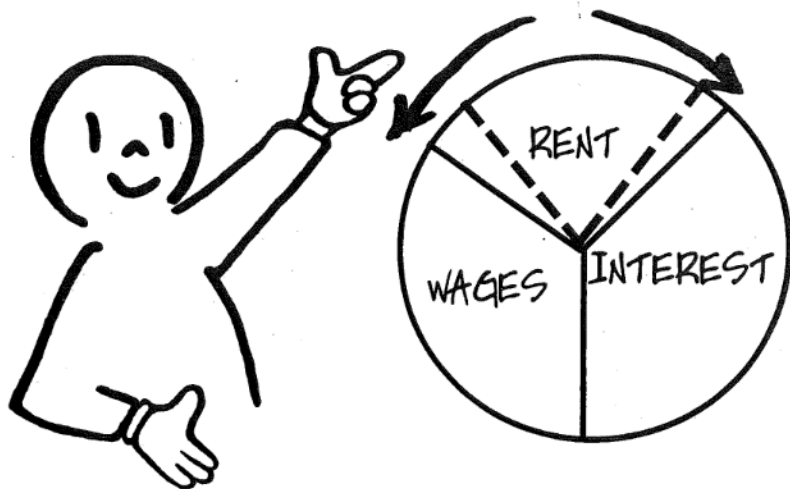
Next week: Depressions and Recession: Proposed Remedies

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# Economics Made Simple

## Part 6 - Depressions and Recessions: Proposed Remedies

Law of Rent, Interest and Wages (see parts 3 and 4)



Whatever 'progress' society makes, it pushes out the margin of production and raises economic rent. As Rent increases, Interest will fall as wages fall or will be determined at the margin of production or on the poorest land being used.

As Economic RENT advances LABOUR and CAPITAL . . .

- Accept a smaller return
- Have less ability to invest
- Have less money to buy
- Money becomes scarce
- Production begins to stop
- Social problems like poverty grow and Recession/Depression begins!

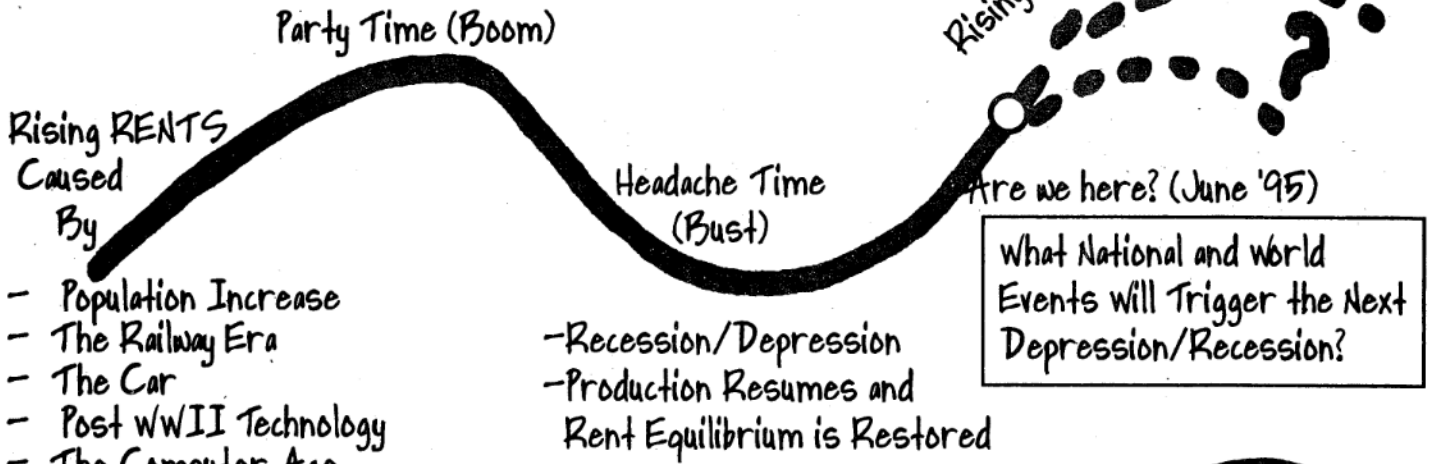


Recession/Depression will Continue Until . . .

1. Speculative advances or momentum in RENTS fizzles due to recession, high interest rates etc.
2. Specialization (efficiency) of labour due to population increase and/or advancement in the arts (see part 5) make possible enough production to 'pay the current rent'.
3. Labour and Capital (perhaps with government involvement) agree to reduce their income.
4. Probably a combination of the above would produce a new equilibrium so production would resume, economic rent would begin to advance again, more speculation and ultimately another recession/depression.

# Part 6 Depressions and Recessions: Proposal Remedies

## The Business Cycle



## 'Current Remedies' Used in 1879

When Henry George wrote 'Progress and Poverty', (page 300)

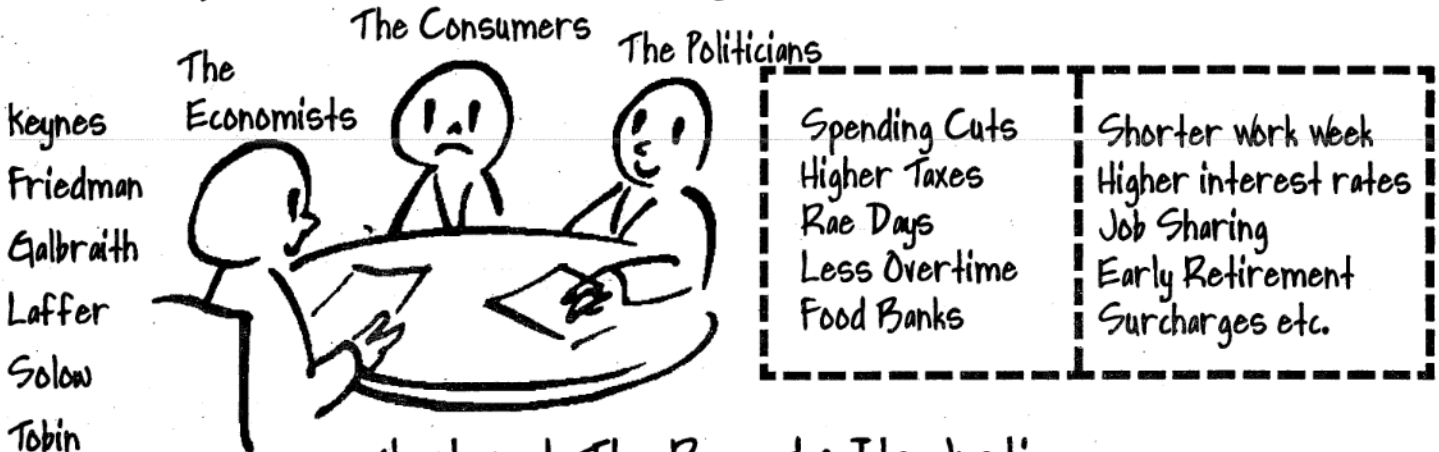
1. Greater economy in government
2. Better education of the working classes and improved habits of industry and thrift
3. Combination of workmen (Unions) for the advance of wages
4. The cooperation of Labour and Capital
5. Government direction and interference
6. A more general distribution of land (Tenants Rights, Restrictions on Size of Holdings etc.)

Of course all of the above raise Rent and reduce wages and Interest!, (see Part 5)



How have the 'Remedies' changed in 116 years?

## Additional Popular Remedies from this Century:



Next week The Remedy: Its Justice

Economics Made Simple  
 Part 7 - The Remedy: Its Justice

- The Problem revisited
- Poverty worsens as total wealth increases
  - wages decline as productive power grows
  - Conflict (wars) continue in the midst of 'peace'

The Remedy: 'Society Collects Economic Rent'



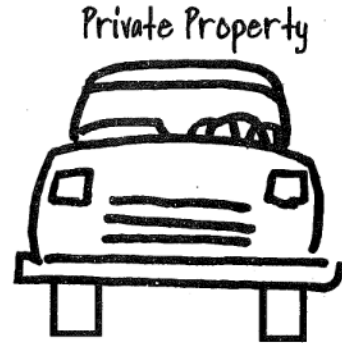
Economic Rent is Common Property

Belongs to all people in that all have an equal right to use and enjoy. Private use permitted (fishing the ocean) but it implies an obligation to the community since others also have rights.



Government Property

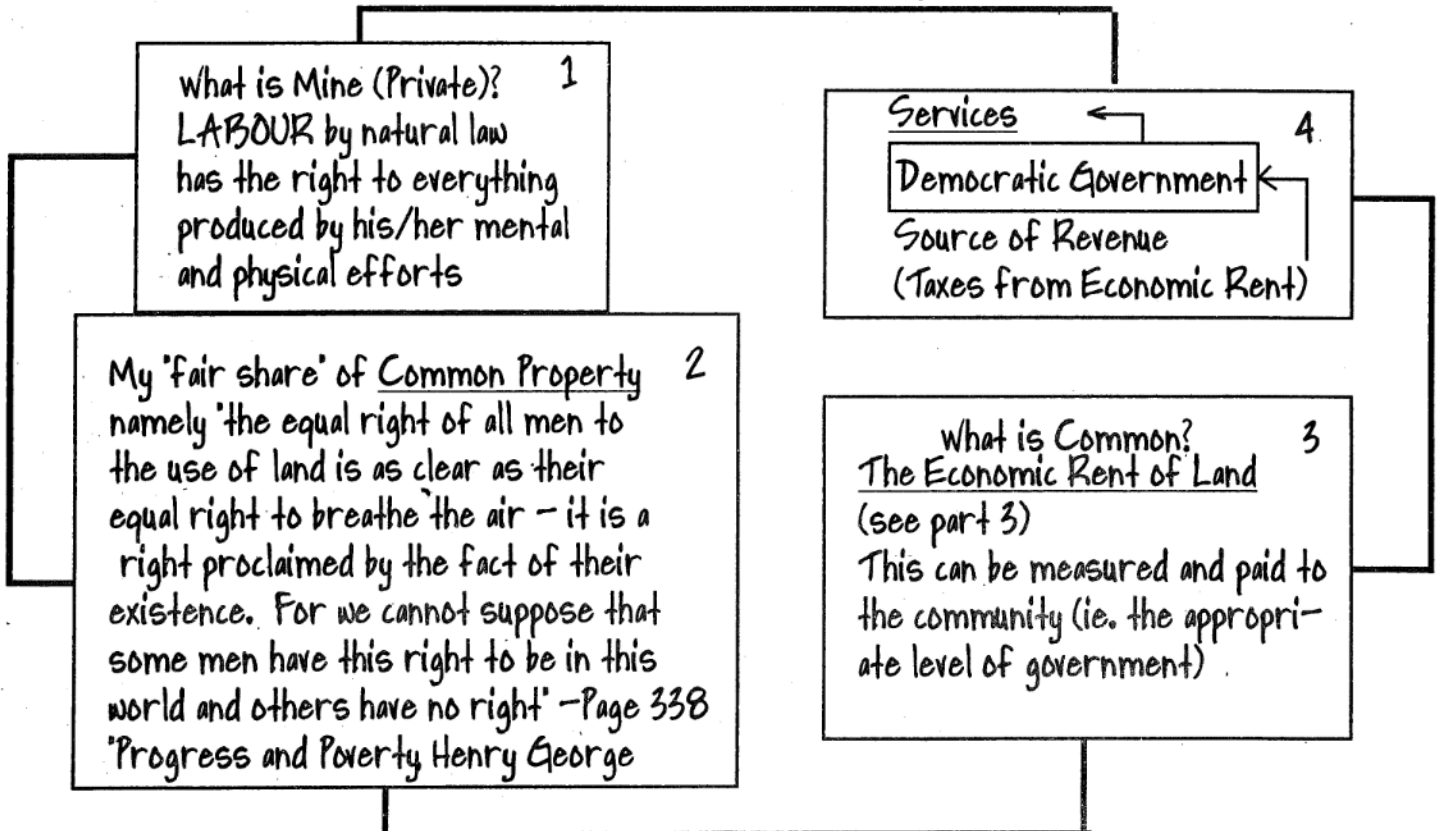
Belongs to the state and subject to government use and management.



Private Property

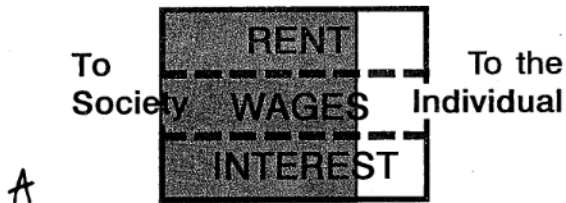
Belongs to individual or group. He/She or They own, profit from it and have exclusive rights.

The Justice: The Circle is Complete

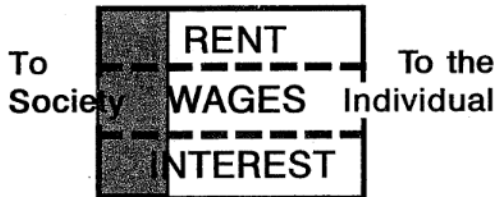


# Part 7 - The Remedy: Its Justice

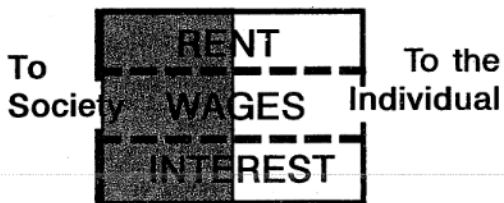
## GEORGISM AND OTHER 'ISMS'



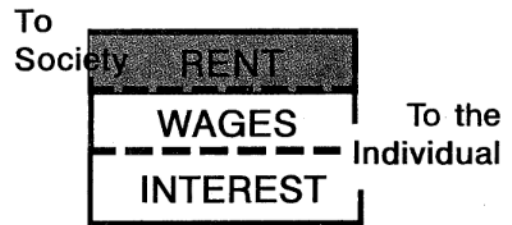
'Left-wing' proposals call for the taking by society of most of the wealth, making no distinction between rent, interest and wages, and leaving to individuals only a small proportion. In most cases this also entails a large measure of control by society over individuals, a 'planned economy' and the curtailment of the freedom of the individual.



'Right-wing' proposals hold that more wealth should remain in private hands (also making no distinction between the three returns), 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.



'Mixed Economy' proposals seek a 'balanced system' in the distribution of wealth and power between individuals and society - but make insufficient distinctions between earned and unearned incomes, and do not carefully define the proper spheres of society and the individuals. The result is usually a hodgepodge.



The Georgist proposal is different from all these ideologies in that it makes a distinction between the unearned income of land (rent) and the earned incomes of labour and capital (wages and interest). Rent to society, wages and interest to the individuals who earned them. The proper spheres of society and the individuals are clarified.

The Georgist proposal achieves the goal of 'leftwingers' 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 the mixed economy proponents but in a just rather than arbitrary way.

**Leviticus XXV:** 'The land shall not be sold forever, for the land is Mine; for ye are strangers and so journers with Me.'

**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)

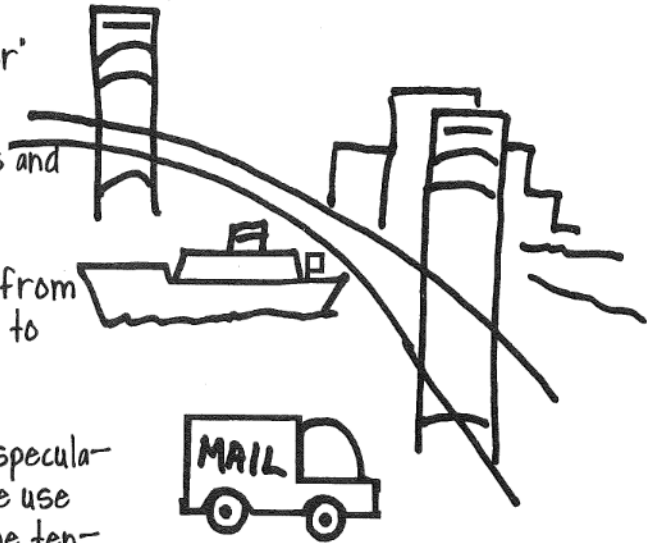
**Thomas Jefferson:** 'The earth belongs in usufruct to the living . . . The earth is given as a common stock for men to labour and live on.' (Letters to James Madison)

# Economics Made Simple

## Part 8 - Application of the Remedy

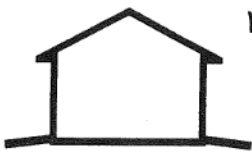
### IMPACT OF COLLECTION OF LAND RENT ON OWNERSHIP AND USE OF LAND

1. Bridges cause Rents to rise because margin of production is pushed out (ie giving access to 'poorer' locations)
2. Ships and Trucks also cause Rents to rise at ports and along routes.
3. Common rights to the Rent of Land are separate from and do not interfere with the individuals private rights to improvements of the produce (wages and Interest)
4. Collecting the Rent of Land by taxation would slow speculation (the anticipation of higher Rents) and land would be use for bridges, ports and roads as they were needed. The tendency for land to be in private lands would be greater.



## The Application of Collecting Economic Rent

### A. Current System in Ontario



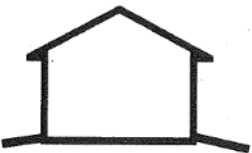
market value assessment of building

market value assessment of of land (site)

$$\begin{matrix} \text{Total} \\ \text{MVA} \end{matrix} \times \begin{matrix} \text{Tax} \\ \text{(Mill)} \\ \text{Rate} \end{matrix} =$$

**Tax Bill**  
(In Urban)  
Ontario  
70% Buildings  
30% Site

### B. The Two Tier Property Tax in Pennsylvania, USA (15 cities)



market value assessment of building

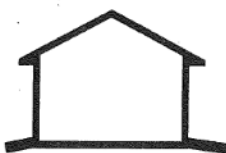
market value assessment of land (site)

$$\times \begin{matrix} \text{Low Tax} \\ \text{Rate} \end{matrix} = \begin{matrix} \text{Building} \\ \text{Tax} \end{matrix}$$

$$\times \begin{matrix} \text{Higher} \\ \text{Tax Rate} \end{matrix} = \begin{matrix} \text{Site} \\ \text{Tax} \end{matrix}$$

**Tax Bill**  
(Pittsburg)  
40% Buildings  
60% Site

### C. The Assessment Exemption System in British Columbia



market value assessment  
of building

market vaule assessment  
of land (site)

Exemptions:  
| All farm buildings; first \$10,000  
| for commercial and industrial  
| buildings; first \$30,000 and  
| \$60,000 for owner occupied, and  
| elderly homes respectively

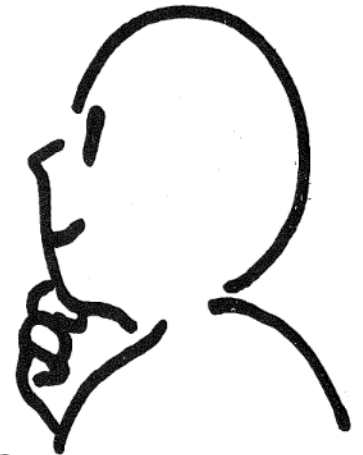
$$\times \begin{matrix} \text{Tax} \\ \text{Rate} \end{matrix} =$$

**Tax Bill**  
Site pays  
more and  
buildings less

# Part 8 - Application of the Remedy

## The Canons of Taxation: Does Taxing Economic Rent Fit?

1. A tax must bear as lightly as possible upon production - to minimize hindrance to the production of wealth from which taxes are paid and society is maintained.
2. A tax must be easily and cheaply collected, and must fall as directly as possible upon the ultimate payers, for efficient use of tax dollars by government.
3. A tax must be certain, to minimize opportunity for corruption on the part of officials and for evasion on the part of taxpayers.
4. A tax must apply equitably, so that nobody will have an advantage or be put at a disadvantage, as compared with others.



### Concerns About Using the RENT OF LAND as a Tax Base

#### A Site Value Tax (RENT TAX) Cannot be Shifted to Consumer

A tax (or any restriction) on house construction will, by increasing the cost of production, cut supply, thus adding to the price. This is passed on to the consumer who eventually stops buying. But a tax on land does not affect either its cost of production (it is not produced) or its supply which is fixed. Thus its price is not increased (rent is determined at the margin) and the tax falls directly on the owner.

#### B Ontario Ministry of Finance Has Separate Land/Building Data (MVA Market Value Assessment)

Municipality	Roll #	Class	Land MVA	Bldg. MVA	TOTAL
Jan. 1995					
Village of Rodney	100100	3 Com	11500	84164	95664
	102400	0 Res	11000	51333	62333
Township of Aldborough	104300	7 Farm	97125	81605	178730
	105202	0 Res	21000	49715	70715

#### C Would Economic Rent Be A Sufficient Source of Revenue?



Nobody knows the total Rent of Land in Canada but the true value of our resources and disguised Rent (left) would probably be sufficient

Next Week: Effects of the Remedy

# Economics Made Simple

## Part 9 - Effects of the Remedy

A The application of the 'Remedy' would be like the removal of an immense weight from a powerful spring.

Taxes on Everything,  
Land Speculation;  
Inflation; Debt;  
Bureaucracy; Crime;  
Unemployment; Poverty

The 'Remedy' would make  
more land available thus  
higher wages, and interest,  
full employment, less  
government, more justice



B

### User Fee and Ability-to-Pay

The taxation of site values (Economic Rent of Land, Ground Rent) is really a 'user fee'. The community by its presence and activity (ie. pipelines, schools) gives value to all sites relative to their location. This gives the owner the ability-to-pay in proportion to these community added values. A site value tax (SVA) as an ability-to-pay tax in that a few citizens own most land values.

Example: 3 percent of the USA population owns 55 percent of all land and 95 percent of private land (from Cities, Francis, K. Peddle, 1994).

C

### Development Charges

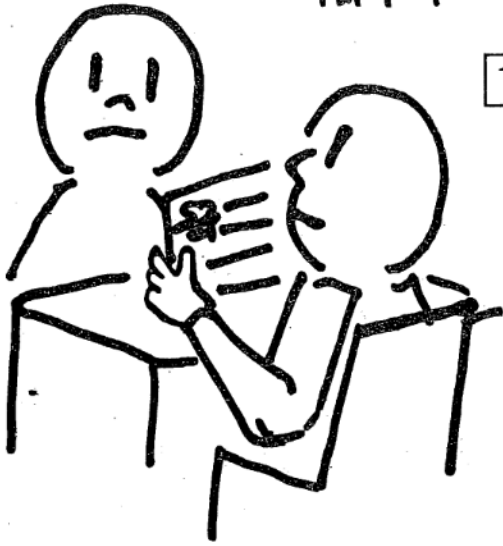
Many municipalities slap a development charge on every new house built which drives up the price. This puts the cost of housing out of reach of many and unemployment for construction workers. It also increases welfare rolls.

### A Land Rent Tax System

Keep site values assessments updated as municipal roads sewers etc. are built and private construction (factories, homes) occurs (as British Columbia). This encourages development by untaxing improvements and making efficient use of sites.

Now we tax the things we want such as goods and service but a land rent tax falls on the things we don't want - such as pollution and land speculation.

## Part 9 - Effects of the Remedy



D

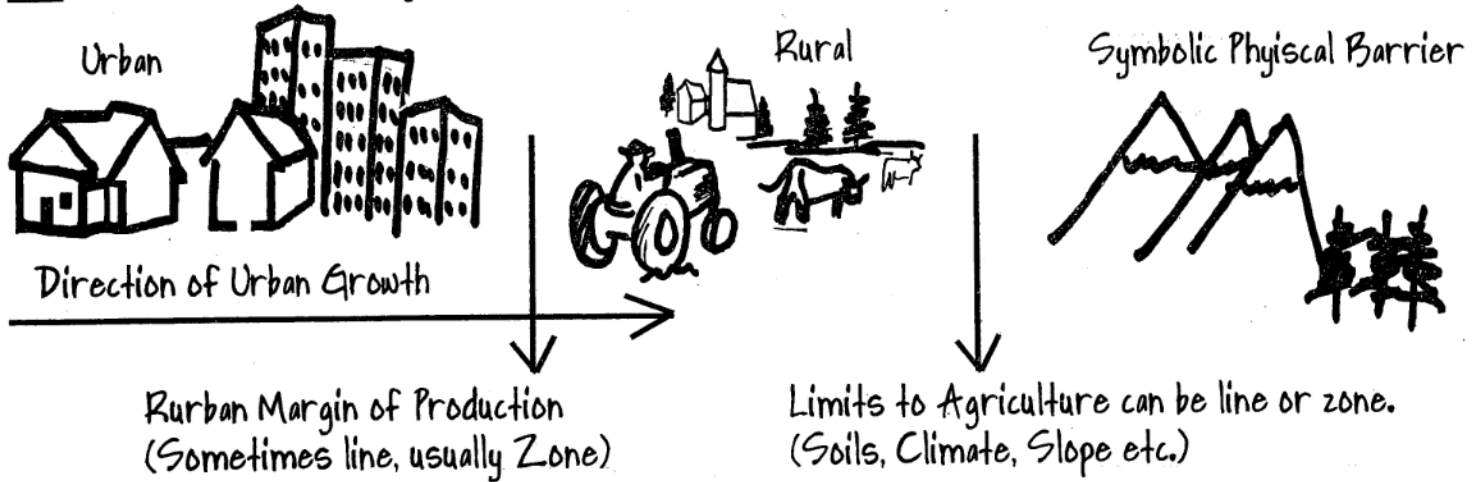
'Sorry, pal, I just bought the Planet. I want you and all your buddies off by next Friday.'

(Change 'planet' to West Bank, Bosnia, Chechnya or another 'territory'.)

- In 83 'poor' countries, 3 percent of land owners control 80 percent of the land (UN Report).

- A better distribution of economic rent would bring equal rights and opportunity to the oppressed.

E How the Rurban Fringe would be Affected



As urban areas sprawl outwards urban economic rent rises. As rural areas contract, rural economic rent rises. In both cases wages to labour and interest to capital declines.

The urban and rural land owners (often absentee) benefit at the expense of labour and capital (See Law of Rent). Note that in USA, 40 percent of all farmland is owned by non farmers (from Cities, Francis K. Peddle, 1994)

Site Value Taxation (SVT) would slow down urban sprawl by encouraging better urban land use and removing urban development pressures from farmers that want to farm.

F

Senator Arthur W. Roebuck (Liberal) from a speech to the senate on the subject of Poverty 1968: 'Lands held at these excessively large prices are grossly under assessed in relation to the asking price. This applies as long as they lie idle, but as soon as they are used and built upon they are overburdened with taxes.'

Uptaxing land values and downtaxing building values would reverse this situation!

NEXT WEEK: The Law of Human Progress

Sponsored by the Two Tier Property Tax Committee, Box 122, Rodney, NOL 2C0

# Economics Made Simple

## Part 10 - The Law of Human Progress

### The Rise and Fall of Civilizations

People with equal economic opportunities and with association in equality (justice, freedom) allow society to advance but in the absence of opportunity and equity social development regresses.

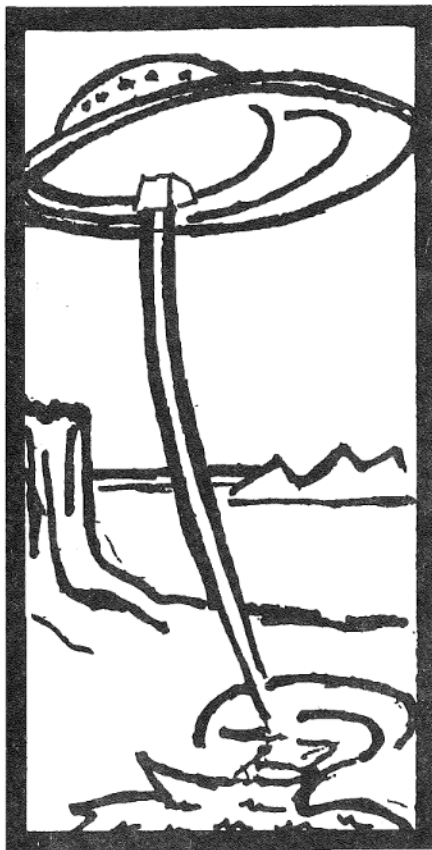
To achieve real 'Progress' the Rent of Land property belongs to the community to defray communal expenses while taxes on Labour and Capital should be abolished.

### Calvin and Hobbes

One day with noisy commotion a space ship from a distant world moved out over the ocean. It lowered a tube and drained the whole sea for transport back home to their galaxy.

The tube then sucked up the clouds and the air, causing no small amount of earthling despair. With nothing to breathe people started to die. 'Help us! Please stop' was the public outcry.

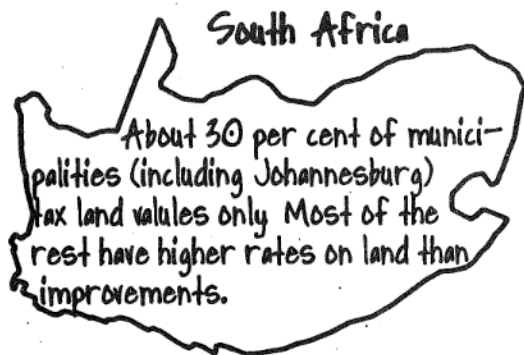
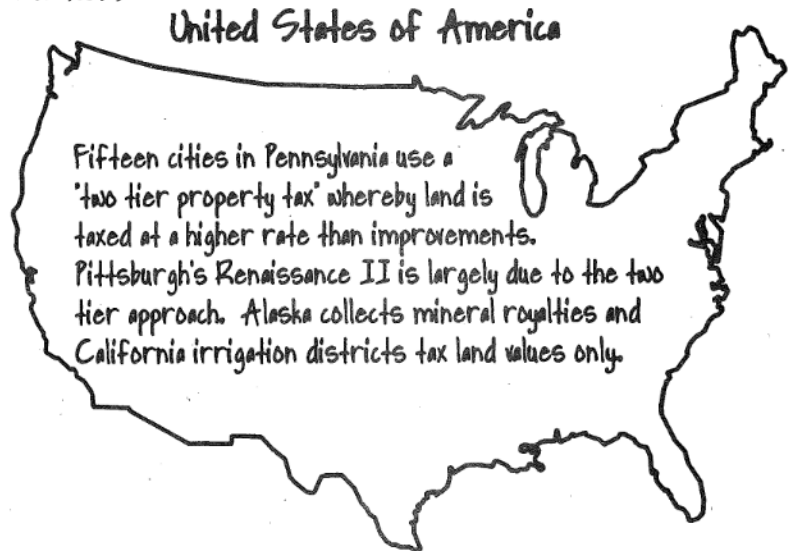
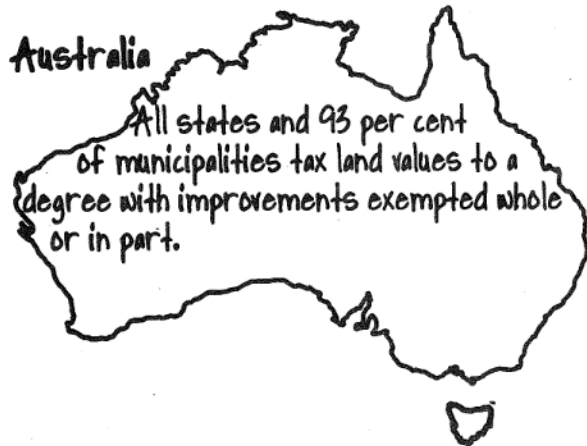
A hatch opened up and the aliens said, 'we're sorry to learn that you soon will be dead, but though you may find this slightly macabre, we prefer your extinction to the loss of our job'.



Change the word aliens to polluters, warriors, criminals, slumlords, land speculators etc.!

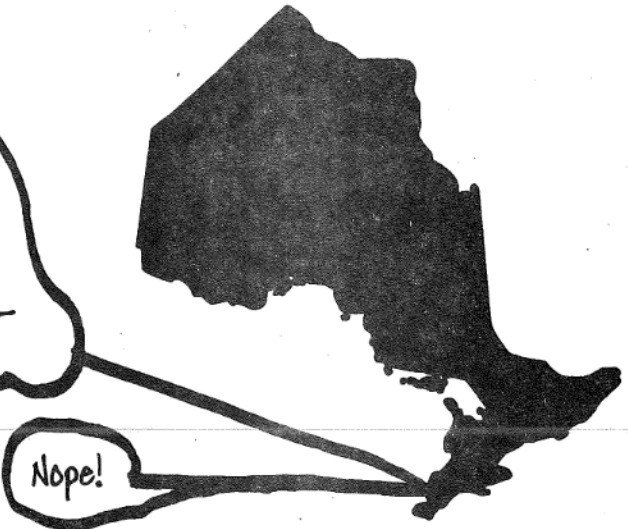
# Part 10 - The Law of Human Progress

Partial Application of the Remedy around the world  
(Improvement Exemption and/or Site Value Taxation)



Other world areas that use some SVT at local and/or national levels; Taiwan; Hong Kong; New Zealand and of course Canada's Western Provinces.

Did you ever wonder how many people in Ontario are kept awake nights worrying about the margin of production and the collection of economic rent to solve social problem like poverty?



'Economics, Made Simple' ends with Part 10. Have your economic questions and concerns been answered?  
What happens next?

The Series was sponsored by the Rodney Two Tier Property Tax Committee and other concerned citizens. Questions and Comments can be directed to Box 122, Rodney, Ontario or Phone (519) 785-0203