

Economic  
— & —  
Political

Literacy

# Newsletter

Vol. III, No. 1

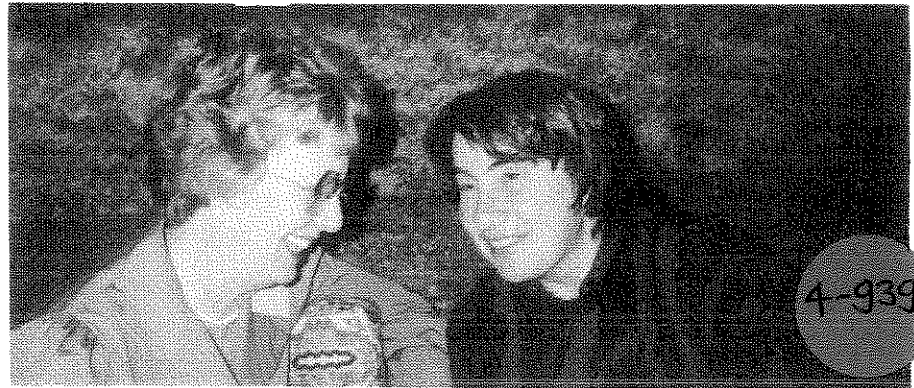
Editor: E. Robert Scrofani, Berkeley High School, Berkeley CA 94704

## Inserts provide classroom material

In this issue there are two inserts, both of which contain materials that can be used in the classroom.

The emphasis is on profiling different economic thinkers and different economic models, but there is also a short essay giving an anthropological view of how pre-market societies (hunting-gathering tribes) become market societies as they settle into an agricultural way of life.

The comparative studies of different economic models are ideally suited for class reading and discussion. By reading about economic models and making up their own, students learn that there are many more economic systems than just communism and capitalism, and they learn how most real systems are not "pure" systems, but rather are "mixed" and borrow elements from other systems.



Dr. Ruth Shen (r), Director of the Economic Center at San Francisco State University, meets with San Roman teacher Pat Boss at a recent SFSU conference on economic literacy. More pictures of the conference on p.2.

## Hundreds of teachers now get newsletter

Over 500 teachers throughout California are receiving materials for use in their economics and government classes, according to Berkeley High School teacher Bob Scrofani.

"So many people attending workshops began to ask for materials that I took author Ron Jones' advice and decided to print my own materials for the classroom."

Most of the requests came after the California State

Department of Education made economic education a graduation requirement in California.

Scrofani intends to make this newsletter a source of information workshops, as well as a source of provocative materials for on economic education and classroom use.

Scrofani says he is planning a number of articles for future issues. "I'm planning an article called 'How to teach feudalism in a day.'"

He's also planning an article on whether making a profit is a virtue and an article profiling Adam Smith through his quotations.

The newsletter is funded with a grant from the Henry George School of Social Science.

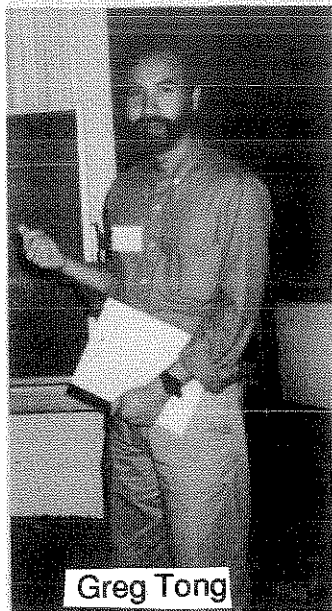
Scrofani, a member of the National Council of Social Science Teachers, is a director of the school.

## Workshops

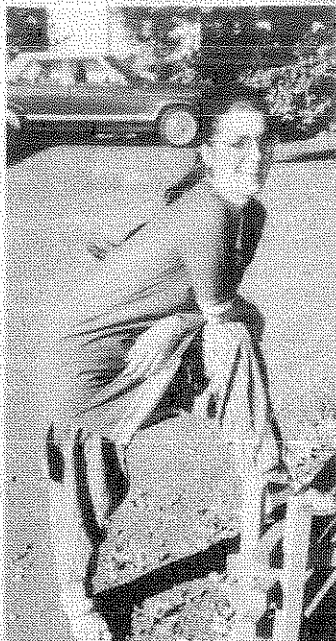
Part of the mission of this newsletter is to keep you informed of upcoming workshops and symposia. There are two we'd like to tell you about:

**Thursday, February 12:** "Economics in the Constitution." Speakers will be professor Charles McClain of Bolt Law School and professor Susan Foote of the Berkeley School of Business Administration. Master teacher workshops will be run by Susan Olds of the Davis Unified School District. The workshop will be in the Tan Oak Room of the Student Union Building on the UC Berkeley campus. Contact Doris Ward (415) 363-5459 for more information.

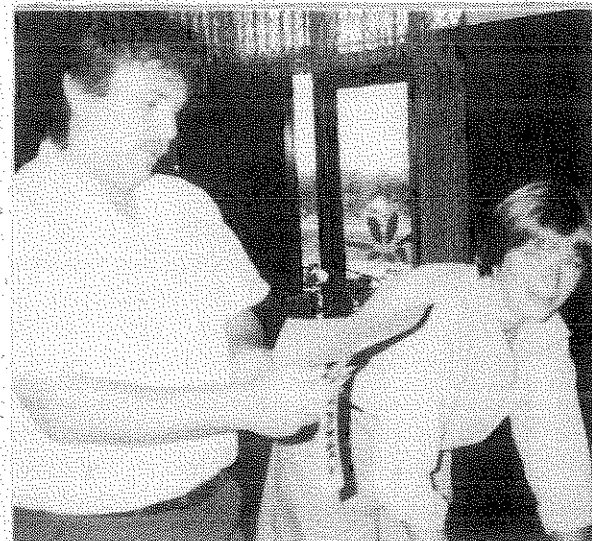
**Thursday, March 5:** "Learn to Speak Economics" and "Economics in the Constitution." The two workshops will be sponsored by California Council on Social Studies. For more information, write to Bob Scrofani, c/o Berkeley High School, Berkeley CA 94704.



Greg Tong



Dr. Marion Ross



An economic training institute brought together 50 teachers in St. Helena October 31 to November 2. Coordinating the event were Ruth Shen, Director of

# How various economic systems propose to distribute wealth

## Analysis of the classical economic model

<u>Proposals regarding:</u>		<u>Communism</u> <u>(Socialism)*</u>	<u>Georgism</u>
LAND	<u>Capitalism</u> Private ownership.	Government owned. Land use is controlled by the government.	Private ownership of land; land use is controlled by the owner.
RENT	Collected in part by government for some social services.	Rent is collected by the government as part of an overall plan.	Rent is collected by the government as the sole or major public revenue for social services.
CAPITAL	Private ownership.	Government ownership.	Private ownership.
INTEREST	Retained by private owners of capital.	Collected by government.	Retained by private owners of capital.
LABOR	Restricted access to natural resources due to private ownership and control of land. Freedom to choose direction of effort.	Directed by the government in accordance with Marx's dictum, "From each according to his abilities..." Jobs are guaranteed for all, but mobility is restricted.	Free access to natural resources and freedom to choose direction of effort.
WAGES	Set in proportion to contribution to production. strikes, collective bargaining, etc., are used by labor unions to adjust wages.	Wages are given "...to each according to his wants." The government sets wages and allocates resources.	Wages are distributed in proportion of contribution to production.
GENERAL	Private enterprise and competition in the open market is limited by monopolies, multinational corporations and control of land (natural resources) by a small percentage of citizens.	Many human services (housing, medicine, education) are provided free or at low cost.	Private enterprise and competition in the open market. Recognition of the rights of the individual.

\*Both Communism and Socialism stem from the ideas of Karl Marx. Socialism in Western Europe particularly permits elections and many other freedoms, including free elections --sometimes called Democratic Socialism.

Note: readers are encouraged to send their own version of this chart to the address below.

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E. Robert Scrofani, Editor.

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# FIVE ECONOMIC MODELS

**MARXISM** - The theory of "scientific socialism." Karl Marx saw change in society as struggle and conflict controlled not by ideas, but economic forces. Marx thought that economic forces decided how society was organized; when economic forces change, the organization of society must change too.

Marx developed an interpretation of history whereby changing economic forces would force every society to follow the same path of development: first, one landed class with riches and power would rule, until industrialization brought the rise of the capitalist merchants (bourgeoisie). The capitalists would hold power until the workers (proletariat), downtrodden and oppressed, would rise up against them and set up a socialist government. As controllers of government and the means of production, the workers would create an equitable society and class war would end. Once there is true communism (complete economic justice), even the government disappears.

**CAPITALISM (LAISSEZ FAIRE)** - In a pure capitalist system there is no regulation of the production or consumption of goods. Laissez faire capitalists believe that the interplay between the supply, demand and price of goods will cause an economy to regulate itself. This is what Adam Smith called "the unseen hand" of competition.

Furthermore, laissez faire capitalists believe that free competition between individuals will always benefit society, even though the individuals involved act only for personal gain. For example, if many people need some object, the price of that object will go up and someone will make those objects, thereby fulfilling society's need while making a profit.

In this system, the government taxes only the minimum necessary to keep working.

**CAPITALISM (MIXED ECONOMY)** - Individuals retain private ownership of capital and production, but the government redistributes income to some extent by taxing individuals and corporations to provide social services like food stamps, medical aid, and income for retired people. Workers rights are protected through collective bargaining by unions, which are protected by the government.

In this system the government uses its powers to prevent the formation of monopolies and trusts which are believed to be inimical to the public interest. The government holds public interest on all water bodies and on all natural resources found in or on public lands.

**SOCIALISM** - is a theory of social organization based on government ownership of the essential means of production and non-violent social change through democracy. A socialist economy favors a much greater extension of government activity than does the mixed economy.

The role of private property in the economy is lessened. Unearned profits from increases in land values are limited. There is a coordinated planning of the economy and production "for use" is favored over production "for profit." Social service and craftsmanship are encouraged.

There is much more redistribution of income than in the mixed economy, and all are guaranteed a minimum standard of living.

**GEORGISM** - is an economic model which approves ownership of private property but dictates that rent on land should be taxed for the benefit of society at large. George did not believe in class war, and thought that this tax system was the best way to correct the maldistribution of wealth.

Henry George favored individual competition as long as monopolies and trusts were controlled. He believed that poverty was caused by monopolies and land speculation, not by any lack of productive power in people or nature. George believed that a land tax would open up natural opportunities for progress without poverty.



# The Earliest Economies

## An anthropological view

It would seem that humans have always been territorial beings, staking out a certain space with a known and fairly assured food supply. Among prehistoric hunting and gathering people, small groups --probably never more than 15 to 50 --would move from one area to another, exploiting the available wild food sources. Their possessions were few, due to the nomadic nature of their existence, and they usually shared their daily catches by a system of established rules, as the !Kung Bushmen or Mbuti Pygmies do today.

Territoriality was defined in terms of a group's *user rights* to the fruits of nature, rather than ownership of the soil. The basic social dynamic was one of sharing and cooperation. In this way one did not have to depend on luck to determine whether one would eat that day. All were assured a rough equality of food distribution.

These hunting-gathering societies are usually characterized as "traditional", but this term covers a wide range of economic arrangements. The cultural arrangements of ownership and sharing among prehistoric hunter-gatherers were quite different from those in later agricultural societies.

Somewhere around 10,000 to 20,000 years ago, the domestication of plants and animals set in motion revolutionary changes in economic relationships. Although agriculture was not necessarily a "better" way of life, it did produce the changes which mark the beginning of more complex societies like our own. People who grew food tended to stay in one place instead of traveling from place to place in search of food. In fact, one had to remain in the same area to care for and protect the crops. The fruits of nature were replaced by the fruits of

labor, and nature became a force to be subdued, and controlled if possible.

In addition, the relative stability of living in one place permitted a greater accumulation of material goods than was possible for hunter-gatherers, who had to carry all their possessions with them as they moved. And an agriculturalist who invests time and resources in planting and tending must also be assured access to the same piece of land. For without it, there can be no "fruits of labor." With the accumulation of material goods and the need for access to land, property rights and inheritance became more important.

Although there is archeological evidence that the very earliest agricultural villages shared more or less equally, possession of individual or family wealth became more institutionalized as surpluses allowed people to acquire more and more items. Larger settlements also made possible greater economic specialization, which led to trading and a simple form of market economics.

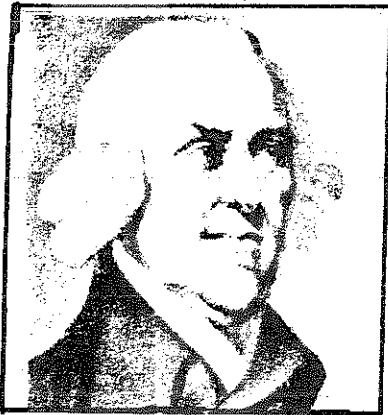
As societies grew more complex--more organizers and leaders, more specialized kinds of workers--landholding became a form of social prestige and importance, as well as having an economic function. Political considerations were also important - wealth was generally a reward for political, military or religious power. Therefore, large land ownership began to accrue to powerful individuals who demanded a tribute from those who would use its resources. As Robert Heilbroner notes, "in premarket societies wealth tended to follow power; not until the market society did power follow wealth."

-Robert C. Vaughan

# PIONEERS IN ECC

## ADAM SMITH

(1723-1790)



Champion of Private Enterprise

Adam Smith published *The Wealth of Nations* in 1776, the same year that the American colonists put forth their Declaration of Independence. Smith was one of the first thinkers to urge the government not to interfere with business-- to create a laissez-faire economy. He also was an early advocate of free trade between nations.

Many other ideas described in *The Wealth of Nations* still are valid today. Smith realized the advantages of division of labor in manufacturing operations. More goods could be produced at lower unit cost, and the resulting lower prices would enable more people to buy more goods. Modern mass-production methods depend on these ideas.

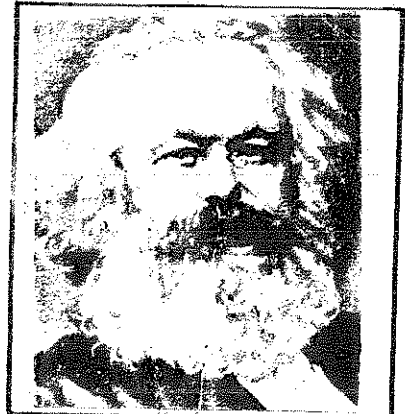
Smith considered the real wealth of a country to be its natural resources and labor. This was a new idea--that labor was "the ultimate and real standard by which the value of all commodities can, at all times and places, be estimated and compared." Smith thus differed radically with those who believed that the wealth of a nation depended on a surplus of exports.

Smith also opposed monopoly, particularly of natural resources (land) and regarded as "the most absurd of all suppositions. . . that successive generations have not an equal right to the earth, and to all that it possesses." Of the landowning class he said, they "love to reap where they have never sowed."

In urging a laissez-faire economy, Smith put forth his theory that competition acts as an "invisible hand" that regulates price and production. The person with some economic independence, while intent on personal gain, also promotes the good of the whole nation, he thought. Smith's view that individual ambition and effort served (perhaps unintentionally) as the mainspring of social good has made him popular with supporters of private enterprise.

## KARL MARX

(1818-1883)



Foremost Foe of Capitalism

The socialist theories that Karl Marx penned in the British Museum sparked social and political revolutions all over the world.

Marx believed that social and political institutions are shaped solely by economic forces and that human behavior is shaped by material interests. Marx traced history from slavery through feudalism to capitalism, pointing out that at each stage of development there had been "class struggle" between the ruling and the ruled classes. As the oppressed workers ("proletariat") became more numerous, more miserable, and better organized, he expected them to rise and overthrow their rulers and employers. Government, as such, would disappear, and the "classless society" would finally emerge.

For the "capitalist" law of supply and demand, Marx substituted the "labor theory of value:" goods are worth only as much as the amount of labor needed to produce them. Marx pointed out, however, that nineteenth-century laborers were being paid subsistence wages. Marx termed the difference between the selling price and the workers' earnings "surplus value." By pocketing this surplus value, capitalists "live off the seat of the workers." By reinvesting these surpluses (or profits), capitalists become increasingly wealthy and powerful, and force less successful employers out of business. As time went on, Marx believed, more and more wealth would be in the hands of fewer and fewer people. Marx believed that eventually the proletariat would unite to overthrow this oppressive system. Marx's best-known writings are *The Communist Manifesto* (written with Friedrich Engels) and *Das Kapital* ("Capital"), the basic text of Marxism.

# ECONOMIC THOUGHT

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## HENRY GEORGE

(1839-1897)



Progressive Against Poverty

As a child, Henry George wondered why some people lived in poverty and others in luxury. Economic inequality in the United States and in other countries he visited had a great effect on George's later thinking. After prospecting unsuccessfully for gold in California, George went to work for a newspaper there. Writing for the press, he described the glaring inequalities he saw. George had a burning desire to improve conditions for the poor, and his vivid style of writing attracted many readers.

While George was in California, land values were rising rapidly, and those who had been able to buy land years before were making huge profits. George had two basic ideas about land. The first was that natural resources belong to all the people in a country, just as do air and sunlight. The second was a strong belief in the individual's right to own property.

Those fortunate enough to own land have an obligation to pay a tax to the general community. George further believed that since land is the basis of wealth, a tax on land should be the only tax.

Georges' vision of assuring both freedom and fairness in access to natural resources is appealing today. He would allow private enterprise to mine minerals (oil, etc.), but would tax away that part of the profit resulting from their exclusive access to gifts of nature. George believed the world was a trust to be preserved, not a conquest to be looted by those "who are but tenants for a day."

Eventually George outlined his general philosophy in *Progress and Poverty*, published in 1879.

## JOHN MAYNARD KEYNES

(1883-1946)



Maker of Modern Policy

During the 1930's, the British economist John Maynard Keynes shook traditional economics to its foundations.

European nations suffered a prolonged depression during the 1920's, as did the United States in the 1930's. Although millions were unemployed, classical economists held that the severe depression was only a temporary maladjustment. They believed that full employment and full use of resources was the normal state of the economy. To bring the economic situation back to normal, they proposed cutting prices and lowering wages. Employers would then hire more workers and buy raw materials, and labor soon would have wages to spend.

However, Keynes became convinced that there was no certainty that prosperity would return, and that an economy might be at "equilibrium" at less than full employment. He also believed that total spending must equal total income in an economy.

Consequently, if spending and investment decreased, business income would also decrease. The inevitable result would be less than full employment of people and resources. Keynes' solution was to increase government spending until conditions improved and private investment was high again.

Keynes' ideas shocked not only traditional economists but also business and government leaders. He advocated massive government intervention in economic affairs and deficit spending during depressions.

To those who were concerned with the long-run consequences of such policies, Keynes' response was, "in the long run, we are all dead."

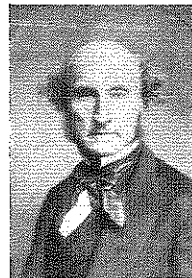
Keynes published his ideas in 1936, in his *General Theory of Employment, Interest and Money*.

# Many great lawgivers and economists have said landed property is different



Culver

**MOSES (1400 BC):** The land shall not be sold forever; for the land is Mine; for ye are strangers and sojourners with Me. *Leviticus XXV.*



**JOHN STUART MILL (1806-1873):** Landlords grow richer in their sleep without working, risking, or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title.



Culver

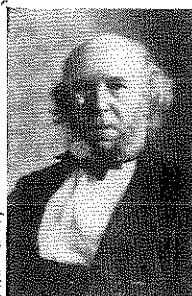
**BARUCH SPINOZA (1632-1677):** The whole soil should be public property.



**ABRAHAM LINCOLN (1809-1865):** 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, and never more than they have in actual use in the prudent management of their legitimate business, and this much should not be permitted when it creates an exclusive monopoly. All that is not so used should be held for the free use of every family to make homesteads, and to hold them as long as they are so occupied.



**WILLIAM BLACKSTONE (1723-1780):** The earth, therefore, and all things therein, are the general property of all mankind, from the immediate gift of the Creator.



Elliot & Fry

**HERBERT SPENCER (1820-1903):** Equity does not permit property in land. . . . The world is God's bequest to mankind. All men are joint heirs to it.



**ADAM SMITH (1723-1790):** Ground rents are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Ground rents are, therefore, perhaps a species of revenue which can best bear to have a peculiar tax imposed upon them.



Culver

**LEO TOLSTOI (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.

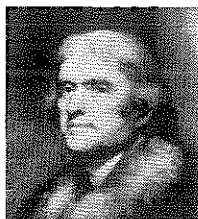


**TOM PAINE (1737-1809):** Men did not make the earth. . . . It is the value of the improvement only, and not the earth itself, that is individual property. . . . Every proprietor owes to the community a ground rent for the land which he holds.



Keystone

**HENRY GEORGE (1839-1897):** Our primary social adjustment is a denial of justice. In allowing one man to own the land on which and from which other men must live, we have made them his bondsmen in a degree which increases as material progress goes on. It is this that turns the blessings of material progress into a curse.



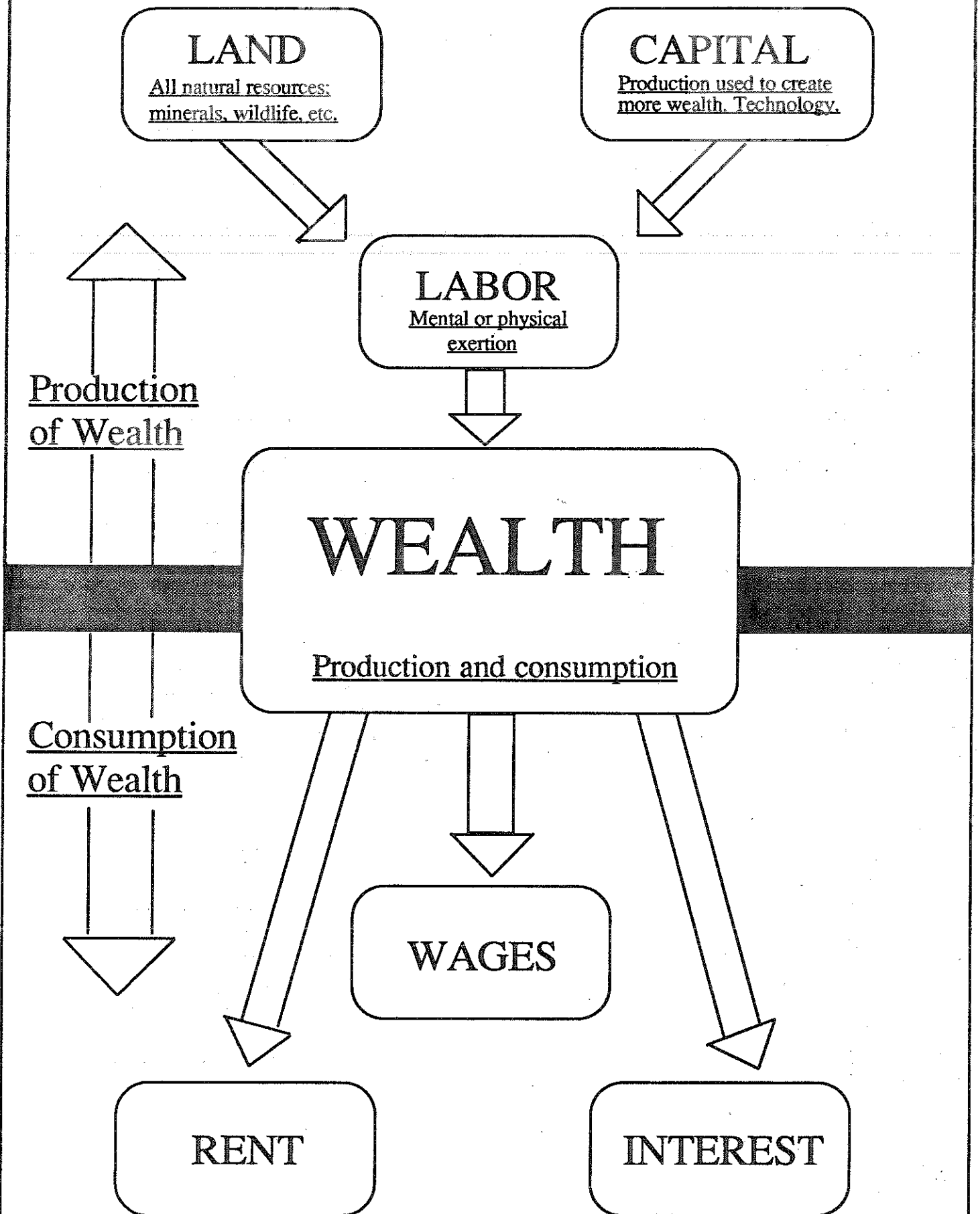
**THOMAS JEFFERSON (1743-1826):** The earth is given as a common stock for men to labor and



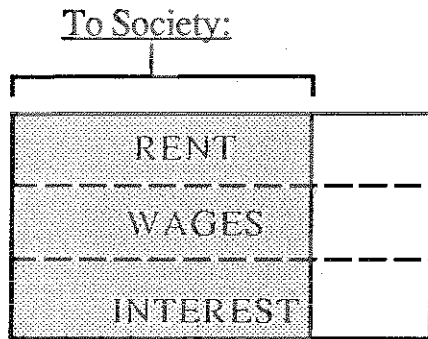
**DR SUN YAT-SEN (1866-1925):** The (land tax) as the only means of supporting the government is an infinitely just, reasonable, and equitably distributed tax, and on it we will found our new system. The centuries of heavy and irregular taxation for the benefit of the Manchus have shown China the injustice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



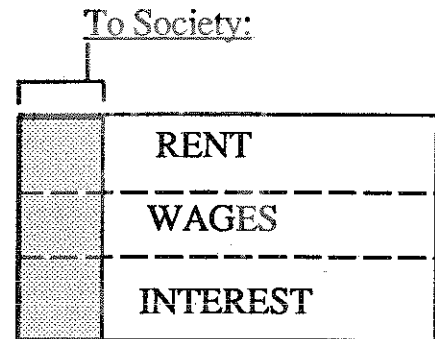
# THE CLASSICAL ECONOMIC MODEL



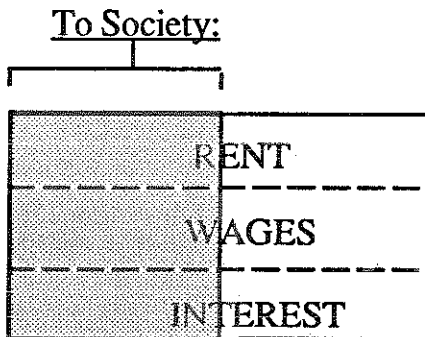
## How various economic systems propose to distribute wealth



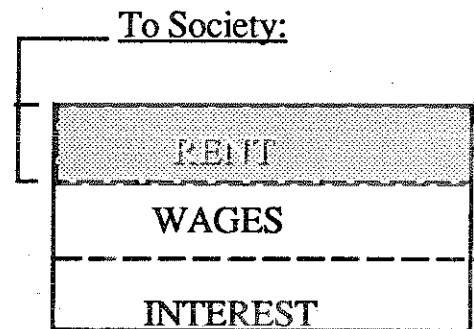
Socialist proposals call on society to take most of the wealth. This implies a "planned economy" and restriction on private property.



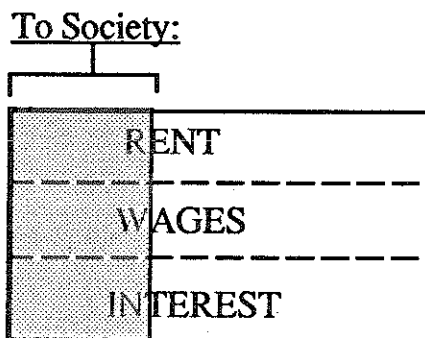
Capitalist proposals suggest that most wealth remain in private hands, and that society, or government get only the minimum it needs for necessary services. This implies leaving the running of the economy to private interests.



The "middle-of-the-road" proposals seek a "balanced system" the distribution of wealth and power between individuals and society. The nations of the European Economic Community, for instance, collect and spend about 50 percent of the their GNPs.

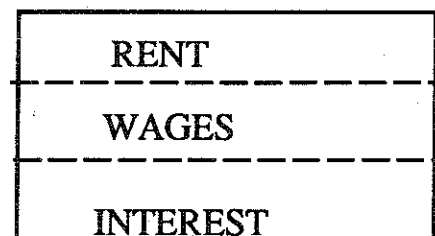


The Georgist proposal, while much like capitalism, makes a distinction between the unearned income of land (rent) and the earned incomes of labor and capital (wages and interest). Rent goes to society, wages and interest to the individuals who earned them.



The US model - We work, according to some, until May first for local, state and federal taxes. Therefore about one-third of the total is for government's use and two-thirds is private, or disposable, income.

To Society:



Try your hand at your own model:

Key:

Goes to society:

Goes to the individual:



Marcos didn't pack up his troubles

## Corazon Aquino and the land reform problem

By E. Robert Scrofani, Co-President EBCSS

Despite a her victory in the recent constitutional elections, the real test for President Cory Aquino will be based in good measure on her ability to learn from Marcos' failure to meet the needs of the poor and the landless.

The central fact of the Philippines' economy is that the people of the island republic are poor. The UNO reports that 76% of its people live in poverty.

This poverty can be traced directly to the maldistribution of the land. Only 29% of the people own the land in a nation where almost 79% work the land.

Marcos had promised that he would "democratize wealth" and looked to Taiwan's land reform, the most effective in Asia, as a model.

Taiwan had established fair rents and gave farmers leases to provide them with a sense of security. Tenants bought the land at a set percentage of the rice crop and received credit and technological aid as well as health

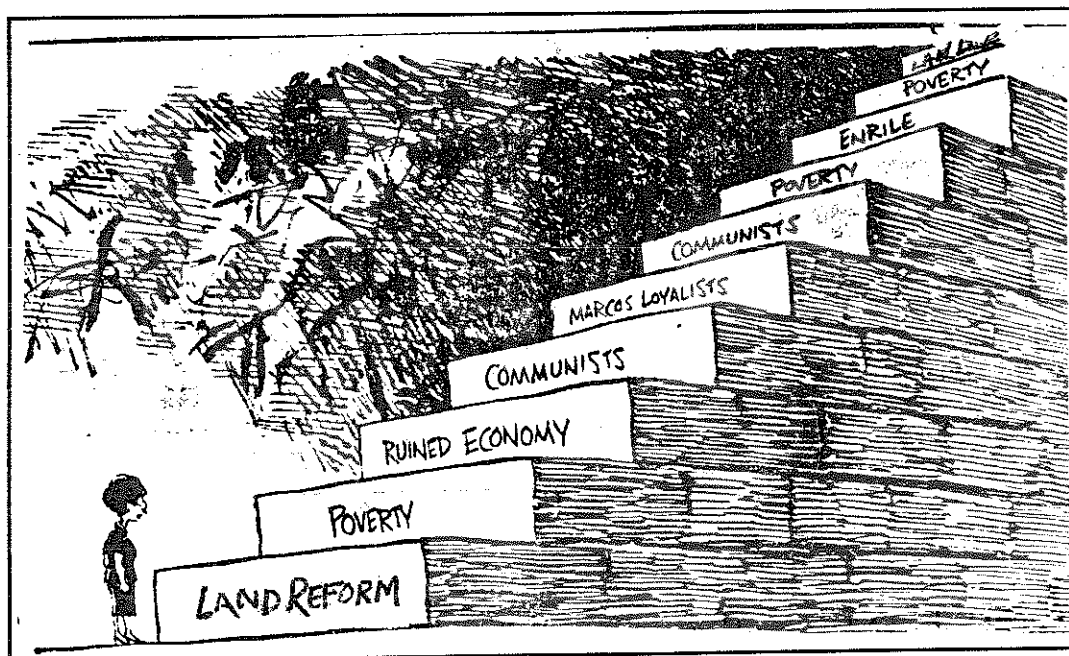
services. The government also used a tax on land values as an incentive to eliminate absentee landlords and to promote tenant production.

Marcos made some of the same promises, but gutted his program by excluding all lands planted in export crops.

Taiwan made a definite commitment to its agricultural workers. Food production served the needs of the people first. In the Philippines, millions went hungry while increasing amounts of land were planted in export crops. Millions migrated to the urban areas where they still lived in poverty.

Taiwan's land reform built the country's prosperity from the bottom up. The least affluent gained the most. In the Philippines the bottom 50% of the people still receive less than 17% of the nation's wealth. Taiwan is still the model for the Philippines. The Aquino revolution, led by the cheering middle

See next page



From previous page

class of Manila, must use that model, or something like it, to deal with land reform.

Marcos lacked the will. It remains for Cory Aquino to return to the task, for the issue of land reform has not flown away with the leaders of the old regime.

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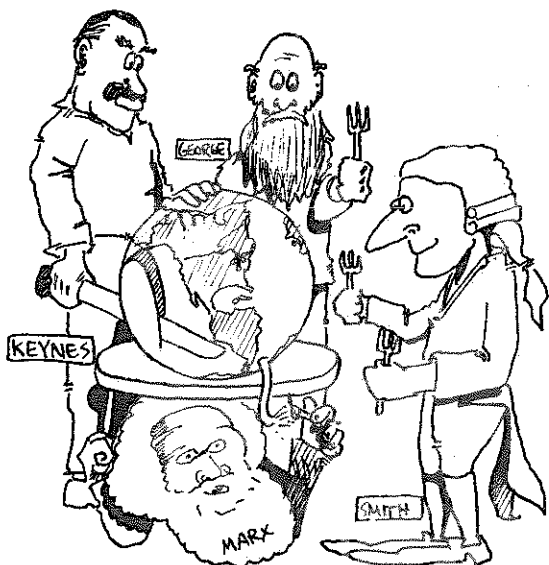
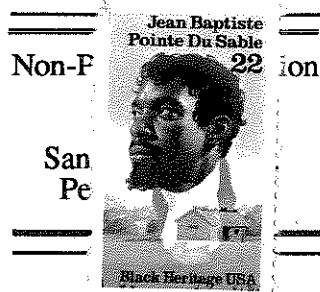
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