

Land Speculation & Financial Speculation

By COLIN BONNER (Calgary, Canada)

For any given population group, economic expansion requires: 1, an ample supply of cheap land; and 2, an ample supply of cheap capital.

Speculation in the financial markets should not be confused with investment in stocks and bonds which represent capital, or with recreational gambling in which the player is consuming discretionary, disposable income as he would, say, on a vacation or other forms of recreation.

Speculation in the land and financial markets diverts massive amounts of investment funds from investment in productive enterprise and creates a "shortage" of funds for capital investment; it increases the costs of both land and capital which produce the same end effect - industrial depression, unemployment, poverty and consequent social problems, as may be seen in the following comparison:

Speculation in both land and financial markets creates shortage of capital, increases cost of capital (interest rates), increases cost of inventory, reduces business profitability, slows business expansion, reduces production of wealth, prevents fair distribution of wealth, forces bankruptcies, forces layoffs, promotes unemployment and under-employment; perpetuates poverty and consequent social problems, increases cost of government, increases taxation on production. Even the effect that land speculation has directly - creating a shortage of land and increasing the cost of access to land, resources and raw materials - financial speculation does indirectly by increasing cost of financing access to land and natural resources.

The massive diversion of investment funds from true capital investment in productive enterprise to speculation in the financial markets is of the same order as funds diverted to land speculation, and it is the main reason the current recovery phase of the economic cycle is slow despite the lower interest rates and land prices than were common five years ago. In fact, the present boom in speculative financial markets is having an effect at least as bad as land speculation.

Henry George correctly deduced that speculation "in things not the product of labor" was the cause of industrial depressions and poverty; but 100 years ago the speculative financial markets did not exist as they do today, and he focussed on land speculation as the main cause. Today in the late 20th century we have to deal with all "speculation in things not the product of labor."

Comment by CRAIG CRINGAN

In criticizing speculation in financial instruments, Mr. Bonner is taking some gigantic leaps. Financial instruments have been created primarily to help funnel capital into true investment, but investors need a secondary market to be able to withdraw their investments sometimes. This secondary trading, since it is not directly connected with capital equipment or working capital for productive businesses, has to be considered as primarily speculative. If we were to impose punitive taxes on this secondary trading, the effects would be felt in the reluctance to enter primary investment in business.

At even the most elementary level, where a workman puts his own savings into the tools of his trade, this capital investment is fraught with speculative overtones. The workman is speculating that his machine will work long enough to pay back its cost, that the government won't buy free machines for his competitors, that his product will not be declared unlawful (like urea formaldehyde insulation in Canada or asbestos products in the U.S.), and that his market will not be closed for political reasons.