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## WHEN THE ECONOMIC STARS ALIGN TO MAKE BAD THINGS HAPPEN

There is a good deal to be learned by studying how the triggers bringing on economic crises aligned in the past. So, for example, to understand why the Great Depression occurred in the United States during the 1930s, one must look at what occurred during the years building up to the crash.

A significant amount of the financial credit made available during the 1920s went into land speculation. A good primer on what occurred is found in the book *Only Yesterday*, written by historian Frederick Lewis Allen. Not only did investors become captured by the frenzy of the Florida land boom, this same frenzy occurred in many cities in response to population increases that triggered a significant increase in the demand for both commercial and residential land. An agricultural land boom also occurred during the First World War, during which time farmers borrowed heavily to expand their land holdings and production of agricultural crops. A few years was required after the war ended for European farmers to recover, but by the mid-1920s global production exceeded demand, prices fell, farmers defaulted on loans when government guarantees were removed, and rural banks failed by the hundreds.

As the land boom crashed, investors shifted heavily into the stock market, driving up prices well beyond what any fundamentals supported. Thus, by the end of 1929 the U.S. economy was stressed across almost all areas of production as well in the financial markets. To be sure, imprudent bank lending deepened the crash and lengthened its duration, but it was a crash in the making because of the failure to utilize tax policy to tame the credit-fueled, speculation-driven land markets. A few economists (e.g., Harry Gunnison Brown, Scott Nearing and John R. Commons) had argued the case made in the late 19th century by Henry George, who showed that cyclical booms and busts would be tamed only if the full or nearly-full public capture of the potential annual rental value of land and of rents from other sources (e.g., monopoly licenses issued by government) became public policy.

Harry Gunnison Brown was joined over the succeeding decades by a small group of economics professors who continued to make Henry George's case. One could argue that recessions that began again following the end of the Second World War would have been even worse if local governments did not capture some land rent via the taxation of real estate. However, as land prices climbed all across the US, property assessments rarely kept pace. This made speculation in land an even more profitable investment.

Relying on out-of-date valuations rather than current market values created a serious analytical problem for government statisticians. They simply did not understand that any increase in the price of land is inflationary and did not include such increases in their calculation of inflation.

Another failure has been to accurately calculate the annual aggregate rent that is privately captured as unearned income (whether imputed or actual). Since the administration of Ronald Reagan, the federal government has not monitored land prices. The figures utilized in the econometric models relied upon by the Congressional Budget Office and the Federal Reserve are around 5 percent of the actual potential rent in the economy (see Joseph Stiglitz or Mason Gaffney on this particular problem).

I offer here a very rough estimate of the rent attached to just one part of the U.S. economy, the residential property market. At mid-2020, the median price of a single-family property was around \$295,000. There are about 140 million existing housing units in the United States. If we assume a fairly conservative median land-to-total value ratio of 35%, this means that the aggregate residential land value in the U.S. is \$103,250 per property, multiplied by 140 million = \$14,455,000,000,000 (\$14.455 trillion). Economic theory tells us that land price exists because of the capitalization of the net amount of rent that remains in private hands after taxation. If most or all of the rent was captured via taxation there would be nothing to be capitalized and land prices would fall to very close to zero. What the rent fund might be depends on the discount rate. If we assume that investors will invest in land if they can obtain an annual increase of 5%, then the rent fund would be calculated as follows: 5% of \$14.455 trillion = \$722.75 billion of rent JUST for the land under existing residential buildings. Add in the number of vacant residential lots around the U.S. and this figure will increase considerably.

Tragically, the public capture of land rent has yet to become widely-adopted public policy. The result, of course, is a land market cycle that will inevitably once again bust. As Fred Harrison and others schooled in the political economy of Henry George have told us, the land market is on schedule to crash again in 2026. I have prepared a relatively short video in support of this forecast as applied to the U.S. for anyone who reads this and has an interest in more details:

<https://www.youtube.com/watch?v=fmA6ZPs-wus> 