

he himself produces something to be given in exchange for these goods.

Let us return again to our broken china. We saw the "action at a distance" of the Chinese cultural revolution, something like a telekinesis realised in the china markets in London and New York. But there is more to it. Alfred Marshall in *Elements of Economics of Industry*, (p. 336) said: "The influence on values which has been exerted in the modern age by the new means of transport is nowhere so conspicuous as in the history of *land*; its value rises with every improvement in its communications with markets in which its produce can be sold, and its value

falls with every new access to its own markets of produce from more distant places."

"Marshall's Law" has not been refuted by either economists or theorists on land valuation. Sensible statesmen ought to draw the one and only practical consequence from this law, that is, they should impose a true land-value tax upon the land, in order to convert this telekinetic effect of economic actions anywhere in the world into money for the community. And if they happen to be Chinese statesmen, they could in this way, bring "oil for the lamps of China"—without breaking china.

## The Great Depression—in Search of a Cause

By PETER RHODES

IN 1929 the American gross national product reached a peak six per cent higher than the previous year. Unemployment was running at about 3.2 per cent and everywhere there was an air of optimism and expansion. Within four years a quarter of the nation's labour force was out of work.

The search for the cause of the great depression has since been undertaken at irregular intervals by many students, historians and economists. A recent appraisal by Carl O. Nordling, former Assistant Professor of City Planning at Stockholm, throws some interesting light on an aspect of the events leading up to the sudden panic and economic recession of the 'thirties\*.

Professor Nordling makes no claims to being an economist, but he has put forward a few figures that he has stumbled across during the course of research work. It appears that between 1920 and 1926 there was a very rapid increase in the U.S. population; the urban residents increased their numbers by an average of two million a year. As a result of the war there had also developed a housing shortage. More than half a million new units needed to be built every year to keep pace with growing needs and obsolescence. Around 1921, rents and house prices rose rapidly, encouraging new investment. Production rose from 450,000 in 1921 to 940,000 in 1925—no small measure of economic impetus.

According to Professor Nordling, however, production had increased far too rapidly. By 1926 sales of new units were falling, prices were reduced and vacancies began to pile up. In spite of these trends, however, the decrease in production in the following years was relatively slow. The surplus of dwellings in 1927 was in excess of 350,000. At the end of 1929 output had fallen by 250,000 over the previous year. This tremendous drop in production gave rise to a two per cent decline in the work force at the end of 1929—a rate of decline that rapidly increased. Alwin H. Hansen wrote: "Probably at no time

in our history had we reached as complete a temporary saturation in building construction, including apartment houses, residences, office buildings and other commercial structures, as was the case in the late 'twenties."

The lesson of these historical studies, says Professor Nordling, is that even in a planned economy such as that of Sweden, a similar state of affairs could arise. In the U.S.A. the surplus output was worsened by a rapid decline in population increase with the end of the post-war new family boom. The Professor concedes, however, that such a situation is unlikely to arise on the same scale again. Statistics are now more readily available than they were in the 'thirties and the market is more cautious in its approach.

Unfortunately Professor Nordling did not take his study far enough. What was the real cause of over-production and why was it so harmful? There is little doubt that rapidly rising land values from 1920 onwards encouraged wild land speculation. Those who had invested money in land transactions, often through mortgage facilities, had high hopes of reaping a bonanza. Many people did. Others, however, found themselves with financial burdens that they could not meet. Pure speculators often took chances on second mortgages to raise capital for construction in the hope that things would improve. When it was discovered that not only was it difficult to sell virgin land, but even more difficult to sell vacant houses, the financial difficulties multiplied. The land financing boom had shot through the entire economy, affecting small investors, finance houses, banks, insurance companies and large corporations. The sudden necessary reduction in construction that precipitated the great depression had its own roots in a short-lived land boom, the significance of which had been greatly under-estimated.

Just before the crash in 1929, an article in the *Magazine of Wall Street* said: "Every panic in our country has been preceded by an orgy of land speculation—the culmination of every period of prosperity is a land boom, and then comes panic."

Just as every building has land beneath it, Professor Nordling's housing statistics have land value figures behind them. Under a system of land taxation such dire consequences of rapid expansion are unlikely to occur.

\*"Origin of a Depression": *Land Economics*, February, 1967.