Inflation or Slump

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THE ECONOMIC CATASTROPHY of 1929 has permanently widened the scope and functions of government in the U.S.A. *De facto* ever since that time and *de jure* since the end of World War II, our federal administrations are not only charged with preventing the recurrence of an economic crisis such as the 1929 crash, but also with smoothing out valleys in the business cycle and maintaining reasonably full employment.

When the pertinent act was passed in Congress, 1946, classical economists argued that this was equivalent to forcing a policy of permanent monetary inflation on all our federal administrations from then onward. They were right, as is now proven—but what they do not as yet acknowledge, is that this also appears or seems to prove that without permanent monetary inflation, *under the politico-economic conditions prevailing in our country*, serious cyclical business slumps *would* occur.

The question, therefore, that economists should ask, is *why* this should be so. What, if any, are the economic and political conditions in our country that require our having either monetary inflation or, instead, recurring business slumps, unemployment, and misery?

One answer that has been given puts the onus on the labor unions and their political representatives in Congress. If wage increases are politically enforced and are not matched by increased labor productivity, then, it is argued, price inflation through increased monetary supply is necessary to forestall a depression. After such inflation, of course, the unions will have lost part of their nominal wage gains; never the less, they will still be relatively better off than before. The supporters of a centrally planned economy—whose strength rests largely on union support—can always be found to be inflationists in fact, all outward protestations to the contrary notwithstanding.

While this argument is correct as far as it goes, it over-simplifies in seeking the cause of business slump in only one of the cost factors of production, viz., labor; for it fails to find out whether there might not be a deeper, unrecognised pressure behind labor's demand for a seemingly ever-increasing share in newly produced wealth. The real question is whether there is something in our economic system that, in turn, takes from the wage-earners (on any level), and perhaps from capital as well, an ever-increasing share of *their* earnings.

The purpose of this article is to show that we must look beyond labor and capital for our cyclical business slumps. We must look to land and to the economic consequences of its private appropriation and monopolisation.

The central factor in our economic life is the land. In order to produce any wealth at all, man needs the land—be it to produce crops, to engage in trade, or to manufacture goods. Therefore, the more efficient we become in producing wealth, the higher becomes the price of land or its rent, and, since this trend is understood by many people, land speculation will eventually drive land prices and land rent to exorbitant heights—forcing industries and individuals either to seek cheaper land unreasonably and unprofitably far away from the market place, or to crowd like sardines into unreasonably and inefficiently small accommodations nearer to the market—or to *speculate* that the rewards of their enterprise will suffice to pay the exorbitant rent or price for adequate land near the market place.

The extent of this (voluntary or involuntary) land speculation can easily be gauged by comparing present land prices and rents with those prevailing ten years ago. Increases of merely one hundred per cent will be found to be in the minority. Value for value, the increases are mostly much higher multiples—far exceeding wage increases during the same period.

Even if we leave unconsidered whether it is socially just that the land owner should reap the benefit of more efficient production by others, it is obvious that the land ventures into which every business is driven in order to exist—other things being equal—will turn out to be less and less successful as land prices and rents mount and mount with public estimate of "good business." Inevitably, unless there is subsequent price inflation through money supply increase, most land ventures, whether industrially necessary as outlined, or purely speculative, would turn out to be unsuccessful. A wave of liquidations would set in and a depression would be upon us overnight.

Since 1929, this is the deeper, if uncomprehended, reason for the pressure on our federal government to inflate the money supply year by year through budget deficits. The extra wages paid by producers as a result of union pressure are relatively unimportant compared with the huge tolls producers as well as wage-earners must pay to the land owners for the use of land. We see, therefore, that union members and their employers are quite mistaken in looking upon each other as antagonists. In reality they are both in the same press. For both of them together are compelled to pay to land owners an ever-increasing proportion of the new wealth that they alone, in common endeavour, produce from the land.

One way to remedy this situation would be for the community to tax away the rent of the naked land (not the income from improvements of or on the land) and to reduce all taxes on production, especially income taxes, in same measure. Such a tax reform would not only make speculation in land unprofitable, tremendously increase the profitability of production and the wages commanded by human labor, but would also remove from our government the pressure to increase the money supply lest business slump. •