LESSON

V

DEPRESSIONS AND THEIR CAUSE

"Landlords are, perhaps, the only great body of men whose interest is diametrically opposed to the interests of the nation."—BUCKLE in "Fragment on the Rise of Agriculture."

LET US NOW CONSIDER THAT DISEASE OF SOCIETY usually referred to as a "depression" or "hard times." All will agree that during a depression society is sick; few, however, realize that a depression is but an acute phase of a chronic condition. Few of those who suffer because of a depression connect their suffering with anything which occurred during the better times which preceded it—their chief concern is that something, anything, be done to help them.

In this, society is much like an individual. He may be uncomfortable most of the time; so long, however, as he can keep going he will not stop to look for the cause of his trouble. But when he is flat on his back, then he wants to be cured immediately. Sometimes a cure is possible, sometimes not.

Society can exist, has existed, for a long time, with its economic system out of adjustment, gradually getting worse and worse; but the time comes with society, as with the individual, when, if this maladjustment is not remedied, the form of society then existing, possibly even the then existing civilization itself, may be destroyed. This has already occurred many times in the world's history.

Depressions then, bad as they are and however much they cost, are not wholly unmixed evils. They call attention to the fact that something is radically wrong with our economic system, and once this is realized, thoughtful people will try to find the cause. To locate the cause, one could take any symptom of any depression, and by tracing it back to its beginning, would find there the cause of all depressions.

One could start anywhere. Suppose, for instance, one were to ask a business man to name the first symptom he noted of an approaching depression. Probably he would mention slow sales. Slow sales, if continued for any length of time, will make it difficult for the merchant to pay his bills and running expenses; soon he must discharge some employees, and often the end is mortgage foreclosure and business failure.

But why should consumers begin to buy less than formerly, and thus cause the merchant's reduction in sales? At no time do customers have everything they want, yet, during a depression, millions do buy less than formerly. A man makes one suit of clothes suffice where before he had two; people buy cheaper cuts of meat instead of porterhouse; they move out of larger houses into smaller houses, or go to live with relatives; and many are glad to get food, clothing and shelter of any kind—even as charity.

Seldom do people reduce their standard of living because they wish to do so; they do it only when they must—because they can no longer buy the things they would like to have. When a depression is long continued, purchases may be contracted to bare necessities; and often too, when the pocketbook has become very much flattened, many things formerly considered necessities become luxuries.

Therefore we must go back another step in our inquiry and ask: "What is it that flattens the pocketbook?" When one goes to a store to buy, what is it he spends? That which John Smith takes from his pocket is not only a dollar bill. That bill is an evidence to the world that so much labor has been performed and a given amount of wealth produced; and John Smith exchanges this evidence of labor performed for the things he wants which have been produced by someone else. When he has many of these evidences of labor performed, he can buy many things and the merchant's sales are brisk; when he has few evidences of labor performed, he buys little and sales are slow; when he has no evidences of labor performed, he does not buy at all.

This condition, then, of slowing sales, or no sales at all, means that the customer has less buying power. This lowered buying power is caused, primarily, by lower wages, or by partial or complete unemployment.

But if John Smith, the customer, has been making things to satisfy the desires of other people as well as his own, and these desires are not fully satisfied, why does John Smith stop working?

We have established that it is Labor which produces all wealth, but that Labor cannot create the materials out of which to make wealth. Labor must take a bit of land, and with, or without, using capital, fashion this bit of land into something to satisfy some human desire. This being true, the two necessary factors in production are land and labor. If, then, John Smith is able to work and willing to work, but out of work, the reason must be that

1—Everyone has all he wants of the things John Smith can make; or
2—They who want the things John Smith can make are unable to buy; or
3—There is something which prevents John Smith from making these things.

We know there are unsatisfied desires everywhere; therefore it must be that John Smith does not have access to the necessary land out of which to make things, or that they who desire these things lack access to land out of which to make other things with which to buy.

Whenever and wherever we find men involuntarily out of work, there also we will find land held out of use. Not that the owner deliberately decides that any given piece of land shall not be used, but the price asked for the idle land is so high that Labor cannot pay its price and have an adequate return left for itself. Producers will use land until the net returns they can get from it decline to an amount on which they are not willing to live. When this point is passed they will not use that land at all. Reason tells us and investigation confirms the fact that for a depression to develop, first must come high land prices, then lowering wages, then unemployment; these, in turn, causing lack of purchasing power, which slows up the merchant's sales.

This condition we have with us to a greater or less extent all the time. Even in "good times" the number of unemployed is appalling; but occasionally the condition blazes up acutely, and then, instead of numbering our unemployed by the thousands, we number them by the millions. This condition is called a depression. The cause of both the acute and the chronic condition is, as shown in Lesson IV, land speculation. Before a depression, land speculation is carried to an extreme pitch. This fact has been recognized by many observers, who, however, fail to recognize in it the relation of cause and effect. For instance, 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 a panic."

Therefore, we must go back still another step and inquire why these periods, which, by comparison, are called periods of prosperity, end in land booms? And we find that these waves of land speculation always have as their starting point something which should benefit the whole community. It may be an increased population; it may be better transportation; it may be the development of a new business, such as the manufacture of automobiles or the building of the railroads; or, it may be general industrial progress. Always it is something which, if allowed to work unhampered, would make living easier and better for the whole community because it is something which increases production.

For a time, many may get some benefit from this improvement, whatever it may be, and then we have what is called "prosperity"; but soon the increased productiveness of land, caused by any one of these things, increases the demand for land, and land prices rise. Eventually they become so high that it will take much or all of the increased product made possible by the improvement to pay these higher land prices. When this point is reached, it will be the land-owners and not the producers who are getting most, if not all, of the pecuniary benefits from the improvement.

When the increase in productivity is rapid, then land speculation becomes feverish. Many rush in to buy without much consideration of what the land will produce, only fearing they may lose a chance to make a profit. Land values then will rise to a point where Labor cannot pay the prices demanded and continue to live at the old standard. As Labor is obliged to pay more and more for land, whether to buy or to rent, its ability to purchase other things must decline correspondingly, or even cease entirely, and we have a depression. The depression will cover as wide an area as was affected by the orgy of land speculation.

We can see that this must be so if we will remember that the natural rent of land is fixed by its excess of productivity over what the same labor could produce from the poorest land in use (see Lesson II). Speculative land prices often are based on what the owner hopes the land will be able to produce at some time in the *future,* but the returns which Labor, with or without the aid of capital, can get from any land depend wholly on its *present* productivity. When from this present product must be subtracted a rent based on future hoped-for returns, then the portion of the product left for actual producers becomes disastrously small—less than they are willing to live on. This must result in unemployment, and, when widespread, in a depression, which will continue until conditions again are such as will yield producers a living.

The following history of Chicago's land values demonstrates this sequence very well.*

Chicago covers 211 square miles. The price of any land in that district in 1830 was $1.25 an acre.

1830—Land value of the entire area now covered by Chicago, $168,800.

1832—Chicago Canal authorized as a transportation link in time of war. Those who had followed the history of the Erie Canal, and the increase of land value it caused, induced the Federal Government to construct the Chicago Canal, then bought land along its proposed course. This land was advertised and offered for sale, and a land boom started. Chicago's population, 500.

1836—Land values reached $10,500,000. In conditions such as existed at that time in that place, such land values made profitable use of the land impossible. Population, 4,000.

Then came the first major depression

1842—Land values had shrunk to $1,400,000. At this price the land could be used and leave to Labor an adequate return, therefore business began to improve.

1848—Chicago Canal opened. In 1848 Chicago had no railways, but by 1854 it was the railroad center of the West. Plank roads, street lighting and sewers were built by the city and land values boomed again. Population about 80,000.

1856—Land values had increased to $126,000,000. Again Labor could not pay these prices and have a living left for itself.

*Figures are taken from "One Hundred Years of Land Values in Chicago" by Homer Hoyt.

Then came the second major depression

1858—There had been many bank and 15 railroad failures; there was great unemployment everywhere, and land values had shrunk enormously;

1860–1865—Civil War. By 1864, 96 bank failures had occurred in Illinois, but the European need for wheat, and the demand caused by the Civil War for wheat and meat, sent hog, corn and wheat shipments and prices up, and land prices again began to increase sharply;

1871—Chicago fire and post-war boom. Population 187,000. Many parks and boulevards built by the city. New building construction in seven years $76,000,000.

1873—Land values had increased to $575,000,000.

Then came the third major depression

1876—21 bank failures in 4 years. Land values had dropped to $250,000,000., rents 30% lower than at the peak.

1884–1890—Population in 1884, 600,000. Building of "sky-scrapers" began; many new manufacturing enterprises and 7 new railroads built. World's Fair projected and wild land speculation;

1892—Land values estimated to be $1,000,000,000.

Then came the fourth major depression

1909—Land values, after many industrial failures and great unemployment, shrank to a point only half as high as in 1890, though the population of Chicago was twice as great. Business began to improve and unemployment to decrease.

1916—World War I, followed by post-war boom. Much apartment construction. Enormous American and European expenditures for food and war materials further stimulated business. Land values in 1921 $2,000,000,000., and still rising. Farm values began to decline in 1921, and the farmers, driven to the cities, increased land values there by increasing the demand for land.

1928—Land values reached $5,000,000,000., with many records of increases of 1,000% between 1915 and 1928. Even with our modern industrial methods and ability, Labor could not pay this price for land and continue to live at its old standard.

1929 *Then came the fifth major depression*

1932—Foreclosure suits in Chicago involved more than $2,000,000,000 of land value; apartment rents were 50% of those in 1922, there had been 30 bank failures, also great unemployment and all the other symptoms of a great depression.

This same sequence of industrial progress followed by land speculation, which in turn was followed by depressions, was not limited to Chicago during these hundred years. A similar picture could be drawn of conditions in New York, Philadelphia, New Orleans, or any other growing city.

The worst and most widespread depressions are those which come within a few years after a war. Usually as soon as an improvement is suggested in a community, land speculation begins and even before the improvement takes place, land values may be greatly increased.

During a war of any duration, great amounts of certain commodities are needed for the armies, and frequently civilians are restricted in their use of these commodities (as was true, during World War I, of white sugar, white flour, wool, butter, hard coal, hardware and many other items), so that a great unsatisfied demand develops for these things which the people are not permitted to buy. As soon as peace is restored, farms and factories begin to hum, growing and making these desired things for the civilians and the returning soldiers. Production increases quickly in almost every line, because the lack of buying in such cases is not caused by lack of purchasing power, but by government restrictions.

For a short time, some, or most, of this increased production may go to Labor (as it did in 1919 when we had our "silk shirt era"). This can occur because people in general do not realize that the increased production which will follow the close of the war will raise land values, and thus, speculation in land does not precede the closing of a war as it precedes most other improvements. The land speculators are caught napping and Labor gets some of the benefits of industrial progress; but they do not nap for long. Very quickly this increased production stimulates demand for land and starts a land boom.

Eventually the demand for commodities lessens; not because everyone has everything he wants, but because, after paying the higher land prices consumers do not have enough left to buy the labor products they would like to have. When the demand for goods slows up and it is not possible for employers to continue to pay both the high rents and high wages, wages decline and later, in many instances, cannot be paid at all. Then the army of the unemployed forms rapidly.

Also, during and following a war, there is often an additional factor which helps to push up land values excessively, i.e., the pegging, by government decree, of prices for various commodities at levels higher than free competition would set. The prices of these commodities cannot fall with increased production, as it would be natural for them to do. These artificially high prices for commodities have the effect of carrying land prices far beyond the point they otherwise would reach, and of bringing poorer grades of land into use than would be used if there were no artificial pegging of prices.

To see how this operated on the value of wheat lands in the United States after World War I, note the following diagrams. In No. 16, the best land is illustrated as producing 100 bushels of wheat with a given amount of labor of a given efficiency; the second grade, 75 bushels with the same labor, etc. Let us suppose that 25 for a given amount of labor is the lowest point at which Labor is willing to live.

Wages	25	25	25	25
	100	75	50	25
Rent	75	50	25	0

No. 16

(References to money values usually are confusing in discussions of economic subjects, but for this illustration we must use money values to show actual conditions.) With wheat at \$1.00 a bushel, which was a good average return to the farmer before World War I, the best land in diagram 16 would yield \$100.00 for a given amount of labor, and its rent would be \$75.00; the second grade land would yield \$75.00, and its rent would be \$50.00; and so on. Wages on all grades would be \$25.00, for a given grade of labor.

Now came World War I, and its aftermath. In order to induce farmers to keep up the production of wheat to satisfy both foreign and domestic demands, the price of wheat was pegged by the government at $2.50 a bushel or more. With wheat at this price the possible returns from these lands would be $250.00, $187.50, $125.00, and $62.50 respectively (as in No. 17). Wages

Wages	$62.50	$62.50	$62.50	$62.50
	$250.00 100	$187.50 75	$125.00 50	$62.50 25
Rent	$187.50	$125.00	$ 62.50	

No. 17

on all grades of land would be $62.50—what a man could produce on the poorest land in use. But the returning soldiers, and others, were seeking jobs, and were willing to accept a return of $25.00, for the same amount of labor, if they must, in order to get these jobs; therefore production was pushed out to the 10 land. Even though only 10 bushels of wheat could be raised on this land with the same labor as would produce 100 bushels on the best land, still, with wheat at $2.50 a bushel, Labor here could make $25.00 for itself by exerting this same amount of labor. And many, rather than be idle, began using this 10 land for wheat raising. (Much of the land in what is now called "the dust bowl" was good grazing land but poor wheat land. It should never have been plowed, but it was plowed to raise wheat at these high prices.)

When this poorer land was brought into use wages dropped to the old level, 25. The rents of these various grades of land were now $225.00, $162.50, $100.00, and $37.50 respectively, as in No. 18, and their selling prices, of course, increased accordingly. Indeed, as the result of the land speculation which inevitably arose, land

Wages	$25.00	$25.00	$25.00	$25.00	$25.00
	$250.00	$187.50	$125.00	$62.50	$25.00
	100	75	50	25	10
Rent	$225.00	$162.50	$100.00	$37.50	0

No. 18

values were pushed still higher, until they bore little relation to productivity, being based, instead, on the mere hope of reselling at a higher price. In some midwestern states the prices of wheat lands and corn lands, which before the war were $50.00 an acre, rose to over $500.00 an acre. The diagrams suggest an average rise to only three and a half times former values; actually, in many instances, they rose ten times former prices.

Now came the ending of the pegged price for wheat, and wheat sank back to $1.00 a bushel or less. What resulted? They who were raising wheat on the 10 land found that with wheat selling at $1.00 a bushel they could get but $10.00 for the same labor which had been yielding $25.00. But 25 was the minimum at which they were willing to live; therefore, they had to give up their farms and find employment elsewhere—if they could. In the meantime they were out of work and could not buy. They could not go back to the 25 land because, with wheat at $1.00 a bushel, they could not raise enough there even to pay the rent. For the same reason, those renting the 25 land had to abandon it and join those from the 10 land seeking employment. (The chief cause of the great drift of people from the farms to the cities during the early twenties was the high price of farm lands. Between 1920 and 1930, cities in the United States having more than 30,000 people, increased more than 9,000,000 in population.)

When the price of wheat had fallen from $2.50 back to $1.00 a bushel, those farmers who owned their land free and clear, and who had not contracted debts during the boom years, were able to weather the storm without much suffering. It may have been necessary for them to lower their standard of living, but the decline in wheat prices did not necessarily mean complete disaster for them. They, however, who were renting their farms, or whose farms had been purchased at exorbitant prices but were not fully paid for, suffered the full effects of the increased land prices on the one hand and the decreased wheat prices on the other. Not only did they lose their farms but they were not able to buy the products of factories; sales slowed up all along the line; factory employees had to be discharged and the army of the unemployed grew larger and larger as industry after industry became affected. *Every worker who becomes unemployed thereby tends to cause the unemployment of others because of his lack of purchasing power.*

This series of events was not confined to wheat lands. The effect was worse where the prices of commodities had been pegged, as with wheat; but the same thing occurred to a greater or less extent in all the basic industries. Consider copper: because the demand for this metal during the war was greater than the supply, copper rose from 13¢ a pound in 1914 to 35¢ in 1917 (the price was stabilized in the fall of 1917 at 23½¢). There are in the United States many low grade copper deposits which can be worked profitably only when copper is selling at 10¢, 12¢, 15¢ a pound, or more. With copper selling at 30¢ a pound, these low grade copper deposits could be, and were, profitably worked, just as the poorer grade wheat lands were brought into use by the price of $2.50 for wheat. But when, after the war, demand for copper declined and its price fell to 5¢ a pound, only the richest deposits could be profitably worked. The low grade mines had to be closed, and the miners, being thrown out of work, were forced into the army of the unemployed who could not buy and whose inability to buy still further increased business failures.

The same story was true of cattle, timber, iron, coal, oil and all other basic industries. All other industries are based on the so-called "extractive industries"; that is, those in which Labor produces wealth by applying itself directly to the land, such as agriculture, mining, fishing, lumbering, cattle raising, etc. There can be no flour mills or bakeries until the farmers have raised the grain. There can be no building of homes, bridges, or railroads, until the miners and lumbermen have done their work, and so on. Increase the value of land so that production in any one of these basic industries becomes unprofitable, and all the industries based on it must suffer.

Here is another view of the picture. During the boom years many mines, farms and other businesses changed hands many times, at advancing prices, and were paid for, at least partially, by money borrowed from the banks on mortgage. These mortgages seemed safe enough when based on the then current land and commodity prices. But commodity prices fell. If a farmer, for instance, must pay a return on a mortgage based on $500.00 an acre for his land after the value of his crop has been reduced to a point far below that which fixed the land price at $500.00, there is little he can do but surrender his farm to the mortgagee. This is what occurred in innumerable instances.*

The price of wheat increased from 85¢ a bushel in July, 1914, to $1.28 a bushel in December, 1914, and $2.65 in 1918. Farmers borrowed to increase acreage and the total farm debt rose from $3,320,470,000. in 1910 to over $11,000,000,000. in 1924, but the increase was much greater in those states where wheat and corn were the principal crops. For instance: the farm mortgage indebtedness in Iowa alone between 1910 and 1920 increased more than it did in the combined states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New Jersey, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana and Arkansas. The farm mortgage indebted-

*Inability of any considerable number of debtors to make payments, as agreed, either on mortgages or on debts contracted to buy commodities, will increase the severity of a depression and may even be the final factor in causing a depression. Yet this inability to repay debts is the natural result of our present economic system. The owners of land collect rent for its use. This means that Labor, out of its own resources, cannot buy that which it produces; because after paying its rent it has left to spend for itself only what it produces minus the rent.

If land-owners do not spend all the rent they receive, the excess accumulates and can be loaned to Labor to buy land, capital goods or consumer goods. With this loan Labor is able to buy a larger share of its product than it could without the loan, but it has burdened itself with a debt which it must repay and on which it must pay "interest." As this process continues it creates a widening gulf between the needs of the producer and his ability to pay for his needs —a gulf which may be bridged for a time by other borrowings, which must be made principally from land-owners, since they, as a class, are the only ones receiving a constantly increasing share of the wealth produced.

During the "prosperous" years the burden can be carried; but, as has been shown, such seasons of prosperity increase the demand for ness in some of the other mid-western states increased almost as greatly. Since this farm mortgage indebtedness was incurred chiefly to pay for land at inflated values, can we wonder at the distress which overtook the farmers in the Mississippi Valley!

During the early days of the depression the banks often were blamed for refusing to lend money to farmers and to others in "legitimate businesses" who were thus in trouble. The truth is that many of these bankers did not have the money to lend. The people who had borrowed from them could not pay back what they had borrowed; and even though the banks took back the farms and other businesses when the amounts borrowed could not be repaid, they could not lend these farms and other businesses to those who wanted cash, nor could they sell them for anywhere near enough to get back the money loaned on them. In many instances,

land and cause land values and rents to rise, with disastrous results. For instance, if a business man pays one-fourth of his product as rent, and borrows back (from his own or some other landlord) one-half of this portion to use in his business, he may be able to meet his interest and repayment obligations so long as conditions stay as at the time he borrowed; but if rents rise, the payments on his debt will be more difficult to meet and additional borrowings may be made. At the same time, these higher land prices induced by the "prosperity" will reduce the buying power of his customers, unless they, too, borrow back a part of the rent they pay and thus pile up debts for themselves.

As this process continues a growing burden of debt and "interest" accumulates. The private appropriation of rent, which cuts down the net return to producers and thereby forces them to resort to borrowing, results in a credit expansion which will burst like a bubble when sufficient strain is applied by rising land prices—causing an acute condition of slower sales, lower wages and unemployment.

Even if land values were stationary (which they could not be, since the increased business made possible by the borrowings would increase demand for land and so cause land values to rise), this continually growing burden of debt must eventually cause bankruptcies.

many of the assets of the banks, as the saying is, became "frozen," so that the banks could not pay even their depositors in full, much less make new loans. Since the depositors could not get back their money to use in paying their own debts many of them, also, were forced into bankruptcy—because, though indirectly, of this same land speculation.

Thus in the end we had our series of bank failures, beginning of course with the weaker banks and those which had loaned the greater part of their assets on high priced land. But, since business is so interwoven in our modern society, the failure of a small town bank may easily be one of the last straws in causing the downfall of a large bank in New York or Chicago; which large bank has done its own share of lending on inflated land values and is having its own troubles from this cause. (Since stocks are not wealth but only represent the assets owned, the high stock prices in Wall Street preceding 1929 represented, chiefly, high land values of one sort or another, however obscure this fact may be.)

Bank failures, of course, may be caused by incompetency or by dishonesty, as are some failures in other fields, but probably most bank failures are caused by "frozen assets" of some kind; and more bank assets become "frozen" by the deflation of land values than by all other causes combined. If there were no speculative land value to deflate, probably there would be few bank failures. The bankers do not cause depressions; they are the victims of extreme land speculation, as are other business men.

If, when commodity prices fell to where they had been originally, land values had fallen at the same time (and as rapidly) to where they were before the rise took place, we would have had no depression, because then wages and rent would not have changed relatively and purchasing power would have kept pace with prices. But land values do not fall until practically all other values have been deflated. In any contest between Labor and land-owners, the land-owners as a class can wait, but Labor starves. The land-owners may be *inconvenienced* by a prolonged struggle, but if the struggle be too prolonged Labor will be *destroyed;* therefore Labor must always be the first to yield and wages will always decline drastically before rents decline to any great extent. If any given land-owner must give up his land because he no longer can afford to carry it, another steps in to take his place; but a change of land-owners does not necessarily lower the price of land. The price will not decline until land-owners as a class begin to suffer through inability to pay the carrying charges on the land they hold.

Probably no one is more tenacious than a land speculator. This is so true that in the English language we have developed a phrase to fit his case; he is often referred to as being "land-poor," meaning that he will go without comforts, often without necessities, rather than sell his land at a price less than he had hoped to get for it. In the meantime the land is wholly or partially idle and those who might use it must resort to other land.

Still another view: when a depression begins it is not unusual for a business man, thinking the condition may be of short duration, to continue to produce, increasing his stock of unsold goods. Later, when he finds that his goods do not move, he offers inducements by lowering his prices, sometimes to cost or even less, in order to keep his business or factory going. But since so many customers are out of work and unable to buy, the increase in unsold goods tends to glut the market—a condition which is often referred to as "overproduction." Often it is foolishly contended that this so-called "overproduction" is the cause of a depression. If instead of referring to this condition as one of "overproduction," it were called "underconsumption," which it really is, the term used would suggest a more nearly accurate picture of the actual condition. It reflects nothing but lack of buying power on the part of consumers; and lack of buying power is always caused by unemployment or low wages. There could be no true overproduction until everyone had every material thing he desired.

As shown, the speculative rise in land values is the main cause of industrial depressions. The greater and more widespread the land boom before a given depression begins, the longer and more severe that depression will be, because the greater and more far-reaching will be the readjustments which must be made before it can be ended. All efforts to improve conditions, which efforts (even if not so intended) tend to bolster up sagging land prices, only prolong the depression. Unemployment will not decrease until Labor is again able to get at the land to employ itself. This condition may be brought about in any one of three ways:

First—Some new business or some advance in the arts and sciences may be developed which will increase production at a faster rate than land values increase. We often hear it said that a new industry pulled the country out of a depression, as the development of the automobile is credited with having overcome the depression of 1900. It is true that a new industry, if great enough, will help a country recover from a slump, because it will increase production; and, as shown in Lesson IV, the benefits of improved methods and machinery are not limited to the industry they primarily affect. They start a wave of increased employment which ultimately reaches all industries.

If some new industry or improved method were to make it possible to produce 25 bushels of wheat from the land where 10 bushels had been produced before, and to increase the production from other wheat lands proportionately, then, even with wheat at $1.00 a bushel, farmers again could work these poor wheat lands and live at 25 in spite of the high rents (this improvement would have raised the normal rent line up to the speculative rent line). This could continue until higher rents again outran production, which would occur soon or later.

Second—Wages and the standard of living may be lowered. This, of course, would be bad for the individual, for society and for civilization; but, nevertheless, after every depression, Labor is apt to find itself receiving a smaller share of what it produces than it did after the last preceding depression. Because of foreclosures, etc., land will have gravitated into fewer hands, and the number of those paying rent will be proportionately greater. Also, though land values decline after a depression, as our study of the history of land values in Chicago has shown, they do not decline to a point as low as they were at the end of the last preceding depression. If, when the price of wheat was no longer pegged and it declined to $1.00, Labor had resigned itself to a wage of 10, it could have continued to work.

Such a reduction would bring the laborer very much nearer than now to the condition of the coolie class in China and India. But it is well to remember that the trifling wages these coolies now get were forced on them by gradual reductions through many generations, as land holdings became more and more concentrated. Their civilizations are much older than ours; they have been through many more depressions than we; now they have reached a stage where it is almost impossible for them to sink lower. Their land ownership is so concentrated and their standard of living is so low that, to all intents and purposes, there is a constant depression. Even though the descent be a gradual and an intermittent one, and in spite of all efforts to combat it, Labor everywhere, including that in the United States, must eventually reach the coolie's standard if the same cause (our present land tenure system) is permitted to continue to operate. The factor of time is the only unknown factor.

Third—Land values may decline to a point which will leave Labor sufficient to live on after paying the rent. In diagrams 16 and 18, Labor had adjusted itself to a basic wage of 25, with the remainder of the product going as rent. If, following a depression, land values were to go back to a point which would leave the laborer 25 for himself after the rent had been paid, he could again become a consumer and buy as before. Then production would increase and we would have another period of so-called "prosperity."

What usually occurs is a combination of some two or all three of these forces: 1st, advances in the arts and sciences, or new inventions, will increase the production of wealth at a rate more rapid, for the time being, than the increase in land values; 2nd, Labor accepts a lower standard of living in order to get an opportunity to work at all; and 3rd, land values are drastically reduced. Then

Labor goes back to the land (not only to farm land, but to all kinds of land from which Labor produces wealth—mines, forests, town building sites, etc., etc.), business begins to revive, mills reopen, unemployment decreases, and industry continues on the upgrade until rents again become excessive. When that time comes another depression is not far off.

The only way to break into this vicious circle is to make it impossible for most of the benefits of industrial progress to go to the land-owners. If these benefits went to producers, purchasing power would not decline, and low wages and unemployment would not accompany progress.

QUESTIONS FOR DISCUSSION

1—If $100,000. is to be spent in digging a drainage canal, will more or fewer men be given employment, in the country as a whole, if the canal be dug by hand instead of using the most efficient machinery? Why?

2—Is it correct to include land values when ascertaining the total wealth of a community? If so, why? If not, why not?

3—Is it reasonable to believe that the net average returns to the farmer are any higher, or any lower, than the net average return to the town worker of the same ability who puts forth the same effort? Why?

4—If all investments in land should prove unprofitable, would that fact conflict with the claim that the holding of land out of use, lowers wages? Is the effect on production, or on wages, any different when the land speculator gains, from what it is when he loses by his operation?

5—What part of the sum of all wages earned in producing an article, from its beginning on the land until it reaches the final consumer, is included in its price to the consumer? Is this also true of all rents paid throughout the production of the same article? If so, why? If not, why not?

6—Is it within the power of the land-owner to fix the amount he charges a tenant or a purchaser? If not, what does fix it? What limits the advance to which land values can be carried by speculation?

7—A man "corners" the wheat market. Does he thereby harm society? If so, how? If not, why not? Could he continue such a "corner" for any great length of time? Why?

8—If, after a depression, Labor adjusts itself to receiving a smaller portion of its product, what effect will this have on land values? Would the result be any different if Labor, at any other time, should agree to accept a smaller share of its product?

9—Could an industrial depression occur if Labor at all times had free access to land? Explain how and why.

10—What effect does a depression have on the condition of those unemployed before the depression began?

11—Can increased spending by the government increase production and help to cure a depression?

12—Is saving (instead of spending) by individuals or corporations ever the cause of a depression? If so, why? If not, why not?