New Thoughts on Depressions

By STEVEN CORD

STATED briefly, the standard Georgist explanation for depressions is:

During a period of prosperity, land-rent increases at the expense of wages and interest, due to speculation in land. This means that a non-producer, the landowner, is taking an increasingly larger share of production as rent, leaving increasingly less to the actual producers, labor and capital.

Gradually production becomes more and more unprofitable, but it continues because credit is being extended to the producers to pay for the increasing depredations of the landowner. Eventually a point is reached when credit can no longer be economically extended to the producers; prodution slackens and unemployment and depression begin.

Unemployment Relief

An additional thought is that if rent were not unnaturally high in relation to production, the unemployed could employ themselves much more freely on low-rent land (either industrially, commercially, or agriculturally), and thus relieve the pressure of unemployment.

But it should be obvious that there are other monopolists who are getting to the land-rent before the landowner, and are taking an increasingly larger share of it. I'm thinking of the unionist and tax-collector. The more they take the less there is for the landowner.

The tax-collector is taking more than 30 per cent of the national income, more than ever before. The unions are forever active in obtaining higher wages in recent years. And the other monopolies are not be sneezed at.

So if the cause of depressions is that the actual producers obtain less and less of what they produce, and if the other monopolies are assisting the landowner in bringing this condition about, then our explanation of depressions must take into account the actions of these other monopolies. Perhaps our explanation should be something like this:

During a period of prosperity, monopoly income increases at the expense of wages and interest, due to speculation in land and other monoplies. This means that a non-producer, the monopolist, is taking an increasingly larger share of production as monopoly income, leaving increasingly less to the actual producers, labor and capital.

This explanation must be followed quickly with the statement that the only successful way in which monopolies can be destroyed is first to eradicate the source of all monopolies—the private collection of land-rent. Should we abolish the others first we merely increase the private collection of land-rent; by so doing we might even be worsening the condition of labor.

We all know that union wages increase faster than non-union wages during a period of prosperity. This is an example of the way in which other monopolies speculate as landowners might speculate.

And What of the Others?

But there is still one more artificial influence which has become extremely important in recent years and which we have not as yet considered: inflation.

Inflation, whether caused by printing press money or by the more usual extension of government credit through bond issues, can make it easier for the debtor to pay back the credit extended to him.

For instance, I borrow a dollar from you, payable in a year. If at the end of the year, because of inflation, everyone (including me) has twice as many dollars, it is certainly much easier for me to pay you back the dollar; actually, I am only returning 50 cents on the dollar.

Then, as Seymour Rauch so ably pointed out,* gradually increasing inflation, such as we have been experiencing in the past few years, makes it easier for the actual producers, labor and capital, to pay back the credit extended to them. Thus they can pay the increasing depredations of monopolists and can keep on producing. The crisis point at which credit can no longer be economically extended is being shunted off into the future; the depression is being temporarily averted.

A Short Life and Merry

As an economic panacea, gradual inflation has serious shortcomings, of course. It soon develops into galloping inflation, destroying the savings and sense of thrift of millions, and finally bankrupting the nation. It cannot eradicate poverty. It can only avert a depression for a short time.

How can we, as Georgists, give the old explanation of depressions and continue to ignore the artificial influences of monopoly and inflation which have become so increasingly important in recent years?

Oh, I know that every Georgist is against monopoly and inflation; that isn't the point. If we are not including an analysis of these evils in our explanation of depressions, we are guilty of talking about an economy which no longer exists; we will sound ludicrous to our listeners.

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*"The Relation of Credit to Rent and Interest," by Seymour Rauch, Part 1, September 1953. See also Part 2, in this issue.