

THE PROGRESS REPORT

The Economy in 2001

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In the year 2000, the financial boom of the 1990s in the US came to a screeching halt. For the past five years, the US stock market was up at an annual rate of over 25%, and in 1999 technology stocks zoomed up to stratospheric levels. But then in 2000 the bubble burst, and technology shares collapsed to small fractions of their peak values. Now, some economists are forecasting a recession.

We can gain a perspective on the business cycle and the likelihood of a major downturn with the theory first analyzed by the American economist Henry George. In his most important book *Progress and Poverty*, Henry George identified real estate, particularly the price of land, as the key variable in causing the cycle.

As an economy recovers from a depression, more and more enterprises and households buy and rent real estate. Construction accelerates as rents and land values rise. Speculators then come in to buy real estate, hoping to sell at higher prices later. Much of the gain is not a pure market outcome, but the result of subsidies by government in the form of more streets, schools, and other goods that service commerce and residents, paid for by taxes on labor.

The problem is both too much and too little construction. There is too much speculative construction of hotels, office buildings, shopping centers, apartments, and houses, much of this in the wrong places, creating sprawl, as speculators hold off lots from construction pending higher prices and more intensive uses of land.

Much of this speculative buying and building is fueled by easy credit as the central bank expands the money supply to stimulate the economy. This expansion of money lowers interest rates, which creates too much credit for capital goods, both in real estate and in industries such as high tech.

Much money, venture capital and stock sales, was flowing into technology companies, especially internet dot-coms, which did not have sound long-term business plans. People bought tech stocks speculating that others would buy at higher prices. Such bubbles must eventually collapse.

So what now, will there be a recession? Historically, the real estate cycle in the US has had a duration of 18 years, since real estate takes a long time to build and its economic impact takes several years to play out.

The last cycle bottom was in 1990, so if past patterns continue, the next depression should be around the year 2008. It seems too soon for the Georgist real-estate cycle to cause a depression in 2001.

In the last few months of 2000 there has not been a recession in total output, but in growth, a slowing of the growth rate. If the growth rate keeps on slowing, then output will go down and we will have an official recession. But a steep recession is unlikely for several reasons.

The Federal Reserve Board increased interest rates in 2000 by reducing the growth of the money supply, hence the slow-down was in part engineered. Also contributing has been the increase in the price of energy -- oil, natural gas, and electricity. If in early 2001 the Fed lowers interest rates significantly, that would help prevent a recession. Also, the price of oil has fallen from its peak, and a tax cut if put in early enough would also help.

Besides the 18-year real-estate cycle, there has also been a short cycle of about five years. From the bottom in 1990, five years later in 1995 there was a growth recession, and now five years after that we are in another short-term cycle bottom. This pattern indicates that in 2001 there will be a recovery, a last period of growth until the big recession and depression at the end of the decade of the [ozos \(2000-2009\)](#).

While many technology and industrial stocks have fallen, real- estate as well as publicly traded real estate investment trusts (REITs), stocks, funds, partnerships, have risen sharply, many with a return of about 25 percent in 2000. Much of the gains from the economic boom has been captures by land values. As the growth recession ends and growth accelerates again, high land values as well as other rising costs such as interest rates and energy will again make growth stop and then decline.

We will see at the end of the ozos whether the Georgist real estate cycle is the most accurate in forecasting the next recession and depression. The theory does accurately explain the recent boom and bust cycles of Japan and East Asia. If the Georgist cycle is in effect in the US, the only way to stop the next global depression would be to quickly do a great tax shift, untaxing wages and tapping land rent for public finances. It would also help to eliminate all central banking and let free markets determine the money supply and interest rates.

Such fundamental reforms are unlikely, so we are likely to ride the economic roller coaster up once again and then see a frightening slide down to the abyss of depression, with mass unemployment, stores full of unsold goods, and the machinery of industry at a halt. The voters put in the government officials that let this happen, so ignorance and apathy and greed will once again cast our economic fate.