THE PROGRESS REPORT

The Global Boom

By Fred E. Foldvary

The world economy is now enjoying the greatest global boom in known history. The economic trend from the beginning of the 20th century until just about 15 years ago had been towards ever greater centralization of power and economic controls. The globe suffered from great inflations, depressions, wars, and political oppression.

A few free-market advocates had been warning that the system of central planning was not working. Austrian-school economists such as Ludwig von Mises and Friedrich Hayek had warned decades ago that state socialism would lead to oppression and economic disaster. The 19th-century economist Henry George sagely noted that the inappropriate systems would have to be tried and then fail before people realized they were no good.

Where it was tried to an extreme, in the former Soviet Union, central planning collapsed at the end of the 1980s, liberating Eastern Europe and the republics of the USSR. This not only set most of Eastern Europe on the road to market economies, but also opened up new investment and trade vistas for the global economy.

Meanwhile, technology has been zipping fast forward. We are familiar with the great growth of the computer industry and the internet - this column and web site is part of it! The $757 billion stock of information processing equipment in the USA is already greater than that of transportation. Biotech industry is also expanding, and industries have been reorganizing into more efficient operations in order to compete globally.

Demographics is contributing to the boom. In the United States, the baby boomers are in their most productive years. Facing retirement, they are putting their savings into the stock market, fueling the greatest stock market boom in history. At the same time, the high inflation of the 1970s receded during the 1980s, and the huge government budget deficits have been declining. Military spending has declined relative to the economy, shifting resources to more consumer goods.

The recent currency turmoil in East Asia and the current downturn in the American stock market show that the global economy is turbulent. Progress is not continuous, but comes in waves that can fall back and then advance again. Stock markets will rise and fall, but the global boom will most likely continue past the millennium date, whether you figure it as 2000 or 2001.

Europe is now expanding, and Japan seems now be turning around. Latin American countries liberalized their economies a decade ago, and are now engaged in rapid growth. The East Asian tiger economies have been leaders in the global boom. India has liberalized somewhat and is enjoying more growth. China with Hong Kong has been growing so fast its economy will most likely surpass that of the U.S. in the middle of the next century.

But the seeds of every major depression have germinated in the previous boom. The key cause of the subsequent collapse in all major depressions has been real estate. Real estate boomed in the US during the 1980s, and then fell, crashing especially hard in Japan. U.S. real estate recovered in the early 1990s and has now entered the boom stage. As rents rise, land speculators do two things. They construct ever more developments, expecting rising land values to add to their profits. They also buy up lands they expect to be developed in the future, and sit on it waiting for the site prices to go up. Much of this speculation is fed by a banking system tied to land as collateral.

But the rising land costs make other investments more and more expensive. Interest rates, wages, and some other prices also rise. The growth then slows down. This reduces demand all across the economy, slowing growth even more. Growth eventually slows to zero, and then becomes negative. The big new shopping centers and office buildings sit empty. Land speculators realize the boom is over, and real-estate prices collapse. Many loans are not repaid, so the banks have a crisis. The boom has come to a crashing halt. Since national economies are interconnected, the whole global economy goes into a recession and then a depression.

Historically, the real-estate cycle in the U.S. has had a duration of about 18 years. If this pattern continues in this cycle, the expansion that started around 1991 will end in a depression towards the end of the first decade of the new millennium. The crash can be averted with two policy changes.

- First, shift taxation to land rent, eliminating the real-estate speculative bubble.

- Second, implement free-market banking, letting the market determine the money supply, which would raise interest rates before a speculative boom becomes excessive.

If these policies are not adopted, then enjoy the boom for the next few years, because past patterns will repeat themselves eventually and lead to another great depression.