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The New Economic Realities

By Fred E. Foldvary

Since the early 1800s there has been a real estate cycle in the USA and Europe. In the United States, about every 18 years, real estate prices and construction rise and fall. Since investment drives the business cycle and a third of investment is related to real estate, real estate cycles have been the major cause of business cycles.

The boom of the 1920s followed by the depression of the 1930s was a classic example of a real estate boom fueled by excessive credit and propelled by land speculation, which collapsed into a depression. But World War II eliminated the cycle. Instead of building houses and cars, production shifted to army barracks and tanks. The real-estate cycle came back during the 1960s, with the recessions and depressions of 1973 and 1991.

Another real-estate boom followed during the 1990s. The collapse of the technology boom did not hit real-estate much, as construction continued and prices declined a bit but were still historically high. The economy looked like it was about to recover, with the leading indicators up and falling inventories needing to be replaced. The real-estate cycle was on schedule.

Then on September 11, 2001, terror struck New York City and the Pentagon. The world changed. The human loss was staggering, and the economic impact is profound. The USA is now in a real sense at war. Just as with World War II, the Terrorist War will require massive restructuring. In the near-term, the swift downturn in stock markets reflect the great economic destruction that has taken place. The loss of production will hit real estate as well. The normal cycle has been shattered.

The US economy will recover, but there will be a fundamental restructuring. There is a new reality. The 21st century will be an age of terror. Even if the perpetrators of this attack are found and eliminated, terrorism will not disappear. The grievances that fuel terrorism will not be removed. The US administration's response needs to be smarter. Calls for a "crusade" and naming the campaign "infinite justice" have shown insensitivity to potential allies. Imposing demands without providing evidence is not the wisest course.

But even if the US response is effective, terrorism is like a virus which feeds on the economic ecosystem. Biological ecosystems have predators and prey. Human ecosystems are the same way. Wealth creates opportunities for thieves. An economy becomes a resource available for plunder by governments. The existence of the internet created a new field which predators have exploited with computer viruses and worms.

In my editorial during the first week of the year 2000 and the dawn of the new millennium, I wrote: "Terrorists will have atomic bombs and chemical and biological weapons. There will be occasional attacks on cities, and these will all be suicide missions..." Tighter security may prevent most future airplane hijacks, but other means of destruction are difficult to eradicate.

This implies a great shift in how we live. The era of huge buildings and centralized operations is now obsolete. To survive, we need to decentralize and become more flexible. Big airplanes and buildings are targets in the Terrorist War. Instead of vulnerable large aircraft, small airplanes will have fewer passengers and less deadly fuel. Some transportation will need to shift to busses. There will be less travel, less tourism, and less demand for hotels and conferences, and more electronic, virtual sight-seeing and meetings.

Security services will be a major growth industry. If terrorist drive-by shootings at cars spread from the Middle East to the rest of the world, cars will need to have bullet-proof windows and doors. Bullet-proof windows may become standard practice. People will leave big cities and move to safer small towns. The concept of a "capital city" is obsolete. Capitals are tempting targets, so government needs to decentralize operations in many scattered locations. Big monuments, massive cathedrals, and skyscrapers are all vulnerable. The realities of the 21st century require strong small structures and redundant facilities.

To survive, governance itself needs to decentralize. The tendency to concentrate government at the top level is a 20th-century practice that is now kaput. Weapons of mass destruction will induce government services other than military to shift to provinces and localities.

Most of all, we no longer have the luxury of indulging in wasteful regulations and taxes that impose excess burdens on the economy. We need economic flexibility and efficiency. A robust economy is the best defense against the ongoing Terrorist War. We need to shift taxes out of labor and capital and onto land values, and soon. We can bear security costs and still prosper if we remove the needless costs we are imposing on ourselves by the antiquated 19th-century sales tax and the now-obsolete 20th-century income tax.

We need to move to 21st century decentralized public finance based on land rent. Only rent-based public revenue will allow our economy to bear the tremendous costs of rebuilding, restructuring, and defense. Geoism is the policy of getting public revenue only from rent and from economic bads such as pollution. The patriots of the 21st century will need to be geoist.

What can you do? Learn about geoism from sources available at The Progress Report and then start local economics clubs to teach others. These clubs must grow into a network that will then influence policy to deal with 21st century reality. Our economy can prosper even in the face of ongoing attacks if we radically decentralize governance and industry and untax our production. Either we go geoist now, or we will have to wave goodbye to 20th-century standards of living.

-- Fred Foldvary

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