

## *Boom or Bust*

BY OSCAR B. JOHANSEN

To observe the gyrations of our monetary authorities as they attempt to abort what may be a spreading recession is an interesting, if not diverting, psychological study of human behavior.

The perceived wisdom is that lowering interest rates will induce businessmen to borrow money to spend in improving the capital structure of their enterprises, thus increasing employment and slowing if not stopping a recession. The fact that the decade-long recession in Japan has not been appreciably helped by it reducing its fundamental interest rates to virtually zero is ignored.

Arbitrarily to decrease interest rates is equivalent to pushing on a string. They may have little or no effect on businessmen, who are not likely to borrow money, regardless of what the interest rates are, if they see no profitable use of such rates. But the monetary authorities believe they have no choice. Though they are supposed to be independent, they know they have to do what most people want or the pressures on them to resign will be unbearable. So the Federal Reserve Board manipulates the Federal Funds rate through the purchase and sale of government securities. But this means, in effect, that it must increase our money-supply if it wants interest rates to drop, for, with more money available, the tendency is for interest rates to fall.

However, increasing the money supply can result in too much money seeking too few goods, i.e. inflation. It is confidently stated that inflation is tamed as indices such as the Consumer Price Index, show relatively modest increases. But that this is so brings into question the validity of these indices, as anecdotal evidence implies that inflation is far from being negligible. The average housewife is well aware that prices are rising, for she notices it every time she goes shopping. First class postal rates have increased and are likely to increase still more shortly. Oil and gasoline prices are rising as well as airplane and other transportation fares. An important reason why inflation appears to so many to be muted is that much of the actual currency printed by the Government is abroad in foreign countries, as Russia. People in such countries do not trust

their own nation's currency, for almost every day they see it drop in value as those nations print more and more currency to pay their bills. Thus, they use the American dollar, as its value is more stable than their own.

Although no one can tell exactly how much American currency is abroad, it is well known that it is a tremendous sum. Sooner or later, most of it will come back to the USA, and when it does, prices will escalate so much that no one will have any doubt that inflation is very much alive. This may not unduly disturb the people, for they have never witnessed first hand the terrible effects of a virulent inflation such as existed in Germany after the first World War. What the American people are aware of is the terrible depression of the 1930's, and they do not wish to have another one. They are also aware of the business cycle with its boom and bust mien but have no understanding of what are the cause or causes of such phenomena, and are seeking answers.

None of the explanations given are very convincing. This may be because probably the primary factor is given little or no consideration. This factor is the system of land tenure in existence. Land prices in the U.S. are high but not nearly equal to the height attained in Japan. This may, in part, be due to the real estate investment trusts' debacle which occurred a few years ago. This may have caused land prices to slow down, if not decrease, for a while. Apparently, however, land prices are still too high, not only in Japan but in the U.S. The volatility of the stock market is probably a reflection of the uncertainty existing in the economy. The soaring stock boom, particularly in equities in the computer field, with the subsequent drastic collapse of these securities is causing speculators to be uncertain which way the economy is heading. As more and more employment layoffs occur, the fear is that the recession is worsening. The manipulation by the politicians and bureaucrats of taxes and interest rates gives little assurance that the economy will turn around, for the marketplace is much too powerful.

To reduce interest rates arbitrarily without regard for savers is immoral. The low interest rates in savings

accounts are not only unfair to savers but probably has been one of the important reasons for people to seek higher returns by turning to the stock market. Although it is difficult to believe, it is now asserted that about half of the people in the country are involved with the stock market directly or indirectly through such instruments as pension funds of one sort or another. Whether such behavior is wise or not, only time will tell, but certainly cause for concern. After all, it is doubtful if most people are sufficiently sophisticated to invest profitably in securities, as such an act requires a high degree of knowledge and understanding of the vagaries of the inscrutable, if fascinating, stock market.

As for land, few people appear to be cognizant of its importance in the business cycle. Many believe that high and rising land prices are indicia of a booming economy. Actually, rising prices are probably among the more important factors in establishing the groundwork for a recession, if not a depression. High land prices make it difficult for entrepreneurs to purchase land at prices which would make it possible to produce wealth at profitable levels. Thus, with access to land for all practical purposes being denied, product tends to decrease, with the consequent increase in unemployment. If such unemployment becomes great enough, a recession will most likely rear its ugly head.

People's primary focus is on the stock market, with probably little, if any, interest in the land and real estate markets. It is possible that studies of these markets may give some insight as to where the economy is heading. However, this does not mean that all one needs to do is to make such studies, for there are too many other factors involved, like new inventions. The computer, for example, has had a significant effect on production, which, undoubtedly, has had a profound influence on the business cycle.

Even though it is obvious that there are many factors involved, the sad fact is that it appears quite likely that unless the system of land tenure practiced is corrected, booms and busts will be the standard fare in the long run. How wonderful it would be if such were not the case!