

Why Not A Depression?

by OSCAR B. JOHANNSEN

ONE of the puzzling facts confronting Georgists is that in the sixteen years since World War II there has been no depression comparable to those which occurred before that conflict.

Henry George in *Progress and Poverty* stated that "the great initiatory cause is to be looked for in the speculative advance of land values." Our daily observations tell us that they have risen tremendously. House & Home appears to corroborate that viewpoint for in its August 1960 issue it estimated that "paper prices for land now total close to half a trillion dollars—nearly twice the national debt, more than six times the federal tax revenue, nearly twice today's price of all listed stocks, more than twice the resources of all our commercial banks."

If that is the case, then why are we not in the throes of a great depression? Some of the reasons advanced are that the socialistic measures of the government, such as social security and unemployment insurance, have tended to mitigate the effects of rising land values. While there is little doubt that such measures have an effect, it remains to be shown why they would prevent a depression from occurring.

George was careful to point out that a depression started when "land values are carried beyond the point at which, under existing conditions of production, their accustomed returns would be left to labor and capital." Thus, even though land values have risen tremendously, production would not cease as long as labor and capital received their usual incomes. Well, are they? To ask that question is to ask if labor is receiving its usual re-

turn inasmuch as interest—the capitalist's share of production—is really a deduction from wages. Thus, the question resolves itself into whether labor is receiving its usual wages.

Resort cannot be made to statistics for any definitive answer because statistics in the field of the social sciences are highly questionable tools. If used at all, statistics must be employed with great discretion. Our general impressions are probably a better guide than the mass of statistics so laboriously gathered. We usually test the statistics by our every day experiences and wages, in general, have certainly risen as a quantity in terms of the exchange media presently being used. For example, office boys today earn about \$60 a week, which is almost three times what they received before World War II.

While most would agree that this is true, the question which comes to mind is whether wages have risen in terms of purchasing power. Our experiences tell us that due to the inflation of our exchange media its purchasing power today is about one-half what it was twenty years ago. Therefore, while it is quite certain that wages in terms of our exchange media have risen, it is by no means clear whether wages in terms of purchasing power have risen, remained steady or dropped. Most people, however, cannot help feeling that they are making more now. Even when it is pointed out that in purchasing power they may not be making as much, they still feel they are better off. This may be due to a psychological quirk of human nature. It may be, though, that in a material sense many are better off because

inflation acts unevenly. Most prices rise, some stay steady, and some even drop. Due to inventions and improvements the prices of wealth have not risen as much as the prices of services. When the bootblack's shine goes from 10¢ to 25¢ you shine your own shoes and now you have 25¢ with which to purchase some trinket. Inflation tends to direct our purchases toward wealth and away from services so that materially we may be better off, at least before a runaway inflation develops.

While it is impossible to prove, this writer believes that, all things considered, wages for most people either have not dropped in terms of purchasing power, or labor is deceived by inflation into believing they have not dropped. If the foregoing has any validity it would appear that despite the increase in land values, a great depression has not occurred up to now because labor for the most part is, or believes it is, getting its usual return.

This article is an attempt to bring out a probable factor in a boom and bust cycle which is not stressed sufficiently—the inflation of the exchange media. It tends to prolong a boom and may even hasten a recovery from a depression. It is an unhealthy factor but apparently it does exist, and, if that is so, then Georgists must be aware of it.

It would appear that booms of the feverish variety we think of cannot occur unless inflation of the exchange media accompanies the rise in speculative rent. After all, when people buy land at successively higher prices, they cannot buy it all with cash. They must resort to borrowing. If banks merely loan what has been deposited with them, they must soon have to stop. However, if they indulge in the unsound practice of inflating the exchange media through the issuance of notes and the creation of demand deposits which are not backed by goods coming to market but rather by

the land which is being sold at prices away beyond productive capacity, they permit the rise in speculative rent to continue. And depressions are usually sparked by banks calling loans.

If land values increase but the exchange media is not tampered with, the boom and subsequent depression will probably be limited. However, when accompanied by inflation, not only will the boom be longer and greater, but the depression will be equally more severe. The boom of the 1920's probably could never have attained such fantastic heights without the establishment of that engine of inflation—the Federal Reserve System—which enabled the banking system to inflate the exchange media far beyond previous limits.

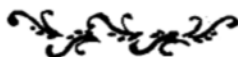
Why have we not had a depression up to now? It is the writer's belief that it is because of the inflation which has kept pace or even exceeded the rise in speculative land values. The boom has kept rolling along because the government has consistently utilized the inflation of the exchange media as a device to counteract any decline in production. In previous eras inflation largely occurred due to unsound banking practices. This does not mean that the government did not adopt inflationary practices at times, but the men in control recognized the dangers involved and so, in the main, used the inflation weapons at their disposal reluctantly. When sufficiently alarmed they took steps at least to slow down the inflation. Today, however, the government uses inflation as a deliberate tool to prevent depressions. The use of this economic narcotic, of course, cannot go on indefinitely. When the depression does occur it will be worse than any previously experienced. The only alternative would be to become involved in a war. But that is really the worst kind of depression because not only does it bring with it all the attendant horrors of

stupid slaughter but it results in a greater cessation of production than occurs in an ordinary depression. A depression is a stoppage of production of consumer items. In wartime, though we work hard and produce a lot of war material, we limit the production of consumer items to a minimum. Thus, either way, a terrible depression will be upon us.

When will it occur? It will happen

when, despite the distortions and changes in relationships in the economy which are brought about by inflation, labor awakens to the fact that it is not getting its usual return. And as to when that will be, only someone blessed with omniscience can say.

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ERIE, PENNSYLVANIA FORMS LAND TAX GROUP

The Erie Land Tax Association has been formed in Erie, Pennsylvania, following on the heels of the endorsement of land value taxation by the Erie Junior Chamber of Commerce.

The Erie Land Tax Association is composed of a number of the leading citizens of Erie who are interested in studying the probable impact on the city's economy if land value taxation is adopted there, as allowed by Pennsylvania law.

The group is headed by Charles A. Hall, office manager for E. E. Austin Builders. William E. Walker, real estate man and owner of Ebco Industrial Park, was elected secretary. Thomas Greene, associated with an Erie bank, was named treasurer.

The new organization, ELTA, will have weekly meetings during which land value taxation will be explored, and if found to be practical, the Erie city council will be urged to adopt it. Studies will be made of Erie property to determine tax savings by industries and homeowners.

Members of ELTA include attorneys, city officials, real estate men, developers and merchants.

Secretary Walker, in explaining the purpose of the new organization, said, "the many proponents of ELTA feel it is the most significant step that Erie can consider to revitalize economic growth of our city."

ELTA has announced four courses in fundamental economics for residents of the city, all to be given in Gannon College in Erie.

PROOF OF PROGRESS THROUGH LVT

Dr. and Mrs. Harry Gunnison Brown, in meeting with audiences in Erie and other cities in Pennsylvania, find them much interested in actual "before and after" figures from cities in Australia which they distribute freely upon request.

For instance, in two cities in Victoria, after their local municipal finance system was changed to exempt buildings and cultivation from local taxes, basing these only on the unimproved capital value of the location, both cities made an enormous advance over their previous high level of building activity—at a time when building in most other provincial areas was at its lowest ebb.

While other cities had made a similar change previously with less spectacular results, these two, Wangaratta and Mildura, were the first to switch all rates to the site value basis and completely exempt buildings. In both cases there was an immediate upward leap in all classes of building—the improvement being greatest in the city where the rate change was most complete. Employment opportunities have, of course, kept pace, and the shopkeepers are in clover, as shopping centers have been transformed in a wave of modernization.