

Footnote to a League Document

(The intelligence division of the League of Nations has published a report, "Prosperity and Depression," in which all the major theories of the business cycle are analyzed, compared and to some degree synthesized. It finds that most theorists agree the cycle results from the fluctuating profitableness of investment, aggravated by cost rigidity and monetary instability. In the following article Mr. Miller explains what is at the basis of the fluctuation, the rigidity, the instability.—The Editors.)

Every period of industrial depression has been preceded by a feverish speculation in land. Speculation in houses or in stocks, or in commodities is a by-product of land speculation, inflation in the natural element is reflected in other inflations. An orgy of installment buying follows on this. The tendency of a large portion of people is to live beyond their means, and business hazards take on a new recklessness.

We know the blight which visits cities which are the subjects of so-called "land booms." For a time the cities regard with pride the increased business activities, rising land values, and building lots selling at constantly enhancing prices. They regard this as evidence of prosperity,

but it is not prosperity. It is soon discounted by the element of land inflation.

Land values are a community asset, but the factor that upsets all calculations of continued prosperity, that is bound sooner or later to interrupt the productivity of the community, is private speculation in what may be regarded as the life blood of the community.

The analogy may not be perfect that likens land values to the life blood of the human body, but it is through the arteries of a city's commerce that the stream of land values flows, without volition, determining the sites of the city's business activities, the distribution of its population, the direction of its transit lines. Anything that interrupts or interferes with the normal pulsation of land values through the city's various arteries, causes a disarrangement, or at times a total stoppage of the orderly processes of industry.

Business generally can carry the normal economic rent. It is part of the "overhead" that may be calculated pretty accurately in advance. It is met easily by the volume of business transacted even when the normal rent is high. It is only when land speculation sets in that abnormal rent charges are made under

which industry finds it increasingly difficult to produce at a profit.

Then, to reduce expenses, workmen are laid off, retrenchments are made, and the volume of production is curtailed. This tendency moves progressively until failures and bankruptcies follow one another. What is local becomes general; where men are laid off and wages cease, the effect of this is felt in other and distant cities. Following the decline in what the economists call the "effective demand," distant markets find their sales decreasing and employment slackened.

The identical phenomena are repeated there, though it may be that in these places land remains normal and what happens is due to economic disturbances occurring elsewhere. No important community is or can be an independent economic unit; and the effect of business disturbances caused by the passing of the normal economic rent line runs its course from city to city and town to town until the whole country is affected.

This is the simple explanation of the fundamental cause of panics and industrial depressions.

—Joseph Dana Miller.

See: "Social Problems," pp. 119—121.
 "Progress and Poverty," Book V,
 Chapter I.
 "Teachers Manual," (P. & P.), Les-
 son V, Q. 17.