

**Fifth Part:**  
**The Problem Solved**

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**Chapter 22**

**The Root Cause of Recessions**

WE HAVE COMPLETED our long inquiry, and now we can compile the results.

We will begin with depressions and recessions, which affect every modern society. We have shown how land speculation inflates land values, reduces wages and interest, and thereby checks production. There are other reasons as well, such as: the complexity and interdependence of production; problems with money and credit; the artificial barriers of protective tariffs. Nonetheless, it is clear that land speculation is the primary cause producing recessions. We can see this either by considering principles or by observing phenomena.

As population grows and technology advances, land values rise. This steady increase leads to speculation, as future increases are anticipated. Land values are carried beyond the point at which labor and capital would receive their customary returns. Production, therefore, begins to stop.

Production need not decrease absolutely—it may

simply fail to increase proportionately. In other words, new labor and capital cannot find employment at the usual rates.

Stopping production at some points must necessarily affect other points of the industrial network. Demand is interrupted, checking production elsewhere. Paralysis spreads through all the interlaced industry and commerce. The same events can seem to show either overproduction or overconsumption—depending on one's point of view.

The period of depression will continue until: (1) the speculative advance in rents is lost; or (2) the increased efficiency of labor (due to population growth and/or improved technology) allows the normal rent line to overtake the speculative rent line; or (3) labor and capital are willing to work for smaller returns. Most likely, all three will cooperate to produce a new equilibrium\*. Production resumes in full. After rents begin to advance again, speculation returns; production is checked; and the same cycle repeats itself.

Modern civilization is characterized by an elaborate and complicated system of production. Moreover, there is no such thing as a distinct and independent industrial community. We should not expect to see cause followed by effect as clearly as we would in a simpler society. Nevertheless, the phenomena actually observed clearly correspond with what we have inferred. Deduction shows how the actual phenomena result from the basic principle.

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\*It is also possible for these forces to move in different directions at the same time. For example, in the 1990s, the speculative advance of rents continued apace, but was offset by increased productivity due to technological advancements.

If we reverse the process, it is just as easy to use induction to follow the phenomena and arrive at the principle. Depressions and recessions are always preceded by periods of activity and speculation. Some connection between the two is generally acknowledged. Depression is seen as a reaction to speculation, as this morning's hangover is a reaction to last night's debauch. There are two schools of thought as to how this occurs.

The school of overproduction says production has exceeded the demand for consumption. They point out unsold goods, factories working half time, money lying idle, and workers without jobs.

The school of overconsumption points to the very same things as evidence that demand has stopped. This, they say, is because people, made extravagant by fictitious prosperity, have lived beyond their means. The pinch was not felt at the time, much as spendthrifts do not notice the loss of their fortunes while squandering them. Now they must retrench and consume less.

Each of these theories expresses one side, but fails to comprehend the full truth. Each is equally preposterous as an explanation of observed phenomena.

People want more wealth than they can get. The basis of wealth is labor. How can there be overproduction as long as people are willing to give their labor in return for things? Likewise, when workers and machinery are forced to stand idle, how can one claim overconsumption? The desire to consume coexists with the willingness to produce. So industrial and commercial paralysis cannot be attributed to either overproduction or overconsumption.

Clearly, the trouble is that production and consumption cannot meet and satisfy each other. This, it is

commonly agreed, arises from speculation. But speculation in the products of labor simply tends to equalize supply and demand. It steadies the interplay of production and consumption, much like a flywheel in a machine. This has been well shown, and spares me the need to illustrate it.

Therefore, the problem must be speculation in things that are not the product of labor. Yet it must be things needed for production. And finally, it must be things of fixed quantity.

*The cause of recurring recessions must be speculation in land.*

This process is obvious in the United States. During each period of industrial activity, land values rose steadily, culminating in speculation that drove them up in great jumps. This was invariably followed by a partial cessation of production, reducing effective demand as a correlative. A commercial crash generally accompanied this. A period of comparative stagnation followed, during which equilibrium was slowly reestablished. Then the same cycle began again.

In common parlance, we say "buyers have no money." But this ignores the fact that money is only a medium of exchange. All trade is really the exchange of commodities for other commodities. What would-be buyers really lack is not money—it is commodities they can turn into money. Sales may decline and manufacturing orders fall off, yet a widespread desire for these things remains. This simply shows that the supply of other things—which would be exchanged for them in the course of trade—has declined. Reduced consumer demand is just a result of decreased production.

This is seen quite clearly in mill towns when workers

are thrown out of work. Since workers have no means to purchase what they desire, storekeepers are left with excess stock. They must then discharge some of their clerks. The decreased demand leaves manufacturers with an overstock, and forces them to discharge their workers in the same way. Somewhere—and it may be at the other end of the world—a check in production has produced a check in demand.

Demand is lessened without want being satisfied. People want things as much as ever. But they do not have as much to give for them. The obstruction then spreads through the whole framework of industry and exchange.

Since the industrial pyramid clearly rests on land, some obstacle must be preventing labor from expending itself on land. That obstacle is the speculative advance in land values. It is, in fact, a lockout of labor and capital by landowners. Though habit has made us used to it, it is a strange and unnatural thing that people, who are willing to work to satisfy their wants, cannot find the opportunity to do so.

We speak of the supply of labor and the demand for labor. Obviously, these are relative terms. Labor is what produces wealth. So the demand for labor always exists—for people always want things that labor alone can provide.

We speak of a lack of jobs, but clearly it is not work that is short. The supply of labor cannot be too great, nor the demand for labor too small, when people still want those things that labor produces. Trace this inactivity from point to point, and you will find that unemployment in one trade is caused by unemployment in another. This cannot arise from too large a supply of labor or too small a demand for labor.

The real trouble must be that supply is somehow prevented from satisfying demand. Somewhere, there is an obstacle keeping labor from producing the things that laborers want.

Put a few of the vast army of unemployed on an island cut off from all the advantages of a civilized community, without the cooperation and machinery that multiply productivity. Using only their own hands, they can feed themselves—but where productive power is at its highest, they cannot. Is this not because they have access to nature in one case, but are denied it in the other? The only thing that can explain why people are forced to stand idle when they would willingly work to supply their wants is that labor is denied access to land.

When we speak of labor creating wealth, we speak metaphorically. People create nothing. If the whole human race worked forever, it could not create the tiniest speck of dust floating in a sunbeam. In producing wealth, labor merely manipulates preexisting matter into desired forms by using natural forces. Therefore, labor must have access to this matter and to those forces to produce wealth. That is to say, they must have access to land.

Land is the source of all wealth. It is the substance to which labor gives form. When labor cannot satisfy its wants, can there be any other cause than that labor is denied access to land?

The foundation of the industrial structure is land. Hat makers, opticians, and craftsmen are not the pioneers of new settlements. Miners did not go to California because shoemakers, tailors, and printers were there. Rather, those trades followed the miners. The storekeeper does not bring the farmer, rather the farmer brings the storekeeper. It is

not the growth of the city that develops the country, but the development of the country that raises the city.

Therefore, when people of all trades cannot find opportunity to work, the difficulty must arise in the occupations that create demand for all other employment. It must be because labor is shut out from land.

In great cities like Philadelphia or London or New York, it may require a grasp of basic principles to see this. But elsewhere, industrial development has not become so elaborate—nor has the chain of exchange become so widely separated. There, one has only to look at the obvious facts.

San Francisco ranks among the great cities of the world, though barely thirty years old. Yet certain symptoms are already beginning to appear. In older countries, these are taken as evidence of overpopulation. But it is absurd to talk of excess population in a state\* with greater natural resources than France, but less than a million people.

Still, unemployment has been growing for a number of years. When the harvest season opens, the workers go trooping out; when it is over, they come back again to the city. Clearly, there are unemployed in the city because they cannot find employment in the country.

It is not that all the land is in use. Within a few miles of San Francisco is enough unused land to employ everyone who wants work. I do not mean that everyone could—or should—become a farmer if given the chance. But enough would do so to give employment to the rest.

What prevents labor from using this land? Simply that land has been monopolized. It is held at speculative prices, based not on present value, but on value that will come

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\* California in 1879

with future population growth. This speculative advance is held with great tenacity in developing communities. Owners hold on as long as they can, believing prices must eventually rise.

Thus, the speculative advance in rent outran the normal advance. Production was checked, and demand decreased. Labor and capital were turned away from occupations directly concerned with land. So they glutted those where land is a less apparent element. This is how, for instance, the rapid expansion of railroads was related to the succeeding depression.

It may seem as if I have overlooked one thing in saying the primary cause of depressions is land speculation. Such a cause should operate progressively; it should resemble a pressure, not a blow. Yet industrial depressions seem to come on suddenly.

Let me offer an explanation for this. Exchange links all forms of industry into one interdependent organization. For exchanges to be made between producers far removed by space and time, large stocks must be kept in store and in transit. (This is the great function of capital, in addition to supplying tools and seed.) These exchanges are made largely on credit: the advance is made on one side before the return is received on the other.

As a rule, these advances are made from more developed industries to fundamental ones. Natives who trade coconuts for trinkets get their return immediately. Merchants, on the contrary, let out their goods a long while before getting a return. Farmers sell their crops for cash as soon as they are harvested. Manufacturers must keep large stocks, ship goods long distances, and generally sell on installments.



Thus, advances and credits are generally from what we may call secondary to primary industries. It follows that any check to production that proceeds from the primary will not immediately manifest itself in the secondary. The system is, as it were, an elastic connection: it will give considerably before breaking. But when it breaks, it breaks with a snap.

Let me illustrate what I mean another way. A pyramid is composed of layers, with the bottom layer supporting the rest. If we could somehow make this bottom layer gradually smaller, the upper part would retain its form for some time. Eventually, gravity would overcome the adhesiveness of the material. At this point, it would not diminish gradually, but would break off suddenly, in large pieces.

The industrial organization may be likened to such a pyramid. As each form of industry develops, through the division of labor, it rises out of the others. Ultimately, everything rests upon land. For without land, labor is as powerless as a person would be in the void of space.

We have now explained the main cause and general course of recurring paroxysms of industrial depression, which are a conspicuous feature of modern life. Political economy can only—and need only—deal with general tendencies. The exact character of the phenomena cannot be predicted, because the actions and reactions are too diverse. We know that if a tree is cut, it will fall. But the precise direction will be determined by the inclination of the trunk, the spread of the branches, the impact of the blows, the direction and force of the wind, and so on.

I have given a cause that clearly explains the main features of recessions. This is in striking contrast to the contradictory—and self-contradictory—attempts based on

current theories. It is clear that a speculative advance in land values invariably precedes each recession. That these are cause and effect is obvious to anyone who considers the necessary relation between land and labor.

The recession runs its course and a new equilibrium is established as the normal rent line and the speculative rent line are being brought together by three factors: (1) The fall of speculative land values, as shown by reduced rents and shrinkage of real estate values in major cities. (2) The increased efficiency of labor arising from population growth and new technology. (3) The lowering of customary standards of wages and interest.

When equilibrium is reestablished, renewed activity will set in. This will again result in a speculative advance of land values. But wages and interest will not recover their lost ground. The net result of all these disturbances is the gradual forcing of wages and interest toward their minimum.