See especially Chapter IX

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# 100 Years of Land Gambling

## A CHICAGO REAL ESTATE MAN DELVES DEEP INTO THE LAND QUESTION, AND MASSES EVIDENCE OF EXTRAORDINARY SIGNIFICANCE AT THIS TIME

"One Hundred Years of Land Values in Chicago," (519pp.) by Homer Hoyt; The University of Chicago Press, $5.00

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A NUMBER of years ago, Homer Hoyt, who, for a time, I believe, was a teacher of economics in the University of Chicago, engaged in the real estate business. Of a serious and studious bent of mind, he conceived the idea of making a scientific study of the rise and fall of land values and prices in the Chicago area over a considerable period of years. His main idea was, it seems, to provide an intelligible revelation of the factors governing price trends, because, as he says in his preface to the book before us:

> "the knowledge of the past movement of land prices seemed to me to be indispensable for any rational real estate investment policy."

Elsewhere as here, the author indicates that he is thinking of land dealing as a commercial business in itself, rather than as a factor of importance in its effect upon the progress or welfare of human society as a whole. Nevertheless, the facts he brings to the surface seem to me to be of portentous significance at this time. The mysterious inevitability of what is called the business cycle by orthodox economists, is here plainly called into question—not by the author, but by his facts.

Mr. Hoyt, we are told, spent eight years in the study, which included a meticulous examination of public records from 1834 to date, as well as a study of books and newspaper files relating to the early history and the later growth of the community from a hamlet of a dozen log huts in 1830 to an urban agglomeration with a greater population in 211 square miles (according to the most recent census) than is contained in 825,000 square miles in eight American states.

Mr. Hoyt has written a remarkable and most significant book. This because it may easily be discerned by the reflective reader that the combination of human events and activities responsible for both the good and the evil incidence of land dealing in the area under consideration, can be related to definite principles of universal validity in any growing community. Indeed, it may not be too much to say that by reasonable deduction from the unquestionable historical facts here revealed, the thoughtful man seeking the true causes of the economic troubles of the United States at this time may find a convincing answer.

### I. THE GENESIS OF LAND BOOMS

The favorable geographical situation in Chicago at the junction of Lake Michigan and the Chicago River first attracted the earliest settlers. Limitless areas of government land were accessible at $1.25 per acre. The first land boom started when Federal engineers, after surveys, favored the construction of a canal for a distance of one hundred miles from Chicago to La Salle, the Secretary of War, Mr. Calhoun, having suggested that such a waterway would be a vital transportation link in time of war. Also it was well known that one of the immediate results of the building of the Erie Canal in New York was a rapid rise in land values in all the towns along the route. Through the cooperation of the Federal Government with the State of Illinois the Chicago-Des Plaines river route was chosen for the canal, and alternate sections of land for five miles on each side of the route were granted to the State by Congress. The Illinois legislature authorized the Canal Commissioners to sell this land at $1.25 per acre. Part of one of these sections of canal lands, three-eights of a square mile, that straddled the forks of the Chicago River was surveyed and laid out in lots as the original town of Chicago.

Chicago's population in 1834 began to grow rapidly, from a beginning of less than 500 persons, until 1836 when there were approximately 4,000 residents. Land speculation was active from the beginning. Auctions of vacant lands were constant, and nearly $2,000,000 worth of lots were sold before the end of 1836. The town was a trade center for a territory within a radius of 200 miles, a refitting point for westward-bound immigrants, and the legal center of an area of approximately 3,200 square miles. It was also the seat of the Government land office for the surrounding region. The records indicate that shortly before the tide of population increase set in, no part of the Chicago region of 211 square miles was considered more valuable than any other government land that was offered for sale throughout the west for $1.25 an acre. It may be noted, incidentally, that in 1833 the United States closed a deal with the Pottowatomie Indians for the purchase of 20 million acres of tribal lands near Chicago at the rate of six cents an acre.

As people flowed into Chicago, however, the demand for lots for actual use started an active speculative movement, until prices advanced from day to day. The people of the whole United States at that time seemed to be engaged in feverish land speculation. Many wealth-seekers were coming to Chicago with visions of a great city at the mouth of the Illinois and Michigan Canal. The author cites many extraordinary instances of the wildness of the first Chicago real estate boom, such as the sale, in 1832, of the corner of South Water and Clark Street, a plot eighty feet by one hundred eighty feet, for $100, its resale in 1834 for $3,500, and its sale in the following year for $15,000. The fame of Chicago real estate was so great that Chicago lots were sold even in New York City at public auction. The effect of this upon the local speculators was to stimulate fresh advances when the news reached Chicago. Buyers bought money from New York, from the South and elsewhere to invest in Chicago lots. The author adds:

> "If outsiders were thus so anxious to buy, it is a matter of little surprise that the local residents who saw the rapid rise in land values which was daily taking place, invested all the money they could raise in land, which was making people wealthier in a year than in a lifetime of hard labor."

It is proper to point out that the speculative land mania at that time was not confined to Chicago or the West. A superabundance of paper money, issued under State laws, had flooded the country in volume exceeding the requirements of legitimate trade, and in the money centers of the East a furor of speculation in all commodities, but in real estate particularly, was at its height. The rise in land values in Chicago continued until the spring and summer of 1836 which marked the beginning of the construction of the canal. The author quotes a writer of the period as follows:

> "The whole land seems staked out and peopled on paper. . . . Worthies would besiege the Land Office and purchase town sites at $1.25 per acre which in a few days appeared on paper, laid out in the most approved rectangular fashion, emblazoned in glaring colors, and exhibiting the public spirit of the proprietor in the multitude of their public squares, church lots and school lot reservations."

By the summer of 1836 the sales value of land in the present city limits of Chicago had increased from $168,800 in 1830 to $10,500,000.

## II. THEN CAME THE MORNING AFTER

Then came the depression. Real estate became a drug in the market, mortgage money disappeared, foreclosures were numerous and a financial crisis became evident everywhere. The credit of the State of Illinois became seriously impaired because the State, stimulated by land speculators, had recklessly plunged into programmes of internal improvements that could not be paid for. Banks began to fail right and left, and people of supposed affluence were reduced to poverty. A familiar sight, which many of us have seen at the end of land booms in other places, was described by a newspaper reporter writing in 1839 as follows:

> "In taking a stroll last week . . . we observed a considerable portion of the beautiful prairie which in the eventful days of speculation was staked out and sold as thousand dollar city lots, now plowed up for potato patches, and purposes of cultivation."

By 1841 the low ebb of State finances and of Chicago land values had been reached. Illinois State bonds were selling at 18 cents on the dollar. The powerful State Bank of Illinois had suspended operations, and privation and suffering were evident everywhere. The author quotes Joseph N. Balestier, a writer of the period, as follows:

> "Broken fortunes, blasted hopes and blighted character—these were the legitimate offspring of those pestilent times. The land resounded with groans of ruined men and the sobs of defrauded women who had entrusted their all to the greedy speculators."

So ended the first Chicago land boom.

## III. HOW THE NEXT PAROXYSM STARTED

Still Chicago grew. Deflated land values invited workers and capitalists. The city became a market for the farm produce of Northern Illinois. Then began, in 1844, a slow increase in land values, more rapid as the canal was opened for traffic in April, 1848, and still more rapid when the railroads came in. Chicago without a single mile of railroad in January, 1848 was the railroad center of the West in 1854. The Illinois Central Railroad, by the way, secured a free land grant of 2,500,000 acres from Congress The railroads poured floods of immigrants from foreign lands into the city, many of them to remain, and many to pass on to the farm lands beyond. Land values began to rise again, speculatively. The population of Chicago increased from 10,859 in 1847 to 20,023 in 1848 and then rapidly each year thereafter till in 1855 the population exceeded 80,000. The public improvements such as plank roads, side walks, sewers and street lighting contributed greatly to the rise of land values. Land near State and Roosevelt Road that was offered for $200 an acre in 1845 sold for an average of $20,000 an acre in 1856. The Chicago *Daily Press* in 1859 reported:

> "The appreciation in Chicago real estate in the last five years has been enormous. The holders of any considerable parcels of property in a comparatively short period have found themselves rich. The territory within the present city limits had increased from an estimated total of $1,400,000 in 1842 to $126,000,000 in 1856."

Then came another panic. A financial stringency had developed in New York which was blamed by Eastern interests on the over-speculation in Western lands and too rapid railroad building. Three banks in Chicago closed their doors. Fifteen railroads with obligations of $181,700,000 including the Illinois Central, with $24,000,000 in debts, the Michigan Southern with $18,000,000 and the Michigan Central with $14,000,000 were forced to make assignments for the benefit of creditors. By 1858 many of the now familiar phenomena of business depression and unemployment were again in evidence. Building construction declined, land values fell sharply from their speculative altitudes, business failures increased, and idle men sought jobs in vain. There was a great strain upon all Illinois banks and this was accentuated at the outbreak of the Civil War by the fact that bank note circulation had been secured in large part by deposits of bonds of the seceding Southern States. By 1864 ninety-eight banks had suspended in the State.

But the European need for American wheat and the Civil War demand for grain and meat sent Chicago wheat, corn and hog shipments upward, relieved unemployment and again stimulated the demand for land. The climb back of land values to previous peaks was somewhat slow until after 1862. Then a new land boom got under way.

## IV. PANIC, CIVIL WAR, AND A BIG FIRE

The war—creating stimulation of industrial activities at Chicago, again greatly accelerated the growth of population,—laboring people coming from Europe, the Eastern seaports, and Canada.

During the war period, the population increased, rising from 109,263 in 1860 to 187,446 in 1865. Land values naturally rose again, and the post-war boom, 1865-71 was the biggest yet. By 1871 population had risen to 187,000 and new building construction for the period of seven years preceding had amounted to $76,000,000. Public improvements kept pace with private construction in the extension of street utilities. The establishment of parks and boulevards in 1870-71 gave fresh impetus to land speculation. It would appear that Chicago people had heard of the land boom in New York, following the building of Central Park. Rich and poor alike got into the land game. Potter Palmer, made rich by speculation in cotton during the Civil War, bought three quarters of a mile of State Street frontage and added to his millions by transforming the street that had been a narrow lane between rows of shanties into a widened street where the big merchants, led by Marshall Field, established their shops. Land on this street that had been sold at $300 a front foot in 1860, sold for more than $2,000 a foot ten years later. Corresponding increases took place in all downtown streets. Just before the great fire in 1871, there was a furious speculation in land in the vicinity of the proposed or established parks. Improved transportation facilities also were stimulating an immense suburban movement that was turning farm lands into high priced lots. A writer early in 1871 declared that every other man and every fourth woman in Chicago had some money tied up in lots.

Then came the great fire of October 1871 that swept over 21,000 acres and destroyed 17,450 of the 60,000 buildings in the city, rendering 104,000 persons (one-third of the population), homeless, and effecting losses approaching $200,000,000. This stayed the rise in land values only temporarily, during the uncertainty as to the future of the city. But in a year of hectic building operations, financed largely by money from the East, land values, generally speaking, recovered their former levels. An ordinance prohibiting the erection of wooden buildings near the center of the city resulted in the great acceleration of the value of land for workingmen's homes and cottages in the outskirts of the city. The great activity of the construction industries had raised the wages of skilled mechanics so high that many of them invested in land for future homes or for speculation. This movement raged with greater fervor than ever in 1872 and the early part of 1873, when outlying acreage near the village of Hyde Park was reported to have increased from $100 an acre to $15,000 an acre. A company which acquired 6,000 acres of land on the Lake and Calumet River at a price of $1.25 to $100 an acre, appraised their holdings at the height of the boom at $5,700,000.

The records indicate that the 211 square miles of land in the present city limits of Chicago had increased nearly 500 per cent in the ten years from the autumn of 1862 to the spring of 1873.

Then came the beginning of a new depression. Municipal extravagance and excessive outlays on new construction; lavish expenditures on street improvements designed by land promoters in sections where none were required, over-expanded sub-division activity, an immense number of sale transactions on small down payments—all these had proceeded from the extreme optimism of the times. The *Real Estate and Building Journal*, reviewing the collapse that set in late in 1873 referred to

> "lavish (public) expenditures and downright thievery on a mammoth scale."

## V. TERRIBLE DEPRESSION FOLLOWS

At any rate, a terrible depression set in, and deepened as time went on into possibly the worst calamity of the kind that had thus far been experienced in the checkered career of Chicago land gambling. A similar, though not so severe state of affairs was reported from other parts of the country. Then came the startling announcement of the failure of Jay Cooke & Co. in New York, followed by a crash in the stock market. Bank suspensions and commercial failures occurred to an extent that caused a far reaching financial panic throughout the country.

A drastic reduction in the number of men employed in the building industries, and in the wages paid to those who were able to find work, were signs of these times. The high rents which had previously been capitalized into high land values had, no doubt, ruined hundreds of small business establishments. But now rents showed a widespread downward tendency, especially in view of radical reduction in construction costs. By 1877 rents were generally thirty per cent lower than the peak—a circumstance, by the way, which we are finding duplicated in nearly every American city at this date.

The decline of values was accentuated then, as now, by the burden of taxes for improvements constructed far in advance of their needs. The *Real Estate Journal*, reviewing the debacle in December 1876, said:

"In the entire history of land dealing, there has not been a reverse which has lasted so long or caused such depreciation as that under which the market has labored for three years. Strewn with wrecks of fortunes and the destruction of hopes indeed it could by no means be certain that human minds and human lives have not been destroyed under the burden of disappointed expectations and the obloquy cast upon reputations previously fair and bright, through the inability of persons to meet their promises and carry out their contracts."

How well might this comment be applied to the situation created by the colossal losses suffered in recent years by the customers of title mortgage guarantee companies in the City of New York!

The bank failures in Chicago that followed in the wake of the panic of 1873 culminated in 1877 with the failure of the largest savings banks in the city—the Columbia and the Bee Hive—making a total of twenty-one bank failures in four years. Serious labor riots broke out all over the nation, and on July 5, 1877 a pitched battle was fought between the police and a great mob at Halsted Street Bridge, in which twenty persons were killed and seventy persons injured. Just at this time, $50,000,000 of mortgages made by local property owners to finance rebuilding after the great fire, fell due, without any available monies for refunding these obligations in sight. Immense losses were taken in foreclosure and the bankruptcies which followed. At the end of 1877 the bottom of the real estate market was reached and the author recalls that:

"It ought to be mournfully admitted that a quick return to the level of land values prevailing in 1873 was not only not to be expected but that the values obtaining at that time were the result of a hallucination or a speculative disease. The net result was that the land values declined from 575 million in 1873 to less than 250 million in 1877."

And so ended the land boom that followed the great fire and the Civil War. It was some consolation to Chicago people that the decline in land values in the Central Park District in New York was reported to be even greater than the fall of land values in Chicago.

Incidentally, we are told that the collapse of the boom was followed by an era of low construction costs, cheap labor and low interest rates for money.

## VI. SKYSCRAPERS AND ANOTHER BOOM!

The extremely low level of prices after the panic of 1877 became the base of the active business recovery of the early eighties. In Chicago, as elsewhere, land values were deflated, house and store rents were low, and idle capital was offering attractive interest rates. Immigration from abroad flowed in steadily, reaching a new peak in 1882. This fact seemed to favor economic recovery everywhere, but particularly in Chicago as the chief gateway to the cheap lands of the far western country.

New factories were building, new railroad construction under way and seven new trunk line railroads entered Chicago. The city's population steadily increased, reaching 600,000 in 1884. Increased volume of trade and manufactures, produced new capital seeking investment. Thrifty working people who had avoided the savings banks, because of the wholesale failures of these institutions in 1877, were buying land for home sites and for speculation. Advances in house and store rents were everywhere noted. Suburban dwellings that had been vacant for a long time were rented or sold readily, thus greatly aiding insurance companies and other mortgage lenders who had acquired such properties through foreclosure. Business recovery and another real estate boom were clearly in the making.

An interesting incident of this period was the quiet purchase by under-cover agents of George Pullman of 2,500 acres of land near 111th Street and Lake Calumet at from $75 to $200 an acre. There Pullman built his great car works and the model town of Pullman, incidentally cleaning up in a few years about six million dollars in land value profits.

Mr. Hoyt's study indicates that ten years after the "crazy speculative peak of 1873," and the abysmal decline that followed, Chicago land values as a whole had risen greatly from the depression period, although still, except in spots affected by peculiar local circumstances, below the 1873 peak. Meantime there had been land booms in other population centers which reached a recession about 1887—notably in Kansas City, Omaha, Duluth and Minneapolis, but probably because of the influence of steadily increasing population and other developments to be referred to, Chicago's new tide of "prosperity" did not decline so soon.

The tendency of land rent to absorb the benefits of invention and discovery that tended to improve and cheapen industrial processes was shown pretty clearly when a revolution in the methods of office building construction was inaugurated by the erection by an insurance company in 1884, of a steel frame building at the corner of La Salle and Adams Streets. The architectural principle involved in the steel frame made the skyscraper a possibility. Formerly the rental capacity of a six-story building, however well situated, largely determined the value of the site. Skyscrapers increase land rent simply because they increase the potential floor space obtainable from a given land area. Land values in important business localities mounted as the height of buildings rose. A skyscraper craze was on that ultimately greatly overproduced office and apartment space and that became a factor in the inevitable collapse in the future. But tenants poured out of old buildings into the new which were well-distributed over the down town area.

In 1889 a territory of 120 square miles, including the township of Hyde Park, Lake, Lake View Jefferson, and a part of Cicero, were annexed to Chicago, bringing 200,-

000 new citizens within the city limits and making Chicago the second city of the United States with a population exceeding a million. Then Chicago, by vote of Congress, got the World's Fair in 1892 to celebrate the 400th anniversary of the discoveries of Columbus. Hectic activity on the part of realtors followed. Landowners and their political agents fought bitterly for months over the selection of the site of the Fair. There was feverish land sale activity in various proposed localities until the Jackson Park locality was settled upon. In that neighborhood land values rose to what the real estate editor of the Chicago *Tribune* described as "crack-brained altitudes." This actually occurred three years before the Fair opened its gates.

The Fair came and went. Depression was well under way elsewhere as in Chicago when the Fair closed its doors, but the land gambling it had engendered made the suffering there greater, perhaps, than elsewhere.

During the rising tide of land gambling at this period, a striking feature was the sub-division of vast and various tracts in the suburbs. Ninety per cent of the lots purchased were unbuilt upon, and tens of thousands of investors, no doubt, ultimately lost their property through forfeiture of contracts or foreclosure of mortgages. The speculation in acre tracts and suburban lots also seized upon central business property which steadily increased in price through the mark-up process until there was actual, if artificial, scarcity of sites needed by prospective land users. This continued until lesser demand weakened the market.

Then, gradually came into sight everywhere, but especially in Chicago, the depression of 1893. It was just twenty years after the debacle of 1873.

## VII. WHERE FREE SILVER FITTED IN

There was an obvious decline in Chicago land values in 1894, to be followed by what seemed to be, if briefly, a recovery in general business conditions in 1895. But most of the sales noted at that time were foreclosure sales, so familiar at the end of previous real estate booms.

The increase of unemployment in Chicago, as well as elsewhere throughout the country, brought forward various more or less plausible theories regarding the cause of the depression, even as one hears the same theories today. It is interesting to note now the then popularity of the idea that currency inflation was the way out of the depression. This might explain the capture of the Democratic Party of that day by the champions of the free coinage of silver who brought about the nomination of Mr. Bryan in 1896 at a time when the local depression had reached its lowest depths, apparently.

The painful and essentially destructive incidents recorded in previous depressions were again noted—business failures and bankruptcies, wrecked fortunes, idle workers and distressing poverty on a large scale. This depression lasted well into the new century. Features of it were the radical decline of rents and increase of vacancies in office and apartment buildings, many of which were in the hands of receivers. For vacant land, in most localities there was practically no demand. Idle capital, nevertheless, accumulated in the banks and interest rates upon mortgage money in the central business district declined to four per cent or less.

Renewal of real estate activity after the turn of the century was coincident with the completion of new transportation systems that were extending into undeveloped sections. In 1902 rents began to rise, and vacancies to disappear in office structures. Skyscrapers again began to pay. Nevertheless, in 1909 Chicago land values, as a whole, were lower than in 1890, when the city was only one half as large. An interesting comment by Wm. B. Harmon known in New York, as elsewhere, as one of the greatest developers of suburban lands, is quoted:

> "Land *values* as distinguished from land *prices* grow almost exactly as population increases, for they are determined by the economic returns in rents when improved, while real estate prices are not determined by intrinsic values, but largely by sentiment, so that prices and values do not, necessarily, mean the same thing. In 1889 everybody thought real estate prices would never stop going up, while now they are just as firmly convinced that they will never stop going down."

Nevertheless, apartment construction continued in large volume from 1910 to 1916 and there was a distinct increase in land values in various sections that led Herbert D. Simpson to observe, in an article written for the Annals of American Academy, that from 1910 to 1918 the average land values of Chicago had risen 50 per cent, without anything resembling a boom. The real boom was to come.

## VIII. THE INCREDIBLE IS REALIZED

The facts as to the rise and fall of Chicago land values since the end of the World War, are still too recent to be forgotten. Our author in introducing his survey of that extraordinary period makes this comment:

> "Those who have witnessed the fifth act of this century-long drama may almost doubt the evidences of their senses. It seems impossible that such changes could have occurred in so short a time, and if people had not seen with their own eyes what has actually occurred, they would not have believed it."

The United States had passed through a period similar in many respects to the "gilded age" that followed the Civil War, and that closed in the pitiful miseries of the panic of 1873.

But in many respects the boom that started in 1918 had unprecedented causal beginnings. The enormous expenditures of European governments and our own for war materials, and for the maintenance in the field of many millions of armed men had produced an apparent "prosperity" that reflected itself everywhere—gradually at first, and then rapidly proceeding to unprecedented heights of increased land values and speculative prices.

The prices of American farm lands, which had doubled from 1900 to 1910 as a result of slowly rising agricultural prices, doubled again from 1910 to 1920. In Iowa for example the boom in corn lands raised the selling prices of acreage normally worth $50 an acre to $500 or more. Not long ago a ruined and saddened Iowa banker, referring to that hectic period said to this reviewer:

> "All of us must have been a bit crazy with greed. The formula of the day was buy more land, to raise more corn, to fatten more hogs to get more money in Chicago to buy more land, to grow more corn to feed more hogs."

While farm land prices after 1920 declined, in keeping with the decline of wartime demands for the product of the farms, the prices of urban land everywhere, but especially in Chicago, rose to new and undreamed of heights. A primary reason for this, perhaps, was the return of five million soldiers and sailors from wartime employment to seek opportunities for work. Most of them sought the large urban centers. The government census shows that from 1920 to 1930 there was an increase of nearly nine million in the population of American cities of over 30,000 population. Apartment rents in most cities doubled from 1919 to 1924, and urban land values practically in the same ratio. Enormous sales of real estate bonds, based on this higher valuation, were made to a public who had been educated to buy bonds in the various wartime Liberty Bond campaigns. Ten billion dollars worth of real estate securities were sold by 1929, not to mention billions more of guaranteed mortgage certificates, based, to a great extent, upon inflated land values. Chicago was only little behind New York in this sort of financing. There was a remarkable migration of population from the farms to the cities, particularly in the West, causing enormous activity in the construction industries, beginning in 1919 and attaining a peak in 1926. One thousand bungalows were erected in Cook County on the cheaper land beyond the apartment areas. Business corners in the outlying regions doubled in price within five years, and store lands in similar centers increased one thousand per cent between 1915 and 1928. The author records, speaking still of the outlying sections:

> "Competition among rival department store chain organizations for good locations as a means of selling their volume of sales and thereby enabling them to sell more of their securities, caused rents to advance above what their lessees could afford to pay. The bidding of rival banks, drug stores and cigar stores for corners was likewise keen, and in several instances transfer corners were leased by one organization for the purpose of keeping them out of the hands of a rival concern. Land development was intensive as well as extensive."

Of course, similar things were happening in New York and other population centers. The excesses of the land boom did not stop with the city limits, but went far beyond. Acreage tracts increased six hundred per cent over night, and a belt of land three miles wide was subdivided along the North Shore for forty miles to Waukegan, and even to the Wisconsin State lines. Great selling organizations of developers realized over one hundred million dollars from the sale of vacant lots in one year. The sales value of the land in the city limits increased from two billion in 1921 to five billions in 1928.

The fever commenced to subside in 1927. Foreclosures were starting in 1928, and rents and prices were falling steadily in 1929 when the stock market crashed in New York, opening the eyes of the country to the fools' paradise in which people had been living. Land values began a precipitate and disastrous decline. In 1931 the evidences of collapse in the real estate market were numerous. Unemployment was steadily on the increase. Small banks were failing, wages and salaries were being reduced. Thirty banks found to be loaded with non-liquid real estate securities closed their doors in Chicago with incalculable injury to their depositors and those dependent upon them. Indeed banks were failing in many places.

By the end of 1932 foreclosure suits involved more than two billion dollars in Chicago, and in March, 1933 real estate there had reached what seemed to be its lowest ebb, with apartment rents declining fifty per cent or more, and vacancies in store and residence properties everywhere increasing.

The reduction in land values was greatest in the case of business property and in apartment house sites, and least in the case of cheap residential land. Thousands of small home owners through foreclosure, lost their properties, in which they had invested their life savings.

The author thinks, however, that 1933 was a turning point in the real estate depression. Things should improve, he believes.

In a concluding chapter Mr. Hoyt makes this observation about Chicago:

> "Its growth was accomplished at great social cost. Its exuberant periods of building, subdividing and land speculation were followed by the inevitable aftermath of foreclosures, bankruptcies, bank failures and the losses and sufferings that affected not only the speculators but the entire community."

I gather from this that Mr. Hoyt is a believer in the cyclistic theory, and the *inevitablity* of disasters to the human family,—disasters worse than war,—that are inherent in our current treatment of the land question. He perceives no remedy and locates no cause for it all except the excesses of "individualism." His remedy for this, it appears, is "a planned economy"—a phrase of dubious if not dangerous significance, now much resorted to by Socialists, Communists and some protagonists of our Governmental New Deal.

## IX. IS NOT THIS THE ANSWER?

The elaborate revelations in Mr. Hoyt's book seem to me to give the strongest support to the inerrancy of Henry George's theory of the cause and recurrence of business depressions and unemployment. While George made it plain in Book V of his "Progress and Poverty" that he did not exclude other proximate causes in accounting for industrial depressions, he says:

> "A consideration of the manner in which the speculative advance in land values cuts down the earnings of labor and capital and checks production, leads, I think, irresistably to the conclusion that this is the main cause of those periodical industrial depressions to which every civilized country and all civilized countries together seem increasingly liable."

It seems to me remarkable that despite the experience, the high intelligence and the extraordinary industry shown in the researches of this Chicago author, his book reveals so little awareness by him of the more serious economic implications of his work. The University publishers, too, seem to miss the real significance of the book. It is astonishing that they appear to see its chief usefulness as a business aid to realtors and land speculators. In their advertising circular they say:

> "This book . . . will help you make money. One sale alone can pay for it twenty times over. Wouldn't it help you make sales if you knew when Chicago land values will reach their next peak? What types of real estate have the best prospect for a rise in value? In what areas of the city will the increase in land values be greatest in the next period of activity?"

The circular also contains a message about the book from Mr. Willard E. Atkins (described as the "well-known economist"), as follows:

> "There ought to be a law which would make it required reading for all real estate operators, salesmen, and prospective homebuilders."

Not a word here or a thought, it seems, as to the real lesson that the reflective reader must deduce from the book. That lesson is that in a growing community particularly, the unrestricted private ownership of land is a social evil of fundamental importance to the people who seek the means and amenities of life in that locality. Land being the simple, indispensible factor upon which both capital and labor must depend for opportunity to employ themselves or be employed in the production of wealth, demand arises for access to the more desirable sites. Then appears the element of land value or economic rent, obviously a community product, because plainly derived from the needs, activities and development of community life. Then the natural disposition of speculative landholders to seek profit, by the monopoly of the more favored locations, promotes a temporary artificial scarcity along with increasing competition from prospective land users, for particular parcels of land or from those who would invest in locations in anticipation of increasing demand for use. Mr. Hoyt's study indicates that the investors, as distinguished from land users in the various Chicago land booms and depressions were, for the most part, like the boom-time land investors in many other parts of the country—just gamblers seeking easy and unearned wealth at the expense of the producers of the community. When, in a land boom, succeeding waves of speculation force land prices to altitudes that practically deprive capital and labor of opportunity for further employment, the bubble bursts and the process of deflation sets in with its inevitable train of evil consequences, broken fortunes, blasted hopes, depleted incomes, vast unemployment, failed banks, wholesale foreclosures of mortgages, and the great abatement of purchasing power that makes for slack trade and hard times. After the deflation of values has proceeded to an extent that produces a new equilibrium in which land, labor and capital become plentiful and cheap, these forces of production are again engaged, and a season of activity again ensues.

That Henry George was right from the standpoint of logical speculative theory is accepted without question by all intelligent people who have been through so-called land booms in various sections of this country. Now his theory is amply supported by the indubitable facts revealed in the study of the incidence of land dealings in a great and progressive community, as minutely studied over a period of a century.

If Dr. Hoyt has not been fully aware of the ultimate significance of his revelations, it may also appear that the real importance of his work also has been missed by the University's teaching staff. This is indicated at any rate by the tone and substance of a foreword to the book contributed by Prof. Harry Alvin Millis, head of the Department of Economics of the University of Chicago, and now, I believe, a member of President Roosevelt's National Labor Relations Board. After truly estimating Mr. Hoyt's work as a "distinct contribution both to the economic and social history of Chicago," Dr. Millis commends the work as tending to correct erroneous notions concerning city land values, such as:

> "The Single Tax doctrine that the changes are all gains, large and unearned, might lead us to believe that urban land values rise steadily without any recessions or set-backs. This is not true."

To this reviewer, this seems to be a singularly inept and trivial comment by the leading economist of a large university upon the extraordinarily significant facts brought out in Mr. Hoyt's study. Incidentally, the professor ought to be told that there is no such "Single Tax doctrine" as that which he sets up to be knocked down by Mr. Hoyt's demonstration of what every Georgist knows—that land values that go up at certain periods of boom-time inflation have a habit of coming down later on. Nevertheless, the portentous fact that emerges from the study, despite what the author refers to as "cyclical fluctuations," is that bare ground values in the 211 square miles that constitute Chicago rose from a few thousand dollars at the beginning in 1834 to more than five billion dollars at the present day and that some land within the area is rated in value at $20,000,000 per acre. The fact and its implications are among the extremely serious things that Dr. Millis and his staff of economists might immediately do some thinking about. They might also examine Henry George's remedy for the evil social conditions that in this book are so clearly revealed and tell a distressed world what is the matter with it.

## A Diagnosis 40 Years Ago

"LAND is the source of all employment, the natural element indispensable to all work. Land and labor—these are the two primary factors that, by their union, produce all wealth and bring about all material satisfactions. Given labor—that is to say, the ability to work and the willingness to work—and there never has and never can be any scarcity of employment so long as labor can obtain access to land. . . . That the monopoly of land—the exclusion of labor from land by the high price demanded for it—is the cause of scarcity of employment and business depressions is as clear as the sun at noonday. Wherever you may be that scarcity of employment is felt—whether in city or village, or mining district or agricultural section—how far will you have to go to find land that labor is anxious to use (for land has no value until labor will pay a price for the privilege of using it), but from which labor is debarred by the high prices demanded by some non-user? . . . Where labor is shut out from land it wastes. Desire may remain, but "effective demand" is gone. . . .

At the close of the last great depression [1879], I made "An Examination of the Cause of Industrial Depression" in a book better known by its main title, "Progress and Poverty," to which I would refer the reader who would see the genesis and course of business depressions fully explained. But their cause is clear. Idle acres mean idle hands, and idle hands mean a lessening of purchasing power on the part of the great body of consumers that must bring depression to all business. Every great period of land speculation that has taken place in our history has been followed by a period of business depression, and it always must be so."—HENRY GEORGE, (1894).