

The Fundamental Causes of the Economic Crisis

Memorandum addressed to the Monetary and Economic Conference, London, 1933, by the International Union for Land Value Taxation and Free Trade.

The purpose of the Conference was "to solve the economic and financial difficulties which are responsible for the present crisis." In other words, its object was to find means of restoring to employment the more than thirty million workers whose idleness means privation not only for themselves but also for their fellow workmen in employment upon whom they must depend for support.

The concrete policies which have fallen under discussion may be summarized under the following headings:—

1. To stabilize prices.
2. To raise prices (a) by monetary means ;
(b) by limiting supply.
3. To reduce or abolish restrictions on international trade including tariffs, quotas and exchange restrictions.
4. To abolish subsidies.
5. To institute schemes of public works.

The Conference very soon discovered that items (1) and (2) are self-contradictory.

The most populous member and the largest producer (the United States) having embarked upon a policy of raising prices (by monetary means mainly), it became impossible seriously to discuss general stabilization of prices (and consequently of exchanges).

The discussion of item (3) has languished because although each country desires reduction of the tariffs of other countries, none is prepared to reduce its own. The interests in every country which profit by the existence of tariffs are stronger than their governments.

Adherence to the theory that the solution of the problem is to be found in higher prices militates against the removal of tariffs and quotas whose object is to achieve higher internal prices. Items (2) and (3) therefore are also self-contradictory.

The discussion of item (4) has practically been confined to shipping subsidies. A complete abolition of subsidies involves the removal of indirect subsidies, such as tariffs and quotas.

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Any international scheme of public works has been ruled out of practical consideration by the refusal of the British delegates to countenance it. Any scheme of this kind must be purely national and outside of the field of effective decision at the Conference, and it has not been proved that such schemes would result in an aggregate increase in employment. The funds to carry on such schemes must be obtained either by taxation or borrowing; in either case they are subtracted from some other uses, and effect a change but not an increase in demand.

The only branch of the agenda of the Conference which is now being seriously pursued is that relating to increase of prices by limiting supply. The commodities to which consideration has been given include wheat, timber, coal, tin, copper, silver, wine, sugar, coffee, cocoa, and dairy products. Mention has also been made of wool and cotton.

This list includes some of the most important raw materials of industry and foodstuffs of the people. Limitation of supply involves—

- (1) an increase in costs in industries using these raw materials;
- (2) an increase in the cost of living to the consumers of these foodstuffs;
- (3) diminution of employment.

In fine, the whole purpose of the Conference has been lost sight of. Instead of bending its energies to increase employment, it is devising means to benefit certain groups of producers. Limitation of production will almost inevitably reduce both employment and wages. How can more men be employed if less is produced? The real object of diminishing supply is to increase prices and profits. So far as it succeeds in increasing the purchasing power of producers of these commodities it must reduce the purchasing power of the consumers of them. The aggregate result must be a diminution of employment and not an increase of employment.

Further, the effect of limitation of supply upon the conditions of the particular industry affected deserves closer consideration. If it increases the profits of producers, it will eventually lead to an increase in the toll of economic rent or land value which they have to pay to those who own the land, or, what is economically the same, prevent the diminution of land value which existing conditions would have brought about.

The Conference has evidently failed to achieve the high ideal placed before it by His Majesty the King: "so to use the vast resources of the world as to ensure the material progress of civilization." It now appears to have become a tool for creating international combines and cartels, recognized and protected by governments, which will have power hitherto unprecedented to exploit the masses of the workers. This betrayal of the trust and expectations of the peoples of all countries calls for explanation.

The underlying principle which appears to have dominated the Conference is the belief that the crisis is due to increased production, despite the fact mentioned by the President in his opening speech that "in 1932 compared with 1929, the production of raw materials had fallen 30 per cent." *The crisis is not a crisis of over-production, but of under-production.* The apparent over-production of one or two commodities is merely the result of the under-

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production of most others and of the consequent reduction in the quantity of goods which the producers of most commodities have to exchange for the products of these one or two apparent exceptions.*

If the crisis were in fact one of over-production, there could be no possible reason for putting forward public works programmes whose avowed (even if not attainable) object is to increase production.

Nevertheless, there is a connection between the increase in production which took place prior to the commencement of the crisis in 1929 and the crisis itself. Improvements in the technique of production were at that time leading to an increase in production and promised a still further increase in the future. The inevitable result was an increase in the demand for land as a source of raw materials and vegetable products of all kinds, as well as for sites for industrial and commercial uses and for the building of dwelling houses demanded by a rising standard of comfort. While the prices of commodities tended to fall, the value of land increased. Speculation in land values led to the holding of land out of use in anticipation of still higher prices to be extracted from industry. In many cases (in the United States especially) land gambling became rampant and land prices rose to fantastic levels. An increasing share of production went to the owners of land, the producers were unable to obtain the use of land upon terms which would enable them to produce at a profit, and production instead of expanding further became actually curtailed. The crisis was thus caused by land speculation, and was still further accentuated by the tariffs, quotas and exchange restrictions which were imposed in all countries to combat the symptoms of the crisis without attacking the causes.

The curtailment of production reduced the disposable surplus in the hands of borrowers with which to pay their indebtedness. It also led to an insistent demand on the part of producers for protective tariffs in the vain hope that these tariffs would enable them to maintain their rate of production. Further, it reduced the funds available for the payment of taxation, which reinforced the demand for indirect and concealed taxation in the form of tariffs and also led to the nominal balancing of national budgets by borrowing instead of out of revenue. The difficulty of discharging indebtedness (private as well as inter-governmental) out of diminished resources in its turn tended to the accumulation of the world's then monetary commodity—gold—in the hands of a few central banks where it became immobilized, resulting in a shortage of available monetary gold and a drastic fall in gold prices of commodities.

The most fundamental and far-reaching cause of the crisis is, therefore, the system maintained by every country of unrestricted private property in land with its concomitant of periodic waves of speculation. To quote from the Memorandum addressed by the International Union for Land Value Taxation and Free Trade to the World Economic Conference at Geneva in 1927:

“Modern civilization contains within itself a canker which destroys or frustrates

* The most remarkable case of apparent over-production is wheat. It is admitted (Conference *Journal*, p. 64 and p. 67) that this alleged over-production amounts only to 2 or at most 4 per cent. Much, if not all of it, is due to efforts (subsidized by governments) in certain producing countries to maintain prices, and the carrying over year after year by wheat pools of large stocks which have hung like a pall over the market. Tariffs and quotas in the consuming countries have also contributed to prevent this so-called surplus from being absorbed.

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its own progress. The increase of population, the improvement in the technique of production and the march of invention, cause a stronger and stronger demand for *land* to supply the necessary materials and sites for industry, commerce and agriculture. The more rapid is the growth of population and the development of industry, the more rapid is the increase in the value of land. Speculation and holding of land out of use is therefore most acute just where its effects are most injurious. The result of land being held out of use is to diminish the available supply of something already limited in quantity, and, therefore, to increase the price of what is allowed to be used. The production of commodities of all kinds is then restricted, prices rise,* and there is in effect an increase in the cost of production. The distribution of wealth is also affected, more going to incomes derived from mere ownership, less to active producers."

The failure of governments to take land values for public revenues has not only facilitated and encouraged the speculative holding of land out of use which has deprived millions of industrious men of employment and reduced the earnings of labour generally; it has also deprived society of a just source of public revenue, growing with every step in social progress. This, in its turn, has compelled governments to have recourse to unjust and burdensome means of raising revenue (such as taxes on buildings, and other improvements, tariffs, sales taxes, and many others) which have still further burdened and restricted trade and extorted immense sums out of the scanty earnings of the workers.

The one essential measure which requires to be adopted in each country is to abolish all tariffs and other taxes upon the products of labour and the processes of production and to substitute therefor a tax upon the value of land apart from any buildings or other improvements upon it. This would not only secure for society the values created by society and now appropriated by individuals, but would also force unused land into use—the essence of land-value taxation being that it is levied upon the full value of land even if unused. This would stimulate production, increase employment, raise wages and lead to a just distribution of wealth.

The International Union for Land Value Taxation and Free Trade, therefore, once more affirms that no solution of the problems with which the Conference is confronted can be achieved until each nation reforms its own internal economy upon a basis of justice which will give to the individual the right freely to employ his labour upon natural resources, assure to him the full and untaxed product of his labour, destroy special privilege and monopoly, and secure for society the communal value attaching to land by reason of the very existence of society.

POSTSCRIPT

The Memorandum on the "Economic Causes of War and of Industrial Depression," prepared by the Union in 1927, was promptly translated and published in twelve different languages and has enjoyed a considerable circulation.

Fresh point was given to the arguments advanced in 1927 by the disastrous slump which broke out in 1929 and which was directly traceable to a speculative

* This effect (increase of prices) has, however, been masked during the present crisis by the increased purchasing power of gold due to the causes already referred to.

advance in land values and monopoly rights (with accompanying unsound monetary and credit conditions). Instead of acknowledging the necessity for inflated values to be written down, and taking steps to prevent them arising again in the future, the governments of the world endeavoured to bolster up an unsound position, and aggravated the depression by imposing further restrictions upon honest trade in the shape of higher tariffs, import prohibitions, quotas, and exchange control. The attempt to make the British Empire a closed market led to similar steps by other countries. When the Monetary and Economic Conference met in London in 1933 most of the Governments represented were already committed to such policies, and the only matter upon which there was any general agreement was the retrograde proposal to increase artificially the prices of primary commodities.

The Union thereupon addressed to the London Conference a further Memorandum on "The Fundamental Causes of the Economic Crisis," bringing the argument of the previous Memorandum up to date, pointing out the mutual inconsistency of the proposals before the Conference, and showing that they rested upon a faulty diagnosis of the causes of the depression.

Unfortunately the view appeared to dominate the Conference that the crisis was due to over-production, whereas the cold fact was that the world production of raw material had fallen 30 per cent. in the previous three years. None of the delegates saw anything strange in the fact that each government was preventing its own nationals from obtaining the primary products of other countries. Still less did they see that each of them was engaged upon preventing its own citizens from producing by imposing an enormous weight of taxation upon all the products and processes of industry while acquiescing in the concentration of landownership in a few hands with a consequent exclusion of its people from the primary opportunity of production. The Conference therefore broke up without achieving anything.

When economic, monetary, and budgetary difficulties are still acute, when the demand for colonial expansion is making itself heard still more insistently, and when the danger of war is becoming more imminent, no apology is needed for asking earnest consideration of the argument presented in the foregoing pages.

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