

## ONLY YESTERDAY, SINCE YESTERDAY, AND THE AMERICA THAT NEVER WAS – Part I

By Edward J. Dodson, Cherry Hill, NJ

The collapse of the U.S. financial and property markets in 2008 has demonstrated again the need to restructure the laws and regulations affecting the nation's financial institutions and systems. The proposals advanced and debated are neither new nor especially innovative. Over the last century, critics of the way money is created and introduced into the economy were always trying to find a receptive audience. The reason is rather easy to understand. Throughout the entire twentieth century and longer the periods of low unemployment, low inflation and rising *real* incomes have been relatively few. The full employment society has proven to be an elusive objective regardless of which political philosophy – individualism, collectivism or liberalism – guided the laws, policies and regulations under which we live.

A good deal of insight into the problems caused by the conventional rules of the economic game is found in two books written by historian Frederick Lewis Allen, both of which were published during the 1930s. Allen reminds readers that involvement in the First World War resulted in the emergence of a very different sort of *America* from the nation that had been struggling to put the legacy of the Civil War behind. The nation experienced a dramatic shift in population from rural villages to urban cities. And, in economic activity this shift was from agriculture and resource extraction to heavy industry and what is referred to as the "FIRE" sector (finance, insurance and real estate).

Allen begins his description with the America of 1919, a nation plagued with conflicting class interests, racial and ethnic divisiveness and an uncertain role internationally. Bolshevism threatened to radicalize the *Labor* movement, the leaders of which sought to cement the gains achieved during the First World War. Across the Atlantic, British and French leaders sought vengeance against Germany. "They wanted," writes Allen, "to bring home the spoils of war." (1931, p.21) Woodrow Wilson's hope for a new world order based on democratic principles, equality of opportunity and peaceful cooperation received lip service but nothing more. And, at home, Wilson had made many political enemies as his administration employed harsh measures to quiet dissent. Wilson had no choice but to support the terms of the Versailles Treaty, but many of its terms were unacceptable to Americans. The Republican party leader, Senator Henry Cabot Lodge, went on the attack:

"We would not have our politics distracted and embittered by the dissensions of other lands. We would not have our country's vigor exhausted, or her moral force abated, by everlasting meddling and muddling in every quarrel, great and small, which afflicts the world." (1931, p.28)

What neither Wilson nor Lodge grasped was that the *America* they talked about never really existed. An increasing number of the nation's people were hyphenated Americans, people very different in cultural norms and values from the *White, Anglo-Saxon, Protestants* who had for generations dominated the political agenda. The nation had now entered a new era characterized by mounting insecurities. Moreover, as described by

Allen, long-standing societal norms were being undermined: "A whole generation had been infected by the eat-drink-and-be-merry-for-tomorrow-we-die spirit which accompanied the departure of the soldiers to the training camps and the fighting front. There had been an epidemic not only of abrupt war marriages, but of less conventional liaisons. ...It was impossible for this generation to return unchanged when the ordeal was over." (1931, pp.81-82)

Many of these men were themselves recent immigrants or the sons of immigrants. Their military service brought them together in a way that would have been extremely unlikely as civilians living in towns or city neighborhoods where ethnic diversity was slow to develop. The war hastened the pace of assimilation, with all that this involved.

As the 1920s arrived with Warren G. Harding as the nation's President, *the American System* began to return to business as usual; or, rather, as had been conducted before pre-war Progressives, reform-minded civic leaders and muckraking journalists had joined forces to try to balance the scales of justice away from entrenched privilege. The 1920s turned into a decade of big winners and even bigger losers, but few analysts realized that the stage had been set for this zero sum outcome decades earlier. One of the most significant decisions taken by the U.S. Supreme Court occurred in 1888, when the Court confirmed, in *Pembina Consolidated Silver Mining Co. v. Pennsylvania*, that private corporations are "merely associations of individuals united for a special purpose..." (125 U.S. 181) The implications of this ruling have had a powerful influence on how the laws of the nation have been written and enforced.

During the early part of the twentieth century, while questions of governance were being debated by activists with very differing perspectives, the majority of people were simply trying to adjust to a new manner of living. The mass production and consumption of passenger automobiles was changing the very definition of distance, from that of miles to length of time. Between 1919 and 1929 the number of automobiles on the roads increased nearly four-fold, to over 23 million. A population that had been settling down was once again on the move:

"Villages which had once prospered because they were 'on the railroad' languished with economic anemia; villages on [new roadways] bloomed with garages, filling stations, hot-dog stands, chicken-dinner restaurants, tearooms, tourists' rests, camping sites, and affluence. The interurban trolley perished, or survived only as a pathetic anachronism. Railroad after railroad gave up its branch lines, or saw its revenues slowly dwindling under the competition of mammoth interurban busses and trucks snorting along six-lane concrete highways." (1931, p.141)

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This was not yet the beginning of sprawling development spreading away from the cities, but to the more far-seeing investors land along the new paved roadways proved attractive. Yet, much of the economic activity that seemed to indicate a new era of continuous prosperity had arrived was fueled by credit rather than savings. Worse still, credit became the driving force behind intense speculation in land, in commodities and in the equities market. Such was a new power of the U.S. economy globally that Americans were increasingly assuming leadership roles. As Allen explains:

"Americans were called in to reorganize the finances of one country after another. American investments abroad increased by leaps and bounds. ... Only occasionally did the United States have to intervene by force of arms in other countries. The Marines ruled Haiti and restored order in Nicaragua, but in general the country extended its empire not by military conquest or political dictation, but by financial penetration." (1931, p.152)

In this brief era of optimism and national confidence, public esteem for captains of industry and the financial services sector relegated the reform-minded to the political wilderness. Yet, there were clear warning signs. Farmers who had borrowed from the banks to expand production during the war were now facing the inevitable fall in the global prices for agricultural commodities. Calvin Coolidge and his economic advisers declined to assist farmers struggling to remain current on debt to the banks. Foreclosures and bankruptcies increased, the result of which was yet another migration of people into the cities and a reduction in the number of family-owned farms. Here and there, rural towns began to lose the population whose livelihood had come from servicing the region's farms.

Consistent with the dominant belief in small government, Coolidge and the U.S. Congress confidently cut federal taxes year after year. Faith in *laissez-faire* capitalism and the *invisible hand* as described by Adam Smith to bring sustained economic growth was the unquestioned conventional wisdom in the early 1920s.

Most Americans were too occupied with their personal lives to think about public policy issues or the workings of government and the economy. If they were not interested in the growing conflicts between science and religion, between fact and faith, there were sporting competitions of every sort to embrace and on which to gamble. And, gamble – most particularly in the form of land speculation – they wholeheartedly embraced.

First there came a boom in agricultural land prices, stimulated by the need for food crops in the nations where war had disrupted farming and killed large numbers of farmers. The boom lasted only until 1921, after which large numbers of farmers fell behind in loan payments and local property taxes. As more and more farmers defaulted, their also banks slid into insolvency and were forced to close their doors. Allen tells us that in seven predominantly agricultural states, nearly half of all banks failed by the end of the decade.

In and around growing cities developers also gambled they could sell an unlimited number of huge new homes to the wealthy. What they soon learned, however, was that there were just not enough wealthy people to absorb the increased supply of high cost homes being constructed. "And," Allen reports, "once more the downfall of their bright hopes had financial repercussions, as bankrupt developments led to the closing of bank after bank." (1931, p.247) Similar overbuilding occurred in the financial centers of nearly every major city. In New York City the amount of available office space increased ten-fold.

Allen describes how Florida in just a few short years evolved from a hot, humid and sparsely populated state into a magnet for northern migrants, real estate developers and anyone hoping to build a fortune out of land speculation and property development. Factories and automobiles made the air of northern cities hard to breathe, the streets congested, and many residential neighborhoods overcrowded and crime-ridden. Florida was advertised as the unspoiled part of the new America. "By 1925," writes Allen, "they [the public] were buying anything, anywhere, so long as it was in Florida." (1931, p.239) Yet, not very many northerners were planning to move to Florida, or even build a vacation home there:

"Nine buyers out of ten bought their lots with only one idea, to resell, and hoped to pass along their binders to other people at a net profit before even the first payment fell due at the end of thirty days. There was an immense traffic in binders – immense and profitable."

The boom began to turn to bust by the summer of 1926. The market had run out of new buyers. And, then, the first hurricane hit the Florida Gold Coast on the 18<sup>th</sup> of September. Allen quotes Henry S. Villard, writing in *The Nation* on just how quickly circumstances changed:

"Dead subdivisions line the highway, their pompous names half-obliterated on crumbling stucco gates. Lonely white-way lights stand guard over miles of cement sidewalks, where grass and palmetto take the place of homes that were to be. ... Whole sections of outlying subdivisions are composed of unoccupied houses, past which one speeds on broad thoroughfares as if traversing a city in the grip of death." (1931, p.245)

Frederick Lewis Allen was an historian and journalist, not an economist. His presentation is far more descriptive than analytical. Yet, he recognized that the actions taken by the Federal Reserve System in the summer of 1927, "lowering the rediscount rate from 4 percent to 3-1/2 percent, and purchasing Government securities in the open market," merely added fuel to the "speculative fever." (1931, p.252) With the property markets turning downward, speculators turned to the stock market in a desperate effort to recoup losses and keep the game going. Even a reverse course by the Fed the next year failed to lessen what in our current economic climate has been renamed *irrational exuberance*.

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In his brief post-mortem on the ensuing economic depression, Allen makes an attempt to explain the major contributing factors. He omits any mention of the nation's dysfunctional system of property taxation or the destructive manner by which government at all levels was raising the revenue to pay for public goods and services. Neither Henry George nor any of George's followers who were Allen's contemporaries (with the one exception being Raymond Moley, brought into the government by Franklin Roosevelt) are mentioned in his books.

Nonetheless, it is hard to understand how anyone trained in economics would not make the connection between the facts as presented by Allen and the destructive impact of speculation in land and land-like assets. Allen documented how easy access to credit exacerbated the pace of land price inflation and, as a consequence, the depth and duration of the eventual crash when the stress of land prices on business profit margins and consumer ability to manage debt became impossible.

Allen continued to monitor all that occurred during the subsequent decade, and in 1939 the second book, *Since Yesterday*, was published. He reminded readers that despite the objections of over a thousand economists, the U.S. Congress passed a tariff bill described by one analyst as "a declaration of economic war against the whole of the civilized world." (1939, p.28) A perfect storm was gathering force. Another, essentially human caused disaster was triggered by a change in weather. The rain stopped falling across much of the United States, crops failed and top soil was blown away by the wind. The response by President Herbert Hoover was to call upon state and local governments and private charities to respond. The Federal government would stay out of the affairs of individuals unless widespread starvation threatened. Hoover and his advisers were confident the recession would come to an end as recessions always did. The business cycle needed to run its course. Prosperity would return, eventually. And, hopefully, the rain would return to end the drought. Allen described what he concluded were important differences between past downturns and the one the nation now faced. Chief among these differences were:

- 1 The enormous increase in the scale of production, drawing the rural population from farms and into the growing cities, turning them from self-sufficient producers into "jobholders" dependent upon economic forces over which they have no control or influence.
- 2 The rapid increase in population.
- 3 The movement of "the peoples of the Western world into vacant and less civilized parts of the earth."
- 4 The accelerating exploitation of natural resources, "not indefinitely continuable."
- 5 Communications breakthroughs that "made the world a much smaller place, the various parts of which were far more dependent on one another than before."
- 6 The growth of corporate and financial capitalism that sparked the growth in "labor union-

ism," changes that "profoundly altered the working of the national economies, making them more rigid at numerous points and less likely to behave according to the laws of laissez-faire economics." (1939, pp.32-33)

Allen then makes a number of astute observations about the relations between nations and between conflicting interests within nations:

"Presently there were ominous signs that the great age of inevitable expansion was over. The population increase was slowing up. The vacant places of the world were largely preempted. The natural resources were limited and could hardly be exploited much longer so quickly and cheaply. As the economic horizons narrowed, the struggle for monopoly of what was visibly profitable became more intense. Nations sought for national monopoly of world resources; corporate and financial groups sought for private monopoly of national resources for national industries. Meanwhile each national economy became more complex, less flexible, and more subject to the hazards of bankruptcy by reason of unbearable debts." (1939, p.33)

Searching for something to demonstrate decisiveness, President Hoover called for a moratorium on all war reparations and debts. This solved nothing. The global economy was already in a nose dive. European banks began to fail, Britain went off the gold standard, and the tremors soon reached the United States where hundreds of banks were closing month after month. Allen explains the extent to which the world had changed in just one generation:

"For the days had passed when men who lost their jobs could take their working tools elsewhere and contrive an independent living, or cultivate a garden patch and thus keep body and soul together, or go West and begin again on the frontier. When they lost their jobs they were helpless." (1939, p.42)

(Part II of *Only Yesterday*, *Since Yesterday*, and *the America That Never Was* will be concluded in the next issue of *GroundSwell*. Ed Dodson may be emailed at [edod08034@comcast.net](mailto:edod08034@comcast.net)) <<

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## INTERESTING SESSIONS (from page 16)

the conference banquet speaker. Alanna will talk on the lessons she learned as a Congressional Candidate in 2014.

The IULVT will hold its conference starting August 4, 2015 in conjunction with the Council of Geogist Organizations. The IU's business meeting will be held Tuesday, August 4th beginning at 1:30 pm. The joint conference will be held at the Embassy Suites Hotel by Hilton Detroit-Southfield and will end August 9.

The conference brochure should be mailed in mid April. To be put on the conference mailing list, please contact Sue & Scott Walton, conference administrators at [sns@swwalton.com](mailto:sns@swwalton.com). <<