

The Cause of Great Depressions

MAJOR depressions, which occur with great regularity at the rate of about five times a century, are due to a certain tendency associated with increase of population and improvement in the means of production, or, in other words, with progress. This tendency is that of the speculative component of land value to rise in the course of a prosperous period to a level at which industry cannot be carried on. Economic land value may be considered as having two components,—the normal and the speculative. As progress attains to greater and greater development, normal land values tend to rise proportionally. This is a natural and beneficent phenomenon. Industry at any given stage of progress is not at all burdened by the economic ground rent load corresponding to that stage.

If that were the whole story, we should have no major, cyclic depressions. Under what we call prosperous conditions, however, the second component of land value appears, superimposed upon the normal component, deriving its existence not from accomplished, existing progress, but from non-existent, expected, future progress. This is the speculative component of land value. It becomes at first a slight, then a difficult, and finally an unbearable burden upon industry. As progress goes on with greater and greater intensity, people become more and more overconfident of its permanence, and the speculative element of land value advances disproportionately to progress, until finally industry is burdened with a load equivalent to a later and more advanced stage of progress, which, at the contemporary stage of progress, it cannot carry. Industries here and there have to curtail operations; their workers lose purchasing power; this means unemployment for still others, and the vicious spiral of depression has set in.

After several years of declining employment, and consequently declining wages, interest, and economic rent, a time at last arrives when the speculative component of land values is greatly reduced. Land value at this time will contain not much more than the component normal to it at the contemporary stage of progress. The bottom of the depression will truly have been reached. Industry having been relieved of the burden which brought it to a standstill, now can and will go ahead again. Another period of activity begins, land values rise again, and the cycle is repeated.

In order to build the Panama Canal, the Americans had first to abolish the yellow fever mosquito. To do away with major depressions, we must abolish the speculative component of land values, by means of the Single Tax. At present, in our real estate taxes, we take a part of economic ground rent into the public treasury. We should take it all, and abolish all other forms of taxation. No part of economic ground rent belongs by right to the individual land owner. It is due not to anything done by

him as a landowner, but solely to the presence and activity of the community. It is in reality the earnings of the community. Good order requires that the earnings of the community, and nothing else, should be received into the public treasury, just as all the earnings of the individual should be received by the individual.

At present, we permit a part of our number to pocket what in reality is the natural and adequate revenue of the government, thereby compelling government to violate the individual's right of private property by countless kinds of taxation, in its desperate and harmful struggle for funds.

Under the Single Tax, any increase in land values would accrue to the public treasury. Consequently, no owner would have an incentive to hold valuable, needed land out of use, and the value of land could not go above the level corresponding to the existing stage of progress. The speculative component of land value could not arise, and major depressions would no longer occur.—JOSEPH R. CARROLL

Social Experiment

COMMENTING upon an editorial in a recent issue of the *Monitor* in which you quote Mr. Floyd Parsons as protesting against the policy of governments in permitting free experimentation to science and engineering while denying to social, political and economic principles the right to progress by trial and experiment, it will be interesting to students of social science to know that in the State of Tennessee through the recent action of its Legislature, an economic experiment of the first importance has been made possible.

This refers to the town of Collierville and embodies the idea of the establishment of a municipal enclave for the collection of its economic rent; in other words, the principle of what is known as Single Tax here embodied.

This was brought about through the introduction of a bill in the State Legislature by its mayor and board of aldermen (House bill 120) the text of which may be found in the current issue of LAND AND FREEDOM) and which was promptly enacted into law.

The following quotations from LAND AND FREEDOM will further illumine the possibilities in social reform of this important enactment.

"The outstanding lesson from those advocating collection of economic rent is that at last a way has been found to permit the operation of municipal enclaves. Thus the movement for land emancipation by enclaves enters a larger and, it is believed, more important phase of development.

"This law may ultimately open the whole State of Tennessee, well as states similarly situated, to an approach to the Single Tax through the enclave method of land emancipation.

"The Collierville law also demonstrates that the legislatures of states will listen with favor to small scale local measures, affecting specific towns or cities, whereas an attempt to put over a general law, without sufficient political organization, and with little general economic education, would likely lead to defeat."

O. A. TOEFFERT, in *Christian Science Monitor*

IF all men were so far tenants to the public that the superfluities of gain and expense were applied to the exigencies thereof, it would put an end to taxes, leave never a beggar, and make the greatest bank for national trade in Europe.

WILLIAM PENN, "Reflections and Maxims."