Peace Dividends, Land Bubbles and Economic Disasters in U.S. History

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Introduction

Jimmy Carter, when U.S. president, tried to inspire his people by declaring the need for a "moral equivalent of war." The thought was not original—it came (I think) from James Harvey Robinson, and might have been inspired by the forgotten author[1] of "Onward, Christian soldiers, marching as to war!" By the old Chinese proverb, "It is easier to face a common enemy than to share a surplus."

Carter didn't claim originality. What was original was the sound of a statesman flattering the public's intelligence with a serious idea. Sadly his enemies mocked him for it, and it passed, like other serious thoughts, out of the public dialogue. Still, the fact is apparent through all human experience: war and preparation for war work up community spirit and willingness to share. The spirit, in turn, begets egalitarian and social legislation that would seem radical in peacetime.

This sharing takes the primary form of paying taxes. A book on war finance, for example, is what triggered Henry George's special interest in taxation. The book is *On the Strength of Nations*, by Andrew Bisset. George learned from Bisset how the wars of early England were financed. Kings required landowners, their vassals, to raise, supply, and equip fighting men. These feudal levies were paid from rents of the kings' lands the vassals held. It followed that a peace dividend would let landowners enjoy their rents without obligation, raising land prices. It would also lower their incentives to settle their lands with retainers, leading to the kinds of social and economic problems we know too well today.

George also wrote that taxes on bases other than land still come partly out of land rents.[2] This point has bothered and puzzled many students of George. They ask, what is so important about taxing land directly, if landowners pay all taxes anyway? George answers in one of his graphic analogies: a horse can carry a heavy load well balanced and packed on its back, but be hobbled by a smaller load lashed to its legs.

Others before and after George have made the same point that most taxes come out of land rent. These others include John Locke, Jacob Vanderlint, Francois Quesnay, and Paul Douglas. Because of Quesnay's pivotal role in economic thought, it is called "the Physiocratic doctrine of tax incidence." Fred Harrison and I have both expounded it. In this work I will take it as a premise.

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[1] Sabine Baring-Gould

[2] *Progress and Poverty*, pp. 300-303; *Protection or Free Trade?* pp.

The 19th Century Land Cycle

Through the 19th century there was a roughly nineteen-year cycle of rising/falling land prices, accompanied by territorial expansion, with flows and ebbs of capital and labor migrating. There were peaks—i.e., slumps beginning—in 1798, 1819, 1836, 1857, 1873, and 1893. The shortest period there is sixteen years; the longest, twenty-one: not quite as regular as Old Faithful geyser, but remarkably so for mass human movements that end like the fabled migration of lemmings. The most detailed work is Homer Hoyt's *100 Years of Land Values in Chicago, 1833-1933*. Its definition of major cycles is confirmed in dozens of other studies, and probably hundreds of general histories, and seems irrefutable.

Not everyone has observed it. Marx wrote of a ten-year cycle. Juglar, Kitchin, and Kondratieff have given their names to cycles of other periods. Farm economists are content with their corn-hog cycle. Wall Street experts care mainly about short-term forecasting of stock prices. Wesley Mitchell and his National Bureau, pursuing a deliberately directionless policy, ramble randomly through micro-details of everything *except* land cycles. Ordinary modern economists, with myopic expertise focused on monetary policy and national debt management, seem happy to seal off land economics in a separate compartment to ignore. The Great Land Cycle is for them at most an incident, a byproduct of banking policy. In this study, however, I bypass such foolishness and premise the dominance of the nineteen-year land cycle that is so obvious to whoever will look.

The Peace Dividend Factor Following Two World Wars

Projecting the cycle into the 20th century, however, the clock stops ticking so regularly. The crash scheduled for 1912 or so did not occur. If we pretend it did, or would have without World War I, then 1929 is not far off schedule. After that, however, there is nothing comparable (unless the current slump shall worsen). By general understanding, World War II must somehow have interrupted the Hoyt timetable, but how, and why? When and why will the Great Land Cycle resume? Those who would forecast by projecting need answers. We are not dealing with a simple mechanical matter: circumstances alter cases. Let us liken the boom/slump cycle to the course of a sickness. The ailment that runs ten days in a child may last six days when she is mature and, on the third pass, kill.

The missing element that aborted or damped the postwar land cycle was a major peace dividend. Instead of a peace dividend there was the Cold War. We demobilized in 1946, but not for long. The Truman (containment) Doctrine, the Russian bomb, and in 1950 the Korean War launched a long era of high peacetime tax rates and dependence on federal spending. These did not entirely stifle, but did damp, the otherwise predictable postwar land boom.

In addition, the housing element of the boom after World War II was more stably financed than prior ones. The home mortgage revolution replaced the five-year term with the twenty- and thirty-year term, reducing the probability of panic selling.

From 1918 to 1929, in contrast, we had all the elements for the land boom that occurred, and led to the crash of 1929.

First, military spending and taxes dropped sharply. Withdrawal, repudiation, and isolation were the mood of the times. We actually paid down the national debt, something that also happened 1885-1893, before a major crash; and 1825-1836, before another.

Second, pacifism stood high. We had fought a "war to end wars." The Washington Naval Treaty of 1922 ended the naval race that had cost so dear for many years before World War I. The Kellogg-Briand Peace Pact of 1928 "outlawed war as an instrument of national policy." In Britain, Churchill was out and discredited. Austen and Neville Chamberlain led a successful anti-tax, anti-preparedness movement that dominated British politics through 1938.

Third, employers had won the class war. Following the Palmer Raids and what Louis F. Post called "The Deportations Delirium of 1920," sharp wage cuts were accepted all around. The Progressive Movement with its anti-trust activism was out; Herbert Hoover and industrial "associationism" were in. A larger share of national income was to go to property owners.

Fourth, local government spending was widely diverted from social services to underwriting urban sprawl and land speculation.

The four factors triggered and supported a classic 19th century land cycle, 1919-1940. The land market reached a broad peak in 1926-1927; the stock market a sharp one in 1929. The slump lasted nearly twelve years, a record.

The Missing Slump of 1912

What went right around 1912, that the scheduled downturn never arrived? Here is the first notable break in the clockwork schedule of the prior century. There were several major factors.

First, the United States had entered the world naval race in the 1890s, building the world's third-largest navy, after England and France. Manifest Destiny led to overseas possessions and war with Spain in 1898. The war was minor in itself, but that plus Hawaii, Cuba, the Philippines, Panama, Guam, Puerto Rico, etc. inflated our idea of a proper navy. In 1894 Congress had passed a personal income tax. It was aborted, to be sure, by a constitutional flaw, but it clearly manifested a new temper and portentous new federal revenue demands.

The election of 1900 was fought over imperialism; imperialism won. Theodore Roosevelt accelerated the naval buildup. Federal taxes rose: there were excises, tariffs, and in 1909 a corporate income tax. The Dingley Act tariff of 1896 was the highest in our history up to that time. Like most tariff hikes, it came during a slump. The Payne-Aldrich Tariff Act of 1909 hiked rates even higher, and unprecedentedly did so during moderately prosperous times. It was extremely unpopular, splitting the Republican Party, but only led to the personal income tax amendment for an alternative revenue source.

Those negative factors stifled the land price boom that might otherwise have followed the crash of 1893, and the reflation beginning with 1896. Without a boom, there is less height to fall. There was, to be sure, a building boom and a stock market boom. There was, however, *no land price boom*. Neither was there much urban sprawl: infilling was the mark of the period. Hoyt's time series show this prosperity to be much more stably based than others. To explain this, a second factor is needed.

Second, there was a massive shift to property taxation. In Chicago, property taxes rose about seven times, while land prices only doubled, 1896-1920. The real tax rate apparently rose several-fold. This, the "fiscal equivalent of war," must have held down and stabilized land prices.

Why would this have occurred? A nation was urbanizing, and a nation wanted urban services. Clean water supply and sanitary engineering and public health were heavily supported, stimulated by fear of cholera. Communicable diseases were a major threat to life: this was "the medical equivalent of war." In German working neighborhoods they built public baths with the Roman name *natatoria*. Mass transit was essential: this is when they opened subways in Boston and New York, and had the nickel fare in Cleveland. Mass education was needed for a newly technical urban world. In farming, we were entering the age of irrigation: the California Wright Act had been passed in 1887; operating districts were formed rapidly after 1900.

This was also the age of Henry George and his movement. George had not created the spirit of his time, he was part of it, rising now and then to near the top. Still, reading George gives you not just his ideas, but a flavor of the larger movement he exemplified in enhanced form. The first wave of Georgism, allied in New York with socialism, crested and fell back after 1886; a second wave, a national movement allied with Populism, washed back in the McKinley landslide of 1896.

A third wave, however, came on strong during the Progressive Movement, merging with it and rising to power. Progressivism affected both parties, nationally and locally. It was an infectious idea, worldwide: this was the era of Lloyd George, Sun Yat-sen, Joseph Fels, Leon Walras, Knut Wicksell, Tom Johnson, Louis F. Post, Newton D. Baker, George Record, Samuel Seabury, Samuel Jones, Warren W. Bailey, Henry George Jr., the Manhattan Single Tax Club, W.S. U'Ren, and hundreds of other influential statesmen and groups around the world who saw things much as George did.

The widespread perception of a land problem was related to historically low cap rates; that is, high price/rent ratios of land. The "labor-price of land" had risen in 1890 to an all-time high, in Europe and America. Urban densities, too, were at all-time highs. The factual basis of the case for taxing land values was never so patent; thinkers, voters, and statesmen responded.