

INSIGHTS

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"And Aaron shall lay both his hands upon the head of the live goat, and confess over him all the iniquities of the children of Israel, and all their transgressions and all their sins, putting them upon the head of the goat, and shall send him away . . . into the wilderness. And the goat shall bear upon him all their iniquities . . ." Leviticus 16

IS ALAN GREENSPAN A MODERN DAY SCAPEGOAT?

Democrats and Republicans, Conservatives and Liberals, Keynesians, Monetarists, and all other articulate economic theorists have now united in their desire to make Alan Greenspan a modern-day scapegoat upon whom all the sins and transgressions of our troubled economy should be blamed. Greenspan cannot be involuntarily exiled to the political wilderness, but his opponents have flooded the media with attacks upon his policies.

Greenspan has complained that soaring land and stock prices have generated a "wealth attack" that has increased consumer spending at a faster clip than production has risen and has threatened to set off an inflationary spiral. He fears that America may face the same problem as Japan when its "bubble economy" of the 1980's, based on insanely high land prices, burst.

Opponents claim that Greenspan's increases of the discount rate charged to member banks affects land and stock prices indirectly by raising mortgage and loan interest and restricting profits to below what they otherwise would be. Opponents also claim that those companies whose wildly speculative stocks are forcing up the Nasdaq market, don't borrow much money, but raise their money by selling stock. Further, their stock prices are not based on actual profits, but on hype, momentum, and perceptions of future income. However, Greenspan's opponents have not come up with any alternative to Greenspan's minimum manipulations. Some critics assert that instead of Greenspan's indirect attack on speculation, he should have just raised initial margin requirements. Greenspan has replied that raising margin rates would only

hurt small investors because big investors have many ways to circumvent margin requirements.

Greenspan is one of the few people in Washington who understands that wealth is not created by increases in land prices, nor is it created by increases in stock prices. Increases in land values create no wealth of any kind, and the gains to the purchaser constitute a loss to the buyer. Further, the speculation in land can only be terminated by taxation of the unearned windfalls that increase land values created. And as to profits arising from increases in stock prices, they just constitute changes in ownership of the companies in question—something that the government should leave alone to cure by itself.

LAND BUBBLE CONTINUES TO EXPAND DESPITE GREENSPAN WARNING

Although any increase in interest requirements decreases the price of land, our land bubble continues to enlarge. The New Economics supporters claim that location values will be of much less importance in the future because of the tremendous advances in the electromagnetic spectrum. We suggest that they are living in a dream world. Home prices in San Jose, the center of the Silicon Valley, increased 16.2% in the first quarter of this year, making it the highest increase in major city in the United States. This compared with 15.0% in Denver, 11.8% in Boston, and 11.6% in Minneapolis/St. Paul. San Francisco also continues its present land value boom. *Newsweek* refers to an Internet corporation

conference in Menlo Park where CEO's and CFO's of local Internet start-ups came to learn the ins and outs of launching successful public offerings and riding the Nasdaq up to the sky. They also discussed Nasdaq's slippery slopes as horrified employees and investors saw the values of their shares slide down abruptly. One CEO pointed out that his company would survive partly because it spends 40¢ per square foot in Oakland, California and not the \$5.00 per square foot demanded in San Francisco.

The anti Greenspan forces seem to contend that by merely reducing, or at least omitting to increase discount rates, or by waving a magic wand, Greenspan could allow indefinite economic growth in America. When he fails in this impossible task, he will become the number one scapegoat for the economic sins and transgressions of our politicians and academicians.

Frazier's monumental anthropology book, *The Golden Bough*, devotes 50 pages to describing universal primitive beliefs relative to either exiling or killing chosen animals or human beings to cure economic malaise. In some countries, the scapegoat was the most perfect young man or the most beautiful virgin maiden, who was allotted a period of luxurious living prior to being executed. This temporary life of luxury varied from a month to a year. If Greenspan should become a modern-day human scapegoat, he is not likely to enjoy public acclaim for his actions. But *Insights* does feel that he should be honored in some degree for his aborted attempt to teach the American public that wealth cannot be created by increased land values or inflated stock prices. ● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ●