INSIGHTS

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"There is no gain to society at large from the rise of (ground) rent. It is advantageous to the landlords alone and their interests are thus permanently in opposition to those of all other classes." David Ricardo (1772-1823)

IRRATIONAL EXUBERANCES THRIVE

In Alan Greenspan's famous speech, in which he warned against "irrational exuberances," he cited Japan's disastrous economic disorder. He did not mention that the Japanese fiasco was caused by uncontrollable exuberances in which Japanese banks extended real estate loans based on too flimsy security. The collapse in the Japanese stock market was the mere symptom of an unbalanced economy, not the cause. We have forgotten that stocks are not wealth, but only evidence of partial ownership. Their price, as distinguished from value, is based on a guess, trained or untrained, as to what the earnings will be in the future.

So far as the average investor is concerned, the stock market is to industry what horse-racing is to agriculture.

President Clinton has indicated that he believes that the days of big booms and busts are over. Critics might ask if Bill was inhaling when he made this statement. We had depressions, caused by land speculation, over a hundred years before the Federal Reserve Board was created to prevent those exuberances which now pervade the market. The so-called "Big Depression" was preceded by foreclosures on urban and rural real property all over the country to which the stock market only belatedly responded.

Let us leave the theoretical guesses of the professors and review what happened in the real world in respect to irrational exuberances. We will not take California, Texas or Hawaii as examples, where land speculation effects were widely publicized. Instead, we will take the stodgy old town of Chicago.

CHICAGO IN THE BOOM & BUST SPECULATION OF THE 1830'S

In the 1820's, limitless areas of government land were obtainable at $1.25 an acre. However, the construction of a 100 mile canal from Chicago to La Salle, with aid from the Federal Government, led to a big land boom.

Auctions of vacant land flourished, and nearly $2 million acres of Indian tribal lands near Chicago sold at the rate of six cents an acre.

The whole of the country seemed to be involved in land speculation as settlers poured in to create Chicago's first land boom. For example, in 1832, a plot 80 feet by 180 feet, at the corner of South Water and Clark Street, sold for $100. It was resold in 1834 for $3,500, and in 1835 for $15,000. By the summer of 1836, when construction of the canal commenced, land sales within the present city limits of Chicago had increased from $168,800, in 1830, to $10,500,000. It looked like the whole city was laid out, emblazoned with colorful banners, and auctioned off just as California land was to be sold 50 years later.

THE COLLAPSE IN THE LATE 1830'S

Then came the bust, with land a drug on the market. The credit of the State of Illinois was greatly impaired because at the request of land speculators, it had undertaken vast programs of infrastructure development for which it could not pay. Banks closed all over the state. One 1839 newspaper reported seeing "a considerable portion of the beautiful prairie, which in the early days of speculation was staked out and sold as thousand dollar city lots, now plowed up for potatoes."

Another writer described the situation in Chicago of the early 1840's: "Broken fortunes, blasted hopes and blighted character–these were the legitimate offspring of those persistent times. The land resounded with groans of ruined men and the sobs of defrauded women who had entrusted their all to the greedy speculators."

THE NEW BOOM IN THE 1840s

Declining land prices encouraged labor and capital, as the canal opened in 1848, and the railroads flourished. The Illinois Central Railroad obtained a free grant of 2,500,000 acres from Congress. The railroads transported thousands of immigrants into Chicago. The population of Chicago increased from 10,859 in 1847 to 20,023 in 1848, and upward until it exceeded 80,000 in 1855. Public improvements such as sidewalks, sewers, plank roads, and street lighting pushed land prices even higher. Land near State and Roosevelt Road, offered for $200 an acre in 1845 sold for $20,000 an acre in 1856.

The Chicago Daily Press in 1856 discussed the great appreciation in land values and the enrichment of land holders, stating that the value of land within the city limits had increased from an estimated total of $1,400,000 in 1842 to $126,000,000 in 1856.

THE NEW BUST IN THE LATE 1850s

Another land panic emerged in Chicago and the rest of the country in the 1850s, as exuberancy declined. Three Chicago banks closed their doors and, by 1864, 98 banks were suspended in the state. 15 railroads operating in this area had obligations of $181,700,000 (a fortune today) and were forced to make assignments for benefit of creditors. Land values fell sharply, and vacancy signs and foreclosure sales again permeated Chicago.

THE RISE AND BUST IN THE 1860s

European demand for American wheat, and the Civil War requirements of grain and meat again stimulated the demand for land. Unemployment decreased sharply. During the Civil War, the population exploded from 109,263 in 1860, to 187,446 in 1865. Land on State Street, which had been sold at $300 a front foot in 1860 sold for over $2,000 a front foot in 1870, as Marshall Field and other big merchants moved onto that street. Other downtown streets had similar booms. Before the great fire of October 1871, there was great speculation in land near existing or proposed parks, and improvments in transportation changed nearby farm lands into high priced lots. One writer stated that every other man and every four women in Chicago had some money tied up in lots in early 1871.• • • • • • • • • • • • • • • ☞

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☞ The great fire of October 1871 swept over 21,000 acres and destroyed 17,450 of the 60,000 buildings in the city. Some 104,000 people or one-third of the population were made homeless. But this only temporarily halted speculation, as new building, aided largely by Eastern money, brought land to its former levels. By 1873, land near Hyde Park had increased from $100 an acre to $15,000 an acre, and 6,000 acres of land on the Lake and Calumet River, purchased for $1.25 an acre, was appraised at $5,700,000. 211 square miles of land, within present city limits of Chicago, increased in price nearly 500% from 1862 to 1873.

THE BIG BUST OF THE 1870s

In the 1870's, the nationwide collapse in land values hit hard in Chicago, in what was called "The Panic of a 1873." The Real Estate Journal reported in December 1876:

> "In the entire history of land dealing, there has not been a reverse which has lasted so long or caused such depreciation as that under which the market has labored for three years. Strewn with wrecks of fortunes and the destruction of hopes, indeed it could by no means be certain that human minds and human lives have not been destroyed under the burden of disappointed expectations."

Overall, land values in Chicago declined from $575 million in 1873 to under 250 million in 1877.

THE NEW BOOM OF THE 1880s

As with the rest of the country, the panic of 1877 left Chicago with deflated land prices, low home and store rents, and idle capital. But new factories were built, new railroad construction commenced, and the cities population increased, reaching 600,000 in 1884. A new land boom was created. Architectural improvements led to the construction of steel frame skyscrapers, greatly increasing commercial land values.

Feverish land speculation arose all over the city prior to the 1892 World Fair, as land values again exploded because of what the real estate editor of the Chicago Tribune described as "cracked-brain attitudes."

THE LAND BUST OF 1893

By 1893, 90% of the lots purchased were still vacant and thousands of investors were hit by mortgage foreclosures. Again there were business failures, bankruptcies, wrecked fortunes, unemployment and grinding poverty. Rents shriveled, the market for vacant land disappeared, and many apartment houses went into the hands of receivers.

In the early years of the 20th century, rents began to rise and vacancies to disappear. Still, by 1909, Chicago land values were lower, as a whole,lower than in 1890.

THE BOOM AFTER WORLD WAR I

After World War I, there was a new land boom. Apartment rents doubled between 1919 and 1924 as did commercial land prices.

Sales of acreage tracts increased 600%, and the sale value of land within the city limits increased from 2 billion in 1921 to 5 billion in 1928. Developers gained over $100,000,000 in sales of vacant lots in only one year.

THE LAND CRASH STARTING IN THE LATE 1920'S

Contrary to history, as related by the establishment economists, the Great Depression did not result from the stock market crash commencing in 1929. Foreclosures began as City land prices and rents started to collapse prior to the stock market crash, and land values continued their precipitous decline thereafter.

The writer lived in Chicago in the 1920's in a penthouse on Lake Shore Drive, opposite the Belmont Yacht Harbor, which rented at $750 a month–a monumental amount then. This came to an end in 1928 when my father made some unfortunate bids on wheat futures. I still remember him telling the apartment house manager that he was broke, could not pay rent, and wanted an extension of time to pay the back rent. The manager replied:

> "This is out of my hands. This and every other apartment house on the Drive is being foreclosed and has gone over to the banks."

By the end of 1932, over 2 billion dollars in foreclosure actions were pending in Chicago, and a few months later, apartment rents declined over 50% and residential and store vacancies increased drastically.

None of the above–described booms and busts, with their appurtenant suffering, misery and poverty, were caused by the Federal Reserve System (created in 1913), except that member banks should have been more heavily pressured to turn down loans for purposes of land speculation and development. But such action would have only aggravated misplaced public claims, such as those now levied against Greenspan, that industry was being destroyed by repressive Federal Reserve Board action to increase interest rates.

THE MESSAGE OF CHICAGO

Most of the facts above came from a book by Homer Hoyt entitled, *One Hundred Years of Land Values in Chicago*, published by the University of Chicago in 1934. Hoyt concluded, relative to Chicago's "exuberant" periods:

> " Its growth was accomplished at great social cost. Its exuberant periods of building, subdividing and land speculation were followed by the inevitable aftermath of foreclosures, bankruptcies, bank failures, and losses and sufferings that affected not only the speculators, but the entire community."

Hoyt had no remedy other than a planned economy. His conclusions were sharply criticized by Charles O'Connor Hennesey, then president of the Schalkenbach Foundation *(Land and Freedom* Sept. 1934).

O'Hennessy was surprised that the University of Chicago missed its real significance, other than as a guide to land speculators. In its advertising brochure, the University publisher stated:

> "This book will help you make money. One sale alone can pay for it twenty times over. Wouldn't it help you make sales if you knew when Chicago land values will reach their next peak? What types of real estate have the best prospect for a rise in value? In what areas of the city will the increase in land values be greatest in the next period of activity"?

Hennessy angrily stated:

> "Mr. Hoyt's study indicates that the investors, as distinguished from land users in the various Chicago land booms and depressions, were just gamblers, seeking easy and unearned wealth at the expense of the producers of the community. When, in a land boom, succeeding waves of speculation force land prices to altitudes that deprive capital and labor of opportunity for further employment, a the bubble bursts and the process of deflation sets in with its inevitable train of evil consequences, broken fortunes, blasted hopes, depleted incomes, vast unemployment, failed banks, wholesale foreclosures of mortgages, and the great abatement of purchasing power that makes for slack trade and hard times. After the deflation of values has proceeded to an extent that produces a new equilibrium in which land, labor, and capital become plentiful and cheap, these forces of production are again engaged and a season of activity again ensues."

Hennessy's Irish was also aroused by the forward of Hoyt's book, written by Harry Mills, head of the U.of Chicago's Dept. of Econ., and a member of President Roosevelt's National Labor Relations Board. Mills stated:

> "The Single Tax doctrine that the changes are all gains, large and unearned, must lead us to believe that urban land values rise steadily without any recessions or setbacks. That is not true."

Attacking this "singularly inept comment by the leading economist of a large university," Hennesey concluded:

> "The professor ought to be told that there is no such 'Single Tax doctrine' as that which he sets up to be knocked down by Mr. Hoyt's demonstration of what every Georgist knows–that land values that go up in boom-time inflation come down later on. The portentous fact that emerges from the study is that bare ground values in the 211 square miles that constitute Chicago rose from a few thousand dollars at the beginning in 1834 to more than five billions at the present day (1934) and that some land within the area is rated in value at $20,000,000 per acre. That fact and its implications are among the extremely serious things that Dr. Mills and his staff should think about. They might also examine Henry George's remedy for the evil social conditions that in this book are so clearly revealed and tell a distressed world what is the matter with it."

Don't hold your breath awaiting meticulous economic thinking from Chicago U. ✍