INSIGHTS

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"Solving the land question means the solving of all social questions . . . Possession of land by people who do not use it is immoral–just like the possession of slaves." Leo Tolstoi (1828-1910)

IS THERE ANY VALIDITY TO THE NEW ECONOMICS?

Recently, a new theory of economics has emerged to the effect that we now have a changed economy in which depressions and recessions will no longer occur. There will be no more destructive business cycles and unemployment will be a thing of the past. This new theory stems from the idea that technology has boosted productivity to such an extent that economic expansion will continue indefinitely and boom/bust cycles need never reoccur.

An article in *U.S. News and World Report* claims that this new economy will eliminate inflation and real estate bubbles because of the increasingly global operation of corporations. *U.S. News* states that "General Electric and IBM have long thought globally. What is newer is that midsize companies ranging from Invacare Corp. with $615 million in sales to Lincoln Electric Corp. with about $1 billion in sales also have emerged as global players. They procure parts and materials world-wide as well as selling their products overseas."

Louis Ruckeyser, prominent financial commentator and consultant scorns Wall Street bears, asserting: "While the worry worts panic, we keep raking in the profits." • • • • • • • • • • • • • • • ☞

☞ Ruckeyser proclaims,

"One or twice a year a market darling disappoints investors by a few cents a share...or Alan Greenspan is seen looking grumpy in public...and stocks go into a vicious tailspin.

"Of course, few people actually stop to think about whether a slumping Thai Baht really hurts a widget-maker in Ohio. But panicked investors throw out the baby with the bath water, dumping quality stocks along with damaged goods...once again handing us a terrific opportunity to pick up some of the strongest companies in the world at prices that would have seemed like amazing bargains a few days earlier."

Ruckeyser forgets that there are equally illogical booms in stock prices when a market darling surprises investors by increases of a few cents a share or currencies increase in remote foreign bourses or Greenspan looks happy in public. Actually, Wall Street trading has the same connection with industry that horse racing has with agriculture. It is a gambling side show unrelated to the main event.

Although there may have been no true change in the value of the stock, investors develop radically different appraisals and react with unrestrained exuberance or panic. ☞

☞ The true situation resembles 1929 where a tremendous real estate boom in both urban and rural property burst and led to foreclosures all over the country. Land prices have reached critical peaks, particularly in Silicon Valley and other centers of high tech production

A cousin of the writer, who lives in Palo Alto in a somewhat small, run-down old house, bought for $20,000 in 1955, has received offers of over a million dollars to sell the house to buyers who would tear it down to erect a new home. The President of Stanford University has publicly acknowledged that his biggest problem in attracting new faculty members is that they cannot afford Palo Alto houses 9/10ths of the cost of which is the land beneath the house.

Much stock market profit has gone into housing which has further forced up land prices, and deflation of real estate prices will inevitably follow the exhaustion of stock inflation. When there is a disruption in either stock or land prices, the other one will follow. This is not just a worry wart panic, as Ruckeyser asserts. We have been told that we must not assume a Cassandra attitude. Cassandra's forecasts were never believed. But, she was always right. This writer believes that the "new economics" has no more validity than the "new economic policy" of Lenin or the "new economic policy of Nixon." • • • • • • ✍