

INSIGHTS

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*"Rent, (ground rent) is a toll, not a payment for services. By its social values are transferred from social pools into private pockets, and it becomes the means of vast economic exploitations * * * Rent is obviously a common resource. Differences in fertility and value of site must be equalized by rent, but it ought to go to common funds and be spent in the common interest."* J. Ramsay MacDonald, Prime Minister of England, 1924 -34

ODE TO THE STOCK MARKET

Summer time and the market's uneasy. The Sucker fish aren't jumping, cause the prices are high. Your daddy's no longer rich and your mother's out looking, And the experts say it's all due to one guy. Greenspan warned against land and stock speculation and they say that is what is causing the market to die. (Apologies to George Gershwin)

Greenspan has attempted to slow down loans by Federal Reserve member banks secured by property to buy securities and on securities to buy property. Self styled experts claim that by refraining from large decreases in the prime discount rate, Greenspan has destroyed billions of dollars of wealth.

In fact, decreases in land prices do not diminish the wealth of the nation one penny. But increases in the rental value of land diminish the return to labor and capital. Stocks are not wealth, in themselves, just representation of ownership. Greenspan attempted to prevent the very same speculation that brought about the panic of 1929. Describing what took place in 1929, historian Samuel McCutchen in his *History of a Free People* wrote:

"As the fever bolted, securities sold for as much as fifty times their earning power; stock in a company which never paid a dividend rose from \$40 to \$450 per share, and speculators' 'paper' profits went up accordingly.

"Although some bankers, brokers, and economists saw danger in such developments, many others were swept along in a tide of optimism which gripped the country. If miracles were possible in the automobile and radio industry, why not in finance? Even President Coolidge abandoned his usual cautious silence to say that he saw nothing wrong with a great increase in brokers' loans, which were mostly used to support speculation in securities. With this official blessing, the market went on a dizzy climb."

It might be noted that today it is a common thing for stocks which never paid a dividend to sell for as much as 50 times their earning power, and stock prices to rise by multiples of ten. It could be added that in 1929, as well as today the Federal Reserve Board warned against overoptimistic loans secured by real property. The collapse of urban and rural real estate began substantially before the 1929 stock market crash.

Farmers everywhere were experiencing foreclosures and the same took place on property in all our major cities. This writer remembers in 1928, his father telling the manager of the apartment building on Lakeshore Drive in Chicago, in which he was renting a penthouse, that he could not pay the rental and was leaving the building. He requested an extension of time to pay back rent. The manager stated that it was not up to him, because the building had gone over to the bank as had every apartment building on the boulevard.

To this date, there has not been a collapse in the U.S. real estate market comparable to the 1929 real estate crash in America or to the current crash of land values in Japan. But it is on its way. In Orange County, where your writer and editor live, home prices leaped to a median of \$297,000, at the same time the market itself had stalled. Real estate experts are concerned about how long the real estate boom can continue. The number of home sales in June fell 15.7% from a year earlier, indicating that more buyers are skittish and more home owners remain on the sideline. \$297,000 will get you only an old shlock built tract house on a handkerchief size lot, but real estate is now being sold to cover stock market losses...●●●●●