



Henry George School of Social Science

Chartered by the University of the State of New York

The Land Cycle and the Stock Market

By *Scott Baker*

A description of the 18.6 year land cycle and how it relates to the current stock market, and whether history will win over modern intervention.

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Worried Dollar by [N.A.](#)

[This article](#) from well-known stock market prognosticator Zerohedge caught my eye recently.

The charts show the scale of deep and prolonged Fed-led market manipulation and are consistent with other data I've been seeing since the Fed started its trillion dollar/year QE purchases. The thing is, the phoniness of the asset market bubble is well-known on the street, so there's a question of how much difference a taper or some other gradual change will make, though the scare of about a month ago seems to indicate at least short-term corrections are likely, plus we are technically over-bought here and in the weak part of the year, historically. Zerohedge seems to acknowledge all this at the end too.

We're in uncharted waters as far as the asset markets go, starting with the fact there has never before in history been two 50% crashes in the market - 2000-2003 & 2008-2009 - in the same decade (or 50% rises either). This kind of volatility is not only unhealthy in itself, but speaks of massive intervention of the unhealthy kind.

From the economic reformer perspective, both Georgist Fred Harrison and Georgist-Stock Market Guru Phil Anderson say we are at the beginning of the next 18-year land-based stock bubble, and like the beginning of all bubbles, it will be slow at first, followed by a mid-cycle correction (Harrison, in his new book, "The Traumatized (English spelling) Society" says this

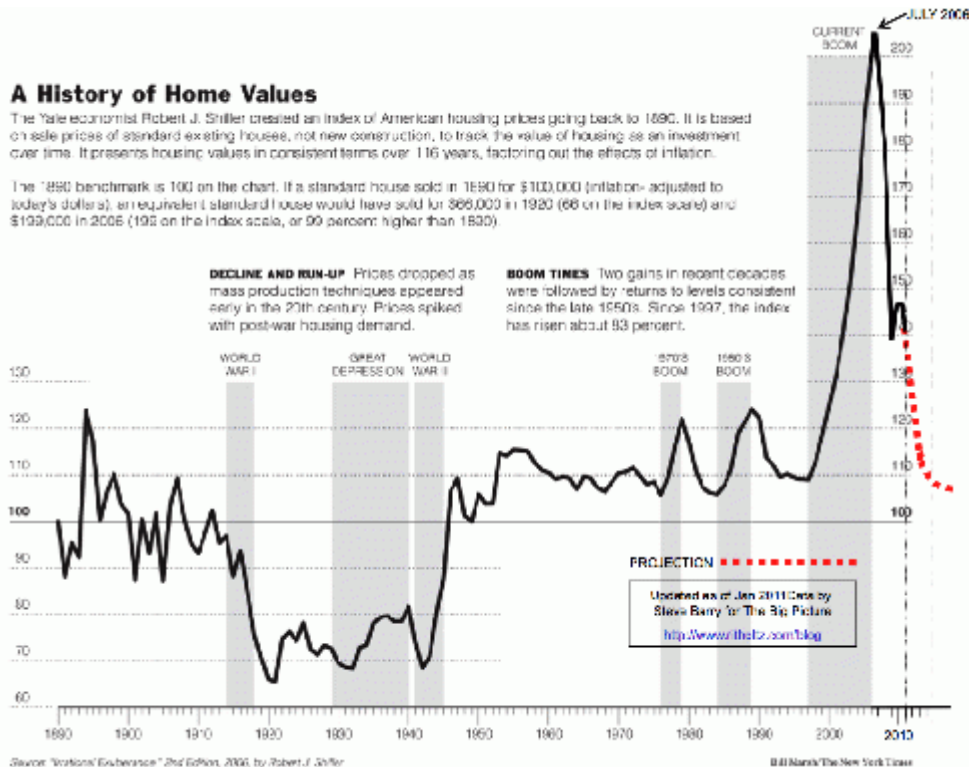
will come 2019, with a China-led global crash coming in 2028; Anderson recommends Harrison for his prescience in his newsletters). Harrison was correct in 1997, in predicting a 2010 housing market bottom (perhaps the bottom came a bit earlier than that, but few would have imagined the unprecedented Fed and Gov't intervention in 2008-2009 too). Harrison was making his prediction back in the Dark (or light?) Ages before even the repeal of Glass-Steagall!

But, take a look at [this chart](#) of inflation-adjusted home prices according to the Case-Shiller index going back to 1890 (Henry George's time!):

In 2006, just as the Housing market was peaking, the NYT ran [this graphic](#) of the 100-year Case Shiller chart. It showed how radically overvalued Housing had become.

Two years later, TBP reader Steve Barry updated that graphic, including the projected Home Price mean reversion. (See versions for [2008](#), [2009](#) and [2010](#)).

Its time to update this for 2011. Note the 2009 tax credit wiggle:



Case-Shiller Index since 1890 by [The New York Times](#)

If the red line is followed - this chart stops in 2011 - we still have a long way to go to get to normal re-evaluation of house (read: land) prices...going down .

The Fed is trying to defy the natural law of supply/demand with lots of money from nothing (well, technically toxic assets, but these MBS are worth nothing like what is being paid for them - that's what makes them "toxic"), but these are being turned into new speculations on land (Dr. Cay Hehner talked about this in the last [Left Forum panel](#) with Dr. Michael Hudson too; it was hedge funds and other speculators who started the post-crash land "boom" which still is invisible

in this big picture chart, although that may be because it is not current enough). Still, is all this goosing enough to keep things above the Mean of 100? Is it even healthy for us to be above the Mean when the productive sector is money-starved?

Zerohedge, Phil Anderson, and other market followers would of course like things to go up, even while recognizing the phoniness of the Ponzi scheme, but this might be coloring their objective analysis. Clearly, a reversion to the mean would mean another 20-30% correction in housing, and most likely stocks, since they are so dominated by the FIRE sector now. At some point, the Fed - though most likely Bernanke's successor (especially if it is hard-nosed, opinion-immune, Larry Summers) - will have to step off the gas, interest rates will rise, loans will be even further reduced, and the way financial institutions make most of their money - through Derivatives, Mergers and Acquisitions, and Wealth Management, won't work anymore (JP Morgan invests 69% of its assets this way, leaving just 31% for traditional loans, typical of the TBTF banks - yet another argument for [Public Banks](#)).

Then comes the crash, but maybe bail-ins instead of a bailouts, now that that is prevented by Dodd-Frank (at least in theory, practice TBD). The joint FDIC-BOE plan, announced in a paper in December, to do a [Cyprus-style involuntary bank deposit for bank equity swap](#), will trigger the Mother of All Bank Runs. Then the FEMA camps, draconian anti-liberty laws and *practices without laws*, as feared in the comments to this Zerohedge article, will really come out in force. As former president Jimmy Carter said in what must be the most mainstream media under-reported significant comment made by a living president of all time, "[America no longer has a functioning democracy](#)."

I wonder if even the hundreds-years old [18.6 year land cycle](#) can withstand that.