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IN THE NATION—

The Increasing Cost Of Land

By RAYMOND MOLEY

Secretary of the Treasury Robert B. Anderson, who is rapidly becoming the chief exponent of common sense in the Washington Administration, is mainly concerned, he says, with "sustainable economic growth—not just any kind of growth—as the major goal of economic policy." We may assume from what he has said on other occasions that "just any kind of growth" would include huge Federal handouts for housing developments in cities, with all the inflationary consequences attendant on that short-cut to prosperity. For housing—residential and business—is a major bulwark of our economy.

To anyone who chooses to look at the facts, it is apparent that lavish Federal expenditures are creating a new class of rich people who have done nothing, but whose ownership of land is inactive or speculative. A new wealth consisting of unearned profits is appearing at every spot where Federal money is flowing into public works, urban development, highways, and many water conservation projects.

Henry George's fame over the world in the last two decades of the 19th century was as great as is that of John Maynard Keynes now. His basic philosophy held that equity demanded the taxing of the "unearned increment" on land values and, as he said, taxes should "bear as lightly as possible on production" and "bear equally, so as to give no one an advantage or put anyone at a disadvantage as compared with others."

Those principles, first stated by Adam Smith in 1776, are true today and apply with great pertinence to urban development.

The magazine "House & Home" recently sponsored a round-table conference on housing and urban development generally. Participating were representatives of the housing, real estate, insurance, mortgage banking, savings banking, and savings and loan businesses. P. I. Prentice, editor and publisher of "House & Home" was moderator. The report agreed upon by all centered upon "tight money" and also inflationary land values.

The report had this to say about the latter problem:

"Steepest price inflation of all has been the price inflation in land . . . The builders know all too well what is happening, because the price of the land they need has risen far faster than the price of the materials they buy or the wages of the labor they employ. The price of big city slum land has soared so high that private enterprise cannot meet the need for low-income or even middle-income housing without a big land-write-down subsidy. The price of suburban land has soared so high that in some projects the land seller gets almost as many dollars for his acreage as all the manufacturers get for all the building products used in the houses . . .

"The only way land price inflation can be prevented is to tax land much more heavily, shifting a substantial part of the local tax burden now carried by improvements to the land itself. Taxes are the only important costs a land speculator must pay, so taxes are the only brake on the price of land. . . .

"Incidentally, taxing land more heavily would take the bootleg profit out of slums and force many slumlords to improve their property to get enough added income to pay their added taxes. It would deflate the bootleg value of slum property and make Federal subsidies for urban renewal land write-downs unnecessary. It would cut the cost of highway extension by cutting land costs for the right of way. It would make the unearned increment in suburban land values pay the cost of schools and other community facilities needed to convert raw land into housing. It would let home builders offer better homes for less money by spending for quality the money they now waste on land inflation. It would reduce taxes on good homes by increasing the taxes on vacant and under-used land."

The complete report of the round-table discussion appears in the current issue of "House & Home."

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Round Table report:

Because tight money hurts homebuilding first and worst, long before it begins to affect other industries seriously, the Housing Industry Council joined HOUSE & HOME this fall in sponsoring the first Round Table conference on tight money held since 1956.

Tight money can do little about land price inflation

Steepest price inflation of all has been the price inflation in land, but nobody is doing anything to stop it and nobody except the builders who must pay these inflated prices seems to realize how great and how wasteful this land price inflation has been.

The builders know all too well what is happening, because the price of the land they need has risen far faster than the price of the materials they buy or the wages of the labor they employ. The price of big city slum land has soared so high that private enterprise cannot meet the need for low-income or even middle-income housing without a big land-write-down subsidy. The price of suburban land has soared so high that in some projects the land seller gets almost as many dollars for his acreage as all the manufacturers get for all the building products used in the houses. And Frank Cortright has warned that before long there may be no profit left in homebuilding after the land speculators have taken their profit out first.

One reason why rural land prices have been climbing 8% a year in the face of falling farm prices is that Federal farm subsidies are being translated into higher prices for farm land. This land price inflation tends to nullify the hope that farm relief payments could speed and ease the abandonment of marginal farms, and it helps to raise capital costs so high that some authorities say it now takes a $20,000 investment to create one new job on a good farm.

Another reason why land prices are soaring is that the expanding highway programs are skyrocketing land prices along the right of way and enriching the owners of that land with a windfall that may be bigger than the total cost of the highway. (No. 1 reason the Federal highway program is costing so much more than anticipated is that, unlike many other countries—for example, Holland—the US has no land policy designed to keep land prices stable.)

But the principal reasons for land price inflation have been:

1. We are concentrating an unprecedented population explosion on a very small area. In the past decade we have added 30 million more people to the population of our 162 metropolitan areas; ie, we have crowded more people than the total 1950 population of California, Washington, Oregon, Arizona, New Mexico, Nevada, Utah, Idaho, Montana, Wyoming, Colorado, North Dakota, South Dakota, Nebraska, Kansas, Oklahoma and Minnesota into an already-heavily-populated area the size of Connecticut.

2. We have no land policy designed to bring the land needed for this population growth into the market when it is needed. On the contrary, we make it easy for land speculators to hold their land off the market in anticipation of still higher prices later. The result has been a largely artificial and fictitious shortage of land for housing developments, an artificial shortage that is blighting thousands of acres with the familiar checkerboard pattern of development; an artificial shortage that is forcing homebuyers to seek cheap land further and further out when plenty of land is still undeveloped closer in; an artificial shortage that often doubles development and community facility costs by scattering new housing over eight times as big an area as a more orderly expansion would require, putting 300 families on a square mile that could better be used to house 2000; an artificial shortage that has pushed prices far above today's values; an artificial shortage that is almost sure to end in a bust just like the bust in land prices that has followed every past inflation in land.

The only way land price inflation can be prevented is to tax land much more heavily, shifting a substantial part of the local tax burden now carried by improvements to the land itself. Taxes are the only important costs a land speculator must pay, so taxes are the only brake on the price of land, which reflects the capitalized margin between the rent the land can be expected to earn and the tax burden it can expect to carry. The bigger the land tax the smaller this margin will be and the less chance of big profits in land speculation. (In much of Australia and New Zealand improvements are not taxed at all; almost the whole cost of the local government is paid by taxes on land alone.)

Incidentally, taxing land more heavily would take the bootleg profit out of slums and force many slumlords to improve their property to get enough added income to pay their added taxes. It would deflate the bootleg value of slum property and make Federal subsidies for urban renewal land-write-downs unnecessary. It would cut the cost of highway extension by cutting the land costs for the right of way. It would make the unearned increment in suburban land values pay the cost of schools and other community facilities needed to convert raw land into housing. It would let homebuilders offer better homes for less money by spending for quality the money they now waste on land inflation. It would reduce taxes on good homes by increasing the taxes on vacant and under-used land.

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