
IS THERE A LAND SHORTAGE AROUND ST. LOUIS?

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A Talk to the
Homebuilders Association of Greater St. Louis
by
PERRY PRENTICE
of
TIME

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November 22, 1971

WHEN I FIRST ACCEPTED your invitation to speak here tonight, I thought this was going to be easy. For I already had two St. Louis speeches, and in all modesty they were both good St. Louis speeches. One was the speech I made to you Homebuilders back in 1967 in which I gave you some good advice that you promptly forgot. The other was the speech I gave in July to the Chamber of Commerce of Metropolitan St. Louis on "How to Get St. Louis Going Again," the speech that reminded you that maybe it was time to invite me back again.

So I figured all I had to do was dust off one of my two St. Louis speeches—the one you had forgotten or the one that a different audience had seemed to like last summer; either way I figured I would be home free without having to go to work and write a third St. Louis speech.

And then somebody sent me a copy of this pamphlet of yours entitled "The Crisis Now for Metropolitan St. Louis" — packed with sentences like:

"Unless something is done now the result will be a monstrous chaotic urban sprawl with few benefits and many problems"

and

"There is neither time nor space left to allow suburban growth to continue its unchecked, unplanned helter skelter pattern"

and

"New approaches must be taken."

This is a fine, exciting pamphlet, and I couldn't agree more with whoever wrote that sentence about . . . "Unless something is done now" . . . and I couldn't agree more with what he goes on to say about the un-wisdom of so much large lot zoning and the wisdom of building to densities that will make fuller use of the land.

And of course I was happy to learn from this pamphlet that at long last you Homebuilders *do* realize that your land problem is critical.

But, alas,

Your pamphlet also showed me that you still don't have much more understanding of why land is such a problem for you than you had when I made the 1967 speech you have all forgotten. And because you still don't understand the reasons that make land a problem, you still don't understand what should be done to make the problem go away.

So alas, alas, and alas -

I also learned from this pamphlet that I'd have to go to work and write a brand new St. Louis speech in the hope that at long last I could help you understand at least the most elementary facts about land and why land is such an urgent problem for homebuilders, not just around St. Louis but around almost every central city.

THERE IS PLENTY OF LAND

You probably won't be much interested in having me reassure you that nationwide we have so much land that according to an official United Nations report the entire population of the whole United States could live at single family density within sight of the Pacific Ocean and give all the rest of the country back to the Indians.

So instead of my telling you that it is fantastic nonsense for so many people to be saying the United States is running out of land, perhaps I should start my talk by giving you some good news about the land supply right here.

Right here on the 600,000-odd acres of the area this pamphlet is worried about, namely, St. Louis city and county, the Eastern tip of St. Charles county, and the Northeastern tip of Jefferson county, there is land enough to house the entire 1970 population of the whole state of Missouri at single family densities, with nearly a quarter of a million acres left over for airports, factories, shops, office buildings, schools, golf courses, and fox hunting.

And at the planned community densities the pamphlet so ably recommends, all the people in Missouri plus all the people in Iowa plus all the people in Kansas plus all the people in Arkansas could live here a lot better than most of them live now and still have plenty of land left over for airports, factories, shops, office buildings, schools, golf courses, and fox hunting.

And if you ever get around to making FULL use of your land, you would find that all the people who now live between the Mississippi and the Rocky Mountains in Missouri, Iowa, Minnesota, North and South Dakota, Montana, Wyoming, Nebraska, Kansas, Colorado, Texas, Oklahoma, Louisiana, and Arkansas could live here without being too overcrowded.

Now please don't think I'm seriously suggesting that 40 million people should come live on 600,000 acres in the corner of Missouri your pamphlet is all about, even though I myself have managed to live quite happily at much higher densities than that.

GOD PROVIDED PLENTY OF LAND

I'm just trying to cheer you up by letting you see *you can't blame your land problem on God. He provided plenty of land to meet all your needs for many years to come.*

Now I'm not questioning for a minute that your land problem is not only real but urgent and critical. But if we can't blame the problem on God, who then is to blame and why are you builders facing a land shortage in the midst of so much plenty?

This is the same problem that the Chamber of Commerce presented to me before my Chamber of Commerce talk last July. Said the General Manager of the Chamber in his letter inviting me to speak: "The major problem of the City of St. Louis is that land is not available for expansion."

Now I don't question for a minute that what Mr. Schoon wrote me was true, but I had to tell the Chamber of Commerce luncheon that it is just plain preposterous that it should be true. Here is a city that is losing population faster than any other big city, a city that has, in fact, lost a third of its population, a city that has lost hundreds of industrial plants, a city described in a research report by the Center for Community Change as: "perhaps further down the road to total abandonment than any other central city in the United States," a city whose whole downtown has been officially voted a depressed area by the City Council. And still Mr. Schoon could tell me—and tell me truly, I'm sure—that there was no land in the city available for expansion!

I thought that was the paradox to end all paradoxes.

I thought it was the paradox to end all paradoxes until you sent me this blue pamphlet about how you are running out of land in the country when in fact there is more land in St. Louis County than you could put to good use before everyone is dead — enough land to house all your present population if almost every square foot of your county were zoned for two acre lots.

Your problem is not that there is any shortage of land. There's more underused land here than you could possibly put to full use in the lifetime of the youngest man in this room.

Your problem is that the people who own this land are hanging on to it and won't let you buy it from them now to put it to what economists call "a higher and better use."

And if I were a landowner here you can be very sure I wouldn't let you have it now either, even if you cut my zoning from two acres to one acre or to half an acre or to five lots per acre or to planned unit density as this pamphlet recommends. And I don't think many of you would either.

I wouldn't let you have my land now, because. . .

(1) I'd know from what's happening around every American city that the longer I hang on to my land, the more I could make you end up paying for it;

(2) I'd know land is so lightly taxed here and almost everywhere that since World War II land prices keep going up 6.19 times as fast as the rest of the price level. So, for example, the last time I spoke to you here in 1967 Fred Kemp told me he was already having to pay 120% more for his land than in 1952, and John Fischer told me he was having to pay 240% more — and land further out;

(3) I'd know that the one best way to get rich in my sleep (to use the phrase first applied by the great classical economist John Stuart Mill) would be just to sit tight on my land and do nothing until an enormous investment of other people's money and other taxpayers' money to develop the land around my property had multiplied the value of what I was holding off the market;

(4) I'd know that urbanizing land on the urban fringe can raise its price from a farm use value of, say, \$500 an acre to an urban or suburban use value of \$5,000 an acre or \$10,000 an acre or often \$20,000 or more an acre; and

(5) I'd know that today's crazy misapplication of the property tax and today's crazy undertaxation of land would let me cash in on the enormous land profits of urbanization without contributing more than a few pennies per dollar towards meeting the equally enormous costs of urbanization—the costs that somebody else would have to pay to make my land worth 10 times as much, or 20 times as much, or 40 times as much as its pre-urbanization value.

COST OF URBAN-FRIDGE LANDOWNERS GETTING RICH

Let's stop a minute to take a quick look at these costs someone else has to pay to enable urban-fringe landowners to get rich in their sleep.

Five years ago, the Regional Plan Association added up those costs of urbanization in the New York area to \$16,850 of 1967 purchasing power or, say, \$20,000 of today's dollars *per residence* just to pay the proportionate capital cost of the new streets, new schools, new water supplies, new sewage systems, new police and fire facilities, new hospitals, new universities, new libraries, etc., etc., etc., that would be needed to make that residence and the land for that residence reachable, livable, and richly saleable. That \$20,000 per residence figure would work out to quite a bit more than \$20,000 per lot, when you allow for multi-family multiplying the number of residence on the lot; but just to be conservative let's just stick to \$20,000 as the urbanization cost per lot.

On the other side of the country the Southern California Real Estate Research Council added up the urbanization costs around Los Angeles to only about \$1000 less than around New York, so I'm reasonably sure your urbanization costs per lot half way between Los Angeles and New York can't be running very much less. Perhaps other taxpayers hereabouts would have to pony up only \$16,000 per lot to enable me to sell lots on my land for \$4,000; but whatever the exact figure, I'm sure you'll have to agree that it amounts to one hell of a big subsidy for land hoarding.

What I'm trying to help you see is that the land problem that your pamphlet rightly says is threatening to "create a monstrous chaotic urban sprawl with few benefits and many problems" is mostly a subsidy problem and a tax problem. If the landowners who are now holding their land off the market in order to cash in on every last dollar of the *profits* of urbanization were taxed to pay even half the *costs* of urbanizing their land instead of getting an almost free ride while other past, present, and future taxpayers pay those costs for them, the landowners would not be holding the land you need off the market. On the contrary, they would be standing in line to get you to take it off their hands.

LAND MUST BE TAXED MORE HEAVILY

In brief, the reason your land problem is so critical is that, like every other Metropolitan area I can think of, you are subsidizing land hoarding by undertaxation. You are taxing the land needed for urbanization so lightly that you have made it much more profitable for landowners to hang on to their land instead of letting you buy it now at a price you can afford to pay.

So now let me remind you of the words of wisdom spoken by your former Congressman Tom Curtis, who served with such distinction on the Joint Economic Committee of the House and Senate in Washington. Said he:

"The property tax needs more understanding and certainly a lot of updating. It requires an understanding that land should be taxed at a higher rate than improvements on the land, so that there will be encouragement to put land to its most productive use. The land tax is the only tax that is anti-hoarding; and hoarding, I submit, is the basic sin in a productive economy."

All the privately-owned land in the United States was transferred from public to private ownership at prices averaging well under \$2 an acre in the hope and confident expectation that transferring the land to private ownership was the one best way to get the land improved and put to good use.

I would be the last to question the wisdom of that policy. I believe as strongly as anyone in the private ownership of land, but it's high time for all of us to face up to the all-too-obvious fact that around our cities the private ownership of land isn't working out the way it's supposed to work; so now there is a growing agitation in Congress to have the government create government-owned land banks for which they would buy back thousands of acres of fringe land at a thousand times the price at which the government originally released it to private ownership.

LAND HOARDING

There would be no need of any such land banks and no agitation to have the government spend hundreds of millions of dollars to establish them if land were

taxed heavily enough to make it more profitable for landowners to *let their land be put to good use now than to hoard it*.

This land hoarding, which is made possible and profitable only by the undertaxation of underused land, is the No. 1 reason, if not the only reason, you home-builders are having to leapfrog out into the boondocks of premature subdivision, so perhaps it would be helpful if I were to suggest a dollar figure for what this leapfrogging is adding to *community* costs. A study headed by the director of the Metropolitan and Regional Research Center at the University of Syracuse found that *community* costs for a tract of 377 houses a few hundred miles from here were increased \$658 per house per year because the builder of those houses had to leapfrog just 2½ miles beyond the edge of town to get land he could afford to buy. That multiplies out to an added community cost of \$248,066 dollars per year that the taxpayer had to pay because that small tract had leapfrogged 2½ miles . . . in addition to which the research found that it cost the people who bought those homes \$909 more per family per year to live 2½ miles further out!

SUBSIDIZED INFLATION

The undertaxation/subsidized inflation that has had land prices soaring 6.19 times as fast as the rest of the price level also accounts for well over half the inflation in housing costs that is pricing good homes beyond the means not only of low-income families, but also beyond the means of moderate-income families, as is so well spelled out in the blue pamphlet. This inflation is now providing the principal reason and justification for the enormous subsidy program in which the Federal Housing Department is now involved.

And this at long last brings me back to where I started my talk to you in 1967.

WHAT'S GOOD FOR THE LAND HOLDER IS BAD FOR EVERYBODY ELSE

As one or two of you may recall, I started off with a text taken from the writings of the great classical economist, David Ricardo. Said he, 160 years ago: "the interests of the landowner are directly opposed to the interests of every other element in the economy." Or, to put it more simply, with today's foolish undertaxation of land values, what's good for the landowner is bad for everybody else, including, specifically, *what's good for the landowner is:*

- (1) bad for the land developer
- (2) bad for the homebuilder
- (3) bad for the subcontractor
- (4) bad for the building material dealer
- (5) bad for the building material manufacturer
- (6) bad for the architect
- (7) bad for the mortgage lender
- (8) bad for the realtor
- (9) bad for the home buyer.*

(*) Editors note: What's bad for these free private enterprisers is bad for home, apartment and business or industrial renters, and for people as consumers. It is bad - very bad - for the great majority who improve their land sites substantially in line with its use value; or who expect to do so in the near future.

Taxing land location values near to but not over its annual rental value will severely reduce the number of interfering and non-serving land speculators and permit added millions of people to become proud and privileged landholders - holders of private title to land and at far less cost. The money they save can go into the improvements they personally make.

I could go on to add that what's good for the landowner is bad for the community, but first let's stick to the obvious fact that what's good for landowners is bad for everybody else in this room.

In all history, landowners have never had it so good as they have had it in this country since World War II; and in all history, I doubt if landowners have ever done less to deserve having it so good. And they have been having it so good first at your expense, second at the expense of your customers.

What's good for the landowners is bad for you land developers because the more you have to pay for raw acreage and the further out into the boondocks you have to go to find acreage you can afford to buy, the less margin you have to cover your land development costs and the less profit you can hope to make on the development dollars you risk.

BUILDERS DRIVEN OUT OF BUSINESS

What was good for the landowner is bad for the homebuilder because the more the homebuilder has to pay for his lots the less money he has left to build more sales appeal into his houses, the greater his risk of having to price his product out of the market, and the less his chance of selling his houses at a good profit. This price squeeze between what the builder has to pay for his land and what homebuyers are willing to pay for a house has busted hundreds of builders and driven thousands of builders out of business.

What's good for the landowners is equally bad for the subcontractor, the building material dealer, and most of all for the building product manufacturer. When a builder has to pay \$3000 too much for his land he has to take that \$3000 out of his house somewhere or go broke, so he passes the squeeze on to his subs, he passes the squeeze on to his dealer (or tries to eliminate the dealer and the dealer's markup entirely), and he passes the squeeze on to the building product manufacturer.

The high price of land that is so good for the landowner is bad for the architect because it gives the builder one more bad reason for trying to get his design and his site planning cheap.

The high price of land that is so good for the landowner is bad for the mortgage lender because the more water there is in the land price the less real value the mortgage will represent and the less his security.

The high price of land that is so good for the landowner is bad for the Realtor because Realtors live by making sales and today's crazy land prices are pricing millions of sales clear out of the market.

As for home buyers, the reasons why what's good for the landowner is bad for the home buyer who ends up having to put up the extra money to let the landowner get rich in his sleep are so obvious that I won't waste your time rehearsing them here.

LEAPFROGGING

The crazy land prices that are so good for landowners and so bad for everybody else are not due to any land shortage here or anywhere else. They do not

reflect the law of supply and demand. On the contrary, says FORTUNE, today's crazy land prices are "the result of preferential tax treatment that sets land speculation apart from the market action of supply and demand." The result is that our cities instead of expanding in an orderly and economical way are just plain disintegrating in sprawl as you builders and developers leapfrog far out in the countryside to find land whose owners are willing to sell at prices you can afford to pay.

What moral justification can there be for giving land speculation more favorable tax treatment than any other income source? How can anyone argue that deflating the price of land by making landowners pay more of the community costs needed to make their land saleable is an attack on our whole system of private property? Do landowners have some special right (in John Stuart Mill's words) to "get rich in their sleep"? What is so sacred about land speculation profits whose magnitude (in Winston Churchill's words) is "apt to vary in direct proportion to the disservice the speculator has done to the community" by holding his land off the market until other people's investment has maximized its price? Is it more important to keep America safe for land speculation than to make America a better place to live in? Is heavy taxation of the community-created location value of land morally wrong?

In an economy where almost everything else is taxed almost to the point of diminishing returns, what earthly sense does it make to tax so lightly location value of land which is 99-44/100ths percent unearned increment on other people's investment? Conversely, what earthly sense does it make to tax the improvements on which the owner has invested his own time and money more heavily than any other product of American industry except hard liquor, cigarettes, and perhaps gasoline?

Why do you developers, builders, architects, subcontractors, building material dealers, mortgage lenders, and Realtors just sit back and take it? You are the men who are being hurt first and worst by the land price inflation made possible by the way land is undertaxed. You are the men who are being hurt first and worst by the senseless overtaxation of improvements.

So why aren't you up in arms, leading the fight for the simple tax reforms needed to turn the tables on the landowners who have been getting rich at your expense?

An now, lest you think what I have been trying to get you all to understand is just some offbeat private idea of my own, let me close by telling you that before I finalized this talk I went over it sentence by sentence and paragraph by paragraph with the famous Professor Lowell Harriss of Columbia, who is the Economist of the Tax Foundation and the upcoming President of the National Tax Association.

And Professor Harriss okayed every paragraph of what I have tried to tell you and told me to hand it to you straight. □

Perry Prentice was Vice-President of Time, Inc., for 25 years and was publisher and editor of House and Home Magazine and The Architectural Forum when these publications were owned by Time.

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St. Louis, Mo. 63101
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