

LAND: the unique factor

THE WORD land in economics refers to all natural resources and their locations and extension in space. It includes many things not colloquially called land.

Any franchise, licence or privilege giving territorial rights is a right to land, at least in part. Red lights remind us of the critical value of space at central locations, since two objects cannot occupy the same space at the same time. It is worth a lot to have priority at intersections, as railroads do.

Land is not produced, it was created. It is the world, the planet on and from which man evolved, with the sun that warms it and the forces that hold it at an optimal distance. Capital has to be formed by human saving, investment and production.

Land is a free gift, variously expressed in different philosophies as spaceship Earth, the big blue marble, God's gift, Creation, The Promised Land, or Nature. Man did not create the Earth with its resources, but rather fights over it. Man at best improves and develops capacities inherent in the free gift. It is

Classical economists treated land as distinct from capital. Neo-classical economists denied the distinction, partly to refute popular proposals to tax or nationalize land. Some still deny that differences exist. Others blur the issue by writing "land" in quotes, or understating its value relative to other inputs, or referring vaguely to "quasi-rents" to incorporate a broad spectrum of incomes both from land and other factors of production. MASON GAFFNEY, professor of economics at the University of California (Riverside), describes some of the unique qualities of land as a factor of production.



• Mason Gaffney

surprising that economic analysis could ever lose sight of this overwhelming truth. Several points follow immediately.

- Cost of production places no limits on land rents and prices, neither a lower nor an upper limit. Rents may start at zero and rise without limit over time as demand rises. Land values are derived from rents.

- There is always a free marginal supply, the "extensive margin".

- Access to land is open by nature until and unless land is appropriated, defended, bounded and policed. No one claims land by right of production; no producer must be rewarded to evoke and maintain the supply;

and submarginal land is not worth policing, unless to preempt it for its possible future values, or to preclude anticipated competition.

Tenure control of some land tends to drive the excluded population to untenured land (the "commons"), creating an allocational bias unless all land is either tenured or common. Thomas N. Carver styled this the phenomenon of "The Congested Frontier," and he might have added backwoods.

Land which is partly common today includes parks and public beaches, streets and highways, water surfaces, wild fish and game, and some at least of the "wide open spaces" in less hospitable regions.

Some land of high value is untenured or underpriced because consumers resist paying for what they think of as "free" because it has no cost of production, and which nature continues to supply even though the price is too low to ration the land economically.

Examples: water whose natural source is in southern California (it is tenured, but underpriced); city streets for movement and parking space, even in New York; air and water used for waste disposal in populated areas; housing subject to rent

EXPOSED: the 'too simple' seductive theory

ECONOMISTS teach that all economic values are either funds or flows. It is a seductive division, and often useful, but too simple by far. Land value is neither, but a third kind of value, *sui generis*.

Mankind cannot add to it, or draw from it as from a true fund. Individuals can and do, by exchange. Even nations can, by selling to aliens.

Thanks to the fallacy of composition that lets us forget that these are merely intermediate transactions which collectively accomplish nothing.

In famine, or war, or capital shortage, society cannot live on land values. These are not accumulations of stores, but merely the present value of anticipated future service flows

which cannot be hastened.

Further divisions are distinctive too, in other contexts. Exhaustible resources could be called "natural funds".

Fixed capital, slowly depreciating with time, is a "flowing fund". Soils have additional components. But basic permanent location value, is in no way an economic "fund".

controls; popular beaches and trails; oil and gas subject to field price controls; and so on.

Public capital used to grade and pave public rights-of-way is also open to general access, and may also suffer the "tragedy of the commons" of excessive congestion. But this is a deliberate positive public choice, and one closely associated with the social impossibility of denying free access to rights of way.

- Ownership and tenure rights derive only from appropriation, not saving, investment or production. Capital, by contrast, is owned by those who formed it. Only after that does capital bear much resemblance to land in that they coexist. Standard micro-economics obscures the differences because it deals mainly with relations of coexistence, ignoring the continual formation and destruction of capital, ignoring time and relations of sequence.

Thus it excludes from its purview the differences between land and capital. Micro deals mainly with how existing resources are allocated at a moment in time, not how they originate, grow, flourish, reproduce, age, senesce and die.

After land is appropriated by a nation the original distribution is political. The nature of societies, cultures and economies for centuries afterwards are molded by that initial distribution, exemplified by the differences between Costa Rica (equal partition) and El Salvador with its *Las Catorce* (The Fourteen Families); or between Canada and Argentina.

Political redistribution also occurs within nations, as with the English enclosures and Scottish "clearances" when one part of the population in effect conquered the rest by political guile and took over their land, their source of livelihood. Reappropriation and new appropriation of tenures is not just an ancient

SHORTFALLS OVERLOOKED

LAND INCOME is a prior claim to the joint product of combined resources. To consume land economically is merely to preempt a time-slot from others, regardless of what one does with it. The unreaped harvests of idle land flow down the river and out the gates of time like water wasting through a desert. Lost water may sometimes be useful downstream; lost time never returns. To keep others from using a time-slot is to consume it.

The value of preemption is the highest and best use that might have been made of the land preempted. That is the economic cost. The land is not responsible if the manager fails to realize its value at optimal capacity. Neither are the persons who are excluded. Only the preemptor is responsible, as a manager. This person is the residual imputee who deserves credit for performing above par and blame for falling below.

A great deal of land in fact is not allocated to its highest and best use. The shortfall of realized ground rent below potential ground rent is properly a debit to the manager's account, not the land's; and the

party responsible for the manager is the holder of title.

Most economic theorizing has failed to bring out this point. The tendency is to treat ground rent as a residual, a waste basket for all the errors and dereliction of responsible economic actors. This has resulted in greatly understating the value of land relative to other factors of production. Institutional and social factors, too, often obscure the opportunity cost of land.

This is a case where theorizing lags behind practice. In dividing value between land and a building affixed to it the standard practice of appraisers, and speculative buyers too, is the "building-residual method". The land is appraised as though vacant; the building gets the remaining value, if any.

The building, once attached to a specific site, loses the mobility of place and form that fluid capital possesses and has no opportunity cost but scrap value, often negative. Land, always lacking mobility of place, retains mobility of re-use because of its versatility, permanence, and irreproducible location.

or a sometime thing but a continuing, ongoing process.

This very day proprietary claims to water sources, pollution rights, access to rights of way, radio spectrum, signal relay sites, landing rights, beach access, oil and gas, space on telephone and power poles (e.g. for cable TV), taxi medallions, etc. are being created under our noses. In LDCs of unstable government the current strong man, perhaps hanging by a

thread, often grants concessions to American adventurers who can bolster his hold on power by supplying both cash up front, and help from various U.S. and U.N. agencies from the IMF to the USMC.

- Private tenure is often granted under customs that make it a prize for occupying or fixing some capital on land. Premature

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Athenian dreams

HENRY GEORGE'S theory of the Single Tax has so far not been fully tested, though trials in part for the gathering of local revenue have shown results of the kind that he predicted.

It might be useful, however, to remind ourselves of the improved world that he tentatively proposed for our consideration,¹ and to see whether the freedom that he said would follow from taking rent for revenue has ever been achieved in some measure, in another place and at another time.

What was it he thought would happen? To begin with, he foresaw improvements in government, particularly in the collection of taxes, and, with the coming of higher moral standards, a lessening of strain on the judicial system, with all its array of judges, lawyers, police and prison wardens. Then, as public expenditure on such functions and on standing armies decreased, national debts would become past history. These would be the administrative advantages.

As time went on, government would become less of a directive and repressive power, and more of a means for managing public business and providing amenities for all. Among the ones that occurred to him were theatres.

But, above all, the community would become more united and more creative. The present domination of selfishness as a motive is the result of poverty and the fear of poverty. Remove poverty, and people "would seek the respect and approbation of their fellows in other modes than by the acquisition and display of wealth"; and public affairs, as a

By DAVID REDFEARN

consequence, would be managed with the fidelity and integrity that are now reserved for private ones.

Society would be strengthened and ennobled. "We are made", wrote George, "for co-operation - like feet, like hands, like eyelids, like the rows of the upper and lower teeth."

Released by this exercise of co-operation, he foretold: "Talents now hidden, virtues unsuspected, would come forth to make human life richer, fuller, happier, nobler." Does any of this have a familiar ring? Well yes, it does: it reminds us of the kind of thing we have been used to hearing about

IT'S TIME TO EMULATE THE LAND REFORMS OF THE GREEKS

Athens of the classical period. Let us pursue the analogy, and see how far it will go.

WE KNOW from Aristotle² that, in the 7th century B.C., as we now reckon it, "the whole land [i.e. of Attica] was in the hands of a few, and if the cultivators did not pay their rents, they became subject to bondage...."

This situation had been precipitated by the recent introduction of money, which made it easier for people to get into debt; and what would seem more natural, in a bad year, than to borrow on the security of one's land? Perhaps it worked in an isolated bad year; but, in a succession of them, it was disastrous.

In the end, lively resentment

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investment, settlement and development are frequent results, seriously distorting the allocation of labor and capital and contributing to the "Congested Frontier" problem.

- The present value of land is not derived from or caused by or related to its cost of production. Present value is derived solely by discounting future ground rents, which are not a reward or an incentive for creating land.

With capital the sequence is that man saves to form capital, a

lump sum, which then yields a service flow. Capital formation precedes and causes the service flow. With land the sequence is reversed. The service flow is a free gift which simply exists, whether one pays for it or not. The expected service flow is then converted by economic man into a lump sum present value, a process called "capitalizing", i.e. making it superficially resemble capital for purposes of exchange.

Thus land value adjusts to rent, rather than an equilibrium rent's being determined at a

level sufficient to reward producing the asset.

- Public policy needs to promote capital formation but not land creation, which no man can do. Land rent may be taxed heavily without discouraging capital formation. Indeed it would certainly encourage capital formation to lower the level of land prices, because there is a diminishing marginal utility of assets to private holders, and the loss of land values would stimulate new saving by individuals to make up the loss.