

Letters to the Editor

LAND SPECULATION AND THE GREAT DEPRESSION

SIR,—In his review of my article "Origin of a Depression" Peter Rhodes advocates that the real cause of over-production was land speculation. He says among other things: "There is little doubt that rapidly rising land values from 1920 onwards encouraged wild land speculation." This is certainly true as far as the great Florida real estate boom of 1925 is concerned. However, the over-building did not only take place in Florida, if at all, it was nation-wide. What about land values in the rest of the United States?

Between 1922 and 1929 the total value of all land increased from 92.8 billion dollars to 113.5 which means an increase of about 3 per cent per annum. Was that a "rapid" growth? The total national wealth grew faster, or 4.0 per cent per annum, and the population grew 1.5 per cent per annum at that time. The value of estimated oil reserves is also included in the value of the land. These reserves almost doubled during the period and their value grew from 12.2 billion in 1922 to 16.8 in 1929. The value of non-farm residential land grew from 15.4 to 24.1 billion or about 6.5 per cent annually.

In this connection one should consider the relation between commuting costs in big cities and the value of land. A commuter living at the edge of a city's built-up area incurs a certain cost in travelling to and from the business centre of the city. Compared with him all those who live closer to the centre have the advantage of being able to save time and money in travelling to the centre. This creates a monopoly of centrally situated land which acquires a certain value higher than the unit value at the rim.

The bigger the cities the more time must be spent in commuting. On the other hand, so much more time appears to be saved and therefore so much more money will be paid for the land monopoly. Suppose cities were circular, the number of inhabitants per acre constant, and central districts small, the total residential land value of a city would then be represented by a cone, the volume of which would be the third power of the radius times a unit value. The total population would then be represented by a cylinder, the volume of which would be the second power of the radius times a constant.

Accordingly, when the urban population increased by some 25 per cent during the 'twenties we should expect the value of urban land to have increased by about 40 per cent, equaling 3.5 per cent per annum—without speculation. Of course, some land speculation apparently occurred in the U.S. during the 'twenties, but the amount was not remarkably large compared with other changes in values and in economic activity in general. When the land speculation did occur on a large scale, as in the case of the Florida boom, it did not develop into a building boom. On the contrary, it developed into the buying and selling of so-called "binders," i.e., a right to buy a lot some time in the future when the land was to be subdivided.

As far as statistical facts from the period can help us, the rise of land values can neither be described as a "wild land speculation" nor as a possible cause of the over-production of dwellings. Then what was the real cause of over-production? Why did it occur in the 'twenties and never before? The fact is, it had happened before but on a much smaller scale. For a long time there had been an oscillation, with booms and depressions following each other, and the residential construction industry certainly played a part in these swings. One of the reasons for the extreme over-building in the 'twenties was probably the shortage of dwellings that had resulted from the war. Another reason was maybe the post-war American notion of getting rich fast, and of doing everything faster for that matter. The radio and the airplane seemed to have created a new rate of progress, but they had not. A building still lasted for a lifetime.

A system of land taxation or of national ownership of all land would apparently not have saved us from the Great Depression. Nevertheless, I think there are other good reasons for national ownership of certain monopolies such as land monopoly, and this idea should not be discredited just for not being a cure-all.

Yours faithfully

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PETER RHODES writes:

I am glad that Professor Nordling agrees that there are good reasons for tackling monopolies, particularly land monopoly, but I am not so happy about his inference that

national ownership is an acceptable approach.

From his letter it would seem that Professor Nordling considers land value taxation and land nationalisation to be interchangeable alternatives. While both approaches to land monopoly have common characteristics, there is an ethical, economic and practical difference between them. This is frequently discussed in *LAND & LIBERTY* but is really another matter.

In my article I expressed the view that with land-value taxation there would have been some restraint on land speculation during the boom period. Over investment in new structures would have been less likely with a better informed property market. I did not actually claim that land-value taxation would have saved the United States from the Great Depression, but I firmly believe that it would have helped to reduce the impact of the recessive tendencies in the economy and would have discouraged the mis-allocation of resources that took place in the boom period.

As to evidence of land values during the period 1922-1929, I hesitate to challenge Professor Nordling's figures, but I think he may have overlooked the fact that within this period, in 1925, land speculation drove land prices to a record level (Urban Land Institute, U.S.A.). The fact that land prices had fallen by the slump of 1929 does not alter the fact that speculation in land had driven prices artificially high and to a hopelessly uneconomic level. The effect of this is not to be discounted in the slump that followed.

There is also a significant difference between average land prices and urban land prices during waves of population increase. It is known, for example, that U.S. farm land prices dropped between 1920 and 1926 while urban values doubled. The economic impact of the change was particularly fierce since urban land represented only one fifth of one per cent of all the land in the States. Land speculation was certainly not confined to Florida. Homer Hoyt cites a 65 per cent increase in land prices between 1922 and 1925, in Chicago, while equities barely rose by 10 per cent in the same period. In these years apartment rents doubled, office rents increased by 80 per cent and rents of retail stores by 100 per cent. As Hoyt says: "Since the entire cost of building could be easily borrowed it was little wonder that there was a rush into the building field analagous to the Klondike gold rush . . . the supply of building lots exceeded any pos-