

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

CARL O. NORDLING

Stockholm, Sweden.

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-

sible demand . . . the prices of these lots were from three to ten times the current boom price for large tracts of land and frequently two or three times as high as current prices of adjoining tracts . . . Purchasers in this artificial market had little time to compare . . . sale by sub-dividers created a speculative market for large tracts. The area forty miles from Chicago felt the stimulus of the speculative boom.

Notwithstanding Professor Nordling's challenge, I remain of the opinion that considerable land speculation throughout the urban areas in the United States, without adequate tax assessing policies, encouraged the over-investment in dwellings. In economics we learn that a small change makes a big difference. The rapid increase in population unaccompanied by adequate land price information, and assisted by inefficient policies, certainly contributed to the over supply of houses.

WATCHING BRIEF FOR THE MODERN ECONOMIST

SIR.—In the days of classical theory the diligent politico-economist earnestly endeavoured to relate effects or visible consequences to causes and policies over the widest possible field. The approach of the inquisitive rationalist in the dawn of industrial man was a simple one based on a premise that political economy or science was akin to mathematics or mechanics. To Adam Smith, Ricardo and Henry George the economy of a nation appeared as a watch to a watchmaker. As long as all the working parts were in good condition and well oiled, it was argued that the watch would function perfectly. If, however, there was a fault in one of the parts the whole of the mechanism would be affected adversely, and it would either cease to function or at best function erratically. The classical writers were always concerned with the whole of the watch. They attempted to establish guiding principles and philosophical concepts that would assist and protect the smooth working of the mechanism.

Modern economists, however, show a marked preference for studying the details of the mechanism rather than the working watch. Even the macro-economists with the computer models of national economies are concerned far more with the detailed effects of policies on particular parts than with the ultimate sum of satisfactions obtained from the total endeavours. Is it surprising, therefore, that modern economic policies either fail to achieve their purposes, or produce dislocation in other parts of the economy?

With the wreckage of national plans, targets, prices and incomes policies, etc., strewn all around them, the modern economic planners still have the impudence to regard Adam Smith, Ricardo, and George as out-moded.

Yours faithfully

H. NODEL

Grantham, Lincs.

SITE-VALUE RATING AND PLANNING

SIR.—In your leader on Mr. Price's paper (*LAND & LIBERTY*, October, 1967) you say that "a basic tenet of site-value rating is that land is valued at its realisable use under existing planning permission."

I do not dispute that site valuation for rating purposes can be carried out where authoritarian planning of land regulates its use, but I must refute the suggestion that it is a basic tenet of site-value rating.

My acceptance of the taxation and rating of land values and the abolition of all other forms of taxation as a just and logical basis of revenue for community purposes is based on the understanding that all land would be valued at its realisable use by the people conditioned only by their individual freedom to use the land for whatever purpose they desire. Indeed, I believe that a realistic and equitable valuation cannot be achieved unless all land is free of all arbitrary restrictions on its use.

For example, I may have a desire to use a plot of land for a particular

purpose which, if successful, would have a substantial effect on adjacent land values, only to be met with refusal by the planning authorities because they either have other ideas for its use, or will not accept the practicability of my proposals. This, I submit, would result in a loss to myself, by way of income, and to the community, by an increase in revenue from a rise in the rent of land.

The free use of land is basic to the establishment of a just economic order and a free society.

Yours faithfully,

STEPHEN MARTIN

Fordingbridge, Hants.

Editor's Note: Perhaps our wording was misleading. It is a basic tenet of valuation under site-value rating that land is valued at its realisable use under existing planning permission. Site-value rating *as such* does not, of course, require a planning permission system to make it work! This may not help Mr. Martin, who wants the valuation of land to be made independent of planning permission.

It is necessary to make the point that only realisable land value should be assessed, otherwise a man would be taxed on a value he was forbidden to realise.

Making site-value rating work within the planning system is one thing. Abolishing planning permission (to the extent visualised by Mr. Martin) is another.

Miscellany

Grovenors To Build New Town Centre

THE Duke of Westminster's trustees are to create a 7½ acre shopping and commercial centre for the new Merseyside town at Runcorn, north-east Cheshire, which by 1980 will house 80,000 people. The Runcorn Development Corporation has invited the Grosvenors to build the new town centre, costing £8 million.

The Duke's family is spending £4 million on the Runcorn scheme. The Development Corporation is finding the other £4 million to provide for roads and services and the preparation of the site.

The family trustees will become ground landlords of this centre, granting leases to shopkeepers, stores, banks and restaurants.

Guided by their chairman, Mr. George Ridley, their policy is to carry out these lucrative city schemes, to help maintain the hundreds of farms and forestry enterprises on the 145,000 acres they still hold as one of England's major private land owners.

—*The Daily Telegraph*, October 13

Barbara Turpin

WHAT a curious idea was expounded by the Transport Minister, Mrs. Barbara Castle, at the Labour Party conference—that public transport is not "a suitable field for private profit making."

If it had not been for the prospect it offered of making a living for someone, there would have been no public transport services. It was not