

THE PRICE OF GROUND - THREE MORE OPINIONS

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Michael Horsman, in his article in GJ No. 42 entitled "Will the Remedy Reduce the Price of Ground to Zero?" concludes that it will not. He concludes that the value of the title deed itself will remain as market value and that this value is "proportional to the economic rent but is neither the economic rent nor the economic rent capitalized." Further, he predicts that the sale value of bare land after application of the remedy may well be as great as before application.

If this is true - if a substantial selling price of unimproved land remains after the remedy is applied and if it is proportional to the economic rent, then the remedy is failing to eliminate what it is supposed to eliminate. It will still be possible to obtain a profit by buying and selling land without producing anything. Certainly the reason for this is not failure of the remedy but failure to apply it completely. It is a failure to collect the entire economic rent.

I heartily agree with Mr. Horsman about the importance of title deeds and the value which the deed or certificate of title has of itself as a guarantee of permanent possession, backed by a stable government. This is why we must stick by Henry George's decision not to disturb land titles at all but to simply collect the economic rent as a tax.

The value of the deed is, however, a part of what a purchaser or renter of land pays for. If the rental value of the deed is deliberately kept separate in applying the remedy and not collected as a part of the economic rent it will, of course, remain in the hands of the owner. Its capitalization will be the remaining purchase price. However, since the full value of the land includes the value of many other government services, plus the other aspects of site value, plus the value of the natural attributes of the land itself, a sale price based on the value of the deed alone must necessarily be very small compared to the price before application of the remedy.

Value is a subjective measurement. The market price of anything is the value agreed upon by buyer and seller. In spite of this subjectivity, however, predictable economic relationships concerning value do exist.

The market value of a piece of unimproved land will be equal to the true full value of the land if the land tax is zero. The true full value is the capitalization of the true full rent - the economic rent.

If there is a partial land value tax (as there almost always is) which takes a fraction of the economic rent, the landlord can still collect the full rent for the use of his land but he can keep only the part of it left after he has paid the land tax - the net rent. A prospective buyer will be influenced by this knowledge and will offer less than full value as a purchase price. The purchase price or market value of land is the capitalization of the net rent. This is a statistical economic fact.

If the tax rate on the value of unimproved land is increased until it equals the full economic rent, the net rent will become zero. The purchase price or market value, which is the capitalization of the net rent, will therefore also become zero. No purchaser who is aware that the tax he or she will have to pay is equal to the full rental value will be willing to pay more than the cost of transfer of title for a piece of completely unimproved land.

In contemplating what the Single Tax world will be like, however, it must be remembered that there will not be much absolutely virgin land on the market. Most purchases will include at least some improvement value which is not to be taxed and will therefore not diminish. Surely Mr. Horsman's 80 acres of farm land have been plowed,

cultivated and fertilized. They are no doubt substantially more valuable even without the buildings than 80 acres of completely unimproved land next door would be (if there were such a thing).

Mr. Horsman says there is no consensus that sale prices of bare ground would fall if the economic rent were taken as a tax. This misconception results from failure to make the necessary distinction between the sale price or market value and the true full value. The true full value will not decrease as the land tax increases. In fact the prosperity brought on by application of the remedy will drive up the true full value of land due to increased demand for land. This is the "income effect" mentioned by Mr. Horsman's Dublin professor consultant. Failure to recognize this increase in the economic rent and failure to collect it is precisely what has led people into thinking the land tax will not drive down the market price of land. In other words, the benefits of land value taxation have appeared so fast that the tax-levying mechanism has failed to keep up.

There is a lesson of another sort in this, also. A widespread belief exists, even among some Georgists, that in modern times the economic rent would fall far short of providing enough revenue to finance government. It appears to me that this belief is caused by failure to realize how large the economic rent fund is today before application of the remedy and also by failure to take into account how much applying the full remedy would stimulate the economy and cause economic rent to increase.

My Georgist understanding includes the belief that the economic rent of land would be sufficient to finance government and that collecting all of it as a tax would drive to zero the selling price of completely unimproved land and of the bare land component of improved land.