

In Defense of Land Speculators

By CRAIG CRINGAN (Mississauga, Ont., Canada)

Who is a land speculator? Is it some one who buys land in the hope of subsequently selling it at a profit? Does it include also any one who inherited some land and holds on in the hope that its price will increase? Does it include the developer who buys land well in advance of it being ready and holds it with the intention of subsequently developing it in more advantageous circumstances? Does it include the ordinary homeowner who thinks that increasing property values will help him to escape from an impoverished old age?

With land as expensive as it presently is, both urban and rural properties sell for more than can be justified on the basis of present rental values. In these circumstances, any one who chooses to own rather than to rent has no choice but to make a conscious or subconscious decision regarding the future of land prices; to compare this investment with whatever alternatives he can see. This decision makes him partly a speculator. A speculator is any one who attempts to position himself to make the best of the future, literally one who looks ahead.

Is Survival a Sin?

Speculation is done for survival. Is survival or attempting to survive a sin? People will say that surviving by hurting others is a sin. I agree. Then the question is whether land speculation actually hurts people and whether the speculator is at fault or is merely an inevitable and passive link in the chain of harm. Let's see.

There is little doubt that much land remains unused and underutilized for various reasons. If such land were made more available to those who would like to use it, then there would be more employment and a higher level of wealth generally. But are the speculators to blame? Much utilization is simply carelessness or indifference. For instance, some persons own a summer cottage which they use for only three weeks a year and they do not bother to rent it out for the rest of the year. Or an old persons stays alone in the outgrown family home because the apartment situation is so hopeless.

Much of the under-utilized land does not even belong to private persons or companies. In every city throughout North America there is government land which is the most under-utilized of all. Don't blame the speculators for that.

Let's look at the speculator realistically. Even if his land taxes are nil, the property that he owns and is watching appreciate has a present value which represents an opportunity cost. Even though it may increase some more in the future, if he can get a good price for it now, or develop it himself, then he is acquiring an income. It is quite possible that the tax rules distort this choice of whether to develop or to wait, but this is the fault of the tax system and not of the speculator. He is simply making the best decision he can in a hostile tax environment.

Toronto, where I work, has all kinds of taxes against development and taxes against upgrading of properties. On main streets all over the city there are vacant and uninhabitable upstairs apartments over stores at the same time that there is an acute shortage of rental units. Meanwhile the established apartment builders who used to put up tens of thousands of apartments each year have switched to other activities to escape the binds of rent controls and existing apartments are falling into the hands of the most unscrupulous operators, the only ones who can survive the rent controls which gradually destroy capital. It is the do-gooders, not the speculators who are responsible for this mess.

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Boom and Bust

We must also note the pernicious effects of the boom/bust real estate cycles. Five years ago many Georgists talked as if land prices were heading for the moon and seemed to imply that land speculators were not really speculating, they were simply sitting back to rake in all the increment over a bare existence earned by the world's working people. Have they forgotten the thirties, when even many of the wealthier landowners were penniless? Henry George was wrong when he wrote that land rent takes up all of the increment in wealth over bare sustenance. Over a long period of time rent takes up a constant portion of total wealth. This alone is enough to make land a most unusual long term investment.

Supposing that over a period of years inflation causes a doubling of prices generally and increased production results in a doubling of the physical quantity of wealth. Then the total value of the wealth in dollar terms is quadrupled and the land rent will also be quadrupled. But this is still a constant proportion of the total income of society, not an increasing proportion.

The permanence of land, and its gradually increasing value, means that landowners get a capital gain in addition to the utilization value of their land. This gain is factored into the price of the land in such a way that any one buying land at current prices can expect about the same total return as in other investments. However, this comparison gets complicated by the matter of interest rates and the business cycle.

When the cycle is advancing, people see perhaps a 20% yearly gain in land prices and they keep bidding up the prices to further and further ahead of current rents in order to get in on this good thing. These purchases are financed by credit and lead to higher interest rates. The higher interest rates lead to a collapse of business, occupancy falls and the whole boom collapses. The credit collapse is soon feeding on itself, carrying prices to below their normal equilibrium level.

Land speculators are undoubtedly a part of this boom and bust cycle; so is everybody else. Are the speculators really to blame or did they simply react in a perfectly natural way to the situation in which they were immersed. If no one were to buy land except for immediate use, would the land boom cycle be stopped? I doubt it but the cycle might become a little less severe.

I think that one could make a case for suggesting that changes in the taxation and credit policies of governments generally have been a destabilizing influence, contributing to the severity of business cycles. But that is not the aim of this paper. All I am trying to prove is that land speculators are not the cause of the cycle; they just happen to be heavily involved in it along with most of us.

Land speculation is a peculiarly North American cultural feature. For instance, in Britain vast tracts of land are still owned by families which supported William the Conqueror. But the evils of the credit cycle and the business cycle are just as severe there as in America. Whether the land is owned by those who hope to sell it at a profit or by those who hope to keep it for the next thousand years, the bad effects are the same as long as the government can convince people that it has a right to take their wages instead of collecting the rent of land.

Trying to defend land speculation is a bit like trying to defend a toothache. It isn't nice, but it isn't the problem either. The problem in your aching tooth is the decay; the problem with land is its under-taxation. And in my opinion, an even worse problem is the over-taxation of productive work. If we could eliminate taxes against work and the products of work, then I would not mind how much the land speculators would make out of the resultant increase in total wealth.

(Readers are invited to reply. - Ed.)