

Recycling the Speculators

In 1943 the Chicago Plan Commission published its *Master Plan of Residential Land Use*. Homer Hoyt was Director of the research division. At the time, one-fifth of the city's land was vacant. About 20,000 square miles suitable for urban development sparsely accommodated under 7,000 people, instead of the 274,000 who could have settled there within a neatly developing city.¹

After the world war, the homes fit for heroes were built in a sprawling fashion outside the city. Fine Illinois agricultural land was eaten up, the community suffered the burden of maintaining unnecessary costs (both public and private), and the city sluggishly struggled to re-adapt itself to peacetime living.

In recent years the construction boom beyond the corporate limits of Chicago has necessitated the duplication of many public and institutional facilities. Vacant areas closer to the center of the city have been passed by and the development of more distant areas has necessitated the costly extension of power lines, water mains, streets, and other facilities. Premature subdivision has also caused a wasteful dispersion of population through many areas which were only partially built up.²

The largest vacant areas suitable for residential use within Chicago were on the southwest side, in a prong of land extending west from Cicero Avenue³ — where Homer Hoyt, back in the boom of the '20s, had bought land at speculatively-high prices. The commission condemned the effects of vacant land, and analysed the problem in terms of the influence of land speculation. One of its targets was the zoning practices which had supported the speculative motive.

Improper zoning has been another of the artificial barriers that impeded the development of the city's vacant areas. The original zoning ordinance of 1923 was adopted at the beginning of one of the most active real estate booms in the history of Chicago. It encouraged the holding of much vacant land for apartment and commercial uses and the installation of

premature and uneconomic street and utility improvements in anticipation of large speculative profits from rapid absorption of vacant areas into these intensive uses. The total amount of vacant land zoned for apartments was far in excess of the demand for such structures. Single-family dwellings were not constructed on land so zoned *because of high land costs* and the lack of protection from the intrusion of more intensive uses and larger structures.⁴

But while house-building sprawled into the countryside, real estate men were despondent about the prospects of development within the city. They were wryly commenting that the Loop, within the heart of Chicago, 'might as well be returned to the Indians'.⁵ Interest in developing land was at a low level. Although land values rose slowly, they levelled off again once the Korean War broke out. The first skyscrapers in the commercial centre did not start to go up until 1955, along with the value of land beneath them.

Chicago is unique in enjoying the information published annually in *Olcott's Blue Book*, which logs the individual values of most of the city's sites.⁶ From it we can trace the movement in the value of a quarter-acre on the corner of State and Madison Street which is illuminating. In 1874 it was worth \$1,000 a foot front. Waving up and down during the intervening years, it stood at \$25,000 a foot front during World War II. As the economy reconverted to peacetime activity, the site's value moved up to \$40,000 by 1950. During the three years of the Korean War, however, it slid back to \$35,000. It was three years after this further wartime dislocation (in 1956) that the value of the site, right in the middle of Chicago's shopping centre, began the upward climb once again.

Does this date, 1956, suggest our starting point for the sustained post-war growth which would enable us to predict a severe recession 18 years later? The date would appear to fit, for the depression struck 18 years later, in 1974, when over 12m. square feet of new space was added at rents few tenants could afford. By itself, however, this evidence would be classed as impressionistic, and of limited scientific value. However, this does not mean that we are bereft of evidence for the postwar years.

Since 1912 the US Department of Agriculture has systematically collected data on the value of farmland, providing us with the most consistent series of information from which to analyse long-term trends in land values and their implication for the economy. The house building industry, for example, regards trends in farmland values as one of the best indicators of potential changes in residential land prices.⁷

There has been an almost continuous upward trend in farmland values since the Second World War, with the index soaring from 27 in 1944 to 308 in 1978. Can we extract a pattern to support the hypothesis of an 18-year cycle? There was a levelling off in values in the early 1950s, but why take the

climb which began in 1954 as our starting point for a post-war cycle? The element of arbitrariness in the selection of dates for turning points is something against which we have to guard. A superficial examination of this data suggests that the 18-year cycle is not evident, for there was no cut-back in the rate of growth right up to 1980.

TABLE 9:1
Residual return to US farm production assets
expressed as % of value of production assets

	Total return to operators and assets	Residual return to production assets
1950	15.7	6.2
1951	15.6	6.2
1952	13.4	4.8
1953	11.9	3.3
1954	11.7	3.4
1955	10.6	2.7
1956	10.3	2.7
1957	9.5	3.0
1958	10.6	4.4
1959	8.1	2.2
1960	8.1	3.0
1961	8.5	3.6
1962	8.3	3.8
1963	8.0	3.7
1964	7.1	3.2
1965	8.3	4.7
1966	8.3	4.9
1967	7.2	3.8
1968	7.1	3.7
1969	7.5	4.2
1970	7.2	4.1
1971	7.3	4.1
1972	8.6	5.6
1973	13.1	10.0
1974	8.9	6.2
1975	7.9	5.4
1976	5.8	3.6
1977	5.5	3.5

Source: E. Melichar, 'The Relationship between Farm Income and Asset Values, 1950-77', Seminar on Food and Agriculture Policy Issues, 1978.

It will be recalled that the theory of the 18-year cycle postulates a bifurcation in the distribution of income to the various factors of production: a decline in the rate of return to capital (thereby squeezing profits and the potential for reinvestment), concomitant with a growth in the returns to land (which therefore attracts speculators). Can we support this hypothesis by penetrating behind the crude figures?

On March 28, 1978, Emanuel Melichar, an economist on the staff of the Board of Governors of the Federal Reserve System, presented the results of his analysis of the income received by the agricultural industry.⁸ From the aggregate data, he deducted the returns to labour, management and the imputed income derived from the investment in dwellings, to disclose the residual return to production assets (Table 9:I). This showed a downward movement which terminated in 1955-56, followed by consistent growth to a peak in 1973—a trend spanning precisely 18 years.

But these residual returns were to capital assets as well as to land. Can we disaggregate the data to determine which productive factor received an increasing proportion of this income? The answer is that we cannot do so satisfactorily, with statistics, for the land has not been valued separately from all capital improvements upon it. Nonetheless, we can safely infer the answer.

As noted in Chapter 6, the long-term rate of return to capital is downward. This is inevitable, given that capital is reproduced in increasing quantities to take advantage of profitable enterprise; competition among capitalists forces down their returns. Land, however, is in fixed supply.⁹ It can only go on appreciating in value; but are its *returns* increasing? In the case of US farmland, even if competition failed to reduce the returns to capital, it would not allow the returns to *rise*. For if that happened, capital would be attracted into the industry in response to the abnormal profits, thereby dampening them down. So where there is a rising trend in the residual return to productive assets, we must attribute a rising proportion to land.

The final piece of empirical evidence comes from a young economist in the US Department of Agriculture. At the National Food and Agricultural Outlook Conference held in Washington in November 1978, Larry Walker presented the preliminary results of his comparison of the relative attractions of Iowa farmland compared with other forms of investments.¹⁰ Land, it transpired, was the most profitable. Walker ascertained the relative profitability of investing in farmland by using the rate of return derived from the net cash rent stream, compared with alternative investment opportunities.

The results are presented in Table 9:II, from which Walker drew the conclusion that 'land seems to have been the prudent investment over the long term'. We find that investors in Iowa farmland had to hold their land for a decreasing number of years in order to surpass the income from other forms of investment. For example, an investor buying in 1965 had to hold his land 7

TABLE 9: II
Iowa Farmland Compared with Alternative Investments

Number of years required to hold Iowa farmland until the discounted present value of the net rate of return derived from the net cash rent stream exceeds the discounted present value of the rate of return derived from an alternative investment providing a constant, annual income stream

Rate of Return on alternative investments	1940	1945	1950	1955	1960	1965	1970	1971
3	1	1	1	1	1	1	1	1
4	1	1	8	4	2	1	1	1
5	5	11	17	14	10	3	2	1
6	12	19	24	20	15	7	5	3
7	20	27	27	23	18	11	7	—
8	29	33	—	—	—	13	9	—

Source: L. A. Walker, 'Farm Finance and Real Estate Markets — Situation and Outlook', Washington, DC: US Dept. of Agriculture, (unpublished).

years until the net discounted current value of the rate of return derived from his annual net rent stream surpassed that of an alternative investment providing an annual 6% rate of return, discounted at 6%. Notice, in particular, the cycle. In the period before the early 1950s, the situation was quite different: Iowa farmland was becoming a *less* attractive proposition. We can see from Melichar's data that the residual return to agricultural production assets was declining until 1954. So it would have paid investors to sink their funds into other investments — capital equipment — rather than land. From the mid-1950s, however, once the economy had shaken off the distorting influences of the Second World War and the Korean War, and begun to pick up its growth rhythm, it became increasingly prudent to switch from investment in capital to the hoarding of land.

Although Walker's initial results were from a sample of Iowa farms, his complete analysis of the data from 13 other States indicated similar results. On the basis of the evidence from the agricultural sector, then, we can conclusively state that the 18-year cycle in land values began in 1955, that it attracted the speculators and that this dictated the economy's date with a major slump in 1974. We can now explore the macro-economic effects, along with the evidence available for land values in the urban sector. As the US economy experienced a recession in 1967-68, in which the annual growth rate was halved, it would be useful to break down our study of the land values cycle into two parts.

We begin by looking at the national income data (Table 9:III). These are crude magnitudes; rent, it will be recalled, consists of interest on capital improvements upon the land as well as economic rent paid for the use of land

TABLE 9:III
*Percentage Distribution of Aggregate Payments,
by Type of Income, in Current Prices*

	Employee compensation	Entrepre- neurial income	Dividends and interest	Rent
1959-1968	75.0	10.9	7.1	7.0
1954-1963	74.3	12.4	7.6	5.7
1949-1958	73.1	14.5	7.8	4.6
1944-1953	71.2	17.5	7.3	4.0
1939-1948	69.8	18.9	7.0	4.3

Source: Department of Commerce estimates tabulated in *Historical Statistics of the US, Part 1*, Washington: US Department of Commerce, p. 238.

itself. But the trends are unmistakable. From the Second World War until after the end of the Korean War, the Americans were concerned with the manufacture of wealth. Interest in land was at a low ebb, and so the proportion of GNP going to those who were willing to invest their resources in capital goods and employment increased: rental income decreased. The bias in favour of productive wealth is clear. The prospects for creating jobs and improving living standards were increased in response to the need to satisfy the pent-up demands for consumer goods following the world war.

All this changed in the late 1950s. The abnormal, postwar level of demand had been met, and the economy adjusted to 'normality'.¹¹ And as we saw with the relationships in the UK economy, the trends went into reverse. The percentage of national income going to the receivers of rent started to increase. Wages to labour rose in line with improvements in productivity. Dividends and interest, however, started to slide downwards, along with the income to entrepreneurial talents. The consequences were predictable: the economy was heading for a slump. For with more money and human energy going into the land market the balance in the distribution of funds moved against the owners of capital who needed to reinvest in new technology and higher productivity processes.

The facts support the theory. The ratio of fixed investment of business as a share of GNP was an average 10.8% up to 1957. After this date, however, the US economy acquired a persistent slack in both demand and employment, during which the ratio fell to an average 9%.¹² Attempts were made to remedy this serious situation through a cut in corporate taxes under the provisions of the Revenue Act (1964), which are named after John F. Kennedy, the President who advocated them just before his assassination. This increased post-tax profits and therefore stimulated investment — which was supposed to boost employment and therefore consumption. The fiscal encouragement did improve the ratio of fixed investment as a share of GNP (11% by 1967), and reversed the downward slide in profits in US industry (Table 9:IV).

The Kennedy tax cut has since been cited as a principal piece of empirical evidence in support of the supply-side economics associated with the Administration of President Reagan. Reaganomics, as it has become known, ensured a new level of economic growth as a result of a cut in tax rates, which stimulated output and simultaneously increased exchequer revenue.¹³ The maximum tax rate in 1963 was 91%; this was reduced to 77% in 1964 and 70% in 1965. There was a surge in growth: does this piece of fiscal history carry any lessons for the policymakers of the other industrial nations who were not able to engineer such a reversal in the profits trend? And how does this phase in American economic history square with the theory of the 18-year cycle in land values?

TABLE 9:IV
Manufacturing Industry
 International comparisons of profitability, 1955-1980: %

	United States	West Germany	United Kingdom
<i>Profit¹</i>			
<i>Shares</i>			
1955-58	20	38	28
1959-62	20	33	26
1963-67	23	28	24
1968-71	19	27	21
1972-75	18	21	17
1976-80	19 ³	21 ³	15
1976	18	21	12
1977	20	21	19
1978	20	21	20
1979	18	21	14
1980	NA	NA	11
<i>Net rate of return²</i>			
1955-58	26	39	17
1959-62	26	30	16
1963-67	34	21	14
1968-71	24	21	11
1972-75	21	15	8
1976-80	21 ³	NA	6
1976	22	16	5
1977	22	17	8
1978	22	18	8
1979	19	NA	5
1980	NA	NA	4

Source: *British Business* (London: Department of Industry), 4 September, 1981, p. 17, and 15 October 1982, p. 272.

1 Defined as net operating surplus as percentage of net value added.

2 Defined as net operating surplus as percentage of net capital stock of fixed assets (excluding land).

3 1976-1979

George Gilder's best-seller, *Wealth and Poverty*, which can be represented as the bible for the exponents of Reaganomics, argued that the Kennedy tax cuts 'brought almost surgically beneficial effects to the economy'.¹⁴ Larger post-tax profits meant an increase in investment and a faster rate of economic

growth. This proposition has been challenged by Peter Drucker. He claims that the Federal tax cuts prove nothing, for there was a simultaneous sharp increase in state and local taxes.¹⁵ Drucker's assessment is too sweeping; we need to look closely at the economic implications of a reduction in tax before drawing such a conclusion.

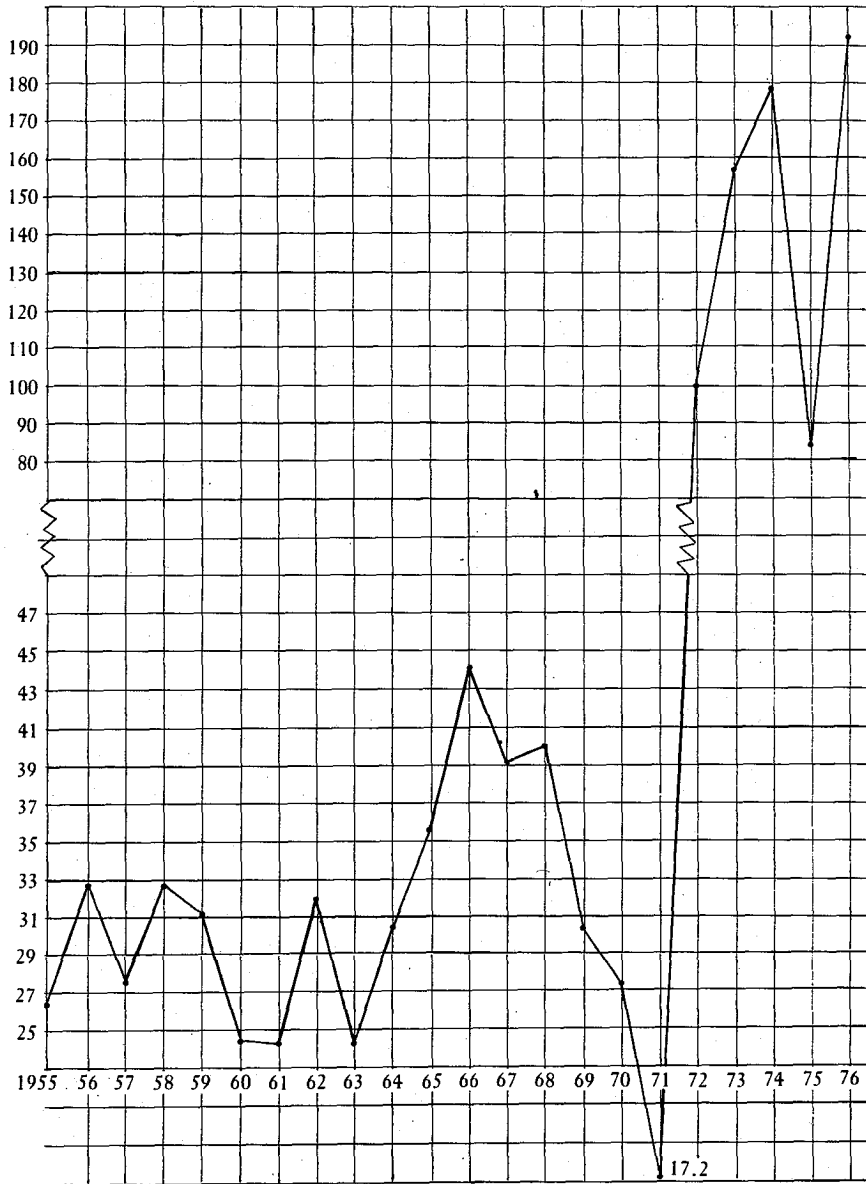
The increase in non-federal taxes did neutralize the prospects of a stimulative expansion in demand as registered through an increase in the retail of goods and services. People who receive low or average wages have a relatively high propensity to consume — to spend their money, rather than invest it in stocks and shares or in property. For these people the decrease in federal taxes was offset by state and local taxes to the point where there was no significant rise in net disposable incomes from which to finance higher consumption. The economy in the mid-'60s, therefore, could not grow at a faster rate because there was no 'pull' from families wanting to increase their purchases of washing machines and the like.

Reaganomics, however, emphasises the prospect of increased demand arising as a direct result of an increase in the supply of goods. Supply creates its own demand, the theory known as Say's Law. Gilder places stress on the fact that the cut in tax rates caused a shift in the pattern of investment: *more money went into businesses, and less into real estate*. It was this transformation in the portfolio of asset holders that caused the beneficial effects on the economy, in his view.

In theory, this is correct. People who receive large salaries or income from investments have a high propensity to save, rather than to spend all their post-tax income on current consumption needs. Because of this, then, we would have expected an increase in the flow of money into assets. Unfortunately, however, Gilder forgot his reading of Henry George's *Progress and Poverty*, which he identified as 'one of the great inspirational works of economic literature'.¹⁶ For if the prospects of making speculative gains were still present — that is, if the income tax cuts were not simultaneously offset by an increase in the tax on land values — then it paid to buy land. Furthermore, we can predict on the basis of Ricardo's theory of rent, that the land monopolist will exact the first claim on an increase in net incomes. That is what happened in the US following the Kennedy tax cuts. In each of the five years up to 1964, land values increased by between \$24bn. and \$32bn. (see graph). In 1965, the increase rose to \$35bn. and the decade's peak was in 1966 (\$44bn.). The benefits of the cut in taxes were mopped up by the land monopolists through an increase in the capitalisation of land values. The economy slipped into a recession in the last quarter of 1966, while the land monopolists laughed all the way to the bank. And the downward trend in profits was re-established in 1967, heading for the fateful date with history which was ordained to occur in 1974.¹⁷

US Land Values, 1955-1976

(Annual increases, \$bns)



Source: Robert Eisner *et al.*, 'Total Incomes in the US, 1946-1976: A Summary Report', Gouvieux, France: International Association for Research in Income and Wealth, 17th General Conference, 1981, Table 14.

In the early phase of an 18-year cycle in land values, the speculative profits to be made out of buying land are necessarily at their lowest. But for anyone who can afford to tie up large sums of money for reasonably long periods (up to 15 years) this is the time to buy, when prices are at their lowest. Not surprisingly, therefore, the market tends to be dominated by institutional buyers along with the newly-rich like Hollywood stars Bob Hope, Lucille Ball and Gene Autry,¹⁸ who amass large sums that need to be safely invested to yield a secure long-term income. Exact data on institutional buyers is not available, but Grace Milgram has been able to show that they increased their land-holdings between 1952 and 1968. Among their tangible assets, the value of their land-holdings increased by 1100% whereas the value of structures rose by 392%.¹⁹ The economic effect of this is that large tracts can be held vacant, or under-used, even though they may be needed by others for more productive uses; for institutions can afford to resist market incentives in the expectation of much higher future gains. Syndicates emerged in the 1950s, pooling funds and helping people to invest the \$1 trillion of personal savings which they had accumulated by the end of the decade. 'When a few of the first syndications had vast successes, the demand to "get in" was often fantastic,' reported *Fortune* in September 1961.²⁰

Between 1956 and 1966 the market value of real estate rose from \$697bn. to \$1,261bn., an increase of 81%. Land values rose faster than those for buildings: 95%, or an annual rate of 6.9%, whereas the value of buildings rose by 73% (5.6%).²¹ General consumer prices rose by an annual rate of 1.8% over the same period. It clearly paid to invest in vacant land rather than in capital improvements, and this is confirmed by estimates which showed that the value of vacant land increased faster than land under residential, commercial and industrial structures.²²

The effect of this upward climb on the construction industry was serious. Most builders, by 1963, had acquired their land banks for the following few years, and most of the remaining urban fringe land was owned by speculators, reported *Fortune*. These speculators were sitting pretty, 'planning to sell their land but holding it off the market for an expected future killing'.²³ A survey among members of the National Association of Home Builders in 1964 revealed that they considered lack of market their most important problem. In assessing the data, Michael Sumichrast reported:

A valid argument can be made that this land price increase is partly responsible for difficulties in selling new homes. It is the price of land which determines the sale price of units to be built. An average \$4,567 lot would most likely mean a home selling for \$22,500-\$25,000. It is obvious that this house is too expensive for the large number of families found in the lower- and middle-income groups. So the increase in the cost of land is a factor in pricing much of the public out of the market.²⁴

By 1964, in fact, the price of a site had outstripped other costs. Taking 1957-59 = 100, the index price of a site in that year was 139, building costs were 112 and consumer prices had risen to 108.²⁵

As their land was used up, developers had to pay the speculatively high prices. Schmid found that the increase in the price of raw land in 1964 above its agricultural value was between a maximum of 892% and 1,875%, depending on whose data was used,²⁶ and that this increase was on an accelerating trend.²⁷

Thus, the troubles in the building industry foreshadowed the relatively mild recession in the late 1960s. But worse was to follow: the economy, after recovering, was heading for a disaster which was predictable on the basis of an analysis of trends in land values.

Profits were on the downward slide in the non-financial sector.²⁸ Nordhaus showed that the rate of return on non-financial corporate capital, before tax, had dropped from 15.5% (1953) to 10.5% (1973), and that after tax the figures were 7.9% and 5.4%,²⁹ even though there was a decline in the burden of taxation on corporations.³⁰ The economy was being seriously damaged from two angles: industry was a less attractive prospect for investors, and entrepreneurs were finding it increasingly difficult to plough back profits into fixed capital formation — which, to remain competitive and sustain jobs attracting higher wages, ought to be a continuous process for the economy.

The prospect for land speculators was wholly different, as we have seen in our study of farmland. Urban land displayed the same characteristics of rapidly escalating prices and increasing yields. Everybody wanted to get 'a slice of the action', from the small savers who were magnetised towards REITs to the large institutions anxious to shift their portfolios in favour of property.

By 1971, the consumer price level had risen roughly 60% over the previous 20 years; land in developing areas had shot up by between 400% and 500%.³¹ Federal Housing Administration data revealed that, between 1950 and 1970, the estimated value of a new single-family house had increased by about 150%, whereas the market price of the site had risen by about 400%.

But the land boom had not yet reached its peak. In 1974 the Urban Land Institute was commissioned to carry out research by the Department of Housing and Urban Development. The price of land had doubled between 1970-74; developers in six cities surveyed by the ULI reported that the average price of raw single-family dwelling land went from \$6,370 per acre to \$12,950. This average figure, however, concealed some startling increases — like 300% for raw unzoned land in Dade County, Florida, and 167% for raw townhouse land in Washington, D.C.³²

The financial effects of these trends was to divert funds from long-term

uses to short-term lending (see Table 8:I). Thus, firms found it increasingly difficult to obtain loans to finance the acquisition of capital goods: money-lenders were mainly interested in quick returns arising from deals with speculators. This, in turn, helped to drive up the rate of interest payable by borrowers, making loans accessible only to those who could expect — or hope for — abnormal returns on their deals (which meant from land rather than from machines).

In 1969, land as a proportion of housing costs had risen by 24%, whereas profits from building had declined.³³ By 1973, the stabilising influences of a thriving construction industry on the economy as a whole were ebbing away. Non-residential building slackened off first, followed quickly by home-building. This did not deter the speculators, however, who were anxious to drive their claim stakes into land: 1974 saw the peak turnover in the sale of farmland (42m. acres), thereby boosting the proportion owned by non-farmers.

Before the energy crisis had a chance to contribute its deflationary impact, the consumer market — the object of all productive effort — was weakening. The consumption of durable goods slumped in the first quarter of 1973 along with assets held by households, and general consumption was sluggish by the third quarter. 'The sharp deterioration in household balance sheets appears to have been a major factor in the severity of the economic downturn,' reports Mishkin, who quantified this effect: it was responsible for 40% of the depressive effects during 1973-75.³⁴ From 1967 to 1974, the cost of shelter — rent paid by tenants, mortgages paid by owner occupiers — rose faster than other costs such as clothing, transport and health.³⁵ The conditions for collapse rapidly converged on the year 1973, the final 12 months of the cycle in land values. If the record could be completed with a bank collapse, we would have a classic textbook case of the speculation-induced recessions which had repeated themselves throughout the 19th century.

The US National Bank of San Diego provides us with the final piece of the jigsaw. It failed in October, 1973 — a date which absolves OPEC from blame for the recession. The bank went under because of the activities of its major shareholder, C. Arnholt Smith, a close friend of Richard Nixon's and a major real estate speculator in Southern California. The bank had loaned heavily to one of Smith's conglomerates, the Westgate-California Corporation, which between 1967 and 1971 had relied on its property deals for most of its reported pre-tax profits. Smith was sentenced to three years in prison for tax evasion, fraud and theft in June, 1979.

This was the biggest bank failure in 40 years, but it was followed by an even more spectacular disaster. The Franklin National Bank of New York — the 20th largest bank in the US — was declared insolvent in October 1974. Again, property deals were at the source of its troubles. Apart from the loans

extended to the San Diego bank, Franklin, which was owned by Italian multi-millionaire Michele Sindona, had money committed to property around the world. Sindona, a one-time financial adviser to the Vatican, owned Società Generale Immobiliare, which built Washington's Watergate complex and owned properties from the Champs Elysées in Paris to Marina Del Ray in Los Angeles. The rapidly-rising values of these properties — on paper — were not enough to enable Sindona to juggle the books and cover up his fraudulent dealings. Franklin was bankrupted in October 1974, despite an unprecedented \$1.7bn. loan from the US Federal Reserve and several standby credits (the first, in July 1974, of \$100m.) from the state-controlled Bank of Rome.

Sindona had powerful friends, beyond the Mafia links that he was suspected to have cultivated. So when, in 1979, he was charged with 65 counts of fraud arising from the collapse of Franklin, a national Republican Party official in Washington attempted to intervene with the collaboration of P2, the sinister Italian masonic lodge whose activities, when they were exposed in May 1981, led to the fall of the Forlani Government in Rome. Bribery and corruption were among P2's tools. In the Sindona case, the plan was to persuade two cardinals who were senior Vatican financial advisers to speak on his behalf before the US courts.³⁶ The ploy failed, and Sindona was locked up in prison for 25 years.

The collapse of the San Diego bank did not alert the public to the undercurrents which were fiercely washing away the foundations on which the postwar prosperity of the US economy was built. It was not until the summer of 1974 that J. Bruce Lindeman, an Associate Professor of Real Estate and Urban Affairs at Georgia State University, published the first authoritative warning. He had diagnosed that the land market had over-reached itself and that speculators were thwarting legitimate developers:

In many suburban areas, speculators are outbidding developers. Outlying land of dubious use potential is trading briskly. The professionals are applauding this activity and proclaiming their faith in its eternal life. Most alarming is the obvious effort being made to bring outsiders into the land market. Vigorous syndication efforts and even the current popularity of dubious land development purchases are hailed as innovative and exciting applications of marketing 'technology' to the 'backward' field of real estate marketing...³⁷

But the red flag could be raised only on the basis of disjointed pieces of evidence and the intuition of concerned individuals. The Treasury economists were in no position to objectively analyse the independent effects of the land price variable on the economy, and thereby *anticipate* the looming recession: the data was not available, and so it could not be fed into the

computerised models which are used to predict trends in consumption and output. The absence of satisfactory data — and principally, a general index of land prices — is curious, when one considers the trouble to which bureaucracies go to collate statistical evidence ranging from population growth trends to the price of cabbages in the High Streets. Prof. Gunnar Myrdal has suggested a theory for this critical gap in our knowledge:

The faults in statistics generally follow an opportunistically biased line. Some important facts, for instance those about landownership and tenancy, are not only faulty but are often even prevented from being collected, or suppressed when collected, by the influence of powerful vested interests.³⁸

Although Myrdal was dealing with Third World countries, his hypothesis has substance for the rest of the 'free' world. In the US, for example, the most open capitalist country when it comes to public accessibility to information, it is exceedingly difficult to track down the ownership of land and its area: no central files exist. In his survey of US land ownership, Gene Wunderlich noted that landownership was significant 'not only because it is an important feature of the distribution of a nation's wealth but also because it is thought to influence the nation's political and social structure'. Despite the importance of the subject, however, 'information is scattered, incomplete, and often unavailable'.³⁹ Just how influential the landowning class is, can be illustrated by the fate of the short-lived Office of Land Use and Water Planning.

The Office was formed in 1973 in anticipation of legislation (which was subsequently killed on Capitol Hill). In 1975 the Office published a report which revealed that over 12% — \$39bn. — of the federal budget was earmarked to be spent on programmes affecting non-federal land. This staggering expenditure of taxpayers' money was to bolster, in one way or another, the value of privately-owned land. Senators from the land-rich West were 'incensed' by this revelation, and the intentions behind the Office. Shortly after the report was published the Senate Appropriations Committee cut off all funds and closed down the Office.

Its former director, Lance Marston, has since estimated that there was an increase of at least 20% in land use programmes during the years 1975-78. The Carter Administration proved no more anxious than its predecessors to study how public money was being spent on programmes to benefit privately-owned land.⁴⁰

So, the taxpayers bear a double cross: their hard-earned incomes are channelled by politicians into the pockets of the appropriators of rent, and at the same time the economic system which creates this wealth is undermined by those who parasitically exploit it. The extent to which public policies and the political structure is manipulated by the landowning class is of crucial importance to any consideration of reform, and it is to this which we now turn.

Notes

- 1 *Master Plan of Residential Land Use of Chicago*, Chicago: Chicago Plan Commission, 1943, p. 125.
- 2 *Ibid.*, pp. 115-16.
- 3 *Ibid.*, p. 113.
- 4 *Ibid.*, p. 116, our emphasis.
- 5 C. W. Condit, *Chicago 1930-1970*, Chicago: University Press, 1974, p. 51.
- 6 The book was started in 1900 by George C. Olcott, and is now (1983) published by the third — and last — generation of the Olcotts.
- 7 *Economic News Notes*, National Association of Home Builders, Washington, August 1978, p. 2.
- 8 E. Melichar, 'The Relationship Between Farm Income and Asset Values, 1950-1977', Seminar on Food and Agricultural Policy Issues, Wayzata, Minnesota, 1978.
- 9 Capital, of course, can be substituted for land in certain cases. But even this works to advantage of the landowner, rather than the owner of capital, once the temporary effects of patents and the advantages of advanced technological knowledge have been removed as barriers to further capital formation. Melichar pointed out, in citing the work of other researchers (*ibid.*, p. 3): '... land prices were rising because the combined effect of two factors: (1) technological advances that lowered unit costs of production, and (2) price support programmes that maintained output prices in the face of the tendency of the technological gains to increase total farm output'.
- 10 Larry A. Walker, 'Farm Finance and Real Estate Markets — Situation and Outlook', US Dept. of Agriculture, Washington DC (unpublished).
- 11 E. A. Mennis, 'The Outlook for Corporate Profits', in H. W. Stevenson and J. R. Nelson, *Profits in the Modern Economy*, Minneapolis: University of Minnesota Press, 1967, p. 53.
- 12 W. H. Heller, 'The Role of Profits in National Economic Policy', in Stevenson and Nelson, *ibid.*, pp. 185-186. Profits of manufacturing corporations averaged 11.4%.
- 13 B. Bartlett, *Reaganomics: Supply Side Economics in Action*, Westport: Arlington House, 1981, pp. 120-121.
- 14 *Op. cit.*, p. 186.
- 15 P. F. Drucker, *Toward the Next Economics*, New York: Harper & Row, 1981, pp. 11-12. The increase in state and local taxes arose because of the need to finance a large number of capital projects, especially schools, that resulted from the creation of a substantial number of new suburban jurisdictions in the mid-'60s.
- 16 Gilder, *op. cit.*, p. x.
- 17 A similar explanation can be advanced for the mid-cycle boom and slump in the inter-war years. The Revenue Act (1924) gave taxpayers a 25% reduction retroactive to 1923 income, increased personal and surtax exemptions, and brought the top rate (which had stood at 73% in 1921) down to 46% in 1924. This coincided perfectly with the land boom in 1924/5. Land monopolists converted the dramatic savings in income taxes into higher land values. Andrew Mellon, the Secretary to the Treasury, was impressed with the results of his early experiment in 'supply side' tax-cutting, and the top tax rate was cut to 24%

- in 1929. Bartlett, in articulating the need for a fresh round of cuts in the 1980s, failed to see the connection between the reduction in taxes, the way in which the higher net incomes were spent, and the crash of 1929. He merely concludes: 'Unfortunately, the stock market crash and the onset of the Great Depression and later World War II led to severe increases in tax rates' (*op. cit.*, p. 104).
- 18 H. Kay, 'The Strange Leveling off in Land', *Fortune*, Oct. 1963, p. 129.
 - 19 G. Milgram, 'Estimates of the Value of Land in the US Held by Various Sectors of the Economy, Annually, 1952 to 1968', in R. W. Goldsmith, editor, *Institutional Investors and Corporate Stock - A Background Study*, National Bureau of Economic Research, 1973, pp. 342 and 346.
 - 20 T. A. Wise, 'What to Do with \$1,000,000,000,000', republished in *Readings in Economics from Fortune*, editor: R. E. Mulcahy, New York: Holt, Rinehart & Winston, 1967, 3rd edn., p. 115.
 - 21 A. D. Manvel, 'Trends in the Value of Real Estate and Land, 1956 to 1966', in *Three Land Research Studies*, Washington, DC: National Commission on Urban Problems, Research Report No. 12, 1968, p. 1.
 - 22 *Ibid.*, p. 2.
 - 23 Kay, *op. cit.*, p. 128.
 - 24 M. Sumichrast, 'Land Costs are Rising, Survey Confirms', *Economic News Notes*, Special Report, 65-5, Washington DC: NAHB, 1965.
 - 25 A. A. Schmid, *Converting Land From Rural to Urban Uses*, Washington: Resources For The Future, Inc., 1968, p. 9, Table. 3.
 - 26 *Op. cit.*, p. 24. The data was from time series supplied by the Federal Housing Association, which represents medium priced housing, and the National Association of Home Builders, representing somewhat higher-priced housing.
 - 27 *Ibid.*, p. 19. Schmid notes (pp. 24-5): 'Though the quantification of the exact appreciation in the total conversion process awaits better data, it is clear that we are speaking of something which is often measured in hundreds and thousands per cent above farm land opportunity costs. Appreciation of this magnitude seems to deserve public policy attention'.
 - 28 A. M. Okun and G. O. Perry, 'Notes & Numbers on the Profits Squeeze', *Brookings Papers on Economic Activity*, 1970, p. 470.
 - 29 W. D. Nordhaus, 'The Falling Share of Profits', *Brookings Papers on Economic Activity*, 1974, p. 180.
 - 30 *Ibid.*, p. 205. Feldstein and Summers, while challenging the claim that there was a downward trend, agree that pretax net rate of return on corporate capital reached a 30-year low in 1974 of 6.4%. M. Feldstein and L. Summers, 'Is the Rate of Profit Falling?' *Brookings Papers on Economic Activity*, 1977, p. 211.
 - 31 S. Kamm, 'Inflation: Curbing Inflation in Residential Land Prices', *Urban Land*, Washington: ULI, Sept. 1971.
 - 32 'Urban Land Price Inflation: Implications for Public Policy', ULI, Washington DC, 1974, p. II-6. Although unpublished, some of the data is contained in J. T. Black, 'Land Price Inflation', *Urban Land*, Sept. 1974.
 - 33 M. Sumichrast and S. A. Frankel, *Profile of the Builder and his Industry*, Washington, DC: NAHB, 1970.
 - 34 F. S. Mishkin, 'What Depressed the Consumer? The Household Balance Sheet and the 1973-75 Recession', *Brookings Papers on Economic Activity*, 1977, p. 156.
 - 35 *Statistical Abstract of the US*, Washington, DC: US Dept. of Commerce, 1975, Table 688.
 - 36 R. Lustig, 'Secrets of the Vila Wanda', *The Observer*, 31.5.81.

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- 39 G. Wunderlich, *Facts About US Landownership*, Washington, DC: US Dept. of Agriculture, Information Bulletin No. 422, 1978, pp. v and 2.
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