Land Value and Inflation

by W. E. PEREIRA

IT IS expected that during 1966 retail prices will rise at least 2.5 percent and wholesale prices 3 percent. A still greater delayed inflationary impact will occur because two things will be working at the wholesale level to compound the rising 3 percent — the markup on the total, and taxes on the markup which will further increase all prices.

Investing in land is considered a good hedge against inflation, because economic rent to land will adjust upward to accommodate inflationary trends. Common stocks are reputed to have this same resiliency.

Land value derives from rent, actual or potential, capitalized at an acceptable rate of interest. Since land is grossly undertaxed it is still advantageous to speculate and to monopolize land for income. The price of land is economic rent minus tax, capitalized at an acceptable rate of interest. Such values are from obligation (inflationary) and not values from production (non-inflationary).

Inflated prices, created because of the very favorable position of land in the tax structure, make it necessary for those wanting to use labor and capital to pay exorbitant prices or high lease-rates, for the privilege of using land (sites). This creates debt-paper, and debt-paper easily converts into purchasing media. This is inflationary.

But consider a higher tax on economic rent. The price of land falls, but the value of land remains the same or increases, even though the owner does not retain as much rent as he did before the tax increase. The community gets more of the community-created values in the form of a greater portion of economic rent-of-land. Prices go down as more opportunities open up for labor and capital to employ themselves without going deeply into obligation. More enterprisers are encouraged to go into business and there are fewer failures.

A reduction or removal of taxes on improvements would cause a great spurt in our productive power and make more goods available to be "chased" by the oversupply of purchasing media which we accept as normal. More land would be used efficiently. Untaxed improvements would forge ahead, and building, one of the key industries of the nation, would really cut loose and go far.

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Farewell to the Grand Hotels

The once proud Savoy Plaza, stripped of its elegance, has crumbled into dust to make way for the new General Motors building on Fifth Avenue. The Park Lane and Sheraton East on Park Avenue too, are feeling the blows of the wreckers. Many smaller hotels will soon disappear with all the human stories they could tell.

Chicagoans will sigh for their good Morrison and the Pittsburgher will go, as will the Cincinnati Sinton. Probably the Roney Plaza in Miami Beach is doomed and the Los Angeles Ambassador.

With renovation and remodeling they could be restored handsomely and profitably, for they have many features sadly missing in today's "thin-skinned" structures. We shall miss these landmarks. They had a comforting air of stability and quality about them. But high land prices make it necessary to replace them with office buildings, apartments and even parking lots. So take a long look at the inn of your dreams — it may soon be a mass of rubble.