

On the Current Land Question

by SEYMOUR RAUCH

ONE of the major obstacles to wider theoretical acceptance of Henry George's body of economic ideas lies in a thesis convincingly expressed by such writers as John K. Galbraith and Peter Drucker. This thesis, with little distortion, can be compressed into a single statement: because of the technology/knowledge explosion land has lost most of its power to shape the course of economic events.

It is probable that the hypopotent land thesis originates in a defective analysis of such economic phenomena as high-rise apartment houses and long-line assembly plants where ratios of capital value to land value may range from ten to one to thirty to one. A superficial reading of these value ratios makes capital ten to thirty times as important as land in determining the nature of production schemes. A more careful reading of these figures gives a profoundly different interpretation.

Real estate appraisers frequently speak of the highest and best use of a land parcel. The highest and best use of low-value land out in the boon-docks can never be a twenty-story office building. The highest and best use of high-value land in New York's financial district cannot be a one-story taxpayer. The highest and best use of land must increase in size as land values increase. Stated as a general principle, the real estate cliché about land use is this: to get the best use of land, capital installations must be proportioned to the value of the underlying sites. Only in this way can maximum net returns be derived from a single production site or a community of sites.

The principle that proportions capital to land value must be construed

as being reversible. We can start either with a capital apparatus seeking its appropriate site or a site seeking its most efficient use.

If it is desirable to give a high-sounding name to this principle, we can combine the prefix "eu-" meaning "well" or "true" to economic yielding the word "euconomic." The euconomic principle is a universal one applying to any society—socialist, theocratic or private enterprise.

Purists might object to the loose manner in which a claimed-to-be universal principle was derived. For the purists there is a derivation analogous to the methods used in the hard sciences.

Consider two production sites, one having a productivity value twice as great as the other, and two capital aggregates, one having a productivity value twice as great as the other. What combination of site and capital aggregate offers the maximum returns in this little economic society?

If you cross-multiply the four entities, you will find the answer to the above question is as easy as two times two is four. The better site must be coupled to better capital. The word "better" in this context can only mean having a higher value. Higher land value commands higher capital value. The results will be the same regardless of the number of sites we consider or productivity values we assign. In qualitative mathematical language: to secure maximum economic returns, the value of capital installations must vary directly with the value of the underlying sites.

To justify the conclusion that the euconomic principle refutes the hypopotent land thesis, we must first satisfy the empiricists. Statistical proof may be

found by running through a computer any tax register that separates land and capital values. Despite corruption, error, speculation and what-have-you, the New York City tax roll, because of its magnitude, is the best source of empirical confirmation. A suitable computer read-out would feature land values stated in \$500 or \$1,000 intervals and the average capital values associated with each interval.

Only one *ad hoc* qualification need be made about the computer read-out. Technologies probably need separate categories. One-family wood-frame houses should be grouped with other wood-frame construction such as garden apartments and not with high-rise apartment buildings. The latter, because of their steel-frame construction, should be grouped with office buildings of the same construction technique. If there is an intermediate style of construction to bridge the gap, empirical study will show it.

The New York City tax roster should be able to demonstrate the validity of the euconomic principle as it applies to homes, offices, stores, theaters and factories. Confirmation in the fields of agriculture and mineral extraction needs a little more digging.

Once the euconomic principle is verified, the "land is negligible" argument would be forever refuted. Why? Because it would then be established that the ratio of capital to land does not express the relative importance of these two factors but instead measures

the necessary balance between the factors for securing maximum returns.

You can push the logic of the euconomic principle to an extreme and argue that land is far more important than capital in most sophisticated production schemes. Look at the great leverage frequently exerted by land value. An increase in land value in a high rise apartment district commands an increase in capital to about a ten-fold degree if maximum returns are to be gained.

The euconomic principle for apportioning capital to land has significant corollaries, e.g., the number of people associated with particular sites rises with increasing site value. For reasons of space limitations, the derivation of these corollaries must be left for a later essay, along with the practical implications thereof.

The prime motive for making an incomplete statement of this principle lies in the belief that America is in a crisis that conventional theory and practice cannot solve. Only George's economic synthesis can permanently do this job. Time is of the essence. Because the euconomic principle is completely compatible with George's ideas, the principle might expedite the task of winning more people to the Georgist cause, especially those people who resist the idea that land plays a determining role in the state of our economic union.

Seymour Rauch is director of the Henry George School extension in Buffalo, New York.

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