

Land Speculation... How Significant?

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(In GJ No. 51 appeared an article by Craig Cringan "In Defense of Land Speculators." In GJ No. 52 appeared replies to Mr. Cringan, and the following is another reply.)

The point of Mr. Cringan's article seems to be that while land speculation is a non-productive and even counter-productive type of economic activity, it is certainly not worthy of the strength and frequency of the attacks which Georgists commonly make upon it. Rather, in Mr. Cringan's view, "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."

This prompts me to attempt a concise restatement of the negative economic role land speculation plays in Georgist analysis, thereby justifying the strong attacks made upon it. According to Georgist analysis, land speculation has two major and distinct destructive economic effects. Firstly, insofar as it encourages the withholding of land for capital gain (i.e., the landowner judges that the future selling price will be of greater value than the income stream foregone by not putting it to immediate use), land speculation causes an artificial depression of the margin of production, thereby lowering the general level of remuneration to productive labour and capital.

Mr. Cringan comments that Government land and Government regulations make up a significant cause of land under-utilization. This may well be so. Whether it is land speculation or other causes which allow for the actual level of land under-utilization is a matter for determination by empirical studies. George's concept of the margin of production determining wealth distribution, however, gives us broad clues as to the consequences of any degree of land under-utilization. One may perhaps gain the impression from reading George that land speculation is the only cause of land under-utilization.* And perhaps indeed it was the major and most obvious cause at the time and place that he wrote Progress and Poverty (in California in the 1870's).

Secondly, and perhaps even more significantly, land speculation in Georgist analysis is held to be the "great initiatory cause" of industrial depression. Basically, the confident expectation that land values will continue to rise facilitates the general raising of land prices beyond the point which could be justified by the actual return which could be obtained from productively employing the land. This means that the rate of return on "investment" in land values is greater than the return on productive enterprises. Thus a flow of funds into "real estate," which only exaggerates the tendency (the "boom"). Land prices reach a spectacular peak, and then dramatically collapse, bankrupting financial institutions. Businesses begin to fail, on account of the unjustifiable land prices, and of the lack of investment funds at tolerable interest rates (the "bust").

This theory, if true, is of tremendous significance, because it means that the phenomena of industrial depressions and recessions admit of a simple and complete solution: a 100% tax upon the annual rental value of land.

Again, empirical evidence is needed to help assess the actual relevance of the theory. A considerable amount of such evidence has been published in Fred Harrison's The Power in the Land. This is an excellent piece of work, and I strongly recommend it to Mr. Cringan's attention, and indeed to the attention of all Georgists. One thing that Harrison does prove is that land speculation is not a "peculiarly North American feature."

*But see Progress and Poverty, Book VI, Ch. I, first page. - Ed.