

Chapter 21

Speculation

THERE IS ANOTHER CAUSE, not yet mentioned, that must be considered before we can fully explain the impact of progress on the distribution of wealth. It is the confident expectation that land values will increase in the future. The steady increase of rent in all growing countries leads to speculation—holding onto land for a higher price than it would otherwise bring at that time.

We have thus far allowed an assumption that is generally made in explaining the theory of rent. That is, that the actual margin of production always coincides with what may be termed the necessary margin of production. We have assumed that cultivation extends to less productive points only as it becomes necessary to do so—and that more productive points are fully utilized. This is probably the case in stable or slowly developing communities. But with rapid advancement, the swift and steady increase of rent gives confidence to calculations of further increase. It leads to land being withheld from use, as higher prices are expected. Thus, the margin of production is forced out farther than required by the necessities of production. As landowners confidently expect rents to increase further, they demand more rent than the land would provide under current conditions.

Settlers will take more land than they can use, if

possible, in the belief that it will soon become valuable. As they do, the margin is carried to even more remote points. It is also well known that private mineral land is often withheld from use, while poorer deposits are worked. In new states, it is common to find individuals who are called "land poor." They persist in holding land they cannot use themselves. They endure poverty, sometimes almost to deprivation, instead of selling their land. Or, they offer it at prices where no one else could use it profitably.

The same thing may be seen in every rapidly growing city. If superior land were always fully used before resorting to inferior land, no vacant lots would be left as a city extended. Nor would we find miserable shanties in the midst of costly buildings. Though some of these lots are extremely valuable, they are withheld from their fullest use, or any use at all. Instead, the owners prefer to wait for a higher price than they could currently get from those who are willing to improve them. They expect, of course, that land values will increase.

The result of land being withheld is that the margin of the city is pushed away so much farther from the center. The actual margin of building is at the limits of the city. This corresponds to the margin of production in agriculture. But we will not find land available at its value for agricultural purposes, as we would if rent were determined simply by present requirements. Instead, we find—for a long distance beyond the city—that land bears a speculative value. This is based upon the belief that it will be required for urban purposes in the future. To reach the point at which land can be purchased at a price not based upon urban rent, we must go very far beyond the actual margin of urban use.

We may conceive of speculation as extending the margin of production. Or, we can look at it as carrying the rent line past the margin of production. However we view it, the influence of speculation on increasing rent is an important fact. It cannot be ignored in any complete theory of the distribution of wealth in progressive countries. Speculation is the force, arising from material progress, that constantly tends to increase rent in a greater ratio than progress increases production. As material progress goes on and productive power increases, speculation thus constantly tends to reduce wages—not merely relatively, but absolutely.

We see this process operating full force in land speculation manias, which mark the growth of new communities. These are abnormal and sporadic manifestations, yet it is undeniable that the same cause operates steadily, with greater or less intensity, in all progressive societies.

With commodities, rising prices will draw forth additional supplies. This cannot limit the speculative advance in land values, however. Land is a fixed quantity, which human action can neither increase nor decrease.

There is, nevertheless, a limit to the price of land. It is set by the minimum that labor and capital require to engage in production. Hence, speculation cannot have the same scope to advance rent in countries where wages and interest are already near the minimum, as it does in countries where they are considerably above it.

Still, in all progressive countries, there is a constant tendency for the speculative advance of rent to exceed the limit at which production stops. This, I think, is shown by recurring seasons of industrial paralysis (i.e., recessions)—the matter to which we turn in the next chapter.