
The Need for a Land Price Index

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*The Need for a Land Price Index**

THE U.S. BUREAU OF LABOR STATISTICS should correct a serious gap in the consumer and wholesale price indexes—the absence of any index for land prices.

Land prices, which have been rising more rapidly than almost any other element in the economy, are largely ignored in the current battle against inflation. Yet they are a key element in the skyrocketing cost of both housing and food, two of the primary factors cited by the U.S. Department of Labor as responsible for the inflationary spiral.

Since 1949, while the CPI rose close to 300 percent, the cost of a typical new single-family house rose over 500 percent. A large part of that increase reflects the price of land, which has risen an almost unbelievable 1,275 percent during that period, according to the National Association of Home Builders. Land prices now comprise 25 percent of the total cost of a typical home, up from only 11 percent in 1949. During the same period labor and material costs combined fell from 69 to 47 percent of the total, finance costs rose from 5 to 9 percent, and builders' overhead and profits rose slightly from 15 to 17 percent.

While there is no precise mark of how much of the rising cost of food is attributable to the rising cost of farm land, it is obviously substantial. Iowa farmland, for instance, averaged \$1,375 an acre in 1978, up 10 percent from last year, according to U.S. Department of Agriculture data. In several New England states, average farmland prices exceed \$2,000 an acre.

Much of this escalation is due to speculative buying by absentee owners. Since 1970, with little annual variation, absentees (defined as buyers outside the county where the land is situated) have accounted for 12 percent of farmland sales. These absentees include not only oil sheiks or other foreign investors, but also the growing number of U.S. individuals and businesses buying land as a hedge against the shrinking dollar. Another 14 percent of buyers are local people who do not operate farms. This 26 percent of buyers who are nonfarmers keep bidding up land prices to levels that often squeeze out genuine farmers.

* A letter from Representative Henry S. Reuss of Wisconsin, Chairman of the House Committee on Banking, Finance and Urban Affairs, to F. Ray Marshall, U.S. Secretary of Labor, dated December 11, 1978.

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Government budgets, as well as consumer costs of food and housing, also reflect to a considerable extent the rising cost of acquiring land—for highway and rapid transit rights-of-way, parks and playgrounds, military bases and wildlife preserves, schools and fire stations, and other public purposes.

A number of agencies currently keep track of land prices, but the information is not assembled in a useful way or factored into the cost of living indexes. For instance, the Department of Housing and Urban Development maintains no comprehensive or readily accessible land price statistics. The Agriculture Department does a better job, but its index still leaves much to be desired. It is based on small samples, mixes fact with opinion, excludes land transferred to non-farm use, and excludes urban land, causing the figures to severely underestimate the extent of land price escalation. The Interior Department, through the National Park Service and Bureau of Land Management, is actively involved in land acquisitions and sales. Just this month, BLM is auctioning off 40 tracts of public domain land west of Las Vegas, tracts of the type which sold in 1960 at about \$1,000 an acre and now will go for about \$50,000. Such benchmarks of price escalation are not disseminated to the public in a way that would bring attention to the problem.

It seems extremely dubious that we can hold wages to increases of 7 percent a year or commodity prices to 5½ percent unless we hold down land prices that have been dwarfing wage and commodity inflation. Land speculators and their apologists may claim that land prices are untouchable or that, in any event, nothing can be done about them. I presume you would reject such defeatist or special interest pleading. Ways must be found to curb the tendency to invest more and more in land, a passive activity that adds not a single acre to the nation's wealth. Instead we must encourage investments in job-creating plant and equipment.

I will be making proposals to the Treasury Department and to state and local governments to accomplish this. But as a first step, the Secretary of Labor could make a tremendous contribution by *directing BLS to take the lead in establishing a national land price index.*

Focusing public attention on the dimensions of land inflation would be a useful first step in dealing with the problem. A fully operative, reliable and useful land index will take time to develop. In the

meantime, the curtain hiding land inflation could be substantially lifted if BLS were to assemble and publish at regular short intervals the various land data now accumulating in different agencies and in certain private organizations.

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In Memoriam: A. P. Becker

PROFESSOR ARTHUR P. BECKER, 60, died on November 17, 1978 in Milwaukee. He was head of the economics department (1948–1963) and professor of economics at the University of Wisconsin-Milwaukee for the past 30 years. His doctorate was from the University of Wisconsin. He is survived by his wife Bernita and six children—three sons and three daughters.

I knew Art Becker as a colleague at Ohio State right after World War II and since as a fellow land tax analyst. In 1948 Art moved back to Wisconsin to head the new economics department at the University of Wisconsin (Milwaukee). He brought Mason Gaffney to the department and the center for the study of land taxation was born.

Professor Becker headed the Committee on *Taxation Resources and Economic Development* (TRED), a group of fiscal economists. TRED through the holding of annual seminars and the publication of papers and discussions presented and developed a scholarly and useful series of over ten volumes published by the University of Wisconsin Press. This “shelf” of property tax studies was made possible financially by the support of the Robert Schalkenbach Foundation of New York and the Lincoln Foundation of Cambridge, Mass. Weld Carter, the committee’s executive secretary, and Professor Gaffney worked closely with Becker and provided substantial intellectual and organizing support. Becker edited and contributed to the TRED publication titled, *Land and Building Taxes*.

Professor Becker was considered by academic, government and business tax specialists to be the nation’s leading property tax scholar. This position was recognized when the National Tax Association selected him to be chairman of the Association’s property tax committee

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