MODULE: CONSUMING LAND

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(The following excerpt from a chapter, "Land as a Distinctive Factor of Production", is from a 1994 TRED book, Land and Taxation, edited by Dr. Nicolaus Tideman. It is reprinted with permission.)

A-2. LAND AS SITE IS PERMANENT AND RECYCLABLE

To consume most goods and services is to use them up. Land is not used up. To consume it is to preempt its service flow without impairing its substance. To consume land is to occupy it for a time-slot, which may be as brief as beating a red light or (rarely) as long as the pyramids last. After us life goes on, on the land once left to us which we then leave to others. "Time-sharing" was not invented by the vacation condo industry but is inherent in the nature of land and life.

One need not actually enjoy or occupy land to consume it. The essence of consuming land is preempting the time-slot from others. Thus, holding land without using it, or using it below capacity, is a form of wasteful consumption. ...

Land is reusable. As there is never any new supply, the old has to be and is recycled periodically, and will be in perpetuity, without changing form or location. Melded briefly with fixed buildings, land always survives them to go one more round of use. Even while melded with capital land always is fit for another use, unlike the capital on it. Land value in cities has been defined as "what is left after a good fire," and arsonists have taken that quite literally.

The opportunity cost of capital is fleeting. Capital loses most of it the moment it is committed to a specific form, whose physical alternative use is often only as scrap. Land's "opportunity cost" is real and viable at all times. The scrap value of capital is often zero or negative (radioactive waste supplying an extreme example). ...

4. LAND DOES NOT TURN OVER

Capital, once formed, soon withers away unless there is capital recovery enough to return the original amount over economic life, and the capital recovery is reinvested. Capital recovery is cash flow less interest on the unrecovered balance, with the latter always a prior charge.

Capital is kept in existence from age to age not by preservation or permanence but by constant replacement; while land is the place on which generations of capital come and go.

When we speak of land turnover it refers only to ownership turnover, i.e. the percentage of the fixed supply that changes hands each period. There is no real turnover in the sense of wearing-out and replacement. And even the ownership turnover is very slow compared with capital. Capital turns over constantly, in the normal course of production and consumption.

Something like 3-4% of land parcels turn over annually. Larger, high-valued holdings turn over more slowly, so perhaps one or two percent of the land, measured by value, changes hands yearly. On the other hand, the entire inventory of consumable goods changes hands, normally several times a year, in the natural flow of production. A large share of "durable" capital returns half its value within four or five years. Ownership turnover is inherent in physical turnover. ...

As noted in Section 2, to consume land economically is merely to preempt a time-slot from others, regardless of what one does with it. The unreaped harvests of idle land flow down the river and out the gates of time like water wasting through a desert. Lost water may sometimes be useful downstream; lost time never returns. To keep others from using a time-slot is to consume it.

The value of preemption is the highest and best use that might have been made of the land preempted. That is the economic cost. The land is not responsible if the manager fails to realize its value at optimal capacity. Neither are the persons who are excluded. Only the preemptor is responsible, as a manager. This person is the residual imputee who deserves credit for performing above par and blame for falling below.

A great deal of land in fact is not allocated to its highest and best use. The shortfall of realized ground rent below potential ground rent is properly a debit to the manager's account, not the land's; and the party responsible for the manager is the holder of title.

Most economic theorizing has failed to bring out this point. The tendency is to treat ground rent as a residual, a waste basket for all the errors and dereliction of responsible economic actors. This has resulted in greatly understating the value of land relative to other factors of production. Institutional and social factors, too, often obscure the opportunity cost of land.

This is a case where theorizing lags behind practice. In dividing value between land and a building affixed to it the standard practice of appraisers, and speculative buyers too, is the "building-residual method." The land is appraised as though vacant; the building gets the remaining value, if any. The building, once attached to a specific site, loses the mobility of place and form that fluid capital possesses and has no opportunity cost but scrap value, often negative. Land, always lacking mobility of place, retains mobility of reuse because of its versatility, permanence, and irreproduceable location. ...

What can it mean to "consume" land, when it does not get used up? It can only mean to (continued on page 8)

MODULE: CONSUMING LAND (from page 7)

occupy or preempt a time-slot of space. That has the most profound implications for the meaning of "consumption" in economic thinking, and "consumer taxation" in fiscal policy. Economists have neglected and papered over these matters almost completely. These are pursued in B-13 infra. ...

B-13. CONSUMING LAND MEANS PREEMPTING ITS TIME

To consume most goods and services is to use them up. Land is not used up. "Consuming" land must have some other meaning, therefore, than the intuitive and common idea that consuming means turning-to-waste. To consume land is rather to preempt its service flow without impairing its substance. To consume land is to occupy it for a time-slot, which may be as brief as beating a red light or (rarely) as long as the pyramids last. After us life goes on, on the land once left to us which we then leave to others. "Time-sharing" was not invented by the vacation condo industry but is inherent in the nature of land and life.

How shall we measure land-consumption by owners, where no rent is paid? Is it purely subjective? Does it vary with the owner's mood and health? It is simpler than that, and fully practicable. The essence of consuming land is preempting the time-slot from others. Thus, holding land without using it, or using it below capacity, is a form of consumption. The measure is the market opportunity cost of land, e.g. the price times the interest rate.

Holding an urban site has been likened to holding a reserved seat at a play, ballgame, or concert. The seatholder properly helps pay for the event, whether or not there to enjoy it. As a result, very few paid customers fail to show up. Likewise, people who pay cash rent for land seldom leave it vacant. Doubtless if people paid regular cash taxes to hold land, they, too, would consume (preempt) less.

Proponents of "consumer taxation" almost universally overlook this point. I am not aware of one who has proposed including land-consumption in the tax base. Aaron and Galper, propounding a "cash-flow tax," explicitly allow for letting each succeeding owner expense land purchase, effectively exempting land rents from taxation 100%. *(See Addenda, #2.)*

Theirs, and other proposals, and consumer taxes actually imposed now and in the past, bear heavily on the necessities of median families. We deride the salt tax of the French ancien regime, and of pre-Gandhian India. We recognize them as instruments of tyranny and class warfare, even as we tolerate modern legislators who now impose comparable burdens on ourselves, and economists who rationalize such taxes by belittling the necessities of life.

Doing so, they compound the deception in the label "consumer taxation." Much of what is taxed in the name of taxing consumers is actually used for capital formation: human capital formation. The same economists who say human beings are or contain capital, turn around and tell us to tax the formation and maintenance of such capital, by calling it "consumption." Coupling this with their proposed exemption of land-consumption we have the ultimate victory and application of semantic cleansing. Inconsistency, thy name is - neo -classical economist?

Supplemental note on entropy

"A good catchword can obscure analysis for fifty years." - Wendell Willkie, 1940

Most arguments and misunderstandings could be settled easily if people defined their terms. A "good catchword" is often an undefined term that people toss off too freely, as though they knew what it meant (and could measure it, besides). One such catchword is "income." The 16th Amendment says Congress may tax it; but does not say what it is. 90 years and hundreds of volumes later, there is still no clear definition in use.

Another such catchword is "consume." The most primitive error is to overlook the laws of conservation of matter and energy, and conceive of matter simply disappearing into the void. Few would do so explicitly today, but many do so subconsciously: they simply put the waste "somewhere else" and forget it.

A next step is equate consuming with removing some physical quantity from a given stock or flow. An early confusion is the term "non-consumptive use" applied to generating power from falling water. In this case what is consumed is potential energy.

A similar error is to debit water users with the "net" removal of water from a stream, crediting them with the return flows. This ignores the adulteration or pollution of the return flows.

The next step is to equate consuming with creating entropy (disorganization). This is a big step, and is about where we are today. Chewing up food and turning it to waste is "consuming."

The next step needed, the one suggested here, is to see that wasting space is consumption. The reserved seat at a theatre is the prototype. The reserver consumes it whether he occupies it or not. Ditto for preempted land, whether used or not.

This is a point to which champions of taxing consumption are totally deaf, dumb, and blind.

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