The Ultimate "Collectible" - Land

By Mason Gaffney

[Ed: I cobbled together here a few threads of conversation of His Geoist Eminence, Mason Gaffney, into this longer piece, and I hope I'm not doing him an injustice. The pearls of wisdom that flow from Mason's keyboard are amazing, and here he draws a great analogy to make an otherwise obscure economic point.]

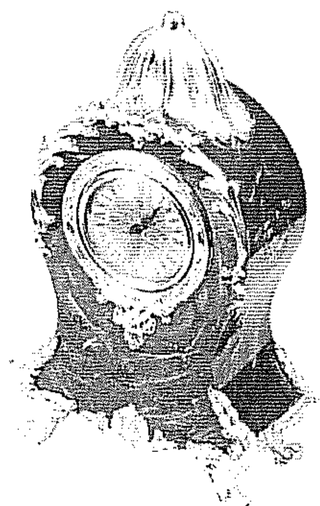
50-70% of the cost of housing in the US is land price. In Australia, a recent survey of land cost found that 65% of housing cost was land. And in the UK, Kevin Cahill's book, *"Who Owns Britain"* tells us that a "housing plot" costs between half and two-thirds of the final cost of housing.

Such high costs could not exist in a conventional free market dealing with capital goods. The price mechanism would go to work to produce more land and transport it to the area of high prices. This negative feedback would quickly drop prices to a low figure (because there is so much land). Unfortunately, neither of these "feedbacks" is possible. We can neither make land, nor move it somewhere else. Land is not part of the free market, as the market that most closely resembles the land market is the collectible market.

The entire attention of the collectible world is focused on the "anticipated future price" - the expectation of continual increases

The most obvious characteristic of a collectible is that it isn't easily reproducible. It doesn't have to be very rare - or unique. (There are actually six authenticated copies of the Mona Lisa in existence.)

A collectible doesn't need an income - sale price is everything. In fact, most collectibles are never used. However, they must be ready for sale. You don't rent out your antique desk. You don't even use it yourself. You wrap it in plastic and store it in the bedroom, or somewhere. This because you want it to be in mint condition ready for a sale. Then you don't sell. The engine of the collectible market is positive feedback - the opposite of the free market. Positive feedback drives prices away from equilibrium rather than toward it.



In other words a high priced sale of a similar collectible does not send you to market. Rather, you stay away as you expect your collectible price to rise still higher. And, in part, because of your holding out, the price does rise. This provides further incentive not to sell. Positive feedback is working. This doesn't matter much with a Tiger beer can, or a Van Gogh. It can be disastrous when the collectible is land - the basis of all production.

The huge "Rent Fund" is the creature of a collectible market in land. This "Rent Fund" is maintained by its collectibility. What happens when you place a heavy tax on it? Well, let's say you have kept your grandmothers clock, as a collectible, for decades. Its value increases by about $500 a year - a good reason for hanging on to it.

Then, a Grandmother's Clock tax is imposed of $475 a year. You decide not to collect any more. You'll take the money - now nearly $20,000 - and run. And you'll run straight down to the local collectible store and find yourself at the back of a line of other collectors - all with Grandmother clocks they want to sell!

Worse, on the tote board, GMC prices have already dropped to $5,000 and, as you watch, it drops to $4,000. Then the shop stops taking 'on consignment' clocks. They have too many - and the price is down to $2,500 and dropping.

Fed up, you home and are about to return the clock to its secure storage, when you have a thought. You remove the plastic wrapping, place the clock proudly on the mantle piece. You are no longer a collector, but a user. This is analogous to placing a heavy tax on land.

The entire attention of the collectible world is focused on the "anticipated future price" - the expectation of continual increases. When a sale takes place at the current "anticipated", the expectation in the collector's mind jumps higher. Millions of Americans are involved in this already. Their home is not just a home. It's also a retirement condo in Washington, or Florida.

But, what happens when land prices begin to fall? This is not the way it's supposed to be. Some will hang on no matter what, but sufficient will decide to cut their losses to send prices down - perhaps precipitously (depending on how heavy the tax).

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