Depression: Price of Land Gambling

By Dr. George Raymond Gaiger

From "Theory of Land Question"

One of the first considerations that present themselves... is the effect of land value taxation on land speculation. When this matter of the holding of land out of use for expected rises in land value was formerly introduced by single taxers, the stock answer of many economists was to deny that there was any significant failure to use land. However, since 1929 stock answer is not being heard so often, especially if the economists have paid attention to the many technical studies that have appeared in the last few years.

These studies have demonstrated that a large item in our present deflation has been the collapse of inflated and speculative land values.

The following statement, for example, is not from a follower of Henry George, but from a former member of the peripatetic Tily Institute: "... Real estate, real estate securities, and real estate affiliations in some form have been the largest single factor in the failure of the 4,800 banks that closed their doors in the early nineteen-thirties, and in the 'frozen' conditions of a large proportion of the banks whose doors are still open. ... As the facts of our banking history of the past three years come to light more and more, it becomes increasingly apparent that our banking collapse during the present depression has been largely a real estate collapse." (Simpson, Real Estate Speculation and the Depression, op. cit., p. 165.)

Dr. Simpson buttresses his contention as follows: All financial resources are taxed to finance land speculation—government officials, construction groups, public utility interests, all work hand-in-hand to force speculation and over-development. (p. 164.) The loan structure depends for solvency on the continuation of real estate absorption and turnover. Revenues are based on inflated land values; this was a leading force in Chicago's fiscal difficulties.

"Hundreds of other cities and local governments in the United States are now in default or on the verge of insolvency for substantially the same reasons. The impairment or collapse of their finances and credit has seriously impaired the credit situation in their various communities." (p. 166.) Real estate speculation is indicted as a racket. (p. 157.)

Largely the same arguments and the same data feature the other monographs. A digest of this material is added (at least, this may serve to remove some of the doctrinaire flavour of the whole present discussion):

From Fisher (op. cit.): Speculation in suburban lands is "condemned as socially undesirable." "It is very difficult to discover any economic function which this kind of speculation performs." (p. 155.) In most urban communities, for every lot in use there is another lot vacant. (p. 157.) (This statement is substantiated by figures for Chicago, Grand Rapids, and Milwaukee.) New lots are increasing more than double the population increase. In Chicago in 1960 there will be in use only 90 per cent of the lots already available. (p. 157-8.) "That some form of social control is desirable does not need to be argued." (p. 162.)

From Simpson and Burton (op. cit.): 30 per cent of Chicago lots are vacant; and 60 per cent in Cook County outside of Chicago. (p. 12.) Of the subdivided area of Cook County, including Chicago, only 54.5 per cent is used for building. (p. 17.) Much agricultural land of the country has been ruined by being put in cold storage with resulting frozen assets. (p. 44.)

From Holden, a well-known architect (op. cit.): "The harm which is done by speculation in stocks and bonds is as nothing when compared to the harm which is done by speculative trading in real estate. ... We cannot depend indefinitely on ballyhoo to keep a docile and credulous public buying land at inflated values. The whole house of cards is almost ready to come tumbling down. (p. 679). "It will be a fictitious and dangerous prosperity if it leads us to overlook once more the hard fact that the real value of land depends upon its earning power, not upon what someone may pay for it in the hope of a speculative profit." (p. 675.) "Real estate now finds itself capitalized on the basis of what was considered its salable value in the boom years." (p. 674.) The defunct Bank of United States heavily sold in speculative real estate. (p. 673.) Capital is now dangerously frozen in real estate. There are enough subdivided lots on Long Island between Patchogue and the New York City line to accommodate the whole city population in one-family houses. (p. 676.) Undeveloped land is draining the resources of both owners and municipalities that have financed improvements.

That land is held out of use for speculative reasons can hardly be challenged after objective studies such as these, studies made by men who have, in most cases, little sympathy for land value taxation. Moreover, that the collection of all, or nearly all, the annual ground rent of land by taxation would make speculation so expensive a procedure that it could not possibly flourish, is a recognized fact; even if those who deprecate land speculation are not all advocates of land value taxation does not contradict this contention. The fact is that these men often are afraid that the cure might be worse than the disease—that is, they are opposed, many of them, to land value taxation for other and more general reasons.

*Land would have to be used or it could not be economically owned. If land value taxation would do nothing else but smash the land racket, and remove one of the major props from the periodic American orgy of..."
speculative gambling, it would be well deserving of thanks. In the words of John Dewey (see Foreword to the Author's Philosophy of Henry George): "We are just beginning to understand how large a part unregulated speculation has played in bringing about the present crisis. And I cannot imagine any informed student of social economy denying that land speculation is basic in the general wild orgy or that this speculation would have been averted by social appropriation, through taxation, of rent."

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