No More Land Values?

By LANCASTER GREENE

We still hear from time to time that while in former days, when our economy was chiefly agrarian in character, land values were important, today in an industrial world the landowner is a very minor character. Exact data to rebut this argument are almost impossible to obtain, principally because corporation accountants are more concerned with the distinction between profit and loss, rather than with that between earned and unearned income, and with ascertaining the value of property, instead of determining what part is land and what part capital.

The current balance sheet of Radio Corporation of America is a good example. We obtain from it the impression that RCA's landholdings are quite trifling. Of total assets of 104 million dollars, RCA reports 31.5 million in land, buildings and equipment, and there can be little doubt that buildings and equipment from the major part. On the basis of such a report we might say that RCA is not predominantly a landowning company. But if we adopt a slightly more sophisticated attitude, we must realize that the item "Patents, Contracts and Goodwill" (8.5 million) is, from the economic standpoint, essentially a land item (see the article "Fences in the Ocean" by George Bringmann, in the April **Freeman.**) The 6.6 million of RKO stock has a land component; how great the statement does not indicate. In addition, RCA, through its subsidiary, the National Broadcasting Company, has the free use of the airwaves. Indeed, without the use of this unique and valuable natural resource RCA couldn't even exist. Why don't we recognize the fact that the air is land which, by chance, has never been reduced to private ownership and for which the community, rather than the broadcasters, should collect rent?

If it requires a little probing to find the land values in such a company as RCA, it requires none when we examine large scale food processors. A good specimen is the United Fruit Company. Land is scattered so plentifully through its balance sheet as to make one think at first that some of it has been reported more than once.

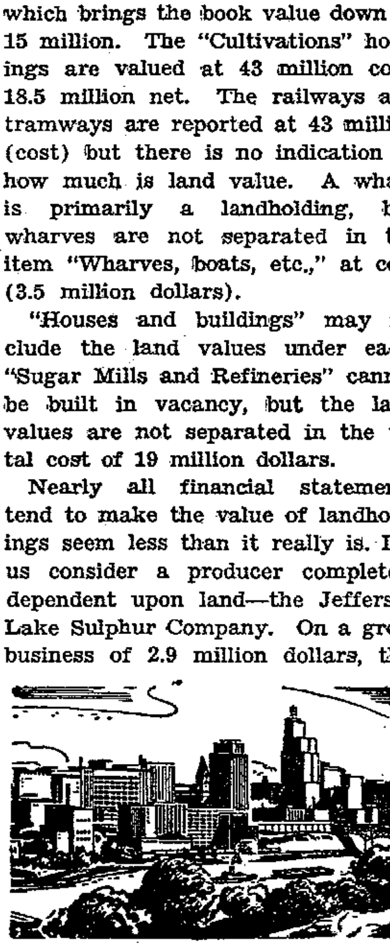
On January 4, 1941, United Fruit claimed ownership of over 400,000 acres of improved land. Nearly 122,000 acres were in banana plantations in Central America; 93,000 in sugar, 53,000 in cacao. There were some 85,000 acres of pasture, and 56,000 acres in "town sites, roads, lots, fire lines, etc." In addition, the company owns 1,750 miles of railways and 370 miles of trolley tracks.

So land values are no longer important!

United values its "lands" at 30 million dollars (cost) less a reserve for depreciation and revaluation which brings the book value down to 15 million. The "Cultivations" holdings are valued at 43 million cost, 18.5 million net. The railways and tramways are reported at 43 million (cost) but there is no indication of how much is land value. A wharf is primarily a landholding, but wharves are not separated in the item "Wharves, boats, etc.," at cost (3.5 million dollars).

"Houses and buildings" may include the land values under each. "Sugar Mills and Refineries" cannot be built in vacancy, but the land values are not separated in the total cost of 19 million dollars.

Nearly all financial statements tend to make the value of landholdings seem less than it really is. Let us consider a producer completely dependent upon land—the Jefferson Lake Sulphur Company. On a gross business of 2.9 million dollars, this company enjoyed in 1940 a net income of $800,000. This income was from the sale of sulphur and from oil operations. The capital equipment required for sulphur production is not great; we may assume that most of the "Land, plant and equipment" item consists of land. Including mineral leases at cost, and deducting the reserve for depreciation, the fixed assets of the company total $773,000.



Note this figure: $773,000 for land and equipment which earned a net income after taxes of $812,201.19 in 1940! It is considered good accounting practice to report fixed assets either at cost or at market value, whichever is lower. What is the true value of the mineral leases which Jefferson Lake Sulphur books at $650,000? We'll never know—unless the government tries to buy them.

Jefferson Lake Sulphur reports total assets of 3.8 million dollars; of this nearly 2.7 million is cash, inventory, and accounts receivable. But the inventory is sulphur; the receivables are the value of sulphur sold but not yet paid for; the cash is the result of prior sales of sulphur. That part of the assets which is not land is practically all accrued rent! (And don't forget that our sulphur producers have at least a partially monopolistic position. See the article by Helen Bernstein in the September, 1940 **Freeman.**)

No more land values? In the financial statements they don't show up, because financial statements are made for bankers and credit men, not for economists. Students of economics may have to devise a whole new system of accounting before their science can be placed upon a quantitative basis. As matters stand, separating the land values in a financial statement is like trying to unscramble an omelette. But we needn't fall into the fallacy of thinking, because we can't separate them, that they don't exist. You don't have to unscramble an omelette to know that one of the eggs was bad.