

from the editor's notebook

Things I never knew till now: The railroad land grants were Uncle Sam's best real estate bargain, according to Louis Menk, board chairman of the Burlington Northern. Besides opening up the West, he says, the original land value of \$126 million was repaid to the Government ten times over through reduced rates on U.S. mail, troops and freight. *Do you really feel better when you stop hitting yourself on the head with a hammer?*

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Land prices in developing areas have soared 400 to 500% over the past 20 years, and urban consultant Sylvan Kamm says this is because Americans have been trained to think land is a valuable commodity and fear it is being grabbed up by a burgeoning population. He says it isn't true and cites the White House commission on urban growth as saying if all Americans were crowded into Texas and Oklahoma population density would then be comparable to Britain and West Germany. He wants Congress to grant incentives for high rise, high density living and ceilings on land values acceptable for mortgage purposes. He suggests profits from trading in undeveloped land be taxed as ordinary income and no deductions be allowed for local property taxes and interest on loans secured by undeveloped land. *How can you get so close and be so far away?*

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A recently enacted statute in Wisconsin exempts from taxation the lots in a subdivision that remain unsold. Two actions have been brought in the state court, one seeks to have the law declared unconstitutional and the other seeks to correct alleged inequalities of assessment. The actions are brought by the Beloit Chapter of the Wisconsin Property Owners League. The constitutionality of the law is attacked on the grounds that it permits inequality and lack of uniformity in property valuation. The attempt to gain relief from such uneven taxation of land is based on the same grounds. *Interestingly, no mention is made of the windfall profits developers are being granted as a form of subsidy by this tax exemption.*

Prentice Scores Land Speculation

The following excerpts are from a speech to the Homebuilders Association of Greater St. Louis delivered late last year by Perry Prentice, president of Schalkenbach Foundation.

Right here on the 600,000-odd acres of St. Louis city and county, the Eastern tip of St. Charles county, and the North-eastern tip of Jefferson county, there is land enough to house the entire 1970 population of the whole state of Missouri at single family densities, with nearly a quarter of a million acres left over for airports, factories, shops, office buildings, schools, golf courses, and fox hunting.

And if you ever get around to making full use of your land you would find that all the people who now live between the Mississippi and the Rocky Mountains in Missouri, Iowa, Minnesota, North and South Dakota, Montana, Wyoming, Nebraska, Kansas, Colorado, Texas, Oklahoma, Louisiana and Arkansas could live here without being too overcrowded.

Now please don't think I'm seriously suggesting that 40 million people should come live in 600,000 acres in this corner of Missouri.

Now I'm not questioning for a minute that your land problem is not only real but urgent and critical. But if we can't blame the problem on God, who then is to blame and why are you builders facing a land shortage in the midst of so much plenty?

Your problem is not there is any shortage of land. There's more underused land here than you could possibly put to full use in the lifetime of the youngest man in this room.

Your problem is that the people who own this land are hanging on to it and won't let you buy it from them now to put it to what economists call "a higher and better use."

And if I were a landowner here you can be very sure I wouldn't let you have it now either, even if you cut my zoning from two acres to one acre or to half an acre or to five lots per acre or to planned unit density. I wouldn't let you have my land now, because . . .

1 — I'd know from what's happening around every American city that the longer I hang on to my land the

more I could make you end up paying for it;

2 — I'd know that since World War II land prices have been going up 6.19 times as fast as the rest of the price level;

3 — I'd know that the one best way to get rich in my sleep (to use the phrase first applied to the great classical economist John Stuart Mill) would be just to sit tight on my land and do nothing until an enormous investment of other people's money and other taxpayers' money to develop the land around my property had multiplied the value of what I was holding off the market;

4 — I'd know that urbanizing land on the urban fringe can raise its price from a farm use value of say \$500 an acre to an urban or suburban use value of \$5000 an acre or \$10,000 an acre or often \$20,000 or more an acre; and

5 — I'd know that today's crazy misapplication of the property tax and today's crazy undertaxation of land would let me cash in on the enormous land profits of urbanization without contributing more than a few pennies per dollar towards meeting the equally enormous costs of urbanization—the costs that somebody else would have to pay to make my land worth ten times as much, or 20 times as much, or 40 times as much as its pre-urbanization value.

Let's stop a minute to take a quick look at these costs someone else has to pay to enable urban-fringe landowners to get rich in their sleep:

Five years ago the Regional Plan Association added up those costs of urbanization in the New York area to \$16,850 of 1967 purchasing power or say \$20,000 of today's dollars *per residence* just to pay the proportionate capital cost of the new streets, new schools, new water supplies, new sewage systems, new police and fire facilities, new hospitals, new universities, new libraries, etc., etc., etc., that would be needed to make that residence and the land for that residence reachable, livable, and richly saleable. That \$20,000 per residence figure would work out to quite a bit more than \$20,000 per lot, When you allow for multi-family multiply-

ing the number of residences on the lot, but just to be conservative let's just stick to \$20,000 as the urbanization cost per lot.

What I'm trying to help you see is that the land problem is mostly a subsidy problem and a tax problem. If the landowners who are now holding their land off the market to cash in on every last dollar of the profits of urbanization were taxed to pay even half the costs of urbanizing their land instead of getting an almost free ride while other past, present and future taxpayers pay those costs for them the landowners would not be holding the land you need off the market. On the contrary, they would be standing in line to get you to take it off their hands.

In brief, the reason your land problem is so critical is that like every other Metropolitan area I can think of you are subsidizing land hoarding by undertaxation. You are taxing the land needed for urbanization so lightly that you have made it much more profitable for landowners to hang on to their land instead of letting you buy it now at a price you can afford to pay.

And once you start subsidizing what you don't want there seems to be no end to the subsidies and the tax costs needed to offset the first wrong subsidies.

Land hoarding, which is made possible and profitable only by the undertaxation of underused land, is the No. 1 reason if not the only reason you homebuilders are having to leapfrog out into the boondocks of premature subdivision. Perhaps it would be helpful if I were to suggest a dollar figure for what this leapfrogging is adding to community costs. A study headed by the director of the Metropolitan and Regional Research Center at the University of Syracuse found that community costs for a tract of 377 houses a few hundred miles from here were increased \$658 per house per year because the builder of those houses had to leapfrog just 2½ miles beyond the edge of town to get land he could afford

to buy. That multiplies out to an added community cost of \$248,066 dollars per year that the taxpayer had to pay because that small tract had leapfrogged 2½ miles... in addition to which the research found that it cost the people who bought these homes \$909 more per family per year to live 2½ miles further out!

In all history landowners have never had it so good as they have had it in this country since World War II, and in all history I doubt if landowners have ever done less to deserve having it so good. What's good for the landowners is bad for you land developers because the more you have to pay for raw acreage and the further out into the boondocks you have to go to find acreage you can afford to buy, the less margin you have to cover your land development costs and the less profit you can hope to make on the development dollars you risk.

What was good for the landowner is bad for the homebuilder because the more the homebuilder has to pay for his lots the less money he has left to build more sales appeal into his houses, the greater his risk of having to price his product out of the market, and the less his chance of selling his houses at a good profit. This price squeeze between what the builder has to pay for his land and what homebuyers are willing to pay for a house has busted hundreds of builders and driven thousands of builders out of business.

What's good for the landowner is equally bad for the subcontractor, the building material dealer, and most of all for the building product manufacturer. When a builder has to pay \$3000 too much for his land he has to take that \$3000 out of his house somewhere or go broke, so he passes the squeeze on to his subs, he passes the squeeze on to his dealer (or tries to eliminate the dealer and the dealer's mark-up entirely), and he passes the squeeze on to the building product manufacturer.

The high price of land that is so good for the landowner is bad for the architect because it gives the builder one more bad reason for trying to get his design and his site planning cheap.

The high price of land that is good for the landowner is bad for the mortgage lender because the more water there is in the land price the less real value the mortgage will represent and the less his security.

The high price of land that is so good for the landowner is bad for the Realtor because realtors live by making sales and today's crazy land prices are pricing millions of sales clear out of the market.

As for home buyers, the reasons why what's good for the landowner is bad for the home buyer who ends up having to put up the extra money to let the landowner get rich in his sleep are so obvious that I won't waste your time rehearsing them.

The crazy land prices that are so good for landowners and so bad for everybody else are not due to any land shortage here or anywhere else. They do not reflect the law of supply and demand.

What moral justification can there be for giving land speculation more favorable tax treatment than any other income source? How can anyone argue that deflating the price of land by making landowners pay more of the community costs needed to make their land saleable is an attack on our whole system of private property? Do landowners have some special right to "get rich in their sleep"? What earthly sense does it make to tax the improvements on which the owner has invested his own time and money more heavily than any other product of American industry except hard liquor, cigarettes and perhaps gasoline.

So why aren't you up in arms leading the fight for the simple tax reforms needed to turn the tables on the landowners who have been getting rich at your expense?