

On the Current Land Question II

by SEYMOUR RAUCH

IN an essay concerned with the importance of land in modern economic society last month, two relationships were presented to justify the argument that land still plays a crucial role in economic functioning. The first of these principles stated that rising land values must command commensurately rising capital installations where maximum returns on economic effort are sought or realized. The other principle stated that the quality and quantity of labor applied to land must increase in direct proportion to increased land values if maximum economic returns are to be found.

These two principles were dubbed "eu-conomic" to signify their describing optimum economic functioning. No society explicitly puts the euconomic principles into practice. The operation of these principles in the real world is easily proved wherever there is reasonably accurate separate valuation of land and capital and a reasonably accurate census of the condition of labor. Once proved, it is valid to assess the cooperative procedures of any society in terms of the euconomic principles.

In the American society, the grossest violation of the euconomic principles is found in land speculation. The consequences of this violation do much to reinforce arguments in favor of land's still playing a determining role in the course of economic events.

Land speculation prevents placing the appropriate amount of capital on land at the appropriate time. Because of land speculation many enterprises are forced to make premature use of inferior sites. To secure a level of production that fits demand, inferior sites require more capitalization than would have been necessary on superior sites withheld from use. The excessive capitalization comprises a waste of society's

limited capital. If waste-of-capital situations are multiplied sufficiently, chronic or periodically acute shortages of capital must develop. The shortage of capital is conspicuous but one of its chief causes is not, because of the endemic prejudice among most economic thinkers against the thesis that land is still crucial to economic calculation. The capital shortage is thus treated superficially by the powers that be with manipulation of the currency level and the credit market by means of the Federal Reserve Board and related agencies.

Land speculation violates the labor-to-land euconomic principle by driving labor to inferior sites that reduce both the quantity and quality of employment opportunities. In this situation too, the root cause of the problem is ignored. Political responses are palliative in character and exhibit the continuing political tendency to try to solve one problem by creating new problems. An example of the current technique for creating employment is found in the use of war, cold and hot. An example of current technique for improving the lot of labor is the enactment of minimum wage law rises.

Land speculation increases competition for good sites driving contract rents sharply upward. Meeting the burden of excessive contract rents requires overbuilding on many sites in good areas. The ensuing overcrowding produces urban stagnation that impairs the life style of most people and cuts the ability of business enterprises to do their work expeditiously. A usual remedy for the economic constipation originating in overcrowding is the building of expensive access roads to the clogged areas. This removes valuable land from use and brings more motor cars and people into densely

used regions thereby aggravating the situation.

Examples of pernicious processes in the American system that originate in part or whole with land speculation may be multiplied almost indefinitely. These three examples are sufficient to show how awareness of the power of land to shape economic events is buried under a complicated structure of unwisely improvised economic nostrums. These improvisations are initiated by economic tacticians who occasionally lament about land speculation but who

choose to ignore the remedy of land value taxation in favor of inept interventions into the workings of the free market which may have brought America to the brink of economic debacle. Putting an end to inept economic intervention requires the destruction of the theoretical premises that rationalize these interventions. Perhaps the economic principles can be used to confute forever the specious premises accepted by the current economics establishment and thereby help return America to freedom's way of doing things.

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