



Notes: Invisible Land Income

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$$Y = CF - \cancel{K} - \Delta K$$

(K is part of Y)

$$Y_L = CF + \Delta P.$$

Invisible land income

Land income is much greater than the current cash flow, for the following reasons.

a. Appreciation is current income.

The income of depreciable capital is cash flow less depreciation. The income of appreciable land is cash flow plus appreciation. That is quite a difference.

With land held for appreciation there is no cash flow to disclose the high values and the steady accrual of gains in wealth. This quality of "silent accrual" is found in land surrounding cities, or growing retail centres, as well as in land considered potentially mineral-bearing. Other land is valued for expected higher future cash flows in its present use, or some higher use to come. Some land is valued for future "plottage" increments from assembly, or "negative plottage" from subdividing.

Professors Haig and Simons have given their names to the standard definition of income which includes unrealized appreciation of durable assets like land and corporate shares as current income. Stock brokers and real estate brokers habitually do the same thing for the trade. They may appear to question it when lobbying for tax breaks, at which time some say it is "double taxation" to tax both current cash flow and appreciation. When selling stock or real estate, however, unrealized appreciation is unequivocally touted as current income, and correctly so.

Some even deny that appreciation should be taxable income at all. Yet, no one denies that depreciation should be a deduction from current taxable income. This asymmetry and glaring contradiction generally passes unremarked. It could only survive if never challenged in the profession, which apparently it is not. "Land," with its tendency to appreciate, is not in the abridged lexicon.

b. Landowning yields large non-cash service flows.

Land income also includes service flows other than cash. Because of its versatility, and fundamental character, land often yields service flows in kind that never pass through the market place. For example, land used for homes and owner-recreation yields no cash flow at all, but has high value.

It is common for economists to write of the "imputed income of durable consumer capital", especially owner-occupied houses, and occasionally to persuade some political candidate to advocate including their imputed income in the income tax base, or at least to end the deduction of interest and property taxes paid on house values. Those making such proposals, unfortunately, fail to exercise reasonable care in distinguishing houses from land. Much

or most of the non-cash service flow received from consumer capital proper is not income at all, but two other things: a return from operation, maintenance, and upkeep; and a return of capital. Depreciation and expenses offset more than half the service flow from most owner-occupied houses, especially middle-aged buildings on the steep slope of the depreciation curve. The service flow from land, on the other hand, is pure income.

The measure of this imputed land income is not subjective nor fuzzy. It is interest on the market price of the land, a measure of its opportunity cost. Alternatively, it is the periodic ground rent on comparable lands. This could easily be included in the base of the present income tax, converting it in one stroke into a national land tax.

Forest land yields cash only once in decades. Some land is valued mainly for ancillary benefits like the preferential access it gives to adjoining lands for grazing, recreation, water rights, waste disposal, information gleaned from mining, etc. Other land is held for its contingency value, foreexample for possible future expansion. Some is held preemptively to freeze out competition, and some is used (under current US income tax laws) to yield non-cash tax shelter benefits.

Part of farmland value is an amenity, especially of course in pleasant places. The value of lands held for the owner's recreational pleasure is noncash. Part of the value of media ownership - especially through control of the radio spectrum - is power and prestige. Business sites in Newport Beach give access to water recreation; in Cambridge, Mass., to intellectual stimulus and hobnobbing. The list of non-cash service flows from land is much longer. The 15th Earl of Derby put it like this in 1881:

The objects which men aim at when they become possessed of land in the British Isles may, I think, be enumerated as follows: (1) political influence; (2) social importance, founded on territorial possession, the most visible and unmistakable form of wealth; (3) power exercised over tenantry; the pleasure of managing, directing and improving the estate itself, (4) residential enjoyment, including what is called sport; (5) the money return - the rent.

In Ireland, during rent wars, boycotts, etc., landlords "had long decided that Ireland would yield few of the spiritual delights of land ownership." This resulted in lower prices for Irish than English land."

c. As noted elsewhere land income is a prior claim, not a "residual."

d. Land income is a large share of national income.

Throughout history the prime business of national governments has been to gain and keep land, mainly by force and

threats. The prime business of politics has been to apportion lands among the winners. A third business is then to subsidize them in various ways. It is most inconsistent, then, when the winners of all three battles counter tax proposals by pleading poverty, saying their land has little value. How little value it has may be gauged by playing "what if?" What if the English, with all their capital, were removed to Antarctica? What would be their national income?

Less drastically, we might just ask what the owners would sell England for? A common way to trivialize land values is to play "what if" the owners tried to sell it all at once. What if, instead, we went to buy it all? Much of it has been off the market for centuries, with reservation prices effectively infinite.