An Evaluation of Land Use Under Present Institutions
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Outline of Project:
"AN EVALuation OF LAND USE UNDER PRESENT INSTITUTIONS"

1. The problematic situation.

a. ~~There is evidence that land is not "fully used".~~ ~~Some say all resources perfectly allocated.~~ Sometimes completely idle but that's not the story. Present some.

b. ~~The problem: why is land not always "fully used"~~ Why do some hang onto potential resources & not use them? Also why do we care? Is it not just owner's business? Not if he is keeping it from someone else & reducing production & lowering wages & int. Because we have to justify system vs. socialism; & we all benefit from ∆ production, not just owner; & if system doesn't put land in hands of him who will get most, we all have less opp.

2. Formulation of the problem.

a. What is "full use"? ~~I shall offer a definition which will prove useful for the problem at hand.~~ The def. must be a norm, otherwise the inquiry would be a waste of effort. Any brief statement of this def, which will involve some and as a norm, involved ratiocination, would be inadequate, so I shall explain my meaning in detail before summing up. ~~It is not necessarily the norm nor the most useful definition for all purposes.~~

To end of section.

a. Full use I define as "The use yielding the highest net residual revenue to society, all things considered, and taking ~~the array of~~ external conditions as given." These brief words need considerable elaboration.

i. "Use" means all aspects of use, including what crop is grown, what capital used, what depletion allowed, what form of ownership observed, what organization used, etc ad inf. Trivial? Certainly don't elaborate.

ii. By "highest" revenue I mean that which is worth most at the present time, when future yields are discounted at the internal interest rate of the individual users. This is not necessarily the use whose yields would have the highest present value if all series of yields were discounted at the same interest rate. This is a very crucial assumption, one which accepts as a "given" a situation which many think is the greatest cause of distortion in land use, and declares it consistent with "full" use. This is done with the purpose of consistently pursuing the policy of accepting "external conditions" as given, and discussing only those distortions of use which are unique to land economics.

Remember, internal mrs will be equalized at margins? Because low mr man can buy same sec. as other. (but there are sources of yields that are non-exhaustible, too) ? ?

& it is the process of bringing equality that wants study.

Consider case in which ~~stock~~ bond has yield & also annual Δ, the yield being const., only cause of time being reduction of mrs of others. Then is Δ indep. of int. series of yields evaluated today? Either it is, or we must picture the current evaluator - which is possible & easy. We either figure as foreseeing ~~strangers~~ reductions in his own mr. ~~at the margin~~. a yield + an Δ at one internal mr; or yield alone at another, lower mr - series of mrs, really. We can choose whichever convention we please. If we choose the convention separating two, we can analyze effect of Δs separately; so let's do. Besides, one of the causes of Δs.

I suppose the dual picture is more the way people think, & is almost never in practice because we cannot conceive of infinite ~~yr~~ series of yields. We conceive of yields over the finite planning period & of capital value remaining at that time. With exhaustible resources this is the length of their useful life, during which cap. value sinks to 0. With sites, it is duration of present use or ownership — & is just as indefinite — during which cap. value probly rises. Owner gets yields during ownership plus cap. Δ. He does not get cap Δ + yields after period, that would be double counting.

The finite period chosen will be whatever is most advantageous to buyer in present — he will plan of course for this, & have a max. buying price accordingly

It is a question in part of whether the ~~wastes~~ costs in the tenant-landlord relationship are greater or less than the costs of the debtor-creditor relationship that determines whether rich buy land & rent it (or sell it slowly) to poor, or lend them the money to buy it. If they lend to them, they bring equality of mrs. If not, they rent to them, this is a substitute for equalizing, but it does not equalize. It is a form which the pressure of unequal rates takes when it does not move toward equalizing mrs. But it is not another means of equalizing.

fallacious underwriting to point #1, prob. site.

iii. "Net residual" revenue means of course what remains after all costs are deducted. Many have implied that "full use" of land required taking the highest gross, not net, revenue, thus providing more employment for labor and capital. If one accepts the thesis that the social cost of employing labor and capital under certain conditions is zero, or anything less than the money cost, then this assertion is correct. I do not accept it myself, hence consider net residual revenue maximization as fullest use.

iv. "to society" means that those revenues and costs of land use which are not collected nor paid by the imdividual user should be counted in. Since individuals tend to ignore these costs and revenues, unless impelled by law, custom or some institutional ingenuity, it follows immediately that land rarely reaches its full use, if for this reason alone. I am not going to consider this at length in this paper. Will look for lessobvious & more theoretically alarming distortions.

v. "all things considered" is simply a caution to consider the entire situation before jumping to conclusions about full use. Typical cases follow, ~~where underuse might be erroneously declared.~~

A. Land may be idle because present use involves a sacrifice of future revenues of greater present value. For example, if land is irrigated before good drainage is supplied the alkalization may reduce future revenues by more than the present revenues, (so the fullest use is to hold the land dry until drainage is provided.) Or if it is a stock resource, a problem to be temporarily overlooked.

B. Land may be inadequately supplied with capital improvements in the present because the owner anticipates lower costs of labor and materials in the future. Or change of use, so better to leave it idle. But this mainly urban. & besides, it is usually not best socially, since individually not improving delays ... but in new settlements

C. The owner of idle land may be waiting for the experience of his neighbors on similar soils to tell him what improvements to make. This is a tenuous case, however, for by holding his land idle he delays the general development of an area. Here is a case where there are definite social gains from use that are not collected by the individual user, and are therefore ignored. On the other hand, the economies from gaining from the experimentation of the pioneers are real and substantial. Each individual case must be judged on its merits.

D. What seems like under use may be providing some vital complementary service for a larger unit of which the individual land unit is but a part. The vacant land under the central airshaft of a skyscraper is a case in point. The central valley pastures of the Kern County Land Co. may be another.

E. The standards of capital intensity set by one with a very low internal interest rate must not be taken as the norm for everyone. That degree of capital intensity which conforms to the internal interest rate of the individual owner or other user conforms to full use. Similarly, the capital improvements made by "gentlemen farmers", partly for their own pleasure and without regard to cost, must not be taken as norms either.

F. Implicit revenues must be considered, i.e. those "psychic" revenues which owners get from certain practises. If we are to question the propriety of an old farmer's failing to use the latest techniques to increase his

money yields, we must question the distribution of purchasing power that allows him to use the land so profligately. But if we take as given the distribution of purchasing power that exists, as I am in this study, we must concede this to be a definite social revenue.

G. Seemingly underused land may be held for expansion of a productive unit, and this may sometimes be the best use of the land.

H. Brand new cap. improvements cannot be considered always essential to holder, as Notre implied. Most let cap. endure a few yrs.

vi. "taking the array of external conditions as given" means the inquiry is limited to land economics, insofar as possible. The array of prices and costs as they impinge on the individual landowner is not questioned, even tho tariffs, quotas, railroad rates, taxes, the distribution of purchasing power, etc. ad inf., are socially undesirable.

2) The individual's labor is evaluated at "his own price." This price is revealed by what he will do on margin; & how much he would be willing to pay for other things. Is imp. - e.g. Japs outbid because of it.

2) The individual's capital is evaluated at his own internal interest rate. i.e., if he has no alternatives, & is willing to invest cap. in improvements for low returns, is ok. ~~Imperfections in the capital market are~~ taken as given, just like imperfections in other markets, and the inquiry is limited to the adjustments of land use under present institutions to the given conditions.

D. Running mss

Accepting imperfect capital markets as given implies the following:

A. The cost of capital is to be taken as that cost which the individual user has to pay. Thus one user may get a higher yield from land than another user simply because he can use more capital, and account a smaller price for what he does use. Just like cheaper labor. Not wrong - other fellow has better alternatives

B. In comparing the relative values of two different series of yields from land, the comparison shall be made

This not just an arbitrary device to limit scope of this paper. Has real normative meaning for cost of storing cap. would exceed gain from it, under present set-up.

therefore be held in general by those whose use of it is not as great as full use, even with the very tolerant definition of full use I have made. Those with lower internal interest rates will outbid those with higher ones for land which is generally expected to rise in value, even when the present value of anticipated yields is equal, or even when those with higher internal interest rates give higher present values to anticipated yields than those with lower internal interest rates, up to a certain point.

This distortion is primarily confined to land, and is not so true of capital. Capital, being deteriorable and reproducible, is not generally expected to rise in value.

This distortion is a corollary of another distortion mentioned earlier. Not all the revenues resulting from the acts of land users can be collected by them, it was stated. It was not stated who did collect those revenues. Many of them are collected by neighboring landowners. Land is then, besides being an agent of production, a trap which catches the revenues carelessly spilled over by surrounding land users, so to speak. This trap acquires a market value, ~~and the bidding for it distorts the allocation of land in its productive uses.~~

probly omit

B. Imperfections of the land market.

1. Different opinions of future.

The basis for bidding in the present is anticipations of the future, and of course opinions differ. Land tends to pass into the ownership of those with extreme opinions, which are not necessarily the best opinions. It is particularly noticeable that outsiders and beginners are given to excesses

Since land lasts forever & has no cost of production, room for extreme error no check

and local people and insiders are prone to exploit their ignorance. Newcomers are apt to extrapolate current yields more, and those with experience are apt to attach more weight to the yields they are accustomed to in the past. Hence in booms outsiders are apt to bid more for land, and in depressions experienced people are apt to hang on for a rise. These facts distort land allocation.

Misjudgment of future yields is particularly evident in respect to community projects which are intended to raise the value of adjacent lands. Due to (the lag between need and action and completion, the problems of group and governmental action,) the lack of local experience with such things, the desire to exploit outside land buyers, the group pressure applied to "knockers", etc., objective opinion is ~~lost~~ submerged in the welter of propaganda.

2. Each unit of land is unique in relation to its environs, and in quality.

a. This means there can be no single market of fungible items. Individual bargaining is the rule, with frequent long waits to test the holdout power of the other. One has to test of the entire infinite future, & squabble over that, when only a few yrs use is involved. & the most x for cap. value of other yrs, when that is freely comes, too.

b. Relations with neighbors are often uneconomically conducted.

i. In buying and selling land to round out existing farms, the neighbor is in a monopsonistic position, the buyer in a monopolistic. A protracted period of bargaining may result, during which time the land is underused. (taxation prevents, as is less to bargain over, & higher cost of waiting)

ii. The physical difficulty in getting all units the right size and shape is immense, since no one can be changed without changing its neighbor. After units have been improved as integral units the difficulties are magnif-

ied.

iii. Where best use requires cooperative projects involving two or more neighbors, the difficulties of organization and sharing costs and benefits become immense, and may keep land from full use. But then it may be said the 'costs' of the better use were too high — & we are reduced to saying we would like to lower them.

iv. A desire to reduce the output of local competitors may cause local landowners to put various obstacles in the way of using land fully. (Where these take the form of quotas I have accepted them as "given". But) where they take the form of buying up land and holding it from its best use to keep down the production of a certain crop, they are a distortion of land use. Likewise, where landowners refrain from using labor intensive crops to avoid bidding up labor's local price, use is distorted. (Or shift to water tolls to reduce use of water?)

3. Inertia and Ignorance

a. Ignorance of best use.

b. Apathy towards changing use on the part of owners who are old, or rich, and to whom the land's revenue means little.

c. Aversion to selling at a nominal money loss.

4. Particular institutions.

a. The income tax discriminates in favor of implicit incomes, hence a tendency to buy land for residences, hunting, etc. Desire to spend $ for pleasure, get a deduction as tho for business.

b. Tax exemptions for particular institu ions or people. Failure to foreclose on delinquents. Hazardous tax titles.

c. Riparian rights doctrines, right by use doctrines, and so on, which give individuals an incentive to appear to use more land than they actually use, to acquire title to it.

d. Our monetary system, which permits gigantic fluctuations of money prices, thus confusing opinions on future yields.

e. Costs of transfer, and proving title.

f. Taxes on improvements on land.

4. Processing of evidence.

Evidence in support of the hypotheses is abundant, and I have gathered much. It only remains to record it here.

5. Terminal Tests.

I have examined situations in which the critical conditions causing distorted allocation of land were charged, and the results have borne out the hypotheses.

a. Where land is taxed, it loses some of its capital value, and the distortions due to imperfect capital markets are correspondingly reduced.

b. Where capital markets are subsidized, distortions are likewise reduced.

c. Where land use is planned, many of the problems arising from land's unique relation to its environs are solved.

d. Terminal tests on some of the smaller points will probably not be made. To that extent the project will be incomplete.

I have not led up to action recommend., save by implication.

My outline follows Salter's closely, as I interpret Salter. His categories seem quite vague to me, and this leaves the way open for fitting them to the inquiry, rather than the opposite, which is probably a good thing. Salter himself warns against "the tendency to regard its parts as closed compartments".

I believe that the seeming identity of his "problem formulation" and his "hypothesis" has been avoided in my paper by making the problem formulation an extended definition of the problem. This serves the function he has specified for problem formulation: "To eliminate the more obviously irrelevant elements in the total situation." It may seem to be more suited for inclusion under problematic situation,
but Salter himself said: "...there is gradation between its parts, not all-or-none partitions."