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Comment on Pendleton's
"Land Use Regulation and
the Rural Land Market"

by

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I wish to record a generally favorable response to Professor Pendleton's interesting discussion, and this in spite of his stating that rural land economists are "much more capable people" than urban ones. As one who has fallen into urban pursuits, I felt duly humbled. But the roster of contributors to urban land economics includes capable people such as E. M. Hoover, R. M. Haig, Herbert Dorau, Paul Wendt, Sherman Maisel, Richard Ratcliff, Leo Grebler, Martin Bailey, William Alonso, Ralph Turvey, E. H. Chamberlin, Harold Hotelling, E. H. Spengler, Walter Isard, William Wheaton, Henry Schechter, Otto Davis, William Grigsby, Homer Hoyt, and goodness knows how many more. His statement might be more correct in respect to the quantity than the quality of effort in the two fields, thanks to the workings of the Morrill Act, and when we consider how greatly urban real estate outvalues rural, the unbalance is glaring indeed.

I applaud Pendleton's beginning with a perfect market as a norm. A perfect market may be an imperfect base of reference, but it is a wonderful improvement over some of the alternatives I have witnessed. I might cite the Southeastern Wisconsin Regional Planning Commission, which is busy settling the destinies of our region for the next 200 years without benefit of any economist. It is developing as a norm what might be characterized as a "technocratic" settlement pattern. Location is to be determined by site qualities, which the engineers understand, with minimal reference to location, whose importance rings strangely in their ears. They project land "requirements," a coefficient which is not affected by price. They lay their plans giving first priority to uses of the lowest density, leaving the leftovers for commerce and other profane uses.

These are failings that economists have learned to associate with technocrats who see only pieces of the full spectrum of location factors and reject with some vigor other values which they do not understand. The market with all its faults is automatically broad-minded: it balances large numbers of locational factors and forces on our unwilling attention points which our specialized and pre-conditioned minds overlook.

I also applaud Pendleton's use of the net increment to land rent as the basic measure of net benefits from public works. Most welfare economists (who have Laputan tendencies and rarely touch land) and many benefit-cost analysts have been too slow and obtuse about seeing this elemental truth.

Third, I applaud the author's clear distinction between rent increases which reflect social gains and others which reflect merely redistribution.

On the negative side, Professor Pendleton is preaching to the converted in the present company, and much of his paper sounds truistic. That is the more important, because I believe he understates how much we need to modify the basic norm of the market, and the paper might have been more interesting if it had led us further into such new fields. The idea that the market should be held innocent until proven guilty is carrying things too far. The market is already proven guilty by the mess and sprawl surrounding our cities, and the rotting of their cores. Second, when speaking of land values, these are a public product in their very inception, the children of public intervention in the form of public works, street and highway layout, etc., ad infinitum. Land values are an area of joint public and private determination and can never be treated wholly as one or the other.

Let me suggest a few new research fields which the paper might have developed:

A. Distributive equity. This problem was passed over too lightly. Flood control is the classic pork-barrel operation, the Ur of the Chaldees of the great American sport of public works for private gain.

I have never been able to accept the sharp division of distribution from production theory that characterizes much of modern welfare economics. I cannot accept the idea that social welfare is enhanced when someone gets something for nothing. It is a sterile and Philistine philosophy that only asks what we get and not how we get it.

That is a personal judgment you may say, but it is more than that. The idea that distribution and production belong in separate compartments is inconsistent with the entire market mechanism idea which we have postulated here. The market mechanism requires a close correspondence between contributions to production and the division of the product. Income is the incentive to produce. If certain favored landowners get something for nothing, it then follows inexorably that other taxpayers are getting nothing for something. That in turn is almost certain to distort resource allocation.

B. I wish that something had been said about the traversal value of flood plains, for transportation which is of benefit to lands outside the flood plain and would show up in their values. For example, Milwaukee is bisected by the Menomonee Valley, and one of the great benefits of flood control there is facilitating traversal of the plan to tie the city together, increasing the scale of the market, reducing the cost of linkages among economic units, etc. More generally, flood plains frequently have excellent central locations, the traversal of which helps tie the city together.

C. How about secondary benefits, or [in that mouthful of the welfare economist] "external pecuniary economies." The benefits of flood plain reclamation are reflected in the value of lands near-by, of which they may constitute part of the trade territory. I recall the furor with which Kaysinger Dam on the Osage River was greeted by the fathers of Clinton, Missouri. Kaysinger was to have flooded out part of their trade territory, and they were acutely aware of the potential loss of property values. Conversely, if Kaysinger was to protect any downstream^{ry} plains from flooding (a point which was,

incidentally, by no means certain!) the benefits would be felt not just on lands protected physically, but also on neighboring lands linked to the flood plain by bonds of trade.

D. Fiscal benefits. The increase of land values is only a partial measure of the benefits from land reclamation, because it is capitalized from that part of the total benefits which is to be privately received. In our world of high tax rates, as much as half of the equity may belong to the Treasury and be expressed in the form of higher tax revenues. That is indeed a primary force behind urban renewal at the present time. I call to your attention a recent article by Otto Davis in Land Economics. Professor Davis writes with a good Chicago school bias, but this does not prevent his pointing out that the rational municipality should, up to some optimal point, subsidize land clearance and redevelopment in order to increase its tax income. Whitefish Bay, Wisconsin and two or three of its neighbors are already doing exactly this. Shades of Kameralism!

To do a real job on the question, of course, we should not count alone the increased taxes but should deduct the increase of public costs, if any, necessitated by a project we are evaluating; we should deduct the reduction of taxes elsewhere, if any, and credit our project with a decline of public costs elsewhere, etc., to eventuate with a grand net fiscal effect. How far we carry this depends on (a) how perfect a job we want to take the time to do, and (b) how high a unit of government we are working with.

E. Maximization of private and fiscal benefits through intelligent fiscal policy. The fiscal benefits just discussed may not be taken for granted, either as to quantity or timing. A neglected area of study, one in which research would pay big dividends, is the shaping of tax policy with a view to accelerating and maximizing benefits both public and private. Our usual procedure has been to invest large public monies in works projects that enhance the productive capabilities of benefited lands, but

then to defer the resultant tax benefits from private lands by making the taxes contingent on the improvement and use of these lands. Under the general property tax, for example, we tax primarily new buildings, and our tax increment is deferred until buildings are built. The buildings in turn tend to be deferred to defer the taxes.

Professor Pendleton suggests that it is the potential economic rent of benefited lands that is a measure of social benefits. With that I must disagree because this potential is usually not realized until after a delay of many years, and to paraphrase the Supreme Court, benefits deferred are benefits denied.

The deferral of public benefits might seem to be counter-balanced by an equal and opposite increase of private benefits, but in this case it doesn't work that way. The privately collected rent from which land values are capitalized is also deferred, and also depressed because the landowner cannot earn income without increasing tax liabilities. The upshot is that the sum of private and fiscal benefits is below capacity, and behind schedule.

An alternative tax procedure, of which I am a notorious partisan, is to levy real estate taxes on the basis of the enhanced income-yielding capability of the land. Then the fiscal benefit would begin as soon as the public works are completed. Private benefits would flow sooner also because of the pressure to improve private land immediately.

If we really are interested in getting something for nothing, here, I think, is a point at which society can exert effective action to do just that. It is an avoidance of waste, the secret of which is to achieve a close synchronization of public works with private investments. There are additional benefits of maximizing the spillover benefits that one landowner's improvements render to his neighbors.

A further benefit, which has political overtones, is that this method of taxation serves nicely to dehydrate the apples of temptation which now are so greatly sought after by regional

interests in our city councils, county boards, state legislatures and congress. The introduction of a sobering element of rationality into the log-rolling process would be a welcome change from modern practice.

F. Rural zoning vs. urban zoning. I think Professor Pendleton has overstated his analogy between these two kinds of zoning. They have in common a purpose of segregating land uses but the historical purpose of rural zoning, at least in the mid-western cutover states, was to reduce public costs by increasing the density of population settled on the land. Shortening the public roads that served as private driveways for nesters and squatters way back in the north woods was a primary concern. Urban zoning on the other hand, at least as it has evolved in the present decade, is primarily geared to reducing the density of population on the land.

In conclusion, I would suggest some attention to the larger question raised by Professor Pendleton's subject, why do people insist on settling on flood plains anyway? And even more generally, why do people insist on occupying submarginal lands, lands which require large public investments to fit them for permanent habitation when the simple pressure of population on resources has not as yet made that necessary? There are large areas of flood-free land in good locations that are not as yet adequately developed. What is wrong with the market mechanism or the political mechanism that these lands of higher natural capabilities are not occupied first?

In terms of policy I suggest that we are fighting a losing battle if we emphasize the negative, that is, fencing people off the flood plains. We can fight a winning battle by positively encouraging the intensive development and improvement of lands which nature has already better suited for human habitation.