

GREAT EXPECTATIONS (from page 7)

30-year flow of rents into the equivalent "point" value at time 0. (Point values are aka "lump-sum" values.)

The left side of (1) is often called, in the stock market, "the P/e ratio", but the name deceives, even as it clarifies: it includes rent among "earnings", disguising the unearned nature of rent. In London real estate it is "the year's purchase"; in Turgot's French it was le denier. I will call it just the Price/rent ratio.

Note that the bottom of the DCFF is "i" and is, obviously, an increasing function of "i". This makes the DCFF a DEcreasing function of "i". The decrease is tempered by the top of the DCFF, which is a gently Increasing function of "i". For the net result see Table 1, Column 3.

As to Part b, let us begin by valuing it at its beginning point, after year 30. At this point it still has a future life of ∞ , even though "a" has used the first 30 years. A remarkable quality of ∞ is that you can use 30 years of it, or any finite number of years, without deleting the remainder at all. The DCF of Part "b" as of year 30 is therefore simply b/i . To find the value at time 0, simply apply the discount factor for a point value, and the net result is:

$$DCF/b = 1/[i \times (1+i)^{30}] \quad (2)$$

Note well here that the bottom of the ratio (the denominator if you prefer) is a DOUBLY increasing function of "i". The first "i" covers all years from 31 to ∞ . The second "i" covers all years from 1 to 31. Multiply the two elements together and the DCF that derives from "b" is a sharply DEcreasing function of "i". To compete in the market for buying title to land, therefore, one must have access to long term funds at low interest rates. Call this "Financial Power", or "Waiting Power". This is what makes expectations "great". It is not so much that $b > a$ – it might be the same, or lesser. It is rather that the DCF of the "b" values looms so much higher to people with Waiting Power than to those without it.

Table 1 gives a numerical example. It compares the present value, as seen by two different individuals, of the two components of land's present value at time 0. One person we'll call "Scrooge", is a retired banker with access to rich long-term funds at an effective interest rate of 3%. The other we'll call "Cratchit" would have to pay 10% for such funds. We'll ignore, to keep it simple, the other terms and incidents of loans, weighty though they are in practice, which favor Scrooge over Cratchit even more. Just remember Schikele's universal truth at the head of this essay: "The basis of allocating loans is not marginal productivity but collateral security". Credit is not like water that seeks its own level; rather, it flows uphill, so credit rationing, once initiated, concentrates Financial Power more and more. This is why landowner-speculators, as a group, act like a cartel.

TABLE 1: Financial Power Rising with Futurity of Cash Col-

Factor	i	DCF F	$(1+i)^{30}$	1/i	$i \times$ $[1+i]^{30}$	$1/[i \times$ $(1+i)^{30}]$
Column #	(2)	(3)	(4)	(5)	(6)	(7)
Scrooge	.03	19.6	2.43	33	0.073	13.7
Cratchit	.10	9.4	17.5	10	1.75	00.57
Scrooge/ Cratchit	.30	2.1	.139	3.3	0.042	23.9

Column 7 shows that Scrooge can bid 23.9 times what Cratchit can bid for the speculative element in land values. This wide disparity is why the land market is so flawed, and speculators, Scrooge-like, choose to withhold so much land from the Cratchits of this world.

Bankers, other lenders, and their apologists say that the Cratchits simply must pay a risk premium to even things out, because of their bad credit ratings and poor records of repaying loans. Professional economists, mostly in the apologist class, generally agree. They are viewing the world from the side of the lender class, who butter their bread. From the side of the Cratchit class, however, each individual is penalized for being poor, and especially and most acutely penalized in the effort to buy land from speculators who preempt more than they need, or will ever need. For, as Tolstoy had the Indian chief observe, each of us before long will need only $6' \times 3'$.

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THE MAKING OF MODERN ECONOMICS

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and 26 works by Clark in the bibliography. Clark's major causes were two: undercutting George, and undercutting Böhm-Bawerk and other Austrians. He succeeded in both efforts, in American academe. It is incongruous for Skousen, a self-proclaimed Austrian, to rely on the authority of Clark, the dogged nemesis of Austrians. My chapter purports to show how the two causes fit together. It is accessible at www.masongaffney.org.

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