

The scarcity of land

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WAS the housing bubble fueled by the belief that the world was running out of land? Almost certainly not; the housing bubble was fueled by speculative mania, and land scarcity was one of many explanations grafted on to the phenomenon by those looking to make or having just made a housing investment. But via [Mark Thoma](http://economistsview.typepad.com/economistsview/2009/06/unlearned-lessons.html) (<http://economistsview.typepad.com/economistsview/2009/06/unlearned-lessons.html>) , we see Robert Shiller [pursuing](http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=297701&version=1&template_id=46&parent_id=26) (http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=297701&version=1&template_id=46&parent_id=26) this argument:

Many people all over the world seem to have thought that since we are running out of land in a rapidly growing world economy, the prices of houses and apartments should increase at huge rates.

That misunderstanding encouraged people to buy homes for their investment value – and thus was a major cause of the real estate bubbles around the world whose collapse fuelled the current economic crisis...

But we do not really have a land shortage. Every major country ... has abundant land in the form of farms and forests, much of which can be converted someday into urban land. ... There are often regulatory barriers to converting farmland into urban land, but these barriers tend to be thwarted in the long run if economic incentives to ... become sufficiently powerful. It becomes increasingly difficult for governments to keep telling their citizens that they can't have an affordable home because of land restrictions. ...

Many people seem to think that the US experience is not generalisable, because the US has so much land relative to its population. ... But, to the extent that the products of land (food, timber, ethanol) are traded on world markets, the price of any particular kind of land should be roughly the same everywhere. ...

As Mr Thoma says, you disagree with Mr Shiller's forecasts at your peril, but I'm not particularly

fond of this explication. It strikes me as fairly un-economic. First point: all land is not created equal. The global economy is lumpy; economic activity concentrates in cities for very good economic reasons. Clumping reduces the time and cost to transmitting goods and people and ideas, for instance. This dynamic is one contributor to differences in home prices. It is more lucrative to be located in Manhattan than it is to be located in Des Moines. To get people to spread out and locate in areas that are less attractive economically, prices in the most desirable places *have* to increase.

How high? It's not clear, but it's worth pointing out that there is a lot of relatively undeveloped land in close proximity to some of the world's largest and richest cities. Prices might have to get very high indeed to push people away from job centres.

The other troublesome part of Mr Shiller's argument is the lack of acknowledgement of the opportunity costs of land development, which are substantial. Land is set aside for many reasons. Over aesthetic and preservationist concerns, for instance; Americans might one day find themselves developing the Grand Canyon, but presumably land prices elsewhere would have to be *very, very* high to make this happen. There are environmental concerns. Shifting acreage from forest to urban land has significant consequences at the local and global level—heat island effects, loss of carbon sinks contributing to warming, water run-off issues leading to contamination of drinking water supplies, and so on. For people to be willing to accept these costs, land prices would have to be very high. And there are direct economic costs. People in cities have to eat. If you take land set aside for farming or ranching and convert it to land for living and working, then you reduce the supply of food and increase its price.

The point is this: if any increase in land cost quickly and directly undermined itself by incentivising the development of virgin land, then humanity would have long ago oozed across the whole of the habitable surface of earth—cities would not exist. Instead we see that land price increases are often sustainable, because all land is not created equal.