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*Editorial.*

### INCREASING LAND VALUES.

Current high prices for primary products and the good seasons of the last two years in New South Wales have had a stimulating effect on rural incomes. When farmers and graziers find that they have comparatively ample cash resources, the natural tendency is to invest this money in the sort of security with which they are most familiar, namely, farm lands. It is, therefore, not surprising that the demand for agricultural land should be increasing.

Since, however, the supply of such land is relatively fixed, an increase in demand has the inevitable tendency to produce an increase in price, whilst in periods of high commodity prices, buyers of land are usually over-optimistic and pay higher prices than are warranted by prospects of future nett land income. This latter tendency is especially dangerous when farmers invest not only their own savings in high priced land, but in addition induce banks and other lending institutions to advance them substantial funds for such purposes.

Largely the problem of farm land values rests in excessive borrowing rather than excessive prices. Loan limits are normally placed on the land price as measured in the market. The capacity to pay interest on debt, however, is limited by productive income. The danger is therefore that the non-productive elements in land value, and excessive prices generally, may lead to the creation of debt which is too high in relation to productive capacity. It is thus necessary that prospective buyers should be warned that the rising land values of recent years are fictitious if their value is measured in terms of production returns at present commodity prices. There have been severe recessions in the land market in past years which have frequently affected landholders severely. Thus the 1920 sharp fall in prices of primary products, in the post 1914-18 war period, produced a fall of approximately 10 per cent. in land values. Between 1929 and 1933, again, some land prices, especially in marginal wheat areas, fell by about one-half, whilst the average fall in value of rural lands between these years has been variously estimated at between 20 per cent. and 33 per cent.

These references to increasing farm land prices are topical in view of the warnings that have lately come from several sources. The Governor of the Commonwealth Bank, for example, in his Annual Report for 1947-48, draws attention to the fact that if export prices fall "the burden of indebtedness on excessive land values may prove disastrous to many rural producers." The Vice Chancellor of the National University, Professor Copland, according to recent press reports, has also warned of the danger of a high level of costs (which apply also to land values) in the face of a distinct possibility that export commodity prices may soon fall. Other commentators point to signs of an approaching adjustment in farm prices and of the necessity for sober estimates to be made of long-term prices.

The Ninth Report of the Commonwealth Rural Reconstruction Commission (1946), commenting upon this question of land values, states that "Of all problems associated with agriculture, none is more elusive and complex than that of the price of the land on which farming is practised . . . . Land is a long-term investment and buyers of agricultural land frequently have short memories . . . . When agricultural prices rise above the long-term average, a wave of optimism affects the market for land; the experience of the past, with its recurring periods of lower prices, is largely forgotten and buyers bid for the land at figures which anticipate a continuance of such prices for produce, forgetting that they are unlikely to be sustained over a long period . . . . It is well recognised that in a system of free enterprise it is impossible to 'save fools from their folly,' but what often can be done is to provide so much authentic information that individuals can have little reasonable excuse for committing errors in land transactions."