

## Less Is Not More

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Observers of real estate markets have said, in all seriousness, that the economic value of Japanese real estate now exceeds the economic value of real estate in the U.S. Such statements typically are made to support notions of a measurably superior Japanese economy.

It is true that individual parcels in Japan sell at higher prices than similar U.S. parcels. It is even plausible that a buyer would have to pay more to buy all the real estate in Japan than to buy all U.S. real estate, were all parcels in both countries to be sold. But the assertion that high real estate prices are a measure of economic success implies that the welfare Japan derives from its real estate exceeds the welfare the U.S. derives from its real estate. If Japan truly were better off than the U.S., by virtue of the higher aggregate market value of its real estate, then we would want what they have. *We would offer to trade the U.S. for Japan.*

Unlike the statements of the market observers discussed above, this suggestion clearly is not intended to be taken seriously. It is offered to illustrate what is intuitively obvious: there is something wrong with the idea that relatively high transaction prices on relatively few parcels of real estate constitute an economic blessing for Japan. What, specifically, is the error in this viewpoint?

Let us simplify the argument by focusing on the value of land rather than that of real estate (which includes improvements). There is not much land in Japan; the U.S. is approximately 25 times as large. Quantities of land in the two countries are represented on the horizontal axis in the graph. (It would be impractical to show the U.S. supply curve 25 times as far from the origin as Japan's, but the degree of difference in the countries' land areas is shown to be considerable.)

Japan also has less population than the U.S., but the population difference is much less pronounced than the land area difference; U.S. population is only about

for land in each country relates to population size, as suggested in the graph (a point on the U.S. demand curve corresponding to a given price is twice as far from the vertical axis as the point corresponding to that price on the Japanese demand curve). The selling price of a unit of land is established by the intersection of demand and supply. The total market value of each country's land is the product of per unit selling price and quantity.

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Market value totals for the two countries are represented in the graph by the lined rectangular areas. The graph shows the area of the "tall" rectangle rising along the vertical axis, representing Japan, to exceed the area of the "flat" rectangle running along the horizontal axis, representing the U.S. Therefore, the aggregate market value of land in Japan is shown to exceed the corresponding U.S. total. However, the welfare that the peo-

not simply the market value total. Welfare also includes the region above each rectangular area but below the corresponding demand curve, which is called consumer surplus.

Consumer surplus is the economic benefit accruing to consumers when the market price of a product is less than the highest price some buyers would have been willing to pay. Those who pay prices lower than they would willingly have paid can apply the savings to other uses. Therefore, we measure welfare, the value of economic activity to consumers, by adding consumer surplus to market value.

There is much consumer surplus (triangle ADE) in the U.S. but very little (triangle ABC) in Japan. The sum of the rectangular market value and triangular consumer surplus areas for the U.S. greatly exceeds the similar total for Japan, even though the market value total for Japan exceeds that for the U.S. Productive energy of the Japanese is diverted from other uses into the payment for land. Such an outcome is certainly not desirable for Japan's economy. Abundant land in the U.S. keeps prices relatively affordable. The result is a significant economic benefit to our country. ■

