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Convergence in Land Values

by

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ABSTRACT

Average land values (in real terms) are predicted to converge both by the static factor price equalization theorem- which posits that the price of non-tradable factors (such as land) will equalize across countries (or regions) if tradable goods (such as agricultural outputs) flow freely across borders – and by the dynamic Solow growth theory – which posits the growth of income (or factor payments) will be faster in areas with initial low income levels than in areas with initial high income levels, so that in the long run the income levels in the two areas will converge. This paper will test the convergence hypothesis by applying growth regressions and spatial econometric techniques on assessed values of provincial lands for the period 1989-2000. Initial results show no evidence of convergence in provincial land values between 1979 and 1996, but there is evidence of convergence between 1979 and 2000. Additional tests will be made whether convergence occurs among group of provinces (convergence clubs), whether divergence persists across groups, and whether spillover effects also account for the spatial and temporal evolution of land values in the Philippines. Implications on land use policies and regional development planning in the country will be drawn from the findings.