

Opinion **Columnists**

Why we must halt the land cycle

Ruinous trust in land speculation has led to expensive houses and inefficient taxes

MARTIN WOLF

Martin Wolf JULY 8, 2010

Those who do not learn from history are condemned to repeat it. This applies not least to the immense financial and economic crisis into which the world has fallen. So what lay behind it? The answer is the credit-fuelled property cycle. The people of the US, UK, Spain and Ireland became feverish speculators in land. Today, the toxic waste poisons the entire world economy.

In 1984, I bought my London house. I estimate that the land on which it sits was worth £100,000 in today's prices. Today, the value is perhaps ten times as great. All of that vast increment is the fruit of no effort of mine. It is the reward of owning a location that the efforts of others made valuable, reinforced by a restrictive planning regime and generous tax treatment – [property taxes](#) are low and gains tax-free.

So I am a land speculator – a mini-aristocrat in a land where private appropriation of the fruits of others' efforts has long been a prime route to wealth. This appropriation of the rise in the value of land is not just unfair: what have I done to deserve this increase in my wealth? It has obviously dire consequences.

First, it makes it necessary for the state to fund itself by taxing effort, ingenuity and foresight. Taxation of labour and capital must lower their supply. Taxation of resources will not have the same result, because supply is given. Such taxes reduce the unearned rewards to owners.

Second, this system creates calamitous political incentives. In a world in which people have borrowed heavily to own a location, they are desperate to enjoy [land price rises](#) and, still more, to prevent price falls. Thus we see a bizarre spectacle: newspapers hail upward moves in the price of a place to live – the most basic of all amenities. The beneficiaries are more than land speculators. They are also enthusiastic supporters of efforts to rig the market. Particularly in the UK, they welcome the creation of artificial scarcity of land, via a ludicrously restrictive regime of planning controls. This is the most important way in which wealth is transferred from the unpropertied young to the propertied old. In his new book, David Willetts, the universities minister, emphasises the unfairness of the distribution of wealth across generations.* The rigged land market is the biggest single cause of this calamity.

Third and most important, the opportunity for speculation in land both fuels – and is fuelled by – the credit cycle, which has, yet again destabilised the economy. In a superb new jeremiad, the journalist Fred Harrison argues that this cycle – with a duration of 18 years – was predictable and, by him at least, predicted.** In essence, he notes, buyers rent property from bankers, in return for a gamble on the upside. A host of agents gains fees from arranging, packaging and distributing the fruits of such highly speculative transactions. In the long upswing (the most recent one lasted 11 years in the UK), they all become rich together, as credit and debt explode upwards. Then, when the collapse comes, recent borrowers, the financial institutions and taxpayers suffer huge losses. This is no more than a giant pyramid selling scheme and one whose dire consequences we have seen again and again. It is ultimately, as Mr Harrison argues, a ruinous way of running our affairs.

I have long been persuaded that resource rents should be socialised, not accrue to individual owners. Yet, as Mr Harrison tellingly remarks, “as a community we socialise our privately earned incomes (wages and salaries), while our social income (from land) is privatised.” Yet, whatever one thinks of the justice of this arrangement, the practical consequences have become calamitous. Do we want to start yet another credit-fuelled property cycle as soon as the debris of the present one is cleared away, some years of misery hence?

If “a crisis is a terrible thing to waste”, here is an urgent case for action. Socialising the full rental value of land would destroy the financial system and the wealth of a large part of the public. That is obviously impossible. But socialising any gain from here on would be far less so. This would eliminate the fever of land speculation. It would also allow a shift in the burden of taxation. Perhaps as important, with the prospects of effortless increases in wealth removed, the UK might re-examine its [planning laws](#). There is panic about the dire consequences of such a liberalisation of restrictions for the countryside. It is worth noting, however, how little is needed: an increase of just three miles in the radius of London would raise the capital’s surface area by 50 per cent. Would this really be the end of England’s green and pleasant land?

I do not expect any government to dare to wean the English from their ruinous trust in land speculation as the route to wealth. But I can hope. It is bad enough that the result has been expensive houses and inefficient taxes. But it is surely far worse that such insane speculative fevers have ended up destabilising the entire global economy. Even if few know it, it is time for a change.

* *The Pinch*, Atlantic Books

** *The Inquest*, Discovered Authors

martin.wolf@ft.com

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