The Free Market

Excerpt from xLand: A New Paradigm for a Thriving World *by Martin Adams*

A truly free market is a healthy component of any balanced society. Markets are free when human beings have equal opportunities to influence the production and trade of desirable goods and services. When people compete to produce goods or services, some are able to attain market control and set market prices due to favorable natural, social, or political conditions: They attain a monopoly. The problem with monopolies, however, is that they enable those who have attained them to extract money from society without providing goods or services of corresponding value.1

When a single entity has complete control over a market, this is known as an *absolute monopoly*. But monopolies can also occur when the market is simply closed to new participants because overall supply can't be increased; these are known as *entry monopolies* because outside entities are unable to participate in the market unless another entity that's *already* participating in the market is willing to transfer its market privileges to the outside entity.

The market for top-level internet domains—those ending in op-level internet domains tra—is an entry monopoly. Because actual domain names can't be replicated (for example, there can't be another progress.org) and because there are only a limited number of sensible letter combinations, the market for top-level internet domain names today is no longer a free market, but rather a *monopolized market*. As many people who want to register internet domains know, many good domain names are already owned by individuals and companies that don't actually put them to productive use, but rather control the names solely in order to resell them at exorbitant prices.

Land ownership is also an entry monopoly: Land is naturally scarce for each location since its supply can't be increased. New land can't be created, so if people wish to become landowners, they have to buy land from someone who already owns it. The perspective that the ownership of land is an entry monopoly may seem strange at first because few of us are taught to view the real-estate market in this light. But let's examine the issue from another perspective: How much does it cost to produce land? Nothing, because land can't be produced, yet people make money from land nonetheless. The real-estate market in land has to be a monopoly since, per our previous definition, monopolies allow participants to extract money from society without providing human-made goods or services of corresponding value.

Real-estate agents, small business owners, and property managers know only too well that *location* gives a particular piece of land, or property, a competitive advantage over another. A rundown house in an expensive neighborhood tends to be more valuable than an expensive house of similar size in a rundown neighborhood. Why? Because the desirable social qualities that exist in a location give land its value, and the property owners themselves can't unilaterally create those qualities; the desirable qualities can only be gained from the wealth, convenience, and benefits that exist in the surrounding environment.

This locational advantage, afforded through the monopolistic nature of the market, allows property owners to profit from land. When people buy a piece of land, their ownership gives them the right to exclude the rest of society from the benefits afforded to them by *their* land, even though those benefits only arise from nature and from the presence of goods and services that have been provided by that same society in the first place. Buyers pay for *exclusive access rights* to land and pay only to the previous landowner instead of to all the people who are now excluded from the location privileges that this one particular piece of land provides; although these excluded people could live elsewhere, similar entry monopolies are in place elsewhere as well. We live in an economic system that allows a single buyer to own a part of the Earth without requiring the owner to reimburse those negatively affected by their exclusion.

Let's imagine that we own an empty plot of land. We could lease it out on the open market to someone else for $6,000 per year, or, alternatively, put it to use ourselves. Its annual market value of $6,000 is the value that other individuals are willing to pay in order to obtain access to the advantages that this particular land in this particular location provides: In other words, this figure gives us the land's *rent*. Let's hire a part-time farmer for $9,000 to operate a small farm on this piece of land, and let's also purchase equipment for $3,000. Let's assume that by the end of the season, the farm will have produced $20,000 worth of produce (table 3-1).

We know that the rental value of the land we own—how much *other* people would pay for the privilege to use the land had they the opportunity to do so—is $6,000 a year. But because we own the land and thus are in a monopoly position, we can pay the cost of $6,000 to ourselves.2 As property owners we gain an extra $6,000 in benefits through our ownership of land. While this resource is *withheld* from the market, the market itself is not compensated for its exclusion, and so the market is artificially restricted. And even though we as landowners may pay a fair market value for our land at the time of purchase, we only pay this purchase price to another individual—the previous property owner—and *not to all the market participants who have been excluded.*

In theory, capitalism is an economic system that allows people to freely trade goods and services in a competitive free market. But since the outright ownership of land creates an entry monopoly, it restricts the operation of the free market. By falsely believing that our markets are free, we've created a misunderstanding of historical proportions. Capitalism has prided itself on the efficiency of the free market system for centuries, but because capitalism allows people to monopolize land and other gifts of nature, we need to realize that we may have never had *true capitalism* in the sense that the markets have never been *truly free*. However, because of this misunderstanding, many of us tend to look upon capitalism—or at least what passes for capitalism—with great disdain. And appropriately so: Our current implementation of capitalism is deeply responsible for the exploitation of nature and the decline of social well-being.

The mistaken belief that markets are free when their freedom is, in fact, inhibited by monopolistic behavior is one of the primary sources of economic suffering in the world today. But our current implementation of capitalism is not the only economic system that produces suffering. Let's consider other economic systems. *Communism*, for example, is a system in which the means of production are owned and controlled by the state; it advocates the elimination of private-wealth production altogether. *Socialism*, meanwhile, is somewhere between capitalism and communism. Both capitalism and socialism allow individuals to be compensated for their goods and services, but they also allow individuals to monopolize land; communism, on the other hand, points to people's ability to make money from wealth production as one of the root causes of economic dysfunction, and thus collectivizes the wealth-production process altogether. All three systems fail to remedy a whole range of public and social issues because they fail to understand the mechanisms by which private parties extract rent from society by monopolizing land and how this extraction harms society.3

Many property owners and financial institutions making money from mortgage-backed securities currently profit from land similarly to the way slave owners profit from the labor of slaves. Without the institution of slavery, slave owners would have to hire workers in a competitive labor market. Similarly, the duty-free ownership of land allows property owners—and financial institutions that finance property ownership—to obtain unearned benefits from land; were this not the case, property owners would have to compete for the value provided by land on a rental or leasing basis. Horace Greeley, journalist and fervent abolitionist at a time when slavery was still legal in many parts of America, observed that "whenever the ownership of the soil is so engrossed by a small part of the community that the far larger part are compelled to pay whatever the few may see fit to exact for the privilege of occupying and cultivating the earth, there is something very much akin to slavery."

Land (rent)	$	(6,000)
Farmer (wages)	$	(9,000)
Machinery (capital)	$	(3,000)
Total expenses	**$**	**(18,000)**
Farm produce	$	20,000
Rent	$	6,000
Revenues	**$**	**26,000**
Gross Profit	**$**	**8,000**

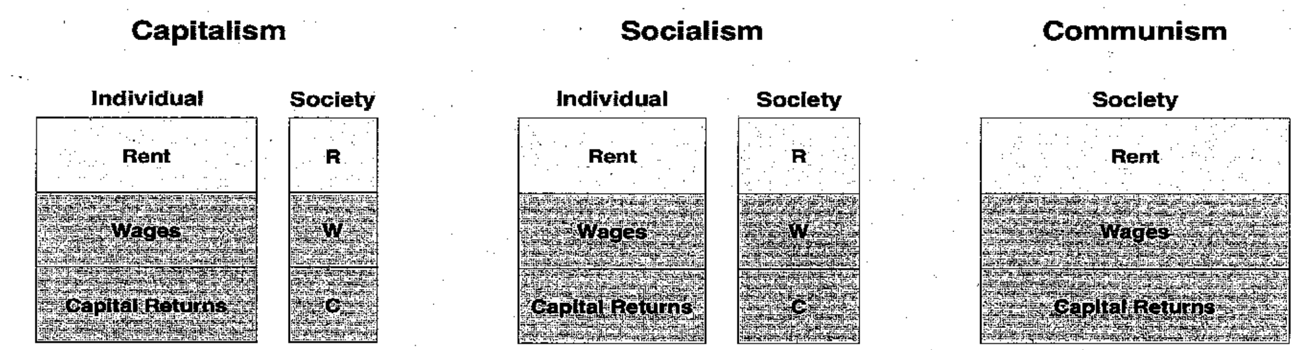
Table 3-1: Farm Profit

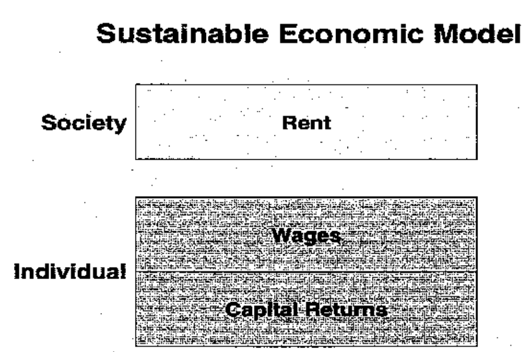
One of the main reasons we have thus far not had much public discussion about the ability of individuals to profit from land is that *most economists treat nature as capital!* They treat land and all other gifts of nature as capital, despite the fact that land is non-producible and has a limited supply for each location, whereas capital is a result of human production. This failure to distinguish land from capital prevents economists from recognizing the monopoly that allows people to extract incomes from society.

Economists Mason Gaffney and Fred Harrison claim in their work *The Corruption of Economics*, first published in 1994, that industrialists toward the end of the nineteenth century may have intentionally created and promoted a new brand of economics to divert public attention from the monopolization of nature.[4] Gaffney and Harrison's work takes a fresh look at how the original science of economics was deliberately and increasingly sidelined in favor of so-called *neoclassical economics*, an economic theory widely in use today that, despite its sophistication, treats nature as capital—as a *resource* to be exploited.[5] This, the authors claim, prevents most professional economists from accurately s nature as capitaly sidelined in favor of so-called new brand ofg solutions."ThOur inability to share the gifts of nature causes much suffering in the world today.

Nature is alive, yet we treat nature as a so-called resource we can own and profit from. For this reason, financial institutions and natural-resource companies are among the most profitable companies in the world. Oil money, for example, fills the coffers of both private corporations and corrupt state officials, while the average person has to struggle to pay for gas. While it's appropriate to compensate companies for their efforts when they convert some of nature's gifts into material goods, why should we allow them to profit from the gifts that nature freely provides to all living beings?

We mistakenly believe that a free market should allow people and corporations to profit from nature, yet we've failed to consider the immense cost to life that occurs whenever people are allowed to reap what they haven't sown at the expense of others. While the privatization of capital can lead to production efficiencies that benefit the entire market, the same can't be said for the privatization of nature: Whenever the income stream from nature is privatized, human beings take for themselves the gifts that would better be freely shared with everyone.





Endnotes

1 Monopolies occur whenever supply either can't or won't be increased despite heightened demand: In other words, whenever there aren't enough goods and services to go around. This creates a scarcity that makes goods and services cost more than they would if all participants had the ability to produce as many goods and services as the market required. This higher cost increases the incomes for monopolists, and this additional revenue exceeds the free market value of the goods and services that were provided.

2 This process is also known as imputed rent. In our example, the property owner has an opportunity cost of $6,000, income the property owner forgoes if she chooses to use the land herself, which is why to her the land still has a cost. But because the property owner claims this land value for herself, she receives benefits worth $6,000, and therefore her bottom line remains $8,000.

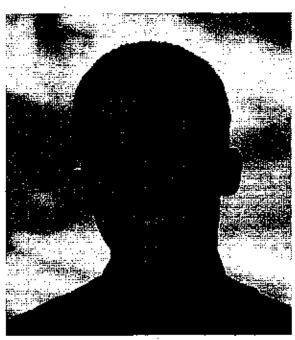
3 An illustration might be helpful in order to facilitate further understanding. Capitalism allows individuals to receive incomes from wages (W), capital returns (C), and rent (R), and then partially taxes this income for society. Socialism taxes this income to a greater extent. Communism seizes most incomes from wages, capital returns, and rent. A sustainable economy, however, won't allow individuals to take the rents created by communities, but does allow them to keep all that they produce.

4 Mason Gaffney and Fred Harrison, The Corruption of Economics (London: Shepheard-Walwyn, 2007), 29. Toward the end of the nineteenth century, the philosopher and economist Henry George was gaining unprecedented public support for his land- reform proposals in the United States, Great Britain, and elsewhere, and was even close to implementing them. Henry George's success and popular support, according to Gaffney, "became a clear and present political danger, and challenge to the landed and intellectual establishments of the world." Gaffney claims that "few people realize to what a degree the founders of Neoclassical economics changed the discipline for the express purpose of deflecting George, discomfiting his followers, and frustrating future students seeking to follow his arguments."

During that time, economists such as John B. Clark and Frank A. Fetter began promoting an economic theory that didn't recognize the difference between land and capital; due to their influence, Clark and Fetter were able to persuade other economists to abandon the critical distinction between land and capital.

Karl Marx, too, failed to differentiate between land and capital, and by doing so unwittingly played into the hands of rent seekers who had little interest in making it known that land—not capital—was chiefly what enabled people to extract unearned gains from society. Even though Marx failed to make that critical distinction, he did recognize that the rent of land needed to be collected for public purposes. He didn't, however, distinguish the rent of land (a public good) from the private use of land, and called for the collectivization of land altogether in the first plank of The Communist Manifesto.

5 Farmland, which tends to be of insignificant value compared to urban land, is sometimes an exception.



About the Author

MARTIN ADAMS is a social innovator, systems thinker, and community organizer. As a child, it pained him to see most people struggling while a few were living in opulence. This inspired in him a lifelong quest to create a fair and sustainable world in collaboration with others. As a young adult, groomed for a career in finance, he walked right past Wall Street and chose instead to dedicate his life to community development. Through his non-profit work, he saw firsthand the extent to which our economic system causes human and ecological strife. Adams has devoted himself to the implementation of a new economic paradigm that allows humanity to thrive in harmony with nature. *Land: A New Paradigm for a Thriving World* is the fruit of his years of research into this economic model and stands as an appeal to change-makers worldwide.