

We're All Caught in the Land Trap

INTERVIEW WITH
MIKE BIRD

Jacobin sat down with the *Economist's* Mike Bird to talk about his new book *The Land Trap*, on why land retains its centrality in our economy even into the digital age — and how land ownership cements existing inequalities.

INTERVIEW BY
DANIEL CHENG

Land appears to be a simple matter — just location and dirt. But below the surface, it's the most dangerous asset in the modern economy, determining the trajectory of modern wealth inequality. As the 2007–8 crisis demonstrated, land and housing are inextricably tied to the financial system. Changes in land values can send the entire global economy into a chaotic spiral, creating millions of layoffs and drastically altering the political landscape.

Mike Bird's new book, *The Land Trap: A New History of the World's Oldest Asset*, reveals land's unique traits and its essential role in political history. In it, he explains how so many countries have fallen into “the land trap,” a situation where both increases and decreases in land values can have devastating economic impacts.

Bird spoke to *Jacobin* about the pernicious entanglement of land and finance, Singapore's mass expropriation of landowners, and the forgotten legacy of the anti-landowner populist, Henry George.

DANIEL CHENG What makes land different from other kinds of assets?

MIKE BIRD You've got three things that make land a very unique kind of asset. The first is that it's very difficult to produce more of it. In the grand scheme of things, the supply is effectively fixed. Most places have no more land than they did a thousand years ago. This hasn't changed, despite the fact that the value's gone up significantly. When investors have huge interest in a given asset, people tend to make more of those assets. When customers want more goods, people supply the goods. But with land, it's extremely difficult to create more supply.

Second, you can't move it. It's fixed in place as well, which means you get these extraordinary disparities between plots of land. The price of land is based on the economic activity around it. You can't move the land in Montana to New York and take advantage of that.

The third is that it's incredibly long-lived, essentially permanent. There is no depreciation either in an accounting sense or in a real sense. It doesn't decay. You can own it and pass it down for generations. The economic value of the land based on what's going on around it might change. But there's nothing that actually decays, which is what makes it extraordinarily useful for either inheriting or lending against as collateral. It's what makes it long-lived in every way, whether that's through the financial system or as a store of wealth.

How Land Fuels Finance

DANIEL CHENG What's the special relationship between land and finance?

MIKE BIRD The relationship comes from that third bucket — the fact that land is extraordinarily long-lived. If you're a lender of any kind, land is an excellent asset to use as security. If you're a borrower, it's a great asset to use as security. I can live in a property on a plot of land and take out enormous volumes of credit against it, so I don't lose the ability to use it. As a lender, I can't run away with the land either. Nobody can rob the land from you. Nobody can steal it. It's there, and as long as you have any sort of property rights regime, you're going to be able to repossess it and sell it if anything goes wrong.

Real estate is just by far the easiest way to expand credit, and we saw through the twentieth century a shift where banks became much more mortgage oriented because far more people have land. If someone needs a bit of money, they take out a loan against their home equity.

Those attributes make land extraordinarily important in finance. It's also what makes things incredibly vulnerable. Rising prices mean you can lend more. Land and credit cycles are paired together, and when land prices go up very rapidly, bank spending tends to go up very rapidly as well. If land prices fall, banks retrench. They stop lending, so land prices keep going down, and banks withdraw further. You saw this in Japan in the 1990s as probably the most extreme example, but it's happened over and over again in all sorts of places. There is a bit of myopia and crazy behavior where people seem to believe toward the top of any land cycle that it can never happen again. You would think that there'd be a learning process, but there isn't.

The Land Trap

DANIEL CHENG So what exactly is the "land trap?"

MIKE BIRD Once you end up in a political economy where land is very important in one way or another, it's very difficult to pivot your way out. In the Western world and a very large portion of Asia as well, this reflects itself in the sense that if land prices go up or down at any speed, it causes quite obvious negative effects. And the higher land prices are, the truer this becomes.

You can't say that people with billions of dollars in land wealth created an interesting business or pioneered anything. So even if you're a free market-minded person, this is a form of wealth inequality that's very unwarranted.

When land prices go down, the deep, intimate, abiding connection with the financial system is extremely dangerous. You might see inequality reduced, in the short term especially. But the loans that have been extended with land, housing, and real estate as their backing will seriously struggle. You have no room to maneuver when land is a big part of your national wealth. I think through writing the book, I came to a broader understanding that the political economy of land is just incredibly inflexible and very difficult to change. In the modern world, a land-centric economy is extremely vulnerable to prices moving in either direction.

DANIEL CHENG If I'm a worker who doesn't own land, why should I be worried about falling land prices? Isn't cheaper housing a good thing?

MIKE BIRD From the perspective of an ordinary working person, you will feel it when it hits the banking system. When land prices fall, so does lending. If credit dries up, employers can't get a loan for anything else and you have layoffs. This is the classic sort of Keynesian cycle — the paradox of thrift. You're going to feel that, regardless of whether you're involved in any of this, and that has happened over and over again.

DANIEL CHENG You mention in the book that land bubbles tend to impact the broader economy much more than other financial bubbles like the dot-com bubble.

MIKE BIRD Absolutely, and it's precisely this relationship. With the dot-com bubble, there was almost no wider macroeconomic impact because there were no bank failures. There's no massive spillover and no balance sheet recessions. The people who got hosed were the people who directly invested in it, which is how it should work. When you get land that's aggressively collateralized in the banking system, any collapse in land prices is pulling on a web of strings and everything attached comes piling in.

The Role of Landlords

DANIEL CHENG What kind of political and economic role do you think landlords play today?

MIKE BIRD Unless you expect to have a 100 percent homeownership rate, then there are always going to be landlords of some form or another. The difficulty comes from the fact that in the places that are most in demand, landlords are overwhelmingly lucky people who got in on the ground level when land prices were lower than they are now. They're the primary beneficiaries of a very large, unmerited windfall. I think the pure scale of the windfall contributes to a very large share of wealth inequality.

When you think about public investment. The special dynamics of land mean that landlords are often the primary beneficiaries of public investment. This is probably easiest to analyze in terms of something like opening a new train station or a new rail line. You can very, very easily map out the fact that when public investment goes in, land prices near the new center of agglomeration or transport rise. That's the sort of poisonous thing: the public investment translates almost entirely into private gain, which is taxed relatively lightly, and someone else has to end up paying for a piece of public investment. That's the real land concentration problem. Landlords end up being big beneficiaries of that, especially if they've owned a property for a long time.

The Forgotten Legacy of Henry George

DANIEL CHENG In *The Land Trap*, you talk about how the reformer Henry George was a massively popular political figure in his day — a kind of rock star who can fill these giant stadiums through an anti-landowner platform. What were the key aspects of George's politics that made him so popular?

MIKE BIRD In the late nineteenth century, he was one of the most famous people in the world, and certainly the most famous international living political figure. He grew up during a rapid era of change — mass manufacturing, heavy industrialization, electrical lighting. But what you also had was a fairly extreme urban poverty in a way that would have been quite unusual in the United States a hundred years earlier. Inequality in America rose quite distinctly through the nineteenth century.

Henry George's argument was that this is all due to land monopolies. The people who own land mopped up the lion's share of any technological benefit because they could just drive up rents and constantly soak any improvement in the world. What he proposed to deal with this was a 100 percent land value tax, which really means 100 percent tax on the income from land. If you're a landlord, you build a property. Somebody judges that the land is 50 percent of the value and the structure is 50 percent of the value so we're going to tax all the rental income you get from it at 50 percent. That would be the land value tax.

This idea exploded. Henry George creates this extremely unwieldy but large, interesting coalition of organized labor, middle-class small business, and socially progressive liberals. This coalition seems, at the time, to be much larger and more ambitious than any of these groups can corral on their own and has an interesting geographical spread among tenant farmers, recent immigrants, and any renter in big city. This was an absolutely enormous political movement.

DANIEL CHENG In the book, you say that Marx and the socialists basically dismiss George's ideas entirely. But today, the price of housing and rent constantly gets brought up with populist politicians. One of Bernie Sanders's favorite lines is that the current minimum wage can't pay for the average rent for a one-bedroom apartment. And now, a rent freeze is a key part of Zohran Mamdani's platform for New York City. Do you see any echoes of Henry George in figures like Bernie and Mamdani?

MIKE BIRD I would put those politicians as much more of the inheritors of the wave of thinkers that came *after* Henry George. The American progressive movement gets a lot more varied in the early twentieth century. The Georgist elements get squeezed out, and movements emerge around public utilities regulation, antitrust, minimum wages, and raising income taxes. There is a New Deal infrastructure that followed all of that, of which Georgist thinking is not really a big part.

If you take the land element out of it, George would be seen as extraordinarily economically right-wing now. He doesn't want any taxes other than on land. They call it the single tax because he doesn't think you have to tax anything else. He's a devout free trader.

That side, where he deliberately tried to appeal to industrialists, to big business, is what differentiates him from contemporary progressives. He said to the capitalists: "You guys are doing something innovative. If you weren't being innovative, you wouldn't survive. And this guy, the landlord, gets his huge cut of it. Why should this be the case?"

He essentially tried to frame really big business capitalism and the downtrodden urban workers as actually all on the same side against the landlord. On the other hand, Bernie, Mamdani, that group of politicians, very much identifies the class of oligarchs and big business as the enemy. But for the most part, those people's wealth is not from land. That's the interesting distinction. I think it's actually very difficult to find anyone who you'd put down as an inheritor of Henry George's sort of ideas today in politics. That electoral coalition proved to be very difficult to carry.

Land and Generational Politics

DANIEL CHENG Millennials and Zoomers often say they won't ever be able to achieve home ownership and we see a massive generational divide in younger voters who support democratic socialists like Bernie, while older voters tend to be more conservative. How do you think land plays into this generational political divide?

MIKE BIRD I think the core of it is a particular romanticized image, some of which is wrong, about the era of peak homeownership when housing was still relatively cheap. We talk about the United States in the 1950s or the 1960s when homeownership is still growing very rapidly. You have tens of thousands of renting households becoming owner-occupiers every month. In terms of both relative status and ability to achieve landmark things in life like homeownership, things are clearly worse today than at other points of American modern history.

I see land and homeownership as a growing issue in politics, but I actually don't think the generational warfare thing, when it comes to land, will eventually be the problem. The inheritances are probably the problem. I think people often miss that the wealth has to go somewhere when boomer homeowners die. Somebody inherits, and that will be even worse. There will be sharp social distinctions based on whether your parents or grandparents bought houses in the right place at the right time, which I think will seem even less merited than they do now.

A lot of the millennials and Zoomers that *appear* to have no asset wealth are just waiting to inherit it. The wealth has to go somewhere, and people aren't going to be buried with their houses. It's going to be handed down, and this is going to be then reflected in a lot of intragenerational wealth. The intragenerational inequality will be worse than the intergenerational inequality, I think.

How Singapore Avoided the Land Trap

DANIEL CHENG You have many examples in the book of places that fell into the land trap like China, Japan, and Hong Kong, but Singapore stands alone as the one country that avoided it through heavy government intervention and even mass expropriation. What were the characteristics of Singaporean policy that stopped them from falling into the land trap?

MIKE BIRD Lee Kuan Yew, the founding father of modern Singapore, had a very strong sense in the middle of the 1960s that he wanted to do a lot of public investment and he didn't want the benefits of public investment to flow into private hands. Instead of passing some Georgist legislation like a property tax, he made the government a "pirate for land." They expropriated land and bought it extraordinarily below market values, which allowed them to acquire huge portions of the countryside. As a result, Singapore goes from 40 percent of land owned by the government to 90 percent over the course of a few decades.

The government then builds an enormous amount of housing, but they also go for an interesting hybrid system which is not social housing. It's not just rented or given by the government; it's still purchased. It's just a narrow, very aggressively managed market where only Singaporean households and permanent residents can own these government apartments. They can only own one apartment and there's a lot of support for lower-income people to buy. As a result, Singapore has a 90 percent home ownership rate.

As a geographically small international financial center, everything else about Singapore would make you think that it *should* have the worst kinds of housing crises that everywhere else does. But in reality, it has this extraordinary half-market, half-public system, which is shockingly inexpensive.

There are gripes with the system. It's not absolutely perfect. But relative to any other country, there are very few systems that exist this way and it's all based on this. It couldn't be done with this expropriation of private landlords, which in the Western world would be considered very close to theft.

CONTRIBUTORS

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