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Monopoly and the Veil of Secrecy

Conspiracy theories are an unattractive way of attacking the enemy. They generally serve as short-cuts across the gaps of ignorance, substitutes for the painstaking process of accumulating and evaluating evidence for submission to the court of public opinion. And they often conceal a certain timidity, for the loose allegations — splattered over a wide area, not hitting the bull's eye of a sharply-defined target — deny the accused the right to challenge concrete charges and then retaliate against the accusers.

We do, here, identify a grand conspiracy, in the belief that the evidence is forthcoming to substantiate the charges. The specific allegations are that land monopolists, since the Industrial Revolution, have systematically prevented the public from undertaking those inventories that would lift the veil of secrecy that shrouds the land market; that their success arises from the monopolistic structure of the land market; that this has been the greatest anti-social conspiracy in modern history; and that monopolists have been motivated by the knowledge that, paradoxically, government interference — through the fiscal system — is a pre-condition for the creation of freedom and competition in the land market.

A key defining characteristic of capitalism is rationality — the need for long range planning, adaptation of means to ends, and for exact calculation. This specifies the need for information. 'Underlying the planning and its execution are the evaluation and registration of all business facts in precise quantitative terms and the co-ordination of these records as a significant whole.'[1] Thus, through the ledgers laboriously compiled by the book-keepers, the individual entrepreneurs could monitor their performance in relation to their attempts to service their consumers. The records exposed their behaviour to themselves and to their competitors, either directly (through access to the balance sheet) or indirectly (through the prices that they charged based on production costs). No such informative facility was available to chronicle the land market.

Compared to the availability of data and institutions which enable us to talk intelligibly about the 'labour market' or the 'capital market', there is no land market. There are no regularly-published indices of land prices equivalent to the Dow-Jones Industrial Average or the *Financial Times* Ordinary Share Index. The paucity of information on land is a scandal, for it entails a serious limitation on the economic system to operate at an optimum level of efficiency. One scholar, Colin Clark, notes that 'land use and land values now constitute one of the most important questions in the world, but the amount of research effort devoted to them is deplorably small'.[2]

The industrial economy was forced to establish itself without the aid of a centralised institution dealing in land comparable to the London Stock Exchange,[3] where it was possible to find out what was being sold, and at what prices. A notable attempt to create a recognisable land market was made in 1857. A group of London auctioneers established the Estate Exchange in an effort to bring buyers and sellers together, facilitating the efficient use of land within the UK on the basis of the fullest possible dissemination of information.[4] The attempt failed, but the fact that it was made (it had been proposed in 1838) says something about the needs of the economy.[5] More recently, the American Real Estate Exchange was established in San Francisco in 1969. By 1981, it had nearly $7.5bn. in properties on its sales list, double the value of the previous year and an indication that even monopolists will use such outlets when the depressed state of the economy begins to affect them, but on a typical morning, only 75 real estate people and eight traders were found to be dealing on the floor of the exchange.[6]

The absence of an integrated economy-wide land market resulted from the very nature of monopoly power. Labour and capital spontaneously create their factor markets in the course of competing within themselves and with each other for the opportunities to earn income from the creation of new wealth. Land remains largely aloof from this competitive process. As a result, such markets as have developed are localised and depend on the intimate knowledge of real estate agents and advertisements in local newspapers. This places buyers at a severe disadvantage, for their imperfect knowledge about what is happening elsewhere in the economy means that they are ill-equipped to make rational judgments on the 'best buys'.

Despite the monopoly power and the severe imperfections of knowledge entailed in land transactions, economic theorists persist in describing the rent of land as arising from the interplay of supply and demand as these concepts are understood in their classical sense. This account is inconsistent with the facts. According to the theory of perfect competition, landowners play a submissive role: they accept the 'left-overs' from economic activity. That is, they exact what remains over and above that part of fresh output which is necessary to attract labour and capital into the productive process. In this sense, economic rent is a surplus; it becomes a correct measure of the differential contributions of specific plots of land arising from varying fertility or the advantages accruing to favourable locations.

But this model cannot function once monopoly power is introduced. For material welfare can be optimised by the entrepreneur only if he can calculate the correct inputs of land, labour and capital on the basis of their true relative costs. Land monopolists inhibit these calculations to a frightening degree. The proof is presented in the following chapters. Meanwhile, we anticipate the evidence and elaborate what we consider to be the ideal solution, to provide readers with a touchstone against which to judge the workings of the most imperfectly understood element of the industrial economy, namely, the land market.

The only way of eliminating monopoly power in the land market is to compel owners to compete with each other on a continuous basis. The only efficient method of accomplishing this is to impose an annual tax on the value of all land that is capable of yielding rental income. Owners would thus be obliged to put their land to good use, within the framework of existing social and economic needs, and legal constraints (e.g., zoning). By doing so, they would acquire an income out of which to pay their tax dues.

Thus, they would not be able to hold valuable land vacant. Sites that were needed for recreation, housing, industry, commerce, and so on, would be released, thereby removing the eye-sores of derelict sites in the middle of our great cities. This *ad valorem* tax, which becomes a cost on the right to possess and use land, effectively neutralizes the power of the monopolist to withhold it from use for no better reason than the wish to cash in — at some future date — on the needs of society for a finite resource. It would, furthermore, remove the temptation to force rents above the realistic levels made possible by the best current uses (hope values, as they are known).

Not only would the tax have a dynamic impact on the land market *per se*, but it would also generate a higher level of activity generally. For the tax ought not to be an additional one, but ought to be a substitute for existing taxes. Indirectly, therefore, the land value tax would smooth out the kinks in the labour and capital markets — imperfections which, as we shall see, were in the main originally generated by land monopoly — thereby extending its benefits throughout the economy.

Before this fiscal reform can be introduced, however, legal titles have to be registered and a survey of values undertaken. The Domesday Book is an example of such an exercise. An up-to-date public register of titles facilitates the transfer of land, for it reduces the legal and administrative costs of checking the legitimacy of titles every time a site changes hands. Lawyers have traditionally opposed the registration of titles in Britain. William Petty, in noting the prosperity of Holland in the 17th century (a prosperity which, we venture to suggest, had something to do with the land tax, the administration of which Adam Smith deprecated), pointed to the importance of that country's register of titles to land. Proposals to introduce registers in England, he said, were stridently opposed by the legal profession.[7] Today, there is public access to title documents in Scotland, but not in England and Wales. In the US, they are scattered throughout the nation, in records offices that make a systematic collation and examination difficult.

Landowners, of course, have been in the vanguard of the opposition to the orderly institutionalisation of land (beyond the minimum system required to guarantee recognition of legal titles). An open register of titles, incorporating details of acreage and value, would make the owners vulnerable to taxation. The absence of hard data made it difficult for the post-medieval bureaucracy to collect land taxes systematically and on a permanent basis. The landed class which controlled Parliament made sure that the land tax (which did not fall exclusively on economic rent) was a fluctuating one. In the main, it was raised during times of war.[8] This was acceptable because it identified landowners with a patriotic cause and at the same time set limits to the extent and duration of the tax.

By contrast, data on the employment of labour is carefully monitored. Statistics are regularly published on the numbers out of work, regional variations, and the trends in job vacancies. Industrialists are regularly surveyed to establish the utilisation levels of their capital equipment and their investment intentions. No such concern is expressed about the use of land.

The waste of valuable land has reached crisis proportions in the Western world, yet governments refuse to establish the extent of the problem. The cavalier way in which the land market is treated by the politicians can be illuminated by the British experience. In 1976 the Labour Government's Secretary of State for the Environment (Peter Shore) declined to establish the amount of *publicly-owned* vacant land on the grounds of disproportionate cost.[9] His successor in Margaret Thatcher's Conservative Government (Michael Heseltine) reversed the cost calculations, and ordered local governments to create registers of publicly-owned vacant land; but he declined to take similar action to register *privately-owned* vacant land.

As a result of the nebulous attitudes of the politicians, the exercise in quantification is left to under-financed scholars[10] and private organisations which feel an intuitive concern. One of these, the Civic Trust, exists to arouse pride in the appearance of towns in Britain. Apart from the 137,000 acres in England and Wales which were officially classified as derelict (1977), the Trust estimated that 250,000 acres were 'dormant'. Their report[11] is an indictment of land use; but while a dramatic case was made out in relation to the visual appearance of neglected sites in the cities, the effect on gross national product could not be calculated because the extent of the problem is impossible to judge without a latter-date Domesday Book survey. And it is now more than 100 years since the last official study into the ownership and value of land has been conducted (*Return of Owners of Land in England and Wales*, 1873).[12]

The economic effects of the veil of secrecy that shrouds the land market have serious political implications. The power wielded by the land monopolist in his various guises is enormous, is growing rapidly and undergoing important transformations. Before the Second World War there were practically no property companies in existence. The land speculator was usually an individual with the cash resources which enabled him to buy shrewdly, await events and then capitalise on this outlay. But by the mid-1970s, about 180 property companies were quoted on the London Stock Exchange. An estimated 10,000 private property companies were active in Britain,[13] about which there is little systematic knowledge. In 1981, Britain's Society of Investment Analysts identified the property sector as the one in which companies were 'secretive' about their dealings. Annual reports were 'long on pictures but short on financial information, or illuminating comment'.[14] This made sense for the land dealers, for by masking their activities behind the veil of secrecy they minimise competition to their financial advantage.

Insurance companies and pension funds have about £30bn. invested in land and buildings, a total that is rapidly increasing each year. In addition, the merchant banks are increasing their stake in the equity of properties developed with their finance in the 1980s. These developments are paralleled throughout the Western world, but their impact cannot be tracked because of the dearth of information on which analytical evaluations have to be based. This was the major finding of research in 1982 by a City of London stockbroker, Christopher Walls, who discovered the alarming extent of our ignorance when he tried to investigate institutional investment in property.

The topic is of crucial importance for our understanding not only of real estate, but also because of the implications for economic regeneration: real estate constitutes to a large extent the credit lending base for UK industry. And in 1982 the institutions invested £2bn. in property, hardly a penny-pinching operation of no concern to people in the rest of the economy.

The study by Walls should have been a routine exercise for an investment advisor, but it rapidly turned into an impossible task. He was confronted with 'misleading and inaccurate information'; the quality of the official and unofficial statistics was abysmal; the yields from prime property were misrepresented by the simple expedient of shifting the definition of what constituted prime property; and there was no standard practice for declaring the value of assets.

Walls touched on the essence of the problem when he noted that the introduction of a free market in property 'would be very welcome from the point of view of economic efficiency but could be disastrous for some property investors'.[15] The point was well understood by Hammerson, one of the major British property companies whose chairman, Sydney Mason, was quoted in 1977 as stating: 'I would rather have our planning restrictions and no competition'. In 1982, Hammerson raised £70m. through the issue of new shares, while successfully concealing the value of its assets. Walls noted with an evident sense of disbelief:

> I do not know in that particular case which is worse — Hammerson's continued refusal to let its shareholders know what the real value is of what they own, or the Stock Exchange's surprisingly relaxed attitude in letting Hammerson make yet another rights issue without again revaluing its portfolio, or the auditors who can carry on signing an audit certificate (presumably with a straight face) which says that the accounts 'give a true and fair view of the state of affairs of the company and the group' when the property portfolio is stated in the balance sheet at cost and the directors' valuation of the portfolio deliberately excludes the entire reversionary potential of the portfolio.[16]

The indifference towards the influence of land monopoly on the industrial economy is only too apparent; this indifference actually masks a positive discrimination in favour of the interests of the landed class.

Governments direct their policies in favour of supporting rental income.[17] An historical example from the rural sector is the use to which the British Parliament put the Corn Laws. These imposed duties on imported wheat. By restricting international trade, domestic prices rose and ensured high land values and rental income. Adam Smith would presumably have approved of this policy, for it culminated in what he deemed to be 'the greatest of all public advantages' — even though the policy directly contradicted his strictures against trade protectionism. After 1815, and towards the end of the Corn Law period in the 1840s, the effect on consumers was serious; average prices were higher, and the extreme prices were occasionally very much higher, than they would have been if people had been free to eat foreign-grown wheat.[18]

The consequences were serious at the levels of both households and the economy. For example, the Commission on Hand-loom Weavers found evidence that the greatest grievance of the weavers was the price of food. As a result of the high proportion of their wages which they were forced to spend on food, 'their power of purchasing clothes was curtailed, and the home demand for manufactures was checked'.[19] A similar restrictive effect on international trade was felt. Potential customers in foreign lands could not buy goods made in Britain because they could not sell their wheat on the British market.

A contemporary example from the USA is the practice of funnelling federal government money to farmers as an inducement to set aside land and reduce the output of food. This keeps food prices high and retards the living standards of consumers (who would otherwise spend less on food, and more on durable goods). The value of land, moreover, is increased above its competitive market level, which is the ultimate effect of official policy.[20]

An identical effect on social welfare is achieved by the decisions made by individual land monopolists. An example from the urban sector neatly illustrates how speculation restricts economic growth.

Economists traditionally assume that the ceiling on output is set by the rate of growth of population, technical progress and the accumulation of capital; land monopoly is ignored as a brake on the economy. At a London meeting of the Underground Railway Group in February 1927, Lord Ashfield complained bitterly that the Edgware extension of the London Electric Railway had continued to develop its traffic 'at a slower rate than was anticipated'. Why? He offered an explanation: land speculation at the Edgware terminal had forced up prices to a level which restricted purchases. 'This is an evil which besets all railway enterprise,' he declared, and he proposed as a remedy 'some means by which the increment in the value of the land could be appropriated to pay some share of the enormous cost attending the construction of Underground Railways in Greater London'.

The following year, Lord Ashfield's complaint was investigated by the Liberal Party's Industrial Inquiry, the committee of which included Lloyd George and John Maynard Keynes. They reported:

> Lord Ashfield's suggestion applies not only to London and not only to railway undertakings. It applies to all major transport undertakings, and public improvements in every part of the country. The increase in land values might in some cases pay the whole cost of the development and in all cases a large part of it.[21]

This was a familiar story: public expenditure on improved transportation — to cut the costs of travel and extend the range of living and working environments — pushed up land values. This, in itself, is not a weakness of the economic system, provided that the price of land was not forced above the economic surplus — the real rental value of land proportionate to the current output of wealth. Under the present arrangements, however, not only are the socially-created increases in land values privately appropriated, but the monopolistic structure of the land market encourages speculators to force up their asking prices to speculative levels, consequently retarding the process of capital formation and economic growth.

The vital conclusions ought to be obvious, but they have been ignored. Where capitalists cut costs and increase efficiency, land monopolists serve their interests best by increasing costs and decreasing overall efficiency.

Where capitalism raises consumer satisfaction by extending the range of goods and services at lower prices, land monopoly restricts the choice and raises prices. This outcome arises inevitably from the simple truth that the pursuit of speculative rents can reward the monopolists only by curtailing general welfare.

But vacant sites are not the only manifestation of a malfunctioning land market. Monopoly can produce economic inefficiency even when owners *use* their land. For monopoly enables landowners to conceal entrepreneurial inefficiency. If, for instance, the performance of a firm is inadequate to pay wages at the ruling rates, interest on capital investment and rent to land, the proprietors can delude themselves by foregoing the economic rent which they ought, as a bookkeeping exercise, to impute to themselves as landowners. What usually happens is that they pay wages and interest, and disregard rental income. While this situation may be tolerable to the owner-occupying entrepreneurs, resources are not being used to their best advantage so far as the economy is concerned. Output, and therefore welfare, is not being maximised.

Assume that the firm is in a shrinking industry. Competing firms (which rent their land) have to close down or switch to producing goods or services which the consumers want, and for which they are willing to pay a price yielding sufficient returns to justify the employment of all the factors of production. The stark reality of this position can be hidden from the firm which owns its land. Their day of judgment is deferred. But as a result, firms which want to expand in new directions cannot use the land, labour and capital which are tied up in the redundant firm or industry: artificial shortages constrain the aggregate growth of the economy. The inefficient allocation of resources would be quickly terminated by the imposition of a land tax on market-imputed rental income. If a firm was unable to pay that tax *and* meet its wages bill and returns to capital, it would have to change to some other, more desirable and remunerative activity.

Without that tax, there is less inducement on the firm to make the quick adjustments which would raise general welfare. Very often the end for the ailing firms comes when a land speculator moves in and undertakes an 'asset stripping' operation. By shrewdly judging that the land is not being put to its best use, they buy the firm cheaply, terminate the loss-making side of the enterprise and cash-in on the capital value of the land.[22]

Such an operation can contribute usefully to the reallocation of resources. Is this not a justification for profits from land dealing? No. Under the present fiscal regime, asset strippers often keep their new acquisitions idle in the certain expectation of future capital gains. And there is no reason why the desired transformations could not be engineered to everyone's advantage *except* the speculator's. A land tax which completely removed the private gains from land monopoly would induce the changed use of resources. This would result in higher wages and yields on capital (from the pursuit of more profitable lines of production), while simultaneously increasing public revenue from that portion of wealth that was socially created—economic rent.[23]

An examination of the history of Western industrial society will reveal that land monopoly—and not the acquisitive motives of the capitalists—is the constant internal (but not intrinsic) disruptive influence on the system. If the evidence does sustain this conclusion, we will begin to see the significance in the astonishing admission by Marx—which his disciples ignore—that capitalists play a worthwhile role in the creation of wealth:

> The capitalist still performs an active function in the development of this surplus-value and surplus-product. But the landowner need only appropriate the growing share in the surplus-product and the surplus-value, without having contributed anything to this growth.[24]

Had Marx remained consistent, and pursued to its logical conclusion the evidence which he had accumulated, he would have been led to affirm the virtues of the free market unconstrained by land monopoly.[25] His work in Britain would have complemented Henry George's in America, and modern history would have been dramatically transformed.

But this did not happen, and so we now have to reappraise the historical evidence from the beginning in order to acquire a new appreciation of why events unfolded as they did, and how different they might have been if the land monopolist had been removed from the outset. With the new insights, we can then re-evaluate the strategy of the modern economy in the hope of establishing that system of natural harmony and justice to which Adam Smith claimed that he aspired.

Notes

1 W. Sombert, 'Capitalism', in *Encyclopaedia of the Social Sciences*, Vol. III, New York: Macmillan, 1930, p. 198.

2 C. Clark, 'Prospects for Future Collaboration—the Universities' Contribution', in *New Horizons on Land and Property Values*, RICS Technical Information Service, March 1966. For a statement on the paucity of data on real estate in Britain, see comments by Sir Jasper Hollom, Deputy Governor of the Bank of England, *Chartered Surveyor*, March 1977, p. 257. More recently, one of Britain's leading fiscal experts, A. R. Prest, a professor of economics at the London School of Economics, roundly condemned 'the disgraceful inadequacy of information about landownership'. A. R. Prest, *The Taxation of Urban Land*, Manchester: Manchester University Press, 1981, p. 187.

3 From 1804 stockbrokers met in a special building, the Stock Exchange, which they erected close to the Bank of England out of funds raised by subscription from the profession.

4 F.M.L. Thompson, 'The Land Market in the Nineteenth Century', in W.E. Minchinton, *Essays in Agrarian History*, Vol. II, Newton Abbot: David & Charles, 1968, pp. 31-32, 40-41.

5 J.H. Clapham, *An Economic History of Modern Britain, 1850-1886*, Vol. II, p. 254. The absence of a nation-wide compendium of property information led the London-based *Estates Times* to launch its quarterly *Deals Digest* in 1981 to provide 'the vital, local information you need for fast, confident decision making in valuations, lettings and other deals'.

6 R. Vicker, 'Real Estate', *The Wall Street Journal*, 17.6.81.

7 W. Petty, *Political Arithmetick*, London, 1690, pp. 27-28.

8 C. Hill, *Reformation to Industrial Revolution*, Harmondsworth: Pelican, 1969, p. 221.

9 *Hansard*, 25.10.76, col. 235.

10 John Burrows surveyed idle city land for his M.Sc degree at the University of London. He reported in *The Times* (26.2.77): 'On average, between three per cent and five per cent of city land is vacant, with one half to two-thirds of the total outside the inner areas. Within the inner areas, the remaining vacant land forms five per cent to 12 per cent of the area. The inner areas of Glasgow and Liverpool and some East End London boroughs have over 10 per cent of their land vacant representing some 300 to 400 hectares in each case'.

11 *Urban Wasteland*, London: Civic Trust, 1977.

12 An examination was undertaken into Britain's agricultural land in the 1970s. See *Report of the Committee of Inquiry into the Acquisition and Occupancy of Agricultural Land* (chairman: Lord Northfield), London: HMSO, Cmnd. 7599, 1979. Its value can be judged from the fact that (a) most properties in Britain are urban, and (b) as the committee noted — p. 109, para 259 — 'Throughout our work we were hampered by the lack of detailed information on many of the topics we studied. It is disturbing that so little is known about the pattern of acquisition, ownership and occupancy of agricultural land...' In sharp contrast, however, selective data was available — where it was needed to facilitate agricultural support policy (p. 113, para. 272).

13 'The future of the valuation surveyor', *Chartered Surveyor*, Dec. 1977, p. 135.

14 *Annual Reports Awards Committee*, 1981 Report, Bromley: The Society of Investment Analysts, Nov. 1981, pp. 40-42.

15 C. Walls, 'Property and the Operation of the Financial Markets', speech on July 1, 1982, to a conference of The Department of Land Economy, Cambridge University, and The Cambridge University Land Society, London: Simon & Coates, July 1982, p. 5.

16 *Ibid.*, p. 4.

17 There is an exception to this rule, but it has been a transitory phenomenon. Landlords who let out accommodation in the housing market were a target of socialist rent control policy. These controls did cause financial hardship. But the majority of the original owners have long since vanished, and they have been replaced by speculators who paid low prices for rent-controlled properties. They speculate on the death of occupants (and in some notorious cases, they have used illegal bully-boy tactics to rid themselves of their tenants); their intention is to cash-in by selling their properties at de-controlled prices. Rent controls have reduced the

rented sector and thus imposed the hardships on tenants, who have not been able to find the accommodation that they need, and on the economy (the shortage of houses to let has been a critical factor in the immobility of labour).

18 J. S. Nicholson, *History of the English Corn Laws*, London: Swan Sonnenschein, 1904, p. 52.

19 W. Cunningham, *The Growth of English Industry and Commerce in Modern Times*, Cambridge: Cambridge University Press, 1903, Part II, p. 841.

20 H. Hoyt, 'The Urban Real Estate Cycle — Performances and Prospects', Urban Land Institute Technical Bulletin No. 38, p. 15.

21 *Britain's Industrial Future*, the Report of the Liberal Industrial Inquiry (1928), 2nd edn., 1977, London: Ernest Benn, p. 295.

22 For a description of such activity in Britain in the 1950s, see G. Bull and A. Vice, *Bid for Power*, 1958. Jim Slater was one of the most successful asset strippers of the 1960s. For an account of one operation, in which his company, Slater Walker, made a profit of over £7m. by buying Forestal and selling its lands in Africa, South America and Britain, see A. Vice, *The Strategy of Takeovers*, Maidenhead: McGraw Hill, 1971, Ch. 1.

23 An interesting example of inadequate valuation and monitoring procedures is provided by the Crown Estate, the Commissioners of which administer 250,000 rural acres and a vast portfolio of urban property and mineral rights to finance the Queen of England's household. In 1982, just 2% of the Estate's properties were valued. In this case, the Commissioners were not seeking to hide anything. Nonetheless, the result — in terms of an inability to monitor commercial performance properly — was the same. They were criticised by a House of Commons committee because 'we do not consider that the Commissioners can account satisfactorily for their stewardship without presenting a balance sheet which shows the capital assets entrusted to their management'. *Crown Estate Abstract Accounts 1980-81*, House of Commons Committee of Public Accounts, London: HMSO, 1982, p. viii, para. ii.

24 K. Marx, *Capital*, London: Lawrence & Wishart, 1962, Vol. III, p. 623.

25 F. Harrison, 'Gronlund and Other Marxists', in R. V. Andelson, editor, *Critics of Henry George*, Rutherford: Fairleigh Dickinson University Press, 1979.