

letter from the editor

A major cause of the widening gap between the richest and poorest in society is land monopoly which enables speculators to take the rent value of land as unearned income. Because land is limited in quantity, the value of land rises with economic growth. This in turn makes buying or renting a home increasingly expensive. The increasing land value absorbs or exceeds the economic growth. It is the root of the current housing crisis. The charity Shelter remarks that prices of homes keep rising because buyers are out-bidding one another. Mortgages and rents now account for 40% of net incomes and in some cities 60%. But this is the case also with commercial land values.

Few modern economists acknowledge this as a contributing cause of the gulf between rich and poor. Land is regarded as commodity like any other. But land is not a commodity. It is what is given by nature and its value is created by the community living and working on it. This 'value' is technically called 'economic rent', distinguished from the value of any property or improvements on land. It is the collective value that belongs to the community that create it. Henry George and other economists have proposed that this rent value of land is the natural source of governmental revenue which could be collected simply through a land value tax. In theory it could replace all other taxes which are presently levied on producing wealth.

If government collected this natural revenue it would show a clear distinction between the source of funding for public services and private income. So long as this natural revenue is appropriated as private income of land owners or speculators, government revenue must be taken out of the wages of employed labour through a variety of taxes. A great part of this has to be redistributed to the employed and unemployed labour through the welfare state. It is highly inefficient yet a social necessity.

As land speculation grows, it has accumulative consequences. For example, a major investment in land over the past decade has been in building private student accommodation. This guarantees the investor a return of around 12% per annum. This is paid by students, and students in turn have to borrow at interest to pay their rents while studying. Hence they finish their degree with a debt of around £44,000. Meanwhile, according to the NUS, 69% of students need to work around 20 hours a week to meet their living costs, with rent being their highest cost, on average £7,374 per annum or 45% of their living costs. Many students are resorting to food banks while a growing number are leaving university without completing their degrees.

There is a certain irony here since the NUS has no understanding of the economic causes of the plight of the students they represent, while students themselves, including those studying economics, politics or law, have no idea either. Instead they blame the government and demand more resources. That in turn suits the speculators in purpose-built student accommodation. The tragedy for students is that education has been turned into a commodity where the profit goes to the student loan companies and the land specula-

tors. In principle all education ought to be met from government revenues, with each generation supporting the next generation.

Present government policy calls for more skilled young people to enter employment to meet the skills shortage. Yet present financing of higher education deters young people from gaining these needed skills. At the same time, while seeking to lower inflation, the rising prices in land and the housing market are seen as growth indicators in the economy. But in fact buying and selling the same land or houses at ever higher prices represents no increase in actual wealth. It is just pyramid buying and selling.

Home buyers themselves are deluded into thinking that buying a home is an investment because the market value increases. But so long as they remain in that home this rise in value is meaningless. That home owner is unwittingly contributing to the inflation of the housing market where nobody actually gains apart from the mortgage lender. Government policy made things worse by encouraging buy-to-let homes, thus removing housing stock from home ownership. But renting a home is more expensive than buying one, while it is those who cannot get a mortgage who are obliged to rent.

The point is now being reached, however, where rents can barely meet the rising costs of letting because of recent mortgage interest rates. Landlords evict their tenants and put their property of the market hoping to limit their losses. Thus homelessness increases and councils struggle to find accommodation for more and more evicted tenants. Eventually this will force house prices down. In fact in the town where I live houses on the market are being advertised at around 6% less than they were a few months before.

Of course land monopoly is not the only monopoly. But it is the mother of all monopolies since it makes others possible, while presently it is the major source of interest on bank loans. Modern banking is deeply implicated in the growing gap between rich and poor through fostering land speculation and driving up mortgages by lending in excess of real earnings. It is the main reason why net wages have not increased for over 20 years, despite the rise in production, while unearned income keeps rising by leaps and bounds. Without understanding the relation of land and economics the gulf between rich and poor will just grow wider. Dr Martínez-Toledano says: 'Less equal societies have less stable economies. High levels of economic inequality can lead to economic and political instability. This is why action needs to be taken before societies become polarised.' (*Journal of Monetary Economics* Vol 133, 2023).



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