

By George he had it

Defending the existing trade system is thus a paramount goal. And the gains it may yet offer, in services and elsewhere, are substantial. But no one could claim that free trade has the capacity to stir the spirit today in the way that the fight against the Corn Laws did, nor that it offers as much scope for progress in an already globalised world as in the mercantilist 19th century. Modern liberals must look for new reforms where dismantling barriers and increasing freedom will once again produce transformative gains for individuals and society.

They are spoilt for choice: there is much to do, from rewriting campaign-finance laws that give lobbyists disproportionate power in politics to removing the implicit subsidies still enjoyed in parts of the financial system. In both those cases, and many more, concentrations of power allow the rigged markets and rent-seeking that liberals abhor. But the cause of free trade was powerful in its simplicity, and in that respect two new targets stand out.

One is the market in urban land; the other, the anti-competitive economics of the modern economy, and particularly of the digital technology businesses that increasingly dominate it. In both cases monopoly power distorts markets in ways that are economically significant, politically potent and ethically unjustifiable.

Start with land. Most 21st-century productivity growth and wealth creation will take place in highly productive cities. The world's 50 largest conurbations house 7% of the population but account for 40% of gross product. The productivity gap between such cities and poorer places has widened by 60%, on average, in the past two decades, according to the *OECD*, and is still growing. Property prices in leading cities have soared. In Paris, Hong Kong, New York and London the median household spends on average 41% of its income on rent, as opposed to 28% 30 years ago.

This is a huge windfall gain for a relatively small number of property owners. It reduces the chances of prosperity for a much larger number who are prevented from moving to high-productivity cities offering better wages, and in doing so holds back the economy. One study suggests America's GDP would be 9% higher if the less restrictive zoning laws of the median American city were to be applied to the priciest, fanciest stones.

The best solution to this is not new: it was well known, and pursued by liberals, in the 19th century. Tax landowners according to the underlying market value of the land that they own. Such a tax would capture for society part of the windfall that accrues to a landowner when his local area thrives. Land taxes capable of replacing all existing property taxes (which are raised on the value of what sits on the land, rather than just the land itself) and then some would greatly sharpen the incentive to develop. Because the amount of land is fixed, a land tax, unlike most other taxes, does not distort supply. At the same time, ease planning restrictions. It is no good raising the incentive to develop if regulation then stands in the way. But development rights have been so far collectivised in many cities as to come close to undermining the very notion of property. The curtailment of development rights enriches even owners of vacant plots; if the windfall gains from soaring property values are heavily taxed, NIMBYism will not be such a profitable strategy. The problem is getting those owners to give up the windfall and submit to a land tax in the first place.