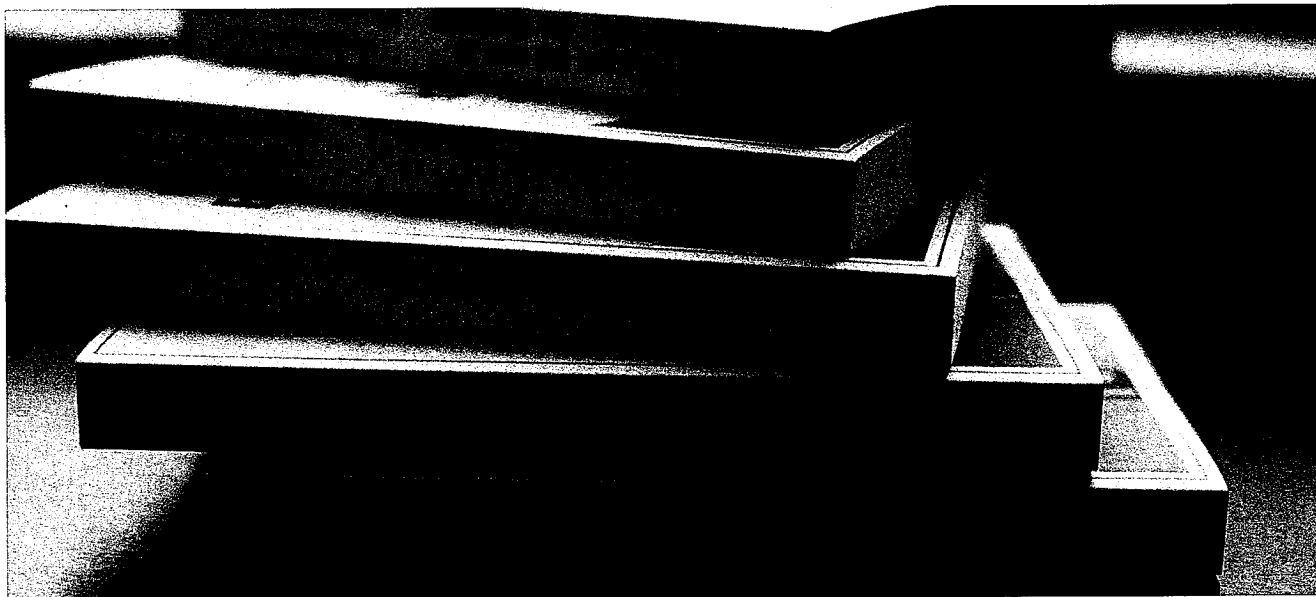


# Rethinking the Economics of Land and Housing

by James Webster



I really enjoyed reading this book. It is about economics, so that is a surprising thing to write. However if you are passionate about understanding economic fundamentals and believe as I do that a great deal of intelligence and honesty is missing from the field, it is very rewarding to come across a book which comes to the rescue of a generally vacuous public discussion.

The back cover:

*'WHY ARE HOUSE PRICES in many advanced economies rising faster than incomes?*

*Why isn't land and location taught or seen as important in modern economics?*

*What is the relationship between the financial system and land?*

Great questions indeed - in fact they really should be an earthquake to the inertia and self-congratulations of exponents of neo-classical economics. This timely and substantial book earnestly and methodically answers all these questions and asks many more.

The book is comprehensive, its contents:

1. Introduction – What is land? What is its value? Landownership and economic rent.

2. Landownership and property – Origins of the theory and forms. Landownership as freedom: secure title and economic growth. Landownership as theft: power and economic rent. Hypothesis: property is liberty, property is theft.

3. The missing factor: land in production and distribution. Classical political economy: land and economic rent. Land tax or separation as a solution to the problem of economic rent. Neoclassical economics and the conflation of land with capital, problems with Neoclassical economics: the fundamental differences between land and capital. Political reasons for the disappearance of land from economic theory. Land and socialism.

4. Land for Housing: land economics in the modern era. The Industrial Revolution and the growth of cities. 1900-1970: world wars and the golden age of capitalism.

5. The financialisation of land and housing. House and land prices, income and bank credit. Mortgage finance and the role of collateral. Macroeconomic effects of the liberalisation of mortgage credit. The property credit nexus and financial fragility.

6. Land, Wealth and Inequality. Trends in

economic inequality, traditional explanations for increasing inequality. The role of land and economic rent in increasing inequality. Why inequality matters.

7. Putting land into economics and policy. Ownership, tax reform, financial reform, reforms to tenure, planning reform, changes to economics and national accounting.

These topics are all dealt with deliberately, exhaustively, sincerely and with great respect. The experience is something like reading a well written series of Ted Talks: stepping through the issues - increasing one's understanding, curiosity and confidence through the journey. References hang like jewels wherever a factual point is made, lending gravitas and legitimacy to the content. The thoroughness of the referencing conveys the genuineness of the authors - they are not just striding to the soapbox but have devoted the hours to make sure everything they write is backed-up by a source, providing ballast to their fine sentiments. There are abundant yet clear and concise graphs, illustrating trends emerging from the policy and practice being discussed.

Where salient, break-out boxes are included for those who wish to learn more about particular topics including: 'Neoclassical economics', 'The secret origins of the Monopoly board game', 'Keynesian Economics', 'How Banks and Building Societies "Fund" Mortgages', and many more.

One particular element is worth special note: the conflation of land and capital. Whilst the fact that land is a unique factor of production is a fundamental trope of Georgist literature (and understandably so) most economists miss the point, and that is a problem. This fabulous book painstakingly steps through the misguided peregrination of the dismal science when it comes to appreciating the importance of land - from the enlightened understanding of classical political economists: Ricardo, Mill and Smith that had land a unique and distinct factor of production, worthy of its own place; to the degraded state in which economics finds itself today, where land is not even mentioned and the list of factors of productions is ignorantly limited to capital and labor, on opposing sides.... land is lumped with capital.

The book advises that around the end of the 19th Century a group of economists (most notably John Bates Clark) developed a fondness for

the idea that within economics could be found natural and universal rules. If that was the case, economics could be treated as a science. Clarke then conceived that Ricardo's law of economic rent generated from the marginal productivity of land equally applied to capital. All capital then becomes interchangeable, all labor becomes interchangeable and then as identified by Wicksteed - land also becomes an interchangeable factor of production; and all the factors of production are provided by the fixed stock of capital. In doing so, land and location are deprived of their unique and incomparable qualities and economics loses its way.

As is mentioned, economics textbooks now show only two factors of production - capital and labor - both are subject to supply and demand. Land being inelastic does not expand and contract with demand, demand may increase or decrease the price, but never the supply. As a side note, I am always impressed by the fact that while economists ignore land as a factor of production, land speculators have never seen it that way! They are very happy to exert all influence possible to purchase land, and are less concerned with 'capital'. Why can't economists recognise the difference?!

I am quite familiar with the Georgist perspective and value it. What I particularly enjoyed in this book was the elements not included in *Progress and Poverty*, but seamlessly incorporated here: Neoclassical economics, Modern Monetary Theory and Credit Creation, the history of the treatment of land and its ownership, the look at inequality and all the 130 + years of economic experience, learning, implementation and success and failure since *Progress and Poverty* was written.

Anyone who wishes to offer their opinions on housing, affordability, taxation, economic cycles, banking, inequality and general economics should take a break from doing so until they have read this book.

I love the fact that this book has taken importance of land in economics by the horns and provided an impressive and assured re-entry for it onto the economic stage.

Listen to co-author Laurie Macfarlane on the Renegades: [www.earthsharing.org.au/2018/05/rethinking-the-paradox-of-property/](http://www.earthsharing.org.au/2018/05/rethinking-the-paradox-of-property/)