Review of "Rethinking the Economics of Land and Housing" **by Josh Ryan-Collns, Toby Lloyd and Laurie Macfarlane**

We all know that the Referendum vote and Trump victory are symptoms of a widespread and growing malaise among "ordinary people" that globalisation doesn't work for them: a "two fingers" to The Establishment. What this book shows is that there's good reason for that: conventional 20th century economics has ignored the distinctive role of 'Nature' and geography. "This is a book about land and its role in the economy" are the first words by its authors. But their reason for writing it is to help explain the crises in "affordability of housing, rising inequality, financial instability, excessive household debt and falling investment and productivity levels, despite increasing paper wealth". Quite an agenda!

This book is not by Liberal Democrats but it ought to be read by every Lib Dem campaigner who wishes to understand these problems. That understanding could be the key to us securing the dominant centre-left position in politics that we have sought for several decades but failed to achieve, because we have not had the insight or the narrative to fit our aspirations. It is not aimed at fellow economists but at anyone who wishes to understand how economic thinking has influenced the way western societies – but especially British society – have developed over the past century or so but particularly what caused the global financial crash of 2007-8 and why it has been broadly mishandled as far as most of us are concerned.

Chapters follow a logical sequence, beginning with a sketch of how the natural world ('Land' in classical economic terms) has been regarded over history. The idea of tradeable landed property is a feature of the 'Western' way of looking at this but contains a paradox: "landed property can be thought of as both freedom and theft". The implications of this were clear in the classical economic teachings of Adam Smith, David Ricardo and Henry George but were almost lost – some would say deliberately buried – around 100 years ago by '*neo*-classical' economists who approached the subject in a formulaic way. As societies developed from being primarily agricultural to becoming industrialised, land became conflated with capital and its unique role was lost: finite, economically passive but highly complex and both inter-dependent with and independent from human action.

Around one hundred years ago, not only did economic thinking change but levels of state intervention rose, requiring huge increases in taxation. At the same time, populations expanded but the habitable and exploitable Planet did not expand with them. Hence the value of natural resources relative to the value of produced capital wealth rose. To a large extent, the failure to develop economic models that factored Land into political economies – even the loss of 'political economy' as a term – has de-humanised polity and alienated those who neither own landed property nor can extract 'economic rent' from this explosion in 'land value'.

Taxation in Britain especially but generally across the developed and developing world has exacerbated problems for the landless. Power has historically resided with landowners because they alone could vote. As the franchise has expanded it has proved politically prudent to subsidise landownership. A chapter traces how this happened in Britain once the classical Liberal ideas promoted under Lloyd George's early twentieth century government were replaced by socialism and neoliberalism.

Towards the end of the last century, deregulation of banking led to rampant growth in lenders' share of economic rent. A crucial chapter links the role of land with the role of the financial sector, exploring the impact of there being much higher returns on 'investment' in landed property than in infrastructure or manufacturing. **In just 28 years from 1986, the share of total bank lending to real estate almost doubled to nearly half of all lending while lending to non-financial corporations (companies that create *real* new wealth) shrank for 45% to 15%.** The post-crash quantitative easing by the Bank of England exacerbated this: six pounds out of every seven has gone into reflating the property bubble via bank lending.

This has directly led to an explosion in debt held by banks, governments and households, because the vast majority of this debt is backed by the 'feel good' illusion that Land is a 'security'. The crisis of 2007 showed how fragile such an assumption is, especially for general taxpayers who underwrite banks that are too big to be allowed to fail.

The macro-economic effects of debt are profound but as yet poorly understood. The book's section on this aspect is the most difficult for a lay reader but what is clear in the context of housing is the difference in effects of house price fluctuations on homeowners and renters. With the former, rising prices fuel growth in consumer spending and falling prices cause belt-tightening, whereas renters' spending behaviour is relatively unchanged whether house prices are rising or falling.

So long as house prices rise and levels of home-ownership increase, governments can expect continued mortgage-backed 'feel-good' to be maintained. But as house prices rise beyond the reach of a growing proportion of younger voters, the political dynamic changes. At the same time, the risk of catastrophic collapse in confidence of investors in property stalls the home-building programme. The authors give prominence to a very credible theory, attributed to Hyman Minsky, that "stability is destabilising" when advanced economies become too dependent on speculation in real estate. Minski calls it "Ponzi financing".

The last two chapters focus on how these features of the land market impact upon wealth inequality and social ills before offering a range of policy solutions. Wealth inequality is far more dramatic and ingrained than income inequality and is increasing remorselessly. It is also geographic, since land and house values vary spatially. It sucks poorer people, even those in essential service occupations, out of high-value areas as even rents become unaffordable – increasingly because property is deliberately (but rationally for owners) held out of use, with residential property treated like a bank vault.

Until 1980 there was no significant difference between the proportion of household income spent on housing (about 10%) by families in different tenures. However from the start of Right to Buy the proportion spent by private renters rose steeply from 12% to 30% by 1994 and has remained at roughly that level, as the supply of social rented homes (old and new) dried up. Social tenants' housing costs have not risen above 20% of income. Home-owners with and without mortgage payments spend on average no more than 12% still, although this hides very large differences depending on how much (if any) of the capital sum remains unpaid. Those most cushioned from housing cost rises are older home-owners.

The most striking feature of the utterly dysfunctional housing market in the UK is that most working families have since 2002 become worse off in real terms purely because of housing costs, while most older non-working households are protected. Increasingly it is only those who do not *need* a home who can afford to buy one! The intergenerational dynamics of this are profound and worrying.

We have become a society that seems incapable of achieving necessary investment in productive activity, whether in education, transport infrastructure or affordable housing. Instead we treat the economically senseless 'investment' in property as a 'good' when it is in fact extremely damaging. "Household debt cannot rise relative to incomes forever" and so long as we do not cure our 'casino economy' obsession we live on a powder-keg.

As the authors say, "there can never be an entirely free market in landed property". We need to bury that illusion – and we can.

The answer lies in radical tax reform of a kind that harks back to classical liberalism – of the political as well as economic kind. Although the book has only a fairly sketchy outline of how it could be introduced in any country, it makes clear that land value taxation (LVT) is most likely to offer the solution needed: a separation of the market for 'bricks and mortar' from that of land.

The issues facing policy makers wishing to introduce LVT are briefly outlined: lack of data on land values as distinct from house prices; the dominance of home-owners among the voting population; the power of major lenders – banks 'too big to fail'.

The links between tax reform and bank reform are explored briefly. Comparisons are drawn between Germany and the UK: in Germany, banks lend significantly more to non-financial businesses than for mortgages. These "stakeholder banks" still value relationships with their clients more than their own shareholder value, recognising that only if the "real economy" is investing is their own business sustainable. Britain's impending departure from the EU makes it less likely that banking reform will happen.

Until economics teaching and official practice among Treasury policy makers restores the place of Land in the discipline, Britain will remain among the most vulnerable advanced economies. It is taking the OECD to flag up the dangers of ignoring land value in national statistics.

The book ends on an optimistic note. “A tipping point will eventually be reached when the majority of the populations in Western democracies will favour policies that reduce the concentration of wealth in property” and it is comforting for Liberal Democrats to know that our new Leader Sir Vince Cable has long realised what is needed. You don’t have to be young to know what the young want and need and will vote for.

Dr Tony Vickers

Tony Vickers began working life as a chartered builder on large new social housing projects. After 20 years in the Army he became a land surveyor, retiring to study land value taxation. He has written many papers on the subject including “Location Matters”.