

STOP REWARDING UNPRODUCTIVE LANDLORDS

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In the article, "Common Principles", which appeared in June, Christopher C. Faille asked if it is any more difficult to agree that a person is the owner of a plot of land than it is to agree that a person is the owner of a bow and arrows. This is the issue that has divided libertarians into two camps for several hundred years. In one camp are such figures as Locke, Jefferson, Paine, John Stuart Mill, Nock, and Chodorov, who have said that land is a unique form of property. In the other camp one finds Mises, Hayek, and Rothbard, who have said that land should be treated as

absolute private property in the same way as are manufactured goods.

Locke and Paine each observed that land is not the product of human effort. For purposes of this observation, "land" refers to any volume of space, along with the natural resources at that location. The question then is, how does something become private property? Locke, in his Second Treatise on Government, chapter five, proposed that land becomes property because someone mixes his labor with it. For example, a homesteader might mingle his sweat with the soil in raising corn. He thereafter owns the soil, as well as the corn. But Locke added a crucial proviso. One has the right to own land only so long as there is enough land of equal quality left for others. Unfortunately, other libertarians, in adopting the homesteading theory of land ownership, have omitted this proviso completely. Murray Rothbard is an especial offender in this regard.

Let us look at the meaning of rent. A landlord's rent consists, first, of the return on the building, which the landlord, or some predecessor in title, built, and which this landlord is responsible for maintaining, and, second, the return on the space (location) where the building sits, which the landlord did not produce. This second part of a landlord's income, then, consists in receiving payments without having to produce anything in return. Is this any different from receiving welfare payments?

It is one thing to collect rent from investing in a factory or a building, since that involves producing something. But collecting rent for the land itself does not involve producing anything in return. It is just a transfer payment, a subsidy.

John Stuart Mill points all this out in Principles of Political Economy, book 5, chapter 2 — in 1848.

Let us look at the question another way. Unequal access to land (the failure of Locke's proviso) leads to over-concentrated ownership throughout industry and the economy. Steven Cord, in his book, "Catalyst," (1979) estimates that the annual value of land and natural resources adds up to more than 20% the size of the Gross National Product. If one owns land, one can use it as collateral to borrow money in order to buy more land and industry. So, even if a society started with a pure, free, market, unfettered private claims to land would lead to over-concentrated ownership and the destruction of market forces.

Real estate, after all, is the only industry in which 100% of a needed input must be bought from your own competitors, since no one can produce land. If you want to enter the business of manufacturing nails, you don't have to buy nails from a competitor! Think of an oil company buying up the best corners for gas stations. A competing company, desirous of equally good locations, would have to negotiate with the company that got them first. It couldn't build new spaces.

A related market distortion is speculation. A landowner can sit on his duff and wait for the price to rise. Meanwhile, since his land is held out of use, it does nothing to help create jobs, provide housing, or produce consumer goods. Speculation in land is directly responsible for artificial job shortages, and inappropriately high prices for land, housing, food, and manufactured items.

An alternative. As I have shown, Rothbard's theory of land ownership leads to serious economic problems. Fortunately, there has long been an alternative libertarian tradition, that of Locke, Jefferson, Paine, Mill, Nock, Chodorov, and others. We will understand the alternative if we ask ourselves what is the most practical way to meet Locke's proviso? It does not seem practical to re-divide the land periodically, because

privately built structures and privately raised crops are intermixed therewith. What to do?

Thomas Paine and Henry George each proposed another way. I leave enough land of equal value for others if I leave them land of equal market value. Suppose that two people can have land of equal market value (that is, each draws the same annual market rental as the other, abstracting from that portion drawn from buildings and improvements). If these two constitute the whole of the "society" with which we are concerned, then each has fulfilled Locke's proviso, since each leaves equal value in land for the other.

Now suppose one of them wants to own more land, for productive purposes (offices, farms, factories, homes). The person with more than the average market rental value will be displacing the other, or others. Let us regard this displacement as legitimate if and only if the owner pays "displacement rent" to those people who now own less than average land value, who are sacrificing their use of the land.

Rothbard's followers will roar that this is taxation, this is feeding the Leviathan! But we don't have to involve government in this at all. The location value of land is already regularly assessed by market processes, in the real estate and insurance industries. Economist Nicolaus Tideman has also proposed that market processes could be used for assessing the value of the land as distinct from the improvements. In Tideman's proposal (see "Land Economics," 1990)

anyone could enter the market for land assessors, and each entrant could decide what neighborhood to assess. The assessor with the highest bid for that year would then set the land rent for the plots of land in that neighborhood, and would receive a percentage commission.

If the winning bid for the neighborhood were too high, some plots would go unoccupied and unused, and the winning assessor would have to cover the land rent for those plots. So there exists a great incentive for the correct assessment of the value of land. Too low, and another bidder beats you. Too high, and you wish you had lost!

The land assessments would be public information, as they are in some cities in Europe. Anyone to whom displacement rent was owed could check to see if he or she was receiving the proper amount. Each person owed displacement rent could choose the most efficient agency for distributing that.

This system is pragmatic, in that it would have beneficial effects on the economy. It would take big landlords off welfare, prevent over-concentrated ownership of industry and the economy, and remove the profit from land speculation, thereby opening up more employment, and allowing lower prices for land, housing, and consumer goods. This alternative libertarian tradition seems to be more practical than the Rothbardian, and would lead to better economic results.