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# The Land Ethic

## How to Address Inequality and Financial Instability

By [ALANNA HARTZOK](#) | OCTOBER 20, 2009



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The global financial crisis has demonstrated a deep systemic failure of the prevailing economic paradigm. So far, efforts to remedy the situation have failed to address the root causes of the meltdown and are digging the American people deeper into the hole of public debt.

In an op-ed titled "[Obama's Ersatz Capitalism](#)" earlier this year, [Joseph Stiglitz](#) wrote that the bailout of banks by taxpayers is a "partnership in which one partner robs the other." Considering that in 2004 the top 1 percent of the population of the United States owned more than \$2.5 trillion [more wealth](#) than the bottom 90 percent, and that even in 1996 about 350 billionaires held [more wealth than nearly half of humanity](#), we have surely arrived at the end of the capitalist monopoly game.

### **Rent-Seeking and Economic Restructuring**

Alternative economic analysts have traced the severe wealth gap problem to the ability of the so-called FIRE sector—finance, insurance, and real estate—to concentrate large amounts of money, resources, and power into ever fewer hands via a variety of rent-seeking behaviors. "Rent" connotes unearned income. Alternative analysis considers economic rent to be a socially generated surplus that is being privately captured.

As an economy generates wealth, the price of land and other natural resources increases. Because the gifts of nature cannot be produced by human effort and supply

cannot be increased to meet demand, holders of land and natural resources are in a position to capture the surplus—economic rent—generated by labor and capital.

While economic rent is essentially a measure of the social surplus it is not regarded as such under neoliberal economics, which treats this value as a market commodity for private profiteering. This fundamental flaw in market economics has created a highly inequitable global economic system. Lack of knowledge as to how to correct this flaw, and retain the benefits, efficiencies, and individual freedoms of the market, was the impetus for the emergence of centrally managed and controlled state socialism. An economic restructuring based on a full understanding of the role of economic rent is needed for a new economic framework beyond both the old right and the old left.

### **Real Estate and the Land Problem**

While many subprime mortgage lenders are guilty of immoral activities, their business was perfectly legal in the game of real estate "investment." To generate more profits under the guise of fulfilling the American dream of home ownership for more of America's workers at a time when capacity to purchase a house from wages had been decreasing, new financial instruments made it easier for poorer people to acquire mortgages.

During the expansion stage of the economic cycle, when land values were rising, banks and others invested in real estate. Banks loaned money to people to play the real estate speculation game. This behavior further drove up land values. We know that 20 to 25 percent of all homes bought in this last up-cycle were on the expectation that land prices would increase.

This Ponzi scheme brought the cycle to a frenzied peak and then a total crash, derivatives and all. Land-rent economists understood and predicted the entire scenario, based on detailed analyses of 18-year [real estate cycles](#) traced back as far as the 1840s.

The point is this: Underneath the money and banking problem is the land problem—treatment of the gifts of nature and of socially generated land rent as commodities for speculation and profiteering. The land problem is the ultimate genesis of the global financial crisis.

### **Property Tax and Wage Tax**

A solution is to publicly capture the full value of socially generated rents to curb land speculation and stabilize land and housing prices. This can be done by a land-value-only type of property tax. Socially generated land rent is an enormous sum, estimated to be as much as one-third of GDP in developed countries. This is more than sufficient to pay for true social needs including education and health care for all.

With full land-rent capture by the public and for the common good, there would be no surplus rent from land to pledge to banks as interest. There would be no more land-backed borrowing. Financial capital would find no profit in land and natural resource rent-seeking. Substantially more funding would thus be available to invest in productive goods and services.

A necessary policy corollary entails the elimination of taxes on wages in order to secure the full return to labor. Un-taxing wages will of course immediately increase the purchasing capacity of all who work for a living. The highest incomes are generated not from wages but primarily from economic rent (unearned income). Maintaining a tax on people at this level would be another important way that the social surplus can be captured back to society as a whole.

### **Public Finance: Money as a Social Technology**

Another part of the solution concerns the treatment of money as a mechanism of wealth exchange. Money needs to be viewed as a social technology, issued into circulation directly by government as direct spending on public goods rather than as government and private debt. Seignorage reform would enable large-scale government projects, which would benefit large numbers of people. For example, public transportation infrastructure could be funded as a way of also issuing money into the economy. Since infrastructure improvements increase land values, capturing land rent would pay for the ongoing maintenance of public works. With seignorage reform, the money system can begin to function like a public trust.

The elimination of land hoarding and land speculation combined with the capacity of workers to keep all their earnings will enable more people to have affordable land access for housing and productive purposes. The trend would be to incentivize worker ownership of capital via the formation of small business enterprises and cooperatives. As this form of economy advances, more people will gain autonomy from monopoly capital. We can then more readily build movements to eliminate other forms of monopoly and rent-seeking.

This approach to public-finance policy enhances private sector economic activity and public sector goods and services. Taxes would function as user fees for common heritage resources. Economic-rent-based public funds can finance public education and health care for all; capitalization and maintenance of public infrastructure; and low-interest loan funds for housing construction and the development of small and cooperative business activities.

### **Global and Environmental Justice**

Combining the land-rent-for-public-revenue policy with environmental taxation—"polluter pays"—yields an integrated approach to public finance. The resulting benefits would include a fairer distribution of wealth, environmental protection, and basic needs production.

The land ethic and public finance policies described in this article have roots in classical economic theory and the history of economic justice, such as the clean slate periods of antiquity. This is the kind of structural adjustment that the people of the world really need.

Taxes administered along the proposed lines would do much to level the economic playing field worldwide, both within and among nations. A coherent and integrated rent-based public finance system would fundamentally alter the status quo and give every person a stake in the planet as a birthright. With basic needs securely met for all, humankind would be freer to advance, physically, spiritually, and morally.

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