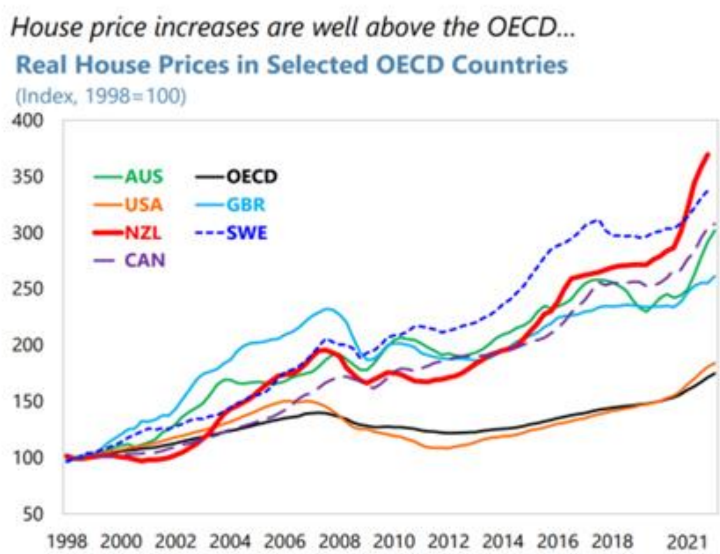
Stealing Community Rent and Monopolisation of Land by the Few Causes Poverty
Brendon Harre / 5 July, 2022

Brendon Harre assesses the work and thinking of Henry George, a 19th century 'progressive' political economist whose ideas sparked many reform movements, and suggests New Zealand could benefit from his insights

23rd Jul 22, 9:30am *by* Brendon Harre

"It is the taking by the community, for the use of the community, of that value which is the creation of the community – Henry George, *Progress and Poverty* (1879) Chapter 33



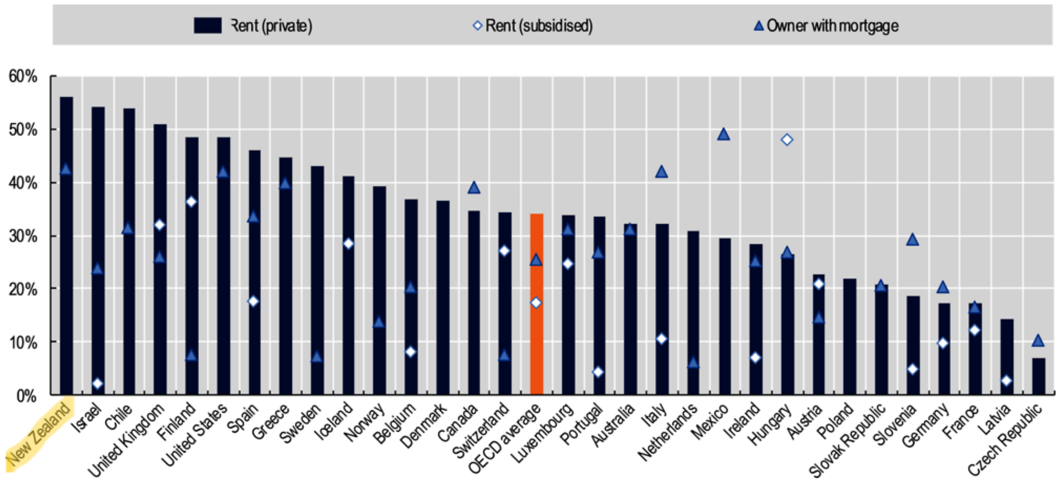
Since 1998, prices in New Zealand have increased by over 250%, almost four times the average increase across OECD countries (around 70%). Source — Interest.co.nz

For someone like myself who didn't grow up with homeless people living on the streets and knowing families live in cars it is easy to conclude the housing crisis is a result of "a chronic, misguided belief that market forces will answer society's needs" like Rosemary McLeod did in her — ***We need to look at the world we're making for our children*** — article.

Yet where does this take us? Attempts at replacing capitalism haven't been successful.

The challenge is to think deeper because poverty induced by the housing crisis is a genuine problem. Deliverable solutions need to be found.

New Zealand has a ‘low-road’ form of capitalism that increases poverty and inefficiently allocates workers and investment capital. A new approach that improves New Zealand’s underlying ruleset is required.

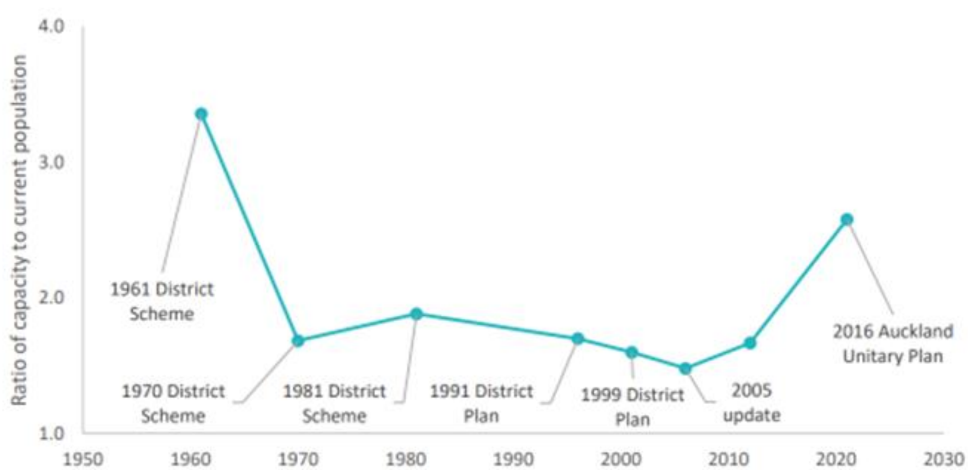


Low-income NZ households face a significant housing cost burden — The share of population in the bottom quintile of the income distribution that spend more than 40% of their disposable income on rent or mortgages is the highest in the OECD (data from 2018 or latest year).

A very large proportion of New Zealand’s poorest households pay housing costs that takes more than 40% of their disposable income. This figure is the highest in the OECD. Not only is the rent too high — too often our housing is of **inhumane standard**. It is obvious that high house prices and high rents is one of the reasons for why poverty is such a problem in New Zealand.

We know **what** the long-term causal factors are for high house prices.

Figure 2: Ratio of estimated zoning capacity to current population in central Auckland



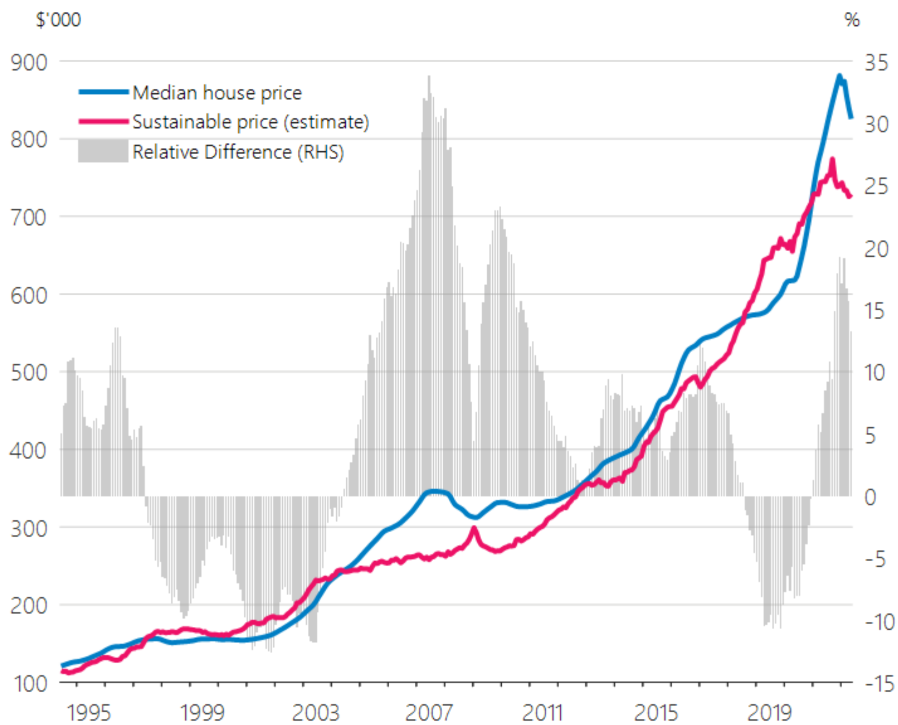
Source: Te Waihanga analysis

Auckland City Council has interpreted the government’s attempts to raise zoning capacity in a more restrictive manner.

Research and modelling analysis from New Zealand’s Infrastructure Commission — Te Waihanga shows that if Auckland had not been downzoned from the 1970s and had made timely infrastructure investments to avoid the decline in average travel speeds from 1990, then house prices would have only increased 80% between 1978 and 2018, rather than the 262% they did.

City transport speed has affected housing supply. “Rising travel speeds between the 1930s and 1970s facilitated housing supply by increasing the area where new homes could be built. Auckland’s built-up area expanded rapidly during this period. When growth in travel speeds slowed in the 1970s and then began to reverse in the 1990s, urban expansion also slowed down as it became harder to build at the edge of the city.”

Te Waihanga estimate that when demand for housing increases (from factors like population growth, rising incomes, lower interest rates), we have built one-quarter to one-third fewer homes (both public and private) than our grandparents did.



“Since the beginning of the COVID-19 pandemic in 2020, actual house prices have been above their sustainable level. Exceptionally low interest rates coupled with a “fear of missing out” would have contributed to this cyclical surge in house prices.” — ***Housing (Still) Matters — The Big Picture***.

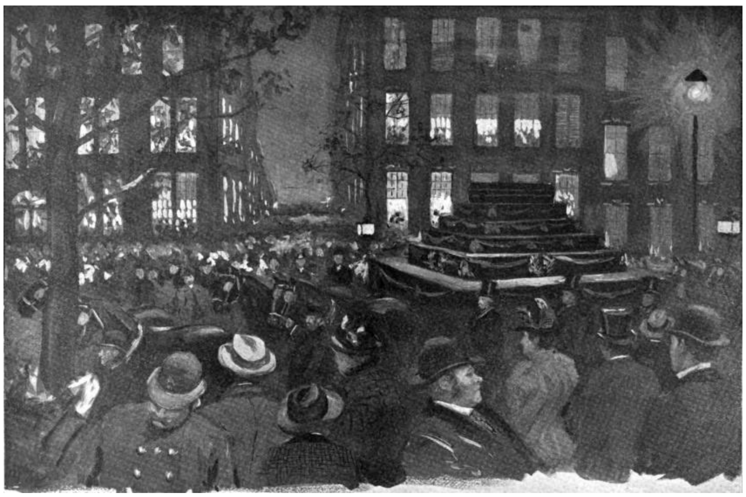
The chief economist of the Reserve Bank of New Zealand (RBNZ) confirms the importance of housing supply responsiveness to demand shocks in a speech titled — ***Housing (Still) Matters — The Big Picture***.

The Reserve Bank have a concept of sustainable house prices that reflects the long-term supply and demand factors (note the RBNZ does not believe sustainable is the same as affordable house prices). The bank eases or contracts monetary policy to produce a wealth effect of above or below sustainable house prices as a tool to meet its inflationary and employment targets.

Speculating on housing has been New Zealand’s primary form of financial asset investment. **New Reserve Bank research** shows that New Zealand investors could — from a strict risk-return portfolio perspective — have actually allocated all of their portfolio investments into housing, as investment property has averaged 10.9% annual growth over the period from 2000–2020, which was higher than any other asset returns in their sample.

Our understanding of the supply and demand factors influencing the housing market is quite well developed. What is not clear is why barriers to building more houses were created? Why was the required infrastructure not built? And why has the speculation gravy train been allowed to continue? What were people thinking? What have we forgotten?

To better understand the **why** of it — it is useful to look at **Henry George**'s writings to understand what a better form of capitalism might look like.



The Henry George Funeral 1897: The Catafalque at night moving down Madison Avenue from the Grand Central Palace to Brooklyn. An estimated 100,000 people visited Grand Central Palace during the day to see Henry George's face, with an estimated equal number crowding outside, unable to enter.

Henry George was a giant of the 19th century, his influence is hard to overstate, yet now in the 21st century he is barely known.

George was an ordinary American man who left school early to become a seaman, then a typesetter and a journalist. Despite his limited education he was a perceptive observer who wrote insightfully about the nature of poverty and society.

Fortunately, he was able to witness the formation of new communities and cities — for instance, the transformation of San Francisco from a shanty town to a great city. His book *Poverty and Progress* sold millions of copies — its 1890s sale figures in the United States were higher than all other books except for the Bible. During his lifetime, he became the third most famous man in the US, only surpassed in public acclaim by Thomas Edison and Mark Twain.

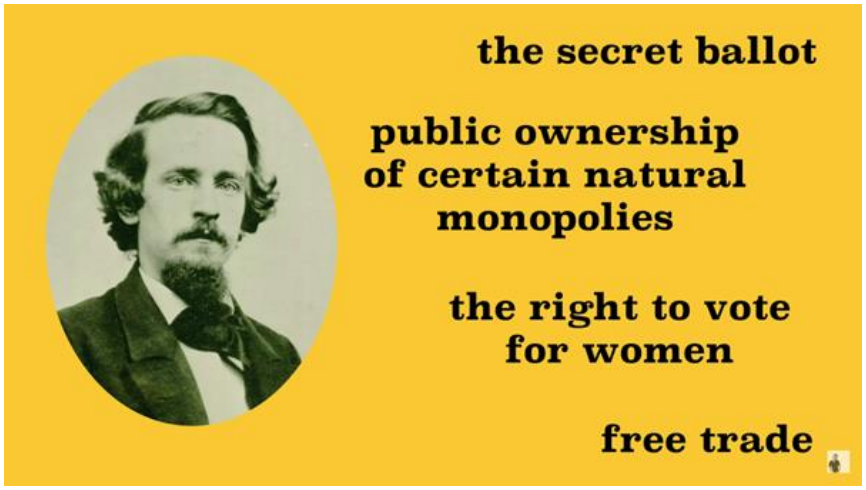
> *an enormous number of men and women, strikingly different people, men and women who were to lead 20th century America in a dozen fields of humane activity, wrote or told someone that their whole thinking had been redirected by reading Progress and Poverty in their formative years. In this respect no other book came anywhere near comparable influence —* ***Princeton historian Eric F. Goldman***

George was concerned about social justice but he wasn't a communist or even a believer in a socialist class struggle. George was interested in why in times of plenty poverty was so prevalent.

He believed in a form of capitalism — he believed that what a person produced from their own labour morally belonged to them — even if it was a capital asset, such as, a building, a vehicle, or the planting of Egyptian date trees. George gives the example where a tax on date trees led to them being cut down yet a tax on land that generated twice the revenue did not.

Henry George believed that the trade in the products of labour was a beneficial way of organising society.

Politically, George had a mix of **progressive** and **populist** beliefs. In particular he believed that increasing the amount of contact or association as he termed it between free and equal people was a good thing.



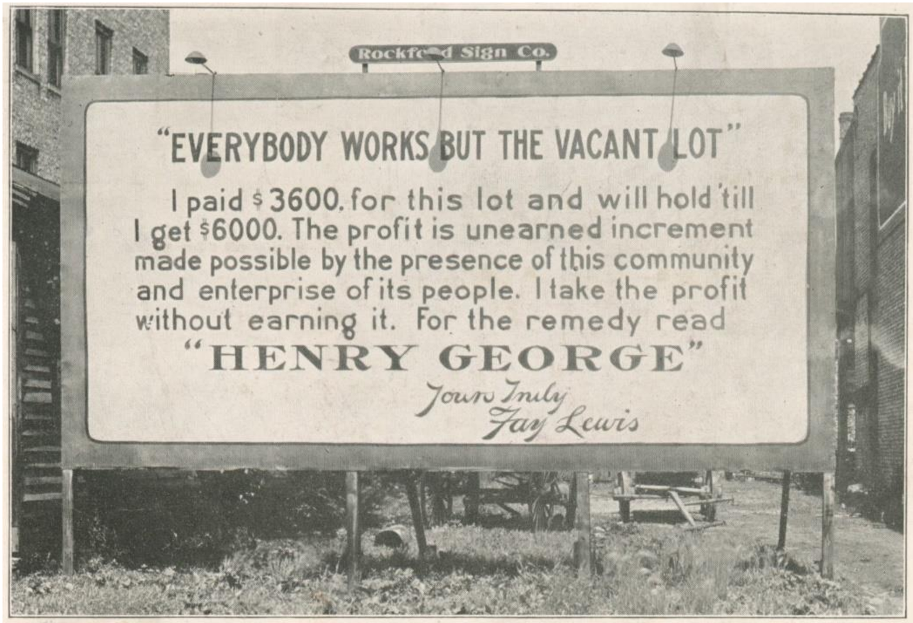
Henry George as an editorial writer championed many populist progressive reforms. Source— **I found the least bad way to tax** — YouTube video

He refuted environmental limit Malthusian arguments — he believed they did not explain poverty which he was most concerned about — **several chapters in his book** detailed his criticism. In particular, George disagreed with Malthusians on the issue of population. He argued that as a local population grew this increased rather than decreased productivity — what we would now call **agglomeration economics**.

George described the power of agglomeration clearly in his **The Unbounded Savannah** story about new people arriving in an uninhabited fertile plain. Initially, no location is more valuable than any other. But as soon as one settler arrives, then the next settler finds an advantage in locating themselves nearby so that neighbourly assistance can be exchanged. As the settlement grows, so does specialisation, trade, the spread of knowledge, economies of scale and productivity. As a result of this community growth process, land close to the settlement is more valuable compared to other parts of the plain.

Of interest to New Zealanders, George wrote, "no one who has seen Melbourne or San Francisco can doubt that if the population of England were transported to New

Zealand — leaving all accumulated wealth behind — it would soon be as rich as England is now."

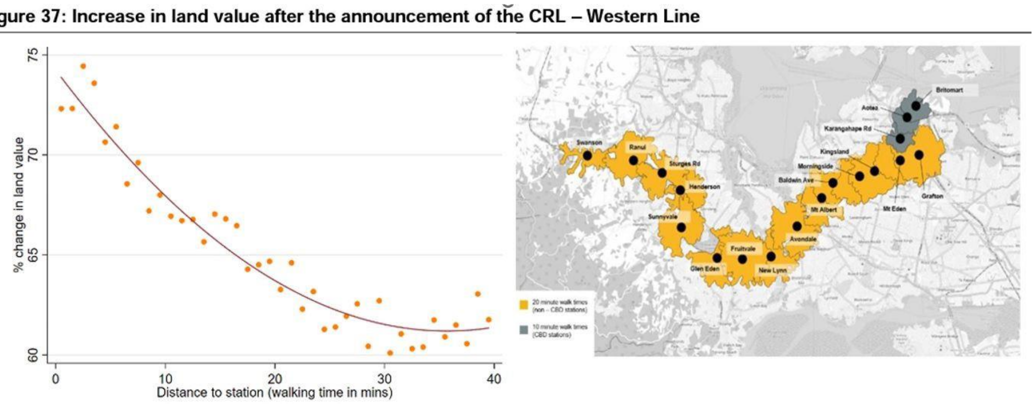


George believed that site monopolies were created by the private land ownership arrangements of his time. He believed if desirable locations were withheld from its best use for speculative price reasons, then landowners were imposing a lockout on the market, which they could do because exclusive property titles created a locational site monopoly.

George unlike contemporary communists or socialists took aim at landowners rather than at the struggle between labour and capital. He believed institutional legal arrangements gave excessive advantages to unproductive landowners creating a root cause for inequality and economic ills.

> *Three things unite in production: land, labor, and capital. Three parties divide the output: landowner, laborer, and capitalist. If the laborer and capitalist get no more as production increases, it is a necessary inference that the landowner takes the gain. — Henry George, Progress and Poverty,* ***Chapter 17***

Figure 37: Increase in land value after the announcement of the CRL – Western Line



"The chart above shows the percentage change in land value for Auckland properties by distance from a train station in the period following the City Rail Link announcement. The land value uplift from surrounding properties that was attributable to the project (and above secular trends) was estimated at over $3 billion. It's just one reason why the New Zealand Infrastructure Strategy recommends looking to land value capture tools to fund certain types of infrastructure." Geoff Cooper General Manager, Strategy at New Zealand Infrastructure Commission — ***LinkedIn post***

From George's writings it is clear the value of real estate property has three components.

1. Improvements to land which belong to the landowner because they are the result of work. Human exertion according to George is the natural source of property rights. Therefore George did not advocate for tax on the capital value of buildings and other improvements (or for it to be rated by local government).

2. The land value which is the creation of the community should be returned to the community. George believed in land value tax. This is what he is most well-known for. In fact, some of his supporters advocated for all taxes to be replaced by a land value tax — this was known as the single tax movement. I think George should have used the term 'community rent' to more clearly identify that the true owners of this component of a property's value is the collective community not the individual landowner. That the community has a moral property right to the land value it creates and it should be able to charge rent (or the equivalent) up to the value that it has created. Community rent is conceptually very similar to infrastructure funding via land value capture tools — **an option that is rarely used in New Zealand**. Note — in my paper ***Who Profits from Land*** I used the term natural rent rather than community rent.

3. Monopoly site value or extractive land rent. George wrote that land speculation could cause recessions. George believed that speculation could push land prices far above its marginal productive value i.e. way above its agglomeration or community rent value. He didn't write about **zoning** because that city planning practice was not established in his time. But he did consider land had a locational site monopoly that could be exploited. The harm of artificially increasing barriers to prevent newcomers from entering a market and the risk of a system that allows lobbying of lawmakers for rent seeking advantage naturally flow from his work. Undoubtedly Henry George would have been a YIMBY not a NIMBY.

In the century following Henry George writing *Poverty and Progress* (1879) competition between expansion opportunities reduced the extractive land rent problem, yet in recent decades this problem has reappeared meaning his work has renewed relevance.

From the 1890s a series of transport and construction innovations — including the modern safety bicycle, electrified trains and trams, elevators, steel framing and reinforced concrete, and the internal combustion engine allowed cities to expand massively in size — both up and out. There were also inter-city technological and institutional changes supporting trade, the flow of labour, and investment capital.

These urban, inter-regional and international factors created a competitive network effect which reduced extractive rents.

Improvements in this competitive network seems to have reached a limit — at least in New Zealand by the 1990s.

I think it was unfortunate the focus of Georgism has been the proposed solution — land value taxation — rather than keeping the focus on Henry George's identified problems.

The issue with focusing on land value taxation is George's underlying rationale is easily forgotten — especially the moral wrong of allowing the interests of landowners to usurp the interests of labour and capital and the wrong of giving private landowners the right to take the value which communities create. I think these two things were forgotten towards the end of the 20th century — especially in New Zealand. I think this loss of focus helps explain why New Zealand made the mistake of downzoning and why there is a lack of community rent funding mechanisms which could help pay for missing transport infrastructure. I think it helps explain why New Zealand allowed property speculation to get so out of control.

I believe it is important to not only understand what happened. But to consider why it happened. What were people thinking? Because it is only when we truly internalise our understanding of a problem that a lasting solution will be found.

Freeing people from the oppression of monopoly power in any form was Henry George's great dream.

George wanted to break the stranglehold of speculative property ownership that reduces so many citizens to wage slavery and poverty. George wrote there would be no difference between two islands — one where a single person owned all the people and another where a single person owned all the land. Slavery would exist on both islands. His ideas were far broader than simply reforming taxation policy.

I would encourage people to read *Poverty and Progress*. There is a **modernised edition online** that keeps the original content but has shorter more succinct sentences and paragraphs. For those who like to listen that is also an option — with each podcast-chapter being between 5 and 25 minutes long.

Reading *Poverty and Progress* is a thoughtful process. Even after 140 years it provides insights into the problems New Zealand and the world is going through. For instance;

1/ — The RBNZ reports household net worth surged by around $600 billion through the pandemic— not because of any human exertion from homeowners but — because of the wealth effect from monetary policy easing combined with fear of missing out by first home buyers.

With the benefit of hindsight the RBNZ probably overcooked its stimulus monetary policy in 2020 and 2021. About a third of New Zealand's current **high inflation rate (7.3%) is being attributed to their 'least regrets' money printing & LVR removal package**, with the remainder being the global food, energy, and supply chain disruption situation.

Some New Zealand business commentators have said that New Zealand's institutional arrangements are such that speculating on house prices is a one-way bet — and that successive governments and its agencies have been unwilling to face the political costs of changing these settings.

The Reserve Bank for their part would presumably reply to this criticism by saying they are now contracting monetary policy causing a negative wealth effect — therefore it is the other institutional settings, especially those to do with the supply of new housing and the taxation of property, that is the problem.

A Georgian economic analysis indicates if housing really is a one-way bet this will have a profoundly negative effect on workers and commerce. Hopefully the economic settings that led to housing being a one-way bet will change. The Reserve Bank thinks it may well have.

> *For several decades, we have traded houses among ourselves at ever-increasing prices in the belief that we were creating prosperity. But the tide may well have turned against housing being a one-way bet for a generation of Kiwis. We need to keep building a new approach to housing and economic prosperity in Aotearoa-New Zealand. — From the* ***speech*** *Paul Conway chief economist to the RBNZ gave to the National Property Conference*

Personally, I think it is way too early to congratulate ourselves that New Zealand's one-way housing bet is over. Reforms to the planning system that have bilateral agreement at the central government level are being **resisted by local government**. There is no clear system of infrastructure funding and financing and certainly no bilateral agreement — the main opposition party the National Party opposes the government's water infrastructure reforms for instance. On the building materials front the construction industry is clearly far from being competitive. The cost of **building "entry level social housing" is about $3800 per square metre in New Zealand**, but should be about $1200/square-metre according to international best practice.

2/ — Clearly house prices do respond to a variety of institutional settings — so I think it is possible and it would be beneficial if New Zealand made a **governance commitment to achieving housing cost targets** like the country has done with general price inflation. This could have a powerful signaling effect to reduce property speculation and for lowering house price and rent increase expectations.

Targeting rental affordability for low-income earners (i.e. trying not to be the worst in the OECD) by the government instituting a large-scale build programme would be a good strategy for improving the performance of the housing market.

Monopoly Watch's submission said "well-capitalised, institutional international scalable-sized integrated builders", could roll-back the "margin-on-margin culture and resolve the 'death by a thousand cuts' conundrum" that small builders suffered, Edwards said. The construction industry's ability to deliver affordable housing fell apart in the late 1980s and early 1990s, when builders shifted to "bespoke and premium builds", he said.

Rising interest rates and escalating construction costs are causing a slow-down in the construction industry. "A building industry leader says **inquiries for residential new builds have plummeted between 70 and 80 per cent**." Classic Builders director Peter Cooney has been through four property cycles — he reports sales are falling down to levels last seen in 2008. Preparing to expand the government's build programme and instituting the long-term policy reforms needed to tackle the housing crisis would be timely.

3/ — When cities and local governments **stymie the removal of barriers making it easier to build houses** I think this is landowners lobbying lawmakers to prevent any reduction in their ability to earn without toil. It is an example of monopoly rent seeking behaviour in action. New Zealand would do well if it policed detrimental rent seeking behaviour more vigorously.

The number of protected "Special Character Areas" (SCA) in older Auckland suburbs will only reduce from around 21,000 homes to 15,000. Character protection covers 41% of the residential land within five kilometres of the city-centre. Wellington has also struggled to ease planning restrictions for its inner-city suburbs. See **Councils are defying the need for housing intensification**

4/ — In a global environment where **labour shortages** and supply constraints are prevalent shouldn't the interests of labour and capital be prioritised over those of land? Wouldn't that be a better way for New Zealand to compete for skilled workers and innovative businesses? The political representatives of labour and capital should come to bipartisan agreements so that the required infrastructure is provided, that community rent funding mechanisms are used, and planning rules are not restrictive.

In particular immigration and infrastructure funding need to be tied together. Because **only pulling the immigration lever** without addressing the infrastructure deficit estimated to be around $200 billion will worsen the high-population-growth, low-productivity-growth, low-wage, low-investment and high-house-price model NZ Inc has used.

Of course, even if New Zealand post-Covid pulls the immigration lever we may not get much of a population gain — as the international media has said the country is a **100% pure rip-off**. Going forward the only viable lever might be the reform lever that corrects the underlying distortions in the economy.

5/ — Finally, I worry that if somehow New Zealand avoids the turmoil of **environmental limits**, the geopolitics of **rising and falling empires**, or the onset of **de-globalisation**, then Henry George's warning of **civilisation going into decline** due to rising inequality could be our end. That not giving communities what is rightfully theirs and allowing land to be monopolised by the few will lead to the collapse of the middle class and wage slavery for the many.

Like a **game of monopoly** New Zealand's underlying ruleset could lead to the ownership of property residing in fewer and fewer players hands. That a landed gentry class will resist social mobility regardless of effort, skill, or innovation.

It does not surprise me that Labour’s 2020 election campaign manager is writing that **the housing crisis could get worse**. The warning is timely, and I agree more should be done. Yet in a sea of troubles, I am not confident more will be done.

Extra for economic nerds

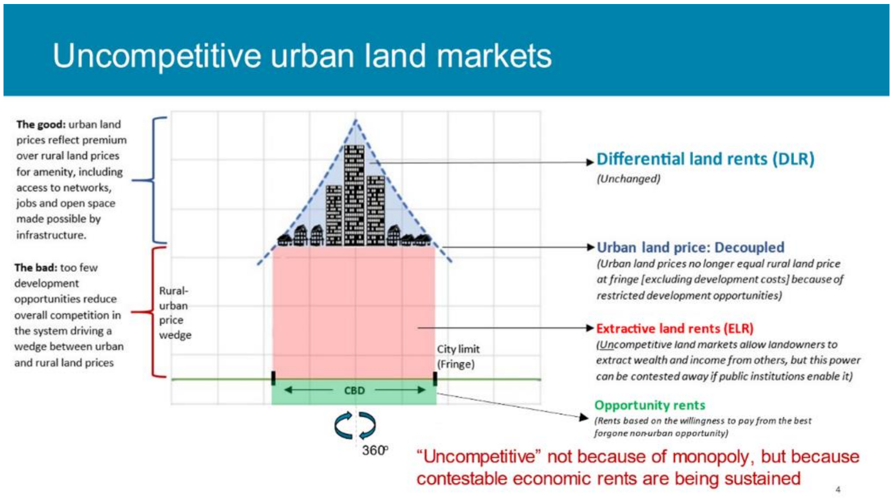
In the background of public debates about New Zealand’s housing crisis there have been some policy experts and government officials who have reassessed Henry George’s work to better understand urban land values.

This is best illustrated by the urbanism part of Eric Crampton’s **Op-Ed discussing the recent New Zealand Association of Economists conference**.

> *“The best session of the conference covered urban land-use policy. Treasury’s Chris Parker presented theoretical work showing how urban land prices become unhinged, and housing overall becomes severely unaffordable, when cities are constrained against growing...*
>
> *Infrastructure Commission economist Peter Nunns* ***challenged some prevailing views about underinvestment in infrastructure****. The problem may be less about the quantity of spending, and more about what we get out of it.*
>
> *In some sectors, such as wind-farm projects, New Zealand matches international cost trends. For large horizontal infrastructure projects, we fare more poorly. For projects such as rail tunnels, country-level learning-by-doing seems to matter. Countries that have already built a lot of rail tunnels seem to be able to deliver more of them at lower cost per kilometre. New Zealand may have some distance to go on that learning curve — and may yet need some enabling reform to consenting processes.*
>
> *Finally, the consultant economist Stuart Donovan provided some estimates of* ***agglomeration effects across New Zealand towns and cities****. Agglomeration effects reflect the increase, or decrease, in productivity that a city enjoys through scale — if it grows a bit, by how much does overall productivity change? Satellite cities within commuting distance of larger centres seem to over-perform. Allowing more of them to emerge may not be a bad idea.”*

Chris Parker’s piece in particular is most relevant to this paper (see the 3.30pm session **here**). He proposes a simple, yet powerful theory that links a key component of city urban land values with a city’s ‘benefit premium’ when people are free to relocate. It is not yet published in peer review journals, but it is highly promising.

His definition of differential land rents (DLR) is most similar to the community rent concept this paper discusses.



Insights from Chris Parker's work include:

1/ More scale economies increase differential land rents (DLRs)

- Increases in infrastructure capacity, public goods, productivity, and housing supply (both up and out) increase DLRs
-

2/ Diseconomies of scale decrease DLRs

- Congestion and crowding reduce city benefits and DLRs
-

3/ Better local government performance increases DLRs

- Increased efficiency in public good provision, optimal expenditure, optimal regulation of amenity and externalities, pro-growth zoning policy, pro-growth infrastructure planning and supply

4/ The equivalence is so tight municipal local governments could be defined as economic vehicles to maximise DLRs

5/ This analysis can be used to update cost-benefit analysis (CBA) for local infrastructure and planning and regulation

And some economic history

A depression induced by excessive land speculation occurred in New Zealand around the time of Henry George publishing *Poverty and Progress* (1879) when the 1870's boom of **Vogel's rail investment** combined with decades of land and immigration speculation busted into a 15-year **Long Depression**. The political economy of the 1860's involved some **pretty unsavoury war-mongering** to gain access to Maori land (i.e. they stole it — notice a pattern?). In the 1870s Premier Vogel hadn't been able to negotiate land value capture for his rail building schemes because at that time provincial government had that right. Canterbury for instance **sold provincial land at a higher price to pay for the 2.6km long Lyttelton tunnel**. Vogel and his supporters in return plotted revenge — the abolition of provincial government which occurred in 1876.

All of this scheming — immigration boosterism, provincial rivalry, warmongering property speculation, and the central government plotting, busted in 1878 in a large debt crunch. Fortunes were lost. Confidence in New Zealand flowed away. Population growth which had been doubling and doubling again has never grown as fast since. New Zealand desperately searched for a new political economy.

Eventually refrigerated shipping allowed New Zealand to diversify away from declining extractive industries (whaling, sealing, gold mining, native timber felling, kauri gum harvesting etc.) and away from the price fluctuating wool industry, as rapidly expanding dairy and lamb exports came to the rescue. This revived New Zealand's economy in the 1890s.

The newly elected Liberal party instigated a land value tax and a policy of sub-dividing large wool estates into smaller blocks suitable for dairy or lamb farming. Allocation of these affordable farms was by ballot based on a **New Zealand agrarian version of populist politics of the time**. These factors combined with the earlier discussed extractive rent reducing network effect meant that the value of refrigeration didn't exclusively capitalise into higher land prices. Landowners were not the only beneficiaries of the economic revival — labour and capital also benefited, as did the wider New Zealand community. Progress did not induce poverty and for a while at least New Zealand was known for its strong economy and reforming social policies.