

I. How land acquires value – and who benefits

Land has no cost of production. It is what nature has provided for free. If an ample supply of land of equal desirability were available, there would be nothing to pay for its use. However, unlike labour and capital – the two other factors upon which the production and supply of all goods and services depend – the supply of land is fixed.

Thus, if there is greater demand for labour, its supply can be increased through working longer hours, or through working more productively as a result of investing capital in more productive technology – or by having more children or by encouraging immigration.

Similarly, if the demand for capital is rising, its supply can be increased by performing more surplus labour (that is employing labour over and above that required to satisfy immediate consumption needs), and through credit in various forms (which is equivalent to the surplus labour that will have to be performed in the future in order to repay the capital advanced).

But the supply of land – which, from an economic point of view, encompasses all natural resources, including minerals below the ground, as well as, among other things, the sea and sea-bed, the atmosphere, the radio spectrum and outer space – cannot be expanded in these ways in response to rising demand.

Another characteristic of land, in contrast to labour and capital, is that although its supply is finite, it does not wear out. It can be used and reused over and over again, if not for one purpose then for another. Furthermore, land is often perceived simply as bare, unused land. Once it is built on, people tend no longer to think of the site as land. But land is land whether built-on or not. Indeed, land that is built on almost invariably is the most valuable of all land.

What determines the value of land?

It is precisely the demand for land, and its limited supply, that gives land its value. If demand for land is growing in particular localities, its value will increase. This will be reflected in the price one would have to pay to acquire the land. The demand for land and therefore its value, in different localities, depends upon many factors.

The demand for land may be high in some localities rather than others because the land is more fertile or well endowed with natural resources, or is an area of outstanding natural beauty. More importantly, and more usually, it may simply be because the locality is where more people want to live or work, perhaps because it is near markets or transportation routes, or is well supplied with services, such as water, electricity and gas, or shops, schools, and hospitals, and not too close to railway lines, motorways, airports, or rubbish dumps, which could render such localities less attractive places to live – though these factors could boost the value of land nearby for industries and commercial activities.

In short, the value of land in particular localities is created not by landowners, but first, by nature, and second, by other people and the community at large, through their economic and social activities, and the demand for land that this generates. If one took away such activities – as might happen, for example, when a mine became exhausted – the area would become a ghost town, and the rental value or selling price of land would be reduced practically to zero. On the other hand, the more that people choose to live and work in a particular locality, the more this will encourage investment in new productive activities, including infrastructure and improved services – both by public authorities, using taxes that we all pay, and by the private sector, from the profits derived from our spending. This will raise further the value of land in those areas.

Although the overall trend is for land to rise in value, due to growing populations and economic development which increases the demand for land, it is not necessarily a smooth process. There may be extended periods when land values are falling, and other times when land values rise much more rapidly than average. This may be for a variety of reasons, but generally it reflects what is happening in the economy as a whole and the kind of economic policies being implemented, which affect the demand for land.

For example, in the recent period, urban land values in Britain rose dramatically between 1995 and 2007 due to the huge expansion in credit availability, which, among other things, increased the economic demand for housing, and therefore the demand for land. Now that credit is no longer available on such a scale, this has gone into reverse, and land values are falling.

Meanwhile, the value of agricultural land, after a period of stagnation, has risen considerably due to the sharp increase in international food prices, which has increased the demand for agricultural land. Another

reason for the volatility of land values is the extent to which land, perhaps including properties standing on the land, are an asset that is used for speculative purposes.

These issues are discussed in more detail later.

Who benefits from rising land values?

When land is largely privately owned, as in Britain, it is not the community as a whole that benefits from rising land values, but landowners, including owner-occupiers. They are able to sell or rent out their properties at a higher price than otherwise. In effect, they profit freely at the expense of other people, especially those who own no property – and at the expense of society as a whole, whose investments in various economic activities and services, and so on, are responsible for rising land values. And when landownership is highly concentrated among a few wealthy individuals and families, it is they who benefit the most. In Britain, fewer than 200,000 families own two-thirds of the land, while just 4 per cent is owned by Britain's 17 million home-owners (see Appendix 1).

Banks and other financial institutions are also major beneficiaries of rising land values because people and businesses, if they need credit to acquire land or property, have to borrow more than they otherwise would, which means that banks and other lenders earn more interest.

The question of land ownership

Since it is nature that has provided land free for all of humanity, there is the argument that land should not be privately owned at all. This begs the question of how land came to be owned by individuals in the first place.

In fact, until quite recently, in terms of human development, societies everywhere treated land as common property. Where land was in much demand, it would be allocated more or less according to need through various systems of customary tenure. The land was yours as long as you used it, but it could be taken over or re-allocated if you did not. Such systems still exist in parts of Africa and other regions. The private ownership of land – especially when highly concentrated among a few wealthy individuals and families, as in Britain – more often than not, can be traced to its outright theft at some stage by those with political and coercive powers.

This has led many to call for the nationalisation and state ownership of land, thus returning land to common ownership, as the only fair way for society as a whole to benefit from the rising value of land that society itself creates. However, as will be explained in the next section, this is not at all necessary – nor would that necessarily guarantee that society as a whole would benefit.