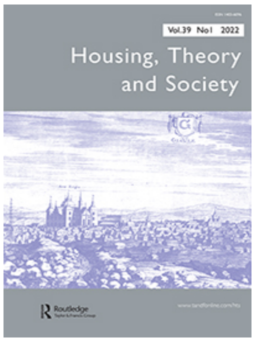

Routledge
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Housing, Theory and Society

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/shou20

Rethinking the Economics of Land and Housing

by Ryan-Collins, J., Lloyd, T. and L. Macfarlane with a Foreword by J. Muellbauer, London, Zeb Books, 2017, 280 pp., Paperback: £14.99 Hardback: £70.00 eBook ePub: £14.99 eBook Kindle: £14.99, ISBN: 9781786991188

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To cite this article: Edwin Buitelaar (2022) Rethinking the Economics of Land and Housing, Housing, Theory and Society, 39:1, 116-117, DOI: 10.1080/14036096.2020.1816714

To link to this article: https://doi.org/10.1080/14036096.2020.1816714

HOUSING, THEORY AND SOCIETY
2022, VOL. 39, NO. 1, 116–126

BOOK REVIEWS

Rethinking the Economics of Land and Housing, by Ryan-Collins, J., Lloyd, T. and L. Macfarlane with a Foreword by J. Muellbauer, London, Zeb Books, 2017, 280 pp., Paperback: £14.99 Hardback: £70.00 eBook ePub: £14.99 eBook Kindle: £14.99, ISBN: 9781786991188

When I received this book on my doormat – we had just entered the era of corona, which made the editor send it to my home address instead of my university pigeonhole – I braced myself. The book title starts with the words *Rethinking economics*. Usually, accounts that use similar words are believe-based and strident throughout. They call for the end of capitalism, neoliberalism or what have you, and hammer home that message. And usually, they do this by telling, rather than showing. Not this book. It is a subtle account of a forgotten "factor of production": land. Its aim is to look at the role of land in the housing market and the greater economy.

The book consists of seven well-written and well-researched chapters. The first chapter introduces the book and some basic concepts such as "land", "land value" and "land rent". It illuminates the specific features of land – its immobility and its perpetuity – and the consequences that has for land values and rents.

Chapter 2 deals with private landownership and how that has come about over the centuries, basically since the Enlightenment. The authors aim to show that the institution of private landownership has advantages and disadvantages: it creates both freedom and theft. It means freedom because it provides clarity and protection over the use of land, it allows for trade and, as a result of those, it functions as a collateral for borrowing. It means theft, on the other hand, because it provides landowners with wealth (and power over others), gained from "economic rent", the surplus that not they but society has brought about. The chapter closes by discussing various policies for dealing with this "ownership paradox", ranging from targeting the institution of private landownership itself to dealing with its negative side effects, such as taxing away land rents.

In chapter 3, the authors claim that land, as one of the three factors of production (together with labour and capital), has been treated insufficiently and inaccurately by mainstream neoclassical economics. Neoclassical economists often treat land as an element of capital, and as substitutable, rather than as a distinct factor of production, with its own specific impact on the economy, the way classical political economists (such as Smith, George and Ricardo) saw it. Land is permanent, capital temporary. Land value appreciates (as its supply is fixed while populations grow), and capital depreciates with time. Land is immobile, while capital can move around. And economic rent from land does not increase productivity or investment, while capital may.

Chapter 4 contains an extensive historical account of the role of land and housing in the United Kingdom from the Industrial Revolution onwards to today's homeowning society.

Chapter 5 connects the issue of land with that of finance. The authors observe that land (and housing) have become "financialised", which refers to a growing penetration and importance of the financial system in housing and property markets. Credit availability plays a key role here. In combination with the features of land, cheap and easily available credit has produced what they describe as a "house price-credit cycle" (119) or "land-finance positive feedback cycle" (160). This feedback loop works as follows. Due to its fixed supply, land is the most secure asset one can get, which makes it a good collateral for credit. This allows banks to provide loans. That creates money and increases people's buying power, giving rise to housing demand. With fixed land supply, this increased housing demand translates into higher house and land prices. To be able to afford these higher priced houses, more credit is needed. And so on. In recent decades, most advanced economies have experienced an increasing elasticity of credit supply, contributing, through the described feedback cycle, to soaring house prices, particularly in the more urbanized areas. Macroeconomics has long neglected both the role land and credit, but in combination, the two have had a great impact on the economy through household debts and repeated booms and busts.

This "house price-credit cycle" also has distributive effects, which is the subject of chapter 6. Those already in possession (of land) get credit more easily than those who are not and can therefore embark and stay on the road to capital accumulation. Therefore, "the key dividing line in many advanced economies is not earnings but ownership of property" (187).

In the final chapter (7), the book puts forward some proposals to tackle the distorting effect that land (rents) can have on housing markets and the wider economy (chapter 7). It provides a comprehensive overview of potential tenure, planning, taxation, financial and accounting reforms.

This is an important book because it is one of the few contributions to the economic literature that puts land centre stage. Mainstream economics often neglects the distinct nature of land and therefore misses out on identifying its impact on economic issues such as housing affordability, household debt, financial stability, and economic inequality. In addition, the book puts forward a range of policy options (chapter 7), which gives it great practical relevance.

I am personally happy with this book, not just for research or for fuelling political and societal debates, but also for teaching purposes. First, because it is well written and accessible. It moves from theory (including some of the classics) to practical examples – mostly from Britain but not exclusively – and back in a smooth and organic way.

Secondly, because it adds important insights to the existing stack of textbooks on the economics of land and housing. The available textbooks in this field are neoclassical and welfare economic in nature, the dominant economic paradigm of the last decades. Neoclassical accounts usually excel in the clarity and the simplicity of equilibrium models and assumptions of "market clearing". But systems such as the land and housing system do not only consist of *balancing* feedback loops, they also contain *reinforcing* feedback loops, such as the earlier mentioned "house price-credit cycle", that lead to markets spinning out of control. Institutions, including planning systems, taxation, financial regulation, and the very institution of land ownership itself play a key role in this. These institutions are the result of historically contingent processes and the class and power relations that shape them.

Adding this book to the "required reading" list helps to shed light on the socially constructed and institutionalized nature of land and housing markets and the impact that land and its economic rent has, not just on the working of land, housing and property markets but on the economy at large.

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https://doi.org/10.1080/14036096.2020.1816714