Private Landed Property and Finance: A Checkered History

By Josh Ryan-Collins*

Abstract. This article examines the links between private property in land and the financial system. Private landed property (PLP) has played an important role in supporting the growth of modern banking and credit systems, industrialization, and economic democratization. However, since the 1980s, high-income economies have exhibited a strong preference for PLP as a form of tenure, in the form of home ownership in particular. This pattern has combined with financial liberalization and innovation to create a land-finance feedback cycle with negative social and economic outcomes. They include a housing affordability crisis for younger and poorer socioeconomic groups; rising wealth inequality as land rents have become more concentrated; economic stagnation due to capital misallocation; and increased financial fragility as household debt has exploded. We illustrate these historical processes in the Anglo-Saxon "home-owning democracies," where they have been strongest, focusing in particular on the United Kingdom, Australia, and the United States. This article considers how alternative tenure arrangements and reforms to finance and taxation could help mediate these dynamics.

Introduction

The dominant model of land tenure in high-income economies is private ownership, whether the use is commercial or residential. This fact is rarely questioned, but it could be considered one of the great paradoxes of modern capitalist economies. For, unlike most commodities, land (considered as location) does not observe the basic rules of supply and demand upon which capitalist exchange and

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markets depend for their operation and efficiency. Land has special properties—inherent scarcity, fixity, and irreproducibility (Gaffney 1994).[1] As a result, increased demand yields higher economic rents, which tend to be capitalized into the market value of land (George [1879] 1884; Ricardo [1817] 2001). To say that land—which absorbs the growing wealth of the community and wider society in which it sits—should be privately owned and its value only lightly taxed (relative to income and profits) is perverse since the "owner" has done nothing to merit such gains. It was for this very reason that the founding fathers of modern economics—Adam Smith, David Ricardo, John Stuart Mill, and Karl Marx—viewed the landed class and land rents more generally as a threat to capitalist development (Ryan-Collins et al. 2017).

An important reason private landed property (PLP) has become so entrenched as a mode of tenure is its intimate relationship with finance. Titled, privately owned land is arguably the most attractive form of collateral in existence for financial institutions, given the above-mentioned special properties. By supporting the development of modern banking, PLP encouraged economic development and industrialization in both settler colonies and feudal regimes. The perverse economic effects of PLP are then, to some extent, counterbalanced by its enabling of finance and capitalist development.

But the interaction between land and finance is a delicate one. As a result of financial liberalization and globalization in advanced economies, financial speculation has become the dominant motive for investment in land and its appurtenances (most notably residential housing) and the source of negative consequences for society and the economy (Rolnik 2013; Aalbers 2016; Ryan-Collins 2018). Since the 1980s, house prices and land values have risen at a much faster rate than incomes and contract rents, and economies have been burdened by greater macroeconomic volatility and rising household debt. For the last 20 years, the rate of homeownership in the "home-owning democracies" of Anglo-Saxon capitalism has fallen, and land rents have become concentrated in older and richer groups (Adkins et al. 2020). The internal contradictions of "residential capitalism" have emerged into the broad daylight (Schwartz and Seabrooke 2008).

Policy attention has focused almost exclusively on so-called supply-side solutions to the housing problem, whether it be deregulating planning or zoning systems or just building more affordable homes, with much less attention paid to the demand side of the equation or the underlying institutions that have created the land-finance cycle (Gallent, Durrant, and May 2017; Ryan-Collins 2019). This is despite house prices also rising at a faster rate than contract rents, which should also be rising if supply were the constraint (Miles and Monro 2019). Private landed property (PLP) is one of those key demand-side driver institutions.

In academia, the term "financialization" (of housing/real estate) has become popularized since the 2008 global financial crisis (GFC). However, a number of urban scholars, including Anne Haila, noted the problem of land being exploited as a financial asset rather than a factor of production or consumption good well before the GFC (Harvey 1978; Kemeny 1978; Haila 1988). In one of her final works, Haila (2020: 15) critiques classical economists, who underestimated the ongoing power of landowners in capitalist accumulation. She also notes more recent trends of both corporations and the public sector selling off land in order to release capital to their core business and public services, respectively. She calls for "a theory explaining landowners' power and alliance with financiers, and the relationship between real estate and finance sectors" (Haila 2020: 16).

In this article, I focus on the relationship between PLP and the financial sector over time, with special attention to Anglo-Saxon liberal capitalist economies, in particular the United Kingdom, the United States, and Australia, where this mode of tenure, along with financial liberalization, has been promoted most vigorously. Other authors have critically examined the land-finance interaction in these countries individually (Kemeny [1978] on Australia; Hudson [2010] on the United States; Harrison [2020] on the United Kingdom), but a comparative perspective provides additional insights given their different histories, geographies, and political systems. Despite these differences, all three countries have come to embrace PLP, with similarly negative consequences for their economies and housing markets. Fortunately, examples do exist of land-finance ecosystems and institutions that generate

less concentrated rent extraction dynamics and greater financial stability, as Anne Haila (2000, 2016, 2020) examined over her lifetime.

The remainder of this article is set out as follows. The next section examines the emergence of private landed property and its key role as a form of collateral in enabling credit, economic growth, and industrialization. Following this, I examine the political-economy dynamics that lead to the co-dependency between PLP in the form of modern homeownership and finance in high-income economies, drawing on observations of credit, house prices, and housing supply in Anglo-Saxon economies. The next section considers alternative tenure-finance ecosystems, focusing on European and East Asian economies, prior to a conclusion.

Private Landed Property as Collateral: Economic Freedom and Industrial Development

Owning land as private property, with secure title and the right to sell it to whomever you wish, is essential for it to be used as collateral for credit. Without these features, no lender would accept land as security, as it could not be sold to repay the debt in the event of the lender having to foreclose on the borrower. Once landowners had clear and transferable land titles, supported by detailed surveys, standardized measurements, and recognized legal institutions, it opened the way to banks and other institutions to vastly expand the creation of credit. Adam Smith ([1776] 1976: 20) recognized as much:

> [Scottish banks] invented, therefore, another method of issuing their promissory notes; by granting what they called cash accounts, that is by giving credit to the extent of a certain sum (two or three thousand pounds, for example) to any individual who could procure two persons of undoubted credit and good landed estate to become surety for him, that whatever money should be advanced to him, within the sum for which the credit had been given, should be repaid upon demand, together with the legal interest. Credits of this kind are, I believe, commonly granted by banks and bankers in all different parts of the world.

This change in the social, political, and legal treatment of land was, therefore, a critical factor in the birth of modern finance, and a

vital condition for the economic transformation of the Industrial Revolution and capitalist production (Linklater 2013; Ryan-Collins et al. 2017)

Heinsohn and Steger (2000, 2013) develop a general theory of money and interest based on property (defined more broadly than just land titles). They identify two forms of society. First, "possession-based" societies, including tribalism, feudalism, and state socialism, are based upon reciprocal obligations and hierarchical obedience that lack credit-money relationships and the use of interest. Second, there are "property-based societies" with legally enforceable land titles and rights. A land title is a "right to encumber property in order to back money, or to pledge it as collateral in order to obtain credit," while "possession titles are rights to the physical use of goods and resources" (Heinsohn and Steiger 2000: 97).

Modern capitalist money is issued, according to this account, via issuer-creditors encumbering their own property titles to back the money issued, while the debtor encumbers his or her property by pledging it as collateral for securing the debt. Assuming the creditor is a bank, the "property title" it is encumbering can be considered reserves borrowed from the central bank, which, in turn, demands collateral from the commercial bank (typically government bonds) in return for the reserves. Thereby, both contract partners lose "property premia." To compensate for their loss, the creditor demands interest, while the debtor gains the "liquidity premium" on money, to use Keynes's terminology (Heinsohn and Steiger 2000:97; see also Gaffney 2009).

Notably, the physical use of goods is never transferred in a loan contract. This renders redundant the theory of interest in mainstream economics, in which interest is seen as compensation for the loss of use of physical commodities. The "permanent transformation of immaterial property premia into material rates of interest drives the economic juggernaut of the property-based society" (Heinsohn and Steiger 2000: 97). In the hierarchy of risk of property titles, land carries the least risk, being superior to real capital goods, tradable assets, and contracted income. The more secure the debtor's property title, the more easily he or she can secure credit and the lower the rate of interest. The rate of

interest is then determined by the quality of collateral, and there is no "natural rate" that clears the goods market achieving equilibrium. This point has been noted by some economists critical of an equilibrium notion of perfect information (Stiglitz and Weiss 1981).

This account accords reasonably well with the emergence of the enclosure system in England in the 16th century, which is often referenced as the birth of private property (Linklater 2013).[2] Although resisted by the Crown, property owners in parliament—gentry, yeomen, and tenant farmers— forced through a new regime of property law by the late 16th century, destroying the basis of feudalism and setting up a framework of surveys, deeds, mortgages, conveyancing, and inheritance that has been adopted across the world. Landowners were then able to raise finance for capital investment and, eventually, for industrialization. Enclosure enabled industrialization to develop at a much more rapid rate in England than in neighboring European countries that remained under feudal and mercantilist governance arrangements, prone to excessive centralization and rent extraction (Linklater 2013: 55–74).

Similarly, the birth of the United States of America as an independent nation was also driven by the emergence of unilateral foreclosure, which allowed colonists to use land as security for credit. In turn, this enabled real estate sales, and land conceived as real estate to become the basis of a capital market (Park 2016). As Waldstreicher (2006: 198) notes, colonists in the 18th century came to call money "coined land." Later, in the 19th century, the government-controlled distribution of (free) land titles supported credit and economic expansion in the post-colonial era.

In the period after World War II, PLP-as-collateral enabled industrialists to raise capital to fund investment in new machinery and played a central role in the restructuring of national economies in Singapore (Haila 2016), Taiwan (Linklater 2013: 313–316), and Korea (Kim 2004). Here, land redistribution and the grant of title to those who worked it (mainly in an agricultural context) spread access to both credit and the means of production to a much larger proportion of society than had existed previously. This, in turn, enabled the emergence of

dynamic, capitalist economies and the long boom of the postwar era (Linklater 2013).

Indeed, the power of private property as collateral has led some economists to identify it as the key to tackling entrenched poverty in developing economies. In a seminal contribution, Peruvian economist Hernando de Soto (2000) argued that granting poor slum dwellers legal title to their informallyheld homes and business properties would enable a massive transfer of land from the pre-modern state of possession to full private property. This would then trigger broad-based economic growth as the newly entitled owners could leverage their property to fund business expansion. De Soto's thinking has had significant influence on both domestic housing policy in developing economies and foreign aid programs, including ones managed by the United Nations, the International Monetary Fund, and the World Bank (Payne 2004; World Bank 1996). However, empirical research does not suggest a link between land titling, access to credit, and economic growth and ameliorating inequality, social stratification, and long-term mass poverty (Gilbert 2002; Manders 2004; Mitchell 2007; Campbell 2013; Obeng-Odoom 2020).

Furthermore, the process by which land entitlement and enclosure provided the necessary collateral to enable the development of modern banking systems and industrial finance was neither smooth nor a simple case of economic democratization and empowerment. To the contrary, these processes usually involved the violent and even genocidal expropriation of land from indigenous "possessional" societies and cultures and destruction of various forms of commons that, from an environmental perspective, may have been sustainable, even if they were not economically efficient. In Anglo-Saxon settler societies in particular, land entitling was key to colonization and the establishment of racial and economic divisions that remain to this day.[3] Any recognition of the rights of previous occupiers and users of land makes it almost impossible to articulate a sound moral basis on which someone can transfer land from a state of unowned, collective possession to one of individual private property.

The State-Supported Push for Secure Housing and Homeownership

In the 19th century, homeownership in the United Kingdom and the United States was limited by lack of public investment and by limited private financing. It was initially supported by the growth of mutuals—building societies and thrifts—owned by and run in the interest of their members. These organizations would pool the savings of local workers to enable them to construct houses. Newly built homes could then be used as collateral to raise finance for other member's homes, enabling the construction of cities in an organic fashion (Clark 2001). While these mutuals were initially small scale, self-terminating, and localized, many of them merged over time, enabling the pooling of liquidity that allowed for larger home-building schemes and for mortgage financing that was not dependent on local savings. They began to pay interest on savings, and lent money at longer maturity than their deposits, creating credit and money in the same fashion as banks.

By the early 20th century, private landed property for residential use began to take on greater political and economic importance in capitalist economies. Accordingly, the state began to play a bigger role in supporting homeownership. Although Americans are generally known to have little sympathy for big government, the U.S. federal government played a central role in the rapid expansion of homeownership via its support for residential mortgage finance. The Federal National Mortgage Association (FNMA)—better known today as "Fannie Mae"—was created during the New Deal reforms of the 1930s to purchase federal-government-guaranteed loans from banks, allowing them to limit their risk and to expand their mortgage lending. By the 1950s, 40 percent of all U.S. mortgages were federally subsidized (Jordà et al. 2017: 14), whilst a quarter of the increase in homeownership from 1940 to 1960 for younger cohorts could be explained by changes in mortgage terms that were driven by federal policy (Fetter 2013). In Australia, the central government contributed around a quarter of the total increase in the housing stock under the first Commonwealth State Housing Agreement (CHSA) that ran from 1945 to 1956 under a program that extended loans to ex-servicemen (Eslake 2013: 2).

The United Kingdom and other European states engaged in elaborate planning schemes in which housing, infrastructure, urban planning, and, sometimes, employment and industrial policies became an integrated part of a strong welfare state (Aalbers 2017: 1). Homeownership, however, was not, in general, privileged as a form of tenure by state support: good-quality social (or public) rental housing was expanded. Taxation systems did not favor homeownership over other tenures. The focus was on the creation of large-scale urban developments, supported by the spread of cheap, efficient, private or public transportation networks. These networks also increased the amount of land that was accessible and kept land values and rents down, despite growth in incomes and populations (Knoll et al. 2017). These included "company towns," "garden cities," and "New Towns," European housing estates, and American suburbs (Aalbers 2015: 49). In such developments, land was often held either publicly or cooperatively rather than privately, thereby socializing land rents.

This mixed economy in both housing supply and tenure was supported by specialist mortgage finance organizations that were given favorable tax treatment and regulation by the state. However, these institutions were generally conservative, requiring borrowers to raise large deposits or have multiple years' membership before receiving loans. In addition, mortgage finance remained largely protected from the wider financial sector, and credit-control policies implemented by central banks and financial regulators prevented excessive credit flowing in to housing, reducing volatility in house prices (Goodhart 1989:156–158; Hodgman 1973). The now well-established link between house prices and consumption was limited, as home equity withdrawal was restricted in nearly all countries in the postwar period (Lunde and Whitehead 2015:28).

To summarize, up until the 1970s, one can make the argument that the institution of private landed property played a key enabling role in economic growth, industrialization, and improvements in living standards. Prior to the 1980s, much new mortgage finance flowed into the construction of new housing rather than existing property, and it was conservatively managed, with the state playing an important role in both providing the infrastructure needed

for suburbanization and subsidizing or guaranteeing an inherently limited circuit of housing finance. The mid-20th- century rise of individual homeownership—supported by mortgage financing—spread landownership and land rents to large sections of the population and had broadly beneficial consequences for economic growth, resilience, and equality (Ryan-Collins et al. 2017; Saunders 2016). However, it was not to last.

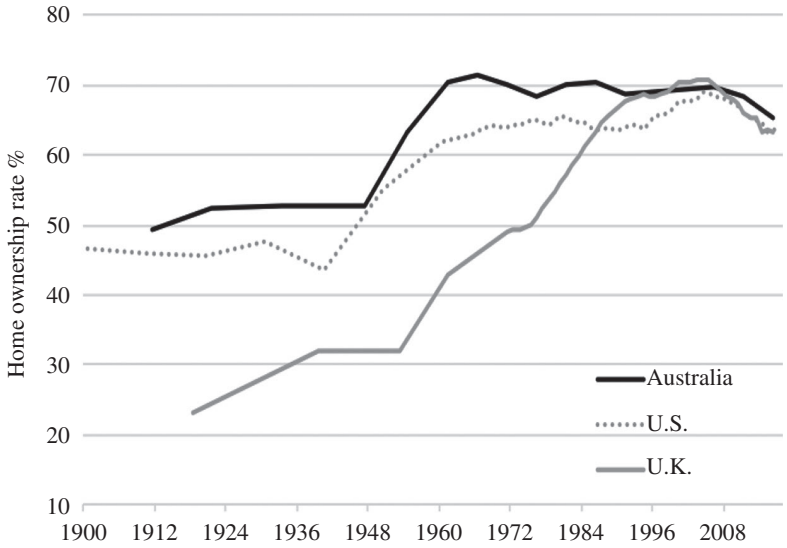
Privatization, the Liberation of Mortgage Finance, and the Emergence of the Housing-Finance Cycle

By the early 1970s, the fiscal position of many governments had deteriorated in the face of rising unemployment. High inflation was blamed on excessive government spending. Anglo-Saxon economies began to cut back on housing expenditure and, in particular, the provision of new, affordable, public-sector housing for social rent. Homeownership became the majority tenure in Anglo-Saxon economies, as shown in Figure 1. The general pattern of homeownership in advanced economies has been an increase from around 40 percent in the 1940s to close to 60 percent by the 2000s (Jordà et al. 2017: 121).

As a result, governments naturally began favoring policies that would secure the homeowner vote—or "homevoter" (Fischel 2009). These policies included more favorable taxation regimes for existing homeowners and easier access to mortgage credit to support home purchase. Public subsidies switched from the supply side (building new public housing and assembling and providing affordable land) to the demand side (supporting would-be homeowners to buy in the private market) (Ronald et al. 2017; Ryan-Collins et al. 2017). The hope was the private sector would pick up the slack.

As can be seen in Figure 1, which shows the rate of homeownership flattening out between 65 and 70 percent in the United States and Australia in the 1970s and 20 years later in the United Kingdom, this did not happen. In the United Kingdom, as shown in Figure 2, the collapse in public-sector new-home completions made little difference to the supply of private-sector housing. Overall completions collapsed from an average of 320,000 in the 1949–1975 period to 200,000 after 1975. The increase in homeownership in the United Kingdom in the

Figure 1
Percent Homeownership in Australia, the United States, and Great Britain, 1900–2016

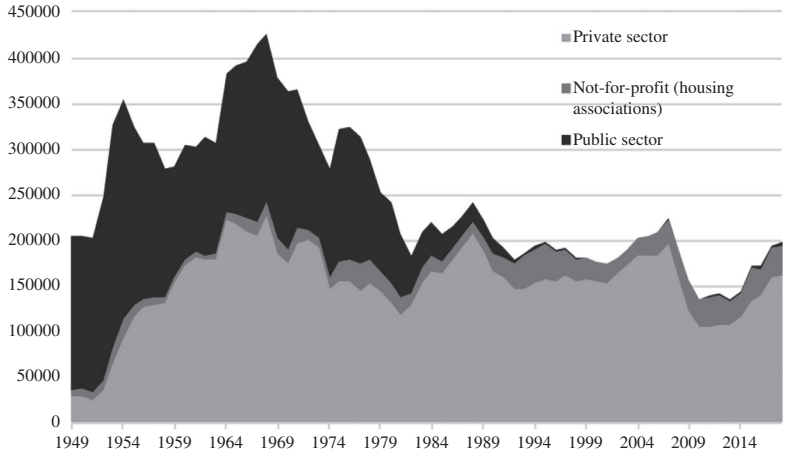


Sources: For Australian tenure data from 1997 to 2018: Australian Bureau of Statistics (2019). For Australian tenure data from 1911 to 1991: Australian Census Bureau (1911–1991). For U.K. household tenure from 1918 to 2018: U.K. Ministry of Housing, Communities, and Local Government (2012, 2020). For U.S. tenure from 1900 to 1960: U.S. Census Bureau (2017). For U.S. tenure from 1964 to 2020: U.S. Census Bureau (2021: Table 14).

1980s can mainly be attributed to Margaret Thatcher's "Right-to-Buy" scheme, which led to a huge transfer of public, socially rented housing switching to private ownership.

In Australia, a vast privatization of public housing took place in the 1960s, enabling homeownership rates to reach a high of 71 percent in 1970, decades prior to the United Kingdom reaching a similar level. By 1971, 40 percent of all Commonwealth State Housing Authority stock had been sold off (Ryan-Collins and Murray 2020–11). The 1996 Commonwealth State Housing Agreement further reduced

Figure 2
U.K. New Housing Completions by Sector, 1949–2018



Source: U.K. Office of National Statistics (2019: Table 241).

funding for new homes and instead shifted towards the subsidization of rents (Troy 2012). By the 2000s, less than 5 percent of new homes were publicly provided. In both countries, privatization helped establish homeownership as a key political-economic requirement for households, and, in doing so, it created a political constituency with a strong interest in capturing land rents via homeownership.

The Liberalization and Globalization of Housing Finance

Accompanying the withdrawal of public housing provision was the liberalization of housing finance. One of the most remarkable, but neglected, macroeconomic shifts in the past 50 years has been the transformation of banking systems in advanced economies from their textbook role of lending to non-financial firms for working capital and investment to becoming real estate lenders (Jordà et al. 2017). Mortgage lending in advanced economies increased on average from 40 percent of GDP in the mid-1990s to almost 70 percent by the financial crisis of 2007–2008, whilst the stock of business loans rose by

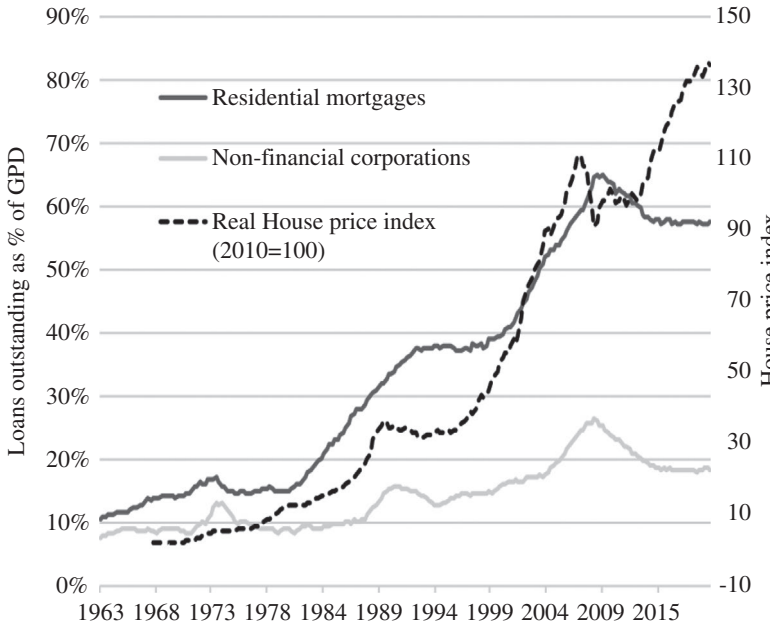
little more than 5 percent (Jordà et al. 2017). During the same period, average real house prices followed a path similar to that taken by mortgage credit, doubling in value, suggesting credit was the primary driver of rising prices.

This relationship between mortgage credit and house prices is borne out in a number of cross-country and single-country empirical studies (Andrews et al. 2011; Favara and Imbs 2015; IMF 2011). Credit constraints, which are judged by the degree of liberalization of the mortgage credit markets, are the "elephant in the room," helping to explain significant differences in house prices and consumption between countries such as Germany, the United States, the United Kingdom, and Japan (Aron et al. 2012; Duca et al. 2011; Ryan-Collins 2018).

The dynamics of this debt shift in the United Kingdom and Australia are presented in Figures 3 and 4. In both cases, we can observe the rapid expansion in mortgage credit relative to GDP and to business lending, in particular in the late 1990s but also in an earlier period in the United Kingdom, following the "big-bang" deregulation of the early 1980s under Margaret Thatcher. In both cases, house prices rise at a similar trajectory, doubling in the United Kingdom since 2000 and almost tripling in Australia. Figure 1 shows that homeownership has declined in both countries since the early 2000s, meaning land rents have been increasingly concentrated, generally in the hands of existing owners, as affordable housing provision has declined (Ryan-Collins et al. 2017; Ryan-Collins and Murray 2020).

The deregulation of mortgage finance was initiated in the United States, the United Kingdom, and Australia following the collapse of the Bretton Woods agreement, which led to the freeing up of international credit flows and increasing competition between the New York and London financial sectors (Helleiner 1994; Krippner 2011). The election of conservative, free-market-oriented leaders (Reagan and Thatcher) in the United States and the United Kingdom led to the repeal of regulations that prevented banks from competing with building societies and other established housing finance institutions. Limits on interest rate charges and tax disadvantages were removed, along with other sectoral credit controls on mortgage credit—the so-called Big Bang. The removal of foreign exchange controls also made banks

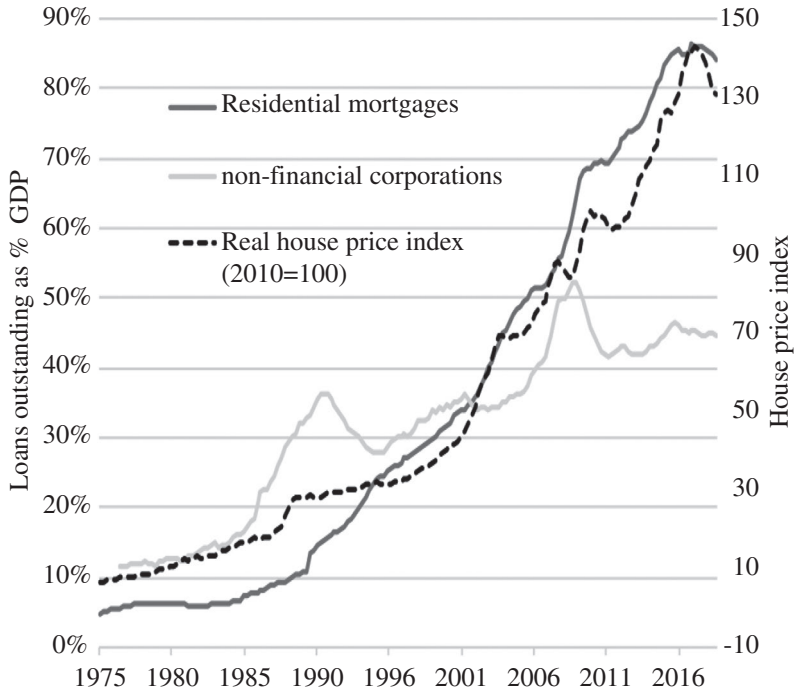
Figure 3
UK: Loans Outstanding as Percent of GDP (left axis)
and House Price Index (right axis), 1963–2019



Sources: For mortgage loans and non-financial loans: Bank of England (2021: LPQBC55 and LPQBC57). For house prices: Bank of International Settlements (2020).

less dependent on domestic deposits for their funding, de-linking domestic incomes from mortgage credit growth. From the mid-1970s, U.S. banks were able borrow from abroad to finance mortgages, in particular from the largely unregulated "Euro-dollar" market. Domestic financial innovations also enabled banks to attract deposit funding away from the thrifts (Krippner 2005). Financial liberalization also enabled financial innovation, with new financial instruments emerging, such as real estate investment trusts (REITS) and residential mortgage backed securities (RMBS), that helped leverage capital market funding into landed property.

Figure 4
Australia: Loans Outstanding as Percent of GDP (left axis)
and House Price Index (right axis), 1975–2019



Sources: Loans: Reserve Bank of Australia (RBA) (2021). Australian GDP: World Bank (2021). House price index: Bank of International Settlements (2020). Note: Residential mortgage data are found in columns E and F of Table D5 (codes: DBLSLPHO, DBLSLPHI) (RBA 2021). Lending to non-financial institutions is in column K of Table DF (code: DBLSCLNFS) (RBA 2021).

REITS are companies that own, operate, or finance income-generating real estate and pool the capital of numerous investors, making it possible for individual investors to earn dividends without having to buy, manage, or finance any properties themselves. REITS enjoy tax benefits that allow them to deduct dividends paid to

shareholders from taxable income. They operate an essentially speculative business model, generating profits from the difference between real estate asset appreciation and related income flows, such as contract rents and the returns paid to investors (Jefferis and Stilwell 2006). They were introduced in the United States and Australia in the 1970s, and, despite periodic financial crises due to rising interest rates or construction problems, they remained popular investment vehicles, partially because larger banks and central banks rescued them due to their systemic importance in the wider financial and real estate markets (Minsky 1992: 60–64). Large investment banks, such as Macquarie Bank in Australia, played important intermediary roles, creating real estate securities purchased from non-bank issuers and issuing these to capital markets at attractive rates of return with reduced tax liabilities (Jefferis and Stilwell 2006; Tapp and Kay 2019). REITS were introduced to the United Kingdom in 2007 by the Labor government and rapidly took off, numbering 75 today (Christophers 2020: 355).

Residential mortgage backed securitization (RMBS) involves the packaging up of many different mortgage titles of different levels into a security that pays a specific yield, depending on the relative riskiness of the package of mortgages contained within it. These assets proved highly attractive to capital markets as an alternative to lower-yielding government bonds, not least in the run up to the financial crisis of 2007–2008. An RMBS transformed a geographically fixed and illiquid asset—a traditional 25-year fixed-rate mortgage loan—into a liquid and transparent financial asset that can be bought and sold almost anywhere in the world (Gotham 2009). By opening up housing finance to a vast global investment sector, it broke down previous national and local institutional barriers to the funding of home purchase.

The liberalization of finance may have aimed at increasing competition in mortgage markets, but in both the United Kingdom and Australia, banking systems and mortgage provision became more concentrated and less diverse. In Australia, large state banks that previously provided significant finance via government subsidies to support new home construction were privatized (Gizycki and Lowe 2000). In both countries, mortgage markets came to be dominated by one particular model of bank: the large, shareholder-owned national bank.

Shareholder banks typically operate a transaction banking model with several distinctive characteristics: a preference for centralized and automated credit-scoring techniques to make loan decisions; a need for high quarterly returns on equity; and a strong preference for collateral, with landed property as the preferred form of collateral (Collins 2012; Ryan-Collins 2019). Increasingly, the model favors the generation of profits through residential mortgage debt and the issuance of mortgagebacked securitization (Berger and Udell 2002).

A key development motivating these dynamics in high-income economies in the 1980s was the emergence of a new international regulatory framework—the "Basel Accords"—that introduced for all banks minimum capital requirements that are related to the type of assets they held. Loans secured by mortgages on residential properties only carried half the risk weight (50 percent) of loans to non-financial firms in the original Basel Accord. Securitized mortgages, which were viewed as more liquid and thus even less risky, only carried a 20 percent risk weight. The effect of these reforms was to allow banks to earn fees and net interest margins by holding 2.5 times more credit risk in real estate than they had before, without any increase in their capital requirements (Persaud 2016: 5).

These regulatory strategies can be seen as a classic example of the fallacy of composition. Regulators and banks, encouraged by policymakers keen to boost homeownership levels, were right to consider that at the level of any individual bank, a residential mortgage loan will be less risky than an unsecured loan to a firm. But from the perspective of macroeconomic and macro-financial stability, the synchronized expansion of mortgage credit well beyond the rate of growth of GDP and of incomes was clearly problematic. Until the 2007–2008 crisis, however, central banks were reluctant to act, continuing to strictly observe their mandated focus on consumer price stability.

Credit and finance are not neutral. Where they go determines their effect on the economy. Traditional lending to firms supports capital investment and helps pay wages, leading to increased GDP transactions, economic growth, and productivity. The increased growth in the economy enables firms to pay back both the principal and the interest, preventing the build-up of excessive debt overhangs. But credit

creation for the purchase of existing property and land increases property prices without stimulating investment or wages. Households must either take on more debt or reduce their spending, leading firms to cut back on investment, leading to lower profits and stagnating wages. This, in turn, feeds into more demand for mortgage debt as house prices continue to rise relative to incomes, generating a positive feedback cycle where increasing mortgage credit effectively creates its own supply (Ryan-Collins 2018, 2019). Indeed, a study of 46 economies over 1990–2011 found a negative relationship between the stock of bank lending to domestic real estate and economic growth but positive growth effects of credit flows to non-financial business (Bezemer et al. 2016).

Nevertheless, political pressure from a home-owning majority, coupled with rising public deficits and lobbying from financial markets, proved effective in persuading governments to continue down the path of mortgage-finance liberalization. In both the United Kingdom and Australia, new mortgage products to encourage investors to buy second homes for rent were introduced in the 1990s. The regime proved more resilient than might have been imagined, partially because the liberalization of home equity withdrawal in Anglo-Saxon economies enabled homeowners to monetize the increase in housing wealth and land rents they were enjoying, supplementing aspects of consumption demand even as wages and investment stagnated (Aron et al. 2012).

In many European countries, the increase in mortgage credit has enabled more people, particularly younger cohorts, to gain access to homeownership and to spread land rents. However, overall, the increase in prices driven by mortgage lending may counterbalance the increased access to liquidity. A recent empirical study of 17 countries between 1920 and 2013 found that increases in mortgage debt were neither necessary nor sufficient for higher homeownership levels (Kohl 2018). As mentioned, in Anglo-Saxon economies, homeownership levels appear to have peaked in the early 2000s and have been falling since then, despite further increases in mortgage debt relative to GDP. (See Figure 1 and Ryan-Collins (2018).) In these countries, housing wealth and land rents have become more concentrated in

older and richer cohorts, with significant growth in "petty landlordism" and second-home ownership (Arundel 2017; Wind et al. 2020).

This model of economic development has been termed "privatized Keynesianism" or "house-price Keynesianism" (Crouch 2009). Encouraging the personal accumulation of assets, such as housing equity, as a means of meeting the cost of social care and retirement needs in an aging population also made political sense to neoliberal governments keen on reducing the role of the state. "Asset-based welfare" began to emerge as a new policy framework, with homeownership leading to less support for higher taxes to fund universal welfare provision and pensions (Doling and Ronald 2010; Ronald et al. 2017; Toussaint and Elsinga 2009; Watson 2009).

The embrace of financial liberalization and homeownership by Anglo-Saxon capitalism may have also been driven, in part, by broader national economic strategies towards globalization. These countries saw their export industries, in particular manufacturing, facing fierce competition from China and other emerging markets and may have seen attracting foreign investment into real estate and other financial assets as a means to offset the resulting trade deficits. Other Western economies, such as Germany and Sweden, were able to preserve their manufacturing sectors and generate current account surpluses that made assetinflation a less attractive macroeconomic strategy. This thesis is backed up by one empirical study that found that in countries with few real-economy investment opportunities, foreign capital flows into the non-bank sectors that are associated with lower shares of business lending in domestic bank portfolios (Samarina and Bezemer 2016).

Post-2008 Developments

Post-crisis, central banks have taken a closer interest in monitoring house prices and introduced macro-prudential policies aimed at restricting real estate credit to address "systemic risks" across national economies (Cerutti et al. 2017). Regulators have imposed limits to loan-to-value and loan-to-income ratios for mortgages and also targeted buy-to-let and interest-only mortgages with some success in

the United Kingdom, Australia, Switzerland, New Zealand, and Hong Kong (Cerutti et al. 2017; Kelly et al. 2018)

However, countervailing this has been extraordinarily loose monetary policy. Short-term policy interest rates have been reduced to the zero lower bound, whilst quantitative easing (QE) programs have driven down medium- and longer-term rates via the vacuuming up of government bonds from capital markets. The hope was that this would lead investors to invest more in risky, real-economy investments such as debt and equity issued by companies. But the evidence suggests that, rather than stimulating real-economy growth, QE has pumped up asset prices, in particular house prices (Moody's Analytics 2015).

The "wall of liquidity" created by QE catalyzed a global search for higher yielding, but safe, assets (Aalbers 2016). Landed property, particularly in rich global cities, proved to be one of the most attractive assets for investors with global reach, not least because they could easily source borrowing, backed by property assets, at ultra-low interest rates from a banking sector still with a preference for real estate. Property prices in global cities have "synchronized," with price dynamics closer to each other than with cities and regions in domestic hinterlands (Duca 2020). Although speculative buyers from both home and abroad usually target "prime" (very expensive) properties, speculation raises prices across these cities and means they become unaffordable for those on middle incomes.

The COVID-19 economic crisis was initially expected to lead to a fall in house prices and a retrenchment in mortgage credit in advanced economies as incomes dried up in the face of government lockdowns. However, there is little sign as yet of this happening, in part because very low interest rates encourage borrowing and reduce debt-servicing ratios. But also, governments have provided generous wage subsidies and furlough schemes to maintain incomes as well as requiring banks and landlords to offer mortgage and rent-holidays (*Economist* 2020). In addition, there have been further demand-side subsidies. For example, the United Kingdom experienced a mini-boom in the middle of the first wave of the pandemic due to government slashing the rate of stamp duty on home purchases.

The pandemic has led to shifts in lifestyle that may also affect the demand for property. As more people work at home and expect to work at home more frequently in the future, this increases the demand for space, with a likely inflationary effect on prices. Money that people were spending on work-related consumption may be switched to spending on property. Evidence from the United States suggests urban land prices, in particular the price of larger detached properties, have been increasing at a faster rate than rural (*Economist* 2020). By contrast, in the United Kingdom, there is evidence of big increases in towns within commuting distance of major cities (*Financial Times* 2020). Whether these shifts are permanent or temporary will depend upon whether employers shift to a more relaxed attitude towards working at home. A number of large corporations have already signaled changes in their policies (Kelly 2020).

However, younger cohorts and first-time buyers have found it harder to buy homes, as banks have increased loan-to-value and loan-to-income ratios, meaning the wealth gains will mainly benefit existing owners. Assuming governments eventually wind down wage subsidies, one would eventually expect the drop in incomes from job losses to feed through the housing market. The question will be to what degree this affects a financial sector that has become so dependent on high and rising collateral values. Governments and central banks may well be required to step in again to prop up mortgage markets, perhaps by underwriting commercial mortgages on a large scale, as has been routine in the United States for decades. However, there are longer-term alternatives for breaking out of this feedback cycle between land value and finance, as explored in the next section.

Alternative Land-Tenure-Finance Ecosystems

The analysis so far has demonstrated the value of private landed property as a form of collateral for supporting credit and banking systems on the one hand and the problems that can arise when this relationship begins to dominate macroeconomic policy and the wider political economy. The home-owning democracies of the United States, United Kingdom, and Australia have become hamstrung by rising house prices relative to income, excessive household debt,

widening wealth inequalities, and financial instability. What then are the alternatives? Is it possible to develop policy frameworks that still enable dynamic economic development without housing affordability crises and rising inequalities? In this section, three main areas are examined: land tenure reform, financial reforms, and tax reform.

Tenure Reform

As should now be clear, tenure patterns play an important role in mediating the impact of financial deregulation and innovation. Renters are not in a position to leverage their property by borrowing against it. Studies suggest that higher levels of renting and lower levels of homeownership can be associated with more stable house prices and reduced macroeconomic volatility (Voigtländer 2014). Germany, Austria, and Switzerland, where homeownership rates are below 50 percent, provide good examples. None have experienced the booms and busts in house prices of the Anglo-Saxon "homeownership democracies" discussed in this article, yet all have enjoyed healthy economic growth.

In Germany, loan-to-value ratios at savings and mortgage banks (the main providers of home loans) are often capped at 60 percent. At the same time, the comparatively high levels of rent protection that were put in place in the immediate postwar years were upheld in the following decades. In addition, the German tax code provided only limited incentives to take on debt. As a consequence, the homeownership rate in Germany has increased only gradually, from the 39 percent in the 1950s to just over 50 percent today.

Switzerland is one of the few remaining advanced economies that still levies taxes on the imputed rents of house owners. It also has rent caps in many cities and many cantons ban foreigners from buying property. Homeownership in Switzerland leveled out at around 35 percent in the past half-century. Also like Germany, Switzerland has a more devolved fiscal, planning, and banking system, with the cantons having considerable autonomy over these issues.

There is little evidence that higher rates of homeownership support stronger economies. Rather, empirical studies have found higher rates of unemployment correlate with high homeownership, due to less

mobile workforces (Blanchflower and Oswald 2013; Oswald 1999). High levels of homeownership reduce the efficiency of the distribution of labor and elevate the particular interests of property owners in opposition to community development.

Housing policies could thus be made tenure-neutral in terms of subsidies offered or taxes imposed by the state without incurring economic losses. The private-rental sector could be made more secure, with long guaranteed tenancies, limitations on rent increases, and strong tenants' rights, as is the case in Germany. Governments could take steps to boost the stock of homes with social rents and other nonmarket housing by using community-led schemes and cooperatives to ensure that different housing types and sizes are available in all tenures. These steps would also make housing supply less dependent on the volatile private market in land and homes. Decent investment alternatives and secure pensions could be provided, so that households are less prone to invest in the housing market to pay for their retirement, or to rely on it to fund their care in old age.

For countries like the United Kingdom and Australia, there is clearly a need for more public, nonmarket, and other forms of housing provision that are not based on speculative finance. Only a developer protected from the profit motive, such as the state itself, can ever have any incentive to produce houses at a rate that would lower the cost of housing overall in the area they are being built. Building affordable housing to the highest environmental standards could be a key part of any Green New Deal to support recovery from the COVID-19 pandemic, given the huge economic multiplier effects involved in construction at a large scale. Local authorities—perhaps supported by a National State Investment Bank—could be freed up to borrow in capital markets for socially rented housing that will provide a secure flow of income.

To ensure the costs of public housing are kept down, municipalities may need to be given compulsory purchase powers to buy up sufficient land for entire new settlements. By capturing the planning gain for the public purse, the cost of the original land purchase can be made up and exceeded, with profits put into further upgrades to infrastructure. This is the model that was used successfully in the

development of New Towns in the United Kingdom in the 1960s. This is standard practice in East Asian economies such as Singapore and South Korea and in European countries such as Germany and the Netherlands. Such powers enable the public sector to shape the land market in a way that prioritizes the use value of housing over its market value.

Legal systems can allow public interests and private ownership to coexist by clearly defining the rights and responsibilities of different stakeholders over land. One example that has survived in England and other common-law jurisdictions is the leasehold-freehold system. While the origins of the distinction between leaseholder and freeholder lie in the feudal past, this system can allow individuals to own leasehold property with sufficiently secure title to raise finance, while preserving the public interest in the land itself in the form of freehold—which can command annual payments of contract rent. Related tenures like "commonhold" (a new but rarely used tenure in the United Kingdom), condominium tenure in the United States, and strata title in Australia allow residents of apartment blocks to collectively own shared areas like gardens and stairs. These systems allow for the efficient management of common resources, while giving individuals exclusive ownership of their homes.

To reduce the problem of rent extraction in the form of unearned capital gains by homeowners, housing tenures can be designed to give occupiers full ownership, while restricting the value at which they can sell their homes when they choose to do so. Such models are useful for providing subsidized homeownership, while ensuring that the subsidy is preserved for future occupiers, rather than being captured by the lucky first beneficiary of the subsidy. Community land trusts (CLTs), for example, often limit the resale price of homes to a multiple of the original, sub-market, purchase price by pegging the maximum uplift in the resale price to the increase in average local wages. Such resale formulae can be set according to the varying needs and priorities of each CLT, and/or by government policy (New Economics Foundation et al. 2013)

While most leaseholds in the housing sector usually last for such long periods as to be effectively permanent (999 years is common in

the United Kingdom), time-limited leases used to be the norm—and remain so in the commercial-property sector. This concept allows for innovative approaches to the financing of rental housing that can match up the investment needs of financial institutions like pension funds with social needs for low-cost rental housing via sale and lease-back models of social housing provision. For example, a pension fund can finance social housing construction on land acquired from local authorities: the local authority then leases the homes back from the pension fund for a period of 25–50 years, paying a guaranteed inflation-indexed rent for the duration. Retaining the freehold gives the pension fund sufficient security on its investment, and the lease agreement gives it the long-term income stream it needs. At the end of the lease period, the pension fund can gift the land back to the authority, as it has achieved its goal of investing capital to secure long-term income (Jefferys et al. 2014). Thus both a financial and a specific social need are met for a significant period, but the wider public interest in the land is preserved and the private interest cannot extract economic rent in perpetuity.

Anne Haila (2000, 2016) examined how East Asian states, in particular Singapore and Hong Kong, adopted a strategy of public land value (or rent) capture, becoming, in Haila's words, "property states." In Singapore, 90 percent of the land is owned by the state, which leases it out for development, enabling it to capture land value increases as leases come up for renewal; 82 percent of the resident population lives in high-quality public housing provided by the state-owned Housing Development Board. The Central Provident Fund (CPF), a compulsory savings scheme for both employers and employees, invests its balances in government debt and the government issues a variety of affordable housing loans to the HDB. This creates a virtuous circle of socialized non-bank mortgage finance that has proven effective at providing affordable housing (Phang 2001: 449). The average house-price-to-income ratio in Singapore is one of the lowest in Asia and has been falling since a housing bubble in the mid-1990s. Meanwhile, the system provides the Singapore government with a handsome source of public revenues (Haila 2000).

In South Korea, around half of all residential land development and almost all industrial land development is carried out by the Korean Land Corporation (KLC). Since being formed in 1975, the KLC has played a key role in transforming the economy of South Korea by efficiently managing land and promoting economic development. The KLC's functions include developing and selling land for residential use, acquiring idle and vacant land for resale at current usage prices, and developing new towns (Kaganova 2011). This has helped ensure that land and housing have remained affordable in South Korea. Indeed, the price-to-income ratio for houses actually fell during the 1990s and 2000s, in contrast to most other advanced economies (Ryan-Collins 2018: 97).

Financial Reforms

More aggressive macro-prudential policy would seem the most obvious and easiest first step for central banks and financial regulators seeking to reduce the flow of mortgage credit into real estate. The policy has been used successfully in Switzerland and Singapore (Haila 2016). But central banks might consider going further. During their history, almost all advanced economies and many emerging economies employed forms of formal and informal quantity-based credit regulation under various terms, including "credit guidance," "window guidance," and "moral suasion" (Bezemer et al. 2018). The easiest way to introduce such a scheme might be to have some form of productive credit ratio, whereby a minimum ratio (such as 30 percent) of a bank's assets should support non-financial firms. Currently, that ratio is around 10 percent on average in the United Kingdom. A gradual shift towards this kind of target would give banks time to either reduce their mortgage lending or increase their business lending, depending on their preference.

Domestic regulations should be complemented by supportive international regulation. International regulators, including the Bank for International Settlements and the IMF, need to reverse the strong favoritism shown towards property lending in terms of capital and liquidity requirements. Regulations should support banks that are able to de-risk their loans via methods other than property-based

collateral, most obviously via the building up of long-term relationships with non-financial businesses.

Structural changes to banking systems will also be required. A good model, again, is Germany, where two-thirds of bank deposits are controlled by either cooperative or public savings banks, most of which are owned by regional or local people and/or businesses. These "stakeholder banks" are more focused on business lending, do not have such stringent collateral requirements, and devolve decision-making to branches (Ferri et al. 2014). They de-risk their loans not by requiring property as collateral but by building up strong and long-lasting relationships with and understanding of the businesses they lend to. A second way of supporting non-collateralized lending to support productive activity and priorityinfrastructure (including affordable housing) would be via publicly owned, state investment banks or public wealth funds.

Tax Reform

Reforms to the banking system and macro-prudential regulation would suppress perhaps the most important source of finance flowing into property—newly created credit and money. But, as we have seen, in the post-crisis world of low interest rates, land and housing will remain a highly attractive financial asset for speculative investment. Reversing the fiscal favoritism for homeownership and treating landed property in the same way as any other financial asset would appear a logical step if we are to bring house prices back to levels closer to incomes.

A tax on the incremental increase in the unimproved market value of land that would fall upon the landowner is the obvious policy choice, following Henry George's ([1879] 1884) concept of a land value tax (LVT). By attaching a cost to owning land, LVT diminishes the incentive to buy land for speculative purposes—in hopes of realizing capital gains—rather than for productive purposes or simply to provide shelter.

A tax on land should naturally reduce mortgage lending. Under current arrangements, as land values increase, landowners or homeowners benefit from most of this increase, as the value of their properties

increase. The larger the increase in land values and thus property equity, the larger the loan the bank will be prepared to make, all else being equal. Of course, the larger the loan relative to equity, the more of the economic rent will flow to the bank in the form of interest payments (Hudson 2010). With a sizeable land value tax, most of the increase in land values flows to the public purse, leaving just a small proportion for the household to use as collateral. This would inevitably reduce the size of mortgage loans and the profits from rentier interest flowing to banks.

There are, unfortunately, major political challenges to the implementation of property taxes in Western democracies where homeownership and the idea of wealth generation from the home has become culturally entrenched. Today, "immovable property taxes" make up just 1 percent of GDP and 2.5 percent of total tax revenues on average across the OECD economies (Blöchliger 2015: 6). To overcome these concerns, land taxes could be introduced as part of wider tax reforms that would reduce other unpopular and regressive taxes such as income or sales taxes. Exemptions that benefit low-income homeowners or that allow homeowners to defer payment until sale may reduce the political difficulties of land taxes. Alternatively, homeowners could give up a percentage of their equity in the property each year in lieu of paying a tax; that transfer of equity would enable the community to gain from any capital appreciation (Mayhew and Smith 2014).

An interesting option would be to combine a land value tax with an environmental tax, for example, by increasing/reducing the tax according to energy usage per square meter of a residential building (Muellbauer 2018). This might encourage more environmentally and economically efficient buildings. Finally, reducing the saliency of the tax by withholding it at source from employment or pension income could make it politically more acceptable.

Recently, there have been calls by major international bodies, including the OECD (Blöchliger 2015) and the IMF (Norregaard 2013) for an increase in property taxation as the tax best placed to boost growth in the period since the financial crisis. As incomes decline and wealth increases, and financial wealth becomes ever harder to locate and tax, it may become increasingly tempting for politicians to turn to

land and property taxation to maintain a tax base. Inheritance taxes could be another, more indirect, way of taxing property wealth.

Conclusion

This article has examined the relationship between private landed property (PLP) and the financial system in Anglo-Saxon capitalist economies. PLP played an important role in supporting economic development and industrialization by enabling the emergence of banking and capital markets that used titled land as the key form of security in advanced economies. However, by the 1980s, the interaction between titled land and finance morphed into a damaging feedback cycle whereby the financial sectors became addicted to property as the main source of profits, collateral, and dominant assets on the balance sheets of financial institutions. The more credit flows into land, the higher house prices and collateral prices go, and the more attractive property becomes as an asset against which to lend. Ultimately, this leads to land and house prices rising well above incomes, driving up land rents and creating financial fragility and widening wealth inequality (Adkins et al. 2020; Piketty 2014).

Economic shocks that hit incomes—whether endogenous shocks, such as the financial crisis of 2008, or exogenous shocks, such as the COVID-19 pandemic—can reduce the ability of households to manage large mortgage repayments and lead to rapid asset-price falls as the cycle goes into reverse. Central banks then find it impossible to consider raising interest rates, given the catastrophic consequences for the wider economy.

A more balanced tenure system can help soften such land-finance cycles. Policymakers should seek ways of providing secure, good-quality housing that does not require high levels of household leverage. Land value should be captured for the public purse rather than privately to discourage speculative lending and investment and to create increased fiscal space. As Anne Haila (2016) notes, the East Asian economies have demonstrated how this can be done and how it can drive rapid economic growth and enable lower corporate and income tax rates.

In Western economies, the culture of PLP is deeply entrenched and likely requires more incremental reforms, such as 1) gradual increases in the regulation of mortgage finance, 2) structural and institutional reforms of the banking system, and 3) the introduction of property taxes, initially at quite low rates or in a fiscally neutral fashion. As homeownership levels fall for an increasingly large part of populations in these countries, it could be hoped that a political constituency will grow to back such proposals.

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Notes

1. In an urban context, buildings can be made taller and rezoning can expand supply up to a point; nevertheless, there will always be a scarcity of desirable locations, given that landed property is a positional good.
2. Other historians trace the first evidence of private property in England back to the 13th century (Macfarlane 1978: 262).
3. See Connelly (2014) and Darity and Mullen (2020) on U.S. racial divisions; see Hill (1995) and Goodall (2008) on Australia and aboriginal land expropriation.

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