Robert
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*Briefing on
Land Monopoly*

The Land Monopoly Game

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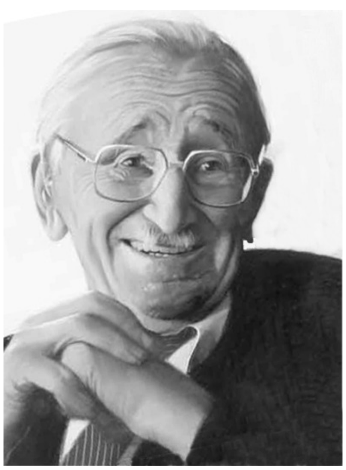
1. The Monopoly Game

FRIEDRICH HAYEK (1899-1992) was a Nobel prize-winner who represented the Austrian school of free market economics. He achieved world fame as the author of *The Road to Serfdom* (1944), a critique of the command economy, which he followed with the monumental *The Constitution of Liberty* (1960). At the Press conference to launch his *Law, Legislation and Liberty* (1979) I had the opportunity to question Hayek (*pictured below*) about the concept of land monopoly and the implications for freedom. He defended the current philosophy of property rights by arguing that there was no such monopoly power, because there were many buyers and sellers in the land market.



This perspective on property rights and the role of land in the market economy was not one that would be recognised by classical economists. Theorists like Adam Smith claimed that there was a special power inherent in land. This power flowed from the fact that it was not possible to create new supplies in response to demand, which was why land generated a rent, a value in excessive of the costs of production. This difference in the perception of property rights, monopoly power and the market economy is not merely of esoteric interest to economic historians. Consumers may be losing income in the retail markets as a result of the power of supermarkets to pre-empt competition.

Do retail chains buy sites to keep out the competition? Such a business strategy presupposes special advantages attaching to particular locations. And if location matters, this must mean that a finite supply of the land affects the competitive *milieu*. Does this mean, in turn, that the ability to out-bid the competition is tantamount to a constraint on trade?

2. The “shut-out” strategy

THE intrinsic powers of location have been forensically examined by Mason Gaffney, a professor of economics at the University of California (Riverside). He argues that land is an instrument for monopoly power. As empirical evidence, he points to the strategies of firms. In California, for example, he points to retail chains with large parking lots in prime locations that were closed down or sold. Their sites were purchased as “a shut-out strategy against competitors”. One outcome of this market-cornering stratagem was to leave stores empty and valuable land idle.

Gaffney writes: “Massed control of land is the most natural base for monopolising markets because land is limited. Buying land always does double duty: when A expands he *ipso facto* pre-empts opportunities from B. For example, a chain of service stations with most of the best corners in a town has market power, the more so if it also holds a large share of oil sources, of refinery sites, of ‘offset rights’ to pollute air, transmission rights of way and other such limited lands”.

Land hoarding is an infectious activity. Notes Gaffney: “When everyone buys and holds for his own future expansion, everyone has to: the market in raw land is turned to glue…It is a species of vertical integration which destroys the free market in raw materials and vastly inflates the aggregate need for holding raw materials”.

The outcome is the land speculator’s dream. “Speculators are everywhere, trying to assemble large plots or hold up other buyers. Whole districts are held by anonymous absentees; buildings deteriorate, neighbourhoods lose their natural leaders and stabilizers, and communities disintegrate leaving slums and blight, crime and arson, public charges and vandalism.”

3. Tesco’s triumph

WHY should consumers care? The war between America’s Wal-Mart and Britain’s Tesco supermarket chain provides some answers. Tesco accounts for £1 in every £8 spent on Britain’s high streets and £1 out of every £5 spent on food. Tesco has outsmarted Asda, which was bought by Wal-Mart in 1999 for £6bn ($10.5bn). This has now led to a fight for control over retail outlets.

The media first revealed that Tesco had amassed a land bank of 185 development sites across Britain, significantly larger than any of the holdings of its rivals. Constructing stores on these sites could take Tesco’s share of the market to 45%. The *Sunday Times* reports that the land bank was a “secret plan” to “dominate Britain”.

But it is not just the end user – the consumer – that may be losing out by a strategy of cornering market power by monopolising strategic locations. The power of the retail chains can also squeeze their supplier’s operating margins to the bare bone. British farmers, for example, complain that they receive a fraction of the price at which a pint of milk is sold to consumers. In the fall of

2005, some farmers symbolically poured milk onto their fields rather than sell at a loss to supermarkets that dictate the prices they give to producers.

Tesco's power has now grown to alarming proportions. A counter-offensive has been launched by its competitors. The Sainsbury chain is calling for a Competition Commission investigation into the number of development sites purchased by grocers. Its chief executive, Justin King, says:

> I am a free marketeer by nature…but we do not have access to a key resource – property. I hate the level playing field thing: competition is not a level playing field. But if you have someone with a significant size advantage and a bit of land comes up, then they will get it…we want fair and equal access.

King's comments echoes those by Lee Scott, the president of Wal-Mart, who is concerned about Asda's performance in the UK. He says that the British government should consider action against Tesco, adding: "I am sure there is a point where government is compelled to intervene, particularly in the UK, where you have the planning laws that make it difficult to compete".

As it happens, Asda knows all about pre-empting land to exclude the competition. A House of Commons select committee was informed that, in the mid-'90s (before it was bought by Wal-Mart), Asda offered hundreds of thousands of pounds to Manchester City Council for a piece of land. The money was not so much for the purpose of acquiring another outlet; the bid had more to do with denying a rival, Quick Save, the opportunity to construct a store on the site. Present at the meeting when the money was offered was council leader Graham Stringer, who went on to become a Cabinet Office minister in the Blair government. He testified that Asda's bid was motivated by the fact that "they did not want the extra competition".

So Asda is clued up on the Tesco land monopoly game. Both retail chains exercise extraordinary power, as a *Financial Time* investigation revealed when it probed the way the two companies used their suppliers to fund their operations. Suppliers are providing free finance to fuel the rapid growth in what are two of the world's leading supermarket chains.

- The amount owed by Tesco to its creditors has risen by £2.2bn ($3.85bn) in the past five years, while its stocks have risen by £700m ($1.2bn), providing £1.5bn ($2.6bn) to help fund its business.

- Trade creditors on Asda's balance sheet have risen by £700m ($1.2bn) in the same period, while stocks have grown by £200m ($344m), yielding a net benefit of £500m ($875m).

According to the *Financial Times*, land-rich operations know how to turn premium space into profits, which in turn provides the firms with the financial muscle to consolidate their power: "Trade credit can end up providing finance for investment in fixed assets" – like the purchase of strategic sites!

4. Market – or Political - Failure?

IS THE power of pre-emption over land evidence of a structural flaw in the market economy, or is this power the result of a failure of public policy? The answer is suggested by the remedial action that would lower the barriers to competition.

Professor Gaffney explains that cartels which engage in the under-utilisation of land are vulnerable to the property tax. A tax on the value of land cannot be side-stepped by monopolists. The charge cannot be shifted forward to consumers. Instead, “the tax forces idle capital and land into use, increasing supply and lowering prices”. This indicates that, ultimately, the problem is not one of *market* failure but of the failure of governance.

Acts of pre-emption are motivated by “dog-in-the-manger” strategies. In a Hayekian society of free people, it is permissible for an individual to gain an advantage if this arises from personal effort. But excluding people from the use of land, *to deny them the chance to compete*, is an abuse of other people’s freedom. And that opportunity arises when the costs of holding land in an idle state is zero or trivial.

Tax policies are determined by government. When taxes are framed so that self-serving people can intrude on the rights of others, the solution is to modify the rules so that everyone enjoys an equal chance. Economic history, as well as economic theory, reveals that the only satisfactory remedy is to levy public charges on land. That delivers at least two benefits. First, the equity aspect of taxation: the revenue would be proportionate to the costs of the infrastructure that gives land its value in the first place. Second, this new stream of revenue would enable government to eliminate the taxes on people’s earned incomes, which damage the economy.

The outcome would also be to the advantage of retail chains. By restructuring the tax code, people would be left with higher disposal incomes: that means more money to spend in the shops!

Sources

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