# Returning to the (Ricardian) Land: Housing Policy as a Source of Economic Stratification

Abstract

Decades of stagnant, household incomes along with rising home values and rents have primed the conditions for the current, affordable housing crisis. Even before the onset of COVID-19, nearly half of renters experience housing cost burden as their housing costs exceed thirty percent of their gross income. Many pay rents that exceed fifty percent of their income. Truly understanding the drivers of this crisis requires an investigation of the political economy of Ricardian land rents; yet this concept is largely ignored by the neo-classical orthodoxy.

This paper summarizes how the classical view of land's unique circumstances became ignored and ultimately replaced by what would become the neo-classical tradition. At this same time, Economics departments were emerging in major universities across the country, often funded by wealthy landholders. Under the neo-classical tradition, Ricardian land became merged with natural resources and simply viewed as another form of capital.

Reprising the Ricardian view of land is crucial to understanding our current affordable housing crises. It illustrates how are current housing policies, particularly those that foster homeownership, directly undermine housing affordability. In this way, it reveals another mechanism through which economic stratification operates in our economy. Lastly, this perspective can provide an elegant model that explains why some neighborhoods experience gentrification while others continually suffer disinvestment.

This perspective calls for the replacement of local property taxes with those that target land values. This requires assessment techniques that avoid the current practice of over assessing property in less advantaged neighborhoods.

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# Returning to the (Ricardian) Land: Housing Policy as a Source of Economic Stratification

As the adage goes, all real estate is local. Yet whatever our current address, most of us are hearing reports that ring the same tones. Home prices have skyrocketed in value over the past year or two. Until the recent rise in mortgage rates, homes on the market rarely sat for long. Landlords are raising their rents overnight by rates unheard of in recent times. Tenants are learning their rents will rise by 40, 50, or even 60 percent when their lease runs out. Those scrambling to find alternatives to these skyrocketing rent increases are finding few options. Between the rising gas and food prices along with these rent increases, larger numbers of American households are having to make impossible choices between buying enough groceries, getting gas to make it to work, or filling needed prescriptions.

The available statistics corroborate the news reports and neighbor accounts. According to the S&P Core Logic Case-Shiller index, home prices have increased nearly 42 percent from the start of 2020 to April of 2022. Among the 20 markets included in the composite index, all of them experienced rising values. Even Mid-West industrial cities like Minneapolis, Detroit, and Cleveland all experienced rising home values exceeding 30 percent while Chicago brought up the rear at a paltry 27 percent in just over two years. According to HUD data, the median price of a home sold rose from $327,100 in early 2020 to $427,700 in early 2022, rising a full $100,000 in that time.

Of course, these skyrocketing real estate prices have impacted rental markets as well. Rising property values allow landlords to raise rents particularly since the demand for rental housing continues to outpace the increase in housing stock. The housing rental vacancy rate stands at 5.8 percent representing a near historic low over the past 35 years. Given the tight supply of housing, landlords have responded in a textbook manner. According to one report, monthly rents have increased by more than 14 percent over the previous 12 months while another reported that the median rental payment had exceeded $2,000 per month for the first time (Apartment List, 2022; Ellis, 2022). Again, why local conditions influence rental housing markets, the Apartment List report notes that only the high-priced San Francisco rental market among the top 100 largest cities has experienced a decline since the start of 2020 and that only 1 percent. Of course, the problem is most acute at the bottom end of the rental housing market. Even before the recent rent increases, households earning below the area median income struggled to find affordable and safe housing. Many have been forced to pay rents higher than 30 percent of their income causing them to be rent-burdened. Rising rents have only exacerbated this problem as nearly three quarters of extremely low-income households are severely rent-burdened (National Low Income Housing Coalition, 2022).[1] Paying this much for rent means they're forced to make many undesirable tradeoffs.

For many households, rising wages have brought some relief as they've tried to respond to their rent increases. According to the Federal Reserve Bank Wage Growth Tracker, median wages have increased by 5.3 percent over the past 12 months. However, even these fortunate

[1] According to the NLIHC, extremely low-income households earn 30 percent or less of the area's median income. To be characterized as severely rent burdened, their housing costs must exceed 50 percent of their gross income.

households are facing rising prices at the grocery store, the gas pump, and elsewhere as inflation has spiked at even higher rents. Worse, many households are on fixed incomes forcing them to make difficult choices to remain housed. As more American households are required to devote more of their income toward safe and secure housing, they must make difficult choices. Some will be required to limit either quantity or quality of food they purchase raising nutritional and food security concerns. Others will be forced to forego refilling expensive prescriptions generating additional health concerns. All of these households will face greater challenges as they seek to improve their circumstances and attain some measure of financial security.

One can simply attribute these rising challenges to the current spike in inflation; yet, it's a grave mistake to view land and real estate as merely another commodity in our economy. Today, orthodox economics has lost sight of the unique nature of land. It's attributes make it unlike any other commodity in our economy. This paper serves as a simple reminder of that fact. As such, it aims to do the following. In the next section, I'll explain the attributes that make land unique. Following that, I'll explain when our intellectual forebears lost sight of land's uniqueness, something that the classical economics clearly recognized. This oversight continues to blind our thinking and analysis today. Next, I'll present the rent gap theory that recognizes its unique reliance upon dual sources of value. I'll then explain how the theory offers an explanation for what we're seeing today. Not only are the rising home values causing contemporary stress and pain, they offer another avenue by which economic stratification continues to persist in our economy.

***Land's Uniqueness***

The value of any parcel of real property stems from two different sources, what I'll label its structural and site values. The structural value reflects whatever improvements have been made to the property, including built structures that might accommodate residential, commercial, or industrial opportunities. Like other forms of capital investment, these improvements are subject to the limits of path dependence as past developments constrain current and future choices. Further, the structural value tends to depreciate over time without some form of maintenance and continued investment. This structure value can simply be viewed as one form of capital investment.

On the other hand, the site value of any parcel of land is uniquely distinctive from capital. First, land is immobile. The specific location of any given parcel of land influences its value in ways not applicable to other mobile commodities. Hence the adage among real estate professionals: Location, location, location. Second, and perhaps most importantly, the supply of land is essentially fixed. Yes, some cities like San Francisco have engaged in landfill to extend the acreage available for urban development. Beach erosion and climate change are claiming coastal lands. However, these changes are more marginal than significant. This virtually inelastic supply has substantial consequences. Individual property owners have a monopoly on their particular parcels of land; none can be duplicated. In many cases, this may not convey much value. As a group, property owners hold an entry monopoly. To secure property ownership, others must negotiate with one of the current holders. As David Ricardo and other classical economists recognized, this gave land a special attribute within the economy. Competitive markets that would resolve scarcity through higher prices and encourage increased supply would not function when it came to land values. Instead, land and its income flow, rent, became known as the label for undesirable circumstances. *Economic rents* refer to undeserved payments since they fail to encourage any economically or socially desired behaviors.

Third, land's fixed quantity is equally the result of its durability and permanency. As a site, land resists any form of destruction. Perhaps equally important, it requires no maintenance or attention to maintain its value. Its site value simply exists. No wonder why real estate serves as such a coveted form of wealth and source of loan collateral. Few assets offer as much security nor require so little attention for those interested in a speculative investment. Fourth, land is required for virtually all forms of economic activity and even life itself. Other durable assets like precious stones and coveted antiques and art may serve as secure forms of wealth, none are essential for living like land. Its essential role along with its finite supply assure its appreciating price over time. Lastly, land is subject to threshold effects. Dividing parcels of land among a greater number of farmers quickly leads to diminishing returns. Continually sub-dividing lot sizes and square footage to accommodate more residents reaches its own limits as well.

These unique qualities means that one can't ignore the site value of land nor the ways that it might impact the overall value. Natural features and fertility have long determined the site value of any parcel. Fertile land filled with desired resources attract greater interest than land that offers limited fruits. Properties adjacent to human settlements have long been prized over those equally productive, but more distant. More recently, public infrastructure like roads, canals, water, and public utilities have raised the site value of land immensely. Local zoning ordinances can also impact significantly site values. Importantly, all of these drivers of a parcel's site value lay outside the power, if not influence, of the landholder. Site values rise and fall with the actions of external society and not due to the agency of the landowner.

In recent generations, we're devoting increased land toward meeting the aspirations of homeownership. Owning one's home is certainly part of what comprises the American Dream. Homeownership not only brings stability to one's home life, but also the autonomy and agency to remold one's home in response to one's personal tastes. Landlords rarely allow tenants to make wholesale changes to the property to suit their preferences. Owning one's home serves as a important consumption good; indeed given its visibility to others it serves as an excellent "positional good" that conveys effectively one's status (Veblen, 1899). In modern parlance, we know that residential housing functions as a superior good as households strive to trade up during prosperous times.

Yet, for most households, homeownership is not simply a consumption good, but also an investment. For most households, purchasing one's home is the most substantial purchase one makes while the anticipated appreciation serves as the most important part of their retirement nest egg. Homeownership is not simply a badge that recognizes one's achievement of the American Dream, but also a key step on the road to financial security. We celebrate, and even revere, homeownership in our country not only for the stability it brings to families and neighborhoods, but also the financial security it provides for our seniors. Of course, much of this anticipated appreciation is the not the result of regular renovation and expansion of the housing structures, but rather the expected increase in site values, the proverbial manna from heaven.

Land's durability and permanence in the face of an uncertain world makes it an excellent choice for any investor's portfolio. That it requires no attention nor maintenance makes it even more appealing. Lastly, it essential nature along with its finite supply makes it almost perfect for speculative investments. In most cases, once one makes the purchase, then one simply needs patience to allow opportunity for the land to appreciate.

Yet, we should not ignore the threshold limits on land and their consequences. Rising land values, particularly those driven by rising site values, seem to meet important social needs. Even middle-class homeowners, particularly those owning property in White neighborhoods that appreciate more quickly, can leverage these gains and attain some measure of financial security. Yet, these gains come with a zero-sum tradeoff. The threshold limits on land causes current property owners to benefit from rising site and property values, but at the expense of future, prospective buyers. As home prices escalate faster than median household incomes, fewer prospective homebuyers can afford the same level of well-being. Yes, lot sizes can be pared and housing units packed more tightly, but these reductions, at some point, impose a decline in the quality of consumer home services. In contrast, the stock market can continue to rise in value and benefit the current stockholders without diminishing the opportunities of future investors.

### *How Land Become Lost in Orthodox Economics*

Any close reading of the writings of the classical economists reveals the significance they attribute to the role of land in the economy primarily due to recognized unique qualities. Smith fully recognized land unique qualities and the power they conveyed to the property owner. He made the point most clearly and succinctly:

> "The rent of land, therefore, considered as the price paid for the use of the land is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take, but to what the farmer can afford to give" (Smith, 1776, p. 162).

Ricardo took these concepts and applied them to the specific site value of land. His theory of rent predicted that landlords would capture any surplus generated by lands that were particularly suitable either due to their natural attributes or proximate location. Along with other classical writers, Ricardo worried about how the leverage of landholders would distort societal inequities and limit the fruits of future growth and prosperity (Ryan-Collins et al., 2017).

In the United States, Henry George took up the mantle in expounding how the unique qualities of land threatened economic progress. In his influential book, *Progress and Poverty*, he explained how advancing technology and increased education were driving economic growth and prosperity. He warned that these advances also increased the value of land, albeit disproportionately, and thereby threaten this graph as landowners took an increasing share of the income. Like many of the classical economists before him, he advocated the enactment of land tax that would target the site value of land (Gaffney, 1972; Ryan-Collins et al., 2017)). He argued that such a tax would allow society to reap the windfall, one that was generated by society and not by landowner actions. He emphasized that this shift would encourage economic growth as it would reduce taxation on labor and capital, the true engines of growth.

Curiously, over the ensuing decades, orthodox economics would turn away from acknowledging land's unique and essential role in economic affairs, erasing much of the thoughtful consideration of land from the orthodoxy (Foldvary,2008, Hubacek & van den Bergh, 2006; Ward &

Albers, 2016). Likely, there are three reasons. First, the U.S economy was rapidly shifting from agrarian based to an industrial based economy. From the late 19th century to the initial decades of the 20th century, increasingly mechanized agriculture along with a booming manufacturing lured increasing numbers of Americans to move from farms to towns. Advancing technologies were both expanding the role of the industrial economy while diminishing the importance of the land. In the world of the neo-classical economists, land had lost its central place as the primary source of wealth (Hubacek & van den Bergh, 2006). Second, the marginalist revolution that slowly dominated the emerging neo-classical paradigm found land's distinctive elements problematic and contrary to some the underlying assumptions. The neo-classical focus on system mechanics, equilibrium and efficiency, and mathematical modelling all found the classical view of land hostile territory. This emerging paradigm required land to be perfectly substitutable for human-made capital, not a distinct and unique factor (Hubacek & van den Bergh, 2006). Assumptions required to generate competitive equilibrium required land to respond to price increases by expanding supply whether through intensive development (building up or digging deeper) (Ward & Aalbers, 2016). By ignoring the site value of land and focusing solely on the structural value, economists could simply treat land like capital goods. Indeed, truncating three factors into two, capital and labor, made the mathematics that much easier. While there is some debate on whether the neo-classical revolution required the erasure of land as a distinct factor of production, there is none its elimination from most of orthodox economics by the middle of the 20th century (Foldvary, 2008; Gaffney,1994).

In the United States, the ascendancy of the neo-classical transformation of economics also corresponded with a change in higher education from a focus on political economy to economics. Over the last few decades of the 19th century, academic departments switched their focus from more qualitative and historical political economy to more "rigorous" and quantitative focused economics. Over this period, the number of faculty positions expanded rapidly while student enrollments in economics courses grew rapidly. It was a heady time for this nascent discipline.

Of course, such changes require money and lots of it. Up to this point, most of the private colleges in the U.S. had a sectarian background. While the religious connections allowed tremendous influence over the curriculum, they provided only modest help financially (Gaffney, 1993; Wren, 1983). While the Morrill Acts provided some federal help – through the sale of land – for the "land-grants", federal help for higher education was limited. Help came from a host wealthy philanthropists who created a frenzied competitive of giving as each wealthy patron sought to endow their own university. This list includes such luminaries as John D. Rockefeller, Jr. (University of Chicago), Leland Stanford, Sr. (Stanford University), John Hopkins, Asa Packer (Lehigh University), Jay Gould (NYU), Charles Pratt (Pratt Institute), Cornelius Vanderbilt (Vanderbilt University) and Robert S. Brookings (Washington University) as those who gave more than $1 million. All told, over the last third of the 19th century, 66 colleges received gifts of $50,000 or more while 20 garnered $1 million or more in gifts (Wren,1983). Many of these philanthropists made their fortunes in railroads who benefited greatly from the land generous policies of the federal government. All of the generous donors undoubtedly had much of their wealth tied up in land. The threat of Henry George's confiscatory land tax would have been real to them.

This flood of money to higher education also brought threats to higher education. At this time, academic tenure was still in the distant future which gave top administrators nearly unlimited leeway. Several notable scholars who promoted Georgist ideas including Professor Allen Eaton of the University of Oregon, Elisha Andrews at Brown University, Scott Nearing of the Wharton School at the University of Pennsylvania (Gaffney, 1993). These and other high profile cases were enough. At Columbia University, local Wall Street scion Seth Low gave $1millon and then became its president. He outbid several other endowed universities to hire J.B. Clark a noted protagonist of Henry George. According to Clark's curriculum vitae, 24 of his published works were directed at George's ideas (Ibid). Indeed, Gaffney argues that Clark's most famous contribution, the theory of marginal productivity was an attempt to refute land's uniqueness with a model of factor symmetry. Clark introduced the concept of "pure capital" that is capable of migrating among capital, labor, and land thereby precluding any differences among the three (Ryan-Collins, et al., 2017).

Whatever the specific cause, the significance of land was largely erased from orthodox economics by the middle of the 20th century. In macroeconomics, production functions were determined simply by labor and capital inputs along with technological progress as denoted in the Cobb-Douglas function. In microeconomics, land was often still part of the trinity of factors of production. However the importance of its unique site value was ignored while the parallels between its structural value and capital were embraced.

### *The Rent Gap Concept*

The conventional wisdom is that over the course of the 20th century U.S. housing prices remained largely unchanged after adjusting for inflation. No less an authority than Robert Shiller offered a widely accepted data set that showed flat real housing prices from 1890 to 1997 (Shiller, 2005). Given that most economists viewed land as another form of capital, this trend makes sense. Higher prices will simply encourage new development that should then cause prices to soften. A subsequent study has challenged this view as they argued that Shiller used the CPI-U index with an acknowledged downward bias for housing prices. After making the necessary corrections, they found that real housing prices had increased modestly over the last half of the 20th century (Davis & Heathcote, 2007; Davis et al., 2007). More importantly, they estimated the trends in both the site values and the structural values in addition to the total housing costs. While real structural costs have risen modestly since 1970, real site values have more doubled causing the modest increase in real housing prices (Davis & Heathcote, 2007). Given these disparate trends, site values have taken an increasing share of the total house price. According to Davis and Polumbo (2006), the share taken by site values varied across American cities, ranging from lows of 12 percent for St. Louis to a high of 81 percent in San Francisco.[2] Even before the recent years, site values have been increasing over a long period something that has escaped the notice of the economic orthodoxy.

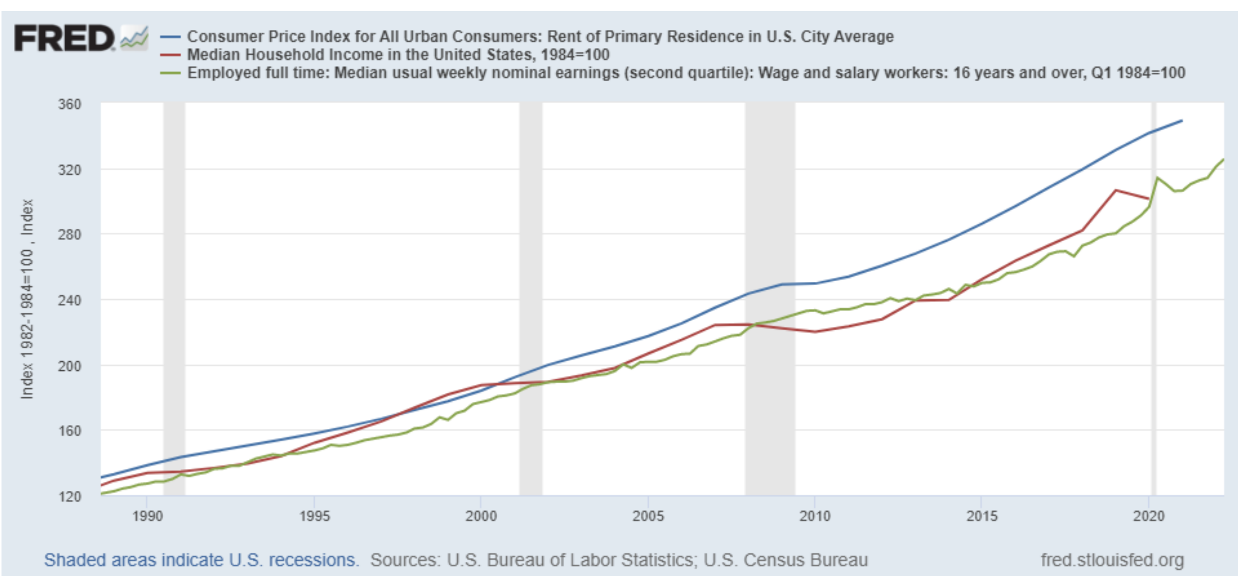
The rent gap model acknowledges the importance of considering how the site value and the structural value of real property influence incentives and behavior. This model provides a conceptual argument for uneven development as certain inner city neighborhoods experience a period of disinvestment and decline followed by reinvestment and gentrification. First articulated by Smith (1979), he argued that racism and redlining often caused the initial period of decline as these forces discouraged local investment and caused the properties' site values to fall. At some

[2] Just above St. Louis was Pittsburgh at 13 percent. Unlike the other cities, it has used a split rate property tax system.

point, the disparity between the actual rent given its current use and its potential rent leads investors to return for redevelopment and gentrification. According to Smith, this redevelopment is led by the lure of profit to new investment rather than simply a shift in preferences for urban living. It offers a supply side contrast to the usual orthodox argument that shifting consumer preferences is what driving gentrification.

Consider how the rent gap model can explain what we’re experiencing today. As the demand for residential housing increases, whether due to the desire for homeownership or for a speculative investment, site values rise relative to structural values. This relative disparity can create new incentives and a new dynamic. Rising site values create a wedge between the current rent earned by the landholder and the potential rent that could be earned if the property was structured for its best use. In many cases, this may cause the property holder to make improvements to the property’s structures, whether cosmetic changes or substantial improvements. Making these changes allows the property owner to raise actual rents up to the potential rent possible. This process can include selling the improved property to a buyer willing to pay the higher price, imposing higher monthly rents on the current tenants as leases are renewed, or removing current tenants so that the property can be marketed to more affluent tenants able to absorb the higher monthly rents. Each of these options causes the higher site values to become capitalized as a fixed cost of the property whether from the higher purchase price or the cost of the structural improvements. These higher costs will stiffen the resistance of the landowner to lower rents in the face of falling site values, if they were to occur. Market arbitrage will ensure that the higher site values will spread across the housing market.

One can see the impact of these pressures by looking at rents over the past generation. Particularly since 2000, median rents have increased faster than either wages or household income. Not only does this mean that renting households are spending an increased share of their household income on shelter, but that increased numbers of renter are finding themselves rent-burdened and heavily rent-burdened. That rising site values are the prime cause of these rising rents offers an explanation of why the rising rents are not encouraging an increase in new construction.



***Our Current Housing Policies***

Given a the nature of land, a growing population that continues to bump into the limits of space would generate these trends as well. Our current housing problems simply exacerbate this problem, likely significantly. At the federal level, there are four major tax expenditures that encourage homeownership and boost the demand for housing. The very popular home mortgage interest deduction allows homeowners to deduct their mortgage interest payments from their taxes. Not only does this deduction encourage households to buy rather than rent, it also encourages them to buy larger houses with a bigger mortgage. Similarly, the home property tax deduction allows households to deduct their local property taxes, at least up to a limit of $10,000 annually. Less acknowledged is the impact of the imputed net rental value of owner-occupied housing that grants homeowners a hidden tax benefit. Property owners who benefit by earning rental income pay income taxes while other owners who benefit by consuming the services of their property pay absolutely nothing. This represents another way that homeownership allows households to limit their tax liability. Lastly, households are able to exclude from their taxes any capital gains on the sale of their principle residence up to $750,000 (check amount). This means that homeowners can gain the benefits from living in the residence for years, experience the benefit of site value appreciation, and keep that windfall all without paying any taxes.

These tax breaks are not small potatoes. In 2021, the four tax breaks showered more than $200 billion of benefits upon homeowners, and the amounts are rising (Joint Committee on Taxation, 2019; U.S. Treasury, 2021). To qualify for these tax breaks, one needs to achieve homeownership status. Already, that means that households are part of the affluent elite. In 2019, homeowners had a median net worth of $197,560 versus $427 for renters (2019 SCF). Since homeownership rates among Black and Latinx households lag far behind White households, the bulk of this largesse goes toward White, wealthy households. It's even worse than that. Due to the design of these tax expenditures, the bulk of the funds funnel to the richest households. All are designed as tax deductions which allows households in the higher tax brackets to benefit two and three times what moderate income households might obtain. Additionally, two of the tax breaks require households to itemize their federal tax deductions something that only makes sense to very affluent households. All of this generous federal help encourages wealthier households able to take advantage of these tax breaks to do so by investing in residential property. Undoubtedly, many take the federal help and reinvest in other real estate projects further pushing the demand for land.

At the local level, zoning restrictions can substantially exacerbate the squeeze that results from excessive demand meeting limited supply. Clearly, local zoning ordinances can preserve and even improve the quality of life for local residents. Well-designed zoning ordinances can preserve existing structures, prevent incompatible development, and reduce the spillover effects of certain nuisance uses by locating them in targeted areas. At the same time, local communities have used a wide variety of zoning devices to limit who might migrate into one's neighborhoods (Rigsby, 2016; Rothstein, 2017). A century ago, these included outright racial residency requirements. More recently they've included minimum lot sizes and building square footage requirements as well as limits on the number of dwellings. Each of these have worked to limit the amount of local land available thereby raising site values and obstacles to those with fewer resources to enter the community. Much of this zoning effort has gone to encourage and protect the suburban, single family housing to the detriment of the more economical multi-family housing that would limit pressures on land values and the current housing squeeze.

Local property taxes generally treat property values regardless of the relative shares of both site and structural values. As the property values rise, then the assessed tax rises as well assuming the rate is held constant. What this means is that the tax treats uniformly any property value increases regardless of its source. The tax is agnostic whether the increased property value is the result of the property owner's investment and effort in enhancing or renovating the property or whether it is simply a windfall that is bequeathed to the property holder. In either case, the property owner is treated the same.

***Our View of Homeownership***

Owning one's own home is a key element of achieving the American Dream. Certainly, it offers many benefits. Most importantly, it offers its recipients a sense of residential stability as well as a sense of autonomy and agency. Homeowners are not subject to the whims of landlords like renters, even when they might be protected by an annual lease. As long as they're able to meet their mortgage and tax payments, homeowners are assured residential stability and avoid the disruptions brought on by moving residences. Homeowners have the capacity to customize their homes to better meet their personal needs and tastes. Unsurprisingly, studies have found a link between homeownership and various health outcomes perhaps due to the greater autonomy and agency experienced by homeowners.

As homeowners tend to stay in their current residence for longer periods of time, they're more likely to know and develop personal ties with their neighbors. Having a financial incentive, they're more like to participate in neighborhood watch groups and associations. They're more likely to advocate on behalf of their neighborhood for public services and infrastructure spending. Often, homeowners have the means along with the motivation to maintain and even improve the structures on their property. Doing so has spillover effects on their neighbors and encourages them to respond in kind.

Homeownership is touted for its wealth creation potential as well as it role in achieving financial security. This benefit has many sources. 30-year mortgages, the most popular way to purchase a home, offers homeowners an involuntary form of saving. Rather than simply make monthly rental payments, their mortgage payments slowly build equity until they may finally own their home outright. Their efforts in maintaining and even improving the structures and landscapes of their property can also be captured as they sell their home. Even without rising site values, homeownership can provide an effective vehicle for households to prepare for their retirement years. When we add rising site values, that simply adds to the wealth creation capacity of homeownership.

Yet, this benefit comes at a cost. Due to the threshold limits on real property, rising site values create a zero sum relationship between property holders and prospective property buyers. Rising site values, particularly when their arc is greater than the growth of household incomes means that more and more prospective homebuyers will be priced out of the homeownership market. They will find the down payment barrier will loom ever larger causing them to search for smaller and less expensive properties. Not all who are looking will find such homes causing many to continue to rent. Higher site values will preclude increasing numbers of younger households from achieving their dream of owning their own home.

For younger Americans, having parents who have themselves experienced long-term homeownership will help significantly. As their families may benefit from the rising site values, they can offer help to their children as they seek to raise the needed down payment. Increasingly, homeownership will become a function of family legacy rather than widespread accessibility. In this way, homeownership and the realities of real property will add another source of economic stratification.

***Policy Remedies***

Providing current households with the opportunities to attain financial security need not limit future households from achieving the same. The problem is not some inherent conflict between the two goals, but rather the unique qualities of land. Nor is the problem inherently linked to private homeownership. It is possible to allow all households who desire the stability, autonomy, and, at least, some of the financial security benefits that homeownership provides without creating further stratification. It simple requires some recognition of the land's unique attributes as well as placing limits on its role in household wealth creation. Shifting policies at both the local and federal level can encourage this transition.

*Local Level Changes*

One important change that local public officials can make is to move toward a split rate property tax. Unlike the conventional local property levy that simply taxes real property based on its assess overall value, the split rate duty taxes the site and structural values of property at different rates. Acknowledging the differences, the split rate property tax assesses site values at much higher rates than the structure values. The greater the tilt in rates in this way the more the tax discourages speculative interests for holding property and encourages those who plan to invest and develop the property's structures. While advocates have touted the many benefits of this form of property taxation, our focus here is simply to limit the rise in site values (Hartzok, 1997; Kwak & Mak, 2011). Of course, this would reduce the ability of homeownership to provide the same level of retirement wealth as is currently the case.

The second step that local authorities need to take is to reduce some of the exclusionary zoning that has been used to protect and encourage further development of single family homes. This would require relaxing standards on minimum lot sizes and housing sizes along with permitting increased housing density. To be sure, a major force behind these restrictive practices are existing homeowners themselves. Many correctly see these ordinances as continuing to prop up their property values as they limit further choices to prospective homebuyers. However, some of the local weight in favor of these policies will be relieved by implementing the split rate taxation scheme. In this case, any reductions in local site values that might accompany relaxation of these ordinances will also generate lower property taxes. Local property owners will recognize that less of their own immediate financial interest is tied to the retention of these policies.

*Federal Level Changes*

To complement efforts at the local level, the federal government needs to make substantial changes in its policies to redirect efforts among households in how they aim to generate adequate retirement wealth. The first step in this direction would be the elimination or dramatic revision of the key tax expenditures that target homeowners. These days, relatively few households would notice the passing of the local and state property tax deduction while the home sales exclusion could be dramatically pared back if not then eliminated. Even in this case, any capital gains earned on one's home would still gain the relative protection provided by the capital gains exclusion. Some have argued that the home mortgage interest deduction should be repackaged as a first-time buyer's tax credit. In this way, it would help households overcome the down payment barrier and lift more households into homeownership status instead of rewarding those annually who've already achieved this status on their own. Granted, imposing a tax equal to the imputed net rental value of owner-occupied housing may prove to be a stretch politically, at this point. Nonetheless, severely curtailing these tax expenditures would reduce the appeal of homeownership and free up Treasury dollars that can help households build wealth in other ways.

To help households build wealth to cover their retirement years, I suggest the implementation of the SAFE Retirement Plan that would expand access to all workers to retirement saving that would supplement their Social Security benefits. Under this plan, all employers would be expected to offer their workers access to a SAFE Retirement account. New employees would be automatically enrolled in which they contributed 3 percent of their salary into the plan. While they would have opt-out authority, evidence suggests that most employees would remain in the program. While employers are not required to offer matching funds, they could use this vehicle if they chose to do so. As the employee earned wage increases, their fund deposits would rise automatically, although subject to their opt out veto.

The employee would not be required to determine the particular investment strategy used for their funds. Instead, they would choose among a variety of different offered funds. Each fund would be large enough to allow for pooled risks and reduced fund management costs and operated by non-profit organizations who would contract with investment professionals. Pooling the investment funds would allow each individual donor to benefit from a balance of risk and reward that would come from broad diversification. In this way, even smaller donors could benefit from the appreciation that higher risk assets provide. These funds would remain portable as workers migrated from one employer to another.

While the SAFE Retirement Plan does not call for it, the federal government could assist lower wage earners by offering matching funds to their deposits. These matches could be as high as 1 to 1 for those earning the minimum wage and then scaled down as the worker's wage rose relative to that minimum. In this way, the federal government could offer the kind of assistance that it currently offers more affluent households in their retirement savings (Williams, 2016; Williams, 2022).

Federal help should start before individuals enter the labor market. One important avenue for higher economic mobility is earning a college degree which often leads to professional employment that is accompanied by a reasonable salary and full benefits. Increasingly, many well qualified students cannot afford college tuition and therefore are excluded from these opportunities. Various proposals including Hamilton and Darity's "baby bonds" proposal can mitigate this problem. Each child born in the U.S. receives an initial deposit of $1,000. Each year, an additional deposit – up to $2,000 that is inversely related to parental income – is added to the account. By the time these kids reach age 18, it's estimated that White beneficiaries would average $18,000 while Black beneficiaries would average $29,000 (Cassidy et al., 2019). Under some proposals, the funds can only be spent on education, homeownership, retirement accounts, or business startups while other proposals offer fewer restrictions. Implementing such a proposal would enable each young adult to start out with some initial capital that they could then parlay into increased human capital or some of form of wealth.

### *Conclusion*

Clearly, unrealistic and poorly designed conceptual models cannot help but generate problematic and misleading results. An inaccurate understanding of the real conditions will lead to poorly designed policies. As this paper demonstrates, the prevailing view within orthodox economics is to treat real property as if it is simply another version of capital. With this view in mind, higher real estate prices, despite their short-term nuisances, will simply attract more development that will then ease the pressure on prices. Yet, this view is at odds with reality. Land cannot be simply be viewed as another form of capital. It carries unique attributes that make it distinctively different from human-made capital. While land does share with capital its capacity to offer its owner a certain level of power – power that is often transferred across generations – its differences from capital are even more significant.

Land's unique attributes make it particularly suitable as a mechanism for economic stratification. Each parcel of land has a unique location, a characteristic that can either generate minimal or highly significant value to the property. In latter cases, landowners hold strong monopoly power and can extract substantial rents. As a group, landowners hold an "entry monopoly"; no prospective landholder can gain access without the sale of land from an existing landowner. Unlike physical capital, land does not deteriorate nor decline over time. This gives landowners even more leverage in any negotiation. And land's essential role in any economic activity along with its fixed supply means that it will appreciate over time in a growing economy. Its permanence makes it an effective vehicle for families to pass along from generation to generation. For all of these reasons, land functions as the perfect vehicle to ensure economic stratification across generations.

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