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The Political Economy of Institutional Landownership: Neorentier Society and the Financialization of Land*

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Abstract In recent decades a substantial shift in landownership has taken place in rural America as millions of acres of land have come under the ownership and control of various financial institutions. This article outlines a political economic framework for explaining and interpreting the significance of this proliferation of institutional investments into rural lands. Focusing on two of the nation's most important rural land resources—timberland and farmland—I suggest that we are witnessing an unprecedented integration between finance capital and landownership that harkens back to previous eras of rentier control. I further suggest that this increasing tendency to treat land as a financial asset—what I refer to as the "financialization of landownership"—gives rise to a number of contradictions that may have profound effects on rural communities across the United States. I conclude with a discussion of a land bubble and the role of institutional landowners in pushing up land prices in both timberland and farmland markets.

In each historical epoch property has developed differently and under a set of entirely different social relations.

— *Karl Marx*, Poverty of Philosophy

Introduction

Twenty years ago, there was a call in this journal for sociologists to "rediscover the place of evolving property relations as a new century looms on the social horizon and challenges former meanings of ruralism, rurality, and rural land tenure" (Geisler and Salamon 1993:530). During the intervening period, a series of changes in landownership have taken place that raise important questions about landownership, property rights, and the trajectory of land tenure in the twenty-first century. These transformations have both national and international dimensions, and affect both urban and rural land markets.

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Internationally, the rapid expansion of "land grabs" has garnered significant attention from academics and activists (McMichael 2012; White et al. 2012). The term "land grab" refers to large-scale acquisition of land by investors (both public and private), often involving the displacement of communities and dramatic changes in agrarian land regimes (White et al. 2012). These processes are typically linked to the expansion of capitalist market relations and the ongoing process of accumulation by dispossession (Harvey 2003). This emphasis has led researchers to focus on how land in the global south is "enclosed" and integrated into the dynamics of global capitalism (Ince 2014). Much less attention, however, has been paid to landownership changes taking place in developed countries, such as the United States.

Among the more prominent changes in U.S. land tenure is the rapid proliferation of institutional landownership. "Institutional landownership" here refers to the ownership and control of land by a broad array of financial actors, including pension funds, endowments, sovereign wealth funds, hedge funds, and private equity firms, among others. These institutional landowners come in a wide variety of organizational structures, ranging from real estate investment trusts to newly created land-management entities such as timberland investment management organizations. Collectively these institutional landowners now own and control millions of acres across rural America, consisting of some of the nation's most valuable and productive land.

Institutional landowners are similar, yet distinct, from industrial corporations. They are similar in that they are essentially capitalist enterprises aimed at increasing returns on capital invested. Their principal distinction, however, lies in their relationship to commodity production. Land that is owned by industrial corporations is typically tied directly to commodity production on the land—whether through timber or agricultural production—and land use and management is primarily geared toward the manufacturing of food or wood products. Institutional landownership, on the other hand, seeks to turn *the land itself* into a profit center. As financial institutions, these owners see land primarily as a portfolio asset. As a result, land management takes on a decidedly short-term perspective that focuses on maximizing returns to financial investors, particularly in the form of asset price appreciation. This increasing tendency to treat land as a financial asset—what I refer to as the "financialization of land"—gives rise to a number of contradictions that may have profound impacts on rural communities across the United States.

This article's primary focus is on two of the more dramatic transformations taking place in the nation's most important rural land resources. The first is the nation's industrial timberlands, which have undergone a dramatic transformation of ownership in recent decades as industrial forest product firms sold off millions of acres of land to newly created investment institutions. The second is in the nation's farmlands, which are currently gaining significant attention among institutional investors looking to capitalize on rental incomes. Together these two sectors have seen over fifty million acres of land change ownership type in recent decades. Such a massive transition of ownership raises a number of concerns about the changing nature of rural landownership and its potential impact on rural communities that rely on land for their economic livelihood.

The article begins with a brief discussion of classical political economy theories of ground rent and finance capital, explaining how both were understood as claims on surplus value produced in the labor process. Most nineteenth-century political economists expected that both types of economic rent would eventually be subsumed by industrial capitalism and utilized in order to facilitate ongoing capital accumulation. Following Michael Hudson (2012), I suggest that we are currently witnessing a form of "neorentier society" based on an unprecedented integration between finance capital and landownership. I further argue that this development was far from inevitable, but was directly related to a series of profinancial economic policies pursued by the U.S. federal government in recent decades. Next I provide a historical overview of how this process has unfolded in both timberland and farmland markets. Here I emphasize how the particular history of each market created unique characteristics that helped shape the financialization process. I conclude with a discussion of one of the more pressing consequences of this process: the rapid rise in land values that have accompanied the growth of institutional landownership, leading some analysts to suggest that we are experiencing a bubble in both timberland and farmland.

The Political Economy of Landownership and Rent

The social relations of landownership are fundamental components of all modes of production (Massey and Catalano 1978).[1] The capitalist

[1] The theoretical discussion that follows is based on a Marxian approach that holds structural relations to be analytically prior to particular institutions or agents. In other words, the fact that the landed aristocracy adopted bourgeois principles and was instrumental in the development of agrarian capitalism does not contradict the structural distinctions that exist between feudal and capitalist relations of land ownership. The same distinction holds for my analysis of finance capital. See Massey and Catalano (1978) for a similar approach to analyzing the social relations of land ownership.

relations of landownership, and bourgeois society more generally, evolved over the course of several centuries as an expanding market created an opening for an emergent bourgeoisie class to challenge the dominance of the landed aristocracy, a holdover from the feudal era.[2] In Britain and other Western European nations, agricultural production was one of the first sectors to be subsumed under the imperatives of capital accumulation, and many in the landowning class were instrumental in establishing bourgeois relations in the countryside (Woods 1998). Capitalism did not, however, obliterate feudalism, nor did it do away with the dominance of landowners. In fact, the struggle to break the power of landowners became the principal political fight of the nineteenth century as the nascent bourgeoisie—which was increasingly associated with industrial (i.e., urban) production—struggled to free itself from the fetters of the landed aristocracy. Over time the bourgeoisie gained the upper hand in this struggle and the capitalist mode of production became the dominant structuring force in both industry and agriculture (see Harvey 2006:343–49).[3]

The discipline of political economy evolved within the context of this sociohistorical development in an attempt to understand and analyze the dynamics of this emerging market society (Heilbroner 1989). The first political economists were primarily concerned with the development of agrarian capitalism and generally held industrial and commercial production to be inferior to agricultural production (McNally 1988). But as the power relations in society continued to shift, there was a corresponding shift in the discipline of political economy. By the early nineteenth century most prominent political economists were progressives in the sense that they sought to bolster the emergent bourgeoisie against the aristocratic landowners, whom they considered unproductive holdovers from a bygone age. David Ricardo, perhaps more than the rest, stands out in this regard. As Robert Heilbroner (1989:96) writes of him, “Ricardo saw the landlord as a unique beneficiary in the organization of society. The worker worked, and for this he was paid a wage; the capitalist ran the show, and for this he gained a profit. But the landlord benefited from the powers of the soil, and his income—rent—was not held in line either by competition or by the power of population. In fact, he gained at everyone else’s expense.” Urban workers also adopted the bourgeoisie’s disdain for landowners. E. P. Thompson, in his *The Making*

[2] The debate over the transition from feudalism to capitalism stands as one of the most contentious and long-standing debates in political economy. See Hilton (1976) for an overview.

[3] The degree to which capitalist relations were able to penetrate agricultural production continues to be an important debate (see Kautsky [1899] 1988; Mann 1990).

of the English Working Class (1968:254), notes that nineteenth-century industrial workers often expressed their "hatred for the 'landed aristocrat' whom they felt had 'no' 'right' to his wealth whereas, if only by foul means, the mill owner had 'earned' his."

The sentiment that landowners were benefiting at the expense of everyone else found its theoretical expression in political-economic theories of ground rent. Most classical political economists subscribed to a labor theory of value, which holds that labor is the ultimate source of value, and that any claims to surplus value produced must be justified by their contribution to the production process. Rent is the portion of the surplus value paid to the landowner by virtue of his "monopoly . . . over definite portions of the globe" Marx (1967:615). And because rent is a relation of distribution that does not constitute a necessary cost of production—at least from a social point of view—it was increasingly viewed, in the words of Hudson (2012:140), as the proverbial "free lunch." Therefore, political economists sought to isolate this "empty" pricing that had no counterpart in the cost of production and treat it as unearned income (Hudson 2012).

The basis for labeling rent as a "free lunch" is that land values are, in large part, the result of the social development of the surrounding community (Hudson 2012). For example, a parcel of land located in close proximity to a metropolitan center tends to be higher in value than a similar parcel in a rural setting. This value is not attributable to the owner's contribution to that land, but based on the general level of prosperity in the surrounding community. Therefore, the argument goes, this value does not belong to the individual but to the community in general; and it should therefore be taxed to the benefit of that community. During the late nineteenth century, Henry George popularized the notion of a single tax on land that could replace taxes on both labor and capital (George 1982).

Marx, in keeping with most progressive analysts of the nineteenth century, believed that rentiers would eventually be subordinated to the needs of industrial capital (Hudson 2012). "One of the major results of the capitalist mode of production," Marx wrote, "is that it totally separates the land as an instrument of production from landed property and the landowner" (1967:617–18). According to Marx, the emergent industrial capitalists would control the fate of the land. This would entail the dissolution of the old economic relations of landed property and their conversion into a factor of production in order to accommodate ongoing capital accumulation. In fact, Marx considered this one of the "great achievements of the capitalist mode of production" (618).

In the United States, industrial capital did not face an entrenched landed class handed down from the feudal epoch, but a vast frontier populated by indigenous populations that were considered expendable. The federal government, therefore, played a particularly important role in the development of landownership in the United States (see Post 1982; Robbins 1976). During the nineteenth century the U.S. federal government ceded millions of acres of land to the railroads and mining companies in order to facilitate the expansion of capitalist markets across the continent. Much of this land was then transferred to industrial forest product firms and land companies that continue to own this land in their original checkerboard pattern (Jensen and Draffan 1995). In addition, the Homestead Act of 1862 granted millions of acres of land to small farmers in order to promote farming and the settlement of nation's interior. Both of these federal policies were aimed at increasing commodity production and promoting the advance of industrial capitalism. Moreover, as we will see, federal policies helped shape landownership patterns that confronted institutional buyers in recent decades. Yet the development of U.S. industrial capitalism produced its own contradictions, and by the close of the nineteenth century, the forces of concentration and centralization gave rise to another rentier class, the financier, that would likewise stake its claim on the surpluses of industrial capital.

Finance Capital and Land

Finance has always been critical to the development of the capitalist system (see Arrighi 1994), yet most classical political economists, including Marx, viewed finance capital as external to the capitalist mode of production. As Marx (1967:609) explained, finance capital "exploits a given mode of production. It does not create it, but is related to it outwardly." In keeping with the labor theory of value, finance—or interest-bearing capital—does not create value, but earns its income based on its control of the credit system. In this sense, financial incomes are considered a form of economic rent that do not constitute necessary costs of production, but a rentier claim on the production process. And just as Marx believed that the landlord would be subsumed to the needs of capital, he likewise expected that the credit system would be utilized to facilitate the real economy of commodity production (Hudson 2012:129–56).

Contemporary economic commentators often make a distinction between the "real" and the "financial" economy. As Magdoff and Sweezy (1987: 94) point out, however, this language often leads to confusion:

"The trouble with this approach is that there is in fact no separation between the real and the monetary: in a developed capitalist economy practically all transactions are expressed in monetary terms and require the mediation of actual amounts of (cash or credit) money." A more appropriate distinction, they conclude, "is not between real and monetary (all are both real *and* monetary) but between productive and financial" (94). This perspective can also be conceptualized by Marx's general formula for capital, M-C-M′, where money is converted into commodities, via the labor process, and then sold on the market for a higher price, representing the surplus value added.[4] Marx's shorthand for finance capital was M-M′, where money begets more money and the production and sale of real, tangible commodities is a secondary consideration. In classical political economy, the financial sector was often dismissed as a veil that obscures the more fundamental process taking place in the production and sale of commodities, but over the course of the twentieth century a series of changes took place in both the structure and operation of American capitalism that would forever change the role of finance in mature capitalist economies.

There were three critical junctures (Haydu 1998) in the development of modern finance. The first occurred at the turn of the twentieth century when the forces of concentration and centralization of capital led to the rise of the modern corporation. The corporation is significant in that it separated ownership from control over the firm and created a highly liquid securities market that paved the way for modern financial markets (Magdoff and Sweezy 1987). This was the era of the money trust, when financial interests came to dominate the U.S. economy, using their enormous powers of credit creation to control commodity markets and limit overly destructive competition (Mitchell 2007). The period was marked by the growth of "absentee ownership," which Veblen ([1923] 2007:3) argued was rapidly becoming the "main and immediate controlling interest in the life of civilised [sic] men."

The prominence of finance capital turned out to be short-lived. A second critical juncture in the evolution of modern finance occurred in the wake of the stock market crash of 1929 and the Great Depression that followed. The Roosevelt administration, with the backing of the American public, blamed the nation's woes on the machinations of "the unscrupulous money changers." The legislative reforms of the New Deal ushered in a period of "financial repression" that included a number of

[4] In this sense agricultural capitalists are just as productive as manufacturing capitalists. Both rely on extracting surplus value from the production of commodities. See Massey and Catalano (1978).

regulations that severely restricted the ability of financial rentiers to extract surpluses from the U.S. economy. These reforms were in keeping with Keynes's ([1936] 2006:345) call for the "euthanasia of the rentier" and served to restrict the excesses of finance capital throughout the postwar period.

A third juncture can be traced to the economic crises of the 1970s. During this decade the U.S. economy was mired in conditions of slow growth and high inflation, or stagflation. These conditions helped usher in the neoliberal revolutions of Reagan in the United States and Thatcher in the United Kingdom (Harvey 2005). In the United States, the Volcker shock put an end to inflation and the Reagan administration followed with a series of deregulatory measures that unleashed finance capital from the constraints of the New Deal era. Over the next three decades the financial sector of the U.S. economy grew substantially relative to the productive economy in a process that is now commonly referred to as "financialization" (Arrighi 1994; Foster and Magdoff 2009).

A key feature of financialization is the search for new investment assets—particularly those with predictable income streams—that can be used to raise investor capital (Leyshon and Thrift 2007). These often include public infrastructure such as toll roads and mass transit, as well as natural resources such as land and water. The objective here is to find an asset with a predictable income stream that can serve as collateral for investors and establish the foundation for financial speculation. The result of this process has been a progressive reshuffling of assets in the U.S. economy from industry, government, and households to the financial sector.

This financially inspired stripping of assets lies at the heart of our current era of financialization and harkens back to previous eras of rentier control. As Hudson (2012:201) asserts, "the rentiers have fought back" by "joining in an alliance of finance capital with real estate to create the symbiotic FIRE sector."[5] Real estate accounts for approximately 70 percent of bank lending in Britain and the United States and some 80 percent of capital gains in the U.S. economy are land price gains (145–46). As with the majority of finance capital, these gains tend not to be reinvested in real capital formation, but are being recycled into new loans in an ongoing cycle of debt-financed real estate speculation based on ever rising land values.

[5] FIRE is an acronym used by economic analysts to refer to the broader financial sector of the economy, which includes finance, insurance, and real estate.

The growth of institutional landownership is a central feature of the financialization of land in recent decades. As David Harvey notes, in advanced capitalist societies there is an "increasing tendency to treat the land as a pure financial asset": "The land becomes a form of fictitious capital, and the land market functions simply as a particular branch—albeit with some special characteristics—of the circulation of interest-bearing capital. Under such conditions the land is treated as a pure financial asset which is bought and sold according to the rent it yields" (2006:347). Harvey argues that once land has reached this point, landownership has achieved its "true capitalistic form" (347). The tendency to treat land as a financial asset is efficient for capital, according to Harvey, in that it coordinates the production of surplus value and allocates land use in a manner that is "amenable to accumulation" (333). At the same time, Harvey recognizes that this process is not without its contradictory aspects, particularly when land is subject to "insane" forms of speculation and monopoly control (349).

Harvey's position on the positive effects of financial landownership stands in contrast to Hudson (2012), who interprets this development as a perversion of the more progressive tendencies of capitalist development that would increasingly see finance subsumed to the needs of industrial capital. Hudson characterizes the growth of financial ownership as a "lapse back into neofeudal rentier power" (203). Hudson argues that the appropriation of property, or, at least its income, by means of loans and credit has replaced the feudal epoch's "primitive accumulation" by military seizure. As a result, "[t]oday's ultimate recipients of land rent are not the hereditary owners as was the landlord class in Ricardo's day; they are the banks" (198). In short, banks have used their control over the credit system to pressure corporate owners to divest their real estate assets and bring them under control of the financial sector. In the process, financial investors have benefited greatly from an increasing stream of rental income and rising land prices.

The rise of this neorentier society is the opposite of what most nineteenth-century observers expected of capitalist development (Hudson 2012). Classical political economists sought to improve their economies' competitive pricing position by minimizing unnecessary overhead in the form of rent or interest. In this sense, the resurgence of rentier power in today's financialized economy represents a reversal of the more progressive tendencies of capitalist development that sought to increase the productive power of society. In order to understand how such a development came to pass it is necessary to examine the role of the state in facilitating the financialization process.

The Financialization of the State

It is now widely acknowledged that in recent decades the U.S. state has been captured to a considerable degree by the interests of finance, that is, Wall Street (Krippner 2011; Panitch and Gindin 2012). Here I want to highlight three critical shifts in U.S. federal policy that directly contributed to the growth of institutional landownership and the financializaton of land.[6] The first is financial deregulation, which opened the doors for the financial excesses that were to characterize the financialization era. Of particular importance was the passage of the federal Employee Retirement Income Security Act in 1974. This act, along with other state regulations, relaxed the rules governing the investment practices of many public pension funds. As a result, institutional investors began to diversify away from their traditional reliance on low-risk, fixed-income securities such as government and corporate bonds to more risky investments such as stocks. This development was further spurred on by the Reagan administration's deregulation of antitrust statutes, which culminated in the hostile takeover movement of the 1980s. Although institutional investors focused initially on the stock market, they soon turned to commercial real estate and other assets, such as land, in order to diversify their rapidly expanding portfolios (Binkley, Raper, and Washburn 1996).

A second critical change in policy concerned taxes and the shift of the tax burden off finance and onto industry and labor. If we view shifts in the tax burden as an indication of the relative power of different classes and the distribution of earnings as an outcome of class struggle, then we can view this shift in light of the ability of finance capital to increase its power relative to other interests in society, including other factions of capital as well as labor. As shown in Figure 1, there has been a substantial decrease in the tax rate on capital gains from a high of 40 percent in the late 1970s to a historically low rate of 15 percent today. During this period taxes have also declined on corporate income, though they remain at a substantially higher level of 35 percent. The result of these changes in the tax structure is that we now have a tax structure that benefits real estate and finance much more favorably than it does industry. These changes in the tax structure also led shareholders—who consist largely of institutional investors—to pressure corporate managers into divesting capital-intensive assets, such as land, in order to reduce the overall tax burden.

[6] These policies were not necessarily aimed at financialization per se, but are more appropriately understood as side effects of the broader financialization process.

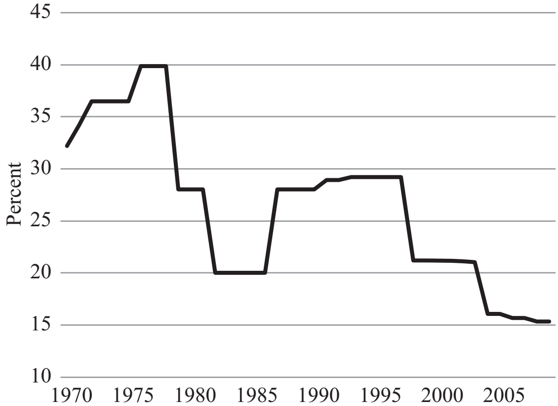

Figure 1. Maximum Tax Rate on Long-Term Capital Gains.
Source: Federal Reserve.

The forest products industry was particularly affected by the Reagan administration's Tax Reform Act of 1986. For most of the twentieth century, large firms in the forest products industry benefited from the treatment of timber income as capital gains. This was an enormous subsidy to the industry that disproportionatley benefited the largest firms, which owned the vast majority of industry timberland (Sunley 1976). The Tax Reform Act of 1986 changed the rules governing taxable income of long-term capital gains for timberland (Bettinger, Haney, and Siegal 1989). As a result, income from timberland was taxed twice: once at the level of corporate income (35 percent) and once at the stockholder level when dividends are disbursed (15 percent) (Hickman 2007).

A third policy that has been instrumental in driving the growth of institutional landownership is federal monetary policy. Following the Volcker shock of the early 1980s, there was a steady decrease in the federal funds rate—the rate at which the Federal Reserve lends to private banks. As shown in Figure 2, interest rates have been on a downward trajectory since the early 1980s. These low interest rates have fueled a series of speculative bubbles, first in the dotcom bubble of the 1990s, and then subsequently in the housing bubble of the 2000s. Following the crash of the latter, interest rates hit bottom and have remained there until this day. Although this policy can be justified on the grounds that it provides liquidity to a depressed economy, it has also contributed to the glut in savings that has sent institutional investors across the globe in search of income streams that can be capitalized. In recent years, as the stock market has become more volatile, investors have looked to hard

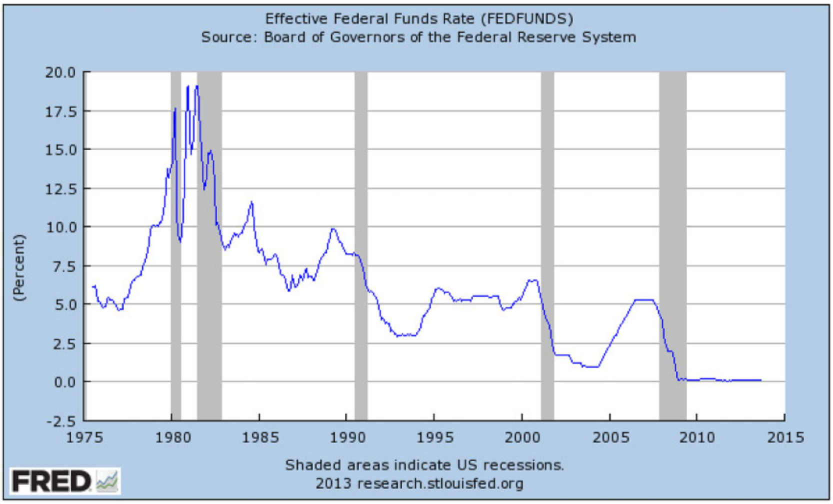

Figure 2. Effective Federal Funds Rate.
Source: Federal Reserve.

assets, such as land, in order to expand their portfolios. Duffy (2011) reported that in the fourth quarter of 2010, both the Chicago and Kansas City Federal Reserve Banks reported the lowest real estate interest rates in their data series.

Each of these three federal policies can be characterized as profinancial policies that helped bolster the interests of finance. In this sense they were each instrumental in opening the door for the financialization of the U.S. economy that occurred in recent decades. Furthermore, they each contributed in their own way to the financialization of land. It is to this development that I now turn.

The Financialization of Land

The financialization of land has affected both domestic and international markets in both urban and rural communities. In this section I focus on two of the United States' most important land resources: timberland and farmland. Together, these two categories of land make up 84 percent of the total land base of the 48 contiguous states (ERS 2014), making them a vital source of economic activity for countless rural communities across the nation.

Timberland Ownership

In the forest products industry, owning or gaining access to timberland has been a perennial concern due to the enormous amount of raw materials required to maintain production in the capital-intensive mills. During the nineteenth century, the industry followed a pattern of "cut and run," exhausting timber supplies as it moved west in search of seemingly endless stands of virgin forest. As the scale of industry continued to grow and timber supply began to show signs of depletion, the industry turned to direct fee ownership in order to gain control over timber supply. By 1980, firms in the forest products industry (defined by their ownership of manufacturing plants to turn timber into finished products) were in possession of some 70 million acres of timberland. These large land holdings consisted of some of the most productive timberlands in the nation and gave the industry a considerable amount of power and influence (Gunnoe 2012).[7]

Beginning in the 1980s, however, the relationship between corporations in this industry and the land that furnished wood to their mills began to experience a historic transformation (Bliss et al. 2010; Gunnoe and Gellert 2011). This process began with the hostile takeover movement that swept across corporate America following the deregulatory measures of the Reagan administration. A critical factor driving this movement was the fact that many large corporations contained assets on their balance sheet that were worth more than the net capital value of their stock. This provided savvy investors with a prime opportunity to purchase a controlling share in firms, only to strip them of their assets and sell them off in pieces.

The hostile takeover movement in the forest products industry can be traced largely to the machinations of a single man: Sir James Goldsmith. Over the course of the 1980s, Goldsmith successfully engineered several hostile takeovers, including the takeover of long-standing forest product firms Diamond International and Crown Zellerbach. Once in control of these firms, he sold them off in parts, while holding on to the timberland assets. By the late 1980s, Goldsmith was in possession of over 4 million acres of timberland stretching from Maine to Oregon (Fallon 1991). Goldsmith was not the only financier to target the forest products industry: in 1985 there were successful takeover bids for Potlach Corporation, Pacific Lumber Company, and Hammermill Paper. In each case, it was the timberland itself that was used to justify the takeover (see, for example, Harris 1995).

By the end of the 1980s, the hostile takeover movement was coming to an end. Yet a market for corporate control continued under the

[7] The total U.S. timberland area is estimated at 514 million acres. Although 70 million acres, or roughly 14 percent, may seem like a small percentage of the total, this overlooks the fact that these timberlands are heavily concentrated in areas surrounding the industry's pulp and paper mills, giving the owners considerable market power.

leadership of large institutional investors (Useem 1993). These large investment institutions operated much like the takeover artists of the 1980s, only they were larger and usually better funded. The growth of institutional shareholding also helped spur a revolution in managerial control that led managers in the forest products industry to increasingly adopt a shareholder value ideology of corporate management (Gunnoe 2012). A principal aspect of this ideology was that firms should sell off noncore assets in order to free up capital for increased shareholder returns (Fligstein and Shin 2007).

Timberland became an attractive investment class to institutional investors for a number of reasons (Hickman 2007). First was the fact that investments in timberland seemed to offer fairly high returns when compared to other investment options. Second, investors believed that timberland investments could help spread risk in large portfolios because they had low correlations with other asset classes such as stocks and bonds. And third, timberland returns tended to be highly correlated with the rate of inflation, which provides investors with a hedge against inflation. As the realization of the investment potential of timberland began to spread, two classes of institutional buyers emerged in order to accommodate the financial community's growing demand for timber assets.

The first is the timberland investment management organization (TIMO), an institution that buys and manages timberland on behalf of various clients, such as insurance companies, pension funds, endowments, and foundations (Hickman 2007). TIMOs do not necessarily own the land—although they do often have a stake as investors and are often listed as general partners in the partnerships that are established. The central role of a TIMO, though, is to manage land for various institutional investor clients. TIMOs typically purchase timberland for a relatively short period, often between 10 and 20 years, with the intention of selling it once the agreed upon investment term expires.

The second class is the real estate investment trust (REIT), which owns and manages real-estate-related assets (timberland in this case) on behalf of private investors. Unlike standard C corporations, REITs do not pay taxes on their income. By law, REITs have to distribute at least 90 percent of income directly to investors, who pay capital gains taxes on this income. The net effect is a greatly reduced tax burden on investors. REITs were first established in the early 1960s, but it was not until the passage of the Real Estate Investment Trust Simplification ACT of 1997 that timber REITs were established. The act changed the rules governing conversion from a vertically integrated timber company to REITs and allowed for institutional investors to invest directly in REITs. Today there

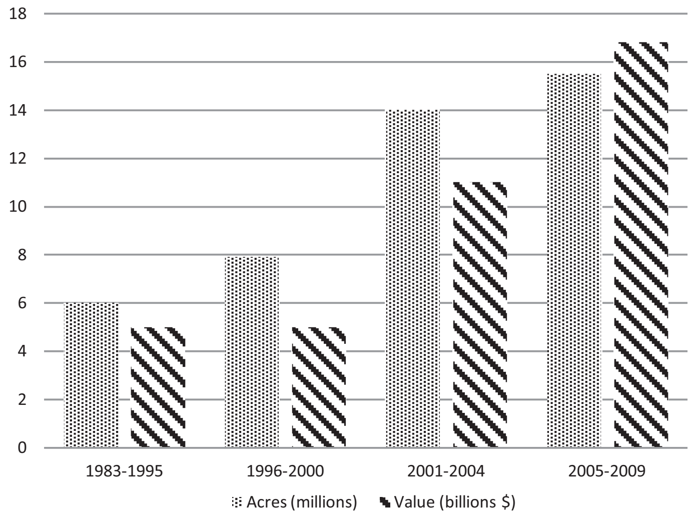

Figure 3. Transfer of Timberland Ownership by Acre and Value.
Source: Rinehart (2010).

are several REITs, including Plum Creek, Potlatch, Rayonier, and Weyerhaeuser, that are traded on the New York Stock Exchange, thus allowing investors to invest directly in timberland.

Figure 3 shows the net acres and value of this transfer of timberland ownership. Here we see that the transfer of timberland began in the 1980s and accelerated slightly over the course of the 1990s. Investors that got into timberland investment early were unexpectedly rewarded when the Forest Service sharply cut back timber harvesting from federal lands in the aftermath of the Spotted Owl controversy (Rinehart 2010). The substantial decrease in supply from federal forests led to a sharp increase in timberland prices, even in nonwestern timber-producing regions. Jim Rinehart (2010) estimates that this spike in timberland prices resulted in a cumulative rate of return of 26.75 percent for early investors, which only increased investor interest in timberland as an asset class.

Over the course of the 1990s, corporate managers in the forest products industry, under pressure to enhance shareholder value, began to notice the rising value of their timberlands (Gunnoe 2012). Selling timberland assets provided these managers with a relatively quick and straightforward method for increasing shareholder returns. The real explosion of timberland sell-offs, however, occurred during the 2000s, when the last of the corporate timberland owners, acting under “marching orders from Wall Street,” decided to sell off their timberland assets (Rinehart 2010:13).

In 2010 Weyerhaeuser became the last major firm in the industry to restructure when it announced its decision to convert to a REIT in early 2010. Weyerhaeuser's restructuring as a REIT marked the culmination of one of the more pronounced periods of landownership restructuring in recent U.S. history. Prior to Weyerhaeuser's restructuring, Rinehart (2010) estimated that over 43 million acres of timberland valued at $39.7 billion had changed ownership type between 1983 and 2009. With the addition of Weyerhaeuser's timberland to these figures in 2010, we are dealing with a land transformation in the range of 50 million acres. As Rinehart (2010:17) notes, "[t]his represents a stunning transfer of assets and wealth, especially considering that much of it occurred in a single decade."

Farmland Ownership

The growth of institutional investments in farmland has not been as dramatic as it has been with timberland. Nonetheless, in the wake of the great financial crisis of 2008–2009 there has been a steady increase in farmland investments on the part of institutional investors (Fairbairn 2014). The full extent of these investments in farmland remains unclear. As of 2012, one analyst estimated that institutional investment in farmland had reached a "modest" level of $30–40 billion dollars globally (Agrimoney.com 2012). With an estimated one trillion dollars of "investable" farmland globally, this same analyst expects total farmland investments to continue to climb, particularly in the United States, where strong private property rights, coupled with an aging population looking to sell while the price is right, make farmland an increasingly attractive investment. The commodities targeted by institutional investors range from row crops such as corn and soybeans to permacrops such as pistachios and apples.

There are several aspects of farmland ownership that have inhibited the kind of large-scale transfer that took place with timberland. For starters, despite a considerable increase in concentrated farmland ownership in recent decades (see Jackson-Smith and Petrzelka forthcoming), ownership remains much more fragmented than timberland, with few large firms owning large contiguous blocks of land, which are preferred by investors. The relatively fragmented nature of farmland ownership is due, in part, to the legacy of nineteenth-century homesteading policies, which populated the frontier and encouraged farming so as to supply food and fiber crops for the nation's expanding population. Significant concentrations of farmland have also been limited by state and local regulations aimed at sustaining the small family farmer. Several states have restrictions on corporate land ownership, while others have laws that limit the ability of private owners to develop agricultural land or transfer land for developmental purposes (Community Environmental Legal Defense Fund 2013).

Of course the persistence of the small family farm does not mean that the agricultural sector is free from issues of economic concentration and market power. Large corporations are able to exert a considerable amount of control over farmers without necessarily owning the land. These controlling mechanisms include their control over inputs (seeds, fertilizers, etc.), produce markets, and transportation and storage facilities (Kloppenburg 2005; Marchak 1998). Vertically integrated poultry and hog production is likewise controlled by corporate actors that do not need to own land because they control virtually all aspects of production (Constance et al. forthcoming).

Despite the historical factors working against institutional farmland investment, there continues to be increasing interest in this sector. Investors often cite the same rationales for farmland investment as they do for timberland, including the perception that land is a good hedge against inflation and is countercyclical to more traditional asset classes such as stocks. This provides investors with a buffer against market fluctuations and helps spread risk in large portfolios. Another factor is the high returns that have come from agricultural investments in recent years. Over the past decade, farmland has consistently outperformed traditional stocks, bringing in returns in excess of 15 percent in some markets (Robinson 2012).

Investor interest in farmland is also driven by increasingly widespread concerns about resource scarcity and population growth in coming decades. This concern has been exacerbated in recent years by the ongoing food and energy crises, which have increased demand for agricultural products and biofuels (McMichael 2012). Jeremy Grantham, the influential CEO of the asset management firm Grantham Mayo van Otterloo, has been a leading voice for investors looking to invest in hard assets. Grantham's *Quarterly Letter* to investors is littered with warnings about population growth, resource shortages, and the "Fall of Civilizations." Grantham's unabashed neo-Malthusian worldview (Fairbairn 2014) leads him to advocate for increased investments in natural resources, particularly forestry and farmland (Grantham 2013).

So who are these investors? The structure of these investment vehicles makes it difficult to trace ownership. A recent report by the Oakland Institute lists several of the most prominent types of investors (Bergdolt and Mittal 2012). The first category of investors Caroline Bergdolt and Anuradha Mittal classify as "large financial intermediaries." These consist of large financial institutions that invest in smaller funds in order to diversify and increase their exposure to land. For example, Aquila Capital, a $2 billion German private equity fund, invested in Chess Ag Full Harvest Partners, which is an investment firm that focuses on purchasing U.S. farmlands and leasing them to tenants. “What they [Chess Ag] offer is a pricey but compelling story for long-term investors,” Bergdolt and Mittal report, “essentially buying up land, leasing it to growers, and collecting a share of the proceeds, while benefiting from appreciating property prices” (19). In November 2012, an investment unit of the Swiss bank UBS bought 9,800 acres of farmland in Wisconsin for $68 million (Creswell 2013).

A second category of investors consists of institutional investors themselves. Pension funds constitute the largest block of capital in private equity firms, and they are thought to be among the most active investors in agricultural funds. The Teachers Insurance and Annuity Association—College Retirement Equities Fund is the largest U.S. pension fund and is one of the largest farmland managers in the world. It manages a $4 billion fund and owns approximately 600 farms, half of which are in the United States (Creswell 2013). Others include state and local pension funds, which are actively searching to join the bandwagon by investing in farmlands (Bergdolt and Mittal 2012).

A significant overlap is occurring between firms that began investing in timberland and are now turning to farmland. John Hancock stands out in this regard. Hancock’s Natural Resource Group is split into two funds: a Hancock Agricultural Investments Group and a Hancock Timber Resource Group. As of 2011, the agricultural fund—what Madeleine Fairbairn (2014) is now calling a “FIMO”—consisted of $1.5 billion in assets, with more than 200 individual properties. As with timberland, these funds typically acquire large tracts of land, valued at more than $1 million, which they then lease to farmers for various products, including row crops, fruit trees, and vineyards. Hancock’s agricultural lands are spread across the United States and include land in the Midwest, the Mississippi Delta, the Rocky Mountain region, and the Southeast. The Oakland Institute report (Bergdolt and Mittal 2012:48) also notes that the fund is increasingly looking to invest in water rights (especially in dry regions where water is more valuable), which it sees as “a key resource for agricultural production[,] and scarcity concerns coupled with a growing world population makes water control critical.”

In recent years a number of institutions interested in farmland investments have begun to form the first farmland REITs. The first to do so was Gladstone Investment Corporation, which currently owns approximately 1,750 acres of agricultural land across the country and is actively searching for more (Brumback 2013). Its model is to purchase and then rent land to tenants who will continue to farm the land. In addition, lands that can earn higher returns as residential or commercial development will be split off and sold to the highest bidder. Although Gladstone is pioneering the move toward farmland REITs, there is evidence that there will be more to come in the years ahead (see Fairbairn 2014).

Discussion: The Question of a Land Bubble?

The principal distinction between institutional landowners and agrarian capitalists (including here industrial corporations in agriculture and forestry) lies in their relationship to commodity production. Where agrarian capitalists are actively involved in the production of commodities, and view the land as a necessary condition of production that must be sustained in order to facilitate expanded reproduction (M-C-M′), institutional landowners view land primarily as a portfolio asset, and are therefore primarily concerned with maximizing returns to investors, particularly in the form of asset price appreciation (M-M′). It is the latter dynamic, the rise in land prices, that has become particularly alarming in recent years, leading many analysts to suggest that we are experiencing a land bubble in both timberland and farmland markets.[8]

In August 2009, Andrew Bary, a financial analyst writing for *Barron's*, suggested that "US timberland may be one of the world's most overvalued asset classes." Bary supports his assessment by pointing out the glaring discrepancy between the rapid increase in timberland prices in recent decades and the accompanying drop in the stumpage price for logs and other forest products. Bary argues that in the event of this bubble bursting, timberland owners may see the value of their timberland decline by as much as 50 percent! Bary is not alone in his prognostications; others have likewise warned that timberland might be experiencing its own "irrational exuberance" (Rinehart 2010:13).

The best available source for observing the change in land values is the National Council of Real Estate Investment Fiduciaries' time series composite of real estate returns (NCREIF 2013). The council maintains a composite measure of both timberland and farmland returns based on a large pool of land investments. Figure 4 shows the fluctuations in timberland returns over the past three decades. The first spike in timberland returns began in the mid-1980s during the hostile takeover movement when investors first began taking interest in timberland as an

[8] Of course land speculation has a long history in the United States (see Robbins 1976); however, the role of institutional investors in driving this process is relatively new.

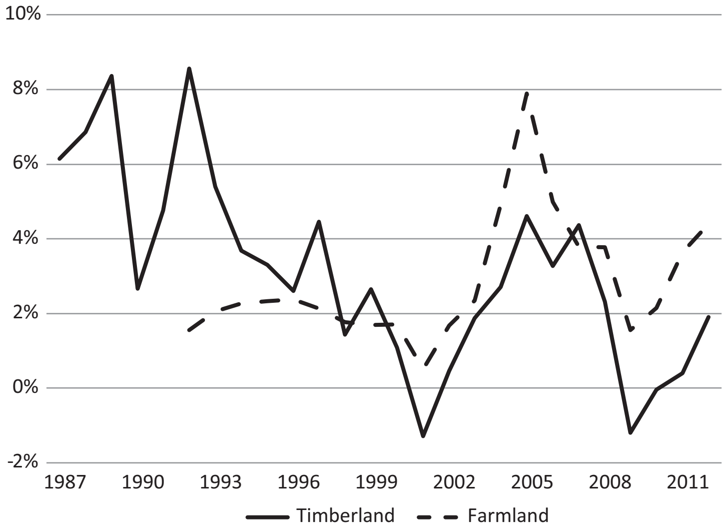

Figure 4. Average Annual Rate of Return for Timberland and Farmland.
Source: NCREIF (2013).

asset class (Rinehart 1985). The second spike corresponds to the rise in timberland values that occurred in the wake of the Spotted Owl controversy when the U.S. Forest Service drastically reduced the available timber supply from federal lands. Together, these two spikes in timberland returns helped establish timberland as a viable and profitable investment asset. Timberland returns moderated over the course of the 1990s, before falling out after the bursting of the dot-com bubble in 2000. Low interest rates fed another large spike in timberland returns in the years following the crash, only for those returns to drop precipitously again during the great financial crisis of 2008–2009 (Rinehart 2010).

Today, timberland returns are once again on an upward march. The increase in timberland returns are being driven by historically low interest rates in the United States and a slowly recovering forest products industry, particularly in the wood products sector, which was devastated in the wake of the financial crisis. Critically, about two-thirds of the total returns from timberland have been in the form of appreciation of the asset itself, not actual income (Aronow, Binkley, and Washburn 2004). These high returns are sustained, in part, because timberland portfolios are revalued on the basis of a “mark-to-market” appraisal process. This allows investors to maintain a book value for their timberland that may not be reflected in the market. As a result, appraisals tend to be “sticky” on the high side (Rinehart 2010).

In recent years, the volume of timberland transactions has decreased considerably and sales in 2013 were virtually nonexistent (Glass 2013). The sole exception was a recent acquisition by Weyerhaeuser of 645,000 acres of timberland in Oregon and Washington. This acquisition was significant in two ways: first, this acquisition made Weyerhaeuser the nation's largest individual landowner with over 6.8 million acres of timberland, surpassing Plum Creek's 6.4 million. The second significant aspect of this transaction was the cost paid for these timberlands. Weyerhaeuser paid $2.6 billion or almost $4,100 per acre for this timberland, perhaps the highest price ever paid for timberland on this scale and representing a 33 percent premium over 2012 prices (Kametz 2013).

Figure 4 also shows the average annual rate of return on timberlands and farmlands and the relationship between these two assets is quite clear. Investor returns in farmland shot up in the years following the bursting of the dot-com bubble in 2000, reaching almost 8 percent in 2005 and very much resembling the initial rush toward timberland investments in the 1980s and early 1990s. Farmland returns declined precipitously during the run-up to the financial crisis, hitting bottom in 2009, before making a sustained resurgence in recent years. In total, average returns on farmland investments were higher than timberland returns in 11 of the past 12 years.

Unlike those from timberland, farmland returns seem to be driven in large part by fundamentals such as rising farmer incomes in recent years (Duffy 2011). Since 2006, U.S. agricultural exports have doubled and biofuels continue to experience strong demand (Henderson and Kauffman 2013). Farmers themselves have been major purchasers, using their surpluses to reinvest in both land and equipment. However, a recent report from the Omaha branch of the Federal Reserve Bank of Kansas City warns that historically, "US farmers have tended to use farmland, which accounts for 85 percent of farm assets, as collateral for additional farm investments" (Henderson and Kauffman 2013:89). This creates a "wealth effect" in which increases in land values spur additional spending. These same economists warn that if profits decline, or interest rates rise, then this could leave farmers with a debt burden that they cannot service, mirroring the farm crisis of the 1980s (see Mooney 1986).[9]

[9] Although there are no aggregate data on the total amount of debt being used to purchase land, evidence suggests that there has been a substantial rise in debt overhang in both timberland (see Binkley 2007; Clutter et al. 2005) and farmland (Henderson and Kauffman 2013).

The combination of low interest rates and rising farm incomes is what first drew institutional investors to the farmland sector; and the growth of institutional funds looking to invest in farmland has only added to the increased pressure on farmland values. As economist Michael Duffy argued in a recent *New York Times* article, "You can't continue to see the price increases in land like we've been seeing. That's just heading for trouble" (Creswell 2013). As in all financial bubbles, the flow of easy money creates its own dynamic in which assets increase in value beyond what can be supported by the "fundamentals" (Kindleberger and Aliber 2011).

The question of if, and when, a land bubble will burst is difficult to answer. An additional question is who the next buyer will be when many of these closed-end funds expire. For now it appears that institutional investors will continue to swap land among themselves in the hopes that market conditions improve and interest rates remain low. However, when interest rates do begin to rise there is reason to believe that there might be substantial losses on the capitalized value of land. At the end of the day, the ability to maintain inflated land values will depend on the banks' willingness to lend, since in reality a piece of land is only worth what a bank is willing to lend against it (Hudson 2012).

Conclusion

The financialization of land is an ongoing process and the outcome of these processes is still, in large part, to be determined. What we do know is that the growth of institutional landownership is occurring throughout the United States and the world. As a result, millions of acres, consisting of some of the most productive rural lands, are being brought under the ownership and control of a financial sector that earns its income off rising land prices and rents derived from the production of food and other natural resource commodities. This article contributes to our understanding of these processes in three primary ways.

First, it establishes a connection between existing literatures of land change that have yet to be made. Land grabs taking place in the global south have received considerable attention in recent years from both activists and scholars. This attention is justified by both their scale and the particular issues involved, including the displacement of local populations, environmental degradation, and their larger geopolitical implications. This article draws our attention to the growth of institutional investments taking place in the United States and provides a historical overview of how this process has unfolded in two of the nation's most important natural resource sectors. Although the particular issues involved in the institutional landownership in the United States are different than those associated with land grabs in the global south, they are no less salient, particularly for the rural communities that rely on these lands and their resources for their economic livelihoods. Moreover, it is important to understand that these processes are both directly related to the dynamics of financialization. As Flora (1990:57) presciently noted in her presidential address to the Rural Sociological Society, "[c]apital markets, rather than commodity markets, appear to be the ultimate determinants of rural welfare and rural social, as well as economic, structures."

Second, I suggest that classical theories of economic rent provide a valuable vantage point from which to understand and evaluate these processes. As Michael Hudson (2012:140) has noted, "the labor theory of value [was] refined as a tool to isolate the elements of 'empty' pricing that had no counterpart cost of production." From the perspective of nineteenth-century political economists, both ground rent and financial interest were increasingly viewed as unnecessary claims on the surplus value produced by labor. Moreover, these same theorists tended to believe that rentier claims—whether in the form of land rents, interest, or monopoly power—would (and should) be utilized in order to increase the productive capacity of industrial capitalism. Yet history did not unfold the way that some might have thought. Today's financialized economy is not the "free market" described by classical political economists. It is more accurately described as a "neorentier economy" controlled by, and operating in the interests of, an oversized financial sector. In contrast to nineteenth-century expectations that the rental value of land would be taxed away, today the majority of this land is taxed at extremely low rates. Many institutional landowners pay little, if any, taxes at the corporate level. Taxes that are paid are levied on the individual investor as capital gains. At the local level, both timberland and farmland often enjoy special tax status that is intended to prevent these lands from being converted to alternative uses. As a result, institutional landowners are able to gain from their title over land while contributing little to the local economies in which they are embedded.

Third, this article highlights one of the more pressing issues arising from the financialization of land in the United States: the potential for a land bubble. In both timberland and farmland markets the growth of institutional investments has contributed to a rapid increase in land values. The consequences of a potential bubble in timberland and farmland are nowhere near as grave for the national economy as they were with the housing bubble, but they could severely affect local landowners and communities caught up in the process. Furthermore, rising land prices and rentier incomes represent an unnecessary overhead for producers and increase the cost of doing business in the American economy.[10]

The foregoing analysis has focused primarily on the political economic logic that underpins the rise of institutional landownership. It is important not to forget, however, that these seemingly abstract processes are intimately intertwined with the livelihood and well-being of rural communities across the United States. The relatively short-term perspective of these institutional landowners creates instability and uncertainty in rural land markets as land is traded among institutional buyers. This further alienates rural communities from the land while severing the bonds, however tenuous they may have been, that once existed between landowners and rural communities. In time, as this process continues to play out, there will be fruitful avenues for researchers to examine the full extent of the impacts stemming from institutional landownership in rural America.

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[10] This is not to say that financialization is the underlying cause of America's economic woes. Foster and Magdoff (2009) present compelling evidence that financialization serves to bolster capital accumulation in the face of diminished investment opportunities in real capital formation. In this sense, the increase in financial rents on land may represent a feedback loop that further diminishes the productivity of the U.S. economy.

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