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Poverty is not primarily about physical deprivation, although that can also arise. Relative income affects happiness and social status. Concentrated wealth undermines democracy. The amount of violence in a society is associated with wealth inequality, but not absolute levels of poverty. Property rights emerged to increase productivity, but at times they create monopolies that interfere with productivity. This is particularly true for intellectual property. Since it is a public good, intellectual property grows in value by being shared rather than hoarded. Concentrated ownership of land has the same perverse effect of hindering progress, particularly in Brazil, where landowners leave large tracts of land idle rather than risk losing it to squatters. Because subsidies and other benefits raise the price of land, many well-intentioned programs help only landowners. Taxing the value of land reduces that problem, improves equity, and also unleashes productivity by encouraging productive use of land. The same principle applies to petroleum, which would be used more efficiently if there were adequate taxes or royalties.



The Growing Wealth Gap

*There are several reasons why we should worry about the growing gap

* Ed.: In a later section removed due to length, Farley argues that one source of the wealth gap is privatization of knowledge in the form of patents and copyrights. Farley talks about intellectual property rights and their effects on poverty. First, 97% of patents are held by rich countries, forcing people in poor countries to pay for the use of those inventions (whereas the U.S. and Europe developed in an era when technical information flowed more freely, without concern about patents). Second, patents discourage innovation because new ideas are mostly compositions of older ideas, so development of new pharmaceuticals against tropical diseases or new strains of rice or wheat are often blocked by the intricate web of existing patents. Third, patented material may never be marketed, unless it will generate a profit to the patent holder. Farley discusses Eflornithine, a cure for African sleeping sickness, which will not be made available to dying people in Africa because the patent owner, Bristol-Myers Squibb, cannot make a profit selling it to them. Fourth, intellectual property treats knowledge as a private good, weakening the very foundations of society. Although knowledge is inherently a public good (meaning: something that does not diminish the value to the original "owner" when shared with others), it is increasingly treated as a private good (one that loses its value when shared). The privatization of knowledge via patents and copyrights destroys the social value of knowledge, in which one idea builds on another. By allowing monopoly power over each piece of new knowledge, not only do the poor suffer; society as a whole is diminished.

WHY GLOBAL POVERTY?

between rich and poor. First, economic wealth translates into political power. If we value democracy, we should be very concerned about this skewing of incomes, giving more political power to those at the top. Second, the failure to distribute wealth more equally is diminishing the quality of life. It has serious negative impacts, not only on the poor. One study shows that our well-being is reduced by the unhappiness of others. Third, when people see themselves as relatively deprived, they are less likely to respect the laws and norms and customs that bind us together as a society; there is less feeling of attachment between economic classes.

As social animals, we compare ourselves to others. Our appreciation of fairness arises from that experience. There are studies with Capuchin monkeys where they taught them how to barter wooden chips for food. They would trade them for grapes or cucumbers, but they liked grapes better. One monkey traded his chip for a grape, and the next monkey traded his chip for a cucumber. Normally the second monkey would be very happy with a cucumber, but when he sees his friend got a grape, he is furious and throws his cucumber on the floor and stomps on it. Since humans are at least as sophisticated as monkeys and since we also value fairness, it matters in our society whether everyone is treated fairly.

Inequality and Violence in Brazil

If you look at societies with the least equal distribution of income, they tend to be the most violent. The United States has probably the most unequal distribution of income amongst the developed countries, and is by far the most violent. My wife is from Brazil, which is ranked among the top one or two in terms of unequal distributions of wealth in the world. It is the fourth most violent country in the world. Rich and poor alike suffer from living in a violent society. In their pursuit of wealth, Brazilians have sacrificed their well being. Brazilians are undergoing the same obesity epidemic now as Americans largely because they are scared to walk anywhere. In the U.S., our murder rate is astronomically high. People are scared, and that undermines our quality of life. It makes our society a less desirable place to live.

A lot of the violence is generated by differences in income. I was just in Ethiopia, which is quite a safe place. There is very little violence. Poverty is very widespread, but it is shared. Brazil has far lower levels of absolute poverty than Ethiopia, but it has far higher levels of violence, because the poverty is not shared. Some people live fabulous lifestyles; other people live desperately poor lifestyles. If you aspire to greater wealth, and if you lack

legal opportunities to gain that wealth, you lose respect for society and its laws. You are then more likely to turn to illegal approaches and to show your resentment towards those who have wealth. So, it is no coincidence that Colombia, Brazil, and Honduras, countries that have among the worst distributions of income, are three of the most violent countries in the world.

There is a very small correlation between absolute poverty and crime. There is strong correlation between unequal income distribution and crime. The poorest societies are not the ones that are most violent. The ones that have the biggest discrepancy in income are the most violent. In that way, accumulation of wealth by the few undermines their well being instead of enhancing it.

Concentrated Land Ownership Explains Inequality*

Inequality stems mostly from concentrated ownership of land, which deprives non-owners of a chance to earn a livelihood. (As a shorthand, we can say concentrated land ownership is “monopoly” ownership.) If a few people can monopolize land and prevent others from working it, they reduce overall production, and yet they become richer as the land goes up in value. So instead of rewarding production and hard work, society rewards speculative withholding of resources from production. That is a perverse system.

Land monopoly lowers wages for everyone. The minimum wage, when there is land available for all, is determined by the amount of money you could make working the least productive land available—either growing crops and raising animals or running a small business, if the land is in a city. (You would not work for somebody for less than what you could make working for yourself.) When a few people monopolize all of the land, it means that you can

* Ed.: In a section removed due to length, Farley traces the origins of inequality to the transition from hunting-gathering to the development of agriculture and associated private property in land, leading to a stratified society. Farley explains that John Locke centuries ago offered a rationale for the origins of private property in land—by mixing one’s labor with the land. But Locke said that that works only if there is enough land for everyone. Property in land allows hoarding of land, so that some people become haves, and other people become have-nots. People who own land grow wealthy not from their own efforts, but by collecting money from workers and entrepreneurs who are forced to rent land to survive. Modern wealth inequality can be traced to the same division between a) property owners, who receive rent from tenants and interest on the money they lend, and b) the vast majority of people who must pay the landlord/lender for the chance to earn a living. The ownership class also dominates the political system.

WHY GLOBAL POVERTY?

not make money working for yourself because you do not have access to the space needed for production. Land monopoly removes the floor on the minimum wage. Owners can now pay workers much less than if they had alternative places to work. Unless you have access to land, you have only your labor to offer. Monopolies keep wages low by keeping people from being productive on their own, by denying them access to land, fisheries, forests, and information. To be productive, everyone requires access to those resources.

Suppressing wages by monopolizing resources is similar to putting people into slavery. In some cases, it may be worse than slavery. If you monopolize resources and keep wages low, you can pay workers less than enough to survive, as long as there is another source of workers. The difference with slavery is that the slaveholder will give the slaves enough to survive. They are one of the factors of production, and the slaveholder wants to ensure that they remain productive. If there are enough workers around without jobs or resources, you can pay them less than you would have to pay a slave. In many ways it is similar and in many ways it is worse.*

Concentrated Land Ownership in Brazil

The history of Brazil illustrates how extreme inequality emerged from a process of monopolizing wealth in the form of landownership. The earliest land grants gave title between two degrees of latitude from the east coast going hundreds of miles inland to the frontier.† No one else could work that land unless they paid the landlord for the privilege. The landowners, who received title through political connections, were able to charge people for the right to work the land.

Still today, in Brazil, a small number of people have vast land holdings, which is part of the strong concentration of wealth. If they let somebody work on their land long enough, under the Brazilian legal system, the workers gain rights to it. So, many big landowners leave some land idle, without producing anything on it. (Brazil has a law that prohibits leaving land idle, but a lot of laws are not enforced.) They can make money just by hold-

* Ed.: Farley follows with a discussion of property rights, arguing that force has never been accepted as the basis of legitimate ownership. Instead, property rights are social institutions, rooted in social values. Since society protects property owners by collectively defending their titles to land and other goods, society has a reasonable expectation of something in return.

† Ed.: That would be a strip of land about 140 miles north to south and an indeterminate amount from east to west, an area that could be as large as Texas.

ing the land, waiting for its value to rise, then selling it in the future. At the same time, there are a lot of poor people working very hard on small plots of land. If some of that idle land were made available to them, they could generate much higher returns than at present.

Brazilian landowners used to have a lot of workers on their land, raising rice and beans and giving their surplus to the landowner, providing the landowner with some income. Then the landowners decided they could make more money by growing soybeans, using the methods of industrial agriculture. At that point, they kicked the tenant farmers off the land. The people who were kicked off the land had to leave the area. In the south, since they did not have access to resources, they would head up to the Amazon, which has very poor quality land. They would put a huge amount of labor into working land that had very low returns by clearing the forest. That made the land more valuable because they had made it more successful for agriculture. But sadly enough, since they were squatters, they did not have legal title to the land. So the large landowners, who had political power, were able to seize the land from the people who had cleared it. They captured that new land so that now the big frontier for growing soybeans is in the Amazon.

Farm Benefits Always Captured by Landowners

The fact that landlords capture all of the benefits of technological change means that tenants have little incentive to make investments. In India, the government has funded irrigation projects on large private plots of land that were rented out to tenant farmers. Initially, increased yields on irrigated land seemed to benefit the tenant farmers. But the landlords then required the tenants to pay them higher rent. If one tenant will not pay it, another tenant will be found. This process continues until each tenant working the irrigated land pays the higher rent and leaves only as much in net wages (after paying rent) as he or she was making before, in some other occupation. As a result, the entire value of the higher yield from irrigation will be captured by the landowner. In general, technology that increases output increases the value of land. Every time the government raises productivity, it does not help the poor. Instead, it helps the landowner.

The same dynamic holds true in the United States: agricultural subsidies that make farmland more productive drive up the value of land. Someone who sees farmers making a lot of money because of the subsidies will be willing to pay more for that land. So anything that increases the profits from landownership benefits landowners. The benefits or profits are not

WHY GLOBAL POVERTY?

widely distributed. So the current group of landowners benefits, and when they sell their land to a new generation of farmers, the new generation has to pay more for the land. The first landowner gets the benefits, and the next farmer goes into bigger debt. If the government removed those subsidies, the new buyer is going to collapse because he paid so much for the land to begin with, counting on the fact that he would receive those subsidies, and so he will flounder if he does not get those subsidies.

Urban Land Speculation

So far, I have been talking only about land in rural areas, but the same principles apply to urban land as well. There is a very high demand for land in cities, and there is a fixed supply. So, the value of land in cities is skyrocketing, which makes it more difficult for people to afford to live in cities. A big problem is that people are holding onto land, expecting the value to go up, and that creates a speculative demand for land. The perverse outcome of that process is that speculation may keep the land of highest value out of productive use.

Speculative hoarding of land reduces available housing in a city and interferes with the development of small business. A lot of speculators do not invest in housing or business structures. They just hold sites, waiting to sell them at a higher price, while preventing them from being used for housing or business. In developed countries, 75 percent of the population lives in cities, and they need access to that land.

de Soto's Partial Solution

Hernando de Soto said that one of the best ways to eliminate poverty in the developing nations is to give people title to land. If people have title to land, they have collateral for productive loans, which will lead to economic growth. Giving more people access to credit in that way would allow some people to pull themselves out of poverty. In that sense, giving people title to their land is a partial answer to poverty.

But there is a risk that having title will deepen poverty. Once land has solid title, it can easily be sold, which deprives original owners of access to the means of production. Once they have lost their land, perhaps for short-term gain, their offspring have no ability to produce. When people borrow money using their land as collateral, their businesses may fail. If that happens, they lose their land. Somebody else will buy that land, and inevitably the land will be concentrated again.

Taxing Land Value: A Better Solution

What is needed is a mechanism that keeps any individual from accumulating too much land, unless they are using it very productively. The value of land is created entirely by society and by nature, and some people accumulate it as a speculative investment, as a way to get more wealth without producing more. We need a way to avoid that. It is far too late to nationalize land. That would not go over well in our society.

It is appropriate to say, however, that landowners have to compensate society for the value that society adds to or creates in their land. A very simple thing to do then is to tax the value of land.* Right now, when people buy land they borrow from a bank and pay monthly interest payments on the loan. Alternatively, if land were taxed, instead of paying the bank every month, landowners would be paying the government for the right to use the land. You would own the land and you would pay the government a tax.

This arrangement would eliminate speculative demand for land. If the value of my land goes up, my tax payments go up. I will only hold land if I can use it productively. If I have more than I can use productively, I will probably sell some of it. This would guarantee that land would be held by those who produce the most on it: a person can afford to pay the taxes only by using the land productively. So, a tax on land would lead to smaller landholdings. A high tax on land would also lower the price of land dramatically, making it easier for people to purchase initially.† Instead of paying banks every month, they would be paying the government.

Taxing land values would have very dramatic impacts in Brazil. Right now, large landowners pay virtually no taxes on land in Brazil. A tax on land would suddenly cause huge landholdings to shift from being an asset to a burden. Large landowners simply would not be able to afford all the taxes;

* Ed.: Farley adds that taxing land is fair because land value represents the value added by society rather than the individual, so taxing land amounts to returning to society its share of economic value. In a similar way, a pollution tax is fair because it is a way of compensating for the value taken away from society by someone. In both cases, the principle of fairness is based on reciprocity.

† Ed.: The relationship between a high tax rate and a low price may not be immediately evident. However, it is the same relationship that holds with interest rates. Most people who are thinking about buying a home will be willing to pay less for it if interest rates are high. The same applies to high tax rates. Essentially, tax rates and interest rates are interchangeable. Both taxes to the government or interest to the bank lower the up-front price someone will pay for real estate.

WHY GLOBAL POVERTY?

they would be forced to sell off the land that they are not using productively. The tax would cause the price of land to go down, and idle land would become accessible to the landless, who would then be able to increase output on that land. High taxes on land create a big incentive to use land as productively as possible. Around the world small landholders tend to get more production per unit of land than the large landholders. They put more labor into it, more effort, and they know the land better. Poverty would decline because the poor would have an opportunity to work, and their wages would rise. The share of the wealth going to the poor would generally increase.

Editor's note: A long portion of the interview deals with oil and minerals and is not included here for reasons of length. Some of the key points are as follows: 1. The resource curse leaves many people poor in oil-rich countries. Examples are Nigeria and Angola. Oil wealth a) reduces the incentive to develop, b) leads to waste and violence as people fight over control of the oil, and c) encourages corruption. 2. The rising price of oil in the ground as it becomes scarcer creates a vicious circle: rising prices discourage production if owners can make greater windfall profits by leaving it in the ground to produce it later, but this reduces the supply and drives the price still higher, further discouraging production. 3. Rising oil prices will lead to a greater concentration of wealth: more in the hands of resource owners, less in the hands of productive businesses and individuals. 4. The government should charge oil companies for the value of the oil in the ground. This would lead to a more even flow of production and reduce windfall profits. 5. Oil companies have tremendous political power, which they use to avoid paying taxes or royalties. Farley concludes: "We could potentially see a movement towards feudalism, where some people control all the wealth, and the rest of us just work the land, or just work the industries. It is a fairly frightening prospect."
