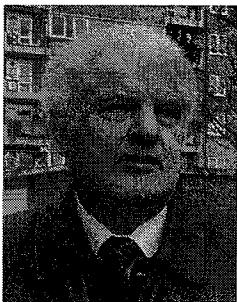


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At an early stage of civilization, the economic surplus of land, also known as rent, was used to support common purposes: religion, the arts, craftsmanship, literacy. Poverty developed in ancient times when the rent was appropriated for private use by an aristocracy. As a result of that rupture, a few became very rich and powerful, and most people became poor. This process was repeated in England under Henry VIII, when land held in common was enclosed or privatized.

This system of landownership was then used as a template in the colonization process, spreading the problem of poverty and inequality around the globe. Today the problem can be most readily seen in the tax system. High income taxes seem to fall heavily on the rich, but in fact, the rich are more than compensated for their income taxes by the increase in value of the property they own. Much of that increase in value comes from government spending. Thus, the rich get their taxes back through capital gains on property, while the poor, who own little or no property, bear the burden of taxation. This process could be reversed through the simple expedient of taxing land values, thereby capturing for public use the value bestowed on land owners by public spending.

Privatized Social Surplus as Origin of Poverty

At the beginning of civilization, all of the things that enrich culture (art, religion, administration) were funded out of the economic surplus or rent produced by farmers and used to pay for public services. Economic rent is both the surplus produced from land and the amount that we pay for the use

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of land. It is the surplus people accumulated to make civilization possible.

Poverty became built into the DNA of our social system when civilization took a wrong turn. Some groups engaged in a land grab to appropriate the rental surplus for their private benefit and become an aristocracy. They did not want to work for a living, so they rigged the rules to pocket the rent. Once the rent was privatized, societies had to begin taxing people to pay for law and order, defense of the territory, communication systems, and highways. That is when the rot set in. By hijacking the public purse, the elites, the aristocracy, set themselves apart from society. They created a competing culture and repressed the majority of people. The result was the division between rich and poor, the haves and the have-nots.

Social pathologies and dislocations all resulted from the privatization of the rental surplus from land. Today, we have a million people in Britain who do not go to work because they are clinically depressed, psychologically incapable of earning a living. This can be traced back to a time when elites grabbed the land and kept the rent for themselves, instead of sharing it to pay for common services.

In England, the rot set in about five hundred years ago, with Henry VIII's massive land grab. He closed down the monasteries, took their land, and sold it off to his favored courtiers. That began the process of privatizing land that had been held in common in England for centuries. The feudal aristocracies wanted more and more land, so they began to throw the peasants off their fields, which they had previously held and worked in common. The aristocrats enclosed that land and charged people to work on it. The aristocrats enjoyed life in London, while the peasants worked in their fields.

The enclosure movement created not only a massive dislocation of communities within England, but then spread the disease abroad. People left England and went to America, where they set up a similar system of private ownership of land and seizure of rents for themselves. They built into the New World the very disease from which they had tried to escape back in England, Scotland, and Ireland.

This massive land grab in England established an ideology of living off other people by taking the land away from them. The English led the process of globalization through the colonial project. That meant going to places like Africa and Asia, locating in territories like Kenya and India, taking the land away from the local people, forcing them to work on the new plantations owned by the absentee landlords, who were living in London. The colonizers exploited people, in order that the rents from those territories

could be shipped back to England and other countries in Europe that participated in this project. As a consequence, we now have massive poverty in the Third World, which can be traced back to the process of land grabbing that originated in Europe, especially in England. It might seem that poverty is being addressed by the United Nations. We are trying to tackle debt by cancelling it. But the ideology of privatizing land, the most basic asset that we all need to share, continues to wreck the fabric of the global economy.

Taxes Discourage Employment

To exemplify how poverty is generated by the same processes today, we are standing near the Oceans Estate, a public housing project in East London. Just half a mile or so in two different directions are the City of London and Canary Wharf, two centers of high finance for the world. People there earn yearly salaries of \$1 or \$2 million. Within the shadow of those financial districts are families in this housing project who earn only one-quarter to one-third what the average working class family does.

Poverty is not the consequence of personal shortcomings. It is the result of two factors: 1) a tax system that discourages employment and 2) the way government spends money on behalf of the community.

About 60 percent of the people here are unemployed. They do not work, because our tax system keeps them out of the work place by raising the cost of employing people. If someone's work adds £5 an hour of value, an employer will be willing to pay that wage. But if the employer has to pay £7 or £8 an hour, because of the tax on his wages, that employee is forced out of the labor market. A person worth £5 cannot be employed at the rate of £7 or £8, so he loses his job. He goes on unemployment benefits. Employed people then pay additional taxes for people who are pushed out of work.

Government Spending Raises Land Values

The other half of this equation is the way government spending affects property values. When government invests money in infrastructure, such as a new railway, the value of land near stations rises. As a result of tax-funded public spending on schools or health facilities, the land near those public amenities rises in value. If those land values were captured and used to fund public services, it would no longer be necessary to tax the incomes of poor people or the goods they buy. It would be possible to employ them and to restore their dignity.

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Our current convoluted tax system pushes people into poverty. Then we spend the taxes paid by low-income people on infrastructure, which raises land values. Those increases in land values are huge windfall gains for property owners.

How The Rich Get Their Taxes Back

The main beneficiaries of rising land values are the rich people who have very high salaried jobs. If tax-funded expenditures on infrastructure and services increase house prices by 10 percent per year, and you live in a million-dollar home, your net worth will rise by \$100,000 each year, for doing nothing. If you pay \$100,000 in income tax and live in a million-dollar home, the net effect is that you have not paid any taxes to the government at all. You may have technically paid an income tax, but you have clawed back that tax through the increase in the value of your property. People who do not own property, who rent their homes, do not get back a single penny through this process of rising land values. They do not share in the windfall gains that are the result of tax-funded spending programs.

So we have a system of injustice in which poverty is built into the fabric of our society: the poor people pay taxes; no matter how poor they are, they cannot get away from the taxman. Even if they are not earning income to pay income tax, they pay taxes when they buy goods. So they pay for the public services they receive.

The rich pay taxes but they get their money back. They get it back via public spending, which raises the value of their residential property. So the rich live tax-free lives. They can cash in on the increase in their property values at any time, by borrowing against it. This bias in tax policy is one reason the gap between rich and poor grows wider.

Take the case of Tony Blair and his wife Cherie, a judge, who are in the top 10 percent of income earners in this country.* They can claw back, in two or three years' worth of house price increases, their lifetime tax payments. Tony Blair and his wife can spend two or three years watching the rise in value of their five residential properties, and the result of those increases in their property assets means that, for the rest of their working lives, they effectively pay no taxes at all, because they have already been compensated for their future tax payments. They have clawed all their tax payments back in just two or three years.

* Editor's note: At the time of this interview in 2007, Tony Blair was still the Prime Minister of England.

What does that mean? It means that the Blair family live at the expense of the poor. The Blairs use the public highways, the public transport systems, and the other amenities funded by taxpayers, but they are not contributing to those services. The Blairs are not exceptional; they just happen to be very lucky because they own five homes. The increase in the value of their assets is enormous. Being able to live tax free all your life is something that we all would like to enjoy, but unfortunately that opportunity is denied to those who rent their homes. It is the privilege of landowners.

Cancel Debt, Tax Land, to Reduce Poverty

People seem to think that the one way to solve poverty in the world today is to cancel debts, the debts of nations. The theory is that, if we cancel debts, impoverished nations will have a better chance of investing in productive infrastructure and enterprises, creating employment, and raising living standards. Unfortunately, the debt cancellation project is a very partial one; it is not a comprehensive solution. Why not?

The idea of canceling debts to eliminate poverty goes back to biblical times, but the original debt cancellation strategy—as it appears in Leviticus 25—was only part of a two-plank strategy. The second part was to restore land to the people. Restoring land is crucial if we want to eliminate poverty in the world today. Debt cancellation, by itself, will not actually deliver the elimination of poverty in the world today.

We need a mechanism for restoring the land, or, rather, the income from land. The key is not so much giving people land itself, but letting people share in the benefits from land. Everyone would benefit if the government collected the economic rent of land in the form of a tax and used that revenue to provide public services. To see how this would work, consider the way a good school will cause property prices to rise. If we paid for new schools out of the increase in surrounding property values when they are built, we would not have to tax people's incomes, their wages, in order to fund capital investment.

So what would give low-income people a chance to earn a decent living? We would start by reducing the taxes that are imposed on low-income people. We could eliminate the income tax. We would then pay for public services with a tax on land rents instead. The people in public housing are already paying rent to the local government, whose properties they occupy, so they are already paying the land rent. That is all they ought to pay. If

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that were the only tax they paid, then they would become employable again. Employers would find that the costs of hiring them would be lower than they are today, and they would find work.

If we taxed the rent of land, what would be the consequences for the rich people? They would have to start paying their way through life. At the moment, because of the windfall gains that they receive through the land market, they are more than compensated for the taxes they pay. Under the system I am proposing, they would be obliged to pay for the benefits they receive. Rich people would not be financially worse off under the new system; they would just have to earn their income rather than deriving some of it at the expense of poor people.
