

Would Henry George's 'Remedy' help us combat today's global crises?

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In *Progress and Poverty* Henry George sought the 'cause of industrial depressions and the increase of want with the increase of wealth' and offered a 'remedy' which remains as relevant to the problems of poverty and inequality we face today, as when he first wrote, but it also opens a new way of dealing with environmental pollution.

To understand the relevance of the 'remedy' we need to understand what *causes* poverty and inequality. The cause is institutionalised, just as slavery once was. As Mandela pointed out in his Trafalgar Square speech in 2005: 'Like slavery and apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings.'

What is the institution that makes poverty inevitable? Adam Smith described it very succinctly in *The Wealth of Nations*:

'As soon as land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise, or collect from it. His rent makes the first deduction from the produce of the labour which is employed upon land.'

More recently (27th Dec 2009) in the *Financial Times* John Kay wrote:

'You can become wealthy by creating wealth or by appropriating the wealth created by other people. When the appropriation of the wealth is illegal it is called theft or fraud. When it is legal economists call it rent-seeking.'

But, economists will say, private property in land is essential for economic development. Without security of tenure, nobody is going to invest in sowing crops or building a business. As Hernando de Soto pointed out in *The Mystery of Capital* economic success has everything to do with the legal structure of property and property rights.

At the end of the 19th century there was growing friction between industrialists and workers over pay, and the appalling conditions under which so many workers lived was troubling the conscience of society. This prompted Pope Leo XIII in 1891 to issue his encyclical *Rerum Novarum*, 'to refute false teaching ... in the interest of the Church and the commonweal ... [He] thought it useful to speak on the *condition of labour* ... [and] to treat expressly and at length, in order that there may be no mistake as to *the principles which truth and justice dictate* for its settlement.'

He acknowledged that it is not easy 'to define the relative rights and the mutual duties of the wealthy and the poor, of capital and labour', but notes that 'by degrees it has come to pass that working men have been given over, isolated and defenceless, to the callousness of employers, and the greed of unrestrained competition ... so that a small number of very rich men have been able to lay upon the masses of the poor a yoke little better than slavery itself.'

'To remedy these evils the Socialists, working on the poor man's envy of the rich, endeavour to destroy private property, and maintain that individual possessions should become the property of all, to be administered by the State or by municipal bodies. They hold that, by thus transferring property from private persons to the community, the present evil state of things will be set to rights'. The Pope argued that these proposals are 'unjust, because they

would rob the lawful possessor, bring the State into a sphere that is not its own, and cause complete confusion.’ History has demonstrated the shortcomings of the Communist experiment in the Soviet Union.

He goes on: ‘It is surely undeniable that, when a man engages in remunerative labour, the very reason and motive of his work is to obtain property, and to hold it as his own private possession. If a man hires out his strength or industry, he does this for the purpose of receiving in return what is necessary for food and living ... Thus, if he lives sparingly, saves money, and invests his savings, for greater security, in land, the land in such a case is only his wages in another form; and, consequently, a workingman’s little estate thus purchased should be as completely at his own disposal as the wages he receives for his labour. But it is precisely in this power of disposal that ownership consists, whether the property be land or movables.’ A bit further on the Pope repeats: ‘Hence man not only can possess the fruits of the earth, but also the earth itself’.

While George agreed that the fruit of a person’s labour belongs to them, he takes issue with the Pope over the morality of land ownership in an open letter. He begins: ‘Your Holiness: I have read with care your Encyclical letter on the condition of labour, addressed ... to the Christian World.

‘Since the most strikingly pronounced condemnations are directed at a theory that we, who hold it, know to be worthy of your support, I ask permission to lay before your Holiness the grounds of our belief and to set forth some considerations you have unfortunately overlooked. The momentous seriousness of the facts you refer to, the poverty, suffering and seething discontent that pervade the Christian world, the danger that passion may lead ignorance in a blind struggle against social conditions rapidly becoming intolerable, are my justification.

‘Our postulates are all implied in your Encyclical. They are the primary perceptions of human reason, the fundamental teachings of the Christian Faith: We hold that:

‘This world is the creation of God. The men brought into it for the brief period of their earthly lives are the equal creatures of His bounty, the equal subjects of His provident care.

By his constitution man is beset by physical wants, on the satisfaction of which depend not only the maintenance of his physical life but also the development of his intellectual and spiritual life.

God made the satisfaction of these wants dependent on man’s own exertions, giving him the power and laying on him the injunction to labour – a power that of itself raises him far above the brute, since we may reverently say that it enables him to become, as it were, a helper in the creative work.

God has not put on man the task of making bricks without straw. With the need for labour and the power to labour, He has also given man the material for labour. This material is land – man physically being a land animal, who can live only on and from land, and can use other elements, such as air, sunshine and water, only by the use of land.

Being the equal creatures of the Creator, equally entitled under His providence to live their lives and satisfy their needs, men are equally entitled to the use of the land, and any adjustment that denies this equal use of land is morally wrong.

Being created individuals, with individual wants and powers, men are individually entitled ... to the use of their own powers and the enjoyment of the results.

There thus arises, anterior to human law, and deriving its validity from the law of God, a right of private ownership in things produced by labour – a right that the possessor may transfer, but of which to deprive him without his will is theft.

This right of property, originating in the right of the individual to himself, is the only full and complete right of property. It attaches to things produced by labour, but cannot attach to things produced by God.’

Unfortunately, the encyclical remains the basis of Catholic social teaching to this day, thus supporting the status quo, but it is at odds with St Gregory the Great (Pope 590-604): ‘Those who make private property of the gift of God pretend in vain to be innocent, for in thus retaining the subsistence of the poor they are the murderers of those who die every day for want of it.’

In 1881, a contemporary of Henry George, Dr Thomas Nulty, Bishop of Meath in Ireland, came independently to recognise the injustice of the private ownership of land and called in a pastoral letter for a radical reform of the Irish land tenure system. He acknowledged that evil social institutions had long endured - the slave owner's right of property was regarded as sacred as any other property right - but the world's approval, the bishop argued, could not justify injustice. The death knell of slavery was only sounded when public attention was fixed on the intrinsic nature of slavery. Then it was no longer acceptable.

History has shown that land enclosure creates two classes in society, the landowners and the landless. The latter can only live by paying a rent to the former for the right to use land which is God's gift to *all* humanity. The landowner is thus in receipt of an unearned income simply because society permits land to be owned, just as it once permitted slaves to be owned. Adam Smith was in no doubt about the effect: the landowner ‘acts always as a monopolist, and extracts the greatest rent which can be got for the use of his ground’. Winston Churchill was even more explicit:

‘No matter where you look or what examples you select, you will see every form of enterprise, every step in material progress, is only undertaken after the land monopolist has skimmed the cream for himself, and everywhere today the man or the public body that wishes to put land to its highest use is forced to pay a preliminary fine in land values to the man who is putting it to an inferior one, and in some cases to no use at all. All comes back to land value, and its owner is able to levy a toll upon all other forms of wealth and every form of industry. A portion, in some cases the whole, of every benefit which is laboriously acquired by the community increases the land value and finds its way automatically into the landlord's pocket. If there is a rise in wages, rents are able to move forward, because the workers can afford to pay a little more. If the opening of a new railway or new tramway, or the institution of improved services, of a lowering of fares, or of a new invention, or any other public convenience affords a benefit to workers in any particular district, it becomes easier for them to live, and therefore the ground landlord is able to charge them more for the privilege of living there.’

He then gave an example which illustrates why the welfare state is no solution to poverty and the widening gap between rich and poor:

‘Some years ago in London there was a toll bar on a bridge across the Thames, and all the working people who lived on the south side of the river had to pay a daily toll of one penny for going and returning from their work. The spectacle of these poor people thus mulcted of

so large a proportion of their earnings offended the public conscience, and agitation was set on foot, municipal authorities were roused, and at the cost of the taxpayers, the bridge was freed and the toll removed. All those people who used the bridge were saved sixpence a week, but within a very short time rents on the south side of the river were found to have risen about sixpence a week, or the amount of the toll which had been remitted!

Today, Housing Benefits and other welfare payments have the same effect. Churchill concluded: 'We do not want to punish the landlord. We want to alter the law.'

Churchill was one of the most outspoken supporters of Henry George who had realised that the injustice of landownership could be ended by reforming taxation. It did not require the redistribution of land and could be introduced in stages so that it did not disrupt the economy. Currently the rent of land goes to the landowner. George proposed that the rent be paid to the state, not as the landowner, which would amount to land nationalisation, but as the natural way to fund government without distorting the economy. The corollary was the abolition of all economy distorting taxes, which is why his proposal became known as the 'single tax'.

Title to land and security of tenure would remain undisturbed but would carry with it an obligation to pay the market ground rent to the government in lieu of tax. All improvements, such as buildings, would not be included in the valuation, unlike today where improvements are taxed with VAT and property taxes, making some improvements unaffordable to the detriment of society. In a dynamic economy, rent would vary from time to time and from place to place and should therefore ideally be assessed on a yearly basis.

George called this payment a land-value tax to make clear that it was based on the market *value*, not on the acreage, of land, but it is not really a tax. It is a ground rent, reflecting the market valuation of the benefits accruing to the site. These benefits can be natural such as fertility and rainfall for agricultural land, but in an advanced economy location becomes the dominant factor – location, location, location as the estate agents say. For example in London, a good state school in the neighbourhood can add £100,000 to the value of a property. This extra value has nothing to do with the house, which may need renovation, but everything to do with the value parents place on being able to send their children to a good school, in other words, the location. Currently the existing owner reaps the benefit of the uplift in location value. Were George's proposal implemented, the government would be the beneficiary of an annual ground rent of about £5000 pa. The parents would also benefit: instead of having to borrow an extra £100,000, they would only have to pay £5000 in monthly instalments over the course of the year. The remaining £95,000, or part of it, would be available for renovating the house, if needed, benefiting local trades people and the economy generally. A win/win situation.

Much the greatest benefit of George's reform is the removal of the injustice that *causes* poverty. There would be no landowner demanding the lion's share of the produce or taxman seeking a cut, so the worker would keep the full reward of his efforts. The payment he makes to the government would be for the benefits he derives from society where he lives or works, and he would know how much he would have to pay by choosing where to live and work. To maximise its receipts, government would be incentivised to maximise the benefits they provide to society. Funded out of rent rather than arbitrary taxes, government income would be more predictable year on year and tax avoidance be almost impossible - and unnecessary.

If government were to receive a market-determined ground rent from all occupied properties in the country, public services could be funded *without taxation*. The replacement of taxation would in itself be a huge benefit to society. As Lord Soames pointed out: ‘If one were to set out with a specific, stated objective of designing a tax system which would penalise and deter thrift, energy and success, it would be almost impossible to do better than the one which we have in this country today.’ (House of Lords, 3rd July 1978)

George’s reform would also restore a right relationship between humanity and the earth. As Mrs Thatcher put it at the Conservative Party Conference in 1988: ‘No generation has a freehold on this earth. All we have is a life tenancy – with a full repairing lease.’ It is not suggested that Mrs Thatcher fully understood the implications of her statement, but it neatly sums up Henry George’s argument and reminds us that the leaseholder, in addition to paying the rent, owes a duty of care to keep the land in good condition, thus taking care of the environment.

It would be too disruptive of the economy and banking system to introduce George’s reform at a stroke. Existing taxes would need to be abolished, a few at a time, while a proportion of the ground rent were collected on a revenue neutral basis. At each stage, as more taxes were abolished, a higher percentage of the rent would be payable until all taxes were abolished and government was funded entirely out of ground rents. A description of how a start could be made to replace the existing tax system with an annual ground rent is described in *Public Revenue without Taxation*.