How to Extirpate Poverty

We can raise wages and reduce rent by avoiding the under-use of land, moving the workers back to more productive land

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To "extirpate" means to completely eliminate, from the Latin word meaning to pull out by stem and root. To extirpate poverty means to eliminate its cause, so that it does not come back. Fundamentally, poverty comes from a low wage level, so we need to examine what makes a wage level low.

The wage level of an economy can be thought of as the wages paid to unskilled people. Those with greater skill and talent get higher wages, so some think that the solution to poverty is better education. But a stagnant economy also depresses the return to human capital, the extra wage for those who are more productive. In a thriving productive economy, even those with few skills are better off than skilled labor in a depressed economy. Indeed, in an unproductive economy, those with skills often find little market for their human capital.

The wage level of an economy is set by marginal labor, those who work at the least productive land in use. The classical "law of wages" says that when workers are mobile, the wage at the margin of production will set the wage level for the rest of the economy.

The margin of production has several edges. There is the horizontal extensive margin of land that is just barely worth using, land so unproductive it fetches no rent. There is the vertical extensive margin of the space above a city, into which taller buildings can rise, without increasing the site rent. There is also the intensive margin of adding more workers to land already being used. The wage at the intensive margin will equalize to that of the extensive margin. Workers are paid what they add to production, which is called their marginal product.

As explained by the economist Henry George in his book Progress and Poverty, the margin of production moves out farther and faster to less productive land when people can hold land even if they don't use it. Those who want to use land must then push the margin to less productive land, which lowers the wage and increases the rent. After paying for labor and capital goods, what is left is land rent. As the margin of production moves to ever less productive land, wages fall and rent rises.

We can raise wages and reduce rent by avoiding the under-use of land, moving the workers back to more productive land. Land is used most productively when the rent is collected for public revenue or for distribution among the residents. Land is then not worth holding unless one uses it in its most productive use, since the rent paid to the community is based on the highest and best use of the land.

This would involve a tax shift, in which taxes that come from wages are replaced by public revenue from land rent, or from voluntary payments by folks who receive an equal share of the rent. Workers would get a double gain: higher wages from putting land to its most productive use, and the gain from keeping one's full wage.

A complete efficiency tax shift would also eliminate taxes on interest, business profits, dividends, and value added. The increase in investment would make the economy grow faster, raising the wage level until poverty is extinguished.

The reason why poverty does not disappear today is that much of the gain from an economic expansion ends up increasing land rent rather than wages. If the rent is used for common benefits or distributed equally, then the public would benefit from both higher wages and a share of the greater rent. The elimination of wage taxes would also stimulate investment in human capital, since the reward would be higher. There would be more self-employment and more entrepreneurship.

The collection of the land rent would also eliminate economic depressions. The capture of economic expansion gains by land rent and land value spurs land speculation that carries the price of land so high it is no longer affordable. Investment slows down, causing a recession. This is what we witnessed during the past few years. The abolition of depressions would eliminate the cyclical poverty of hard times in depressed economies.

Governments today do not extirpate poverty. They treat the symptoms with assistance for food, shelter, and medicine. The poor fall into a poverty trap, since getting a job implies a loss of the welfare benefits. The highest tax rates are on the poor seeking to escape poverty, since they have to pay taxes, pay to take care of children, pay for transit, and they lose the free benefits. There then develops a culture of poverty, where children are brought up to see themselves as victims who can at best just beg for more welfare favors.

Only the efficiency tax shift, replacing taxes on wages with taxes on land rent, will go to the root cause of poverty, and pull out those roots. Anything else just makes the poor feel better, but they remain poor. As Henry George write in his book Social Problems, “There is in nature no reason for poverty.” There is no poverty in heaven because everyone there has an equal share of the heavenly places, and their activities are not hampered with taxes. To extirpate poverty, let us do on earth what is done in heaven.

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FRED E. FOLDVARY, Ph.D., (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for Progress.org

Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.