

Rent and the Economics of Being Poor

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Source: *The American Journal of Economics and Sociology*, Vol. 53, No. 2 (Apr., 1994), pp. 218+255-256

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3487224>

Accessed: 27-02-2022 21:34 UTC

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***Rent and the Economics of Being Poor***

THE PASSAGE BELOW is from the very worthwhile new book by Theodore W. Schultz (*The Economics of Being Poor*, Cambridge: Blackwell Publishers, 1993, 85–6).

In economics the relationship between poverty and land is unclear. Although the shadow of Henry George and the Single Tax is now dim, the emphasis is still on land reform as a means of alleviating rural poverty in most of the world. Meanwhile, the current doomsday pronouncements project increasing poverty and famine as world population grows while the land suitable for growing crops remains virtually fixed. In retrospect, however, we see that the households and families in Western Europe . . . were in general very poor, despite the fact that the population was much smaller [in past times] and the natural endowment of land was what it is now. This observation suggests the first puzzle with which I am concerned.

Within the very low income heart of Asia are two city states with virtually no cropland or minerals, with only human resources, in which personal incomes are far from Asian standards. Although Hong Kong, as of 1975, was crowded with more than 4 millions people, the per capita gross domestic product (GDP) was equal to about \$1,000, US dollars. Singapore had more than 2 million people and a per capita GDP equal to about \$1,200, US dollars. The study by Geiger and Geiger [*Tales of Two City States, The Development Progress of Hong Kong and Singapore*, National Planning Association, Washington, 1973] is a major contribution in analyzing and in explaining the remarkable economic success of these two city states.

It is evident that in many countries with a *low* population-land density ratio the rank and file are very poor, and that they are similarly poor in many countries with a *high* population-land density ratio. The puzzle is, why has this difference in the ratio of people to cropland in these countries not produced comparable differences in incomes? Until we have the answer to this question, it behooves us not to treat land as a key variable in explaining income differences among all low income countries.

Professor Schultz performs a real service in this book by emphasizing the many factors that affect human well-being or its absence. But some things should be said, that relate to the quotation above, in order to clear up some apparently possible inferences and thoughts which may not be quite on the mark.

While the Single Tax (a slogan?) may have dimmed, the basic idea, (the taxing of rents in lieu of taxing labor and capital) rather than dimming, is being freshly burnished. Within the last year the mayors of eighty Russian cities have endorsed the idea. Also about 17 cities in Pennsylvania (including Pittsburg and Scranton) have adopted "Incentive taxation." This is the policy whereby although the total amount derived from property taxes is kept constant, the portion derived from land is increased and the portion derived from improvements decreased. There is enlightenment exhibited in a public policy that does not penalize those who build factories, shopping malls, houses and the like which provide jobs, opportunities, comforts, convenience, new products, etc. Incentive taxation is a movement in this direction. (The major motivator for the development in

***(Continued on p. 255)***

29. Mario di Gregorio, *T. H. Huxley's Place in Natural Science* (New Haven: Yale UP, 1984).  
30. Roy, 151.  
31. Roy.

### **Rent**      (*Continued from p. 218*)

Pennsylvania is Dr. Stephen B. Cord, President, Center for The Study of Economics, 2000 Century Plaza #238, Columbia, MD 21044).

The idea has spread to the State of New York (urged on by Albert Hartheimer, a Director of the Schalkenbach Foundation) which has just passed a law to allow the city of Amsterdam to try incentive taxation to alleviate its "development" problems.

As Professor Schultz says, there is far more to poverty than simple ratios. It may be that the value of California's farmlands was partly due to cheap (and often illegal) Mexican laborers. (Cesar Chavez was not beloved of California's farm landowners). Could it be that Mexico should have had some taxing power over these landowners? Had Mexico had such powers in the past, perhaps these workers could have, through the generations, acquired more human capital. The rule in economics, as in many other fields, should be, "Beware of simple relationships." One harbors the belief that Henry George understood this rule but also recognized general principles.

The rent George wanted to appropriate for public purposes was on land as defined, in the classical sense, to embrace all natural resources—it went beyond the simplicity of man-cropland ratios. These rents were created by the existence of the population and varied with its size and quality. Yet these rents, while created by the population, were paid to land owners. Indeed, a considerable portion of such rents were for the use of resources which the population had paid for or whose value they had enhanced by public improvements such as roads, sewers, dams, harbors, sewers, and subway systems. The public also paid for a stable, orderly government under whose control contracts could be made and enforced, production and distribution accomplished, and, unfortunately, this economic rent of land appropriated (with and without "color of right") by landowners.

It should be stated early that there was no advocacy in Henry George for taking revenue from landowners that was derived from improvements including structures which they had made or added to land. Capital and labor were to be encouraged, not discouraged, from their beneficent action in a free and competitive society.

It seems that in the passage quoted there was the assumption that "rent" is entirely a local concern. Surely the oil in Saudi Arabia is not only given value by the fact that the Saudis themselves consume some of it, but that its value, in the main, rests on world demand. Similar comments could be made about Hong Kong and Singapore. Their locations and indeed, their productive energies, are strategic in terms of trade.

Furthermore, the distribution of rent via taxation is not the only course of its distribution. In the Saudi case, the income from oil is both state and family revenue. It is distributed in kind, with some largess, in the form of health, educations and other benefits within the citizenry. There are other examples in which state finances and those of a ruling family, clique, clan, tribe, military organization, etc. are intermingled. "Je suis l'État" is a too common fact.

The questions of the source of rent, and the taxing jurisdictions that should relate to it, are not much addressed. It may be the collection made to finance the Gulf action against Saddam Hussein, and the one now being carried out to restore and improve the lot of the Palestinians are possible because of an implicit recognition of the vague nature of the "ownership" of some of these rents.

But all this is not to oppose the emphasis on human capital in this valuable book. The better distribution of rents could make a vast difference in the level of human capital and thus, of the extent of poverty.

In a practical way, the USA and other Gulf war participants have shared in some of the internationally derived rent income of Saudi Arabia in other ways than as the disguised income for providing mercenaries. These rents, besides being shared with locals, should also help pay for the containment of an aggressive Iraq. As has been said, the costs of the Israeli-PLO agreement are yet to be apportioned.

Frank C. Genovese

### ***Regarding State Lotteries?***

Lawmakers make the citizen good by inculcating habits in them, and this is the aim of every lawgiver; if he does not succeed in doing that, his legislation is a failure. It is in this that a good constitution differs from a bad one.

ARISTOTLE