

Over to You.....

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People Respond to Incentives

The world is at work.

- Jeremy Bentham

Personnel changes are an inevitable fact of life at almost every company. Often, these changes are viewed positively, as when business is expanding and more workers are needed, or when individuals are given increased responsibility (and hopefully, increased compensation!).

Slowing global economic growth in the past few months has resulted in reduced staffing levels at many companies. Layoffs, or more politely "downsizing" or "right-sizing" have occurred.

Society is quick to cite unemployment as a waste of human resources and a human misery. Yet society seems to be more tolerant of waste of natural resources. Abandoned factories and other buildings make new development more expensive, contribute to urban sprawl, and pose a danger to the health and welfare of the community.

We seem to forget that in all activities, people respond to incentives.

There are many ways to motivate or encourage someone to do something. Life is full of such incentives. The child is offered a reward if he tidies his room. The speeding motorist is subject to a fine. Our experience at a restaurant was excellent, so we leave a large tip for the waiter.

The boss praises her staff for getting the work done on time. The volunteers at the shelter are satisfied that their work makes life a little less burdensome for those whom have fallen on

hard times.

Our entire economic system is "incentive driven." That is essentially what is meant by the law of supply and demand. In *Progress and Poverty* Henry George says: "The demand for consumption determines the direction in which labor will be expended in production." Or as Louis F Post has said: "The expenditure of money in purchasing products for consumption, determines the expenditure of money in purchasing services for production."

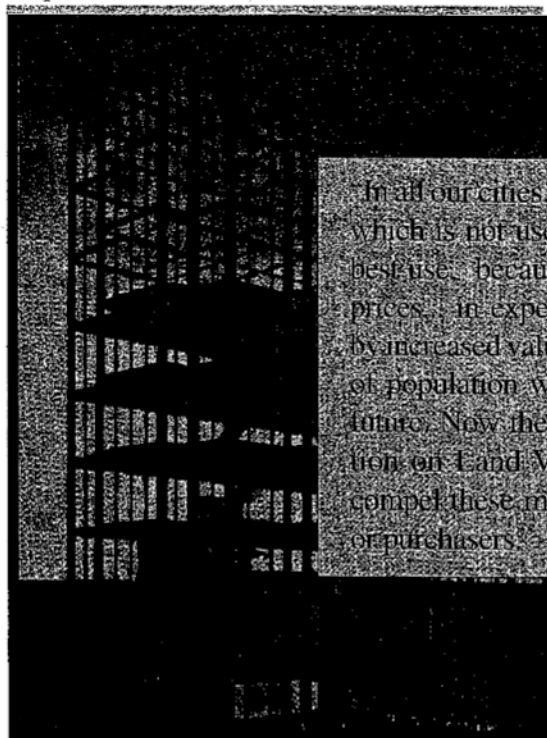
Incentives are most effective when everyone

benefits – a "win-win" situation. Activities should be arranged so that the interests of the individual and soci-

ety are similar. Other forms of incentives, such as force, coercion or threat of punishment, result in tension between the individual's interests and those of society, and are therefore not very effective.

With this in mind, how can we encourage

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In all our cities, there is much land which is not used, or not put to its best use, because it is held at high prices, in expectation of profiting by increased value which the growth of population will give to it in the future. Now the effect of the Taxation on Land Values would be to compel these men to seek tenants or purchasers. - Henry George

owners of abandoned factories and buildings to put these properties to use? What incentives or disincentives might society provide to make land speculation a thing of the past and com-

The rent of land represents a return to ownership over and above the return which is sufficient to induce use. It is a premium paid for permission to use. To take an example, if a part of the whole of this premium in no way affects the incentive to use or the return to use, in no way diminishes the amount of land there is to use, or makes it more difficult to obtain for use.

Henry George

pel landowners to make their land fully productive?

According to the 19th Century British economist John Stuart Mill: "A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else." In other words, a system of land value taxation would supply a landowner with ample incentive to put the land he owns to its most productive use.

Because of the distortions inherent in today's economy, any increased tax upon the landowner

can be passed on to his tenants – simply by raising the rent they must pay for the use of the land. There is a strong incentive for the landlord to do this.

But with Land Value Taxation, a landlord has a very strong incentive to make his land productive and a strong disincentive to let his land lie idle.

In an article written in 1890, *The Single Tax: What It Is and Why We Urge It*, Henry George talks about the incentive structure of the present economic system and the moral improvements consequent upon the adoption of LVT:

"It will make undeserved poverty a thing of the past. It will check the soul-destroying greed of gain...It will enable men to be at least as honest, as true, as considerate and high minded as they would like to be."