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RSF DIGEST

NEWSLETTER OF THE ROBERT SCHALKENBACH FOUNDATION

WHAT'S INSIDE?

RSF

ROBERT SCHALKENBACH FOUNDATION

The Robert Schalkenbach Foundation (RSF) is a private operating foundation, founded in 1925, to promote public awareness of the social philosophy and economic reforms advocated by famed 19th century thinker and activist, Henry George.

Today, RSF remains true to its founding doctrine, and through efforts focused on education, communities, outreach, and publishing, works to create a world in which all people are afforded the basic necessities of life and the natural world is protected for generations to come.

"WHAT KIND OF NATION ARE WE WHEN WE GIVE TAX BREAKS TO BILLIONAIRES, BUT WE CAN'T TAKE CARE OF THE ELDERLY AND THE CHILDREN?"

- Bernie Sanders

Bernie Sanders, U.S. Senator and 2020 presidential hopeful

Image by Nick Solari , CC BY-SA 2.0, www.commons.wikimedia.org/w/index.php?curid=42909114

RESOURCE RENT (NOUN):

is the net gain or income from land and other fixed inputs

HUNKERING DOWN

BY JOSIE FAASS, EXECUTIVE DIRECTOR

It seems like we live in a different world than we did when I wrote to you all just last month. The markets have been fluctuating wildly, leaving even the professionals unsure of what comes next. We've all become (perhaps overly) familiar with the term "social distancing." And toilet paper is now one of the nation's hottest commodities. Indeed, the COVID-19 pandemic has altered life as we know it in fundamental, and in all likelihood, lasting ways. As you can imagine, RSF's tiny corner of the world has felt the effects, although so far in a blessedly mild fashion.

For many, the onset of this pandemic has translated into immediate economic hardship, in addition to all of the health-related concerns and effects. Service industry workers and businesses like restaurants and hair salons are already feeling the financial squeeze acutely, and significant actions must be taken by all levels of government to alleviate the strain. At RSF, in contrast, we are fortunate to be able to provide a stable employment situation for our staff, and are fully committed to doing so. As a member of staff, I can say that we all feel incredibly lucky to be in this position.

The RSF office began working remotely on March 13th and there is no end in sight for that arrangement. In fact, workers throughout the city of New York (and many other places as well) find themselves suddenly asked to keep their productivity up while confined to their homes and apartments. That confinement is, of course, necessary and the benefits far outweigh the costs, but there certainly are some costs.

My boys, making the most of social distancing

For my city dwelling staff, confinement means limited access to the outdoor and community amenities that make places like Manhattan so appealing to begin with, and without those amenities, the Lilliputian size of the average apartment becomes hard to ignore. I live in a rural part of New Jersey, so I am fortunate that I have a yard and access to virtually empty neighborhood streets, both of which mean that getting outside for fresh air and exercise are still possible. But I also have kids - a two year old and a ten year old - and like many, many parents, am struggling to find a balance that allows me to provide them with the care and entertainment they need while still getting my work done. It is not easy, and anyone who's had a Zoom call with me recently has probably had to endure unsolicited monologues from my toddler or caught snippets of whatever episode of SpongeBob my older son is watching.

RSF's move to Princeton is also on hold until such time as it is safe to proceed. While there is no way around this, and in the scheme of things it is little more than an inconvenience, the logistics involved have been, and are continuing to be, pretty daunting. C'est la vie.

Kevin Frech, our Full Stack Geospatial Analyst, is making lemonade from lemons and working extra hours on the GIS map we're building that will allow users to manipulate the property tax ratios on land versus buildings. On our most recent planning call we talked about things like the classes and transparency of the color ramps, which basically means we're past the fundamentals and are now concentrating on how to make the finished project as visually appealing and intuitive for end users as possible.

And as an organization, RSF is doing some serious thinking about how our ideals and knowledge could help stem the economic toll of the pandemic and speed the eventual recovery. This issue contains a policy statement we circulated recently. Please be on the lookout for an emailed call to action in the coming days - we certainly hope you'll join us in urging our elected officials to finance the economic stimulus by taxing bads, not goods.

I hope this note finds you all safe and healthy, if a bit bored in your homes. I hope that our elected officials heed the advice of experts and take the steps necessary to guide our nation through this difficult time. And like many, I feel a profound gratitude and respect for our healthcare workers, on whose expertise and selflessness we are reliant everyday, but most especially in this time of crisis.

Calling All Authors!

Want to write a piece examining a current issue through a Georgist lens? Great! We'd love to publish your work on our website and in this newsletter.

Who: Anyone who can write critically about today's world in a way that reflects the ideas of Henry George.

What: Blog posts for our website and this newsletter.

When: Anytime and all the time - we're always looking for authors.

Where: Check out "Blog Author Information" on our website for full details.

RSF'S POLICY RESPONSE TO CORONAVIRUS (VERSION II)

AN "ECONOMIC VACCINE" FOR THE U.S.

BY THE RSF BOARD OF DIRECTORS

The idea that the earth belongs to all people, and should provide for all people, lies at the heart of the Robert Schalkenbach Foundation's mission. As the U.S. finds itself in the grips of the COVID-19 pandemic, this foundational idea and a shared recognition of our inherent interconnectedness have taken center stage. At RSF we understand that in order to address the widespread devastation resulting from the virus we must:

Embrace the idea of free trade and facilitate effective and efficient testing through all means available.

Countries hit early in the COVID-19 pandemic, particularly those that had previously grappled with SARS, have demonstrated the importance of widespread testing for the virus. Despite dire warnings, the U.S. failed to put an emphasis on early testing, in part because of a reluctance to embrace the principles of international free trade in testing technology.

Testing for active coronavirus infections continues to be critically important, but the importance of another test, an antibody test, in restarting the world's economic engines cannot be overstated. Researchers in the U.S. and abroad are already developing such tests, which can determine whether a healthy individual was previously infected and has since recovered, presumably with some degree of resulting immunity to the virus. Given the number of confirmed cases, plus the likelihood that as many as 50% of those infected are asymptomatic, understanding who has such immunity will allow people to reenter the workforce as quickly as possible. Clearly, antibody testing technology must be allowed to cross national boundaries unencumbered, to the benefit of the U.S. and the global economy.

Support economic recovery and avoid future inflation by funding federal stimulus through taxation of resource rents.

On March 27th, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), making available some $2.2T in federal funds to support the individuals, businesses, and other groups hardest hit by the outbreak. A stimulus was clearly needed, but the question of "who pays?" for all this free money is a pressing concern.

Key to preventing an inflationary spiral in response to this infusion of new cash into the U.S. Economy will be its recapture through taxation, but not just any tax will do – the ideal tax for this purpose will be neutral, efficient, stable, easy to administer, progressive, and impossible to avoid. And if it also deters environmental damage and recaptures some value of public goods for public use, all the better. With these criteria in mind, therefore, it is imperative that the $2.2T made available through the CARES Act not simply be lumped in with the more than $23T in existing U.S. debt. Instead, it should be paid for through resource rents on things like land, carbon (and other air pollution) emissions into our atmosphere, and use of the electromagnetic spectrum for things like TV broadcasts and private communications. For too long, our government has enabled the generation of private profit by facilitating exclusive access to, and use of, these resources. The time has come to bring the value of public goods to bear in direct support of the public good.

Death and Taxes

In light of the pandemic, the deadline to file federal income taxes was extended three months.

The last extension of the federal filing deadline was granted in 2018, when the IRS website suffered multiple outages on April 15th.

INFORMED PERSPECTIVES

VIEWS ON OUR WORLD, THROUGH A GEORGIST LENS

THE CURRENT STATE OF THE UNION AND HOW WE GOT HERE

BY EDWARD J. DODSON

Beginning with Ronald Reagan's 1980 Presidential campaign, the issue of tax policy became central to the ideological and policy debates of every candidate campaigning for office, from city mayor on up. Americans were then facing a new and unwanted reality. Producers in the United States no longer dominated global markets. Already at this time many firms domiciled in the U.S. had moved their operations to other countries in order to establish a market presence and to lower the all-in costs of doing business. Simultaneously, everyone everywhere was trying to respond to the dramatic increase in the cost of fossil fuels, even as stagflation brought the global economy to its knees.

Mainstream economists had no answers. The statistical correlation that for several decades validated the Phillips Curve disappeared almost overnight. Keynesian demand management no longer worked to soften recessionary downturns or shorten their duration. This opened the door for the introduction of economic and tax policies aligned with Ronald Reagan's commitment to reduce the Federal government's role as social engineer and director of market forces.

THE DOWNSIDE OF SUPPLY-SIDE ECONOMICS

The "supply-side" analysis of U.C.L.A. professor Arthur Laffer was brought to Ronald Reagan by the then Congressman Jack Kemp. Early in 1983, I wrote to Representative Kemp to express my view that what was being referred to as "supply-side" economics ignored the important distinction between assets we produce (i.e., capital goods) and assets provided to us by nature, the supply of which is inelastic and therefore insensitive to changes in price. I sent a

copy of this letter to Professor Laffer, who replied without really responding to the points I raised with Representative Kemp. The policy to be embraced by the Reagan Administration was the reduction in marginal tax rates on incomes regardless of their source(s).

Although not all Republicans bought into the "supply-side" idea that lower marginal tax rates on higher incomes would result in greater investment in economic growth and bring in more revenue at the same time, the approach was consistent with Reagan's call for a "new Federalism." (cont'd on pg. 5)

DOES THE SANDERS PLAN MEET THESE TESTS?

BY EDWARD J. DODSON

Changing the way governments at all levels raise revenue to pay for public goods and services will not solve every social, economic and environmental problem we are facing. But failing to change the way revenue is raised will prevent all other measures from achieving meaningful and lasting results. Systemic problems require systemic reforms. To date, I have read nothing that suggests any of the leading Presidential candidates possesses a sound understanding of the effects taxation has on our communities and our nation. To be fair to political leaders, the advice they receive from members of the Economics profession is plagued by ideological bias and a long history of theoretical analysis detached from real world dynamics. One of the most serious analytical problems is caused by the general failure to treat nature as a distinct factor of production, a factor responding to taxation in a manner quite different from the taxation of labor, capital goods or commerce.

No less an authority than Nobel Prize winner Joseph Stiglitz, former World Bank economist, has joined the camp of economists challenging conventional measures of the health

and stability of the nation's economy. An indication that conventional economic assertions are losing their hold is evidenced by the fact that Stiglitz's views were solicited in mid-2019 by *The Economist*. In this interview, Stiglitz said:

"There is not the competitive, level playing-field described in textbooks: in sector after sector, there are a few dominant firms that create almost insurmountable barriers to entry. Too many become wealthy not by adding to the size of the nation's economic pie, but by seizing from others a larger share, through exploitation, whether of market power, informational advantages or the vulnerabilities of others."

This kind of criticism by Joseph Stiglitz and many others has opened the door for Presidential and other political office candidates critical of the status quo. And there is no candidate whose criticisms are more substantive than Bernie Sanders. .
(cont'd on pg. 5)

The Current State of the Union and How We Got Here (cont'd from pg. 4)

That is, for a relationship between the states and the Federal government characterized by a return to States' responsibility for social and economic programs.

The Reagan Administration's first step was The Economic Recovery Tax Act of 1981, which cut the highest personal income tax rate from 70% to 50% (but also increased the maximum rate of taxation on so-called capital gains from 20% to 28%, a modest recognition that the gains on the sale of financial assets were derived rather than earned). In 1986. a second cut in the personal income tax reduced the highest rate down to 38.5% with a schedule annual decrease down to 28%. From that point on, the nation's economic future fell into the hands of Administrations and Congresses committed to reducing taxes regardless of the real world consequences. One consequence of this was increasing budget deficits and a constantly-rising National Debt. Creative accounting and revenue shifting strategies served to present presiding governments in the most positive light. In truth, political ideology now justified economic outcomes that resulted in the accelerated concentration of income and wealth.

THE TRUMP MESSAGE: "DON'T WORRY, BE HAPPY"

Fast forward to 2020 and the deficit is forecasted to exceed $1 trillion. By the end of this year, the national debt will in actuality exceed $24 trillion. Historically low rates of interest on this debt have enabled the Federal government to service this debt without dramatic cuts in spending. However, if the Federal Reserve Board should decide to target inflation by increasing interest rates, the situation could become far more serious. At an average rate of interest of just 3%, the Federal government would need to raise $720 billion annually to service the National Debt. Where would this revenue come from?

There is no doubt that the tax policies incrementally adopted since the early 1980s have rewarded those with the highest incomes and individual and household assets. Other changes in law and public policy (implemented by Administrations and Congressional majorities of both main parties) have had similar effects. Back in 2014, I gave a talk tracing the history of tax reduction and financial deregulation that has contributed to the accelerating concentration of income and wealth condemned by Bernie Sanders and others left-of-center. Since Donald Trump's election as President, the process has continued unabated. A Sanders Administration (or any Democrat-led administration) will likely need a strong majority in both the House of Representatives and the Senate to reverse the nation's economic course. (cont'd on pg. 6)

Does The Sanders Plan Meet These Tests? (cont'd from pg. 4)

What is certainly true is that Bernie Sanders has focused public attention on the results of a system of socio-political arrangements and institutions that, in practical effect (if not by conscious design), have secured and protected the kind of *rent-seeking advantage* increasingly identified by economists now frequently described as *heterodox*, the implication being that their views are counter to that of more mainstream members of the discipline. Of course, the remedies proposed by economists in the heterodox camp are also not uniformly consistent. The reforms I have identified in how governments ought to raise revenue as system-changing are embraced by some, downplayed or ignored by others. To achieve a high level of equality of opportunity in our society, there must be an end to continued redistribution of income and wealth from producers to non-producer (i.e., rentier) interests. *The Sanders Plan* moves the U.S. in this direction but will not be system-changing. Here is why.

TAXING FINANCIAL TRANSACTIONS

Senator Sanders calls for forgiveness of $1.6 trillion of outstanding student loans, paid for by a new tax on financial transactions. It is worth noting that the Consumer Financial Protection Board found in 2017 that Americans age 60 and older owed an average of $23,500 in student loan debt, double the average from a decade earlier, though most of those loans were used to pay for children's and grandchildren's educations. Proponents of the proposed tax conclude that such a tax could both raise a considerable amount of revenue and "reduce asset price volatility and bubbles" by encouraging "patient capital and long-term investment." Opponents argue the tax would stimulate ways to avoid the tax and thereby distort economic activity. As is almost always the case, the devil is in the details.

TAXING CORPORATE PROFITS

Corporate profits and executive compensation are primary targets in *The Sanders Plan* for raising the revenue necessary to fund the programs his Administration would direct to improve the lives of the poor, of working families and students pursuing higher education. Nothing in *The Sanders Plan* distinguishes between profits earned by producing goods or providing services

and profits derived from rent-seeking subsidies, speculation or creative accounting.

TYING EXECUTIVE COMPENSATION TO WORKER PAY

Senator Sanders would require corporations to establish maximum levels of executive compensation based on a multiple of "median worker pay" enjoyed by the company's workforce. Companies would be taxed at rates determined by this ratio. The greater the ratio, the higher the rate of taxation. The analysis by the Sanders team concludes that under their plan the revenue captured by the Federal government for firms with annual revenue greater than $100 million would be sufficient to essentially "eliminate medical debt." The source of additional revenue would come from increased taxes on the truly wealthy.

That today's corporate executives are excessively compensated at the expense of most other employees is hard to dispute, as I comment on below. That said, the problem I find with *The Sanders Plan* is, once again, the absence of any distinction between earned and unearned income. Moreover, firms engaged in some ....(cont'd on pg. 6)

The Current State of the Union and How We Got Here (cont'd from pg. 5)

The Trump Administration tells us that the policies they have put into place have already resulted in record economic growth and are raising living standards for millions of households. Every party that holds power emphasizes the positive and minimizes the negative effects of its policies. Historically in the United States, sitting Presidents are voted out of office not because of high unemployment but because of high inflation. The reason for this is easy to understand. The chronically unemployed have passed the point of anger and have entered the realm of despair. They are consequently less likely to vote than those who are angered by the rising costs of living.

So, what do the actual statistics say about the present state of the United States economy and our society? After a thorough examination of a broad spectrum of trends affecting our population, our economic output, and our environment, the picture looks to me to be quite bleak. We are a society addicted to debt, and history reveals that the inevitable outcome is financial and economic collapse when the mountain of debt can no longer be serviced let alone repaid.

Most of the media attention has focused on the huge amount of student debt carried by Americans. Other sectors of the U.S. economy are even more highly leveraged. Total outstanding revolving debt, which is chiefly made up of credit card balances reached $1.07 trillion In May 2019. Total household debt hit $13.86 trillion in the second quarter of 2019. This total is $1.2 trillion higher than the previous peak in the third quarter of 2008.

Fortune Magazine reported in June of 2019 that the National Association of Business Economics survey of over 50 professional economic forecasters saw the economy growing but a slower rate in 2019 and 2020. They also believe a recession is very possible by the time the next U.S. President is inaugurated in 2021.

During 2018, banks received $104 billion in interest and fees from their credit card holders. However, Bloomberg reported in May that credit card losses at the biggest banks are outpacing auto and home loans. (cont'd on pg. 7)

Does The Sanders Plan Meet These Tests? (cont'd from pg. 5)

types of enterprise must establish large reserves to provide funds for systems upgrades, losses associated with uncollectible receivables and other purposes. Profit margins differ considerably for firms generating the same annual revenue. I will not pretend to have a solution to offer. The Tax Foundation's analysis of "gross receipts taxes" raises a number of important considerations which the Sanders team needs to consider.

TAXING HIGH NET WORTH INDIVIDUALS AND HOUSEHOLDS

The Sanders Plan would also impose a surtax on households with a net worth over $32 million, forecasted to raise $4.35 trillion of a ten-year period "and cut the wealth of billionaires in half over 15 years." The Sanders campaign website provides additional details for what would be his administration's "Income Inequality Tax Plan." I cannot help but wonder what significance there to this $32 million net worth figure. The households with this level of net worth would generate an annual income of $640,000 if they just purchase (i.e., loan to government) Treasury securities yielding 2% per year. They would pay half of this in a wealth tax and keep $320,000 with essentially no risk of loss. If interest rates happen to increase, the

funds can be reinvested with an even higher after-tax return. Does anyone else see a problem with broad-based taxation to pay interest to public creditors so they can pay this net worth tax?

TAMING THE EXCESSES OF CAPITALISM WITH COOPERATIVE ENTERPRISE

There are many reasons why corporate executive compensation has skyrocketed over the last several decades. To some extent, the intense competition in the arena of global business has contributed to the competition for executives with a strong track record of success navigating the cyclical character of the business environment. There are also less quality-based reasons, such as the prevalence of board positions occupied by executives of other firms and institutions. Critics such as Richard Wolff, a former professor of economics at the University of Massachusetts and now at the New School, argues that social democracy requires a meaningful worker participation at the board level. Senator Sanders sees this reform as crucial to the establishment of a viable social democracy:

"The establishment tells us there is no alternative to unfettered capitalism, that this is how the system and globalization work and there's no turning back. They are dead wrong... Instead of giving huge tax breaks to large corporations that ship our jobs to China and other low-wage countries, we need to give workers an ownership stake in the companies they work for, a say in the decision-making process that impacts their lives, and a fair share of the profits that their work makes possible in the first place."

Professor Wolff's advice to Senator Sanders is to add an additional objective to this scheme, which is to promote the formation of worker-owned cooperatives. There are around 400 such cooperatives in the United States. They are a small part of the U.S. economy, employing some 7,000 people and generating roughly $400 million in annual revenues. Globally, the most successful cooperative enterprise is the Mondragon Corporation, located in the Basque region of Spain. Founded in 1956, the Mondragon federation of worker cooperatives employs nearly 75,000 people and generated revenue of 12.1 billion EUR in 2015. An issue for a Sanders Administration is whether worker-cooperatives should be tax advantaged over shareholder-owned corporations. Another possibility is for the Federal government to establish a public banking function to provide financial resources to support cooperative start-ups or cooperative spin-offs from firms committing to abandon the corporate form of ownership. (cont'd on pg. 7)

The Current State of the Union and How We Got Here (cont'd from pg. 6)

Collectively, the four largest banks in the U.S. recorded nearly $4 billion in charge-offs from credit cards in the first quarter of 2019 alone.

A growing concern is the aggregate credit card balances carried month to month, which totaled $420 billion in late 2018. The average U.S. household with credit card debt carries nearly $7,000 in revolving balances, subject to high rates of interest that make difficult paying off what is owed. As of the end of the second quarter 2019, payments on about 5.2% of credit card balances were 90 days overdue.

The Federal Reserve Bank of New York reported in May of 2019 that mortgage debt on one-to-four unit properties was $9.2 trillion at the end of the first quarter of 2019. As property prices continue to increase, property buyers are incurring increasing levels of mortgage debt. The economics are straightforward. Historically-low mortgage interest rates enabled buyers to qualify for higher levels of borrowing, and this was capitalized by market forces into higher asking prices for property.

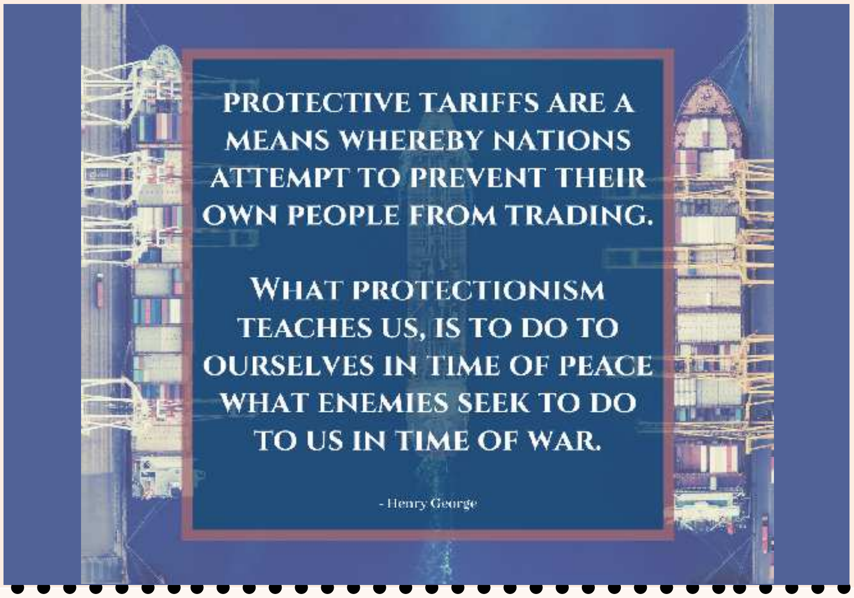
Does The Sanders Plan Meet These Tests? (cont'd from pg. 6)

WHAT ABOUT BERNIE'S "TAX ON EXTREME WEALTH"

Redistributing the accumulated financial assets of the wealthy appeals to me even if only as a mitigating, short-run policy necessary to prevent the collapse of political and economic stability in the United States. My view, as already expressed, is that a high percentage of these asset values are derived from legal privileges, subsidies and tax advantages rather than earned producing goods or providing services. That said, the proposals do not seem to be very well thought out in the context of systemic change. I have, in an earlier essay contributed to the Robert Schalkenbach Foundation's blog, provided a fairly detailed proposal for changes in how government raises revenue that is designed to be both transitional and systemic. Readers learned in the economics of taxation are encouraged to offer constructive criticisms. We need to finally get this right before it is too late.

THE BOTTOM LINE

In summary, I would characterize The Sanders Plan as moderately corrective, highly optimistic, and not systemic in its effects. A Sanders Administration would likely face one of the most stressful periods of economic instability since the Great Depression of the early 1930s.



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