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RSF DIGEST

NEWSLETTER OF THE ROBERT SCHALKENBACH FOUNDATION

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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.

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.

Electoral Fraud

(Noun): sometimes referred to as election fraud, election manipulation or vote rigging, is illegal interference with the process of an election, either by increasing the vote share of the favored candidate, depressing the vote share of the rival candidates, or both.

We, in America, do not
have government by the
majority, we have

V government by the majority who participate **O T E**

Thomas Jefferson, 1787

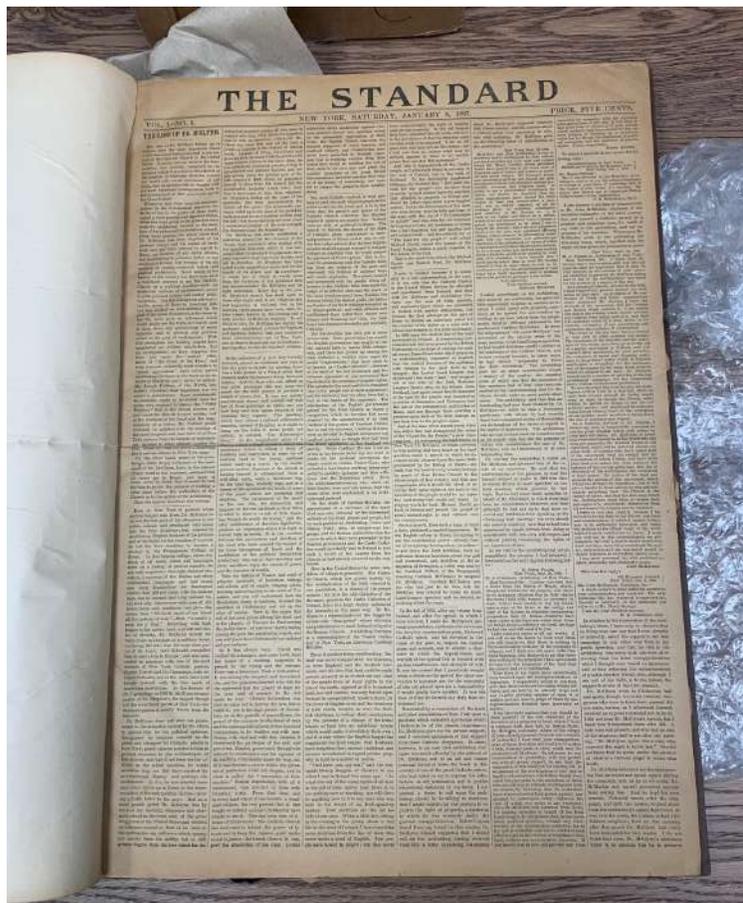
FINDING THE POSITIVE DURING THE PANDEMIC

BY JOSIE FAASS, EXECUTIVE DIRECTOR

As summer fades, it's hard not to feel a little bit (or a lot) cheated. True to form, 2020 managed to replace the festivals and parades, vacations, and day camps of other summers with social turmoil, travel restrictions, and for the younger set, a combination of profound boredom and too much screen time.

Now it's September. Schools are restarting with mixed success. The 2020 presidential campaign season is in full, dizzying swing. Rioting continues to rock American cities. And the pesky COVID pandemic is still hanging around...

In spite of it all, however, here at the Foundation, the summer was marked by a handful of noteworthy, positive milestones. We unveiled a new website in August, making our content easier to access and navigate. In the process, we closed our virtual bookstore, opting instead to make our own titles available as free PDF downloads on our website, and pointing would-be buyers to Amazon for ebook and physical copies of our publications. At home in Princeton we've welcomed a new Librarian and Archivist, Roxanna Choe, to our team. She's been spending hours unboxing and cataloging our extensive collection, with the goal of creating a small public library and online repository of our holdings.



Letter from The Executive Director

In addition, the Tax Shift Explorer interface is now fully functional, allowing users to explore the on-the-ground effects of implementing Land Value Tax, first in Philadelphia and Frederick, MD, and soon in a variety of other cities nationwide. And of course, there's always more in the works, including some cool new research undertakings that are currently in development.

In this issue of the Digest, our authors explore a variety of topics outside the "RSF bubble," like the recent saga of the U.S. Postal Service, the role of executive orders, and the relationship between racism and land ownership, and they do it with a very specific understanding of the world and our place in it: one informed by the ideas of Henry George.

Obviously, it's RSF's priority to get these perspectives out there and into the public discourse. It's literally what we were founded to do. But, I personally think the importance of these principles is much farther reaching than the ideas of one person or the mission of one organization.

When you believe, as George did, that everyone has an inalienable right to exist and flourish; when you believe that progress should benefit every single person, not just the "smart" or "lucky" few who are allowed to claim the spoils as their own; and when you believe that it is the role of government to facilitate these outcomes through just policymaking; you understand the day's headlines a bit differently.

You seek to interact with them, and with the world, differently. And that difference makes a difference in how you live your life.

I invite you now to engage with these articles and the ideas they present. Challenge them. Comment on them. Share them. Public life is a discourse, and we seek to give these perspectives a voice.

Left: Digging through the RSF archives can be rewarding! Pictured at left is Volume 1, Number 1 of "The Standard," the newspaper published weekly by Henry George beginning in 1887.

DIRECTORS' PERSPECTIVES

WHERE THE RSF BOARD EXPLORES CURRENT APPLICATIONS AND IMPLICATIONS OF HENRY GEORGE'S TEACHINGS.

DEMOCRACY AND ANTI-POSTAL POLICY

BY: FRED FOLDVARY

The roots of the current threats to American democracy stem ultimately from the concept of mass democracy, a policy that has always been vulnerable to corruption. Now, with the epidemic resulting in a greater use of mailed ballots, while the president is opposed to postal voting, and his appointee mandating postal slow-downs, democracy itself is threatened. But this problem is much greater than merely the uncertain mail delivery. This essay will start with the postal threats, then dig into the inherent dysfunctions of mass democracy, and then lay out the remedy.

As reported in the summer of 2020, the United States Postal Service is undergoing changes that are slowing mail delivery. These changes include the removal of mail collection boxes and sorting machines, as well as the reduction of overtime work and the elimination of the mandate and priority to deliver mail as quickly as possible.

An example of the damage done is the death of poultry chicks due to the postal delay. The USPS rules allow the mailing of live day-old birds, to be delivered within 72 hours of the time of hatching. But a KRON4 report on Aug. 9, 2020, stated, "Mail delay blamed for uptick in turkey chick deaths."

The USPS is administered by a Board of Governors, appointed by the president, with the consent of the Senate. The Governors select the Postmaster General. The president thus can thus control who runs the postal service, and thus determine the postal policies. This system is based on the Postal Reorganization Act of 1970. Previously, the United States Post Office Department was a Cabinet department, headed by the postmaster general. Until recently, the USPS was non-political. But now, with the pandemic, voting by mail is more important, and there is a president who claims such voting is fraudulent.



The issue to be examined here is not about the current politicians and office holders, but about the system that generated the vulnerability of democracy to postal and anti-postal decisions. The first issue is why the postmaster general is a presidential appointment. The U.S. Constitution authorizes Congress "To establish post offices and post roads". Therefore Congress should be appointing the Postmaster, including the consent of both the House and the Senate.

But the broader and deeper issue is the vulnerability of the whole federal government to the corrupting influences of special interests, including the self-interests of the elected and appointed officials. This dysfunction is generated by the system of "mass democracy," voting by groups so large that the typical voter has no personal knowledge of the candidate and little personal access to his elected representatives.

Reader's
View



We Want Your Input

There's a lot going on in the world today and we want to hear your thoughts! Our first reader survey focuses on the upcoming election. Survey results will remain anonymous but will be shared in the October RSF Digest.

Find the survey at:

<https://www.surveymonkey.com/r/MyElection>

DIRECTORS' PERSPECTIVES (CONT.)

RACISM AND THE LAND

BY: RICH NYMOEN



Some say racism was invented to try to justify displacing one group of people – Native Americans – from the land and enslaving another group of people to work it. Racism may be more complicated than that, but it has been closely connected to land issues from the very beginning.

After slavery ended in the U.S., there were proposals to provide each freedman with “forty acres and a mule.” But instead slavery’s conditions were virtually recreated with the sharecropping system in which black farmers paid a share of their crop to white land holders.

Another alternative would have been to treat the land as a commons that benefitted everyone equally, regardless of race, by having the land held in trust and rented to the farmers. With the collected land rent, the trust could have provided schools, health care, and other public services to farmers and their families.

During the “Great Migration” of the 20th century, black families streamed from the south into northern industrial cities in search of better opportunities. Urban land there was racially segregated through overt means but also through individual and institutional concerns with “property values,” which referred to the value of the land under houses.

Today, there’s increasing recognition that the wealth gap between white and non-white households is due in large part to differences in “home equity,” which again means the value of the land beneath homes. Efforts to address this gap have largely involved trying to provide more home loans to non-white home buyers.

Unfortunately, because the price of land portion of real estate is more volatile than the building portion, financing the land portion of homes at the wrong point in the real estate cycle can lead to foreclosure or, at the very least, being underwater on a mortgage.

Again, a commons-based approach would have led to better results. Under a Municipal Land Trust, homeowners could have title to houses but rent the underlying land from the trust in lieu of property taxes. Then homeowners can gain equity from paying down the loan on the house but avoid the volatility that comes with financing the land portion of the home.

It’s said that racism is bigotry combined with power and that institutional racism leads to racially disparate results even in the absence of overt discrimination. Our land tenure system is one of the most powerful institutions that produces such results. It’s time to take commons-based approaches to land issues so those results can be undone.

EXECUTIVE STIMULUS ORDER REVEALS THE WEAKNESS OF STATE REVENUE MECHANISMS

BY: MATTHEW DOWNHOUR



With Congress unable to come to an agreement to continue stimulus, President Trump has attempted to fill the gap with executive orders to extend unemployment benefits and lift payroll taxes. His attempts to take such a role in fiscal policy is naturally constrained by the constitution, and the result is necessarily ‘sloppy’. Whether they will pass constitutional muster and have the desired effect, these measures reveal deep problems with both state and revenue systems.

The failure of congress to act is largely rooted in disagreements about whether or not to ‘bail out’ states whose fiscal positions have been devastated by COVID 19 and its containment measures. The reason for this is largely because the vast majority of states depend on income or sales taxes as a crucial part of their budgets. Since employees have lost their jobs and stores have lost their revenue, these fickle revenue sources have been deeply impacted by the current crisis and tested programs have experienced spending spikes. Not only have current revenues fallen, but it is also clear that raising tax rates on either sales or income would further damage their stricken economies.

The Federal government, is far from immune, but because of its excellent credit and position as a sovereign monetary system can largely ignore deficits – at least in the short term. If this were not the case, the Federal government would be in a similar COVID crunch. **(Cont. Next Page)**

DIRECTORS' PERSPECTIVES (CONT.)

EXECUTIVE ORDER (CONT.)

Fundamentally, this reveals a need for a better local and state revenue mechanism. One that will be more stable than income/sales taxes and the collection of which has less of a detrimental impact on revenues. The answer is, of course, a tax on the unimproved value of land. While land values will likely also drop in some places due to COVID, the drop will be far less dramatic than the immediate collapse of incomes and sales that accompanied the COVID-19 lockdowns. In the long run, the taxing of land cannot cause there to be less of it, and if the land tax drives down the purchase price, there may be winners and losers but the community, as a whole, is no worse off.

This is all the more salient in light of the second half of Trump's executive order – suspending or deferring payroll taxes. The president's statement declared that the deferral would provide “additional incentives for work and employment, right when the money is needed most.”

This shows an implicit understanding of Henry George's statement in *Justice the Object, Taxation the Means*: “We impose some taxes for the purpose of getting rid of things, for the purpose of having fewer of the things that we tax. ... Why should we tax any man for having exerted industry or energy in the production of wealth?”

If lifting a payroll tax is good for the economy now, why do we have the tax in the first place? If we admit that a payroll tax deferral will incentivize companies to hire workers, and individuals to take jobs, isn't that already an admission that payroll taxes, which at 1.24 trillion dollars make up nearly 6% of our GDP, are a disincentive to working and to employment? Why then do we collect them?

In the short run the answer is obvious – they fund programs that people generally approve of and are an important part of our social safety net. Medicare, Medicaid, and Social Security are wildly popular. Nancy Pelosi and Chuck Schumer declared that deferring payroll taxes will “endanger seniors' Social Security and Medicare”, and in the present system this is true. If payroll taxes are forgiven after being deferred (by no means a certainty), the result will be a further undercutting of the budget position of these programs.

In economics, as in life, there are trade-offs. Perhaps a drag on the economy is generally worth the greater stability for seniors – indeed, most people would agree that it is. Given that an executive order deferring payroll taxes undercuts that stability in exchange for uncertain benefits, Democrats likely have a point in opposing this particular action. **(Cont. Next Page)**

FREE AND FAIR ELECTIONS, NOT SO FREE OR FAIR ELECTIONS THE LITTLE ROBBER AND THE GREAT ROBBER

BY: STEVEN SKLAR

“To turn a republican government into a despotism the basest and most brutal, it is not necessary formally to change its constitution or abandon popular elections. ...[F]orms are nothing when substance has gone, and the forms of popular government are those from which the substance of freedom may most easily go.”

The quote is from the 19th Century thinker and reformer Henry George in the chapter entitled “How Modern Civilization May Decline,” in his master work, *Progress and Poverty*. George's writing gets particularly dire in that chapter. Although the warning he issues there about civilizational decline -- collapse, really -- is aimed primarily, as are virtually all of his writings, at doing away with the institution of private land monopoly, it's clear that George opposed practices and policies that corrupt the election process.

In the U.S. we pride ourselves on being a democracy. That pride is a big part of our origin story. New Hampshire's pugnacious state motto, “Live Free or Die,” celebrates our rebellion from despotic foreign rule. We are proud of the rallying cry from the days of the American Revolution, “No taxation without representation.” And the key feature of representation and of the democratic form of government we are proud of having is the vote. Therefore, the elements of our voting system that undermine the fairness of our electoral process give troubling weight to George's dark warnings.

In an 1883 essay in the *North American Review*, “Money in Elections,” George criticized not only the then-current practices of candidates buying votes and employers directing their employees on how to vote, but also the expense of running for public office in general. George felt that the de facto requirement that candidates possess great wealth restricts the popular choice “to the rich or unscrupulous.” In that essay, on the grounds of savings of campaign expense and freedom from undue influence he was also an early advocate for the adoption of secret balloting in the U.S.

Challenges to electoral fairness in this country's history are not limited to the ones George mentions in his 1883 essay.

Other types of voter suppression have continued to be imposed on the voting public. It's true that poll taxes and literacy tests have been outlawed, albeit not until well into the 20th Century. There are still voter ID requirements for registration and for voting, there is still the purging of voter rolls and there are still limitations placed on early and absentee voting. These have disparate effects on different ethnic groups and so can be, and have been, weaponized for political advantage. **(Cont. Next Page)**

DIRECTORS' PERSPECTIVES (CONT.)

EXECUTIVE ORDER (CONT.)

But more broadly, if it were possible to stop inflicting this drag on the economy in general, it seems both sides would agree that would be desirable.

This is, to a great extent, possible. George's essay details some successful ways markets have adapted to taxes. If you tax floors of a building, you have fewer floors; if you tax windows, fewer windows, and ships, fewer ships. So, the simple question is – what don't we want? Most people following the scientific consensus would agree that we don't want carbon dioxide emissions or other air pollutants. All of this is quite reasonable to tax, and the revenue here could certainly be useful (and in some countries has been remarkably successful). But in the end, the goal of a carbon tax is less carbon, and the goal of a pollution tax is less pollution, and thus the rates will be set to accomplish these goals, not maximize revenue.

ELECTIONS (CONT.)

These tactics suppress voting either outright, by disqualifying certain members of society from voting, or by making it more difficult for some voters to cast a ballot.

The redistricting practice that came to be known in 1812 as gerrymandering, too, is alive and well. Gerrymandering carves up the map into strange shapes, thereby making it possible for a minority of votes to defeat a majority of votes. The time-honored and more respectably named Electoral College system has a similar effect in Presidential elections, giving voters in states with relatively low population, person for person, more electoral clout than voters in more populous states.

What all of these practices have in common is that they can be used, and are used, to swing elections by violating the two central principles of free and fair elections: that all members of the voting public have equal access to the polls, and that a majority vote by the voting public wins the election.

Another thing these practices have in common is a predilection for pretext. An official justification given for such voting limitations as driver's license requirements or the curtailment of mail-in voting has been that they are needed to stop voter fraud, purported to be rampant. The fact that such measures may prevent voting among politically targeted groups – such as segments of the public who are unlikely to drive – tends not to make it into the official pronouncements. The reason for pretext is, I think, that the public at large sees it as sacrilege in a self-styled democracy to undermine the freedom and fairness of the vote. It's the same dynamic as that encountered with racism. Pretext and denial abound there, too, because the understanding that racism is a sin against humanity is widespread.

If taxes on those things we don't want are insufficient, then the next option is a tax on those things in which we will always have the same quantity. The most obvious category here is land. Georgism agrees that cutting a payroll tax would be an excellent way to 'incentivize labor and employment' – but unlike the temporary measures pushed by the current administration (and historically used by others), seeks to provide a viable alternative revenue source to maintain the programs currently funded by payroll taxes.

Because the value of land fluctuates less with economic ups and downs compared to sales and income taxes, there would be less need for 'emergency' transfers of funds or borrowing. This would, hopefully, obviate the need for executive orders and other non-legislative fiscal adjustments.

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DIRECTORS' PERSPECTIVES (CONT.)

ELECTIONS (CONT.)

These modern vote-restricting tactics are legal. They are, ignoring flimsy pretexts, in plain sight. And they work.

The Presidential elections of 2000 (Bush vs. Gore) and 2016 (Trump vs. Clinton) were won by candidates who lost the popular vote. It is not just the Electoral College system but other anti-vote tactics working with that system that helped hand the winners of those elections their victories. Such tactics are detailed in Dexter Filkins's article "The Uncounted" in the September 7, 2020, issue of *The New Yorker*. That article describes a panoply of jaw-dropping voter suppression techniques that have been deployed in Republican-led Florida, a crucial swing state.

It is true that, for Henry George, such anti-voting measures, like the corruption he knew to be inherent in trade protectionism, were examples of what he called "the little robber" at work, even while (as he put it) the "great robber takes all that is left" from the public. George's central insight, which lies at the core of all of his writing and thinking, is that it is the institution of private property in land that perpetuates unjust monopoly in the most crucial type of resource. George identified that as "the great robber" that causes poverty to persist and deepen even as societies get better and better able to produce wealth.

Accordingly, in *Progress and Poverty* George pointed out that, like the innovations that increase our ability to produce wealth directly, "such improvements in government, manners, and morals as indirectly increase it" have the effect of raising rent. "Considered as material forces, the effect of all these is to increase productive power, and, like improvements in the productive arts, their benefit is ultimately monopolized by the possessors of the land.... [I]f the corrupt governments of our great American cities were to be made models of purity and economy, the effect would simply be to increase the value of land, not to raise either wages or interest." Furthermore, where land is subject to private monopoly, George explained, all of these improvements cannot alleviate poverty and will in fact ultimately depress wages. Such is the damage he saw as being wrought by "the great robber."

Nevertheless, he saw value in taking down the little robber.

What he says in the "Practical Politics" chapter of *Protection or Free Trade* about monopolists' practice of plundering the public via trade protectionism applies equally to the election process reforms George favored: "The great robber is so well entrenched, and people have so long been used to his exactions, that it is hard to arouse them to assail him directly. But to help those engaged in a conflict with this little robber will be to open the easiest way to attack his master, and to arouse a spirit that must push on." In his 1883 essay, he put it

this way: "[A]ny reform that can be made in administration or political machinery is not only good in itself, but clears the way for more radical reforms."

George does not mince words on the threat to democracies, and to American democracy specifically, from the kind of governmental corruption that perverts the electoral system.

"In all the great American cities there is today as clearly defined a ruling class as in the most aristocratic countries of the world.... Who are these men? The wise, the good, the learned — men who have earned the confidence of their fellow-citizens by the purity of their lives, the splendor of their talents, their probity in public trusts, their deep study of the problems of government? No; they are gamblers, saloon keepers, pugilists, or worse, who have made a trade of controlling votes and of buying and selling offices and official acts.... It is through these men that the rich corporations and powerful pecuniary interests can pack the Senate and the bench with their creatures. It is these men who make school directors, supervisors, assessors, members of the legislature, congressmen.... A corrupt democratic government must finally corrupt the people, and when a people become corrupt there is no resurrection. The life is gone, only the carcass remains; and it is left but for the plowshares of fate to bury it out of sight."

If in the events of today -- the protests, the riots, the shootings and the political siege against science and fact and voting rights -- you hear echoes of George's dire warnings, as I do, consider also the optimism implicit in them.

In order for George to have advocated against the little robber of political corruption, let alone to have taken on the great robber of institutionalized land monopoly, he had to hope and believe that improvement in those areas was possible. Although he saw and understood the worst our democracy was capable of, the gist of *Progress and Poverty*, like that of all of his books, was not dire warning but a prescription for justice and prosperity and a call to bring them about

*"A vote is like a rifle;
its usefulness depends upon
the character of the
user."*

Theodore Roosevelt

FUNDING - PANDEMIC NEEDS

BY: MIKE CURTIS

Here we are in a pandemic. The epidemiologists say our best defense is personal distancing and all recreational and non-essential activities curtailed. That means trillions of dollars worth of goods and services are not being produced, and millions and millions of workers are unemployed. So, the unemployed workers don't have money to buy the necessities they need—primarily food, and shelter (mortgage payments or rent).

In order to prevent unemployed workers from going hungry and losing their shelter, The government has decided to give each worker enough money to keep them from losing everything—and keep the economy in tact. To prevent employers from losing their assets and the mutual support they enjoy, the government has decided to give or loan employers money. Perhaps the money will enable hospitals (for profit and non-profit) to function, even with the loss of patient payments.

When the medical facilities, personnel, equipment, test kits, and protocols are functioning, people can go back to work in a modified manner, and the country can resume some degree of normalcy.

It is not that the government is planning to borrow the money by selling over two trillion dollars worth of bonds, or taxing those who have greater assets than they could reasonably need or enjoy, and redistribute wealth (via money) to those who are in need. The government is going to create the money by way of the Federal Reserve. While the exact mechanism by which the government will increase the supply of money has not been explained on the nightly news, it will ultimately result in an increase in the total amount of money in existence, and each U.S. dollar being less valuable than it would otherwise have been.

There has already been too much money created, as evidenced by the fact that it now takes \$26 to buy what one US dollar bought in 1913 when the Federal Reserve was established.

As new money is created and dispersed. Those who receive it are offering it in exchange for the same goods and services that everyone who already had money has been trying to buy.

Therefore, each dollar buys less, and the total amount of money tends to have the same buying power as before. It takes time before prices go up, and that makes it easier to pass the legislation. That's what happened after 2008. Trillions of new dollars were created and prices increased by nearly 20% over the next 12 years.

At the moment, there are less things to buy, and that tends to increase the value of what is. There are a lot less people able to buy things, and that tends to lower the price of things. However, when the economy gets back to the level it was before, there will be plenty to buy, and plenty of people who are able to buy it. The difference will be that there will be between two and four trillion dollars more money in circulation trying to buy the same amount of goods and services that were for sale before.

Inflation is a tax on those who have money in cash or in the bank. It is also a cancellation of debts for those who have borrowed it in the past and are now obligated to pay it back; that is because money has lost value; It then represents less wealth than was borrowed.

Inflation would tax part of the \$2.6 trillion Social Security Trust Fund, and it would cancel part of the \$10 trillion home mortgage debt. The latter would be good for those who have just purchased a house, but it would increase the price of houses to be bought in the future by the same amount. All those who have invested for their retirement in the \$40 trillion bond market (twice the size of the stock market) would be robbed by the government and the corporations who issued the bonds.

Money is also a measure of value. If your employer agrees to pay you \$20 per hour for the next five years, but there is just 3% inflation each year, at the end of the five years, you are only earning enough to buy what \$17 would have bought when the agreement was made.

When a nation needs to disrupt its economy, and limit the freedoms and opportunities of people to make a living, it seems reasonable that the government should compensate those people who were restrained from producing by its restrictions, with a re-distribution of wealth. The question is how—what is the fair way to pay for it?

Governments can program a computer or a printing press to create money, but they can't wave a magic wand and have food, clothing, and shelter appear—at least not yet. Someone has to produce it before it is transferred to those who ultimately receive the wealth and services.

The only equitable way to pay for a naturally occurring crisis—pandemic, is to pay for it with socially created production. That is to say, wealth that cannot be attributed to individuals or corporations, but results from the conscious and subconscious cooperation of the community and society as a whole. The primary value that is socially created is the rental value of land (the offerings of nature). It stems from superior natural opportunities that are privately assigned, and increase the results of labor. As populations increase and concentrate, greater divisions of labor and automation become possible. These greater populations are enabled and economized by the infrastructure and public service, and all the greater productivity that results from the divisions of labor and automation are included in the rental value of land.

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INFORMED PERSPECTIVES (CONT.)

FUNDING (CONT.)

It is, therefore, the natural source of funding for the re-distribution of wealth required by a pandemic disease.

By collecting the rental value of land throughout the United States, there would certainly be enough money collected each month to enable every family restricted from making a living, to acquire the food, clothing, shelter, and healthcare necessary, until the opportunities to make a living return.

As a first step, all leases could, by decree, be re-negotiable and put on a month to month basis. Then that portion of the rent that is paid for the value of privately owned land (in the case of owner-users, imputed), as re-calculated often by government assessors, could be taxed. All unused and underused land could be re-assessed as to its rental value based upon its potential to generate land-rent in real time. That is to say, right now, as opposed to some time after the pandemic is past.

Clearly, many parcels of land are worth far less per month than they were before the Pandemic, and some are worth nothing, given the restrictions now in place. However, if a parcel of land has a rental value, it is because the land has the potential to yield an income right now under the present circumstances.

The rental value of land is what each owner should pay for the right to deny others the opportunity to use a natural offering, one that captures socially created wealth and services.

This proposal is much more complicated than simply collecting the rental value of land as would be advocated in normal times, but disasters disrupt the economy and require a special response. I have no expectation that this proposal will be seriously considered, but it would certainly work, and it would be a lot less complicated than the current system of taxing income with its myriad of deductions, depreciations, and credits. And it shows that even in a pandemic crisis we could collect socially created wealth for social purpose—while discouraging the idle and grossly underused land that causes unemployment, low wages, and a shortage of housing.



PHILADELPHIA'S COVID-19 BUDGET: EVERYONE'S RIGHT – AN ALTERNATIVE FINANCING PLAN BY: JOSHUA VINCENT



Hard Times

Philadelphia Mayor Kenney and City Council's budget solutions last month were understandable but avoidable. Reasonable because the traditional reaction to an emergency economic environment is to cut services, lay off workers, and raise taxes. Preventable because all options should be on the table, but are not.

The Mayor has made the city and its citizens face hard facts: in a sudden recession, tax revenues, especially business tax revenues, decline. Along with the Business Privilege Tax, we base revenues on the taxation of economic choices: renting a car, working a job, staying in a Philly hotel, buying something essential. Historically, slackening business tax receipts usually produce small but deadly holes in the budget, which can only grow bigger. Henny-Penny, is the sky falling? Well, yes. Re-cranking up the engines of the economy is on hold, put off by state and city health mandates.

In July, city revenues kept drying up. As Center for Property Tax Reform predicted, the sales tax joined other taxes in cratering, after the panic buying of April and May. Only business taxes responded positively, due to extensions of tax deadlines. Only one significant tax has seen stability: the property tax. Compare that to the 99% decline of the amusement tax!

There is a chasm dividing opinion on what a city faced by hard times should do. Advocates for safe and clean streets, libraries, fire stations, and culture stand for stable revenue streams to fund vital, often lifesaving programs. Tax reform advocates still argue against freezing the tax cuts in the name of inter-city competitiveness. In contrast, austerity advocates see city job cuts, arts programs reduction, and service cuts as a positive "no pain no gain" trope.

Everyone's Right

All positions are supportable, but the false dichotomy of "either/or" prevents real common ground and a solution to the crisis. Service cuts are dangerous, but we cannot agree that the only way to avoid fiscal disaster is a hike in the
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PHILADELPHIA (CONT.)

nonresident wage tax, the parking tax, and more freezing of the scheduled reductions in business and residential wage tax. We are maintaining the sales tax pinned at an eye-watering 7%. Why? Who says these are the only acceptable choices?

The assumption that all business owners or suburban workers are 'rich' and ready to be plucked is a myth refuted by decades of tax reform commissions and reports. Must business and working people always be the "go-to" source of city revenue? Isn't it time to look for new alternatives? Most employers in Philadelphia are small business owners. Look at the city's tax receipts. Times are hard for them as well. Many argue that tax-cutting isn't useful in attracting families and business. That's at least questionable. Even if valid, cities and states are inevitably committed to tax subsidies for a favored few.

For example, the Philadelphia Chamber of Commerce is all for austerity, but we're confident they still support tax breaks for the "big dogs" while telling the neighborhood dry cleaner, tavern, or bodega to pay their "fair share." From Comcast to the Cira Center, we suspect the goodies will still flow through givebacks, subsidies, and abatements. "We got ours" is not the best philosophy to follow, but that's what we've had for decades.

With small business being the engine of real job creation, the favorable tax treatment of large firms is more disquieting. There has to be a rethink of these freezes and tax hikes.

The crisis IS real

The Mayor is not minimizing the cash crisis facing the city. That's because, on the revenue side, we still depend too much on the taxation of action, creativity, and energy.

Losing \$650 million from the budget is a shocker. The voiceless and the powerless are too often ignored, with their concerns shelved. Those members of Council who are trying for cost savings on the expense side are probably leading the first wave of genuinely good action, like battening down the hatches at the first sign of an approaching storm.

In a recession - especially in a city with chronic lagging indicators on all sides - business and wage tax revenues are particularly liable to drop as businesses retrench and job losses mount. Sales tax revenue has been bolstered only by panic buying; that's over. Revenue can slip even with current tax rates, and rate hikes will only exacerbate the problem.

The fact is Philadelphia relies on tax revenue from two things - work and private spending - that can hide, vanish, or flee. Forces beyond Philadelphia's control whipsaw labor and capital. There are many places to run, especially from high tax rates on those two things.

Another Way

If all options are indeed on the table, then we'd suggest that the city can come together and choose to base the city's revenues from the one resource that is barely nicked by taxation: the land value portion of the property tax. The idea of a tax on land values is not new. In fact, in 1693, it was the

first tax of Philadelphia. Taxing land value permits the reduction of other taxes because it attracts scarce development capital and workers. The usefulness of taxing land value under our feet started with William Penn. Further developed by Ben Franklin and Thomas Paine, land taxes were a message of economic fairness and equity personified by Henry George (all of whom were Philadelphians). The pedigree is impeccable, the theory accepted by nearly all economists - liberal and conservative - and the implementation is possible, in Philadelphia and cities - big and small - around the world.

By reforming the property tax, we can create a tax on land value that's stable, efficient, and progressive. Again, no economist of any repute denies that a tax on land value makes the most economic sense. In Philadelphia, Penn's Professor Robert Inman has, for years, asked the city institute this simple, efficient, and just tax.

By removing the tax on all buildings and improvements, we eliminate the tax penalty on having four walls and a roof without blowing holes in the budget.

If businesses and citizens could discover a place that rewards growth without favor or subsidy, we could see an inflow of wealth even in hard times. Why? As a city, we are locationally one of the most advantaged places in the US. With a recession, a long-term threat to people and firms in high-tax places like New York will seek an amenable outlet for their activities. Why not Philadelphia?

Economic Justice and Common Sense

To fill our budget hole, and then some, the city must recognize that there is community-created value and privately-created value. Land values are a textbook case of community-created value. The more desirable we think a site is, the higher its value. We, the community, need to keep that value for the services we need. Land values can pay for what our community wants. Yet, Philadelphia's government has not taken advantage of the value in the land. Philadelphia primarily taxes privately-created value: jobs, buildings, and commerce. Philadelphia is at a disadvantage because all other surrounding areas take less of it, and that's why the current downturn is so problematic.

So, let's agree that everyone is right: advocates for city services, the Mayor, and the tax reformers. We have to cut taxes on workers and production. We have to provide revenue so that essential programs survive and even thrive. The old dueling assumptions that our choices are either high taxes or low services are untenable. As Philadelphia enters a moribund economy, we have a responsibility to those who are out of work, suffering at home, or worrying about their children's education.

If all options are on the table, then the land value tax deserves a seat at that table.

The gulf between "either/or" has to be bridged. We suggest a land bridge.

REVIEWS

Milton Friedman's Favorite Book on Trade

BY: JIM POWELL

Henry George's 'Protection or Free Trade' in 1886 decisively showed the value of opening markets.

Adam Smith wrote the most influential case for economic liberty, "The Wealth of Nations" (1776), but the best book on free trade probably came from our side of the Atlantic.

Though fewer people remember the American economist Henry George (1839-97), Milton Friedman once told me that George's book "Protection or Free Trade" (1886) was, in his opinion, the most rhetorically brilliant work ever written on the subject. In it George demonstrated how free trade benefits a nation that opens its markets, even if other nations close theirs. "If foreigners will bring us goods cheaper than we can make them ourselves," he declared, "we shall be the gainers."

As George pointed out, trade is voluntary, driven by individual buyers and sellers. "Trade is not invasion," he wrote. "It does not involve aggression on one side and resistance on the other, but mutual consent and gratification. There cannot be a trade unless the parties to it agree."

He posed a thought experiment to challenge the common view that exports are good, and imports are bad: "To have all the ships that left each country sunk before they could reach any other country would, upon protectionist principles, be the quickest means of enriching the whole world, since all countries could then enjoy the maximum of exports with the minimum of imports."

What about the argument that tariffs are needed to support vital domestic industries? George observed that these political favors will inevitably go not to the deserving but to the strong and unscrupulous. See if this sounds like Washington today: "infant industries have no more chance in the struggle for governmental encouragement than infant pigs with full-grown swine about a meal-tub. Not merely is the encouragement likely to go to industries that do not need it, but is likely to go to industries that can be maintained only in this way, and thus to cause absolute loss to the community by diverting labor and capital from remunerative industries."

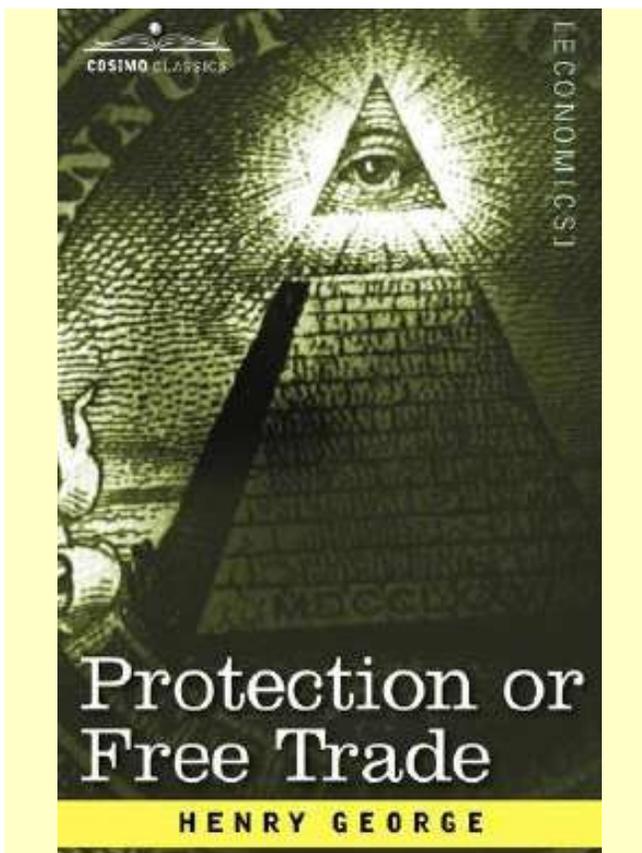
Using tariffs to protect domestic producers from lower-cost foreign competition also harms businesses further down the supply chain. A tariff that raises the price of steel increases the cost of everything made from steel. And there are more jobs at stake in steel-using industries (commercial construction, transportation, machinery) than in steel-producing industries.

George invoked history, too. The first civilizations, he wrote, did not rise in isolated places, shielded "by rugged mountain-chains, by burning deserts, or by seas too wide and tempestuous for the frail bark of the early mariner." Why? Because they depended on trade. "It is on accessible harbors, by navigable rivers and much-traveled highways that we find cities arising and the arts and sciences developing."

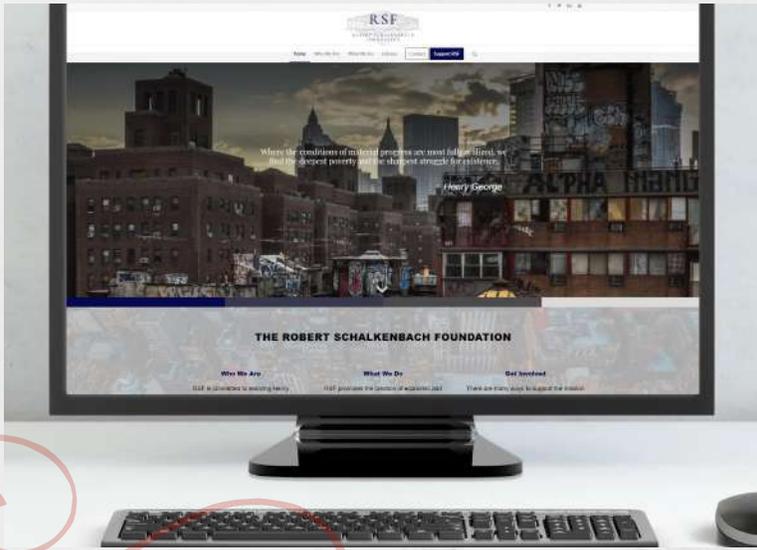
War was the analogy in what are perhaps George's most famous lines: "Blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war."

Something to ponder as 21st-century politicians threaten retaliatory tariffs against foreign competitors—which would simply force Americans to pay more for many things. "No other nation," George reminded us, "can thus injure us so much as we shall injure ourselves."

Jim Powell is a senior fellow at the Cato Institute.



WHAT'S NEW



We are proud to officially launch our new website. We will continue to make updates and value your feedback. Check it out at www.Schalkenbach.org

Philadelphia's financial foundations have all but crumbled. But, the City has the opportunity to make real gains for social and economic justice. How? By simply rethinking its approach to one tax that has proven stable in 2020's pandemic economy: the real estate tax.

TAX SHIFT EXPLORER

RSF, in conjunction with the Center for Property Tax Reform recently released a fully interactive map interface, the Tax Shift Explorer, that allows users to explore what a Land Value Tax would mean for the City as a whole, each City Council District, and even individual properties, all using real, current tax data as the baseline. Visit: <https://centerforpropertytaxreform.org/map/>.

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