Liquidity Trap:

*(noun)* a condition in which monetary policy is rendered ineffective through a combination of very low interest rates and a consumer culture that favors saving over investing.

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.

We’ve got to move beyond the idea that the public and private sectors are at odds. Government has to lay the groundwork for private equity to productively invest in things like education. It’s a partnership, not a battle.

~ Sebastian Piñera
As we collectively stare down the holidays, the reality that our celebrations won’t look or feel the same as in other years is inescapable. The range of differences varies, of course. For my family, it’s planning our winter holidays without extended family for the first time ever. For many others, the difference, and the struggle, is far more profound. Unemployment in the U.S. is down to 6.7% now, a blessed drop from its peak in April, but that’s still 3.2 percentage points higher than it was in February. And with the federal eviction moratorium expiring on December 31, some estimate that for as many as 19 million (largely black and brown, low income) Americans, will begin 2021 with a desperate search for a new home. Of course, many will be unsuccessful, and in addition to immense personal pain and suffering, there will be large and immediate costs to society, including those associated with the provision of emergency housing and medical care, as well as new strains on the foster and criminal justice systems.

What do we do? Well, many economists agree that a second federal stimulus package would be a very welcome intervention. But for the moment at least, nothing is forthcoming from Washington. And federal stimulus will only go so far. State and local solutions – tailored to the unique situations of each jurisdiction – will be integral to making it through the long, cold winter ahead. With that in mind, I want to talk about a local solution I think holds real potential for one of our nation’s flagship cities hit hard by the COVID-19 pandemic: New York, NY.

New York City was the epicenter of the first coronavirus wave in the U.S., and by mid-October, the City’s unemployment rate was twice the national average, and personal income tax revenues – the fiscal lifeblood of the City – were projected to be down $2 billion for the year. These effects led many to turn to the history books, searching records of the 1970s fiscal crisis for clues as to what could be done to save the Big Apple. But at the Center for Property Tax Reform (CPTR), we think the right solution lies a bit farther back in the City’s storied past, all the way back in 1920 to be exact. During these times, newly constructed housing was exempted from property taxes for a decade, spurring widespread construction of the NYC’s now much sought-after “prewar apartments,” with their fancy marble entries and blessedly thick walls.

CPTR’s proposal is simple: add a 5th class to the City’s property tax scheme for underutilized parcels and tax them, really tax them, to generate new revenue and encourage new use.

Why this approach? The Center’s new GIS analysis of City tax data shows that about 28,000 properties across the boroughs can currently be described as vacant or blighted. And because their owners’ tax bills are based on zoning, and NYC’s (very convoluted) tax system puts a strong emphasis on improvement value, the tax-generated carrying cost of these properties is next to nothing. This is hard to believe considering New York’s well-deserved reputation as one of the most expensive places to live on the planet.

What will a 5th class do? We will happen with the creation of a 5th class: It will provide an immediate revenue boon for the City, and a shift towards the sale and/or reuse of these currently unproductive properties. With just a 5% tax on land value, for example, NYC would see a property tax revenue increase of $1.5 billion in the first year. Need more? Tax more. As the 1920s experience taught us, untax buildings and you’ll get more higher-quality buildings. And those not willing or able to build will be encouraged by their suddenly higher tax bills to sell their land, making it available to new owners, which (especially with the City’s help) could include land trusts and others dedicated to addressing New York’s continuing affordable housing crisis.

The 2020 holiday season will be unlike any we’ve experienced. Although 2021 will likely begin on a very sour note for many of us, at RSF and CPTR we remain committed to devising economic solutions to our social problems. A 5th property tax class in New York City is not a silver bullet, but creative and effective local solutions like this one is instrumental in our economic recovery from COVID-19, and a return to a new, more equitable, normal.
The rush to declare the 'death of cities' in the wake of COVID-19 was almost certainly premature, given that rural areas are now struggling to contain the virus to nearly the same extent as urban areas did in the spring. However, the virus has dealt a major blow to one of the great assets that makes modern urban living possible – urban mass transportation systems.

Cities from San Francisco to New York have dramatically cut down on their transportation systems as their funding bases – in many cases, rider fares and sales taxes – have been devastated by the continuing pandemic. The depth of the cuts is unprecedented; New Yorker subways will face a 40% reduction in capacity, and a majority of bus lines in San Francisco will be eliminated. In some ways these cuts are reversible; if the funding sources improve after the pandemic has been mitigated, then services can be resumed again; however, the interruption of these services will degrade the quality of life in the impacted cities and will almost certainly slow their recovery.

NYU’s Rudin Center for Transportation estimates that over the next few years these cuts in New York could cost nearly a half million jobs and tens of billions in lost GDP. In the short term, the only feasible option is for the federal government to use its capacity to borrow and create money to fill in the gap. In the long run, however, a more dependable, and fairer, funding mechanism is needed: land value capture.

The reliability of land value capture is apparent from the continuing high price of land in urban areas, even those suffering from COVID. While sales volumes dropped precipitously in major cities, median prices did not experience anything like the massive drop in ridership and overall GDP that blew a hole in transportation budgets – overall list prices dropped by less than 5% in San Francisco, among the most impacted cities. Even if there was a major drop in housing prices for a year, it is unlikely that such a drop would be as dramatic in the underlying value of land, and particularly unlikely that it would last long enough to depress land value assessments and thus taxes. This can be seen empirically with San Francisco’s agency, which relies much more heavily on property taxes than other Bay Area agencies and, as a result, has shown itself to be far more resilient in the face of the crisis.

The advantages of land value funding for transportation infrastructure are not limited to weathering economic storms. (Cont. Page 5)

Readers’ Response

Thank you to everyone who participated in our November survey on the taxes. Below are questions for our December survey. Please answer the questions online.

Q1: Do you think there should be a Universal Basic Income in the United States?
Yes
No
Unsure

Q2: How do you think a UBI should be financed?
Short Answer

Q3. Who do you think should be eligible to receive a UBI?
everyone living in the U.S.
U.S. citizens of all ages
U.S. citizens age 18 and older
Other (please describe)

Q4: What effects do you think a UBI would have on the U.S.?
Short Answer

Take our December survey on Universal Basic Income.
www.Schalkenbach.org/survey
As a rule, people have a general aversion to discussions of tax policy. Except for the most elementary understanding – progressive, neutral, regressive, or exempt or non-exempt – public discourse on taxation is mostly banal or non-existent. It’s really no wonder, because political leaders have filled tax bills with intricate and confusing provisions that make discussion of matters all but impossible. Moreover, the general study of tax policy requires expertise in a number of areas, and therefore involves a long learning curve. Consider the number of subjects a tax expert needs to master in order to talk intelligently and wage arguments with others. It’s not just economics, but accounting, statistics, law, politics, geography, history, business and commerce, and even sometimes the physical sciences.

The past century has witnessed the expansion of the realms of tax policy to include corporate franchise and personal income taxes, and more recently sales taxes and user fees. How these various taxes intersect and interact is beyond conventional comprehension. A whole new dimension of tax theory is involved in what have come to be known as “tax expenditures.” These are the exemptions, deductions and credits from what would otherwise be the “normal” formulas of application. Observers and authorities in every corner call for simplification, but this means something different to everyone.

The acolytes of Henry George, over a century ago, promoted the idea of a “single tax,” a tax on the rental value of land alone. This proposal still makes compelling sense. Unfortunately, its defense today requires further explication to demonstrate its soundness. For example, a tax on land value requires appreciation of the assessed value of land parcels, and only in recent years has it been possible to create land value maps using GIS – geographic information system – technology showing the comparative market (or rental) value of parcel sites.

Moreover, the distinction between income and wealth that is earned and that which is unearned could make clear a fundamental pillar of economic science. Over a century ago, this was widely understood: J.S. Mill referred to the latter as the “unearned increment,” and British Statesman William Gladstone called it “lazy income.” There was a widespread understanding that freeloading or speculation was reprehensible.

Furthermore, only in recent years has it been possible to empirically demonstrate the loss of productivity of alternative taxes – what in economic parlance is called “deadweight loss” or “excess burden.” Assiduous analysis of comparative tax regimes could ably demonstrate that some designs are deleterious, that they can reduce the marginal output of our economy by between ten and twenty percent. There is an acronym employed to express this: EBCOR, or Excess Burden Comes out of Rent. (Cont. Page 5)

**DIRECTORS’ PERSPECTIVES (CONT.)**

**THE COMMON AVERSION TO TAX STUDY**

BY: BILL BATT

In response to an article written by Harrison Astbury on November 18, 2020 Why a property tax is not the answer, (https://www.savings.com.au/home-loans/buying-first-home/why-a-property-tax-is-not-the-answer), I believe that Astbury is half right. Real estate consists of two types of property, land and improvements. A property tax on buildings and other improvements is indeed not the answer. But a tax on land value is the answer to the question, what to tax?

Regarding retired families with low incomes, Astbury writes, that exemptions “would be so plentiful, the land tax hardly seems worth the administration required.” We need to see the numbers. There are many cities around the world, such as Sidney in Australia, which have a property tax only on land value, and they are doing well. Moreover, the tax would have postponements rather than exemptions. Also, some retired folks would wish to move to less expensive dwellings.

Astbury claims that a property tax heightens speculation, but a tax on land value does the opposite, since it reduces the purchase price of land. If the price of land drops to near zero, there is no value left to speculate with. The lower price of real estate makes home ownership more affordable. (Cont. Page 6)
It has been explicated by students of tax theory that All Taxes [Ultimately] Come out of Rent, using the acronym ATCOR. Another acronym, ATAAER, states it differently: All Taxes Are at the Expense of Rent. Legislatures sometimes elect to design tax regimes so that they “balance,” what has been often referenced in the literature as the “Three-Legged Stool.” This rests on the notion that if different tax bases are employed – say, property, sales, and income – that burdens as well as revenue streams will somehow be stabilized. This is mistaken, because tax burdens get shifted in any case, and simply complicate and confuse the general public.

The irony of all these machinations is that principles to guide the design of tax policy have been enumerated as long ago as 1776 in Adam Smith’s venerable book, The Wealth of Nations. At that time, he stated them as “fairness, certainty, convenience and efficiency.” Since that time, public finance textbooks have restated them differently. But, they essentially follow the same themes. Today, one often sees argued that an ideal tax should be neutral, totally efficient, progressive, easily administered, reliably stable, simple to understand, and impossible to avoid. Many students of taxation assume that these tenets need to be compromised with one another on the assumption that there is no perfect tax.

This stems from the failure to recognize land rent as the ideal tax base. Indeed, it comports with all the textbook principles of sound tax theory. When Henry George's tax on land rent – his “single tax” – is appreciated, our economy, and our society, will be put right.

"Men like Henry George are rare, unfortunately. One cannot imagine a more beautiful combination of intellectual keenness, artistic form, and fervent love of justice."— Albert Einstein
Taxes on goods raise the cost of living. Taxes on land value do not raise the cost of goods, and they do not get passed on to renters, because a tax on rent or land value does not change the rent. If the landlord raises the rental charge, there will be vacancies, and they will lower the rental back to what it was.

No human institution is perfect, but a tax on land value comes closest to being equitable as well as efficient. It is equitable in sharing the rent equally, and efficient in not imposing extra costs, since rent will be paid anyway.

Chile is undergoing its biggest political change in the last 40 years, and for the first time its people will draft a Constitution by participatory and democratic means. A Constituent Assembly of 155 democratically elected members, half of them women, will be chosen in an election on April 11, 2021 and will have up to a year to draft a constitution that will then be plebiscite for the people. The constituents will be elected under the same electoral rules that govern the election of congress members, which favors political parties and big coalitions.

Chile was colonized by Spain in a process that set up a caste society with European conquistadors at the top and black slaves at the bottom, with mestizos and natives in between. White conquistadors were granted huge landed estates that entitled them to free labor from the indigenous inhabitants, which lost the free access to their commons. This later evolved into the Haciendas system, but all through its colonial and early republican history, Chile shared Latin America’s characteristic of huge tracts of land owned by a tiny number of wealthy families, who conformed the country’s social and political elite. Unlike Europe, Chile never developed an industrial capitalist class that could displace the landed elites. Until the 1960s, Chile was still controlled by a small number of proprietor families, and the vast majority of Chilean peasants were landless and had to live in the Haciendas working in a quasi-feudal system.

Growing pressure from worker and peasant’s movements, from the Catholic Church and the left-wing parties forced an agrarian reform process that turned violent as elections brought increasingly left-wing governments to power, culminating with Salvador Allende and the Popular Unity government, which ended tragically with the coup of 1973.

After this, there was a counter-reform, which did not return the land to its former, quasi-feudal state, but fueled by the then triumphant Chicago school economic thought. Land was sold to speculators, agrobusiness and huge forestry companies, which somewhat alleviated the previous levels of concentration of ownership and improved the land productivity, but created other problems such as environmental degradation, impoverishment of whole districts that were converted from agricultural life to labor-saving forestry industry, among others.

Georgist ideas were never as big in Chile as they were in other Latin American countries such as Argentina, though there is at least one precedent of similar ideas: In the early XIX century, as the country was fighting for its independence, a prominent liberal figure, José Miguel Infante was proposing replacing all taxes with an estate tax, probably influenced by Thomas Paine’s or the Physiocrats’ writings. But he failed to transform this into policies.

The referendum was the main concession politicians made last November as they tried to pacify protesters with an “agreement for peace.” The left argue that the 1980 constitution, written under rightwing dictator Augusto Pinochet, is implicitly designed to protect Chile’s model: minimizing the role of the state, limiting voters’ political choices and making it harder for Chilean governments to expand social welfare or interfere with businesses. It became a major target of protests, which began with teenagers jumping subway turnstiles to protest a small subway fare hike but quickly morphed into a so-called “social explosion”—an all-out rejection of the neoliberal economic model that has made Chile one of the region’s richest countries, but also created spiraling inequality. After the protests and uprising last year, the ideas and philosophies of Henry George have failed to gain the public’s attention and are unlikely to get into the new constitution so far. Georgism is virtually nonexistent in Chile because other issues, mainly pensions, have taken absolute predominance over the public discourse. Land, when it is talked about, is under a populist leftist lens, very anti—development.

Rewriting the constitution won’t solve all of the country’s problems, but it’s the best chance of turning the “social explosion” into meaningful change after a year of unrest. Even a few prominent figures from the right have backed the rewrite. But political analysts say that’s where the consensus ends. Some see the referendum as a symbolic opportunity to move on from the dictatorship or tinker with the existing model. Others want a total transformation. (Cont. Next Page)
Property taxes exist, but they are minor and mix land and buildings. There is no property tax to be paid up to a certain amount, and from there up there’s a 1.2% tax on residential property up to another threshold and then a 1.4% tax. Rural land gets taxed 1% and isn’t charged up to a certain amount. Agricultural improvements are subtracted from the assessment.

Chile has a large homeownership rate, although it has been steadily declining from almost 70% in 2002 to around 53% in 2017. Most renters are younger people, so homeowners are mostly "boomers" who are also poor or lower-middle class. This means that many property owners do not pay property tax, because the value of their property is inside the exempt tranche. Most people also don’t pay any income tax, because wages are very low. This presents another difficulty for Georgist ideas: For most people it would mean a new tax they didn’t pay before, and reductions in income tax would not matter to them because they do not pay any.

The only tax they pay is VAT, but that is an "invisible tax" so the idea could be hard to sell. The existence of property tax allows for some Georgist shifts - from levying it on the whole property to levying it only on the land value.

Most organizations that deal with the "Land Question" in Chile are grassroot groups that consist of home debtors and people who live in slums in irregular occupied terrain. These groups, such as UKAMAU or ANDHA have been successful in raising awareness and public attention. But the absence of Georgist thought in Chile, and the indifference of mainstream liberalism towards it, have caused them to be appropriated by hardline leftist ideologies, and many proposed solutions call for expropriation or price controls. There are other organizations, urbanist ONGs, that also deal with the housing crisis and land use, but none that proclaims the "georgist solution". Other groups, worried about development destroying traditional neighborhoods in high-value grounds in the cities, have taken an anti-development perspective. These groups oppose densification and often call for rent control as a solution for the housing crisis, and it is these groups that have caught the attention of the few congressmen and women who have taken an interest on the issue.

I believe, if we band together, we can make a Georgist shift in Chilean policies. The referendum to the Constitution is a start.
With this technique it is comparatively easy to introduce a change to a preset sociological system that is theoretically in equilibrium (even though we know that this ideal is never actually attained—even though we know that this ideal is never actually attained—it being a convenient way to begin the study). This change creates an imbalance and we need to regain equilibrium again. Sudden changes or policy decisions may be simulated and the effects of them determined, which will point the way to what policy is best. In “Consequential Macroeconomics—Rationalizing About How Our Social System Works”, three changes associated with taxation are investigated in hand-worked numerical examples.

Developments of these ideas about making our subject more truly scientific (thereby avoiding the past pseudo-science being taught at universities), can be found in “Consequential Macroeconomics—Rationalizing About How Our Social System Works”.

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**UBI SELF-DEFEATING UNLESS FUNDED BY RENTAL VALUE CAPTURE – POINT**

BY: FRANK DE JONG

- Home prices will rise to what the market will bear, the UBI will be used to carry higher mortgages
- Job seekers will bid down wages since the UBI will help keep them out of poverty
- The added taxes levied to pay for the UBI will damage the economy by eliminating marginal jobs and forcing marginal businesses closer to bankruptcy
- The UBI benefits will flow through the poor to those who own land, resources and internet monopolies, exacerbating the rich–poor gap

A UBI funded out of taxes is comparable to the wealth created by technological advances over the last century. After the 1960s, this wealth was no longer shared equitably. In 1970, a single breadwinner could support a family, but by the 1990s it took two working people to comfortably do so, and it took two working people to comfortably do so, and now two mid-level paychecks are hard pressed to buy a house or pay rent in many cities. (Cont. Next Page)
There are many factors in the mix: new technology, international division of labour, better education, inflation..., but the bottom line is that jobs pay what the market will bear. For example, the minimum people will work for, and rental and owned accommodation always costs what the market will bear. Unemployed people will always bid down wages and desperate people will always pay whatever they must for housing. This downward spiral of maldistribution can only be broken if the UBI is financed by economic rent capture.

Economic rent is revenue from the rental of the commons, it is unearned wealth that capitalizes into the upfront price of land, resources and internet platforms, which presently benefits only the monopoly owners of these gifts of nature. Everyone has a right to their share of these dividends, which makes it a perfect way to finance a basic income.

The main problem is the asset liquidity traps. The societal surplus (unearned income, economic rent) doesn’t go to the productive economy: the working poor, small business or unionized labour. It goes to the speculative economy, to those who command land, resource and internet monopolies.

Even an imperfect UBI not necessarily “self-defeating” - COUNTERPOINT

I broadly agree with Frank de Jong regarding UBIs (UBI self-defeating unless funded by rental value capture): to do universal basic income without a land value tax is foolish, and fundamentally unsustainable. However, I disagree with the characterization of “self-defeating”, for reasons of both a technical and political nature:

1. Even a badly-funded UBI will still do a lot of good, for a decent while

Georgists recognize landowners as “The Robber That Takes All That Is Left”: as the most stolid factor of production, land has the power to demand the surplus of any other factor. It’s important to remember that this is not general and absolute, but rather true only in the long-term and in aggregate.

In a theoretical world, given enough time, every landless worker is brought down to the level of subsistence and no more. In the real world, such complete catastrophe is avoided: the landless still retains a few meager options (the exurban frontier beckons), and landlords lack perfect information. (Not being privy to each individual renter's income and consumption habits) In the absence of the information that could make them pure price-setters and not being in perfect collusion with every other housing supplier, the landlord manages to let each renter escape with some extra cash.

The population is not made up of identical “marginal workers,” and it’s right to believe that the UBI, even if funded in unfortunate ways (such as Andrew Yang’s focus on consumption taxes) will smooth out several unfortunate disparities:

Economic rent capture benefits the economy by removing the incentive to speculate, leaving capital no alternative but to invest in the job-rich productive economy:

- Employers will compete for employees, bidding up salaries
- Investors will shift to value-added production and away from speculation
- Land value taxes cannot be passed on to tenants, landlords will lower rents to compete for tenants
- Upfront home prices will drop since mortgages will not be needed for land portion of properties
- Rent-funded UBI benefits will stay with recipients, no longer migrate to asset monopolists.

The only way to permanently eliminate poverty is to break the monopoly owners’ grip on the unearned increment, shift the tax burden off the productive economy and onto the speculative economy and distribute the rental value of the commons to all equally as a citizens' dividend or UBI.

This is another way of noting the broader truth of ATCOR (all taxes come from rent), not in its strong (ground rent) form, but rather its weaker (economic rent) form, which is tautologically true; if taxes are not paid out of a surplus above which it takes to drive a factor into production, these taxes cannot exist at all.

The harm? Taxes will also create deadweight loss (as described in Mr. de Jong's argument). On the margin, production will be curbed, the actual buying power of workers will shrink. It's worth remembering that producer surplus for workers is technically a form of rent, but the good kind: what's the point of society unless we want people to have slightly more than the bare minimum?

Even though some miseries creep in, there are limits, and the likely outcome in the absence of something (Cont. Next Page)
destabilizing is something akin to a European welfare state. Not anything that absolutely solves poverty and the fundamental inequities of society, but one that smooths out the rough edges. Hardly a complete disaster.

2. An alternate framework: Full Employment and Inflation

In Mr. de Jong’s argument, it’s stated “unemployed people will always bid down wages”, but is it possible that the dynamics of UBI will change this? If UBI is truly transformative in the way its advocates declare, we’ll see a profound change in what employment entails: work will become far more fluid and less obligatory; jobs will only be undertaken when the trade-off (wages vs disutility) seems truly fair.

It’s instructive to relate this to the concept of Full Employment, in the Kaleckian sense – as defined by William Vickrey, full employment is when any single person can find a job at a living wage, within 48 hours—quite unlike our world, even when unemployment is low.

Will UBI create labor markets as tight as all this? Two possibilities seem on the table (absent LVT):

> If they do, we’re likely to see asset prices spiraling (as is clearly already happening in some of the tightest labor markets, such as Silicon Valley). Workers make more, key assets such as housing cost more, repeat ad infinitum. If this is indeed occurring everywhere and not just a few loopy markets, we will be in an inflation spiral in need of resolution.

> If the UBI is too meager to tighten labor markets considerably, there is no danger of inflation spiraling (but also a fairly meager impact; some people on the margins will benefit from this UBI, but it’s far from transformative).

I believe the former is preferable to the latter. A UBI that fails to end poverty is safe but rather depressing, a potentially beautiful program turning out to be a dud. The former is a disaster, but with the potential to turn out of the tailspin.

When inflation spirals, perhaps the program would be aborted or defanged, but hopefully another option exists: to take on inflation directly, and not through ineffective means (harsh interest rate hikes which kill Full Employment, crude price controls), but rather nimble programs that dampen spiraling asset prices. This will necessarily involve a number of interventions, but the intervention for real estate is obvious: the Land Value Tax.

An imperfect UBI may not be “self-defeating,” but may create a destabilization that could trigger an end to poverty and a newly stable equilibrium. Overcoming rentiers and implementing LVT is never easy, but the panic of inflation seems a greater opening than a placid interlude.

We are excited to welcome Stephanie Barrios-Cullins as our new Community Outreach and Engagement Coordinator. In this role, she will primarily focus on supporting the work of the Center for Property Tax Reform (CPTR). Stephanie has a range of experience working in outreach, advocacy, fundraising, and wellness. She has worked for nonprofits geared toward underserved populations such as Planned Parenthood and founded a small grassroots organization called Yoga Gives. She is a graduate of Rutgers University and holds a Master of Public Administration. Stephanie also works independently through a wellness lens, serving marginalized women and teaches workshops and trainings based in social justice, diversity, and inclusion.