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RSF DIGEST

NEWSLETTER OF THE ROBERT SCHALKENBACH FOUNDATION

WHAT'S INSIDE?

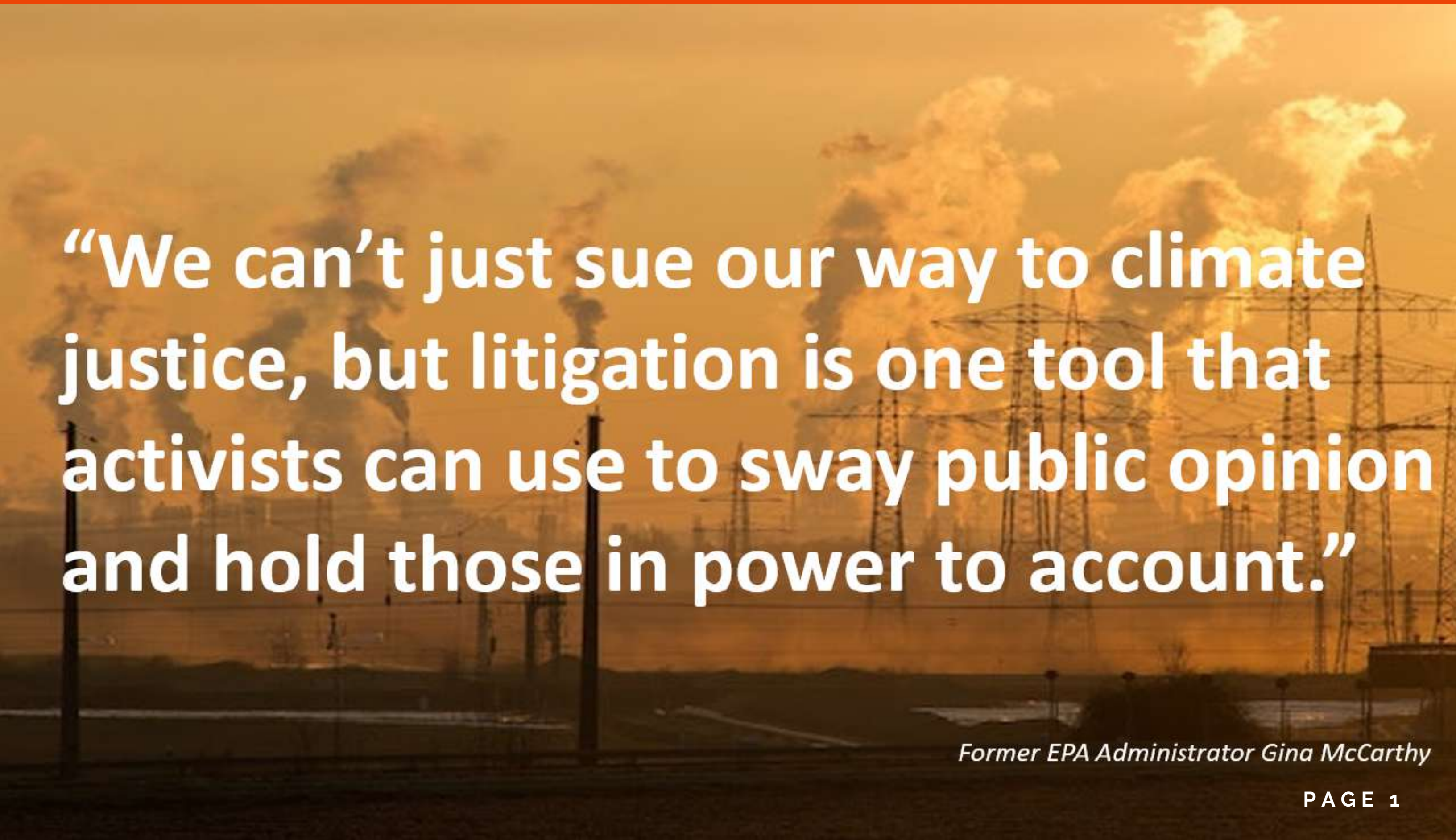
The Robert Schalkenbach Foundation (RSF) is a private operating foundation, founded in 1925, to promote public awareness of the social philosophy and economic reforms advocated by famed 19th century thinker and activist, Henry George.

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.

ROBERT SCHALKENBACH FOUNDATION

Climigration

(Noun): the planned relocation of communities to reduce climate change-related risk.



WHERE DO WE GO FROM HERE?

BY JOSIE FAASS, EXECUTIVE DIRECTOR

Letter from The Executive Director

It feels like every time I sit down to write one of these monthly updates, our world has taken any number of strange, disconcerting turns. This month is no different. But rather than get caught up in the dizzying array of social, public health, and political upheavals that currently confront us as a nation, today I'm thinking of an impending upheaval that will ultimately trump (lowercase t) pretty much everything else we've got going on: climate change. Specifically, the effects a changing climate - and all of the corollary conditions, like more frequent and severe weather-related natural disasters, desertification, subsidence, and sea level rise - will have on the topic Georgists know and care most about: land value.

As Georgists, we often focus on the portion of land value resulting from human investments. Of course, land's natural characteristics are important, but the most livable places are typically those where people have made consistent investments in things like public safety and education; where jobs are plentiful and entertainment opportunities abound. We talk about the collection of natural resource rents in general, and land value tax in particular, as mechanisms for preventing the value of those community-provided benefits from falling into private hands, instead making them available for public use and creating a virtuous cycle that raises overall quality of life.

But climate change changes the rules of the game. Can land really be thought of as constant if vast regions of the country - in fact, the regions that are among the most populous and popular today - are becoming less and less habitable? As smoke obscures the skies of the northwest and the southeast is buffeted again and again by name-worthy storms, we are finally being forced to confront the fact that anthropogenic solutions, like insurance and creative engineering, can only go so far. In fact, these supports arguably created the illusion of more habitable land than was ever actually there to begin with.

And how can we expect a society that has failed to embrace the most fundamental of our principles - that every human has the right to a basic, decent existence - to respond to the value reshuffling we will see, in fact are already seeing, as flood insurance becomes unavailable in some places and others are deemed too fire damaged to rebuild?

These are big questions and I don't have answers. What I do have is a disabled brother in California who has been unable to take his daily walks because of poor air quality. I do have parents in the Florida panhandle who are constantly bracing for the next big storm. And videos on my social media feeds of Islamorada, my hometown, whose neighborhood streets now flood at high tide.

So, what are the answers? The ideal ones? The more realistic ones? The politically-palatable ones? I ask because right now we're largely choosing piecemeal solutions. We're taking it one fire, one hurricane, one lost species, once melted glacier, one pandemic at a time. But, in the same way that Henry George could look beyond his time and predict what a world of private ownership of land and improper taxation would produce, we can look (not very far) ahead to where our current path will lead, and know that it will be characterized by greater inequality and poorer quality of life for many.

Georgists believe that we are one fundamentally no better than another, that nature's bounty can provide for everyone, and that technology can reduce disparities. I can think of no better principles than these to shape our fight against climate change. Now, where do we go from here?

DIRECTORS' PERSPECTIVES

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

HOW DEMOCRACY FAILS AND SUCCEEDS

BY: FRED FOLDVARY

There are two types of democracy. First, the democracy of a small club with a voting membership of less than a thousand. Here, the members can personally meet and know the candidates for office, and can have their voices heard within the club. Second is mass democracy, in which the number of voters is so large that very few can personally know the candidates.

Obviously, the United States, and all other countries practice mass democracy. This comes in various forms, such as the US system of mass-voting for the chiefs (governors and the president) and for the representatives. There is the parliamentary system. such as in the United Kingdom, in which the political parties form coalitions that select a prime minister, the head of state being either a monarch or, like in Germany, a president as a symbolic chief.

Many people in the US are now worried about the coming election in November, wondering whether the results will be rigged or fraudulent. Some Americans worry that people will be fooled by false information, and whether emotion will triumph over reason. But, beneath the particular circumstances of the 2020 US election is the system, mass democracy – which is inherently dysfunctional even in the best of circumstances.

When there are thousands or millions of voters choosing a candidate, the office seeker needs to reach them using mass media: television, Internet advertising, bulk mail, and those annoying telephone calls. Advertising is costly; candidates for US president spend many millions of dollars. (Data on campaign spending compiled by the Center for Responsive Politics.) This inherent demand for campaign funds generates a supply of such funds by the big-money special interests. Yes, there are contributions from individuals, but it is well known that special interests such as corporations, lawyers, labor unions, and real estate firms obtain political clout – and subsidies – due to their campaign contributions and subsequent lobbying.

We Want Your Input

Thank you to everyone who participated in our September survey on the upcoming election. Below are the results:

Q1: Do you plan to vote in the 2020 election?
Yes 93%
No 3%
Undecided 3%

Q2. With which party do you feel most closely aligned?
Republican 12%
Democrat 63%
Other 12%
None 14%

Q3. Which issue is most important to you in thinking about the 2020 Presidential election?
Economy 25%
Immigration 2%
Pandemic Response 22%
Violent Crime 2%
Racism 10.17%
International Relations and Trade 2%
National Security 3%
Abortion 5%
Other (Please Specify) 29%

Take our October survey on Supreme Court Justice Nominations.

www.Schalkenbach.org/survey

DIRECTORS' PERSPECTIVES (CONT.)

CALIFORNIA VOTERS MAY OPT FOR VALUE CAPTURE TO SAVE TRANSIT FROM PANDEMIC

BY: MARK MOLLINEAUX

Addressing a conference on urban issues held in San Francisco, the British author and economist Barbara Ward (famous for several best-selling books on international equity and developmental economics) explained a key challenge afoot in the Bay Area. The year was 1967, and the locals were anticipating the launch of its ambitious regional subway, BART (Bay Area Rapid Transit).

"I have seen estimates that the windfall gain to property owners around the Bay Area Rapid Transit Scheme's thirty stations will be nearly a billion dollars," said Ward. Warning that, at a time in which America's urban areas were paying more in taxes than they were receiving in federal receipts, the region absolutely could not afford to see public investment seep out to private hands. Ward noted that the Erie Canal recouped much of its costs through taxes on the lands it enhanced, and said that the Bay Area could do much the same sort of value capture today. "Has the city the courage of the old builders of the Erie Canal?"

As it turned out, the city, and in fact the entire state of California, did not have this courage. Financing for BART fell mainly upon regressive sales taxes. (BART enacted a three-county sales tax regime that is now its second-largest source of revenue after fares. Other regional transit agencies, featuring more modest buses and light rail, got funded in a similar way: the Transportation Development Act of 1971 shared sales taxes on a statewide basis and became a pillar of transit revenues that lasts to this day.)

Meanwhile, as the 1970s stretched on, amidst worsening stagflation a homeowner-driven tax revolt resulted in enactment of Proposition 13 in 1978. By amending the California State Constitution to impose strict restrictions on ad valorem taxation, homeowners got what they wanted: reduced property tax obligations. Property tax is capped at

1% of the assessed value, which is frozen for each landowner; assessments cannot increase more than 2% each year. (Note that this isn't simply true for residential homeowners; all landowners received this subsidy.)

The impact was dramatic; by severing the direct means of recouping land value uplift, California kicked off cycles of ever-more expensive real estate with increasing austerity. School funding in California dropped from 7th-highest in the nation before Prop 13 to 41st by the mid-2010s. Transit agencies had to re-up on sales tax measures in order merely to preserve declining service frequencies.
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A TAX THAT BOOSTS THE ECONOMY

BY:VICTOR RAMIREZ

Like the iconic scene of Clint Eastwood in the Wild West facing two gunmen in a three-way duel and whoever shoots first is at a disadvantage, such is the nature of real estate construction. It is in each property owner's interest that some neighbor faces the risk of being the first to build, in order to then follow in his footsteps and reap greater benefits. However, if everyone waits for their neighbor, no one builds and everyone loses as the entire neighborhood stagnates and begins to deteriorates.

Speculative disuse is like a party where no one wants to be the first to dance and consequently the dance floor stays empty all night. The next day, guests comment, without realizing the irony, that the party was rather boring. **(Cont. Page 6)**

DIRECTORS' PERSPECTIVES (CONT.)

DEMOCRACY FAILS (CONT.)

Attempts to limit the role of the moneyed and landed interests have been unsuccessful. First, there is the clash between free speech and restrictions on campaign contributions. Second, since governmental representatives need campaign money, they will allow ways to overcome limitations, such as the use of political action committees, to indirectly support candidates. It is like building a dam to hold back a flood: gushing water will go over and around the dam.

Some propose that government would and should pay for political campaigns. But the prohibition of a candidate using one's own money for the campaign again clashes with free speech. Freedom of expression requires the freedom to use media to spread the message. Moreover, many taxpayers would object to being forced to finance negative and false advertising.

There is really no effective way to reform an inherently dysfunctional system. The remedy is small-group democracy, in which voting takes place only in a small group. But, how can millions of people be represented in small-group voting? By the method of multi-level, bottom-up voting.

Small-group voting is implemented by dividing the political body into tiny neighborhood cells, like the human body and biological cells. Hence, small-group voting has also been referred to as "cellular democracy." The cell is a geographical neighborhood of about 1000 persons. The residents elect a neighborhood council and an alternate. Suppose the neighborhoods are in a city of 100,000 persons. The 100 neighborhood councils each send a representative to the city council. A large city would be divided into districts of 100,000, whose councils then elect the city council. The city councils then elect a county council, which elects the state or provincial legislature, which then elects the national or federal congress or parliament. The national and state legislatures elect a president or governor.

An advantage of cellular democracy – small group, bottom-up, multi-level voting – is that it would be much easier to remove a representative or chief executive who performs poorly. The demand for campaign funds would disappear. And, the desires of the people would be much better represented.

Small-group voting would have a profound effect on government policy. For example, taxation would become decentralized. Income taxes, for example, enable the federal government to impose policies on the states in order for them to obtain federal funds. But, as political power would flow bottom-up, so too would revenues. Tax power would shift from the federal and state governments down to the counties that elect the higher-level governments.

The federal and state income taxes would likely be replaced by county-level property taxes, ideally tapping only the land value and not the value of buildings and other improvements. As they send representatives to the states, so too would counties send some of their tax funds to the state governments, and the states would send funds to the federal governments. Taxing power would follow the voting power.

This year, when so many Americans are worried about the integrity of the election, let's make this an opportunity to rethink our system of democracy. Back in 1789, when the Constitution was adopted, the population was much smaller, and most people were not allowed to vote. Now, with our much greater population and voting, mass democracy is ever more vulnerable to voter suppression, fraud, and postal manipulations.

When voting for your neighborhood council, there would only be paper ballots, and the counting would be done in public. It is now time for the movements for social justice to include decentralized voting as a major element of reform.

CALIFORNIA TRANSIT (CONT.)

Now, this election year of 2020 brings for the first time the opportunity to peel back these restrictions in the state Constitution. Prop 15 (the Schools and Communities First Initiative) is on the ballot this November, and if enacted will strip away a large amount of Prop 13's impact: assessments will be restored to current fair-market value for all commercial landowners. The initiative, pushed by a coalition of public employee and teacher unions, would create dedicated pipelines to restore this revenue (overall on the scale of $10 billion/year) to school districts, transit agencies, and other sources of public infrastructure.

And it couldn't have come at a more necessary time: the pandemic of 2020 has been devastating to transit. Declines in ridership of 90% or more have been seen on the commuter-heavy lines. For agencies such as BART, funded 65% by fares, the shortfalls have been enormous: a projection of $78 million decrease in revenues in 2020, $177 million decrease in 2021. And the picture is even more alarming for transit that serves a lower-income clientele: Alameda County's AC Transit, serving Oakland and other disadvantaged communities, is experiencing budget shortfalls that are, in the absence of new revenue sources, going to force the agency to close 30% of its current service capacity, hurting those who can least afford it. This goes hand-in-hand with a struggle to pay for critical supplies to make each trip safer: masks and sanitizer.

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DIRECTORS' PERSPECTIVES (CONT.)

CALIFORNIA TRANSIT (CONT.)

California's transit woes are a reflection of how different tax policies result in different levels of robustness in this pandemic. Sales tax revenue is expected to decline statewide by 30%, whereas property tax is expected to be robust even in the face of a pandemic.

Interestingly, clawing back value capture from Prop 13 via constitutional amendment isn't the only way that California has to restore value capture. Even though ad valorem taxes are restricted and gummed-up, there are certain workarounds that allow some more imperfect methods of recapture. Parcel taxes are common: a flat rate imposed on all parcels, this smooths things out unduly, but in a situation where every parcel in a city has benefited from public investment (generally the case in the Bay Area, where median home prices north of $1 million are the norm), it can be a reasonable approximation. Special districts, Mello-Roos, can be set up with special property tax provisions for additional community facilities, but they don't scale. A more interesting opportunity, however, is being explored with Land Value Increment Taxation districts.

Such a district would impose a progressive capital gains tax on real estate sales within a Transit Value Capture District, which could be defined as a radius from a fixed-rail station or high-frequency bus stop, of 0.25 to 1 mile.

The imperfection would be that imputed rents would be left alone, and value recaptured only upon each sale, but in the long run, this offers some interesting potential. The regional transit planning organization for the Bay Area, MTC, listed LVIT (which they dubbed a "windfall tax") as a potential source for future revenue, as part of its recent housing study.

Even if it's decades removed from Barbara Ward's original warnings, it's reassuring to see transit officials now exploring the potential of value capture. As BART director Rebecca Saltzman recently noted on Twitter, "During BART Board discussion on a second Transbay Crossing I raised the issue of huge economic activity and wealth that would be generated by this investment. I asked staff to study how BART and the public could recapture some of this for operations and maintenance, and they will. If BART had captured a small portion of the massive amount of wealth generated by the first Transbay Tube, that could have funded BART operations ongoing. Fares could be much cheaper. We would not be playing catch up on infrastructure investment. We can't let this opportunity pass again."

TAX BOOST ECONOMY (CONT.)

Property owners are not the only ones that lose from this disuse. In Puerto Rico, there is a chronic housing problem. According to the Census, houses cost twice what they cost in the United States when you consider family income level. At the same time, one in five homes is vacant, a larger share than any state, except Maine.

Meanwhile our traditional urban centers, stewards of our historical heritage, are dying even with tax incentives. Families are increasingly forced to live in distant suburbs, burdened by congestion, often devoid of public services and infrastructure, or susceptible to landslides or floods.

There is a type of tax that breaks the vicious circle of speculative disuse – the real estate tax on the value of the land. It is very similar to the CRIM property tax, but buildings or other improvements are exempt. When an owner builds a house, they are not penalized in their tax bill. Similarly, whoever demolishes a building is not rewarded with a reduced bill. Applying a tax on buildings makes the same sense as if a condominium increased the maintenance due to the owner who remodeled his kitchen.

It should be noted that the tax rate would apply not to the acreage of land, but rather to its market value. A square foot of beachfront in Condado is worth more than an acre of rugged terrain in Maricao. Additionally, for the vast majority of property owners, buildings and improvements are worth more than their land, which means that they would have to pay less than what is paid with a tax on the entire property.

In basketball rules, there is a countdown to prevent the team in advantage from running the clock. Similarly, a tax on land value makes disuse a costly liability and thus serves as a countdown to bite the bullet and make a real investment in a property. Owners would be obliged to use their properties to cover the tax liability or sell it to someone else who is will. In order to use properties, investment, construction, repairs, and therefore more jobs are needed.

In the late 1970s, the city of Pittsburgh, mired in a process of deindustrialization not unlike Puerto Rico, opted for this type of tax. The effect was a construction boom, evidenced by a 3-fold increase in construction permits. Even today, Pittsburgh can boast about having some the most affordable housing in the United States.

Beyond a possible construction boom, homeowners benefit from this type of tax because it serves as an insurance policy against the risk that a neighbor's property will be disused and perhaps end up as an illegal dump.

A question to ponder: If there are taxes that drive the economy, why do we have taxes that depress it?

PUBLIC BANKING CAN ADVANCE PORTLAND'S HOUSING AFFORDABILITY POLICIES

BY: TOM GIHRING

THE TIME HAS ARRIVED FOR A PUBLIC BANK OF OREGON

For over twenty years politicians and citizens have been calling for the creation of a Bank of Oregon, which would keep money in the state and invest in sustainable development. Public banking is distinguished from private banking by its mandate to serve the public interest. Privately-owned banks are obligated to shareholders whose highest priority is usually short-term profits. Public banks are able to reduce taxes within their jurisdictions because bank's profits are returned to the general fund, providing an added source of income for cities and states and funds for projects like infrastructure, renewable energy, and affordable housing.

Adopting the Bank of North Dakota as a national model, several states are now proposing to put public money to work for the public good. The public banking movement in Oregon began in 2011 with the introduction of HB 2972 followed by HB 3452, authorizing a publicly owned bank that would partner with community banks and credit unions. The Working Families Party of Oregon was and still is a major proponent. In the 2019 session, Oregon state representatives considered a House bill that would create a state-chartered banking system for the cannabis industry. We should expand the scope of the charter's authority in the upcoming 2021 session with a new bill.

THE PROBLEM OF UNEQUAL PROPERTY TAX BURDEN

Oregon's property tax revolt started in 1990 with the passage of the Measure 5 ballot initiative limiting the property tax rate to $15 per $1,000 assessed value. In 1997 voters approved Measure 50 which limits the increase in assessed value of all individual properties to 3 percent annually. This cap on the growth of real market values (RMV), recalculated as maximum assessed value (MAV), created large inequities where homes of equal value are taxed at vastly different levels.

In early 2019 Common Ground OR/WA engaged the Northwest Economic Research Center (NERC) at Portland State University to conduct a study of the effects of an alternative land-based tax system in two contrasting Portland communities. Inner Northeast (INE) is a rapidly gentrifying residential and commercial district where MAV assessments lag far behind RMV; Outer Southeast (OSE) is a low property value community with MAV and RMV assessments in closer alignment. Many of its residents are lower income, displaced from inner city neighborhoods by rising housing costs.

The NERC study confirms the inequities caused by the Measure 50 assessment limitations compounded over the past 22 years. A home assessed at $500,000 MAV located in INE is subject to a property tax of about $4,700; an equivalent property located in OSE would experience a tax of about $6,000. Property owners in OSE are making up the difference for the artificially low tax levies owed by INE owners.

THE LAND TAX IS A PARTIAL SOLUTION

Reverting to RMV assessments will help shift tax burdens away from low value communities like OSE, but this alone does not solve the universal problem caused by the equal rate tax system. Taxing land and improvements at the same rate produces perverse incentives – to withhold capital investments in buildings and to hold land for speculative gain. Under the current system, taxes will increase by making major structural improvements. The land value tax (LVT), on the other hand, is conceived to produce desirable incentives – to invest in substantial property improvements rather than speculate on sites and raise the costs for later occupants. In the U.S., the model for LVT is found in Pennsylvania cities that place a high tax rate on land and a low rate on improvement values. The NERC study concluded that RMV assessments coupled with separate rates on land and improvement values results in a significantly more balanced tax rate than the present Oregon tax system. An LVT system would also be slightly income progressive.

The logical solution for property owners in OSE is to reverse the assessment ratio by investing in building upgrades or new infill construction. This will raise the improvement-to-land ratio and reduce tax burdens under LVT.

Fortunately, Oregon state legislators and city councils are stepping up. The passage of House Bill 2001 strikes down local bans on duplexes for every low-density residential lot in all cities with more than 10,000 residents and all urban lots in the Portland metro area. On the heels of HB 2001, Portland city council passed the landmark Residential Infill Project (RIP), virtually eliminating exclusive single family zoning. It legalizes triplexes, fourplexes, and attached townhomes on lots where only single-detached houses were allowed.

Much of the outer southeast community was originally developed as semi-rural when lots were platted for septic sewerage. OSE is characterized by modest houses on large lots, the average lot size exceeding 9,000 square feet. Typical inner-city lots are platted at less than 5,000 square feet. Integrating "missing middle" housing types into the fabric of single-family neighborhoods can potentially make both existing and new housing more affordable.

Even better, RIP opens the opportunity to leverage the positive

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PORTLAND (CONT.)

incentives of a land value tax. The new zoning allows internal floor space to reach up to 70% of the lot area. Enlarging the building volume on a lot raises the ratio of improvement-to-land value. Because a split-rate LVT increases the tax rate on land, simultaneously reducing the rate on improvements, the revised property tax will be lower than the conventional equal rate tax.

It is property developers, not individual homeowners who will utilize the opportunity to undertake building conversions and expand housing supply. Property owners like those in OSE are least able to afford such investments.

Left with these circumstances, the high land-to-improvement value ratio found on large lots with modest houses could propel an upward tax shift when changing to the LVT system.

THE ADU OPTION
There could be a favorable outcome by employing a non-tax strategy. What can we leverage to solve the problem: 1) a surplus of serviced land on private lots; 2) the need for income generation to strengthen homeowners' financial solvency; 3) the general need for more low-income housing for renters.

About 70 percent of the Portland metro area is zoned for single-family housing. More local officials are adopting the view that more accessory dwelling units (ADUs) could help address the affordability problem. The economics of housing are driving owners to think about how to use their lot space more efficiently and generate supplemental income. The ADU model could help solve financial problems for both owners and renters. The City of Portland has created one of the most ADU-friendly policies in the country; there are over 2,000 ADUs constructed in Portland on two percent of the city's single-family lots. Now RIP can expand its potential use and LVT can turn it into a tax advantage.

Current Portland city regulations governing ADUs contain three criteria: (1) total accessory building coverage must be equal or less that 15 percent of total lot area; (2) internal floor space must equal 75 percent or less of the principal home's living area; OR (3) equal 800 square feet – whichever is less (Chapter 33.205 of the Portland Zoning Code). For analytical purposes we shall include a minimum standard of 500 sq. ft. for ADU internal space, considering the necessity to provide sufficient rentable space to meet income generation expectations. It is assumed that all ADU living space is ground floor.

According to these criteria, 89% of all developed single--family parcels in OSE are eligible for constructing an ADU of standard size or greater; 69% of all parcels meet or exceed the 800 sq. ft. maximum ADU size. On average, the lot area available for building an ADU is 1,377 sq. ft. For comparison, only 12% of single-family parcels in INE meet or exceed the 800 sq. ft. maximum, and the average lot area available is 717 sq. ft. Clearly, the opportunity is there to take advantage of the ADU construction option in the lower value, lower income outer southeast community.

HOMEOWNER LOAN ASSISTANCE
But financing an auxiliary housing unit is out of reach for many homeowners. The NERC analysis estimates that 40 percent of outer southeast households are 'cost burdened', spending more than 30 percent of their income on housing costs. Aiding the effort, Portland city waived development impact fees for ADUs, lowering the financial barrier marginally. Still, this is insufficient for lower income owners such as reside in outer southeast. More direct financial assistance is required.

What is needed is a public source of low-interest loan funds for low and moderate-income homeowners applying for ADU permits. Portland city commissioner Chloe Eudaly has lent her voice to this need, saying "I've been hell-bent on coming up with some kind of loan product an average homeowner could access (for building ADUs)."

In the Portland area, the minimum cost of a 400 sq. ft. basement or garage internal conversion unit is about $80,000; a detached new construction unit could cost $150,000. Without construction loans these householders could never participate in this means to ease the housing crisis by simultaneously receiving income support to remain in their homes, retaining their homeownership status, and contributing to the supply of affordable rental housing.

Community-based lending backed by a Bank of Oregon would directly benefit home-owning households, but what about renters? The University of Pittsburgh Medical Center and Urban Redevelopment Authority of Pittsburgh are proposing a Small Landlord Fund, which will give qualified landlords of buildings under five units access to low-interest loans of $20,000 a unit or $60,000 an apartment building for renovations that will qualify the structures for the federal Section 8 program. There are requirements for landlords to be in the program, including a promise to meet affordability guidelines — below 80 percent of area median income.

Now is the time for public officials and community leaders to step up and advance the cause of public banking in Oregon. Common Ground – OR/WA is prepared to work with a coalition of local organizations and state legislators who have previously sponsored legislation to create a Bank of Oregon.

THE UNIVERSAL BASIC INCOME

BY: MIKE CURTIS

At a time when the assets of the richest one percent of Americans are alleged to be greater than the combined assets of the poorest 80 percent of the population, capitalism and the free market are failing to distribute fairly the results of material progress. The distribution of wealth is allocating to a small minority of the people the largest portion of what morally belongs to workers, as just wages, and to the entire community including workers, what was created by the synergistic cooperation of the community as a whole.

At a time when the federal, state, and local governments are spending a combined total of nearly a trillion dollars each year on welfare, a payment of money from the government to all people is being considered by some as economical.

Call it Universal Basic Income; Basic Income Guarantee; or Citizen's Dividend. This would eliminate the expense of evaluating need and monitoring the recipients. As everyone would receive it equally, it would not be a subsidy to the poor. Under the present tax system of "Ability to Pay" some portion of the money paid equally to everyone would go back to the government in the graduated income and sales taxes on non-necessities, and would be considered a rough approximation of socially created wealth, in a way similar to the funds now collected for public education.

Whether the dividend is being supported as a way to re-distribute socially created wealth in general, or a more efficient method of providing for the poor, it is gaining support among liberal voters.

The majority of people whose lives would be greatly enhanced by the cash payment, spend almost all their income on food, clothing, and shelter. Food is not cheap, but more than half of US agricultural land is used to grow export crops, so the price of food is largely affected by the supply and demand of the world markets. Clothing is largely imported, but it is the smallest portion of impoverished people's expenditures. Rent for housing is the biggest expense.

Supply and demand sets the rent people pay for housing. It's the free market. No one wants to be homeless, so those at the bottom pay whatever they can, if they can, and some do not get shelter at all. That's because there isn't enough housing being offered in the market for all who need it.

If the government provided a minimum standard housing unit at a fixed price (perhaps what the buildings cost to build, manage, and maintain) for all people who wanted one, then privately owned housing in the free market could only charge more for larger, better quality buildings, or superior locations. 1.3 million units of public housing out of 140 million total housing units likely had some small effect.

However, in order to understand the ultimate effects of a Universal Basic Income under the present circumstances, let's look at the natural laws of distribution. It may not be obvious how they apply to housing rents and the effects of a Universal Basic Income, but they do.

There are three factors of production. Labor; Land; Capital and there are three avenues of distribution.

- Labor receives in wages what their labor could have produced if it had been engaged on the best natural opportunity (land) that is freely available.
- Those who own products that are used to produce more products for exchange, Capital, receive as a share of the final product, not the larger amount resulting from the use of their products, but only what is necessary to induce the storing up of those products as capital.
- Those who have monopolized the superior opportunities: land, receive as rent that portion of any product in excess of what would have been produced by labor and capital on the best land that is free. Everything, in addition to what goes to labor and capital, goes to landowners as rent. There are taxes, theft, and other diversions like the legal Minimum Wage, which affect production and distribution, but in their absence the natural laws of distribution hold sway.

When there is no longer any free land that will offer an opportunity to produce subsistence (food, clothing, and shelter), then wages everywhere fall to a point below which productivity would fall more than wages were lowered. The least skilled and knowledgeable workers would get weak; those with greater skill and knowledge would lose the incentive to acquire the skill and knowledge. Both of these would reduce productivity more than wages were lowered. The end result would be that the rental income of land would fall as well.

If the return to capital: interest was lowered below what is necessary to induce the storing up of capital, then productivity would fall more than interest was lowered, and the rents of land would fall as well.

How does this apply to the cost of housing? As long as there is free land where all people can go and produce their own food, clothing, and shelter (pay to have it built), the cost of a house everywhere else will be no more than it costs to produce one on the best land that is free. Only as the benefits of living in a house at a superior location exceed those on the free land, will anyone pay more.

When there is no free land that will support even a bare subsistence, the cost of housing will result from supply and demand. When the number of units being offered in the market is less than the number of people seeking a place to live, some people will be homeless, and many will pay all they can not to be homeless.

GUEST PERSPECTIVES (CONT.)

THE UNIVERSAL BASIC INCOME (CONT.)

Without a free land alternative, anything that reduces the cost of construction, increases the value of the land on which housing is built. This is the process that has been going on since the beginning of the industrial revolution, and became evident in the United States at the end of the 19th century when the American frontier was exhausted. It can be seen today, as things like heating systems become more efficient, rents and the price of housing capture the benefit.

As long as land remains private property, even a redistribution of wealth would not last. In time the landlords would again receive all that was produced, save just enough to keep labor and capital producing efficiently.

But proponents are proposing to fund it with a land value tax, a source of revenue that collects socially-created wealth in proportion to the value of the benefits received by the taxpayer. That makes all the difference in the world.

Only if the value of land is taxed to the extent that it creates a free land opportunity, can it raise the general rate of wages, reduce the cost of housing, and prevent an equal payment from the government to all, from going to the landlords in higher rents.

It will enhance the lives of those who own the land on which they live, even if they only have a fixed rate mortgage and no equity. In trying to create a just and prosperous society, the emphasis must be on the people at the bottom. A subsidy to the landowners does nothing for the people at the bottom. Unemployment, exploitation, and oppression is dragging the United States down the road to becoming an impoverished country. As in all impoverished countries, the root cause of poverty is the degree to which land is private property.

The majority of Americans live in and near our cities, where enormous investments in infrastructure and public service have enabled large dense populations to live and work with great efficiency on very small areas of land—where even small portions of idle and underused land account for large numbers of unemployed and housing shortage.

But, as Henry George explained in 1879, we could tax the full rental value of all privately held land and eliminate all other taxes. By collecting the full rental value of land, it would no longer be profitable to hold it unused or grossly underused for its increase in value. Labor and capital would migrate to the previously unused land in the cities and suburbs, putting it to its highest and best use.

As people migrate from the least productive toward the most productive land, much of the less valuable land now in use would be abandoned. It would have no value. Here, the best of this land with no value would be available to everyone as a free-land alternative. It would recreate the homestead opportunity of the 19th century, and anyone who wanted to hire a worker on superior land, would have to offer them a wage that would give them a better quality of life than they could enjoy as a homesteader where the land was free. Landholders would have to compete for labor and capital, and pay more than the workers could enjoy on the free land where everything they produced would be theirs.

The total productivity of the country would increase because much of the labor and capital of the country would be working on superior land that was previously unused or underused. The increase in density would enable greater divisions of labor, reduce the distance in travel and transportation, and bring some of the infrastructure closer to the point of diminishing returns.

Wages and interest would increase and be equal to what people could have produced by availing themselves of the natural opportunities that are equally available to everyone. Productivity would so increase on the most potentially productive land within cities and suburbs that its rental value would provide far more than enough to provide for the infrastructure, public service, and the traditional expenditures of government. It would provide additional funds that could be used to fund Social Security, National Healthcare, medical and environmental research, and even a cash payment.

Now, contrast that with a Universal Basic Income funded by a land value tax. One goes to the root of our economic problems and transforms society from a modern day feudal system to an egalitarian nation in which everyone has an equal opportunity to work and keep what they could have produced by utilizing the natural opportunities that are equally available to everyone; where all socially created wealth is allocated to the common good. Where the sick, the aged: those who are unable to take care of themselves, are provided for.

The other offers payments to all people—funded by a land value tax. The greater the tax, the more jobs and housing it stimulates, and the more revenue it provides for the payments. But, it does not, by design, collect all socially created wealth; it does not necessarily create a free land opportunity that raises wages and the return on savings; it does not eliminate the confiscatory taxes that enable land speculation, which causes unemployment, lowers wages, and creates a shortage of housing. The choice is clear.

> *"Where the conditions to which material progress everywhere tends are most fully realized — that is to say, where population is densest, wealth greatest, and the machinery of production and exchange most highly developed — we find the deepest poverty, the sharpest struggle for existence, and the most of enforced idleness."*
>
> Henry George

Book Reviews

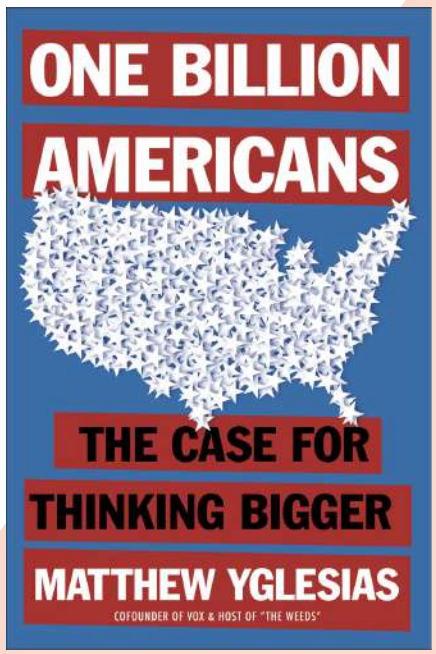
One Billion Americans

REVIEW BY: MATTHEW DOWNHOUR

Analogies are simple and sometimes helpful ways to understand policy and economics but can obscure as much as they reveal. Both on the left and right, it is popular to think of the economy (or more broadly, the good things in life) as a sort of pie that everyone wants a slice of. Billionaires have too big of a slice, leaving us with only crumbs, or perhaps it is the mooches with their entitlements whose slices are leaving too little for hardworking Americans.

The problem of course is that the analogy ignores the reality of who creates the pie, and creates a dangerous mindset – if there is only so much pie to go around, then adding more people will surely be limiting how much each person can have. This is simple, if inaccurate logic, which has long been used to blame poverty on overpopulation (and thus the reproduction of poor people themselves), as well as to argue against the arrival of new immigrants for fear of running out of 'pie'.

Henry George provides a compelling alternate analogy in Progress and Poverty, writing that we should instead imagine "a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce, we but open a hatch and there is a new supply, of which before we never dreamed. And very great command over the services of others comes to those who as the hatches are opened are permitted to say, "This is mine!". "



While bringing for more food, housing, and goods may not be quite as easy as opening a hatch, it is certainly the case that working together, people have been able to produce more of almost all of these goods – the idea of a finite pie is certainly a misleading one, and efforts to dispel it are ever welcome. Matthew Yglesias's book One Billion Americans: The Case for Thinking Bigger is an important entry, in that it properly understands that the country is indeed a well provisioned ship, and that adding to its 'crew' can actually increase the wealth of every person. However, Yglesias neglects an important question – what to do about those who guard the hatches?

In arguing against a Malthusian view of the United States population, Yglesias is to a great extent following in George's own tradition. In "Justice the Object, Taxation the Means", Henry George noted that "Why, look at it here today, in this new country, where there are as yet only 65 millions of us scattered over a territory that in the present stage of the arts is sufficient to support in comfort a thousand millions; yet we are actually thinking and talking as if there were too many people in the country." One would hope that the constant warnings of the Malthusian crowd would create a 'boy who cried wolf' scenario, where the endless warnings that the country was full would eventually lose their resonance, as they were repeatedly disproven. No such effect seems to have occurred, however, as plenty of Americans continue to believe that this time there really is no vacancy. Thus, Yglesias's efforts to dispel this belief welcome.

The precise arguments Yglesias uses also echo George's. George was a disciple of John Stuart Mill but would eventually break from Mill's thought on the topic of Malthus. In 1879 he wrote:
"The denser the population, the more minute becomes the subdivision of labor, the greater the economies of production and distribution, and, hence, the very reverse of the Malthusian doctrine is true(. . .)in any given state of civilization a greater number of people can produce a larger proportionate amount of wealth, and more fully supply their wants, than can a smaller number."

Yglesias follows largely the same thought process in his arguments. He notes that a larger city, all else equal, is going to allow much more minute subdivisions of labor. The discussion of how agglomeration and secondary industries work is particularly enlightening. The advantage a city of ten or twenty thousand has over a city of thousand in an area like restaurants is obvious – supporting more restaurants means both greater variety and great pressure to increase quality - but Yglesias shows how secondary industries (supply companies, reviewers, and the like), which require concentrated populations, work to even further improve the quality of primary industries. The advantages of such agglomeration are seemingly unlimited, and he cites the clustering of numerous industries – such as technology and publishing – as examples; these industries don't need any natural resources that are geographically limited, but benefit from the agglomeration that is only possible with very large population centers.

One Billion Americans also shows how this agglomerative effect is particularly strong in terms of transportation and government services.

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One Billion Americans (Cont.)

A dense and growing population allows for growth in public transportation, infrastructure, and other services, while a declining or sparse one is more difficult to provide for. Cities like St Louis and Detroit show this to tragic effect – attempting to maintain services over the same area with a half or a third of the population they had at their peak requires higher taxes and accelerates flight from urban areas. To fix this problem and reap the benefits of agglomeration, he proposes many solutions, mostly well thought out and in line with a liberal worldview. But he forgets the second part of George's analogy – the people who control the hatches.

Yglesias discusses the two major problems facing our urban centers, which both boil down to land values. In some, land values are ever appreciating, making affordable housing harder to achieve. To this, George would add that the appreciation provides fuel for speculation, allowing landowners to continuing growing the worth of their property wit no real investment. Yglesias mentions the difficulties created by zoning and regulation which adds expense to any development project; what he might add is that in some of these jurisdiction (California especially), low taxes and infrequent assessments on land mean that the real cost of holding undeveloped land is lower, so landowners have little incentive to seek to go through the process of improving their land and little reason to sell to someone who might. In other municipalities, the price of land is crashing. In these places, property owners have little incentive to maintain their homes or buildings; whatever capital value they might preserve by doing so is wiped out by the bottoming out of the value of their land. Moreover, the tax on their capital continues unabated, penalizing them for trying to maintain their property while offering effective tax breaks to those who do not. As a result, blight is in fact incentivized by the tax code, and capital investment disappears.

The idea of taxing land values is not new, and it is something Yglesias has addressed before ; however, One Billion Americans instead leans on several other urbanist proposals – congestion taxes, upzoning, and transit investment.

"The President of the United States is supposed to be the world's spokesperson for free and fair elections and here he is denouncing the American election as rigged if he doesn't win."

Meet the Press Moderator and Political Analyst
Chuck Todd

All of these are good accompaniments for a land value tax, but none address the root of the problem, that landowners 'guard the hatches' of increased wealth, especially when it comes to wealth gained by agglomerating populations.

The book discusses the Mariel Boatlift in depth, concluding that almost all serious research has found this surge of Cuban immigration into Florida, though unplanned and poorly organized, was nonetheless a net gain for the Miami economy. The one group that, at least according to George Borjas, a notable immigration skeptic, suffered, were white men without high school degrees. Yglesias brushes this group off as relatively small and argues out that the benefits far outweighed the losses. I am personally inclined to agree with him, and the evidence seems overwhelming that overall an immigration system could be designed so that it would at least not increase economic hardship of any substantial group. However, astute observers of voter behavior in 2016 will recognize that white men with less education were largely responsible for the election of the most rhetorically anti-immigrant president in decades. It will not do to simply ignore demographics that benefit less, or not at all, from immigration-fueled prosperity.

Even if a system is designed to avoid this impact on the level of employment, the core suspicion of immigration is not going away any time soon. I suspect that if we looked deep into the roots of economic arguments against immigration, this is at their core: bringing in more people increases productivity and 'opens the hatches' for more goods and services, but the benefits to the economy as a whole are concentrated with those who can claim possession of them – by and large, landowners – rather than being distributed throughout the community.

Imagine instead the opposite – the land value that accrued from the agglomeration of productive individuals was instead captured by the community, and shared broadly, in the form of infrastructure funding, a citizens' dividend, or some other method of redistributing the rental value of land. Such a policy would make agglomeration truly work for the population as a whole.

Yglesias has gone on the talk show circuit speaking to both liberal and conservative media figures, working to drum up support for his book and the policies it proposes. Those policies have cross cutting support, and perhaps that will be enough to win their adoption. However, they could be more broadly beneficial, and thus have far more staying power, if they addressed the crucial role of land value. Capturing that and making it work for the community would give every person better access to the prosperity made possible by the more populous, flourishing society he imagines.

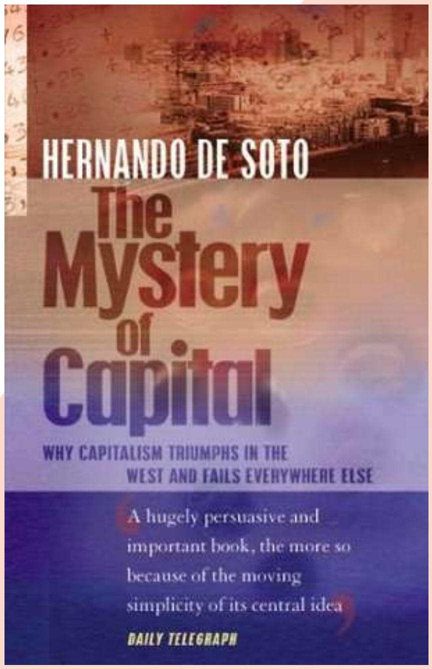
The Mystery of Capital

REVIEW BY: BILL BATT

After its winning nine prestigious awards from mainstream economic and public affairs organizations, why have we Georgists not reviewed this book earlier! No book's thesis more directly flies in the face of our own arguments than what Dr. Hernando DeSoto has proposed.

And now, with the rave reviews given to this, his second work, we are compelled to confront what he claims and to demonstrate the sleight-of-hand in his argument. In the absence of more qualified adherents of the Georgist persuasion, I have set myself this task.

DeSoto is president of the Institute for Liberty and Democracy headquartered in Peru. Coming from the global South, he is able to say things that, coming from the World Bank, the International Monetary Fund, or any similar organization, would sound crass and self-serving.



Early on in the book (p. 37), he says that " [l]eaders of the Third World and former Communist nations need not wander the world's foreign ministries and international financial institutions. The key to capital development and economic modernization, he argues, comes from the capacity to leverage what capital assets already exist. And the seeking their fortune. In the midst of their own poorest neighborhoods and shantytowns, there are -- if not acres of diamonds -- trillions of dollars, all ready to be put to use if only the mystery of how assets are transformed into live capital can be unraveled."

The conscience of the global North is thus assuaged: it's not the fault or the insensitivity of the wealthy nations that so many people of the world live in poverty; rather it stems from an inability of impoverished countries themselves to leverage the capital assets that they have. The rest of the book attempts to substantiate this argument, or rather to explain why "the one thing that the poor countries of the world cannot seem to produce for themselves [i.e., investment capital], no matter how eagerly their people engage in all the other activities that characterize a capitalist economy." (p.5.) most commonly and easily leveraged asset is real estate. But because titles in poor nations, to real estate property especially, are not secure and protected in the law, they cannot serve as collateral for further loans. "The result is that most people's resources are commercially and financially invisible. Nobody really knows who owns what and where, who is accountable for the performance of obligations, who is responsible for losses and fraud, or what mechanisms are available to enforce payment for services and goods delivered. Consequently, most potential assets in these countries have not been identified or realized; there is little accessible capital, and the exchange economy is constrained and sluggish." (p.32) He goes on to argue that, "about 85% of urban parcels in these nations, and between 40% and 53% of rural parcels, are held in such a way that they cannot be used to create capital. . . .By our calculations, the total value of the real estate held but not legally owned by the poor of the Third World and former Communist nations is at least $9.3 trillion."

Where is this capital? It lies in every legally-secured asset: "every piece of land, every house, every chattel," all "formally fixed in updated records governed by rules contained in the property system." (p.48) He suggests that in developed economies, "up to 70 percent of the credit new businesses receive comes from using formal titles as collateral for mortgages," (p.84) and that "real estate accounts for some 50 percent of the national wealth of advanced nations." (p.86) Nowhere, however, is this identification of "capital" parsed for what it really is: largely land. As a true neoclassical economist, despite his ritual homage to Adam Smith, everything that the classical economists and we Georgists would call land is conflated into capital. To DeSoto it is the land in almost all instances that provides the leverage for capital equity and accumulation, secured under authorized titles as property. The metaphor that he employs to distinguish land as a capital asset from other forms of capital is revealing. His analogy is a lake, first available only as potential energy, until such time a dam is built to capitalize its kinetic power. The lake's utility as capital is "locked up" until such time as its title makes it securely available for exploitation. "Just as a lake needs a hydroelectric plant to produce usable energy, assets need a formal property system to produce significant surplus value." (p.48) Nowhere does he explore the origins or legitimacy of those titles, how they might have been secured or whether they were fairly gained. It is sufficient, only, that they are guaranteed for current purposes. "Capital is born by representing in writing - in a title, a security, a contract,

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The Mystery of Capital (Cont.)

and in other such records - the most economically and socially useful qualities about the asset as opposed to the visually more striking aspects of the asset." (p. 49) The moral dimensions of land ownership are totally overlooked. The way to challenge his whole thesis is by asking him to defend the legitimacy of real estate titles - wherever they are.

De Soto spends considerable ink in exploring the history of American economic development, as he sees in its history the key to success elsewhere. Chapter Five is an extended treatment of the "evolution of property" in the USA (p.108), and in believing that the progress making it "open to all" (p.109) is not yet complete. The granting of titles is treated extensively - the eviction of squatters, the reward to soldiers, the surveying and marking of boundaries, and the employment of "cabin rights" and "corn rights." DeSoto notes at one point (p.117) that squatters "were constantly provoking conflict with Native Americans by invading their lands," but the moral questions he never addresses.

His debt to most of the prominent historians on the subject is replete - Gates, Hoffer, and even an Aaron Sokolski book published in 1957 by the Robert Schalkenbach Foundation. There is also an extensive treatment of a controversial 1821 case that attempted to ground the "rules of property" in English common law. One Richard Biddle, a squatter who had settled on land titled to Green, was adjudged liable to pay not merely for the land he occupied but for any improvements that were made. The Court then later reaffirmed that occupancy laws deprived "the rightful owner of the land, of the rents and profits received by the occupants." But the backlash to this decision was so profound that it inspired statutes in rapidly settling western states quickly making Green a nullity. (Green v Biddle, 8 Wheaton 1, 1823) The sanctity of title in fee simple continues to evolve over the course of the next century. Titles for mining claims came to have the same standing as those for farm lands.

DeSoto accepts the argument of historian Richard White by quoting in part: "[T]hrough occupancy, preemption, homesteading, miners' laws, and such, Americans built a new concept of property, 'one that emphasized its dynamic aspects, associating it with economic growth,' and which replaced a concept 'that emphasized its static character associating it with security from too rapid change.'

American property changed from being means of preserving an old economic order to being, instead, a powerful tool for creating a new one. The result was expanded markets and capital needed to fuel explosive economic growth. This was the momentous' change that still drives U.S. economic growth." (p.149-150) I'm tempted to check White's 1991 book soon, as the title is It's Your Misfortune and None of My Own: A New History of the American West.

Not recognizing land as a separate factor of production, there is of course no further mention of economic rent. One can only wonder how any economic surplus arises - doubtless from labor, even if he provides no indication that workers reap the rewards of their toil. Somehow, rather, capital is transmuted into more capital, simply by virtue of the security of property titles.

Despite our Georgist criticism, DeSoto's thesis is definitely sound in parts: security needs to be granted to its users if improvements are to be tied to locational sites, else the risk to investment will likely be too high to sustain. No homesteader can venture a large stake in a site if he realizes that it may be taken from him. No miner can risk so much transformation of labor to capital, if the land on which he builds may soon be lost. Land titles are important.

DeSoto has a point. But his reliance on freehold property title to land, the birthright of us all, to provide financial collateral is problematic and unjust.

The failure to recognize land rent means that the bases of taxation will necessarily derive from other factors, i.e., labor and capital. By taxing those other factors, the efficiency and productivity of the economy is compromised. DeSoto fails to recognize that the collection of and rent, were it identified, would provide the perfect revenue source. It would not reduce the wealth of societies and the growth of capital one whit; rather it would inspire it. The Georgist point of view is a compelling answer to The Mystery of Capital; it needs only to be told again and again.

WHAT'S NEW

TAX SHIFT EXPLORER

Our partnership with the Center for Property Tax Reform garnered the new Tax Shift Explorer which was launched in Philadelphia last month. We are excited to expand the project into cities in Maryland, Colorado and North Carolina in the coming months! Check out the project at: **https://centerforpropertytaxreform.org/map/**

RSF is excited to sponsor research being conducted by Dr. Elora Raymond from Georgia Institute of Technology titled, "Speculative Real Estate Investment in Housing following COVID 19 and the influence of State and Local Tax Policy."

Dr. Raymond is an Assistant Professor in the School of City and Regional Planning in the College of Design at Georgia Tech. Her research is at the intersection of real estate finance and socio-spatial inequality. She has explored the uneven housing market recovery following the real estate and financial crises of the 2000s, persistent and concentrated negative equity in the Southeast, the rise of single-family rental securitizations, and eviction rates in single family rentals. She has ongoing projects on affordable housing issues among Pacific Islanders in the diaspora, and land tenure issues in the South Pacific.

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