

DIRECTORS' PERSPECTIVES

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

WHAT'S SO SPECIAL ABOUT HENRY GEORGE ANYWAY?

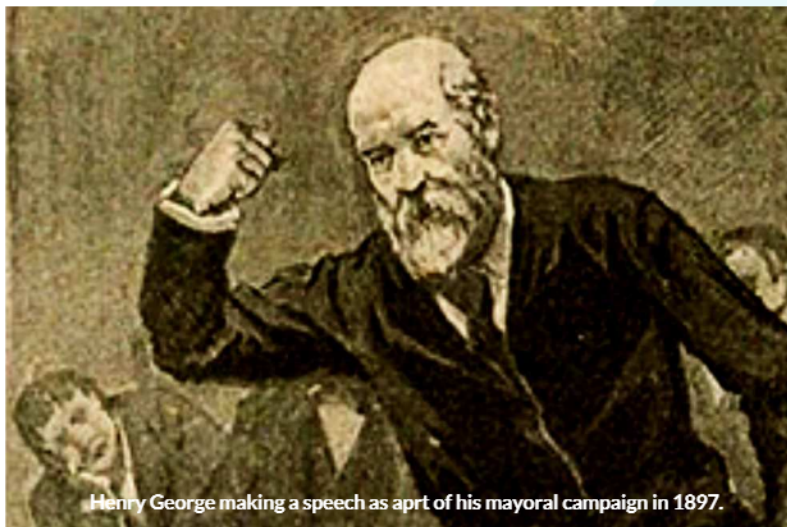
BY FRANK DE JONG

The many organizations around the world that work to popularize the work of nineteenth-century American economist Henry George have three goals: a just society, a green society, and a prosperous society. Collectively, these organizations constitute an interconnected think tank advocating financing governments by collecting "economic rent" in lieu of taxes on jobs, business and goods, and services.

Economic rent refers to revenue without a corresponding cost of production, such as the societal surplus, or superprofits, that flow to monopoly-held assets like land, resources (oil, copper, trees, water, etc.), the privilege to pollute, the electromagnetic spectrum, (includes all radio waves e.g., commercial radio and television, microwaves, radar), agricultural supply management quotas, drug patents, taxi medallions, et cetera.

Though this wealth rightfully belongs to the community, it presently flows mostly untaxed to private asset owners, forcing governments to finance programs by employing economy-damaging taxes on profits, incomes, and sales.

This economic theory, often called land value taxation (LVT), is supported by classical economists Adam Smith, David Ricardo, John Stuart Mill, and Henry George, by prominent people like Winston Churchill, Dr. Sun Yet-Sen, Mark Twain, and George Monbiot, and by modern economists Joseph Stiglitz, Milton Friedman, Michael Hudson, and



Henry George making a speech as part of his mayoral campaign in 1897.

Herman Daly.

In his seminal book, *Progress and Poverty* (1879), Henry George builds on the work of Adam Smith, David Ricardo, and John Stuart Mill, enumerating the multiple benefits to the economy and society when governments are financed by capturing economic rent.

Taxing incomes makes people more expensive to... (cont'd on pg. 5)

SOLVING THE "AFFORDABLE HOUSING" PROBLEM WITH LAND VALUE TAXES

BY MATT LEICHTER

"But then all real estate would go to its highest and best use," the man complained.

"Yes! Yes!" I replied. "That's the point. That's good."

The man was trying very hard to understand my position but seemed

baffled, and I had no good response beyond muttering something about wasteful downtown surface parking lots.

"But then everything will go condo, and where will all the poor people go?" he asked.

When explaining the advantages of land value taxation, proponents encounter a familiar set of counterarguments such as:

- How can the system be affordable for land rich but cash poor citizens?
- What will happen to the farmers who really work the land?
- Aren't accurate assessments impossible? (con't on pg. 6)

HG Trivia

Contemporary accounts state that 100,000 mourners squeezed inside Grand Central Palace for George's memorial, while another 100,000 stood outside for lack of space.

Solving the "Affordable Housing" Problem with Land Value Tax (cont'd from pg. 3)

The exchange recounted above highlights the difficulties in trying to explain the idea to someone who thoroughly understands what land value taxes could achieve but rejects them nonetheless on other grounds.

Reflecting on it, I see where my friend was coming from: Land value taxation should, in theory, raise total wages and greatly increase the housing supply; but people should be mobile too, even including nonresidents who come in to elbow out poorer ones for the benefits the system provides. In Minneapolis where I live, we have seen significant growth in high-end housing in recent years but very little for the poor.

So what can a local government do to ensure that land value taxes help the people who need help the most, rather than high-income newcomers? I propose two answers:

- Inclusionary zoning; and
- Modular construction

Inclusionary Zoning

Inclusionary zoning, also called "housing mandates," requires developers of new properties to set aside a certain number of units for low-income tenants. These tenants would need to submit documentation to qualify for the units. In a post I wrote for the Robert Schalkenbach Foundation's blog I endorsed a recommendation for improving inclusionary zoning by requiring tenants to renew their qualifications on a periodic basis. That way, the units would turn over more frequently and that would ensure that low-income tenants had opportunities to live in them.

A problem with inclusionary zoning is that developers tend to dislike it because it forces them to sell their construction to landlords for less than the market would normally allow. An article on Minnesota Public Radio's website lists some examples of how developers push back against inclusionary zoning:

- Developers will shift their focus to updating older housing that they can sell at market rates, and
- They will instead focus on the suburbs, which place fewer

restrictions on development.

Modular Construction

If, as developers say, construction costs ruin the viability of inclusionary zoning, they could embrace an obvious alternative: reducing costs by shifting to modular-housing technology.

The concept of assembly-line homes is not new, but it lacks substantial backing in the United States. Investors appear to be changing their minds, however. Thanks to housing demand and a shortage of construction workers, times are changing, and the scale is achievable. One Minnesota housing company cranks out complete houses in just ten days. Its factory floor is the size of two football fields, and employees work on several homes at once, installing even pipes and wires as they go.

The savings in the cost of this construction as compared to that of ordinary on-site construction are significant, up to 40 percent per project. These kinds of savings are extraordinary when apartment buildings can cost more than \$10 million. Undoubtedly, then, it should be very easy to build more affordable homes for lower income residents with cheaper construction costs.



Market Forces Alone May Not Be Enough

Policies designed to alleviate poverty always seem to have self-defeating consequences, even when they rely on market forces. This is because access to the market is the problem in the first place. A strong example of this is relaxing zoning regulations, or "upzoning." Upzoning should enable developers to build towering, affordable apartment buildings. In at least one example, though, it just increased property values and didn't affect supply at all. Nor does upzoning solve the migration problem outlined above.

In the case of applying land value taxation locally in the United States, high mobility amplifies these kinds of consequences, and the beneficiaries may be the people who need help the least, since wealthier families tend to be more mobile than the less well-to-do. Rather than letting land value taxes become the victims of their own success, governments can use inclusionary zoning and promote modular construction to shield the indigenous poor. These policies can work together to keep poorer residents in their communities and prevent high-income workers from moving into the condos developers would otherwise gladly build for them.

There are no good arguments against land value taxes because they drain monopoly incomes and raise productive activity. However, advancing them requires winning over social-justice advocates who prioritize keeping the poor near urban centers. Coupling land value taxes with inclusionary zoning and modular construction can win over that constituency.

What Do You Know About Taxes? Wrong! (cont'd from pg. 4)

of goods produced and bought. The three ways that quantities are reduced: the taxed items can shrink, hide, or flee.

A global approach to taxation, taxing everything that moves, world-wide, will indeed reduce flight. But the other two means of quantity reduction still occur. Production and employment will lessen, as the higher-cost enterprises shut down. And economic activity will hide, will go underground, as indeed already happens throughout much of the world. Moreover, if the US government taxes everything related to the USA, there will be a high demand for tax havens. Companies and their jobs will flee, and their sales to the USA will shrink or hide. High taxes reduce entrepreneurship and they reduce honesty, as tax cheaters gain and honest payers lose.

In his book review, Gale writes that Saez and Zucman "challenge seemingly every fundamental element of conventional tax policy analysis." Yes, they do calculate taxes in ways different from mainstream and official methods, but they do not challenge the law of demand.