DIRECTORS' PERSPECTIVES (CONT.)

THE ROLE OF DEBT CANCELLATION IN IMPLEMENTING LAND VALUE TAXATION

BY: NICOLAUS TIDEMAN

In ancient Sumer, it was customary for a new monarch, upon ascending his throne, to cancel the debts of farmers to their landlords.[1] (The debts of merchants to one another, however, were not canceled.) The Hebrew Bible establishes a similar economic and social institution, the Year of the Jubilee, once every fifty years, when all debts related to land were terminated and the land reverted in full ownership to the family that owned it at the previous Juliee. [2] These practices limited inequality and ensured that debt was not allowed to stifle these economies.

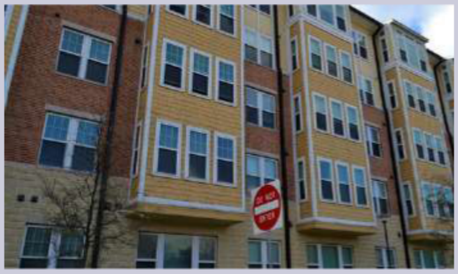
The idea of canceling debts seems counter to economic interests, because of the perceived likelihood that it would make people unwilling to lend who would otherwise be willing to do so. But another view is that a social system should not allow people to contract themselves into impossible penury, and a practice of recurring debt cancellation is a way of precluding impossible penury.

The idea that debt cancellation can ensure that an economy will thrive can be applied today, as we look forward to a time in the not-too-distant future, when we will need to cope with the economic consequences of all the government spending that we have been using to ensure that people will survive the economic shutdown which was mandated to help slow the spread of COVID-19.

If we do nothing, we are likely to face great inflation. To stop the inflation, we will need to levy taxes in order to take money out of circulation. Taxes are never popular, and they also cause economic harm and discourage economic activity, with the magnitude of the harm roughly proportional to the square of the tax rate, unless the tax is one that compensates for a harm (like a tax on pollution or congestion) or the tax is a "lump sum" tax, that is, a tax that does not vary with the taxpayer's economic decisions. The lump-sum tax with the greatest potential is a tax proportional to the sale value or the rental value of land. A properly administered tax on land does not depend on the income which the owner obtains from the land, but rather on the maximum bid that someone else would make for the land; therefore, it is a lump-sum tax. **(cont. page 8)**

DOES ECONOMIC SHUTDOWN ALLOW A RESET ON POLICIES TO MAKE HOUSING AFFORDABLE?

BY: RICH NYMOEN



Kelly Doran, a prominent Minneapolis housing developer, argued in a recent op/ed that with the current economic shutdown, the city's "inclusionary housing" regulations that require market rate developments to include a percentage of affordable units should be eliminated. He says that such requirements, along with the difficulty in cobbling together various sources of funding for affordable housing, are too onerous during the fall-out from the economic shutdown.

Doran explains that there are two main ways to develop affordable housing. One way is for non-profits to develop an entire building of affordable units, the costs of which are subsidized by up to ten sources of financing because rents do not cover the costs.

He says the most common source of such subsidies are government-granted tax credits. Governments sell these tax credits mainly to corporations and banks (which use them to offset their state or federal taxes) and fund affordable housing efforts with the resulting revenue.

But, according to Doran, because banks and corporations will see lower profitability with the current shutdown, they will have less interest in buying such tax credits and thus funding will dry up for 100% affordable projects.The second way to develop affordable housing, according to Doran, is through projects that mix affordable and market rate units. **(cont. page 9)**

BETTER DAYS (CONT.)

as the stifling conformity of post-World War II America. Originally this term, Youthquake, was used for a creative movement, one that had to do with art and fashion rather than politics or finance.

My call now, in the midst of a worldwide emergency, is for another Youthquake; one that, instead of artistic pursuits, has everything to do with policy, economics, access to healthcare and, ultimately, societal and economic fairness.

RSF's mission is to encourage financial justice for all, and this is especially critical for the young people of our country. I'm a Boomer, and being part of that group meant that coming of age also came with the assurance that, rich or not-so-rich, a person could do or be anything. I daresay that it never occurred to most of us that society could change so quickly, that the basic cost of living could become so onerous that even two incomes wouldn't necessarily be enough to keep one out of major debt, or that a worldwide health emergency could alter our world so profoundly in the space of just a few weeks.

The raw, ugly truth is that since the mid 20th century we have seen financial inequality rise in the United States to astonishing levels, equaling the disparity we saw in 1920s America. COVID-19 and the approaching economic tsunami mean that it will not be getting better in the near term. Before 2020, much of this had to do with unfair taxation. Now an international medical crisis has been added to the mix, and the need to find answers becomes even more critical.

It's time to press the reset button and be the change that results in steps toward a kinder, better world, one that sees the extinction of the enormous personal burden that comes from lopsided taxation and financial inequality. Let's have another Youthquake, but this time, I call upon all ages to work side by side to make the world a more equitable place.

Henry George wrote the following in his 1883 book Social Problems, and his words ring just as true now: Let no man imagine that he has no influence. Whoever he may be, and wherever he may be placed, the man who thinks becomes a light and a power.

Young and old, generation to generation: now is the time to make a difference. Together, we really do have the power to change the world.

DEBT CANCELLATION (CONT.)

A tax on land lowers the sale value of land, but it does not lower the rental value of land. Therefore, it is somewhat easier to consider possibilities in terms of taxes relating to the rental value of land. Suppose, then, that we decided to make the greatest possible use of a tax on land for raising the revenue needed to prevent inflation in the aftermath of the COVID-19 related spending: we decided to levy a tax that collected 100% of the rental value of land. What would happen?

First, the selling price of unimproved land would go to approximately zero because having title to land would mean that one would be obliged to pay in tax as much as it was worth to use the land. Next, anyone with a mortgage on land could be expected to say: "If I have to pay all of the rent to the government and pay my mortgage too, I will be paying more than the land is worth. How can that be right?"

The solution to this puzzle is that if the government wants to collect the rental value of land for public purposes, it should expect to collect the rent from those who are now collecting it, which means the mortgage holders themselves.

When a mortgage holder goes to a courthouse and records a mortgage, specifying that the land cannot be transferred unless the debt is paid, that person is declaring himself to be the person to whom rent must be paid, and therefore the person to whom a tax bill should be sent if a government wishes to collect the rent for public purposes. **(cont. page 9)**

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- Henry George

DEBT CANCELLATION (CONT.)

The moral justification for concentration of taxation on the rental value that land would have in an unimproved condition is that this value is not at all the product of the efforts of those who have title to land or those who hold mortgages on land. It arises rather from a combination of what nature provides, what is contributed by public infrastructure, and what is contributed by surrounding development. Since the holders of title to land have no moral basis for claiming responsibility for causing this value, it is a natural, appropriate source of public revenue.

While it would be possible to send a bill to every mortgage holder, an administratively simpler means of accomplishing an economically equivalent result would be to cancel the debts secured by land and send the full bills to those who have title to land. The economic consequences would be the same as if the tax bills were sent to the mortgage holders for the full amounts of the debt payments secured by land.

If land value taxation were only partially implemented, it would be discriminatory to specify that all the payments owed to mortgage holders would be collected in tax before any tax was collected from the title holder. It would be fairer to stipulate that the portion of the tax owed by the mortgage holder would equal the percentage of the rent collected by the mortgage holder. This could be administratively accomplished either by allowing the debtor to "pay" that portion of his debt with tax receipts or by specifying a cancellation of a corresponding portion of the debt. When a debt also covered improvements to land, it would be appropriate to regard the debt as covering first the improvements, but only covering the land to the extent that the debt exceeded the value of the improvements.

To summarize: holders of title to land cannot reasonably be expected to pay the rent of land to governments if they are already obliged to pay the rent to their creditors. This difficulty can be resolved by specifying that public collection of rent means collecting it from those who now collect, which means mortgage holders in the case of mortgaged land. Administratively, this can be accomplished either by sending bills to the mortgage holders, by allowing creditors to "pay" their mortgage bills with tax receipts, or by canceling debts in amounts equal to the creditors' shares of taxes.

AFFORDABLE HOUSING (CONT.)

He says that these mixed projects struggle to get the financing that 100% affordable projects obtain so cities provide assistance through, primarily, tax increment financing. Minneapolis, though, has mandated that developers cover the affordability costs with no financial assistance.

Doran says that he objected to this mandate before the shutdown because it stymies development and reduces the supply of housing across all categories. But, under the current economic circumstances, he says, it will be nearly impossible to obtain equity and loans for any kind of housing development.

This is because banks will assume any proposed projects will be of reduced value and thus loan less and require the developer to provide more equity for the projects. Many developers won't be able to increase their equity accordingly and institutional investors will also be unlikely increase their investments.

According to Doran, everything in a project would have to be perfect in order to secure investors and any affordable housing mandates would make the projects wholly unfeasible.

Doran's analysis is lacking in a number of ways. First, while studies are mixed on whether inclusionary housing requirements reduce overall development, there is no question that land speculation reduces development because, by definition, speculation entails holding building sites out of use until a sufficient premium is offered by builders. Why not mention this barrier to housing development? Second, Doran talks about the need to cover costs but he does not identify the costs involved.