

Economics for Progressives

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Dear progressive,

How can progressives achieve their goal in the most equitable and efficient way? There is a solution to poverty and inequality, and it can help you win your campaign.

Progressives seek greater economic equality. They want every person to be able to obtain adequate medical care, housing, food, and education. They seek a more equal distribution of income and wealth. Progressives also want a humane policy for immigration, and they want to limit climate change. Some progressives seek reparations to compensate for past slavery.

The policies preferred by typical progressives are direct laws. For example, to raise the income of the working poor, progressives favor a higher minimum wage. To make housing more affordable, progressives favor rent control. To equalize incomes, progressives favor higher taxes on the rich. These policies seek to directly affect the outcomes.

The problem with direct laws is that they have bad unintended consequences. A higher minimum wages reduces the employment of low-skilled workers, especially in the long run, when labor is replaced by machines. Rent control creates shortages of housing. Taxing the rich reduces entrepreneurship and economic growth.

The basic problem with typical progressive policies is that they treat the effects of bad outcomes rather than eliminating the cause. If a medical doctor only treats the symptoms of an illness and not the cause, the illness remains, and can get worse. Similarly, progressives who seek a \$15 minimum wage do not ask why poverty exists in the first place.

Truly progressive policy should seek to eliminate poverty rather than only treating its effects with welfare programs. Of course when people are hurting, we should help them obtain basic needs. But it would help them most of all if we could cure the problem, so they don't need governmental assistance.

The economist Henry George, writing in the latter 1800s, used the term "extirpate," which means to pull out by the roots. In his 1879 book *Progress and Poverty*, George analyzed the cause of poverty and proposed remedies to extirpate poverty, to pull it out by the roots, so that it does not grow back to infest the economy. George traced inequality and poverty to our systems of land tenure and taxation. It is bad enough that many people have low incomes, but why do we tax the goods they buy to make their cost of living even higher? Why tax wages to make incomes even lower, and why impose higher costs on employers, that reduce employment?

Much of the economic inequality in the USA and around the world is due to land tenure, the system of land ownership and the distribution of the benefits of land, the ground rent. The

basic problem is not who has title to land, but who gets the benefits, and how. Since the supply of land is fixed, as the economy grows, and as we get more productive technology, much of the benefit is captured by higher land rent. Labor and capital are mobile, so a greater gain attracts a greater supply, which pushes the gains back down to normal. But land is immobile, fixed in extent and location, so greater gains remain as higher rent.

Moreover, the public goods provided by government, which make locations more productive and attractive, raise the land rent even more. As workers get taxed to pay for the public goods, and landowners receive higher rent, worker-tenants get double billed, while landowners receive an implicit subsidy of higher rent and land value. Therefore, much of the inequality in our economy derives not from the market, but from the government policy that subsidizes land ownership. The effective remedy is to avoid the subsidy: stop taxing goods and labor, and instead, get public revenue from land rent.

An attempt to enact a national land value tax was made in 1920 with the Ralston-Noral bill, House of Representatives Bill No. 12397. There has also been legislation to shift taxation to land value, such as the two-rate systems in some cities in Pennsylvania, by which cities reduced their property taxes on buildings while increasing the levy on land value.

Henry George helped spark the progressive movement of the latter 1800s. His policy prescriptions are still relevant today, since the basic policy of taxing wages to subsidize rent has not changed. But there are new problems, such as climate change, which need to be confronted. Here, then, are some policy issues which progressives should consider, policies that extirpate problems rather than just treating them.

1. Economic inequality.

Progressives should look at the source of inequality, rather than blindly tax the rich just because they are wealthy. The two basic, original, sources of economic inequality are entrepreneurship and subsidy. There is also inherited wealth, but we are looking at the original sources of the wealth. An entrepreneur who starts or improves a business, who provides new and better products, who innovates, is beneficial to society, and should not be stifled with taxes and arbitrary restrictions.

In contrast, someone who gets rich because his political clout gets him subsidies should be prevented from getting rich at the expense of taxpayers and consumers. Much of agricultural subsidies, for example, go to the biggest farms. The largest subsidies are implicit, in the form of not paying the full costs of production, or obtaining higher land value from government's public goods. Therefore, there should be pollution levies that compensate for imposing a social cost. There should be taxes on the land rent generated by public goods. These are discussed further below.

2. Housing affordability

Many low-income people, and even some middle-class families, are not able to afford adequate housing, as some people spend half their income on housing. In high-price places such as California, many families need to live far from work, and then face high commuting costs. The housing problem originates in land tenure and taxation. Property tax policies penalize the infilling that creates higher density in city centers and near transit. Property taxes on buildings make it more expensive to build and improve structures. Low taxes on land value subsidize sprawl, as government provides the infrastructure. A property tax reform that eliminates taxes on buildings and shifts the tax to land value, would promote more housing in the city and reduce sprawl. The elimination of unnecessary restrictions on construction would also increase the supply and reduce the cost of housing. And, of course, untaxing labor would enable workers to afford housing. Replacing taxes on wages with taxes on land rent would increase wages and decrease land value, making housing much more affordable.

3. Medical care for all

Progressives say that medical care is a right, not a privilege. Some want government to provide medical care for free. It is indeed inhumane to deny medical care to a person who needs it. However, the more moral basic right is the right to engage in labor. Wages should enable the families of workers to be able to obtain their needs, including medical care. If people have a moral right to engage in labor, then that labor should not be taxed or arbitrarily restricted.

Even if medical care is not fully provided by government, there are reforms that would reduce its costs. First, separate medical care and insurance from employment. The problem of previous conditions arises from employees obtaining medical insurance from employers, and then losing their jobs. The reason medical care has been tied to employment is the tax system: medical benefits are tax-free. The separation can be accomplished by treating medical benefits as taxable income, and then making medical costs tax deductible. If medical benefits are taxed the same as money income, people would shift to obtaining insurance independent of employment.

Another needed reform is to create a national market for medical insurance, rather than have insurance trapped within state boundaries. A national market, combined with individually chosen medical services, would provide greater price visibility. A single governmental system reduces consumer choices. Progressive should consider reforms that would preserve choice while enabling all persons to obtain needed medical care.

Other reforms could lower the costs of medical care, such as a greater ability of Medicare to negotiate drugs prices, and the removal of legal restrictions on competition from new entrants.

4. Minimum wages

Many progressives advocate a national minimum wage of \$15. While such a wage is feasible in high-cost large cities, many enterprises in lower-cost places would shut down. Economic studies have concluded that the imposition of higher wages ends up reducing the

employment of low-skilled labor. In effect, a minimum wage is a tax on the employment of low-skilled labor. In the long run, labor gets replaced with machines such as robots.

Instead, we can increase the incomes of the poor without decreasing employment with a higher earned-income tax credit. The EITC reduces the taxes of low-income workers, and if the wage is very low, the worker pays no tax and receives extra income. The EITC taxes the whole economy, not just employers. Short of more fundamental reforms, progressives should advocate a higher EITC rather than higher minimum wages.

5. Universal basic income (UBI)

A progressive idea spreading throughout the world is a universal basic income, an equal payment that would be provided to every person. For example, every person would obtain \$1000 per month regardless of wealth, income, or personal status. Such an income would enable people to pay off debts, pay for education, or afford housing. But we need to consider, from where would that income originate?

If the funds come from a higher income tax or a new or higher value-added tax, the tax will be a drag on the economy, reducing incomes and growth. Even worse, when the families in a neighborhood have higher income, they will bid up the housing rentals and purchase prices. Much of the gains from UBI will end up enriching the landowners.

Therefore UBI should be financed from levies on land value or land rent. The gains would stay with the people, and their cost of living would not rise. Economists have known for over 200 years that a tax on rent does not change the rent. The tax reduces the purchase price of land, so the burden is all on the owners of land at the time of transition. After the transition, there is no burden even on landowners, because the tax replaces what would have been paid in mortgage interest.

6. Climate change

Progressives agree that climate change should be at the top of the problems needing better policies. There are three basic ways to reduce emissions. First, command-and-control regulation. Second, permit trading. Third, levies on pollution.

The federal and state governments of the USA have mainly dealt with pollution with regulations. They are called “command and control” because these laws command businesses and households to do something, such as getting a smog test or adding chemicals to gasoline. The problem is that this policy presumes too much about the knowledge and wisdom of central planners, and it ignores the costs of those affected.

Permit trading requires polluters to get permits to expand pollution, and these permits can be bought and sold in financial markets. Permits enable firms to respond to the price of getting

permits, but the gains in permit value go to the permit holders, and in many cases, firms do not reduce pollution if they can get credit for owning forest land. Permit markets are also subject to financial manipulation, such as with derivatives that invite speculation.

The most efficient and equitable way to limit pollution is with taxes or fees on pollution and other environmental destruction, based on the damage. Firms can then respond in their most effective ways, such as by capturing the emissions, or changing production methods, or even stopping harmful practices. A “carbon tax” can be levied either on inputs such as gasoline, or outputs such as the emissions. The most effective tax is directly on the pollution.

7. Reparations

Reparations have been proposed to help repair the damage of past slavery, segregation, and the horrible treatment of African Americans after Reconstruction. But paying reparations from taxes on labor and enterprise is problematic. There is one way to provide reparations without damaging the economy: with land. Not a redistribution of land titles, but an equalization of the benefits from land, as measured by the market rent of land. Much of inherited wealth is real estate. Land value taxation would not hurt the economy, while equalizing the benefits of land. So while providing better economic justice, land-value taxation would be a feasible way of providing reparations, and compensation for past economic deprivation.

8. How much land rent?

A practical question some ask is, how much of national income is land rent? Studies in Australia have found that land rent there is one third of national income. Since the USA has ten times the density for the same land area (excluding Alaska), rent in the USA is at least one third of national income, or about \$7 trillion, enough to pay for public goods and a basic income.

Conclusion

Progressives can promote the best economic policies by understanding one basic idea, expressed in Ecclesiastes 5:9: “the profit of the earth is for all.” The benefit of learning economics is the understanding of the implicit reality beneath superficial appearances. Superficially, a higher minimum wage sounds like it would help workers, but the reality is that the higher wage would be offset by higher prices, higher rents, and fewer employment hours and benefits. Thus a higher earned income tax credit, and lower taxes on wages, would be better. Superficially, a high tax on the rich, distributed to the poor, sounds good. But the response of the rich would be to hide, move, and reduce their taxable wealth. The implicit reality is that the rich have one type of wealth that does not flee, hide, or shrink when taxed: land. Progressives would do well to do what the progressives of the latter 1800s did: don’t only treat the symptoms of social problems. Look to the causes of problems to apply effective remedies.

Policy

1. Advocate the policy of “polluter pays”.
2. Advocate the removal of subsidies to land value by having landowners return the value received from public goods, whether by a national land value levy, or via the income tax.
3. Advocate either a higher earned-income tax credit or a universal basic income.

Further information

For more information and literature, see:

www.schalkenbach.org (books and information)

Foldvary, Fred, *The Ultimate Tax Reform*, two pages www.foldvary.net/works/two-pager.pdf

Foldvary, Fred. *The Ultimate Tax Reform*, 36 pp. <http://www.foldvary.net/works/policystudy.pdf>

Foldvary, Fred. The Depression of 2008. <http://www.foldvary.net/works/dep08.pdf>

George, Henry. *Progress and Poverty*. <http://progressandpoverty.org/>