How to Solve the Credit Crisis

As long as we punish labor with taxes and restrictions, and reward land speculators with subsidies, we will always have periodic economic booms and crashes

October 1, 2008

Fred Foldvary, Ph.D.
Economist

#Foldvary's archive #banks #economicgrowth #landownership #recessions

The $700 billion mortgage bailout has been enacted, but it will take several weeks for it to be implemented, and meanwhile, unemployment is rising as many businesses cannot obtain the credit needed for their operations. I offer the following plan for a quick economic recovery, although the probability of it being considered by the administration is barely above absolute zero:

1. Give all US nationals $6000 in currency. Congress would authorize the US Treasury to print $1000 bills and give six of them to each citizen and permanent resident. That would provide the urgently needed liquidity and relief. Those who need money immediately would be empowered to borrow the funds, as the Federal Reserve would raise the bank's reserves by $6000 to cover the loan. It would be inflationary, but the inflation would have the benefit of reducing the real value of all debt denominated in US dollars. Lenders would get back less in value, but that would be better than not getting back anything.

2. Eliminate quotas on immigration. Anyone who is not a criminal or terrorist, and who does not have a contagious disease, would be able to legally immigrate. A couple of million new immigrants would quickly fill up houses that now sit empty.

3. Suspend the minimum wage law and all restrictions on peaceful and honest enterprise. Allow anyone to work and to set up a business with no restrictions so long as others are not coercively harmed. The new immigrants would immediately become self-employed, because there is always a demand for something. The demand would be effective, because everyone would now have at least $6000 to spend.

4. Immediately implement an emergency tax on all land value that would collect 90 percent of the land rent. Land prices would fall to one tenth of the previous price. That would complete the deflation the land value bubble in one swoop. To compensate for the loss of selling price, all landowners would be given perpetual US Treasury bills. It would be a huge increase in the federal debt, but for the economy it would replace mortgage debt on land with US bonds, and the bonds would be backed by the collection of land rent from all landowners.

The mortgage problem would be gone, as there would be no more mortgages on land. The portion of mortgages relating to the building would remain. Since US Treasury bills are currently paying near zero in nominal interest, the extra debt would cost the government very little, while the government would be collecting two trillion dollars per year with the land-value tax. Landowners could use the bonds and their $6000 to pay the tax.

The fall in the price of land would make real estate affordable again, and the real estate market would be revived. Landowners who had little debt could sell the bonds and put the funds into banks for higher interest, which would further increase the ability of banks to make loans. There would be no problem selling the Treasury bonds, as the whole world now wants to hold them.

Why is nobody else proposing such remedies? Almost everyone is stuck in status-quo thinking. And unfortunately, status-quo thinking is anti-market. Everywhere you hear that the free market has failed. Politicians, commentators, and financial guys are falsely concluding that there was a lack of regulation. But the problem has been misregulation, not too little regulation, and the greater problem has been intervention, which besides regulation also includes taxation and subsidies. Subsidies include all the government guarantees on real estate, mortgages, and accounts. Subsidies include the Freddie and Fannie guarantees, and most of all, the capitalization or pumping up of land values from civic services, paid by taxing the worker.

When we punish labor with taxes and restrictions, and reward land speculators with subsidies, what do you expect other than periodic economic booms and crashes? Yet people are blaming the non-existent free market for the economic woes. Ultimately the deeply rooted cause of the economic problem is that people don't understand the concept of the market.

Inside information on economics, society, nature, and technology.

Name

Email

Subscribe

We don’t like spam either: you can unsubscribe anytime.

Fred Foldvary, Ph.D.

Economist

FRED E. FOLDVARY, Ph.D., (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for Progress.org since 1997. Foldvary’s commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary’s areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.