



SMART TALK with Andrew Mazzone
Interview with Dr. Fred Foldvary
Transcript 9/16/2014

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Interviewer: Fred, welcome to Smart Talk. Uh, I'm going to open with, uh, a famous prediction of yours. Uh, I, I, I, I, think the audience should know that, uh, you made a prescient call in 2008 about the collapse of finance in-in America. And I'd like you to discuss with the audience how you were able to do that, because that's a perfect segue into our discussion about Henry George and, and the related economics. But you're one of the few economists who theoretically, and actually, predicted that, that drop. How did you do it.

Fred: Yes. I wrote an article on the business cycle in, uh, it was published in 1997, in the, uh, uh, the *American Journal of Economics and Sociology*. And, uh, what I did was I combined the Austrian School theory of the business cycle with the Henry George theory.

00:02:05.5 The Austrian School theory focuses on, uh, money, interest rates, and capital goods. And Henry George focused on land and land speculation. And each of these was incomplete, but together, they form a good, uh, synthesis. So that explains the business cycle.

Now, as to the timing, there was a real estate economist whose name was Homer Hoyt. And he wrote a book, *One Hundred Years of Land Value in Chicago*, in which he traced the ups and downs of real estate for 100 years, up to his time. And there was a remarkable regularity, with an average period of 18 years. So I carry that forward to, uh, up to then, 1997, so the last real estate recession before that was 1990.

00:02:56.5 And, uh, if you count 18 years after 1990, we get exactly to 2008. Now, uh, and so, the, the explanation of the business cycle fit the history very well, right? Not just the timing, but why it happens. And that, that, the, the —



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Interviewer: Uh, quick question, uh, why 18, why 18 years? The, you know, mainstream economist would say that's accidental, yet the regularity is, is there to see.

Fred: Yeah. Uh, first of all, it's a long cycle. It, it's a multiyear cycle, because it takes several years to recover from the recession, as our economy's been doing now. It takes a few years for then real estate to come back, vacancies [frank], rents start to come up. Then you have, uh, real estate construction, and then as, uh, rents and land values go up, you have, uh, land speculation jumping in. And so, uh, real estate development is a process that takes many years. So, uh, it doesn't have to be exactly 18 years. In fact, uh, it was interrupted by World War II.

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Interviewer: Mm hmm.

Fred: Uh, so there was no, uh, real estate boom until, you know, the 1960s, early 70s.

Interviewer: I'm aware of that, yes.

Fred: And also, in 19, during the 1970s, after the recession of '73, there was high inflation, which created a, uh, price asset boom for all kinds of tangible goods, including real estate, culminating in the recession of 1980. So wars, inflation, and so on can alter the cycle. But, it, it was quite accurately regularly, at 18 years in the 1800s, and, uh, so, uh, it doesn't have to be exactly 18 years, but that's just been the average.

Interviewer: I got it, sure. Sure. But let me ask you this then, since you combine both real and financial, uh, and, and that's an interesting proposition. In your experience, uh, you know, the Georgist would be more real, which is more important, in your opinion, in creating that cycle? And, it, would you have a weighting? Would it be



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finance, or would it be the real, uh, economy that would be the ultimate driver?
Or you can't disentangle?

00:05:10.5

Fred: Well, the basic, fundamental cause to the boom and bust cycle is massive subsidies to real estate. The biggest subsidy — well, there's tax breaks for real estate that other assets don't have.

Interviewer: Right.

Fred: But the biggest, so that's a fiscal subsidy. But the biggest subsidy of all is the implicit subsidy of government spending, and government provides infrastructure, security, and so on. All of that raises the value of land. And the, and, and because most of that spending is, comes from taxes on labor and business profits and goods, um, it's a, uh, the land owners receive rent, which they didn't do anything for.

Interviewer: Right, okay.

00:05:53.5

Fred: So that's a huge subsidy to real estate. Real estate then captures, or land values capture, the gains from economic expansion.

Interviewer: Mm hmm.

Fred: So, so the, the major cause is subsidies to real estate. The most important subsidy is the implicit one of public goods that are, that generate higher rent than land value. But there's also the monetary subsidy. Uh, most, uh, every real estate boom has been financed by cheap credit. Artificially cheap —

Interviewer: Mm hmm.



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Fred: —credit, such as the Federal Reserve expanding the money supply, pushing interest rates low, in order to stimulate the economy after a recession, as in fact the Fed has been doing in the past few years.

Interviewer: Okay. Well, that leads me to, uh, your advocacy of free banking.

Fred: Yes.

Interviewer: Now, if we had a free banking system, as opposed to the Federal Reserve, what good things would come from that, in your opinion?

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Fred: The interest rate would be set by the market, instead of by the Federal Reserve policy. The interest rate has an important job to do in the economy. It balances borrowing and, sa-saving. It balances savings and investments. It allocates spending becoming consumption and investment. So, if you artificially alter the interest rate, it's not allowed to do its job of balancing things. And then you get things like recessions and inflation.

So with free market banking, there's no central bank like the Federal Reserve. The, both the money supply and the interest rate are set by the market, according to supply and demand, and therefore these variables are allowed to do their economic job.

Interviewer: So you do believe that that would ba-balance investment and saving?

Fred: Set price controls —

Interviewer: Now, today, given a Keynesian Federal Reserve combination, of course the Keynesians would argue that interest rate isn't driving investment or income, it's, uh, it's income. And it's demand management and, and pumping up the



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economy and of course the Fed can do that, because it can print money, it's a reserve currency. And you, you argue that with free banking and eliminating that Fed privilege, uh, interest rates would then truly become the arbiter of investment and savings.

00:08:04.8

Fred: Yes, you wouldn't have the artificially cheap credit that fuels the boom and bust.

Interviewer: Mm hmm. Why wouldn't the government consider free banking, then, in your opinion?

Fred: Oh, well, the government wants, the government wants to be able to control money supply. They want to be able, that's one of their controls, is the monetary policy. So with free banking, there would be, the monetary policy would be just to let the market work. And, uh, but also, I think, uh, conventional economics focuses on the status quo. If you take a course in money and banking, it assumes the existence of a Federal Reserve or some other federal bank.

Interviewer: That's true. Okay.

Fred: And it then shows how that works. Free banking isn't even talked, uh, except by a few economists.

Interviewer: That's true. Okay. Well, they would argue that free banking was observed in the 1800s, and, and it was, uh, accompanied by, uh, failed banks, uh, uh, wildcat banks, uh, booms and busts, also. What would your argument be against, uh, against that particular — ?

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- Fred: That was not, yeah. That was not, I mean, historians call it the era of free banking, but it was not genuine free market banking. There were, for example, state restrictions on branches. So a, a, an established bank in New York, or Boston, or Philadelphia was not allowed to establish branches in the new pioneer states such as Illinois, Ohio, Indiana.
- So therefore, uh, there were new banks, uh, set up there, but they were not well capitalized. And so they're called wildcat banks, that, and also these banks in the pioneer states, they were forced to hold state bans, state bonds. So, uh, so there was a lot of intervention by the state governments. Uh, it, if the banks in the east were allowed to establish branches in the west, in the new states, and they weren't forced to hold state bonds, then they would have had the stability and they would have been able to convert paper money into gold, and silver, and you wouldn't have had these, these problems.
- 00:10:12.1 Uh, a lot of the — there was cheap credit, because the banks issued currency backed by the state bonds, and that led to the speculation at that time, and that led to the panic in '37, and sub-subsequent booms and busts.
- Interviewer: Okay. I mean, that's a fair, uh, description of why free banking could overcome the divisions you talked, you talked about. But the Keynesians would argue in a, in modern economy, where you have tremendous buildup of technology, you have monopoly corporations, that uh, there's going to be a certain amount of unemployment, and there's going to be a certain amount of people who can't compete. And therefore, a balanced economy of a free market type really can't come into being, simply because you'd have technological unemployment, if nothing else. And they would argue that they need demand management and welfare, uh, capabilities to, to overcome those pockets of, uh, unemployment that would be generated by a modern, highly technical society. Your, your comments on that?



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Fred: Well, we, the only unemployment in a truly free market would be the frictional unemployment of people between jobs or graduates looking for their first job. Uh, people who would soon find work. If you look at an unemployment today, uh, you have, uh, government interventions that are creating unemployment. You've got minimum wages that make, uh, workers more expensive on top of that. You then have several taxes that the employers have to pay, and nowadays they have, they might have to provide medical insurance. So, uh, the minimum wage is only the beginning of labor costs. Uh, and, uh, so, uh, these higher costs, and also there's a restrictions on self-employment. Henry George emphasized that a, an alternative to being employed by a firm was to become self-employed. Now, a lot of people don't want to be self-employed, but enough will, and then they can hire others.

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So, so restrictions on enterprise and self-employment, zoning, and all kinds of regulations and, and other restrictions. Permits, licenses. Uh, so all of these things stifle employee. In a pure free market, there'd really be no reason for unemployment other than about 1% of the labor force that's in between jobs.

Interviewer:

But if I were running the, um, 50 top corporations in America today, and I decided that, uh, well, I've noticed that communism has fallen in 1990, and I have high-wage Americans, I decide simply to go to China, now that I can, and offshore, uh, a lot of high-wage Americans and trade for low-wage Chinese in the assembly and low-level manufacturing end, eliminating quickly, a-a great segment of, uh, American workers. How would you overcome that, with the, with the —

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Fred: Yeah, well, uh, both trade, yeah. Both trade and the outsourcing you mentioned have the same effect as better technology. Now, if you look at the 1800s,



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beginning of the 1800s, most Americans were farmers. They were employed in farmer, in farming. Today, only 2% of American workers are farmers.

So, did that result in massive unemployment, all these millions of farmers looking for jobs? No. Uh, when you have better technology, production shifts. It gets the, the industry gets restructured into other jobs, so we have the rise of manufacturing, and then the rise of service jobs, and so on.

When the, uh, cars replaced horses, you-you-you lost jobs raising horses, but you gained jobs making and servicing cars. Since computers have created millions of jobs, [coughing in background] designing websites, software, and so on.

00:14:05.8

So, uh, same thing with trade. Trade does not create unemployment. Uh, what trade does is allow each economy to concentrate on its comparative [coughing] advantage, what it's best at.

For example, if you have a lawyer and a secretary, even if the lawyer can type faster than the secretary, you will hire the secretary, because the hours he would spend typing would be law, hours he couldn't get paid doing legal work.

Interviewer: Comparative advantage, yes.

Fred: And, and so —

Interviewer: What about absolute advantage?

Fred: So the comparative, so trade is, trade is based on comparative advantage, having a lower opportunity cost or what you have to give up in order to do something, not the absolute advantage.

Interviewer: Okay.



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Fred: And so trade does not create unemployment. And, uh, and that includes, uh, trading of labor, such as outsourcing.

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Interviewer: Well, if you're, if you're sending your capital overseas, you know, Ricardian theory would say, uh, free trade, uh, if you send your capital overseas, is not really free trade in the classic sense, and that it, it kind of invalidates the, the conclusions on, on free trade. If I send my capital and go for new labor, and then import it back in, there's going to be a long transition period, uh, before I can make that up. And-and-and the argument also would be manufacturing, it's one thing to come off the farm, and go into manufacturing, but the farm stayed here. Uh, if manufacturing stayed here, even though it took fewer and fewer people to run them, then presumably more manufacturing companies with less labor component would exist. But if you get rid of your manufacturing and your, and your labor, and your capital, it may not work as stated. Your comments?

00:15:52.8

Fred: Well, uh, first of all, manufacturing still takes place in the United States. We have new technologies such as three-dimensional printing which is, uh, creating new opportunities for manufacture. And [cough], a large part of the, uh, capital flight is-is due to the artificial tax structure and, uh, trading structures that have been set up with the World Trade Organization and other, uh, organizations.

For example, um, the United States has a disadvantage, because European countries, with the value-added tax, can export goods tax-free. They subtract the tax from their exports, whereas with our income tax, that's included in the price of exports. That makes American exports artificially more expensive, just because of the, uh, tax treatment.



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Uh, now, uh, Henry George pointed out that capital goods are created by labor, right? And so as long as we have the labor here, and there's a desire for goods, there'll be some equilibrium, where, uh, those who want to work will find opportunities and trade with others.

00:16:59.3

Uh, capital goes where it's best treated. If we treat it better here by not taxing it, that is, you know, taxing land instead of financial capital or capital goods, there'll be plenty of capital that'll stay here.

The, the reason wages are higher in the United States than in India or China is-is because of the greater productivity of labor. And in our market, the wage tends to equal the, you know, what the, what workers contribute to output. And if they're more productive, the higher cost of labor is offset by the higher productivity. So, uh, the movements of capital is not really a problem if you have a-a free market.

Interviewer:

Okay, and assuming that the land rents and monopoly rents were collected, uh, that's a premise of Henry George

Fred:

Right.

Interviewer:

Why hasn't that happened in this country. The obvious tax, the obvious tax that isn't a deadweight tax is a tax on land resources and other monopolies that, uh, that go along with it. That being the case —

Fred:

Right.

Interviewer:

— why hasn't that gained traction since the days of Henry George? Your opinion?

00:18:06.5



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Fred: Yeah, uh, there's two reasons for it. One is, of course, as George pointed out, there are special interest that will oppose it. In fact, uh, there's been several introductions of land value tax in state legislatures, and, uh, they've been — including California — they've been opposed by, of course, the land owners. Uh, they have a lot of political clout. They, if you look at, uh, spending on candidates, the real est-, real estate interest and their financial allies are among the top contributors to political campaigns.

So there's the political opposition. But second, but then of course why wouldn't the public, the public, uh, as a whole would benefit from this tax shift. Uh, there's a lot of economic ignorance, which is even propagated by, you know, the science of economics.

Interviewer: Yes, yes.

00:18:54.0

Fred: Uh, because, uh, graduate students don't learn about Henry George. They don't learn about land value taxation. They may, in passing, uh, get a little bit of it in history of economic thought, or public finance courses, that will indicate that a tax on a inelastic supply like land has no deadweight loss. But then they go, they don't go to the logical conclusion [of, well, let's do that] —

Interviewer: Stieglitz has, Stieglitz has come out with that recently, to stay that. Joseph Stieglitz has reiterated that.

Fred: Yeah, and then — Stieglitz. Yeah, Stieglitz has, has, is one of the few economists who have — in fact, he, uh, promoted, um, what's called the Henry George Theory, which in principle says that there's enough land grant to finance the public goods that we want government to provide. Uh, and of course Mason Gaffney, a professor, uh, has, uh, written on the [aggression] of economics, that,



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that the stifling of rent in economic theory was a deliberate device by the landed interests.

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Interviewer: Okay. The, uh, let's talk about the, uh, the amount of that tax. I think, if, if I recall, both state, federal, and local taxes in America, uh, I think in a recent year, came to around \$2.3 trillion, something like 23% of the GNP. Uh, various Georgists around the world have calculated the amount of land tax value, uh, available, if such a tax was ena-, enabled. And I think Australia, uh, is a country that's, has done the most relevant and recent work on that. Uh, uh, Mr. Dwyer. Could you comment on that? I think you're familiar with his, his work.

Fred: Yes, I'm, uh, familiar with the, uh, Australian study, and-and including a graph that showed the increase in rent, uh, over the past hundred years. So, uh, that, uh, analysis shows that, uh, the land rent would be about a third of national income. And, uh, since the United States has, uh, ten times the density of Australia you would think it would be at least as much, uh, over here.

00:20:59.2 So, uh, government spends about, uh, you know, a third of national income for, uh, public goods. A lot of what government spends is for transfer payments, Social Security, Medicare and so on. If land rent were the only source of revenue, it might not, it would cover public goods, it might not cover all the transfer payments. But if people's wages were not taxed, and the goods they buy are not taxes, they could, they would have a much higher, uh, standard of living, and then they could afford to finance their own retirement, so you could phase out Social Security and other transfer payments. And you wouldn't need as much welfare.

Interviewer: Okay, I think that's —

Fred: So, so the —



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Interviewer: Pretty clear. It's a pretty clear calculation, and it's, and it's been, it's been done a number of times and in other places, and it converges to one-third of the GNP is rent-driven. Would you agree that that's —?

00:21:50.3

Fred: Yeah. And, and, if you actually look at the payments of rent in today's economy, it does not count the suppressed rent. That is, rent that you don't see that would be there if not for other taxes. If you eliminate the deadweight loss taxes, then the economy would be more productive. The, what economists call the producer surplus, uh, the price minus the cost of production, [cough], they call it a producer surplus, but it's really land rent. And, but, but it's not counted as such. The land rent that we see is lower because businesses bid less for land, if they don't get as much profit and output. So the rent would be so much higher. The explicit rent that we see would be much higher if you eliminated these other taxes.

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Interviewer: Okay. Would you, uh, count and-and estimate the balance of monopoly in this, uh, country, for example certain corporations with patents and so forth, what percentage of that would, would be monopoly relative to the size of the land monopoly? If-if land is, and resources are about a third of the economy, would you say that monopoly el-elsewhere would add another five or ten percent of, to that, or it's not calculable?

Fred: Yeah. Well, there was obviously an economist who, uh, measured this, and his name was Harberger. And, uh, he estimated that, uh, monopoly, uh, profits only, uh, amount to about three percent of the economy, in contrast to the 33% of land rent. So, and most of that monopoly is a natural monopoly, such as water, or electricity, or natural gas, where it, you, it wouldn't be economical for somebody else to compete with the existing structure.



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00:23:34.8 And natural monopolies, uh, tend to be municipal-owned. You have the water supply, natural gas, and so on, that are either regulated or owned by, you know, government agencies. So the remaining monopolies are really not a major cause of, uh, deadweight loss.

Interviewer: In, in your opinion, uh, patents in, uh, large corporations, which are numerous and many, uh, don't amount to any significant, uh, premium over a competitive price?

Fred: Well, I think patents, in principle, are helpful to the economy —

Interviewer: Yes.

Fred: But I, that doesn't necessarily mean that the current patent system is good. There's, there are a lot of flaws with the current patent system. Uh, for example, I think if two companies have, have independently developed a new invention, they should both have rights to that invention, even if one came to the patent office a few days before the other.

00:24:27.1 So I think there's, uh, reforms that could be made, uh, for patents, uh, [cough], but, uh, a proper patent system, which — and the patent's only good for about 20 years anyway —

Interviewer: True, true.

Fred: So a proper patent system, I don't think, I think, uh, it, it has some problems, but I don't think it's a major economic problem.

Interviewer: Even patenting forms of life, like genomes and so forth? Genes and —

Fred: Oh yeah. Uh, yeah. I don't think forms of life should be patentable.

Interviewer: Okay, okay.



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Fred: Because if they're found in nature, and some of these have been used by some native, uh, primal cultures in their medicines and so on, and then some company comes and takes that compound, and patents it. So, if it's been in use, either in nature or by some local, uh, people, yeah, those should not be subject to a patent.

Interviewer: Okay. Uh, going back to the —

Fred: And there's also abuses —

Interviewer: Okay, go ahead.

Fred: Yeah. Uh, for example, genetically modified, uh, plants, if-if the seeds happen to be drifting over to a neighbor, neighbor farmer, who does not use those plants, the company that has the patent should not be able to go after that innocent farmer, who didn't even want that.

00:25:37.1

Interviewer: Okay. Going back to the, uh, rent surplus, the question, of course, is who, who collects it. Now, rent, uh, from, from property, including land, is collected in the local, at the local level, in most municipalities in America. But if we talked about a total overall land tax, let's say, collected at the federal level, and then passed on through the state and local level, wouldn't that give an immense amount of money, and perhaps an immense amount of power, to a group of bureaucrats? I mean, Josef Stalin collected all the rents, all the rents in the Soviet Union.

Fred: That's right.

Interviewer: And, uh, there was really no check and balance on him. What would your argument be —



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Fred: That's correct. I —

Interviewer: Argument be, of a massive influx of rent, going to a central station that had to parcel it out. Why wouldn't a lot of smart guys, like the Goldman Sachs guys or whatever, figure out this is a nice, uh, pile of money to be gotten, and to help distribute? Your comments on the centralization of the surplus?

00:26:44.3

Fred: Yeah. Yeah, that's precisely why I believe that the county level, in the United States, and similar to other countries, the — currently the property tax is set and collected at the county level. Uh, so I think that, that is the appropriate level to, uh, assess land and collect the land rent. Then, some of the land rent would be passed from the county down to the cities and local communities. And some would be sent up to the state. And then the state would send, uh, a share to the federal government.

Now, the federal government might set what portion it gets, and so on. But the, the assessment and collection would be local. Now, of course there'd be an incentive for the county to set the property tax low, if most of it is passed on to higher levels of government. So therefore, the, the board of assessors should, should have representatives from the federal, state, and local governments, so that you don't have a bias, either for too much or too little, uh, assessment. And also, of course, property owners can appeal their assessments, if they feel that it's unfair relative to their neighbor's.



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Note: continue from 00:26:44.3

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Interviewer: Okay, Fred, we'll continue it. Why wouldn't we just collect a, uh, the land rent and give it out as a citizen's dividend? Just dish it out pro rata, and then let the governments dig it back out from the individuals. This way, they got it, they know they have it, and they'd be, you know, the assessments would be probably higher, and, uh, the government would have a tougher time getting it back in a, in an arbitrary fashion. Your comments on that?

Fred: Oh, I'm in, I'm in favor of a residence dividend, because the, as you say, the dividend competes with government spending. And that would be a powerful political pressure to avoid waste-wasteful spending, because that's money that they wouldn't get, uh, themselves. Uh, so I imagine, uh, the ideal, in my vision, is that, uh, people would get the dividend and, but join in communities, like a residential association, condominium, land trust, or whatever.

00:01:30.2 Communities that would provide local public goods, uh, and, uh, it's like in a condominium, you, you join it, and you promise to pay certain assessments every month, uh, for the local services. So, I think, yeah, I, I'm in all in favor of a citizen's dividend or resident's dividend.

Interviewer: And every, every level of government would have to dig it back out, uh, you know, in a, in a way that's justifiable.

Fred: That's right.

Interviewer: And it, it would certainly, and then of course your income and your salaries and your investments would be yours without tax. So it would be —

Fred: Yes.



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Interviewer: And explain why a tax on land, for example, is better than a tax on income, and a tax on capital. I think there's a lot of confusion on that. I mean, laymen would say, "What's the difference?" Why don't you explain to them what the difference is?

Fred: Yeah. Well, the difference is that land has a fixed cost. Or, that is, spatial land has a fixed amount. There's a fixed amount of land. You can't have a land tax reach for these more acres, you can't import land. So there's a fixed supply of land.

00:02:38.6 So that means if you tax land — right? — it doesn't run away as capital might. It doesn't hide from the tax collector into an underground economy. It's inherently public, right? So, land does not hide, shrink, or flee. If you tax labor or capital goods, it shrinks, right? You get less labor, because labor's more expensive. If you tax capital goods, capital goods become more expensive. Machines, inventory, and so on become more expensive, so you get less of it.

And this reduction in quantity creates what economists call a deadweight loss or excess burden of taxes. But if you tax land, you don't get any less land. It doesn't hide, right? And it doesn't run away, right? So therefore, taxing land value has, uh, no, no bad effects. It does, it doesn't reduce the amount of land.

00:03:30.1 And in fact it has, economists have, uh, like, uh, Professor [Tideman], have shown that, uh, a land tax is even better than neutral. In other words, it's actually beneficial for the economy, because it, uh, eliminates, uh, land speculation. It, it puts land to its best productive use, because if you don't use it productively, you still get taxed the same amount, because it's the, it's based on the highest and best use of land as a lot of property taxes are already. And therefore, it promotes an efficient use of land.



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Interviewer: What if, uh, we had a land tax based in the United States, and we're competing with other economies that did not have that. How do you think we would fare competitively? Other people being taxed —

Fred: Yeah, it would have — Yeah, an economy with a land value tax and no other taxes would have a tremendous comparative advantage, because our exports would be cheaper, and, uh, so, uh, [cough], and so you'd have, and, and people would be able to keep the profits of enterprise.

00:04:38.6 So this United States would thrive. We would have the strongest economy in the world, relative to everybody else.

Interviewer: Okay, there are some examples in a partial way, of that working. I think Taiwan would have been a country, uh, that in effect, practiced that, at least up to a point. Do you want to comment on Taiwan?

Fred: Yeah, Taiwan, uh, became, uh, separate from Mainland China in 1950, after, uh, the Nationalists lost the civil war. And, uh, so, uh, going back to the thought of Sun Yat-sen, who had in turn had read Henry George, Sun Yat-sen, the revolutionary Chinese leader, had advocated that land value taxation for all of China, but he died in the 1920s, before he could implement it. So, but the idea remained.

So when, uh, Chiang Kai-shek brought the Nationalists into Taiwan, they did a land reform. They paid off the landlords with bonds, and they put in a high land value tax.

00:05:38.5 And Taiwan, which doesn't have much in the way of material natural resources, they don't have oil or minerals and so on. Yet, because of their tax policy, they rapidly developed into a modern economy.



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The same thing went on in Japan in the 1800s after the revolution there that restored the emperor —

Interviewer: The Meiji.

Fred: Yes. Uh, they put it —

Interviewer: The Meiji Revolution, yeah.

Fred: Yeah, the Meiji Restoration. They put in a land tax, and Japan grew into a modern economy, because they didn't want to become a colony like the other Asian, uh, uh, countries. Unfortunately, then, the land tax went away, but it, it stayed long enough for Japan to develop into a modern economy.

Interviewer: Do you think it would make —

Fred: And I would probably also add it's —

Interviewer: Okay. Do you think it would make any difference to an economy, if it was a small economy, and not a, not a self-contained economy, for example like the United States, but a small country, an Estonia or a Latvia could do that and, and thrive in a, in a world of, uh, uh, giants?

00:06:38.2

Fred: Yeah. Well, in fact, Hong Kong did it. They did it through land leases, because the original colony was too small, so they leased a lot of land from China on a 99-year lease. So the land in Hong Kong actually belonged to the government, but they have lease holds, and the lease hold income enabled Hong Kong to have much lower taxes on everything else. In fact, they could have eliminated all other taxes. But nevertheless, they have a low tax, free trade environment, in which Hong Kong has thrived, uh. So a small economy like that can greatly benefit.



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Interviewer: And if we switch to Germany, in effect, I don't know the details of German land policy, but it seems to me they don't allow speculation on the land. Housing doesn't boom. Uh, most people rent. And the German economy is a booming economy. So in effect, it's got an implicit suppression of —

Fred: Yes.

Interviewer: — speculative values. Any comments on that?

00:07:36.5

Fred: Yeah, there are land, their taxes and policies, uh, have, uh, prevented the boom and bust. Uh, although of course their economy would be much better if they had, uh, [unintelligible] a land value tax, and they eliminated the value-added tax and the other taxes they have, because the Germans do have, uh, some unemployment, especially in the eastern part, that used to be, you know, the East Germany. Uh, [cough], now, uh, Germany in the 1920s, uh, appeared to boom, uh, after the inflation ended. And yet they fell into a deep, uh, depression, because of the land value speculation that occurred then. It doesn't seem to be happening now. Uh, so yeah, there are other, there are other things government can do to reduce the, uh, land value boom. But, um, that doesn't mean that they can't do a lot better if, if they eliminated their value-added tax and replaced it with a land value tax.

00:08:35.3

Interviewer: Okay. Now, I'm going to cut right back to the United States on, on, uh, an, an area that, uh, you're well-versed on. Uh, taking your macro view of, of America, you know, we have a situation in the last 30 years where wages have essentially been stagnant, and productivity has doubled. How has it been possible to do that's? And could that have happened with a land value tax?



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Fred: It would not have happened with a — well [cough], what happens is, land rent absorbs much of the gains from economic expansion. And what's happened in the last 30 years is, as total output has gone up, this is the, this is explained by the classical model of land and rent, that Ricardo and Henry George used, as the, uh, as you get greater productivity and more capital goods and greater wealth, um, much of that is absorbed by higher land rent.

00:09:35.2 And so that, I think that's basically what happened. Much of the gains went to land rent, much of it hidden in the form of economic, of, uh, corporate profits, uh, and, uh, mortgage interest. So you don't see it as rent. And in fact the national income accounts, where the only place rent actually exi-, is shown in the national income accounts, is rental income of persons. So that, that does not include, uh, corporate land —

Interviewer: Shows about two percent.

Fred: Yeah, it, it, and-and-and that rental income, uh, subtracts depreciation and other costs, whether they're real or imagined. So, um, the, uh, I think what, what has happened is much of the gains have, have gone to land rent. Prior to that, you see, in the 1920s, you had a lot of expansion into the suburbs, because of the automobile. And so that made more land available, uh, for, for residency.

00:10:37.3 Since 1970, uh, partly bec- — well, what happened, one of the problems of the 70s that changed things was the high inflation that raised asset va-, prices, but not wages. Uh, and, uh, so —

Interviewer: Because we had a golden, we had a golden period between '45 and 1970, where wages could keep up, and, and that was broken.

Fred: Yes, wages did keep up, then the world changed, and you had a more global economy, uh, more, more competition with foreign workers. So low-skilled



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workers had been at a disadvantage. Their wage has been stagnant. A skilled laborer, educated and skilled laborer, their wages have gone up in comparison.

Interviewer: Okay, but if we had a Georgist system or a land tax system, there would be, would be jobs for low-wage people in the economy also, because things would be distributed a little more evenly, and the revenues would be much greater for covering social goods and you'd be able to eliminate income and capital taxes.

00:11:39.9 So I would guess that we'd have a much better distribution of, uh, labor, between low and high-skilled labor.

Fred: Yeah, if you collect almost all of the land rent, you equalize the, the, you eliminate one of the reasons for inequity, because you equalize the benefit of land value. Right? You equalize income from land, and so that goes a long way to equalizing the distribution of income without hurting production.

Interviewer: Okay, I agree with that. Uh, I think you've given us a, a great lesson, in both the macro and micro, uh, view and understanding of a Georgist world view. And, uh, I thank you for that. I think there, it's the clearest exposition, in the shortest period of time that I've ever heard. And, uh, let's continue this another time, okay? I think we can —

00:12:38.6

Fred: Sure.

Interviewer: But thanks, Fred, this was a, a fabulous interview, and, uh, if you have any other points that we didn't cover, you want to put them in right now, we'll cut them back in, we'll cut it back into the, uh, into the, uh, segment that we've just done. Is there, are there any things that you'd like to say that I haven't asked you, that cover, that cover our Georgist viewpoint?



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00:13:03.5

Fred: Well, I was thinking, uh, I've been thinking for a while on the, um, political incentives, that, uh, prevent, uh, the reform that we want. And, uh, so, one of, so I believe that the structure of democracy that we have, which I call mass democracy, in which you have, uh, millions of people voting for candidates, and that, that creates an inherent demand for campaign funds, which is provided by the special interests, that prevents, uh, significant reforms.

Uh, so I believe that, um, what is needed, uh, is a change in the political structure to replace mass democracy with small group democracy, where people only vote for their local neighborhood council and nothing else. Then you can personally know the candidates, and these neighborhood councils would then elect the city council. The city council elects the county-level boards. The counties elect the state, and the state elects the congress. This bottom-up, multilevel structure, I think, would, uh, then, uh, prevent the influence of money and special interests that has been plaguing the American economy since the beginning.

Interviewer: Okay.

FeInterviewer: I want to think of what the question would have been to get that answer.

00:14:19.4

Interviewer: Oh, you want to think of what the question would have been? Uh, yeah, how could we, how could we reform the American system to make it more responsive to —

FeInterviewer: Just say that into camera. He doesn't have to answer.

00:14:28.1



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Interviewer: Okay. All right. You don't have to answer this one, Fred. How, how could the American system be made more responsive and be able to tend toward a Georgist solution and a political solution that reflected the goodness of a Georgist solution? Okay?

FeInterviewer: That was a little bit convoluted.

00:14:48.1

Interviewer: Fred, how would you reform the political system if you had a chance to, uh, design a structure that would do that?

00:15:20.9

Interviewer: Fred, if we had a chance to implement a Georgist style solution in America, what kind of political change would we make along with it?

00:15:42.6 Okay, Fred, thanks so much for joining us, and let's do it again.