

SUMMARY OF EFFORTS TO SECURE LVT SUPPORT AT FANNIE MAE

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[Originally written in May, 2006 and updated in July 2010, this is a summary of my efforts to secure support from David Maxwell, Chairman of Fannie Mae, for restructuring of how government raises its revenue, and what occurred after Ed Dodson joined the staff of Fannie Mae in 1984.]

As the year 1984 was coming to an end, so was my employment with Provident National Bank in Philadelphia, where I had worked for seven years in the Mortgage Lending group. From 1982 on I managed the department. However, in mid-1984 Provident National Bank merged with Pittsburgh National Bank (PNB Financial), and a decision was made to close down Provident's mortgage lending activities, transferring the department's responsibilities to a subsidiary of PNB Financial. Once the transfer of the department's operations was completed, I began my search for a new position elsewhere in the industry.

By 1984 I was also deeply committed to the reforms in how government raises its revenue that were at the heart of the political and social activism of Henry George at the end of the 19th century. During 1980-81 I had completed the program on political economy offered at the Henry George School of Social Science in Philadelphia, Pennsylvania, and had joined the school's faculty as a volunteer instructor. From that point on, I brought the "Georgist" perspective into my professional life, began to write regularly on the subject and attempted to generate interest in the subject among my housing finance colleagues.

In November of 1984 I happened to view an episode of the television program "Adam Smith's Money World." His guest that day was David Maxwell, the then Chairman of the Board of the Federal National Mortgage Association, headquartered in the District of Columbia.

On November 12, 1984, I wrote the following letter to George Goodman, the journalist who created the modern persona of 'Adam Smith' for his writing on economic matters.

"The first opportunity I had to experience your video efforts was the documentary you narrated several years ago dealing with O.P.E.C. Your new program, is a delightful continuation of the same high quality and a welcome addition to PBS.

"The intent of this letter is to convince you that your recent program on housing requires further treatment. In my view, neither George Sternlieb nor David Maxwell offered much insight into the underlying causes of the so-called "affordability gap" experienced by those families seeking homeownership. To say that high interest rates and the escalating price of housing are the causes of declining affordability mistakes effect for cause. The price of housing, the price of money and the level of family income are affected by market and political dynamics. These are the causes. Our task is to identify those which adversely affect the affordability equation and propose solutions (if our societal goal is to maximize the affordability of housing).

"David Maxwell alluded to the primary variable of housing affordability; the price varies materially from location to location. As an economic analyst you might recognize the more descriptive term, "site value." Underlying the housing market is the fact that the supply of sites is by its nature local, while the supply of financing, materials, labor and buyers has greater uniformity nationwide. Moreover, specific government interference in the local market for sites may enhance, constrain or otherwise impact total supply (e.g., the availability of publicly funded roads, sewer and water facilities, schools, hospitals, etc.). As some economists* have pointed out, the uniqueness of each site makes its price much closer to a monopoly price independent of its use.

"A close look at what has happened to each factor cost leads to appropriate policy directions. The real wage of construction workers has not increased very much during the last decade (particularly when all taxes paid at the local, state and federal levels are considered). The cost of housing materials went through the roof in the mid-1970s but has abated considerably because of productivity increases and the substitution of energy sources (a process further enhanced by the deep recession still existing in the developing nations, who have been forced to export raw materials and other commodities -- resulting in a buyer's market for the industrialized nations). No such relationship exists between the world economy and localized land markets. Over this same period site acquisition costs to developers have increased dramatically, in large measure producing housing price increases to the consumer wherever employment in that local economy has been relatively stable or growing.

"Why, then, isn't the market for sites competitive? Why does this market not react to the forces of supply and demand?

"The original Adam Smith analyzed the dynamics at work, borrowing from his French colleagues Quesnay and Turgot. Today's economists have operated with blinders on, I must conclude, to not recognize the connections between inflation and site "rent." As a consequence, our entire system of taxation is designed to penalize productivity and favor speculation in what are mistakenly identified as "capital gains" in land values.

"(Absent transfer payments) labor must take action -- produce -- to obtain wealth. Physical capital must also be used as a factor of production if its owners hope to obtain wealth. That portion of production returned to the holder of land was, on the other hand, identified by Smith (and, more specifically, by Ricardo) as an extraction - what today we would think of as a redistribution of wealth from the producers to the nonproducer.

"At the local level, infrequent and politicized assessments of real estate penalize capital and encourage holding of vacant or underutilized sites. As damaging is the practice of applying one rate of taxation to both capital and site values. With low carrying costs associated with land holding, the owner can wait and wait until surrounding growth (more often than not government funded) fuels an escalation in the amount which can be extracted for the use of that site. Heavy speculative activity can bring development to a standstill (which has been the outcome in Atlantic City). The answer has been around for a long, (continued on p. 5)