SUMMARY OF EFFORTS (from page 10)

own. By the time we in the West adjusted the CPI, had increased 300% and the LDCs were experiencing domestic inflation rates of 50 - 1,000% while their development projects never reached the stage of production planned on to offset the costs with export revenues. The IMFs answer? Cut domestic spending and shift production to export of raw materials and cash crops. With such intense pressures on so many countries to export, the global marketplace became a buyer's market, made even more so because of the dwindling number of potential buyers.

"Then, in 1981, the influence of the supply-siders provided a powerful short-run shot in the arm to American consumption. At the same time that food and materials costs were falling, lower marginal tax rates and other tax reduction measures brought increases in the disposable income of many American families. By late 1983 (accolades to former Chairman Volcker notwithstanding) deep stagflation in much of the world worked its magic and inflation appeared to be beaten in the United States, in Japan and to a lesser extent in Europe. Conservation measures, domestic production, falling international demand and North Sea drilling tipped the balance against O.P.E.C.

"Regional economies based on 'exports' of energy materials and agricultural products lost their markets to rock bottom priced LDC exports, and we ended up with Houston and the demise of small-town, rural American communities. The metropolitan areas of the Northeast and elsewhere, however, had achieved diversification in their economies that enabled them to avoid the misery of other sections of the country and the global community. The buying binge then extended (and continues to extend) to real estate, as global liquidity drove interest rates back down to low double digits and then single digit figures. Economic laws governing the interplay of the factors of production (i.e., land, labor and capital) took over, and landowners -- who possessed the factor most fixed in supply -- gradually were able to capitalize a sizable portion of the employed workforce's 'windfall' in purchasing power into higher and higher land prices. To be sure, many ordinary homeowners profited by this same market dynamic, especially if they took their retirement incomes and unearned gain from the sale of the land underlying their hone and moved to an area of the country where land values had remained stable or declined. The immediate victims have been those on fixed incomes who were renters and not homeowners, or those who were just entering the housing market and in a stage of new family formation, or those who suffered long term unemployment and could no longer afford to either relocate or even rent housing.

"Ideally, the measures needed to start the dominoes falling in a positive direction must be built around the two policy prescriptions cited from Henry George's proposals of a century ago. There is a fledgling attempt by a handful of Representatives in the House to develop a bill that would seek to capture at least part of the value of the nation's land and natural resources. Ironically, some estimates of the potential annual rental value of public lands suggests that if market values were collected (and spending remained stable) we would not have a Federal budget deficit at all. This is because government policies have virtually given away this source of public revenue to special private interests.

"As I believe you are aware, Mr. Maxwell, the primary direction involving government policy thus far has, however, been at the municipal level and a restructuring of the property tax to achieve a gradual exemption of all improvements from taxation, leaving the assessed value of sites as the source of revenue generated. Led by the cities of Pittsburgh, Scranton and Harrisburg, the Commonwealth of Pennsylvania has moved the furthest in this direction of any state in the nation; enabling legislation to do likewise is under consideration in at least a half dozen other states.

"For the last six years I have worked with a group here in Philadelphia seeking support for similar legislation, and one member of City Council is currently pushing for legislation to exempt all property improvements from the real estate tax in one step. At the moment, the mayor is noncommittal but is supposedly studying the effects of this proposed measure.

"As I hope this necessarily long analysis has shown, the causes of so many of our socio-economic problems are to be traced to the same sources. Under present socio-political arrangements there is a built-in degree of coercion that prevents markets from smoothly operating and from being self-correcting. Starting with the property tax, we need to focus our attention on changing not simply the rates of taxation but the sources as well; in doing so, I suggest we would achieve both greater justice in the distribution of wealth ownership and greater economic efficiency. I understand that I cannot ask you to accept my analysis at face value; however, I do hope you will think about the issues raised as you work with both public and other private groups for changes that are more than "Band-Aid" solutions. There are a number of economists and other policy experts around the country who have contributed very valuable research data that support much of the economics I have discussed; the philosophical arguments must meet our own tests of reason and logic. Certainly, I stand ready to serve as a resource in whatever capacity you might find useful should you find any practical merit in pursuing the measures herein presented as part of our company's overall agenda for policy changes. Thank you.

On February 16, 1988, I was emailed by David Maxwell, Subject: Policy Recommendations

"Thank you for your erudite and convincing memo of February 1. I share your belief that policy recommendations must be undergirded by a firm philosophical base and I can assure you that your ideas will certainly carry much weight as we continue to consider the issues and problems facing America and the world. "

Although I had some hope that the last exchange between David Maxwell and me would result in an invitation to present my ideas to our team of government relations people and others in the company, this did not occur. As an organization, Fannie Mae was not yet focused on meeting the affordable housing needs of minorities and lower income households. David Maxwell's priority was bringing Fannie Mae back to profitability after years of continuous losses. Mr. Maxwell retired from Fannie Mae in 1991, succeeded (cont'd on p.12)