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Despotism:

noun - a form of government in which power is held by a single person, typically in a cruel, unfair and oppressive way.

“We should tax what we burn, not what we earn. This is the single most important policy change we can make.”

Former Vice President Al Gore
A YEAR OF PANDEMIC

BY JOSIE FAASS, EXECUTIVE DIRECTOR

For many, including myself, this month marks one year since the COVID-19 pandemic began affecting our lives in earnest. On March 13, 2020, my older son descended the bus steps, elated to have (what we believed at the time to be) a full two weeks off from school. I had spent that morning madly dashing between stores, filling carts with the supplies we'd need to get us through up to a month (gasp!) isolating in our home. That was also the day we pulled my then 2-year-old from daycare and my husband let his coworkers know he would be working from home for a bit so we could balance the unbalanceable feats of remaining employed while caring for multiple children unassisted.

March 2020 was filled with a sense of foreboding, and in hindsight, a naive optimism that it would all be over as quickly as it began. (I remember looking at the orchid on my windowsill, which had just put out a new flower spike, and thinking, by the time these blooms are done, we'll be back to normal. That plant has flowered three times since that initial lockdown.)

A calendar year has come and gone and I can't think of a single person in my life who has not suffered losses to the virus. Globally, more than 2.5 million have died, with over a half million of those deaths in the United States. The numbers are truly staggering, but they fall far short of capturing the true damage of the disease, and not just because they fail to reflect the actual death toll, which is likely higher.

From every one of us, the virus stole time. While we sat in our homes, many of us abiding by guidance not to gather with family and friends, people, like me, lost time with aging parents we'll never get back; our kids lost summer visits with cousins and games of basketball with neighbors; our coworkers lost their workplace families, and those without families at home found themselves suddenly profoundly alone in a world that felt fundamentally unsafe.

From many of us, the virus stole even more, deepening the divides between the haves and have nots. Lockdowns and social distancing eviscerated the travel and service industries, forcing millions out of work, or putting them in a position of choosing between assuming personal risk of infection and earning a living. The social safety net reacted to a degree with some stimulus money and eviction moratoriums, but many of us are profoundly worse off now than they were when this began. In contrast, those in “non-essential” sectors found themselves suddenly working from home, and unable to spend their income in restaurants, hair salons, and the like, increased their savings or spent on things - like trampolines and kitchen renovations - to make their homes more comfortable and attractive. Suddenly without viable childcare options, many parents - mostly mothers - left the workforce to tend to their most fundamental of obligations, a choice which, research shows, can negatively affect earning potential for a lifetime. And as affluent school districts rushed to activate online learning systems and put Chromebooks in every student’s hands, poorer districts floundered, leaving already vulnerable children even farther behind.

A year of pandemic has left us even farther now from the world of equity envisioned by Henry George than we were before, and it can be tempting to feel pessimistic about regaining that lost ground, let alone creating a future in which all people enjoy a basic quality of life. Yet, despite the very real reasons for despair, I don’t feel it. As infection rates fall and vaccination rates rise, we have the opportunity to emerge from this kinder, more able to see our common humanity, and more willing to create a future where all people can flourish. That’s the world I want to see and it’s the world the Robert Schalkenbach Foundation and the Center for Property Tax Reform are committed to creating.
Nevertheless, on the eve of the insurrection itself, 147 Congressional Republicans, most of them members of the very House of Representatives that bore the brunt of the attack earlier that day, voted to reject the count of electoral votes, even though by that point judges in some 60 court cases, among them judges installed by Trump, had rejected claims that the election outcome was fraudulent.

Within days of the coup attempt, we began to hear baseless claims from conservative officials and commentators that what happened at the Capitol did not happen the way it happened, that it was a false flag operation conducted by Antifa and not by right-wing extremists.

Meanwhile, in the moment when President Biden was speaking of the fragility of democracy, around 20,000 Federal troops stood guard in Washington, D.C. They were needed there to protect his swearing-in and inaugural speech from attack. (Cont. Page 6)

BENEFITS OF LAND VALUE TAX ON NEW YORK AND OTHER MAJOR CITIES – PART 2
BY: LEE HACHADOORIAN

A Tax Shift Would Affect Low-income and Elderly Homeowners
As previously stated in part 1 of the benefits of land value tax on New York, LVT has different effects on different demographics. So, what about low-income homeowners, or elderly homeowners? The effects of LVT on these groups specifically is not well studied, but we can glean insight from research into the traditional property tax. Public finance economists have viewed the property tax as a progressive tax for half a century, but this view has been slow to seep into urban politics and the popular understanding. There are several simple explanations for why the property tax is progressive. The two most obvious are 1) that higher income households own more expensive homes, and 2) that they are more likely to own homes at all. Lower income homeowners will tend to pay less tax on the lower value homes that they own, or be unable to afford to buy a home. In New York City, 81% of households earning less than $50,000 are renters.

This is not to say that we shouldn’t be concerned about low-income homeowners. But we need to keep in mind that keeping property taxes low does nothing to help the much larger group of low-income households who are renters, and does a great deal to help upper income households who own property, own higher value properties, or even own multiple properties. Any property tax break intended to aid low-income homeowners should be very carefully targeted. (Cont. Page 6)
RELOCATING? HOUSING ISSUES SPAN THE COUNTRY.

BY: WYN ACHENBAUM

In a recent New York Times article, The Californians Are Coming. So Is Their Housing Crisis, Conor Dougherty delves into the conundrum of growth and housing problems. He points to the current situation in California and the fact that its residents are fleeing the sunshine to a more affordable, and less congested state of Idaho. He poses the question: Is it possible to import California’s growth without also importing its housing problems?

In short yes. The response to the article was mixed. I offered the following:

Suppose a house or condo was not a form of investment, other than paying off the mortgage and perhaps doing renovations. In other words, suppose that as a homeowner, one was not entitled to pocket the increase in land value during the years one owned the house or condo. Suppose that, instead of paying the previous owner for the value of the house or condo PLUS the value of the site on which it sits, one only paid the seller for the value of the house or condo and other improvements (including landscaping). One would need a smaller down payment. So young people might not always need two incomes to become home owners. One would not need nearly as large a mortgage, and might be able to take on a shorter mortgage, at an advantageous interest rate.

Suppose that one’s annual property tax was only on the value of the land itself, and not on the condo or house and other improvements. Suppose that property tax payment, instead of being an annual payment, was simply a monthly payment. If you needed to move from one metro to another, there would be many more buyers for your house, and you’d be able to move expeditiously. If you needed to move from a less expensive metro to a more expensive metro to take a job that paid you well, you would not be forced to the fringes by a huge down payment. A house or condo of a certain size, style, age and quality would sell for more or less the same amount in most of the country. I think it would solve a lot.

Another reader responded, “How do you suppose school budgets in your community would be financed without taxes levied on residential property?”

It’s a little less cumbersome than one might think. Most communities have a significant amount of vacant land, which likely pays rather little in taxes. Under the structure I describe, a vacant lot would be paying the same amount as the same-size lot next door that has a house or a condo or a high-rise on it. No annual (monthly!) penalty for putting the land to good use. No penalty for making improvements to the buildings, or planting trees or keeping an attractive lawn. No penalty for adding an accessory dwelling for a relative or for a tenant. People get housed, closer to the center of things, closer to amenities, to transportation, to services, to jobs.

In most cities, half the value of a home is in the land. (A new subdivision on the fringe starts out as more like 20% land, 80% house, but the land tends to rise in value as services are provided, and the house starts to depreciate.) In California, more like 60 to 80% of the value is in the land. Vacant lots will start to pay their share, reducing the burden on families, workers, others who need homes, too.

To which another reader responded, “How about not connecting school budgets to property taxes, as it clearly leads to education inequality?”

Good point and I agree with this reader. I do not believe that a LOCAL property tax (be it based on taxing improvements, which I think is a poor idea, or on taxing land value, which I think is wise and just and promotes a much fairer and more vibrant economy) should be used to finance schools. Rather, that land value should be treated as our common treasure, collected as natural public revenue, and then distributed more evenly across our society, to meet the needs of all.

Children everywhere are entitled to a good education, whether they live in a high-land-value city, or in a rural area. The policy I propose will make it possible for many more of us to choose to live in or near the most interesting cities, for some or all of our lives.

IS IT THAT HARD TO TAX THE RICH?

BY: MATTHEW DOWNHOUR

When the public loses its appetite for the argument that taxing the wealthy is in some way unfair – a claim which, in the midst of a pandemic that has sharply heightened in equality, falls even flatter than usual – the next common retort is that it is somehow impossible to do. Those opposed to such taxes throw up their hands and sigh. “We’d love to tax the wealthiest among us, but we can’t do so effectively.”

A couple reasons are put forth for this: on a state level, there is always the specter of a flight of the wealthy away from high tax states. This has been a popular story to tell about California; as the state sees residents leave, many outside observers have claimed that high taxes have driven them away. California’s tax structure is indeed dysfunctional, but it is in fact lower income Californians who are leaving, indicating that high taxes are top earners are not the primary culprit. Another argument, prominently advanced by D.J. Tice in the Minnesota Star Tribune recently, is that high taxes will be passed down to customers and workers, and in any event will disincentivize the kind of behavior we want from millionaires and billionaires.
CALIFORNIA - WHAT NOT TO DO  OP-ED

In early February, Nick Kristof addressed his column, A Letter to My Liberals Friends, to his conservative hometown friends in Yamhill, Ore. He urged them to hold liberals accountable while doing the same for right-wing extremists, kooks and charlatans. In that spirit — and with Nick's cheerful acquiescence — I offer a rejoinder in the form of a letter to my liberal friends.

No, I can't relax! And no, I'm not worried that the Biden administration is going to send Trump voters to “re-education camps,” impose Cuban-style socialism or put out the welcome mat for MS-13. I'm just afraid that today's Democratic leaders might look to the very Democratic state of California as a model for America's future.

You know California, right? People used to want to move there, start businesses, raise families, live their American dream.

These days, not so much. Between July 2019 and July 2020, more people — 135,400 to be precise — left the state than moved in, one of only a dozen times in over a century when that's happened. The website exitcalifornia.org helps keep track of where these Golden State exiles go. The number one destination? Texas — although this was before the historic freeze that has occurred throughout February 2020. Next up is Arizona, followed by Nevada and Washington. Three of those states have no state income tax, while Arizona's is capped at 4.5 percent for married couples making more than $318,000.

In California, by contrast, married couples pay more than twice that rate on income above $116,000. (And rates go even higher for higher earners.) Californians also pay some of the nation's highest sales tax rates (8.66 percent) and corporate tax rates (8.84 percent), as well as the highest taxes on gasoline (63 cents on a gallon as of January, as compared with 20 cents in Texas).

Some of my liberal friends tell me that tax rates basically don't matter in terms of the way people work and economies perform. Sure. Still, I’d have an easier time accepting the argument if all those taxes went toward high-quality government services: good schools, safe streets, solid infrastructure or fiscal health.

How does California fare on these fronts? The state ranks 21st in the country in terms of spending per public school pupil, but 37th in its K-12 educational outcomes. According to an analysis by Stanford professor Joe Nation, California ties Oregon for third place among states in terms of its per capita homeless rate. Infrastructure? As of 2019, the state had an estimated $70 billion in deferred maintenance backlog. Debt? The state's unfunded pension liabilities in 2019 ran north of $1.1 trillion, or $81,300 per household.

And then there's liberal governance in the cities. In San Francisco, District Attorney Chesa Boudin has championed the calls for decriminalizing prostitution, public urination, public camping, blocking sidewalks and open-air drug use.

Predictably, a result of decriminalization has been more actual criminality. Recent trends include an estimated 51 percent jump in San Francisco burglaries and a 41 percent jump in arsons. For the Bay Area as a whole, there has been a 35 percent spike in homicides.

Yes, homicides have been rising in many cities around the country. But those trends themselves owe much to liberal governance in like-minded jurisdictions like Seattle and New York, with their recent emphasis on de-policing, decarceration, defunding, decriminalization and other deluded attempts at criminal-justice reform.

It's ironic that you don't hear this about the places Californians are fleeing to. Austin, the preferred destination of San Francisco exiles, remains one of the safest big cities in America (and it's run by a Democrat). Another thing you don't hear from Texas: a board of education voting — as San Francisco's just did — to strip the names of Abraham Lincoln, George Washington and Paul Revere from their respective schools, on grounds of sinning against the more recent commandments of progressive dogma. Not that it really matters, since all these schools remain closed for in-person learning thanks to the resistance of teacher's unions.

And then there is California's political class. Democrats hold both U.S. Senate seats, 42 of its 53 seats in the House, have lopsided majorities in the State Assembly and Senate, run nearly every big city and have controlled the governor's mansion for a decade. If ever there was a perfect laboratory for liberal governance, this is it. So how do you explain these results?

For four years, liberals have had a hard time understanding how any American could even think of voting for Republicans, given the party's fealty to the former president. I've shared some of that bewilderment myself. But — to adapt a line from another notorious Californian — Democrats won't have Donald Trump to kick around anymore, meaning the consequences of liberal misrule will be harder to disguise or disavow. If California is a vision of the sort of future the Biden administration wants for Americans, expect Americans to demur.

My unsolicited advice: Like Republicans, Democrats do best when they govern from the center. Forget California, think Colorado. A purple country needs a purple president — and a political opposition with the credibility to keep him honest.
On January 13, by a vote of 232 to 197, the House voted to impeach Trump on a charge of inciting the insurrection. But the politics of today being what they are, only seven Republican senators voted for conviction. Accordingly, although this or that individual rioter may face punishment, it seems unlikely that the twice-impeached and twice-acquitted former President or his highly placed supporters will be held to account any time soon for the insurrection or the false narrative of election theft that fueled it.

Henry George lived through the Civil War, also known as a war of brother against brother – a time when Americans were as divided as any country’s citizens have ever been. He lived through the six-year Panic and Depression that started in 1873, the context for the Great Railroad Strike of 1877 which saw widespread rioting and looting and Federal troops and rioters firing at each other. It is understandable that, having lived through such dark days, he might warn of even darker ones to come.

And yet, for all his dire warnings, George was basically an optimist. He saw that the fundamental cause of disastrous societal instability is economic:

“So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent. The reaction must come. The tower leans from its foundations, and every new story but hastens the final catastrophe. To educate men who must be condemned to poverty, is but to make them restive; to base on a state of poverty to persist and deepen as civilizations advance.

Although the coup attempt at the Capitol failed, its aftershocks are ongoing. George’s writings make clear that in order to restore our civilization to the foundational soundness it now so sorely needs we must work to right that central wrong.

How can low and middle-income homeowners be kept in their homes in a way that doesn’t undercut the property tax as a viable revenue source, and doesn’t compromise the fairness of the tax? Many states already have a homestead exemption, reducing the property tax for owner-occupied residential property. Dick Netzer, a public finance economist who advised NYC on how to reform its property tax in the 1970s, opposed the creation of the four-class system, and instead proposed a generous homestead exemption—suggestions which were not adopted. Such a homestead exemption must be flat or means-tested, so that it has the greatest value for low-income households. Another option to protect low and middle-income homeowners is a circuit breaker—which reduces the property tax liability based on household income. New York State has circuit breakers, but the legislation has not kept up with rising property values, and the benefit is tiny.

In addition, many states have programs to reduce property taxes for elderly homeowners. Some of these programs are means-tested, not all are. Since income and wealth go up with age, these programs may actually be regressive, providing a benefit primarily to higher income households. In New York State, which has a school tax rebate program (STAR) that all households can participate in, benefits to elderly homeowners primarily take the form of a higher rebate and lower income thresholds to qualify. New York City may be a special case, as skyrocketing property values do pose a greater threat to households living on a fixed income. Allowing forbearance of tax collection while still requiring the tax bill to be settled at sale or inheritance of the property will maintain fairness.

What about the impact on gentrifying neighborhoods? Overall, a land value tax should have progressive impacts for the reasons already discussed—a greater share of the tax burden will be shifted from renters to homeowners, from lower income homeowners to higher income homeowners, and from residential property to commercial property. But this tells us nothing about how it will impact specific neighborhoods.

There are two reasons to think that the impact on gentrifying neighborhoods will be neutral or even positive. One of the only studies to investigate the impact of gentrification on homeowners, focusing on Philadelphia after a long-needed assessment reform in 2013, did find higher tax delinquencies, but also found that relief measures targeting homeowners in gentrifying neighborhoods were effective. There was no evidence of displacement among elderly and long-term resident homeowners in those neighborhoods (“Effects of gentrification on homeowners: Evidence from a natural experiment”, Ding & Hwang 2020).
NEW YORK LVT (CONT.)

Another consideration is that NYC’s Map PLUTO property tax database shows that many low-income neighborhoods—the ones most likely to face gentrification pressure—have very low land value ratios, the share of assessed property value in land. This can be attributed to decades of disinvestment that preceded, and set the stage for, potential gentrification. A shift of the property tax from structure to land will also shift taxes from Bedford-Stuyvesant and the South Bronx to neighborhoods with higher land value ratios such as Midtown and the Upper East and Upper West Side.

Many options for reforming the four-class system are being discussed, including eliminating it entirely. A less radical option is to add a fifth class for vacant land, which would be taxed at a higher rate than the existing four classes. Due to the previously mentioned 421-a program, most new residential construction is already tax abated, ameliorating the disincentive of the traditional property tax. But, like all major cities, New York still has vacant lots and derelict buildings on valuable land. How can this land be pushed into productive use? Introducing a higher tax on vacant land would discourage speculation by increasing the cost of warehousing vacant land. The proposal is essentially the same as two rate taxation, with a higher tax on land than structure achieved by using different property classes.

Another option being discussed is a pied-à-terre tax, which would fall on second homes valued at $5 million or more. This is not a full reform, but a way to capture additional revenue from high-value properties. The pied-à-terre tax is a workaround to the problem (mentioned in Part 1) of property valuing high-end Class 2 condos/co-ops. It would technically apply to second homes with assessed value of $300,000 or more, but due to the complexity of the tax system, that translates to properties with a market value of $5 million and up. The pied-à-terre tax is better than nothing, but adds complexity to an already complex and nontransparent tax system. A better way to achieve this would be to value Class 2 properties correctly (by combining Class 1 and Class 2, or using the comparable sales method already used by Class 1) and giving a generous homestead exemption to owner-occupied properties. There is not really a difference between a discount for primary residences and a surcharge for pied-à-terres. Either way would be an improvement in terms of capturing untaxed land value without burdening low and moderate-income households.

Urban land is the most productive land in the modern economy, and New York City land values are among the highest in the world. New Yorkers are right to be concerned about the impact of skyrocketing property values on long-term residents of the city, and on its most vulnerable populations. Concerns for the impact of property taxes on low-income households has contributed to general opposition to the tax, but the primary beneficiaries of low property taxes are the corporations and wealthy households who hold the most valuable urban land. Contrary to common wisdom, the property tax is already a progressive tax, but shifting to LVT or two-rate taxation will do even more to shift the tax onto commercial landowners and high-income neighborhoods, to the benefit of all New Yorkers.

TAX THE RICH (CONT.)

This argument has somewhat more merit – there is no real economic question that taxing a good or service will increase its scarcity and thus its price, which in effect passes the tax on to customers. There is also no question that taxing an activity makes people less likely to do it. Henry George in “Justice the Object, Taxation the Means” makes this same argument by pointing out that it is precisely this effect that states often count on when imposing punitive taxes: “In most of our counties and States when dogs become too numerous, there is imposed a dog tax to get rid of dogs. Well, we impose a dog tax to get rid of dogs, and why should we impose a house tax unless we want to get rid of houses? Why should we impose a farm tax unless we want fewer farms? Why should we tax any man for having exerted industry or energy in the production of wealth?”

So, in one sense Dice is to be commended for shifting our focus on to the incentive structure of our tax system. He argues that “It could be those who are least able to move their capital, or move themselves, to lower-tax locations who indirectly pay the price of Minnesota government’s
and easier land acquisition by those who want to use it for homes or businesses, or for municipalities to buy land for public use. Indeed, because the supply of land cannot be diminished, the tax also will not be normally ‘passed on’ to consumers in the form of higher rents. If, with the current supply of land, landlords could charge higher rents, they would. Given that the supply of land will remain the same after the tax, the rents charged on land will stay broadly the same.

There is no doubt that in economics, as in life generally, unintended consequences are the rule, rather than the exception. An exploration of tax incidence and incentives is always a crucial part of developing solid policy. But such an exploration is meaningless if the best it can do is warn against any attempt to tax the wealthy. A more careful examination of these issues leads to a near-unnecessary conclusion: taxing land is the best way to align the incentives of the wealthy with the needs of the public, and to collect revenue for the state.

WE'RE NOT ALL IN THIS TOGETHER: WEALTH TAX VS. LAND VALUE TAX

BY: FRANK DE JONG

Nature would prefer not to sell herself, but if forced to it by growth, would at least like to divide equally among her children the revenue from the forced sale of her previous gifts.” — Herman Daly

Life’s not fair, but taxes should be. Henry George was livid that labourers and capitalists were rewarded only for their work while landowners received the unearned increment even as they slept. He was flabbergasted that every newborn wasn’t automatically entitled to their portion of the revenue of global commons. If we were all in this together, we would receive an equal share of the bounty of nature as birthright.

We were all in this together for several million years, according to Fred Harrison. In “We Are Rent,” he suggests that after prehistoric humans had satisfied their immediate needs they would work a little extra developing new techniques and technologies which were immediately “pooled for the common good”. But rent sharing ended during the industrial revolution when the landowning class devised the means to commandeer the economic rent for their personal enrichment.

This unfairness pioneered by these 19th century landowners continues to this day. If you are a mortgage-free home or business owner, you unfairly benefit from what we learn to condemn by reading Charles Dickens. Landowners live essentially tax free since their annual land value increase reimburses most of their state and federal taxes. (Landowners must pay municipal taxes - a fee for service, not a tax.)

Renters help pay off landowners’ mortgages and then contribute to building their equity. Land values rise with the market leaving those who rent further and further behind. When lease-holders compare their stagnant equity to landowners, they know we are all not in this together.

Most millionaires don’t work for a living. They become rich by securing a monopoly over some aspect of the commons: they get land rezoned, they purchase resource monopolies, or they purchase patents over a scalable technology or pharmaceutical product.

Land and resource owners accumulate wealth through privilege, not production, as if on permanent paid vacation. These people are rentiers, capturing unearned income that rightfully belongs to the community.

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Land and finite resources have value because of the community. Because they are gifts of nature and their value is community-created, the value upkick belongs equally to all, not exclusively to the present owner.

This wrong can be righted, but as Fred Foldvary explains in his counterpoint article, wealth taxes are wrongheaded. Attempting to tax wealth invites evasion and capital flight. Gérard Depardieu is infamous for renouncing his French citizenship and moving to Russia to avoid taxes.

Depardieu’s problem was that wealth taxes do not distinguish between earned and unearned income, between economic rent and the legitimate reward for brawn and brain. His actor’s income was earned by his talent and hard work and should not have been taxed.
WE'RE NOT ALL IN THIS TOGETHER (CONT.)

On the other hand, had he polluted the air, had he reaped windfall profits by selling oil, a forest or a mineral, or pocketing the land rent on a vaste estate, then all of this income -- above an operating profit -- should have been socialized. These examples illustrate that the sources of economic rent are earth-bound and cannot be offshored or evaded.

Economic rent is variously called windfall profits, unearned income, the unearned increment, super profits, royalties, capital gains, birthright, or even luck. It is the difference between a fair profit and a windfall profit. It exists because of the hard work and ingenuity of the community and should therefore accrue back to the community. Economic rent captured by governments is therefore not a wealth tax.

At the same time, people will justifiably begrudge that income gained through work, investment, innovation or value-added should stay, untaxed, with the person or business that earned it.

GOVERNMENTS AROUND THE WORLD ARE FINALLY BEGINNING TO COLLECT SOME OF THE RENT FROM LARGE INTERNET PLATFORMS.

Australia, first to bell the cat, has succeeded in convincing Facebook and Google to accept charges to compensate local media companies for the use of news stories. Countries all over the world have plans to follow suit.

If we were in this together the wealth gap would shrink, a basic income would eliminate poverty, and no one would reap windfall profits by destroying biodiversity or by contributing to climate chaos. The silver lining would be that everyone would benefit when entrepreneurialism and employment is no longer burdened by taxation.

WHY WEALTH TAXES WERE REPEALED IN EUROPE

A wealth tax is an example of a policy that has a superficial appeal that dissolves when closely examined or when put into practice. Wealth is anything with a positive market value. Net wealth is wealth minus liabilities. Gross wealth does not subtract liabilities. Wealth can be tangible, such as real estate and jewels, or intangible, such as shares of stocks and bonds.

Wealth is widely taxed when it is real estate and when an estate is transferred after death. Some politicians, such as Elizabeth Warren, have proposed a general wealth tax on the rich. Warren has proposed a 2% federal tax on a person's net worth over $50 million, plus a 1% tax on every dollar in net worth over $1 billion.

The problems with general taxes on wealth are economic, moral, and constitutional. The economic problem consists of disincentives, avoidance, and evasion. It would superficially seem that the rich would not miss having a bit of their wealth confiscated. But one does not become rich from not caring about money. One can better understand the disincentive effect by calculating an equivalent tax on the yield of wealth.

Suppose the inflation-adjusted yield of bonds is 2%. A $100 bond would yield $2 per year. Now impose a 2% tax on wealth. That imposes a $2 tax on the bond's market value. Thus what seems like a small tax on wealth is equivalent to a big 100% tax on the yield!

The tax on wealth generates a disincentive to produce wealth. It also creates an incentive to avoid or evade the wealth tax, such as by transferring the wealth to tax shelters such as trusts, moving to foreign places, or hiding wealth in vaults and safe deposit boxes. Good luck to the tax collector in finding the diamonds!

The moral problem is that the confiscation of wealth that is earned from labor imposes a government ownership on the labor and thus on the body and life of the worker. The moral issue can be solved by taxing unearned income, as described by the counterpoint article by Frank de Jong.

The constitutional problem comes from there being no authority for a federal tax on wealth. The 16th Amendment recognizes the federal authority to tax income, while the original constitution required direct taxes, such as on wealth, to be levied in proportion to state population, not purely in proportion to wealth. However, a wealth tax would be Constitutional if confined to the residents of Washington DC.
Evidently, European countries do not have this constitutional problem, and several of them did impose a tax on general wealth. As reported by Rosalsky, in 1990, twelve European countries levied a wealth tax. Today, there are three: Norway, Spain, Switzerland. France’s wealth tax, implemented in 1982, resulted in an exodus of 42,000 millionaires between 2000 and 2012. The tax was repealed in 2017. The Swiss tax is decentralized, levied by the cantons, and self-reported.

The years the European wealth taxes were introduced and then repealed are shown on the referenced article by Chris Edwards. As one example, “Sweden repealed its wealth tax in 2007 as it became clear that it was driving business people—such as the founder of Ikea, Ingvar Kamprad—out of the country.

A tax on real estate requires the assessment or appraisal of the property value. This can be complex, especially in valuing the building, but at least the property is visible and immobile. The taxation of general wealth is much more difficult and costly. How much is a stamp collection worth? One has to value the individual stamps. The high cost of enforcement induced Austria to repeal its wealth tax in 1993. The European countries found that the tax on wealth raised little revenue. European wealth taxes collected only 0.2% of GDP in revenues.

The US federal income tax is levied on Americans even when they live abroad. A wealth tax could do the same, avoiding the French problem. Warren’s plan would include a stiff exit tax on those who renounce US citizenship - 40 percent of a person’s wealth over $50 million. But a high exit tax makes U.S. citizenship that much less voluntary. Moreover, as Edwards states, “The Internal Revenue Service would be charged with the impossible task of auditing everything affected U.S. residents owned on a global basis and judging whether the valuations on all those foreign assets were fair.”

The same troubles were experienced by other countries. As Edwards states, “India enacted an annual wealth tax in 1957 and repealed it in 2015. Indian finance minister Arun Jaitley described reasons for his government’s scrapping of the tax ...‘The practical experience has been it’s a high cost and a low yield tax.’ The Indian wealth tax became riddled with exemptions, it was evaded, and it raised little revenue.”

Tax avoidance is enhanced by exemptions. As Edwards states, “Farm and small business assets were often exempted over concerns about entrepreneurship. Pension assets were exempted over concerns about fairness. Artwork and antiques were exempted because of difficulties in valuation and worries about the break-up of collections. Forest lands were exempted for environmental reasons. Nonprofit organizations and intellectual property rights were often exempted. The French wealth tax exempted stocks of wine and brandy. Over time, taxpayers shifted their wealth into exempted assets and tax bases shrank.”

Instead of directly taxing wealth, it is Constitutional to levy a tax on the purchase of some types of wealth. Such an excise tax was levied in 1991, a ten-percent tax on luxuries such as yachts. The rich responded by reducing their purchase of yachts, airplanes, fancy cars, and other luxuries. The tax contributed “to the general devastation of the American boating industry -- as well as the jewelers, furriers and private-plane manufacturers that were also targets of the excise tax,” The tax on yachts was repealed in 1993.

Since superficial appeal is stronger than logic or evidence, we most likely have not seen the end of attempts to impose a U.S. wealth tax. As the German philosopher Hegel wrote in the introduction to his Philosophy of History, “What experience and history teaches us is that people and governments have never learned anything from history, or acted on principles deduced from it.”

“The coronavirus crisis has exacerbated inequality in the U.S. and demonstrated a greater need for a wealth tax to generate more federal revenue, which should be invested in programs for early childhood education and infrastructure.”

Sen. Elizabeth Warren
What follows is a sympathetic summary of the first book from Fred Harrison’s new #WeAreRent trilogy. For me, an objective review of the trilogy is not practical, as I have for many years agreed with almost all he has written.

One of the great tragedies of our time is that these books are needed at all. What Harrison provides is, to at least some of us, common sense. However, for many others – even those who are well-read or who have a sincere commitment to creating a fair and just world for all – the books will challenge much that they believe to be true about our history. Harrison has surveyed the scientific disciplines for evidence to support his own theory of human cultural evolution and escalating disintegration. His conclusion is that the evidence is plentiful, indeed. He concludes that we are the victims of a spiritual genocide:

In Europe, the process began late in the 15th century. That was long enough in the past for the foundation injustices to be expunged from people’s memories. Through a turbulent period of 500 years the free riders systematically worked to curb the critical faculties of rational people. Their crime, the appropriation of the commons, was legitimised and institutionalized as the private ownership of land and Rent. With the passage of that amount of time, what originated as perverse behavior of the rent-seekers, unjust in the eyes of the victims, became accepted as normal. Such society, therefore, is not aware of its psychotic state.

For nearly a half century, Fred Harrison has been an energetic proponent of the systemic reforms called for by the late nineteenth century American political economist Henry George. Harrison’s body of work in support of this campaign has been continuous and included not only books and articles but hard-hitting videos documenting the history and contemporary efforts exerted to focus our attention onto the problems caused by (as stated in the above quote), “the private ownership of land and Rent”. Book 1 of the trilogy #WeAreRent comes out of his desire – one more time – to call upon us to take crucial corrective action before we run out of time. His opening statement tells the reader what is ahead:

We no longer have a choice. Humanity has arrived at a crossroads. At stake is our species. To survive we must move beyond the dual between capitalism and socialism. To relaunch onto the evolutionary path into the future we must learn from the hard-won lessons of the past.

With this, Harrison asks us to join him on a journey of discovery into our very distant past and the first appearances of complex social organization within groups. He explains that as the human population increased and began to establish fixed settlements, the most important strengths of the early social groups were consciously and systematically eroded by those who managed to gain and hold power over what others were required to do and how they were permitted to think.

This was accomplished, he explains, by the transfer of rent: “...the value that remain after deducting the wages of labour and the profits from capital formation and enterprise” from producers to those having the power and authority to take without offering anything in exchange. The eventual result is “depletion of the pillars that support the social structure” and “the collapse of civilization.”

The evidence Harrison presents is damaging to the case made by the defenders of either capitalism or socialism as they argue that just one of these systems is best for humanity. One must look to how early humans once organized to identify the solutions to our modern problems. Even with these facts before us, however, changing our thinking and our behavior is burdened by what Harrison describes as “a culture of cheating that has had five centuries to manipulate our minds and shape our institutions.”

A key observation is that even the earliest humans committed their mental and physical energy to production above what was required for biological subsistence, and this surplus production enabled early people to improve their quality of life, an outcome synergistically related to the continuous increase in “the size of the energy-hungry brain”. At this stage of group organization – whether by innate human instinct or by learned behavior – people “were intensely egalitarian”. Harrison asks readers to face the fact that the accumulated wisdom of thousands of years was consciously and systematically undermined as hierarchy supplanted cooperative societal norms. The only path to turning back the clock, Harrison argues, is “democratic consent”. In this trilogy he will offer his insights into how such consent might be obtained. (Cont. Next Page)
BOOK REVIEW (CONT.)

WEARERENT (CONT.)

To tell the true story of our physical, psychological and cultural evolution, Harrison draws upon the insights of an interdisciplinary scientific community. Explained to us are the “techniques of accumulation” that separated us from the beasts, aided by very specific changes in the physical characteristics of our distant ancestors. The most important techniques are cooperation and the efficient use of the tools we produce. Working against these techniques were the “selfish interests” of some individuals resulting in “cheating” strategies and the redistribution of wealth from producers to the cheaters. Thus, strongly enforced moral rules were essential to ensure that rent was “shared for the common good” and not appropriated by a privileged few seeking a free ride.

I am confident that WEARERENT will be acknowledged with few challenges by readers of Land&Liberty who acquire the books and read them. The content, if studied closely, will add to the intellectual ammunition of those committed to at least trying to educate a public that has managed to complete formal education without ever encountering anything written by Henry George or any of the authors and teachers who have written similarly over the last century and a half.

What George tried to do for political economy during the last quarter of the nineteenth century, Harrison is trying to take a step further by creating a reinvigorated foundation for a unique approach to the study of human behavior and organization.

At the end of this first book in the trilogy, Harrison asks: Have I offered a prima facie case against the power structure that underpins democratic societies? If so, this becomes one starting point for the conversation about the reforms that are needed to establish trust in governance and restore resilience to communities.

Although fully convinced that Harrison had already made the case in his earlier books and articles, Book 1 of the WEARERENT trilogy is a notable accomplishment. Over the last three thousand years or so men and women with unusual insight into the human condition have shared their insights with us and in the process helped to change the course of history. Henry George’s book, Progress and Poverty, seemed at the time to be one of these rare documents. Millions of copies were sold, read and discussed. As Harrison documents, the lessons continue to be taught to this day if not widely understood or embraced.

Times are very different today. Will Harrison’s trilogy find its way onto the list of best-selling nonfiction books? Will the media call upon him to be interviewed on radio and television? The bottom line is that the public reaction to this trilogy must be both quantitatively and qualitatively different from any book bringing forward these insights since Henry George emerged to lead a too short-lived global campaign to end cheating. I am grateful to Fred Harrison for trying.

EXPLORING LAND VALUE TAX

The Center for Property Tax Reform had an eventful February filled with dialogue, research, and a discussion on Land Value Tax in Philadelphia. Our team extended its efforts by adding the Twin Cities, Minneapolis and St. Paul to our tax shift explorer and identifying new cities in Virginia to add. We have also had conversations with candidates for NYC Council, Evie Hantzopoulos; District 22 and Malik Wright; District 9, along with a continuous discussion with the Dianne for NYC campaign.

We also partnered with 5th Square and Philadelphia’s former and current councilmembers: Derek S. Green, Maria Quiñones-Sanchez, and Wilson Goode Jr. to address the impact that a Land Value Tax would have on the City of Brotherly Love. We look forward to speaking with more like-minded organizations, advocates, and candidates while expanding our efforts in providing educational webinars, studies, and research in the months to come!
Remember how Kansas became heaven overnight after they slashed the income tax? Me either.

Let’s try again.

Setting the stage for an overhaul of a state tax system requires fiddling at the margins of policy rather than blowing up everything at once. So, much as taxing wages is a bad idea, it takes a long time to get into a bad situation, so it follows that it should take a teensy while to get out.

The Kansas "experiment" is a classic Rorschach test. Advocates of robust taxation and government spending observed a fiscal disaster. Advocates for cutting taxes (supply-side acolytes Arthur Laffer and Steve Moore) declared the experiment didn't have time to work.

A careful reading of foundation/think tank pieces from both sides of the political divide agrees that one aspect of the reform (getting rid of the business pass-through) provided a double benefit to high earners who also had their income taxes cut. It's safe to say that Kansas probably screwed up when it cut both forms of taxation and then hesitated to cut the state budget.

By 2015 when the experiment ended (sort of), revenues increased again, and all was okay throughout the land. Not quite! Lacking the resolve to restore all the income tax cuts, Kansas increased its sales tax. With local governments allowed to have a sales tax, rates are bumping or passing 10%. It's a comprehensive tax as well: it covers food and other groceries.

Kansas Redux

That little bit of history ought to encourage caution, but many border and southern states didn't get the memo. There's a plan in Mississippi (yes, the sickest and poorest state in the US) to cut the budget in the 2021 session and introduce an eventual elimination of the state income tax. The chances of a revenue disaster like Kansas? No problem, they'll make up for it by increasing the sales tax, already at 7%, with local options for more.

Mississippi has alternatives, which they likely will not explore: property taxes. Mississippi enacted the first sales tax in the nation in 1930. The rationale was to lower property taxes. Lower taxes for who? In the 1930s (and today), the primary landowners have held it mostly for mineral rights, timber, or corporate agriculture. Mississippi’s Delta land, which had significant black ownership in the early 1900s, was stolen and is now in gentlemen farmer/developers' hands.

Suffice to say; those industries don't need many workers anymore. It's a hell of a place to live.

Last year, the progressive mayor of Jackson, Mississippi, tried exploring land value tax. So far, he and his talented staff are stymied at every turn just trying to get property ownership information.

And the band played on.
As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce.

- Adam Smith -

The above is presented as a public service announcement by Erickson & Associates, economic consultants to government, business, and the legal professions with offices in Bend, OR, and Juneaux, AK. More information can be found at www.EricksonEconomics.com