

Equity Premises of Taxation
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Equity Premises of Taxation

Mason Gaffney*

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The Harvard Registrar reports the most popular undergraduate courses now are "Justice," "Principles of Economics," "The Concept of the Hero," and "Literature of Social Reflection." The "Me Generation" is passing; Justice, Heroism and Social Thought are "In." Economists are hardly ready for this.

Classical political-economists, some of them moral philosophers, made distribution of wealth central to their discipline. This led easily into radical demands to redistribute wealth. Neoclassical economists, defending property, downplayed distribution. Beliefs about this, they held, are subjective, self-interested, numerous and conflicting, sowing discord and confusion.

Neo-classicals now refocus the discipline dryly on "allocation of scarce resources among competing ends." Contesting distribution is divisive and counterproductive. "Heroic" means uneconomical. Past wrongs are "by-gones" to forget, except to honor the resulting property claims. The only good changes are voluntary "win-win" exchanges, validating extant claims on wealth. Property rights must be specified, perpetuated, and extended. For tax policy, "uniformity" and "neutrality" are the touchstones. These informed the Tax Reform Act of 1986, and swarms of new user charges. The "level playing field" concept says these policies are not only efficient, but just.

Critics dispute the value judgements that unjust origins may be laundered through the sanctity of property, and that private claims to rising rents are valid in perpetuity. Ongoing privatization of commons promotes inefficient "rent-seeking." If bygones are bygones, does not that say we may forget past services, savings, appropriations, and appreciation, and redistribute wealth any time?

A tax system cannot promote efficiency while slighting justice. Justice has deep cultural roots: "justice, just, righteousness, and righteous" appear some 388 times in <u>The Bible</u>. If people don't get tax justice they seek amends through counterproductive

devices like looting, graft, price controls, handouts, open access, debt repudiation, nationalization, featherbedding, or cross subsidy. True, some taxation is counterproductive, too: but it need not be. That is why we are here to discuss taxing rent.

What is tax justice? A common chant says taxes are rationalized either by ability to pay, or benefits received. That is too simple, and thus misleading. Here follows a list of 17 familiar ideas of tax justice, with lemmas.

Familiar Ideas of Distributive Equity

A. Functional equity: reward effort, productivity and capital formation. The product is the incentive to function.

Lemma 1: Labor is the unquestioned property of the laborer (Locke). Labor and saving are the valid bases of private property.

Lemma 2: land tenure derives from neither work nor saving, but from the sovereign state. Private tenure is no more than a means to get land used well. Government creates a public value in land, earning the land's rent (Smith, Walras, Marshall).

Lemma 3: no one should get something for nothing; no license to do so is validated by purchase or custom.

Lemma 4: a bigger pie yields bigger slices.

Lemma 5: exempt man-made capital from property tax.

Lemma 6: tax land rent instead. a) this lowers land prices, stimulating saving; b) the windfall from downtaxing capital is offset by uptaxing land, minimizing wealth transfers; c) justice is thus done to those excluded from land tenure by supporting government, making jobs, and producing consumer goods.

Lemma 7: human capacities to add value economically (work, save, manage, trade) are more equally distributed than claims to unearned wealth.

Lemma 8: exempt income of depreciable capital from income tax, using fast write-off, expensing, and/or ITC.

Lemma 9: land has a marginal product that roughly equals its residual rent (Wicksteed, Euler). Marginalism does not refute, but confirms residual rent theory.

B. Free market equity: justice results from free competition and exchange, competing away monopoly rents.

Lemma 1: natural monopolies should be regulated or socialized to charge marginal-cost prices below average cost, covering any deficits with land taxes (Hotelling, Vickrey).

Lemma 2: equal distribution of land raises the numbers of potential competitors.

Lemma 3: Consumers are less organized, need protection by government agencies and private crusaders. Seller combinations in restraint of trade are unjust and untrustworthy.

Lemma 4: a free economy requires free access to information.

C. Intergenerational equity

Lemma 1: social dividends as birthrights are the entitlement of every citizen-child. A nation's land is a birthright of all future children, unalienable.

Lemma 2: floor under social security, backstopped by social rent-fund.

Lemma 3: organic theory of the state.

Lemma 4: tax inheritances.

Lemma 5: foster capital formation, to compensate new generations for inevitable losses of exhaustible resources.

Lemma 6: foster processing and recycling; stop subsidizing exhaustion of primary resources.

D. Ethnic equity

Lemma 1: ethnicity not a factor in tax liability, or social dividend eligibility.

Lemma 2: recognition that deprived ethnic outgroups are disadvantaged in terms of property, not labor power.

E. Environmentalism: equity as preservation of and access to desired natural conditions.

Lemma 1: In travesty, "Trees have rights."

Lemma 2: Naturalistic property doctrine, e.g. riparian owners' absolute right to natural flow of streams.

Lemma 3: Public Trust Doctrine, acknowledging every present and future citizen's entitlement to natural environment.

Lemma 4: "polluter pays the public" principle.

Lemma 5: WTP valuations equal WTA valuations; entitlements don't affect allocations.

F. Egalitarian equity: tax ability-to-pay; level wealth and income.[1]

Lemma 1: Equal division of land (morcellement). (Code Napoleon; Mosaic land law; Homestead Act; etc.)

Lemma 2: broaden definition of public goods; supply them publicly.

Lemma 3: any given social product yields more aggregate satisfaction when shares are more equal, because of: a) diminishing marginal utility; b) less divisiveness, crime, unreachable emulation; c) greater security; d) closer community.

Lemma 4: tax income from all sources at progressive rates, seeking horizontal and vertical equity in those terms.

Lemma 5: tax all property, subject to circuit breakers or homestead exemptions.

Lemma 6: (in crises) impose equity in kind: rationing, military service, etc.; bypass market system.

Lemma 7: tolerate inflation to tax and discourage hoarding, raise effective income tax rates.

G. Median voter theory: "public choice"

H. Utilitarianism: greatest good for greatest number.

J. Merit as equity; Calvinism redux.

Lemma 1: Social dividends given in form of education, or loans, requiring matching response by grantee. Noblesse oblige, but receivers are expected to be cooptable.

K. Contractual equity: enforce contracts; collect debts.

L. Middle class populism.

Lemma 1: farmers deserve subsidies to keep alive true American small-town culture and values.

M. Appropriative equity: seizure creates property.

Lemma 1: priority, discovery and power are valid bases of property rights.

Lemma 2: tenure is justified by occupancy and use.

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[1]We need to decide which forms of wealth, and which forms of income, to equalize. These important matters are not treated here.

Lemma 3: possessory interests should ripen into fee simple titles.

N. Status quo equity: existing claims are valid.

Lemma 1: contract theory of the state; benefits-received theory of taxation; privatize public services, or apply full-cost user charges.

Lemma 2: an "old tax is a good tax." Only voluntary "win-win" changes are tolerable, following Pareto. Higher taxes on labor are acceptable, labor having no property in itself.

Lemma 3: some older uses of land (status quo) deserve public protection against new, higher uses, preferably at the owner's option.

Lemma 4: ownership includes the right to alienate land to the highest bidder. Where this conflicts with Lemma 3, the public (other taxpayers) should buy up development rights, preferably without condemnation.

Lemma 5: empty land, however valuable, uses no public services and should not be taxed.

Lemma 6: property is an ultimate moral good, its own voucher, requiring no higher justification.

Lemma 7: if it was efficient to end slavery, the owners (not the slaves) should have been compensated.

Lemma 8: it was acceptable to take land from aborigines because they did not hold it in private. Killing and driving them off was an investment like any other (F. Knight).

Lemma 9: when it is politic to redistribute land in the third world, the private owners should be compensated by U.S. taxpayers, preferably wage-earners and consumers.

Lemma 10: political actions that create private property are not reviewable (Dartmouth College Case). Ongoing governmental subsidies, once granted, must never be withdrawn (Wahl; Angelides and Bardach; Willey).

Lemma 11: private property as a store of value is a welfare system.

Lemma 12: private property is the basis of bank credit Government should support real estate prices (P.C. Roberts).

Lemma 13: windfalls belong to landowners; wipeouts are unconstitutional takings.

Lemma 14: all resources are the same; labor is a form of capital (Hirshleifer, Milliman and DeHaven, p.131).

Lemma 15: users of open commons have no property rights worthy of respect.

Lemma 17: taxes on property should pay only for services, narrowly construed, to property (H. Jarvis).

Lemma 18: The nation was built and led by northwestern European stock. Others have little claim to share rents.

Lemma 19: Holders of ripening land render social service by reserving it for its best future use (Ely).

Lemma 20: spare propertied widows from taxes.

Lemma 21: open access to public lands overcrowds commons, dissipates rents.

Lemma 22: indirect open access to local public goods is confiscatory. It causes maldistribution of population, dissipation of rent, and costly countermeasures by local enclaves.

Lemma 23: ongoing subsidy to territorial expansion is a tradition in which owners of fringe lands have a valid interest.

O. Pressure group equity: "a fair shake for the ... (oil man, surfer, farmer, banker, logger, ...)"

P. Anti-commercial equity: penalize fast turnover, trafficking, etc. Tax sales, exchanges. Zone out commerce, high density land uses, etc.

Q. Low density equity: zone out higher uses.

Lemma 1: higher uses overload underpriced public goods.

Lemma 2: "empty nesters" should not pay to educate others' children.

Lemma 3: immigrants' votes threaten a majoritarian tyranny, jeopardizing real estate values.

Lemma 4: immigrants raise everyone's property taxes by raising real estate prices. Where this conflicts with Lemma III, lower property tax rates to satisfy all.

Lemma 5: old settlers have an implicit property right in their ancient way of life.

Lemma 6: empty land serves by separating people.

Conclusion

Concepts M-Q have obviously held sway for many years now, with the results that we live with. Champions of status quo equity, deluded by easy success, are now advancing more extreme claims at what may be the wrong moment in history. One example is the claim that rights to pollute should be granted in

proportion to histories of pollution. Another is the claim that historical recipients of Federally subsidized water at $2.50/unit should be guaranteed the subsidy in perpetuity so they can sell it for $400/unit.

Some conclusions follow. 1), no single equity argument or antithesis should be allowed to define the debate, it is multi-dimensional. .... (Remainder deleted.)

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