DIRECTORS' PERSPECTIVES (CONT.)

PLATFORM CAPITALISM IS EATING YOUR TOWN

BY: FRANK DE JONG

Major internet-based platforms like Facebook, Amazon, Apple, Netflix, and Google (FAANG) command monopolies allowing them to charge well beyond their costs. (The House Antitrust Subcommittee determined in October 2020 that Facebook wields monopoly powers in social network and has maintained its position by acquiring, copying or killing its competitors.) The portion of FAANG's profits that lie above the cost of production are unearned, are economic rent, and should rightfully accrue to the greater community.

In the business world there are two distinct revenue streams: earned profit and windfall profits. Most businesses collect some of both. Earned revenue is generated by making a product or providing a service while unearned income results from a land, location, resource or market monopoly.Oil companies, for example, generate revenue by pumping fossil energy out of the ground and distributing it to consumers. They add greatly to their profits by holding long term leases on oil and gas fields, often keeping oil out of production to force prices to rise. Oil field speculation revenue has no cost of production.

Similarly, housing developers hold development land out of use until land values rise, then quickly build houses and realize massive profits well above the cost of construction. For developers, building houses is actually a sideline to their main business model of land speculation. A clear sign that the FAANGs are capturing significant amounts of economic rent is their ability to vacuum up competition. Google acquired YouTube in 2006 for $1.65 billion. Microsoft bought Skype in May 2011 for $8.5 billion. Companies dependent on producing goods or services rarely realize profits above 5%, not the kind of cash needed to buy up competing businesses.

Facebook is now worth $650 billion, with annual revenue of $70 billion. Google is worth nearly $1 trillion, with annual revenue of $160 billion. These revenue streams are the result of scalable technology – because the medium is electronic, relatively low development costs can be leveraged into stratospheric profits. Once a platform is built, it can add an infinite number of paying users with little marginal cost.

The internet is part of the commons, like water, like air, like the EM spectrum, like resources, like land. Compare Amazon to a brick and mortar store. Your local retailers face competition, collect only earned income, pay taxes, and are labor intensive. But, Amazon is internet-based, it maintains relatively few employees or buildings, and thus doesn't pay anywhere near its fair share of taxes relative to profits.

Monopolies pocket revenue that is stolen from the commons — revenue without a corresponding cost of production, wealth that rightfully belongs to the community. The difficulty is how to tax the internet commons without discouraging economic activity.
(Cont. Page 6)

A GREEN NEW DEAL TAX SHIFT

BY:FRED FOLDVARY

The "Green New Deal" is a set of proposed laws that are intended to reduce the pollution that contributes to climate change. The term is, of course, adapted from the "New Deal" policies of the Roosevelt administration during the Great Depression. New Deal policies included the destruction of crops, the creation of monopoly business cartels, and public employment projects. The New Deal did not end the Depression. Both the New Deal and the Depression ended with the entry of the USA into World War II. The Green New Deal name invokes the major interventions of the FDR New Deal. Green policy can take three forms. First is command-and-control legislation that mandates or prohibits particular actions. An example is limits on the production of gasoline-powered vehicles, or requiring additives to gasoline. Second is subsidies for favored actions, such as the production of solar panels. Third is taxes on emissions. **(Cont. Page 6)**

DIRECTORS' PERSPECTIVES (CONT.)

PLATFORM CAPITALISM (CONT.)

A "link tax" or copyright fee would mandate licensing of links to news articles on social-media sites such as Facebook, but to do so would diminish news distribution. Governments could tax Skype and Zoom on the minutes of airtime used, but this also would be counterproductive to economic productivity. Likewise, taxing internet providers (IP) for internet access is retrograde. IPs already pay tax for brick and mortar, salaries, electricity, and bandwidth. The Internet Tax Freedom Act is on the right track.

The Internet Tax Freedom Act (ITFA) — passed in 1998 — imposed a moratorium preventing state and local governments from taxing internet access. In July, the Permanent Internet Tax Freedom Act (PITFA) was to be fully implemented nationwide, causing the last few grandfathered states allowed to tax internet service providers to lose an estimated $1 billion in combined annual revenue.C02 taxes reflect the externalized cost of pollution, land value taxes and resource royalties acknowledge that those who use the gifts of nature should compensate the community for the privilege.

Similarly, companies who extract windfall profits from the internet commons should compensate citizens as additional government services or as dividends (like The Alaska Permanent Fund).

Assessors, skilled at estimating the value of land and resources, could readily determine the cost of production of internet-based businesses. Once assessed, governments could decide if all or some percentage of the unearned wealth would be shared with the true owners of the commons, the citizenry.Rent capture would deliver a level playing field between large and smaller platforms by reducing the capacity for leveraged buyouts by the giants. Internet-based businesses are slippery, they can operate in remote markets without local infrastructure, so rent capture should be global, supported by all OEDC countries.

It is unjust that wealthy people and businesses are allowed to loot the internet commons without creating value. It is past time that global governments break internet monopolies and properly reward innovation, new market development, and wealth creation.

GREEN TAX (CONT.)

Economics concludes that of these three policies, the most efficient, hence most productive relative to cost, is the third one, penalties on emissions, which take the form of taxes. For the same result, a reduction of greenhouse gas emissions, the use of the price system is more efficient than imposing mandates and restrictions. Taxes that make polluters pay the social cost of the emissions enable firms and individuals to respond according to their individual costs and benefits.

Subsidies create a social-welfare loss, as the social cost of the taxes that pay for the subsidy is generally greater than the social benefit from the reduced price of the goods. At the subsidized price, the extra people who buy the good value it less than those who pay the full cost, and the taxes shift production from more valued to less valued goods. Another way to use the price system is with pollution permits that trade in a market. The system starts with some quantity of allowed pollution and a fixed number of permits. As firms expand production and thus increase pollution, they must buy additional permits, which increases the price. The gains in permit prices go to those who have the permits, while with pollution taxes, higher tax payments go to the government, enabling the state to reduce other taxes.

A complete green tax shift would eliminate the waste of resources that our current tax system imposes. Taxes on goods and wages impose a "deadweight loss" on the economy, a loss of benefits without any offsetting gains. The social cost of taxation is not the tax payments, since that is a transfer of resources. The social cost is unseen but actual: the reduction of output and consumption because of the tax, and the reduction of benefits due to paying more for the goods.

The deadweight loss of taxation depends on how much the quantity used gets reduced by a higher cost. The is no deadweight loss if the quantity is not reduced at all. Such is the case with land, as this does not reduce the amount of land. The land will not flee, shrink, or hide when taxed. A land-value tax is a mighty fortress against tax evasion, capital flight, and subsidies for the landed rich.

The opposition to a Green New Deal comes from those who fear that the economy will be destroyed by regulations and subsidies. This opposition will disappear when the advocates promote the use of the price system instead. We can point out that if there is no levy on pollution, then in effect, polluters are subsidized, not paying the full social cost of production. Surely free-marketeers are opposed to government subsidies! The economics of pollution taxes was pioneered by Arthur Cecil Pigou, and the policy of taxing bad things such as pollution is often called "Pigovian".

The policy of taxing land value was explained and popularized by Henry George. We could call the policy of taxing pollution the "Pigovian New Deal" and the policy of taxing land value the "Georgist New Deal." They are ultimately the same thing, because the Pigovian policy taxes using land (water, air, and soil) as a dump, while the Georgist policy avoids the polluting and cannibalizing of the economy with taxes on production and consumption. The Green New Deal needs the Green Tax Shift. Let us have a green-new-deal tax shift!