

Understanding our Political Economy



LECTURE 15

Improving How Government Raises Revenue

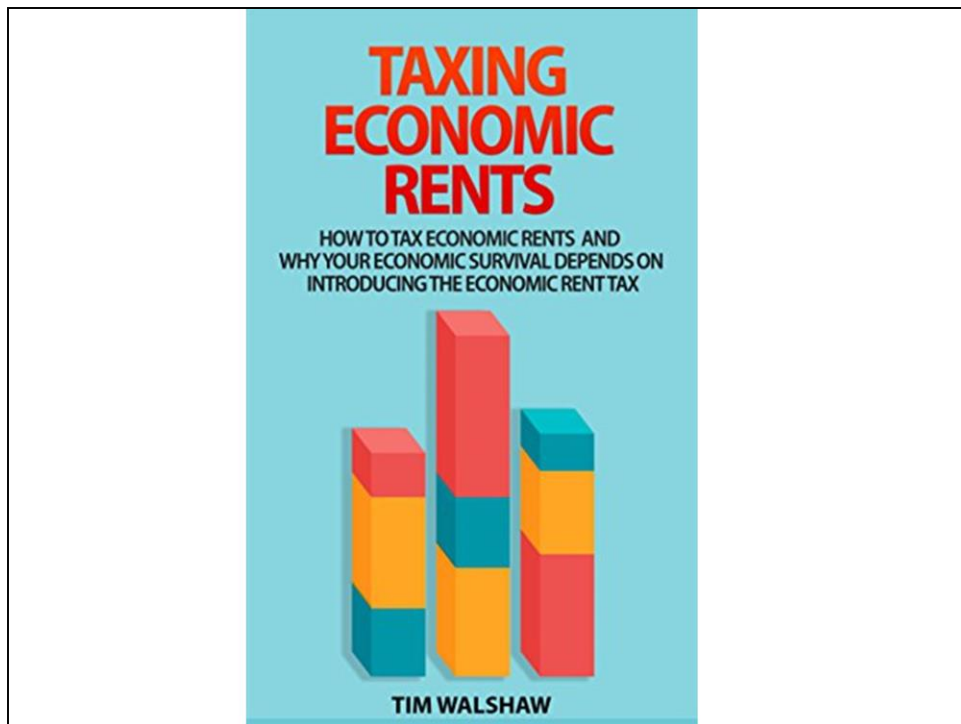


PUBLIC REVENUE

One of the great tragedies of modern civilizations is that governments everywhere obtain most revenue from sources that should not be taxed or taxed very lightly. This brings us back to the effect of taxation on each of the three factors of production: land, labor and capital goods.

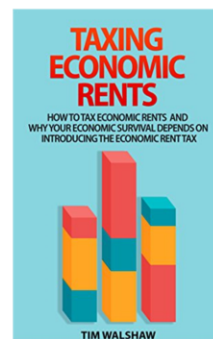


Land is a factor of production with characteristics quite distinct from those of labor, capital goods or even credit. Public policy must recognize these distinctions by implementing the societal capture of the differences in output that comes from the advantage gained by control of some parts of nature over other parts of nature. As repeated throughout this course, this output of tangible wealth is what political economists described as RENT.



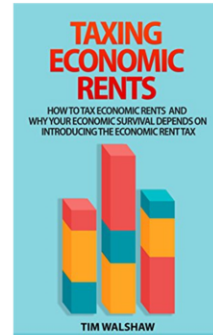
As the subject of this book by Tim Walshaw argues, our economic survival depends on the taxation of economic rents. He writes:

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are considered by economists to be
an ‘ideal’ tax. That means that there
are no distortions when the tax is
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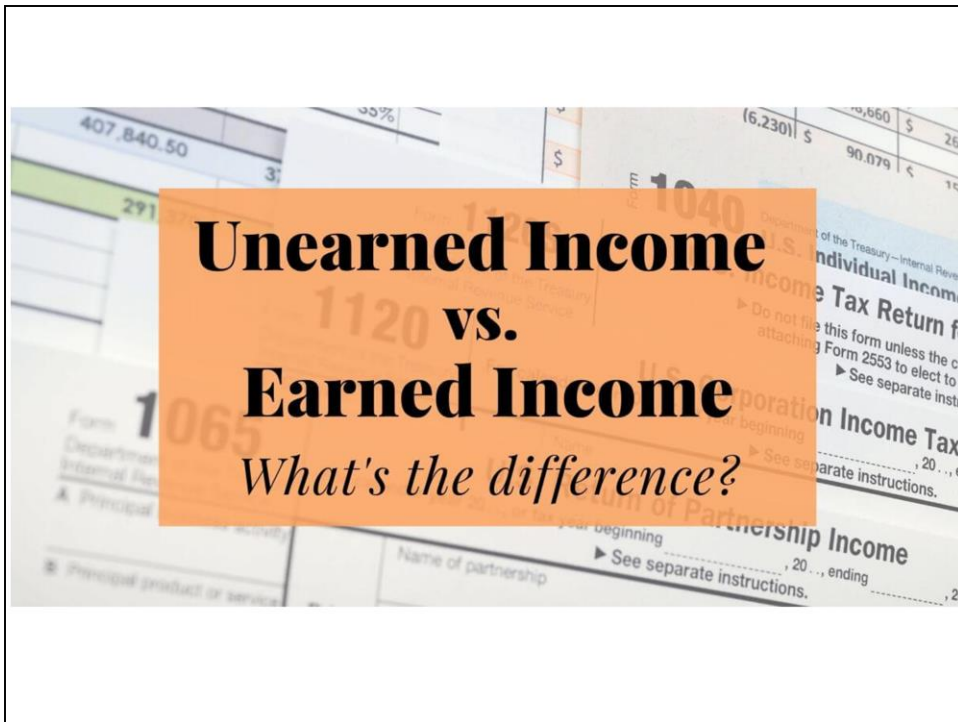
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My only correction with his statements is that the public capture of rent from all its sources is not taxation, but a payment for benefits received.



The laws supporting taxation make almost no distinction between income that is “earned” – by actually producing goods and providing services – and “unearned” – obtained by speculation in land, natural resources, financial instruments and by other legal claims on what others produce without providing anything or service in exchange.



There have been a number of proposals to restructure the individual income tax, the most common being an attempt to combine tax simplification with equalization as a percentage of income. The calls are for a “flat tax.” Critics argue that a flat tax is regressive. More significantly, it would leave untaxed the huge amount of income that is rent, that is speculation-derived and is unearned.



For the year 2022, all federal revenue from the income tax came from 60 percent of U.S. households. A large number of individuals and households have an income insufficient to be taxed. In this sense, the income tax is progressive; however, within the tax code are many provisions that allow very high income individuals to escape paying much if any tax.



A simplified but progressive tax structure would shift the burden of taxation more heavily onto unearned income flows, a high percentage of which is rent-derived.



The heart of this proposal is that all individual incomes up to the national median (or state median in states that tax income) would be exempt from taxation. There would be no other exemptions or deductions permitted. To be sure, some individuals and households would still require financial and/or other types of support under the country's social welfare programs.



So, what should reform of the income tax look like?

**FIRST: Exempt all
individual incomes up to the
national median**

Again, the first change I propose is to exempt all individual incomes up to some amount, perhaps the national median. The national median income in the United States is well above the poverty level, but is still a fairly modest income. Assume an individual median income of \$54,000 – close to the number in 2022.

- ☐ All individual incomes up to \$54,000 would be exempt from taxation
- ☐ There would be no other exemptions or deductions under the tax code



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- ❑ Individuals with special hardships would apply for assistance from the appropriate social welfare agencies
- ❑ Above \$54,000 higher ranges of income would be taxed at increasing rates – sufficient to balance the federal budget



Individuals with special hardships would apply for assistance from the appropriate social welfare agencies. Above \$54,000, higher ranges of income would be taxed at increasing rates, sufficient to balance the federal budget. For purposes of this discussion, we assume the U.S. Congress has taken no action in favor of money creation as advanced by proponents of modern monetary theory.

- ☐ Congress would set the tax rates and ranges of income subject to each rate
- ☐ This would be done as part of the budgeting process
- ☐ An objective would be to raise sufficient revenue to balance the budget
- ☐ The national debt would be gradually retired



The U.S. Congress would have to determine the tax rates and ranges of income subject to each rate as part of the budgeting process, ideally with the objective of raising sufficient revenue to balance the budget. Ideally, this revenue objective would include funds to not simply service the national debt to begin repayment of the outstanding principal. For purposes of example, let's assume the progressivity of rates would be as follows:



The national debt today stands at nearly \$34.6 trillion. Repayment of the principal could potentially be accomplished in a generation by refunding all maturing government bonds with *fully amortizing bonds* that return both interest and principal to investors. As some MMT proponents suggest, there is an alternative way to handle the debt, which is for the U.S. Treasury to issue currency and use this new currency to pay off bond holders.

❑ The income ranges and tax rates might look as follows.

For incomes:

- ❑ Greater than \$54,000 up to \$100,000: 5%**
- ❑ Greater than \$100,000 up to \$150,000: 10%**
- ❑ Greater than \$150,000 up to \$300,000: 15%**
- ❑ Greater than \$300,000 up to \$500,000: 20%**



Here, for purposes of example only, is how the new tax structure might work. Above \$54,000 up to \$100,000, the rate would be 5%; above \$100,000 up to \$150,000, 10%; above \$150,000 to \$300,000, 15%; above \$300,000 up to \$500,000, 20%.



These modest rates of taxation cover the overwhelming majority of taxpayers in the United States who earn the great majority of their incomes by economically-productive activities – producing goods or providing services or are recipients of retirement and Social Security benefits. Above this level, almost all incomes are derived from passive investment activity and from speculation in the stock, bond and commodities markets, in precious metals, in property, and in land. This income is essentially unearned and arguably appropriately taxed at a high rate.

☐ For incomes:

- ☐ Greater than \$500,000 up to \$1 million: 25%**
- ☐ Greater than \$1 million up to \$5 million: 30%**
- ☐ Greater than \$5 million up to \$10 million: 35%**
- ☐ Greater than \$10 million up to \$25 million: 40%**
- ☐ and so on...**



Above \$500,000 up to \$1 million, 25%; above \$1 million up to \$5 million, 30%; above \$5 million up to \$10 million, 35%; above \$10 million up to \$25 million, 40%, and so on. Depending on revenue needs, the Federal government may need to return to the highest marginal tax rates that were in effect up until the late 1970s. The only difference is that these rates would be effective and not notional.



There would be no special rates applied to income derived from the sale of assets (so-called “capital gains”), for one simple reason: actual capital goods rarely sell for more than their cost of acquisition. Capital goods depreciate over time. What is today called a “capital gain” is almost always a gain derived from rent-seeking speculation or privileges under law that create free-riders and rent-recipients. markets.



If we are to continue to raise revenue by taxing business entities, then a similar graduated tax structure could be implemented to encourage both job-creation and efficiency.

- ❑ **Exempt small businesses from the tax base**
- ❑ **Replace the business profits tax with a low, graduated rate of taxation on gross revenue**



Inasmuch as most new jobs are created by small businesses with stronger ties to the communities in which they operate, we ought to encourage small businesses by exempting them from taxation to a great extent. One way to achieve this objective is to abandon the business profits tax in favor of a low, graduated rate of taxation on gross revenue. Again, as an example of how this progressive structure would work:

- ☐ Business revenue up to, say, \$500,000, would be exempt from taxation
- ☐ Revenue greater than \$500,000 up to \$2,000,000 would be taxed at 1%
- ☐ Revenue greater than \$2,000,000 up to \$5 million would be taxed at 1.5%
- ☐ Revenue greater than \$5 million up to \$25 million would be taxed at 2.0%
- ☐ And so on...



Again, for purposes of example, business revenue up to, say, \$500,000, would be exempt from taxation; revenue greater than \$500,000 up to \$2,000,000 would be taxed at 1%; revenue greater than \$2,000,000 up to \$5 million would be taxed at 1.5%; revenue greater than \$5 million up to \$25 million would be taxed at 2.0%; and so on...



Other than the basic exemption of the first \$500,000 in revenue, there would be no other deductions for expenses incurred. This would mean that efficient businesses with lower expenses per unit of revenue would be rewarded with higher profits. Companies would no longer be able to expense the compensation packages awarded to executives, eliminating the existing benefit of passing the costs onto other taxpayers.



It is important to remember that the above analysis is merely an example based on arbitrary rates applied to these ranges of individual and business income. My own hope is that because the highest incomes are, by the definition I have provided, unearned, that the highest marginal tax rates would be set a good deal higher.



To make the structure even more progressive, the amount of income exempted could be set at 150% or 200% of the national median. Two-income households would experience significant increases in disposable income, remembering, however, that they would continue to be subject to city and state taxes in income.

END OF LECTURE 15

