

DIRECTORS' PERSPECTIVES (CONT.)

CALIFORNIA ELECTION UPDATE: WHAT IS PROP 19, ANYWAY?

BY: MARK MOLLINEAUX

If you were following the tax assessment beat during California's 2020 election, chances are you heard plenty about Proposition 15. As a bill that would unfreeze assessments for commercial properties, it was flashy, impactful, and activated political blocs both For (teacher unions) and Against (the California Business Roundtable).

Unfortunately, (from a tax equity perspective), Prop 15 was defeated by a razor-thin margin. But another 2020 California proposition about tax assessments did pass: Proposition 19.

Prop 19 was a controversial bill, for the very reason that even good-faith tax and land reformers didn't know whether it was worth supporting or opposing. (I personally saw a 50/50 split among friends and colleagues.) To understand why, let's break it down, and understand how weird it is.

But first, some history.

California's landmark Prop 13 (1978) has frozen tax assessments for all properties, which are only changed when a property is sold. (Assessments are allowed to increase 2% maximum each year, roughly keeping pace with the Consumer Price Index.) Prop 13 has devastated public programs in California, created a scarcity of housing stock, and also led to an interesting problem for its beneficiaries: lock-in. As California real estate has grown in price, those granted a diminished assessment have the additional incentive not to move, as they'd have to pay market value assessment on their new property. All of these factors work to freeze seniors in their home, even when downsizing or relocating would be in their favor.

This was ineffectively remedied through a number of additional propositions (60/90/110), which attempted to make assessments portable through both intra and inter-county moves. But, these only applied to a few counties, and required the new property to be effectively as cheap as the original property was (which, given increasing real estate prices in California, is far from likely).

The new amendment Prop 19 achieves three things:

- Allows assessments to transfer up to three times for seniors, the disabled, and fire victims, with a system of prorating the assessments of more expensive properties
- Re-assesses inherited property for non-primary residence, and also primary residence if the value has accrued more than one million dollars (effectively a partial repeal of Proposition 58, which extended Prop 13 to heirs)
- Funds are allocated for wildfire relief (**Cont. Page 7**)

THE TAX WE NEED FOR THE PANDEMIC ECONOMIC RECOVERY

BY: FRED FOLDVARY



How can a tax help rather than hinder an economic recovery? Believe it or not, a tax on land value would best stimulate economic recovery. A land value tax, like today's property taxes, is based on the value of land when put to its best productive use, regardless of the actual use or revenue from that plot of land. The value of buildings and other improvements is excluded. The result is that if the title holder is not putting that land to its best and highest use, the owner is suffering a loss, paying a tax not matched by revenue or benefits. Therefore, the owner has an incentive to put the land to its most productive use.

Greater productivity implies greater output, greater income, and greater employment. But there's a problem! Pre-pandemic, a shop or restaurant could hire employees and get to work. Today, many such small businesses are locked down, unable to operate, or only with limited and unprofitable capacity. To pay the rent and the tax on the rent or land value, these tenants (as well as homeowners) need an income, which they are currently are struggling to achieve.

The government needs to provide a substitute for the once normal income individuals obtained. The US government did just that in March 2020 when it enacted (**Cont. Page 7**)



DIRECTORS' PERSPECTIVES (CONT.)

USING A CARBON FEE AND DIVIDEND: A TOOL TO OVERCOME THE CLIMATE CRISIS

BY: PAUL JUSTUS

This past September, tens of thousands of people, including myself, sheltered indoors. Not just because of COVID mandates, but to escape the forest fire smoke engulfing the west coast. The sky was an eerie blood-orange and the air quality index exceeded 500, an extremely hazardous level. With the pandemic, the forest fires couldn't have come at a worse time. For many of us, it became dramatically clear that climate change is something affecting our lives here and now – not in some future decade.

The National Oceanic and Atmospheric Administration (NOAA) reported that the summer of 2020 was one of the hottest on record for the U.S. This excessive heat contributes to forest fires, hurricanes, and threatens the things we value and need to survive such as water, energy, transportation, wildlife, agriculture, ecosystems, and human health. With these threats consuming our lives, people are finally waking up to the fact that climate change is upon us and we, as a civilization, need to act before it's too late.



The goal set out in the Paris Climate Agreement, which President-elect Biden plans to rejoin, calls for no more than a 1.5 C increase in global temperatures by 2050 in order to avoid dangerous climate change events. According to a report by the Intergovernmental Panel on Climate Change (IPCC), countries will need to cut global CO₂ emissions 45 percent below 2010 levels by 2030 in order to reach net-zero greenhouse emissions by 2050. The report suggests that the world will need a radical transformation of energy, transportation, and agricultural systems to meet this 2050 goal. Meeting this goal will be a serious challenge considering that solar and wind energy currently supply only about 9.8 percent of U.S. electricity production.

A new year is upon us and it's time to reduce our fossil fuel emissions to meet the Paris Agreement goals. Given the fact that the U.S. is embroiled in a great political divide when it

comes to issues like climate change, it's hard to imagine how this country could come together to work on a common solution. Nevertheless, we need to develop solutions that will bridge this division in our society so that our civilization can move away from a fossil fuel economy to one based on clean, renewable energy.

Actually, there is such a solution. In 2018, the Energy Innovation and Carbon Dividend Act (HB763), a bipartisan bill, was introduced into the U.S. House of Representatives. It died at the end of the session but was reintroduced into the 116th Congress. The bill was sponsored by Democrat Ted Deutch and cosponsored by Republican Francis Rooney. It would collect a fee of \$15 per ton of carbon dioxide at the source from oil, gas, coal, and other greenhouse gases. The fee would be increased by \$10 each year. All the revenue would be returned directly to American households as an equal, monthly energy dividend (or rebate). This approach is called the Carbon Fee and Dividend (CF&D). (Cont. Page 8)

FINANCIAL INSECURITY AMONG THE PUBLIC

BY: BILL BATT

There is little doubt that much of the turbulence and uncertainty in recent politics stems from the financial insecurity Americans are feeling. There are many explanations for this – the uncertainty in the current job market and the dramatic fluctuations in the American economy. One only needs to watch the ads on TV to appreciate that investment firms, retirement systems, and financial consultants are all seeking to reassure households that their futures can be more secure. With the increasing abolition of pension programs and the privatization of alternatives, it is no wonder that such promises have emerged. All of this has come about while salaries and wages in many sectors have failed to keep up with the general costs of living, let alone inflation.

The American public has long counted on owning a home (and the growing equity in which this implies) as a means of assuring financial stability...what passes for the “American Dream.” In the past, there was a common presumption that home equity would steadily increase over the course of a homeowner's lifetime, and that it would then be possible at the end of a breadwinners' earning years to “cash out” with substantial holdings. This investment could supplement, if not guarantee, a comfortable retirement. In fact, one's “Golden Years” were thought to consist of three components: social security based on one's earning years; a pension drawn from one's employers; and the equity drawn from a home and a paid-off mortgage. People were sometimes encouraged to draw on this home value as a “home equity loan,” also called a “reverse mortgage.” (Cont. Page 8)

DIRECTORS' PERSPECTIVES (CONT.)

ELECTION REFORM (CONT.)

with plans for a land tax. He told urban tenants facing rising rents that he would tax the full rental value of land, forcing it onto the market, reducing rents, and providing the government with the funds to offer programs like free college education and free public transit. In 1886, the Central Labor Union in New York City recruited George to run for mayor, and he waged a vigorous campaign, speaking five or six times throughout the city. He developed a devoted following among the city's working class and on election day outran the Republican candidate, Theodore Roosevelt.

George lost to his democratic rival who had the support of the notoriously corrupt Tammany Hall regime, which skimmed off the top of both the city's budget and its criminal underworld. While it is hard to determine how much fraud occurred during the election, Tammany's reputation was such that many observers assumed George would have won in a fair election. As far away as Germany, Frederick Engels, co-author of the Communist Manifesto, was certain that George had the election stolen from him by "a colossal mass of fraud." In his concession speech, George refrained from challenging the validity of the election. But he began a push for electoral reform, forming a permanent organization to promote the "Australian ballot," a term he claimed to have coined. The Australian ballot was a secret ballot, printed and distributed by the government. It is how the U.S. votes today. The commonsense notion rapidly took off with The New York Times reporting that, in Brooklyn, the cause was "started by Georgeites, nourished by prohibitionists, aided by Democrats, and abetted by Republicans." Two years later, in 1888, Louisville became the first city in the country to enact the secret ballot. Arthur Wallace, who proposed the bill, said he had been inspired by George to propose the bill.

The Australian Ballot developed a wide spectrum of support in the U.S. By the twentieth century, the Australian ballot was standard throughout most of the country, though there were some hold outs, particularly in the South, where fair elections were—to put it lightly—not a priority.

While George would never get his single tax on land, he and his supporters reshaped American democracy in their efforts to get it. In Oregon, William U'Ren, the so-called "father of direct legislation" led the effort to establish the referendum, recall, and initiative, believing these they would allow the people to sidestep entrenched interests and constitutional hurdles to taxing land. U'Ren noted "all the work we have done for Direct Legislation has been done with the Single Tax in view." In Cleveland, mayor Tom Johnson, George's closest friend and advisor, led the charge for urban self-governance to shake off the shackles of a state government dominated by rural voters who were hostile to taxing real estate.

These reforms did not necessarily have the impact supporters hoped they would. Direct legislation, for example, has been criticized for being easily manipulated by elite interests. However, George's supporters did have their day, developing footholds in urban governments in Cleveland, Houston, and Portland where they shifted the burden of taxation onto landed property to fund urban development. In 1906, Lawson Purdy, who had introduced Henry George at his last public address, was appointed President of New York City's Department of Taxes and proceeded to impose heavy new taxes on central real estate in Manhattan. Historian Daniel London has argued that these taxes proved popular even with real estate stakeholders, who believed they were essential to constructing the urban transit infrastructure that reaffirmed New York City's key place in the nation's economic life. Henry George might not have been elected in 1886, but his ideas ultimately helped shape New York City.

What's the point? That political and economic reform are inextricably linked. A system in which a candidate can lose an election by three million votes and still ascend to the presidency is one in which the people's economic interests are unlikely to be represented. Elections based on places rather than people give declining communities veto power over the nation's future and thereby enshrine the politics of social decay as the highest law of the land. In the end though, the political reforms that George's supporters worked for probably did less to advance their ideas than the fact that they had fought for them. While Americans are generally less democratic than they like to believe, democracy is the most egalitarian element of our political culture. No movement to overturn elite interests will progress far unless it is synonymous in the public mind with democracy.



To prevent government from becoming corrupt and tyrannous, its organization and methods should be as simple as possible, its functions be restricted to those necessary to the common welfare, and in all its parts it should be kept as close to the people and as directly within their control as may be.

Henry George

DIRECTORS' PERSPECTIVES (CONT.)

PROP. 19 (CONT.)

Understanding the controversy:

THE PROS:

- The re-assessment for inheritance is unambiguously great, from a value capture/land equity angle
- The portability of assessments will lead to more mobility
- When an older resident moves out, the resulting re-assessment will be a win for revenue

THE CONS:

- When an older resident moves in to a new county, it'll be a loss for revenue (there's a revenue-sharing scheme built in, but it's far from obvious that it'll work to avoid unintended consequences)
- The initiative was designed rather cynically by Realtors (\$47M was spent on the campaign on both sides. 99.3% of all money was on the Pro-19 side; .7% on the Con-19 side; essentially all of the money in support from the California Association of Realtors and the National Association of Realtors)
- The components of the initiative don't really make sense together; in fact, just the portable assessments component was put alone on the ballot in 2018 as Proposition 5, where it failed. The realtors used the re-assessment component of the bill to sweeten the deal, when in fact it would have been preferable to see the Prop 58 repeal stand on its own.
- Ditto the wildfire relief, which is an apparently focused-group way to give the campaign a more positive brand. The connection between local assessments and wildfire funding is tenuous at best
- The California Constitution is bloated with dubious, confusing, and ill-written amendments through the initiative process, which are impossible to remedy through normal legislation, and very difficult to reform through the ballot. The level of stringency one should have is as a result high.
- Did I mention how weird and cynical Prop 19 is? (Official opposition to the bill was a bizarre group, containing both the ACLU of Southern California, the League of Women Voters of California, and the Howard Jarvis Taxpayers Association)

In any case, it's now the law of the land, though it'll take quite a while for the effects of its reassessments to become known. Realtors (based upon online activity highlighting the benefits of Prop 19) are already enthusiastic about its ability to drum up business.

As for the necessary work of reforming California's land taxation schemes for the public benefit, it falls far short of the necessary (but politically difficult) work that must be done. We'll presumably see Prop 15 return in the future, and possibly more as budget crises loom.

PANDEMIC ECONOMIC RECOVERY (CONT.)

the CARES (Coronavirus Aid, Relief, and Economic Security) Act. Individuals received a one-time compensation of \$1200, couples \$2400, plus child support. The cash benefit was non-taxable. Small businesses also received relief. Some not-so-small businesses, aka corporations, also received relief funds.

Instead of one-time relief compensations, which need repeated enactments, the compensation for lost income should be periodic, paid every month. Under this notion, every enterprise and household would receive a monthly compensation for lost income. With the restoration of household and business income, local and state governments would obtain their normal tax and fee revenues.

The payment should be an 80% grant and a 20% optional interest-free loan. The recipient would need to have evidence of the previous income and of the legal inability to obtain income. Such evidence could be provided later, but there would be a stiff penalty for fraud.

The reason for the 80% grant limit, rather than 100%, would be to provide an incentive for the employee to obtain work and for the business to innovate and become productive. It would be a conditional basic income until the lockdowns end.

Since the owner of a real estate property, whether residential or commercial, is already paying a property tax, the owner would be able to deduct the portion of property tax due to the land value, from the land-value tax. For landlords, the land value tax would be deductible from income taxes. With the periodic compensation, property owners would be able to pay the land value tax as well as their current property tax, and their mortgages.

An objection to further coronavirus relief is that trillions of dollars has been paid out, and further payments would increase the already-huge federal budget deficit and debt. The response to this objection? If the lockdowns are justified by the science that has concluded that normal business spreads the disease, then there is a moral question of who should bear the burden.

If the relief is not continued, the lockdowns will unfairly burden some sectors of the economy. It's hard to justify one business' ability to have income and not another. Government should spread the burden on the entire economy by providing relief for those who lost income.

During a major war, governments go into debt to pay for some of the expenses. The urgent problem is to win the war, and the debt is taken care of later. The whole human world is now at war with COVID, and as with other wars, we need to spend the resources to defeat the enemy. This burden should be shared equitably.