



Getting taxes off our backs and on our sides



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of Northwest Environment Watch, on July 31 keynoted the Council of Georgist Organizations conference held in Portland, Oregon. Extracts from his speech follow.

Benjamin Franklin said nothing is certain but death and taxes. Our current tax system, by penalizing work, investment, and initiative, is in a way culpable for death indirectly. In the Northwest (Washington, Oregon, Idaho, and British Columbia) at least 3400 people die each year because of life-long exposure to environmental contaminants: air pollution, and toxic materials and pesticides in the water and food. Three thousand four hundred people are dying each year unnecessarily because air and water and food are contaminated with stuff that shouldn't be there. In the last 50 years the rate of cancer incidents increased by more than 50% in the United States as in most other industrialized countries. Particularly marked are children, those who haven't had a lifetime of bad habits—smoking, drinking, and unhealthy diet. Most of us carry in our body about 250 chemicals synthesized for first time during this century. This body burden of synthetic chemicals is of uncertain ramifications. We are barely beginning to understand the

implications of cancer and other health problems. Incidents of reproductive problems, both in human and non-human species, are of increasing concern to biologists.

In addition, about 2000 people in the Northwest die each year in automobile crashes. Car crashes are the leading cause of death of people between 2 and 24 years of age in the U.S.

Over the last five years, I have been directing the Northwest Environment Watch, a regional research center that attempts to identify kind of crux solutions to environmental and economic problems; how do we reconcile ourselves and our lives to the natu-

ral limits of this place. Prices in the market place do not tell the ecological truth. They ignore environmental costs that businesses pass on to others, either in this or future generations. They do not pay in price of conventionally grown food for increased risk of cancer that falls onto children of farm workers because of pesticides on fields. They do not pay in the price of gasoline for the Pentagon budget which in the Middle East and Persian Gulf is protecting supplies of oil that make our way of life possible.

We tax the wrong things. We are taxing stuff we want more of instead of

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taxing things we want less of. We are generating the most revenues at the state and federal level that penalize work, investment, and productivity, while not taxing, in fact subsidizing, consumption of natural resources, pollution of air and water and disruption of natural habitat. If we did things the other way around, we would help the environment and economy and get the tax man off our back. The tax code at the state and federal level is kind of a DNA of our economy, a 7-1/2 million word revenue code establishing rules by which we plan retirement and how we invest, business strategies, and how to finance companies.

What we did in Tax Shift was to describe the existing system, particularly as it works in state and local level in Northwest, and also described to some extent the federal level. In the American system, experimentation often begins in states and localities. Things that work or at least get positive press get repeated elsewhere until someone tries it at the national level. We began to assemble a package of green taxes and land value taxes in the Northwest and tried to draw out implications at the federal level. It is one meal of a menu of options, all kinds of different ways.

We are proposing a tax on emissions of carbon dioxide and the greenhouse gases, and to use that revenue to reduce Social Security and payroll taxes at the national level on employees and employers, which now are viciously regressive. The payroll tax is the first or second largest source of federal revenue depending on how you categorize it. It falls only on people that are working and not on people making money from investments; for two-thirds of Americans it takes a larger bite out of their household income than does the personal income tax. Payroll taxes are pushing many American children below the poverty level all by itself. The largest of these is Social Security (there is also the unemployment tax and Medicare tax); the taxes together amount to more than 15% of gross weight on hiring. This creates a huge dead-weight on hiring and huge increase in

the cost of labor. We end up having to scrimp on labor and human effort and instead allocate our resources to buy more stuff.

We modeled a fairly low national carbon tax that would allow reduction of the payroll tax by about 25%. This would help most families. All these proposed taxes need a phase-in so people can adjust their plans.

We proposed a set of taxes on regulation of pollution, both coming from factories and other big facilities that emit pollution into air and water, which is already regulated, and auto emissions of tail pipes of vehicles. These sets of taxes can build on existing regulatory fees that are paid by polluters. If you put up a smoke stack, you have to get a permit and pay a fee and are required to report emissions. It is a fairly small step from the existing reporting mechanism to have a volume based tax so that for every ton of sulfur dioxide you are charged \$100. Start small and reduce and then take off corporate and other income taxes that fall on businesses. We see this as a state level tax; it could be done at the federal level. We include in the list of pollution taxes a small tax on synthetic fertilizers and pesticides. You can't tax the stuff coming off the farm, but you can encourage more frugal use of agricultural chemicals. The revenue from pollution taxes in the Northwest, even if fairly moderate, could easily allow us to scrap direct taxes to business. Large and growing sectors of the business community, particularly sectors that make their money by selling ingenuity rather than raw materials, might find this attractive.

The tax system on resource consumption would be modest fees on extraction of timber, fresh water, minerals, and fish, based on volume extracted with fairly low rates. In some cases taxes would only slightly increase over taxes under the existing system. Taxes on generation of hydro-electric power would be largest of these taxes. It is a form of economic rent; the value of water running down river is a public resource. Giving private or even public agencies, like the Corps. of Engineers or Bureau of Reclamation, the right to

put in a dam and generate electricity is in a way capturing the rent, that is the windfall profit from that site. It makes sense even in classical economic thinking, to capture that rent for the public.

Is this likely to happen in the Northwest? Historically, state and federal government have made a lot of political hay by selling power cheap. The market in the Northwest has been regional and has been protected by law from sales outside the area, making possible the benefit of cheap power to everybody in the region who was buying electricity. Huge consumers, like Hanford Nuclear, benefited most. Little guys, like homeowners, also benefited; the electricity was priced at about 40% of national average. Now the entire electricity industry nationwide is deregulated and restructuring, and big customers are shopping for power wherever they can get it. I see it as almost inevitable that electricity prices will somehow increase in the Northwest because the curtain will lift from separating the Northwest from other parts of the country where electricity is higher. So the region will begin selling power outside its border. Whoever got that dam site originally and that used to trade profit back to consumers in the form of low prices now will command much larger windfalls from sales outside the region. Private and public dams could generate more than \$1 billion of revenues by capturing that rent for the public as that electricity is sold beyond the borders of the Northwest. Use that money to offset taxes that fall on personal income and consumption taxes. In Oregon there is no retail sales tax. We could use resource taxes to exempt most families below the median income level. In the State of Washington there is a retail sales tax; there isn't an income tax. The sales tax is viciously regressive. Taxes in Washington State are among the most regressive in the nation. The lowest 20% of households pay approximately three times as much of their annual income as do the top 20% of households. We propose to use all revenues from resource consumption

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taxes to reduce sales taxes in Washington state and income taxes in Oregon. There are other proposals for other parts of the region.

To Georgists, in what will probably seem like a rather modest shift in the property tax, we propose to generate the same total dollar value from property taxes but to shift the burden off buildings entirely and onto land over a phase in period. So you get the incentive effect, but overall you are not shifting the tax burden more than the property tax, you are just generating the same amount of revenue but putting the burden on the land value. I assume you all know the benefits of justice and a tax on urban sprawl, etc.

There are ways to tax traffic congestion by charging for use of roadways at peak periods. Phantom tollbooth technology is the freeway equivalent of a scanner at the grocery store. It is a similar system using smart cards mounted in your automobile so while going through on the freeway, it scans and deducts charges. Charges vary; using a popular road at popular time would cost more. Most roads at most times would cost virtually nothing. There is not much popular support for this yet in other parts of country. But as traffic congestion worsens, we will begin to see pilot projects happen outside the Northwest, and when people see it, they will be more willing to try it. Now we have a roads equivalent to the way the Soviet Union used to distribute bread. People are paying for low prices with their time waiting in line.

So we ran all these numbers together for Northwest, wherever possible making conservative assumptions about the tax rate, and quickly came up with figure for revenues, equaling 86% of existing tax revenues, allowing us to repeal state corporate income and state sales and state personal income taxes below a six figure income. Our best estimate is it would boost economic output by 2% and save hundreds of lives lost to automobile accidents, improve social equity by reducing poverty, protect non-human nature, and unjam our streets.

We are a long way from getting it

done. Tax policy is something most people don't like to think about. The existing system has a tremendous amount of staying power. There is vested interest, but the biggest barrier is habit. Politicians say the best tax is an old tax which is familiar and accepted. There is a conservatism among folks that we know we can at least survive with the existing system, so why start wild experimentation. Tax shifting is different.

The first thing we need to remember and communicate is that there is nothing about the tax system that is pre-ordained. It helps to tell people a bit of history. Take for example the history of U.S. corporate income tax. Go way back long ago to when the federal government got most of its revenues, up until about 1920, from tariffs. At the state level almost everything came from the property tax. Farmers felt the property tax was unfair to them. The Populist movement argued for a federal income tax. There had been an income tax during the Civil War but by 1894 when the federal income tax was enacted, thanks to the Populist movement, the Supreme Court said it was unconstitutional despite that there had been one during the Civil war.

By the early 1900s the idea was that an income tax was a fair alternative to tariffs. The income tax was a bone to liberals, farmers and workers to offset regressivity of tariffs; now it had been accepted by the mainstream. Congress was about to pass a federal income tax and override the President's veto. The President didn't think it would pass, so he cut a deal and said send a constitutional amendment out to states. To everyone's surprise, states did pass it. State legislatures thought taxes would be paid by big capitalists in Eastern states. Eventually enough states passed allowing a constitutional amendment for a federal income tax. Four years after that just at beginning of WW I, Congress passed it.

When the President suggested a personal income tax being sent out for amendment of constitution, he came up also with a tax on corporate income. Prior to that no one had asked for tax on corporate income. Populists had promoted personal income tax. Three

decades later the corporate income tax passed. Nothing is preordained. The personal income tax was enacted as a 14 page amendment of a huge bill on tariffs. It said really rich people would pay personal income tax, but there were special exemptions right away for real estate holdings, etc. Before long Congress recognized it as a good revenue source and it grew. Over time it gathered a following as the revenue source of choice for Progressives and Liberals.

Evadable taxes don't last long. They lose support. Be really sure a tax can actually be administered and enforced in a way that will seem fair to public. Or reform will not last long. That is the story of property taxes in the last century. In the 1830s or 1840s they weren't calling for a green shift tax; they were calling for a general property tax. The property tax has been in place for a long time, coming down from an agrarian time when almost all wealth was in real estate. As the economy diversified in the industrial revolution, large holdings began to accumulate in factories and in the form of paper assets (stocks, bond, etc.), there was a movement among good Progressives to tax all wealth, to cover all forms of property with a property tax, not just real estate. Most of the Western states wrote into their constitutions that property taxation should fall equally on all forms of wealth. That is true in state of Washington and true in state of Oregon. However, legislatures never granted to tax collectors the powers of auditing and demanding of information given to income tax collectors. As a result, tax collectors could only tax visible assets. They couldn't find out from banks how much was in bank accounts and couldn't find out from corporations who owned the stock. The general property tax just taxed stuff they could see. The general property tax on all wealth, which from the general principle of equity sounded like a good tax, and more fair than the income tax (which only shows the annual inflow of money and not the total net worth, leaving situations with huge tax sheltered incomes) lost support.

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Because other forms of property besides real estate largely escaped from taxation, the Progressive movement switched enthusiasm from general property taxes to income taxes. That resulted in much record keeping and prying into peoples affairs.

When we start talking about taxing pollution, we need to know specifically how we are going to do it. When we start talking about taxing land values, we better have good and clear systems of assessments and arbitration of disputes. Otherwise, the legitimacy of the tax will erode and it won't last.

And keep trying. In the state of Oregon the proponents of state income tax won passage on the 12th time it was put to voters. It passed because the Great Depression had begun

and suddenly not only the farmers supported it but also the unemployed city folks who saw this as an opportunity to tap into other people's bank accounts. Be there at the right time.

Tax Shift, authored by Alan Thein Durning and Yoram Bauman, was published in April 1998. It is available for \$9.95 US and \$12.95 Canadian from the publisher: Northwest Environment Watch, 1402 Third ave., Suite 1127, Seattle, WA 98101. Email www.northwestwatch.org.
