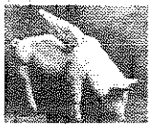
August 1997

Incentive Taxation ©

Annual Debt Issue



Pigs Will Fly

Before the Interest on the National Debt Will Be Paid Off by the Federal Government In the 21st Century, Unless ____.

Over time, interest payments on the national debt (now $5.3 trillion) are mounting faster than federal revenues. (1, see p.4) For instance:

A) Net interest on the national debt was 6.5% of federal outlays in FY 1966 when the Great Society began but was 15.3% in 1995. (2) It will be much worse in the 21st century, as automatic entitlements such as Social Security and Medicare-Medicaid (due for bankruptcy in 2001) grow mightily, while life span increases and the number of workers decreases. We can always raise taxes on workers and businesses. But that will inhibit economic growth (weak already) and will send us into recession.

B) In addition, the unfunded federal obligations amount to a record $7 trillion. (3)

C) If there is a recession, and historically it is expected, then debt interest will further explode. Entitlement spending increases would then automatically kick in and federal tax revenue would fall off.

D) A record one million Americans are expected to file for bankruptcy this year. Won't that make it more difficult to pay back the debt interest? (4)

E) Then there are the off-budget expenditures that don't figure in the annual deficit or total debt (now $5.3 trillion), but should. The annual deficit would more than double if the Trust Fund deficits are included; of course, that would also increase the total National Debt. (5)

F) The total National Debt grew in FY 1996, but more slowly than usual because the annual deficit was lower than expected (but this decline was largely due to "technical re-estimates," which were six times larger than spending cuts. (6)

G) But it gets worse: In 1995, foreigners owned 28.4% of our National Debt. (7) They're in worse financial shape than we are and so they might lessen their ownership of U.S. bonds - at which point the roof will cave in (could the U.S. lose some independence of action as a result of this 28.4% foreign ownership?).

H) Then there's the logic of the matter: When the government invades the credit market, there's less credit available for the private market and for economic growth. If empirically this does not seem to have actually occurred recently, it is because strong factors from the international economy have intervened. But the logic is incontrovertible.

Social Security & Medicare-Medicaid Again

Let's return to Social Security and Medicare-Medicaid:

C ge 2

THE PROPOSAL

1. Private landownership and asssessments to remain untouched.

2. Levy a lower rate on building assessments, higher on land, instead of the same rate on both.

3. How to do it? Call us! We have experience (no obligation).

410-740-1177

Mitigations

("It Ain't So Bad")

Chicken Little has always been wrong - the sky isn't falling:

◆ For FY 1996, the annual deficit declined.

◆ The electorate will come to its senses, maybe at the last moment, just in time to let our politicians figure a way out of this 21st century National Debt jam. Let's not worry about the 21st century; we've got more immediate worries. Don't worry, be happy.

◆ Phenomenal economic growth will save us. The high taxes coming in the 21st century won't hurt the economy.

◆ Don't try to predict the future. Anything can happen. Don't worry, be happy.

◆ Don't count America out. We are resilient.

◆ Secretary of the Treasury Robert Rubin threatened default in 1996, but he didn't mean it. It's been over a century since any state government defaulted.

◆ There's no need for us to get the National Debt down to zero.

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Pigs Will Fly

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♦ They, plus defense and interest payments, amount to 72% of federal spending in 1996 but entitlement costs are scheduled to balloon. (8) We are engulfed by a demographic tsunami. Entitlements will consume the entire budget in little more than a decade: There will not be a "nickel for defense or roads or medical research or the environment." (9)

♦ If our bridges & roads also our private but federally-guaranteed pension funds, were in good shape, the repayment of the interest on the National Debt would be easier. But they're not.

♦ Gerald Eickhoff, chairman of Common Sense for America, asserts that "in 2005, the Social Security trust fund surpluses are expected to start declining. In other words, the program will begin to spend more than it takes in. Instead of masking the true size of the budget deficit, as it does now, it will begin to add to it." (10) Where will the feds get the money? Eickhoff may be a little pessimistic here, and he is probably using the most pessimistic scenario of the S.S. Administration, but his future estimate is not likely to be far off the mark.

♦ Medicare-Medicaid costs are running amuck. They are expected to triple in the next decade. More than half of hospital insurance benefits (Medicare A) are spent in the last three months of patient's lives. (11) Unfortunately, the middle-class entitlement binge is about as sustainable as a crack habit.

♦ See IT's previous issue for more facts on how Social Security and Medicare-Medicaid will endanger the repayment of the interest on the National Debt.

Conclusion

"Our federal politicians are incurring deficits now, relying on some future courageous Congress to pay them off (for people dead and buried). They are like addicts who promise to enter a rehab program - after just one more fix." (12) We have these huge and growing deficits because a few thousand elected officials in Washington didn't want to say no to anyone. But the electorate is more to blame - it wants its cake and wants to eat it, too: It wants the governmental goodies, but wants the grandkiddies to pay for them. Sounds like CHILD ABUSE!

So the essence is this: with the National Debt, we get to enjoy the governmental services, and the next generation pays for them (that's child abuse). The debt explosion facing us in the 21st century means that:

- young workers are subsidizing the retired older generation,
- the poor will pay the taxes to cover the interest on government bonds while the rich will collect that interest,
- Americans will pay taxes on foreign-owned bonds while foreigners will collect the bond interest.

But fortunately there is a way out - only one, but one's enough.

Mitigations

Continued from page 1

♦ See the zooming stock market.

In the 21st century, the interest on the National Debt will somehow get paid **(yes, and somehow pigs will fly and frogs will sing).**

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The ONLY Solution

The evidence seems to overwhelm the mitigations.

Come the 21st century, our federal government will not be able to pay the exploding interest on the National Debt. It won't even be remotely close. Taxes will burgeon, benefits and services will be cut, and the Feds will print interest repayments (that's hyper-inflation, a form of default).

There is a way out - the Feds need a revenue source which can promote economic growth. Only then will they be able to raise all the revenue they need, because the more the Feds tax land values, the more jobs and economic growth will be created.

If they burden the economy with higher taxes on productions to pay the debt interest, they'll hinder the economy. If they tax locations instead, they'll create jobs and economic growth because land would have to be efficiently used. That's exactly what has happened wherever land rent has been collected in taxation. Objective studies prove that.

No land owner has bought his land from someone who made it. He has a special privilege, which he should pay for. Then the producers (workers and businesses) won't be burdened with taxes.

And since most people would save on taxes if land rent rather than wages or profits would be taxed, there would be a ready constituency for it.

The voters haven't confronted this debt problem; wait 'till the 21st century. Maybe sheer DESPERATION, induced by the imminent threat of default, will drive them to the only solution. Meanwhile, real local property tax reform can bring about this reality.

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From the Editor

Vol. XXIII, No.4

♦ Politicians sometimes ask me, "How come I'm so interested in a mere property tax reform?" Well, the reform advocated in these pages is not just "mere." Just imagine your city (or entire economy) without any taxes on producers at all, with all sites being used fully and efficiently. If two-rate works well, as it is likely to do, wouldn't your city bloom if it taxed land assessments more and more?

♦ Taxes count: In January 1997, New York State temporarily suspended its 4% sales tax on clothing costing less than $500. Result: Consumers saved a reported $20 million (Retail Council of N.Y. in *Investor's Business Daily*, 1/24/97, B1).

♦ "All vodka corrupts; Absolut vodka corrupts absolutely."

♦ Between 1913 and 1994, inflation-adjusted federal government expenditures increased by 13,592 percent (A.I.E.R. *Research Reports*, 4/28/97, p. 41).

♦ "Genius begins great works; labor alone finishes them" - Joseph Joubert.

♦ God put me on earth to accomplish a certain number of things. Right now I am so far behind I can never die.

♦ "Based upon the proven reserves and the best-guess potential of these [mineral-reserve] fields, a conservative estimate of their value is $420 billion," maintains Jerry Taylor, director of natural resource studies at the Cato Institute (*Investor's Business Daily*, 2/16/95-A2). **Significance:** Land rent taxation can produce much governmental revenue.

♦ We have established a close alliance with Sock-Yong Phang, distinguished professor of economics at the Natl. University of Singapore.

♦ Although the government owns most of the land in Hong Kong, there's considerable land speculation taking place there (*Wall Street Journal*, 12/10/96, A19). Reason: The government has collected very little of the land rent.

♦ "One of the greatest victories you can gain over someone is to beat him at politeness" - Josh Billings (RD, 12/96).

♦ IT reader **Tom Sherrard** writes that Marine Corps General Joseph Pendleton was instrumental in acquiring Camp Pendleton (named after him) and was also the co-founder of the Henry George School of San Diego.

♦ Nepotism begins at home.

♦ The part of the electronic spectrum that will handle the extra-sharp digital pictures is worth $30 billion, which is equivalent to about 0.1% of total federal expenditures (*U.S. News & W.R.*, 4/14/97, p. 27). It should be taxed, but land values are much much more.

♦ For 1996, Harrisburg shifted its property tax from building assessments to land assessments more than before. A headline in the *Harrisburg Patriot-News* of 12/30/96 read: "Harrisburg builds to record year for permits."

♦ The once-high-flying Japanese land market has fallen precipitously, from an index of 190 in 1991 to 59.9 in 1996 (1988 = 100; *Wash. Post*, 10/31/96, E1, per IT reader **Douglas McNeil**). There would be no such drop with full LVT.

LVT Based More on Ability-to-Pay Than the Income Tax

It is reasonable to assume that the land value tax is more in accord with ability-to-pay than the income tax since landownership is much more concentrated than income ownership. A tax on land values would therefore fall on the rich more than would even a tax on income.

Anthony Pileggi, a student in 1979 at Indiana University of Pennsylvania (but now a lawyer in Columbia, Md.) provided us with research which substantiates this assumption. For 1979, Pileggi made a list of all the land owners in the town of Indiana, Pa. (pop. 16,000) who owned more than $10,000 worth of assessed land values. Although constituting only 1.5% of the landowners in town, they owned 53.5% of the town's land values. Then he compared those figures to what Americans who are making more than $100,000 a year pay in federal income tax. In 1979, such Americans were 3.0% of the total number of income earners in the country and paid 30.6% of the federal income tax. Summarizing:

♦ **1.5% of the landowners in Indiana paid 53.5% of a land value tax.**

♦ **3.0% of the top income earners in the U.S. paid 30.6% of the federal income tax.**

Thus, a tax on land values in Indiana, Pa. (pop. 16,000) would be much more in accord with ability-to-pay than the then-current federal income tax (1978).

Pileggi's Figures Understated

But the comparative progressiveness of the land value tax is apt to be even greater than Pileggi's figures indicate:

♦ He could not possibly have known all the interlocking owner-

Continued on page 4

Endorsements 437-438

Tomás Estrada-Palma (Vice Chairman, Va. Lib. Party): "Pay for society's legitimate needs by charging a land tax. This tax, based on the rental value of the land (rather than the value of improvements to the land like houses, garages, roads, fences, etc.) will mean people who own little or no land will pay little or no tax. Expensive city land owned by the wealthy will pay the most tax."

Gary S. Becker (University of Chicago professor and Nobel Prize winner in economics, at a speech at St. John's U., 4/23/92): "The first book I looked at in economics was *Progress and Poverty*. It's a wonderful book and had a lasting impact on me." Eight other Nobel Prize winning economists, including James Buchanan, Franco Modigliani, Herbert Simon, Robert Solow, James Tobin and William Vickrey, have endorsed land value taxation.

LVT Based More on Ability-to-PayThan the Income Tax

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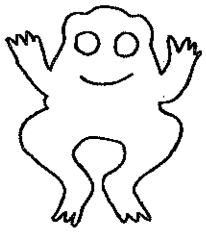
ships among Indiana's largest land owners, as when a land owner owns land under his own name and as a stockholder of a business which also owns land.

◆ A two-rate land value tax in Indiana, Pa. wouldn't tax two poorer-than-average groups: renters and wage earners living with a land owner. But an income tax would tax them.

◆ In larger cities, landownership is apt to be much more concentrated than in this little town, since they have a higher proportion of renters, and commercial land values are much higher in such cities.

Clearly, a land value tax would be more progressive than the income tax. Please don't levy soak-the-poor income taxes in your town.



Reprinted from *CPA Client Bulletin*, 8/96, p. 5. Tax land, not personal or corporate income.

Old Statistics, Current Application

Five localities in the state of Victoria, Australia began taxing only land values between 1968 and 1971. They experienced fully **12% more new construction** than what they could reasonably expect without such a tax shift.

If that construction increase occurred in your town, wouldn't there be jobs for all the unemployed? Are they unemployed because you haven't induced your city's government to go two-rate?

(Source: *Incentive Taxation*, 11/78, citing the Australian Bureau of Statistics, as quoted in *Progress* magazine, 6/78, p. 5, sent to us by IT reader **Tertius Chandler**).

(For "Flying Pigs..." Article)

(1) Testimony of Martin Regalia, Chief Economist of the U.S. Chamber of Commerce, before the U.S. Senate Judiciary Committee 1997. Regalia is an IT reader. Also, the N.Y.C. National Debt Clock.

(2) *U.S. News & World Report*, 12/18/95, p.32. Also *Investor's Business Daily*, 4/13/94, A1.

(3) *Investor's Business Daily*, 8/31/95, *A1*.

(4) *Ibid.*, 9/30/96, B1.

(5) Tax Foundation's *Tax Features*, 2/97, p.6, citing O.M.B. figures.

(6) *Investor's Business Daily*, 8/1/96, B1.

(7) *Ibid.*, 1997, p. A1, we have photocopy.

(8) *Ibid.* and *U.S. News & World Report*, Ruby editorial, 10/3/94, p.92.

(9) *Ibid.*, also Sen. Bill Frist, guest editorial, *Investor's Business Daily*, 8/1/96, A2.

(10) *Ibid.*, 12/21/95 guest editorial, A2.

(11) *Washington Monthly*, 4/95, p.23.

(12) Harry Browne, *Why Government Doesn't Work*, 1996, p.171.

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