

Seeking Alpha α

Taxation Compatible With Prosperity And Fairness

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Summary:

Ploutos: Gains of 24% over so short a horizon happen about once a decade and tend to cluster around turns in the business cycle.

Cashflow Capitalist adds to his critique of MMT, with help from Lacy Hunt, and tells how investors could react to the trend.

Thought For The Day: Four principles could help us arrive at a tax policy that fosters social equity while encouraging prosperity for all.

The Rally In Historical Context

“Since the recent market low close on Christmas Eve, the S&P 500 (SPY) has rallied more than 550 points, a scintillating +23.6% price return. That strong rally occurred over just under four months in 76 trading sessions...How often have market gains of this size occurred in periods this short? In what market environments did they occur? Are there any insights to be gleaned for what we might expect from here?” (Ploutos)

Lacy Hunt Critiques MMT

“So what exactly would be the economic effect of implementing MMT? Hunt writes: ‘In historical cases of money printing, the countries were not the reserve currency of the world, as the U.S. is today. Thus, the entire global system could be destabilized in very short order if this were to occur.’” (Cashflow Capitalist)

Retirement Health Care

“A joint study from The Vanguard Group and Mercer offers an alternative way of calculating health care costs. Rather than focus on a lump sum, the report says to look at what medical expenses could be for a retiree on an annual basis. And for a more accurate estimate, advisors and their clients should consider four criteria: health risk, supplemental coverage, geographic location and income.” (Janus Henderson Investors)

Taxes

“The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States” (U.S. Constitution, Article 1, Section 8)

Thought For The Day

Hopefully we can all now “move on” the day after paying our taxes, or filing for an extension. But with the start of a new cycle of U.S. presidential elections, we can be sure tax matters – regarding how much and who should pay them – will feature prominently in public discussion over the coming year and a half. So I thought I’d expand upon remarks I made in yesterday’s post, in which I advocated for small government, yet with adequate taxation, adding that “an affluent society should be able to provide decent services while keeping taxes reasonable.”

I suspect that to some readers, what I wrote sounds like waffling between two opposite viewpoints. Perhaps my being the middle of three children contributes to my preference for the center, but be that as it may, I really mean what I say, so allow me to suggest a few principles that guide my thinking on taxes.

First, just as I have frequently advocated that households prosper via a modest level of expenditure, I think the same is true for governments and therefore suggest that moderate taxation (i.e., lower than is common elsewhere) is the ideal. The reason is simple, and practical. Capital is mobile. When the rich – even if they are “obscenely” rich by your standards – get the feeling that they are paying for everybody else, they will find a way to move their money or make less of it, in which case everybody loses. A focus on the rich usually, however well intended, usually results in bad policy, since good policy, by design, *encourages* prosperity.

Rather, good economic policy would attempt to relieve the plight of the poor, and in particular seek to prevent a permanent underclass. However, to spend \$15 trillion on the “war on poverty” and end up with rates of poverty no different than under the Johnson Administration which initiated said war (see Wikipedia, citing the Cato Institute) doesn’t make much sense either.

Here’s a modest counterproposal: Governments at all levels should exempt the poor from taxes; that could encourage climbing the economic ladder and ultimately reduce the tax burden on the non-poor. For example, homeownership is connected with an affluent society, and fosters stability in communities, yet a big part of the cost of homeownership is the government’s cut. County governments should therefore exempt qualified buyers from property taxes and as beneficiaries rise to higher economic levels, they can pay them on a scale that only gradually reaches full-payment levels.

A second idea, which is related, and which unfortunately is often ignored, is the desirability of keeping tax laws from changing too extremely. Taxes are such a big part of a household’s financial picture that they influence people’s life decisions significantly, and thus our interests become vested. Every new change then creates winners and losers; turning the dial slowly when reforms are undertaken – for example, by phasing them in or out over a period of years – can help taxpayers avoid losses, and will leave less political space for extreme countermeasures by the next group entrusted with power.

A third principle in ensuring an equitable tax policy that promotes prosperity while protecting the poor is to favor flat asset-based and consumption-based taxation. What goes by the name “progressive” taxation introduces economic friction at each new tax bracket, and can be politically divisive. If instead everyone paid the same tax rate, then the rich would pay more, the middle-class less and the poor nothing (as they would be exempt, per above); meanwhile, loopholes could be eliminated and the overall rate kept low, encouraging economic growth. Similarly, conspicuous consumers would pay more and low-earners less on consumption-based taxes such as sales taxes (while exempting necessities such as groceries, so as not to burden the poor).

Fourth, I mentioned yesterday and reiterate now that natural resources – such as the oil and mineral wealth found under the ground – in a sense belong to all citizens, with appropriately generous profits going to those who find and extract them. For that reason, Alaska has sensibly established a fund for payment of dividends to all of its citizens on the basis of oil royalties it receives from energy companies. These are just a few ideas I think would facilitate a tax policy appropriately balanced between social equity and wide prosperity. Feel free to add your own ideas in the comments.