CHAPTER 13

Tax Policy: Pay the Price

Taxes are the price we pay in order to obtain many of the outcomes pursued in the shared Other-interest. So, Metaeconomics in contrast to Microeconomics gives a substantive analytical system for dealing with the tax question, because of recognizing the Other-interest. Metaeconomics clarifies that taxation is about paying for, and thus bringing forth the payoffs from that which we share, like recording deeds and titles to private property; enforcing property rights, which is essential to a Market; licensing, registering, and enforcing patents; military, police, and fire services; road and harbor construction and maintenance; dams and reservoirs to provide for water in the desert Southwest US and for flood control in the humid Eastern US; safety nets for the poor; helping people transition to a new job; public education; scientific research that provides new equipment and techniques, and new drugs; environmental quality and sustaining Spaceship Earth Systems and the free work done by same; providing safe and reliable water supplies, and waste water management, and, yes, helping with pandemics, to list a few: All have a price.

Sales Taxes

Neoclassical Microeconomics always leads to concluding that any kind of a tax is in some sense a distortion, in some sense not conducive to achieving efficiency. Metaeconomics, in contrast, points to the reality that a tax is often essential to achieving efficiency, and, happiness.
Thinking back to the recycle case demonstrated in Fig. 4.1 as a case in point: Lowering the sales tax on a recycle content good would move the price from $p'_e$ to $p^o_e$. Why would we ever lower (or raise) the sales tax on one good, relative to another? We might do so in the case of a recycle content good in that the real value $V$ suggests it, the sense of right versus wrong in the amount of recycle content good we purchase.

Lowering the sales tax on the recycle content good (or, raising it on the other good) would send a signal that it is in our shared Other-interest to shift purchases in that direction. Result? The now lower price $p^o_e$ would cause a shift in the entire system from path 0G and point A' toward path 0Z and point B. Ironically, point B is also a happier place to be, brought by a relative change in the sales tax. So, in what sense is a shift to a happier and efficient path 0Z driven by using a sales tax to stir the move, a distortion? A MetaEcon would argue it is efficient. A NeoClassEcon claims it is a distortion. Empirical question.

Anticipating a Microeconomics critique here: So, is not just having a sales tax, at all, lead to eliminating all distortion? Well, if one believes that anything keeping one from maximizing only the Self-interest is a distortion, the answer is “yes.” So, for the Econ among us, yes, a sales tax is a distortion. For a Human (and most everyone is a Human), the answer is “no.” Why? Well, it is because a Human also needs payoff in the Other-interest, and the tax can bring it about. Why is it a distortion to provide for the Other-interest of the Human? Empirical question.

**ESTATE TAXES**

It first needs to be understood that very few estates in the US ever pay any estate tax. Exemptions have been increased rather dramatically over time, for example, going from $5.49$ M in 2107 to $11.18$ M in 2018 (data from Wikipedia). In addition, estates can give money to federally approved charities, for another $5$ M+. Exemptions plus estate tax free donations lead to the fact that only about 2000 people in the US, at the current time, are currently liable to pay the price/tax on the estate upon death. Only about 0.00006 percent of the population will be paying any estate tax.

The reality is missed often in the political conversation. The framing comes from what Right Isle claims that there is an inherent “natural right” in not paying any estate taxes, at all.

Microeconomics analysis would likely support the Right Isle, and suggest that an estate tax is not efficient, and, therefore, is an unnecessary
impediment (although the empirical support for such a claim is lacking) on the economy, even if it involves only 0.00006 percent. Metaeconomics, in contrast, can clearly point to cases where an estate tax is not only beneficial, but essential. Another way of saying it: If Self-interest only is to be maximized, as Microeconomics presumes, the estate tax needs to be eliminated, because it impedes 0.00006 percent of the people in maximizing their Self-interest.

In contrast, as Metaeconomics suggests, there could well be a shared Other-interest pointing to tempering how the wealth is used, on moral and ethical grounds, after the death of the person. The shared Other-interest, especially if representing a humane ethical system, would not likely favor the creation of dynasties of wealth, which is encouraged, if not ensured, without an estate tax. Such dynasties seemingly are more about taking and keeping, than in making wealth? Empirical questions.

And, there is substantive empirical evidence that encouraging dynasties does not work. An especially dramatic case in point is Versailles in France, before the Revolution. The monarchy squandered wealth in gold-plated rooms of a summer home while the people starved. Off with their heads. So, reasonable, empirically based sense of the shared Other-interest would seem to suggest that the wealth clock, in effect, needs to be reset each generation. If not, wealth would be concentrated for no reason other than the fact a relative who was good at making (i.e. entrepreneurs) or taking (i.e., most Monarchies) wealth did it. Good reason? Empirical question.

In fact, by thinking here about the shared Other-interest, the ethical system as it were, whether it was the result of taking, keeping, or making, might affect how it is taxed. So, the taxing might be different for the estate of a Henry Ford who created the first pragmatic car and truck that anyone could afford, and, paid the labor on his wealth-making production line enough to own one of them. So, if the Ford legacy of making and sharing through paying good wages was continued, the estate tax might justifiably be lower? Perhaps the family would carry-on the legacy, and do more of said kind of making?

There are several notable cases wherein only limited dynasties were created, with plentiful wealth left for descendants, but also substantive parts dedicated to help the economy and society. For example, John D. Rockefeller who was noted for maximizing Self-interest, in the end worked to acknowledge a shared Other-interest and created the Rockefeller Foundation. Other notable cases in recent times include the Gates Foundation, and related participation by Warren Buffet, with both Gates
and Buffett already deciding that upon their deaths, the bulk of their estate will fold into foundations. Both Gates and Buffett have made it clear that the wealth is to be used for increasing opportunities spread widely among travelers, to help with health and social issues, and generally creating opportunity for entrepreneurs to make new wealth. Seemingly the intent is to serve a more widely shared Other-interest.

There is also a potential dark side to such efforts, however, as in the various Foundations and groups created by wealthy people to buy politicians (MacLean 2017). Metaeconomics would suggest, due to focusing on both empirical and ethical considerations, such political contributions need to be transparent.

And, it seems the estate tax could increase happiness, not only from reducing dark money activities, but also keeping people who might squander an inheritance away from the egoistic-hedonistic path 0G. Having less wealth, especially when used to produce things in the shared Other-interest, could well put them on happiness path 0Z. Empirical questions.

**PROPERTY TAXES**

Henry George may have had it about right, when he made the claim that one of the fairest taxes was that on property, which in his time meant a tax on land owned in private property. The proposition implicitly recognizes the thermodynamic reality that the Spaceship Earth System helps make a substantive part of the wealth. So, a Henry George frame is to tax the dollar wealth produced by that System. Also, the materials and services provided by that system (e.g., minerals, water, and waste-cleaning services provided by ecosystems) were legitimately owned as a public property, in the Henry George frame, by all the travelers: So, why not tax the Market for using it?

Ironically, real estate taxes, the tax rates paid by real estate developers, were recently reduced. Proposals to reduce property taxes are regularly brought before state legislatures, a continual Right Isle proposition. Intriguingly, said property taxes are usually the main if not the only source of tax revenue for public schools, local roads, and many other public services including police and fire. What is reducing property taxes all about? Metaeconomics would suggest it is about taking and keeping, not about making.
Overall, taxing away just that portion of wealth contributed by the Spaceship cannot have a distorting effect on the Market, as the Spaceship is not in the Market. Makes sense?

**Progressive Income Taxes**

On income taxes in general, and specifically for progressive income taxes, Metaeconomics would ask the empirical question: Just how much income do you really need in order to have a reasonably good experience throughout your life, achieving happiness? Throwing life and liberty in for good measure, what is the best entropic path 0Z, as a Spaceship Earth Traveler? Everyone eventually reaches maximum entropy (death). What is the best path to it? And, while the number would likely be a matter of considerable dialogue and debate, it would likely be agreed, eventually, from the perspective of a moral and ethical community, that not all the income one earns, especially on the higher rungs, is essential or even good for that trip.

So, Metaeconomics might find, even strictly looking at the matter only empirically and pragmatically, that progressive income taxes indeed make substantial sense. Reason? Well, if one earns large amounts of income, well beyond the level needed to enjoy a good trip as a Traveler on the Spaceship, paying a bit more could better serve the need for balance. Recall that Metaeconomics points to the happiness path 0Z, which means some sacrifice in Self-interest. The progressive income tax is especially effective in producing said balance and, thus, producing more happiness, by shifting the person away from the Self-interest only path.

Recall the selfish&selfless analysis of Greed in Fig. 7.1. A tax level of 10 percent puts the economy at point A. At said point, little in the way of products and services are coming from the public sector, which is generally where the shared Other-interest arises. The result is the low level of shared Other-interest outcome on $I_M^1$ at point A. As the tax moves from 10 percent toward 30 percent, the system moves toward $I_M^2 > I_M^1$, with a bit of sacrifice in the Self-interest with $I_O^2 < I_O^1$. Intriguingly, in the Nordic economy (see Lakey 2016), the tax rates are somewhere between 50 and 70 percent, which tends to move the system toward $I_M^3 > I_M^2 > I_M^1$. Is happiness increased or decreased from said move?

Well, based on the surveys of people in the Nordic countries, it seems moving toward point C results in people being happier than are US residents who operate close to point A. And, what would determine whether the tax is 10 or 30 percent, or even higher? Well, the value $V$ from Fig. 7.2 would determine it: It depends on how people value $V$ the balance in
Self-&Other-interest. It is clear the Nordic countries put more value $V$ on the shared Other-interest.

As McCloskey (2019) would have it, a humane and liberal capitalism, a happier capitalism, is the goal. Perhaps it is not possible at the Other-interest only (socialism?) point C? Perhaps it is not possible at the Self-interest only (bad capitalism?) point A? Maybe a happier, due in the main from being a more humane, capitalism is possible in the vicinity of point B? Empirical questions.

**Taxes Are Not a Distortion**

So, again, to emphasize: In what sense are Taxes a distortion, as Neoclassical Microeconomics always claims? As noted, it is true that Taxes distort the pursuit of Self-interest: Microeconomics has that Right, and, people on the Right Isle generally agree. The question is: Why is being happier a distortion? And, why is not paying for that which arises out of the shared Other-interest not a distortion?

Taxes, paying the price of Government, works to help attain the outcomes of a shared Other-interest, even in such mundane things as roads, police and fire services, public health (Corona virus management, anyone?), water supply, and the military. Paying for the shared Other-interest might also mean higher quality public schools, better ensuring people can participate in and contribute to a truly humane and liberal, democracy-based capitalism. Such investments in shared Other-interest make the Market work better. Could such shared efforts make you happier? Sure. So, again, sorry to keep asking, but in what sense is a tax a distortion?

Importantly, Metaeconomics does not inherently favor either the Right or Left, Conservative or Progressive position on the matter of Taxes. It just asks, what leads to happiness? And, could taxes serve to increase happiness, by producing a better balance in Self&Other-interest? Empirical questions, indeed.

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