



BlackEconomics.org®

“Conventions, Rules, and Just Because They Can”

Introductory Confession

Economists have held the “High Priest” position in society since at least the middle of the 20th century. Arguably, this is warranted because in religious traditions priests act as intermediaries between adherents and their deity. In the Western world, domination of the Judeo-Christian-Islamic traditions is accompanied by a deity who is purported to reflect the nature of the most powerful of enterprises: A monopoly. In the Biblical *Old Testament*, God, Yahweh, Jehovah, Elohim, is reported to demand that “no other God should come before Him.” Similarly, Muslims’ *Holy Qur’an* emphasizes the preeminence of Allah.

And so it is that economists subsequently evolved life’s economic games for which they established the nomenclature, rules, convention, state of play, and other aspects of how we expend the rarest of commodities known to humans—our time. Almost all who enjoy the opportunity and benefits of living in our known world prefer more, rather than less, time, breathing, being alive, and generally being in this realm.

As time passed, society became increasingly complex. And without regard for the rationale for establishing hierarchies of various kinds, economists have: Restricted their membership; held close to their vest the underlying structure of their trade; and obscured the fundamental realities of life’s economic games by building around them walls of: Principles, definitions, rules, axioms, properties, corollaries, assumptions, lemmas, propositions, theorems, hypotheses, and high-powered statistics that require analyses that only economists can supply.

But for the initiated, it is transparent that the dismal science is just that. It is a sad state of affairs because the game of life in its truest and fairest forms is quite simple. This realization can cause a deep sense of sadness.

This Analysis Brief builds on the foregoing points to reveal that economists always have their toolkit available to potentially advantage highest bidders and to guarantee maintenance of the *status quo* with economists retaining their roles as “High Priests.” Self-preservation serves as a first order consideration as a law of nature within life’s game.

All the foregoing is motivated by the fact that, while income tax filing season has concluded, the property tax season is upon us. **Property taxes serve as a very valuable source of revenue for local governments—accounting for over 70 percent of all taxes collected by local**

governments in the US in 2022.ⁱ We will examine selected aspects of a basic property tax regime to reveal that, although economists have many tools to design a fair and equitable property tax system, the current game is purposefully designed to extend advantage to the propertied—the wealthy. It will be a parsimonious analysis, and we ensure its simplicity for easy comprehension of the nature of this unfair game that defies logical reasoning given economists’ adherence to other fundamental principles in related games.

Before we commence the analysis, we extend a reminder about a related aspect of the role of economists in providing for the governance of real property as a source of tax revenue and the blatant use of contrived creativity to further enrich the rich in Endnote ii.ⁱⁱ

Property Taxes

As a starting point, consider that voter-taxpayer-citizens come to realize that there are numerous types of taxes. Certain economists have no compunction about aiding their government employers by identifying reasons and ways to tax nearly all goods and services so that those who own and control government can expand the size of their cookie jar, can snack at will, and perpetually stuff their consumption and wealth hoarding tummies. Also, those who own (or are in the process of claiming ownership of) an essential requirement for life (shelter) know that property taxes are estimated using an equation with at least two important variables:

(Equation 1) $Property\ Tax_i = Assessed\ Value_i * Tax\ Rate_i.$

Equation 1 conveys that the property tax for an i^{th} property (we focus on housing units) is equal to the property’s “assessed value” times the related tax rate. The typical method used to estimate assessed values is presented in Endnote iii.ⁱⁱⁱ The tax rate is typically established each year by local governing authorities to help cover spending limits established in fiscal year budgets.^{iv}

We believe that the seemingly innocuousness of estimating property tax assessments is not innocuous at all. Current operational estimation methods are, in part, an artifact of past technological constraints and unfairly hold taxpayers hostage to what are likely unfair and inequitable assessed valuations.^v However, the world has changed, and the continued use of current methods for levying property taxes no longer seems to be justified.

We begin the analysis by highlighting various terms, definitions, and methods used to assign value to an asset (nonfinancial and financial) in accordance with well recognized accounting standards. For example: (i) Fair Market value; (ii) Book value; (iii) Nominal value (a term that has at least two meanings); (iv) Present value; and so on. Economists and accountants can assess each term, definition, and method to determine whether they are “ideal” under differing conditions or circumstances. In the case of property taxes, we should ask: “What is the ‘ideal’ valuation term, definition, and method for valuing real property?”

We conclude that local authorities use property taxes to collect from owners of real property amounts required to cover the cost of publicly provided goods and services that are expected to be consumed by owners in accordance with the value of the property owned. There is a potentially incorrect underlying assumption that the value of real property is directly, positively, and highly

correlated with the value of goods and services provided by local authorities without direct charge that are consumed by owners/occupiers/users of real property.

The foregoing assumption points to a conclusion that the first-best available measure of a property's value is its "fair market" value. Fair market value is defined as the value at which transactors in an uninhibited market, at arms-length-distance, and uncoerced would/should be willing to transact for the exchange of real property. In this case, a fair market value is a price point that an owner of property demands of a buyer/renter and the latter agree to pay for the permanent or temporary use, respectively, of housing services inherent in the property.^{vi}

As a final point in this regard, it is common knowledge that consistent with the international standard for national economic accounts, the US Department of Commerce's Bureau of Economic Analysis (BEA) estimates the value of housing services consumed during a period and delivered by the available housing stock using a "rental equivalency" (space rent) concept/method. In other words, when measuring the output of the US economy (gross domestic product (GDP)), BEA measures the value of housing services consumed during a period using a methodology that values housing services with a rental price equivalent measure (i.e., the value of rental receipts received (for renter occupied housing units) and rental receipts imputed to have been received (for owner occupied housing units, which is based on receipts for similarly configured renter occupied housing units) less the value of costs incurred by housing owners during the period.^{vii} The reference to "rental value" is intended to convey a rental price determined in the market place; i.e., it is a "fair market rental price."

Hence, we conclude that "fair market value" is the preferred valuation method whether we are concerned with the sale/acquisition of housing units or the use of housing units as an owner or renter. Therefore, the question that comes to mind is: "Do current methods for estimating the value of property taxes align well with the "fair market price" valuation method?"

Before answering the just-posed question, we revisit one variable in the property tax estimation equation (Equation 1) provided above: "Assessed value." That the property tax estimation equation refers to "assessed value" and not "fair market value," serves as a first reason to conclude that **property tax values that are based on an "assessed value" are likely to be inconsistent with the value of property taxes produced using a "fair market value" approach.**^{viii} It should be transparent that differences in the value of property taxes estimated using Equation 1 will always and everywhere depend on the difference in the valuation methods adopted. Here, our concern is with differences between assessed versus fair market value.

The following question now arises: **"If fair market value is the preferred valuation method, then why do local authorities not employ that method when estimating property taxes?"** An answer to the question could include the following reasons: (i) Historical convention; (ii) an assumed or statistically estimated result that the volume of property taxes is, or would be, higher using an assessed versus a fair market value method; (iii) an aversion to change; or (iv) a dearth of resources required to undertake a transformation of property tax estimation methods—from an assessed value to a fair market value method.

The related follow-on question surfaces: “Which of the just four given reasons would typically be accepted as consistent with fair and democratic governance principles?” We believe that none of the four reasons survive scrutiny in a world governed by fair and democratic principles.^{ix}

This Analysis Brief does not present national, state, or local data driven statistical analyses to confirm relative dollar amounts that are associated with assessed versus fair market valuation methods. However, what we know is that there are booms (high valuations) and busts (low valuations) in real property markets, and that multiple factors can contribute to differences in values derived using assessed versus fair market valuation methods. At the same time, at least theoretically, we know that fair market value is understood to result from ongoing transactions in the marketplace. If we assume that transactors are rational, then these market transactions represent a willingness by owners to relinquish control (permanently or temporarily) of real property and buyers’/renters’ willingness to pay to obtain access (permanently or temporarily) to real property on a real-time basis.^x This is fundamental to, and consistent with, what is considered fair and equitable in the nation’s pseudo capitalist system. In contrast, our description of the assessed value method provided in Endnote iii, which is largely backwards looking, may reflect past, not very recent, or current market conditions. The latter outcome does not align well with first-best valuation principles.

Conclusion

We believe that the important takeaway from this Analysis Brief is that, although the world continues to charge forward with new and innovative technology, which is often enabled by governments through the provision of research grants, governments often lag in adopting innovations to improve the quality, accuracy, fairness, and equitableness of their governance and operational processes. However, we are motivated to enquire: **“If the US Federal Government can employ an up-to-date and accurate method (rental equivalency method) for estimating the value of housing services when preparing national accounts (GDP) estimates, then should not local governments be able to employ similar methods for preparing property tax assessments?”**

Two final points are worth mentioning because they appear to be true based on our theoretical analysis:

- **We believe that current methods of estimating property taxes contribute significantly to the generation and maintenance of income and wealth inequality.** This conclusion is reached using basic analytical reasoning. First, those trapped in lower-income strata of the nation’s socioeconomic system have little choice but to seek housing in low-cost housing areas. When an assessed valuation method is used to estimate property taxes for such low-cost areas, it is logical that the assessed value will be relatively low. However, market conditions can produce circumstances under which rental values are out of sync with the value of the property that produces housing services. Specifically, a sizeable and profitable advantage can inure to owners of rental property in low-cost housing areas. They may enjoy the benefit of a low property tax expense, while reaping a large and favorable windfall in rental income.

- There is a move afoot in so-called developing nations (especially “Afrikan” nations) to urge and enable governments to expand and increase the efficiency of their tax collection efforts—to include, theoretically, property taxes. Given the content of this Analysis Brief, we urge that these nations consider this submission as they proceed with tax planning. While it may seem imperative that a large volume of tax revenue (property taxes included) be collected, economic history tells us that adoption of property tax estimation methods that are unfair and inequitable, that benefit the wealthy at the expense of the poor, and that generate and help sustain income and wealth inequality will ultimately generate costs that may exceed by far the additional tax revenue collected using those unfair and inequitable methods.

This brings us full circle back to the title of this Analysis Brief: “Conventions, Rules, and Just Because They Can.” We return here to remind economists and lay persons that, irrespective of whether it is warranted, economists’ role as “High Priests” of society is evaporating. Trust and value formerly vested in economists because of their ability to decipher conundrums, determine favorable paths forward, and improve outcomes for society is receding. Economists know the reason for this turn of events. Too often, they perform their work holding bottom line incentives preeminent in mind. Consequently, they are recognized increasingly as offering solutions to problems, answers to questions, and policies that are consistent with historical conventions, economic principles, and rules that they have established and from which they benefit. Unfortunately, in certain cases, their work products yield results that fall short of expectations. Yet, as “High Priests” failing to sense changing winds and shifting sand, not enough economists are returning to highly valued objective, fair, and equitable principles and practices. Economists make no such return, not because it represents flawed reasoning, but simply because, for now, they can.

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Endnotes

ⁱ For the US, property taxes accounted for over 70 percent (\$627.4 billion) of all taxes (\$894.1 billion) collected by local governments in 2022. See Census Bureau (2024).”Table 1. State and Local Government Finances by Level of Government and by State: 2022.” *Annual Survey of State and Local Government Finances*. US Department of Commerce; <https://www2.census.gov/programs-surveys/gov-finances/tables/2022/> (File: 22slstab1.xls; Ret. 061325).

ⁱⁱ We are referring to our October 11, 2024, BlackEconomics.org submission: “[An Injurious Imputation](#).” Whether perfectly treated or not, and even with any inherent shortcomings, the ideas expressed in that submission make clear that certain economists’ may use their adept skills to aid, abet, and justify advantaging the wealthy at the expense of the unwealthy. We urge readers to consider the just mentioned submission in connection with the current effort and to formulate an answer to the following questions: (i) “While justified along economic lines as formulated by economists, is the ‘depreciation’ (aka, ‘consumption of fixed capital’) concept critical or essential to the measurement or estimation of material economic activity? (ii) Does the pattern of investment under a regime that mandates including ‘depreciation’ in financial accounts optimize, stabilize, or make more volatile economic growth? (iii) Is depreciation just another economic construct fashioned by Western World economists to ensure that the size and growth of Western World economies remains elevated to the greatest extent possible above the size and growth of non-Western World or so-called Developed Economies?”

ⁱⁱⁱ A typical method for estimating an “assessed value” is to consider the “value” of a few (at least three) properties in a jurisdiction deemed comparable in nature (location, size of lot and structure, structural features, etc.) to the property in question, where “value” is the price associated with recent sales. The assessed value of the property in question is estimated by adjusting the average price of identified comparable properties for differences between their average characteristics versus the characteristics of the property in question. Authorities typically use the just described method to determine an assessed value in period t-1, and then use that t-1 assessed value to compute (apply the related tax rate) the property tax amount that is to be paid on period t, which is a backwards looking approach to assigning value. Primary concerns with the just-described method for estimating assessed values include: (1) Potential difficulties in identifying relevant comparable properties when properties in question have unique features; (2) the time window for sales prices associated with comparable properties (especially when a dearth or absence of recent sales prices forces the use of past sales prices that must be adjusted for inflation, and when the related price deflator is not applicable to the jurisdiction in question); and (3) sales prices may be a false indicator of value (e.g., a sales price may overstate or understate the true value of a property when it reflects expectations of future favorable or unfavorable events that do not materialize), and a property’s assessed value is estimated using such a sales price after the expected events have failed to materialize.

^{iv} We exclude from consideration questions about the relative fairness of budgets vis-à-vis voter-taxpayer-citizens, especially when we realize that inequality of economic outcomes begins, in large measure, with the inequality of government expenditures across racial/ethnic/class lines that are often synonymous with geographical boundaries. The just-noted fact is hidden because almost no local governments account for their annual expenditures by geographical locations (districts, wards, neighborhoods, etc.) where funds are expended. However, casual observation of differences in spending outcomes is transparent when one takes a ride through a town or city.

^v The constraint mentioned concerns necessary computing power and systems to capture required transactions data to estimate the value of real property in real- or near-real-time.

^{vi} Certain economists agree that a “second-best” method for valuing property/assets is a “Present value” method. “Present value” is a statistical concept and method that assists investors in deciding whether to acquire an asset. The idea is that, if the “present discounted value” of the future expected stream of cash or noncash net benefits realizable from ownership of an asset during its useful life exceeds or is equal to today’s fair market value of the asset, then acquisition of the asset is worthy of consideration. “Present values” are generally computed by accounting for all future expected financial (inward) flows to be generated by an asset, discounting those future flows to the current period using an appropriate interest rate in recognition of the time value of money, and aggregating those net discounted flows.

^{vii} See Nicole Mayerhauser and Marshall Reinsdorf (2007). “Housing Services in the National Economic Accounts.” US Department of Commerce, Bureau of Economic Analysis;

<https://www.bea.gov/sites/default/files/methodologies/RIPfactsheet.pdf> (Ret. 061225).

^{viii} Due to print space and time considerations, we undertake no effort to identify required data and to prepare a statistical comparison of the pros and cons of assessed values versus fair market values.

^{ix} We conclude that our answer to the question is logical and sound because under fair and democratic governance, the “correct” valuation method should align with creating the least onerous burden on voter-taxpayer-citizens. In other words, the lowest of a fair market versus an assessed value should be used to compute property taxes in a just, fair, and democratic governance system. It is transparent from equation 1 that differences in property tax revenue generated by the lowest value method can easily be offset by adjusting the tax rate. It seems that politicians are shy to inform the public concerning high tax rates, while ensuring ever higher tax revenue by employing a potentially unfair and inequitable method for valuing property.

^x By “rational” is intended that transactors have the capacity to perform a “search” process, identify, and consider all (past, current, and estimated future) factors that may impinge upon a market price to which they are willing to agree.