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Washington State's New Capital Gains Tax

EVAN WHITMEYER

For a politically progressive state, Washington has long been criticized for having one of the most regressive tax systems in the United States. With over 60% of the state's tax revenues coming from sales and excise taxes, the amount an individual pays is largely tied directly to their consumption. However, because consumption does not necessarily scale equally with income, low-earning individuals generally pay a greater portion of their income as taxes. According to the Institute on Taxation and Economic Policy's 2018 "Who Pays?" report, the poorest 20% of Washington taxpayers contribute almost one-fifth of their income, while the richest 1% pay only 3% of theirs.

On May 4, Governor Jay Inslee signed Engrossed Substitute Senate Bill 5096, which passed the Senate with only a narrow 25-24 vote margin and created a new 7% tax on long-term capital asset gains exceeding $250,000. This includes gains from the sale of securities like stocks and bonds, besides tangible assets like vehicles. All real estate, retirement accounts (401ks, IRAs, tax-sheltered annuities, etc.), livestock, and timber is exempt from ESSB-5096, so the vast majority of Washingtonians will see no increases come next tax season. Deductions are also available for "qualified family-owned small businesses" sold for under $10 million.

According to a fiscal impact statement released by the Washington State Office of Financial Management, ESSB-5096 would raise $483 million by FY 2023, starting January 1, 2022. The first $350 million would be deposited into the Education Legacy Trust Account, which can only be used "for support of the common schools, and for expanding access to higher education through funding of new enrollments and financial aid, and other educational improvement efforts" (RCW 83.100.230). The second $100 million would be dedicated to the State General Fund, and the remaining revenues would go to a new "Taxpayer Fairness Account" which would be used to "offset existing tax burdens via policies such as funding of the working families' tax exemption."

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Limitations of Vaccine Patent Waiver

WENJIA LIU

Initialized by India, South Africa, and other 60 countries, the WTO is considering the proposal for a temporary waiver on four sections of the TRIPS Agreement, basically covering the copyright and related rights, industrial designs, patents, and protection on undisclosed information. The proposal triggers a round of debate, and both sides raise reasonable points.

Advocates think loosening the TRIPS is a moral obligation under the pandemic. Publicize the patent would increase vaccine production, making the vaccine available to struggling countries, in particular, middle- and low-income countries. They claim that vaccine producers should put life in the first place rather than profit.

Opponents, leading by the pharmaceutical industry and several political leaders, resist such proposal, arguing the waiver would not fix the issue. Producing vaccines needs more than the recipe of the vaccine, but also the transfer of physical equipment. Disclosing IPs may lead companies to compete for resources and even stockpiling. A few more considerations include vaccine safety after the waiver and the long-term development of the pharmaceutical industry. The production of some vaccines (i.e., mRNA) requires a thorough understanding of the production technology and process. Vaccines produced by manufacturers who fail to meet standards during production or transportation may undermine quality, safety, and efficacy, wasting resources and time. Besides, giving up patent reduces companies' profit and upset vaccine suppliers and investors. This may render the stock market volatile and lower pharmaceutical producers' incentive to develop the vaccine in the future.

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Economics Advising Office's Blog: http://uwecon.wordpress.com

The Task of Rebooting Global Trade in the Face of COVID-19

JOEY ROACH

When the COVID-19 pandemic truly took full effect in early 2020, it was a market shock felt across the globe that had impacted practically every sector that one could imagine: health systems were stretched to their absolute maximum, educational institutions were forced to adapt to remote contexts, businesses either took the initiative to be flexible and transition to serving customers in a less personal environment or risk going under completely, and national governments had to swiftly determine the best course of action to save their economies from sinking. Amidst these varying factors and pressures, international trade took a sizable hit, down by a whopping 18.5% in the second quarter of 2020. As the planet continues fighting to emerge from the threat of the virus, uncertainty remains about precisely when international trade will fully bounce back, yet it seems that it is trending along the correct route, and continued global efforts can further cement that trend.

A multitude of trade-based industries were significantly impacted at the onset of the pandemic, although some have managed to begin trending upwards once more, the situation for others remains murky currently. After nations began to implement lockdowns and travel restrictions, world merchandise trade plummeted by 15% in the second quarter of 2020, iron and steel trade saw a decrease of 17% in the third quarter of 2020 and, for the whole of 2020, travel services were down by a massive 63%. Some encouraging signs did develop as the year progressed, namely the third and fourth quarter merchandise export volumes demonstrating only about a 3% decline in North American and European countries, while some Asian countries even exhibited growth of approximately 7% in those quarters. Many of these positive turnarounds can be attributed to aggressive governmental fiscal stimulus policies which endowed citizens with the means to help jumpstart trade once again, yet we can still see other sectors such as the aforementioned travel, as well as transportation, industries continue to struggle to find their footing with the litany of restrictions that remain in place, clouding up the picture as to when exactly these services can return to pre-pandemic levels of productivity and output.

One particular complication that exists in efforts to restart global trade in 2021 and beyond is the volatility that exists in each nation's capabilities to manage the virus. In countries like the United States, vaccinations have become widely available for most citizens while in other countries, such as India, we continue to see a lack of widespread access to the primary resource that is being relied on to curb the pandemic. These disparities in the roll-out of the vaccine further muddle the anticipated growth (or potential regression) of international trade. Especially with a focused and prominent effort to manufacture and distribute the vaccines across the world, there is much less of an emphasis on jumpstarting each segment of the international trade market, leaving many services in precarious predicaments. This is underlined by the fact that up to 85% of multination enterprises are indicating that they will either make no changes to their investment plans or delay their investments altogether, holding out additional financial assistance at a time when so many desperately need it to stay afloat.

With all this unpredictability, it makes sense that some components of international trade have rebounded relatively seamlessly while others have lagged. What remains concerning, however, is the asymmetrical way that has occured—we can bear witness to the pleasant surprise of merchandise trade seemingly recovering quite nicely, yet still worrying about the plummets experienced by world commercial trade services. It remains to be seen how effectively, and how quickly, international trade can collectively return to levels that match up with tracking before COVID, and this effort to restore global trade is further constrained by the wealth inequalities that exist globally between rich and poor nations. Regardless of current output, the development of a vaccine is a sign of hope for all international trade industries alike to look forward towards a time where the restrictions of the pandemic are a relic of the past. Projecting future global trade has been, is, and likely always will be a notoriously difficult problem, yet it seems that the path back to normalcy is near. While it still may take a bit more time than is desirable, by ensuring equitable and concentrated vaccination distribution, we can continue to efficiently work towards attaining growth from sputtering industries, and, in doing so, re-establish a healthy international economy.

Sources for information in this article can be provided upon request

The Seattle Housing Market

BEN NIELSEN

Over the past year, the Seattle housing market has been strong, with the median Seattle home price up 7.4 percent from April 2020 to April 2021. Taking a more segmented look at the market, neighborhoods such as Queen Anne/ Magnolia and parts of Bellevue have seen increases of over 30 percent. Indicators such as a short duration on the market signal a strong market as well. There are numerous contributing factors to the strong Seattle market. Among the main drivers, the combination of a low supply of houses and low-interest rates have pushed prices up. It is easy to understand how a low supply of houses might lead to increased competition. To understand the impact of lower interest rates, it is important to know that lower rates lead to less expensive mortgages. When potential buyers can secure mortgages at lower costs, the effect is an increase in real estate demand. In addition to increased prices, to compete to close on houses, potential buyers have been giving all cash offers as well as forgoing many contingencies meant to give buyers protection. One interesting contributing factor that might explain some of Seattle’s competitive market is the cities strong tech workforce, a sector that has experienced tremendous success and growth throughout the pandemic, even when other sectors faltered.

Condos, a housing option that can be thought of in many ways as a substitute for a single-family house, have seen a less competitive market overall in Seattle. While the median price for condos rose 4.5% from April 2020 to April 2021, there has been an adequate supply for sale, and prospective buyers don’t have to compete as hard against one another. There are many possible contributing factors, and among them, one of the most likely is that the ability to work from home has made the convenience of a downtown condo much less appealing. It will be interesting to follow how the two markets shift as workers return to the office moving forward after the pandemic.

Sources for information in this article can be provided upon request

Limitations of Vaccine Patent Waiver

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While the advocates' view is sound, they omit a key issue pointed out by opponents that the production capacity is tied to the availability of raw materials and not to the number of producers. In addition, allocation matters more than production. According to the data from Airfinity, the United States exported 3 million vaccine doses, accounting for only 1% of it production, as a result of the Defense Production Act. Compared with other countries, this is a drop in the bucket in terms of quantity and percentage of production--South Korea exported 27 million doses, corresponding to 90% of its production, China exported 252 million doses, or 42% of its production, and the EU exported 111 million doses, making up 28% of production.

There is no doubt that a country should prioritize its people (based on its function?) but vaccination for citizens is not enough to fight the pandemic. As long as people move and trade, the covid can continue to spread. Governments can impose travel restrictions or close the border, but it is impossible to maintain such a state forever. As Lauren Ancel Meyers, the director of the Covid-19 Modeling Consortium at the University of Texas at Austin, said: "We will not achieve herd immunity as a country or a state or even as a city until we have enough immunity in the population as a whole."

Waiving the vaccine patent is not the only way. An alternative way is to establish a "COVID aid" program: voluntarily share intellectual property, sell at or below cost, and donate vaccines. Meanwhile, developed countries should loosen their trade restriction to expand the export of vaccines to low-income countries.

Sources for information in this article can be provided upon request

Washington State's New Capital Gains Tax

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Anyone who follows the WA Senate Republican Caucus on Twitter is likely familiar with the large amount of political pushback that was faced by ESSB-5096. Senator Lynda Wilson, Republican from the 17th legislative district and Ranking Member of the Ways & Means Committee, described the bill as "a precursor for a full-blown income tax." Most Republicans have similarly referred to it in statements as a broader income tax rather than a narrow capital gains tax. Consequently, many of their arguments against the bill have instead focused on the constitutionality of a graduated income tax, which has been repeatedly rejected by Washington State citizens. The latest attempt came in 2010 with Initiative Measure No. 1098, which failed with 64% of voters opposed despite its proposed reductions in property taxes and business and occupations taxes.

On numerous occasions, the Washington State Supreme Court has ruled against the constitutionality of a graduated income tax by legally classifying income as property for the purposes of taxation. Under the uniformity clause of Article VII Section 1 of the state constitution, all taxes on property within the same "class" must be taxed at the same rate. For example, because all real estate constitutes a single class, every house sold at the same market value would have to be taxed the same amount. If income and property are the same, then a person's income cannot legally be taxed at a different rate than another's. For this reason, Washington State has failed to implement a more progressive tax structure based on income. ESSB-5096 is currently being challenged in court on these grounds, despite its proponents defining it as an excise tax.

Following the COVID-19 lockdowns and resulting economic instability, many expected state revenues to fall dramatically. During FY 2020, the Education Legacy Trust Account (ELTA) experienced a 32.5% decrease, which surpasses even the 20.1% decrease in FY 2008. Despite this, the report conducted by WA State Economic and Revenue Forecast Council in November expects a 7.2% increase in overall revenues between the 19-21 and 21-23 biennia, before accounting for the impact of the American Rescue Plan Act's fiscal assistance to state and local governments. ESSB-5096 will help account for the deficit in the ELTA, but many citizens are wondering if tax increases are needed at this time.

Sources for information in this article can be provided upon request

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UPCOMING EVENTS:

Autumn Quarter Events: In Autumn Quarter the EUB will be hosting various events, such as the quarterly Paul Heyne seminar. Keep an eye out for them in your email.

Economics Tutoring: The EUB offers free tutoring every weekday at various times every quarter! Check the schedule on the EUB website to see tutoring times. If you need help with an upper level class, however, make sure you check the website to see which tutor can help.

Contribute to the Economizer: The Economizer will be seeking guest writers for our Autumn Quarter issue. Interested writers should check their emails from the department in early Autumn quarter for submission instructions.

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