1. Saving Civilization: It Matters How Government Raises Its Revenue
2. Written and Narrated by Edward J. Dodson
3. There is a firestorm of financial instability threatening to bring about the collapse of governments in a growing number of countries around the globe. The causes of this firestorm are only superficially understood by the leaders and decision-makers of these nations, resulting in policy decisions that are either counterproductive or worse.
4. Governments consistently spend well above the revenue raised from taxation, fees for services, and other appropriate sources. A massive global debt bomb will eventually explode. Estimates of global debt range from between 150 to 200 trillion dollars.
5. While the concentration of personal wealth of individuals is almost everywhere accelerating, and those at the very top claim unimaginable fortunes, many governments are drowning in a sea of debt, seemingly unable or unwilling to raise sufficient revenue to meet even the basic needs of citizens.
6. There are complex reasons for escalating government debt in many countries. Ideological and territorial conflicts have translated into escalating military spending. Even the statistics reported here are, some analysts believe, much lower than what is actually being spent on military activities.
7. An analysis published in 2015 by the Huffington Post included this chart, which is described as a low estimate of U.S. military spending, an amount equal to what all other nations annually spend in total on the military.
8. For the citizens of the United States, these public expenditures are increasingly paid for not from revenue taken in by taxation but by the expansion of public debt, which now exceeds $20 trillion and shows no signs of slowing.
9. In October 2017 Business Insider reported that the world’s government debt reached $63 trillion. Japan, China, Italy and France follow the United States as the top five countries, accounting for 66 percent of the world’s public debt.
10. Servicing this debt absorbs desperately needed revenue to pay for needed maintenance and replacement of aging infrastructure as well as for a wide range of social welfare programs and remediation of long-standing environmental pollution and degradation.
11. To counter this problem, central banks in countries such as the United States with the strongest economies have taken steps to reduce interest rates at a time when the demand for fixed-income assets has been very high among savers and other risk-averse investors. While this has dramatically reduced the cost of borrowing, interest income for retirees and lower-income households in those countries fell dramatically.
12. The economic situation in many others countries is even more desperate. An analysis by Business Insider published in December 2017 based on statistics provided by The World Bank identifies those countries where unemployment is high and worsening and where the cost of living is skyrocketing. The fourteen countries with the most serious problems are Venezuela, Suriname, Angola, The Gambia, Mozambique, Lesotho, Swaziland, Namibia, South Africa, Sudan, Malawi, Haiti, Macedonia, and Egypt.
13. Governments all around the globe face the challenge of raising sufficient revenue to meet expenditures while having to compete within the global economic structure for businesses willing to employ their citizens and pay a living wage.
14. Increases in labor productivity have not resulted in increased total employment. While the rate of unemployment globally is forecasted to decline as shown on the previous graph, the actual number of unemployed members of the global work force will continue to increase. As we produce more and more goods with less and less labor input, our economies are not generating enough other types of high wage employment opportunities.
15. In nation after nation where governments have accepted IMF terms for restructuring debt, social and political unrest are the commonly-shared result. The Greek case is merely the latest case study in the failure of government to find the right methods of meeting revenue needs to achieve sustainable economic growth without debt.
16. When IMF Managing Director Christine Lagarde spoke in the United States on the third of April, 2012, she stated the obvious:
17. “These are trying times. The global economy is trying to emerge from the deepest and most painful economic crisis since the great depression. At the same time, the world is growing smaller and more interconnected by the day, meaning that economic disruption in one country can touch people all across the globe.”
18. Nowhere in her speech did Christine Lagarde raise the issue of resource monopoly and the need to deal with the concentrated control over land and natural resources globally or within individual nations. The voices of conventional wisdom, those at the IMF included, have focused almost all their energy on the global financial sector. As Director Lagarde stated:
19. “More generally, we also need a stronger and safer financial sector that puts societal interest ahead of its own financial gain. This means better, and more coordinated, regulation. We’ve come some distance here. The nations of the world, including the United States, have joined forces to strengthen global regulatory standards for banks through the Basel III process. ...”
20. “We now need effective implementation, in a coordinated manner, of what has been agreed and more agreement on the outstanding areas – including regulation of derivatives and the shadow banking system, and effective resolution of banks with cross border operations.”
21. Fast forward to 2017 and the stability of the global financial system is facing the new challenge of the emerging use of cryptocurrencies. As I am writing, the values of the major world currencies are devaluing against cryptocurrencies, over which there is no governmental or central bank control or regulation.
22. What few analysts and policymakers have grasped is the intimate connection between the cascading global economic collapse and the dysfunctional nature of property markets. The last cycle was characterized by falling mortgage interest rates, intense speculation and easy credit. Central banks in the United States, the United Kingdom and other countries have rekindled the upward climb in property prices since the bottom of the last cycle in 2010. Almost universal is the failure to make the connection between how government raises its revenue and the boom-to-bust character of speculation-driven land markets.

1. Nothing – not research or published writing, not testimony before government committees, not grass-roots activism, and not even real world examples has successfully penetrated the conventional wisdom strengthened year after year by additions to the number of economics professors who accept and then teach that markets for land and for natural resources are in no significant way distinguished from markets for what we actually produce by our labor.

1. One of the few analysts who understood exactly what was happening is British author Fred Harrison, who put his talents to work forecasting when the current economic cycle would reach its speculation-driven height and come crashing down to earth. He titled his 2005 book, *Boom Bust: House Prices, Banking and The Depression of 2010*. The book contained a damning indictment of conventional economic policies:
2. "The failure to eliminate or control the business cycle, despite repeated attempts to do so, suggests that the received wisdoms do not lead governments to remedies that work. A second reason is that economics, as it is employed today, is seriously prejudiced by the dilution of some of its key concepts. ..."
3. "Economists routinely work with economic models that treat the world as if it were composed of two factors -- labor and capital -- instead of the three-factor model favoured by the classical economists. This disembodies the economy from its spatial context. That, especially when we are concerned with the impact of the housing market on people's lives, creates analytical problems. For land is the key piece of the jigsaw that is the complex economy."
4. As the land cost component of purchasing property climbed in many countries, the banking sector accommodated the rise in land prices by taking steps to make it easily for purchasers to pay the prices demanded.
5. As property prices climbed, mortgage lenders and investors continually increased maximum loan amounts, reduced the amount of cash required as a down payment, and adopted flexible standards of creditworthiness. Gone were the days when prudent banking required purchasers to save cash sufficient to cover the land acquisition cost, financing only the cost of the house or other type of building. Under that financing arrangement, the mortgage loan would amortize roughly at the rate of depreciation of the building. Mortgage lenders and investors had no choice but to take on higher risks of defaults and losses in order to keep transaction volumes growing, particularly in those countries and regions where property prices are increasing and household incomes are not.
6. Fortunately, there are solutions, sources of revenue that encourage the sustainable production of goods and delivery of services without damage to our environment, that increase in response to aggregate public and private investment in wealth production, and that create the basis for full employment without inflation, with fewer and less extreme boom-to-bust economic cycles.
7. In every country, the challenge will be to create a system of public revenue that is consistent across all levels of government. It is just as important for local levels of government to get on board as with those of states, provinces and national governments. The same principles apply to international agreements for the sharing of revenue derived from private exploitation of the global commons.
8. What, then, are the sources of revenue that can be relied upon to turn troubled economies around? Fred Harrison provided the answer in a growing list of books beginning in the early 1980s. In his 2012 book, The Traumatised Society, he writes:
9. “My forecast rests exclusively on how income is distributed under the current rules, by understanding how tax policies reward land speculation, and how rent-seeking incentives distort the value-adding side of the economy ...”
10. “The capitalist economy needs the services of an automatic stabilizer, but what would it look like?”
11. “Society’s automatic stabiliser is the pricing mechanism based on rent. … In treating rent as public revenue, incentives in the labour and capital markets are not distorted.”
12. “When governments fail to recycle rents into the funding of public services, that income is turned into a compound that corrodes culture. It is forced to become the incentive for activity that ruptures production and employment. By recovering it for the public purse, it is converted back into society’s primary automatic stabiliser. As productivity increases, so rents increase even faster as a proportion of national income.”
13. The message from Fred Harrison is clear: communities and societies must move as quickly as possible to an increased reliance on the taxation of location rental values, values societally-created by the funding of public goods and services.
14. Financial self-sufficiency for communities is possible, if only tax burdens are removed. Removed, that is, from the buildings we construct to conduct business or as our residences, from the revenue we earn by providing goods and services to others, and from our commerce and trade within our communities and with others outside our region, our state or our nation.
15. Mason Gaffney, emeritus professor of economics at the University of California, has been a strong proponent of changing the way government raises its revenue. Professor Gaffney’s advice is straightforward:
16. “The unique, remarkable quality of a property tax based on land ex buildings is that you may raise the rate with no fear of driving away business, construction, people, jobs, or capital! You certainly will not drive away the land. ....”
17. “However high the tax rate, not one square foot of it will put on a track shoe and hop out of town. The only bad thing to say about this tax's incentive effects is that it stimulates revitalization, and makes jobs. If some people think that is bad, maybe this attitude is the problem.”
18. Each society around the globe will need to adopt its own plan of implementation based on existing systems of law and taxation. Some may be in a position to move quickly to fully collect the rent of land and reduce or remove taxes from other sources. Analysts such as Fred Harrison and economists who have specialized in this field have identified many other sources of rents, for example, the value of frequencies on the broadcast spectrum, and even the value of take-off and landing slots at airports.
19. Rents are essentially unearned to individuals. While governments are involved in moving to the public capture of rental values attached to locations in cities and towns as well as the other sources identified, the existing structure of individual income taxation should be changed to combine simplification of compliance and enforcement with progressivity – without taking from individuals and businesses what is actually earned by providing services or producing goods.
20. Governments ought to give strong consideration to restructuring the form of individual income tax so that the burden on earned income is nearly eliminated in favor of a progressive rate of taxation imposed on unearned income, that is, income received from inherently speculative and passive investments that today yield high levels of unearned rent. What might such a tax structure look like?
21. The individual income tax structure should be dramatically simplified to enable compliance without the need for costly tax preparation services, and the rates progressively set to capture a high percentage of unearned income. Start with exempting all individual incomes up to the national median. No other exemptions or deductions would then be allowed. Above the national median, increasing tax rates would be imposed on higher ranges of income, the rates and ranges established as part of the governmental budgeting process to achieve a balanced budget.
22. A way to greatly simplify the conventional business profits tax is to replace it with a low but progressive tax on gross revenue. In most countries, the existing tax structure rewards businesses that book large amounts of expenses by imposing the tax rate on pre-tax profits. A tax on gross revenue could: (a) encourage small businesses (which are known to provide far more jobs than huge corporations) by exempting all businesses from the tax with revenue below the national median; (b) significantly reduce the cost of compliance; and (c) enable government agencies responsible for enforcement of the tax laws to focus resources on cases of fraud and other criminal activities.
23. With the above reforms in place, the challenge of reducing and even eventually eliminating government debt is made far easier.
24. The first step is to convert maturing government bonds into fully amortizing bonds that return both interest and principal to bondholders.
25. The amount required to service the debt and retire principal would be included in the annual government budget. The new income tax rates and ranges of income subject to these rates would be calculated to achieve a balanced budget (including interest payments on older bonds and both interest and principal on the new fully amortizing bonds.
26. What we can foresee from these changes in public policy are economic systems that rewards people for producing wealth others can utilize, while re-establishing the principle that nature is our “commons” and the value of nature is our “common wealth” -- the appropriate source of government revenue.
27. The stage would then be set for sustainable economic activities, for environmentally-sound use of the planet’s resources.
28. Equally important, we would now be living in societies where every person who wants to use his or her talents is able to find meaningful employment at a livable wage. There has always been more to do than people available to perform all that is needed. What changes is that the demand for people and for their skills would be on a constant rising curve. Full employment would become the norm rather than the exception.
29. While there is nothing we can do to prevent the inevitable (we are none of us immortal), we can by these changes in how government raises revenue, take some important steps toward “saving civilization.” THE END