

Fund Basic Income Grants Not from Income but from Outgo

by Jeff Smith

The only current example of a payout similar to a Basic Income Grant is Alaska sharing oil rent. In the recent past Kuwait also paid an oil dividend — and in the near future Iraq may, too. At the local level in America, Aspen, Colorado pays half of the area's workforce a housing supplement, which is far better than nothing, in that pricey ski resort.

These real-world examples contradict the prevailing assumption among BIGists — based upon the old notion of taking money from those who have it — that a social stipend must come from redistributing income. Actually, an income supplement could, and should, come from redirecting outgo, i.e., spending. The spending that everyone does, which never rewards either labor or capital, is spending on land — on the locations beneath one's home and place of business, and resources while still in situ; it's all the money we spend on the nature we use.

To redirect such outgo to different recipients, let's not pay undeserving private owners of nature for their mere ownership of land, for their owning sites and resources or controlling EM spectrum, or overloading ecosystem services with their pollutants. Instead, let's pay our deserving selves. That is, owners and users would compensate those whom they exclude from their claimed portion of nature — our common heritage in most moral traditions. Each month, we'd pay land dues equal to the rental value of our claimed nature into the public treasury. And, each month from the treasurer, we'd get rent dividends back in equal amounts to all the members of society. Usually, government does not redirect spending but merely takes it when taxing sales or transfers of real estate titles. However, taxing transactions tends to raise prices and discourage trade (when not driving it underground into a black market). Better than taxing an action like spending is to charge dues for an inaction like merely holding onto a part of nature.

Our spending on nature is so immense — trillions of dollars annually in the US. By sharing it we could receive a dividend of \$1000 each month. That would make it feasible to eliminate some costly social services, not to mention corporate welfare. Reduced spending would make it feasible to eliminate most taxes. And good riddance. Taxes and subsidies are costly to administer and distort costs and prices for producers

and consumers, which diminishes investment and employment; they violate quid pro quo and reinforce the hierarchy of state over citizen. Further, eliminating taxes and subsidies would nicely raise site values and fatten our Citizens Dividend. This happy policy of replacing taxes with land dues and subsidies with rent dividends goes by the name of Geonomics.

The Ethics

The charging of land dues is easily shown to be more equitable than any form of taxation. No one made nature, all of us need her, and all of us create her market value. Because nobody produced land, nobody needs to be paid to produce land. Nobody even needs to be paid to leave land, if they prefer some other location. All they need to be paid for is any improvements, such as a building, that they may have made to the land. Indeed, the only ones who need payment are those who don't get to use the land, who respect it as someone else's property. What makes land property – properly owned – is that the owner also pays what he owes, a rent to his neighbors. Rental surplus belongs to society in that society generates it and members of society deserve it by keeping off land claimed by others. Hence this social surplus is our commonwealth. It belongs to us, for us to share.

Etymology reveals this arrangement to have been commonly understood as fair. The words “own” and “owe” and even “ought” were once, a few centuries ago, the same word. Then, in the era of hierarchy, people felt obliged to pay rent up to their lord, who originally was supposed to parcel it back out again to the people. Nowadays, in the era of equality, people should feel obliged to pay rent out to their neighbors, as their neighbors would pay them. Yet language makes it hard to grasp this justice today, as there's no popular conception of “the commons” nor any colloquial term for “rent”. Longer ago, ancient Greeks understood rent was a bounty for nature. Their word, pleonasm also meant surplus and is a cognate of our word “plenty”

While we have a right to a fair share of society's surplus that we don't now bother to enjoy, we don't have a right to others' earnings, and we should quit taxing them. Redistribution, by transferring wealth from haves to have-nots, merely masks inequality, reinforcing the underlying hierarchy and provoking class bitterness. On the contrary, sharing the flow of rent would not only generously lift the income floor, it would also create a more egalitarian society.

The Efficiency

Land rent is a surplus. If owners don't get it, the supply of land on Earth will not diminish. If owners have to pay it, then they'll let go of land that they are not using.

Thus, depriving individual owners of all the rent that their land can command does not interfere with the efficient operation of the economy. Indeed, by making it no longer profitable to speculate, and by making it possible for government to quit taxing real efforts, the social recovery of rent actually makes economies more efficient.

Sharing land value is also far more efficient than redistribution. Redistributing income requires us to tax earned income in order to pay a basic income. Numerous studies, such as those by Martin Feldstein and Nic Tideman, tally up the deadweight losses, the damage done by taxing income. When government extracts payments for little or nothing in return, that weighs heavily on both the rich and the employed, discouraging work, savings, and investment.

Paying a social salary while not recovering rent, but merely taxing income, would ultimately be self-defeating. As studies show, places where residents can take in more money – whether from the proposed income supplement or from stock options or from any source – there the cost of housing rises; the suddenly endowed recipients bid up the price of housing. Happy to accommodate them, landlords raise the amount they charge for an apartment and home sellers raise the amount they charge for a house. The housing does not become any more homey, just more expensive. In fact, the housing itself is older, more worn out, and less valuable. While we say the cost of “housing” rises, actually it’s the cost of the land, of the location, that rises.

Paying the wrong people even more for land is not only unfair but also harmful to the smooth operation of the economy. It rewards speculation, which generates more speculation and exacerbates the business cycle. It also deprives real producers. As people spend more on never-produced land, they have less to spend on humanly-produced goods and services. As spending on real goods and services falls, it spreads the deprivation to everyone, making staying in business impossible for those on the margin, periodically culminating in recession and depression.

Taxing income, even to provide an income supplement, worsens the situation, merely robbing Peter to pay Paul, with a costly bureaucracy to mediate the process, and with any payment eventually getting eaten up by land costs. On the other hand, taxing the flow of rent, even if not to fund an income supplement, would rectify the situation, lowering the price of land by halting land speculation — thus redirecting investment to real production. Of course, it’s better to let citizens spend the recovered rent, rather than politicians and bureaucrats. During an economic downturn, citizens need the extra income. Plus, they’d be far more likely to spend it wisely, seeking better deals and goods and services that more precisely meet their needs.

Redistributionists ignore how one amassed a fortune; they merely demand a cut later. One could have raked in a pile of money from speculating in real estate, from denuding a pristine hillside, from monopolizing the airwaves — the tax on income won't care. A tax, or fee, or dues on landholding, on the other hand, will spur owners to care. Having to pay land dues, would-be owners won't claim any more than they can use, and will use that wisely. To maximize profit from their improvements to a site, owners must optimize their use of the site. The bottom line would impel owners toward stewardship. To reinforce sustainable use, some of the rent could be collected not by ongoing dues but by ongoing Restoration Insurance premiums and by an upfront Ecology Security Deposit. Both of these payments would get smaller as the owner shrinks his footprint. Together, all three forms of land dues would drive less wasteful use of land, which taxing income would not. The resultant more efficient use of land from collecting land dues would also swell the overall value of land in the region and thus the rental dividend to citizens.

Strategy

Higher ambient income is what kicks off a new wave of increasing housing/site costs. More costly housing should be good news. Presently, it is only good news for sellers, brokers, speculators, and lenders — the only ones getting a dividend from real estate rents. It's bad news for buyers and for property tax payers. Yet rather than have half of society fear rising site values, we all could welcome them. All we need do is recover and share them. Getting back the rent dividend — made fat by the rents for all nature, including sites, resources, EM spectrum, and ecosystem services — would more than compensate most home sellers who own only the land beneath their home, not an oil field, or a downtown corner lot.

Eventho' the most powerful elements in society — extractors, brokers, lenders, and speculators — would take in less money as rent, they presently take in too much money for the little service they provide. To earn their income, they should move on to making money by providing society services of greater value. Lucky for them — and everyone — when taxes are shifted off income, sales, and buildings, then the former rent hoarders can keep all their profits from investing in real enterprise. Possibly, they might make as much as they do now — but the money would be earned. Hence it's crucial to a successful campaign for an extra income to advocate an end to taxing income, which precludes redistribution to fund Basic Income.

Every generation or so, income tends to level off while the cost of housing keeps rising — which is the definition of a bubble. The bubble institutionalizes gambling in everyone's economic psyche, even more so than does the stock market, which only a small percentage of the population plays. The bubble reinforces getting something for

nothing, but as an individual homeowner, not as a member of society. Indeed, many Americans would rather trust the housing market for a big pay-off than trust government to pay out dividends. The mentality that is attuned to making a big score in real estate is not one that welcomes the notion of gathering then sharing the value of land, our common heritage, or of taxing capital gains at any rate, once land is sold, and paying a Basic Income. Hence, to advance a social stipend, advocates must eventually confront the typical lust for speculation in land.

Most people, feeling the territorial imperative that drives us to not only establish a home but to respect the established homes of others, and being so thoroughly domesticated that they conform to any convention no matter how unfair, do respect claims to land, whether proper or not. While they may justify private property on the basis of the territorial imperative, originally our species established homes in groups, not as individuals, which now is the more common occurrence. Now that we are individual homesteaders, we have lost any sense of commonwealth. To regain that sense, which would enable people to see a social salary as fair, we cannot defend any tax on earnings. That simply alienates too many people, both the powerful and the ordinary. Instead, we must demand a fair sharing of what's already all of ours.

We proponents can do so in every arena. Nationally, we can argue for lifetime Social Security from society's surplus. In every state, we can argue for a rent dividend, a la Alaska. Locally, we can argue a Housing Voucher, building on the Aspen model, and thereby bring about a universal Citizens Dividend step by step. We can remind people that sharing rent, unlike redistributing income, stands on both moral tradition and universal logic.