

## **FUND BI NOT FROM INCOME BUT FROM OUTGO**

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### **Abstract**

The only example of BI is Alaska sharing oil rent. It contradicts the prevailing assumption that a social stipend must come from redistributing income. Actually, an income supplement could, and should, come from redirecting outgo, i.e., spending. That is, instead of paying owners for never-produced land, pay ourselves. We could pay land dues into the public treasury according to the value of our claimed nature – sites, resources, EM spectrum, ecosystem services, etc – and get rent dividends back in equal amounts to members of society.

Not only is doing so more equitable – no one made nature, all of us need her, and all of us create her market value – but sharing land value is also more efficient than redistribution. Redistributing income requires us to tax earned income in order to pay a basic income. Taxing the rich and the employed weigh heavily on any economy, discouraging work, savings, and investment, while inflating the price for land. And we don't have a right to others' earnings but only to society's surplus, our commonwealth, all the money we spend on the nature we use.

Unlike taxation, redirecting all the money we spend on nature – trillions of dollars annually in the US – stimulates more and more efficient production. It also, by generously lifting the income floor, closes the wide gulfs in income, wealth, power, social standing, and self-esteem. Sharing rent, unlike redistributing income, stands on both moral tradition and universal logic.

### **The Proposal**

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.

All 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 – in the classical economic sense, 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 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 tax, or 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 – that 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 also 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

While forcibly confiscating another's income may not be fair, charging land dues is easily shown to be more equitable. No one made nature, all of us need her, and all of us create her market value. The three most important things in real estate are location, location, and location. What imparts value to a location are the amenities provided by nature and by society. Nature (or God, if you prefer) provides living soil, rich deposits, deep harbors, breathtaking views – things that no owner or any other human being produced. Society provides, among other benefits: infrastructure, such as roads, democracy, low crime, and population density. The closest correlation to land value is density; which lone owner can claim by himself to have created that?

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. Now days, 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 should quit taxing them. Redistribution, by transferring wealth from haves to have-nots, merely masks inequality and reinforces the underlying hierarchy and provokes class bitterness. On the contrary, sharing the flow of rent would not only generously lift the income floor, it would also close the wide gulfs in income, wealth, power, social standing, and self-esteem, creating a far more egalitarian society.

## **The Efficiency**

Because payments for land never reward production – nobody produced land – but usually reward unjust possession and some day perhaps the good behavior of neighbors who respect property, land rent is a surplus. If people don't get it, they won't produce any less land. Nor will they hold onto land, typically, 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 more efficient than redistribution. Redistributing income requires us to tax earned income in order to pay a basic income. Numerous studies, including one by Martin Feldstein and one by our own 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 whatever – 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. So 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 not only overly 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 for an income supplement, only 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 for funding an income supplement, would rectify the situation, by lowering the price of land and halting speculation, redirecting investment to real production. Of course, it'd be 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 ignores 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, and 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, wanna-be owners won't claim any more than they can use, and will use that wisely. That is, to maximize profit from their improvements to a site, owners must optimize their use of the site. The bottom line alone 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 be smaller when 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**

Since what kicks off a new wave of increasing housing/site costs is higher ambient income, 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 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 if so 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 BI.

Every generation or so, income tends to level off while the cost of housing (sites) 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 BI. 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 – a *sine qua non* for redistribution. 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.

Since sites, resources, and spectrum are the sources of most unearned fortunes, ironically, to the hoped-for delight of redistributionists, raising the income floor by paying rent dividends will at the same time lower the income ceiling by necessitating the preceding collection of dues for holding all types of land. So, to pay a BI, forget about taking from those who have and instead redirect everyone's spending on nature from today's fortunate recipients to all of us. It's the only social stipend that has both ethics and logic behind it.

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