BIG AND THE FLAT TAX - A POPULIST ESSAY

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When our enemies agree with us, we should listen, . . . very, very carefully.

The heir to one of the great American media fortunes, an intellectual equal of George II (and maybe even George III), a sometime candidate for president, has even written a book about our subject, namely the FLAT TAX. I must respectfully admit that I have not read the book in question, though I have read numerous articles by the author concerning the ideas expressed therein on the Wall Street Journal's editorial pages. I do believe in market forces, that the value of goods eventually reaches a true level. When the book, in good condition, or even new, is available for 99 cents, or less, I will buy it. I may even read parts of it.

When the fox is arguing loudly, even coherently, for greater security for the chicken coop, there is usually a reason. And the reason is seldom one that the chickens, if they have any idea what is going on, which they usually don't, would approve of.

So what does the incessant drum beat for a Flat Tax, from the right, in the WSJ, and on NPR (which should be renamed NCR - National Corporate Radio) mean?

At this point, as a Populist and a Green, I would like to put forward a simple, moderate, and, I hope, reasonable, proposition:

To wit; that there should be a direct connection between the obligation of any individual, or corporation, to pay taxes, and the ability of that same individual, or corporation, to pay taxes.

In the background I can here the excited rustling of the WSJ Editorial Page:

"But, that is what we have been saying all along! The Flat Income Tax is a fair tax. Obviously someone with a large income has a greater ability to pay taxes than someone with a small income."

"A Flat Tax, at a reasonable rate, say 20%, without loopholes, would be easier to administer, increase revenue and be more in keeping with the ideals of our democratic society."

This is all true.

"And how about people with very small incomes living at, or below, the poverty line?"

The immediate answer to that question is always a deduction, say the first $10,000 of income should be exempt from taxation. This is still fair and it seems compassionate. It is also not flat.

But let us skip over this small contradiction for the moment. The editorial pages of the WSJ abound in contradictions. If the WSJ advocated a flat tax that was flat, THAT would be news.

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This just in; February 17,2006, from the Editorial Page of the WSJ:

A Democratic Senator from Oregon and a Democratic congressman from Illinois propose "The Fair Flat Tax Act", which would have ". . . just three personal tax rate brackets - 15%, 25% and 35% - instead of the current six."

Well, fair it might be, but how is it flat? "Flat" now, at least on the editorial pages of the WSJ, seems to mean "good". Will we soon have a "Flat Patriot Act?"

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We need examples; let us take George and Amy:

Both have incomes of $1,200,000 per year, well above the median income, but still modest. These are not greedy people.

George has net assets of about $100,000,000 and chooses to subsist on $100,000 a month, before taxes. George could just as well decide to subsist on $200,000 a month. He can well afford it. But his innate sense of decency, and perhaps an inborn frugality, tell him that $100,000 a month, something less than $20,000 a week after paying the Flat Tax on his income, is enough.

Amy works on Wall Street. She has some assets, a new condo, mortgaged to the hilt (that might, or might not, be worth what she paid for it), a leased automobile, a membership in a good country club (a very necessary business expense) and other odds and ends, some of which were not paid for by credit card debt. But her net worth, on a good day, is zero. Don't ask about a bad day.

Under the proposed Flat Income Tax both have the same obligation to pay taxes. But do they have the same ability to pay taxes? Can, and should, George pay more than Amy?

Again, in the background, the Editorial Page of the WSJ is excited, but this time with true indignation.

"The taxes on George's assets have already been paid. If Amy has no assets that is, a) her fault, b) God's will, c) the moral weakness and failings of her ancestors, d) just the way the cookie crumbles. We do not live in an egalitarian society, nor should we want to!"

Now imagine the fox, architect of the new, improved security system for the chicken coop, quietly locking the door ... from the inside! The Fox is smiling.

Here's why. And this is really important, so listen up.

The Holy Grail for the truly rich has always been to disconnect the obligation to pay taxes from the ability to pay taxes. The Flat Income Tax is a small concession to pay in the greater scheme of things. And the truly rich have the power to determine what their income is.

Harry is much, much richer than George. Among other things, he has one billion dollars in gold buried in his backyard. He has no income at all, but he has to eat. From time to time he deposits a small amount of gold in his local bank, and borrows some money, at a very low rate of interest, against it. Of course he does have to pay interest, and the interest is compounded in this example. (Harry is not very sophisticated, there are better ways to do this. But then lawyers would have to be paid.) If Harry manages not to live too long, paying interest is still cheaper than paying income tax, be it flat or not.

Harry has a greater ability to pay taxes than either George or Amy, and he should also have, arguably, a greater obligation to do so. But being truly rich, he can avoid paying taxes altogether.

Are we then to conclude that the Flat Income Tax is a bad thing?

Yes, the Flat Income Tax is a bad thing. But not because it is Flat. It is the income tax itself that is bad, flat or no, and it should be gotten rid of. The income tax began as a consumption tax that affected only the wealthy, and it has become a tax on labor which the very wealthy are mostly able to avoid. There seems to be some consensus on this as the money raised through the income tax, as a percentage of GDP (Gross Domestic Product), is decreasing every year. Maybe the income tax has come to its senses and is phasing itself out.

But if we don't tax income, what, or whom, do we tax? And how?

I don't like to change the subject, but there is another question that has to be asked, and answered, first:

HOW MUCH MONEY SHOULD TAXES HAVE TO RAISE? Or, to put it another way, how much money, as a percentage of the GDP, do we need to adequately finance the public sector in order to have a decent, just, and livable society?

According to the 2005 edition of the Statistical Abstract of the United States, the expenditure level for the United States, for all levels of government, is 36% of GDP. The expenditure level for the most prosperous of the Common Market countries runs close to 50% of GDP, or slightly above. This comparison is distorted by the fact that the US is using about 6 of that 36% in an all out effort to bring peace, democracy, prosperity and the blessings of private property to various parts of the world through the use of smart bombs and depleted uranium. But this, of course, is irrelevant to the GDP. Whether we pay for parents to raise their children, spread collateral damage throughout the world, or piss the money down the toilet, is all the same to the GDP.

The 36% also contains transfer payments between the Federal and state and local governments. Thus our expenditure level, when compared to Europe, is closer to 30% than 36%.

Of course the American per capita GDP is higher than almost all the European countries (Denmark and Luxembourg being quaint exceptions), but it is also evident that the standard of living of ordinary people is much higher in many, even most, European countries.

The countries of Western Europe are either very close to achieving the model of a just and decent society (at least when compared to us), or they are at least progressing towards that goal, towards economic justice.

We are regressing. The number of poor people is increasing, the standard of living of the middle class (what's left of it) is decreasing, and the rich . . . , well, the rich are doing quite well thank you.

Of course Europe has problems, and we are not Europe.

What would economic justice look like in this country?

Let's start with a rate for public expenditures almost 50% higher than we have now (correcting somewhat for our bloated "defense" budget and for transfer payments between the different layers of government), say 45%, still lower than the most prosperous European countries. We are more efficient, aren't we?

This would be about 5.4 trillion dollars. This is a lot of money. But would it be enough for a just and decent society?

This begs the question of what constitutes a just and decent society.

Three things come immediately to mind:

A basic minimum income for every individual, so that while some would still be poor, none would be destitute. (This could also be achieved through a Basic Income Guarantee, but I much prefer the concept of a basic income [Grundeinkommen], and a flat one at that.)

Completely free universal medical care, and an abandonment, on the national healthcare level, of the concept of fee for service. This does not mean the socialization of medicine. Private healthcare would still be available, as it is in all European countries, but no one would have to depend on it for quality healthcare, for their own lives, or the well being of their children.

Free education from preschool through the PHD, for those who can, and want, to go that far, as well as free, high quality, vocational training for those who are not academically inclined. Again, private universities can still exist, but they would have to compete, much as CUNY (City University of New York) and Columbia did during the depression, when CUNY was free, and produced more Nobel Prize winners than Columbia.

These are the three big ticket items. How big?

A Basic Income of $500 a month for every citizen of this country would cost a little under 1.8 trillion dollars a year. This would be taxable income paid to each and every citizen from birth to death, as long as they are breathing.

Universal healthcare, estimated at between 6.7% (Canada) and 9% (Germany) would cost about 900 billion dollars a year. We already pay 16% of GDP for healthcare and still have 45 million uninsured, and countless underinsured. Switzerland pays 11.5%, including private healthcare, and everyone is insured.

Education would come to no more than 300 billion, for preschool and higher education, in addition to what we spend now. State and municipal colleges and universities would be free. Perhaps a National Free University, including a School of Medicine, would be a good idea.

This all comes to 3 trillion dollars, or about 25% of GDP. This would leave 2.4 trillion left over for everything else.

How are we to raise 5.4 trillion in taxes, without an income tax, when we are straining to raise (on the Federal level) about half that now with the income tax?

Increase taxes under the present system?

Not a viable political option.

Go back to the progressive tax rates under Roosevelt and Truman?

The confiscatory tax rates during the Second World War, and after, had, as their main purpose, the maintenance of the status quo, that is, the protection of existing corporations and financial institutions from undo competition, from new money created by war. The worst result of this, perhaps unintended, was to preclude the newest wave of immigrants, the blacks from the

South, driven off the land by agribusiness, who migrated north to find work in the war industries, from acquiring capital and making the traditional transition to the middle class.

Tax the rich?

This is always an unpopular stance in American politics. The rich feel discriminated against, and the non-rich, who fully intend to be rich someday, feel threatened in advance.
A much better approach is to demand that the rich pay taxes just like everybody else. The rich don't much like this idea, mainly because they are just not used to paying serious taxes in proportion to their ability to pay. But most other people will go along with this.

Redistribute wealth?

This just doesn't work. When an attempt is made to redistribute wealth redistribution usually only occurs within economic classes, not between economic classes. That is, wealth is rarely, if ever, distributed from the top to the bottom without most, or all, of the wealth being destroyed. Unfortunately redistribution in the opposite direction, from the bottom to the top, often works quite well.

So what do we do?

I would like to propose a simple, and flat, tax system that would raise the money we need for a livable country. I am not asserting that this is the only way the money needed, 5.4 trillion dollars, can be raised, nor even that this is the best way to do it. But I would like to show that it is possible, and that the proposition itself is not unreasonable.

Let us consider four kinds of taxes. All would be flat. The first three would raise revenue, the last would be an expenditure.

First is a Net Asset Tax, in other words a tax on net wealth. This would not be a tax on persons, but a tax on the property itself. If you own something of value, and wanted to keep on owning it, you would have to pay the tax. But ownership itself is voluntary. If you don't want to pay the tax, walk away from the property, or tell the government to come and get it.

In the past wealth, or asset, taxes have not worked because they were arbitrary and, usually, much too high. Any asset tax over 3% per annum just won't work. This isn't a way to tax wealth but to destroy it. Proposition 13 in California was a good example of this, an extreme reaction against excessive and arbitrary property taxes, that, in the end, destroyed the best educational system in the country. New Jersey may be next in line.

In computing asset taxes (real estate taxes are an example of an asset tax) there are three different rates to be considered:

THE ASSESSED VALUE: Real property is usually assessed at some percentage of its full value less than 100%. If the property is assessed at 100% of the current market value, that is, for what it can actually be sold for in a reasonable amount of time, this is called full value assessment.

THE NOMINAL RATE: This is the tax computed as a percentage of the assessed value.
THE EFFECTIVE RATE: This is the rate that you actually pay as a percent of the full market value. If the property is assessed at full value, the nominal rate and the effective rate are the same.

To understand just how confusing this can be; for the 50 selected urban areas tracked by the Statistical Abstract of the United States the nominal rates vary between 0.38% and 3.88%, the assessment rates between 4% and 137%, and, the effective rates also between 0.38% and 3.88%. The odd symmetry here results from the fact that both the highest taxed city in the US, Providence, Rhode Island, and the lowest taxed city, Honolulu, Hawaii, both have full value assessment, but the effective/nominal tax rate in Providence is ten times that of Honolulu.

In the case of property taxes the assessed value represents the portion of real value, usually, but not always, less than 100%, that is taxed. For income taxes the taxable income, a portion of your total income, always less than 100%, is the part of your income that is taxed. Nobody is expected to pay taxes on 100% of their income. The Alternate Minimum Tax (AMT) was instituted because so many wealthy tax filers, with high incomes, had taxable incomes that were so low that they did not have to pay any income tax at all.

Much of the inane debate about who pays how much taxes in this country is fueled by the confusion, often intentional, between these different rates. For instance a nominal income tax rate of 150% can seem unreasonable, but if your taxable income is only 2% of your real income, then your effective tax rate is only 3%, which is not unreasonable at all.

In the end it is the effective tax rate that is important when comparing taxes. In order for a Net Asset Tax to work well, the nominal tax rate and the effective tax rate should not be far apart.

But, if an asset tax is ever enacted, the real battle will be over assessments. There will be endless arguments over whether one pot of gold is worth more than another, eventhough both are the same size. Arguments as to why 200,000 acres of land are only worth 20 cents an acre when a few hundred acres have just been sold for $2000 an acre to build a new shopping center. The Editorial Page of the WSJ will rant and rave about "taking" and "class warfare" in a most entertaining way.

But this is a very serious problem. In New York City all residential property is assessed at 8%. Yet the effective tax rate on the most expensive properties is often 0.20% (one fifth of one percent), while very modest homes in working class areas are often taxed at an effective rate of 3.5% or higher.

The only real solution is transparency, that all valuations of taxable property are a matter of public record easily accessible to everyone.
The next questions are, what is the value of all assets in the United States, and what constitutes an asset?

The answer to the second question is simple. Anything that you can legally alienate, that is sell, or give away, is an asset. The answer to the first question is a bit more complicated.

The first big problem here is that a tax on assets will change the value of the assets themselves. Assets that bring a generous return will probably increase in value. Assets that bring no return (such as art works) will probably decrease in value. The Capitalization of the stock market today is about 16 trillion dollars, residential real estate is a little more than double that, and there is a lot of money (which is an asset) kicking around. A low value, taking into account the early stages, or the anticipation, of an asset tax, would be about 100 trillion dollars, or about 8 times GDP. If assets were taxed at a nominal rate of 2%, and an effective rate of 1.8%, then this would bring in about 1.8 trillion dollars. This is the same amount that the Basic Income would cost. If each individual in the country were worth exactly $300,000, the net asset tax and the Basic Income would cancel each other out. One way to look at the basic income is that an individual without assets has the entitlement (a loaded word) to the return on $300,000 at 2% interest.

Should the Net Asset Tax really be flat? Wouldn't it make sense to excuse the poorest people from this burden?

This is a really ticklish problem, but the answer has to be no. Even a homeless person, and there will be some no matter what we do, who estimates his belongings to be worth $100 (poor and working people tend to overestimate the value of their assets), will still have to send the IRS a check, or money order, for two dollars.

The two dollars is not important, but the fact that even the poorest among us are included in the tax paying process is. A great deal of time was expended by progressives in the 1990s in registering the poor to vote. But the poor didn't vote. There was always a subtle message in the air that if you were not a "taxpayer", then, although you had the legal right to vote, you were not welcome. Anyone can march in the Easter Parade, but if your clothes are too shabby, you won't. Reagan cut millions from the tax roles, because they were too poor to bother with. This was not compassion. Reagan was sending the poor a message, "you don't count." The poor got the message. Reagan wasn't called the great communicator for nothing.

Another problem is the different layers of taxes. The 2% asset tax is the maximum tax for ALL levels of government combined. Who gets what is something they, the different levels of government, will have to work out among themselves. But there is a bias. If a local government has an effective property tax of 1%, then the taxpayer still has to pay 2% to the Federal government, but he can deduct the 1% local tax payed from the money owed to the IRS. This is not a tax deduction, but an acknowledgment that the 1% has already been paid. Of course the local government would quickly raise its tax rate to 2%, so that the IRS would get nothing from the property tax. This would not be a bad thing, it would keep the money down on the farm.

The Net Asset tax would be a tax that would be paid by the owners of property, whether they are real persons or corporations. Of course, as the corporations themselves are property, they would be owned, and constitute, in themselves, an asset to be taxed. This implies a double taxation on corporations. Under our laws corporations enjoy huge advantages, the right to shamelessly bribe and manipulate government, among other things. There no reason why they shouldn't pay for their privileged status.

This double taxation will not be without effect upon both the corporations themselves and the stock market. On the one hand the simplification of corporate structures would be encouraged resulting in a much greater transparency. Corporations could still hide their liability, and dirty deeds, by means of nested corporate ownership, that is, corporations owning corporations, owning corporations . . . , but it would be very expensive. On the other hand, since corporations would have to list, for tax purposes, their actual assets, corporations with small assets and small, or nonexistent, profits, might be hard put to justify their, often wildly inflated, market valuations.

The institution of a Net Asset Tax might will change the value of the things being taxed. The relative valuation of real estate, financial assets, stocks, works of art, and almost everything else that might be deemed an asset, will change. But 100 trillion dollars still seems a reasonable estimate.

Make no mistake about one thing, an asset tax of 2% is a very high tax. A more comfortable rate would be between 1 and 1.5%. But a tax rate of 2%, phased in over a period of years, combined with the Basic Income would do a lot to soften the unreasonable gap between the rich and poor in this country. Once this gap is smaller, the rate can be, and should be reduced. But under no circumstances, even in time of dire national emergency, should the tax exceed 2.5%. If this has to be guaranteed by a constitutional amendment, then so be it.

The next tax is the Asset Conversion Tax:

This is a lousy name for a tax, and if anyone has a better one, please let me know. What the Asset Conversion tax is, is a vastly improved Value Added Tax, combined with some attributes of a consumption tax, which will, for most of us, simply be a sales tax. Of course any good Liberal (a word that I always use in a pejorative sense unless I'm talking about the 18th century) knows that sales taxes are "regressive". But the same Liberals are hard put to explain why countries that depend heavily on sales taxes are so often the most progressive in the world.
The weakness of the traditional VAT is that only the seller is responsible for collecting the tax, not the buyer. Under our system both would be equally responsible. When you buy something you would receive a receipt for the amount paid including the tax listed separately, and the tax ID number of the seller. This is proof that the tax has been paid.

If the tax hasn't been paid by the seller, or you can't prove that the tax has been paid by the seller, then YOU have to pay the tax.

If we assume a tax rate of 14%, lower than all European countries, this tax would bring in about 1.2 trillion dollars (2004). However the basic income distribution, which would mostly be spent, not saved, could increase this to at least 1.5 trillion. This is of course just a guess, which is what all estimates, projections and forecasts are anyway.

The tax return for the IRS would be a simple matter. For instance, if your income is $100,000 a year, and at the end of the year you have $20,000 left over, then that $20,000 becomes part of your net assets, and is taxed at 2%. For the $80,000 you have spent you will have receipts for most of it, proving that the 14% has been paid. For what is left, that portion for which you have no transaction receipts, you pay the 14% tax.

The third tax is the payroll tax, which, at present covers Social Security, disability insurance, unemployment insurance, and other things. Social Security is by far the largest component of this, accounting for almost 80%. The taxes withheld by the IRS for income tax appear from the outside to be a component of the payroll tax, but they aren't and will go away when the income tax itself disappears.

Social Security works well and should basically be left alone. Over the last few decades Social Security has been used as a cash cow to finance government's general revenue. That is why the government owes the Social Security Trust Fund some 3 trillion dollars. There is no "Social Security Crisis". The crisis is that Social Security payments can no longer be diverted to general revenue. The Social Security Trust Fund is, of course, a joke. It makes as much sense as my left pocket owing my right pocket a million dollars. The Social Security payments (and other FICA taxes) should be converted to a payroll tax (which they already are anyway), flattened out (extended to all wages, not just the first $90,000) and be counted as general revenue. At a rate of 20%, compared to the present rate of 17.6%, the extended payroll tax could raise about 1.2 trillion dollars. This would entail the recognition that Social Security is a pay as you go system, but it was never anything else.

The average withholding tax in the US is now about 30%. With the demise on the income tax this would be reduced to 20%, compared to about 50%, or more, in many European countries.

The last tax is a capital tax, a head tax, and it is negative - your BIG, or Basic Income. A Basic Income of $6000 a year certainly won't solve all the problems of the poor. But a family of three, with one child, and one parent with a minimum wage job, would have an income of $30,000 a year. This is at least a toehold on entry into the middle class. A single mother, with one child, and a half time minimum wage job, would have an income of $18,000 a year. This is not prosperity, but, with free education, including day care, and free medical insurance, it is not poverty either. She, and her child, would have a chance.

All together these first three taxes would bring in about 4.5 trillion dollars. There is still a gap of a measly .9 trillion.

Let's not forget the corporations. Corporate income and profit taxes bring in about 200 billion dollars a year now. And now the WSJ will intone one of its favorite mantras, "Corporate taxes in the US are higher than in any other industrialized nation!"

As long as we are talking about the nominal rate (see above) of taxation, this is true. The effective rate, especially for our largest corporations is another story. The rate of 38% on corporate profits is extremely high, but when this rate is actually paid, that is when the effective rate comes close to the nominal rate it is almost always paid by relatively small corporations, ones that can't afford lobbyists. The large corporations have their depletion allowances, their accelerated depletion allowances, their oil depletion allowances, their exemptions, exclusions, ... etc., the whole panoply of goodies that a small army of 10,000 overpaid Washington lobbyists deliver on a regular basis.

Many of our largest corporations pay little or no corporate tax, or even better, get money from the government. That is, they have a negative tax rate, less than zero. (The WSJ is silent. . .)

The Alternate Minimum Tax is on its way out, along with the income tax, but an AMT for corporations might be a good idea. Shouldn't corporations who can afford to pay their CEOs several hundred million dollars per year in compensation (compensation for what?) be able to pay a reasonable amount of taxes like the rest of us (after all, they are persons)?

The comparison with foreign corporations is bogus because the foreign corporations are taxed at another level, before profit or loss, namely the afore mentioned payroll taxes of around 50%, compared to 30% in the US. The European governments don't care if a corporations makes a profit or not, they want their money up front.

The tax burden on corporations could easily be increased to 300 billion dollars, while, at the same time lowering the taxes on small corporations, which are often much too high. Exxon will survive.

There are, of course, a whole host of taxes that we haven't touched yet; excise taxes (mostly sin taxes such as alcohol and tobacco - drugs are still tax free), tariffs, highway taxes, user fees etc. There could and should be other taxes, carbon taxes, taxes on corporate externalities, such as pollution and destruction of natural resources. My favorite would be a Hot Air Tax on political advertising. Why shouldn't the government benefit in some way when a billionaire buys a political office? But all these together won't bring in a huge amount of money. Even with some new taxes, 200 billion is about the upper limit.

These secondary taxes are also often earmarked for specific purposes. This is ALWAYS a mistake and leads to severe distortions. Two particularly egregious examples from where I live (New York State) are the ear marking of lottery revenues for education, and highway taxes (gasoline taxes) for highways.

In the first case the lotteries suck huge sums of money out of poor communities that can least afford it, and then the net revenue is used to reduce, not augment, state spending on education. In the second case the highway taxes finance magnificent thruways in upstate New York, that go nowhere, while the 100 year old subway system in New York City, used by millions of people every day, rots.

In many ways modern economics is not very modern. We like to think of the cash flow within government as something akin to the workings of an 18th century clock, that it is possible to keep track of an individual event as it enters the system, wanders through it, and comes out the other end. This a useless, and very misleading endeavor. Tax money goes into the system, and money, in the form of expenditures, comes out of the system. What happens within the system is indeterminate. Internal government finances are a black box in a quantum universe.

We are almost at the end, only 400 million dollars to go.

The monetary system is itself a resource and can, and should, be used as a source of revenue. Oddly enough our monetary system is in very good shape. In fact, as a country, it is what we are living from! Our manufacturing base is declining every year, innovation is moving offshore, and our higher educational system is being trashed by the needs of homeland security.

What we are producing, in ever increasing quantities (and no one knows how much) is money. The world economy is expanding and needs a flexible reserve currency. The EURO, though promising and solid, is way too small, and too well controlled, to meet this need.

The Chinese are amassing large dollar reserves in cash and Federal bonds. They are doing this to form a foundation for their own trade and currency, not because they love and admire us. They don't love or admire us. And they are well on their way to forming their own East Asian reserve currency, together with Hong Kong (which though part of China has its own currency), Singapore and Malaysia. This group will be expanded to include most of East Asia, including Taiwan, but not Japan. This will take a long time, and until then we can buy cheap stuff at Walmart.

The monetary system is perhaps the least understood artifact of government. It is not understood well by the general public, and by economists mostly not at all. A thorough explanation of the monetary system is way outside the scope of this paper, and, probably, my own competence. But with that half hearted disclaimer:

We have three kinds on money in this country, money that is created as credit, money that is created as debt, and money that is neither.

Credit money is money issued as credit by private banks under a system supervised by the Federal Reserve. The Treasury Department prints Federal Reserve Notes and sells them to the private banks, members of the Federal Reserve System, for the cost of printing. The private banks then "issue" these same Federal Reserve Notes, that is, it places them in circulation. This is the cash in our pocket. This is how our monetary system works.

There is nothing wrong with this. It is a good system. The paper money, mandated by government as "... legal tender for all debts public and private" is issued against the assets of the private banking system, not against the assets of the Federal Government. The alternative to this system would be for each bank to issue its own "banknotes". You can imagine the confusion. Counterfeiting would be a major national pass time.

Most credit money exists in the form of bank deposits of one kind or another. Cash is only a small part of this system, about 600 billion dollars. Credit cards are an extreme example of the creation of money as credit. They are also the most efficient mechanism yet devised for moving people from the working, and lower middle class, into poverty.

Debt money is money issued as debt by the Treasury Department, by State agencies, or by private corporations. Treasury bonds are debt money. On an individual level, an IOU is debt money.

The third type of money is money that is issued neither as debt, nor credit, but simply coined by the Treasury Department and sold to banks at face value. These are the coins in your pocket.

Our present monetary system does work, and works well. But the system itself is built upon a strange paradox.

If almost all the money floating around is issued as credit money, then this implies a constant flow of revenue, in the form of interest, back to the private banks, the issuing institutions, from every dollar in circulation. It is hard then to explain why the banks and financial institutions don't own everything. If people, and corporations, who borrow money always paid the money back, this is exactly what would happen and the whole system would collapse. However, for one reason, or another, quite large amounts of money are borrowed and never paid back (corporations are really good at this). But this money, does not disappear, it continues to circulate in the system forever (or at least as long as the system itself lasts). I like to think of this money as being liberated. It should be possible to bring liberated money into the system without the ritual of loan and default, but the messy arrangement we have now does work. At the beginning of the Reagan years many economists predicted a depression. In fact we got a major recession. One important reason that the economic downturn was not steeper than it was, was that at about the same time the Savings & Loan disaster liberated a huge amount of money, close to a trillion dollars, just at a time when the economy needed it the most.

The question that puzzles people most is "what is behind the money that gives it value?" When money was "hard" a dollar could be exchanged for a fixed amount of gold or silver, but not any more. However it is still legal tender for "all debts public and private." The real bedrock backing for our currency is the fact that we need it to pay taxes, and that it is the only way we can keep our property, avoid bankruptcy, or stay out of jail. The Net Asset Tax would greatly increase the solidity of the currency, as the currency would be much in demand by the most wealthy of our citizenry. That is, in order for the rich to keep their property and maintain their wealth, they would need large amounts of cash money to pay their taxes every year. They would either have to sell a portion of their assets, and thus become less wealthy, or do something useful, and, hopefully, legal, to earn the money to pay their taxes.

Our monetary system and our tax system are no longer separate, but part of the same system. They have become two sides of the same coin. It is difficult to comprehend how important this is. It no longer makes any sense at all to try to reform the tax system, or the monetary system, without recognizing the deep connection between the two. Taxes regulate the supply of money. The supply of money creates the basis for taxation. Without money taxes can't be paid, without taxes the size of the money supply, and inflation, cannot be controlled. This is a new world order, and we might best get used to it.

There are two things wrong with our monetary system at present.

First as banks consolidate, the reserve requirements used by The Fed to manage the size of the money supply cease to function. Reserve requirements are almost meaningless for the largest banks when the money issued, as credit, remains in the accounts of one large bank or the other. And with credit cards, an extreme method of issuing money as credit, it is no longer even possible for The Fed to keep track of how much money there is.

The second thing wrong with the monetary system is that the private banks have a monopoly, except for coinage, on the issuing of money.
This leads to some ridiculous situations, for example, student loans. The private banks lend money to students, and the Federal Government accepts all the risk. This is, to put it mildly, a good deal for the banks. Why shouldn't the government, through the Treasury Department, issue the money itself? It already assumes all the risk, and without using the private banking system the interest could be much, much lower, perhaps zero, or pegged to the rate of inflation. There is nothing illegal about this. The Treasury Department used to issue Treasury notes that looked very much like Federal Reserve notes, and circulated freely as currency (of course they were backed by gold or silver that the government actually possessed).

The United States Treasury is part of the United States Government, and that government is ours. Shouldn't the Treasury, our treasury, while busily printing money for the private banking system, also print some money for us?

Am I suggesting that the government just print money? Yes, I am suggesting just that, within reason and very tightly limited.

The GDP is growing (including inflation), on the average about 3.5% per year. Money could be issued directly by the Treasury Department, and if the amount of money issued did not exceed the growth in the GDP the money supply itself would not be affected. It would not cause inflation.

3.5% of 12 trillion dollars would be 420 billion dollars, the final amount we need to reach 5.4 trillion dollar expenditure level, with a whopping 20 billion left over (.0037%).

Are these estimates, guesses really, accurate? I believe they could be, with one big caveat. Such a complete change in our system of taxes and expenditure, with a concurrent fundamental changes in our monetary system, will take time. I can't imagine the Net Asset Tax being fully phased in in less than ten years. The other parts of the proposed tax structure could happen faster, but they will also take time. This should not discourage us. It took over 200 years to bring our nation to its present sorry state. Ten, or even more, years is not a long time to turn this mess around.

This last source of income, money issued directly by the Treasury Department, has, for Greens, a fundamental problem; it depends on growth. Is it possible, or even desirable, to posit a system that, to some degree at least, is predicated upon continual and never ending growth?

The answer depends on what you mean by growth.

Inherent in any segment of a line are two possible infinities. The line can expand, get longer and longer, forever, or it can be subdivided, cut into smaller and smaller pieces, also forever.

If we see growth as an expansion of what we have now, more pollution, more destruction of the rain forests to grow hamburgers, more SUVs that cost $80,000 and get 9 miles to the gallon, then all our problems will be solved. We won't be around much longer.

But another kind of growth is possible. The GDP will grow if we spend more time growing better food without allowing government subsidized agribusiness to grow frankenfoods while destroying the land and depleting and poisoning the aquifers. Food will be more expensive, but we will be healthier and our children will live longer. Our food will also taste better. We can build networks of safe, comfortable mass transit systems that use less energy. The GDP can grow while we, as a society, use less energy, and less of the earth's precious resources. Perhaps the earth will then let us stay around for awhile.

And a final consideration: isn't a Basic Income, or a BIG just another form of Liberal welfare?

This is a profound question, and we have to get the answer right. Just as in the physical universe, where subatomic particles are continuously created and destroyed, in our economic universe wealth in continually created and destroyed. As economies expand, or grow, new wealth is created faster than old wealth is destroyed. Up until now there has been no mechanism to distribute this newly created net wealth other than theft. In fact for more two hundred years our country has been divided into two great factions, the great division in American politics. The one faction advocates the stealing of small sums of money by large numbers of people. Since the Civil War we have been told that this is "corruption." The other faction advocates the stealing of large sums of money by a small number of people. We have been told that this is "legal." As the middle class dies and the top 5% of wealth holders own 90% of the country there is little question as to which faction is winning.

The answer is not the redistribution of the wealth that already exists, but the equitable distribution of wealth as it is created. And this is what a Basic Income, or a BIG, can do. It is not just about economic justice.

An economy is like a human body. A body can only stay alive, and be healthy, if blood circulates everywhere. If all the blood goes to our head, to our stomach, or to our feet, we will die. Money is the blood of any economic system, and it has to circulate everywhere. Otherwise the economy sickens and dies.

But a gentle and stable circulation of money throughout the economy has another beneficial effect, it promotes leisure, that is, free time without anxiety, and this would facilitate the broadest possible participation in the political life of our society, in the politics of democracy that is the lifeblood of our country, and our future.

And the wealthy need a BIG, or a basic income, just as much as the poor. If the present trend continues, and the gap between the rich and the poor becomes even more outrageous than it already is, this country will become a very dangerous and unpleasant place for the rich as well as the poor. Maybe the rich need a BIG more than the poor. They have so much more to lose.