Can rents fund an extra income for everyone?

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Abstract

Funding – finding the money – for any proposal is "where the rubber meets the road". To find the funds for an extra income for its citizens apart from their wages and interest, a government need not go far. To pay everyone a social salary, government need merely tap society's surplus, its commonwealth, which are the rents we pay to the holders of natural and social advantages. Any level of government can do it, and doing so is better than taxing income in order to redistribute it. Further, identifying our commonwealth and extolling its just distribution resonates with a broader cross-section of the voting public than does redistribution.

Only BI is rent-shares.

The "A List" of jurisdictions both judicious and equitable consists of those who pay their residents a share of their commonwealth. In ancient times, Athens Greece paid qualifying citizens – free males – a dividend from the proceeds of leasing a natural resource, the silver mines outside the city (Michael Hudson, U Missouri – Kansas City, private note). Over two thousand years later, Kuwaitis for a while paid themselves a dividend from their oil royalty.

Residents of the American State of Alaska still do. Elsewhere in the US, Aspen Colorado pays a majority plus of residents a housing stipend. And America in general pays everyone a pension upon retiring or going crazy (a short trip in the US) or becoming disabled. While the last example – US Social Security – is not paid from natural rent, the other four income supplements are paid from the rent that arises naturally and socially. Indeed, the only examples of society paying its members an extra income without first means-testing them are the instances of sharing rent.

There several reasons to not tap wages or interests but tap rents. One reason is moral; rents are our common inheritance. Rents are profits without production that one can command for merely being a gatekeeper and others will pay merely to gain an advantage engendered by nature or society.

Rent total

Another reason to tap rent is practical; the size of rents available is immense. People pay rents for nature: for (1) sites, both raw land and land beneath buildings, as both a portion of mortgages and of "rental" leases, for (2) resources, and for (3) spectrum. With physical nature, people pay rents for symbolic nature, that is, to owners of fields of (4) knowledge who hold patents and copyrights which derive much of their value from enclosing the information commons. Along with these four naturally arising advantages, people also pay rents for privilege, or more precisely to the holders of privilege: for (5) utility franchises to be the only provider of some basic aspect of infrastructure such as telephone service, for (6) waivers from standards such as temporary exemptions from regulations to protect worker or consumer or nature, for (7) corporate charters that limit the liability of businesses that pass on the costs of their risk-taking to others, and for (8) bankers' sovereignty, the central bank's power to expand the money supply, to create and issue into circulation new currency, and to charge interest for doing so, for lending money that never existed until lent.

In the US, one easily finds the official figures for the return to labor or to capital for a year but only with great difficulty can one find official estimates for the return to land or privilege. Nevertheless, the US Department of Commerce in the Census Bureau does record and update the total assessed value of real estate, which typically lags behind actual market value, since many states have passed laws to reduce assessed value, allowing landowners a larger capital gain upon sale of their holdings. The private firms who track real estate values usually peg the totals at a much higher amount, since investors, unlike governments, need to know the real values before unloosing their large sums. The firm Inman (http://www.inman.com), for example, calculates residential real estate in 2003 at $23 trillion dollars (*Inman Report,* 2003 January).

Of course, that amount is selling price, not rental value. What the annual rental value is – the portion that society could recover – is probably around 7.5%, an average annual return to investors in REITs (Real Estate Investment Trusts), which compete with stocks, bonds, and currency swaps, and out perform or under perform their competitors depending on the phase of the business cycle. So US (annual) real estate residential rent would be around $1.7 trillion.

Yet this sum leaves out land zoned commercial. In Portland Oregon (home of the author), the value of all commercial sites equals about 40% of the value of all residential sites. As that ratio is typical of most major metropolitan regions (Ted Gwartney, former Chief Appraiser of the Bank of America, current Chief Assessor for Bridgeport Connecticut, member of the Forum on Geonomics), the price of US real estate would be about $45 trillion and its rent about $3.3 trillion.

To capture that profit without production, in the 2000 election cycle, FIRE (Finance, Insurance, & Real Estate), the single biggest sector of political donors, contributed to candidates nearly $300 million, an expenditure less than 1/10,000 their return on investment (Kevin Phillips, *Wealth and Democracy,* p 322). By the mid 90s, the volume of e-trades was 40-fold more in dollar value than real economy as measured by GDP; FIRE displaced manufacturing as the biggest business sector (K. Phillips, p 138). Having found new ways to "financialize" (and a new word for the new ways) – that is, to repackage debt and risk and disguise the flow of rent as "interest" – FIRE needed computers to crunch the numbers and handle the paperwork; FIRE acquired nearly a third of all computers sold to business (K. Phillips, p 112). This $3.3 trillion estimate of rent compares favorably to the portion of the GDP generated by FIRE. In 2001, US GDP was a bit over $10 trillion; FIRE was over $4 trillion, over 40% of GDP (the US Government's Bureau of Economic Analysis, www.bea.gov/bea/regional/gsp/).

Since that $3.3 trillion includes both built value and site value, to determine the natural and social rent the built value must be deducted. While building costs are rather uniform across regions and neighborhoods, locational value varies from 20% of total property value in low demand areas such as a crime-ridden ghetto to 80% in high demand areas such as the south end of Manhattan's Central Park. Thus it would be reasonable to at least halve annual real estate value, pegging its locational rental value at around $1.7 trillion.

Metropolitan site value leaves out agricultural, mineral, and sylvan. At the BEA website, extraction (everything from farming to mining) accounted for 1/20th of GDP, a half trillion dollars. Since extraction is not labor-intensive and since the utilized capital depreciates, much of that $0.5 trillion is rent, boosting total rent to probably $2 trillion. That does not include spectral value for EM communication – TV, radio, cell phones, etc; recall for how many millions per minute TV broadcasters sell advertising time during the American football Superbowl. It also leaves out the annual surplus value of patents and copyrights, not just for the new companies in IT like Microsoft and pharmaceuticals like Sandoz but also the older industrial firms like GM, Ford, GE, Dupont, etc. A large portion of their assets is, besides real estate, patents and copyrights; it's reasonable to attribute a portion of their income stream to their knowledge monopolies, say conservatively $0.3 trillion, which would push US rent up to $2.3 trillion.

With the claims on nature and fields of knowledge are the exclusive privileges granted by government. The rental value of utility franchises, airport landing slots, harbor dockage, taxi medallions, medical licenses, and the power to control currency, might easily net another $0.1 trillion, which would raise the rent total up to $2.4 trillion. To estimate the annual value of corporate charters (free insurance) and standards waivers, turn to Ralph Estes of American University; he figures that the costs that corporations impose upon society from waste, injury, pollution, stress, lobbying, overcharges, and corruption in 1994 equaled $2.6 trillion (K. Phillips, p 149). Government could recover that sum by charging not just a filing fee but the full annual value for corporate charters and by auctioning off emission permits and replacing corporate welfare for those special interests with a general Citizens Dividend for everyone. Combining Estes' $2.6 trillion with the $2.4 trillion above yields $5 trillion rent.

Dividend total

The lion's share of that amount could be used to fund government. Of course, if elected officials were to curtail wasteful spending on militarism and on corporate welfare, that'd make using surplus public revenue to pay citizens a dividend far more feasible. Nevertheless, directing the lamb's share, just $1.5 trillion of the $5 trillion, to the 1/8th of a billion registered voters in the US would grant those citizens a dividend of about $1,000 per month. For a couple, that'd be about $25,000 extra per year, or $37,500 for a successful ménage-a-trois – enough to make one rethink their basic household unit.

Adding rent would make it possible to subtract taxes on our efforts, on wages, sales, and buildings. Most taxes impose deadweight losses (*The Losses of Nations,* Nic Tideman, former member of a Presidential Commission, current member of the Forum on Geonomics) while subsidies confer advantages on the less efficient, disadvantaging the more efficient. Once government replaces taxes with land dues and full value fees for its other permits – everything from patents to bank charters – and replaces subsidized "services" with this Citizens Dividend, then government would no longer distort people's economic choices (Ed Clarke, member of the Forum on Geonomic who solved a long-standing economic problem that may yet win consideration for a Nobel). People will produce and consume much more efficiently than their states do now (Lowell Harris, member of the Forum on Geonomics who picked up the Nobel prize in Stockholm for his departed friend, Bill Vickrey).

Without those costly taxes, government would have access to more public revenue, not less. The absence of taxes on real goods and services would lower the cost of living and raise the value of sites, especially in commercial centers. By charging land dues to recover ground rents, government would have as much public revenue as now, if not more.

This is half of the policy of geonomics: Replace damaging taxes with user-fees such as land dues. The other half is: Replace addictive subsidies with direct cash payments, such as the Citizens Dividend or a local Housing Voucher. Together they would streamline the state and automate the economy.

Enjoying the autonomy granted by an income supplement, more people would find it easier to stay out of deep debt, shrink their workweek, use land more efficiently, pollute less, reduce illness and crime – all of which later shows up as higher land values. In general, all social progress could show up as fatter public revenue; witness the astronomical site values in cutting-edge Silicon Valley. A geonomic society would suffer an embarrassment of riches, enough to fund all breadths of government from local to federal and still pay citizens a dividend. It is a rosy future to contemplate, indeed. Meanwhile, all rents in sum are already enough to pay ourselves an extra income and put us on this path to geotopia.

Locally recoverable

Another practical reason to tap rent for an extra income to residents is the policy can be implemented by any breadth of government from local to federal. At the state level, in the US Alaska leases its oil fields and taxes oil extraction and funnels a portion of the royalty into a dividend to all residents; in 2000 it was $2000 or $8000 for a family of four. While not every jurisdiction has oil, most have something better – a metropolitan region with a busy downtown, a marketplace where land is even more valuable than the dirt above black gold.

Presently, most nations levy a land tax albeit at a very low rate. Occasionally in the past, some countries levied land at higher rates. While none of those federal governments used the recovered rents to pay dividends, they did motivate landowners to use their holdings more efficiently, which raised employment. New Zealand for ten years enjoyed (if that's the right word) employment at 99% (*Local Government Statistics,* no longer issued). When Denmark raised its land tax rate in 1958, Danish workers received the highest one-time boost in wages in Dansk history (*The New York Times,* 1960 October 2). While wages are not an income apart from labor (duh), higher wages do make people less desperate for that extra income, the social salary.

In many nations it is customary for local government to be the one to levy a land tax or property tax which, unlike land dues or a land-use fee, is the usual mechanism for recovering ground rent. In Australia during the last recession when other towns were losing business, the towns that levied only land (something the seller does not produce), not buildings (something the seller does clearly produce), did not also lose business or break even but actually increased their number of start-ups (hello, during a recession! *The Effect of Rating: a compendium*, John Bennett of the Site Rating Group, Melbourne, 1996). A professional land appraiser, Tony O'Brien, found enough rent in the Australia's economy to pay each Down Underer $25,000 per year, twice the estimate above for voters in the American economy.

In the American state of Pennsylvania, the towns that tilted their property tax away from buildings to locations stimulated more construction, more employment, and more circulation of money thru the local economy. (From a letter that Mayor Stephen Reed of Harrisburg sent to Patrick Toomey, businessman, civic activist, and member of the Home Rule Commission of Allentown in 1994, October 5, when Allentown was debating whether or not to shift its property tax. It subsequently did – twice; speculators put the question of the Property Tax Shift on the ballot a second time and citizens passed again – by a bigger margin – and elected Toomey to Congress. *The Rise of the Creative Class* by Richard Florida lists both Harrisburg and Allentown as best examples of smaller cities revitalizing themselves.) While none of these jurisdictions paid dividends, they did make it possible for their residents to earn higher wages.

High up in the Rocky Mountains, rich people like to enjoy their leisure by going skiing. In the American state of Colorado, rich skiers have bid up the price of resort sites into a Rocky Mountain high – a million dollars for a vacant lot. In Aspen, Vail, and environs – lovely and hilly for skiers – normal people can not afford to live where they work – not even doctors. So Aspen helps them; residents qualify as in need of housing assistance even if they earn up to $150,000 per year and have a quarter million in the bank. While there is a means test, over half of residents pass it, and this majority is not poor; it's their land that is too expensive.

Aspen's public monies for housing assistance come in a small way from a tiny tax on retail sails but mainly from a tax on capitalized rent, from a 1.5% tax on the price of property when it sells. Aspen's law exempts from the tax the first hundred thousand dollars of the sales price, in most cases more than enough to cover the cost of construction for a condo, their most popular form of housing. Hence this is a tax on land value rather than on built value. Where the price of land is high, it's due to location (the three most important factors in real estate), not improvements, which even when new immediately begin depreciating (just like a new car). The program benefits a few thousand people, half the workforce; city legislation aims to aid 60%. The recovery of rent for housing has drawn so much attention that the city was forced to publish a redbook it periodically updates to answer the many questions (for copies, contact Maureen Dobson, maureend@ci.aspen.co. us).

Despite, or because of, its success, the state legislature voted to outlaw the real estate title transfer tax for any other local government in Colorado (Larry Thoreson, Housing Office, 970/920-5029, 2004 Apr 16). While states often make it difficult for localities to recover ground rents, they don't make it impossible. State law also has within it tax breaks for developers – Redevelopment Districts and Enterprise Zones and the like – and funding mechanisms for pet projects – Assessments Districts for beautification of an upscale neighborhood, for instance. Rather than just let the well-connected use these tricks of the trade, a savvy polity with the common weal in mind could establish itself as a Redevelopment District to axe the property tax, as an Enterprise Zone to neuter the sales tax, and as an Assessment District to recover local ground rents. As long as the recovered rents are kept out of the general fund and instead directed to one purpose that benefits all residents equally – such as a local Housing Voucher for all area voters – than the levy used to recover the rent is not legally considered to be a tax and is not affected by tax-limitation legislation.

Rent vs. Wages

All the American income supplements come from rent except for Social Security which is severely limited, being paid only to the elderly or disabled. Besides Alaska, the only other real world social salary was Kuwait's, which likewise came from oil royalties. In Brazil, the only nation to have passed a universal income supplement into law, tho' not yet into practice, the needed funds are to come from both income and rents. As more advocates of just distribution learn of Aspen, its fame as a locality augmenting its residents' income will spread. Already, re-distributionists cite the Alaska oil dividend. Eventho' both examples are of sharing rent, most promoters of an extra income for all, ironically, either ignore the question of the source of funds for this payment or assume that incomes from labor and capital must be taxed so that an extra income apart from one's labor or capital can be paid to all.

When hearing the proposal for a citizens income, one invariably asks what would be the source of the income supplement. The answer most advocates give – redistribute income from workers and the wealthy – is the wrong answer for reasons both ethical and pragmatic. First, because we have the right to own and use ourselves, we have the right to retain what we produce by ourselves. Second, taxing labor and capital shrinks the pie – people work less and save/invest less. It's not rational to tax people's work and investment in order to pay everyone an income without their working or investing, altho' irrationality never denied anyone a successful career in politics.

Taxing income implies that there is no rent (or that is negligible) or that the present arrangement of disbursing the commonwealth is somehow fair, neither of which is true. Human societies enjoy immense surplus, and members of those societies deserve their fair share. Promulgating the understanding that every polis, region, and nation is well endowed, simultaneously with the reform positing that the voters in every jurisdiction merit a fair share of that social surplus, helps Basic Income Guaranteeists win research grants from sympathetic foundations, recruit volunteer activists among the general public, and advance bills among legislators.

Conclusion

Both equity and efficiency make the case in favor of taxing rents instead of wages and interest. Society generates rent, pushing up the value of sites and resources. Socializing rent motivates land users to take less and to use that wisely. Now our failure to share rent is problematical; it allows a few to hoard rent, erect hierarchy, and become a ruling class. Conversely, trying to redistribute earned income is neither as equitable nor as efficient as sharing rent. The sheer size of available rents – they attach not just to surface land but also to resources, the EM spectrum, using the ecosystem as a sink for pollutants, and to special social/political privileges such as corporate charters – totals well over a few trillion dollars in the US, or at least $8,000 p.a. per voter (depending on government expenditures); that enormity impresses people. And the existence of the Aspen model shows it is not necessary to wait for national permission; at the local level, winning a political victory may be less difficult.

BIGists must address the funding issue eventually, anyway. Doing so now could be a shortcut; already environmentalists in America advance a rent dividend. If we could weld together the movements toward BI and the one toward a healthy ecosystem, both goals could be attained more easily. May BIGists consider this reverse strategy – focusing on the source (the commonwealth or rents or society's surplus or profits without production) rather than on the expenditure (the BI). Once we re-awaken people's awareness of their commonwealth, it becomes no longer necessary to demand a BI, people will do it for you.

The presenter

Jeffery J. Smith, editor of *The Geonomist,* has appeared in *The New York Times* and the proceedings of academic conferences; has worked with governments from local to national, testified before the Russian Duma; over lunch briefed Ms. Fan Sun-Lu, the legislator who became Vice President of Taiwan; explained geobonds to many Latin American officials including the mayor of Mazatlán, Mexico, Alejandro Camacho M. (in Spanish); authored reports to the Kenya Land Commission and the legislatures of Costa Rica, Hawaii, and Washington; ghost-written letters on tax matters under the letterhead of Oregon Rep. Jackie Dingfelder; for original research has been paid by Portland’s Tri-Met, a regional government in Minnesota, a public economist in Virginia (Dr. Nic Tideman); initiated the introduction of a bill to shift the property tax from buildings to land, HJR 30, in the Oregon legislature, co-sponsored by both major parties; and has recruited economists from Columbia, the OMB, and a presidential commission to his nonprofit, the Forum on Geonomics. Utilizing his neologism “geonomics” have been the Geonomics Show on CNBC and the Geonomics Institute on Middlebury College campus (by it both mean “global economics”). A member of Mensa, he resides in the American Pacific Northwest and can be reached at 3604 SE Morrison St, Portland OR 97214 USA; 503/234-0809; jjs@geonomics.org; www.geonomics.org.