Basic income, resource taxation, and inequality: Egalitarian reservations about tax shifting

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Should a state experiencing a resource boom replace its revenue from income tax with resource revenue as did Alaska? Or should it continue to finance government with income tax, and channel most of the resource wealth into a fund like the Alaska Permanent Fund, and finance a dividend like the Permanent Fund Dividend (PFD), at a higher level? Some left libertarians oppose income taxation as a violation of self-ownership. So they would be inclined to support citizen dividends only after eliminating income taxes. But most liberal egalitarians have no opposition to income taxation per se.

This paper defends income taxation against libertarian objections, and argues that up to a subsistence level of basic income, it is more progressive to fund government through income taxes and pay out a dividend similar to the PFD, than to fund government through resource taxes, while paying lower dividends.

The functions of government and taxation

At the outset it is useful to note that there are at least three kinds of function that government performs, and that must be financed. Liberal egalitarians and libertarians disagree about the legitimacy of these functions, or of the use of certain kinds of taxes to support them. But all agree that the minimal night-watchman functions—police protection, administration of justice, military defense—are required if basic rights are to be secure, and these need to be funded somehow. If income taxation were the only way, presumably even a right-libertarian would concede the necessity of such taxation. Right-libertarians oppose taxation of any kind for purposes of redistribution, for reasons we will examine later. But both liberal egalitarians and left-libertarians support redistribution. They differ on the question of how to fund it. Liberal egalitarians have no principled objection to income taxation for this purpose. But left-libertarians support redistribution only by means of resource taxation. There are, in addition to protection and

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1 Thanks to Karl Widerquist, Almaz Zelleke, Erik Olin Wright, Stephen Nathanson, and other participants at the 11th North American Basic Income Congress for helpful comments on an earlier draft.

2 I am primarily concerned with taxation on income from labor, assuming that makes up the largest part of the personal income tax. Corporate income and capital gains are also subject to income taxation, but I set aside consideration of whether these would be as objectionable to a libertarian as taxation of income from labor.
redistribution, other functions government serves, such as supplying public goods such as education, health care, public transportation, and roads. Right-libertarians are typically opposed to these on principle. I’m not sure, but I think most left-libertarians may be inclined to favor all resource tax revenue going out as dividends after the basic protective functions have been served. Liberal egalitarians will not have principled objections to government taxation of incomes and spending for public goods.

The Potential of Resource Taxation

In the course of editing our two books on the Alaska Permanent Fund (APF) and the Permanent Fund Dividend (PFD), Karl Widerquist and I came to the conclusion that there is a large untapped potential for resource taxation, not only in states with abundant, commonly owned natural resources like Alaska’s oil, but also in “resource poor” states like Vermont. Gary Flomenhoft has shown that if one were to capture all of the resource rents from the land, and from such natural resources as ground water, surface water, electromagnetic spectrum, and from social resources… the additional revenue beyond what is already taxed could yield a dividend of between roughly $2000 and $8,000 per person per year. In other words, even resource poor states have the potential for a dividend at least as large as that of Alaska, and perhaps several times larger.

A closer look at the Alaska case reveals the enormous potential for resource taxation in a state with more abundant resources. Between 1977 and 2010, the state of Alaska collected $103.5 billion in revenue from oil. Only 11.4 percent of the revenue has been earmarked for the APF according to the Alaska constitution, but additional state deposits have resulted in 18.2 percent of oil revenue going to the APF. The PFD, averaging $1,400 over these thirty years, is paid from the interest on the Fund. The remainder of the oil revenue has gone to fund state government. Alaska abolished its personal and corporate income taxes in 1980, and so relies almost exclusively on oil revenue. Widerquist has calculated what might have happened if Alaska had maintained its income tax, and put all the oil revenue into the APF. Making conservative assumptions based on the past performance of the APF, he concluded that by 2011 the APF would have accumulated $225 billion (compared to its actual value of $40 billion). If the interest from this larger fund were disbursed, half for government spending, half for dividends, 43 percent of Alaska’s government budget could now be covered, and every Alaskan could receive a dividend of $6400. (Or, if all the revenue went to dividends, each person could receive a dividend of $12,800. This begins to look like the size of dividend that could eliminate poverty.)

But the potential for resource taxation does not stop there. Alaska has not taxed its oil at the rate many states do. If the $300 billion in oil had been taxed even at two thirds (some states tax at 80 percent), there could have been $200 billion available for the APF, and its current value would be $434.8 billion, enough for the interest, split fifty-fifty, to cover 83 percent of the state budget while yielding a dividend of $12,000 per person.

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3 Flomenhoft 2012.
4 Erickson and Groh 2012.
5 Widerquist 2012.
Based on Flomenhoft’s data for Vermont, Widerquist calculates that had Alaska’s other non-oil resource rents been collected, perhaps another $100 billion could have been added to the APF, and the interest would more than cover current levels of state spending and support a dividend of $18,000 per person.

It is worth noting that in the case of Alaska, a fourth scenario was possible. If Alaska had driven a harder bargain and retained two thirds of the oil wealth, instead of letting two thirds go to the oil companies, then it could still have abolished the income tax, funded state government from oil revenue, and deposited $100 billion in the APF, yielding a dividend of $6,400 per person (or some smaller dividend, reinvesting more of the interest back into the fund for the day when the oil revenue runs out.) And ceteris paribus, if rents from other resources had been captured, the Fund and Dividend would be larger still.

Many other states may be more like Vermont, and will have to choose between a. abolishing income taxes (or reducing them to a minimum), and not paying dividends (or paying a comparatively small dividend), and b. directing resource wealth toward dividends (directly, or through a sovereign wealth fund), so as to maximize the dividend, and financing government through income taxation. [Left-libertarians, as we shall see, will be committed to the first of these options.]

The data on taxable resources even in a resource poor state like Vermont suggest that there should be enough potential revenue in principle to shift taxation entirely from income to resources. But if this were done in Vermont, there would not be much left for dividends, at least at the low end of Flomenhoft’s estimates. (And in practice, it will not be politically feasible to capture many of these rents. Electromagnetic spectrum is controlled by the federal government, to mention just one item.) [Should this bother non-libertarians?]

Clearly a state experiencing a resource boom has a dramatic range of policy options. And less fortunate states have some choices as well. At one extreme, the bulk of the wealth can be given away to the private companies who extract the resource. Where it is possible to exploit the resources and share the wealth more widely, to give away such benefits to private corporations seems a betrayal of the public trust. Assuming that states should capture as much of the resource rents as possible, the choices then are to spend the revenue as it comes in, as Alaska has done with over 80 percent of its oil revenue, at one extreme, or to put it all into a sovereign wealth fund at the other extreme, or some combination of the two. The interest from the sovereign wealth fund can be reinvested in the fund (as a small percentage of the APF interest is used for inflation proofing), paid out as dividends, or used to finance state government, in any combination of proportions.

Consideration of efficiency will point to certain choices. If the tax rate on resource extraction is too high, companies will not be willing to do the work, total state revenue may be less than would be had at a lower rate with more economic activity, and there will be less private sector employment, with multiplier effects on the economy. There may be substantial public goods to be realized by spending resource revenue on

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6 See Van Parijs 1995 for an important exception. Van Parijs defends income taxation by distinguishing that part of income that is due to one’s labor, and that part that consists of rent from one’s job as an asset. He then argues that taxing incomes at the maximum sustainable rate will approximate the rate needed to capture the job rents.
infrastructure rather than putting it into a fund for the future, even for the benefit of future generations. Above a particular level, dividends can have undesirable effects on labor market participation as well as encourage substantial immigration.

But in this paper I set these difficult empirical questions aside and focus on considerations of justice. In particular, I will compare the left-libertarian case for prioritizing the use of resource wealth to eliminate income taxes, and a liberal egalitarian argument for prioritizing the use of resource wealth to fund dividends while funding government from income taxation.

**A liberal egalitarian case for progressive income taxation**

Most liberal egalitarians, faced with the policy choice I just described, should favor maximizing citizen dividends and funding government through income taxation. Many liberal egalitarians regard a just society as one that respects the consequences of individual choices, while evening out the effects of arbitrary luck. Such luck egalitarians will favor forms of property and taxation and other policies that even out the inequalities due to inheritance, social class, and unequally distributed natural talents. But inequalities that are the consequence of different choices should not be altered. Thus all children should have access to good quality education. But given two people with equal external and internal endowments, if one chooses more leisure and less work, and the second chooses to work more and acquire more wealth, there is no obligation to equalize the wealth between them. In short, just distribution should be choice sensitive and endowment insensitive. Taxation is one tool to achieve this aim. Since luck egalitarians include natural talents as well as external resources in the overall estimate of a person’s luck, they will not be opposed in principle to taxation of labor income that results from possession of some superior talent.

John Rawls is not a luck egalitarian, even though a passage in *A Theory of Justice* is often cited as the original inspiration for luck egalitarianism. But he also holds that social and economic arrangements should be designed so that inequalities of natural ability can lead to unequal amounts of income, wealth, and power, only to the degree that such inequalities are to everyone’s advantage, in particular to the advantage of the least advantaged (the difference principle). So a Rawlsian too would have nothing in principle against using income taxation, and other forms of property regulation, to insure that the position of the least advantaged is better than it would be under other feasible arrangements. The guiding principle is that a fair distribution is one that would be chosen by parties to an original contract in which each seeks and is willing to give reciprocity.

As Nagel and Murphy have commented, liberal egalitarians, for all their theoretical differences, can converge on the goal of poverty elimination. To the extent that this can be done through taxation and redistribution, they will favor more progressive over less progressive tax rates, where these are not undermined by reduced tax yields and other unwanted side effects, that would reduce what is available to the least advantaged over time.

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7 Freeman.
8 Rawls 1971.
9 Nagel and Murphy.
Faced with the choice of what to do with a resource windfall, liberal egalitarians should favor the creation of a sovereign wealth fund, and distribution of dividends, rather than elimination or reduction of income taxes. The sovereign wealth fund will preserve some of the wealth for future generations. But for contemporaries, this scheme will result in a more equitable distribution of income. To illustrate the principle, suppose that a state has a sovereign wealth fund that can use the interest from the fund either to eliminate income taxes to fund state government, or pay a dividend, but not both. Suppose that the highest possible dividend per capita is $1000. Suppose that the poorest third would pay no taxes in either scenario, and if the dividend scheme were adopted the middle third would pay $750 per person in income taxes on average, and the highest third would pay on average $2500 in income taxes. If government were funded from the fund’s resource wealth, no one would pay any income taxes. With the dividend scheme and income taxation, the poor would have a net gain of $1000 per capita. The middle would have a net gain of $250, and the upper would have a net loss of $1500. If taxes were abolished, no one would have to pay taxes. But the poor would experience a net loss of $1000 compared to the dividend scheme, the middle would experience a net loss of $250, and the rich would experience a net gain of $2500.

In other words, eliminating, capping, or reducing the possible dividends paid out to citizens, in order to abolish income taxes, has a regressive effect on income distribution. As Governor Jay Hammond observed about Alaska’s repeal of the income tax, “The most regrettable aspect of income tax repeal is that it exerts pressure to invade the Permanent Fund to replace the money lost by income tax repeal [pressure that will grow as oil revenue declines—MH]. This, of course, will shift the burden for state spending entirely from those who can best afford to pay taxes—including the nonresidents who make up about a quarter of our workforce—to the shoulders of each and every Alaskan, regardless of income. None would feel the burden more than the low and middle income groups.” In contrast, funding government from income taxes and permitting a higher dividend would give a bigger proportionate boost to the incomes of low and middle income groups.

Hammond points out that the abolition of income taxes in effect created hidden taxes. A proposal to cap dividends in order to allow more APF money to be used for government spending “equates with imposing a head tax on every Alaskan and only Alaskans—regardless of income…. it never makes more sense to cap dividends than to simply ratchet up taxes to raise the same amount. In effect, capping dividends taxes only—and all—Alaskans. Increasing most taxes spreads the burden to those best able to pay.”

Needless to say, an ability to pay principle is indifferent to the history of entitlement that will matter to the libertarian. To the libertarian, (whether left or right), income from labor should not be taxed, but resource wealth not only may but should be

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10 Hammond 1994, 266.
11 Hammond 1994, 320—22. Hammond favors income tax for some additional civic republican reasons: citizens are apt to be more personally independent and more vigilant about how government spends money if the revenue comes from taxes and the citizens have a secure income floor. See Howard 2011.
taxed. I turn now to the libertarian case for abolishing income taxes. Since this is a theme shared by left and right libertarians, I will focus on the left-libertarian case.

**Left-libertarianism and taxation**

By left-libertarians I refer to those who, along with right libertarians, give priority to a right to self-ownership, but unlike right-libertarians, consider the earth and its resources to be commonly owned, such that when some people appropriate a part of the commons, they owe compensation to those who are excluded. Right-libertarians consider nature to be up for grabs, and so are led to conclude that the great inequalities that result from accumulation, and which are perpetuated over generations, are a necessary consequence of justice. In contrast, left-libertarians can easily endorse the taxation of natural resources, such as Alaska’s oil, and support the use of such revenue to fund government or pay dividends.

But left-libertarians share with right-libertarians an opposition to income taxation. Each person is entitled to self-ownership. Self-ownership involves not only the right to do what one wishes with one’s body, free from interference, but also the right to the fruits of one’s labor. As Hillel Steiner put it, “the fruits of labour are not taxable; the fruits of nature are.”

Obviously much more needs to be said to clarify how self-ownership leading to property rights is to be combined with resource taxation on some of the property that people have appropriated with their labor. But for my purposes, it is enough to note that left-libertarians will tend to see income taxation as a violation of self-ownership, and accordingly will see it as a matter of justice to eliminate or reduce income taxes wherever possible, by replacing them with resource taxes. Since this is a matter of fundamental liberty, such tax shifting would be warranted even at considerable cost in efficiency.

From such a left-libertarian perspective, Alaska made the right move when it abolished the state income tax and started funding state government from resource revenue. If Alaska had chosen one of Widerquist’s counterfactual scenarios, it would have been continuing an unjust income tax for a generation or more, treating one generation as a means to the end of the freedom of future generations, a clear violation of self-ownership. That there was enough left over for a sovereign wealth fund is merely good fortune, and also a way of compensating the future generations excluded from the original resource bonanza, and doing so equally for all.

**Defending income taxation**

I will defend income taxation against left-libertarian objections in two ways. First, granting the principle of self-ownership, it will be shown that, contra Steiner, it does not preclude income taxation. Second, I will show that nothing serious is lost in abandoning

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12 Again, note that strictly speaking the libertarian objection is to taxation of labor income. Taxation of rental income from ownership of land or other resources is permissible.

13 Steiner 1992, 82.
full self-ownership in favor of a weaker principle that would certainly be compatible with income taxation. The argument is heavily indebted to the work of Cohen, Kymlicka, and Vallentyne. I just draw the inference with respect to income taxation.

1. Let me begin by recalling the appeal of the norm of self-ownership. As Nozick originally presented it, the principle of self-ownership appears to follow from a fundamental Kantian moral principle, that no one should be treated as a mere means to others’ ends. The Kantian principle is invoked, not only by libertarians, but by liberal egalitarians such as Rawls, to criticize utilitarianism for not showing sufficient respect for the intrinsic worth of individual persons. But Rawls, Dworkin, and other liberal egalitarians consider people’s talents to be “social assets” which can be harnessed for the benefit of others. In principle it would appear to be just according to their theories to tax the talented for the mere possession of their talents, thus coercing them into labor for others. Not only the right-libertarian Nozick, but Steiner and other left-libertarians defend self-ownership in order to block this potential for coercing talented people against their will into service to others. And they oppose income taxation as a violation of self-ownership. (I think this charge is overblown, given that Rawls defends priority of liberty over any principle of redistribution, and includes among the basic liberties choice of occupation, protection of bodily integrity, and the like. But I set aside this question of interpretation.)

Right and left libertarians diverge over how people come to have rights to external resources. Right libertarians like Nozick consider natural resources to be up for grabs on a first-come-first-served basis, subject only to a weak “Lockean proviso” that no one be rendered worse off by someone’s appropriation than they would be in the conditions of an unappropriated commons. It is thought that such appropriation is warranted by the principle of self-ownership, because, as Locke put it, one is mixing one’s labor with what nature has provided. To take someone’s property acquired in this way is to appropriate that person’s labor. It is, in Nozick’s opinion, morally akin to slavery. It can be shown that such appropriation, if protected by full property rights in the appropriated resources, will lead to large and perpetual inequality such as one would find in a capitalist society with no redistributive policies.

Left libertarians take a position in between right libertarians and liberal egalitarians. They accept the principle of self-ownership, but not all the implications for property ownership and taxation that right libertarians try to draw. As critics of Nozick have pointed out, the principle of self-ownership is compatible with a variety of schemes for ownership and use of natural resources, and the up for grabs scheme is not the least harmful to all concerned. A better way is suggested by Steiner, that a condition of appropriation—and continued ownership—is that the appropriator pay a tax equal to the value of the resource appropriated, and that everyone receive an equal share of the revenue. In this way, resources can be taken out of the commons, and put to productive use, without impoverishing the latecomers and future generations.

The problem is that Steiner’s egalitarianism does not go far enough. If it is fair to compensate those who have the bad luck to be excluded from appropriation of natural

15 Dworkin 2000.
resources, why is it not also fair to compensate those who are less fortunate in the “natural lottery” of talents? As Cohen and others have argued, inequality of talents will result in social and economic inequality that is morally arbitrary, even if resources are equally shared.

To address this problem, Vallentyne suggests a “full-benefit-taxation conception of resource ownership.” Without compromising self-ownership, this principle requires, in addition to taxing the competitive rent on resources, that “appropriators must pay taxes (up to 100 percent) on the benefits they reap from appropriation.” This is compatible with full self-ownership, and, Vallentyne stresses, “is compatible with a relatively secure self-ownership,” (unlike joint ownership) since it imposes a tax only on those who choose to appropriate. People can avoid the tax if they appropriate no resources, but only use such resources as remain in common use. Since most paid employment is impossible without the use of natural resources, earnings from employment are subject to taxation, up to the full benefit that use of the resources confers.

This principle of full-benefit taxation comes very close to the left-libertarianism of Van Parijs, who, to provide a basic income for all at the maximum sustainable level, recommends taxing incomes so as to produce the maximum tax yield. (In his formulation, jobs are construed as assets, but in practice it is the benefit one gets from working in a job that is the target of taxation.)

There is probably no reasonable interpretation of Rawls’s difference principle that would support any higher level of taxation than that proposed by Van Parijs. Thus the most egalitarian left libertarianism dovetails with liberal egalitarianism (at least of the types that include priority of liberty, and respect for bodily integrity).

2. The second response to left-libertarian rejection of income taxation is to abandon the principle of self-ownership. We should note first the appeal of the principle. The Kantian principle of not treating others as mere means categorically prohibits slavery. So it is natural to think that the political principle best capturing this idea would be to make everyone a self-owner, with the rights and powers over oneself that a slave-owner has over a slave. If everyone is a self-owner, then no one is a slave (at least not without her consent), and there is no use of another’s body or activity without that person’s consent.

Self-ownership, the critics of right-libertarianism have argued, is compatible with a variety of ways of allocating external resources: up for grabs, full ownership, leading to capitalism; joint ownership; common use; equal shares; full-benefit taxation, to name a few. Thus self-ownership as a norm delivers less than first appears. This is most evident in the capitalist version of resource allocation. Here everyone is a self-owner. Land and other resources are up for grabs. A few, eg., Locke’s “industrious and rational,” manage to appropriate most of the resources. They can’t “coerce” the others to work for them. However the dire circumstances of deprivation can force others to submit to the will of the owners, on terms close to slavery. So it is evident that self-ownership is far weaker

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16 Vallentyne 2000.
17 Joint ownership renders self-ownership insecure, since any appropriation by an individual would require the permission of the entire group. REFERENCE.
than the substantive personal independence, the freedom to do what matters in one’s life, that Fried and Kymlicka have dubbed “self-determination”. Under Lockean conditions of appropriation, it is possible to be a full self-owner, yet lack self-determination, and have no choice but to serve the ends of others. For self-determination one needs access to resources.

If self-determination can best be realized by some combination of egalitarian ownership and redistribution, together with a weakened form of self-ownership, partial rather than full, why cling to full self-ownership? This is the conclusion of Cohen’s critique of Nozick, but it applies with equal force to left-libertarians. What matters morally is the self-determination of each. And if this is better realized equally for all through more robust taxation that covers incomes as well as resources, what reason is there to restrict taxation to resources? (There may be economic reasons for favoring a shift from income to resource taxation, but that is not my concern here.)

In conclusion, the left-libertarian objection to income taxation is not well founded. There is a reasonable interpretation of income taxation that is compatible with full self-ownership. And more profoundly, there is a more adequate interpretation of the underlying value of personal autonomy and self-determination that does not require full self-ownership. Resource taxation should be viewed as another tool in the toolbox, which can fund a dividend like the PFD as one means of reducing poverty and inequality, but should not be seen first and foremost as an alternative to income taxation.

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Bibliography


