SHARING THE VALUE OF COMMON RESOURCES
Citizen's Income in a Wider Context[1]

Note

A slightly revised version of this paper will appear in a special issue on "Basic Income, Green Politics and Post-Productivism" of the journal *Basic Income Studies* (http://www.bepress.com/bis) in December 2009:

Guest-editor: Simon Birnbaum

Introduction: Is there a green case for basic income?
Contributions from:
Jan Otto Andersson: Basic income from an ecological perspective
Paul-Marie Boulanger: Sustainability and basic income: Are they compatible?
Tony Fitzpatrick: Sustainability, post-productivism and liberal neutrality
Miriam Kennet: Basic income and world poverty: A green economics approach
James Robertson: Sharing the value of common resources
Philippe Van Parijs: Basic income and the autonomous sphere.

The present text will then be replaced on this website with the one as actually published.

Abstract

This paper presents Citizen's Income as part of a new approach to public money and finance, based on sharing the value of common resources. That helps to clarify the potential contribution of Citizen's Income to ecological sustainability. It does not mean that a Citizen's Income depends on other parts of the new approach having been adopted too.

1. Introduction

Under the new approach to public money and finance, governments will make the following changes in the way they carry out their monetary and financial responsibilities.

1. They will transfer the function of *creating the public money supply*, which is a common resource, to the central bank as a source of public

[1] In this paper I call basic income "Citizen's Income" to indicate that it will be an unqualified right of citizenship.

revenue, and away from commercial banks as a source of private profit.
2. They will shift *taxes* on to monetary values gained by using, or preventing other people using, common resources including the site value of land and ecological resources, and away from incomes, profits, value added and other financial rewards for useful work and enterprise.
3. They will shift the balance of *public spending* to distributing a Citizen's Income, as a share in the value of common resources raised by 1 and 2 above, and away from perverse subsidies and heavy spending on big governmental and business organisations to provide dependency-reinforcing services to welfare consumers.

Links between these changes are noted in Section 5. The changes are also reflected in the model for a new international financial architecture which includes a global form of Citizen's Income, as outlined in Section 6.

2. Creating the Money Supply

Whoever puts new money into circulation profits from its value minus its production cost, and decides who will have first use of the money for what. If almost all the money in circulation starts as interest-bearing debt which eventually has to be repaid, additions to the money supply will necessarily be accompanied by additions to society's indebtedness, and money transactions will cost more than if all money circulated debt-free.

Citizens of a democratic society would therefore expect all the money in the national money supply to be created by an agency of the state and spent into circulation on public purposes debt-free. The government could then decide how it should first be used. It would also mean it would not to have to pay so much of our money as interest to commercial banks on money which it had allowed them to create for the purpose of lending it.

Unfortuanately that expectation would be false. In the UK, for example, less than 5% of today's national money supply is created debt-free by the Bank of England and the Royal Mint as banknotes and coins. Over 95% is created by commercial banks simply writing it into their customers' bank accounts as profit-making loans and calling it "credit". It was estimated in 2000 that UK commercial banks made over £20 billion a year in interest from creating bank-account money, whereas public revenue from the issue of banknotes and coins was less than £3bn a year.[2]

[2] Joseph Huber and James Robertson, *Creating New Money: A Monetary Reform for the Information Age,* New Economics Foundation, 2000 - http://www.jamesrobertson.com/books.htm#creating

The reform proposed is

- that the central bank should create all bank-account money; and
- that anyone else, including the commercial banks, should be prohibited from creating it - just as counterfeiting banknotes and forging coins are crimes.

It was estimated in 2000 that this reform would bring in additional public revenue of about £45bn a year. Treasury ministers, the Treasury itself and the Bank of England have refused to say whether or not they accept that estimate and those in the previous paragraph as broadly correct.

1997 saw a step towards a professional, democratically accountable method of monetary control. The Bank of England was given operational independence to manage monetary policy to meet the government's published policy objectives. But it can still only regulate interest rates and therefore the borrowing costs for bank customers, to influence how much new money the commercial banks create. That is a very blunt instrument of indirect control, as this latest credit boom and bust have clearly shown. The central bank should create the required amounts of money itself.

Opponents of reform still sometimes argue that bank-account money isn't really money, it's only "credit". But official monetary statistics and policy-makers recognise that it provides almost all today's money supply. Banknotes offer a telling historical lesson. They originated as credit notes issued by banks. But by 1844 they were recognised to be money, and the Bank of England became the only bank in England allowed to issue them. They still say "I promise to pay... ", but everyone knows that is a meaningless throwback. Similarly now, almost everyone knows that electronically held and transmitted bank-account money is not just private credit issued by particular banks. It is public money immediately available for spending. Its continuing creation by commercial banks for private-sector profit is a glaring anachronism.

3. National Public Revenue: The Proposed Tax Shift

Existing taxes are becoming less viable. For example:

- National economies in a *competitive global economy* have to reduce taxes on incomes, profits and capital in order to attract investment capital and highly qualified people - both being increasingly mobile.
- *Ageing societies* will be unable to support growing numbers of "economically inactive" people by taxing the work and enterprise of fewer people of working age.
- *Internet trading* makes it more difficult for governments to collect customs duties, value added tax and other taxes and levies on sales, and easier for companies and rich individuals to shift earnings and profits to low-tax regimes and tax havens.
- *Tax avoidance* by big corporations and rich individuals is already becoming increasingly damaging. The Tax Justice Movement

estimated that in 2005 tax havens were costing £255bn annually to governments worldwide, holding assets of $11.5 trillion ($11,500bn), causing serious distortion of economic priorities, and encouraging criminal money laundering. [3]

Shifting the tax burden on to the value of land and environmental resources which cannot be moved elsewhere will reduce these problems.

Existing taxes are not just under threat, they are actively perverse:

- By heavily taxing employment and rewards for work and enterprise and lightly taxing the use of common resources, they systematically encourage inefficiency in all kinds of resource use - under-use and under-development of human resources, and over-use of natural resources (including energy and the environment's capacity to absorb pollution); and
- By taxing the value added by the majority of people's positive contributions to society (VAT), and failing to tax the value subtracted by the rich and powerful minority who profit most from the value of common resources, they systematically skew the overall burden of tax in favour of the rich minority.

These facts all point to the need for a shift towards raising public revenue from the value of common resources. Common resources are resources whose value is due to nature and to the activities and demands of society as a whole, and not to the efforts or skill of individual people or organisations. Land is the most obvious example. The value of any land-site, excluding the value of what has been built on it, is almost wholly due to the activities and plans of society around it. For example, when the route of the London Underground Jubilee Line was published, properties along the route jumped in value. Access to them was going to be much improved. A public policy decision followed by investment of public money gave the owners of those properties a £13bn windfall financial gain. They had done nothing and paid nothing for it; it was a very large free lunch. By contrast, the Treasury's auction in 2000 of twenty-year licences to use the radio spectrum for the third generation of mobile phones raised £22.5bn for UK taxpayers, and governments of other European countries raised significant revenue that way too.

Among other common resources in addition to those already mentioned - land-sites, the electro-magnetic spectrum and the national money supply - are the environment's limited capacity to absorb pollution and waste (including carbon emissions), many natural resources like water, and the limited space available for road traffic and airport landing slots. Their total annual value rises in step with economic growth. Collecting it as public revenue would reduce the need for many existing taxes.

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[3] To "understand how tax havens, capital flight and tax evasion are harming global society and economic wellbeing" see "Tax us if you can" - summary and free download at http://www.taxjustice.net/cms/front_content.php?idcat=30

4. National public spending

The main change to be considered here is, of course, the shift of spending to support a universal Citizens Income. It would be paid to all citizens as of right, out of public revenue. It would include state pensions and child allowances, it would replace many other existing social benefits, and it would eliminate many existing tax allowances, tax reliefs and tax credits. It would recognise that, in a society of responsible citizens, some of the public revenue arising from the value of common resources should be shared directly among them. It could encourage many people to become less dependent for welfare and jobs on big, environmentally wasteful governmental and business organisations.

Reducing two main categories of existing spending, in addition to routine elimination of public sector waste, would help to finance that shift.

First, upwards of $2 trillion a year is now spent worldwide on *perverse subsidies* which encourage economically, socially and environmentally damaging activities. These include the subsidies from rich-country governments to their farming and agricultural sectors, which - combined with tariffs against imported food - have devastated those sectors in poorer countries and exposed the hypocrisy of rich-country support for free trade. But there are many other examples of perverse subsidies that need to be reduced systematically year by year.[4]

Second, politicians and government officials now channel huge sums of money in contracts and subsidies to private-sector business and finance, as well as to public service organisations, to provide citizens with public services. Much of that public money would be better used if distributed directly to citizens to decide and meet their own needs and priorities.

5. Three Examples of Links and Synergies

A web of interdependencies connects the proposed changes in Sections 2, 3 and 4 above.[5] Here are three examples.

(1) <u>Monetary reform + tax shift + spending shift = funding for a Citizen's Income</u>. The assumption that a Citizen's Income would have to be financed from income tax has been a longstanding objection; it might require a tax rate of 70% on other income. That problem can be resolved

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[4] Norman Myers, *Perverse Subsidies: Tax $s Undercutting Our Economies and Environments Alike*, IISD, Winnipeg, Canada, 1998.

[5] I discussed some of these in 1994 in *Benefits and Taxes: A Radical Strategy*. It can be downloaded at http://www.jamesrobertson.com/toes-nef.htm, then scroll down to 1994.

by financing it from the sources proposed above - revenue from the value of additions to the public money supply after monetary reform, plus revenue from taxing value subtracted by profiting from common resources like land site values, plus shifting the balance of public spending away from perverse subsidies and dependency-reinforcing services.

(2) Monetary reform + basic income = financial stability. The recent "credit" boom followed by the present "credit" famine have been caused by allowing commercial banks to create the money supply. They created much too much money in the boom and are now creating much too little in the famine. At the time of writing, there is growing awareness of the need for "quantitative easing", financial jargon for getting central banks to create large sums of money and pump them into the economy. The question for today's policy-makers is how and where are they to be pumped in? If central banks themselves were accustomed to keeping the money supply at the right level, and if arrangements already existed for the regular distribution of a Citizen's Income, the answer would be easy: vary the size of the Citizen's Income as required. This would inject the money into the economy where it would circulate quickly and would directly benefit those who most need it in economic downturns.[6]

(3) Monetary reform + land value taxation + Citizen's Income = more stable and affordable house prices. As Mark Twain advised, "Buy land. They're not making any more." Basically, the increasing value of land sites is not due to the efforts of their owners, but to public investment in the infrastructure which serves them and to rising public demand for houses and other buildings on them.

Allowing banks to create money and direct its first use into loans for investment in existing houses and the land they occupy, and at the same time failing to tax land values but taxing people's earnings, business profits and value added for commodities other than land, gives a further twist to upwardly spiralling land values, which in turn creates increasing collateral value for further loans to invest in the same houses and land.[7] This vicious circle results in a self-reinforcing long-term house-price boom, based on unproductive diversion of investment into the value of already existing assets, punctuated by busts that particularly hurt householders least able to cope with negative equity. The addition of a Citizen's Income to those two reforms could further tend to make house

[6] See "Citizen's Income Newsletter, 2009, issue 1", 10 January 2009 for relevant items – http://www.citizensincome.org/

[7] Over the longer term, the rate of increase in the price of houses has hugely eclipsed increases in other products and people's earnings. A particular house in Chelsea in London was sold for £1,000 in 1910; ninety years later it was worth £4.5 million, an increase of 450,000%, nearly 37 times greater than the increase in the price of a basket of basic items like bread and potatoes over the same period. Fred Harrison, *Boom/Bust: House Prices, Banking and the Depression of 2010*: Shepheard-Walwyn, London, 2005, one of Fred Harrison's many pioneering books on the need for Land Value Taxation.

prices more affordable, and also to limit the risk of negative equity in periods of house-price downturn.

6. The Global Dimension

The international institutions that deal with world monetary management, public revenue and public spending, should also be based on sharing the value of common resources more fairly

Fourteen years ago the Independent International Commission on Global Governance[8] recognised the urgent need for international monetary reform in a globalised world economy. Growing criticism of the present 'dollar hegemony' of the United States has followed. For using the dollar as the main global currency, the rest of the world is estimated to pay the US at least $400bn a year. A Pentagon analyst has justified this as payment to the US for keeping world order; others see it as a way for the richest country in the world to compel poorer ones to pay for its unsustainable consumption of global resources.[9] To build up their reserves, poor countries have had to borrow dollars from the US at interest rates as high as 18% and lend it back to the US in the form of Treasury Bonds at 3%.[10] The dollar is a global monetary instrument that the US, and only the US, can produce; world trade is now "a game in which the US produces dollars and the rest of the world produces things that dollars can buy".[11]

A genuine international currency, issued by a world monetary authority, is needed as an alternative to the US dollar and other 'reserve currencies' like the yen, euro and pound. Issuing it would be a source of revenue to the world community, as national monetary reform would provide a source of revenue for nation states.

The Commission on Global Governance also recognised the need for global taxation “to service the needs of the global neighbourhood”. It proposed making nations pay for use of global commons, including:

- Ocean fishing, sea-bed mining, sea lanes, flight lanes, outer space, and the electro-magnetic spectrum; and for

[8] Commission on Global Governance, *Our Global Neighbourhood*, Oxford University Press, 1995.
[9] Richard Douthwaite, *Defense and the Dollar*, 2002 and FEASTA*, Climate and Currency: Proposals for Global Monetary Reform*, 2002. Details of both from The Foundation for the Economics of Sustainability, e-mail: feasta@anu.ie; web: www.feasta.org
[10] Romilly Greenhill and Ann Pettifor, *The United States as a HIPC (heavily indebted prosperous country) - how the poor are financing the rich*, New Economics Foundation, London, 2002; www.neweconomics.org
[11] Henry C K Liu , *US Dollar Hegemony Has Got To Go,* Asia Times Online Co Ltd, 2002.

- Activities that pollute and damage the global environment, or cause hazards beyond national boundaries, such as emissions of CO_2 and CFCs, oil spills, and dumping wastes at sea.

Revenue from global money creation and global taxes would then provide stable sources of finance for global spending by organisations like the United Nations, including international peace-keeping programmes. Some of it could be distributed per capita to national governments, reflecting the right of every person in the world to a global Citizen's Income as a share in the value of global resources.

This approach:
- Would encourage environmentally sustainable development worldwide;
- It would generate a much needed source of revenue for the UN;
- It would provide substantial financial transfers to developing countries by right and without strings, as compensation for rich countries' disproportionate use of world resources;
- It would help to liberate developing countries from dependence on grants and loans from rich-country-dominated institutions like the World Bank and International Monetary Fund;
- It would help to solve the problem of Third World debt;
- It would recognise the shared status of all people as citizens of the world; and
- By helping to reduce the spreading sense of injustice in a globalised world, it would contribute to global security.

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