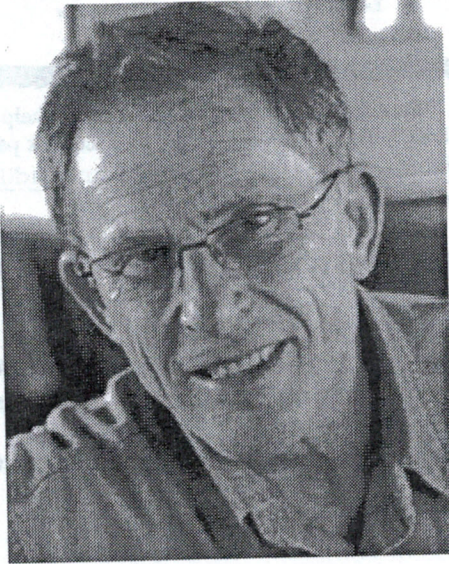


# WHY GEORGISTS SHOULD BE PAINEISTS

By Peter Barnes, Point Reyes Station, CA



(The following presentation was made July 11, 2014 at the Council of Georgist Organizations conference in Newport Beach, CA. Peter Barnes is the author of the book, *With Liberty and Dividends for All: How to Save Our Middle Class When Jobs Don't Pay Enough* (2014), which proposes a nationwide dividend program similar to Alaska's. Barnes is an innovative thinker and entrepreneur who has written five books and started several businesses, including Credo Mobile. His other books include *Climate Solutions – What Works, What Doesn't, and Why* (2008); *Capitalism 3.0: A Guide to Reclaiming the Commons* (2006); *Who Owns the Sky? Our Common Assets and the Future of Capitalism* (2001); and *Pawns – The Plight of the Citizen Soldier* (1971).

For more information, visit [peter-barnes.org](http://peter-barnes.org).)

I want to make the case that the remedy proposed by followers of Henry George should shift from taxing rent to recycling rent. To put it another way, I will argue that Georgists should be Paineists.

I think the Georgist focus on rent is entirely correct. Forty years ago, when I reviewed *Progress and Poverty* for *The New Republic*, I quoted George's depiction of land rent as "an immense wedge being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down." I have never forgotten that image.

George's image of rent as a wedge between rich and poor accurately described reality in 1880, and still does today if we expand the scope of rent beyond land. Of course, rent isn't talked about much in polite society; it's the eight-hundred-pound gorilla that everyone pretends isn't

there. Economists in particular rarely mention it, not out of ignorance but because they find it awkward to offend those who collect it disproportionately. The time has come, though, to bring rent out of the closet, for in my view, it holds the key to saving both our middle class and planet.

But how should we deal with rent? I believe George's remedy — a single tax on land — is insufficient. It would recapture some unearned rent from landowners, but channel that money to government rather than to those crushed by the immense wedge. The problem is that money sent to government doesn't necessarily improve the lot of those being crushed. (Or if it does, it does so indirectly and inefficiently.) There's a piece missing, the piece that recycles the rent.

A different approach to rent was first proposed by Thomas Paine in his 1797 essay, *Agrarian Justice*. Paine's idea was to recycle rent to every member of society, one person, one share. He argued that natural property, such as the earth, air and water, comes from the creator, and therefore belongs to everyone equally. What's more, he invented a practical way to recycle nature's rent — a 'National Fund' that would pay every man and woman about \$17,000 in today's dollars at age twenty-one, and \$12,000 a year after age fifty-five. Revenue for the Fund would come from ground rent paid by landowners, and Paine showed mathematically how it could be done. This was a remarkable feat of analysis and imagining. If that's Paineism, then call me a Paineist.

Two centuries later, the Paineist model -- with a few tweaks -- is more relevant than ever.

Step back for a moment and consider: What are the two biggest challenges we face today? I'd say they are: (1) climate change and (2) the decline of our middle class.

There's not much left to say about climate change, but let me say one thing about the decline of our middle class. We must face the fact that jobs alone won't sustain a large middle class in the future — there just aren't, and won't be, enough good-paying jobs to do that. Globalization and automation are seeing to that. This means that, if we want to have a large middle class in the 21st century, we must find a way to distribute non-labor income widely.

What these two challenges have in common — and the reason they're so intractable — is that they're inexorable consequences of our current capitalist system. We need to fix the flaws of this system before they (continued on page 13)



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destroy our planet and our middle class. And what I want to suggest is that Paine's model — if applied at a large enough scale — would do this. Here's how.

**Flaw #1: Destruction of nature.** The problem, as everyone knows, is that the price of nature is currently zero; hence, despoliation rolls on. The solution, as everyone also knows, is to "internalize externalities" -- to make polluters and depleters pay. The question is how to do that effectively and economy-wide. The Paineist answer is: make users of nature pay rent.

**Flaw #2: Inequality.** Everybody knows that America's rich are getting immensely richer while our once-large middle class is steadily shrinking. But no one knows what to do about this. The Paineist solution would be: share rent from nature (or more broadly, from common wealth) equally.

We need look no farther than Alaska to see how this could work. The Alaska Permanent Fund is capitalized by income from North Slope oil. Every year it wires dividends to the bank accounts of all Alaskans, including children. These dividends have ranged from about \$1,000 to \$3,200 a year. The highest year was when Sarah Palin was governor, and boy, was she proud of it.

To apply the model on a national level, we'd need to look beyond land and oil as sources of revenue. Rent in its broadest sense — the extraction of excess profit through market and political power — is now pervasive in our economy, and accounts in large part for the riches of the top one percent and the decline of everyone else. Wouldn't it be nice to take a percentage of extractive rent and distribute it equally to all?

Yes, it would — but I'm not actually proposing that. I'm proposing to increase rent that's not charged now, but should be. Much of this rent would come from monetizing the currently unmonetized value of natural and socially-created wealth — in other words, of wealth that belongs to everyone. Such new rent would then be distributed to its rightful co-owners, one person, one non-transferable share.

This sort of rent -- the kind that would reduce pollution and inequality simultaneously -- is

what I call virtuous rent. In essence, it's rent we should charge to preserve our planet and society. It's the obverse of vicious rent, the extracted rent we pay too much of, that serves no positive purpose and whose distribution is grotesquely unequal. In the twenty-first century, our goal should be to reduce vicious rent and increase the virtuous kind. If we do that to sufficient scale, we'll not only solve our two biggest challenges simultaneously; we'll do it through markets rather than government, which is the better way. And I say this not as an ideologue, but as a practical business person. If our economy itself can produce the results we want, that beats asking government to rectify its failings after-the-fact -- a costly and Sisyphean task if there ever was one.

Let's leap now from the world of economics to the grittier world of American politics. Let's imagine an American National Fund that gets income from selling carbon emission rights, spectrum usage rights, patent protection rights and financial transaction rights. It would be like a giant mutual fund owned by all legal US residents, one person, one share.

In my latest book, *With Liberty and Dividends For All*, I show how, over time, such a fund could distribute as much as \$5,000 per year to everyone. That's not enough to live on, but consider what it could do. If a child's dividends were saved and invested starting from birth, they'd yield enough to pay for a debt-free college education at a public university. In midlife, \$5,000 per person would add 25 percent to the income of a family of four earning \$80,000 a year. In late life, it would boost the average retiree's Social Security benefit by about 30 percent.

Could such a fund ever be established in the United States? Probably not without a major economic crisis. But it would make good political sense to start campaigning for such a fund now, before the next crisis hits.

What's politically appealing about such a fund is that it's:

- Really simple
- Really fair
- Inclusive of everyone
- Direct (no trickle down)
- About ownership, not redistribution

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Market-based

Easy to administer (a mid-sized computer could do it)

Transpartisan (appealing to libertarians and progressives).

On top of all this, it aligns our middle class with nature. This is really important, because if our middle class is asked to sacrifice on behalf of nature -- that is, to pay more for less -- it understandably will refuse to do so.

In sum, there's a historic convergence between the needs of our middle class and those of nature — and a historic opportunity to save them both. I hope Georgists — and everyone else — will seize the opportunity.

And while we're at it, let's put Thomas Paine on our \$20 bill.

(For more information visit [www.dividendsforall.org](http://www.dividendsforall.org). Peter Barnes may be emailed at [peter@tomaes.org](mailto:peter@tomaes.org))

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