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I Have a Basic Income

The U.S. Basic Income Guarantee Newsletter, Spring 2010
Karl Widerquist, Visiting Associate Professor, Georgetown University

In a period of about eight months, I managed to save and invest enough money to get myself a small personal basic income. It was easy—if you get the kind of lucky breaks I got. I'm telling you this story only because it illustrates how much our economic fortunes are determined by luck, how favorably our laws treat people who own stuff (people who have obtained control of natural resources) and how much unearned income is available for redistribution.

According to my job title, I'm a philosopher. My field is not known as a big money-maker. But at least since Aristotle, philosophers have occasionally made good money by teaching the children of the rich. Aristotle went to Macedon to teach the son of the king. I went to the Middle East to teach the children of the oil-rich. The history that made parts of the Middle East rich began more than 90 years ago, as the Ottoman Empire was breaking up. Britain and France decided to arbitrarily draw lines on the map of the Middle East to create dependencies that eventually became states. Nobody knew at the time how much oil was there or where most of it was. So, they had no idea those lines would make eventually some of those countries very rich and others very poor.

Thanks to those decisions, the small Persian Gulf state of Qatar is now the wealthiest country in the world. A few years ago the Emir of Qatar (who basically owns the country) offered huge amounts of money to get big-name Western universities, including Georgetown, to open campuses there. Last year Georgetown hired me at a salary about three or four times what I made on my previous job.

What did I do to “earn” this salary? My teaching load is lighter and my skills are no higher than they were last year. The work I do now is no more important than the work I did last year. The children of the oil-rich can afford to pay more for their education, but it's hard to argue that it's more important to educate them than anyone else.

Partly I'm being paid for my flexibility. Most people can't pick up and move to the Middle East. Partly I'm being paid because everybody knows the Emir of Qatar has a lot of money, and nobody with any other options is going to work there unless they get a piece of it. Just a lucky break for whoever happens to be in position to take advantage of it.

So, suddenly, I had money to invest.

Meanwhile, in South Bend, Indiana, the most depressed real estate market in the United States, my brother was a public school teacher. He had bought a couple houses, fixed them up, and was making good money renting them out. He had time and skills to invest but not money. I had money but no time. We trust each other. The arrangement was obvious—a lucky coincidence.

Because real estate prices are so low in South Bend, we already have three houses, a lien on another, and we'll soon be shopping for another. We have long-term leases signed on the first three houses, so that, beginning August 1, my share of the rental income from those houses will be about \$700 per month, or \$8,400 this year, next year, and every year. The laws of the state entitle me to keep that stream of income from now until the end of time. I could leave it to my children or set up a trust fund that to direct that flow of income toward whatever purpose satisfies the whim I have in my head when I write my will.

I have basic income, not just for life, but forever.

I pay about \$15 a month in property tax on each home. But because we can deduct funds spent on improvements to the homes and claim "depreciation," I can expect to pay no income taxes out of my share of the returns. If it looks like our profit will be so strong that it will force us to pay taxes we can put a new roof on a house, deduct the cost from our earnings, see the value of our home increase (though property taxes will not), and earn more rent. People who actually have to work for their money can expect a quarter or a third of it to go to income taxes. This is not some brilliant shelter that our accountant devised. This is how people who own stuff are treated by the tax rules from Key West, Florida to North Slope, Alaska.

Assuming no compound interest and no new investments on my part, the rent on the property I have accumulated in eight months of saving and investing will add up to \$84,000 over 10 years, \$840,000 over the next 100 years. Assuming compound interests and new investments that amount would go up exponentially—possibly increasing by 10 times in a dozen years.

Of course, \$8,400 is a very small basic income. It doesn't tempt me to quit my job and spend the rest of my life surfing off Malibu. Yet, it is nearly as large as what a very optimistic basic income supporter would hope to start out with. It is far larger than anything Congress is likely to approve for people who need it. People are likely to say we "can't afford it" even though there are many people, who own much more than I do, taking in money just as easily.

Compare my personal basic income to the only regional basic income in the world today. Last year, the Alaska Permanent Fund Dividend paid \$1305 to each resident of Alaska. That means that after *eight months* of saving, I am able to pay myself a dividend more than *six times* the amount that the oil-rich state of Alaska can pay its citizens after more than *thirty years* of saving and investing. But Alaska taxes almost nothing else but oil, and they use only a small portion of their oil revenue to support the Permanent Fund. Mostly they used their oil wealth to give people who own other things in Alaska a big tax cut. If they had used all of their oil royalties to support the fund, the dividend would be at least four times what it is now.

What can I possibly have done in eight months of investing to have earned a perpetual stream of income from now until the end of time?

Not much really. Lucked into a situation. As much as people believe that we must keep taxes low to reward people who *do* stuff and *produce* stuff, our property laws

and tax laws most favor people who *own* stuff. In part, laws are set up this way because people who own stuff are very powerful. They have an enormously disproportionate control over government policy, and very often choose policies in their own self interest. Owners have successfully pushed most of the tax burden off onto people who make salaries.

But another important reason why the laws so greatly favor people who own stuff is that most people do not understand the difference between rewarding people who produce stuff and rewarding people who own stuff. A lot of what we spend goes to reward production, but it's a mistake to think all income is earned. What can any investor do in a finite amount of time to "earn" a stream of income that lasts forever?

Supposedly investors are paid for their forbearance and parsimony. Because investors have the discipline to put money away instead of spending it on consumption now, they earn a return on that savings. But I didn't save money because I was frugal. I saved money because I had money. I have spent money more extravagantly in the past year than at any other time in my life. Because I made so much more than I was used to, I was able to buy pretty much whatever I felt like, and still have a lot left over to invest. This seems to be true of a lot of investors.

Supposedly investors are paid for taking risks, but many of the vest investments are not very risky. There is no chance that this business will go bankrupt, because we don't owe any money. There is some chance that rental prices in South Bend will fall slightly, but probably not much. If the South Bend real estate market stays depressed I can expect my rental income to rise with inflation. If the market gets better I can expect it to rise more quickly than inflation.

Supposedly investors are paid for providing a valuable service. To some small extent this is true of me. If I hadn't invested this money, the South Bend real estate market would be just a little more depressed. Rental properties would be just a little less available; purchase prices would be just a little lower; rental prices would be just a little higher, and other landlords would make just a little higher rate of return. That's something. But it hardly justifies a stream of income from now until the end of time.

Supposedly the stream of income is justified by the continued maintenance and improvements that owners put into their properties. But those all come out of the stream of income. The need for maintenance or improvement might decrease the size of my returns, but there is no necessity for any new investment or even action on my part to maintain them. I can just sit back and collect. Over time, the renters pay for the maintenance themselves.

Investors might have to do something or produce something to obtain ownership of a resource, but once they own it, anyone who wants to do anything with that resource has to pay the owner for the privilege. The owners of the past get a cut of all current production whether they personally contribute anything or not. The existence of so much unearned income reorients our economy away from productive activity so that you can't be sure that the initial investment was necessarily something productive. Much of what people do, especially in the financial, insurance, and real estate sectors revolves not around the provision of services but around using financial resources as leverage to obtain more financial resources.

Renters pay me because I own stuff that other people don't. I'm in that position, because I just happened to have a brother who needed an investor just when I happened to have money to invest. I was in that position because I just happened to get a job in Qatar. The Emir of Qatar just happened to be able to give me that job because arbitrary decisions made long ago by the British Empire just happened to have worked out so that he owns stuff that other people don't.

Lucky break upon lucky break upon lucky break determines who owns resources and who does not. Those who do not own will pay those who do, year after year, from now until the end of time or until we decide to change the rules. We don't need to eliminate property to change the rules in an important way. How about a little rebate from those who own stuff to those who do not? It would compensate them for all that they have to pay just because others control the resources we all need to use.

-Karl Widerquist, begun in New Orleans, completed in Buenos Aires, Spring 2010