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# The people's endowment

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# Chapter 19

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## 19.1 The proposal

Governments should start to build up a permanent endowment of publicly held assets, both financial and physical, lease at least some of them out to private industry, and use the revenue for two purposes: half for government spending and the other half for a dividend in the form of an unconditional basic income for all people—in recognition of their shared ownership of their common resources and the sacrifice they make living in a world where others own the environment they live in.[1] The goal should be to keep the total value of the portfolio growing (taking into account the overall value of its income-generating and non-income-generating assets), so that each generation leaves the next with a more valuable endowment.

Many private institutions, such as universities and museums, have large and growing endowments. Why doesn't the government have one? Simply, we have failed to take advantage of enormous opportunities to create one.

There are essentially three things we can do with shared resources. 1. We can hold them as a commons, such as parks, rivers, and nature reserves, keeping them basically in their natural setting for the use of all but the property of none. 2. We can use them

1 Similar proposals include (Barnes 2014); (Blyth and Lonergan 2014); (Flomenhoft 2012); (Widerquist 2012b); (Widerquist 2012a) This proposal obviously takes inspiration from left-libertarian proposals such as (Vallentyne and Steiner 2000); (Vallentyne and Steiner 2000b) The main difference between this proposal and more standard left-libertarianism is the emphasis on the community's monopoly power over its resources (explained below).

for jointly for public enterprises such as a national health service or a transportation system. 3. We can privatize them.

The endowment model is not about what mix of these three uses we should choose. It is model of how and under what conditions we should privatize resources. The private sector could be large or small, but we should privatize resources only if it is better for current and future generations to do so, and when we do privatize resources, we do so for profit to be returned to the people. The upfront sale price has to justify privatization. The government can hold and manage resources when there is a particular reason to do so, such as an environmental need, an obvious common use, or a market failure. Otherwise, it should lease resources at market prices, leaving private agents free to decide how to use them. It doesn't necessarily need to oversee business; it merely needs to manage the terms on which it leases resources to private entities.

This model is very different from contemporary capitalist or socialist models of property ownership. Under contemporary capitalism most resources are assumed to be privately owned, but few governments have any consistent model of how resources are privatized. Permanent titles are often granted on an ad hoc basis, sometimes to cronies, often at little or no charge. Our governments give resources to corporations free or far below market rates, and our corporations sell them back to us at full market rates, capturing not only the value they add in production but also the scarcity value of the resources they received as a gift with resource rents going almost entirely to wealthy private individuals and corporations.[2] Ad hoc privatization continually shrinks the pool of shared resources, ignores environmental concerns, and creates institutions that cause inequality to persist across generations.

2 (Mansfield 2008)

Under the socialist model, many resources are held and managed by the state, but there is no obvious socialist theory of privatization. Mixed socialist states and welfare capitalist sates are usually as ad hoc in their privatization as more capitalistic states.

The endowment will increase both the revenue governments earn from private use of common assets and our ability to protect both privatized and non-privatized assets for future generations. The dividend is important not simply to relieve the effects of poverty, inequality, and economic uncertainty, but also to ensure that every single person in whose name the endowment is held actually benefits from it. The permanent nature of the fund is necessary to ensure that all people with a claim to the environment, including our descendants benefit from the decisions we make now.

## 19.2 Thinking like a family farmer

Although the endowment model is far from the way most governments manage the people's resources, it is typical of the way most or all private owners manage their resources. Two comparisons illustrate the difference.

*1 A family farm*

Imagine a successful farmer who wants her farm to benefit her children and their descendants. She has many options, including selling the farm to put the money into a trust that will pay dividends to them, renting it out and splitting the rent among them, holding it as a joint venue that would provide produce for her descendants, creating a land conservancy to preserve it as a family park. Any mix of these strategies treats the farm as her family's endowment.

Now consider an option the farmer would never take seriously: a corporation asks her to give the land to it for free with no strings attached. The corporation claims that

this will benefit the farmer's children because it will "create jobs." If her children are good workers, they can get those jobs and take out loans to buy houses the corporation will build on the land. Of course, it will charge market rates for those houses and the land they're on. Certainly the farmer would recognize that although this proposal might get her children wages for their labor, it gets them nothing for the legacy she would relinquish.

No family farmer—no private owner—would do such a thing. Yet, this is exactly what governments do with the most of the assets they control in their peoples' names. They give them away at vastly below market costs with few if any conditions attached in the hopes that the people designated as owners will create jobs. By giving away resources, governments not only create inequality of wealth and income; they also cede unequal control of those resources. They thereby create entrenched interests that become powerful in the public decision-making process for generations.

*2. University endowments*

Many non-government institutions—such as museums, universities, NGOs, and wealthy families—have endowments made up both of financial assets they use to generate income and of physical assets used to further the institution's mission directly (such as items on display at a museum, the buildings on a university campus, or a family home).[3] In many cases, universities' financial portfolios grow as their campuses get larger and more elaborate. Harvard's financial endowment is over $32 billion, having risen from $17 billion in 2001.[4] Its managers claim to have delivered

3 These institutional endowments are not people's endowments, because they are not set up to serve the interest of the people as a whole. Whose interest these endowments serve is an interesting issue, but off the topic of this chapter. I use them only as examples of how endowments can work.
4 (Institute 2003); (Institute 2014)

an average annual return of more than 12% per year over the last 20 years.[5] Its real estate holdings have increased to include thousands of acres of land and hundreds buildings, some used directly by the university others leased out for income.[6]

Thomas Piketty presents a great deal of historical evidence that the returns to capital have tended to exceed the economic growth rate for most of the last two centuries.[7] If his findings are correct, any capital-holding institution (whether a family, a business, or a non-profit enterprise) can grow its endowment over time as long as it spends less than its returns each year.

In light of these examples, it seems strange that governments don't already have large and growing endowments as their legacy from centuries of the privatization they have authorized. In the name of the people, they control more assets than any private institution, yet the commons tends to shrink in size and value every year to privatization and pollution, and governments seldom build up financial (or any other) assets in return for all they assets they have relinquished.[8] For the most part, governments have acted neither as good custodians of the environment nor as profit maximizing sellers of resources.

**SWFs: a positive step but a limited example**

There is one example of national and regional governments taking small, limited steps toward the endowment model by establishing financial endowments, called "sovereign wealth funds" (SWFs). An SWF is a pool of financial assets held by the government in the name of the people. Usually, SWFs are set up by resource-exporting polities in hopes of turning a temporary resource windfall into a permanent income. One SWF, the Alaska Permanent Fund (APF) pays a regular dividend, called

5 (Harvar-Management-Company 2014)
6 (Arsenault 2009)
7 (Piketty 2014)
8 (Flomenhoft 2012); (Widerquist 2012b)

the Permanent Fund Dividend (PFD), to citizen-residents of Alaska. While the fund makes part of the temporary windfall permanent, the dividend ensures that every Alaskan, now and in the future, benefits from the state's windfall.

SWFs provide an example of how governments can use endowments to benefit people, but they represent only a limited application of the wider endowment strategy, and their example might give people the impression that the possibilities of a resource endowment are more limited than they really are.[9] Right now, few resource-based industries pay the market value of the resources they appropriate; governments devote little of their resource revenue to SWFs; and only one of those SWF pays a dividend.

Alaska created the APF in 1974 and began paying out the PFD in 1982. Over the last 10 years (2004-2013), the dividend has averaged about $1,213 per year for every individual or about $4,853 for a family of four. Despite all those payouts, the APF is now worth more than $50 billion.[10] So far, the APF and PFD have been instrumental in helping Alaska avoid the resource curse, in which the people of many resource-exporting nations fail to benefit from their resource exports or in which those benefits prove temporary. If nothing else, all Alaskans have benefited in one direct way from Alaska's oil. Very few resource-exporting regions can make that claim. For example, it is hard to say how or whether the poorest Mexicans and Nigerians have benefited from all the oil their nations have exported.[11]

The APF and PFD are financially sound. Alaska might choose to get rid of them someday, but as long as they are allowed to exist, they will provide benefits for all future Alaskans. Modern Pennsylvanians probably can't say how or whether they've

9 (Widerquist and Howard 2012b); (Widerquist and Howard 2012c)
10 (Alaska-Permanent-Fund-Corporation 2014); (Permanent-Fund-Dividend-Division 2014), averages are the author's calculations from the table.
11 For further arguments along these lines, see (Widerquist and Howard 2012b); (Widerquist and Howard 2012c)

benefited from the Pennsylvania oil rush of the 1860s,[12] but future Alaskans will have one small tangible benefit.

Other SWFs are much larger than the APF. The United Arab Emirates and Saudi Arabia each have SWFs worth over $500 billion.[13] Norway's SWF has $818 billion or about $161,000 for each person. It is primarily used to support the country's pension system.[14] Norwegian pensions will be financed by the assets their government owns around the world for generations after their oil-exports have run out. The fund is now larger than the country's national debt ($759 billion), so that by some counts, Norway has no net national debt.[15]

Not all SWFs are people's endowments because they are held by authoritarian governments.[16] I use them only to demonstrate the possibility that public agents can build up endowments. I'm arguing that under a democratic government, the endowment is preferable. I have no statement whether authoritarianism with an endowment is better than authoritarianism without one.

The success of these SWFs ought to inspire imitation. If it is a good idea for Alaskans and Norwegians to be paid for their share of their country's oil, it must also be a good thing for Namibians to be paid for their share in the country's diamonds, for Jamaicans to be paid for their country's beach resorts, for South Africans to be paid for the country's gold, for the Swiss to be paid for their banking system, and so on around the world. However, because the SWF is a relatively new idea that has been tried only in limited circumstances, I'm worried that they will give people the impression that the endowment model is more limited than it is.

12 (Black 2000)
13 (Sovereign-Wealth-Fund-Institute 2014)
14 (Norges-Bank 2014)
15 (International-Monetary-Fund 2013)
16 (Tétreault, Okruhlik, and Kapiszewski 2011)

## 19.3 Four features of the endowment model

The endowment model has four features, or one could say, there are four tests to see whether a policy is following the endowment model. Governments fully employing the endowment model do the following things:

1. They charge market rates (profit-maximizing prices) for the resources they privatize.
2. They apply the model to all resources they privatize.
3. If they privatize nonrenewable resources they save and invest a sufficient amount of the revenue so that the future generations receive a fair share of the benefit.
4. They take sufficient account of the environmental, social, and political impact of privatization to ensure that whether they decide to privatize a resource, use it for a public enterprise, or leave it as part of the natural environment, the decision will fairly benefit all people of current and future generations.

The first goal applies to the price not the conditions of leases. An oil lease with environmental restrictions probably sells for less than one without. Maximizing revenue from a signal sale without regard to its impact on the environment would be a shortsighted effort to maximize the value of the endowment. The first goal simply means no gifts to businesses: once the authority sets the conditions of a lease, it charges what the market will bear for that lease.

The next two sections look at two examples of privatizations to see how resource-based SFWs get closer to the endowment model than most privatization efforts, but still fall far short of it.

*1. U.S. broadcast spectrum policy*

The broadcast spectrum is used by radio, television, cell phones, wireless internet, and so on—apparently with few direct environmental side effects. When you pay to access the broadcast spectrum, you pay partly for the company's provision of service, but you also pay for the slice of the broadcast spectrum they control. Their slice has value because with currently available technology the spectrum is a scarce resource. The company didn't create the broadcast spectrum. It didn't invent it. It didn't discover it. It controls the broadcast spectrum because the government gave it a lease. Although most governments nominally assert ownership of the broadcast spectrum,[17] in most cases, they charge little or nothing for leases to it.[18] The U.S. government, for example, gave away television-broadcasting rights largely in exchange for broadcasters' promise to run occasional public service announcements.[19]

Of course, companies with broadcast spectrum leases spend money. It costs money running a business provide the cell phone networks, television, radio, wifi, or similar things. They are equivalent to a young entrepreneur running a coffee house in a nice location where her wealthy grandmother pays the rent. Some of the money she makes is the return on her entrepreneurship, but all the value the flows form her location is a gift from grandma. The difference is huge. A 2003 study evaluated U.S. broadcast spectrum at $301 billion per year (more than one-eighth of government expenditure that year).[20] This *does not* include the value of that broadcasters add from their efforts and expenses. It's the pure rental value of the spectrum—the gift from grandma government. The revenue forgone would be enough to provide a dividend of $1000

17 In the United States for example, public ownership is asserted in (73d-Congress-of-the-United-States 1934), §301.
18 (Flomenhoft 2012), 100.
19 (Snider 2003), 12.
20 (Snider 2003), 12.

for every man, woman, and child in the United States every year from now on. Instead, from now on, this revenue will provide returns for the heirs of those who received the government's gift of the broadcast spectrum.

Many other common assets are treated like the broadcast spectrum. The government created the internet; the community makes it valuable; but private companies capture most of the revenue it generates. The government lends money to banks at low interest rates, and they lend it out to the rest of us at higher rates. The U.S. government spends enormous sums to bail out banks and other institutions during financial crises, but does not usually leverage those moves into permanent ownership of banks or anything else.[21]

*2. Alaskan Oil policy*

Clearly, Alaska's oil policy is closer to the endowment model than U.S. broadcast spectrum policy. Alaska have made money from resource privatization and taken steps to share part of that revenue with all current and future residents. But Alaska has fallen short of the endowment model in many ways. As mentioned above, the PFD is a small legacy, and barring a significant change, it is not likely to rise significantly.

The APF and PFD are small partly because Alaska receives a relatively small portion of the revenue from its oil exports. The state has received about one-third of the revenue generated by its oil exports. The other two-thirds have gone to private for-profit oil companies. Norway receives 78% of oil revenue, and still finds plenty of oil companies willing to drill.[22] Conditions are different in Norway than in Alaska, and it is not fair to assume Alaska could have done that well, but it is fair to say that Alaska could have raised a lot more money if it charged the market rate.

21 (Sherman 2009)
22 (Flomenhoft 2012)

The other reason that the dividend will have a relatively small impact on future generations is that Alaska devotes only a small portion of its oil revenue to the fund. As of 2010, only 18.3% of the state's oil revenue had been devoted to the APF.[23] One plan that was discussed in Alaska at the outset of the oil boom was to put *all* of the state's oil revenue into an SWF and spend only the interest, gradually reducing other taxes as revenue from the fund made them unnecessary.[24] Had Alaska done so and had it received two-thirds instead of one-third of oil revenues, all else equal the fund would now be 10 times their current levels. The APF would be more than $500 billion.[25] If the state devoted half of the returns to the dividend and half to government spending, the dividend would be about $6,000 ($24,000 for a family of four) and the state would have $20 billion to spend each year—far exceeding the state's budget of $12 billion in 2013.[26] Of course, all else would *not* have remained equal, and so it is not fair to say that this strategy would definitely have produced a fund this large, but it is fair to say that Alaska's fund and dividend could be several times larger than they are now.

Instead, the state gave itself an enormous tax cut at the expense of future generations by eliminating the income tax in 1980. Lower taxes, of course, are a benefit to for many of the people, but as then governor, Jay Hammond argues, the benefit of eliminating the income tax was felt mostly by the wealthiest Alaskans.[27] Additionally, it might not have been best for Alaska to devote all of its oil revenue to the APF. The state badly needed improvements to its educational system and its

23 (Erickson and Groh 2012)
24 (Moss 2012), 76, 86 n18.
25 Author's calculations assuming a population of 700,000 and a real return rate of 4 percent.
26 (Roberts and Solow 2003)
27 (Hammond 1996)

infrastructure at the time. These are also part of the endowment we leave for future generations, and they can be a more important than any financial legacy.[28]

In effect, by eliminating the income tax, the current generation of Alaskans is spending a temporary revenue stream on themselves, depleting a resource forever but leaving a fiscal cliff for future generations when the oil runs low. Similarly, living in the Persian Gulf, I get the impression that most hydrocarbon exporting nations will leave neither sufficient physical infrastructure nor sufficient financial savings to sustain their current level of development after the boom. These decisions represent a serious failure of today's leadership to be a good custodian of the people's common inheritance.

Alaska has also failed to apply to the model to most of the rest of its environment. Alaska has a few other resource taxes, but the model could be applied many more of Alaska's assets, such as land value. Probably the most significant way that Alaska differs from the endowment model is not in its failure to maximize revenue from the privatization of resources, but in its failure to take ownership of the environment as a system, and to protect it sufficiently. I'll talk about environmental issues later in this chapter.

## 19.4 Applying the model more widely

The rest of this chapter will dispel the following potential misconceptions as it explains the benefits of wider applications of the model.

1. People might think that the financial fund is the endowment.

28 (Rose 2008)

→ Actually, our common resources are the endowment. The establishment of a financial fund is only one of many things we can do with it.

2. People might think that resource endowments are inherently small or only for nations experiencing a resource boom.

→ Actually, the all nations have many extremely valuable common resources, most of them renewable.

3. People might think that getting revenue from resources naturally accompanies the irresponsible depletion of resources or degradation of the environment.

→ Actually, a resource endowment provides a coherent mechanism for more responsibly managing resources for the benefit of both current and future generations.

*1. It's not the fund it's the resources*

SWFs are financial endowments, but our nonfinancial endowments—physical resources—are far more important. The act of creating an SWF is not the *establishment* of an endowment; it is the *transformation* of a physical endowment into a financial endowment. Physical assets don't always have to be transformed into other forms to give people their highest value. As mentioned above, our parks, rivers, beaches, and public enterprises are parts of our endowment and they might already be in their highest value use.

The most important thing to learn from the resource-exporting polities is not that they have set up SWFs, but that they have stopped giving away resources for free and started demanding payment for at least some of the resources they privatize. Even the largest SWFs in the world represent a small and narrow model of the potential for a people's endowment, because they are made up entirely of financial assets, and they are usually based entirely on revenue from one or two resources, which are generally

not treated as part of a national endowment. The potential for all governments to build up SWFs is enormous and the potential for them to build up a common asset endowment beyond the financial SWF is even greater.

On average, from 1977 to 2010, 87% of the State of Alaska's government revenue has come from oil taxes, fees, and royalties.[29] Several resource-exporting polities (such as Norway, Qatar, the UAE, Kuwait, and Saudi Arabia) are also financing all or most their government spending from resource-revenue.[30] Citizens pay almost no taxes, and so are less defined by their role as taxpayers and more as owners of shared resources.

The most important thing we, the people, do by establishing the endowment is to assert *ownership* over our environment as a system. Currently, no one truly owns the environment. Individuals own parts of it, but no one manages or takes responsibility for the system as a whole. The obvious candidate is the government as representative of the people, but governments have not really asserted ownership. They regulate some uses of the environment here and there but not as part of a systemic plan to restore and maintain a healthy environment and the total value of the people's portfolio.

To see the natural resource base as the people's endowment is to see the natural resource base as our treasure. It has to be managed for the long-term benefit of the people—in every sense in which it benefits the people—and we have to consider future generations as owners of the environment as much as we are. We will bring them into existence, and so, any transformation of resources we do should be a net benefit to all of them as well as all those alive now.

29 (Erickson and Groh 2012), Table 3.1, 43

30 Qatar for example receives more than 70 percept of government revenue from hydrocarbons and another 10 percent from business taxes, much of which is directly or indirectly related to hydrocarbons. (International-Monetary-Fund 2010), table 13, p. 10.

*2. All nations are resource rich: the Vermont example*

This section argues we can apply the endowment model to nations not usually recognized as resource-rich.

This chapter does not discuss international justice. It assumes we're stuck with the nation state system and discusses what states can do. Perhaps someday international institutions will have the authority to employ some or all elements of the endowment model. If so, most of what I say here still applies, and our ability to address the ecosystem as a whole improves. I do not discuss the issue that some nations have more valuable resources than others, because it is not as pressing as how we use those resources. Difference in the size of the resource base explains why Yemen is less wealthy than Qatar but not why it is less wealthy than Singapore. The most important issues involving our resources are in how we use them, who we allow to own them, and how we allow them to cross borders. Better management of resources would not make all nations equally wealthy, but it would make the poorest and most unequal countries much better off.

The difference between what we usually think of as a resource-rich nation and what we think of as a resource-poor nation is that resource-rich nations are rich in the kinds of resources governments usually sell, and resource-poor nations are rich in the kinds of resources governments usually give away. All nations have enormously valuable resources, most of which are being privatized without any compensation to the people for removing them from the commons. For example, bottled water is just as much a resource as oil, but many companies take it out of the ground (or out of the

tap) at no charge, many paying no more taxes than non-resource-extracting companies located on similarly valuable real estate,[31] like another gift from grandma.

Another example is perhaps even more telling. The beach resort industry is—financially speaking—just as much a resource export as the oil industry. The beaches of many developing countries are dotted with—and sometimes dominated by—resorts. Yet, to the best of my knowledge, there are no beach-resort-real-estate dividends. Not only are taxes on resorts often low; sometimes governments offer corporate subsidies for their development. Resorts in the developing world are often owned and patronized by people from developed countries, offering little more than a few mostly low-paid jobs to the locals. This is exactly what the farmer in the original example would never do: closing off land that were once freely available; getting no revenue in exchange; sometimes paying people to take it over; sometimes for little more than the hope of employment.

How big is the potential for revenue from common assets? Gary Flomenhoft estimates the value of common assets in the "resource-poor" state of Vermont, including the following assets: air, wildlife and fish, public forests, groundwater, surface water, minerals, land value, wind, the broadcast spectrum, the internet, the financial system, and the monetary system. He finds the total rental value of these assets to be somewhere between 8.86 and 28.31% of Vermont's GDP. The wide range exists because of the difficulty of estimating the outcome of auction markets that don't yet exist.[32]

If Flomenhoft's low estimate is representative of the United States as a whole, common assets produced $1.28 trillion of revenue per year. If the higher figure is representative, the amount of rent available is $4.10 trillion—28.31% of the $14.5-

31 (Flomenhoft 2012), 96-98.
32 (Flomenhoft 2012).

trillion GDP of the United States. If half of that ($2.05 trillion) were used for government spending, it could fund 82% of the US government budget. The other half could fund a dividend of $13,300 per person per year, or $54,200 for a family of four.[33]

According to Mark Blyth and Eric Lonergan, the Bank of England, the European Central Bank, and the Federal Reserve already own assets in excess of 20% of their countries' GDPs.[34] That alone would make a good start: something in the neighborhood of $300 billion in the United States.

In one sense, it doesn't matter how much money there is in treating assets as the people's endowment. Whether it raises a little or a lot, we owe it to ourselves and our descendants to start thinking about our resources as our endowment, rather than squandering it for the benefit of the politically connected. We need to stop thinking that businesses need or deserve the gift of free resources just to induce them to provide services using those resources. If they can make money with otherwise common resources, they should pay the full market value for those resources.

*3. Our responsibility to future generations*

People are likely to ask two nearly opposite question about the idea of financial compensating future generations for what we do now. They could point to technology improvements and ask why we should we financially compensate future generations for anything when they will probably have far higher living standards than we do. They could point to environmental degradation and ask whether any amount of financial wealth can compensate future generations for the incredible damage we're doing now.

33 (Widerquist 2012b)
34 (Blyth and Lonergan 2014)

A. Finance and future generations

The question of whether we should financially compensate future generations is closely tied to a question of whether it is even possible for one generation to financially compensation another. One might argue that we can't financially compensate future generations, because they will have to produce all the goods they consume from the stock of natural resources, developed capital, and labor available at the time. Financial instruments are not resources; they are only claims to resources by one party against other parties living at the same time. Given this obvious fact, what does it mean to say that a financial endowment provides anything for future generations?

The key to the answer is that any generalization we make about future generations applies only to the average person, not to everyone. The unequal world we live in is—financially speaking—nearly opposite of Lake Woebegone: most of our children are below average. We need to compensate all financially below-average citizens for granting claims resources that create financially above-average citizens.

We need to take responsibility not only for the physical environment but also for the institutional setting that we leave our descendants. The ad hoc privatization system our ancestors left us creates an institutional setting that guarantees inequality. If we don't change, the wealthiest 1% of future generations will control most of the world's resources, because ad hoc privatization assigns *permanent* ownership of resources to some and not others. The beneficiaries of privatization will pass on the benefits of those resources to future generations, giving them greater claim to the natural resources, capital, and labor available than other members of their generation.

Future generations could rectify economic inequality using the government's power to tax and redistribute property that exists in their generation, but it is wrong of us to put them in the position where they have to do so and to create an institution setting making it so difficult for them to do so. Once a group obtains strong legal rights over specific resources, they gain both the motivation and the political power to protect that privilege. The income tax, the inheritance tax, and the capital gains tax all have powerful political enemies. The APF has no enemies. It's just a pool of publicly owned funds with a long established history as public funds. Even though it is an equalizing mechanism just as much a redistributive income tax, no one feels inhibited by its existence. If it did not exist, some wealthy people would own those assets instead. Established history would tell them it was theirs. They would feel the pinch of any tax meant to have the same equalizing effect as the APF, and they would have political power to resist those taxes.

Thus, the goal of a shared financial endowment is to bolster the income and wealth of those who would otherwise be born with fewer claims on resources in compensation for the privatization that would otherwise result in default inequality. The financial endowment will give all the members of future generations some claim on the wealth accumulation our economy will do between now. The endowment gives future generation greater political and economic leverage to distribute their production in ways that recognize everyone as free and equal citizens. Although we cannot compensate a future generation *as a whole*, we can compensate *the average person* for the privileges we bestow on the people we name as owners of property. And for this, the financial portion of the endowment works very well.

B. How can we compensate for environmental degradation?

If we leave future generations an unhealthy environment, there is nothing we can do economically or technologically to compensate for it. The environment we leave our descendants is as much a part of our legacy as the capital and knowledge base we leave them. It is as much theirs as it is ours.

We have to pass on a healthy environment, but it's unreasonable to think that no natural resources should ever be converted into consumption or investment goods. The environmental problem is not that we have made environmental tradeoffs. It is that we have avoided facing them for what they are. Even today environmental regulations tend not to be based on a careful examination of the costs involved. Some actions (such as chlorofluorocarbon emissions) are limited or prohibited; other actions (such as most greenhouse gas emissions) are allowed freely,[35] as if anything not prohibited imposes no costs on others. Any use of natural resources involves environmental tradeoffs that affect all current and future people. Environmental accounting—the effort to make these tradeoffs explicit—is still in its infancy, and little, if any, public policy around the world incorporates realistic appraisal of environmental tradeoffs.[36] Within a strategy to protect a healthy environment, it is these tradeoffs we compensate for. Estimating future environmental costs of present use is extremely difficult, and until we have better understanding, we need to err on the side of caution.

The endowment is a powerful tool to help because charging for something discourages its use. A simple application of Adam Smith's invisible hand theory[37] implies that users of resources will overexploit them unless they pay the environmental costs of their use. This is one reason for the rule that the *purchase*

35 (Hoffman and Wells 1989)
36 (Odum 1996); (Mathews 1997); (Owen 2008)
37 (Smith 1976)

*price* of any resource has to justify its use. Once we tie government revenue to the value of the resource endowment, we give government an incentive to put a high value on the resource base.

One might think that if we start charging businesses for resources, we will start privatizing even more of our environment to make more money. I want to argue that the opposite is true. Throughout history, resources have typically been up for grabs or given away by governments to crony capitalists. In either case, people have incentive to exploit resources to extinction.[38] There was no dodo dividend. The assertion of ownership over common resources provides the following three mechanisms to reduce the overexploitation of resources.[39]

1. The endowment encourages the community think like an owner. A demand for payment asserts ownership, and ownership confers rights to control and manage.[40] When private companies own the environment, any government action to protect it is "interference" with the powers that naturally flow from ownership. Once we establish the people as owners of the environment, government as custodian, and private companies as the hired help, environmental protections naturally follow from the people's ownership. If companies want to lease the people's resources, they have to follow the people's terms.

Ownership (whether public or private) is the solution to the tragedy of the commons. The term "tragedy of the commons" comes from theorized pastoralists who have an incentive to over-graze a common field that none of them owns.[41] One solution is to divide the field into private property, but another solution is to formalize

38 (Martin 2005); (Martin and Klein 1984) (Roberts and Solow 2003)
39 Adapted from (Widerquist and Howard 2012a)
40 The now-standard account of that we mean when we use the word "ownership" defines it as a bundle of 11 rights and duties (Honoré 1987), 161-192.
41 (Hardin 1968)

collective ownership, establishing an authority to set rules of access.[42] Agribusiness firms do not have incentive to overgraze their own fields or butcher their own herds to extinction; they do have incentive to overwhelm the common watershed with excessive cattle excrement, hormones, fertilizer, and other pollutants.[43] Establishing the people's endowment creates an authority to say this is people's watershed; these are the terms of access.

2. The endowment encourages the community to think like a monopolist, and to realize its price-setting power. This statement is less true of a resource like oil, which is sold a world market. But even the poorest countries have monopoly power over many valuable assets, including local real estate, the monetary system, and the broadcast spectrum. Monopolists don't sell all they can at the lowest prices. They restrict supply to obtain higher prices. Once we realize the enormous monopoly power the community has over access to the environment, it doesn't make sense for the people to unload their precious resources at bargain prices; it makes sense to hold them back to see how much money they can get.

3. The endowment encourages people to think not just like any monopolist, but like Johnny Carson. Who? In the 1970s and '80s, he was the highest-paid television entertainer in the world.[44] His command over a huge audience gave him monopoly power, which he used not just to demand more money but also to demand less work. His time was valuable. The wealthier he became from selling his time, the more time off he could afford. He restricted the supply of his time *beyond* the profit-maximizing point and enjoyed the non-market value of his time.

Currently the community's share of the revenue from privatization is so small that we don't feel like we can afford to hold any more back. Once start making companies

42 (Feeny et al. 1990)
43 (Williams and Hann 1978)
44 (McWhirter 1982)

pay for what they take out of the commons, we can realize the power over our environment Johnny Carson asserted over his time.

Compare two strategies for a country managing its beaches. Under the current strategy, politically connected corporations obtain the beaches at far less than their market value. Most the beaches become private resorts inaccessible to most citizens. Under the John Carson strategy, the people raise the price above the revenue-maximizing level, holding back a large amount of beachfront property to retain for common access, but making a very high rate on beaches they do privatize. A few private resorts dot the beaches, but large areas remain for public or for wildlife.

Our environment—left alone and unexploited—is the most important part of our endowment. We can have fewer smoke stacks, fewer drain pipes, bigger parks, cleaner air, a healthier environment, and make a higher rate of return on the resources we do exploit. We will leave our descendants in a better position both financially and environmentally. We aren't doing this now, partly because we don't have enough democracy, but also because we're not looking where the money is and not taking power over it.

## 19.5 Conclusion

This chapter has introduced the idea of a people's endowment, in which we establish the precedent that the people as a whole own the environment and the resources within it. It has argued that this strategy will help create an institutional structure that more fairly shares the benefits of our economy with—and better protects the environment—for all people, living today and in the future.

The people's endowment is better than the tax-as-you-go method of financing government expenditure because it alters the institutional structure toward greater

equality and responsibility. Default ownership in the current system is highly unequal creating leverage for the wealthy to resist tax-as-you-go efforts to combat inequality. Once the endowment is established, a high level of equality becomes the default. Businesses have to add value and pay for the resources they hold to make money.

The chapter has argued that the endowment will better maintain the environment for future generations because it focuses our attention on the environmental tradeoffs we make daily and because it gives the community greater power to set environmental rules.

The chapter has not argued for any specific level of public and private sectors. It has simply argued for how we should go about privatization of resources. This strategy does not necessarily imply a larger government sector. We should choose the mix of public and private uses of resources based on what is better overall for present and future people. We should privatize resources only if our environmental endowment is made more valuable by doing so, and only if private actors are paying enough to make privatization profitable for the community.

Of course, we need to make sure that the terms of use are loose enough to give people flexibility in the projects they will pursue as individuals with the resources they obtain. Access to resources needs to be open to all people on the same basis without discrimination. And everyone has to have access to enough resources to afford the basics of life. But anyone who holds resources must pay back to the community, and that payback must be enough to make their ownership a benefit for everyone else—now and in the future.

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