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A Permanent Endowment for the United States

Karl Widerquist



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In the opening chapter of this book, Michael W. Howard and I defined the “Alaska model” as a (1) resourced-based, (2) permanent endowment (3) used—at least partially—to fund unconditional cash dividends to all citizens or all residents. This chapter focuses on the second feature: the permanent endowment. Extrapolating from Gary Flomenhoft’s estimates for Vermont,¹ this chapter argues that the United States can create a permanent resource-based endowment that could finance both a substantial dividend and a significant portion of government spending, perhaps nearly *all* government spending. Of course, a major jurisdictional issue would appear if the state and the federal governments of the United States were to attempt to create an endowment out of the same resource revenue at the same time. This chapter does not address that issue, but readers should be aware of it.

Flomenhoft’s findings for Vermont give a rough idea of what resources might be available to build an endowment for the United States. Although Flomenhoft puts his data toward one specific use (estimating the potential size of a Vermont dividend), other equally interesting calculations, with broad implications, can be made from his findings. This chapter focuses on the most important of these: the percentage of GDP attributable to common-asset rent.

Flomenhoft estimates the rent on common assets including the atmospheric sink, wildlife, fish, forests, groundwater, surface water, minerals, the broadcast spectrum, wind (for wind power), land value, the internet, the financial system, and money creation.² His list of common assets is not exhaustive, but it is very extensive.

Flomenhoft's low estimate of total available economic rent in Vermont is \$2.02 billion, and his high estimate is \$6.45 billion.³ In 2005 Vermont's GDP was \$22.77 billion. Dividing the low and high figures by GDP gives a low and high estimate of the portion of Vermont's output that is being captured as rent: 8.86 percent and 28.31 percent respectively.

Flomenhoft recommends caution in using figures this way, because capturing many of the rents discussed in his article would involve a significant reorganization of the economy, such as creating a market for pollution tax credits where none exists today.⁴ It would take years to accomplish the goal of capturing these rents, and the amount of rent that the people could capture is difficult to estimate, which partially explains the large gap between the low and high estimates. But these are the best figures we have, and if we use them cautiously, they can give us some idea of the possibilities.

If Flomenhoft's figures for Vermont are representative of the United States as a whole, rents on common assets is between 8.86 and 28.31 percent of U.S. GDP. U.S. GDP was about \$14.6 trillion dollars today, or \$47,000 per person, in 2010.⁵ If the low estimate is correct, common assets can produce \$1.28 trillion of revenue per year. For simplicity assume half of it will go for a dividend and half for regular government spending. Of course, many other divisions of the returns are possible, but this short paper discusses only one obvious division.

Using half of that (\$640 billion) for the regular budget would cover 25 percent of U.S. government spending (\$2.5 trillion) or 91 percent of the U.S. military budget (\$698 billion).⁶ The other half would fund a yearly, per capita dividend of \$2,080, or about \$8,320 for a family of four, not enough to live on, but enough to make a serious difference in people's lives.

If the higher figure is representative, the amount of rent captured will be 28.31 percent of \$14.5 trillion, or about \$4.10 trillion. Half of that (\$2.05 trillion) could fund 82 percent of the U.S. government budget. The other half could fund a dividend of \$13,300 for every man, woman, and child in the United States or \$54,200 for a family of four. This dividend would eliminate poverty in the United States, make a big difference for the middle class, and make a difference even for many young members of the upper class.

Obviously, private individuals will have to pay these rents, but remember that those rents will be replacing existing taxes. People would be freed from complex and burdensome taxes with simple rents that are much simpler to calculate and pay. Rent financing also comes with an efficiency-improving side effect: if you don't like paying resource rents, use fewer resources. Such a system charges people who use (and use up) more of our common heritage and reward people who use less.

It is possible that a basic income of \$13,300 could replace much current government spending aimed at maintaining people's incomes. If the dividend can replace 18 percent of government spending, it is possible that a resource endowment at this level could fund the rest of the U.S. budget at the same time that it funds a basic income of \$13,300.

Again, the exact size of the possible endowment is uncertain because it is hard to estimate the price of goods that are currently given away. These estimates give only

a tentative indication of how big the possibilities are. We won't know exactly how large the resource endowment can be until we begin creating one. But before concluding, I will argue that, large or small, some endowment is better than none.

The government should have taxes if they are necessary, but if they aren't necessary, who wants them? If the government had a rent-producing stock of wealth (a sovereign wealth fund like Alaska's Permanent Fund Dividend and/or government-owned resources rented out to private individuals), some portion of taxes would no longer be necessary. The government might have some equality-based goals for taxing higher incomes more than lower incomes, even if resource taxes are in place. However, this goal might be achievable through resource taxes as well, if resource taxes are being imposed on previously privatized resources as well as newly privatized resources. Private resource ownership, especially ownership of income-producing resources, is as unequal as income. Taxing these resources might achieve some or all of the increased equality that progressive income taxes are supposed to achieve.

It is much easier to pay rent for the resources you use than to deal with complex accounting rules that cost corporations billions of dollars per year to avoid. For example in 2010, the Alaska state GDP was \$49.1 billion.⁷ State government revenue was \$10.5 billion.⁸ Therefore, the state's "tax burden" for Alaskans was 21.4 percent. But if you ask most Alaskans whether their state's tax burden, they will probably say that they have none: the state government supports itself. The state has revenue because the state owns the North Slope's mineral rights. Individuals support the government's endowment by refraining from owning the North Slope's mineral rights, but there are many things that individual Alaskans don't own. They don't own what Shell, BP, or Exxon-Mobile either, but they hardly feel like they support these

companies by refraining from owning what they own. They don't own Harvard, Yale, or Stanford universities' endowments, but they don't feel like they support those institutions. No one supports an endowment; it makes its own money through rent and sales.

The land, atmosphere, and water of this planet belong no more to anyone of us than to all of us. These assets, (along with jointly created assets, such as our monetary system) constitute a commons from which we can build an endowment. Many progressive policies are just as feasible, if not more feasible, by a government that has a permanent, asset-based endowment than by a government that relies on revenue from taxes on incomes and other sources.

Many private institutions, even nonprofits such as universities, start with a small endowment that grows on average every year. Governments seem to do the opposite: they allow our commons to shrink every year, and have no lasting endowment to show for it. Almost all the land and minerals of the United States were once owned in the name of the people by the U.S. federal government. Of course, the United States obtained those assets through sometimes-nefarious purchases, cessions, and seizures from other organized governments or from native peoples with and without organized governments. But what concerns me here is not that wrong but the less-discussed wrong of what happened next. The government did not distribute those resources consistently with equality, equal opportunity, merit, finder-keepers, or any other reasonable principle of justice. It didn't sell or rent them to the highest bidder for the maximum benefit of the people, as Alaska's constitution would have it. It gave away its potential endowment, often to the politically connected.

Twenty years ago, Russia had a similar opportunity with the enormous commons the people had just reclaimed from the Soviet dictatorship. But state assets

quickly went into the hands of political insiders, who gave the people little or nothing in return. All around the world, new mines open, forests are destroyed, and new pollution goes into our air and water; our commons shrinks and the people receive nothing for it. A shift from income, sales and property taxes to a permanent endowment based on common asset rents can reverse this trend and relieve the most burdensome forms of taxation.

¹ Flomenhoft, this volume.

² Flomenhoft, this volume, p. XXX to XXX.

³ Table XXX, Flomenhoft, this volume, p. XXX.

⁴ Gary Flomenhoft, personal correspondence.

⁵ World Bank 2012.

⁶ World Bank 2012.

⁷ Usgovernmentrevenue.com. Web. January 11, 2012.

⁸ Groh this volume.