

# The Remedy to All Economic Inequality

A presentation on the economics of Henry George and Silvio Gesell

“If you receive income without creating wealth, someone else is creating wealth without receiving income.”

The Silvio Gesell Institute

# Bandages

- ▶ Housing
  - ▶ Rent control
  - ▶ Zoning
  - ▶ Blocking AirBnB
- ▶ Employment:
  - ▶ Minimum wage
  - ▶ Daily and weekly work hour limits
  - ▶ Overtime pay
  - ▶ Unionization
  - ▶ Mandatory Employment Insurance
  - ▶ Workplace safety requirements



An aerial photograph of a vast, flat landscape under a sunset sky. A dirt road winds from the foreground towards the horizon. The land is covered in green and yellow grass. Several small, dark shapes, likely cows, are scattered across the fields. The right side of the image is partially covered by a series of overlapping, semi-transparent green geometric shapes. The word "Land" is written in a green, sans-serif font on the left side of the image.

Land



# Ethics: Labour Theory of Property

- ▶ Proponents
  - ▶ John Locke
  - ▶ Henry George
- ▶ Theory
  - ▶ Body sovereignty: you own your body
  - ▶ You own your energy
  - ▶ You own the produce of your energy (the fruits of your labour)
  - ▶ Ownership is legitimate for that which was produced by one's labour
- ▶ Issue
  - ▶ This is a just form of property rights
  - ▶ These rights are violated in today's society
  - ▶ Taxes on labour, trade, and wealth

# But how else do we fund government spending?

- ▶ What is government?
  - ▶ An organization within society
  - ▶ Tasked with the mandate of being the custodian of the commons
  - ▶ Solves the issue of the Tragedy of the Commons
- ▶ What is the commons?
  - ▶ Owned by everybody
  - ▶ Individual ownership of it would go against the labour theory of property
- ▶ Examples:
  - ▶ Land (Spacetime)
  - ▶ Natural resources
  - ▶ Electromagnetic Spectrum
  - ▶ Others?

# But how else do we fund government spending?

- ▶ Land is required for wealth production
  - ▶ Individual control over land and its productivity is most efficient (markets)
  - ▶ However, individual control over something unowned is theft
- ▶ Solution:
  - ▶ Compensation
  - ▶ Land is worth a certain amount of money per year (rent)
  - ▶ Pay this rent back to society as tax
- ▶ This is called a Land Value Tax
  - ▶ This tax gets redistributed to society in the form of government spending
  - ▶ No taxes on labour and wealth are required

# Land is not the fruit of one's labour

- ▶ Land is not created by anybody
- ▶ It belongs to nobody and to everybody
- ▶ When we “buy” land, we are essentially buying the right to exclude the rest of society from that land
- ▶ Land has ongoing value
- ▶ Land is inherently worth a certain amount of money per year
- ▶ Its value cannot be captured by a one-time sale





A white calculator is positioned on the left side of the slide, resting on a document. The calculator's display is dark, and its buttons are clearly visible. The background of the slide is white, with a large green geometric shape on the right side. The title 'Tax what you want to reduce' is written in a green font at the top right.

# Tax what you want to reduce

- ▶ Tax income: get less income
- ▶ Tax sales: get less consumption
- ▶ Tax corporations: get less entrepreneurs
- ▶ Tax buildings: get less housing developments
- ▶ Tax negative externalities: get less negative externalities (we'll get to this)
- ▶ Tax land...

# Can't get less land



Land doesn't get up and walk away



When you tax land, it doesn't get reduced



Taxing land doesn't produce market distortions



Land cannot be hidden away in a tax haven



“But how can we get the same tax revenue from land that we used to get from all of the other taxes that we'd be removing?”

# All Taxes Come Out of Rent (ATCOR)

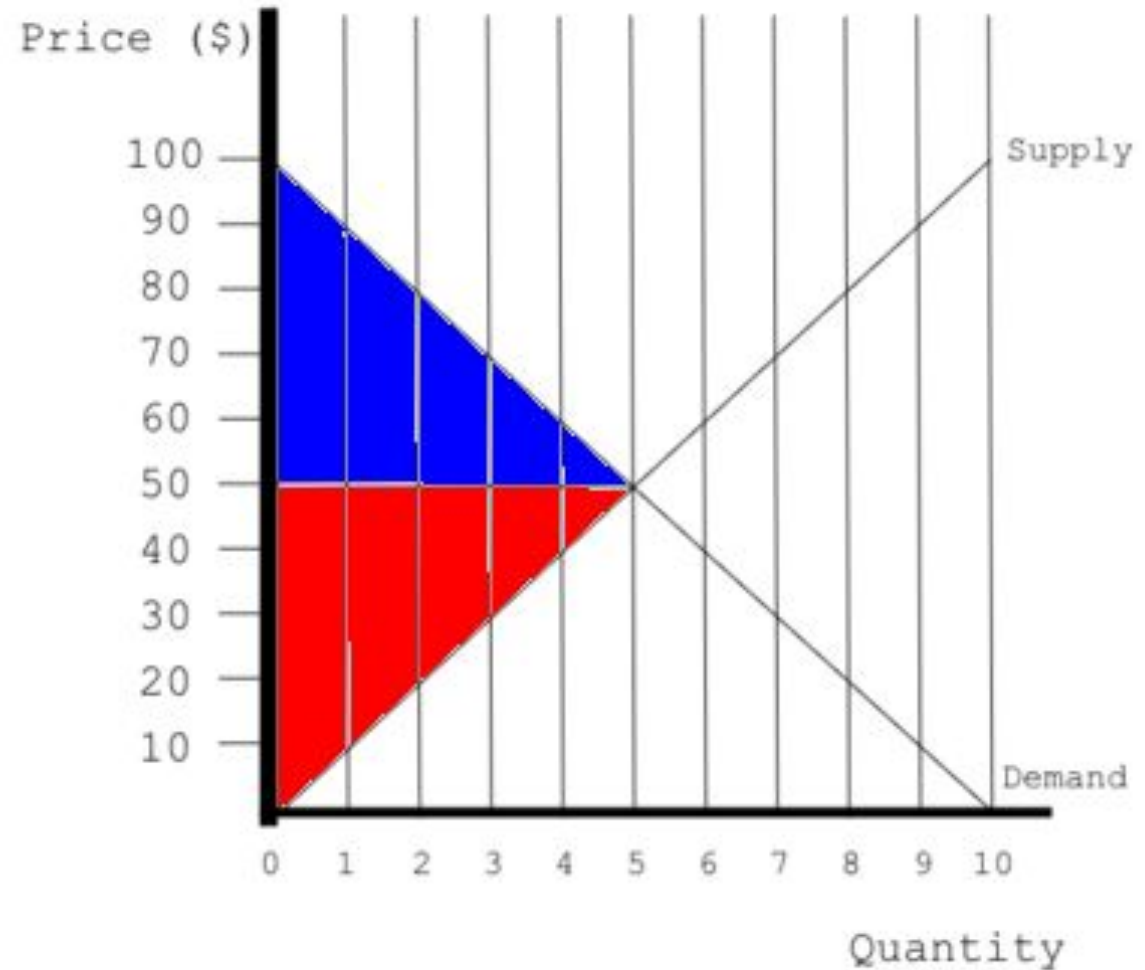
- ▶ When you tax labour or capital
  - ▶ People get poorer
  - ▶ The poorer people are less able to pay rent
  - ▶ Rents drop
- ▶ When you don't tax labour or capital
  - ▶ People get richer, rents rise...
  - ▶ And we can tax all of that rent





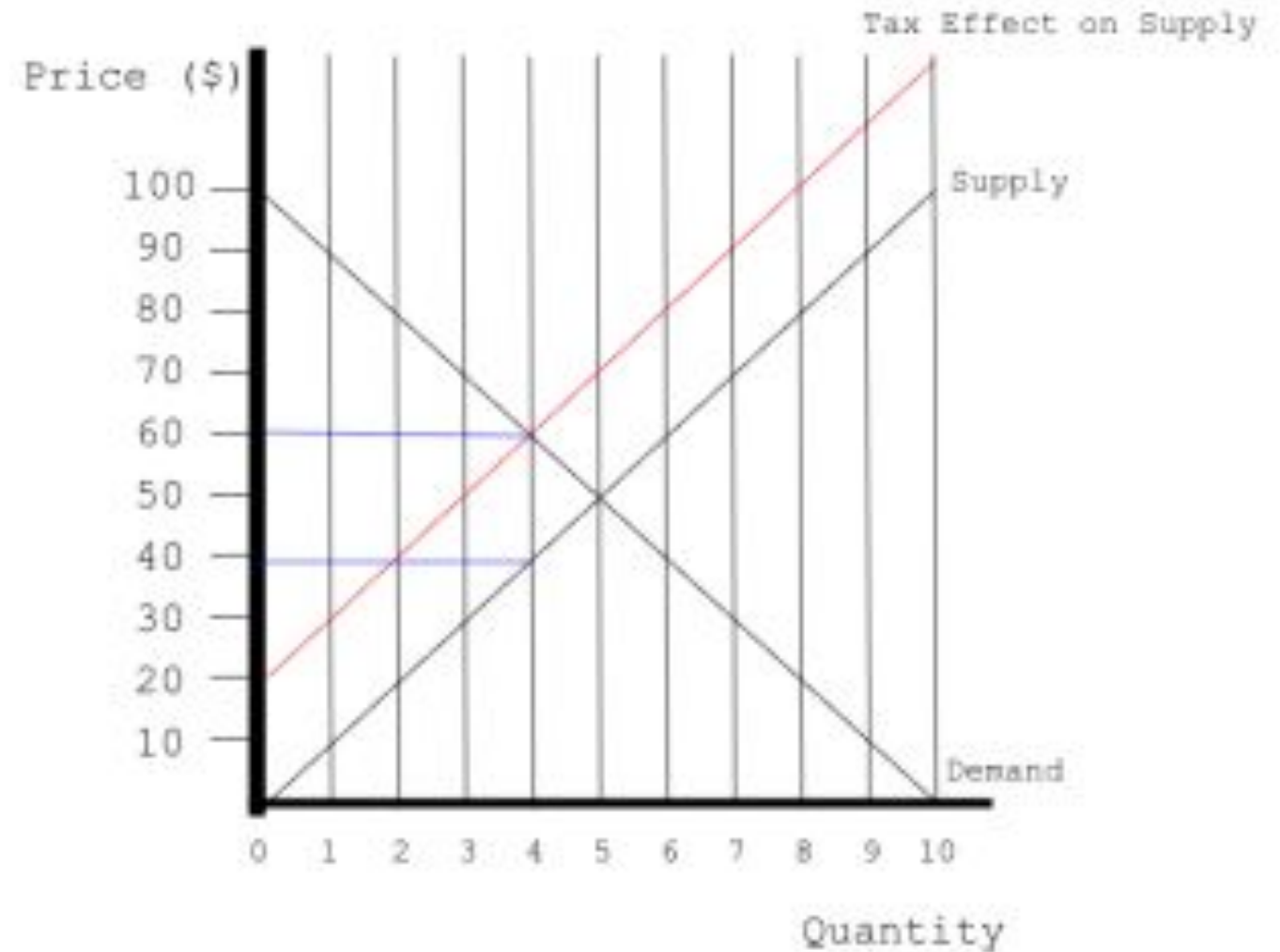
# Excess Burden Comes Out of Rent (EBCOR)

- ▶ All taxes that tax productivity create deadweight loss
- ▶ Taxing productivity instead of land
  - ▶ Generates *less* income
  - ▶ Makes life *more* expensive
- ▶ <https://bluerepublik.wordpress.com/2019/07/31/welfare-economics-of-the-land-value-tax/>



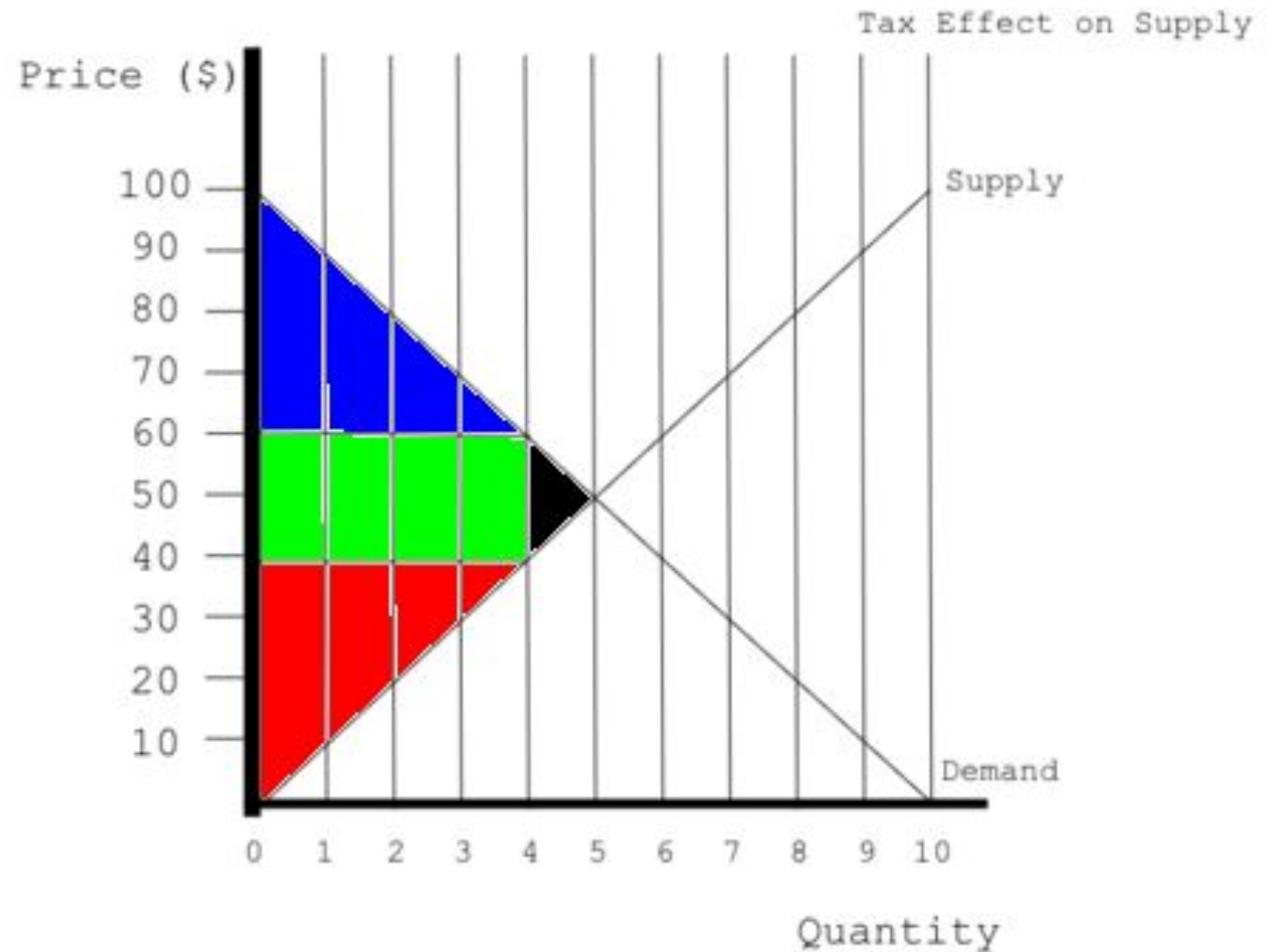
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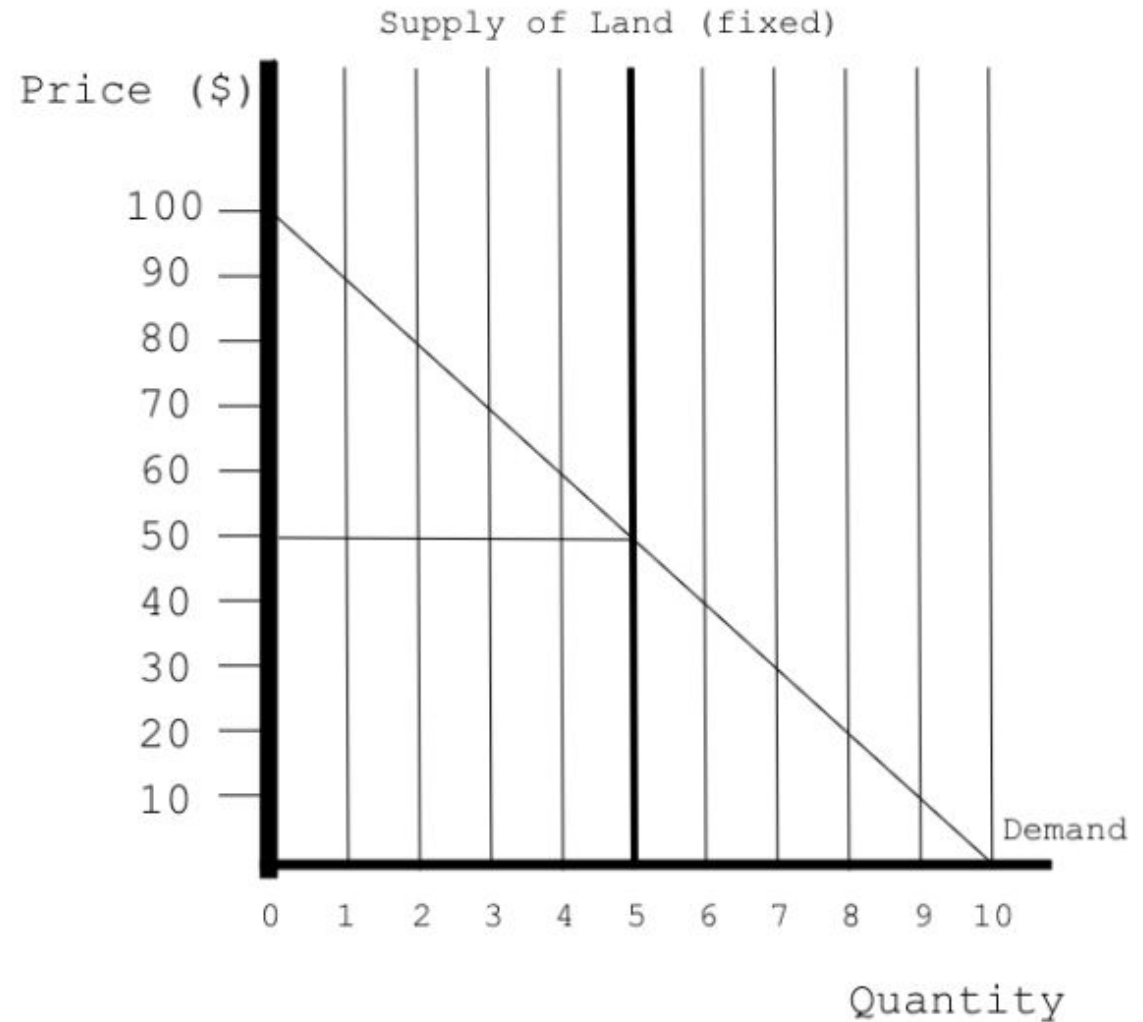
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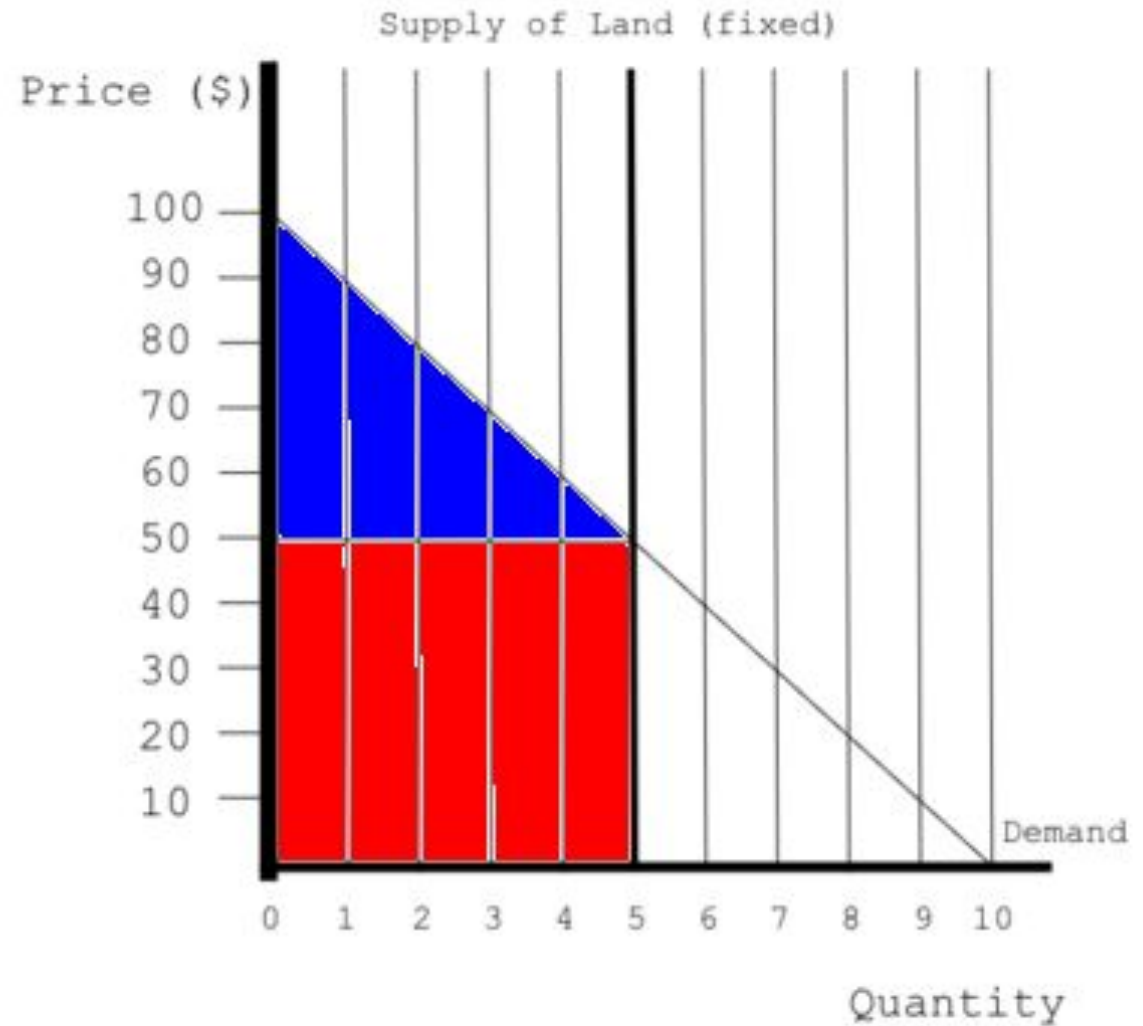
# Supply and demand curve for LVT

- ▶ Land has fixed supply
- ▶ Value of land is solely determined by the demand curve
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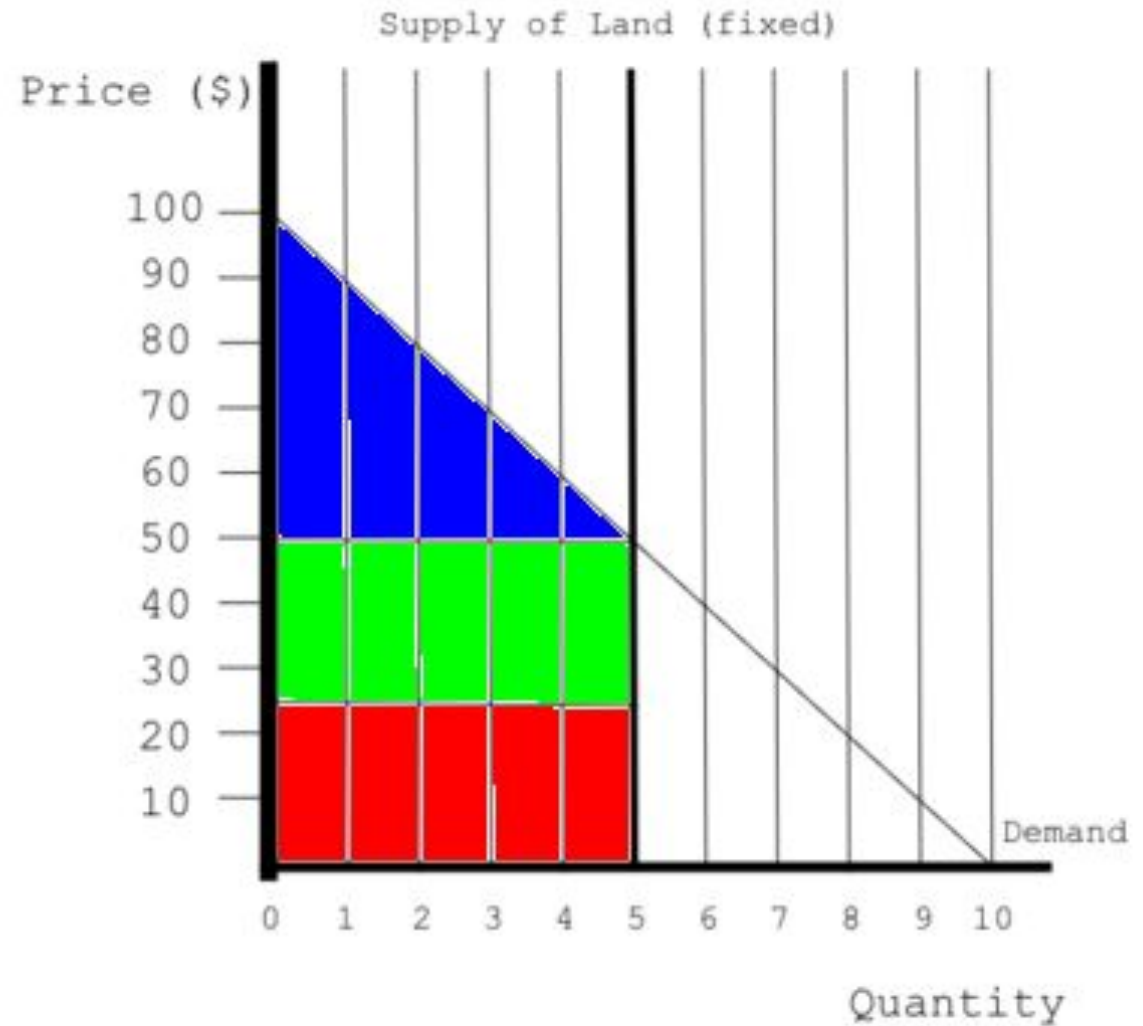
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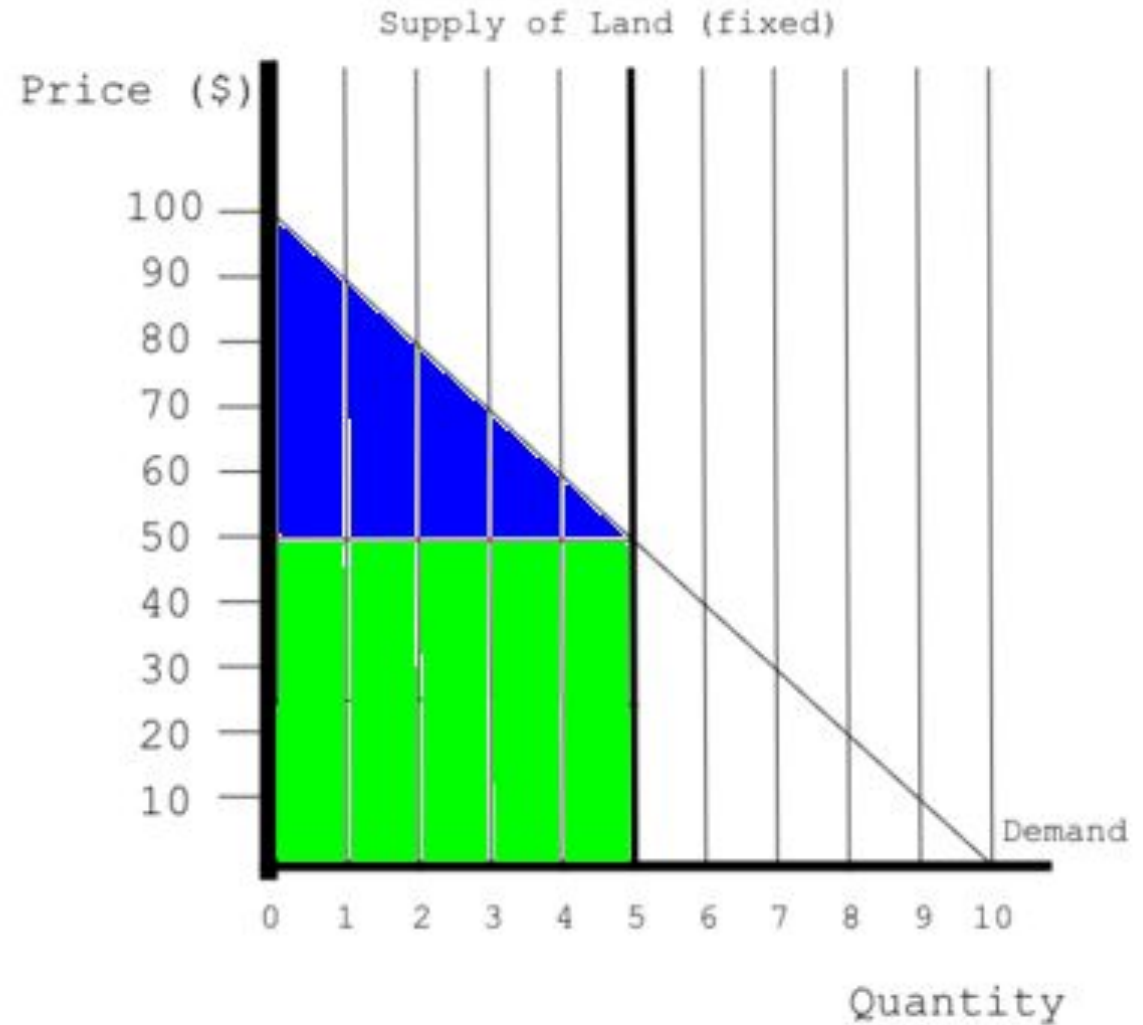
- ▶ Graph on the right shows the effects of a 50% LVT on the value of land
- ▶ <https://bluerepublik.wordpress.com/2019/07/31/welfare-economics-of-the-land-value-tax/>






# Supply and demand curve for LVT

- ▶ There's nothing stopping us from raising this to 100%
- ▶ Taxing the full value of land doesn't produce deadweight loss
- ▶ <https://bluerepublik.wordpress.com/2019/07/31/welfare-economics-of-the-land-value-tax/>





# What about property tax?

- ▶ Property tax is a combination of two taxes
    - ▶ Land Value Tax
    - ▶ Building Value Tax
  - ▶ When we tax buildings, we get
    - ▶ Less development projects
    - ▶ Less housing
  - ▶ So let's not tax buildings
  - ▶ “But how do we calculate what the LVT should be for every plot of land?”
- 

A photograph of a wooden desk with a silver calculator, a pair of glasses, and a document. The document features a bar chart, a line graph, and two tables of data. The bar chart shows values increasing from January to June. The line graph shows a fluctuating trend. The tables list monthly data for two series, labeled 'Series 1' and 'Series 2'.

## Calculating the LVT - centralized method

- ▶ Have a government agency or a set of independent companies assess land values
- ▶ Pros:
  - ▶ Easy to understand and implement
  - ▶ Land assessors already exist
  - ▶ Assessing land is much easier than assessing both land and improvements
- ▶ Cons:
  - ▶ Assessors must be hired
  - ▶ Potentially inaccurate, depending on how the assessors calculate the land value, and what data sources they use





# Calculating the LVT - market mechanism

- ▶ Use the market mechanism for land value discovery
  - ▶ Plots of land will be valued using auctions whenever an owner decides to relinquish ownership
  - ▶ If land is empty
    - ▶ Auction land
  - ▶ If land isn't empty
    - ▶ Auction improvements
    - ▶ Determine land value from nearby land auction data
- ▶ Pros:
  - ▶ Market mechanisms distribute the computational cost, making them inexpensive and accurate
- ▶ Cons:
  - ▶ Harder to understand and implement
  - ▶ Might lose accuracy in regions where ownership transfers haven't occurred in a long time
  - ▶ Land value is determined by proxy



# Why we're in a housing crisis

- ▶ Landowners:
  - ▶ Unfairly benefit from positive externalities
  - ▶ Block development projects with negative externalities (NIMBY)
    - ▶ High-density housing
- ▶ This is incentivized by the current system
- ▶ Since land is sold at a one-time price:
  - ▶ Negative externalities will lower that price (which the landowner calls unjust)
  - ▶ Positive externalities will raise that price (which the landowner welcomes, but is just as unjust)



# How LVT solves the housing crisis

- ▶ Positive externalities raise your taxes to compensate society fairly for providing you a service
- ▶ Negative externalities lower your taxes to compensate you fairly for having a disservice done to you
- ▶ Whether new developments in your neighbourhood affect you positively or negatively, you're indifferent towards them

# For a fair and just society

- ▶ Let everyone keep the fruits of their labour
  - ▶ End all taxes on productivity
- ▶ **Tax should be a mechanism for returning to society what was taken from society**
  - ▶ Land
  - ▶ Other land-like things
  - ▶ Anything else society actually wants to reduce (negative externalities)
- ▶ The collected tax gets spent on supporting the state's programs
- ▶ Whatever amount is left gets returned to the people (Citizen's Dividend)





# Things that society may want to tax

- ▶ Land
- ▶ Land-like resources
  - ▶ Natural resources
  - ▶ IP
- ▶ Negative externalities (Pigouvian taxes)
  - ▶ Environmental degradation
  - ▶ Sin



# Natural resources

- ▶ Natural resources are not the product of labour
- ▶ Severance taxes compensate for the appropriation of resources
- ▶ The state should use market mechanisms like auctions for:
  - ▶ Exploration contracts
  - ▶ Severance taxes to assign extraction rights





# IP

- ▶ Many Georgists believe that IP, especially patents, has land-like properties
- ▶ Many patents are filed solely to extort large licensing fees from those who would actually like to use those patents to produce goods
- ▶ Knowledge should not be withheld from anyone
- ▶ Knowledge discovery should still be incentivized
- ▶ Both of these things can be accomplished by using a Harberger tax





# Environmental degradation

- ▶ Environmental degradation is a negative externality
- ▶ Many Georgists and non-Georgists believe that society should get compensated for this
- ▶ Different forms could be:
  - ▶ Tax on carbon emissions (carbon tax)
  - ▶ Tax on water pollution
  - ▶ Tax on deforestation (possible mix with severance tax as well)
  - ▶ Tax on landfills, garbage, and/or single-use plastics



# Sin

- ▶ A sin tax is a tax on any goods or services deemed harmful to or a burden to society
- ▶ Examples of these goods and services could be:
  - ▶ Drugs (tobacco, alcohol, or others)
  - ▶ Sugar
  - ▶ Gambling
- ▶ Tax revenue could be used to support social services that are burdened by these goods and services, such as health care services

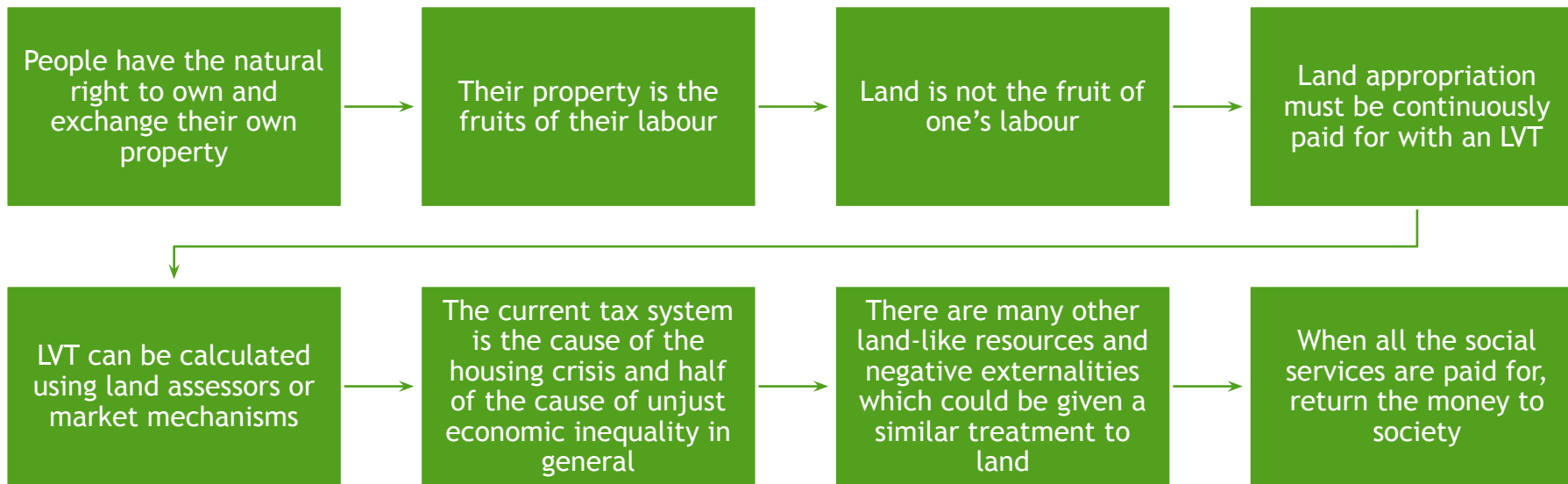
# Citizen's Dividend

- ▶ The amount of tax revenue collected is not dependent upon the financial needs of the government
- ▶ The government should always strive to not spend more than they're earning from taxes
- ▶ Any left-over money should be returned to society
- ▶ Since the LVT is compensation paid to society for the appropriation of land, it is society that should get what remains of the tax revenue once social services are paid for
- ▶ This is called the Citizen's Dividend





# In summary



Money



# The division of labour

- ▶ Humans are social creatures
- ▶ Humans divide labour in order to specialize
- ▶ Adam Smith's pin factory
- ▶ The more humans congregate:
  - ▶ The deeper they can specialize
  - ▶ The more they all profit from the produces of the specialization
- ▶ Specialization requires trading in order for everyone to survive
  - ▶ Trade is therefore a public good
  - ▶ Society must be structured in such a way as to facilitate trade
- ▶ Trading requires money to solve the "coincidence of wants" problem
  - ▶ Money is therefore a public good
  - ▶ Money needs to be in a form such that it in no way hinders trade
- ▶ Today's money has a feature which hinders trade:
  - ▶ Interest

# Interest

- ▶ "If you receive income without creating wealth, someone else is creating wealth without receiving income."
- ▶ Main questions about interest:
  - ▶ Where does interest originate from?
  - ▶ Is interest natural?
  - ▶ What are the effects of interest on the economy?
  - ▶ How do we get rid of interest?
- ▶ Interest has many components:
  - ▶ "Pure interest"
  - ▶ Risk premium
  - ▶ Adjustment for inflation
  - ▶ Administrative costs

# Where does interest originate from?

- ▶ Productivity theory: interest is the return on capital
  - ▶ Causality is backwards
- ▶ Time preference theory: preference for present money over future money
  - ▶ Same as productivity theory, causality is backwards
  - ▶ Additionally considers the risk premium
- ▶ Abstinence theory: interest is the reward for forgoing spending
  - ▶ People don't always spend all they have, sometimes they look to save instead
- ▶ Liquidity preference theory: people have a demand for liquidity
  - ▶ Same as abstinence theory, people only need so much liquidity
  - ▶ Same as time preference theory, considers the risk premium
- ▶ Gesell's theory: interest arises due to the hoardability of money



# Hoardability of money

- ▶ Goods and services depreciate
- ▶ Money does not (ignore inflation for now)
- ▶ People prefer holding hoardable money
- ▶ This preference is manifested as interest

# What is money?

- ▶ Solves the "coincidence of wants" problem
- ▶ Various functions:
  - ▶ Unit of account
  - ▶ Medium of exchange
  - ▶ Store of value
- ▶ Last two functions are contradictory
  - ▶ More hoardable = better store of value
  - ▶ More hoardable = worse medium of exchange
- ▶ Our main medium of exchange should not be our main store of value

# Is interest natural?

- ▶ In barter economies, pure interest does not exist
- ▶ Borrowing an item provides a service for both the borrower and lender:
  - ▶ Borrower gains access to needed goods
  - ▶ Lender is able to perfectly preserve his goods into the future
- ▶ Lenders are essentially savers
- ▶ Interest rate is 0% because goods depreciate

# What are the effects of interest on the economy?

- ▶ Barrier to entry for starting a business
- ▶ Less competition
- ▶ Raised cost of products
- ▶ Lower negotiating power for labour and lower wages
- ▶ Unemployment and homelessness



# How do we get rid of interest?

- ▶ Current method: inflation
  - ▶ The longer you hoard money, the more value it loses
  - ▶ Inflation constitutes a transfer of wealth:
    - ▶ From lender to debtor
    - ▶ From employee to employer
  - ▶ Nobody likes inflation
  - ▶ In order to curb inflation, we raise interest rates
    - ▶ Raised interest rates slow the economy down
    - ▶ Slowed economy lessens inflation by increasing unemployment
  - ▶ When economy gets too slow, interest rates are lowered
  - ▶ Inflation rises again
  - ▶ This is the modern day business cycle
- ▶ There is a better way

# Demurrage

- ▶ Demurrage: money directly depreciates over time
  - ▶ Money depreciates like all goods and services depreciate
  - ▶ Money doesn't hold an advantage over regular goods and services
- ▶ Like inflation:
  - ▶ This depreciation directly counteracts the incentive to hoard
- ▶ Unlike inflation:
  - ▶ Prices remain stable
  - ▶ This doesn't constitute a transfer of wealth
- ▶ Because there are no negative side-effects, demurrage never needs to let up
  - ▶ Interest rates won't ever need to rise
  - ▶ No boom-and-bust cycle needed
- ▶ Interest is effectively eliminated

# The quantity theory of money

- ▶  $P = MT/V$ 
  - ▶  $P$  = Price level (average price index within a period)
  - ▶  $M$  = Money supply (amount of money in circulation within a period)
  - ▶  $T$  = Total value of all transactions of goods and services within a period
  - ▶  $V$  = Velocity of money (average speed of money being transferred within a period)
- ▶  $T$  is independent
- ▶ Demurrage controls  $V$ 
  - ▶  $V$  is busy holding down the interest rate
- ▶ If  $T$  is shocked,  $M$  can be adjusted to keep  $P$  stable
- ▶ Two main economic levers:
  - ▶ Demurrage rate
    - ▶ Adjusted to maintain a 0% interest rate
    - ▶ Should be very stable across time
  - ▶ Money supply
    - ▶ Adjusted to absorb economic shocks in  $T$  in order to keep  $P$  stable

# The components of interest

- ▶ ~~"Pure interest"~~
- ▶ Risk premium
- ▶ ~~Adjustment for inflation~~
- ▶ Administrative costs



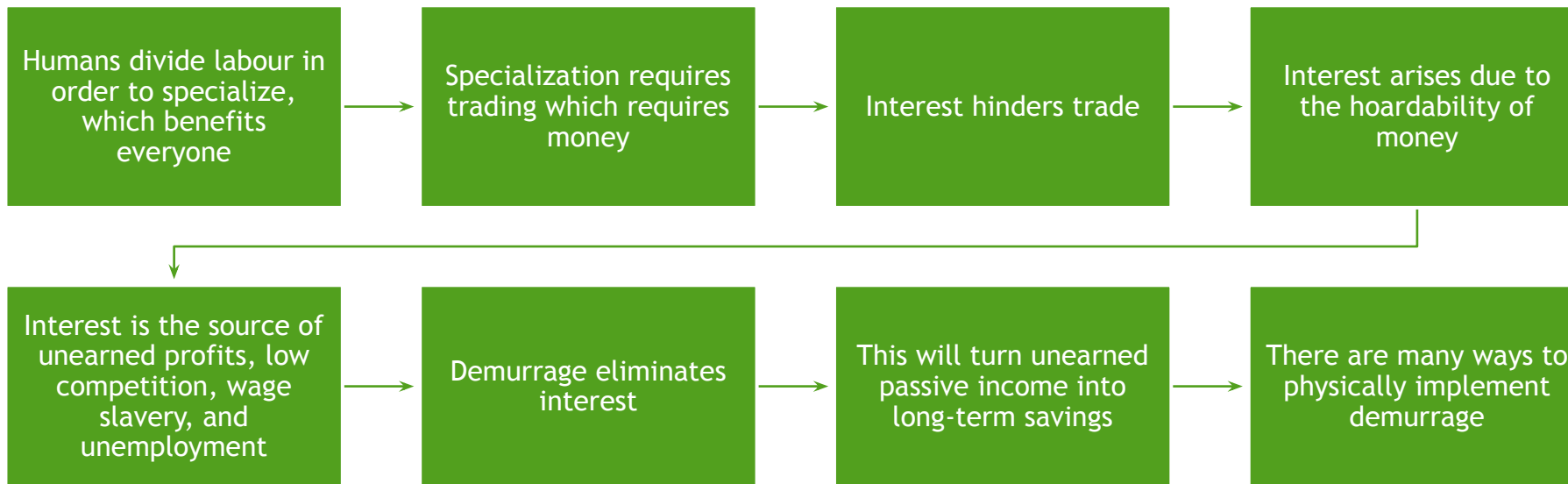
# Effects on the economy

- ▶ Removes barrier to entry for starting a business
- ▶ Immediately increases competition
- ▶ Lowers cost of products
- ▶ Raises negotiating power for labour and lower wages
- ▶ Removes the need for unemployment and homelessness
- ▶ People no longer make passive income through investments (on average)
  - ▶ Rate of return on investments is determined by the interest rate
  - ▶ Rate of return would be 0%
- ▶ How do people save money if their money is depreciating?
  - ▶ The medium of exchange should not be the store of value
  - ▶ Let the medium of exchange be used for its designed purpose
  - ▶ Literally everything else in the world is available as a store of value
  - ▶ A store of value was just described above (0% average return mutual fund)

# Implementations for demurrage

- ▶ Stamps:
  - ▶ Used historically
  - ▶ Stamps worth a certain percentage of the bill were bought and stamped to the bills every month
  - ▶ Bills that were not stamped were outdated, so they were worth less
  - ▶ A bit inconvenient for the modern age
- ▶ Electronic
  - ▶ Money will be digital, and will depreciate continuously
  - ▶ Digital cards and wallets will let people spend money
  - ▶ Blockchain technology can be used to introduce security and anonymity
  - ▶ Convenient for the modern age
- ▶ Timestamped bills:
  - ▶ Bills come with timestamps, and their value is calculated based on how old they are
  - ▶ Requires phone app or calculator to judge bill values
- ▶ Two currencies
  - ▶ Contract currency is price stable
  - ▶ Physical currency inflates
  - ▶ Contract currency is converted to physical currency by multiplying by inflation factor

# In summary



Questions?

