

Common Wealth Rent and Common Wealth Basic Income

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Introduction

Basic income can be viewed as a policy that distributes revenue from the common wealth equally to all based on everyone's equal rights to the common wealth.

In this paper, after a theoretical review of common wealth and common wealth rent, we will examine the need for a common wealth dividend.

We use 'common wealth' and 'commons' interchangeably. We also use 'common wealth basic income', 'common wealth dividend' and 'commons dividend' interchangeably.

Common wealth

Common wealth (commons) can be defined empirically as "assets or resources that are socially agreed to belong to all members of a community" or normatively as "assets or resources that should belong to all members of a community".

In this paper, we adopt the normative definition. The reason is that there are cases where it is justified and efficient to transform something into common wealth, even if it actually exists in the form of private wealth.

Natural and social common wealth

We assume that we can agree behind the veil of ignorance on the principle that an asset should not belong to a single person unless it was created only by that person's labor or contribution. Applying this principle, there are three types of common wealth:

① Natural common wealth created by nature, not by human labor. Land, natural resources, environment, and ecosystems.

② Social common wealth, which is created by a large number of people in the current generation or previous generations and is not justified to be owned by a specific person. Language, institutions, knowledge, data, social capital, social infrastructure, and public institutions.

③ Social common wealth that belongs to everyone, even if it was created by a specific person, due to a gift or patent expiration. Tim Berners-Lee invented today's Internet (WWW), but his donation made it a social commons.

In this paper, we will focus on natural wealth.

Traditional classification of assets and common wealth

<Table 1> Classification of goods or assets based on rivalry and excludability		
	non-rival	rival
excludable	public goods	common pool resources
non-excludable	club goods	private goods

Common wealth is different from public goods. Common wealth can fall into all four categories in Table 1.

For example, land. Public land, private land, community land, golf club land.

Inappropriateness of the concept of 'rivalry' for common wealth

Consider a fish caught from a lake in a village. This fish is rival because if one person eats it, no one else can eat it. However, if the lake is abundant with fish, there is nothing stopping someone else in the village from catching and eating another fish of the same kind. Focusing on the lake, one person's consumption of fish in the lake does not constrain another person's consumption of fish.

Another way to look at it is that it's not the specific fish in the lake that people enjoy, but the service that the lake provides: a supply of fish. The role of the lake is similar to that of the road. The lake is performing the service of supplying fish, and the question of economic importance is whether this service is abundant enough to be enjoyed by everyone in the village.

‘Excludability’ is an institutional concept

Excludability occurs when people can be prevented from consuming something by not paying for it or by not being a member. Excludability is driven by institutional rather than physical properties of the good. Privately owned resources are excludable, unowned resources are not, and publicly owned resources depend on government decisions.

For example, knowledge is not excludable on its own, but it becomes excludable when a system of intellectual property rights is introduced. The ocean is non-excludable, but it becomes excludable when fishing rights are assigned to fishermen.

However, ownership is not a sufficient condition for excludability. To become excludable, technologies must be developed that allow exclusion at an affordable cost. And the benefits of exclusion must outweigh the costs.

Since most natural cavities can be made both excludable and non-excludable, categorizing cavities by excludability is not very helpful in understanding the nature of natural cavities.

Relative scarcity/ relative abundance

For this reason, we will modify the concept of rivalry to apply to common wealth. We will call it relative scarcity/relative abundance to avoid confusion with the concept of rivalry used to categorize goods.

A common wealth with relative scarcity is defined as a common wealth for which the marginal cost of providing (harvesting) the service to satisfy current demand is increasing. A relatively abundant common wealth has a zero or constant cost of providing (harvesting) the service. In the previous example, fish in a large lake are not relatively scarce because the second consumer's cost of fishing is the same as the first consumer's cost of fishing.

A common wealth that is only available to a group of the population can be thought of as having infinitely increasing marginal cost for the rest groups of the population, and so relatively scarce.

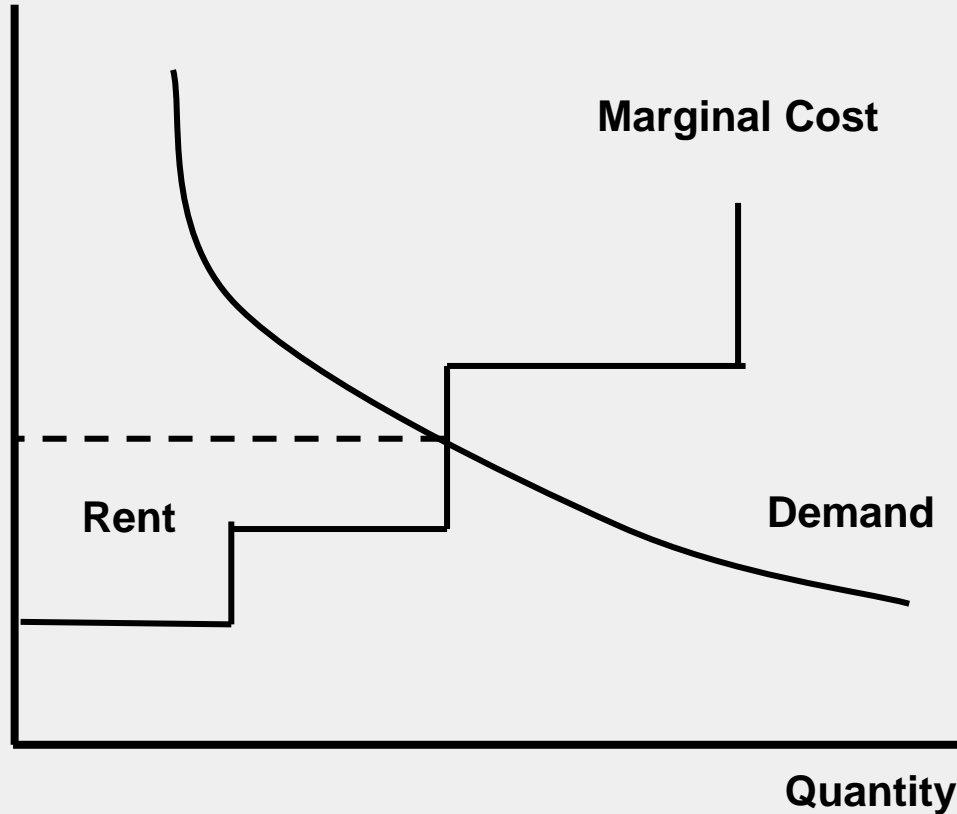
A new classification of natural common wealth

<Table 2> Classification of natural common wealth based on scarcity and renewability

	Relatively scarce	Relatively abundant
Renewable	(A) Land for housing Water in water scarce countries	(C) Oxygen, sunlight, Water in water-rich countries
Non-renewable (depletable)	(B) Minerals in demand (gold, lithium)	(D) Minerals with no demand (asbestos)

The natural common wealth needs also to be categorized by renewability. Renewable common wealth are those where nature can maintain or increase its services on its own within an economically meaningful timeframe, while non-renewable common wealth are those where it cannot.

Common wealth rent (A) and (B)



CW (A) and CW (B). In a competitive market, the price formed is determined by the marginal cost of the last unit traded. However, because it is scarce, the marginal cost of the last unit is greater than the marginal cost of the previous unit. The seller of the previous unit of common wealth earns an excess profit over his marginal cost. This is the economic rent. This rent arises because of the natural scarcity of common wealth.

Common wealth rent (C)

CW (C). Renewable and non-scarce natural common wealth in (C) of Table 2 generally does not generate rent. However, if property rights are established for this common wealth and access is restricted, it can be sold at a price above marginal cost by artificially limiting the amount sold. This is the monopoly rent that results from a monopoly.

This monopoly rent differs from the scarcity rent generated by the relatively scarce common wealth (A) or (B) in its market conditions, efficiency, and cause.

Competitive market vs. monopolistic market

Efficient rent vs. inefficient rent

Natural scarcity vs. artificial scarcity

Productive power of common wealth

The source of the common wealth rent is the productive power of common wealth: superior use value (when the common good is a consumer good) or productivity (when the common good is a producer good) of the common wealth.

For example, a factory in a water-rich location will be more productive than a factory in a water-poor location. The location of the common wealth is independent of the labor or contribution of the seller or producer of the common wealth.

Since the common wealth belongs to all, it is not fair to monopolize its productive power in the hands of a few.

The plunder of the commons

The plunder of the commons (Guy Standing, 2019) is the act of privatizing the common wealth in pursuit of common wealth rent. Enclosure and privatization are the main forms of common wealth plunder.

Enclosure is the act of taking unoccupied common wealth and making it one's own property without paying for it.

Privatization is the sale of government-owned common wealth for a price. Privatization often takes the form of an auction, where the winning bidder profits if the price paid is less than the value of the common wealth rent

Plundering the common wealth through private property

Some commons such as sunlight, wind, and data, are difficult to privatize due to their non-excludable physical properties. One way to enclose such common wealth is to utilize private assets that are inextricably linked to it.

Data accumulated on the Internet is stored in the platform company's cloud, so it is difficult to access it except through the cloud, which is the platform company's private wealth.

Another important example of using private wealth to monopolize common wealth rent is solar power. Sunlight is clearly a common wealth and cannot be excluded, but we need land to receive it. Sunlight can only provide the service of power generation when combined with land. Land is supposed to be a common good, but in reality, much land is privatized. If landowners can enclose the sunlight common wealth and capture a significant portion of solar power revenues, inequality increases in the transition to renewable energy.

In the case of relatively scarce common wealth (A) and (B), if a price ceiling is implemented, the supply of common wealth whose marginal cost exceeds the price ceiling will be stopped, while the demand for common wealth will increase, resulting in excess demand in the market. This is an inefficient outcome. Price ceilings reduce rent, but they also reduce efficiency.

In the case of common wealth (C), which is renewable and relatively abundant, price ceilings can increase fairness and efficiency by allowing more transactions to take place at lower prices.

Methods to suppress or recapture rent

Free

distribution

Non-scarce common wealth in (C) can provide more services at a lower price with this de-marketization policy. This restores fairness and increases efficiency.

Common wealth (A) and (B). The de-marketization of common wealth that is only available to a subset of people, results in a de facto rent being paid to those who receive it for free. For example, if a country provides one house to every household for free, those who receive a house in the city center will receive a huge benefit in the form of reduced transportation costs, time savings, etc. compared to those who receive a house on the outskirts or in the countryside.

Policies that de-marketize relatively scarce commonwealth, such as (A) and (B), can reduce efficiency and fairness.

Most of the natural common wealth in (A) or (C) is renewable up to a certain amount of extraction. When the amount of extraction exceeds the appropriate amount of renewal, it becomes increasingly scarce and then non-renewable. For example, if fish are taken from a lake beyond the maximum sustainable catch, the population will decline and eventually go extinct. The air's ability to store carbon dioxide without increasing the Earth's temperature has gone from being a non-renewable but abundant service to a non-renewable and scarce service.

Because of these features, free and open access to the common wealth in (A) and (C) leads to the tragedy of the commons (Hardin, 1968), where the common wealth is overexploited and eroded beyond renewal. Making renewable common wealth non-renewable violates sustainability because it reduces the level of well-being of future generations.

Sustainability

Sustainability is defined as the state of affairs in which the well-being of future generations is not less than the well-being of the current generation (Goodstein and Polasky, 2020, p. 120). Renewability is a physical criterion, while sustainability is an economic criterion.

It is possible to harvest non-renewable common wealth and still make it sustainable. This can be done by adhering to the Hartwick principle (Hartwick, 1977). According to the Hartwick principle, all rent from non-renewable common wealth should be invested as capital to maintain it in perpetuity, and each generation should consume only the revenue generated from the reinvested capital.

The Alaska Permanent Fund is a good example of converting non-renewable oil resources into sustainable capital.

Since common wealth (C) is renewable and non-scarce, a price ceiling or free distribution policy rather than a private monopoly is more fair and efficient. Since a price ceiling can only recover a fraction of the rent, a free distribution policy seems more desirable. When implementing a free distribution policy, care must be taken to ensure that the amount of common wealth extraction (use) does not exceed sustainable levels.

Consider a policy that taxes the rent of common wealth (A) and distributes the entire revenue to the entire population in the form of a basic income. Unlike a price ceiling system, there is no excess demand, so the efficiency reduction is smaller than under a price ceiling system. If the supply of common wealth is fixed (price elasticity = 0), there is no efficiency reduction (deadweight loss) due to taxation. When negative externalities are not reflected in the market price, taxing common wealth rent can increase efficiency. Since the common wealth rent is shared by all, it is more fair than a free distribution where only a special group receives the de facto rent. It does not reduce sustainability because it does not allow free access. In this way, taxing common wealth rent to pay for a common wealth basic income can achieve both efficiency, fairness, and sustainability.

Common wealth (B) is similar to the case of common wealth (A), but differs in one respect. Implementing a price ceiling reduces rent, but it creates excess demand, which is an inefficient outcome. This is unsustainable as less common wealth is available to future generations. Free distribution creates a de facto rent, which is unfair. If it is managed with open access, it is even less sustainable. The above analysis is almost identical to common wealth (A).

However, the policy of taxing the rent of common wealth (B) and distributing the entire revenue in the form of a basic income is undesirable. This is because there will be less common wealth for subsequent generations to consume, which is against sustainability.

Therefore, in this case, the entire common wealth rent should be converted into a permanent fund, and each generation should receive only the annual income from the fund as basic income.

Principles of natural common wealth basic income

<Table 3> Principles of natural common wealth basic income		
	Relatively scarce	Relatively abundant
Renewable	(A) Tax the rent and distribute the revenue as a basic income	(C) Distribute it for free and manage it so that it remains renewable.(Basic income in kind)
Non-renewable (depletable)	(B) Tax the rent to create a permanent fund and distribute annual income from the fund as basic income	(D) No economic value

Two natural CW BIs in energy transition

Carbon dividend

There is an argument that carbon dividends are unsustainable because they get smaller and smaller, and that they incentivize emissions because the larger the emissions, the larger the amount of the carbon dividend. However, the second argument is based on a misunderstanding of carbon dividends.

The higher the carbon tax, the lower the carbon emissions. If we want to reduce emissions quickly, we need to raise carbon taxes quickly. Raising carbon taxes also raises energy prices and reduces people's real incomes, so people oppose raising carbon taxes quickly. However, if the carbon tax revenue is distributed as a carbon dividend, middle- and low-income people will see a small increase in their real income because the carbon dividend will be larger than their increased energy expenditures. This could make people favor policies that sharply increase carbon taxes.

A carbon dividend is not a license to emit carbon, but a way to stop emitting carbon quickly. A carbon dividend is a way to achieve the energy transition faster and avoid increasing inequality in the process.

Two natural CW BIs in energy transition

Sunshine/wind pension

The long-term disappearance of carbon tax revenue is a limitation of carbon dividends.

However, there is another common wealth basic income. In South Korea, it is called sunshine pension. It is a policy in which the government takes back a portion of the rent generated by the renewable energy industry and distributes it as basic income. Since carbon taxes increase energy prices, renewable energy industry also gets rent. This rent is generated because the government has intentionally increased energy prices by imposing carbon taxes in order to make energy transition. This rent is a kind of unearned income, so it is justified to distribute it as a basic income. It is necessary for the government to invest in renewable energy companies, take equity stakes in them, receive a portion of their profits as dividends, and distribute the dividends as basic income.

Even if the carbon dividend disappears, the sunshine pension will increase. The more renewable energy, the more sunshine pension.

In South Korea's Shinan County, residents of five islands receive a sunshine pension of \$400 per year. By 2030, the county plans to provide a \$4,500 annual wind pension to all residents. The Democratic Party(led by Jae-myung Lee) and Basic Income Party(led by Hyein Yong), are working on a plan to nationalize the sunshine/wind pension.

Carbon dividend and sunshine/wind dividend

	Carbon dividend	Sunshine/wind pension
Type of Natural common wealth	Air	Sunshine/wind
Source	Carbon rent	Renewable energy rent
Amount	Increases at first, decreases later	Increases as the energy transition progresses
Objective	Preventing real incomes from falling for the majority of people during the energy transition	Increasing real incomes for the majority of people during energy transition