

A monetary case for value-added negative tax

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Abstract

I address the most fundamental yet routinely ignored issue in economics today: that of distributive impact of the monetary system on the real economy. By re-examining the logical implications of token re-presentation of value and Irving Fisher's theory of exchange, I argue that producers of value incur incidental expropriation of wealth associated with the deflationary effect that new value supply has on the purchasing power of money. In order to remedy the alleged inequity I propose a value-added negative tax (VANT) based on net individual contribution to the economic output, which is structured as a negative tax function geared to profits derived from eligible productive activities in consideration of their estimated deflationary impact. I show that an adequately optimised VANT can be non-inflationary and have zero net cost to the public. Furthermore, economic output stands to improve due to direct incentivisation of value creation, making the proposed scheme not only politically feasible but economically desirable. The proposal advances the principle of 'fair money', where all forms of economic value are attributed to their rightful owners prior to any positive taxation.

Keywords Money Definition, Monetary Systems, Monetary Policy, Negative Income Tax, Theory of Exchange, Fair Money

JEL Codes E31, E40, E42, E51, E62, H23

1. Introduction

Negative tax proposals made in the past were commonly based on principles of social justice and welfare, seeking to alleviate poverty or mitigate inequality by imposing a tax burden on higher income earners (Rhys-Williams, 1953)(Friedman, 1962)(Dawkins et al., 1998). These were commonly structured as a negative intercept in the tax-function geared to income, causing a narrowing of the overall tax-base. While the rationale for such proposals is commendable on moral grounds it faces major economic and political challenges due to revenue constraint and wealth redistribution from the more productive members of society to those who are the least productive. This is in turn criticised for giving rise to broad disincentivisation of labour in favour of leisure (Roy, 1979)(Johnson & Pencavel, 1982)(Petersen, 1995).

The present proposal follows an entirely different rationale, based on the premise that wealth is signified in the economy by two distinct but interrelated forms, namely, the barter-value of goods and services and the monetary re-presentation of same. In a system where individual agents have inherent ownership rights with respect to the goods and services they generate but no inherent ownership rights with respect to the money supply that constitutes a universal claim on the former, the productive agents face incidental expropriation of wealth on account of the dependence that exists between the supply of goods and services and the purchasing power of money.¹ The alleged expropriation takes place whenever value is added to the economy, irrespective of whether the money supply expands, shrinks, or remains constant. I will attempt to substantiate these claims further in the text but in order to meaningfully

¹"Changes in money's purchasing power generate changes in the disposition of wealth among the various members of society"(Mises, 1996, p.421).

address the formerly under-theorised issue of distributive impact of the monetary system on the real economy I must first deconstruct some idiomatic terms of reference and give them proper logical grounding.

2. Money as re-presentation of value

Legal tender (which I will hereafter refer to simply as ‘money’ or ‘currency’)², arguably one of the most significant expressions of human ingenuity, facilitates for exchange of goods and services without the inconvenience of matching two parties, each of whom would have to offer exactly what the other party wanted, with the added advantage of virtually unlimited portability over commodity money. Money received in exchange for value functions as a legally endorsed, fungible certificate that one side of a barter transaction has been accomplished and grants the party who had provided barter-value an instrument of entitlement to complete the barter via proxy.

Money is what cuts a barter transaction in half, hence the saying that ‘money cuts like a knife through barter’: each half of the transaction can be independently, wholly or partially reassembled with a mating half of any other barter transaction, making value transportable and infinitely divisible. But the transition from a barter-economy to the present system of mediated exchange has subtly altered the identity of value. It is generally accepted that money by fiat has no intrinsic value, but it would be an error to assume that it has no value at all, or that its value is simply a matter of individual agreement. For the inherently unique instances of barter-value (which I will hereafter refer to as ‘real-value’)³ to become infinitely portable and divisible they must first be counted as a homogenous ‘commodity’ and then re-presented in the medium of exchange, that is, counted again in the meta-structure of value intended to signify, store and transmit the re-presentation until a direct presentation of equivalent real-value can be realised again. In that sense, the notion of monetary re-presentation combines the three functions of money: the ‘unit of account’ signifies the measure or count in the field of re-presentation, the ‘store of value’ records and maintains the count, and the ‘medium of exchange’ transmits the count. The unit of account is evidently not a fixed measure with respect to real-value as it depends on the changing number of units in circulation and on the frequency of circulation (I will consider these dynamic parameters in the next section), and thus the capacity of money to store and transmit value can be said to be temporally distorted. Specifically, there is an undeniable ontic discrepancy between the original presentation of real-value and the secondary presentation realised following a sale, monetary transmission, and a delayed act of re-acquisition of the same real-value: the result being either more or less of the originally presented ‘commodity’. Furthermore, since real-value does not cease to exist in its object-form on account of its monetary re-presentation, the notion of money as the store of value involves a double count of nominally the same identity of value: once at the object-level of goods and services where it remains intrinsically valuable, and once again at the meta-level of monetary re-presentation that purports to store its value. This is akin to a paradoxical situation where a valuable item stored at the company’s

²‘Money’ means fiat-money and includes money-substitutes such as bank-issued credit that under most conditions perform the same function as banknotes and coins. It is deemed consistent with the definition of M3. ‘Currency’ means paper currency (cash), or a unit of account (Dollar, Euro etc.).

³‘Real-value’ includes goods and services that can be exchanged for money but are not themselves regarded as money. Real-value does not signify a uniform measure of value but the very items that are *commonly identified as economically valuable and tradable*, and in that sense can also be referred to as barter-value. The ‘flow’ of real-value (or the volume of trade) is signified by the variable T in Irving Fisher’s equation of exchange.

warehouse is, simultaneously, at the home of one of its employees who happens to enjoy its exclusive use.

The paradox is of course only apparent, arising in the absence of a functional distinction between object- and meta-levels of value, between presentation and re-presentation functioning beside one another. The medium of exchange, be it pure fiat or a commodity-backed money, is never neutral⁴ but functions as a double, as a measure of value that is simultaneously presented as equal in value to that which is measured, in excess of any intrinsic value that the medium might possess. It is precisely this mirroring effect of monetary re-presentation, this nominal doubling-up of value, that functions beside instances of direct presentation and thus ambiguates the identity of the re-presented, that is, it imitates and therefore devalues the real. It is important to note that the surplus effect of re-presentation occurs independently of any dynamic parameters (such as monetary expansion) or formal redistribution (taxation): money functions as a double of real-value by virtue of its mere presence as the medium of exchange.

In the absence of a corrective intervention to re-assert the scope of identity and ownership of an original presentation, being the act of creation of real-value, the nominal value spreads evenly over the particular good and the aggregate money supply. But since the money supply is never wholly in possession of the maker of the good, the associated value is split between the original owner of the good and the incidental holders of money who, on account of the incidental nature of the relationship, have no equitable claim on the property of another. The resulting distribution of value is therefore deemed inequitable.

Given that the value re-presented by money – or simply, the ‘value of money’ – is derived from the aggregate real-value of goods and services on which it lays a claim,^{5,6} it is essential to consider the mechanism of transference between these two distinct manifestations of value and quantify their relationship before an equitable system of value-exchange, or ‘fair money’, can be developed.

3. Theory of exchange and incidental expropriation of value

The following analysis of the theory of exchange is by no means inclusive of countless real-world factors and interdependencies and has no aspirations to modelling precision, but is intended only to demonstrate a principle. It is sufficient for our purposes to show that producers of value incur, or are likely to incur, incidental expropriation of wealth associated with the positive impact of real-value creation on the purchasing power of money, presenting an economic argument for negative taxation in favour of producers.

⁴“The important thing to be remembered is that with every sort of money, demonetization – i.e., the abandonment of its use as a medium of exchange - must result in a serious fall of its exchange value”(Mises, 1996, p.429). Based on this remarkable insight we can infer that even commodity money does not constitute a neutral measure of real-value because its monetisation is already an act of economic redistribution. In effect, commodity money is in greater demand and therefore of greater exchange value as money than as a simple commodity, while all real-value that is normalised and measured thereby is, by the same token, proportionally devalued. In that sense, commodity money, even though relatively inelastic with respect to supply, can be said to have a fiat component insofar as it is capable of re-presenting value in excess of its intrinsic value.

⁵“The exchange-value of the total quantity of money exchanged equals that of the goods for which it exchanges”(Fullbrook, 2002).

⁶“...money and goods are not the same thing but are, on the contrary, exactly opposite things. Most confusion in economic thinking arises from failure to recognize this fact. Goods are wealth which you have, while money is a *claim on wealth* which you do not have”(Quigley, 1966, p.44).

As the supply of goods and services in the economy increases, the buying power of money must also increase, irrespective of whether it is intrinsically worthless money-by-fiat or commodity-backed money, given that the money supply remains constant or grows slower than the supply of tradable value. Conversely, “assuming a constant rate of use, if the volume of money grows more rapidly than the rate at which the output of real goods and services increases, prices will rise”(Nichols & Gonczy, 1994). So dictates the Quantity Theory of Money formulated by Irving Fisher (Fisher, 1920) as an idealisation derived from his equation of exchange, which is in turn regarded by some as a truism of the relationship between money, prices and the quantity of goods and services traded within a period of time (Mishkin, 2004, pp.518-19). Fisher’s equation of exchange may be written as follows:

$$M.V = P.T$$

where **M** is the total money supply in circulation (cash plus checkable liabilities of banks)⁷, **V** is the velocity of money, **P** is the weighted average of all prices, or the price level, and **T** is the total quantity of goods and services traded (the volume of trade).⁸ **M.V** is therefore the total volume of monetary transactions within a period of time (one calendar year was suggested by Fisher) and **P.T** is the market capitalisation of all real-value traded. This ostensibly tautological expression is in fact demonstrative of the phenomenon of monetary doubling in excess of real-value, of the re-presentation of value (meta-level) circulating beside and on par with the re-presented (object-level).

I favour the definition of **V** advanced by Howden (2013): “velocity is the ratio of total expenditures to the stock of money available to settle transactions.” But since **V** is “the lone unobserved variable in the equation of exchange (...) any reckoning of money’s velocity of circulation must be made in a roundabout way” (Ibid.), giving rise to controversy about its economic significance. The equation of exchange obviously does not incorporate secondary dependencies between variables and does not tell us, for example, how an increase in the money supply would affect velocity, but the absence of that information does not undermine the essence of our thesis. What is relevant to the problem at hand (a possible objection to our proposal) is that when the supply of goods and services increases while the money supply remains constant, it is theoretically possible that the effect would be a proportional increase in the velocity of money and no change in prices whatsoever. But for a change in velocity to have long-term significance it would need to be either permanent or have permanent secondary effects; not merely episodic or stochastic fluctuations about a relatively stable mean. If the said change were only temporary, the effect (of an increase in the supply of goods and services) on prices would eventually become fully manifested. I suggest that the supply of money is cumulative, being altered only when amounts are added to or subtracted from the relatively⁹ ‘inert’ supply already distributed throughout the economy, while the

⁷**M** in the equation of exchange is commonly equated with the M2 measure of aggregate money supply for purposes of policy making (Dewald, 1998)(Shirvani & Wilbratte, 2008)(Mishkin, 2004, p.374). M3 (Australia) and M2 (U.S.) are recognised as better measures of monetary expansion than M1 on account of liquidity discrepancy that exists between typical fixed-term deposits and long-term credit contracts such as mortgages. When long-term credit is ‘funded’ with progressive, short-term deposits, there is no strict transfer of purchasing power from depositors to the debtor, namely, the velocity of deposited funds is not zero due to their intermittent availability. Since the bulk of current deposits (M1 minus currency) is also used only intermittently there is little difference in velocity between short fixed-term deposits and current deposits.

⁸(Fisher, 1920, pp.26-27)

⁹ Since broad money is mostly unbacked credit, its supply could conceivably contract if banks had persistently restricted the availability of new credit, in which case there would be a gradual contraction of

velocity of money is 'absolute', lacking the inert component and therefore potentially more volatile in a short-term, but also lifestyle-dependent and therefore relatively stable in a long-term. This inference is supported by the fact that the rate of change in velocity over the last thirty years has been an order of magnitude lower than the rate of change in the broad money supply (Cagliarini et al., 2010, p.19)(Shirvani & Wilbratte, 2008). Furthermore, the likelihood of velocity increasing in strict proportion to the rate of economic output is refuted by experience: prices are indisputably affected no less than velocity and tend to respond in a countercyclical manner to changes in the economic output.¹⁰ It would be an extraordinary situation if prices were to rise under the conditions of a fixed money supply and a growing supply of goods and services.

In consideration of the above I will abandon the variable **V** and, instead, balance the equation with a constant (**k**). I have thus reduced the equation of exchange to an idealised form consistent with the Quantity Theory of Money:

$$\mathbf{M} = \mathbf{P} \cdot \mathbf{T} \cdot \mathbf{k}$$

In other words, if the velocity of money over a particular period of time remains constant (a business-as-usual scenario), any variation in the available money supply (**M**) must be associated with a proportional change in the monetary value of goods and services (**P.T**). This change must be in turn accommodated by a change in the price level (**P**), if the quantity of goods and services traded remains constant; or by a change in **T**, if the price level remains constant.

The consequences of such interdependence with respect to individual economic activity can be summarised as follows. When a producer creates new value and makes it available for trade he/she inadvertently increases the purchasing power of money, whereby a certain amount of money can be added to the economy without causing price inflation: the absolute deflationary effect of the new goods and services balances the absolute inflationary effect of the new money. It follows that when prices remain steady under conditions of positive economic growth, the deflationary effect of newly created value is not absent but only masked by the inflationary effect associated with the expanding money supply.¹¹ The key consideration is that any upward pressure on prices is offset by individual contributions to the economic output. Given that changes in the money supply are meticulously recorded for the purpose of economic management, it is technically possible to quantify the deflationary impact of any productive activity irrespective of the nominal inflation.

It is necessary to assume, in the absence of any substantive legal claim to the contrary, that the producer has an exclusive claim on the entirety of value created in the act of production

the money supply over the lifespan of existing credit contracts (deposits being used to pay off debts). The only conceivable situation where rapid contraction of broad money could take place is that of a total collapse of the banking system, in which case the money supply would shrink to M0.

¹⁰Historically, the supply of goods and services has usually increased every year. To the extent it does so, this increase in the demand for money will tend to lower prices over a period of time. Indeed, so powerful has this force been for lowering prices, that they fell from the mid-eighteenth century until 1940, with the only exception being during periods of major wars (...). Paper money was increasing the money supply during this era, but increases in M were more than offset by the enormous increases in the supply of goods produced during the Industrial Revolution in an unprecedented period of economic growth"(Rothbard, 2008, p.60).

¹¹"If an inflationary movement and a deflationary one occur at the same time or if an inflation is temporally followed by a deflation in such a way that prices finally are not very much changed, the social consequences of each of the two movements do not cancel each other. To the social consequences of an inflation those of a deflation are added"(Mises, 1996, pp.417-18).

until some or all of that value is intentionally transferred to another, subject to a full disclosure of terms pertaining to such a transfer. It follows that by creating something of value and offering it for trade¹², the producer gains an equitable claim on some of its monetary representation as well. If the producer is not compensated accordingly, he suffers a loss, because by increasing the purchasing power of money, he gave other holders of the same currency a collective claim against his newly created value. That is, the producer has simultaneously created real-value that he holds in possession and a claim against that value being held cumulatively by the entire economy: the increase in the purchasing power of money constitutes a relative gain in wealth for all other agents in the economy in proportion to their monetary assets, irrespective of any direct or implicit contributions to the underlying process of production. The producer is therefore entitled to claim the increase in the value of currency before any subsequent sale could be deemed equitable. The same consideration extends to the division of labour in the process of production, where individual contributions are generally independently quantified in monetary terms.¹³

Let us consider the following example. Assuming that over a certain period of time the total volume of trade (**T**) is equal to the entire stock of real-value which consists of 10 apples, so that each apple is sold only once, and the total volume of monetary transactions (**M**) is equal to the aggregate money supply of \$10, so that each dollar is spent only once, then the theoretical market price (**P**) of an apple is \$1. The total wealth (all goods and money in existence) is equal to 20 apple-units of value: 10 units of real-value plus 10 units of representational value that constitutes a monetary claim on the apples. If someone now produces 10 additional apples, whereby the augmented total wealth comes to consist of 20 apples and the same \$10, and the producer attempts to sell these new apples, the average price of apples will tend to fall towards a new theoretical valuation of 50c an apple because, according to the Quantity Theory of Money, a doubling of the volume of trade must cause price deflation of 50% if the velocity would remain constant. In other words, the positive supply shock of new apples can be cleared only at a lower price level, or perhaps not cleared at all, what would be an even less favourable outcome for the producer. Consequently, if the prospective buyers are willing to absorb the supply shock at a new price level, the producer is only likely to receive \$5 for his new apples. The augmented total wealth now consists of 40 apple-units of value because it is not just the apples that have doubled in quantity but also the exchange-value of their monetary re-presentation: \$10 now buys 20 apples. This last point is illustrative of the phenomenon of 'monetary doubling', which I have described so far only in abstract terms.

Equitability of exchange may be assessed by comparing the distribution of wealth before and after the exchange in any given monetary system to the distribution that would occur under the barter system, because ultimately all trade is an exchange of real-value, whether it is a

¹² Newly created value does not need to be actually traded if it invokes a secondary signalling mechanism whereby prices of other goods or services are affected, and therefore the distinction between 'stock' and 'flow' of real-value is not a strict determinant of **T**. A curious borderline case is an owner-constructed dwelling which is not available for sale but is nonetheless subject to valuation-based property taxes and therefore *prima facie* deflationary. Furthermore, certain proportion of economic growth can be attributed to voluntary activities that forgo remuneration, and it is reasonable to assume that any secondary effects of such contributions are also contributed voluntarily. This may not be necessarily true but the examination of such complex entitlements falls outside the scope of the present investigation.

¹³ We are not suggesting that economic value is determined exclusively by the 'amount' of labour performed in its production, as in the Labour Theory of Value, but simply that labour is one of the sources of value. A technological invention may, for example, become a valuable intellectual property even if there is no strict correlation between its economic value and the amount of labour directed towards its development.

direct exchange of value for value or an indirect exchange of value via the medium of exchange. All equitable exchange must have no hidden remainder, no unaccounted-for gain or loss with respect to the valuable consideration forming the basis of an implied contract of exchange. Returning to our example, it is clear that in a barter economy the producer would have owned a steady 50% of all wealth (consisting of real-value only) both before and after a direct exchange of his newly produced apples for the same quantity of different apples, but in a fiat-based economy, where money imposes a universal claim on all real-value, he holds 50% of all real-value but only 25% of all wealth (consisting of the aggregate money supply plus all real-value). The missing 25% of wealth is the unclaimed 'residual value' of production captured by the medium of exchange. It follows that the residual value is collectively appropriated by all money holders in proportion to the size of their holdings. This redistributive mechanism operates whenever real-value is added to the economy and is supplementary to the redistributive effect of monetary expansion or contraction.

The dependence that exists between the supply of real-value and the purchasing power of money does not guarantee a one-to-one relationship, because different categories of real-value are not equally durable with respect to one another or with respect to money. In the above example I have assumed that apples were units of an infinitely durable commodity rather than food that may be consumed and thereby removed from the economy, but in practice every category of value demands a unique 'deflationary coefficient', that is, the fraction of the monetary value of a product or service that can be issued as new units of currency while maintaining the aggregate price inflation at zero. The deflationary coefficient is likely to have a low positive value for consumables but could approach unity for the construction sector and other durable products that are in principle available for sale 'at the right price' for many years. Gold and other precious metals, for that matter, even though in principle imperishable, are likely to have a coefficient of less than unity to the extent that they are regarded as an alternative form of money, creating thereby an absolute inflationary pressure on the fiat currency by adding to the total pool of the media of exchange.

In the next section I will attempt to integrate the deflationary effect of real-value creation into the present taxation regime in order to reinstate the equitability of exchange in a fiat-based economy.

4. Elements of the value-added negative tax (VANT)

Negative taxation schemes proposed by Friedman and Rhys-Williams were criticised on account of the associated cost to the most productive members of society and, consequently, doubtful political feasibility. The present scheme develops a rationale for negative taxation based on individual contribution to the economic output, aiming to reverse the incidental expropriation of wealth associated with the positive impact that the real-value added to the economy has on the purchasing power of money. I have already hinted at possible means of implementing the scheme that are not necessarily restricted by state-revenue limitations.

In consideration of the exchange principles set out in the previous section and noting that all value in the economy comes into being on account of producers of real-value, I conclude that VANT could not be legitimately funded by government borrowing. Any increase in public debt incurred for that purpose could only be repaid in value by the same producers of value and therefore would not constitute a net gain or real compensation for its recipients. Given that debt is typically associated with the accrual of interest, any debt-based funding for the

scheme would constitute a further expropriation from producers, in favour of non-producers.¹⁴ The very rationale for the scheme implies that an antecedent debt already exists and thus transferring the same debt onto the general public would not correct but perpetuate the alleged inequity. Although it is difficult to quantify the antecedent debt directly it may be practicable to prevent it from accumulating by utilising a suitably geared and iteratively optimised negative taxation pathway.

I suggest that VANT ought to involve a statutory entitlement, granted to first-hand¹⁵ producers of real-value, to redeem the estimated net amount of value added to the currency in the form of newly created amounts of debt-free money. The said entitlement can be quantified as the accounting profit (the sale price of a good or service less the cost of production and supply) multiplied by the current deflationary coefficient for the relevant value-category. In other words, producers of value are granted the right to new units of currency that are already in principle 'secured' by that value, offsetting thereby any deflationary effect of real-value creation. New money thus created is purely endogenous, having derived its value from the goods and services produced (the residual value of production). VANT payments are in effect created by the productive members of society and not by the government who would be mandated only to administer their equitable distribution subject to a dedicated regulatory framework. These new amounts of money could be issued on application by the producer, consistent with what now operates as the income declaration and tax-refund system based on periodic self-assessment. In order to optimise the proposed scheme, the negative tax-rate signified by the deflationary coefficients would need to be periodically reviewed by the monetary authority based on observed price movements and money aggregates, to maintain the aggregate price inflation at a level consistent with the monetary policy target and to avoid asset or value-category bubbles.

A suitable methodology for estimating deflationary coefficients (dc_i) may involve an initial assumption of nil deflationary effect ($dc_i=0$) for every value-category (i), followed by periodic adjustments intended to account for: a) the masked deflationary effect of economic output, quantified as the rate of monetary expansion (I_{M3}) minus the aggregate price inflation (I_P); b) category-deviation from the aggregate price inflation, quantified as the rate of price inflation for the value-category (I_i) minus the aggregate price inflation (I_P). The category-deviation is intended as a basic measure of disparity between supply and demand, where higher than average price inflation suggests excess demand in the relevant category. A productive activity directed towards satisfying excess demand counteracts the associated inflation anomaly and is therefore more deflationary than the same productive activity valued at market equilibrium. The complete formula for deflationary coefficients may be written as follows:

¹⁴ The premise of 'public debt' in an economy where the bulk of money supply is a result of fractional-reserve banking is by no means uncontroversial. A plausible argument against logical and, by implication, legal validity of 'public debt' is based on the inference that when the banking system creates new amounts of (inflationary) money-substitutes *ex nihilo*, it only exercises a delegation of the sovereign prerogative over the nation's money supply, which belongs to the public *ab initio*. In that sense, 'public debt' implies that the public in effect borrows from itself but is then inexplicably indebted for same to a private enterprise. This, in turn, implicitly subverts the economic rationality as the art of *economising*. The forgone seigniorage from money issuance can be substituted only via taxation of other economic agents. Activities or assets arising within the sphere of trade and commerce are taxable, but self-sufficiency and material conservation on any level, a truly *economical living*, is associated with a proportionally reduced taxable capacity. A system based on the premise of public debt is therefore inherently anti-economical in orientation, structurally inefficient and cyclically destructive.

¹⁵ Employers are re-sellers of real-value acquired under employment contracts from individual employees and therefore cannot be regarded as first-hand producers with respect to the value that is produced by employees.

$$dc_i = (I_{M3} - I_P) + (I_i - I_P) \cdot dc'_i$$

The solution proceeds in an iterative manner where the resulting coefficient (dc_i) replaces the old coefficient (dc'_i) and serves as the new VANT rate for that category. The convergence criterion is tentatively satisfied when, in response to VANT, the rate of price inflation for the relevant category approaches the aggregate price inflation, indicating equilibrium of supply and demand.¹⁶

Value-added negative taxation can be defined as an alternative tax-function geared to individual profits derived from eligible productive activities that cause the associated component of tax liability to be negative. Since the existing tax function is geared to income in general, the introduction of VANT would not be revenue-neutral and therefore significant adjustments to the taxation policy would be necessary. State-revenue could continue to be derived from income taxation positively geared to any non-value-added (unearned) income,¹⁷ while any shortfall in revenue including the cost of implementation of the scheme could be regained by imposing a flat-rate levy on VANT payments. This would still constitute a positive tax on the newly created value but one that is openly legislated and incommensurably more favourable to producers than the present situation.

It remains to be shown that under the proposed scheme, once adequately optimised, the newly created debt-free money would not cause excessive price inflation. The desired effect can be described as a change not only in the quantity of money but also in the quality of circulation. VANT payments flowing directly into the productive end of the economy, irrespective of whether these new amounts were spent on consumption or retained as assets, would inevitably compete¹⁸ for investment/lending opportunity with the existing fractional-reserve credit facilities but, if invested with the banks, would boost their reserves and thus proportionally deleverage the banking system. I speculate that under these conditions banks would find it difficult to inflate the money supply (re-leverage) beyond the already broadly satisfied demand for personal and business credit, but it ought to be anticipated that new methods of monetising unbacked credit would be devised. Contingencies associated with the reaction of the banking sector to VANT will require further consideration in light of relevant legal principles and economic policy.¹⁹

¹⁶ Deflationary coefficients estimated according to the present formula would stimulate supply of the price-inflating value-categories on account of a higher than average VANT rate, what would promote price stability.

¹⁷ The return on capital (economic rent, dividends, royalties, interest or speculative gains) is a result of redistribution of the existing value and not an act of creation of new value by the owner of capital. Consequently, any value appropriated as a return on capital would have previously been subject to a VANT entitlement and therefore not eligible under the present scheme. It is essential to remember that eligibility for VANT is not granted on the basis of the effort 'expended' but the effort converted into a valuable (and therefore *prima facie* deflationary) product or service. For example, it takes effort to steal, gamble or to conduct research in support of one's own speculative investment decisions, but this effort is not necessarily converted into a valuable product or service unless it is offered as such, and even then its social and economic benefits are often questionable. As a matter of principle, any effort expended destructively is likely to be inflationary, since it creates a demand for the replacement or substitution of goods without satisfying it.

¹⁸ Peer-to-peer lending (P2PL) and investing (P2PI) are obvious examples of alternative financing platforms based on a strict transfer of purchasing power from lenders to borrowers.

¹⁹ Fractional-reserve banking has almost universal political acceptance as a necessary means for efficient expansion of the fiduciary media in response to endogenous demand, but it is also subject to a well-founded criticism that it unduly, and possibly unlawfully (Soto, 2009, p.710)(Hülsmann, 2008, p.100), favours the commercial interest of the banks at the expense of the taxpayer. The essence of the argument against fractional banking may be stated as follows. If money is a claim against real-value and credit is a claim against money, then if credit is admitted into circulation on par with money, that is, also as a claim against real-value, it is then effectively discharged as a claim against money. It follows that

A more secure approach for maintaining stability of the money supply would involve categorisation of VANT payments as a money-substitute, signifying only a claim on the monetary base and in that sense similar to the deposit-account balances created by the commercial banks, making VANT payments not suitable as reserves. In effect, the banks would be precluded from leveraging these amounts to further inflate the broad money supply. VANT payments would still be issued debt-free at origin, still in the form of direct deposits made by the government to individual accounts held with the banks, but these deposits would constitute no monetary liability for the government beyond a guaranteed cash-redemption rate, being equal to the rate of fractional reserves maintained by each commercial bank with respect to its depositors. For example, a bank maintaining total reserves at five percent of its total liabilities would gain a claim against the government for the same percentage of the deposited VANT amounts. In this way the level of leveraging by the commercial banks would not be directly affected by VANT while simultaneously allowing the banks to claim from the government a higher rate of reserves, even full reserves, by voluntarily maintaining the same rate of reserves in their commercial operations.

In either case, VANT would constitute a 'bonus' earned income distributed to individual employees, giving the employers a certain margin to drive the wages down that would no doubt be diligently exploited and thus offset the upward pressure on prices associated with the increased disposable income. Similarly, self-employed producers of goods and services would be able to utilise the 'bonus' income to compete on price, although that would depend on multiple factors and complex contingencies. Furthermore, an increase in the disposable income associated with VANT would, as argued earlier, offset the private debt to the banking sector without significantly increasing the broad money supply. Such a partial substitution of *earned* interest-free funds for *borrowed* interest-bearing funds in the absence of an upward pressure on the interest rates would be associated with a reduced interest burden on the entire economy, and therefore in greater financial security. This could in turn lessen the urgency to return money into circulation and therefore reduce the velocity of circulation. The net effect of earned monetary expansion could indeed be somewhat deflationary due to economy-wide incentivisation of value creation in addition to the already equilibrated monetary parameters. This places VANT in radical opposition to the welfare incentivisation inherent to past proposals for negative taxation.

Lastly, earned monetary expansion realised via negative taxation geared to individual economic output and funded via debt-free expansion of the monetary base is possibly the only viable countermeasure to the pervasive contraction of taxable capacity associated with the increasingly voluminous flight²⁰ of corporate capital into offshore tax-heavens. The utility of tax evasion could be outright eliminated under VANT by reducing the non-value-added income tax-rate to zero, but the associated revenue shortfall would likely need to be compensated by higher consumption or transaction taxes in addition to the already suggested VANT payment levy.

Due to limitations of the existing analytical models and, in particular, the virtually unquantifiable real-world conditions that influence the process of economic exchange, the

monetised credit, which is in principle discharged by its own monetisation but nonetheless continues to circulate on par with money and thus forms the bulk of the aggregate money supply signified by M3, is in effect a form of counterfeit money. Cf. "Through its ability to create unbacked credit, the fractional-reserve banking system allows for expenditures to occur which also do not represent a strict transfer of purchasing power" (Howden, 2013).

²⁰(Zucman, 2013)

main practical challenge of VANT would be to maintain deflationary coefficients that accurately reflect the actual deflationary impact of various categories of real-value, subject to additional consideration of public interest and broad economic policy. Progressive implementation based on the suggested iterative approach would afford an opportunity to closely monitor economic parameters in response to VANT, allowing for some experimentation while minimising the risk of adverse economic and social effects.

The proposed value-added negative taxation aims to ensure that all forms of economic value are attributed to their rightful owners prior to any positive taxation and in that regard it advances the principle of 'fair money'. The value-generating public, particularly those individuals who are engaged in the production of durable goods, would be pleased to receive what might in effect be regarded as a bonus income in addition to but dependent on individual contribution to the economy. This could greatly assist in the scheme's adoption as well as encourage real-value creation.

5. Conclusion

Legal tender, being a universal token of value, gave rise to a parallax between monetary 'representation' understood figuratively, as a one thing neutrally signifying the real-value of another, and 're-representation' understood literally, as a double of a presentation already made. The main characteristic of re-representation associated with the economic praxis is its abstract quality that measures barter-value but also functions beside it as valuable in-itself. The medium of exchange, be it pure fiat or a commodity-backed money, is associated with an inflationary excess of monetary re-representation laying a claim on the real-value of goods and services. This nominal excess of value instantaneously captures up to half of all wealth, diluting all newly generated real-value with the surplus effect of re-representation. The resulting inequity in the distribution of value is an inherent problem in both fiat and commodity-backed monetary systems, but in either case it can be remedied with an adequately optimised, value-added negative taxation funded via debt-free expansion of the monetary base and injected directly into the productive end of the economy.

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