

# ECO-TAXES

## THE WONDERLAND WAY TO HALT ABUSE OF NATURE?

**L**AND is the unbeatable source of public revenue because it is both ready-made and bound to gain value as the population grows. That, Henry George reminded us, means people don't have to part with earnings to finance governance.

Yet those who understand this truth have always had trouble over what to call the revenue. George called it a tax, but "tax" normally means earnings that people DO have to part with to finance governance. Using "rent" never really caught on, since "rent" already means payment to land-owners. So people who believe in paying for social costs through collecting the increase in land's value settled for Land (or Site) Value Taxation.

Because the real nature of the revenue from land has not been understood as stemming from land's limited supply, which has nothing to do with taxation, land revenue has appeared incidental to revenue from limited resources, rather than the major instance of it. With wisely apportioning limited resources now a top priority worldwide, we need a closer, more demanding look at land revenue's ecological relevance. It is not what a number of land-revenue and eco-politicians say it is.

**I**F CLARITY in language requires keeping the ordinary meaning of words, then "tax" is a ruler's or government's take from earnings or production, and "rent" is payable to the landlord. With unnecessary, conflicting implications of ownership thus removed, land can be deemed simply to belong to the natural domain along with broadcasting frequencies and fish in the rivers, not in the man-made domain where rights of ownership can be asserted. In the natural domain, the given limits of natural resources require



Mary Lehmann argues the case for eco-licenses

licensing that apportions limited use, a privilege normally granted to the highest bidders.

Even where there is a set price, as for fishing or driver's licenses, there is always some use limitation in view of the limits of the physical world, and that limitation is set first before the determination of price. Taxing sets the price only. However, where the number of

licenses issued must be limited to stay within given bounds, greater demand will make the price go up in any case, as the price of land does.

Recognizing that the charge for using land is not a tax or rent but a license to use the land means recognizing responsibilities and limitations that would go with acquiring the license because they would go with the land itself, whether urban or rural. The amount of land, though limited, can't be exhausted, but its quality easily can, and therefore, restrictive covenants (for example on mining and logging) would be a natural consequence of licensing land use. Because appreciation in the value of land produces more revenue, motivation to protect the environment would be powerful, the more so the more control is exercised by the community of people that lives in that locality. Controlling land use would be its means of making sure above all that the resource base of revenue endures. In a word, licensing land-use would be a direct means of making land-use sustainable.

### THE WAKE-UP CALL

RENOWNED ecologist Edward Goldsmith, in casting around for funds to combat climate warming – the frightening theme to which the latest issue of the *Ecologist* is devoted – has completely omitted revenue from the rent of land. This is an uncomfortable reminder that the preoccupation with eco-taxation is foreclosing on the prospects of environmentalists advocating the windfall market value of land as a tool for use-restrictions that protect the environment.

A full comparison of the two revenue sources, eco-taxation and land-use licensing, is vital. Some key issues can be identified in the form of a short quiz:

- Do you really want a substantial part of revenues to depend on environmental abuse?
  - Would you rather have revenues coming from the correct use of resources?
  - Do you think that the correct use of our resources, especially land, simply requires control over corporations, or that ultimately the people most affected by the use should have control?
  - Do you think polluting in excess of sink disposal with devastating long-term health consequences can be solved with a high pollution tax, and how does that differ from a "legal bribe"?
  - Similarly, if a man causes devastating long-term health consequences by infecting people with AIDS, do you think the solution is payments of a high "pollution" tax?
  - What do you think of treating land as the scarce resource that it is and, along with other scarcities like water, licensing it for sustainable use?
  - Which gets more compliance, the power to grant licenses for necessities, or taxing energy use?
  - Which would be the more reliable source of revenue, which harder for corporations to get around?
  - If it is harder for corporations to avoid and therefore more resisted because it's more effective, would land-use licensing be your chosen strategy even though it may be more difficult to achieve, because you have to mobilise the public? Or would you still try to get governments to curb corporate power with taxes, hoping that for once governments can and will succeed?
- In the last *Ecologist*, Edward Goldsmith explains how decentralized economies are our natural and only truly sustainable milieu, a thesis he presents fully in his book, *The Way*. Perhaps land-use licensing affords a bridge to this stable world before the global one collapses?

**L**AND-REVENUE and eco-politicians looking for a source of revenue for a basic income want to combine forces for this worthwhile purpose, but are having a hard time combining the land tax and the pollution tax (eco-tax) which they respectively have separately promoted. Some eco-land-taxers imply that being good or bad is sufficient reason for determining whether to tax or not (see their Green Tax-Shift page [<http://www.progress.org/>] where they exhort us to "tax the bad" – land speculators, polluters – and "not the good" – wages, and housing).

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However, even an amoeba-like capacity to surround and ingest any object cannot, for true land revenue, make digestible a tax that lacks the Georgist stamp: no one parts with his earnings, either from capital or labour, to pay the tax. By e-mail I did question the digestibility of the pollution tax. Some amazing denials of any problem promptly appeared on my screen, mostly from fellow Americans. Two examples:

- Eco-taxes do not fall on the labour and capital of appropriating either land (with a fence around one's land) or clean air (with the polluter's smokestacks).
- Because some labour and capital produce low pollution, like electric cars, and because pollution taxes wouldn't exceed harm done by polluters (however that is calculated), taxing pollution "doesn't deserve to be called taxing labour and capital".

Neither example can get around what pollution is: an inescapable product of consuming energy, which takes labour and capital. Taxing pollution taxes labour and capital as surely as the consumption VAT and sales tax do. Does calling the tax at the gas pump a pollution tax instead of a sales tax change anything? We know we're not taxing only the oil in the ground that nature alone created.

A tax-the-bad policy by itself has severe difficulties. Noting that governments love to tax rather than to regulate, the Green Tax-Shift page concludes: "Within five years, the Green Tax Shift will be the major focus of all environmental activism". Let us hope not, because if we tax the bad, we make revenue dependent upon environmental abuse. This dependence is justified only if the revenue is then committed to helping this eco-tax to end the abuse, that is, to end itself. Only in a Wonderland world could a Cheshire Cat of a tax bent on disappearing bring about a tax-shift. ("One needs new bad things to tax", said the Red Queen to Alice). Then again, the Cat might linger because revenue-hungry politicians want the damage to continue. Would we really want to shift from income or sales taxes to the eco-tax? In a state unpredictably between disappearing and lingering, taxing environmental damage can't possibly provide the dependable revenue that licensing land-use would, certainly not for financing basic income.

Justice would require distributing resource-use licenses, or the proceeds therefrom, equally to every person affected, which may be what Edward Goldsmith, editor of *The Ecologist*, meant by "Of course eco-licenses are more equitable [than eco-taxes]", when I asked him what he thought of both. But any system can be abused, including licensing.

The World Bank, promoter of fossil fuels development, plans to broker the sale of cheap carbon licenses from third world countries to

## Hong Kong □ Property Slump Asia crisis threat to ex-colony's low tax regime

PROSPERITY in this former British colony was driven by a low tax regime that was underwritten by a flow of rental income to the government from the sale of land leases. But since last year's transfer of the trading centre back to China, the policy of public revenue from the rent of land has come under threat.

But while property prices are recovering, will policy remain untouched? Serious discussion is under way around the proposal to reduce dependence on revenue from land. The recommendation that a sales tax should be introduced is favoured by the Bank of East Asia as being more transparent than the "invisible consumption tax" drawn from property.

There are even calls for increases in the rate of income tax. Such policy proposals are being fostered by a view that "the root cause of Hong Kong's problems is its land policy," according to Sin-ming Shaw (*Time*, Feb. 15). He views this economic fact as offensive, and his evidence was that "no government elsewhere relies as much on real estate for its income".

He adds: "It is a myth that Hong Kong is a low-tax haven, as there is a steep implicit tax in the form of artificially high land prices

that the government engineers by limiting the amount of land sold to the community. Hong Kong's famous fiscal reserves are nothing but cumulative land-tax revenues".

The facts are clear about the low level of taxes on labour.

- Half the workforce pay no income tax, and less than 10% pay the top rate of an effective 15%.
- Government spending is about 20% of GDP, half the share taken by most advanced trading nations.
- The territory has accumulated reserves of US\$90 bn on the back of a fiscal policy established by Britain 150 years ago.

But passions rather than cool reason are directing the debate on fiscal policy as a result of the onset of that rare event in Hong Kong – a budget deficit (of HK\$50 bn [£4 bn]). The recovery may have come too late to sustain Hong Kong's traditional approach to public finance.



### ■ The bygone building boom of the 1970s

Confusion began after the savage drop in property prices since the Asian crisis in 1997. Real estate and related activities account for between 33% and 40% of GDP, and 40% of government revenue derives from real estate. So when property prices crashed in response to a weakened global trading market, the government lost revenue. One response was a moratorium on the auction of land sites. Tung Chee-hwa, leader of the former colony, was criticised as favouring the property barons, who had suffered a 50% drop in the value of their assets since the peak in 1997.

One result of the moratorium: a chronic shortage of new apartments.

The sale of land resumed in April. Three plots were purchased at prices that were sharply higher than market expectations. The first plot to be auctioned, a residential site, fetched HK\$590 million (£47 million). The auction results suggested that developers were banking on a 30-40% rise in property values.

companies of the North who want more licensing for their own greenhouse emissions. This destructive policy is typical of the global economy, whose development projects Goldsmith rightly considers the environmental problem. What makes the problem devastating is that governments no longer control corporations; corporations now control governments, a point Goldsmith emphasized. Common sense tells us that in this situation eco-taxing well-heeled corporate wrong-doing, perhaps indistinguishable from

politicians' accepting a buy-off from corporations, is at best a feel-good substitute ("cop out" in American slang) for the real antidote, revenue-producing licensing with conditions to be met for using land at all. Those conditions, drawn up by an indignant public, wouldn't just have teeth in them, they'd have fangs.

- Whole-system oriented, Mary Lehmann believes in and works for "resource-use licensing yielding basic income trade exchange collateral" ("the rulybitec" to insiders).