
Environmental Tax Shifting

At the Council of Georgist Organizations conference in Gaithersburg, MD, on July 8, 1999, the subject of Environmental Tax Shifting was addressed by two very well qualified panelists, David Roodman and Peggy Duxbury.

Moderator Jeff Smith credited the origin of environmental tax shifting with author Herman Daly, who used to be with the World Bank. In his book Steady State of Economics 25 years ago, Daly cited Henry George.

David M. Roodman is senior researcher at WorldWatch Institute, a Washington, DC based nonprofit organization, that annually issues the State of the World report which is distributed to every government.

Roodman is the author of a book on fiscal policy and environment subsidies released last fall. When the book was released, the press release was headlined "\$2,000 Tax Cut Per Family to Save the Planet." He then elaborated on how that conclusion was reached.

There are different ways to raise revenues. Since taxes almost always discourage production, start by taxing things we don't want and avoid taxing things we do want — such as work and investment. Payroll taxes, personal income taxes, corporate profit taxes, sales taxes, and the part of the property tax that applies to buildings are essentially penalties for work. Don't subsidize things we don't want, and we should share more equitably in windfalls (or call them rents) that accrue from owning and extracting mineral resources, including the site as a whole, land. Replace private profit from unsustainable abuse of our natural inheritance with shared profit from sustainable use.

We estimate that worldwide roughly 3% of today's taxes come from environmental damages, mainly gas taxes in Europe. Perhaps 4% comes from "resource windfalls," and most of that comes from the property tax that applies to land in the United States. Worldwide nearly 95% of taxes are on work and investment. Governments spend about \$650 billion subsidizing things that cause environmental harm.

We want to build an environmentally sustainable economy for the long haul, to enact on the books proposals such as resource depletion taxation. Right now our fiscal policies are blind to environmental damages and hide their direct costs of things that do environmental harm — such as hospital bills, air pollution, lung diseases, crop damages from extreme weather that are increasingly linked to global warming. In the U.S. for example, the cost of air pollution from driving has been estimated from \$120 billion to \$1 trillion per year, or \$500 to \$104,000 per person. Add to that the subsidies for roads and parking. Roodman's book calls for

ending almost all of the \$650 billion a year in harmful subsidies worldwide. That is what he estimates to be about a \$2,000 tax cut per family per year in the U.S.

The Natural Wealth of Nations also calls for raising taxes that do environmental harm, i.e., emissions of carbon dioxide, and using that revenue to cut conventional taxes, such as corporate profit taxes or payroll taxes. In addition, we would increase "Georgist" taxes on land. I propose here that the property tax in the U.S. be converted to a pure land tax.

The property tax in the U.S. generates about 11% of gross revenue at all levels of government, and Roodman recommends that the entire world come up to that level. That generates about 12% of world revenues. By additionally bringing environmental damage taxes up to 15% of revenues, conventional taxes overall would go down by about one-third.

The first part of Roodman's book deals in detail with harmful subsidies to mining, oil drilling, livestock grazing, farming, fishing, energy use, and driving. Former eastern block nations spend about \$84 billion a year subsidizing fossil fuels — like coal, oil, natural gas — which possibly speed global warming. The U.S. government, at least in the early 1990s, spent \$300 million to \$400 million more a year on building logging roads and subsidizing private companies chopping down trees. The bottom line is that taxpayers have been paying private timber companies to log public forests.

Western governments have spent billions trying to develop nuclear power, but it is too expensive for the market. The subsidies for fishing put fishers out of jobs. Spain and the U.K. have cut the subsidies for coal mining since the 1980s and coal production has fallen by half. In the early 1970s the Netherlands introduced taxes on water pollution. As a result, emissions of heavy metals (lead, copper, etc.) came down steadily. That shows how resource depletion taxes can harness the market. The demand for pollution control equipment also stimulated innovation in the industry. In 1991 Sweden raised taxes on air pollution and used that money to cut income taxes. Seven European countries have made small environmental tax shifts: Denmark, Spain, Netherlands, Finland, Germany, United Kingdom, and Sweden.

Some governments have moved toward Georgist tax shifts. The most important example is Melbourne, Australia. The city is actually divided into something like 56 local governments, and over the century different municipalities

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have pursued different paths on land and building taxes. The governments with pure land tax had 50% more construction and 50% more population density. Increase in environmental taxes and increase in Geogist taxes are promising starts in decreasing costs.

It is often said that change doesn't happen overnight. The Berlin wall fell overnight, but it was actually a culmination of a long historical process. Roodman believes the pressure for environmental reform and taxes and spending has to build over time until it reaches a critical mass. The question of whether we can get these environmental tax shifts, a shift to taxing land, is the question of whether we can build a sustainable society. If tax signals are sent to businesses and consumers, they will respond, and the end result is that taxes will harness the power of the market to protect the environment.

Consultant Peggy Duxbury, worked on tax policy for House Ways and Means Committee member Rep. Bill Frenzel from Minnesota (her native state). She talked about work she did while with Redefining Progress in San Francisco. She brought together five economists when the scientific evidence was becoming compelling in 1996-97 about global warming. The media statements didn't conform to what mainstream economists were saying. Dale Jorgenson at Harvard (her alma mater), Paul Krugman from MIT, Bill Nordhouse from Yale, and Nobel prize

winners Kenneth Arrow from Stanford and Robert Solow from MIT crafted a joint statement (see reprint below.) The agreed-on statement was sent to the economic community, and 2500 prominent economists signed the statement, eight of them Nobel prize laureates. That ended up opening up a lot of doors at the U.S. Treasury and State Department. Basically, the statement countered some of the oil industry's arguments.

Duxbury acknowledged being a "raging incrementalist" and went on to say that the environmental tax shift is most logical at the federal level, raising taxes on energy and particularly fossil fuels. She said that energy taxes are regressive taxes on home heating and automobiles (particularly in northern states like Minnesota) and that needed to be addressed. She further cautioned that once the energy taxes created the behavior wanted by lowering the amount of carbon and air pollution, there wouldn't be a steady tax base. She defended the current taxes that, though far from perfect, they are reasonably broad based and reasonably progressive. She did acknowledge the current taxes don't encourage savings nor are they good at protecting the natural resources base. She admitted the land tax idea intrigues her. When you start messing with the tax code, though, she cautioned, the baby doesn't necessarily resemble the parent from the philosophical idea to when it comes out of the House and Ways Means Committee and the Finance Committee.