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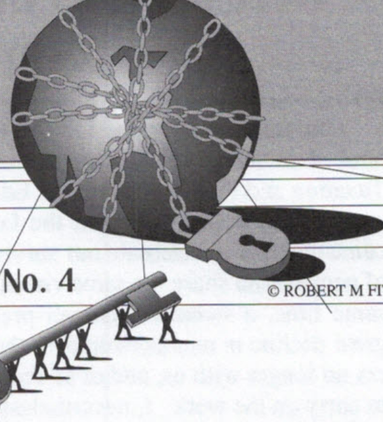

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SHARING NATURAL RENTS TO SUSTAIN HUMAN SOCIETY

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(the following speech was presented at the annual conference of the US chapter of the Society of Ecological Economists, in Duluth, MN in July, 2001.)

Rent rules

To get rich, or more likely to stay rich, some of us can develop land, especially sprawling shopping centers, and extract resources, especially oil. While sprawl and oil depletion are not necessary, they are more profitable than a car-free functionally integrated city. Under the current rules of doing business, waste returns more than efficiency. We let a few privatize rent - ground rent and resource rent - although rent is a social surplus. As if rent were not profit enough, winners of rent have also won further state favors - tax breaks, liability limits, subsidies, and a host of others designed to impel growth (20 majors ones follow herein).

If we are to sustain our selves, our civilization, and our eco-system, we must make some hard choices about property. What we decide to do with rent, whether we let it reward our exploiting or our attaining eco-librium, matters. Imagine society waking up to the public nature of rent. Then it would collect and share its surplus that manifests as the market value of sites, resources, the spectrum, and government-granted privileges. Then we could forego taxing labor and capital. On such a level playing field, this freed market would favor efficiency - the compact city - not waste - the mall and automobile.

Past isms neither one or the other

Proposals to share rent have surfaced before - in antiquity by Moses in the West and Mencius in the East. In the modern era, the idea appears in a century cycle:

* In the 1600s, philosopher John Locke questioned "the 'sacredness' of property". Biblical scholar Spinoza proposed public ownership of land. Quaker William Penn and Pilgrim William Bradford urged the shift from taxes to Ground Rent.

* In the 1700s, the physiocrats, which included Quesnay and Turgot, Thomas Jefferson and Tom Paine, advocated taxing only land. One wise man, Mirabeau the Elder, called the discovery of l'impot unique (the single tax) as momentous as the invention of writing.

* In the 1800s Europe had J. S. Mill and America Henry George, author of Progress and Poverty which outsold every book but the Bible. Candidate for mayor of New York, he was cheated out of his victory by Tammany Hall. George inspired most of the real-world implementations of the land tax that some jurisdictions enjoy today.

* In the late 1900s and early 2000s, the environmentalists, including organizations like the Sierra Club, push the Property Tax Shift from buildings to locations and the broader tax shift from income to pollution and from production to depletion. Many more green groups fault subsidies. A few even call for a dividend, a la Alaska's oil dividend. Even some Libertarian groups have joined the chorus.

It's as if the issue of sharing Earth were nagging our collective conscience (see our "101 Famous Thinkers on Owning Earth").

Public policy! Front and center!
(An earlier version of this section is appeared in Rhizome, newsletter of the Environmental Studies Association of Canada, 2001 winter issue)

Drawing their cue from the public, governments tolerate "rentention", the private retention of publicly-generated land values. Lacking this Rent, states turn to taxes. But to grow the economy, all governments—left, right, or undecided - hustle to stimulate development; they cut taxes and slop subsidies. Going beyond the call of duty, the state excuses producers' their routine pollution and limit liability, thereby cutting the cost of insurance. Companies that don't impose on nature, worker, or customer are not benefited at all but lose a competitive advantage. On this tilted playing field, one with the lumps of subsidies and the tilts of taxes, technologies lean and clean have a hard time competing as suppliers of materials, homes, food, rides, and energy.

1. Materials - Extraction vs. Recycling

Rent: The light levy on the value of resources in the raw, government vitiates that with depletion allowances. Plus, government accepts under-market bids for leases of publicly owned pastures and deposits. Getting to (continued on page 12)

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keep Rent makes extracting virgin materials extra remunerative; recycling used materials, wherein Rent does not even exist, has no such gratis profit.

Taxes: The tax on sales complicates business. One must do extra bookkeeping or hire an accountant; an easier burden upon entrenched firms than upon startups, such as a store to sell ap-tech (the products that consume fewer resources) so every home can be an eco-home. Being sneakily regressive, the tax nibbles away at would-be customers' discretionary income.

License: The price of raw materials does not include all the costs from the loss of habitat, other species, sources of new medicines, the downwind and downstream costs from tailings, etc, disadvantaging recyclers.

Subsidy: Government logging roads and way under-market leases favor loggers and miners, not selective harvesters and recyclers.

2. Construction - Sprawl vs. Eco-City

Rent. This social surplus is why developers build sprawl, not car-free villages. Rent, so-called "equity", is what homeowners borrow against for a bout of consumeritis.

Taxes. The property tax assessment is skewed toward the building, away from the land, benefiting speculators and developers, not owners. Localities often abate the tax for years for developers and major corporations who sprawl on new campuses.

License: The price of new homes too close to streams or on freshly cleared hillsides does not include the cost of washing out the homebuyers or their neighbors.

Subsidy: Where new homes go in, localities pick up the tab for new schools and infrastructure, saving developers $25,000 per home (Better Not Bigger, Eben Fodor, 1999). When people build on floodplains and get flooded out, the federal government bails them out (National Wetlands Newsletter, 1993, Scott Faber).

3. Agriculture - "Mechemical" vs. Organic

Rent. Farm owners, by retaining Rent, use land as collateral to qualify for loans to buy big-ticket combines and irrigators. Retaining Rent also raises the price of land, precluding poorer farmers who might try the less expensive organic methods.

Taxes. The tax on income makes labor more expensive, especially at the margin, where youths entering the workforce would seek jobs in recycling, reforestation, organic agriculture, and deconstruction (what better outlet for male adolescent energy). Having to pay wages plus taxes on income and for social security, bosses, including farmers, employ fewer workers.

License. The price of processed food does not include all the costs from losses of soil fertility, bio-diversity, collapsed aquifers, poisoned ponds, etc, disadvantaging organic growers.

Subsidies. Price supports and limited liability prop up mechani-chemical agri-business, not organic gardening.

4. Transportation - Cars vs. a Mix of Modes

Rent. Not having to pay Rent to their community, urban owners awaiting a higher future return under-use prime sites, forcing development outward. Sprawl requires cars, displacing buses, bikes, and people.

Taxes. The tax on income makes capital less remunerative, so a blue chip stock, not quite so visionary, becomes more attractive than a risky new start-up trying to make money doing good. A hybrid electric car or a fuel-cell light enough to power buses and trucks begs for funds while a GM doesn't. Tariffs fall on imported vehicles, which tend to be more fuel-efficient than their domestic counterparts. Thus the market share of efficient cars is kept smaller than it otherwise would be.

License. The price of gasoline does not include all the costs from smog - damage to crops, lungs, buildings, etc - disadvantaging bikes and buses.

Subsidy. Freeways, overly wide streets, highway patrols, traffic courts, ambulances, and free military chastisement of overseas suppliers that everyone pays for, not just drivers, pave the way for car dependency, not an integrated use of bikes and buses. Gasoline ought to cost at least $7.00 per gallon figures the World Resources Institute (Green Fees, 1992).

5. Energy - Fossil Fuels vs. Renewables

Rent. By taxing, rather than living off Rent, governments can afford to lose land to a dam or its value to a nuclear power plant. Clean energy, on the other hand, would tred lightly on land values, the proper source of public funds.

Taxes. The tax on property makes improvements to buildings more expensive year after year. Some states do exempt certain ap-tech improvements, which amounts to a few dollars, but they also grant tax-free bonds to utilities, which adds up to millions of dollars. States make up its exemptions by raising tax rates. An ecologizer may pay no greater property tax for solar panels, but like everyone else will pay more to higher taxes on sales and income.

License. The price of AC electricity does not include all the costs from inundated valleys, nuclear radiation, acid rain, etc., disadvantaging safe power producers.

Subsidy. The federal government pays a billion dollars a year to oil companies to pump oil back into the ground as a "strategic reserve" rather than just leave it under Louisiana and Texas. Cost-plus contracts benefit power utilities, not independent solar converters.

Rents, tax breaks, license, and subsidies total trillions each year in the US. Destructive subsidies total $1.5 trillion each year worldwide (The Natural Wealth of Nations: Harnessing the Market for the Environment, 1998, (continued on page 13)

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by David Roodman in The Worldwatch Environmental Alert Series; he also suggests capturing the windfall rent-jumps in settled areas.) Thus virgin extraction, sprawl, mechani-chemical agribusiness, gasoline car manufacture, and fossil fuels look like bargains, making recycling, eco-homes, organic gardening, mass transit, and solar power look expensive. Low prices win over customers who string along investors. As long as the economy is rigged against the eco-system, guess which one is going to continue to go downhill?

Henry David Thoreau said the best thing government can do for business is get out of it. Nevertheless, some hope to shift subsidies from grey bads to green goods. Yet the state need not subsidize at all. It's dauntingly difficult to know whom to fund; a solar steam generator may be the most promising idea one day while photovoltaics are the next. Efficient alternatives don't need largesse but fairness. A handout shields new industry from the forces that compel efficient growth. The best thing government can do for the environment is exit environmental enterprise.

Rent rewarding eco-sense

Now wipe out the taxes, subsidies, liability limits, and rent retention. Instead, replace all that with running government like a business. Charge full-market value for state acknowledgements (the seven secret subsidies): corporate charters, standards waivers, utility franchises, monopoly patents, communication licenses, resource leases/claims, and land titles/deeds. Collecting rent for government-granted privileges would not only raise trillions but also whittle corporations down to a competitive size, less hazardous to democracy.

Besides charging what privileges are worth, government should also replace license with responsibility ("internalize the externalities"). To temper the temptation to use lands both fragile and valuable, society could impose surcharges - an Ecology Security Deposit, Restoration Insurance, Emission Permits, and fines when users exceed standards. To minimize all these charges, producers would seek sustainable alternatives.

Getting and sharing rent from land titles is the centerpiece of this geonomic revenue reform. Each phase of such a revenue shift motivates sustainable choices in its own way.

1. Get the rent. Having to pay over rent to community makes speculation not worth the bother. So owners use their land and resources more efficiently. Using some land more intensely means using other land not at all. Plus, intense use augments the housing stock, lowering the housing cost. Pittsburgh, while taxing land six times more than buildings, enjoyed the most affordable housing of any major US city. More residents are owner occupants who choose to improve their homes, plugging heat leaks, etc.

2. De-tax wages and interest. Removing such taxes while collecting rent moves investment funds in the opposite direction, from extraction and speculation into advancing physical capital and hyper-training labor. The resultant investment shift would accelerate techno-progress, helping us get more from less.

3. De-subsidize favored producers. Besides giving lobbyists a reason to contemplate a career change, abolishing subsidies would force producers to cut waste, to call on all the tools and techniques extolled by Amory Lovins and other green industrialists.

4. Pay out the rent. Getting money for nothing, would people still pursue mindless consumption of goodies or switch to mindful consumption of leisure? The pressure to consume stuff for prestige should be lessened by the increased equality in society. Everyone would pay in land dues equal to the value of the nature they claim and get back rent dividends equal to everyone else. These dues and dividends would narrow the income gap.

The conserver ethic would have a context in which to grow, since community is the crucible for morality. Stable neighborhoods put Pittsburgh's crime rate on par with a small town, by far the lowest in the US. Where residents become owner occupants, they participate more in community, even adopt environmental values. Pittsburgh converted its most valuable location, where the three rivers meet, into a public park. Not bad for a working class town twice named America's Most Livable.

Ecological Economics, the only economics

Noticing rent, realizing its social nature, accepting that it's to be shared, and understanding that wages and interest should not be expropriated, for most people that's a new way of thinking. Thinking such thoughts leads to a new way of conceiving economics, too. Ecological economics becomes not just a branch of economics but a whole new discipline, needing a new name.

In geonomics we maintain the distinction between items bearing exchange value that comes into being by human effort - wealth - and those that don't - land. Keeping this distinction in the forefront makes it obvious and non– controversial that speculating in land drives sprawl, that hoarding land retards Third World development, that borrowing to buy land plus buildings engorges banks, that so-called "interest" is quasi-rent, that the cost of land inflates faster than the price of produced goods and services, that over half of corporate profit, says the Urban Land Institute, is from real estate.

Summing up these analyses, geonomists offer a Grand Unifying Theory, that the flow of rent pulls all other indicators in its wake. Geonomics differs from economics as chemistry from alchemy, as astronomy from astrology.

The acid test of any science is prediction, a test that economics fails and geonomics passes. Plugging in the land price cycle of 17+ years lets geonomists crank out predictions more accurate than those generated by "the experts" who missed, for example, the collapse of mighty Japan. When the land of the Rising Sun was on the market for four times the assessed of all America, that's when a few geonomists, like voices in the wilderness countered (continued on page 14)

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conventional wisdom by proclaiming that the Japanese boom would bust. According to these geonomic prognosticators, don't expect America's next downturn for at least another five years, despite the tech wreck or any other stock market fluctuations.

For real science, what works in theory must work in practice. Wherever tried, to the degree tried, applying geonomics has worked. Shifting taxes landward has broken up rural land concentration, prompted efficient use of urban land, spurred development, supplied affordable housing, raised employment, lowered inflation, and augmented income. Check out the record in California, Australia, New Zealand, Taiwan, Denmark, Johannesburg, Hong Kong, and elsewhere (see our "Where Tax Reform Has Worked").

Geonomics draws its power to predict and fix what ails economies by being grounded in reality. It holds to the notion that economies are not apart from but part of the embracing eco-system. As part of whole, economies self-regulate by the same natural feedback loops. The prey/predator cycle is mimicked by the pricing cycle, also known as the Law of Supply and Demand. This familiar pattern is found, too, in the Share Rent Cycle. (1) Getting more rent, people work less, so output drops. (2) Less output lowers land values and deflates the rent-share. (3) Getting less rent, people work more. (4) More output raises site values and swells the rent-share. (5) Again, ad infinitum. Thus, production is put into balance with consumption and work with play.

Geonomics yields a policy that's not at war with but aligned with nature as model. Perhaps the most central feature of economics is price. Price is to production what DNA is to reproduction, the guides to growth. Rather than distort price with taxes and subsidies, with license (so-called "externalities") and rent-retention, geonomics respects the integrity of price, allowing it to accurately reflect our costs and values, by sharing rent. Then economies ("geonomies") can operate without the deadweight losses of taxation and rent seeking.

Clean break

While constituting a shift of the paradigm, geonomics is winnable. It appeals to a broad constituency by being not left nor right but green, neutral, and effective. Not only is shifting the flow of public revenue winnable, it is doable at any level. In the locality, for example, reformers can shift the property tax from buildings to locations, as urges Sierra Club, Brookings, and a host of others (see our "Green on George: 122 Notable Environmentalists on Taxing Only Land"). With the collected rent, the locality could pay Housing Vouchers to residents. And not only is some variant of geonomics winnable at every level of government, it's being won now. The most recent victories are Allentown, Pennsylvania, and Mexicali, Mexico.

To sustain that which we love, we must transform our relationships to nature, to government, and to each other. We need to become geonomists in worldview, theory, discipline, and policy. Geonomics creates an economy that's not at war with but aligned with the natural world.

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