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Climate Change from a Georgist Perspective

By Frank de Jong

A [carbon fee and dividend began in Canada](#) on January 1st, 2019, the first national level carbon tax in the world.

Carbon taxation is fraught with variables, a complicated whack-a-mole game, but interestingly, I think will reduce housing costs as well as reduce CO₂ emissions.

If fossil energy was purely a house-like asset -- if the price directly reflected the cost of production -- a carbon fee would behave like a Pigouvian tax and effectively reduce emissions.

But since it is also a land-like asset, with the price partially set by what the market will bear, prices and CO₂ levels will not respond, for example, like a tax on cigarettes. Instead, the merchants of doom will be forced to forgo some of the rent they normally pocket (equivalent to the tax), leaving the price, and thus the amount of energy used and the amount of CO₂ produced, mostly unchanged.

Also, if landowners decide fossil fuel use is inelastic -- that they generally have no choice or desire but to continue using it at present levels -- some of the rent

that accrues to the upfront cost of land will be diverted to fuel costs, thus slightly reducing land values.

So, because fossil energy has both a cost of production and attracts rent (it's both house-like and land-like), the modest carbon fee and dividend scheme that Canada is planning will probably reduce both CO₂ emissions and housing costs a small amount.

Rent is like a water reservoir, if there are leaks it will draw down. If everyone took up smoking or ate more chocolate, the rental value of land would draw down as some of it would be distributed more widely through production economics. Conversely, if people stopped buying cars, thus raising their disposable income, the price of land would be bid higher with the savings.

Scientists warn that business as usual will render the Earth unlivable within decades, citing as evidence wild weather events, rising ocean levels, the release of previously sequestered methane from clear cutting and melting tundra along coupled with the fact that we've lost 50% of the planet's wildlife over the last 50 years.

A stiff carbon tax could have been part of a revenue-neutral tax shift off incomes for decades already, not damaging the economy at all and allowing the market to equitably incent low-carbon lifestyles.

Georgists all agree rent capture doesn't encourage or discourage any industry, doesn't pick winners, is not punitive to any technology, resource or lifestyle. That's the job of Pigouvian taxes, not Georgist economics.

Value capture, when applied to fossil energy would strip off the super profits but wouldn't touch the operating profit. So even if economic rent capture was fully applied, not one drop of oil, not one lump of coal, not one puff of natural gas less would be burned. Geoist taxes can't possibly affect a reduction of CO2 emissions.

Economic rent capture is not political or environmental, it's just sound economics.

To reduce activities like smoking, drinking or fossil fuel use, politicians choose Pigouvian taxes. Sin taxes make substances like cigarettes and booze more expensive because these substances are endlessly replicable and thus don't accrue economic rent. Fossil fuels, on the other hand, are finite gifts of nature and can command prices beyond the cost of production. Eco-sin taxes don't work on fossil fuels until all the economic rent has been removed.

There are various Georgist points of view:

- Purists who feel government revenue should come exclusively from the economic rent of land, not from

peripheral finite assets like fossil fuels, resources, EM spectrum, quotas, stock markets, currency speculation, patents, publicly-funded infrastructure like roads, docks, airport landing strips...

- Georgist climate change deniers who suggest fossil energy doesn't attract rent, that the price of oil, coal and gas reflect the cost of production only.
- Georgist climate deniers who still suggest applying economic rent capture to fossil fuels since, like land, they are non-replicable, finite, public assets where the price is determined by demand, not by their corresponding cost of production.
- Green Georgists who want to slap economic rent capture on fossil fuels to spike their price to discourage their use to help avoid climate change.

My point is that Georgists need not argue about climate change, our program has no impact on it. Carbon taxes will make no difference to the amount of fossil fuels burned until after all the economic rent is stripped off and then, and only then, when additional Pigouvian taxes are applied beyond elasticity.

We are economists (economic rent capture), not politicians (Pigouvian taxes).

However, having said the above, value capture should be applied to fossil fuels -- not that doing so will

reduce the amount burned, but because removing the super profits from the industry will offer renewables and conservation a level playing field. Humans should not waste non-renewables.

The same argument holds for mining resource value capture, it will allow alternatives, conservation, recycling, reuse and recovery, a level playing field to mining virgin materials. Humans should not waste non-renewables.

So depending on the magnitude of the threat of an industrial product to the Earth's ecological balance:

1. value capture
2. Pigouvian taxes
3. ban.

Like no other issue, the carbon tax splits Georgists down the middle, pitting green-Georgists against libertarian-Georgists, making both sides' blood boil. Half of Geoists think value capture should absolutely and immediately be applied to oil, gas and coal while the other half feel it has no place whatsoever in our economic program.

Even full economic rent capture won't reduce emissions since, by definition, rent capture allows companies a roughly 5% "operating profit" so as not to damage any industry.

To actually reduce CO2 emission would require full rent capture + Pigouvian taxes. Of course, a level playing field would be a dream come true for renewables, so they could compete without subsidies.

Full rental value capture will, however, create a level playing field with conservation and renewables by quantifying (and stripping off) the externalities, overt subsidies, and tax exemptions. Furthermore, such a playing field would better allow land and natural resource optimization for the proper, efficient, and just use of the resources we all need to survive. Earth day could then be celebrated everyday.