A GREEN TAX SHIFT

BY FRED FOLDVARY

The most effective way to reduce climate change is with a “green tax shift” which replaces taxes on wages, goods, and enterprise with levies on pollution and land values.

There are three basic ways to reduce polluting emissions: regulations, permit trading, and levies on pollution.

Most governments have responded to polluters and pollution production with command-and-control regulations. They are called “command and control” because these laws command businesses and households to do something, such as getting a smog test or adding chemicals to gasoline. The problem with this kind of regulation is that it presumes too much about the knowledge and wisdom of central planners, and it ignores the costs to those affected.

Permit trading allows polluters to obtain permits to pollute, but these permits can be bought and sold in financial markets. This approach enables firms adjust their behaviors to respond to the price of getting additional permits, but the gains in permit value go to the permit holders, and in many cases, firms do not reduce their pollution output if they can get credit for owning undeveloped land. Permit markets are also subject to financial manipulation, such as with derivatives that invite speculation.

The most efficient and... (Cont'd pg. 5)

Featured Projects

RSF CONDUCTS AND SUPPORTS WORK IN COMMUNITIES, EDUCATION, OUTREACH, AND PUBLISHING.

2019 NATIONAL CONFERENCE OF STATE LEGISLATURES

NASHVILLE, TN

In partnership with the Center for the Study of Economics and the Public Revenue Education Council, RSF attended the 2019 NCSL in Nashville, TN, to talk LVT with conference attendees, including state-level elected officials, staffers, lobbyists, and practitioners.

The team interacted with a record number of conference attendees, many of whom were struggling with tax-related challenges and were interested to learn how the tax solutions we described could help their jurisdictions.

CSE ED Josh Vincent talks LVT with a conference attendee.

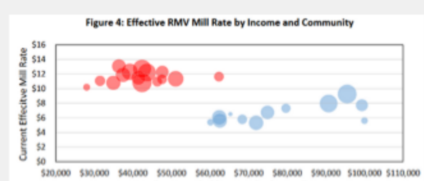
LAND VALUE TAX ANALYSIS:

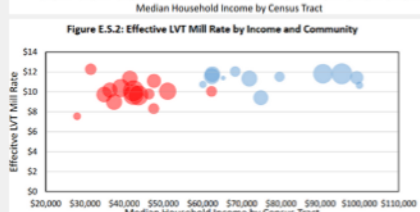
SIMULATING THE EFFECTS IN MULTNOMAH COUNTY

BY NORTHWEST ECONOMIC RESEARCH CENTER

Prior measures to limit property tax growth in Oregon have created inequitable tax burdens.
Recognizing that adoption of a land value tax (LVT) might bring some relief to lower income residents while encouraging desired infill development, RSF funded the Northwest Economic Research Center (NERC) to simulate the localized economic impacts of implementing LVT.

NERC's findings supported the conclusion that implementation of LVT within the study area could be expected to produce significant, positive effects - a finding with potentially significant implications for one of the most costly housing markets in the country. To access NERC's full report, visit: https://schalkenbach.org/community-resources/





Figures from NERC's report showing more equitable tax burdens under LVT.

Segregation (Cont'd from pg. 4)

racist and irrational fears because property values actually increase when neighborhoods integrate, but the fears exist nonetheless.

The pull effect refers to the attraction of buying into areas that have increasing property values because it would result in growing home equity even without having to pay down what was owed on a mortgage. There were other factors as well, but this dynamic around property values played and still plays a major role in housing segregation and the major implications that segregation has for schooling, jobs, and other opportunities.

I first started learning about this when I was in law school and it motivated me to work on housing issues both in my first job with the Saint Paul Human Rights Department and through volunteer work with community organizations. But eventually I learned that what people refer to as property values are actually land values. Real property is made up of two parts: building value, which is made up of the labor and material costs that don't fluctuate very much, and the underlying land value, which is created by what is happening in the surrounding community and which can fluctuate a lot.

I learned that back when these housing patterns were developing in the early twentieth century, a group of influential reformers that included Albert Einstein, Helen Keller, Leo Tolstoy, and Emma Lazarus were pushing a reform that would have helped: they proposed what was essentially a land trust arrangement in which, instead of paying taxes, homeowners paid community rent for the land under their homes while still having title to the house on top of the land.

Under the reform, the homeowner would have to borrow only for the house and not for the underlying land. When it comes to housing segregation, this would have solved a lot of problems. It would have reduced the push effects because there would have been no loan on the part of the home that fluctuates greatly in value, and if the land value by chance did go down, it would just mean the homeowner paid less in land rent. It would have reduced the pull effects because buying into areas of increasing value would have meant that homeowners would pay increasing land rent and the only way to increase home equity would have been to pay down the loan on the structure.

Unfortunately, the reform never caught on and devastating results from housing segregation occurred both for individuals in terms of reduced opportunities and for whole cities like Detroit that collapsed under the strains. But we can learn from history and work on increasing the use of land trust arrangements in housing. Then "property values" won't be such a concern, and segregation in housing—and in our schools—may become a thing of the past.

A Green Tax Shift (Cont'd from pg. 3)

equitable way to limit pollution output is through taxes or fees on pollution production and other environmental destruction, based on an assessment of the damage it causes. Firms can then respond in their most effective ways, such as by capturing the emissions, or changing production methods, or stopping harmful practices.

A "green tax" (also called an environmental or ecological tax) is a levy on activities which damage the environment. One type of green tax is a "carbon tax" which is levied either on inputs such as gasoline or outputs such as the emissions. The most effective carbon tax is directly on the carbon emission, since this provides an incentive to reduce or capture the carbon. When the tax is on gasoline, it does reduce the use of gasoline but provides no incentive to capture the carbon.

Most auto emissions come from the dirtiest 10 percent of vehicles. Over 50 percent of on-road carbon monoxide comes from just five percent of the cars. The same is true of hydrocarbon emissions. In each case, the cleanest 90 percent of cars taken together generate less than 15 percent of the pollution. Emission reduction regulations should be chiefly aimed at the gross polluters rather than imposing regulatory costs on all cars and driving.

The measurement of vehicle emissions can be done with remote-sensing technology, such as the Stedman device, which works as follows: An infrared beam is shone across the road. As a car passes along the road, the exhaust plume absorbs some of the light waves of the beam. The sensor receiving the beam can infer the pollutant concentrations in the exhaust. Low-cost remote sensing can be combined with video and computer equipment that automatically read the license plate of the passing vehicle. Remote sensing devices can be placed at intersections and freeway on ramps. These measure various pollutants in the exhaust when cars pass by, and then photograph the license plates of polluters when they are above a certain threshold. We can thus significantly reduce air pollution at a low cost to the public.

There can be green taxes on all toxic emissions, not just carbon but from all sources of pollution: factories, power plants, buildings, and vehicles. Rather than command particular outcomes, policy can induce the outcomes at lower cost and within the market.

A complete green tax shift would not just replace economy-hampering taxes with environmental levies, but would eliminate the waste that our current tax system imposes. Taxes on wages and goods impose a "deadweight loss," meaning a loss of benefits without any offsetting gains. The main economic cost of taxation is not the tax payments, since that is a transfer of resources rather than a cost to the economy. The economic cost is unseen but actual: the reduction of output and consumption because of the tax, and the reduction of benefits due to paying more for the goods.

The deadweight loss, also referred to as the excess burden of taxation, is economic waste, while a waste of resources is environmental destruction to no (Cont'd pg. 6)

On the Cover: Activists at the Philadelphia Climate Strike on September 20, 2019

(Cont'd from pg. 5) no good end. There is no deadweight loss from a tax on land value because the supply of land is fixed. Land rent is an economic surplus which can be taxed without any bad effects. Taxes on wages reduce labor, and taxes on goods reduce goods, but land does not flee, shrink, or hide when taxed.

Many environmentalists do promote a green tax shift. Their slogan is “tax bads, not goods.” With land-value taxation, the ‘bad’ is the subsidy that real estate owners receive from the higher rent they receive due to the government’s public goods, double billing worker-tenants who pay both higher rent and taxes on their income and spending.

A green tax shift is win-win, because it reduces environmental destruction while improving the economy. Some opponents of policies to limit the production of pollutants that contribute to or cause climate change say that the economic cost would be too high. Indeed there is an economic cost to regulations. But with a green tax shift, in the long run we can have a reduction in pollution and environmental degradation with no negative effect on the economy, because we are replacing market-inhibiting taxes with market-enhancing payments.

Some leaders in developing economies also say that they should not bear the cost to effect a reduction in global warming until their economies become more developed and wealthier. But all developing countries are imposing market-hampering taxes: on value added, on wages, on goods, on trade and enterprise. Developing countries too can implement a green tax shift and have even higher growth together with environmental protection.

Taxing pollution production is the morally right thing to do and is really the only effective way to swiftly reduce pollution in a big way. It’s good for developed countries as well as for developing countries such as India and China. The green tax shift would help all economies.

We can have it all: a better environment and a better economy. If we don’t do a green tax shift, if instead we continue to regulate using permit trading, we will not eliminate the excess burden, but rather increase the costs of enterprise, which will create political resistance, and pollution will get worse and worse until it ruins our planet.

Tell your representatives and candidates for office that we need the green tax shift, now!