
THE L & L DEBATE

SUSTAINABLE DEVELOPMENT: THE ROLE OF RENT

James Robertson

After 20 years in government (including the Cabinet Office), systems and organisation consultancy, and interbank research, James Robertson has worked as an independent writer, speaker and consultant. His last book was *Future Wealth: A New Economics for the 21st Century*. In 1997 he presented a Briefing for Policy Makers on "The New Economics of Sustainable Development" to the European Commission. This paper was first presented to the Brighton (England) conference of the International Union for Land Value Taxation & Free Trade, in July 1997.

1. Sustainable Development

SUSTAINABLE development was defined by the Brundtland Commission in *Our Common Future* (1987) as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Economists argue about the adequacy of this definition. But, for practical purposes, it is good enough. It makes it quite clear that sustainable development is concerned with the needs of people, not just with the environment.

In fact, of course, we need development that is sustainable from an economic, a social and an environmental point of view. Because modern thinking and organisation splits everything into separate compartments, it has been commonly assumed that there are conflicts between economic, social and environmental objectives, and that we have to make trade-offs between them. But it is slowly coming to be seen that we have to seek synergies between them. For example, we need tax changes that are beneficial from an economic, and a social, and an environmental point of view. The

conflicts that arise – and there are many – should be seen as conflicts between different people and different interest groups, rather than between different societal goals. For society as a whole, economic, social and environmental sustainability all depend on one another.

Although the world has been slow, since the Earth Summit in Rio in 1992, to move to environmentally sustainable development, the need to do so is now on the agenda for an increasing number of governments worldwide. In countries like Britain, what to do about global warming is a frequent topic of public discussion, and increasing numbers of people are making the connection between up-front issues like traffic congestion and the more general problem of ever-rising levels of pollution. Many of us are probably aware of Local Agenda 21 initiatives in the parts of the country where we live.

Very big changes are needed over the coming half-century if the world is to change direction to a path of sustainable development. It is estimated that the rich, high consuming, high polluting countries will have to

reduce their consumption and pollution levels by up to 90%. The "Factor Ten" programme of the Wuppertal Institute in Germany is showing, not just that this is necessary, but also that it is feasible without damaging people's standard of living and quality of life. Ernst von Weizsacker (head of the Wuppertal Institute) and Amory Lovins (of the Rocky Mountain Institute in Colorado) have recently published a book called *Factor Four*. Although this report to the Club of Rome proposes a less ambitious target than the "Factor Ten" programme, we need not argue about that. A fourfold improvement in the efficiency with which we use resources (including the capacity of the environment to absorb pollution and waste) will be a good start. To bring it about will certainly require significant changes in the framework of government regulation, public spending and taxation.

Some such framework for economic activity has to exist, of course. Its character will encourage people and organisations to act in certain ways rather than in others. In

that sense, a totally free market is an impossibility, as – I am sure – most people here would agree. The question is how should the framework for the market be designed to encourage people and organisations to act in ways the democratic process has decided will be desirable. Here today, we are particularly concerned with the taxation element in that framework.

2. Ecotaxation

ECOTAXES are taxes on the use of energy and other natural resources, including the capacity of the environment to absorb pollution and waste. The tax on waste sent to landfill sites, and the annual rise in the level of motor fuel tax, are examples in Britain. Ecotaxes are also taken to include some taxes and charges not strictly on natural resource use, e.g. in some countries on domestic air flights, aircraft noise, and traffic congestion. Such taxes are now widely accepted as a necessary component of a shift towards sustainable development. They are the subject of a great deal of study and research by governmental agencies, including the European Commission headquarters in Brussels, the European Environment Agency in Copenhagen and the European Foundation for the Improvement of Living and Working Conditions in Dublin, and by mainstream research institutes and universities in many parts of the world.

Much of this work is of a painstaking, detailed, academic nature, more concerned with piecemeal econometric analysis than with the principles that might underlie a major shift to ecotaxes. One encouraging exception has been the support from the British Government Panel on Sustainable Development for a “move away from taxes on labour, income, profits and capital towards taxes on pollution and the use of resources. Currently we tend to

tax people on the value they add rather than the value they subtract.” This principle – that what people and organisations pay to the public revenue should reflect what they take out of the common pot, not what they contribute to it – is, in my view, very important. I think most people here will recognise its application to those who capture the site value of land – land being a resource whose value is almost entirely determined by the natural features of particular sites, combined with the effect of developments around them which are not due to the owners.

3. Ecotax Reform

IN ITS 1993 White Paper on *Growth, Competitiveness, Employment: The challenges and ways forward into the 21st century*, the European Commission suggested that revenue from its proposed CO₂/energy tax – that is, a tax on energy use with a bias against fossil fuels – should be used to offset loss of public revenue which would arise from reducing taxes on employment. That has set a general pattern for further work on ecotax reform – the assumption being that ecotaxes should not be used to increase the total tax burden but to reduce the burden of existing taxation. That, in turn, has broadened into the question of what the wider package should be, of which the introduction of ecotaxes will be part. And that has come to include the question of whether the revenue from ecotaxes should be used for certain particular purposes rather than others. One idea is that at least some of it should be redistributed to all citizens (or all households) in the form of ecobonuses. And, as I shall explain briefly in due course, this can be linked with the idea of a Citizen’s Income – as a feature of a restructured welfare benefits system.

At this point, before I continue further, it may be helpful if I

summarise where my argument is leading.

- First, ecotax reform, including a shift to resource taxes, continues to rise up the public policy agenda. Although the Georgist approach seems obviously relevant to it, the merits of site-value taxation (the collection of Rent as public revenue) have not yet figured much in the discussion. In the Briefing for Policy Makers on “The New Economics of Sustainable Development” which I presented in June to the European Commission, I emphasised that “policy makers should seriously examine the potential of the site-value tax, as a resource tax which will contribute to economically efficient, socially equitable, and environmentally sustainable development.” I hope that Georgists will find ways to follow this up.
- Second, how the revenues from ecotaxes and resource taxes should be used is another question on which I believe Georgists might usefully contribute to mainstream thinking today.

4. Comprehensive Tax Restructuring

THE GROWING interest in ecotaxes is helping to open up discussion of the need for a comprehensive restructuring of taxation. The existing tax system in many (probably most) countries is perverse. Not only does it fail to discourage environmentally unsustainable activities, and fail to encourage the innovation for sustainability which would lead to a rising national share of the growing world market for environmental technologies and services. More generally, it encourages people and businesses to subtract value, and penalises them for adding it. It encourages inefficient use of resources all round – over-use of natural resources (including the environment’s capacity to absorb

pollution and waste), and under-use and under-development of human resources. It discourages employment and favours energy-intensive and capital-intensive methods of production and distribution. Income tax, combined with the existing social benefits system, creates a poverty and unemployment trap which leads to social exclusion and rising costs for education, health, and law and order.

As societies like ours continue to grow older, they will find it increasingly difficult to tax fewer people of working age directly on the fruits of their employment and enterprise, in order to support a growing number of "economically inactive" people. At the same time, in an increasingly globalised economy, the competitive pressures will grow to attract inward investment by reducing taxes on personal incomes and business profits.

In short, quite apart from the environmental arguments for ecotaxes, the growing need to reduce existing taxes on employment, incomes and enterprise points towards greater emphasis on ecotaxes, and other resource taxes such as a land-rent tax.

5. Must Ecotaxes Be Regressive?

ANOTHER relevant factor is the regressive nature of many environmental taxes and charges. They hit poorer people relatively harder than richer. This is bound to be the case, if they are applied downstream, directly at the point of consumption. For example, VAT on household energy is particularly hard on poorer households, which can afford neither the extra costs of the tax nor the investment in improved energy efficiency necessary to reduce them. Traffic charges to reduce urban congestion will hurt small tradesmen who need to use their vehicles in the city for their work, but will be painlessly absorbed by people who travel in

chauffeur-driven Rolls Royces. If ecotaxes are to replace existing taxes to any significant extent, their regressive effects will have to be avoided or offset. There are three ways to do this.

First, whenever possible, ecotaxes should be applied upstream. For example, taxing fossil fuel and nuclear energy at source will not only be administratively simpler than taxing consumers on their energy use. It will clearly raise the cost of all energy-intensive and most polluting activities for producers as well as for consumers, evidently affecting the incomes and wealth of richer people (the salaries, dividends, capital appreciation, etc.) derived from energy-intensive production – not just the prices of energy-intensive goods and services to consumers.

Second, the package should include types of resource taxation that will clearly impact poor people relatively less hard than rich. A tax on the rental site value of land is one such progressive resource tax.

Third, the revenue from ecotaxes should be used to progressive effect. For example, a German study has concluded that if part of the revenue from an energy tax were "recycled" to households as an "ecobonus", the change would not only have positive economic and employment effects; it would also reduce the net tax burden on low-income households. A Swiss study has concluded that if the revenue from levying two Swiss francs per litre of petrol were distributed to all adults as an ecobonus, people driving less than 7,000 kilometres a year would benefit, while people driving more would lose.

Site-Value Taxation and Citizen's Income

IF, following these two examples, a significant proportion of growing ecotax (or resource tax) revenues were recycled as ecobonuses, the ecobonuses

would begin to add up to a Citizen's Income. Let me briefly explain this idea and why I think it relevant for Georgists.

A Citizen's Income (CI) – often known as a Basic Income – will be a tax-free income paid by the state to every man, woman and child as a right of citizenship. It will be age-related, with more for adults than children and more for elderly people than working-age adults. CI for children will replace today's child benefit, and CI for the elderly will replace today's state pensions. There will be supplements for disability, housing benefits, and other exceptional circumstances. Otherwise CI will replace all existing benefits and tax allowances. The amount of a person's CI will be unaffected by their income or wealth, their work status, gender or marital status.

Supporters of the CI idea in Britain have included John Stuart Mill, C.H. Douglas (Social Credit), the late Professor James Meade, 1977 Nobel Prizewinner for Economics, and individual Conservative, Liberal and Labour politicians. In the last few years the Citizen's Income Trust in Britain and the Basic Income European Network (BIEN) have been documenting and contributing to the growing interest in Basic Income in Europe and around the world.

Two hundred years ago Tom Paine proposed combining a tax on land ownership with an embryonic Citizen's Income. In his 1797 pamphlet on Agrarian Justice, Paine argued that every proprietor of land should pay a ground-rent to the community. From the national fund so created, every person should be paid £15 on reaching the age of 21, "as a compensation, in part, for the loss of his or her inheritance by the introduction of landed property," and every citizen over 50 should receive a pension of £10 a year. I have already mentioned the possible

relevance to a CI of the current idea of distributing ecobonuses out of the revenue from ecotaxes. I was very interested to see that, in discussing the distribution of the revenue from Rent, Godfrey Dunkley proposes that part of it should be distributed to localities on a *per capita* basis to be spent on local education, health and other social functions – a proposal which I see as not very far removed from the CI idea.

5. A New Social Compact

AGAINST this background, I believe the shift to ecotaxes could eventually be part of a larger package, including the following items:

- a range of new taxes and charges on the use of common resources and values, such as energy and the site value of land;
- the abolition of taxes and charges on employment, incomes, profits, value added, and capital;
- a CI (to which ecobonuses would contribute) as the centrepiece of a radically restructured social benefits system.

All citizens would then pay for enjoying the use of common resources and values; and all citizens would receive an equal share in the revenues so raised. That share would take the form partly of a CI and partly of public expenditure programmes.

This would provide the basis for a new social compact. It would have many advantages. If high unemployment persists, as it almost certainly will, the right to a share in the value of common resources would ease the loss of a right to a job (and job security). The problem for ageing societies, of taxing the earnings of fewer economically active people more highly in order to support a growing number of pensioners, would be avoided. The need to clarify the responsibilities of citizens towards themselves, their children, one another and society

as a whole, in return for their right to an equal share in the value of common resources, would accord with the increasing attention now being given to citizens' obligations as well as rights. In this scenario I think the merits of site-value taxation would become even clearer than they already are.

6. Internalise Costs or Pay "Rent"?

BEFORE concluding, I want to mention a particular point on which I believe Georgists are well placed to contribute to shaping the nature of ecotaxes in the shift to sustainable development over the coming years.

The rationale given for ecotaxes has been the "Polluter Pays" principle. Economists have interpreted this to mean that those who impose costs on other people or on society (or on future generations) should be required to bear those costs themselves: costs now externalised should be internalised. The Georgist principle, that people should pay Rent to society for the natural and societal resources they use, can be seen as the converse of that – that benefits now internalised should be externalised. So far the Rental approach has figured comparatively little in the discussion of environmental taxes.

Are there significant practical differences between internalising costs and paying Rent? Or do internalising costs and paying Rent amount, in practice, to much the same thing? As Fred Harrison has put it to me, which problems in the environmental agenda could not be adequately addressed by the general principle of requiring people to pay for the use of land and natural resources? It is a good question. I would turn it back and ask, can Georgists show that paying Rent is the better approach to adopt in dealing with environmental problems?

The calculation of costs to be internalised is certainly fraught

with difficulty. How are we to calculate the costs (extending into the far future) which are externalised by a company emitting a certain amount of a certain type of pollution in a certain place under certain conditions? Where the rights to use natural and societal resources are marketable, as for land sites or airport landing slots, the calculation of Rental values seems straightforward. But it isn't easy to calculate the right Rent to be paid for polluting. Permits to emit specified amounts of pollution can be auctioned by governments (and subsequently be sold on if no longer required by the original buyer). But then the question is how to calculate what the right level of permitted pollution should be, and that is no easier than to calculate the right rate for a tax. Moreover, environmental taxes have advantages over environmental permits. A tax will exert continuing downward pressure, a permit only down to the level permitted. And administering a tax is often easier than policing a large number of different permits. There is much here, I am sure, to which the relevance of a Georgist approach needs to be explored.

7. Conclusion

MY IMPRESSION is that, if today's Georgists are to seize the new opportunity offered by the growing concern about sustainable development to get their approach taken seriously in mainstream economic policy analysis, they will need to turn outward. They will need to accept that, like it or not, ecotaxes will be part of the future. They will have to put to one side, at least for the foreseeable future, claims that the site-value tax could be the "single tax" that replaces all others, or that – not being a real tax at all but merely payment of Rent – it could allow the complete abolition of taxation. Those claims have not

enhanced the Georgist movement's credibility in the past. They will enhance it even less now that ecotaxes are becoming more and more widely accepted as an essential instrument of sustainable

development.

A Rental approach to the use of energy and other natural resources, including the environment's capacity to absorb pollution and waste, can play a crucial part in the shift to

sustainable development. I suspect that getting this across in the context of current policy research and debate will prove to be the most effective way for Georgists also to establish the merits of site-value taxation.

THE LANDSHARE

Mary Lehmann responds to the Citizens' Income proposals by James Robertson

WHEN the public demands a reduction in pollution, politicians first think of taxing it, because that also produces revenue. Unfortunately, their taxes do not enjoy land revenue's unique advantage, that of not being an added burden on labour and capital. James Robertson acknowledges this drawback, but argues that to meet today's needs – cleaning up the environment and paying the citizenry a direct income – land revenue must be supplemented.

However, the Robertson solution invites unintended effects when he taxes what he wants to get rid of, pollution, to finance what he doesn't want to get rid of, his basic income plan for every citizen. Either objective can gain only at the cost of the other. If the tax were to be a substantial source of revenue, as Robertson intends, picture a nation dependent on it. Well-heeled polluting corporations become entrenched, nobody doing research on alternatives, while the unlucky end-user taxpayer, unconsolated by Robertson's Eco Bonus, chokes on the paid-for polluted air. This time the tax is better for revenue than for the environment, but the outcome of raising prices would be the same whenever end-use demand is inelastic. Nobody saw automobile traffic greatly reduced when gas

prices rose in the '70s. People just paid more for gas.

Restricting pollution by issuing a limited number of permits to pollute is rejected by Robertson precisely because that would truly fix the amount of allowable pollution. He misses the significance of controlling the intended limitation, of treating scale, distribution, and allocation separately, as Herman Daly has described.¹ First the region's "sink" capacity for absorbing pollution would be determined, which governs the permitted scale of pollution. Only then would permits be issued. For fairness all citizens might receive some pollution permit or fraction thereof, a direct distribution like the Citizens' Income itself. Finally permits would be efficiently allocated because interested companies buy them from the citizens at market-determined – not tax-determined – prices.

Furthermore, the land-use charge, called a "tax" to mean it goes to the government and "rent" to conform to real estate usage, is itself a license or permit like permits for other desirable resources in limited supply: wild game, mineral ores, the broadcasting frequencies etc., and could easily combine with permits for things that have to be limited, like pollution and

population.² Possibly by controlling environmental stress, due to mining, for instance, the land-use permit (land rent/tax) combined with the pollution permit could protect a region from too much of both resource depletion and pollution pile-up. Keeping this "throughput" process well within a region's carrying capacity is the very meaning of sustainability, and permits used for this purpose would do more than provide revenue for Robertson's Citizens' Income. They would add ecological value to the social and economic value of land as a revenue source.

The Citizens' Income

ROBERTSON'S mistaken choice of pollution taxes to provide revenue for the Citizens' Income in no way lessens the merits of his *per capita* payment plan itself. This paper will review the need for a Citizens' Income and describe a way to extend land-use revenue that might be a useful supplement, first discussed at the Brighton International Union conference (July 1997).

While still allowing for government expenditures, nevertheless a *per capita* guaranteed income like Robertson's Citizen's Income seems certain to be in our future, and for reasons he brings up: an