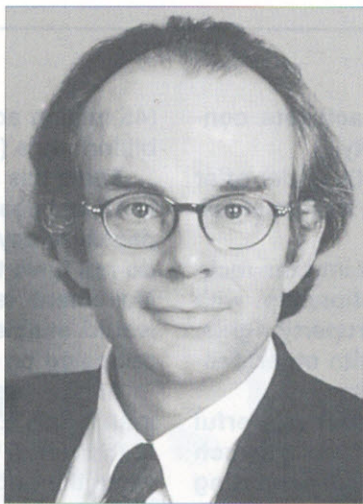




Eco-taxes, the Land Value Tax and Treasury priorities

LABOUR came to power in 1997 promising to “put environmental concern at the heart of all government decision-making”. It was a bold, and important, promise. It has also been largely unfulfilled by most Government Departments, apart from the Department of the Environment, Transport and the Regions (DETR). Think how quickly, for example, the Foreign Office dumped its vaunted ethical/environmental policy, how resistant MAFF is to any common-sense change, and how DTI miss trick after trick in failing to substantively back green industries and technologies.

But one Ministry has caught on – the Treasury. To the surprise of many, Chancellor Gordon Brown, who is reputedly agnostic over the benefits of environmental tax reform, has introduced a number of polluter-pays taxes. These reforms have followed effective campaigns run by Friends of the Earth, SERA and Forum for the Future in particular. They cover some fossil fuel uses, pollution and natural resources, including road fuel duty, climate change levy, landfill tax and aggregates levy. Other taxes now reflect environmental objectives, or remove/reduce environmentally perverse subsidies, such as varying VED rates and company car allowances to increase energy efficiency and reduce pollution, or lowering VAT on some household purchases of energy saving goods. Even more importantly, the Treasury’s century-old obsession with separating tax from spending decisions – the principle of never hypothecating – has gone. This was a



Charles Secrett
Director, Friends of the Earth
England, Wales & Northern
Ireland, throws down the
challenge to the Blair govern-
ment which is expected to
seek re-election in May

major block to joined-up policy making.

These reforms are right and necessary. It is right that polluters should be penalised, and pay money while they pollute. It helps make them stop. A polluting factory, office or household is an inefficiently run and wasteful place. Economic efficiency improves as enterprises use less resources and waste less. Operating costs go down also.

BUT LABOUR’S green tax reforms still lie at the margins of tax policy. The climate levy revenues will only cut National Insurance Contributions, a tax on employing people, from 12.2% to 11.9%, and too many exemptions are granted. The tax system overwhelmingly encourages economic development that causes long-term and often irreversible environmental damage, fails to provide sufficient jobs and increases inequalities as the poor suffer from the worst environments.

Brown could – and must – be braver. In Labour’s second term, the Chancellor must broaden and deepen the environmental tax reforms he has begun, and do so for very good economic, social and environmental reasons. In order to tackle climate change, for instance, 23 million householders, 20 million car drivers and most, if not all, of British industry need to switch to carbon-free fuels over the next 20 years. Such a massive market transformation is possible, and environmental tax reform lies at the heart of the solution.

The Treasury should begin with fossil fuels. The monies raised should be re-spent as tax credits, grants and direct investment to encourage industry to develop genuinely clean fuels like hydrogen, establish dynamic renewable source sectors (offshore wind, wave, biomass and solar) and manufacture clean production and energy efficient technologies throughout society.

Government should invest itself in a modern national public transport infrastructure.



GLOBAL WARMING caused by pollution in Europe and North America is melting the glaciers of Mount Kilimanjaro in East Africa and the Andes of Peru, which scientists predict could disappear within 10-20 years. "Apart from the dramatic impact on local communities [this] is also a potent sign that Earth is undergoing enormous change", says Professor Lonnie Thompson of Ohio State University, addressing the American Association for the Advancement of Science in San Francisco. Scientists now claim that climate change will be far worse than previously feared and beyond the capacity of humans to adapt unless greenhouse gas emissions are cut substantially.

Huge numbers of jobs can be generated, and companies be positioned to export the 21st century green technologies that other nations will also need. Friends of the Earth research has shown that meeting the 20% CO2 reduction target will generate up to 230,000 skilled, semi-skilled and manual jobs. *And all the while pollution and natural resource consumption rates fall.*

MODERNISING the economy to deliver sustainable development will require substantial investment and transformation in key economic sectors, including materials use, transport and energy. Continuing investment in polluting, resource hungry technologies and systems merely postpones opportunities, to our collective loss and our competitors' gain. The next Government will need to set a strategic vision for eco-tax reform at the heart of economic policy, which sets out to modernise the economy and industrial activity, and improve living conditions for poor people, through environmental improvements. Four central planks should underpin the taxation (and revenues for re-spend) side of that strategy, and its sustainability objectives:

- carbon/nuclear based taxes (energy)
- virgin minerals/raw materials (resources)
- toxic chemicals (environmental quality), and
- Land Value taxation (land).

The prudent use of our land resource is central to sustainable development. At present

large areas of inner cities are un- or under-developed, because it suits the owner to speculate on their existing dilapidated or empty condition. Additionally, the pressure for additional housing, and out-of-town business development leads to urban and suburban sprawl and alarming rates of biodiversity loss, countryside destruction and traffic growth – the fastest rising source of greenhouse gases.

Business-as-usual practices can only meet the forecast 4.4 million extra households by 2016 by using up 80,000 hectares of greenfield sites. FOE research has shown how to meet the demand by filling empty homes, converting empty commercial property, reusing derelict land and increasing population densities in redevelopment. The current tax system, however, favours more sprawl and greenfield site destruction. Not only is the refurbishment of empty properties taxed more heavily than new-build housing, but the owners of derelict urban sites are charged little in taxes until business rates start to apply once they clear and develop the site. To make matters worse, the owners of greenfield land, once granted permission for housing development, not only pocket the windfall increase in land value when sold, but also suck up roll-over tax relief on capital gains.

Land Value Taxation (LVT) would be a powerful incentive to reuse, redevelop and refurbish land and buildings on a sustainable basis. It would remove the tax

exemption from landowners who left land derelict and provide an incentive for clearing and decontaminating land. Together with strong planning regulations, LVT would ensure that landowners did not receive windfall gains from the re-zoning of land under planning regulations. This would reduce the incentive to convert countryside and farmland.

Additionally, LVT can be structured in such a way as to encourage and discourage particular farming and other land management practices. Intensively farmed land, with high chemical inputs and few natural habitats, could be taxed, for example, more highly than organic or other environmentally sound farming systems, where wildlife habitats and traditional landscape features are maintained.

For the next Government, a tax on land value presents an opportunity to replace unfair taxes such as uniform business rate and council tax with a far fairer one, and one which cannot be easily avoided or passed on. It is a tax that would reinforce the goals of urban regeneration, social inclusion and the prudent use of a vital natural resource, while bringing administrative and revenue collection gains. Local authorities should be given the opportunity to pilot such systems in the UK. That would mean breaking with deep-rooted convention and custom again. But having done it once, over hypothecation, the Treasury should gird her loins and do so once more. FOE will carry on campaigning until she does.