

# **SHARING OUR COMMON HERITAGE: RESOURCE TAXES AND GREEN DIVIDENDS**

Proceedings of a One-Day International Conference

Held by the Oxford Centre for the Environment, Ethics  
and Society at Rhodes House, Oxford  
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## 1. INTRODUCTION AND ACKNOWLEDGMENTS

This international conference was held on the eve of the 1998 Economic Summit of world leaders, to explore the prospects for:

- ecotax reform, replacing existing taxes (on employment, incomes, value added, etc.) with taxes on the use of natural resources (including the environment as a sink for wastes and pollution);
- site-value land taxation as one such resource tax; and
- a citizen's income (basic income) financed by revenue from these taxes.

In the context of sustainable development, globalisation, unemployment and social exclusion, the conference was asked to consider whether these approaches might be combined in a long-term programme of economic reform so that:

- people are not taxed on the values they add by their skill, enterprise and work but on the values they subtract by their use or monopolisation of natural and other common resources, and
- all citizens are entitled to share in the revenue so raised.

Might the same principle be applied globally? Could nations pay global taxes on their use of global resources, the revenue from which might go into an international fund, to:

- finance payment of a green dividend to every nation according to the size of its population, and
- finance the operations of the United Nations and other international institutions?

The conference aimed to provide participants with an opportunity to consider whether governments should give serious attention to possibilities on these lines.

In his introductory remarks, David Marquand said that a centre like OCEES, concerned with environmental issues in an ethical context, must consider the distributional implications of environmental policies; that failure to deal with the distributional problems would be a major impediment to progressive policies in the environmental field; and that the set of issues before the conference offered a good way into those problems. He commended the conference as an important and valuable initiative by OCEES.

The programme, the written papers, the note of points arising in discussion, and the suggestions for follow-up agenda items, speak for themselves. But one particular point deserves comment.

We had hoped that Vandana Shiva, Director of the Research Foundation for Science, Technology and Ecology, New Delhi, would present "A View from the South". Unfortunately, owing to an unexpected emergency in India she was

prevented from coming at the last moment. The conference organisers were most grateful to Lucy de Silva for taking her place at very short notice. Some specific points from Lucy de Silva's talk have been taken up in Section 9 of the proceedings (Points Arising in Questions and Discussion). Her talk was welcomed by the conference as an inspirational call to social justice and a fairer and more democratic economic system, by a committed and courageous activist. In Latin America the wealthiest 10% of the population owned nearly 100 times more land than the poorest 10%; it was the best land; and, because there was no tax on land, the owners were able to keep most of it unused. The effects were widespread poverty and environmental degradation. There were expected to be 220 million hungry people in Latin America in the year 2000. Among the 8 million people in the Dominican Republic alone there were nearly half a million with too little food, 2.8 million with no sanitary services, and 2.7 million without access to clean drinking water. Lucy de Silva described how, when working to liberate the people of her country from these conditions, she had come across the thinking of Henry George and recognised that land taxation on the lines he proposed could provide an answer. She concluded by commending the final sentence of Alanna Hartzok's booklet *Financing Planet Management* - "The fundamental human right which now needs to be affirmed is this - THE EARTH IS THE BIRTHRIGHT OF ALL PEOPLE".

As the initiator of this conference, I would like to express my personal thanks to all the speakers; to Neil Summerton, director of OCEES, for his support; and particularly to Anne Maclachlan, OCEES' administrator, for the efficiency of the arrangements from start to finish. David Marquand's readiness, amidst all his other commitments as an Oxford University head of college, to open the conference, to chair its morning sessions, to return for part of the afternoon, and to conclude the proceedings with some brief reflections of his own, was warmly appreciated by conference participants - including myself.

Finally, without financial assistance from the following it would not have been possible to hold the conference and publish its proceedings:

The British Academy  
The Lincoln Institute  
The Polden Puckham Charitable Foundation  
The Robert Schalkenbach Foundation.

The Oxford Centre for Environment, Ethics and Society (OCEES), and I personally, gratefully acknowledge their support.

James Robertson, Associate Fellow of OCEES.  
August 1998.

## 2. PROGRAMME AND SPEAKERS' DETAILS

### Programme

- 9.15 Registration and Coffee
- 9.45 **David Marquand**  
Chairman's Welcome and Introduction
- 10.00 **James Robertson**  
*Resource Taxes and Green Dividends: A Combined Package?*
- 10.30 **Philippe van Parijs**  
*Citizen's Income and the 'New Social Question'*
- 11.05 Tea/Coffee
- 11.25 **Fred Harrison**  
*Ethics and the Environment*  
**Mason Gaffney**  
*Red-Light Taxes and Green-Light Taxes*
- 12.25 **Panel**  
Responses to questions and comments
- 1.10 Lunch
- 2.10 **Alanna Hartzok**  
*Local-to-Global Dimensions of Ecotaxation, Land Value Taxation and Citizen Dividends*
- 2.45 **Tatiana Roskoshnaya**  
*Russia: Sustainable Development and Rental Taxation*
- 3.20 **Lucy de Silva**  
*A View from the South*
- 3.55 Tea
- 4.20 **Final Panel: Ways Forward**  
Responses to participants' comments and questions
- 5.15 **David Marquand**  
Concluding Remarks
- 5.30 Conference Ends

## Speakers' Details

### **Professor David Marquand**

Principal of Mansfield College, Oxford and Honorary Professor of Politics, University of Sheffield.

### **James Robertson**

Associate Fellow, OCEES. Co-founder, New Economics Foundation. Author of *Beyond The Dependency Culture*.

### **Professor Philippe van Parijs**

Chaire Hoover Professor of Economic and Social Ethics, University of Louvain-la-Neuve, Belgium. Secretary, Basic Income European Network. Visiting Fellow, All Souls College, Oxford (May/June 1998).

### **Fred Harrison**

Director, Land Policy Council. Author of *The Power In The Land*. Editor of the 1998 book *The Losses of Nations* and of the journal *Land And Liberty*.

### **Professor Mason Gaffney**

Professor of Economics, University of California (Riverside). Authority on the economics of natural resources. Author of *The Corruption of Economics*.

### **Alanna Hartzok**

UN NGO representative for the International Union of Land Value Taxation. State Co-ordinator for the Pennsylvania Fair Tax Coalition. Director, Earth Rights Institute.

### **Dr. Tatiana Roskoshnaya**

Executive Director, Land & Public Welfare Foundation, attached to Russian Academy of Sciences' Institute for Ecological Security, St. Petersburg.

### **Lucy de Silva**

Director, Henry George Foundation, Santo Domingo, Dominican Republic.

### 3. RESOURCE TAXES AND GREEN DIVIDENDS A Combined Package?

James Robertson

Other speakers will discuss the merits of a Citizen's Income (CI) and land taxation. This paper is about the possible merits of combining them with ecotax reform.

#### The Context

Pressures are growing for a general restructuring of taxation and welfare benefits. At present they penalise employment and favour energy-intensive processes. They thus encourage inefficient use of resources - over-use of natural resources (including the environment's capacity to absorb pollution and waste), and under-use and under-development of human resources. By failing to discourage environmentally unsustainable activities, they fail to encourage innovation for sustainability and a larger share of the growing world market for environmental technologies and services. The benefits system discourages useful unpaid work like parenting. Means-tested benefits discourage saving, as well as earning. They create poverty and unemployment traps which lead to increasing social exclusion and rising costs for education, health, and law and order. Costs of the welfare state are already at crisis level in many countries.

For the future, international economic competition will continue to demand lower taxes on personal incomes and business profits in order to attract inward investment. In an ageing society, it will be more difficult to tax fewer people of working age on the fruits of their employment and enterprise in order to support a growing number of "economically inactive" people.

That, in brief, is the context for the proposal to combine:

- ecotax reform (i.e. a shift of taxation away from employment, incomes and savings, on to resource-depleting and environmentally damaging activities),
- the further replacement of existing taxes by another resource tax - a tax on land site-values, and
- the introduction of a Citizen's Income.

This combination would be phased in over a period of years. It would embody a new social compact between citizen and society for a new era of equitable and sustainable development, in which full employment of the conventional kind, a welfare state of the conventional kind, and economic growth of the conventional kind, were increasingly seen as questionable goals.

## Ecotax Reform

Environmental taxation is now on the mainstream political agenda of the European Union and its member nations. To take one example, the July 1997 Statement of Intent by the present British Chancellor of the Exchequer, Gordon Brown, said: “The Government will explore the scope for using the tax system to deliver environmental objectives... Over time, the Government will aim to reform the tax system to increase incentives to reduce environmental damage. That will shift the burden of tax from “goods” to “bads”; encourage innovation in meeting higher environmental standards; and deliver a more dynamic economy and a cleaner environment, to the benefit of everyone”.

Environmental taxes have tended to be seen as pollution taxes, based on the “polluter pays” principle. In economists’ jargon, they aim to “internalise” costs previously “externalised” by polluters.

Understood more broadly, they are taxes on the use of resources - including the environment’s capacity to absorb pollution and wastes. Energy taxes, water charges, and traffic congestion charges are other resource taxes. The principle is that people should pay for the benefits they get from using valuable resources created by nature or society and not by themselves. For example, in its 1995 Report the British Government Panel on Sustainable Development supported taxing people “on the value they subtract” rather than “the value they add”.

Ecotax reform broadens the approach further. It is concerned not just with what environmental “bads” are to be taxed, but with how the revenue from the taxes should be used. The European Commission’s White Paper on *Growth, Competitiveness, Employment* of December 1993 proposed to use ecotax revenues to reduce taxes on employment. This approach has now been developed in many official studies and reports, and has in some instances (as in the UK’s landfill tax) been applied in practice.

## Must Ecotaxation Be Regressive?

If existing taxes on incomes, profits and savings are simply replaced with environmental and resource taxes on consumers, they will hit poorer people relatively harder than richer. Regardless of the taxes they replace, ecotaxes are bound to have this regressive effect if they are applied “downstream” at the point of consumption. For example,

- value-added tax (VAT) on household energy hits poorer households harder than richer ones, because they do not have the money to pay the higher cost of the tax or to invest in greater energy efficiency; and
- similarly, fees and charges to reduce urban congestion will hurt small tradespeople who need to use their vehicles for their work, but will be painlessly absorbed by users of chauffeur-driven limousines.



If ecotaxes are to replace existing taxes significantly, this problem will have to be solved. How?

First, ecotaxes should, as far as possible, be applied “upstream”. Of key importance will be a tax on carbon-energy (or on fossil fuels and nuclear energy), collected at source, cascading down through the economy, and raising the cost of the energy content of all goods and services. It will reduce pollution, because pollution arises predominantly from energy-intensive activities. It will be administratively simpler and easier to understand than a proliferation of separate ecotaxes on individual consumers and polluters. And, by raising costs for producers (as well as prices for consumers) of energy-intensive goods and services, it will be seen to impact richer people’s incomes - salaries, dividends, capital appreciation, etc. It will thus be seen to be fairer and less discriminatory than taxes on consumers only. But, even so, ecotaxes will still be regressive, unless the regressive effect is offset in other ways.

So, second, ecotax reform should include a site-value tax on land. That is a resource tax that is progressive. It is not the poor who are enriched by the “enclosure” of the value of land.

And, third, the revenue from ecotaxes should be used progressively. To quote two examples, a 1994 German study concluded that, if part of the revenue from an energy tax were distributed to households as an ecobonus, the change would have positive economic and employment effects, and would reduce the net tax burden on low-income households; and a 1989 Swiss study 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.

So, could ecobonuses add up to a Citizen’s Income? And could a Citizen’s Income be financed from resource tax revenues? The answer is Yes. We come back to it later.

### **Site-Value Land Taxation**

The proposal is to tax the annual rental site value of land. That does not include the value of developments carried out by the owner and his predecessors (which should not be taxed). It is the value of the land as provided by nature and as affected by the activities and regulations of society. Estimates for Britain in 1990 suggested the relative size of these values (£bn) for various land uses: housing 66.4; commerce 19.0; public services 10.2; industry 9.3; farm, woodland and forest 2.4.

This tax has attracted favourable comment from economists since Adam Smith. Ricardo (1817) pointed out that a “tax on rent would affect rent only; it would fall wholly on landlords and could not be shifted to any class of consumers”.. In 1879, in *Progress And Poverty*, the American economist, Henry George,

showed that to shift the burden of taxation from production and exchange to the value of land would stimulate employment and the production of wealth; the selling price of land would fall; land speculation would receive its death-blow; and land monopolisation would no longer pay. Leading economists since then have agreed that the tax on economic rent is the most neutral and most efficient of all taxes, inducing no distortions and generating no loss of welfare. Various political parties in Europe during the 20th century have included it in their policies, and it provides a component of local taxation in a number of countries today. But mainstream economic policy analysts in recent years have been strangely uninterested in it. Just a case of normal professional groupthink? Or the consequence of an intellectual conspiracy inspired by American landowning interests early this century? Or a bit of both?

Some advocates of the site value tax have insisted that, as the "single tax" needed to finance all public spending, it should replace all others. Today, its more credible advocates present it as one important resource tax among others. Their arguments for a system of public finance based on socialising (i.e. taxing) the rent of land and other natural resources, and privatising (i.e. not taxing) people's wages and savings, appear wholly convincing.

### **Citizen's Income (or Basic Income)**

The proposal is to distribute a Citizen's Income (CI) - often known as a basic income - as 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.

In Britain, advocates of a basic income have included Tom Paine in the 1790s, John Stuart Mill in the 19th century, Major C.H. Douglas in the 1920s, and distinguished economists like Samuel Brittan and James Meade more recently. Support for it continues to grow in many European countries. A recent study, quoting the principle that "Nature and its resources are for the benefit of all", showed that a full basic income could be introduced in Ireland over a period of three budgets, resulting in

- nobody receiving less than the poverty line of income,
- all unemployment and poverty traps being eliminated, and
- it always being worthwhile for an unemployed person to take up a job.

Until recently the assumption was that a basic income would be financed out of income tax. But a shift of opinion within the European basic income movement towards financing it from "sources reflecting a 'common endowment'" is now apparent.

## Targeting or Universality?

At first sight, it seems sensible to target benefits to those who need them, rather than distribute them to everyone. But targeting involves means testing to establish need and eligibility. And means testing has serious disadvantages. For example,

- it is demeaning and socially divisive;
- to avoid it, many people fail to take up benefits to which they are entitled;
- it tightens the unemployment and poverty traps, by reducing incentives to earn and save; and
- people who have earned and saved enough to disqualify them from benefits, resent “scroungers” who have not.

The universality of a Citizen's Income avoids these social and economic disadvantages. The objections to it have been that:

- the total direct cost of CI to government will be higher than that of selective benefits based on means-tested need; and
- people in general should not receive unearned “hand-outs from the state” - whereas the element in the unearned incomes of rich and middle-income people, that is based directly or indirectly on “enclosure” of the value of common resources, is accepted as perfectly in order.

These objections can be met by combining a CI with a restructured tax system, whereby:

- taxes on the use or monopolisation of common resources will recover the value of the CI (or more) from rich people; and
- CI will be seen as every citizen's share of the value of common resources.

The result will be doubly progressive. The CI will be progressive because the same amount of money is worth relatively more to poor people than rich. The taxes will be progressive because they will impact richer people both in terms of their spending and in terms of their incomes and wealth. Their higher spending as consumers will mean they will pay more than poorer people, for example for the energy that has been used in producing the goods and services they buy. The larger proportion of their incomes and wealth (salaries, dividends, capital growth, etc.) derived directly or indirectly from land ownership and the use of other common resources like energy, will mean they pay proportionately more tax (indirectly) on their incomes.

## Towards A New Social Compact

The question, then, is whether the transition to an economically sound, socially just and environmentally sustainable future should involve a package of reforms based on:

- the introduction of higher taxes and charges on the use of common resources and values, particularly including energy and the site value of land;
- the reduction, and perhaps the eventual abolition, of taxes and charges on employment, incomes, profits, value added, and capital; and
- the introduction of a Citizen's Income, to which ecobonuses will contribute, paid to all citizens as of right in place of all tax reliefs and many existing welfare benefits.

The ecotax reform movement has been gathering strength in mainstream policy-making and academic research but still faces serious problems. The movements for site-value taxation and Citizen's Income are growing stronger. Over the next few years the potential synergies between the three will become clearer. Beyond the practical arguments for treating them as a package, an integrating vision may emerge.

It would be a vision of a people-centred society - less employer-centred and state-centred than today's. Its citizens, more equal with one another in esteem, capability and material conditions of life than now, would all be entitled to share in the value of the common resources created by nature and society as a whole.

It would be a vision of a society:

- which does not tax people for what they earn by their useful work and enterprise, by the value they add, and by what they contribute to the common good;
- in which the amounts that people and organisations pay to the public revenue reflect the value they subtract by their use or monopolisation of common resources; and
- in which all citizens are equally entitled to share in the annual revenue so raised, partly by way of public services and partly as a Citizen's Income.

While citizens of such a society would more easily get paid work, they would no longer be so dependent as now on employers to provide them with incomes and to organise their work. The modern-age class division between employers and employees would fade - as the old master/slave and lord/serf relationships of ancient and medieval societies have faded. It would be normal for people to work for themselves and one another. The aim in many fields of policy would be to enable people to manage their own working lives.

The social compact of the employment age may be breaking down. The time may be passing when the great majority of citizens, excluded from access to land and other means of production and from their share of common resources and values, could nevertheless depend on employers to provide them with incomes in exchange for work, and on the state for special benefits to see them through exceptional periods of unemployment. For the future, all citizens may be expected to take greater responsibility for themselves and their contribution to society, in exchange for recognition of their right to share in the value of the

"commons". Combining resource taxes with green dividends would help to underpin a new social compact on those lines.

## Notes

1. Comments on this paper may be addressed to James Robertson at The Old Bakehouse, Cholsey, Oxon OX10 9NU, UK; tel: (0)1491 652346, fax: (0)1491 651804, e-mail: <james@jamesrobertson.com>. His most recent book, *Beyond The Dependency Culture*, Adamantine Press, London 1998, and his Schumacher Society Briefing No 1 on *Transforming Economic Life* (May 1998), place the suggestions in the paper in a wider context.
2. Many useful sources of information on ecotax reform include O'Riordan, T. (ed.) *Ecotaxation*, Earthscan, London, 1997, and Ernst Ulrich von Weizsacker, *Earth Politics*, Zed Books, 1994.
3. Sources of information on land taxation and basic income (Citizen's Income) are given in the following papers by other speakers.

Oxford, May 1998

#### 4. CITIZEN'S INCOME AND THE 'NEW SOCIAL QUESTION'

Philippe Van Parijs

The 'new social question', as it is sometimes called in continental Europe, consists in an emerging dilemma between high unemployment and worsening poverty. This new social question arguably stems from the very solution that had been gradually developed, over the last century, for the "old social question", the unsustainable inequality between capitalists and proletarians generated by the industrialization process. Along with public involvement in the accumulation of physical and human capital, the furthering of workers' rights — most prominently in the form of collective bargaining, labour legislation and massive social insurance schemes — gradually turned full jobs from unavoidable toil into valuable assets. This worked well as long as access to a job and the entitlements associated to it (including, for example, the right to a decent pension for the non-working surviving spouse) was secured to the overwhelming majority of households.

For a variety of interacting reasons — including technical change, European economic integration, globalization, privatizations, marital instability, educational homogeneity, etc. — this can no longer be assumed. On this background, the new social question arises as a growing proportion of households proves unable to secure access to adequate "job assets", with cumulative consequences for both the monetary and non-monetary aspects of their welfare. How can it be solved? First by identifying more precisely which features of the present arrangements lie in the way of its solution.

Under developed welfare-state capitalism, income redistribution within the population of working age operates mainly through the taxation of labour income (personal income tax, employers' and workers' social security contributions) and the distribution of its proceeds to people who are involuntarily unemployed (unemployment compensation, means-tested minimum income guarantee, disability allowances). However effective at reducing income poverty, this pattern of redistribution displays a strong tendency to generate persistently high levels of unemployment, as a growing number of households becomes unable, for a number of reasons briefly listed above, to durably achieve through their labour a net income that exceeds the level of social protection. To reduce unemployment without worsening poverty — and to thereby tackle the dilemma in which the new social question expresses itself —, one therefore needs to challenge the (near) exclusive focus of redistribution on the involuntarily unemployed. In other words, one needs to channel more of the explicit or implicit transfers (1) towards low-paid workers and/or (2) towards people who choose to stop working or to work less. This distinction can help us map the landscape of policy proposals currently under discussion, and thereby structure the key socio-economic debate in years to come for people with both a sense of justice and a sense of reality.

Policies of type (1) purport to increase the total volume of employment by boosting, often indistinguishably, either the demand for labour (the number of low-paid jobs that are profitable for the employers) or the supply of labour (the number of low-paid jobs that are acceptable for the employees). They can take the form of

- a) reductions in employers' social security contributions;
- b) reductions in workers' social security contributions;
- c) direct employment subsidies or job voucher reimbursements or tax cuts to firms on account of the number of workers they employ;
- d) direct earnings subsidies or refundable tax credits restricted to workers (as in the American Earned Income Tax Credit);
- e) employment-motivated subsidies to public sector jobs .

The reductions or transfers may be allocated either

- 1) only to low-paid jobs, or
- 2) indiscriminately to all jobs (but with a net benefit to low-paid jobs only, owing to the way the scheme is funded), or
- 3) only to jobs with a characteristic correlated with low pay (such as having an incumbent with a low level of education or a long period of unemployment).

Unlike policies of type (1), policies of type (2) do not purport to boost the total volume of (profitable and acceptable) employment, but to distribute it differently. They include

- a) compensation for early retirement (whether part-time or full-time),
- b) compensation for career interruption (whether part-time or full-time, short-term or long-term, restricted to specific reasons, such as parental or educational leave, or unrestricted) and
- c) reductions in income tax or (employers' or workers') social security contributions for those who choose, individually or collectively, to reduce their working time.

These two types of policies seem to work in opposite directions. Policies of type (1) struggle against the unemployment trap: they try to make it more attractive, less costly, at least for those with a low earning power, to increase their paid working time by accepting low-productivity jobs (and by making them acceptable, they aim to bring them into existence: the unemployment trap is also relevant to the demand side). Policies of type (2) struggle against the employment trap: they try to make it more attractive, less costly, at least for those with a low earning power, to decrease their paid working time.

Nonetheless some policy proposals belong to both types. This is the case for any form of general lump-sum transfer or basic income scheme, which provides transfers either (a) unconditionally to all adults ("citizen's income") or (b) conditionally to all those adult who somehow "contribute" in a sense that goes significantly beyond full-time waged employment ("participation income"): the narrower the interpretation of the contribution condition, the smaller the type (2) component of such proposals. This two-pronged nature is shared by general

lump-sum transfer schemes, whether or not they are differentiated according to household situation or geographical situation. It is also shared by lump-sum schemes which take the form, not of ex ante payments to all, but of refundable income tax credits, i.e. by both linear and non-linear variants of the so-called negative income tax. Whereas type (1) policies tell the unemployed that they can keep some transfer if they work and type (2) policies tell the employed that they can have some transfer if they work less, these type (3) policies tell both the unemployed and the employed that they can have an (explicit or implicit) transfer whatever they do.

A credible defence of citizen's income in today's public debate requires a detailed comparison of its likely consequences with those of the main contenders in the three families of proposals sketched above. This unavoidably raises a larger number of factual issues on some of which we are bound to rest content with speculative answers. (See Van Parijs & Salinas 1998 in the bibliography below, for further discussion.) Ultimately, it also raises normative questions about the importance that should be given to the growth of GNP versus the expansion of leisure, or about whether our socio-economic institutions should be designed to keep people busy or to liberate them and if so, in what sense. (See Van Parijs 1995 for further discussion.)

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## **ORGANIZATIONS AND WEB SITES**

### **CITIZEN'S INCOME STUDY CENTRE**

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### **BASIC INCOME EUROPEAN NETWORK (BIEN)**

Founded in 1986, publishes a newsletter (internet and hard copy) three times a year.

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### **BIEN'S NEXT CONFERENCE**

Amsterdam, 10-12 September 1998. Detailed information and call for papers on BIEN's web site or from Emiel Schaefer, Vereniging Basisinkomen, Herman Heijermansweg 20, 1077 WL Amsterdam. Tel.: +31 20 57 31 803. Fax: +31 20 67 13 541. E-mail: [basic.income@pi.net](mailto:basic.income@pi.net) .

## 5. ETHICS AND THE ENVIRONMENT

Fred Harrison<sup>1</sup>

### Ecology & Property Rights

A high level of public awareness of the environmental crisis is matched by popular support for corrective action. Unfortunately, the horse-trading among statesmen at the Kyoto conference in 1997 confirms that the public's desire for action is not matched by a corresponding commitment from politicians. I believe that the primary obstacle to effective action is the failure to develop a philosophy of property rights which is capable of meeting the challenge of the eco-crisis in its scale and primary significance both to the human species and to nature.

The fundamental anomaly can be analysed in terms of the mismatch between rights and obligations. Rather glibly, people talk about

- Every human being's right of access to the resources of nature. This statement is barely intended to have operational significance.<sup>2</sup> It is rhetoric, offering little that can be identified as hard policy recommendation.
- The obligation of every person or corporation to behave responsibly towards nature. This admonition is rarely elaborated within the framework of a theory that could pass the tests of universality and fairness.

The outcome, in my view, is muddled thinking concerning the priorities for policy. This enables the vested interests to confuse public debate and therefore postpone effective action. One consequence may be the adoption of strategies that could exacerbate the degradation of the environment. One illustration is the acceptance of the proposal to trade in the right to emit carbon dioxide. Carbon trading was approved in principle in Kyoto, largely at the behest of the US government. This model is sympathetic to the current paradigm of property rights and the market process. The US wishes to preserve its existing levels of use of the environment as a sink for its waste. It would like to do so by buying the rights which are not currently being used by Russia, most of whose factories stand idle. But what happens when the Russian factories are revived? Russia will not be able to afford the cost of buying back the rights; but nor will she feel able to respect the international convention under which her original rights were sold to the US, for to do so would be to prolong her exclusion from of the industrial economy. In other words, this formula is storing up political trouble as well as failing to address the historically rooted causes which have led to the systematic abuse of nature.

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<sup>2</sup> Timothy Beatley, *Ethical Land Use: Principles of Policy and Planning*, Baltimore: Johns Hopkins UP, 1994, p.12.

A similar problem attaches to the proposal to create tradeable permits for the use, for example, of water. This formulation is contingent on current understanding of what constitutes acceptable rights in property. We seek to ration the use of depletable resources by extending private ownership over what ought to be treated as a common resource. We are, consequently, proposing to enrich some existing users under the guise of developing new tools for nature conservation.

By default - for the deepening of private property rights over the resources of nature is not explicitly acknowledged - we aggravate the social crisis. Nations agreed, when they met at the Rio summit in 1992, that poverty was a component of the crisis. I shall attempt to suggest how these twin evils - the abuse of people and of nature - are the simultaneous result of a single process. The disparate forces that inflict damage on society and on our natural habitat converge through our system of public finance, which is, in turn, the product of a history that successfully sought to convert public value into private property. It is here that we can begin to examine the dynamics of exploitation, and to formulate a general solution which is ethically acceptable as well as economically efficient.

### **Taxation: A Determinant Of Culture**

The starting proposition for the re-evaluation of property rights, in relation to our common heritage, is this. *We cannot claim that society is based on morality if our system of public finance fails the fundamental tests of ethics.* If the way in which we raise money to finance the public sector is exploitative, abusive, destructive - well, it would be surprising if the general fabric of society was based on morality. I do, indeed, claim that taxation is all of these three things: exploitative, abusive, and destructive.

Taxation not only makes the administration of society possible. More than that, it shapes the kind of society in which we live. The money spent by the State is a major determinant of the character of our society. Indeed, it is a major determinant of the style and content of civilisation itself. By studying the way in which public finance is raised, we see how political power is distributed. By studying the way in which finance is spent, we deepen our understanding of the texture of society itself.

Taxation extracts resources predominantly on the basis of people's earned incomes (their wages and salaries); their savings; and the consumption of goods and services.

Practically the only issue on which there is debate relates to the principle of **progressivity**. We deem it correct to levy more from people who are said to be rich. We claim that this is ethically correct. But this view is self-deluding. It allows the State to employ a system of collecting revenue that is **exploitative, abusive and destructive**.

## Taxation And Morality

Public debate about taxation tends to be limited to narrow questions like whether to raise or reduce existing rates by a penny or two. We rarely discuss the efficiency of our tax system, and never do our politicians question the legitimacy of their actions.

People dislike taxes for the impact they have on their private welfare. And yet people want money to be spent on public activities. This tension in attitudes tells us something important. People are realistic. They know that resources have to be devoted to the public sphere of life. If the public sector is not vibrant, we all lose, in some way. But at the same time, people intuitively know that there is something fundamentally wrong with the tax system. They ought to trust their instincts and demand that the people who collect and spend their money engage in a debate about the character of the tax system itself, just in case there really is something fundamentally wrong with it. There is.

Taxes penalise people who work and save by deterring them from producing goods and services. Every year, Britain loses something like £400 billion from tax induced constraints.<sup>3</sup> Such wastage is all the evidence that we need that taxation is **destructive**. It is also the measure of the green dividend that would flow from a reform of public finance.

Is it morally acceptable that government should exercise the power to destroy people's capacity to produce wealth? By being the principal agent blocking people from meeting their everyday needs - the full provision of education, medical and recreational amenities, together with decent housing and the setting aside of a portion of one's income for retirement - government promotes a system of organised abuse. It is, in fact, an institutionalised process of *exclusion* of people from their rights; an exclusion which is measured in terms of the deprivation which blights a society that publicly claims to be concerned with the welfare of the individual.

But on the charge that taxation is **exploitative**, we have to acknowledge this: if government has no other way in which to raise revenue, is that not mitigation? If we have no choice but to raise money by

- taxing people who ask for nothing more than to be free to work to earn their incomes;
  - penalising people when they buy clothes to put on their backs in the cold of winter; and
  - charging employees for the privilege of saving resources for their old age;
- then it may seem pointless to brand the system as exploitative.

Well, is there an alternative policy that does not destroy people's creative powers and which is also ethically fair? A policy that is neutral with respect to

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<sup>3</sup> Nicolaus Tideman & Florenz Plassmann, "Taxed Out of Work & Wealth", in Fred Harrison (ed.), *The Losses of Nations*, London: Othila Press, 1998, Table 6.1, p.147.

the allocation of productive resources, and which does not drive people to the desperate lengths that cause them to abuse both others in society, and, on occasion (especially in the developing world), to abuse nature?

Such a policy does exist. It is one that has been canvassed for 250 years. It is the traditional one, in which public activities are financed out of the rent of land and natural resources. For centuries - indeed, from the dawn of civilisation - the net income (what we today call the rent of land and of natural resources in all its forms) was the source of resources for social expenditure. It could not have been otherwise: rent is the surplus that is left after meeting all costs of production (of wealth) and reproduction (of families). The additional spending to fund all that we classify as features of civilisation **had** to come out of the net income. Unfortunately, that system of finance was progressively abandoned. Abandoned not for reasons of public welfare, or from ethical considerations; but for the private enrichment of a minority of people. They believed they were entitled to live outside the realms of everyday life. For example, they did not want to work for a living: *they were the original scroungers*.

Furthermore, they did not want to participate in civil society on an equal basis: *they were the original elites*, the people who governed by arbitrary rule, by abusing the notion that each and every person enjoyed equal right to live and labour without hindrance from others.

The original scroungers who stole the public value had no choice but to try and elaborate a substitute form of public finance. This could not have been anything other than one built on exploitation, abuse, destruction of other people's rights.

At this point we have to note an important feature of the democratic process, to further illuminate the exploitative character of taxation and to develop some sense of the scale of the challenge that confronts reformers who wish to realign our relationship with nature. The fair system of public finance is one that our politics, which we call democracy, actively prevents us from adopting. There is something fundamentally wrong, morally speaking, if those who exercise political power prevent people from exercising their birthright. That birthright is the equal right of each of us to enjoy the resources of nature, which are given free by God or by nature (depending on your theological persuasion) to all of us.

This raises an issue of political philosophy, which takes it as axiomatic that the nation-state is sovereign. The State has the power to do whatever it wishes providing it can justify its actions in terms of the public will. For all practical purposes, there is no acceptance of superior systems of natural law or theological law to constrain Parliament.<sup>4</sup> Positive law requires no more than a one-vote majority in the House of Commons. That is sufficient to override the systems of law that formerly guided social behaviour. We saw what happened with the Poll Tax. Mrs. Thatcher could steamroller the tax into law despite

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<sup>4</sup> Nicolaus Tideman & Florenz Plassmann, "Taxed Out of Work & Wealth", in Fred Harrison (ed.), *The Losses of Nations*, London: Othila Press, 1998, Table 6.1, p.147.

popular animosity. People had to become law-breakers and riot in the streets to demonstrate the unacceptability of this tax. Only then would Parliament repeal the law. ***In other words, when it comes to taxation, parliament is not bound by any system of ethics, let alone norms of efficiency.***

Apart from the personal impact on our incomes, should we care about all this? I believe so. The deep-seated public animosity towards taxation has a corrosive effect on the fabric of society, as well as facilitating the unsustainable use of the resources of nature. By encouraging law-breaking in one sphere - by

- encouraging corporations to dodge taxes; by
  - encouraging people to lie about how they work; by
  - encouraging slick legal tactics to conceal one's legitimately earned wealth
- government makes it easier for people to justify ethically lax behaviour in other spheres of life. By creating a barrier of discontent between the population and its political representatives, negative forces are unleashed, and nature is one of the victims.

### **Is There A Public Value?**

Is there a public value which is not created by individuals but rather by people collectively, in the community? If there is, this is the legitimate revenue to support public expenditure. Or, to put it another way: can we identify and measure a value that has to be attributed exclusively to the efforts of individuals? If so, this would seem to be private income which ought not to be arbitrarily appropriated by anyone else. The discussion of public finance necessarily drives us into the realm of property rights.

These issues were addressed by the philosopher John Locke. He pointed out that people were entitled to the property which they created with their labour. The **labour theory of value** emerged: what was implicit - natural - in the behaviour of our primordial ancestors was now consciously articulated. But Locke noted that a portion of the value that circulated in the community was *not* attributable to private effort. This value, therefore, could not be the legitimate subject of private ownership. Locke acknowledged that this value was attributable to land. Thus, land was uniquely different from labour and capital.

- Ethically, it was wrong to take people's earned incomes.
- Ethically it was also wrong of a community to fail to take the rent of land for social use.
- Ethically it was wrong for society to permit the private appropriation of the rent of land.

This leads to an ethical rule for determining the character of public finance. **You keep what you produce. You yield what you do not produce.** This rule also sets the rates of revenue: the net income of society is the natural fund for public expenditure.

## Of Winners & Losers

On ethical grounds alone a society that wishes to behave morally needs to restructure its public finance to one that relies on rent, to be shared equally among us all through the use of public services. Such a reform would wipe out the tradeable value of land and natural resources. The commercial use value of land would continue to be expressed in terms of its flow of income (rent), but if this income was paid to the state there would be nothing left to capitalise into a selling price. This raises several vital questions, one of which I shall not address here.<sup>5</sup> The question of immediate relevance is whether compensation should be paid to owners for the loss of asset value. If someone loses the right to pollute (which, through default, has become an implicit property right), should he be compensated if he is now required to pay society for the privilege of dumping his waste in the environment?

We have seen that it is ethically wrong to claim sole proprietary rights to the value of land and natural resources. In the past, radical reformers like Thomas Paine pointed out that land ownership stemmed from thievery by monarchs and their henchmen. We do not compensate thieves today who steal other people's property and are then caught and are required to return the property to their rightful owners. In the case of land, the rightful owners are the community in general. Yet the law says that the rent can be privately owned and traded. So if a person paid in good faith for a piece of land, should he now be deprived of that value just because society has chosen to arouse its latent moral sensitivities? This question confronts us with a serious challenge, and the precedents are confusing.

This problem was addressed by Parliament early in the 19th century when it decided to outlaw the trade in human beings. Slavery was abolished. Thus was a valuable asset eliminated. *People were private property*. According to the law, they were legitimately acquired for purposes of trade. Compensation amounting to £20 million was paid by Parliament to those who lost the value they acquired through that trade.

Well, let us assume that it would be an injustice to now socialise the rent of land without compensation. Unfortunately, this argument posits a further ethical dilemma. From where do we draw the resources to compensate the landowner? Surely we cannot force people to pay compensation out of the incomes which they earn and which rightfully belong to no-one else? But if not, then how do we raise the money to reimburse those who have paid previous owners for the rights to land? This ethical dilemma obliges us to consider anew the status of constitutions and laws.

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<sup>5</sup> One recurring objection to the full collection of rental income is that the market process would be compromised if there was nothing to buy and sell. This is incorrect, as can readily be seen from a superficial examination of the tenanted residential, commercial or agricultural sectors. These markets exist to match resources and users without the need to buy and sell land.



One American analyst has pointed out that the US Constitution “protects an owner against the desire of those who want to utilise the power of government without providing compensation. Is this not ethically admirable?”. Well, one problem is this. The US Constitution was written by land speculators. They were willing to abuse the natural rights of the settlers, the landless labourers of Europe. Despite the fine-sounding rhetoric, on this one issue of land, no ethical consideration was allowed to intrude in the shaping of the edicts in the US Constitution. (I say nothing here of the constitutional right to property in human beings: slavery was legal under the Constitution.) The chicanery of the Constitution writers was barefaced. They claimed to base their notions of freedom on the philosophy of John Locke. Locke had affirmed every person’s natural right to **‘life, liberty and estate’** - estate being the word then used for land. The American speculators who were carving up the New World in their private Old World interest would have nothing to do with the word **estate** as a natural right. Instead, they substituted the citizen’s right to happiness.

Given these antecedents, are American citizens bound to uphold that Constitution when it comes to correcting the ills which it endorsed, nay caused - which include the institutionalised abuse of the natural environment? We have a precedent to guide us. The US Federal Government did not compensate the southern slave owners when the right to own human beings was abolished as a result of the Civil War.

### **Compensation For Taxpayers**

If we are pressed on the question of compensation for the owners of natural resources - which includes the loss of the right to pollute or otherwise abuse the services of nature - we also have to consider whether anyone else has a claim to restitution. Over the millennia during which rents have been privately appropriated, people’s private wages have been socialised: that is the nature of the tax system that is the reciprocal of the privatisation of public value. For centuries people have been subjected to arbitrary exactions which have

- diminished their standard of living, and
- impoverished many of them to the level of degradation.

These victims - the vast majority of us and our ancestors, who did not own land - were denied the opportunity to accumulate an asset value in labour power. Without the imposition of exploitative taxes, they would have built up private stocks of capital to enable them to live a longer and better life than was (and is) the case. Therefore, we have to ask: What about the claims that could be lodged by people who have suffered tangible losses as a result of the economic system? Consider, for example, the claim by Henry George in *Progress and Poverty* (1879) that land speculation was at the source of economic recessions. The private pursuit of capital gains from land causes the severe dislocation in economic activity which we call recessions. These dislocations destroy a large part of the value that people have accumulated in stocks and shares.

Employees are also deprived of a significant part of their lifetime's earnings when they are rendered unemployed. The speculators in the rent of land are directly responsible for causing these losses. Who compensates the losers of value when the stock market crashes? Who compensates people who lose their incomes when they lose their jobs?<sup>6</sup> *If we wish to rehabilitate society, ethically we would have to pay compensation to them.*

The beneficiaries of fiscal exploitation have been the owners of land. There has, of course, been a dramatic transformation of that system of exploitation. The aristocracy and their hangers-on have been eclipsed; we have democratised the process of exploitation through our pension funds. So, who pays compensation to the people against whom such a grievous injustice has been inflicted? Their losses far exceeded the gains that were achieved by the owners of land.

### **The Benefits-Received Principle**

Is there an ethically correct way to resolve these dilemmas? Is there a general mechanism which both includes people in a mutually respectful society and also regulates our behaviour towards nature? The practical principle is not novel, for it has always applied to all transactions in the labour and capital markets. We comply with the principle when we enter a shop and do a deal over the cash till. It is a principle which guides every transaction between two or more people. If that principle is forcefully excluded from a transaction, the deal is tainted by such words as theft or insider dealing. But here is further evidence of the exploitative character of our tax system: this principle is excluded from the land market. I refer to the Principle of Paying for the Benefits that one Receives.

When people hire out their labour or their savings they expect to be rewarded to the full value of what they contribute to the productive process. When people go into shops they hand over money which (except when monopoly power is present) is the equivalent in value of what they will receive from the product they are acquiring. The institutionalised exception to this arrangement relates to deals involving land. These are not ethically equal transactions.

The buyer or renter of a piece of land does pay a sum equal to the services which he expects to receive as a result of using the site. We see this in the case of the family that needs a home. It is not the land itself that is purchased, but the right to occupy a piece of land (one of the "bundle of rights"). The location matters. The husband and wife assess whether they need access to particular

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<sup>6</sup> This consideration is not raised in relation to the undermining of the Asian economies, circa 1997, as a result of the inflow of "hot" (short-term) finance, much of which was diverted into land speculation in the pursuit of capital gains. This oversight, interestingly enough, does not apply to the financiers who sought to suck out the resource rents from the "emerging economies". They are deemed to be worthy of compensation: that is the essence of the IMF stabilisation programme, which protects the banks from their reckless lending practices at the expense of employees, who are compulsorily deprived of their jobs.

schools, hospital, recreational or transport amenities - all the things that are directly relevant to their lives at their particular stage in the life cycle. These considerations enable them to determine how much they are willing to pay for the location that meets their needs. They are thus able to offer a rent, or price, for the land. So the paying side of the transaction appears to be ethical.

The seller, on the other hand, occupies a privileged position. What is he giving to the deal? We have just listed what he is giving! He is not selling a piece of land, *per se*. He is selling access to public amenities. But what right does he have to charge people for access to public services? The answer, of course, is none. This is an ethically indefensible transaction on the seller's side.

We can, of course, argue that the buyer is also behaving in an ethically improper way. He pays money to an individual, the landowner, who has no right to act as gatekeeper to the locally available public services. That money, the rental value of land, is a measure of part of the cost of providing the public services that are accessible to people in that location. The money ought to be given to the provider of the services - the community, through its various public agencies. It seems that we all conspire to use (and, at times, abuse) land and the resources of nature, at the expense of our communal interests.

### **Compensating Nature And The Community**

We have not yet completed our enquiry into compensation. Our analysis, thus far, has emphasised the losses to individuals that stem from the system of land use which we have inherited. But that system of tenure and taxation also inflicts damage on the culture of our community, as well as on the natural environment.

Take, as an example, urban sprawl. In the main, this is driven by land speculation. Nature is abused in many ways such as the destruction of living species, the decimation of forests and the erosion of the capacity of the biosphere to maintain life. Who is to compensate nature? It is now agreed that we have to find the resources to clean up as much of the mess as is humanly possible. Who pays?

And then there is culture. The public side of our lives was financed originally out of the rent of land. Here, I truncate the history of civilisation by leaping thousands of years. The private appropriation of public value has been the direct cause of the impoverishment of culture. Today, much of what passes for social customs and institutions are actually manifestations of the private interests of a small class: those who hijacked the public's value. As a result, over the centuries, the public culture which ought to have flourished, nurtured by the net income produced by the community, has been impoverished. Who is to pay for the damage inflicted on our culture?

## The Distribution Of Rent

Ethics also enter into the question of how we decide to share rent as public revenue. It is frequently argued that the land market is a localised one. This is because each site is unique in terms of size, location and other attributes. This makes it virtually impossible to talk about a homogenous commercial asset called land. While there is an important degree of truth in this statement, it is unacceptable as an argument for treating land as a source of revenue that exclusively favoured the local administration. For we all contribute to the accretion of value to land even on the other side of the world.

Certain sites in the Seychelles would be worth a fraction of their value but for the capacity of people in Europe to board long-haul jets to fly south to the Indian Ocean for their holidays. The barren rock known as Hong Kong is of stupendous rental value. That value is due in part to the willingness of Chinese people to work hard. But the greatest part of rental value is due to the demand for the goods and services that are traded on the international markets via the Hong Kong location.

So where do we draw the line when we talk about the need to share surplus resources on a fair basis? The question is legitimate, for the perversely limited considerations previously imposed upon us by the power politics of the nation-state are now being severely modified. Within Europe, for example, we no longer allow territorial borders to restrict people's movement. True enough, there are still arguments about the legitimate contributions of nations to the exchequer of the European Union. In the 1980s Mrs. Thatcher complained that Britain was giving a disproportionate share to the financial pool. In 1997 it was the turn of Germany, supported by Denmark, to echo a similar complaint. But these objections were based on crude measures of percentages in which judgments were entirely arbitrary. They were not guided by ethics.

The legitimacy of such arguments need to be examined, for international claims are now being made over the rent of natural resources. These claims are based on the assumption that people will lose income from natural resources that is their legitimate property.

- Saudi Arabia wants compensation for the oil-rent that it would lose if the world community decides to reduce the emission of carbon dioxide into the atmosphere. We can either burn in hell, or pay the sheikhs compensation for not buying their oil.
- Zimbabwe proposed to dispossess white farmers of 5 million hectares. President Mugabe did not want to compensate the owners, because they stole the land from Africans. But he had no objection to British taxpayers compensating their kith and kin who had settled in Africa generations ago.

Why should people who earned their incomes compensate the sheikhs who did not put the oil under the desert sands? Why should we compensate the white landowners of Africa whose predecessors stole it from the original occupants?

## Economics Fit For People - And Nature

As citizens of a democracy, each of us has the responsibility to challenge those who make decisions on our behalf. Governments are obliged to justify their actions, including those taken by default. In public finance, we have a duty to insist that tax authorities should calculate and advertise the costs, as well as the benefits, of choosing one tax rather than another; one fiscal structure rather than another. Taxation costs us dearly, as individuals and as a nation. We should insist that Parliament provide a full accounting of why it prefers to continue with taxation rather than shift to the set of resource-rent charges and complementary taxes that do not destroy the wealth that people are willing to create, and which provide positive incentives to conserve nature rather than (as at present) to encourage us to degrade our habitats.

Disguising the negative impact of taxation - or at least, governments seen to be trying to disguise the impact of taxation - injures the foundations of democracy. Democracy is supposed to be based on open government. Rational decisions require access to full information. Compromise these principles, and we compromise people's right to exercise their choices. We compromise their status as free people. The outcome is an ethically compromised society, which in turn will not be able to display the appropriate level of respect for nature. It appears, therefore, that progress towards the ethical society entails a greater awareness among citizens of the differential impact of fiscal policies on their best private and social interests. That understanding would emerge with an improvement in the flow of the appropriate information.

Research institutes like the New Economics Foundation have led the way in constructing indices that monitor the quality of our lives by taking into account our impact on the environment. These indices need to be complemented with additional information. Governments should be required to publish estimates of the reduction or increase in economic welfare as a result of changes in the collection of public revenue. The negative consequences of the various taxes differ considerably.<sup>7</sup> Unfortunately, the public has no sense of how their welfare is prejudiced by the shifts in rates between the various taxes. Therefore, a major advance in the process of democratisation would be achieved if government was required to declare the aggregate economic consequences of fiscal policy. The construction of such an index would probably be more influential than anything else in empowering the citizen and making governments accountable. Nature would be a major beneficiary, for the new understanding would propel people into requiring their elected representatives to adopt fiscal tools that maximised the nurturing of our natural habitat.<sup>8</sup>

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<sup>7</sup> Dale W. Jorgenson and Kun-Young Yun (1991), "The Excess Burden of Taxation in the United States", *Journal of Accounting, Auditing & Finance*, Vol.6 (4), New Series, pp. 506-507; C.L. Ballard, J.B. Shoven and J. Whalley (1985), "The Total Welfare Cost of the US Tax System", *National Tax Journal*, Vol.38, pp.125-40.

<sup>8</sup> For a discussion of how the shift to a non-distorting policy can be achieved in Britain, see Ron Banks, "The People's Stake: Resource-rents and the UK Budget", in Harrison, *op. cit.* For an account of the role of eco-taxes in fiscal reform, when allied to what is traditionally called land

Ethics has a role to play equal to considerations of economic efficiency, but the subject of land-use ethics, we are told, “is a relatively new one”.<sup>9</sup> Such a statement illuminates our capacity for collective amnesia which bedevils the study of land in all its aspects. Ethical rules for land use are at least as old as the Bible. In modern times, the most vigorous assertion of ethical land use reaches back to the works by American social reformer Henry George (*Progress and Poverty*, 1879), who synthesised Christian ethics with classical economics to explain how we could both nurture nature and society, and empower the individual, by adopting a practical fiscal tool for sharing the riches of nature. This policy ensures that we all win: there are no losers. For even those who do not enjoy possessory rights to land would share equally in the flow of income that represents the value of nature’s bounty. The need to retrieve the Georgist philosophy from the wilderness is affirmed by statements of the kind which appeared in the most recent treatment on land-use ethics, which claimed that “in any system of private property in land there are losers - those who will not have access to landownership”.<sup>10</sup> Much work remains to be done not by way of searching for novel ideas, for the best of ethical policies have matured with the passage of millennia. It is, rather, a matter of reminding ourselves of the knowledge we already have, knowledge that lurks just below the surface of our collective consciousness; and using the democratic process to place that information before the public.

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value taxation, see Alan Thein Durning and Yoram Bauman, *Tax Shift*, Seattle: Northwest Environment Watch, (1998), and James Robertson, *Transforming Economic Life*, Totnes (Devon): Green Books, 1998.

<sup>9</sup> Beatley, *op. cit.*, p.11.

<sup>10</sup> *Ibid.*, p.192.

## 6. RED-LIGHT TAXES AND GREEN-LIGHT TAXES

Mason Gaffney

### I. Shared Postulates

Those at this meeting mostly share certain postulates that draw us together and, (unfortunately) differentiate us from followers of the conventional wisdom. We are growing and they are shrinking, but they retain the inertia of custom, the power of entrenchment, and the discipline of obstinant faith; so we have a special need to pull together and unify ourselves.

What are these distinguishing postulates we share?

- A. There is a paramount public interest, at the least, in how resources are owned and used; at most, many of us hold that The Earth is common property that no owner has a right to abuse, misuse, or withhold in excess.
- B. We would assert the common interest mainly within the market mechanism, whose positive merits we appreciate. We would work by improving the market, using green taxes. On the spending side, we would root out all Perverse Subsidies that foster pollution, as catalogued in the new book by Norman Myers of Oxford's Green College.
- C. Green taxes hew to the principle of untaxing goods to tax bads. They untax adding-value, and instead tax subtracting-value. They enhance social efficiency by stopping waste while letting work and saving keep their full earnings. In economese, they enhance the incentives that best allocate scarce resources among competing ends. They also conserve resources to sustain human life over time.
- D. Fiscally, to replace perverse subsidies with green taxes "turns nega-bucks into mega-bucks," to the double advantage of the Treasury, which may then abate taxes on doing good.
- E. Green taxation reconciles Allocative Efficiency with Distributive Justice. It downtaxes work and saving, while uptaxing unearned income and wealth - what Carver called "findings and stealings."
- F. After paying for public services, we would distribute any surplus as a social dividend. Thus, green taxes are seen not as a necessary evil, but a positive instrument for good, in the idealistic spirit of Wm. Godwin and his rambunctious son-in-law, that Oxford expellee, Percy Shelley.
- G. We favor containing urban sprawl (and other kinds of scattered settlement), reserving more land for ecological habitat and environmental services.

In sum, we agree that land and resources are our common heritage; we have a right and duty to manage them to prevent waste in the common interest; and green taxation, used to modify the market, is the best tool of management.

To assemble a congregation sharing those goals is unusual. Rentiers own or fund and control most of the media, and a growing part of the intellectual establishment, which therefore support pundits and professors who take as dogma that rentier income and its sources are sacred, central to our welfare, and taboo. They will do their worst to belittle, subvert and divide us. Let us not make their job any easier. We will always have to offset their opposition, it goes with the territory. It will take our united strength to overcome it, so let us anticipate and work out whatever residual differences we have.

## II. What Is Waste, And What Should We Do About It?

We are all against wasting resources: wonderful - but what is waste? In answering, I will deal with two cognate questions. We agree, we should combat waste with a family of green taxes, but what green taxes? When, and where, and why? We agree on containing sprawl, but should we stress repelling people from designated green areas, or attracting them to designated human habitats?

### A. What is waste?

The question has been faced before. Gifford Pinchot was a leader with a magic name in the U.S.A. during the early conservation era. He answered well for his times and, I submit, for ours too.

"... natural resources must be developed and preserved for the benefit of the many and not merely for the profit of a few. ... the people shall get their fair share of the benefit which comes from the development of the country which belongs to us all."

He did not say just "preserved"; he said "developed and preserved." Today I suspect he would say "REdevelop," to get away from the negative baggage carried by "develop"; I certainly will.

Pinchot went on:

"The first principle of conservation is development, the use of the natural resources now existing ... for the benefit of the people who live here now. There may be just as much waste in neglecting the development and use of certain natural resources as there is in their destruction by waste.

... Conservation, then, stands emphatically for the use of substitutes (he mentions water for power and transportation) for all the exhaustible natural resources, ... The development of our natural resources and the fullest use of them for the present generation is the first duty of this generation. ...

In the second place conservation stands for the prevention of waste.... "

So Pinchot was against waste, like everyone, but he gives it a new turn (or, rather, an old turn that many have forgotten). To him, WASTE MEANS FAILING TO USE RENEWABLE RESOURCES. Urban land makes a good example. Urban land, economically speaking, is a lot like falling water, strange



as it seems. Economists (who are not all bad) classify urban land as a "flow resource." They liken it to flowing water because its services perish with time, whether used or not - and we are trapped in the one-way flow of time. It is an even better example of a "flow resource" than water itself, because unused water may have other uses downstream. Even in wasting out through California's Golden Gate, fresh water repels salinity. The unreaped harvests of idle land, however, flow down the river and out the Golden Gate of time like lost loves, and magic moments that passed us by. The waste of NOT using flow resources is just as real as the waste of misusing exhaustible resources. Indeed, when we tote up the transportation costs of disintegrated urban settlement patterns, it is clear that failure to use good urban land is a major cause of wasting energy.

### ***B. Two Kinds Of Green Taxes***

There are at least two kinds of green taxes. One kind says No! Don't! Stop! I shall call them "Red Light Taxes." (They are also called Pigovian taxes, effluent charges, etc.) Another kind says Yes! Do! Go! I shall call them "Green Light Taxes." It is fair to say that most people today who think of themselves as "green-taxers" think mainly in terms of Red Light Taxes, a Decalogue of Thou Shalt Not's, to constrain people from doing ill.

That is a goal I fully support. Taken by itself, however, it is unbalanced and incomplete. It seems to make light of people's need to produce and consume goods, to earn a living, and find shelter. This limits its allure, and makes green-taxers vulnerable to critics tarring us as arrogant "elitists" and heartless misanthropes in white lab coats. MY THESIS IS THAT "GREEN LIGHT TAXES" DESERVE A PROMINENT PLACE in our programme. It is not enough to stop the waste of using what should not be used. The counterpart is using what should be used; not to do so is also waste, in some ways the worst kind.

The prototype of Green Light Taxes is what our Conference Proposal calls a Site-value Tax. It is a tax based simply on holding ownership of land, and excluding others therefrom during a time slot. It is NOT based on using lands and resources, nor on hiring workers and producing goods and services, nor on building and dwelling in residences. As to quantity, it is gauged to the market value of land, which in turn is based on the potential net income from land, so the social charge is proportioned to the social loss that would ensue from wasting the perishable services of each individual parcel of land.

### ***C. Two Kinds Of Containment Policy***

Likewise, there are at least two kinds of containment policies for urban sprawl. One says Stop! Thou shalt not settle outside the designated growth boundary, neither shalt thou build, nor manufacture, nor trade, nor store goods, nor park vehicles, nor disport thyself in other than traditional country-squire-like amusements. I shall call this a "negative containment policy."

The other policy says Go!, or rather Come! Come into my city and rebuild it. This is not "development" in the modern pejorative sense of territorial expansion. Rather it is REdevelopment in the manner of the phoenix - the mythical bird, that is, not the city misnamed Phoenix, which is an awful example of mindless lateral expansion without renewal.

Consider Philadelphia, once the City of Brotherly Love founded by an idealistic English Quaker. Today, after 3 centuries of development, Philadelphia has 15,800 vacant lots, but that only begins the story. It has 27,000 empty houses (i.e. junkers on usable lots that might as well be vacant); 1500 acres of vacant land and brownfields; and 700 vacant commercial bldgs. A local journalist names it BlightTown, U.S.A. If he travelled a bit he'd find it is only one of many.

The result of decay without renewal is to threaten the countryside; settlers spill out, "like ghosts from an enchanter fleeing." Yet, these are not ghosts, nor autumn leaves in the west wind; these are live people. Destroy man's habitat here and he moves it there, and takes habitat from other life forms. The solutions to urban decay and disintegration are infilling and renewal. Here is where the Green Light Tax is such a good management tool. It lets cities rebuild themselves without tax penalties on new building, and rise like the phoenix from their own ashes.

There is a reflex against growth and development we must learn to overcome. "Growth" should not be an issue to divide us: it depends on the kind of growth. Resentment of growth and development stems in large part from associating them with territorial expansion. Infilling and renewal and rehab, however, UNCOUPLE growth from sprawl: they let cities grow (or at least stop shrinking) without sprawling. Ascending to a satellite view, let's look at the whole system of settlement: focusing people where they should be keeps them away from where they shouldn't be.

Here is an aerial view of Albuquerque, New Mexico, a state dominated by owners of million-acre ranches, and therefore with about the lowest property tax rate in the U.S. Albuquerque sprawls out about 30 miles east-west, and another 30 miles north-south, giving a density of about 300-400 people per square mile for its 330,000 residents. Many of its homes are slums.

Contrast that with the aerial view of Sydney, Australia, a city that raises a lot of its budget from "Green Light" taxes on site value. Sydney and suburbs have nearly 3 million people, on less land than Albuquerque, and with no slums.

There is plenty of land to go around. The pleasant green villages of Shorewood and Whitefish Bay, Wisconsin are upper-income Milwaukee suburbs that feature detached homes on tree-lined streets, with detached garages, laws against overnight curb parking, a number of lakeshore mansions with parklike grounds, ample public parks, good shopping, and a little industry. Their densities are 10,000 persons per square mile. At this density, 250 million

Americans would fit nicely into less than half of Wisconsin, an average-sized one of 50 states. (They would occupy 0.7% of the United States.)

At the 10,000 density, Greater Milwaukee would fit inside Milwaukee County, yet it now sprawls out over several counties. It sprawls farther yet, if one counts the rural residents who float in and out of town for seasonal work. Shorewood and Whitefish Bay have high density because they are the only Milwaukee suburbs with no vacant land; the others, and the central city itself, are full of holes. Result: sprawl, invasion of wildlands, loss of farmland, forced automobilization of former pedestrians, water pollution from new grading - the whole litany of green laments. High density is not their cause, but their cure.

### III. Raising Wage Rates

Classical political economists looked at what determines how income is shared among land, labor and capital. They established that when settlement moves out or up to poorer lands, wage rates fall and land rents rise. They called it diminishing returns.

Malthus, Ricardo and Mill attributed this mainly to population growth. Darwinism reinforced the idea. This expansion of human settlement also invades wildernesses, and floodplains, and erosive soils, and forests, and waters, and the air, etc. Thus, what was bad for labor was also bad for green values.

In the late Victorian and Edwardian eras, parallel movements in England and the U.S.A. modified ideas in a more optimistic and problem-solving spirit. These were Radical-Liberalism in England, and Progressivism in the U.S.A. These thinkers noted it is not just human fecundity that makes population push on the means of subsistence, it is also prodigal waste of the best lands that might be supporting a much larger population. The Rad-Libs programme entailed "internal colonization," a reaction to imperialism. Imperialists Halford Mackinder and Leo Amery argued for internal development, because external expansion was exhausted. Even Kipling wrote his contrite "Recessional." In 1906 Prime Minister Sir Henry Campbell-Bannerman said, "We wish to make the land less of a pleasure-ground for the rich, and more of a treasure-house for the nation." Politics, after three centuries, was catching up with the Utopia of Thomas More, and the later visions of Oliver Goldsmith and Percy Shelley.

American Progressives had various names for it, including Civic Revival, Reform Darwinism, the Social Gospel, and Conservation. Gifford Pinchot, cited earlier, captured its spirit. Henry George was a leading spokesman in both nations. The idea was, and is, to use "Green Light" taxes to intensify the use and settlement of good lands, thus to draw people back in from invading badlands and wilderness lands. In one stroke, Green Light taxation helps both to raise wage rates and save wilderness areas. It makes these goals compatible and mutually supportive.

My main thesis is that Civic Revival and Internal Colonization, which mean building urban infrastructure plus filling it in, go hand in hand with saving wildlands, environment and ecology. The details differed then from now, but the spirit is the same.

#### IV. The Need For User Charges

My fellow Green-lighters have a lot to learn about Red Light Taxes and charges, too. Much of what all of us need to learn has been worked out by those often-awful but sometimes-useful economists, under the name of "marginal-cost pricing." On private land, where the owner controls access, there is little need for user charges (except for externalities). The owner's self-interest takes care of finding the optimal intensity of use. On public land, however, with unrestricted access, it is another matter. Witness, for example, the crowding of Oxford sidewalks relative to the undercrowding of private and University lands abutting them.

On public lands, when a bridge is new, and oversized for its traffic, no toll should be charged: circumstances call instead for a Green Light Tax on the benefited lands, to hasten their settlement. When traffic queues up, however, it is time to charge a toll (and/or to widen the bridge).

Likewise, when demand for water exceeds supply, it is time to price it and charge people for withdrawing it from Nature. The history of irrigation in California is instructive. During the Populist and Progressive eras Californians developed the legal framework for what we call Irrigation Districts, to divert, store and distribute water. They raised funds by taxing land; most of them delivered water free of variable cost. Likewise, no one charged them for taking our water from our rivers. There was ample water, so it seemed, running to waste, or into swamps. The result, from 1900-30, was to convert California from pasture and wasteland to the No.1 farm state in America. It was a Georgist object lesson, and a brilliant success story. Quoth Albert Henley, a prominent attorney,

"The discovery of the legal formula of these organizations was of infinitely greater value to California than the discovery of gold a generation before. They are an extraordinarily potent engine for the creation of wealth."

A worm in the apple was waste of water. The same policy that promoted close economy and rapid conversion of land also tolerated waste of water, and even subsidized it by basing the quantity of rival water claims on histories of use - what economists now call "rent-seeking." It was once a minor problem, but times change, and "circumstances alter cases." Today we are stuck with much of our water, a limiting natural resource, frozen in lower uses and withheld from higher ones - exactly what Georgist policy is supposed to prevent. The solution, clearly, is for the State to charge each Irrigation District (and other

diverters) per unit of water they take, and reallocate the great surpluses they would immediately stop taking.

Traditional "Green Light" Georgists need to introspect deeply over this case, and many like it, and master the theory and practice of marginal-cost pricing as developed so ably by closet Georgist economists like Harold Hotelling and William Vickrey. Marginal-cost pricing is a flexible, adaptable theory that allows for both Green Light and Red Light taxes, each in its season. Using this basic, simple tool of economic analysis, Red Light and Green Light champions can compose their differences and move ahead in triumphant unity.

## 7. LOCAL-TO-GLOBAL DIMENSIONS Of Ecotaxation, Land Value Taxation And Citizen Dividends

Alanna Hartzok

Concerned world citizens are wringing their hands because Rio Earth Summit objectives for sustainable development have fallen far short of the goals established in 1992. Frequently the United States and other industrialized countries are blamed for insufficient political will in committing financial resources to developing countries and to environmental repair programs. But with taxpayers in the ‘developed’ world on the verge of revolt, where is the money to come from?

We have arrived at a time of great struggle and opportunity to reconstitute democratic governance on the basis of a new vision and mandate concerning individual and common property rights to earth. Private property rights advocates and common property rights advocates will appear to be in numerous arenas of confrontation and conflict until the proper balance can be struck.

Ward Morehouse, a director of the program on Corporations, Law and Democracy, has put forth a call for broadbased public debates on the theme of democracy and property rights. Morehouse has found interesting parallels<sup>1</sup> between the International Declaration on Individual and Common Rights to Earth (Appendix 1), propounded by the International Union for Land Value Taxation and Free Trade in 1949, and Native American environmental activist Winona LaDuke’s call for a ‘Common Property Constitutional Amendment.’ The amendment would affirm that there are resources which are common property and no individual interest has the right to destroy those common properties whether it is air, water, ocean, fish, or forest.

In a Fall 1996 speech in Boulder, Colorado, LaDuke noted that while the Fifth Amendment protects private property by asserting the right not to have it taken or confiscated by the government, there is no corresponding preservation for common property under the Constitution. ‘The absence of that protection means that common property is by and large pilfered by private interests,’ she concludes.

The ‘Economists’ Statement on Climate Change’ (Appendix 2) with its attached monumental compilation of signatories (2,509 as of March 1, 1997) concludes that ‘The United States and other nations can most efficiently implement their climate policies through market mechanisms, such as carbon taxes or the auction of emissions permits. The revenues generated from such policies can effectively be used to reduce the deficit or to lower existing taxes.’

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<sup>1</sup> From a March 9, 1998 email from Ward Morehouse to Alanna Hartzok.

This policy recommendation has a relevance beyond the particulars of global climate change. It provides the beginning point for a broadbased consensual framework for a set of principles and policies which can integrate common heritage protection goals with market economy incentives. The growing use of so-called ‘ecological taxation’ policies shows promise of a similar alignment of vision and values.

The most comprehensive listing of ecotaxation policies in the United States has been compiled by J. Andrew Hoerner of the Washington, D.C. based Center for a Sustainable Economy.<sup>2</sup> ‘Harnessing the Tax Code for Environmental Protection: A Survey of State Initiatives’ identifies and categorizes 462 such provisions and provides a short description, the tax rate, base and a legal citation for each.

‘Environmental tax measures in the states have been adopted in a haphazard and uncoordinated fashion,’ says Hoerner. ‘States have only scratched the surface of the potential of environmental taxes to contribute to meeting state fiscal, environmental, economic, and social goals. Given the chaotic status of environmental taxation, states have an opportunity to reap considerable benefits by simply adopting the best practices from other states.’<sup>3</sup>

Making the polluter pay for the abuse of natural resources is just a short step away from making the user pay for what is taken from common heritage resources. Resource taxes work somewhat like a rental or interest payment for the use of assets that are owned by all of us, ranging from the broadcast spectrum to the air we breathe.

In the United States, the federal government owns and manages over 650 million acres of public land. These areas contain huge amounts of valuable natural resources which should not simply be given away or sold at low costs to private interests. In their 1997 book<sup>4</sup> ‘Tax Waste, Not Work,’ associates of Redefining Progress delineated proposals for revenues from user fees for the following:

- Increase recreation fees to pay for park maintenance.
- Raise grazing fees on public lands.
- Rent or auction the broadcast spectrum.
- Impose higher user fees on the inland water system.

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<sup>2</sup> Andrew Hoerner, *Harnessing the Tax Code for Environmental Protection: A Survey of State Initiatives*, available from Center for a Sustainable Economy, 1731 Connecticut Ave., NW, Suite 500, Washington, DC 20009 ph. 202-234-9665.

<sup>3</sup> Ibid. p. 4.

<sup>4</sup> M. Jeff Hamond, *Tax Waste, Not Work: How Changing What We Tax Can Lead to a Stronger Economy and a Cleaner Environment*, includes writing by Stephen J. DeCanio, Peggy Duxbury, Alan H. Sanstad, Christopher H. Stinson with an introduction by Paul Krugman. April 1997, available from Redefining Progress, One Kearny St., 4th Fl., San Francisco, CA 94108, ph:800-896-2100 or 415-781-1191 or email: <info@rprogress.org>.

Others include

- charging market rates for electricity sold by federal Power Marketing Administrations;
- establishing charges for airport takeoff and landing slots to ensure that the scarce resource of public airspace is put to best use; and
- charging more substantial royalties and holding fees for hardrock mining on federal lands.

Arising from ecotaxation approaches to environmental concerns is an emergent new perspective on public finance policy that has the potential for a clear synthesis of objectives that formerly appeared to be polarized. With big government approaches, conflicts over public funds from competing interests were exacerbated. Environmentalists often appeared to be anti-business and anti-labor, as these constituents experienced environmental regulations as added costs and burdens.

With ecotaxation based on the “polluter pays” principle, industry and individuals have an open range of choices to modify and adapt their behaviors to minimize the amount of tax paid. Human creativity can be brought to bear in any number of ways to solve environmental problems. With the payment of increased user fees for limited natural resources, resource users may very well discover ways to do more with less of these resources. With decreased private profits from natural resources, private finance could flow more readily into recycling operations and renewable resource technology development, yielding a win for both needed new environmentally sound private enterprises and the public at large.

Perhaps the greatest potential that ecotaxation has for synergizing various private sector, social and environmental objectives is that rather than draining the public purse, this approach fills it. With the increase in public funds coming from ecotax dollars, corresponding cuts can be made in the taxation of both business and labor. Tax shifters ask, why not develop a socially useful tax system that would tax those things we need less of and untax those things of which society wants more?

One of the items that this brand of tax shifters agree we need more of is purchasing capacity and economic equity for wage earners (Appendix 3). In the U.S., tax shifters are now pointing their fingers at the payroll tax which has been increased seven times since 1980 and is the greatest tax burden for most families. Although reform options now in the public dialog fail to account for these high taxes on labor, tax shifters say that if tax reformers are serious about helping working Americans and small business while enabling people to move from welfare to work, then the payroll tax must be addressed.<sup>5</sup>

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<sup>5</sup> Ibid., p. 14.



Undoubtedly, the tax shift vision does give a powerful, coherent, rational underpinning and therefore a restored legitimacy to the field of public finance. Individuals should be able to keep more of the fruit of their efforts, but should pay for the costs that they impose on others. Since tax shifters also advocate drawing increased public revenue from resources already owned in common, all citizens could come to receive direct dividend payments similar to the Alaska Fund oil dividends (of \$1000 and more) distributed each year to residents of that state.

‘Tax Pollution, Not Paychecks’ could be the next reform slogan for America’s Northwest. The Seattle based Northwest Environment Watch (NEW) has put forth one of the most brilliant tax-shift proposals in a recently released book entitled *Tax Shift* by Alan Thein Durning and Yoram Bauman. Replacing most of the existing tax codes in the Northwest with taxes on pollution and other environmental ills would prevent hundreds of premature deaths, safeguard the environment and raise economic output by at least \$5 billion, say the NEW researchers who have analyzed how a revenue-neutral environmental tax shift would affect the Northwest states and British Columbia.<sup>6</sup> The proposal would untax ‘goods’ such as paychecks and profits and tax ‘bads’ such as pollution, resource depletion, sprawl, and traffic jams.

NEW is frontrunner among the tax shift think tanks in the promotion of yet another form of tax shifting - a shift within the property tax itself. An important distinction not yet grasped by other tax shift proponents is that the traditional property tax is actually two conflicting taxes rolled into one; it is a tax on the value of buildings and a tax on the value of the land under the buildings. The NEW scenario shifts taxes off buildings to encourage upkeep, maintenance and quality housing stock and replaces this with a stronger tax on land values which encourages compact development and contains sprawl. The entire 27% of the property tax would be shifted onto land values only.

The NEW report concludes that their proposed tax shift for 1996 for the Pacific Northwest - British Columbia, Idaho, Oregon, and Washington - would have encompassed 84% of provincial, state and local revenue. ‘The tax shift would have eliminated almost two-thirds of existing taxes on retail sales and corporate and personal income. Pollution, hydropower, and land value taxes would have yielded the most revenue.’

Perhaps the Northwest tax shifters will be looking to Pennsylvania for some guidelines on their proposed major property tax shift towards land value taxation. Sixteen cities in ‘Penn’s Woods’ have opted for the so-called ‘split-rate’ tax which enables localities to reduce taxes on buildings, thereby giving

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<sup>6</sup> From *Tax Pollution, Not Paychecks, Would Help Economy, Environment, and Health*, the Executive Summary from the book “Tax Shift” by Alan Durning and Yoram Bauman. “Tax Shift” is available from Northwest Environment Watch, 1402 Third Ave., Suite 1127, Seattle, WA 98101-2118 tel. 206-447-1880 email: <new@northwestwatch.org> Web:<www.northwestwatch.org>.

property owners the incentive to build and to maintain and improve their properties, while increasing taxes on land values, thus discouraging land speculation and encouraging infill development. This revenue neutral shifting of the tax burden promotes a more efficient use of urban infrastructure (such as roads and sewers), decreases the pressure towards urban sprawl, and assumes a broader spread of the benefits of development to the community as a whole.<sup>7</sup>

A recent study<sup>8</sup> by University of Maryland economists, Wallace Oates and Robert Schwab, compared average annual building permit values in Pittsburgh and 14 other eastern cities during the decade before and the decade after Pittsburgh greatly expanded its two-rate tax. Pittsburgh had a 70.4% increase in building permits while the 15 city average decreased by 14.4% of building permits issued.

The City of Harrisburg, considered the second most distressed in the U.S. fifteen years ago, has reversed nearly three decades of very serious previous decline. The number of vacant structures, over 4200 in 1982, is today less than 300. With a resident population of 53,000 nearly 5,000 more city residents are now employed. The crime rate has dropped 22.5% and the fire rate has dropped 51%.

Harrisburg Mayor Stephen Reed has stated that the shift towards the land value tax system is ‘an important ingredient in our overall economic development activities.....(and) continues to be one of the key local policies that has been factored into this initial economic success here.’<sup>9</sup> Mayor Anthony Spossey of the small city of Washington, Pennsylvania, population 15,000, likewise relates the many benefits of this form of tax shifting. He says that ‘the budget has really shown vast improvements.... We now have a capital improvements budget and have been able to do things we had not been able to do before.’<sup>10</sup>

Recently in the Republic of South Africa municipal authorities in the newly formed Greater Cape Metropolitan Area made a major decision to move directly to land value taxation.<sup>11</sup> The Property Valuation Ordinance is being revised to allow for rating of land values only and to remove technical obstacles to revaluation of all metropolitan properties. Land value taxation currently plays an important role in the local tax base of other RSA cities as well. It is hoped that

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<sup>7</sup> Alanna Hartzok, *Pennsylvania's Success with Local Property Tax Reform: The Split Rate Tax*, American Journal of Economics and Sociology, Vol. 56 No. 2, April, 1997.

<sup>8</sup> *Urban Land Taxation for the Economic Rejuvenation of Center Cities: The Pittsburgh Experience*, by professors Wallace Oates and Robert Schwab of the University of Maryland, 1992, available from Center for the Study of Economics, 2000 Century Plaza, Suite 238, Columbia, MD 21044.

<sup>9</sup> From a letter from Mayor Stephen Reed of Harrisburg to Patrick Toomey, October 5, 1994.

<sup>10</sup> This statement is edited from a transcript of Mayor Anthony Spossey's presentation at the Tax Reform Forum held on May 2, 1997 at Shippensburg University, Shippensburg, PA.

<sup>11</sup> Godfrey Dunkley, *Good news as Cape Town chooses SVR*, Land & Liberty, Winter 1997, p. 11.

President Mandela may come to understand the importance of this policy approach so that it can be more broadly applied throughout South Africa and on the federal level as well. Although Mandela has stated his distrust of borrowing from international lenders, he has yet to fully comprehend the public finance and revenue generating potential of the land and resource base of his own country.

Land tenure and resource management systems which had been established during the colonial era were retained after countries in Latin America, Africa and Asia established democratic forms of government in mid-century.<sup>12</sup> They claimed vast amounts of formerly indigenous and native controlled forests, agricultural lands, minerals and water within their borders or permitted these resources to remain largely under the control of foreign powers. Under the guise of economic development, many began cashing in these natural resources at bargain basement prices, filling their own private coffers while the majority of their fellow citizens remained in conditions of abject poverty (Appendix 4).

Meanwhile in the so-called developed world, the purchasing capacity of the family head of household gradually eroded to the point that two adults must now work full-time in the cash economy to provide for a family's basic living expenses. High land values have driven up housing costs.

Without access to raw materials and with declining purchasing capacity (Appendix 5), individual workers, small business entrepreneurs, and entire governments have turned to pools of money available at high interest rates from local, national and international banking systems. But sound, secure, sustainable economies have not grown from such arrangements and the degradation of human and natural resources continues.

We are herein enunciating the guidelines for an integrated local-to-global public finance system based on the principle of the common heritage of earth's land and natural resources. It is through affirming the peoples rights to the value of earth's land and raw materials now controlled by the few that the many will be able to secure access to debt-free private property for homesites and sustainable, independent and fulfilling livelihoods.

The clarity of thought and integrity of values set forth in the tax shifting policy approach provides a compelling base for action for major tax reform on all levels. The goal is nothing short of a non-violent revolution required to free wage slaves and those now living in dire conditions of poverty and homelessness throughout the world. In order that the many may make a living, the few must stop making a killing.

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<sup>12</sup> David Malin Roodman, "Paying The Piper: Subsidies, Politics, and the Environment", Worldwatch Paper No133, December 1996, p.20 (from Worldwatch Institute, 1776 Massachusetts Ave., NW, Washington, DC20036, USA).

Nearly all regions of the planet have sufficient land and natural resources and the human skills required to supply the basic necessities of all. As was clearly stated in the United Nations Habitat II Action Agenda endorsed by 183 nation state representatives in Istanbul in June of 1996:

‘The failure to adopt, at all levels, appropriate rural and urban land policies and land management practices remains a primary cause of inequity and poverty. It is also the cause of increased living costs, the occupation of hazard-prone land, environmental degradation and the increased vulnerability of urban and rural habitats, affecting all people, especially disadvantaged and vulnerable groups, people living in poverty and low-income people’ (see Appendix 6).

Reducing taxation on labor will increase purchasing capacity, lowering taxes on physical capital will lower the costs of life necessities, while charging for resource use via ecotaxation and land value taxation will yield the funding for investments in infrastructure, education, health and other public goods without the need to borrow from the elite controlled banking systems such as the International Monetary Fund and the World Bank.

The planet and all its resources, including land, water, forests, minerals, the atmosphere, electro-magnetic frequencies and satellite orbits are the common heritage of all and must no longer be appropriated for the private profit of the few to the exclusion of the many. As we place this fundamentally fair ethic within a fully established tax shift agenda, any person or group making use of more than their fair share of the earth’s resources should pay full user fees for those resources to Common Heritage Funds, administered as a trust for all people, or to be distributed as direct citizen dividend payments from the local to the global level.

Worldwide ecotaxation can be based on principles of subsidiarity in terms of implementation. Specific types of land resources can be taxed by clearly delineated collection authorities from the local to the global level. Towns and cities could draw their funding primarily from user fees for residential, commercial and industrial landsites; counties could focus on agricultural, pasture and forest land; regions and states might draw their funds primarily from water, mineral, and oil resources; global governing agencies established for purposes of peacekeeping and environmental restoration, protection, and monitoring could target fund collection from the electromagnetic spectrum, the sea, ocean mineral deposits, and geosynchronous orbital zones. Percentages of these resource rents could be channelled up and down the local-to-global range for flexibility and maximum fairness and efficiency. Citizen dividend payments from earth resource fees could be distributed at all levels.

The key to enacting such a fundamental and wide-ranging tax reform agenda is a critical mass mobilization of popular support. It would seem that the tax shift policy approach has the potential to unite the constituency necessary for significant political action. No doubt, this agenda will be carried forth in

incremental stages as is in fact occurring now, with momentum building as positive, life-affirming benefits are realized from place to place.

Although the obstacles to creating a beneficent world order may at times appear insurmountable, energy and attention must be brought to focus on the required changes necessary to create a world that works for everyone. Proactive 'Campaigns for the Earth'<sup>13</sup> in various forms and guises have already begun linking and enlisting citizens of the world in a great global effort for peace, justice and care of the earth.

I think it can be readily perceived that the call for common property rights by Winona LaDuke, for biodiversity covenants by Vandana Shiva and the goals of land rights and other social justice movements worldwide can be affirmed and furthered by the principles and policies of tax-shifting. Common property rights can be properly aligned with private property rights. Affirming the existence of common rights in land and natural resources creates a condition in society wherein individual economic interests can be advanced for all. The enigma of the maldistribution of wealth which has for so long plagued market economies thus can be redressed through the resultant broad-based sharing of the benefits of free market and private incentive systems.

Essentially, democratic governance can now be firmly established on the human right to the planet itself.

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<sup>13</sup> For example, Foundation for the Earth, 2120 13th St., Boulder, CO 80302, USA or Global Awareness In Action, Inc., 14 Les Plateaux, Anse St-Jean, Quebec, Canada G0V 1J0 or Action Coalition for Global Change, 55 New Montgomery St., Suite 219, San Francisco, CA 94105 USA, email: <acgc@apc.org>.

## Appendix 1

### **AN INTERNATIONAL DECLARATION ON INDIVIDUAL AND COMMON RIGHTS TO EARTH**

Originally composed and declared at a meeting of the International Union for Land Value Taxation held in 1949

We hereby declare that the earth is the common heritage of all and that all people have natural and equal rights to the land of the planet. By the term "land" is meant all natural resources.

Subject always to these natural and equal rights in land and to this common ownership, individuals can and should enjoy certain subsidiary rights in land. These rights properly enjoyed by individuals are:

1. The right to secure exclusive occupation of land
2. The right to exclusive use of land occupied.
3. The right to the free transfer of land according to the laws of the country.
4. The right to transmit land by inheritance.

These individual rights do not include:

1. The right to use land in a manner contrary to the common good of all, e.g., in such a manner as to destroy or impair the common heritage.
2. The right to appropriate what economists call the Economic Rent of land.

The Economic Rent is the annual value attaching to the land alone apart from any improvements thereon created by labor. This value is created by the existence of and the functioning of the whole community wherein the individual lives and is in justice the property of the community. To allow this value to be appropriated by individuals enables land to be used not only for the production of wealth but as an instrument of oppression of human by human leading to severe social consequences which are everywhere evident.

All humans have natural and equal rights in land. Those rights may be exercised in two ways:

1. By holding land as individuals and/or
2. Sharing in the common use of the Economic Rent of land.

The Economic Rent of land can be collected for the use of the community by methods similar to those by which real estate taxes are now collected. That is what is meant by the policy of Land Value Taxation. Were this community-created land value collected, the many taxes which impede the production of wealth and limit purchasing power could be abolished.

The exercise of both common and individual rights in land is essential to a society based on justice. But the rights of individuals in natural resources are limited by the just rights of the community. Denying the existence of common rights in land creates a condition of society wherein the exercise of individual rights becomes impossible for the great mass of the people.

**WE THEREFORE DECLARE THAT THE EARTH IS THE BIRTHRIGHT OF ALL PEOPLE.**

## Appendix 2

### The 'Economists' Statement on Climate Change'

- I. The review conducted by a distinguished international panel of scientists under the auspices of the Intergovernmental Panel on Climate Change has determined that 'the balance of evidence suggests a discernable human influence on global climate.' As economists, we believe that global climate change carries with it significant environmental, economic, social, and geopolitical risks, and that preventive steps are justified.
- II. Economic studies have found that there are many potential policies to reduce greenhouse-gas emissions for which total benefits outweigh total costs. For the United States in particular, sound economic analysis shows that there are policy options that would slow climate change without harming American living standards, and these measures may in fact improve U.S. productivity in the longer run.
- III. The most efficient approach to slowing climate change is through market-based policies. In order for the world to achieve its climatic objectives at minimum cost, a co-operative approach among nations is required - such as an international emissions trading agreement. The United States and other nations can most efficiently implement their climate policies through market mechanisms, such as carbon taxes or the auction of emissions permits. The revenues generated from such policies can effectively be used to reduce the deficit or to lower existing taxes.

## Appendix 3

### Wages and Wealth Distribution

1. The difference between average - or mean - income and median income is at an all-time high in the United States, according to the Census Bureau Income Statistics Branch. The estimated mean income in 1996 for people of working age was \$25,466. This figure is calculated by taking the total of all incomes in America and dividing by the number of people who earned money. It's a simple measure, one that is easily distorted by high earnings among those at the top, such as Microsoft chairman Bill Gates who is worth an estimated \$38 billion. The median income (that is, half the people earned more than this amount and half earned less) was only \$17,587 that year. The mean is 45 percent larger than the median. That difference has been steadily increasing since 1974 when the mean was only 36 percent larger than the median.
2. In 1996, the richest 20 percent of the American public owned 49 percent of the nation's wealth. Twenty years earlier, the top fifth owned just 43 percent. People in the bottom fifth have about 4 percent of the nation's money, a figure that hasn't changed much in 20 years. Everyone else in the middle declined from owning 52 percent to 47 percent of the wealth. The top 1% of the US population now has more wealth than the bottom 90%. In central cities, the poverty rate has increased from 14% in 1970 to nearly 21% today. About 1 in 25 Americans now lives in an 'extreme poverty area,' where 40% or more of the residents are poor.

3. Nearly every country in the world has been experiencing a widening rich/poor gap even in the midst of strong economic indicators. A particularly glaring example from a March, 1998 LA Times story reports that in Bombay there are apartments selling for \$3 million, yet more than half the citizens, meaning more than six million people, are homeless. One night at the Taj Mahal Hotel costs more than the annual average salary.

#### **Appendix 4**

For example, in Indonesia the government has sold timber concessions at a third or less of market value on a third of the country's territory since the late 1960s. In 1990, it captured only 17% of the value of timber sold, earning \$416 million. If the ratio of real to potential revenues had matched that for its oil concessions -- 85% -- the government would have earned another \$2.1 billion, equal to 40% of its foreign aid that year. Instead, the money mostly wound up in the bank accounts of a dozen or so timber magnates with close ties to President Suharto and his family.

#### **Appendix 5**

##### **Who Owns the Earth?**

1. "The most pressing cause of the abject poverty which millions of people in the world endure is that a mere 2.5% of landowners with more than 100 hectares control nearly three-quarters of all the land in the world." The top 0.23% control over half. (Susan George, *How the Other Half Dies*, Penguin, 1976, p. 24.)

2. About 3% of the population owns 95% of the privately held land in the USA. 568 companies control 22% of it, a land mass the size of Spain, and their land interests worldwide comprise a total area larger than that of Europe - almost 2 billion acres. (Peter Meyer, "Land Rush - A Survey of America's Land - Who Owns It, Who Controls It, How much is Left" in *Harpers Magazine*, Jan. 1979).

3. A United Nations study of 83 countries showed that less than 5% of rural landowners control three-quarters of the land.

4. According to a 1985 Brazil government report, 2% of landowners hold 60% of the arable land in Brazil while close to 70% of rural households have little or none. Just 342 farm properties in Brazil cover 183,397 square miles - an area larger than California (*Worldwatch*, Oct. 1988).

5. In order to show that there was NO NEED for land reform in Central America because land ownership is even more concentrated in the USA, US Senator Jesse Helms read the following facts into the Congressional Record in 1981: in Florida, 1% owns 77% of the land, and the top 1% own over two-thirds of the land in Maine, Arizona, California, Nevada, New Mexico, and Oregon.



6. In other countries:

- 86% of South Africa is still owned by the white minority population
- 60% of El Salvador is owned by the richest 2% of the population
- 80% of Pakistan is owned by the richest 3% of the population
- 74% of Great Britain is owned by the richest 2% of the population
- 84% of Scotland is owned by the richest 7% of the population.

## **Appendix 6**

### **United Nations HABITAT II Agenda -- Section B, 55 & 56**

What follows is a portion of the extensive consensus agreement (163 pages) made by 183 nation state representatives in Istanbul on June 15, 1996.

#### **B. Adequate Shelter for All**

##### **Ensuring access to land**

55. Access to land and legal security of tenure are strategic prerequisites for the provision of adequate shelter for all and for the development of sustainable human settlements affecting both urban and rural areas. It is also one way of breaking the vicious circle of poverty. Every Government must show a commitment to promoting the provision of an adequate supply of land in the context of sustainable land-use policies. While recognizing the existence of different national laws and/or systems of land tenure, Governments at the appropriate levels, including local authorities, should nevertheless strive to remove all possible obstacles that may hamper equitable access to land and ensure that equal rights of women and men related to land and property are protected under the law. The failure to adopt, at all levels, appropriate rural and urban land policies and land management practices remains a primary cause of inequity and poverty. It is also the cause of increased living costs, the occupation of hazard-prone land, environmental degradation and the increased vulnerability of urban and rural habitats, affecting all people, especially disadvantaged and vulnerable groups, people living in poverty and low-income people.

##### **Actions**

56. To ensure an adequate supply of serviceable land, Governments, at the appropriate levels and in accordance with their legal framework, should:
- a) Recognize and legitimize the diversity of land delivery mechanisms;
  - b) Decentralize land management responsibilities and provide local capacity-building programmes that recognize the role of key interested parties, where appropriate;
  - c) Prepare comprehensive inventories of publicly held land and, where appropriate, develop programmes for making them available for shelter and

- human settlements development, including, where appropriate, development by non-governmental and community-based organizations;
- d) Apply transparent, comprehensive and equitable fiscal incentive mechanisms, as appropriate, to stimulate the efficient, accessible and environmentally sound use of land, and utilize land-based and other forms of taxation in mobilizing financial resources for service provision by local authorities;
  - e) Consider fiscal and other measures, as appropriate, to promote the efficient functioning of the market for vacant land, ensuring the supply of housing and land for shelter development;
  - f) Develop and implement land information systems and practices for managing land, including land value assessment, and seek to ensure that such information is readily available;
  - g) Make full use of existing infrastructure in urban areas, encouraging optimal density of the occupation of available serviced land in accordance with its carrying capacity, at the same time ensuring the adequate provision of parks, play areas, common spaces and facilities, and plots of land for home gardening, as appropriate;
  - h) Consider the adoption of innovative instruments that capture gains in land value and recover public investments;
  - i) Consider the adoption of innovative instruments for the efficient and sustainable assembly and development of land, including, where appropriate, land readjustment and consolidation;
  - j) Develop appropriate cadastral systems and streamline land registration procedures in order to facilitate the regularization of informal settlements, where appropriate, and simplify land transactions;
  - k) Develop land codes and legal framework that define the nature of land and real property and the rights that are formally recognized;
  - l) Mobilize local and regional expertise to promote research, the transfer of technology and education programmes to support land administration systems;
  - m) Promote comprehensive rural development through such measures as equal access to land, land improvement, economic diversification, the development of small and medium-scale cities in rural areas and, where appropriate, indigenous land settlements;
  - n) Ensure simple procedures for the transfer of land and conversion of land use within the context of a comprehensive policy framework, including the protection of arable land and the environment.

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## **8. RUSSIA**

### **Sustainable Development & Rental Taxation**

Tatiana I. Roskoshnaya (with Galina D. Titova)

#### **Globalisation Of The Problem Of Rental Taxation**

Discussions on rent taxation tend to focus on such issues as destruction of the ozone layer, the excess emission of carbon dioxide into the atmosphere, the location of polluting materials (polluters), and other environmental problems resulting from the technogenic burden (produced by activity of human civilisation). A system of measures to improve the situation is so far based on implementation of the “polluter pays” strategy, financially represented by eco-taxes.

Practice has demonstrated a lot of disadvantages associated with administratively enforced taxes. Among them we can identify the constraints on the economy, with greater negative effects on the consumer than on the polluter, which result from the process of shifting the tax burden onto people who are not directly responsible for causing the pollution. As a rule those taxes are regarded by entrepreneurs as the legalisation of a right to pollute. This results in the reallocation of ecologically “dirty” industries to less developed countries, which includes the burial of wastes there. With increasing frequency, the territory of Russia is being used for this purpose. Russian and foreign companies tend to forget that nature does not recognise borders, and that the whole of mankind will pay for such actions.

The existing strategic emphasis of the reform programme is not effective in relation to the preservation of renewable (living) natural resources. Sums raised as ecological taxes are insufficient to create a system that is capable of either preventing ecological damage, or paying for the clean-up. The rate of growth of the negative impact of resource use is greater than the rate of increase of finances invested in measures to protect the natural environment.

The introduction of the “polluter pays” principle does help to spread ecological thinking throughout the world, and even now many governments are trying to improve the existing system by better and more comprehensive use of the market mechanisms: auctioning rights to pollute within certain limits, introducing higher prices for ecologically “dirty” commodities, etc. There is no doubt that concentration of attention on the problems of pollution is very important in itself. Unfortunately, however, this emphasis does not help to develop the new socio-economic paradigms which are necessary to enable us to afford nature the full protection she deserves, on the one hand, and to recognise the equal birthright access to the benefits of nature for future as well as present generations.

## Depletion Of Renewable Resources

A problem that is as dangerous as pollution is the excessive extraction from the biosphere of renewable resources. These resources used to exist in the biosphere within nature's rich web of genetic variability, being interconnected and interdependent. And now our planet is losing its natural biosphere's capacity of self-renewal (assimilation or absorption). The present market mechanisms are not capable of protecting the sustainability of the biosphere's systems capacity to preserve life.

The international markets for mineral resources are far from being open competitive markets. In the great majority of cases, prices are being manipulated by multinational corporations. It is possible to watch it, for example in the case of the oil market - the consequences of which are deeply felt in Russia. The market for oil is one of the most important nowadays. David Ricardo dealt (in his theoretical constructions) with prices for bread, because this was what was important at the time to most people. Today, we have to recognise that prices for energy (fuel) has become the general equivalent for measuring of rents. They are causing huge "distortions" in determining the marginal productivity of land sites and places of extraction of other types of raw materials. Attempts to analyse oil rents are connected with difficulties caused by the fact that the oil market is the one where confidential deeds became normal. The world is divided into "spheres of influence" between the main oil producing international countries, and we have to recognise that this includes Russia.

For Russia, during the transitional period of reform to the economic and social system, it was very important to exclude the imbalance of prices for mineral resources. This was necessary to preserve equal starting opportunities for the evolutionary emergence of market relations. But the key idea that underpinned the shock therapy strategy was the uncontrolled introduction of world prices into the domestic market for all types of commodities. This included the prices for energy and fuel, which had the effect of destroying many energy-consuming (power-using) industries and activities, e.g. timber cutting or fishing. The consequences of withdrawing the state from providing control over a balance of prices for natural resources are on the surface: the increase of prices for the production of heat and energy resulted in price rises in other industries. Prices reached unreasonable heights, which demoralised the population and in turn became a threat for ecologically safe development.

The opportunity to derive financial advantages which were presented to some mineral-producing industries at the expense of others not only rapidly enriched some enterprises and individuals, who were able to influence the allocation of national wealth in the privatisation process; at the same time, this reduced the domestic resources that might otherwise have been available to facilitate the transformation of the Russian economy on the basis of sustainable principles.

The history of exploitation of natural resources on a global scale confirms that as soon as resources have been depleted in one locality, the global economy starts to import replacement resources from elsewhere. This has contributed to the destruction of what were otherwise sustainable ecosystems. In Russia, for example, the fulfilment of unlimited oil interests in the developed countries is potentially dangerous because of the destruction of natural environment: damage to nature is usually not covered by prices for the resources in those countries. According to Russia's product-sharing law, this is the fate that awaits our country.

A fundamental shift in the planet's health will become a reality only if there is an appropriate transformation of economic mechanisms in favour of those that can realistically protect nature. Unfortunately the top political leaders in many countries are not aware of what is required. From this point of view it is vital to help to create the demand for a new ideology of economic valuation based on the capacities of rational ecosystems to preserve their reproductive potential (including the renewal of natural resources, first of all those for producing food). Information about damage to the natural environment of every country, and data on the measures necessary to stabilise the ecological situation, should be freely accessible to everybody on the Earth. We need to provide an improved system of global accounting of natural resource potential. Without this, any strategy to prevent global ecological crises will be groundless.

There is an urgent need to start to implement, without delay, the principle "a consumer pays for all benefits he gets as a result of the use of natural resources and ecological advantages". The only way to achieve this is through rental taxation. The subjects of taxation should be not only qualitative characteristics such as fertility and location; they should include the absorption capacity of local ecosystems. The variable capacity of local ecosystems to withstand the technogenic burden is a rent-creating factor. In measuring and valuing eco-damage, it is vital to remember to take into account the surplus income that is connected with the best qualities of the natural object which suffered from negative impact, in comparison with marginal. The economic importance of that factor is assuming greater importance with the progress of technogenic impact. In that connection it is obvious that a rental system of taxation which includes a variety of rent-creating factors is capable not only of introducing the "polluter pays" principle, but also contributing to the efficiency and reliability of a mechanism for the protection of nature which links sympathetically to the need for a sustainable social system. One of the major virtues of rental taxation it requires us to value the "wealth of the planet" or the "global capital" which mankind is responsible for administering on behalf of future generations.

It is important to agree about the resources which can be the subject of case studies, to demonstrate the relevance and practice of rental taxation. Such an approach would offer a starting point, the beginning of modern approaches to the recognition of global rental values. One good starting point can be the resources of the sea shelf and of the world's oceans. Their management is traditionally based on International Laws, Acts and Norms.

Another project (a realistic one) can be urban territories. In a number of countries there is a lot of evidence of the successful use of site-value taxation for revenue raising purposes, although these are mainly applied at the local level. One task is to confirm that urban land can produce sufficient income, and it is important to measure its rental land potential and interconnect it with changes in the whole taxation system. The realisation of rental taxation in cities and other settlements should be regarded as a part of the Rio Summit's Local Agenda 21 process.

A rapid growth of prices for land and mineral resources in world markets is pushing the world community to think about the need for an adequate system of national and international reaction. Flexible dynamic models of rental taxation (which must include regular reviews of tax rates) are of prime importance. A shift to so called "floating tax rates" within the system of rental taxation seems capable of providing a foundation for sustainable economies and their fiscal systems.

Modern computer technologies are able to provide a good base for the regular reviewing of rental values for tax purposes. For example, they make it relatively easy to transform a great number of cadastre indexes of different quality and from different time into economic parameters, used for management of big economic and ecological systems.

### **Natural Features Of Russia And Their Role In Sustaining Development**

The potential contribution of Russia's renewable natural resources to the sustainability of the world's biosphere ought to become the main capital guaranteeing the future of life on the planet. That is why the implementation of a new economic paradigm within Russia is of global significance.

Russia controls the largest territory in the world. It occupies one-seventh of all land and there are about 8 mn. sq.km of natural massifs untouched by civilisation. This land mass generates about two-thirds of the world resources of "wild nature", and it offers the most important recreational resource in the biosphere. This is the heritage of all mankind.

Russian specialists have prepared the table on the following page. It shows the relative position of different parts of the world in the consumption of resources.

## World balance in consumption of natural resources

Indexes	USA	Western Europe, Canada & Japan	Russia	Third World	Whole world
1. Territory, %	7	10	13	70	100
2. Population, %	5	15	3	77	100
3. Mineral, water and wild life resources, %	10	10	35	45	100
hydrocarbons (oil, gas) prospected	2.8	2.8	18.7	72	100
4. Consumption of natural resources, %	40	40	4	16	100
hydrocarbons (oil, gas)	26.5	27.1	8.4	33.7	100
5. Volume of resources, relative years	2.5	2.5	87	27	10
6. Consumption per head of population, relative tons	8.0	2.7	1.3	0.22	1.0
7. Consumption in relation to the Third World, times	36	12	6	1.0	4.5

Source: *Niva of Russia*, N19 (147), 1997

But Russia's natural systems are very sensitive as far as the anthropogenic burden is concerned. They can be easily damaged, very often without any prospect of recovery. If they can be recovered, the process is a very slow one. Unfortunately, the territory of Russia is being regarded mainly as a factor of geopolitical significance, and very seldom as a crucial factor of sustainable development for the benefit of the whole planet and as a prime element of ecological security.

The ecological and natural potential of Russia is either average or even not favourable for life or for economic activity. For example, an annual average sum of solar radiation is in Russia 1.6 times lower than in the USA. Natural factors objectively increase the *per capita* indexes of power consumption, which are three times greater than in Germany and four times greater than in France. Permafrost territories occupy more than a half of the total territory (these are not found in the USA). Taiga type forests are classified as offering low zonal productivity, while the USA enjoys forests with average, considerable or high productivity.

The majority of proven oil and gas resources (over four-fifths), the main resources of bauxites, non-ferrous and precious metals, diamonds, etc., are to

be found in the Northern zone of Russia. Extraction of those resources and ignorance of the ecological risks and other consequences means an excessive threat to the security of the world.

Russia needs to establish ecological insurance funds to deal with possible natural and ecological disasters. In our view, there is an urgent need to force the state to employ rent (from all sources) as public revenue for the solution of social, economic and ecological problems. The prevailing natural conditions, enormously long transportation routes and energy transmitting lines, mean that it is vital for Russia to accumulate bigger (as compared with other countries) reserves to deal with unexpected natural or emergency technogenic situations. This is necessary, if we are to achieve sustainable development. Russia has to deploy more public funds per head of population than Western countries. Russia has to be very careful about adopting Western stereotypes of consumption, which are now being actively imposed on the Russian population as part of the reforms. This is resulting in a rapid and enormous polarisation of society.

Apart from the exceptional cases of the oil sheikhdoms, Russia is probably the only country in the world where rent already features so prominently and directly in the economy. Two-thirds of the country's GDP is directly or indirectly being created by natural factors: raw materials, mineral resources, fuel, etc. This means that if the use of nature is not controlled, there will be no effective, fair and ecologically secure economy. Given the enormous Russian territory, it becomes possible *and imperative* to create an optimal system of state management in the sphere of use of natural resource potential and the use of the absorption capacity of territory. These services of nature ought to be also at the disposal of world society, to solve relevant problems at the global level.

### **Mechanisms Of Rent Extraction**

It is interesting to analyse the methods of rent extraction which were used in the former Soviet Union and which could be used for the transitional period and later, if developed and adopted to the demands of the market. They were so called "price methods" of rent redistribution and were based on the use of two kinds of prices: zone purchasing (selling to the state) and intrazonal prices, differentiated according to subzones, groups of enterprises, sometimes single enterprises. "Price methods" were attractive by their simplicity, but only partly could solve the problem of optimisation of economic conditions in the use of nature.

There definitely was a possibility to evolve the former soviet system of rent extraction by the state toward a more progressive and comprehensive market orientated system of rental payments. The former experience in supporting a population and an economic activity under extreme (marginal) conditions could be improved in accordance with the market demands. The natural resources and climatic potential of the territories could and should have become main



criteria for valuation and a base for decisions about financial transfers. Unfortunately the Russian Government, which supports the ideology of extreme liberalism, does not seem to intend to solve this problem logically.

There is a wide-spread opinion that market relations can't coexist with the price regulation that existed in the Soviet period. But under conditions of growing ecological restrictions in the use of nature we have to do our best to combine a market approach with some elements of a planned economy, to provide an adequate ecological component in the price of natural resources on the world markets. The main incentive of the market economy - to maximise profits - should not contradict the protection of nature. This is a vital necessity for any society, if it is serious about supporting the idea of sustainable development.

Methods of optimizational-programme modelling could be adjusted from market positions. Vector optimisation (searching for the optimal condition for the system) should be used.

Those principles should determine the way modern informational and analytical systems should be created to support decision-making processes in the use of nature. There has to be a data base for a flexible dynamic valuation of the natural resources and assimilation potential (absorption capacity) of the territories. As we have said, the natural resources and climatic potential of the territories should become the main criteria for valuation, and a base for decisions about financial transfers. This is the only way to solve the problem of rental taxation and the problem of budget equality of territories. Russia has to facilitate a work connected with statistical registration of natural resources taking into account not only market valuation but valuation based on the demands of ecological security and sustainable development.

The determination of the methodological principles for the realisation of rental values started during the Soviet era. Rental theory was beginning to guide policy towards the formulation of an optimal evolutionary transition towards the market economy, which would have created a system that was both effective and fair. Unfortunately the process was stopped not only as a result of economic crises but more because of a lack of a clear economic theory for the transitional period.

At the beginning of the 1990s, methodologies dealing with different resources were not equally advanced. The situation was relatively better in relation to agricultural lands and forests, where a regular cadastral survey took place and economic valuation was based on a system of integral indexes (employing, for example, scales of relative values). The mining industry took into consideration the variations in natural conditions, which affected production costs, to enable the state to extract rent via a system of purchase prices.

In general, however, we cannot say that practice was ready to undertake one momentous shift from the prevailing pricing methods of rent extraction into full-scale rental payments. The important point, however, is that the tendency was

clear - the evolution towards the full-scale collection of rent. Methods of valuation of other wild nature resources were less developed. The original valuation of urban land started at the end of the 1980s. The approach to valuation was based on rental coefficients, and in time this methodology could have been gradually transformed into market values.

Our conclusion, on the basis of historical evidence, is that there were no objective obstacles of any kind (conceptual, methodological, juridical or administrative) to prevent Russia from exercising a choice in favour of public finance based on the rental values of land and natural resources. If the transitional process had been evolutionary, it would have been possible in practical terms in a relatively short period of time to create a flexible system that could react to dynamic changes in ecological and economic conditions, with annual adjustments of rental values in response to market demand. All the objective conditions (including the information to determine starting prices) were present to enable the Soviet Union to facilitate a gradual transformation of public finance in favour of rental income. This would have caused minimal disturbance to the population and economy.

Unfortunately, although the Land Tax is now retained in proposals for a new Tax Code as proposed by the federal government of Russia, there are few signs of goodwill towards the proposal to implement this fiscal policy. At the same time we find in the governmental documents direct recognition of the fact that one of the main reasons for the unprecedented theft of natural resources and other types of rent-creating national wealth is the absence of a developed system of rental taxation. The position of the Russian Government can be characterised as an extreme liberalism combined with an imperfect understanding of the principles of the state's role in the management and the use of nature under market conditions.

### **Problems Of The Transitional Period**

The failure to collect the rent of land and natural resources as public revenue results in the preservation of the destructive system of taxation which has impoverished the great majority of Russia's population. Practically every step of the extreme liberal reformers is executed at the expense of the people. Results: stagnation of the economy and a disastrous demographic crisis. There exists a point of view, based on hard evidence, that the negative results of Russia's reforms are eclipsing those of the communist period and of World War II.

The reality of the last six years is the dramatic reduction of **all expenditures** for social purposes (education, health care, culture), and for ecology. The only considerable budgetary increase is the payment to service the growing debts to the IMF, World Bank and other international financial institutions.

In the ecological sphere, the situation is going to become very serious. The new owners of enterprises are more interested in squeezing as much profit as

possible from the factories and they are not thinking about the negative impact of their activities on the environment. Huge profits are being exported, and these continue to remain abroad. An important feature of the privatisation process is that the enterprises capable of producing income were the first to be excluded from public ownership. They are now used in a manner that does not permit reinvestment.

Natural resources, according to the Constitution, are not privatised. This is a cosmetic protection for the resources of Russia, for favourable conditions were created to privatise the rental income of those public resources. One consequence is that the level of extraction of most valuable resources is excessive in relation to the ability of nature to recover from human interference. At the same time resources are being sold for prices which are very far from the level of real costs, and these payments do not include any environmental components. Russian mineral resources (e.g. oil) are used by western companies to manipulate down the level of prices in the international markets. The result is an increasing ecological threat, this time not controlled, and a deepening of social problems. In the light of these problems, *we can conclude that there is a real danger that the Russian reforms undertaken under the leadership of certain western circles will not help to create sustainable development on the global scale.*

There is rather strong resistance within federal government ministries to the introduction of state valuation of natural resources. There is nothing new in this situation. Russian scientists (e.g. academician N. Fedorenko and Prof. K. Goffman) warned about it in 1989. They were convinced that the ministries, even if there were laws that required the valuation of resources, would not be interested in discharging their obligations under the law. All of the rent from the fishing industry, for example, is shared between officials within the ministry, and with those whom they favour with licences. All of this distorts the economic awareness of the need for rental payments for natural resources, which would provide incentives for benign development of a new Russian society.

It seems, therefore, that Russia has lost a unique opportunity to solve its social, economic and ecological security problems with the aid of the full-scale introduction of rental payments at the very beginning of the transitional period. The Russian Government has become particularly good at copying western models and implementing the most destructive taxes. We see from the legal documents, connected with the achievement of the ideals of the Rio Summit 1992, that there is no intention of introducing rental taxation to facilitate the shift to a model of sustainable development.

A global society has to unite the energies and creative talents of all countries and the various political and civil forces in favour of sustainable development. We have no doubt that the use of rental taxation is an imperative component of this strategy, a practical mechanism of prime importance. No other approach can be used as a substitution for it. Methods of rent collection may differ in different countries, and there may be variations depending on the particular

resources that are being harvested. But the principle remains the same in all societies.

Russia's tax base varies from that found in the British, French or German systems, for example, and the problems of implementation are different. It is hardly possible to speak about the introduction of a single tax, but there is logic in the approach based on a system of rental taxation. This policy provides a unity in the philosophy of public finance, which includes a very strong moral component. In the case of Russia, from our point of view, there must be a gradual shift from taxes like VAT, taxes on labour and capital onto rental payments in the industries that extract raw materials. In the cities we need site-value taxation.

This is not a purely national obligation. Russia carries a heavy burden of responsibility for the ecological security of the whole planet. But if the leadership of Russia is not capable of understanding this, and if it persists with the depravities of the present course (which flow from the adoption of obsolete aspects of the western economic model), it is going to be very difficult to solve the problems, given both the territorial scale of Russia and the global proportions of the ecological challenge.

## 9. QUESTIONS AND DISCUSSION

### Points Arising

This section summarises some of the additional points made by speakers in presenting their written papers, and by participants and speakers in questions and discussions. It indicates some of the main topics covered, though inevitably some of the richness of what was said is lost in a summary of this kind.

### Philosophical and Religious Aspects

There is a link between contemporary proposals for fair sharing of the Earth's resources and the jubilee doctrine of the Old Testament. According to the jubilee doctrine, debts should be forgiven every seven years, and at a golden jubilee every forty-nine years - seven times seven - land should be returned to the original family land-holders. A related question discussed in the Talmud was how to give fair access to land, given that some plots of land were more valuable than others. An answer was for cash payments to be made by holders of better land - for example, land that was nearer to the market in Jerusalem - to holders of land that was further away and therefore not so valuable. So the jubilee ethic supports the principle of taxing the use of land and natural resources according to their value and distributing the revenue. Current Jubilee 2000 campaigners should recognise that simply writing off the unrepayable debts of the poorest countries as a one-off millennium event will not prevent the trap of indebtedness closing in on those countries again in a few years' time. Other more systemic changes will be necessary. In that context the jubilee doctrine's relevance to the fair sharing of the value of land and natural resources should not go unnoticed.

More recent thinkers have also dealt with the question of sharing the value of Earth's resources. Gerrard Winstanley said in 1649: "The earth shall become a common treasury to all, as it was first made and given to the sons of men". John Locke, in the 1680s held that in the state of nature, God had given earth and its fruits to mankind in common; a man could make them his own property by his labour, provided that he left enough for other people and provided that he did not take more than he could use before it spoiled. Locke went on to say, however, that the introduction of money, which did not spoil, had altered the situation. In 1797 Thomas Paine in his pamphlet "Agrarian Justice" said that natural property, such as the earth, air and water, comes to us from the creator of the universe and is the common property of the human race; so the state should levy a ground rent from land owners and distribute the revenue to all citizens as compensation for the loss of their inheritance. Then, in 1879, Henry George proposed that the "rental" site value of land should provide the primary source of public revenue.

That these questions have a long history suggests their systemic nature. Growing concern with environmentally sustainable development and the

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growing worldwide gap between rich and poor are bringing them to the surface once more.

So far as contemporary Christian churches are concerned, some younger Catholic workers concerned with poverty in the Dominican Republic and other Latin American countries are showing an interest in the Georgist approach, and it is possible that members of the Russian Orthodox Church will do so too.

### **The Need for a New Paradigm or Ideology**

Before the end of the Cold War, opposition to the conventional form of market capitalism mobilised itself around marxism as an ideology. A new paradigm is now needed to provide a focus for those who are seeking change - a new set of assumptions about how the world works and ought to work - a set of assumptions that will enable supporters of change to order their activities around it, basing the particular changes they decide to work for on a coherent understanding of what the overall problems are and how they are to be dealt with.

Some participants emphasised that it would be wrong to try to impose the same ideology on everyone as an answer to everything, and that different parties working for change should seek consensus on the right course of action. Others emphasised that people now unaware should be made aware that a reformed system of public finance - taxation, distribution of revenue, and public spending - can provide a framework for the market economy which will influence its outcomes towards economic efficiency, social justice and environmental sustainability.

### **Russia, Latin America, and South Africa**

Similarities exist between the situations in Russia, Latin America and South Africa.

Over the last ten years, the Russian economy could have evolved from a centrally planned economy into an efficient market economy shaped by an effective framework of social and environmental constraints. But, since the introduction of market mechanisms in 1992, taxes on exporting natural resources have been abolished on the advice of the IMF, as have managed prices for energy. So Russia is now giving away the value of much of its natural wealth to foreign investors, who are favourably treated under special laws. Moreover, privatisation has had the primary aim, not of increasing efficiency, but of privatising existing profits. Now on the agenda is the privatisation of land. The outcome is not yet clear. In one particular case, the IMF and USAID have actively thwarted a transitional plan, carefully prepared over a two-year period, to move to a new system of land-value taxation in the city of Novgorod. More

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generally, the tax situation is chaotic, and the overriding concern of entrepreneurs is to minimise their tax liabilities.

In Latin America many countries have been under military dictatorships in recent years. In Brazil, Venezuela, Argentine, Chile, Ecuador, Peru, Nicaragua, Honduras, El Salvador, Haiti, and the Dominican Republic, military dictators took control of their country's natural resources and consequently of its finances. When these right-wing military dictatorships were overthrown, these countries had no time to recover as free nations before oligarchies took back control of the land and natural resources, and established economic dictatorships.

In southern African countries, such as South Africa and Zimbabwe, the present governments said before coming to power that they would distribute the value of their countries' land and resources among all their citizens. After gaining power, however, they felt forced to accept the IMF's strategy for development, allowing the value of their countries' natural resources to be extracted by foreign investors.

The political leaders in all these countries, and most of their economists and other advisers, are unable to conceptualise an alternative economic strategy to the one based on conventional Western market economics, or to understand the case for a new "rental" approach based on recovering for the community the value of natural and community-created resources. They find themselves trapped in economic problems, and believe they must have financial help from outside. The only sources of such help are the IMF and similar Western institutions, which will provide it only on condition of the recipient countries accepting economic measures that allow foreign investors to extract the countries' "rental" income. The political leaders of these countries in transition, and their advisers, are aware of no new paradigm to which they can turn as a basis for an alternative course of action.

### **Need for a New Understanding**

The obstacles to progress thus include inertia, vested interest in the status quo, and ignorance about the possibility of an alternative. Underlying these is a failure of economic understanding.

To political leaders, the constituencies on which they depend for support, and the economists and others who advise them, the concept of "rent" is a mystery. They do not understand it. They have no interest in the fact, for example, that in recent years UK land values have been rising significantly faster than wages. Nor do they believe that land reform and taxation of land and resources could offer a solution to the economic problems of Third World countries and other countries in transition. Opinion-forming groups in largely urbanised societies have tended to assume - wrongly - that questions about land are primarily agrarian questions of little interest to society as a whole. On the other side, the

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obsessive insistence of many advocates of a site-value land tax that it is the “single tax” needed to raise all public revenue, and their failure to accept the need to tax the values derived from other natural resources like energy, have damaged their credibility and reinforced the assumption that they can safely be ignored.

A key failure of conventional economic understanding has been - and still is - that it starts from the question of how to deal with scarcity, not how to share abundance and encourage people to enlarge it. Impoverishment of public discussion, and failure to engage in relevant research, are among the results.

### **The Liberal Democrats’ Experience**

Some members of the Liberal Democrat party in the UK favour land value taxation, some favour green taxes, and some support a citizen’s income. Hitherto these have been separate groups. Official party support for both a citizen’s income and land value taxation tends to have weakened in recent years. It has to be recognised that the Libdems’ increasing success in parliamentary and local government elections has not been accompanied by growing support within the party for these initiatives. Quite the reverse, in fact.

However, support among Libdems for land value taxation is now strengthening again under the auspices of ALTER (Action on Land Taxation and Economic Reform). ALTER aims to co-operate with environmentalists and citizen’s income supporters within the party, and to take opportunities to publicise the merits of these policies through the media, especially at local level.

### **A Need for Computer Modelling**

It is necessary to understand the arguments for combining land taxation, resource taxation and a citizen’s income in terms of systems change. And it is necessary to be able to show whether this approach can be afforded, and what its financial effects will be. This can be done by simulation modelling, which need not necessarily involve a very large and expensive computer modelling exercise. One participant described how his spreadsheet model showed that a combination of land taxation, energy taxation and citizen’s income introduced over ten years would result in higher employment, higher GDP and lower energy use. This would be a useful tool for spreading awareness of the merits of the proposals being discussed.

### **Some Points About Taxes**

How will replacing income taxes and company taxes with land taxes, resource taxes and pollution taxes help to narrow the widening gap between rich and poor in developed and developing countries?. First, the root cause of the gap is



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“enclosure” by richer people of the value of land and natural resources, and exclusion of poorer people from it. Second, statistics show that in fact the ownership of property is much more concentrated than the receipt of incomes. In the USA, for example, the top 10% of income recipients receive about 30% of total incomes, whereas the top 10% of property owners own about 90% of property by value. So taxation of property is inherently more progressive than taxation of incomes. (Originally in fact, income tax in the USA was mainly a tax on property income. Having now evolved in most countries into mainly a tax on wages and salary incomes, with many opportunities for avoidance by the rich, income tax no longer has the progressive effect it is often assumed to have.)

UNITAX is a proposed tax on energy at source. It is based on the fact that energy, in addition to land, is a primary input to all economic activity. (It has been argued that such a tax on energy could be a “single tax” - as some Georgists have argued for site-value tax as a single tax.) Part of the UNITAX proposal is the introduction of a basic income.

There appears to be evidence that Value Added Tax has the effect of reducing employment. Against this, there is an argument that VAT provides a generalised way of capturing community-created values for the community.

It may be feared that what Professor Gaffney calls green-light taxes, such as a tax on site values, will give a massive boost to indiscriminate, unsustainable growth by providing an incentive to develop land and other resources for maximum profitability. But undesirable types of growth can be restricted by regulation. For example, planning controls largely determine the taxable value of different land sites. Land on which planning permission is not given for particular types of development will have lower taxable values. It is erroneous to suppose that the collection of rental values as public revenue will be a recipe for mindless growth.

## Some Points about Citizens Income

In recent years, although society as a whole has been becoming richer, the number of people in developed countries has also been growing whose potential earnings are lower than the welfare benefits to which they are entitled. This creates a trap which keeps people in unemployment, poverty and dependence on welfare. A citizen's income (CI) is one way of releasing people from this trap.

Another, which currently seems to be favoured by governments in the USA and UK, is to pay low-paid employees an earned income tax credit (EITC). An EITC is paid to everyone in a low-paid job as a percentage addition to earnings up to a certain level. In other words, the higher the earnings up to that level the more subsidy is received by the worker. So the EITC provides a subsidy to people who are employed. The CI, on the other hand, is paid to everyone regardless of whether they are employed or not, and they are free to supplement it by earning

if they so decide. It can be shown that the financial outcome of these two approaches is the same for low-paid workers who take up and stay in a low-paid job. Both remove the unemployment trap to the extent that, under either of them, the worker need not be financially worse off. But there are other important differences between them. Under the basic income, if you choose to work less in the job, the level of the basic income will be maintained; whereas under the EITC, if you work less in the job, the level of the tax credit will fall. The basic income will thus put you in a better bargaining position vis-a-vis your employer, and will not discourage you from taking time off for self-production (useful unpaid work) or for training and education if you decide that that is what you should do. Secondly, under a basic income, everyone gets the same amount. A take-up rate of 100% is guaranteed. People need not fear that, if they take up a low-paid job and it doesn't work out, they may find they cannot go back on benefit. Moreover, the public perception of CI will be that it represents everyone's share in a common heritage rather than a redistribution of wealth from those who have created it to others who have not.

The nation state will probably remain the key level for progress towards the introduction of a citizen's income in the countries of the European Union. In the Netherlands, Ireland and Austria discussion of its feasibility is well advanced. At the EU level, studies have linked the feasibility of a CI with proposals for energy taxation. A suggested possibility, coinciding with the introduction of the single Euro currency and linked with the development of European energy taxation, has been to pay out eurogrants amounting to a CI of up to £20 a week. But even this low level of European CI would bring about a financial redistribution between member countries of the EU many times higher than the existing redistribution through European structural funds. The political obstacles are likely to be insuperable. The countries of cold northern Europe will be unwilling to pay high energy taxes to provide a CI for the Mediterranean inhabitants of Greece, Italy, Spain and Portugal!

So far as countries like South Africa are concerned, a CI may not be affordable until significant further economic expansion has taken place. In Brazil a variant of a guaranteed minimum income is coupled with support for the schooling of children, in the form of a child's education benefit. Might another variant of a CI, especially for Third World countries, be an alternative currency or voucher system issued locally for use only in local trading?

### **Distributional Impacts of Environmental Policy**

Unless satisfactory ways can be worked out to ensure that environmental taxes and charges do not penalise the poor more heavily than the rich, the development of environmental policies will be seriously hindered. In this context, proposals which positively reward past polluters by giving polluting companies (or even polluting nations) tradable pollution rights, i.e. property rights in pollution which they can sell, should be treated with great scepticism.

### Human Work

Although the conference had not specifically concentrated on the future of work, the need to enable people to undertake good work had been implicit in the proposals discussed. Shifting tax from work on to ownership of land and use of resources, and introducing a citizen's income, would help to release people from the unemployment and poverty traps of the present system. It also seemed clear that the exodus of good brains from Russia (and many Third World countries) to the West followed the flow of rental income out of those countries. The proposals under discussion would help to reduce the "brain drain" of people from those countries by helping to provide better work opportunities there.

### Activity at the United Nations Level

About two thousand non-governmental organisations (NGOs) are now accredited to the United Nations. Originally set up to communicate outwards from the UN to people around the world, they now see their main task as communicating people's concerns to the UN. They are now acknowledged as a strong force within the UN - a development which some national governments welcome and which others regard as a threat. Kofi Annan, the present UN Secretary General, has called for a Millennium People's Assembly to be held in parallel with the UN Assembly. This may develop into a permanent People's Assembly at the UN.

International NGOs are now developing a People's Agenda for the Millennium People's Assembly. This is a co-ordinated effort to develop people-centred policies at local to global levels. The issues under discussion include proposals for a tax shift and a reform of land tenure on lines discussed at this conference. This would not rival the Agenda 21 process, but develop a worldwide network to build synergy between the various initiatives like Local Agenda 21 which are already in train.

### Measurement and Meaning

Related to the questions under discussion at the conference is the need to redefine concepts like productivity, efficiency, and economic wellbeing (as now measured by the rate of growth of Gross Domestic Product - GDP), which provide a basis for measuring economic performance and judging economic success and failure.

## 10. CONCLUDING REMARKS

David Marquand

I will try to give you one or two concluding thoughts.

### A New Paradigm

Various people have said today that we need a new paradigm. I think that a new paradigm is in fact emerging. It's emerging in all sorts of different places, in all sorts of different academic disciplines, in all sorts of political fora. It's happening in a very confused, inchoate, messy, kind of way. Because we're in the middle of it it's very difficult indeed - in fact, at the moment, impossible - to pin it down in any kind of comprehensive manner.

But in the discipline of economics, for example, very interesting work is being done by distinguished academic economists, questioning the notion that wealth in the sense of GDP per head can be equated in any sense with wellbeing and suggesting that we need measurements of wellbeing rather than of wealth to guide policy. And that discourse is coming right from the heart of economics. One of the main proponents of it is Amartya Sen who has just come back from Cambridge, Massachusetts to Cambridge, England to become Master of Trinity College. Another very distinguished economist, also at Cambridge, Partha Das Gupta, has written in the same kind of way. The emphasis on the value of human capital leads to new thinking about policy. And there is a whole debate going on of a very interesting kind about what are the moral implications of a sustainable market order; and the relationship between trust, social capital and properly functioning market economies.

There are all sorts of places, in fact, where this new paradigm is emerging. Why is this happening? What is the social and political context in which it is happening? It seems to me that a number of things have coincided. There may or may not be a causal connection between them.

One, as has been said, is the collapse of Communism, the end of the Cold War, and therefore the end of the rather boring and sterile debate between an idealised version of the market economy and the command economy or the planned economy. That's gone. Nobody believes in the sort of planned economy that they had in the Soviet Union before its collapse and the implosion of communism. So we don't have to defend the market system of capitalism against an ideological challenge any longer, and we can ask the much more important question: what sort of capitalism do we want?

Secondly, perhaps by coincidence, we are clearly living through an extraordinary renaissance of traditional capitalism. The economic world of the 1990s, looking at the globe as a whole, is in many ways more like the economic world that Marx described than the economic world that I grew up in in the long Keynesian boom of the 1950s and the 1960s. We have seen the most extraordinary and amazing increase in productivity as a result of the

technological changes that have been associated with this renaissance of capitalism. But we have also seen the lion's share of these productivity gains being siphoned off by a small elite, composed in part of the owners of capital and in part of the possessors of certain kinds of skills that command a very high price in the global market place. They have done incredibly well out of this capitalist renaissance. But, at the same time - the United States is probably the most extreme example of this in the developed western world though Britain, believe me, is not very far behind - we have seen a decline in the income of the poorest sections of the community and a standstill in the real income of a large number of the rest. So there is a deepening faultline in the societies of the west between a tiny elite and the rest, and another faultline between two thirds who are not doing too badly and a third which is falling further and further behind. Now that's the context in which, I think, we have to consider some of the issues we've been discussing.

### **The Democratic Process**

If I may say so, there's one thought which I'd like to put to you. It doesn't apply to everybody who spoke today, but I did detect one or two echoes of a kind of utopian-impossibilist-call-to-the-barricades view of the democratic political process. I don't think we're going to get very far if we, so to speak, demonise democratic politicians and democratically elected governments, and assume that they are locked into a terrible mindset or paradigm or whatever you want to call it, and are beyond redemption, and cannot be persuaded to do things better. I think this is actually dangerous, because there's nobody else who is going to do it. Secondly, I think it's false anyway because what is actually happening, certainly in Europe - I'm not quite so sure about the United States - is that we're seeing the end of the triumphalist sort of economic liberal, Thatcherite, kind of era and the beginning of a movement towards the Left. Governments are coming into power which are not quite sure what they want to do, certainly haven't got the answers, and certainly don't possess the new paradigm. But they are much more open-minded than their predecessors and they can at least be talked to. So I think it's important not to despair of the democratic process. I personally, anyway, feel much more optimistic about this society than I felt for the last fifteen years.

### **Citizen's Income**

Now the particular debate I found most relevant to my concerns was the one about a citizen's income. I do feel that this is actually quite central to the broad themes that I've been trying to talk about and also to all the questions about environmental policy and sustainability that have also been part of the stuff of this conference. How can I put it? I find the case for citizens income, as put forward by Philippe van Parijs and others, so obviously right and sensible that I ask myself why doesn't everybody immediately adopt it. What is the obstacle to it, and how can one answer the objections. I think the obstacle has got something to do with a feeling that basically you're paying people not to do any work: you're rewarding the undeserving poor - to use a Victorian phrase which

is still in the backs of the minds of a lot of people in this country in contrast to the deserving poor. Now I think that's nonsense, but I think one's got to reckon with that objection. It's a wrong objection in my view, but I don't think it's a wicked objection. I think it has got within it a moral view that has to be respected and answered. I don't know the answer to it but I just offer this thought. I think if you're going to defend a citizen's income you must have a view of citizenship. It's not just a question of having a status as a member of society and being therefore entitled to a social dividend because you belong to the society. That is part of being a citizen, but it's not the whole of being a citizen. Historically, the discourse of citizenship has surely carried within it some notion of participation in the public realm of the city and of having some kind of obligation to the wellbeing of the city, as well as being the beneficiary of the existence of the city and having claims on it. You have duties to it as well as claims on it, and the two go together. In other words, I think we must locate the case for the citizen's income within the language of citizenship, and the language of citizenship as a practice and as an activity - seeing the citizen as more than a passive recipient or beneficiary of citizenship rights and citizenship claims. I throw this out as one part of the whole issue. I don't think we're going to get very far if we ignore the genuine nub of serious, not trivial, concern that lies behind the opposition to a citizen's income.

## Productivity

The other thing I want to say is about productivity. Someone said something about it this morning, and it links with what I said a little while ago about GDP. I am constantly astounded by the mindless way in which the notion of productivity has been transported from areas of life where it may be entirely appropriate to areas of life where it is entirely inappropriate. As a non-economist I don't want to deny that increasing productivity may be a useful indicator of the efficiency of manufacturing production. But I am certain that the notion of productivity is not applicable to my job as a university teacher. When I was teaching politics in Sheffield, the staff/student ratio worsened terribly. There was a big increase in the number of students and very little increase in the number of staff. So the number of people coming to my classes very nearly doubled in the course of five years. My productivity had doubled. Suddenly I had a throughput twice as big as I'd had before. But the quality of the experience the students were getting was worse. And this problem of using productivity to measure the quality of outcomes goes right across a whole range of other activities too.

Now I think we've got to crack that. One way of doing it - it sounds small but I think it might turn out to be quite big - is to develop an index of wellbeing to supplement or even replace GDP as the indicator of how well the economy and society are doing. I don't believe it will be an easy task to devise such an index, but any indicator is going to be open to argument and debate. Actually, there never was any real debate about GDP. It was based on including what could be easily measured and, as any economist will tell you, it is full of nonsenses. So let's have a debate. Let's get some agreement about what should count as wellbeing and ask governments to aim at maximising that, instead of

**Concluding Remarks** – *David Marquand*

concentrating all the time on increasing GDP per head. That would be a modest step, but I think the consequences of it could be quite dramatic if they were followed through in practical policy.

Thank you very much for coming to the conference, and thank you for asking me to speak.

## **11. FOLLOW-UP**

### Some Items For An Agenda

Many points raised by the conference call for further action, debate and study. Many of them will no doubt be pursued by people specifically concerned with land taxation, or with energy and environmental taxation, or with citizen's income. This section suggests some with more general application to issues affecting environment, ethics and society.

#### **1. On What Principles Should The Value Of Common Resources Be Shared?**

Public and political awareness needs to be spread that

- a) this question must be confronted, and answers given to it, as a basis for environmental policies and strategies for sustainable development;
- b) it raises issues concerning common and private property rights; and
- c) the answers need to be incorporated into practical institutional arrangements at various levels - local, national, (continental?) and global.

#### **2. The Religious, Philosophical and Political Tradition**

Multi-cultural historical studies - of religious, philosophical and political thought from ancient times to the present day about the sharing of Earth's resources, private and common property rights, and ideas such as jubilee - could usefully illustrate the relevance of historical traditions to today's concerns for sustainable development and the widening gap between rich and poor.

#### **3. Tax Restructuring**

It would be useful to prepare and publish clear and comprehensible lists of questions and answers summarising

- a) the arguments in support of the three following proposals,
- b) their operational practicalities - how they would work,
- c) what their effects would be, and
- d) answers to difficulties and doubts expressed about them:
  - 1) site-value taxation, which would recover annual "rental" value of land as public revenue;
  - 2) taxation on energy at source, which would not only recover the annual value of energy as a common resource but would also discourage environmental pollution and socially negative consequences (such as high unemployment) arising from energy-intensive activities; and
  - 3) the replacement of existing taxes (e.g. on incomes, added value and financial capital) by land and energy taxes and other taxes and charges on the use of common resources.



A point for study by economists concerns the practical implications of two different principles relating to taxation - the internalisation of costs previously externalised, and the capture of "rent" as public revenue (the externalisation of benefits previously internalised?). Are there arguments, practical or theoretical, for preferring one of these two principles to the other?

#### 4. Citizen's Income

Similarly, it would be useful to prepare and publish a clear and comprehensible list of questions and answers summarising

- a) the arguments in support of a Citizen's Income,
- b) the operational practicalities - how it would work,
- c) what its effects would be, and
- d) answers to difficulties and doubts expressed about it.

Two points, among many that call for attention, are:

- 1) what are the arguments for and against financing a citizen's income from taxes on the use of common resources, rather than from income tax and other existing taxes; and
- 2) should entitlement to a citizen's income be matched by obligations of active citizenship? if so, how should these obligations be defined? would they have to be enforced and, if so, how?

#### 5. The International Dimension

"It is time for the evolution of a consensus on the concept of global taxation for servicing the needs of the global neighbourhood" (Commission on Global Governance in its report *Our Common Neighbourhood*, 1995). Getting it widely understood that principles for sharing the value of common resources at the national level can also be applied internationally will help to accelerate the evolution of such a consensus.

Examples of possible global taxes include

- taxes and charges on use of international resources such as ocean fishing, sea-bed mining, sea lanes, flight lanes, outer space, and the electro-magnetic spectrum; and
- taxes and charges on activities that pollute and damage the global environment, or that cause hazards across (or outside) national boundaries, such as emissions of CO<sub>2</sub> and CFCs, oil spills, dumping wastes at sea, and other forms of marine and air pollution.

The revenue from these taxes could accrue to a new global fund at UN level. Some of it could be distributed to all nations according to the size of their populations, reflecting the right of every person in the world to a "global citizen's income" based on an equal share of the value of global resources. The rest of

the revenue could finance UN expenditures, including international peace-keeping programmes.

This approach would encourage sustainable development worldwide; it would generate a much needed source of revenue for the UN; it would provide substantial financial transfers to developing countries by right and without strings, as "rent" payments reflecting the disproportionate use of world resources by the rich countries; it would help to liberate developing countries from their present dependence on aid, foreign loans and rich-country-dominated institutions like the World Bank and the International Monetary Fund; and it would reduce the risk of another Third World debt crisis.

More detailed examination and support for this approach is needed by public bodies and NGOs concerned with future developments at international levels.

## **6. Third World Countries**

How is the principle that everyone has a right to share in the value of common resources to be applied in countries in which average per capita incomes are still low? There may be no valid arguments against taxes on the ownership of land and on use of natural resources in such countries. But it may be supposed that, even if those were taxed, universal distribution of a citizen's income would be impractical until after considerable further economic development had taken place. The following questions need answers.

- 1) What level of citizen's income could in fact be distributed out of the revenue from given rates of land taxes and other resource taxes in such countries, e.g. South Africa or Brazil?
- 2) Where people's economic relations are already significantly monetised but poverty is still widespread, what alternative forms might a citizen's income take? For example, could it be locally issued in the form of locally valid vouchers? Would these circulate locally as a sort of local currency-substitute? Who would issue them, and how would they be backed? What would the economic, social and environmental consequences be?

## **7. Indigenous Communities**

The proposed taxation of private land ownership and use of common resources will be inappropriate for places where indigenous tribes and other local communities still live largely non-monetised lives and continue to hold their land and other natural resources in common. The following questions then arise.

- 1) What arrangements are needed to enable such people to continue to exercise their traditional common property rights and to preserve their environments against damaging exploitation?
- 2) How should those arrangements be harmonised with, and fit in with, the proposals that people in the same country living largely monetised

economic lives should receive their share of the value of common resources in the form of a citizen's income?

## **7. Computer Modelling**

With the aid of simple simulation models more people should be enabled to explore the implications of combining tax restructuring with a citizen's income.

## **8. The Dynamics of Change and Inertia**

Among the factors that delay change are

- lack of public understanding of alternatives to existing orthodoxies,
- inertia supported by careerist groupthink and risk-and-reward perceptions on the part of professional politicians, economists and policy analysts, and
- resistance by individual and corporate interests that now enjoy more than their fair share of the value of common resources.

Comparable processes of change, inertia and resistance are experienced in many other contexts. For example, they preceded the end of slavery in the 19th century; they are evident in the change of attitudes and action directed to tobacco smoking in many countries in recent years; and, of course, they are evident in the present worldwide rise of environmental awareness and the beginnings of a shift towards more sustainable development.

In general, wider public understanding of these processes is needed. Clarifying their practical implications for the particular issues discussed at this conference, is an important task in its own right. It could also provide a valuable case study in that more general context.