

## The Green Tax Shift: Winners and Losers<sup>i</sup>

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In 1879, Henry George, a journalist and philosopher, proposed to “abolish all taxation save that upon land values” in his classic book, *Progress and Poverty*. He suggested that people were not poor because of any lack of productivity of either natural or human resources, but instead because of distribution of the rewards of productivity among land, labor, and capital – the basic factors of production. More specifically, he claimed that the value of productivity of land – that which occurred naturally and was not a consequence of applying labor or capital to land – should be appropriated by government, through taxation, and used for the benefit of society as a whole. This had been a common economic philosophy in the 1700s, prior to the publication of Adam Smith's classic book, *Wealth of Nations*, and was returned to popularity a century later by Henry George's book.

George's ideas provided the philosophical foundation for the twentieth-century “tax shift” movement. Modern-day Georgists advocate shifting taxation from buildings and commerce to land and natural opportunities – in current economic terms, shifting taxes from labor and capital to natural resources.<sup>1</sup> They claim that “land value taxation” is inherently a “green tax shift,” in that it promotes conservation of natural resources by penalizing extensive uses of land. Modern Georgists' advocate imposing additional explicit “green taxes” on actions that corrode the public good – air and water pollution (greenhouse gases, harmful particulates, heavy metals, manufacturing wastes, pesticides) and resource depletion (fossil energy, fresh water, old-growth forests).<sup>2</sup> Green taxes would be used to reduce or eliminate of taxes on income, payroll, sales, corporate profits, as well as real estate taxes on residential and commercial structures.

Green tax shift proposals have been supported by a number of environmental organizations as a means of encouraging natural resource conservation and environmental protection. The explicit green taxes are also supported by ecological economists, who generally do not advocate the Georgist single tax proposal of “land value taxation.” However, most, if not all, such assessments of green taxes have viewed taxes on labor and capital as “deadweight losses” to society, in that they slow economic growth by reducing economic incentives for work and investment. In addition, little, if any, attention has been given to the legitimate functions of government and thus to the legitimate reasons for taxing labor and capital as well as land.

Governments are not historical aberrations, matters of social habit, or illogical mistakes of human societies, as some seem to believe. All civilized societies form governments of various types for specific logical and legitimate purposes. In general, governments allow people to join together to pursue individual and common interests that cannot attained or attained as effectively

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or efficiently by acting individually. Individuals can pursue their individual self-interests more effectively and efficiently within the context a civil society, which requires some form of governance. Individuals can also benefit from positive personal and economic relationships, which require a social consensus concerning appropriate behavior, encouraged or enforced through some form of governance.

Even if one believes that government is inherently evil, it is nonetheless a “necessary evil,” as explained in *Common Sense*, a classic pamphlet written by Thomas Paine prior to the American Revolution. As he put it, “government is rendered necessary by the inability of moral virtue to govern the world.” In other words, civilization requires that human beings practice certain *civil* or acceptable behaviors in their relationships with each other. Even though most people may be naturally inclined toward moral virtue, some people obviously are not. In addition, most people can be provoked into uncivil behavior by uncivil acts of others. Thus, civilized societies join together, through government, to define, encourage, and enforce acceptable and unacceptable behavior. Governments cannot create moral or virtuous societies, but they can reduce provocations by deterring uncivil behavior and can reduce retaliations by assuring that society, through government, will redress acts of incivility.

The purposes of the governments of all modern societies are encoded in their constitutions or charters. The preamble to the Constitution of the United States, for example, is a statement of purpose. “We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.” These are explicit constitutional responsibilities of the U.S. government.

The purpose for government in general had been expressed earlier in the American Declaration of Independence. “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed.” A set of ten amendments, the Bill of Rights, was quickly added to the U.S. Constitution to explicitly express the responsibility of U.S. government to secure the inalienable rights of all to life, liberty, and the pursuit of happiness. The purposes of government in the United States are explicit and clear and are certainly not irrelevant or unimportant to the well-being of U.S. citizens.

The fundamental purpose of government is to serve the “common good.” Thus, the legitimate functions of governments include protecting the common good, providing common goods, and preserving the good of the commons. The term “common” identifies that which applies equally to all – in general; to all; from all; by all; for all. Protecting the “common good” means protecting the good of all, providing “common goods” means providing goods for the benefit all, and preserving the “the good of the commons” means preserving the good of that which belongs to all. The legitimacy of government arises from the fact that a society is something more than a collection of independent individuals. Those who fail to understand or accept this fact see no legitimate purpose for government. People within societies have shared interests and shared values; they have things “in common.” The whole of a society is more than the sum of its

individual members. The nature of the relationships among people within a society is as important as the nature of its individual members. Relationships do not exist within individual people but instead exists among people within society.

The primary responsibility of any government is to protect the common good. In a democracy, this means ensuring equal access to those things to which all people have equal rights, such as justice, rule of law, national defense, public welfare, life, liberty, and the pursuit of happiness. Government programs such as public education, social security, public health, progressive taxation, and economic development are means of promoting the public welfare and protecting the pursuit of happiness. Such lists of basic democratic rights include but a small fraction of all aspects of overall human well-being. In a democracy, it's perfectly acceptable, even essential, that some people be allowed greater access to some things than others. People who work harder or smarter, for example, should be rewarded for their efforts by being able to buy more things than others. However, working harder or smarter will not ensure equity and justice.

People are inherently unequal in their abilities and aptitudes, through no fault of their own – by accident of birth or circumstances beyond their control. If the equal *inherent* worth and fundamental rights of all people in a democracy are to be secure, they must be secured through government. Other forms of government have different concepts of rights. However, under all forms of government, other than fascism, political rights are distributed differently from economic rewards. The protection of these basic political rights is necessary to ensure the civility of any society; it is for the common good, and it must be done through government.

The provision of common goods is also an appropriate function of government. Such goods or services may or may not be essential, depending on their nature. The essential functions of government are those involving equal rights, which are associated with “protecting the common good.” If they are to be provided equally to all, in relation to their equal rights of access, they must be provided not only *through* government but *by* government. For example, privatization of justice, law enforcement, national defense, social welfare, basic education, social services, or public health is not a legitimate option for government. Private business organizations always have economic incentives to allocate their efforts *unequally*, specifically, in relation to the cost of provision rather than equally to all. Privatization means those who are difficult and costly to serve will invariably receive less than their fair and equal share. Public goods and services may be procured from private suppliers, but the government is *directly* responsible for ensuring equity in their distribution.

Taxation is the means used by governments to secure the funds necessary to provide common goods and services. Taxes that support the *essential* common goods and services are the logical and just means of covering the legitimate costs of civilization. Such taxes are necessary to secure the benefits of living and working in a civilized society. The alternative is a dysfunctional society characterized by continual political and economic instability with an ever present possibility of degenerating into anarchy and chaos. Essential taxes are not an economic “deadweight” on society; they are essential for economic development as well as overall societal well-being.

People in most modern societies also *choose* to tax themselves to provide *non-essential* public goods and services. Many things that make life better can be provided more effectively and efficiently collectively, through government, than individually. Common non-essential public goods include modern expressways and airports, offensive weapons systems, public higher education, public utilities (electricity, sewers, water), and subsidized economic development. Even though some of these goods and services benefit people in common, they are not essential functions of government. Others goods and services benefit people individually, collectively rather than in common, but for a variety of reasons are impractical to charge to each person in relation to their individual benefit. So it is quite logical for people to tax themselves to procure goods and services together that they cannot procure as effectively or efficiently individually. Such taxes are not an economic “deadweight” on society; they are the result of conscious, thoughtful decisions to purchase some things collectively rather than individually.

Another legitimate responsibility of government is to preserve the good of the commons. The good of the commons in this instance refers to the health and productivity of nature and society. All people have a right to benefit equally from the productivity of things held in common. The U.S. government is responsible for ensuring that right, not only for all people of the present but also for their posterity, for future generations. The commons, historically, has referred to land owned, held, or managed for the benefit of a group as a whole, rather than owned privately and managed for the benefit of individuals. The classic “tragedy of the commons,” refers to a situation where individual exploitation of commonly-held land resulted in the destruction of the land's productivity and value. Rather than exposing the folly of common property, such stories simply illustrate the necessity of people working together, through government, to preserve the health and productivity of commonly held property.

Nature is capable of producing tremendous economic benefits, apart from any individual actions taken to extract or exploit its resources. No individual owns nature; thus, all people have an equal right to participate in the benefits of nature's productivity. Societies likewise have the capacities of creating tremendous economic benefits, quite apart from the actions of individuals. No individual owns society; thus, all people have an equal right to benefits from its capacity. Government is a legitimate means of ensuring equal benefits for all from the bounties of nature and society. These concepts provide the foundation for the Georgist single tax proposal; all people have an equal right to benefit from the bounties of nature and society.

Only recently has modern society begun to recognize the rights of future generations to the bounties of nature and society. The people of many so-called primitive societies, such as Native Americans, have always acknowledged the rights for future generations. However, most 18<sup>th</sup> and 19<sup>th</sup> century societies considered the resources of nature and society to be either limitless or naturally renewable and thus incapable of significant depletion. Since the potential bounties of nature or society were considered essentially infinite, people had a right to extract and use as much as they could, as long it served the common good. In 18<sup>th</sup> century Europe, for example, land could only be removed from the commons for private use under the “Lockean Proviso,” meaning “enough and as good” land must be left in the commons for anyone else who might need it.<sup>3</sup> Individuals would exercise greater care in protecting the value of their private property, it was argued, than would government. If the private appropriation of land did not diminish the value of the commons to others, it was deemed both appropriate and good.

This was the spirit in which Henry George proposed the single tax, the abolition of all taxes except taxes on land. Land was seen as a potentially limitless source of wealth, in fact the only true source of wealth. Thus, land could be taxed sufficiently to provide funds for the legitimate functions of government without diminishing either its economic productivity or its long run value to society. In fact, assessing taxes sufficiently high to appropriate the full economic value of land productivity would remove any economic incentive for the private exploitation of land. Land could then be managed for the long run good of society.

Today, however, our understanding of the world is quite different from even a century ago. We know that the resources of the earth are finite. In addition, some of the natural resources most important to current economic development, such as fossil energy, are rapidly being depleted. We also know that every time we use or reuse energy, some of its usefulness is lost. We know that economic productivity converts energy into useful goods and services but all productive process also produce wastes. We know that the earth is not a limitless sink into which we can dump an infinite amount of these waste without eventually making the earth unhealthy or even uninhabitable by humans.

We also understand that we live in an increasingly crowded world. When people live in close proximity, one person's use of private property often diminishes the value of the private property of those who live nearby, downwind, or downstream. Equally important, the use of private property frequently diminishes the goodness of the commons: the air, streams, aquifers, landscapes that are not owned by any individual but are held in common. We know also that the pursuit of individual economic self-interests – dispassion, competition, aggression – weakens the social fabric of societies and distorts their sense of the *common* good. The result is a diminished sense of empathy, compassion, and respect within domestic societies and a less civil world.

The various “green taxes” proposals have emerged in response the growing awareness that unrestrained capitalist economic development inevitably degrades the natural environment and diminishes the civility of society. The Georgists' reasons for advocating green taxes are valid, economically and politically. New or additional green taxes imposed on degrading and polluting activities would reduce current economic incentives to “externalize” environmental and social costs by imposing them on the commons. The revenues collected through additional green taxes would provide funds which could be used to provide economic compensation to society for the degradation of the commons and to provide economic incentives for development of less degrading and polluting economic enterprises.

The claim that “land value taxation,” by its very nature, is a “green tax” is more tenuous. To the extent that higher land taxes result in more intensive land use in places where land can be used more intensively for the benefit of society, land value taxation would clearly protect the common good. It is less clear whether higher taxes on land, and lower taxes on land improvement, will *always* result in more intensive land use. If land taxes exceed the economic use value of land, land will simply be abandoned and abandoned property tends to depress surrounding property values. Furthermore, as Georgists generally admit, some land cannot be used more intensely without threatening the good of the commons. In fact, preserving the good

of the commons may require that most land be used less intensively than it is currently used, rather more intensively.

The logic of the Georgist “tax shift” proposal – the proposal that land taxes and green taxes be used to reduce or eliminate all other taxes – is even more tenuous. To the extent that green taxes are used to replace taxes on labor and capital – such as taxes on sales, income, payroll, and corporations – they will not be available to compensate society for degradation of the common good or to provide incentives for enterprises that are less threatening to the commons. Perhaps more important, such a tax shift might reinforce the current public misperception that taxes are a deadweight loss to society and that lower taxes and economic growth inevitably serve the common good.

A change in public policy as significant as the Georgist tax shift obviously would result in winners and losers. Both nature and society are incredibly complex and critically interrelated, making it quite difficult to anticipate the ultimate impacts of specific taxes. However, if the current understanding of nature and society is even reasonably accurate, it's not all that difficult to identify the broad categories of winners and losers. In the broadest terms, the winners would be those in current capitalist societies and the losers would be those of future generations.

Within current society, the clear winner of the proposed tax shift would be society as a whole. Society would obviously benefit from a cleaner environment and lower taxes on labor and capital. The economic losers would include individuals and corporate investors who currently profit by extracting economic value from common resources – including oil, natural gas, coal, fisheries, soils, and native forests – without adequately compensating society. Land speculators would be among the biggest economic losers, unless they were able to find some way to begin influencing or manipulating land tax assessments. The administrative savings from reducing or eliminating other taxes might be largely offset by the greater administrating costs of assessing, reassessing and collecting taxes that accurately reflect the “common value” of different parcels of land.

Those who currently benefit economically by polluting the environment would also be among the economic losers. They would either incur the added costs of shifting to more environmentally benign processes or be forced to continue compensating society for the damages caused by their pollution. To the extent that green taxes would be used to provide subsidies or incentives for cleaner production technologies, those who develop and adopt such technologies would benefit at the expense of polluters. To the extent that green taxes would reduce pollution, society in general would benefit from fewer environmental related illnesses and lower costs of health care. The biggest gains for society in general might be an increased sense of fairness and goodness. Taxing those who cause harm in order to compensate society for that harm and to promote the prevention of future harm just seems to be a fair and good thing to do. Protecting the social commons is a legitimate function of government.

For current society, the benefits of a green tax shift would clearly outweigh the costs. The primary obstacle to such a shift, as Georgists point out, is that the potential losers are firmly entrenched in positions of economic and political power while most members of the general public either feel locked into the current economic status quo, don't understand the tax shift

proposal, or are oblivious of their collective power to bring about such a fundamental change. Regardless, the tax shift proposal is certainly worthy of continued efforts to educate the general public and to influence public policies.

A major aspect of future policy discussions should be the potential negative impacts of a tax shift on those of future generations. The future can never be anticipated with certainty because nature and society are inherently dynamic as well as complex and interrelated. However some general propositions regarding the impacts of a tax shift on future generations are clearly worthy of further inquiry, discussion, and debate.

First, specific green taxes that penalize environmental degradation and reward environmental protection clearly provide potential benefits to those of future as well as present generations. To the extent that green taxes are shifted to reduce taxes on labor and capital, however, they will not be available to reward initiatives for additional environmental protection. In addition, if the legitimate objective of green taxes is achieved, if environmental degradation is reduced or eliminated, the legitimate source of future green tax revenues likewise will be reduced or eliminated. It would then be necessary for those of future generations to re-impose taxes on labor and capital to support the legitimate functions of government. By then, society may have lost any real appreciation of why it's important for citizens to tax themselves to pay for the cost of civilization. If the green taxes were not successful, future generations would be left with continuing environmental degradation – the taxes would have failed to protect future generations.

Perhaps more important, the natural resources that provide the logical source of resource extraction taxes – such as oil, coal, soil carbon, and native timber – are finite and are clearly exhaustible within a few generations. If resource extraction becomes a major source of tax revenue, each generation will have an incentive to find ways to continue resource extraction but will have no incentive to respect the rights to future generations to an equal share of the earth's bounty. They will have been deprived of their right of equal access to the commons. In addition, once the resources have been extracted there will be no source of taxes to pay for the legitimate and essential functions of government. As in the case of green taxes, if extraction taxes are shifted to developing renewable alternatives to exhaustible resources, the good of the commons will have been preserved. However, extraction taxes used to promote renewable alternatives would not be available to reduce taxes on labor and capital.

Furthermore, the reduction or elimination of taxes on labor and capital would not help preserve the good of the commons. Industrial economic development is inherently extractive and exploitative. There are not purely economic incentives to renew or regenerate either natural or human resources for the benefit of anyone other than the individual decision maker or investor, certainly not for an unknown someone of some future generation. All economic productivity is derived ultimately from energy; all natural and human resources are concentrated forms of energy. Energy can neither be created nor destroyed but each time it is reused, some of its usefulness is lost – the law of entropy. Thus, no matter how efficiently industries conserve, reuse, or recycle, they are still depleting the productive resources of the earth and depriving future generations of their rightful access to the earth's commons. Any tax shift that promotes this type of economic growth accelerates the depletion of the earth's common resources.

The only sustainable source of economic development is solar energy. The daily inflow of energy from the sun is the only sustainable source of energy available to offset the inevitable loss of usefulness of energy to entropy. The highest future priority shift for humanity is not a tax shift but a shift from reliance on fossil energy to solar energy. Solar energy is actually abundant and can be collected by green plants, algae, windmills, waterfalls, solar panels, photovoltaic cells, and perhaps other means not yet conceived. The future of humanity ultimately depends on the willingness and ability of people to adjust their ways of working and living to accommodate the level of human population and per capita consumption that can be supported by the continuing daily inflow of solar energy.

Perhaps Georgists should shift their search for sustainable source of tax revenue from the land to the sun. After all, the sun was the initial source of the productivity that Henry George associated with the land. Land, as space, will remain a legitimate source of taxes as it is a common resource and will have even greater value in an increasingly crowded world. Taxes that appropriate the *spatial* and *locational* value of land for public use would provide benefits for both current and future generations. We now know that land is not the source of *all* value, but it is still not in the public interest to allow land to be bought and sold as any other marketable commodity. We now have good reason to believe that the sun is the source of all value. So following the same logic as Henry George, it is not in the public interest to allow solar energy to become a marketable commodity. The Georgist philosophy is certainly worthy of continuing discussion and debate. However, the discussions need to be framed within the context of our current understanding to nature and society – of how the world works and the place of human societies and economies within it.

## End Notes

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<sup>1</sup> Alan Thein Durning and Yoran Bauman, *Tax Shift* (Seattle, WA: Northwest Environmental Watch, 1998).

<sup>2</sup> Frank de Jong, Green Economics Primer, Green Party of Ontario, <http://www.google.com/ig/emachines?hl=en>

<sup>3</sup> John Locke, *Second Treatise of Government* (1690), Richard Cox, Ed (Wheeling, IL: Harlan Davidson, Inc.), 1982.