Red-Light and Green-Light Taxes
By Dr. Mason Gaffney

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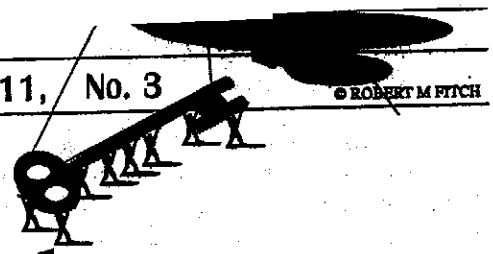

Red-light and green-light taxes

by Mason Gaffney, Ph.D.
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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 obstinate 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.

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.

D. 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."

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.

E. 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

continued on page 10

Red-light and green-light taxes

continued from page 1

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.

continued on page 11

Red-light and green-light taxes

continued from page 10

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-inter-

continued on page 12

Red-light and green-light taxes

continued from page 11

est 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 #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 the 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.

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