

Lividy Davis

LVT and Energy

Henry George's Remedy to poverty, recessions, urban sprawl, etc.:

Get public revenue from the rent of land. Land defined as all natural opportunity. The main economic benefit this would have would be to spur development, by:

- reducing or removing burdensome taxes on labor and capital
- allowing development and economic activity on the lands best suited for it, thus making production more efficient
- raising wages by making land more available at the margin, in effect, enhancing the bargaining power of labor

But what effect would all this enhanced development and economic activity have on the environment?

Conventional wisdom has it that a tradeoff exists between economic prosperity and environmental quality.

- conflict seen between business and environmental interests
- govt. proposes to get out of recession by easing regulations
- controlling pollution seen as a burden on producers

LVT would benefit the environment in two ways: CONSERVATION and providing INCENTIVES for controlling pollution and developing renewable fuels.

1. Conservation. Lots of unused and under-used land in any city. 10% VACANT in Manhattan (1989). In East Harlem it's 26% -- 1 out of four parcels VACANT -- this does not even consider under-use. LVT would make it unfeasible to hold these lands for speculation. This would have the effect of stopping urban sprawl.

Urban sprawl is the source of a tremendous waste of energy and resources.

- cities must provide services to farther and farther out, leapfrogging over blighted areas.
- and must also maintain the blighted areas, and fight the crime therein
- often cannot bear the costs of this and maintain infrastructure
- and greater distances to travel make public transportation less feasible, causing greater reliance on automobiles

2. Incentives. Fossil fuels are resources that come out of the earth. As such they are subject to private ownership, and a large part of the income derived from them is, economically, in the form of RENT.

A tax on rent would make them ultimately less profitable

consider cause & effect in the case of oil:

--rent tax means those who have existing wells must pump them at capacity to pay the rent.
--domestic supply goes up; price goes down; less oil is imported
--rent tax discourages holding of oil lands for future exploration (Exxon, remember, is the largest U.S. landholder).
--eventually, since new supply is not coming in, price of oil rises, becoming more competitive with renewables
--during lag time, the incentive is there to invest in R&D of renewables
--renewables now become more profitable anyway, because the income derived from them is not RENT (which is now being heavily taxed) but INTEREST (on which the taxes have been reduced). The sun is not subject to ownership!

HIDDEN COSTS OF POLLUTION

Pollution costs society, but polluters usually don't have to pay for it.

Would the costs of pollution be incorporated in the rent of land?

The opportunity to pollute (and not have to pay for it) is, now, a factor in the value of land. To the extent that you can profit from an enterprise that pollutes, the land on which you do it is more valuable. In other words, when the landowner gets income for owning land (RENT) part of that income is the value of his right to pollute.

If we collect a tax based on land value, that benefit for the right to pollute would accrue not to the private landowner, but to the community.

The community is has to pay the cost of pollution, either by getting sick from it, or being taxed to clean it up, or by having the value of its possessions decreased because of it.

SO: if the community collects the rent of land, the community will also collect the "advantage" of pollution, which will thus become the "cost" of pollution. So people will be charged a rent based on the imputed cost of the pollution their businesses will generate.

IN FACT, land value taxation would have such a positive impact on the environment that one is tempted to conclude that environmental problems CANNOT be solved without coming to terms with our system of land tenure.

Depletable Resources and LVT - Do We Need a New Solution?

Ian Lambert has suggested that because a resource such as oil can be pumped out of the ground (changed, in effect, from land to capital,) a tax on land rent would not be sufficient to stop the wholesale rent-seeking depletion of these resources. If a tax were placed on the rent of oil land, he argues, oil producers would pump out that oil and store it somewhere. Since labor had already been applied to it, Georgists would class it as capital and would not tax it.

Could oil producers really circumvent the paying of rent to the community in this way?

There are two reasons, I think, why they couldn't. One involves practical considerations, and the other economic principles.

Practical considerations:

Oil is consumed in the billions of barrels. It would be a tremendous technical feat to pump all the oil out of any oil field in a short time and store it somewhere else. 500 oil wells burning out of control for eight months in Kuwait made hardly a nick in the total volume of oil in its fields.

Here's one way of getting some handle on the volumes involved: The much-debated oil deposits in the Alaska National Wildlife Refuge have been estimated to contain enough oil for approximately five days of total US oil consumption. That doesn't seem like so much, and in fact, one argument for not opening that field to drilling was that it was such a relatively minor deposit. Nevertheless, five days of US oil consumption amounts to approximately **2½ cubic miles** of oil. Consider the technical challenge of extracting, transporting, and storing 2½ cubic miles of oil - multiplied by however many domestic oil fields, some of them much larger, would be affected by the tax.

Ian speculates that caves might be used for storing the oil. One wonders how many suitable caves could be found. Once found, they would have to be explored and sealed, and would undoubtedly have to pass some sort of rigorous inspection to ensure that crude oil would not seep into local ground water, or kill off endangered wildlife. Suitable two- or three-cubic mile sites would not, I suspect, be plentiful. If they were suddenly in demand by oil producers desperate to turn their land into capital, they would become quite expensive. Furthermore, the oil companies would have to pay rent on these storage sites.

If huge underground storage sites couldn't be found, oil companies would have to resort to a large number of small storage facilities. Once again, the volumes involved dwarf anything that currently exists. The supply of crude oil kept in reserve storage or in transit is measured in weeks of current production. But the reserves of oil in the ground are measured in **decades** of current production.

Economic notions:

Assuming that there is no oil-rich land available at the margin for free, any time oil is produced, some rent will be owed to somebody. In other words, a scarce natural opportunity is being utilized to satisfy human desires. The point of a tax on the rent of oil land (as on any other kind of land) is for the community to capture the socially-created value of everyone's equal right to that land. Could the oil producer, by pumping out all the oil and turning it into capital, escape being charged that rent?

Suppose the government announces that in five years it will institute a tax on the full rental value of oil land. And suppose that in five years the oil companies could figure out how to pump all their oil out and get it into artificial storage. Then, indeed, they would get a break on the rent, because once all the oil were pumped out of it, the value of their oil lands would plummet. The break they would get would be decreased by the costs of the wages, interest and rent involved in building their storage system! But assuming the storage system could be built for less than the cost of the annual rent on oil-rich land, the oil producers would indeed get a rent break.

If, on the other hand, the tax on land rent were announced before the oil producers had time to develop storage systems, they would get no break at all. They would have to pay the high rent on their oil land **before** pumping the oil out. (They would also have to pay the newly-increased rent on the land they use for storage.)

The more feasible alternative, however, would be to **gradually** implement a tax on the rent of land. This would prevent this "pump-and-store" behavior by making the annual losses due to increased rent tax much softer than the one-time cost of building a storage system. The huge investment of a storage system would never be demanded by any windfall loss due to sudden changes in tax policy.

The gradual changes in tax policy, away from penalizing capital and toward collecting rent, would gradually enhance the competitiveness of capital-based renewable energy technologies, which is a nice thing. This would be especially effective because a high tax on rent would make it uneconomical to hold large amounts of undeveloped oil land. Over time, the lack of incoming oil supply couldn't help but raise the price of oil. Seeing this coming, energy companies would get on the bandwagon of wind and solar technology.

The only way oil companies could get out from under this socially and environmentally beneficent pressure would be to lobby the government to rescind the land value tax before it started getting much harder to resupply oil markets. We'd have to watch that.