

Land Value Taxation and Ecological Tax Reform

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Introduction

This essay seeks to approximate a theme of popular television shows: to find and reintroduce two adults who were born twins, but separated at birth. I will argue that land value taxation, although not commonly considered a "green tax" or "ecotax," nevertheless matches the structural and practical characteristics of such taxes. The two-rate property tax, moreover, is the most commonly used political implementation of land value taxation, and is a perfectly normal example of ecological tax reform, the latest mechanism for advancing ecotaxes.[\[1\]](#)

The first three sections consider ecotaxes and ecological tax reform, and outline their structural and practical characteristics. The following three sections do the same for land value taxation including the two-rate property tax. The last section summarizes our exploration.

The Ecotax and Ecological Tax Reform

What is an ecotax?[\[2\]](#) I will not be considering here such questions as whether any taxation at all is justifiable, whether government uses money wisely, or what its proper functions at its various levels might be, but will rather begin from the situation we find ourselves living in the late 1990s. We have governments and they levy taxes. What does it take for one of these taxes to be considered an ecotax?

Taxes have varied impacts: A sales tax discourages buying, a tax on tobacco discourages smoking, a high business tax causes businesses to move away, and so on. It is important to recognize that every tax has effects, that every tax constitutes conscious or unconscious social engineering, and that wise tax reform must recognize these impacts.

It might be tempting to define an ecotax by its effects: "An ecotax is a tax that discourages environmentally bad activities." That would mean, however, that a tax that has such effects only on an occasional or random basis would sometimes be an ecotax, sometimes not. It seems clear that a more stable definition, which still captures the environmental point, would be based on how it is levied. I suggest that an ecotax is a tax that is raised from a thing or process that imposes costs on the natural

environment, particularly when those costs are not already being paid or taken into account by the imposer.[\[3\]](#)

A simple example of an ecotax would be a tax on fuel based on petroleum; such a tax would discourage air pollution by discouraging the use of such fuels. It does not mean that we can point to any particular vehicle and be certain that it will adjust to the tax by consuming less fuel -- but across the entire economy, we can indeed be sure that increasing its cost will cut fuel consumption in the short run and stimulate the production of cleaner substitutes and other substitute arrangements.

Similarly, a tax on site-holding (owning parcels of land) is an ecotax because it discourages idle speculation, underuse, waste, and sprawling development of sites.[\[4\]](#) We cannot point to any particular parcel of land and be certain that it will adjust to the tax by being developed in a more efficient way -- but across the entire economy, increasing the cost of site-holding will most definitely reduce idle speculation in the short run and cause less land-intensive sprawl development, more infill and redevelopment of urban areas, and the restoration and rehabilitation of buildings and existing neighborhoods.

Notice that whether an ecotax is defined by its effects or by how it is raised, no reliance is placed on how the resulting revenue is spent. So in the past there have been ecotax proposals urging a variety of different priorities for the revenue. Some suggest spending the revenue on environmental cleanup projects, some recommend educational projects to increase environmental awareness and sensitivity, and others would prefer the revenue to be used for general government expenses.[\[5\]](#)

But there is an additional possible use for ecotax revenue, and it is this use that has become the keystone of recent ecotax proposals: Why not assign the ecotax revenue to offset some existing tax on productive activity? It would permit the cutting or removal of some deleterious taxes. In this way, government revenue can be maintained, while by virtue of the introduction of the ecotax some groups of taxpayers get a distinct benefit in the form of a tax cut. This approach -- shifting the burden of taxation away from productive activity and onto consumption of natural resources -- is called ecological tax reform, or ETR.[\[6\]](#) Let us look in some detail at ETR and what it offers.

Structural Characteristics of Ecological Tax Reform

How will it become convincing that an ecological tax reform is a good idea? By examining the way in which a good argument for ETR is constituted, we can learn much about its strengths.

Imagine an argument in favor of a particular ecotax -- we'll call it a tax on *K*. In its simplest form, the argument's structure would run:

1. A tax on *K* would provide good effects....
2. Therefore, let us tax *K*.

There are missing premises in this argument, however, and opponents would be quick to point them out. To make a useful argument we must "unpack" the first premise into components. Every tax has some effects, but not all are likely to be good. A persuasive case, moreover, will not focus on "good" effects measured by some absolute scale, since such a scale is impossible to construct, but will show that the ecotax's effects are merely *better than those of the current system*. Hence a more explicit logical structure would be:

1. The current tax configuration has effects A, B, and C. ...
2. The tax configuration including a tax on *K* has effects P, Q, and R....
3. P, Q, and R are preferable to A, B, and C ...
4. Therefore, let us tax *K*.

Now the argument is more explicit in its logic, although it is also difficult to make it convincing in practice. Even if strong evidence exists for the first two premises, the third is most questionable. It is not sufficient to show that a tax on *K* would have some positive effects; the argument must also demonstrate that a tax on *K* would have no effects that are bad; or if it would, that they are less bad than the tax on *K* is good.[\[7\]](#)

So a convincing argument, to demonstrate premise three, must make an apples-to-apples comparison of two bundles of effects -- A, B, and C versus P, Q, and R-- bundles that might not be comparable in any straightforward way. If a tax on coal burning reduces air pollution and pays for better public schools, while forcing coal companies to downsize, who is to say which effects are preferable? The third premise expresses not only a value judgment, but a difficult and complex one at that.

Any tax, if enacted, will have winners and losers as their fate is measured against that under the current system. Losers will claim that their loss is more important than the gains of the winners. The separation between winners and losers makes any beneficial change very difficult. Proponents of the ecotax have only one known (or reasonably assumable) effect that they can point to that the current tax configuration does not have: the eventual environmental benefit that will result. (They can have also considerable benefits such as spending the revenue on environmental education programs or on cleaning up toxic waste dumps, but such projects, if they have not already justified a tax increase, do little to energize the argument in favor of one.) How else could ecotax proponents increase their support or decrease the level of their opposition? Proposing a stronger or weaker ecotax may alter the volume of the debate, but still does not change the roster of winners and losers. Unless proponents have a

tool that can transform some losers into nonlosers or nonwinners into winners, there will be little room for change and few ecotaxes will be implemented.

Here an innovation can greatly strengthen the arguments in favor of the ecotax. This innovation provides a new factor that ecotaxes can offer, in addition to environmental benefits. Suppose we stipulate that a proposed ecotax will not change overall revenue to the government. For every dollar raised by the new tax, some existing bad tax can be cut by a dollar. Now, when presenting the third premise, ecotax advocates can point to at least two favorable items, effects that are not offered by the current tax system: The environment will be better off, and *some group of taxpayers will enjoy a tax cut*. That, in a nutshell, is ecological tax reform.[\[8\]](#)

There is no nationwide consensus that more revenue for government is a good thing, or that global warming is an urgent problem, or even that fewer trees should be destroyed; but there are many taxes for which we enjoy a nationwide consensus that they should be cut. The core strength of the ETR concept is that it offers two benefits, not just one, and it is precisely this that makes a mere ecotax proposal into a dynamic ETR proposal.

A further theoretical point is in order. The structural hallmark of ETR is that it offers a second benefit set, in addition to environmental relief, and can actually be achieved in more than one way. Two techniques might strengthen the third premise to ensure that P, Q, and R are indeed "preferable" in at least two ways to A, B, and C. The obvious means is to assign the ecotax revenue to a tax cut for some overtaxed group not already supportive of the ecotax, adding more constituencies to the list of "winners" in virtue of the ETR proposal. A second theoretical way, however, would be to *decrease the list of complaining "losers."*[\[9\]](#)

This approach has, in fact, been done: in the case of Sweden's taxation of nitrogen oxides, air pollutants that cause acid rain. That nation started a tax on nitrogen oxides in 1992. The largest power and heating plants were concerned that such a tax would reduce their international competitiveness as well as their ability to compete domestically against smaller plants, which were exempt from the tax by reason of the high monitoring costs that such taxation would bring.[\[10\]](#) So the Swedish government assigned the revenue from this ecotax to go back to the polluters. The trick? Rebates would be in inverse proportion to their polluting. The industry as a whole would break even and thus lose no international competitiveness, but plants that were high polluters might find themselves paying out more than they received while relatively clean plants received more than they paid out.

The British Petroleum Economics Unit reported that fine-tuning the revenue assignment in this way would keep from harming in general the competitive position

of large Swedish plants in relation to smaller domestic and international firms.^[11] Sweden achieved revenue neutrality for the government and the industry, yet still successfully introduced environmental incentives via the tax. (We might add that the tax succeeded: According to the BP Economics Unit report, "the aim was to reduce NO_x emissions by 30 percent over three years. Instead, emissions were reduced by 35 percent in the first year alone."^[12] No business wants to subsidize its competitors.)

To recapitulate: The same group of taxpayers who are losers can become the recipients of a tax cut. This assignment of the ecotax's revenue sounds strange at first, like a pointless juggling of money, but the main point of an ecotax is to send *long-term signals* throughout an economy. It is those signals that bring about improvements in efficiency of resources and in clean up technology. Today's polluters do not have to be recklessly penalized in order for them to be sent.

Theoretically, the political strength of an ETR proposal is increased by a measurement of what interest group would offer the most support, or decrease its opposition the most--and focus the tax rebate onto that constituency, though not necessarily uniformly. That results in the ETR proposal most likely to succeed. So the argument structure for proponents of ecotaxes is made more favorable not only by their ability to cite that environmental benefits will ensue "intrinsic" advantage -- but also by their ability to offer and adjust rewards from the tax's revenue -- the advantage in assignment of revenue -- so as to mitigate opposition, cultivate new allies and supporters, or do both.

In this section we have made explicit the logical structure of ecotax proposals and considered its strengths and weaknesses. We have then demonstrated how ecological tax reform is an enhanced mechanism for proposing an ecotax, embodying not only environmental benefits but a tax cut or rebate that can be used to decrease some bad tax and to provide short-term relief to polluters without disturbing the long-term incentives for environmental conservation.

Practical Characteristics of Ecological Tax Reform

We have considered the form that ETR takes, and the form of arguments in favor and against it. Here we will survey the most common specific points made during consideration of ETR proposals. Their adequacy or inadequacy will be only lightly discussed. Instead, we will focus on giving the reader an impression of the political and economic landscape an actual ETR proposal can be expected to present.

General Distributional Effects

Obvious Winners and Losers

Ecological tax reform can be said in general to favor relatively clean industries, such as electronics, software, and service sectors, while penalizing dirty industries such as coal and petroleum production. Cleaner enterprises will not feel much burdened by a tax on pollution, while those that pollute more will be asked to pay more, either directly or indirectly.

Ecological tax reform can also be expected to stimulate a new sector of the economy that is already growing -- businesses that specialize in waste prevention, recycling, and creative reuse of resources.[\[13\]](#) Reducing an enterprise's waste output, or finding ways to draw on such waste as a valuable input, already makes money for the modern entrepreneur.

Although it is obviously in society's interest to minimize environmental deterioration, moving away from polluting industries and toward a more high-tech economy oriented to service provides relatively little comfort to the polluters themselves. They can be expected normally to oppose ETR.

Size and Number

A second important generalization about the distributional effects of an ETR program is that its establishment would be likely to bring about a small number of heavy losers -- recipients of a net tax increase--and a much larger number of small-scale "winners," who receive a net tax decrease. Such is not necessarily the case -- an ETR can be designed to have the opposite effect -- but in general, where ETR proposals have been implemented, the new pollution costs hit large polluters, and tax cuts are often applied to broad-based levies such as payroll taxes.[\[14\]](#) The opponents of an ETR will therefore likely feel more strongly about it than the immediate beneficiaries. We commonly see this political situation, in which ETR supporters must try to build a coalition of small, diverse winners and environmentalists to overcome opposition from a small band of large polluters.

Specific Distributional Effects

Regressivity?

An often-heard claim is that most ETR programs would be regressive. If people, for example, are taxed on their consumption of gasoline, or if a fuel tax is levied earlier in the production process but is passed along to consumers, the result is considered regressive because poor people spend a higher portion of their income on gasoline than do rich people.

That claim is a holdover from the days when ecotaxes were proposed outside the context of ecological tax reform, and has little merit in the 1990s. While virtually any tax system can be designed to be regressive, ETRs can be retooled comfortably without regressivity. Robert Herendeen and Farzaneh Fazel's research focused on several ETR scenarios embodying a large tax on energy.[\[15\]](#) They noted that such a tax, in the absence of a rebate scheme, would be regressive, but nearly any plausible rebate scheme, even a simple equal sharing per capita of the revenue raised, would make the ETR program progressive. Jean Hanson and Margaret Walls examined an ecotax consisting of vehicle fees, levied in various ways.[\[16\]](#) The ecotaxes - considered alone were regressive, but when they were part of a tax shift, the regressivity was easily eliminated.

Certainly, if taxes are levied against energy use, poor people would pay a greater percentage of their income for the tax than would rich people. But that is a point only against an ecotax scheme that does not embody ETR. The beauty of the ETR program is the ability to design a program that gives relief to the injured, to protect them from immediate shocks while sending the proper long-term signals into the economy as a whole. When used against ETR, the argument concerning regressivity is out of date.

Special Cases

In any change in tax laws, certain unlucky individuals will find themselves injured. And so opponents of the change will find whatever victims they can, preferably elderly widows, and loudly parade them about.

Every attempt at change in tax laws meets this form of resistance; it is not in any way peculiar to ETR. And the counterarguments are also not peculiar to ETR. Special relief programs can be arranged. Are we to stay forever with our current, inferior tax laws simply because they are what we have today? Is no change ever justified? Are victims of today's tax laws less deserving of relief than those who would be affected by new ones?

Time and Rate of Change

Long-Term Is Essential

An ETR program has two types of effect-the initial, distributional effects that make some pay more and others less, and also a group of effects on long-range planning. A business, whether receiving a tax cut or getting a tax increase by an ETR program, will be motivated to minimize its tax burdens in the future. If those burdens are related mostly to pollution and waste, then it will make efforts to cut pollution -- and waste.

For some industries, such motivations could take many years to emerge into measurable results.[\[17\]](#)

These longer-term effects are the motivation behind ETR; they are the real goal to be sought. ETR proponents have no special interest in rewarding or penalizing today's taxpayers except to enhance the attractiveness of bringing about a future that poses fewer environmental risks and dangers.

Opponents of ETR programs downplay these long-term effects. Proponents of ETR commonly experience the challenge of selling vague, future benefits in a world concerned with short-term gratifications.

Autonomy

Ecological tax reform does not ban polluting activities, nor does it tell any particular plant to reduce its pollution by amount X. Rather, it specifies tax rates and allows normal market forces to adjust without interference. Allowing this freedom of choice in the marketplace, rather than decreeing specific outcomes, enables maximally efficient adjustments by polluters. This factor has emerged as a leading point in favor of ETR over "command-and-control" approaches to environmental degradation.[\[18\]](#)

Other Considerations

The "It's a Wash " Claim

A very superficial objection to ETR, which is nevertheless heard often enough to warrant attention, is "you want to tax Joe a little less, and Sam a little more, but you're still collecting the same money from the economy. So what difference does it make? Why all this hot air about nothing?"

People are not passive -- they react, especially to taxes, and so the things and processes on which taxes are levied do make a great deal of difference. As Henry George wrote, "The mode of taxation is, in fact, quite as important as the amount. As a small burden badly placed may distress a horse that could carry with ease a much larger one properly adjusted, so a people may be impoverished and their power of producing wealth destroyed by taxation, which, if levied in another way, could be borne with ease."[\[19\]](#)

Pain Versus Gain: Tradeoffs

Another common concern about ETR, voiced often by sympathetic politicians, is purely practical. It is claimed that to establish an ETR program takes the same

political work as raising taxes; that ETR elicits heavy opposition; and that if enacted, the government gains no new spending authority and no surplus revenue. So is it worth the trouble?

Politicians, like any other group, will be staunch advocates of ETR only if they are persuaded that long-term environmental protection is needed. The ETR proponent must often spend as much effort educating supportive politicians, who focus by habit on short-term considerations, as they do on the wider public.

Past as Property

One more issue that often comes up in discussions of ETR is the concept of a vested interest in pollution, a claim that people have property rights in the perpetual continuation of their past actions. If Sam's factory has polluted in the past, without paying taxes; if Sam invested in factory expansion, expecting that situation to continue; and now Sam faces new taxes on pollution, isn't something unfair or unjust?

This issue, to be taken seriously, requires us to imagine that someone who repeatedly imposes costs on others will be owed something by those others, rather than owing them. Although on immediate presentation this seems absurd, the concern arises often enough to make it a customary feature of the ETR debate.

This survey of the main features and issues surrounding ETR is now complete. Now we will turn our attention to a tax not always regarded as oriented to the environment at all, yet one that has impressive potential.

Land Value Taxation and the Two-Rate Property Tax

What is land value taxation?^[20] It is a tax levied on the rental value of land or its equivalent. For example, here is a parcel of land that rents for \$1,000 per annum; if that parcel is taxed at \$100 per annum, there is then a 10 percent land value tax in place.

land value taxation is actually quite common. It is normally one component of the property tax. Property taxes fall on both land value and the value of improvements -- the portion that falls on land value is a land value tax. Such a tax is normally levied not on the rental value of land directly, but rather on the land's assessed market value; but that market value is simply the current capitalized value of the stream of future rents it is anticipated to yield, so unless the rate were to grow high, the normal practice of taxing the price of land is an excellent surrogate for a pure land value tax.

Proponents of the land value tax point out that it has the effect of encouraging more compact development of sites, which leads to more efficient use of urban infrastructure and decreases pressure for suburban sprawl.[\[21\]](#) Indeed, failing to tax land value is seen as a form of subsidy, and this is especially evident in cases such as the announcement of a new subway station or park, where surrounding land values escalate overnight simply by virtue of government plans, not by individual initiative.

From the beginning of agitation for land value taxation in the 1880s[\[22\]](#), the argument for it has been embedded within a broader argument for a tax shift. Henry George's recommendation for economic justice was not land value taxation alone, but combined with the elimination of taxes. George explicitly proposes "to abolish all taxation save that upon land values."[\[23\]](#) He develops, at length, arguments that: "The advantages which would be gained by substituting for the numerous taxes by which the public revenues are now raised, a single tax levied upon the value of land, will appear more and more important the more they are considered."[\[24\]](#) The notion of a tax shift has been central to the advancement of land value taxation ever since.

Although there have been cases of land value taxation proposed as a new revenue source[\[25\]](#), or as the least disruptive source for revenue when a tax increase is necessary, the canonical form of a land value tax proposal has been revenue neutral -- to urge the reduction or elimination of other taxes simultaneously with the introduction of the land value tax with identical yield. This has usually meant reducing the property tax rate on improvement value, while increasing the property tax rate on land value, rather than artificially holding those two taxes to a single rate. This is what we call the two-rate property tax, or 2R.[\[26\]](#)

Land value taxation has enjoyed nontrivial success when proposed in the context of a two-rate property tax. Local or regional property taxes in the United States, South Africa, Australia, New Zealand, and elsewhere have in many cases been modernized in this way.

Structural Characteristics of Two-Rate Property Taxation

The two important aspects of ecological tax reform, then, were the intrinsic effects (long-term environmental benefits) and the revenue assignment (a tax cut or relief) -- also essential features of 2R. The intrinsic effects are the desirable results that the proponents of the tax shift view as favorable -- less sprawl, more jobs and housing in urban areas, and lower infrastructure costs. The revenue assignment, normally used to reduce the portion of the property tax that falls on improvement value, serves to reward property users with a tax cut and also to offer the reduced tax rate to all others as a "carrot" encouraging efficient development.

The two-rate property tax shift thus already embodies the basic innovation of ecological tax reform, since it assigns revenue as a second positive ingredient, in addition to the tax's promotion of longterm efficiency. By allocating the revenue to holders of property improvements, the 2R proposal makes the class of property owners the group that both pays more taxes and receives the rebate; because of this, relatively large tax shifts can be made without resulting in large tax shifts in *burden*. Many property owners who pay more land value tax pay less improvements tax and wind up with trivial increases or decreases in burden. Only property owners whose development of their sites, as measured by improvement value compared to site value, is relatively high receive a tax break, and those whose development is relatively low receive a tax increase.

Is there a 2R equivalent to the Swedish NO_x tax innovation, the Swedish invention of a new tax solely for the purpose of refunding it to the payers by an environmental criterion? The answer is no, not in any straightforward way, because most areas already have a land value tax collection infrastructure in place and it would be inefficient to add a second mechanism for tax collection. The pre-existence of a land value tax in most communities, however, does allow another strategy by its proponents—an attack on whatever local taxes are least popular, a call for their termination, the municipality to maintain its revenues by adding to the land value tax. The most recent case of such a program implemented was in 1996 in Allentown, Pennsylvania.[\[27\]](#)

Practical Characteristics of Two-Rate Property Taxation

General Distributional Effects

Obvious Winners and Losers

The clearest general claim to be made about 2R's distributional effects is that efficient use of land is rewarded and wasteful use penalized. By land in this context, we mean land value, not land acreage. Like ETR programs, 2R favors reuse of existing materials or infrastructures. Who, then, will be the obvious losers? The occupiers of large values (not necessarily large acreages) of land with relatively little improvement value. Those people would be idle land speculators, owners of rundown or abandoned structures, and owners of obsolete one-level parking lots in downtown areas. Other extensive land uses, such as for junkyards and car dealerships, would also be losers if they were located on valuable sites. The winners in nearly every case studied tend to be property owners with well-kept homes on modest lots or efficiently developed structures such as apartment dwellings.

Size and Number

What commonly occurred was another main distributional generalization for ETR: a small number of large losers and many small winners. This phenomenon has also emerged in the campaign for 2R. Most often it is speculators with large tracts of valuable downtown land who will have to pay more, while homeowners on average sites typically receive small tax cuts. As with ETR, the same political scenario unfolds -- supporters of 2R must try to build a coalition of small-scale winners to overcome opposition from a minority of land speculators.

Specific Distributional Effects

Regressivity?

The claim of regressivity, it might seem, cannot be made against a 2R system; after all, ownership of property is more concentrated than income ownership, and land value ownership is more concentrated than either.[\[28\]](#) A shift toward taxing land value will therefore be progressive.

Questions, however, have been raised about who ultimately pays the land value tax. Little evidence exists for it, but if renters and shoppers and other nonowners of land value have the tax passed on to them, then regressivity is at least a possibility.

Special Cases

The 2R approach has at times been accused of bearing disproportionately against farmers, and at other times of threatening to throw elderly widows out of their homes.

Our remarks made above in the case of ETR apply equally here.

Time and Rate of Change

Long-Term Is Essential

Like ecological tax reform mentioned above, the two-rate property tax innovation does not make a priority out of rewarding current land value users or penalizing land value wasters, except to motivate all land-use decisions toward efficiency in the future. When a 2R tax shift is implemented, its effects are measured not during the ensuing days, but over the course of years. This tax has the same drawback as ETR, that there is little urgency for a long-term change and much complaint over any short-term inconvenience.

Autonomy

The two-rate property tax does not ban land speculation, nor does it tell any landholder to develop more efficiently or sell the site. It merely specifies tax rates and allows normal market forces to adjust without interference. Again, this tax parallels perfectly the situation with ETR

Allowing this freedom of choice in the marketplace results in flexible outcomes. Some landholders pay the extra tax; some develop their properties and take advantage of the reduced tax on improvements; and some sell their sites to entrepreneurs.

Other Considerations

The "It's a Wash " Claim

Because 2R is usually proposed in a configuration that assigns the revenue to property owners, who are also the payers of the land value tax, its proponents have frequently heard this objection: "You're just trying to take money from property owners and give it back to them, so where's the benefit?"

But this, like the matter of the ETR, requires dramatizing to people the point that they are not passive pincushions when it comes to taxation. People react. When a 2R reform is put in place, the community may receive no net benefit on that day, but future decisions will be stimulated toward more efficient land use and fuller use of the existing infrastructure. They will boost the creation of jobs and housing, yield more tax revenue and ease the demand for new infrastructure investments, while cutting the pressure to convert more wilderness into suburban sprawl.

The confusion and the method of clearing it up are the same as those encountered by ETR supporters.

Pain Versus Gain: Tradeoffs

When a proposal is made for a tax change that increases and lessens the same group's taxes, without enabling the government to enjoy any new authority, politicians will be reluctant, as in the case just discussed, to exert much energy to promote 2R unless the long-term effects can be made clear to them. It can be quite a challenge.

The 2R approach has the beauty of being appropriate for local levels of government, while ETR ideas have typically been attempting to deal with nonpoint pollution and other environmental hazards that require policy on the national or international level. But this has its downside. A local politician who favors the 2R approach will receive phone calls and visits from local land speculators, slum landlords, and others who would pay more under this approach; local elected officials can be made to feel the

heat. In the author's view, such opposition is the biggest problem faced by 2R. Even when people are convinced of its advantages, a concrete political cost remains to favoring 2R and a more vague, less clear benefit that might accrue only after the politician has left office.

Past as Property

When objecting to 2R, a land speculator or slum landlord might assert any number of things. Claiming that he has had a perpetual property right in the past and that any tax increase is therefore unfair is, however, very difficult to sustain. Unlike a new ecotax, land value taxation is in most communities already in place. An argument against its increase is therefore no stronger than an argument against all increases in any tax. If a property right in the past is recognized, then no tax change is ever justified, and a community that once drew its revenue from taxes on slaves and wagon wheels must continue to do so forever.

Despite its weakness, the argument that past is property is often heard, and in this respect makes for yet another parallelism between campaigns for 2R and efforts for ETR.

Summary and Conclusion

It has been shown that ecotaxes, carried forward in the form of ETR proposals, and land value taxation, carried forward in the form of 2R proposals, share a wide range of structural and practical characteristics. It should be clear that they are members of the same species.

Why point this out, if it is so obvious? The proponents of 2R and the proponents of ETR have not, until fairly recently, overlapped to any significant degree. *They have been constructing the same arguments, enjoying the same strengths, shoring up the same weaknesses, hearing the same objections, and countering the same challenges -- without doing so together.*

ETR proponents have, as their main priority, the well-being and sustainability of our environment. Two-rate proponents have, as their main priority, justice in taxation and a fair economy. These are not identical goals, but I reject the idea that they conflict.

Proponents of 2R have shortchanged themselves by not making more explicit the desirable environmental results of land value taxation; tools for urban redevelopment are in many ways the best friends environmental protectors could want. [\[29\]](#) ETR proponents have also shortchanged themselves by not making more explicit the

simple opportunities inherent in ecotaxes for justice and economic growth; constituencies that support fairness need to be made more aware of ETR.

Additionally, 2R proposals, which are generally local, dovetail superbly with ETR proposals, which are more often made at higher levels of government. ETR is properly understood to be the class of environmental tax shifts that includes 2R, while 2R is the easy, local ETR.

As the drive for ETR continues to expand, it becomes increasingly important for ETR proponents to find outlets for local activism; to be able to point to a track record of successful implementations; and to attract the support and appreciation not only of dedicated environmentalists but of additional constituencies. The two-rate property tax offers all these, and so, once properly recognized, it may rightly be called the cutting edge of ecological tax reform.

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Notes

1. This paper assumes a little familiarity with the two-rate property tax and ecological tax reform. For more information on land value taxation and the two-rate property tax, see www.urbantools.net. To learn more about ecotaxes and ecological tax reform, see the thorough report by M. Jeff Hamond, *Tax Waste, Not Work: How Changing What We Tax Can Lead to a Stronger Economy and a Cleaner Environment* (San Francisco: Redefining Progress, 1997).
2. "Ecotax" is one of several commonly used terms. It is intended as a synonym for "green tax," "ecological tax," "environmental tax," and "envirotax."
3. When a polluter dumps toxic wastes at no cost to himself, but imposes a multimillion-dollar cleanup cost on the surrounding community's taxpayers, we have an example of a cost not being paid or accounted for by the polluter.
4. See "Compact Cities: Energy Saving Strategies for the Eighties," Subcommittee on the City, Committee on Banking, Finance, and Urban Affairs, U.S. House of Representatives, 96th Congress, July 1980. This report details land value taxation's role in sprawl containment policy.
5. Nel van Dijk, *Ecotax: An Introduction to the Ecotax* (Brussels: Greens in the European Parliament, 1991) gives a variety of such spending ideas in chapter 4, "Ecotax Proposals in Europe," 31-44.
6. It has also been called "the green tax shift" or "environmental tax shifting."
7. Politically, the case must be made that the plan put forward is better than another proposed plan, upholds American values, and so forth, but here we are only looking at structural characteristics.
8. It is not clear when ecological tax reform first became a technique. The booklet *Ecotax: An Introduction to the Ecotax* was published in the spring of 1991 and shows no awareness of ETR strategy. On the other hand, Sweden in that same year began levying a carbon dioxide tax and, in conjunction with it, cut the income tax. The notion of levying an environmental tax and rebating the revenue goes back at least to the 1970s; see, for example, R Herendeen, B. Hannon, and C. Ford, "An Energy Conserving Tax: How Large Should the Rebate Be?" in R Fazzolare and C. Smith, eds., *Changing Energy Futures: Proceedings of the Second International Conference on Energy Use Management*, Los Angeles, California, October 22-26, 1979 (New York: Pergamon). In another early work, Davies and Davies mention pollution fees and incentives to influence the marketplace, but do not bring these two together as a strategy or concept. See J. Clarence Davies III and Barbara S. Davies, *The Politics of Pollution* (Indianapolis: Bobbs-Merrill, 1970; 2d ed., 1975), 199-203. When the ETR idea started to become adopted

as a conscious promotional strategy is uncertain. This spotty evidence suggests that the strategy began in the early 1990s.

9. This technique is also mentioned in David Malin Roodman, *Getting the Signals Right: Tax Reform to Protect the Environment and the Economy* (Washington, DC: Worldwatch Institute, 1997), 50.

10. Information on this Swedish tax comes from Hanno T. Beck, *Citizens' Guide to Environmental Tax Shifting* (Washington, DC: Friends of the Earth, 1998) and "Economic Instruments for Environmental Regulation," 8 (London: BP Economics Unit, 1995).

11. "Economic Instruments," 8.

12. Ibid.

13. For dozens of examples of this new entrepreneurial frontier and its surprising profitability, see Wayne Roberts and Susan Brandum, *Get a Life* (Toronto: Get a Life Publishing House, 1995). Also see Curtis Motrre, "Snooze, We Lose," *Friends of the Earth Magazine* (September/October 1995) and Curtis Motrre and Alan Miller, *Green Gold. Japan, Germany, the United States, and the Race for Environmental Technology* (Boston: Beacon Press, 1995). The former citation is published by Friends of the Earth (Washington, DC).

14. Roodman, *Getting the Signals Right*, 47-48.

15. Robert Herendeen and Farzaneh Fazel, "Distributional Aspects of an Energy Conserving Tax and Rebate," *Resource and Energy* 6 (1984): 277-303. North-Holland: Elsevier Science.

16. Jean Hanson and Margaret Walls, "Distributional Aspects of an Environmental Tax Shift: The Case of Motor Vehicle Emissions Taxes" (Wellington, New Zealand: Victoria University of Wellington, Graduate School of Business and Government Management, 1996).

17. Such a gradual transformation is claimed by some proponents to be preferable. That places less stress on economic and social patterns. Consult Roodman, *Getting the Signals Right*, 8-9.

18. "Economic Instruments," 3.

19. Henry George, *Progress and Poverty* (1879; New York: Robert Schalkenbach Foundation, 1981), 409.

20. The term "land value taxation" is one of several commonly used. We intend it as a synonym of "site-value taxation," "site-value revenue," and "location-value charge."

21. For a brief summary of the connection between taxes and sprawl, see "Taxes and Sprawl," *Friends of the Earth Magazine* (Spring 1997): 13.

22. Land value taxation had been proposed well before the 1880s, but the modern era of LVT advocacy began with the enormous international popularity of *Progress and Poverty* in the early 1880s.

23. George, *Progress and Poverty*, 406.

24. Ibid., 433.

25. In a recent and notable case in 1996 carried out by the Pittsburgh Downtown Business Improvement District, it was decided to raise funds for its operation by means of a land value tax.

26. The two-rate property tax has also been called "split rate," "two-tier," "site-value rating," the "graded tax," "property tax reform," and "property-tax modernization."

27. On April 23, 1996, the citizens of Allentown, Pennsylvania, voted to freeze the city's deed transfer tax, earned income tax, business privilege tax, occupational privilege tax, amusement devices tax, and residence tax at their 1996 levels. Additionally, the property tax on improvement value would be reduced. The city's revenue needs would be met by increases in land value taxation. Consult Josh Vincent, "Allentown Voters Approve LVT," *Henry George News* 60, no. 5 (New York: Henry George School of Social Science, 1996), 8.

28. Harvey S. Rosen, *Public Finance*, 2d ed. (Homewood, IL: Irwin Press, 1988), 483-489; Mason Gaffney, "The Property Tax Is a Progressive Tax," Proceedings, National Tax Association, Sixty-Fourth Annual Conference, Kansas City, 1971, 408-426.

29. There are encouraging signs of a convergence between the ETR and the 2R community. In 1996, the Sierra Club, Chesapeake Bay Foundation, Maryland Public Interest Research Group, and ETR leader Friends of the Earth (all heavyweight environmental organizations) registered support for the two-rate property tax approach.

**Further information about the Ecological Tax Reform
can be found at [Green Tax Shift Headquarters](#).**

An earlier version of this article appeared in 1999 in the book *Land-Value Taxation: The Equitable and Efficient Source of Public Finance*. That version was the victim of editorial mistakes and malfeasance and has been withdrawn. This version is the only authorized version.

Ecological tax reform. Taxation. An aspect of fiscal policy. Site value taxes on the unimproved value of land. Economic frameworks and strategies employing tax shifting and ecotaxes. The object of a green tax shift is often to implement a "full cost accounting" or "true cost accounting", using fiscal policy to internalize market distorting externalities, which leads to sustainable wealth creation. Tax shifting usually includes balancing taxation levels to be revenue-neutral for government and to maintain overall progressiveness. It also usually includes measures to protect the most vulnerable, such as raising the minimum income to file income tax at all, or an increase to pension and social assistance levels to offset increased costs of fuel consumption.