GREEN ECONOMICS PRIMER

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Preamble:

There are two types of green economics: subsidy-driven green economics and market-driven green economics. Greens gravitate to market economics since it requires less government expense and intervention, and is more politically palatable.

The market was originally theorized by Adam Smith to internalize all costs to ensure fairness and efficiency. However, subsequent factors like resource pollution, resource exhausting and sprawl have not been duly internalized thus reducing the effectiveness of the market. This has unfortunately resulted in the market externalizing most ecological costs onto the poor, future generations, and other species. Greens would modernize Adam Smith by introducing the invisible "green" hand to make markets serve modern needs and realities.

Government shouldn't participate in the market but only regulate it. For example, government should not build wind turbines, but rather, eliminate hidden dirty electricity subsidies through full cost pricing so that businesses and cooperatives will respond to market indicators by building turbines without subsidies. The same goes for transit, organic agriculture, affordable housing, energy conservation, ending sprawl, etc. When the market reflects true costs, government subsidies and regulation are no longer needed.

Greens call for ecological fiscal reform and revenue-neutral green tax shifting so that businesses that adopt green production processes will increase their profits while businesses that stay grey will be taxed more heavily. Businesses should not be taxed for hiring people or for making a reasonable profit but instead should pay levies and fees for squandering resources, using land inefficiently and polluting the planet. People should not be taxed for holding down a job, but should pay for the amount of land, energy and resources used. Businesses and shoppers usually follow the path of least tax resistance and should have the option to save money by choosing green products and green lifestyles.

Land and natural resources are held in common by the public (and also belong to future generations and other species). When the community grants access to land or resources to a business or individual, the community should be recompensed. The dynamism of a particular community or society determines the value of local land and resources, so individuals and businesses should not be allowed to earn windfall profits from these resources that rightfully belong to that community. Land value taxation and resource taxes insure that community-created wealth accrues to the community, except for a fair profit to

the business or individual who, through their labour or ingenuity, has improved the land or used the resource efficiently.

GREEN ECONOMICS PRINCIPLES

1. It is better to tax "bads" rather than "goods". Governments have long used selective taxation to discourage use of alcohol and cigarettes, while unprocessed food and children¹s clothing remain tax-free. Greens would continue this tradition with selective "eco-sin taxes" to discourage a wide range of grey products and lifestyles. At the same time, taxes would be eliminated on green products and lifestyles. People should be able to avoid taxation by choosing green products and lifestyles.

2. Taxes should be designed to conserve resources and energy. Rather than taxing jobs and profits, taxes should be moved to resource use and energy consumption to reward conservation. The community should benefit from the use of commonly held resources. Using resources is a privilege, not a right, and the user should pay for the privilege. Resources must also be shared with future generations and other species.

3. Taxes should be designed to increase employment. Moving taxes onto resources and land use and off of incomes will make people less expensive to employ. Products produced by green production methods, which tends to use fewer resources and less energy will avoid taxation. As energy costs rise, the price of labour becomes more economical, and green products which tend to encourage value-added processes, will provide more high quality, skilled jobs than resource intensive products.

4. Distributive taxes are preferable to re-distributive taxes. If wealth is distributed more fairly in the first place less re-distribution will be necessary. Eliminating consumption taxes will eliminate the only tax the poor must pay. By moving taxes on to resource use and land, the poor, who generally own less land and use fewer resources, will avoid taxation, thus requiring less redistribution. Taxing land but not the use of land, will reduce taxation on higher density housing, lowering housing costs for low-income citizens, thus reducing another need for re-distribution.

5. Resource taxes should be assessed as early as possible. Resources should be taxed before entering the manufacturing process in order to green all aspects of the manufacturing process from extraction to the finished product. Increasing taxes on resource and energy use will encourage resource and energy efficiency, innovation, reuse, repair, recycling, and used material recovery.

6. Taxing unearned income is preferable to taxing earned income. The tax shift to resource use and community-generated land values will distribute income

more fairly without dependence on income and business taxation to redistribute income. Taxing unearned income (resources, land) and not earned income (jobs, profits) will reduce the rich-poor gap since the rich are always in a better position to capture unearned or windfall income by their ability to hold assets that they do not have to consume.

7. Green tax shifting is revenue-neutral, not a tax break or tax grab. The taxes paid by businesses and individuals collectively will not change, but greener businesses and consumers will reduce their taxes. Grey businesses and consumers will pay higher taxes. Studies have shown that 50% of businesses and consumers will be unaffected or only slightly affected by tax shifting, roughly one quarter will realize tax reductions one quarter will be taxed more.

8. Resource use and community-generated land value taxation are fairer. Resource use and land taxes are much simpler to collect and harder to evade than taxes on income and business profits. Since there are far fewer points of taxation than with traditional tax sources, a move to resource use and land taxation will reduce the size of the underground economy. The difficulty of evading these taxes will reduce the problem of overseas tax havens.

9. Green taxation increases international competitiveness. Eliminating taxes on domestic labour will reduce labour costs in Ontario and therefore reduce out-sourcing by businesses seeking cheap labour in other countries or provinces.

10. Pay for what you take, not for what you make. Businesses should not be taxed for hiring people or for earning a profit, but should be charged for using resources and polluting the planet. People should not be taxed for earning an income or purchasing products but should be charged for the value of land they own and the resources used in the products they buy. Resource use and polluting are privileges not rights, and businesses and consumers should pay for these privileges.

11. Taxing community-generated land values is beneficial. Since the community around it, not its owner, creates the value of land, the community should receive the benefits it has created. The owner is entitled to a fair profit but not to a windfall profit that rightfully belongs to the community that generated the wealth in the first place. Under LVT the specific use of the land will not be taxed, only the land itself, within the existing zoning. Community-generated land value taxation encourages the efficient use of land, reduces sprawl, reduces speculation, tends to reduce land prices and improves land use patterns.

12. Taxes should encourage local, sustainable, value-added production over imports. Culturally unique products and services will be valued by green tax reform over mass production. The sale price should include the true costs of products, services and distances traveled, and should be designed to encourage local, sustainable production.

13. Taxes should break up monopolies. The most important monopolies are resource monopolies and land monopolies. When a person or a business has control or exclusive rights over large amounts of a resource or large amounts of land, this person or business reaps windfall profits, which is unjust. These resources and this land belong to the community and if individuals are granted access to it they should pay a fair price for this privilege or right. Land Value Taxation aims to ensure that the wealth created by usage of land and resources that rightfully belong to the community accrue back to that community.

14. Taxes should be applied only once. Rather than taxing the same wealth repeatedly through personal income, business income, sales, re-sale, interest, capital gains, property transfer, inheritance, taxation should only impact the use of a resource and the ownership of land on a sustained basis (ie property tax on site value).

MINIMIZING INCOME TAXES

Moving taxes off of incomes and onto resource use and community-generated land value is critical in order to achieve and maintain a green economy and society.

Traditionally governments tax the component of production in least supply. In the first half of the 20th century labour was scarce and resources and land were plentiful and indeed considered infinite, so it made sense for government to tax incomes and not resource use or land. Now, however, resources and land are scarce and labour is plentiful, so governments should modernize the tax structure by switching the source of taxation away from incomes and onto resources use and land.

Income taxes are a regressive tax since they tax a "good" not a "bad". Since jobs are desirable we should not tax employment. Income taxes are a disincentive to employment since they make people expensive to employ. Employers often avoid taxation by employing fewer people and opting instead for energy-intensive, chemical-intensive and resource-intensive production. Conversely, taxing resource and land lightly sends the message that these community-held resources are unimportant and may be squandered by anyone without consequences.

It is claimed that income taxes help reduce economic inequity among people. This is untrue since employers simply pass on the extra payroll deduction to

consumers. The amount of income tax paid is irrelevant to labour negotiations, since bargaining is based on net pay, not gross pay. In determining an employee's worth, the employer simply calculates the gross amount based on take-home pay. Salaries of high worth employees and CEOs are simply raised to the level necessary to ensure net pay reaches the desired level.

In contrast the rich-poor gap will be narrowed more effectively by moving taxes off of incomes and onto resource and land use, since wealthier people who choose to spend their money on grey products and lifestyles will be taxed more while people with lower incomes will be able to avoid taxation by living green. In addition, replacing income taxes with green taxes would help conserve resources, save energy, foster value-added and labour intensive production (ie. more jobs), and reduce pollution.

MINIMIZING BUSINESS TAXES

Neither the right wing call for corporate tax cuts nor the left-wing mantra of increased corporate taxes will engender a transition to a just or green society. Reducing or increasing taxes on corporate profits is green-neutral (taxes which neither encourage nor discourage greening the planet). If the goal is for businesses to succeed and employ people, it makes no sense to apply business taxes or payroll deductions.

Moving taxes off of profits and employment and onto the resources, land and pollution will speed progress toward a green industrial economy. Recourse use and pollution are privileges not rights, and businesses should pay for these privileges. While business people would prefer not to pollute the planet or squander resources, the present tax structure gives them little choice. Businesses usually follow the path of least tax resistance and will readily go green if tax incentives pointed the way.

Green production means more jobs, resource conservation, and less pollution. Ecological fiscal reform and green tax shifting are revenue neutral; the collective tax burden paid by business is unchanged, but it will reward businesses that go green and discourage businesses that remain grey.

PHASE OUT CONSUMPTION TAXES

Sales taxes are unhelpful in moving to a green society since socially useful and ecologically sound products are taxed equally to socially or ecologically detrimental products. To reduce consumption of resources, taxes should be applied early in the manufacturing process in order to green all aspects of the manufacturing process. Taxing early will dramatically reduce the ticket price of green products and raise the price of grey products, positively influencing consumer behaviour. Taxing early will encourage resource and energy efficiency, innovation, reuse, repair, recycling, and used material recovery.

Sales taxes are regressive since they discourage people from making both green and grey purchases, thus damaging the economy and killing jobs. As well sales taxes are often unfairly evaded by the underground economy, while resource use, pollution and land rent levies, by contrast, are simpler to apply and more difficult to evade.

Replacing the Ontario Provincial sales taxes with green taxes and community determined land value charges would help conserve resources, save energy, foster value-added and labour intensive production (ie. more jobs), reduce pollution, and improve land use patterns.

RESOURCE USE TAXATION

Income taxes, consumptions taxes, and taxes on profits are all green-neutral, ie. green jobs, green purchases and green profits are taxed at the same rate as grey jobs, grey purchases and grey profits. By contrast, resources taxes levied early in the production process foster conservation, efficiencies, innovation, value-added production, and labour-intensive production. Local sustainable production, short run niche production, and skilled trades and crafts receive a bias since the full costs of transportation and mass production are internalized.

Taxing resources minimizes waste and pollution thus reducing the load on government for health care costs, waste disposal costs, transportation infrastructure, and pollution cleanup costs. The market will drive resource and energy conservation without government micro-management.

Resource taxation would focus on a small number of key local resources and a small number of imported resources:

AGGREGATE: Ontario consumes 155 million tonnes of aggregates annually and charges only 6 cents per tonne. An average brick home requires 440 tonnes of aggregate or 30 truckloads, charging the developer a negligible fee of $26.46. To encourage aggregate conservation and recycling the GPO would levy a much higher fee around $10 per tonne levy. This levy would add $4,400 to the cost of building a new house and generate $1.5 billion to government general revenue.

COAL: Ontario consumes around 20 million tonnes of coal per year. An at source levy of around $50 per tonne would encourage efficiencies in the mining, processing and burning of coal, and raise $1 billion.

NATURAL GAS: Ontario uses 25.6 billion m3 per year of natural gas, which wholesales at around $0.24/m3. A $0.16 depletion tax on natural gas, almost doubling the cost to end users, would encourage efficiency and switching to alternatives, and raise about $4 billion annually.

OIL: Ontario consumes more than half a million barrels of crude oil per day. To conserve oil and encourage the use of renewables a tax on crude oil used in Ontario at a rate of around $20 per barrel would generate $4 billion of government revenue.

WATER: Municipalities bill their customers around .001/litre for water. A levy at the rate of $0.001 per litre would encourage water conservation from ground water or surface water. This would be generate $1.8 billion to government, if the 1.8 trillion litres worth of permits issued in Ontario are used.

A PROVINCE-WIDE LAND VALUE TAX

Extremely poor land use patterns are Ontario's worst ecological and social problem. Bad urban and rural design continues to spawn sprawl, socially and economically dysfunctional communities, gridlock, pollution, social isolation, and a low quality of life. Land, which is Ontario's most valuable resource, is unevenly and unfairly taxed. Prime locations are taxed similarly to secondary locations. Combining the assessment of the buildings with the assessment of the land the buildings stand on further adds to the unfairness.

A parcel of land far from any community has little value, but land in a vibrant community becomes highly prized. Presently all land is taxed lightly, encouraging sprawl, speculation, and sub-optimal usage. An inordinately high percentage of the benefits of owning prime land parcels, often windfall profits -- benefits that are created by the existence of a community -- go exclusively to the landowner or the bank that holds the mortgage. Since the community created the wealth, the wealth should accrue to the community that generated it, except for a ³fair² profit to the owner or mortgage holder. (The assessment of a fair profit is based upon the economic rent generated by surrounding sites or the product of similar resource use.)

Community-generated land value levies should be a stable source of revenue for the Ontario government and at the same time drive human-centred rather than car-centred urban and rural design. Market forces (in conjunction with public planners) should be employed to reach optimal human density.

By shifting taxes off of incomes, consumption and businesses and onto land, it would become more expensive to build sprawl, thus encouraging infill and more compact design. The amount of affordable housing available would increase since builders could avoid higher land costs by building efficiently on small lots (row houses, low-rise, semi-detached). Housing stock and rental units would improve since renovations, additions and other improvements would not incur increased taxation while adding rental and resale value to property.

Suburban sprawl would decline since new developments would incur high land taxes whereas higher density infill would avoid taxation. Land value taxation would encourage the market to initiate and drive the reorganization of

Ontario's urban areas into walkable communities linked by tracked transit.

A province-wide land value tax should be instituted as part of a revenue-neutral green tax shift away from income, consumption and business taxes. A land value tax is a levy based on the assessed value of a parcel of land, but not the usage of the land or the buildings on that land. The building or use of the land shouldn¹t be taxed at all. The tax would be on the land beneath the buildings. Government should tax community created land values, not improvements upon land. Zoning would remain unchanged, and mill rates would vary with type of the land - residential, multi-unit residential, farm, commercial, industrial, forest, etc.

If buildings were not taxed and building lots were taxed more heavily, urban intensification would occur naturally. LVT encourages efficient and intensive use of land since taxes remain the same whether land is vacant or if it is used productively. LVT reduces the amount of vacant land and parking lots since it becomes more expensive to sit on undeveloped or poorly developed land. It reduces land speculation since waiting till the price of land rises will be more expensive.

All land in the province would be subject to LVT. Mill rates would vary according to zoning, as now. Mill rates would be lower on farmland, forested land, etc. The present property tax exemptions for seniors or disabled should, of course, continue. It would also be advantageous to buy smaller lots in vacationland, similar to in cities. People and businesses may purchase as much land as they desire, but should pay a fairer reimbursement to the community.

EFFECT OF LVT ON FARMING

The present tax structure favours industrial agriculture since land is artificially cheap, pesticides are artificially cheap, and labour is artificially expensive because of income taxes and payroll deductions. Since the determining factor of organic agriculture is the maximum amount of labour it can afford and the determining factor for industrial farming is the amount of land it can afford, land value taxation would assist the transition to organic agriculture since organic farming is labour intensive and uses land more efficiently. LVT will reduce the cost of farmland by releasing underutilized land. Under LVT farmers are encouraged to either use their land efficiently or sell it to someone who will. Taxation for farmers collectively would remain unchanged, and zoning would, as now, maintain a separate mill rate for farmland.

ELIMINATING POVERTY

There is no fiscal, let alone moral, justification for Ontario citizens to continue to live in poverty. Ethical reasons aside, fiscal considerations alone provide sufficient incentive to eliminate poverty from this province. People living in poverty tend to drain rather than contribute to government

revenue. Poverty requires extra expenditures in education costs, health costs, counseling costs, policing costs, court costs. It means lost taxes and lost productivity. It is less expensive to eliminate poverty at source than continue to carry the costs. Like putting up a wind turban, there are up front costs of raising people out of poverty, but the life-cycle costs are far lower.

Every citizen should have access to jobs that pay living wages. Other than people with disabilities who cannot work, no one should be unable to find work or contribute to society in a manor suitable to their talents. Eliminating income taxes and consumptions taxes would encourage businesses to adopt labour-intensive, value-added production techniques, creating many more jobs and require them to compete for the available labour. Not taxing consumption will eliminate the only tax that poor presently cannot avoid. Taxing land, but not the use of land, will reduce taxation on higher density housing and thus reduce the cost and increase the amount of affordable housing without government subsidies.

INTERNATIONAL IMPLICATIONS

Green economics are the antidote to the downsides of globalization. Green economics favours local, sustainable production, local culture, and local uniqueness. Ontario would act to implement tax shifting in concert with competing regions domestically and internationally, where regulations may be offered in place of taxes to certain industries if those taxes would unduly hurt their competitiveness with similar industries abroad.

Resource taxation in Ontario will requires equivalent taxation on imports to make them competitive internally, and credits on exports to make them competitive externally. Border Tax Adjustments will limit the impacts of tax shifting on export and import markets, while maintaining the effect of the tax locally. Border tax adjustments (BTAs) involve imposing equivalent taxes on imported goods and eliminating the environmentally related tax on exported goods.

Under green economics, NAFTA and WTO will have reduced relevance since truer cost pricing of fossil fuels and other resources will greatly reduce the amount of long-distance transport of goods, especially of raw goods. Green economics favours resource-stingy, low energy production with a high labour component. It will no longer be cost effective to ship heavy stuff long distances, thus favoring local niche production using local materials.

The concern that resource taxation would drive manufacturers (and employment) out of the province is invalid since the cost of most products will change only slightly, depending on the material input, since under tax shifting increased costs for raw materials are offset by reduced labour costs. Since land value taxes cannot be passed on the community (as represented by

government) receives the economic rent instead of foreign or domestic individuals, banks and corporations.

SPEED OF TAX SHIFTING

When taxes are moved slowly, positive change will occur slowly, when moved quickly, the multiple benefits happen quickly (depending on elasticity). Markets adjust quickly to new tax realities. Businesses, which retool on a regular basis in any case, will choose greener technologies at their first opportunity to take advantage of new tax realities. The labour component of production will expand as it becomes financially advantageous to produce higher order, reusable, repairable goods. Resources and energy conservation of will be put into place to match tax savings opportunities. Consumers will immediately change shopping habits to save money. People will adjust their transportation routines and lifestyles in short order to balance their domestic budgets in light of new tax realities.

Ontario raises 2/3s of its revenue ($50 billion in 2007) by taxing incomes, consumption and businesses. Moving the source of this revenue to resource use and community-generated land values will have cause minimal negative impact to Ontario's $500 billion economy, but tremendous positive change.

Tax shifting is revenue-neutral, not a tax grab or a give away. Tax shifting experience tell us that roughly half of the population and businesses will notice very little if any change in their overall tax burden, insignificantly up or down. One quarter of the population and businesses -- those who live and work green - will see tax reduction overall. Only the remaining quarter - those who run grey businesses or lead grey lifestyles - will incur increased taxation. Everyone has the opportunity to modify his or her purchasing, processing, or technological choices to reduce their tax burden.
Tax shifting it will not cause a taxpayer revolt since the tax burden of the majority will not change or will be reduced. Most businesses and citizens will see little change or get tax relief. Those who incur increases will clearly understand and accept that they are taxed higher because they are using a disproportionately large amount of the resources or land and should pay for the privilege. They have the option to modify their lifestyle or business habits to reduce their tax burden.

EFFECT OF TAX SHIFTING

Shifting taxes as described above has proven successful when it has been applied. Germany, the global tax shift leader, has shifted 1% of government revenue from incomes to resources. Between 1905 and 1913 Alberta employed LVT to generate almost all the revenue of the province. While the rational is sound for shifting all taxation away from businesses, incomes and consumption onto resources and community-generated land-values, it remains to be seen how much shifting is actually needed to reach sustainability. Perhaps 50% will be sufficient or perhaps 100% will be insufficient and surcharges will be

necessary. If, after all taxes have been shifted and sustainability is still not attained, the revenue from the necessary extra levies can be distributed equally amount the population as a citizen¹s income.

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