

Fred Foldvary on Green Taxes

Kevin Carson

February 22, 2005

Geo-capitalist Fred Foldvary argues that the best way to fight global warming is via Pigouvian taxation of externalities like pollution and greenhouse gas emissions—and not through centralized controls imposed by the regulatory state.

The most efficient way to reduce pollution has been well known in economics for 80 years. The economist Arthur Pigou showed how when there is a negative external effect such as pollution, the buyer is not paying the full social cost of the good. In effect, the user is subsidized. To eliminate the subsidy and make him pay the social cost, there needs to be a pollution charge on the sale of the good, ideally equal to the social cost of the pollution contributed by that item.

I'll go him one further on it. In most cases (stipulating that some cases exist), government action is not needed to prevent externalities; rather, externalities are created by government action. In fact, Oppenheimer's theory of the "political means" is just another way of saying that government is a mechanism for creating externalities: the state transfers the costs and risks of certain kinds of economic activity from the actors themselves to others, so that some are enabled to live at others' expense.

The solution, in such cases, is simply to end the existing state subsidies or privileges, so that the economic actor fully internalizes the negative consequences of his action through the price mechanism.

Now, if one accepts (as I am inclined to) a semi-Geoist argument that some particularly scarce forms of natural resources (like mines and forests) should be treated as a social commons, with community collection of rent, the rent paid to local communities may itself be a legitimate way of internalizing costs in price.

...the USA could implement the Kyoto goals by shifting public revenue to pollution and land rent. But the US chiefs have rejected this. The coal and oil industry chiefs in the US have great political clout, and will not allow a tax shift that will reduce their economic dominance. The public is too ignorant and apathetic to demand the efficient solution to pollution.

Or it could simply cease to subsidize the consumption of energy and transportation services, start running the interstates and airports entirely on cost-based user fees, and eliminate the use of eminent domain to expand transportation infrastructure. Of course, charging rent for access to coal and oil reserves might be part of such a scheme.

The economic reality is that in the long run, there need not be any economic cost to reducing pollution. The political reality is that the governing chiefs do not want to enact pollution-reducing charges because the chiefs of the polluting industries have huge political clout.

Exactly! One of the central functions of the regulatory state, contrary to “progressive” conventional wisdom, has been to preempt the preexisting law of public and private nuisances. Federal regulatory controls on pollution and other nuisances supercede, not only more stringent state laws, but the power of state and local juries to impose civil damages on corporate malfeasors. Hence the popularity of preemption provisions in new federal regulatory legislation, along with legislation like the bill currently under consideration to remove class action suits to the federal court system. Such measures are especially popular among those “Tenth Amendment” Republicans.

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