

ETR 1989-2009 Opportunities, Barriers, Argumentation & Implementation

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Taxes are good....

- « *Taxes are the price we pay for a **civilised society*** » (F.D. Roosevelt)
- ETR can help deal with « ***the mean streets and withered lives*** » of economic recession (Pigou 1926 - father of Welfare Economics)

Summary

- Role of EEA on ETR
- Public opinion, awareness, understanding of ETR
- Opportunities for “radical” ETR?
- ETR within the Financial, Climate and Ecosystems crises
- The 5 dividends from ETR
- From Labour to Energy/Resources Productivity
- ETR & the “Rebound” Effect
- 3 main Arguments against ETR
- Winners & losers from ETR

A role of the EEA.

to provide data/, information, knowledge to help policymakers, politicians and the public to ***make markets work for the social good*** by promoting EcoTaxes & ETR

EEA activities on ETR, 1995-2006

- 6/7 reports on **taxes, subsidies and voluntary agreements**; eg
- 96; *Environmental taxes: Implementation & environmental effectiveness*
- 2000 (*“Environmental Taxes-recent developments in tools for Integration”*);
- 2005, *“Using the Market for cost-effective environmental policy”*
- Creation of the **EEA/OECD tax database**;
- **SOER 2005**; synthesis section
- **The Kovac/Dimas briefing 2006**

EEA ETR Activities, 2009/10

- the **ETR project 2009** supplementary to Petre focused on *eco-innovation, distributional impacts of radical ETR; political feasibility*
- Paper & Presentation to Swedish Informal on Green Economy: possibly leading to a *“Coalition of the ETR willing”?*
- Energy/Transport “total” **Environmentally Perverse Subsidies** report 09
- **SOER 2010: synthesis** section (Nov)
- **Possible ETR Awareness campaign 09/10** disseminating Petre; COMETR; MS ETR analyses/activities; argumentation etc via broad alliance?
- (EEB/GBE/Swedes/EEAC/ECOSOC/Business etc?)

Public Understanding & Awareness of Taxes & ETR

- DG Res.project: “Policies for Ecological Tax Reform in Europe (PETRAS-99-04)
- See “*Energy Policy*”, 34, 2006.
- Denmark, France, Germany, Ireland, UK
- Interviews/focus groups with policymakers, business people, the public.

Main points from PETRAS

- Almost complete **lack of understanding** across all 3 groups on meaning of ETR, double dividend, recycling of revenues, real purpose of taxes..etc
- Profound **lack of trust** in governments (“ETR? New name, old game”) especially to recycle revenues
- Strong sense of **fairness**
- Therefore “widely focused **awareness campaign needed**”.

“Public opinion on Green Tax shift”

UK Green Fiscal Commission, June 09

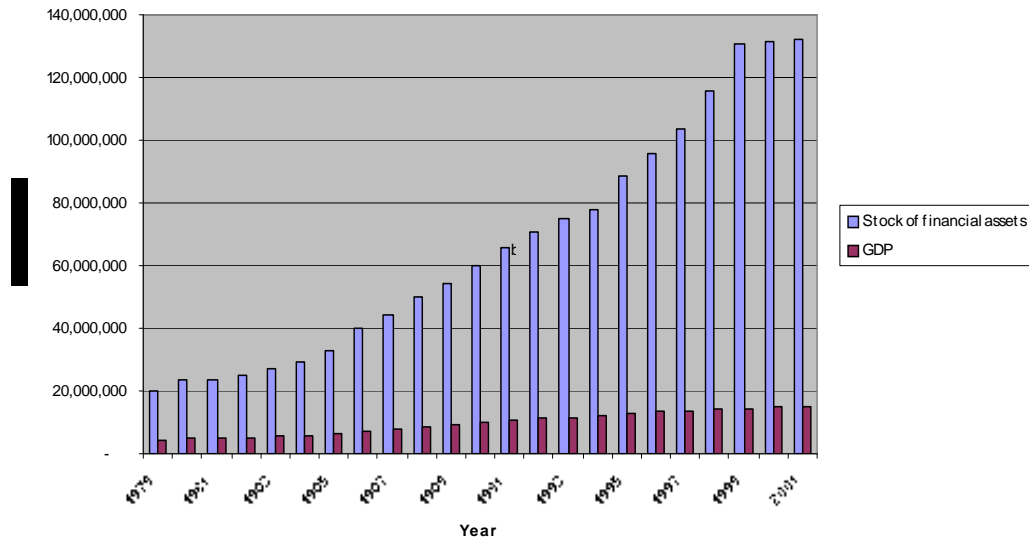
- Dozen previous UK polls on ecotaxes & ETR-
- Only 3 included “ETR”
- with inconsistent, time & question dependent, results
- GFC 07 personal poll -77% for ETR, 9% against.
- GFC 08 2 deliberative workshops, within climate change context.
- Support for ETR: conditional on fairness; transparency; real opportunities for behaviour change; institutional support
- Therefore **ETR campaign** needed to generate motivation, understanding, acceptance.

Opportunities for radical ETR?

- Public debt crisis
- Financial, Energy/Climate and Ecosystems crises
- Decline of “free market ideology”
- Demand for better public goods for the majority, less private gain for minorities
- Better research knowledge now available on ETR: Petre, Cometr, Petras, GFC, M State analyses etc.

“radical= “Environmental” Taxes yielding 20-30% of revenues by 2020-30 (now 7% and falling...)

GDP and the stock of financial assets in G7 minus Japan and UK



The financial stock in Japan rose from less than six times GDP to roughly 9 times in just one decade, 1980 to 1990, a meteoric rise which may explain the country's equally rapid economic collapse. In the UK, the total stock of financial assets stood at almost 15 times GDP² in 2000.

© nef (new economics foundation), *Real World Economic Outlook*, 2003

Chart extracted from *Real World Economic Outlook, the legacy of globalization: debt and deflation*, edited by Ann Pettifor for nef (the new economics foundation),

published by Palgrave Macmillan, England, 2003.

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Source: US Federal Reserve: Flow of Funds Accounts; Statistics Canada: National Balance Sheet Accounts by Sector; Banque de France: National Financial Accounts; OECD: National Financial Accounts; Banca d'Italia: Supplements to the Statistical Bulletin, Financial Accounts; Deutsche Bundesbank: Financial Accounts for Germany 1991-2001; IMF: International Financial Statistics.

Financial Meltdown foreseen..in 2003..

- « This **credit bubble** based on nothing more than expectations, cannot be maintained forever, **There will be a crash**. People will no longer be able to pay their debts, **particularly if the values of the assets they hold against those debts start to fall**, as has already happened with equities, and will shortly spread to corporate debt and personal debt. The effect on people in both rich and poor countries will be profound »
- (*Real World Economic Outlook, NEF, 2003,p29*)

And even in 1997...

"By 2007 Britain and most of the other industrially advanced economies will be in the throes of frenzied activity in the land market...

Land prices will be near their 18-year peak... on the verge of the collapse that will presage the global depression of 2010.

The two events will not be coincidental: the peak in land prices not merely signalling the looming recession, but being the primary cause of it."

Fred Harrison in "The Chaos Makers", 1997

SOME COMMON FEATURES OF THE 3 CRISES: Financial, Energy/Climate, Ecosystems

- **CAPITALS DESTROYED WHILST MAKING MONEY FROM MONEY**
- **DEBTS CREATED BUT PASSED ON TO DISTANT OTHERS**
- **OVER CONSUMPTION, PARTLY ENCOURAGED BY FALSE MARKET PRICES**
- **INTRANSPARENT AND ILL UNDERSTOOD TRANSACTIONS AND THEIR IMPACTS**
- **NOT ACCOUNTING FOR WHAT MATTERS**
- **EARLY WARNINGS IGNORED.**

<u>GOOD GOVERNANCE</u>	<u>FINANCIAL SYSTEMS</u>	<u>ENERGY SYSTEMS</u>	<u>ECO-SYSTEMS</u>
CONSUMING FLOWS WHILST MAINTAINING QUALITY AND QUANTITY OF STOCKS	CONSERVATIVE ASSET/ DEBT RATIOS	FROM STOCKS OF FOSSIL FUELS TO FLOWS OF RENEWABLES	MAINTAINING NATURAL CAPITAL STOCKS WHILE SECURING FLOWS OF ECO-SYSTEM SERVICES
ALL RISKS AND DEBTS INTERNALISED INTO MARKET PRICES.	REALISTIC ASSET/ DEBT PRICING	EXTERNALITIES INTERNALISED INTO PRICES	EXTERNALITIES INTERNALISED INTO PRICES
<i>ECO-NOMIC TAX & SUBSIDY REFORM TO FINANCE "GREEN NEW DEAL", & MEET AGEING POPULATION PROBLEMS</i>	<i>"TOBIN TAX" ON CURRENCY & COMMODITIES SPECULATION?</i>	<i>FROM TAXING PEOPLE TO TAXING ENERGY AND RESOURCES</i>	<i>FROM TAXING PEOPLE TO TAXING RESOURCES & USE OF SERVICES</i>
TRANSPARENT TRANSACTIONS	UNDERSTANDABLE FINANCIAL PRODUCTS	MARKET PRICES REVEALING "ECOLOGICAL TRUTH"	MARKET PRICES REVEALING "ECOLOGICAL TRUTH"

<u>GOOD GOVERNANCE</u>	<u>FINANCIAL SYSTEMS</u>	<u>ENERGY SYSTEMS</u>	<u>ECO-SYSTEMS</u>
ACCOUNTING FOR WHAT MATTERS	REAL DEBT / ASSET RATIOS	ALL COSTS/ SUBSIDIES	ECOSYSTEM SERVICES AND ASSETS
	"B E Y O N D G D P"		
LATE LESSONS FROM EARLY WARNINGS?	"INCONVENIENT TRUTHS" ACTED ON		
COMMUNITY LEVEL INITIATIVES	MICRO-FINANCE	DISTRIBUTED NETWORKS	CO-MANAGEMENT OF ECO-SYSTEMS
DIVERSE DISTRIBUTED, PARTICIPATORY, RESILIENT AND SECURE SYSTEMS?	YES	YES	YES

1996 EEA Report on Green Taxes:the 4 dividends from ETR.

"In its recent report the EEA concluded that "environmental taxes..could deliver improvements in four areas of public policy

- ***environment;***
- ***innovation & competitiveness;***
- ***employment ;***
- ***and the tax system"***

(Sustainability Panel, Annual Report to UK Government, '97)

The 5th dividend: ETR helps with the Ageing Population Expenditure/Revenue problem....

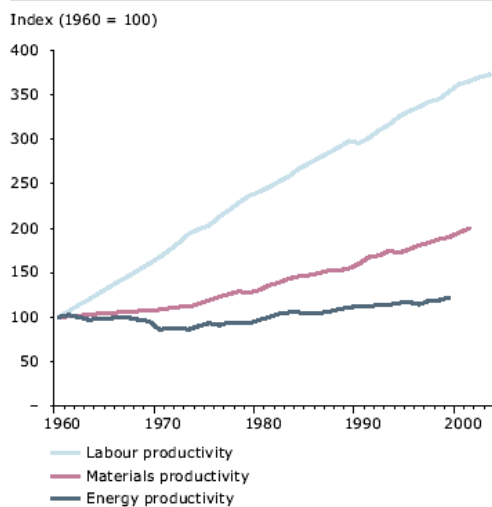
- Increasing public expenditure on pensions & health care for the elderly
- Declining income tax base-both workers (population change) and companies(capital mobility,transfer pricing and tax havens)
- But Expanding lifetime consumption base (ageing population, longer lives)
- So burden sharing between the generations is needed: helped by
- ETR-some labour taxes to consumption/eco taxes

From ETR to Eco-nomic Tax and Subsidy Reform(ETSR)

- Reduce/eliminate **environmentally perverse subsidies** (direct payments, allowances, and externalities avoided) given to fossil fuels, road transport, nuclear, some intensive agriculture
- Which increases revenues ...
- With some saved revenues spent on **tax breaks and investment incentives for eco-innovation, energy and resource efficiency.**

Shift Focus from Labour Productivity to Resources & Energy Productivity...

Figure 4.2 Labour productivity, material productivity, and energy productivity, EU-15, 1960–2002



Note: Labour productivity: GDP per annual working hours (1999 USD (converted at EKS PPPs) per hour); material productivity: GDP per domestic material consumption (DMC) (EUR per kg); energy productivity: GDP per total primary energy supply (TPES) (thousand 1995 USD per toe).

Labour productivity has increased 270% over the past four decades, partly as a result of high taxes on labour.

Meanwhile materials productivity and energy increased by 100 % and 20 % respectively

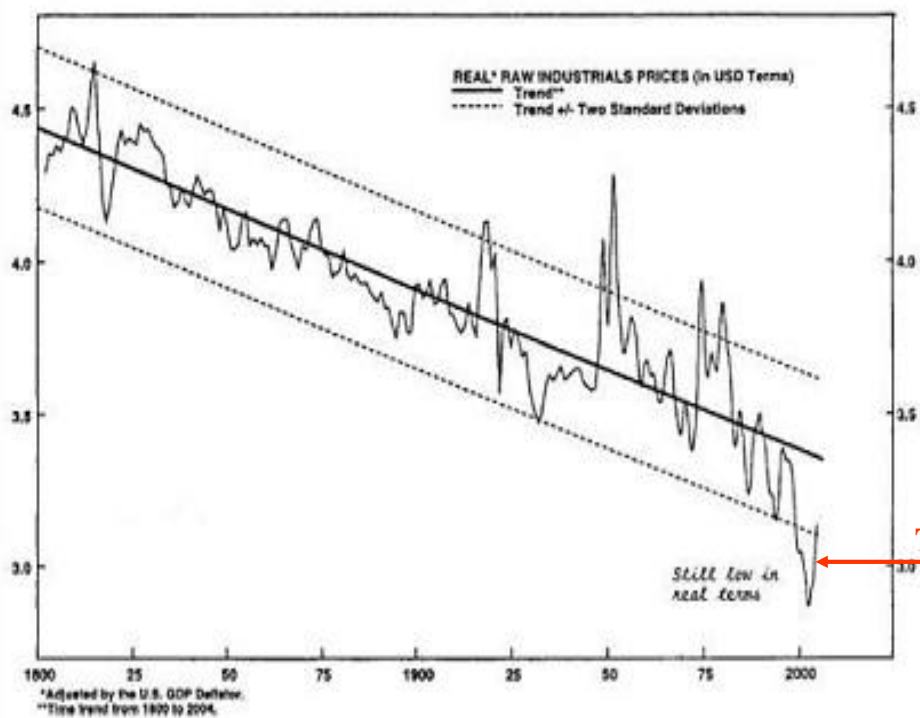
(EEA, Sustainable Use & Management of Natural Resources, 2005)

Labor productivity rises in parallel with labor costs



Meanwhile market prices of resources have declined

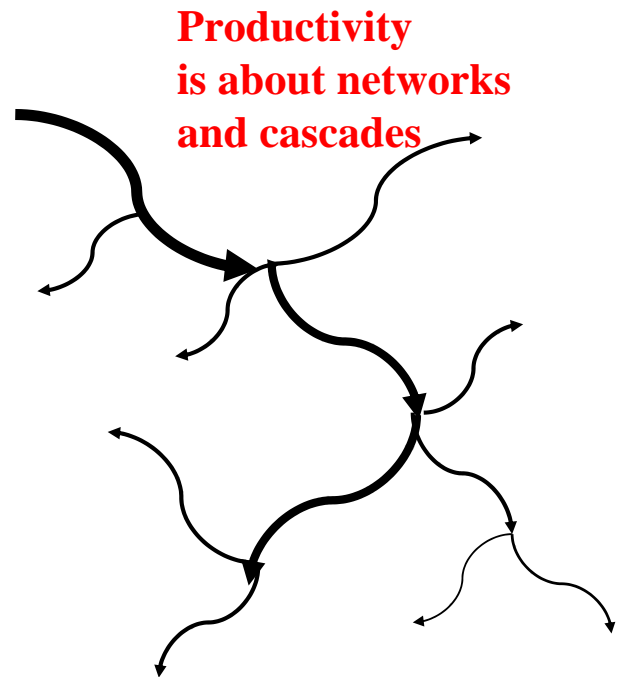
(Industrial commodity & energy prices, in constant dollars)



Source: The Bank Credit Analyst

„Productivity“ is much richer than „efficiency“

**Efficiency
is inside
a box (e.g.
mpg)**



The sequel to Factor Four will be published in 2009
and will be called

Factor 5

The Promise of Resource Productivity

Authors: Ernst Ulrich von Weizsäcker, Charlie
Hargroves and Michael Smith (Brisbane)

But there is the rebound effect from Eco-Efficiency gains..

First described by **Jevon's** in his 1865 book, **The Coal Question**, where he observed that England's consumption of coal soared after James Watt introduced his coal-fired steam engine, which greatly improved the efficiency over earlier steam pumps.

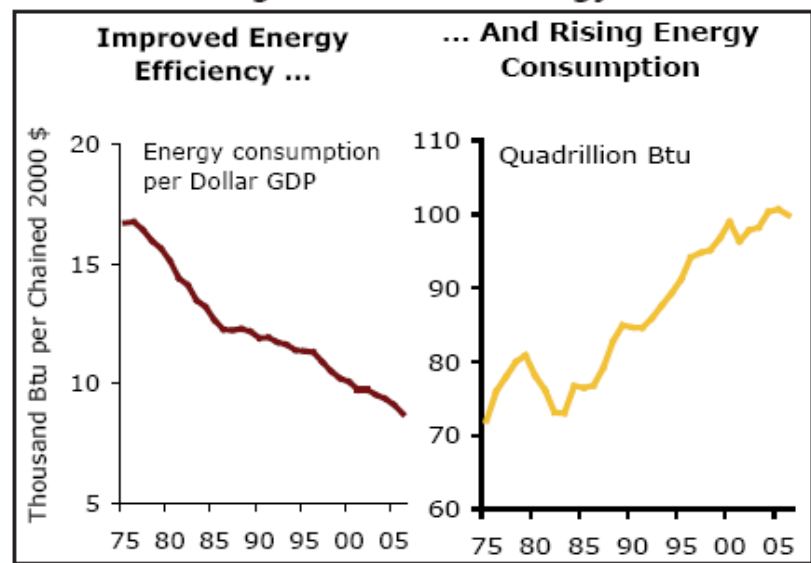


Rebound effect in the USA:

Energy intensity down, total energy consumption up.

(SUV's, urban sprawl, electronics boom etc).

Americans Efficiently Consume Ever-Increasing Amounts of Energy



Source: EIA

Limit rebound effect with rising ecotaxes?

„So why not raise energy taxes in parallel with energy productivity increases which will both stimulate further productivity increases and help limit the rebound effect? „

(Ernst Von Weizsecker, June 09)

3 Main Arguments against ETSR- and some Responses

- 1. *Damages competition?***-no evidence for this except specific short term losers-who can get time limited exemptions, recycled revenues for eco-efficiency, and border tax adjustments.
- 2. *Hits the poor/elderly/unemployed/rurals ?***-
design ETSR so it doesn't (FOE/IFS 90 etc
 - **in context of current unequal societies...(See « The Spirit Level » atkinson,2009) and**
 - **Past inequitable policies** eg free ETS permits via unjustified energy price hikes & windfall profits for energy companies.

3. Eco-taxes provide unstable tax bases?

- Raises tax /unit of pollution/resource/energy in step with eco-efficiency/productivity gains and increasing knowledge of damaging impacts of energy/resources use-slowly, but predictably over decades.(See Tobacco tax history;UK fuel price escalator).
- « Big » bases are stable:Energy, Land, Water, Waste, Materials, Chemicals, Financial Transactions& speculation...
- Plus rising tax revenues from new eco-innovation/renewables industries
- Existing tax bases are not that predictable.....

Winners and Losers from ETSR

- **Losers:** « inefficient » users of energy and resources; big polluters, and waste creators
- **Winners: Labour intensive businesses:** construction,energy efficiency, caring; teaching; cleaning;other services;knowledge industries;entertainment; eco-efficient industries;recycling/repair, etc

Winners..

ie most **people**, current and future;
& the **planet** with its economy-supporting
eco-systems providing
sources of food, fibre, fuel, medicines; its
services from ecosystems
(pollination, flood control etc);
sinks for wastes /pollution; and
space for people/species

The Politics of ETSR

- **Losers mobilise political opposition to ETSR**
- **Winners are passive: therefore**
- **Mobilise Winners & Raise Public Awareness/Support for ETR**
(See German example within their ETR campaign, 99-03)

Some ETR Success Factors

- Courageous & Visionary Politicians (Lloyd George, Churchill, FDR, Livingstone, Obama? And?)
- Coherent Policy Packages
- Broad stakeholder/public involvement
- Transparency and Fairness
- Real Opportunities for Behaviour change
- Slow, assured, gradual tax changes within broad ETSR