

# 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

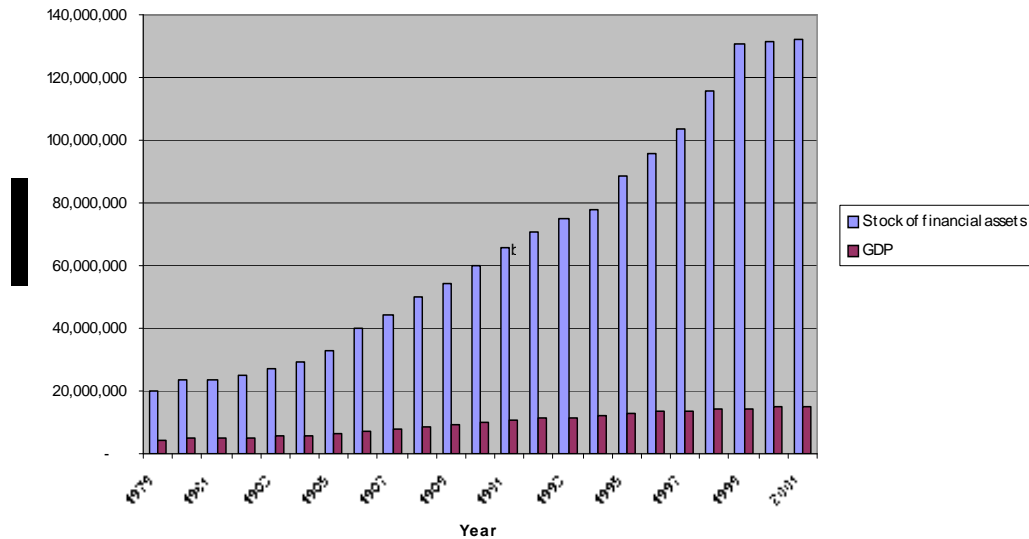
- Dozen previous UK polls on ecotaxes & ETR-
- Only 3 included “ETR”
- with inconsistent, time & question dependent, results
- GFC 07 personal poll -77% for ETR, 9% against.
- GFC 08 2 deliberative workshops, within climate change context.
- Support for ETR: conditional on fairness;transparency; real 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 GDP<sup>2</sup> 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.

© nef (the new economics foundation)

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.**

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

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

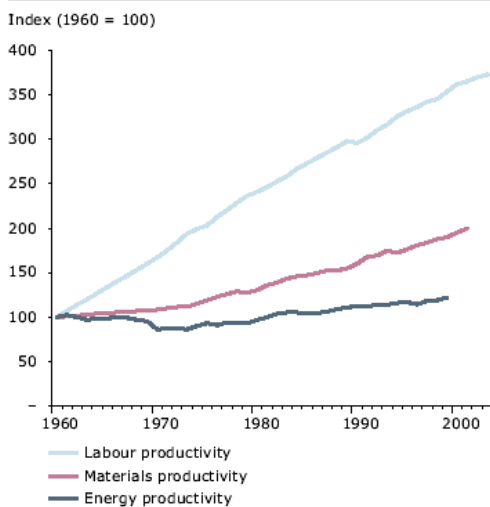
- Increasing public expenditure on pensions & health care for the elderly
- Declining income tax base-both workers (population change) and companies(capital mobility,transfer pricing and tax havens)
- But Expanding lifetime consumption base (ageing population, longer lives)
- So burden sharing between 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**



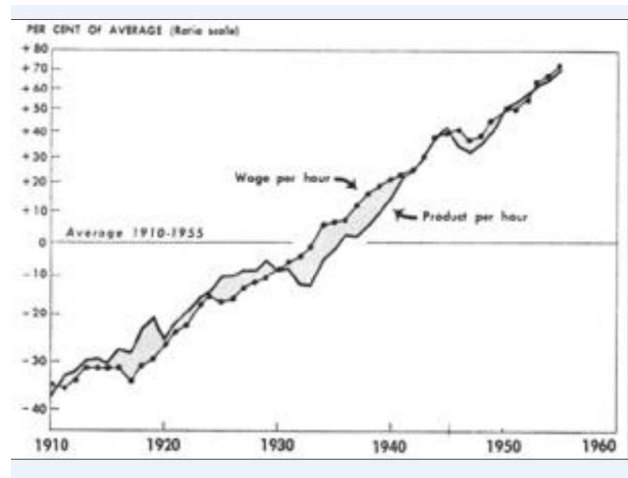
**Note:** Labour productivity: GDP per annual working hours (1999 USD (converted at EKS PPPs) per hour); material productivity: GDP per domestic material consumption (DMC) (EUR per kg); energy productivity: GDP per total primary energy supply (TPES) (thousand 1995 USD per toe).

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

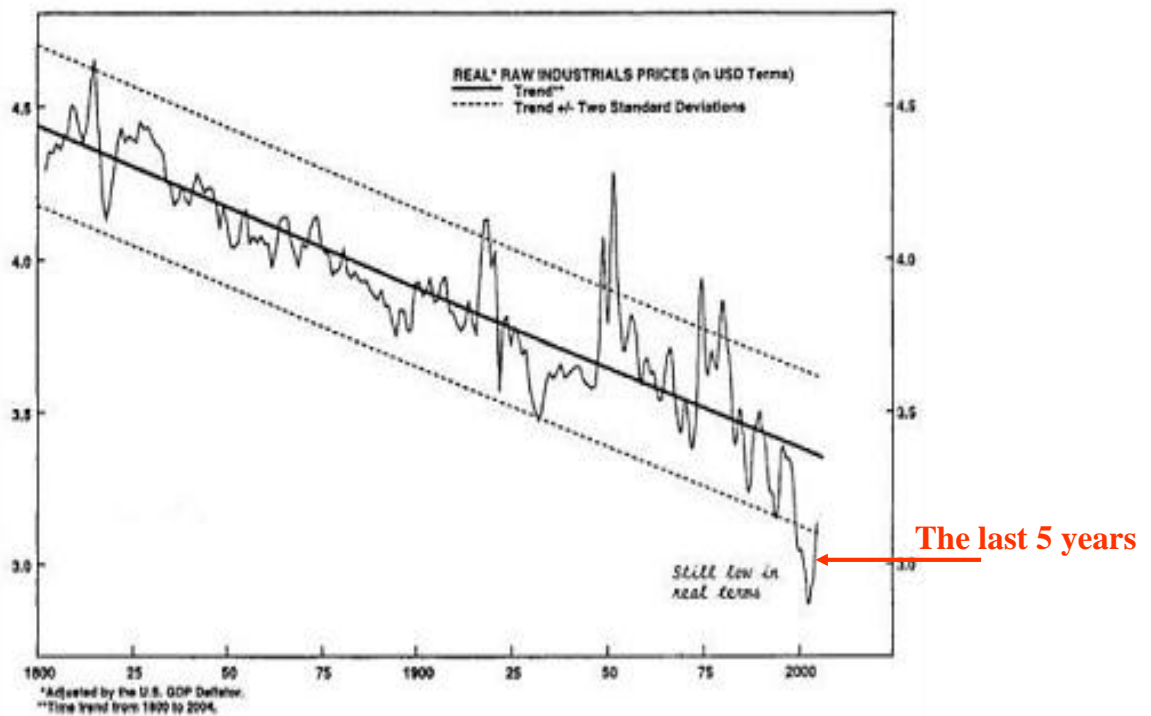
Meanwhile materials productivity and energy increased by 100 % and 20 % respectively

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

## Labor productivity rises in parallel with labor costs



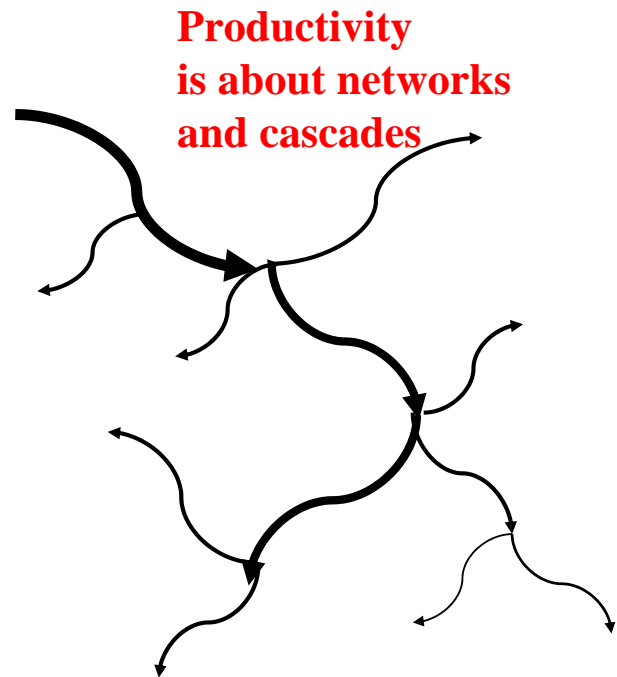
## Meanwhile market prices of resources have declined (Industrial commodity & energy prices, in constant dollars)



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.

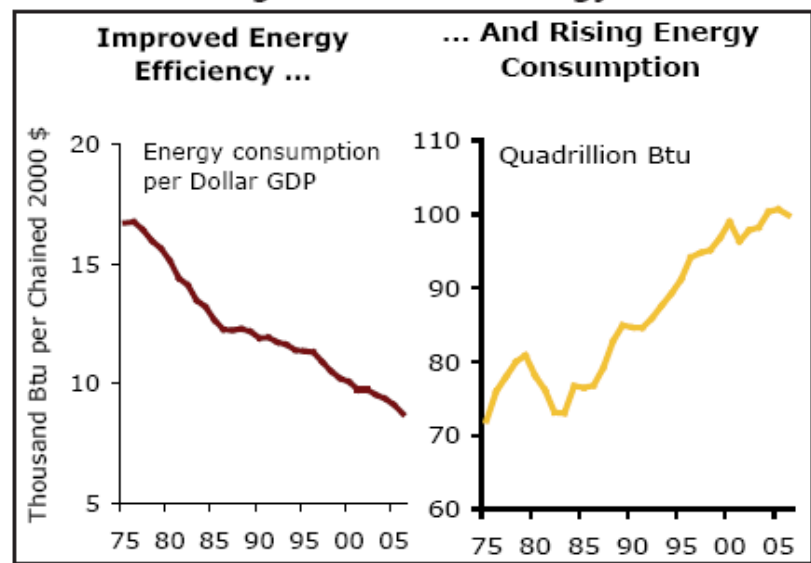


**Rebound effect in the USA:**

**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