

ETR 1989-2009 Opportunities, Barriers, Argumentation & Implementation

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Summary

- Taxes help create high Quality lives
- Opportunities for “radical” ETR
- EEA on ETR
- Public opinion, awareness, understanding of 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

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)

Opportunities Now for radical* ETR?

- Public debt crisis
- Unemployment crisis/stagnant or falling wages
- 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, Green Fiscal Commission(UK), M S research/practice eg Sweden, UK, Germany,
- EEA research on Equity, Eco-innovation,and political feasibility of radical ETR

*radical= “Environmental” Taxes yielding 15-30% of revenues by 2020-30 (now 7% and falling...)

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 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 **more equitable burden sharing** between the generations is needed: to be helped by
- **ETR**-shift some labour taxes to consumption/eco taxes

AN AGEING EU POPULATION AND A PUBLIC EXPENDITURE/FUNDING CRUNCH.

The old- age dependency ratio (people aged 65 or above relative to the working-age population aged 15-64) is projected to increase from 25.4% to 53% in the EU over the projection period 2008-2060.

The largest increase will occur during the period 2015-35.

The EU would move from having 4 working-age people for every person aged over 65 to a ratio of 2 to 1.

Source: The 2009 Ageing report: Underlying Assumptions and Projection Methodologies.
European Economy 7/ 2008 (provisional version)

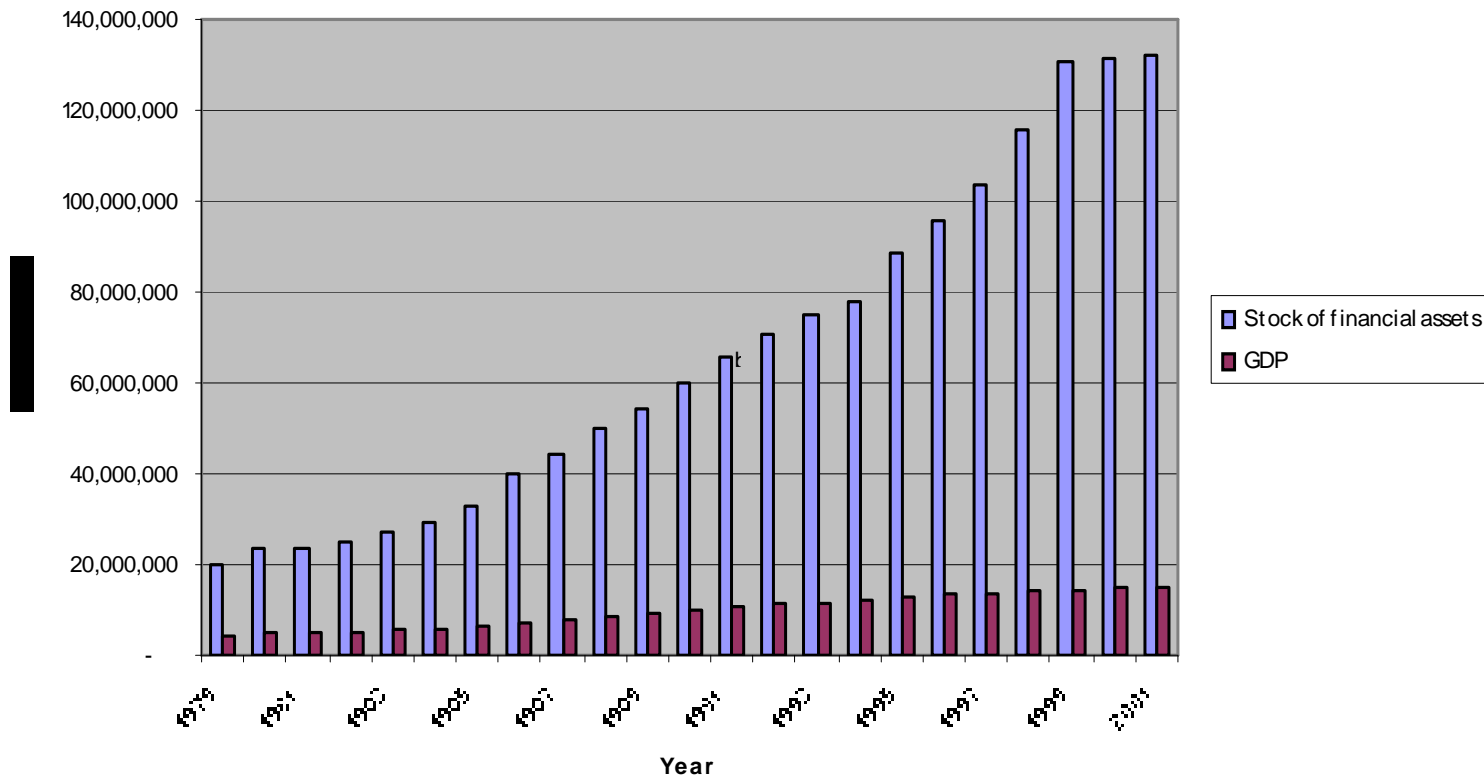
EEA ETR Activities, 2009/10

- **ETR research project 2009**, supplementary to Petre, focused on ***eco-innovation, distributional impacts of radical ETR; political feasibility***
- **ETR Public/Polycymakers Awareness campaign 09/10** disseminating Petre; COMETR; MS ETR analyses/activities; argumentation.
- **Energy/Transport Environmentally Perverse Subsidies** report 09/10
- **SOER 2010: synthesis** section (Nov)

Main points from PETRAS 04, UK Green Fiscal Commission,09

- 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 a “widely focused **awareness campaign is needed**”.

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 Assets and the Real Economy: a matter of balance.

- ***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.***

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.** » (*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)

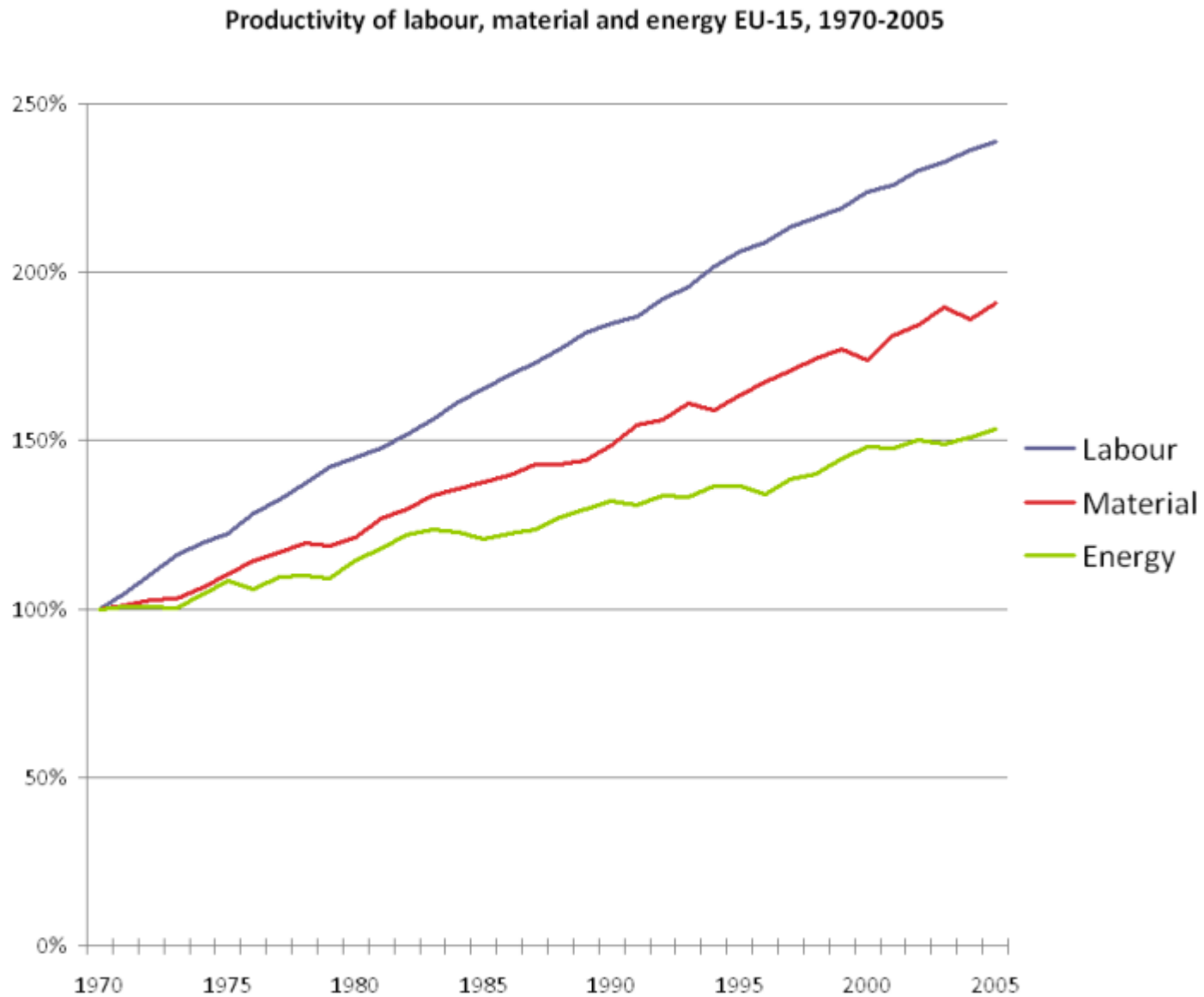
See also **Bank of International Settlements**
"early warnings".....

- **SOME COMMON FEATURES OF THE 3 CRISES:
Financial, Energy/Climate, Ecosystems**
 - **EARLY WARNINGS IGNORED.**
 - **MISPLACED FAITH IN MODELS**
 - **CAPITALS DESTROYED WHILST MAKING MONEY
FROM MONEY**
 - **DEBTS/RISKS CREATED BUT PASSED ON TO
DISTANT OTHERS**
 - **OVER CONSUMPTION ENCOURAGED BY
MARKET PRICES THAT EXCLUDED
MANY COSTS/RISKS**
 - **INTRANSPARENT AND ILL UNDERSTOOD
TRANSACTIONS AND THEIR IMPACTS**
 - **NOT ACCOUNTING FOR WHAT MATTERS**

<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 <i>FLOWS</i> OF RENEWABLES	MAINTAINING NATURAL CAPITAL STOCKS WHILE SECURING <i>FLOWS</i> 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>“FINANCIAL TRANSACTIONS 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	REALISTIC MARKET PRICES	REALISTIC MARKET PRICES

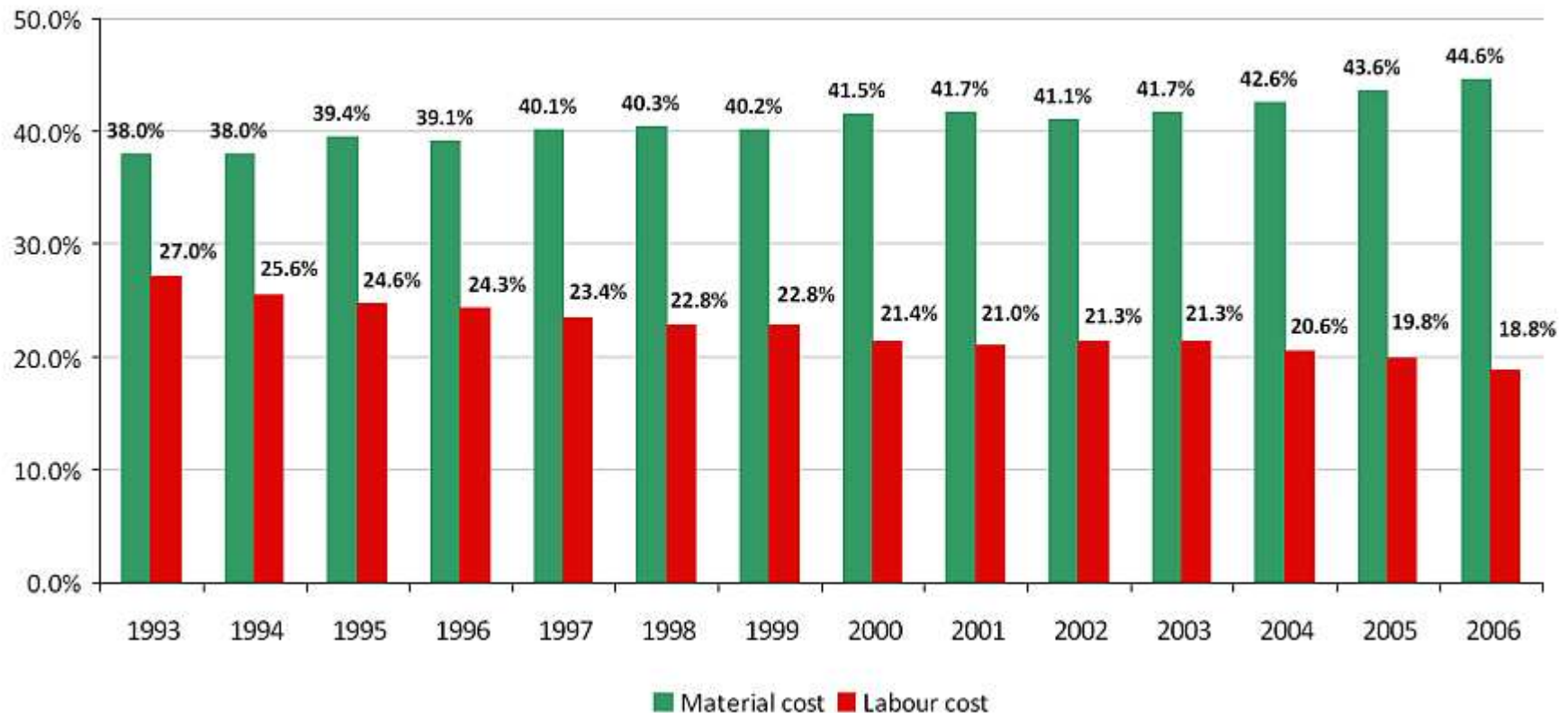
<u>GOOD GOVERNANCE</u>	<u>FINANCIAL SYSTEMS</u>	<u>ENERGY SYSTEMS</u>	<u>ECO-SYSTEMS</u>
ACCOUNTING FOR WHAT MATTERS	REAL DEBT / ASSET RATIOS	ALL COSTS/ SUBSIDIES	ECOSYSTEM SERVICES AND ASSETS
	“B E Y O N D G D P”		
LATE LESSONS FROM EARLY WARNINGS?	“INCONVENIENT TRUTHS” ACTED ON		
COMMUNITY LEVEL INITIATIVES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

Productivity of labour, materials and energy, EU15, 1970-2005



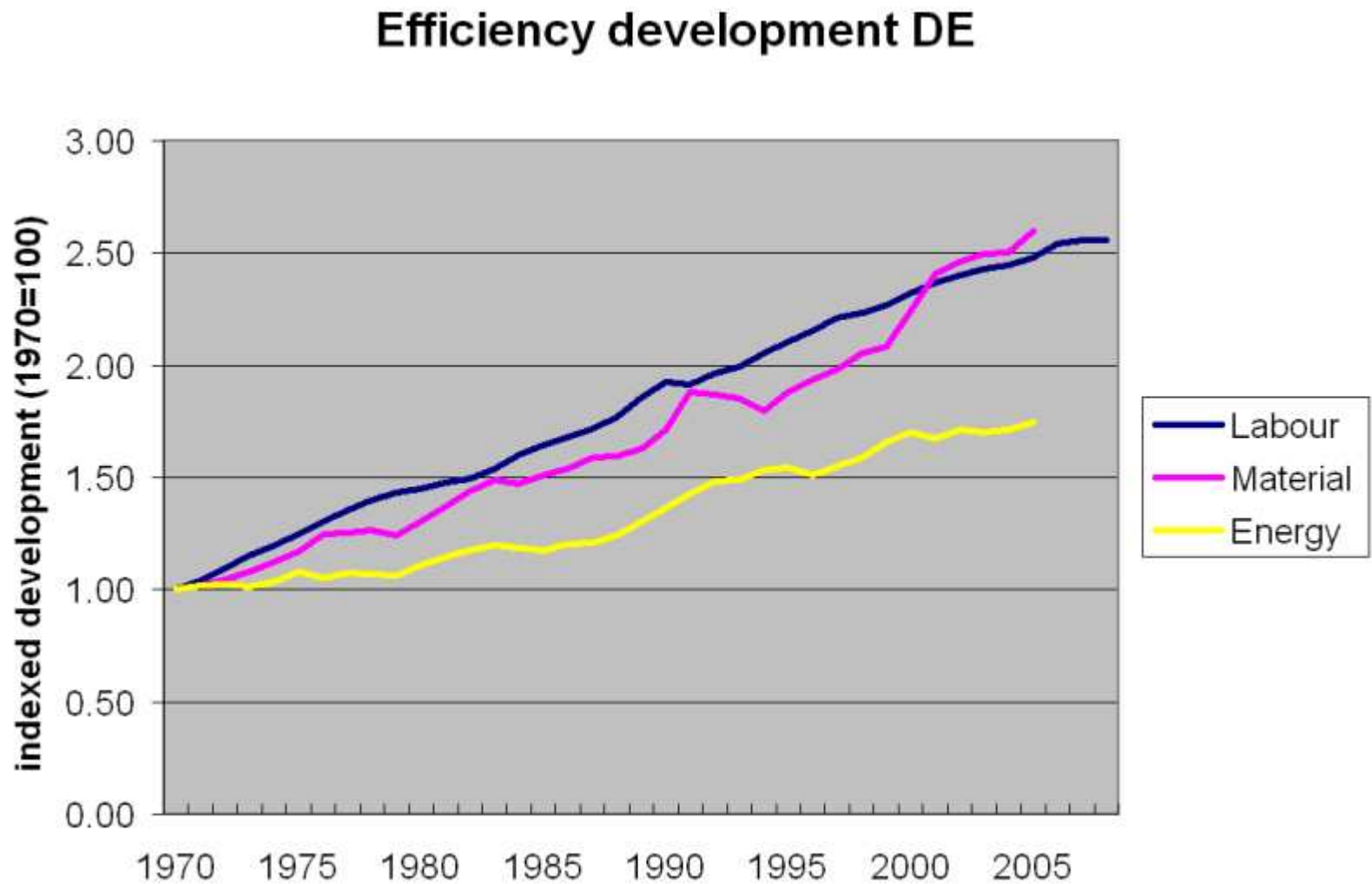
Source: 2010 State of Environment and Outlook Report, EEA (upcoming)

Development of material and labour cost in the German manufacturing industry



Source: Statistische Bundesamt 2008

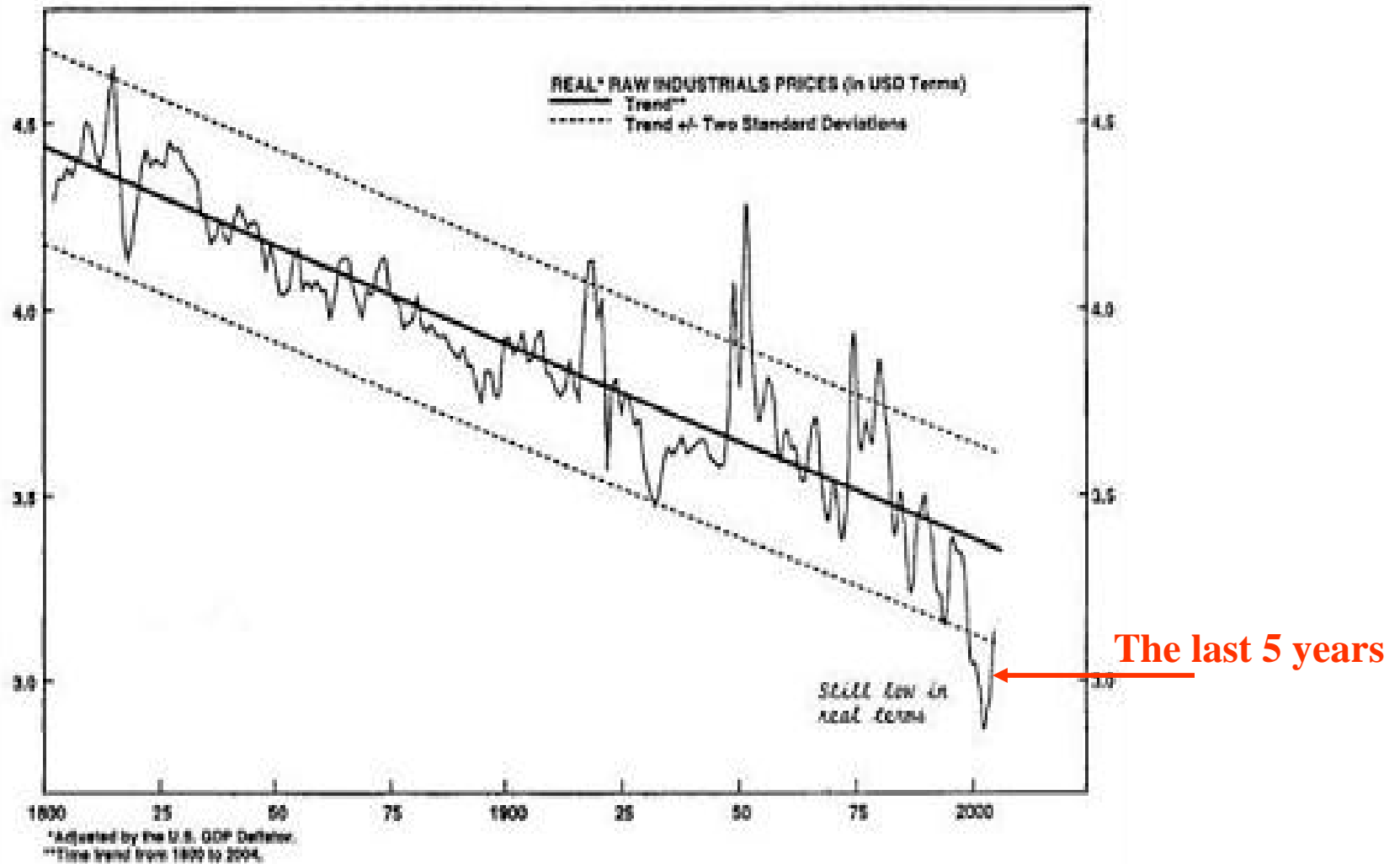
Productivity of labour, materials and energy, Germany 1970-2005



Source: 2010 State of Environment and Outlook Report, EEA (upcoming)

Meanwhile market prices of resources have declined

(Industrial commodity & energy prices, in constant dollars)



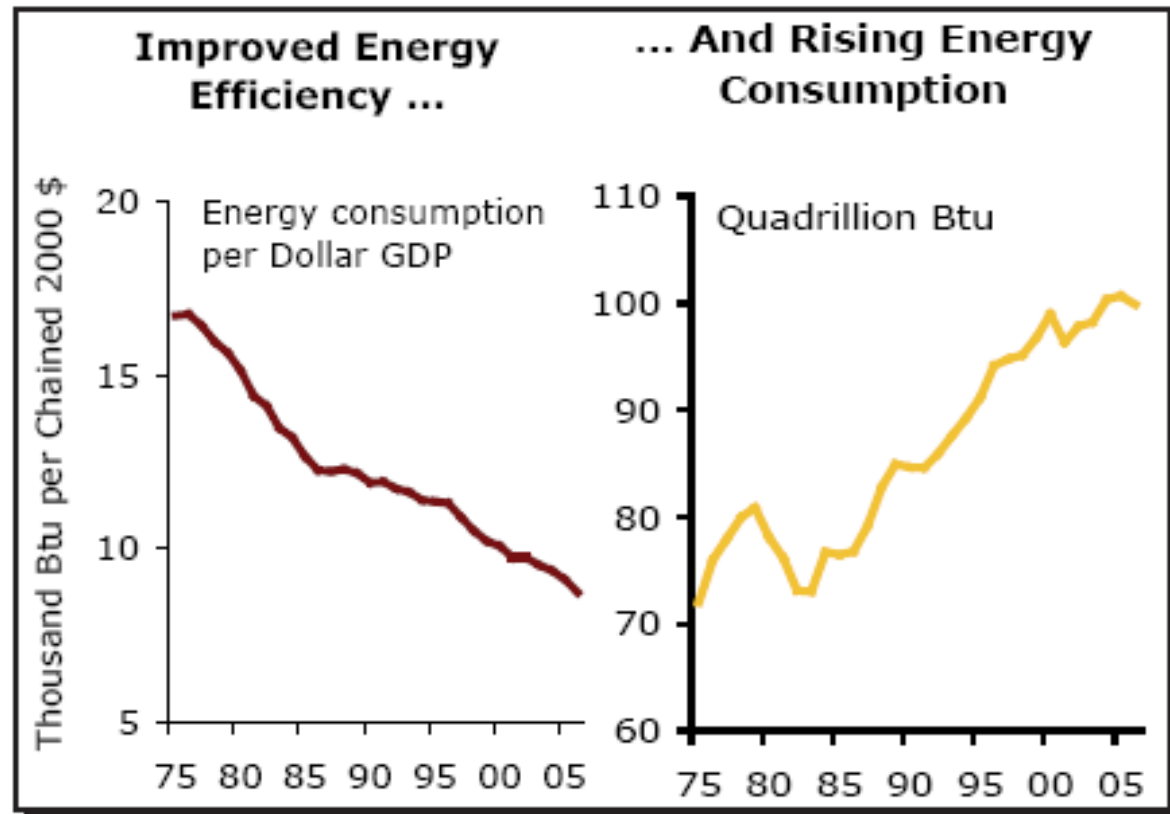
Source: *The Bank Credit Analyst*

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 (COMETR/OECD etc.)

except specific short term losers-who can get time limited exemptions, recycled revenues for eco-efficiency, and possibly border tax adjustments?

Equity?

- 2. *Ecotaxes hit the poor/elderly/unemployed/rurals ?-***
design ETSR so it doesn't (FOE/IFS 90;EEA 09)
- **in context of current unequal societies...(See « The Spirit Level » Atkinson,2009) and**
 - **Unjust distribution of eco-damage mwhich ETR will help rectify.**

3. Eco-taxes provide unstable tax bases?

- Raise 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, Hazardous Chemicals,**
- Plus rising tax revenues from new eco-innovation/renewables industries.
- And other taxes eg **Financial Transactions; »Fat » tax; ...**

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
- Plus Majority of current/future People/Planet

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 that responds to the current and evolving crises & needs of a Sustainable Society.