



# Overview

Three broad categories of environmental policy instrument have evolved over the past two decades:

**regulatory instruments**, whereby public authorities mandate the environmental performance to be achieved, or the technologies to be used, by firms;

**economic instruments**, whereby firms or consumers are given financial incentives to reduce environmental damage;

**voluntary approaches**, whereby firms make commitments to improve their environmental performance beyond what the law strictly demands.

These categories are not mutually exclusive, in that some policy instruments exhibit characteristics from more than one of the categories, but they provide a useful general classification.

The Research Network on Market-Based Instruments for Sustainable Development is a Concerted Action involving thirteen European research institutes funded by the European Commission's DGXII under its Environment and Climate RTD programme. The Network is largely concerned with economic instruments and voluntary approaches, which are here collectively referred to as 'market-based instruments'. This initial series of policy briefings reflects the results of six workshops organised by the Network on the following topics:

1. Voluntary approaches
2. Emissions trading
3. Non-market valuation
4. **Green tax commissions**
5. Institutional aspects of market-based instruments
6. Environmental policy and competitiveness
7. Environmental Implications of Market-based Policy Instruments

*A further series of policy briefings on different topics will follow in 1998 reflecting the ongoing work of the Network.*

*This policy briefing is number four in the series, on Green Tax Reform.*

## Summary



An Ecological Tax/Budget Reform (ET/BR), or Green Tax, Commission can help to facilitate the introduction of reform within the tax structure, which could include the introduction of environmental taxes. By bringing together the various stakeholders associated with this issue, such a Commission can focus public debate on the crucial, often opposing arguments, and help to find a consensus on policy implementation.



ET/BR Commissions, or comparable processes of public investigation have been instituted in Belgium, Canada, Denmark, Japan, the Netherlands, Norway, Sweden and the USA. This briefing focuses on the experience of such Commissions in European countries.

This experience suggests that Commissions can help bring about the accelerated implementation of proposals put forward. While the danger also exists that they can be used to delay such implementation, this does not appear to have been a problem to date.

Given political agreement on the principle of using ecological tax reform to address environmental problems, setting up a Commission seems to be an institutional initiative that commands wide public acceptance, which is enhanced if the processes of the Commission are transparent and open to public scrutiny and if the Commissions involves parliamentarians.

Though it is not within the scope of most Commissions to look at all fiscal provisions, including environmentally damaging subsidies, such a broad remit would appear to be desirable if a Commission's recommendations are to achieve economic efficiency and cost-effectiveness in their suggested policies for environmental improvement. Recommending environmental taxation, if the environmental problem is exacerbated or caused by government subsidies initially, would not be beneficial.

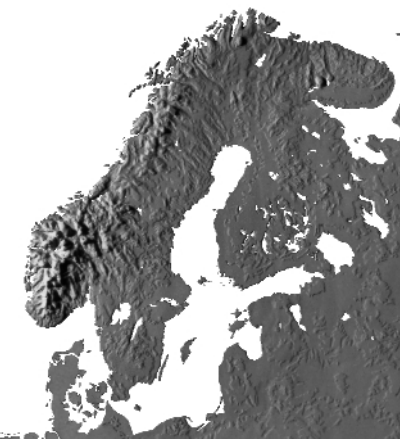
An ET/BR Commission should be a pragmatic institution more interested in incremental practical policy implementation than theoretical purity of approach. However, once established it could be reasonable to give responsibility to a Commission to monitor fiscal policy on an ongoing basis in order to ensure its basic compatibility with other policies for and moves towards sustainable development.



# 1. Definitions and Descriptions

In order to facilitate systematic public examination of the implications of the large-scale introduction of environmental taxes, in a way that engages the participation of representatives of the major groups likely to be affected, a number of countries have established Ecological Tax/Budget Reform (ET/BR) Commissions, sometimes also called Green Tax Reform Commissions. Among the subjects included in the remits of these Commissions have been:

- Making an inventory of possible environmental taxes and charges, and analysing their implications with regard to the economy, the environment and public administration.
- Examining possible ways of utilising the revenues from these environmental taxes, including giving incentives for environmental improvement, or reducing employers' non-wage labour taxes. A systematic shift of the burden of taxation from labour to the use of environmental resources is sometimes called an Ecological Tax Reform.
- Making an inventory of government subsidies that may have a detrimental effect on the environment (e.g. some agricultural subsidies).
- Investigating possible negative environmental effects from other elements of the fiscal system (e.g. tax concessions for company cars or commuting).
- Examining other ways of making the fiscal structure less environmentally distorting or more efficient.



## 2. Background and Rationale

Since the late 1980s there has been increasing discussion of the possible benefits of making greater use of economic instruments, especially environmental taxes and charges, in environmental policy. The extensive introduction of environmental taxes raises many considerations that are relatively unfamiliar in public debate, cuts across many areas of economic and public policy, and has impacts on both consumers and a broad range of producers. There are likely to be implications for such issues as distribution and competitiveness to be taken into account.

Tax reform commissions are an accepted method of exploring possible changes to the structure of taxation, whether or not such changes involve the introduction of environmental taxes. For example, a tax reform commission was set up in Germany in 1996 with very little reference to environmental taxes. However, to explore the implications of a wide-ranging introduction of environmental taxes, since the 1990s a number of Ecological Tax/Budget Reform Commissions have been established. Table 1 (overleaf) gives a list of these and notes the various components of the remits which the Commissions have been charged to explore.

# Details of Ecological Tax/Budget Reform Commissions set up by 1997

Country	Date of introduction	Environmental taxes	Recycling revenues	Damaging subsidies	Other damaging effects of fiscal reform	Within the context of broader tax reform
Belgium	1993	✓	✓	✗	✗ ●	●
Canada	1994	✓	✓	✓	✓ ●	●
Denmark	1993	✓	✓	✗	✗	✓
Ireland	1996/97	✓	✓	✗	●	●
Japan	1994	✓	✓	✗	✗ ●	●
Netherlands	1995/1990 <sup>1</sup>	✓	✓	✗ ●	✓	✓
Norway	1994/1990 <sup>1</sup>	✓	✓	✓	✓	✓
USA	1993	✓	✓	✓	✓	✓
Sweden	1995	✓	✓	✓	✓ ●	✓

✓ *considered*

✗ *not considered*

● *unknown or unclear*

<sup>1</sup> *earlier commission existed in this year*

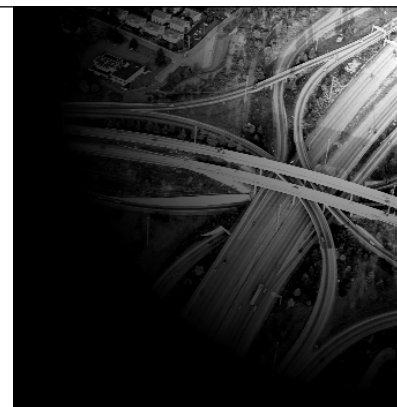
## Comments

- Belgium: So far, packaging taxes appear to be this focus of the Commission
- Canada: Commission ended its discussions due to disputed range of approaches and recommendations, hardly any implementation as a result
- Denmark: Commission facilitated the implementation of an ecological tax reform, strong political commitment
- Ireland: Almost no information available, inter-ministry committee not in the public sphere
- Japan: Commission promoted the use of economic instruments, particularly environmental taxes
- Netherlands: Commission helped to accelerate implementation and acceptance of environmental taxes
- Norway: Commission made concrete proposals for environmental tax reform, taking account of the employment issues
- USA: Fiscal considerations within a broader approach, thus not in depth, but rather superficial deliberations
- Sweden: Commission did some macroeconomic modelling and came up with concrete proposals

So far Norway's has been the only Commission with a remit to investigate environmentally damaging subsidies. The Commissions of Sweden and Denmark are examples of those that have looked at tax reform issues that go beyond the introduction of environmental taxes, seeking new revenue-raising taxes that could finance the reduction of other, more distortionary taxes such as those on capital and labour. A general description of the work of the Dutch Green Tax Commission is given in Box 1.

### **Box 1: The Dutch Green Tax Reform Commissions**

In the Netherlands Green Tax Commissions were set up in 1990 and again in 1995, the latter following a request by the Dutch Parliament that was implemented by the Ministry of Finance. Its task was to assess the overall provisions of the Dutch tax system and to propose how taxation could work more effectively for the environment. The major consideration in formulating proposals was environmental effectiveness, coupled to feasibility and political acceptability. Members of the Commission included environmental and tax experts, representatives from several government departments and employers' organisations, and Members of Parliament. Two reports have already been published, with English summaries made available to facilitate the international dissemination of the Commission's work. A third and final report is due in October 1997. This will include proposals with a long-term perspective. The earlier Dutch Green Tax Commission came up with a proposal for a carbon/energy tax which was implemented in 1996.



Such Commissions are often initiated by national parliaments and/or set up by the Ministries of Finance and/or Environment. They normally comprise a broad range of stakeholders involved in the public debate on the use of fiscal/economic instruments for environmental improvement. Their task is to investigate government taxation and, perhaps, expenditure regarding their impacts on the environment, and make proposals as to how these can be brought into line with the objective of sustainable development. The Commissions seem to arise most naturally in those countries that are committed to consensus-seeking in public policy making and an advanced environmental policy. In the Commissions the various stakeholders are brought together for in depth discussions of the full implications of Ecological Tax/Budget Reform. The aim of the Commission process is to go beyond the various interest groups' normal public statements and to explore the fundamental interests and concerns of the Commission participants and ways in which ET/BR might impact on those interests and concerns, in order to find ways of overcoming barriers to the implementation of ET/BR and develop a consensus on possible ways forward. A similar approach has been taken by the DGXI of the European Commission in establishing its so-called ENVECO group, where representatives of the EU Finance and Environment Ministries discuss the issues behind, and the implementation of, practical policy in the environment-economy area. The proposals made by ET/BR Commissions have had some influence on the actual introduction of environmental taxes. Therefore, this would seem an interesting institutional approach to trying to resolve the controversies that can act as a barrier to implementation of policies in this area.





**Box 2: Theoretical Argument****Theoretical Argument**

The impetus for ET/BR derives from a perception that it can help address two major current problems of public policy concern: environmental degradation, characterised as ‘the overuse of nature’, and unemployment, characterised as ‘the underuse of labour’. The basic idea behind ET/BR is that by shifting the tax burden from desired activities, such as working, saving and investing, towards environment-using activities with such undesirable effects as pollution and resource depletion, the desired activities, especially employment, and environmental conservation may be encouraged. This idea found one of its most influential expressions in the 1993 Delors White Paper published by the European Commission:

“If the double challenge of unemployment and pollution is to be addressed, a swap can be envisaged between reducing labour costs through increased pollution charges”.

Notwithstanding its perceived benefits in terms of public policy, implementing ET/BR has proved problematic for a number of reasons, including its implications for the stability of the tax base, for distributional fairness and for industrial competitiveness. The ET/BR Commission is an institutional innovation intended to bring together those with responsibilities, concerns and expertise in relevant areas, in the hope of generating a core body of information and understanding about disputed issues, and of providing a forum in which concerns could be aired and shared in a more profound and constructive way than was possible through the normal avenues of public debate. It was also hoped that, by involving all stakeholders in such a process of discussion and policy formulation, the recommendations to emerge would have a political commitment behind them that would facilitate their subsequent implementation through legislation. Some political science literature (e.g. Weidner & Jänicke 1997) suggests that consensus-oriented strategies have often turned out to be more effective than polarised ones, because broad public acceptance of an instrument appears to be crucial for its implementation.

### 3. Analysis

Five European countries - Belgium, Denmark, the Netherlands, Norway and Sweden - have so far instituted ET/BR Commissions. In most cases the establishment of a Commission indicated that the principle of ET/BR had won broad political acceptance. The purpose of this section is not to explore the desirability of ET/BR as such, but rather to discuss whether the ET/BR Commission seems an effective institutional means of promoting the appropriate implementation of ET/BR once the broad case for reform has been accepted.

ET/BR Commissions seem to be an effective way of responding to the long-running, controversial but often inconsequential public debates which are often stimulated by the ecological tax reform idea. Bringing together the various stakeholders into a neutral forum can improve the quality both of the debate and of the understanding of different points of view. They can also help to structure the arguments and focus the debate on the real problems or issues.

However, the tasks of most of the Commissions have been too narrowly defined, concerned only with tax provisions. With the exception of the Norwegian Commission, their remit has not included environmentally damaging government subsidies. It would seem desirable in a tax reform programme concerned with environmental effects to look at taxes and subsidies together, because removing environmentally damaging subsidies may be the most economically efficient way of achieving environmental improvements. In addition, it is second best public policy to introduce taxes to remedy environmental effects, which are themselves the products of public subsidies.

*“Go slowly, but go! Do not try to apply the ideal solution comprising a perfect philosophical model. Take small steps, but take them.”*

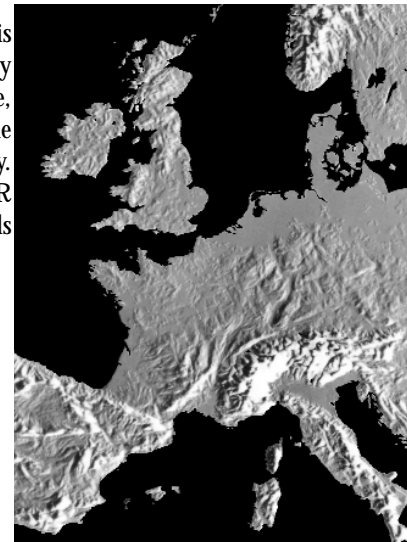
*Jacob van der Vaart,  
Chairman,  
Dutch Green Tax  
Commission, at the  
Wuppertal Institute  
workshop*



Within their operation, the Commissions appear to have achieved increased understanding between the various members of the Commission and among the different groups in society whom they represent. In some cases (e.g. Belgium) information exchange was institutionalised over a long period. Commissions also managed to focus attention on the real problems of planned reforms. Most Commissions developed or used economic models to simulate the macro-economic and environmental impacts of the reforms they were discussing. Where Commissions attracted publicity this helped to stimulate and focus public debate on ET/BR in society at large.

A major achievement of the Commissions has been their acceleration of the implementation of proposals put forward. For example, the recommendations by the Danish Green Tax Reform Commission were implemented soon after they were made. However, a danger of such commissions in general is that they can be used to delay or prevent political action. Although there is no clear evidence of this, the delay in implementing long-discussed packaging taxes in Belgium may be an example of such an effect. As the work of several Commissions is ongoing it is not yet possible to evaluate their full effectiveness in bringing forward proposals to implementation.

One of the key prerequisites for the effectiveness of an ET/BR Commission, which is present in existing Commissions is public legitimacy. In order to achieve this it is necessary for the membership of the commission to include recognised stakeholders in the issue, including parliamentarians. Legitimacy also depends on political recognition of the importance of ET/BR as an issue, and as a potentially useful instrument of public policy. Where such recognition is disputed, as in Germany, it is difficult even to get an ET/BR Commission established. Without public legitimacy there is little prospect of the proposals of a Commission being promptly implemented.



## 4. Policy conclusions and recommendations

The setting up of an ET/BR Commission is appropriate when there is a perceived need for one or more of the following:

- A reform of the structure of taxation in which it is envisaged that environmental taxes will play some part.
- An integration of environmental, economic (including fiscal) and social policies in the broader context of achieving sustainable development.
- New broader tax bases which will raise sufficient revenues to finance the reduction of other more distortionary taxes such as those on labour and capital and lead to environmental improvements, if environmental resources are taxed instead.
- A new approach to tackling resource/environmental problems, especially where traditional environmental policy appears to have reached an impasse.

It is to be expected that different countries will set up ET/BR Commissions in different ways to suit their particular situations and concerns, but it is possible to make some general recommendations about the establishment of such institutions in order to increase the probability of them achieving useful results:

- While it seems appropriate that parliamentary initiative should play a role in establishing the Commission, it is important that this is not, and is not perceived as, a move to delay or prevent the implementation of environmental taxes. Rather it should be, and be perceived to be, a constructive move to ensure that they are implemented in the most effective possible way. It seems that establishing a Commission as a joint initiative of the Finance and Environment Ministries is a good way of establishing its initial credibility.
- All stakeholders in ET/BR should be represented on the Commission, including environmental and tax experts, politicians, civil servants, and representatives of business, labour, consumer and environmental organisations. The incentive to join the Commission should be the opportunity to influence the deliberations and conclusions of a public body, the recommendations of which have a high probability of being implemented.

- The remit of the Commission should be broad and should at least include a review of all tax provisions and government subsidies and expenditure which could have environmentally damaging effects.
- The work and recommendations of the Commission should be made easily accessible to the public.
- Following its initial presentation of recommendations, the Commission could have a continuing role in the review of proposed taxes or tax reforms in terms of their possible environmental impacts. It could monitor all fiscal measures for compatibility with moves towards sustainable development and, if necessary, suggest modifications. Where the political support for sustainable development is strong enough, it might even be given veto powers in this regard. At the least, a regular ongoing evaluation of fiscal proposals would ensure that their environmental implications were fully considered prior to their implementation.

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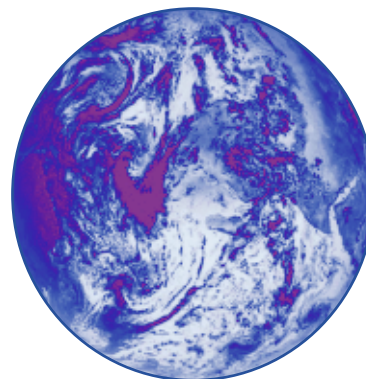
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\* *Papers presented at or derived from a Workshop on Ecological Tax/Budget Reform Commissions, Wuppertal Institute, Wuppertal, Germany, February 24th 1997, organised under the auspices of the DG XII Climate and Environment Concerted Action on Research on Market-Based Instruments and Sustainable Development*

## Further Information

For further information please contact Kai Schlegelmilch at the Wuppertal Institute for Climate, Environment and Energy at the address below. The Wuppertal Institute publishes the *Wuppertal Bulletin on Ecological Tax Reform*, a quarterly newsletter in German, English and Spanish (all available on <http://www.wuppertal-forum.de/wuppertal-bulletin>, the two former ones also on paper. The Bulletin reports on studies and political processes on the subject of fiscal/economic instruments, thus comprising also reviews of literature or political processes on the topic of Ecological Tax/Budget Reform Commissions, providing bibliographical data and contact addresses.

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### **The European Union Research Network on Market-based Instruments for Sustainable Development.**

The European Commission (Directorate XII), as part of its Environment and Climate RTD programme, "Human Dimensions of Environmental Change", provides financial support for a network of research institutes devoted to the study of the design and use of market-based instruments for sustainable development. A series of workshops have been held, where the latest research on particular market-based instrument or related theme has been presented and discussed by leading scholars and policy practitioners. One of the products of each workshop has been the synthesis of the findings into a research policy brief.

The network is co-ordinated by **Frank J. Convery** and managed by **Sheenagh Rooney**, Environmental Institute, University College, Dublin. Web Page address for further information: <http://www.ucd.ie/~envinst/index.html>.

#### **Author and Editor**

This policy research brief was drafted by **Kai Schlegelmilch** and is based on contributions and presentations given at a workshop on Ecological tax and budget reform commissions held at the Wuppertal Institute, Wuppertal, Germany, on February 24th, 1997.

The draft has been edited by the series editor, **Paul Ekins**, University of Keele, to ensure consistency in style and content with the series objectives. The series are produced to bring insights from the latest research and experience to those in the policy process.

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