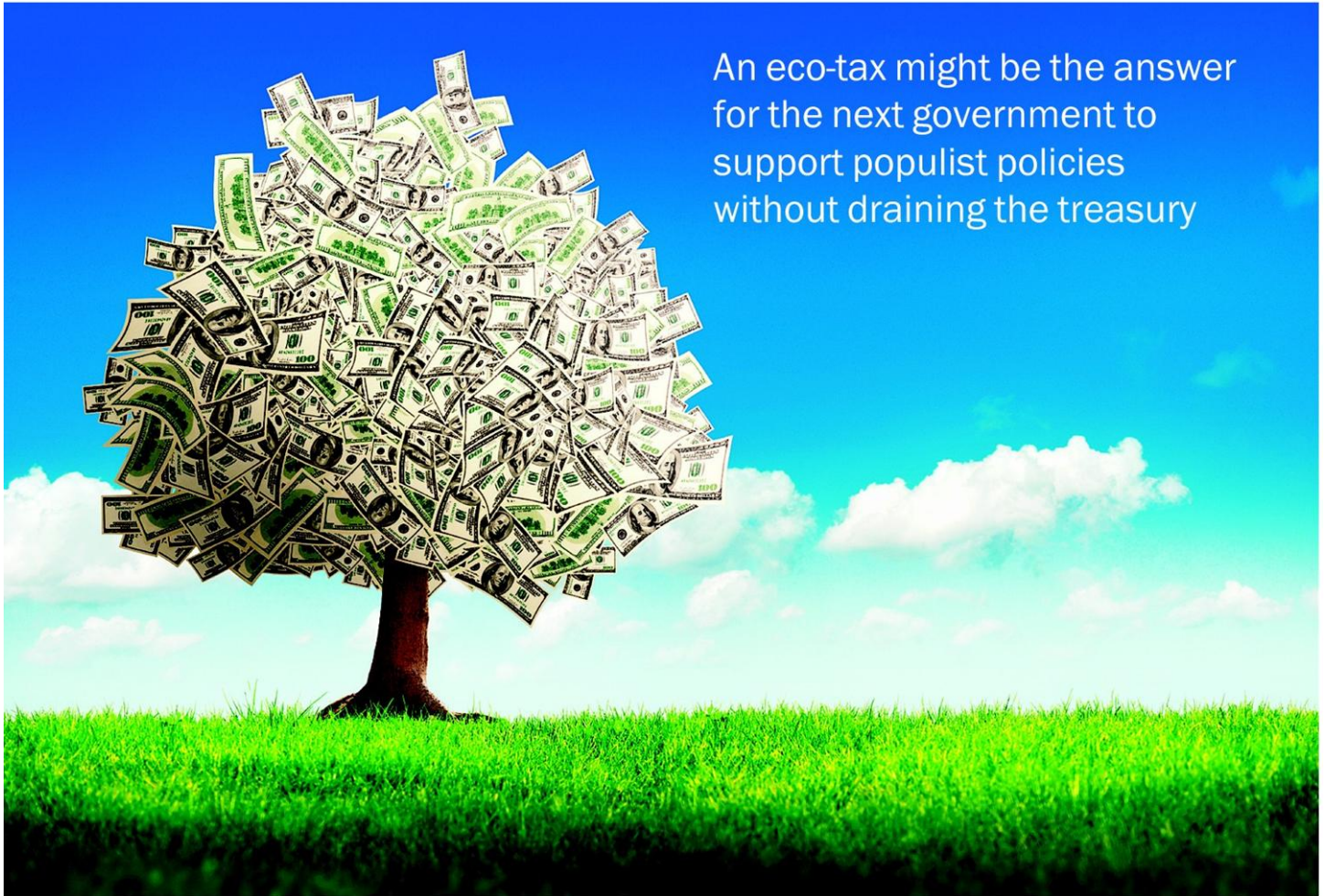


EARTH ALERT ■ ANCHALEE KONGRUT

Pushing populist policies

An eco-tax might be the answer for the next government to support populist policies without draining the treasury



Christmas has yet to come but the spirit of giving is in the air after the final election results confirmed a resounding victory for the Pheu Thai Party to lead Thailand's next coalition government.

In the next few months, under Pheu Thai's proposed policies, nearly one million schoolchildren in Thailand will get a free tablet PC for reading electronic books (hopefully they won't spend all their time on them playing online games).

Bachelor degree graduates will likely receive a starting salary of 15,000 baht, while labourers can afford to smile, as the party has promised to adjust the daily minimum wage to 300 baht nationwide. Pheu Thai has also promised to implement a high-speed rail network,

including a route from Bangkok to Chiang Mai, the home province of prime minister-in-waiting Yingluck Shinawatra and her brother, Thaksin.

In addition, Bangkok denizens will benefit from 10 additional underground railway lines, and for those who fear that Bangkok will be inundated by floodwaters, the newly elected Pheu Thai-led coalition government plans to invest in sea landfills and build a dam in the Gulf of Thailand to save the City of Angels from apocalyptic floods.

At the same time, the incoming party has promised to introduce credit cards for farmers to purchase necessities, such as fertiliser, not to mention a number of agricultural goods mortgages.

These populist policies have raised concerns, though, particularly about how

the new government will be able to finance them all without bankrupting the country. Indeed, such fears may reflect a lack of policy instruments necessary to support these populist policies and deal with the negative economic trends.

Still, Kai Schlegelmilch, economist and vice-president of Green Budget Germany (GBG), a non-profit organisation advocating and lobbying for "Green Fiscal Policy", said that collecting ecological tax (green tax) would help governments worldwide gain a new source of revenue.

Since the late 1990s, GBG has worked with the German government to impose eco-taxation. And in Germany, eco-taxes mainly focus on energy taxes, like energy for heating and transportation, the largest source of revenue income.

In April 1999, Germany, under chan-

cellor Gerhard Schroder at the time, enforced eco-taxes, including nuclear fuel tax and air travel tax.

"We looked for eco-taxes that would not hit the little guy, but rather target the middle income and high income groups."

The philosophy and introduction of eco-tax was as much about the need to reduce energy consumption and pollution as it was to promote renewable energy by giving incentives to renewable energy producers.

Like many other countries faced with serious economic problems, the German government saw its national treasury quickly drying up. So when GBG proposed a new source of revenue with good justification, the finance ministry — which previously opposed such a tax — accepted the eco-tax proposal without much resistance.

"The finance ministry was so pleased to get a proposal that makes sense, because it means we could tax the bad things we do not want ... We do not want wasteful energy consumption. We do not want nuclear power any more. We do not want too much air travel. And it's exactly these things which have additional justifications against all other taxes, like the normal excise tax, income tax and corporate tax, why it was so attractive to the finance ministry. And they were very pleased that it got a lot more support than the other taxes, as well."

In Germany's case, former chancellor Gerhard Schroder increased energy tax

and downplayed public anger by decreasing other taxes, such as labour tax and social security tax, to improve social welfare and economic conditions for the people.

But the most crucial aspect of eco-tax was how to impose such a tax gradually and avoid a severe shock to the economy. Schroder said that governments planning to introduce eco-taxes must send the right signal to the public and inform them that products which consume a lot of energy or create high pollution will be taxed increasingly, and at the same time provide incentives like tax reduction, as well as financial support for producers who manufacture and sell environmentally friendly products.

"Then they [producers] would know, 'Oh! Taxes will further increase, so we better start innovating the best and greenest products on the market so people will buy these products since the public, too, will realise that taxes will go up.' That's the thinking behind it."

The implementation of eco-tax in Germany in 1999 was not without problems, however. In mid-2000, world crude oil prices quadrupled from US\$9 (270 baht) per barrel to \$35 (1,065 baht) per barrel, exposing the government to possible street protests.

"Chancellor Gerhardt Schroder said: 'What shall I do? I don't like people protesting against my policy — against this eco-tax.' ... So he said the first priority was to reduce the unemployment rate 'and therefore I have to stick to reducing labour costs so we can continue to implement eco-tax', despite the protests."

Currently, eco-tax is one of the major revenue sources for the German government, followed by income tax and value added tax (VAT).

The eco-tax proposal might not have passed had the German government not badly needed a new source of revenue, though, according to Schlegelmilch.

The expert, now an adviser for Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) — the state agency promoting sustainable development — recently visited Bangkok (his second time) to help the Thai government, especially the Ministry of Natural Resources and Environment, on eco-tax proposals; Schlegelmilch has advised governments in Asia, including the Chinese and Vietnamese governments, on eco-tax proposals since 2007.

Unlike many environmental advocates, Schlegelmilch was trained as an economist at Johann Wolfgang Goethe-University of Frankfurt. Passionate about the environment and disillusioned by the economic credo of profit, Schlegelmilch decided to work as an environmental activist instead of an economist or banker like his friends. Witnessing the good will yet non-pragmatic ways of environmental activists, he realised that environmental protection needed instruments to work for it, as opposed to economic instruments working against each other.

For him, there is another way to look at a populist policy — an opportunity to push forward fiscal policies that advocate environmental conservation. And Schlegelmilch said the political situation in Thailand is conducive to introducing environmental tax.

Populist policies, he said, will cause the national treasury to "dry up" and the government will inevitably run a deficit budget. In the end, politicians will have to look for new sources of revenue.

Eco-tax has gradually spread to Asian

“There will be more countries coming on board; they are all interested. Besides, they will all have to do it at some point. They have to fight climate change ... because they are all in the same situation.

countries, with Vietnam and China embracing the measure. The Vietnamese government began drafting eco-tax in 2008, with the help of GIZ, and is expected to introduce it later this year after the proposal sailed through the National Assembly with a majority of votes (98.7%), the highest majority vote and fastest tax law approval process in Vietnam's political history. In addition, the country plans to expand the measure to include road tax and vehicle tax.

The Chinese government, along with the GIZ's assistance, will also introduce vehicle tax; Schlegelmilch predicted other countries will soon join the bandwagon.

"The most interesting thing for policymakers is always, 'Oh! Sweden did it! Germany did it! The Netherlands did it! Why can't we do it?' And that's exactly the point for Asia. There's Vietnam and there's Thailand. Indonesia and China are interested, too. And there will be more countries coming on board; they are all interested. Besides, they will all have to do it at some point. They have to fight climate change ... because they are all in the same situation."

Is it possible for Thailand to introduce eco-tax? A draft of packaging tax — which would be the Kingdom's first eco-tax if adopted — has been shelved for 15 years due to strong resistance on the part of the industrial sector.

On energy policies, Yingluck clearly announced that her government will reduce tax collection for the Oil Fund to appease the voters, a move that some renewable energy experts are worried about because they say it will affect the production of gasohol (alternative fuel consisting of a blend of ethyl alcohol and unleaded gasoline).



From left: Tim Jackson, economics commissioner on the UK government's sustainable development commission; Kai Schlegelmilch, vice-president of Green Budget Europe (GBE); and Anselm Gorres, president of Green Budget Germany, during the GBE annual conference at King's College London.



Political parties now bank on populist policies — debt clearing, price mortgages and subsidies — to entice voters at the expense of taxpayers' money.

For Schlegelmilch, a government that champions populism policies or has to run a deficit budget must find a new revenue source, and he believes environmental tax is the best and most sustainable alternative because it not only helps the environment and reduces energy consumption, but the government has good justification for imposing it — a win-win scenario.

“We cannot go the other way round. [Doing it the other way round] would mean that we would subsidise the economy and ruin it in the end. It's not possible in the long-term to have prices that do not tell the ecological truth. It would be much worse off in both economic and social terms, as well.”

