

# GreenBudgetEurope

European expert platform on environmental taxation and green fiscal reform

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## A Green Recovery for Greece and for Europe In South and North, the growth models of the past no longer work. A new growth perspective using the proposal of a city toll<sup>1</sup>

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**After the summit, before the summit?** Yes and no. The EU is closing ranks and tackling tough problems, so we shall continue to need more summits than usual. After all, the EU Council is the *de facto* government of the Union, often more so than the Commission. But the last summit was no routine event. This time, bold strategic decisions were taken. New and overdue debates can now begin. What will be a sustainable model for our future growth, not only in Southern EU, where the crisis is more sharp? No normal citizen understood the year-long debates about haircuts, leverages, four-letter-funds and all the other subtleties of financial engineering, including the difference between forced and pseudo-voluntary contributions from the private sector. But all citizens could and should join the debate about our future model for the real economy. This paper outlines an alternative to the old growth models and elucidates the suggested approach by the specific example of a city toll for the metropolises of the European South.

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### A. The old growth drugs no longer work, we need a new growth model

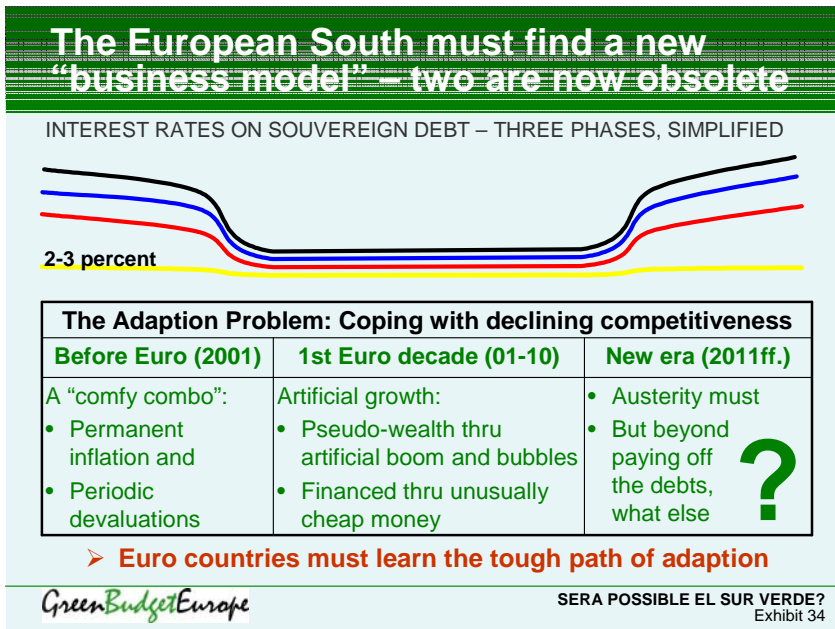
**Two growth models have now gone overboard.** Before the Euro, the South used to cure its habitual competitive weakness through a comfortable tandem of permanent inflation and periodic devaluation, permitting countries to avoid painful work on modernisation and competitiveness. From 2001 on, the new monetary union seemed to offer a different, but still comfortable adjustment path: Artificial growth through mere bubbles, driven by interest rates lower than ever. Instead of using these important savings for consolidation, lower interest rates were only used to expand lending. For the first half of the 2000s, this seemed to work well. The South and Ireland grew faster than the rest of

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<sup>1</sup> Short German version published in Süddeutsche Zeitung, November 16, 2011:  
[www.foes.de/pdf/2011-11-17%20gruene\\_rettung\\_fuer\\_griechenland.pdf](http://www.foes.de/pdf/2011-11-17%20gruene_rettung_fuer_griechenland.pdf)

the EU-15. But in the second half of the decade, the bubbles burst. Now the party is over, not only for the South.

**Exhibit 1) Two obsolete growth models in the South**



Worries also in the North. Germany is profiting from old strengths and three new factors: Sinking costs of the reunification, a growing advantage of the country's central geographic position, and positive consequences of Schröder's Agenda 2010, a tough modernisation reform, mainly paid for by poorer Germans. Generally, so far, Northern Europe is coping better than the South, whether this is due to religious and cultural differences or not. Nevertheless, youth unemployment, problems with EU integration, and sluggish growth rates are

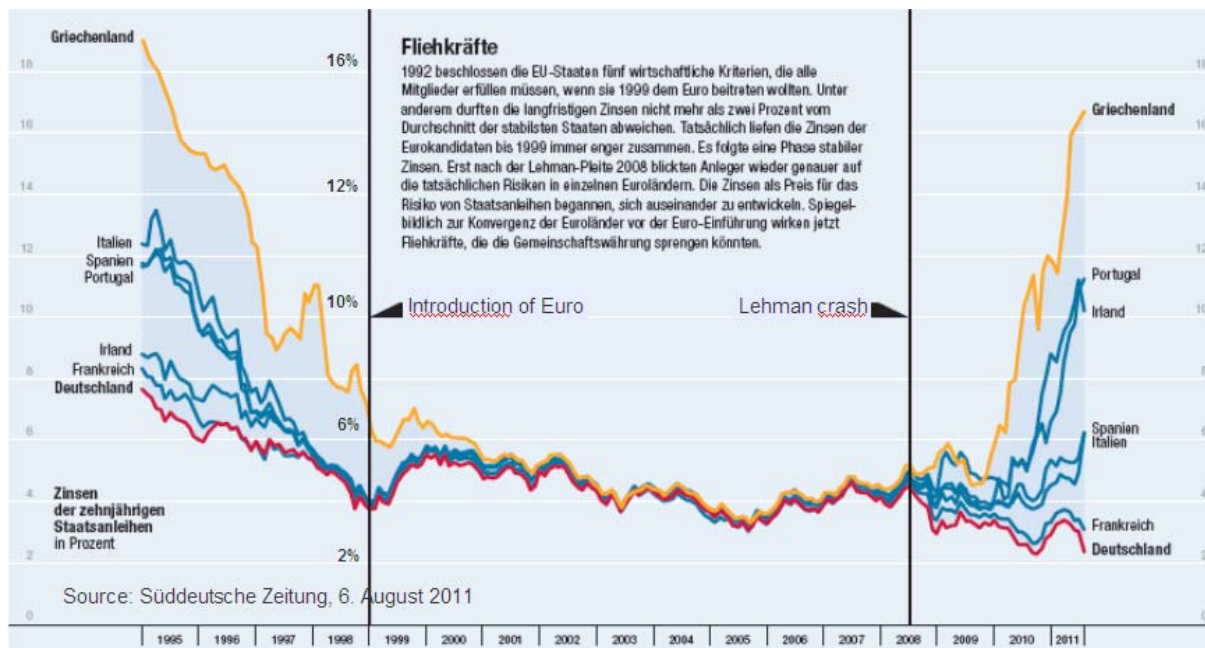
causing concern all over the Union. We all lack a vision for a better future that could generate enthusiasm. More consumption, more profits, and higher bonuses – these do not seem to be the dreams of the rebellious and resentful younger generations.

**Conservative restructuring won't work.** Effectively, the entire USA and half of Europe are turn-around cases, not only the EU South. But countries are not companies, they cannot simply disappear. In neoliberal ideology, public goods like social equity and security, environmental protection, education and culture, or international aid, are mostly perceived as luxuries, which nations can expect as a reward for good economic performance<sup>2</sup>. That these promises, like trickle down, in reality are rarely fulfilled, is a different story. Conservative restructuring is a pretty nasty affair. However, Europe is slowly converting into an "eco-social" market economy. Here, restructuring must meet a number of additional "minor" conditions. Such as democracy, the welfare state, environmental protection, inclusion of all. No country left behind – as far as possible.

Debts are dangerous. The firepower of Keynesian programs to rescue banks and economics was exhausted in Crisis No. 1. Now we all have learnt how debts make you dependent and exposed. Both states and even more so the financial sector must consolidate. Recapitalisation means to save (i.e. contraction). For Crisis No. 2 and perhaps a decade, we will no longer be able to purchase growth through borrowing, sorry dear Mr. Krugmann! We must and will accept higher inflation rates as one way to reduce real debt. Even the IMF is recommending this. But a little more inflation will no longer fool workers or investors into more real spending. So two of our past magic pills for more growth don't work any more - neither higher running inflation, nor higher perennial debt. Nevertheless, we urgently need growth, not because it facilitates consolidation alone.

<sup>2</sup> We owe this thought to Philippe Lambert, MoEP for Ecolo (Francophone Belgian Green Party).

**Exhibit 2) Development of interest rates on 10-years-government bonds (background to exhibit 1)**



**Creativity is needed.** Under such restrictions, how can we build a new prosperity model which no longer relies on permanent growth and only reasonably on inflation? The economic establishment is dominated by conservative Supply-Siders and liberal Keynesians. In reality, both schools of thought are spendthrifts. Liberal Keynesians use deficits to generate growth via public goods and more social spending. Their self-proclaimed antagonists also work with debts, only to finance tax cuts and subsidies for the rich. The so-called 'Supply Side Theory' is not a great theory and even less, an anti-Keynesian one. In truth, it's a political ideology oriented at pampering investors. It is mainly a sort of Keynesianism for the rich and the right-wing.

**Exhibit 3) Traditional Keynesian models – including Supply Side “Theory” work no longer**

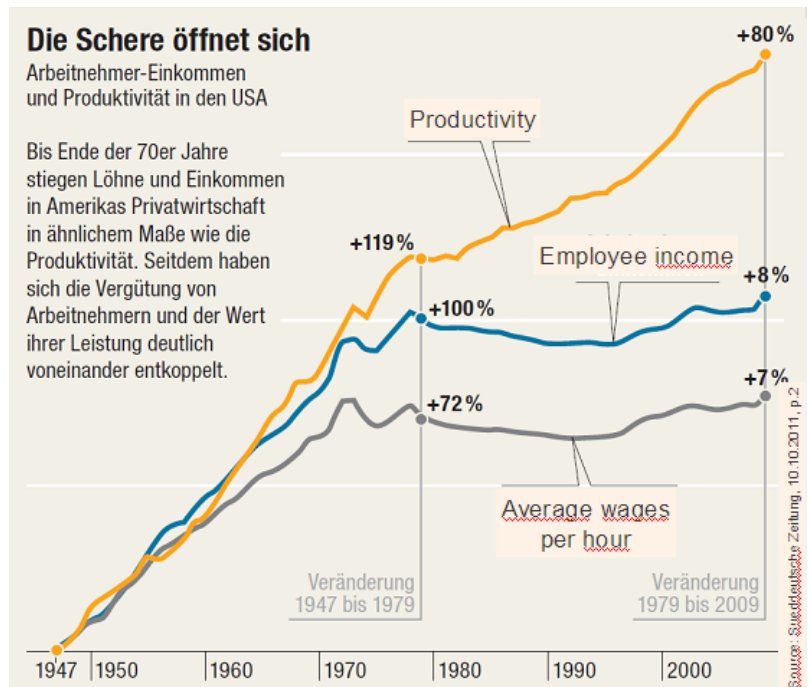
And both schools are only used to thinking in terms of macro-economic aggregates. This is why they tend to overlook the enormous potential of ecological modernisation. You grasp these effects only if you take a closer look at the sectoral and micro level. If you only look at the size of the cake, you overlook the effect of baking different and innovative cakes using daring new recipes. Ecological modernisation amounts to rebuilding the entire bakery. And that means lots of new jobs, perhaps over decades.

**Not only the South is in search of a new, more sustainable business model**

<p style="text-align: center;"><b>FAILED BUSINESS MODELS OF THE EUROPEAN SOUTH</b></p> <ul style="list-style-type: none"> <li>• Over many years, usually less productivity growth than in the North</li> <li>• Before €: persistent inflation + periodic devaluation, every 2 or 3 yrs.</li> <li>• 1st € decade: artificial growth thru artificially low interest rates (bubbles)</li> </ul>	<p style="text-align: center;"><b>TRADITIONAL DEBT-BASED STRATEGIES ALSO BLOCKED</b></p> <ul style="list-style-type: none"> <li>• Traditional “leftist” Keynesians use deficits for social spending or public goods</li> <li>• “Supply Siders” in truth only “rightist” Keynesians, using debts for tax cuts or subsidies for the rich</li> </ul>
<p>➤ <b>All four growth models now blocked by debt crisis!</b></p>	
<p style="display: flex; justify-content: space-between;"> <span>GreenBudgetEurope</span> <span>SERA POSSIBLE EL SUR VERDE? Exhibit 56</span> </p>	

**Exhibit 4) Exhibit 4): Diverging development of productivity, income and wages in the USA between 1947 and 2009**

**More social justice should help.** In the growth model of the market radicals, what mainly grows is the wealth of a small, already wealthy, minority. Very little is left over for the rest. Incomes of the middle classes and poor people stagnate, if they don't shrink. In the US, the financial sector's share in total profits has risen from one third to two thirds of GDP. To the poorer countries within Europe and to the poorer citizens in all countries, the coming decade of austerity will certainly bring many hardships. So it is the right time to burden stronger shoulders more than the weaker ones. What is more, the rich have a lower propensity to spend than the poor, so shifting wealth from rich to poor also has positive effects on aggregate demand (as known from Haavelmo's theorem). In the US, even some progressive billionaires demand higher taxes ("Buffet Tax").



**Greener rules, greener growth.** *Tax what you burn, not what you earn.* If we increase taxes on environmentally problematic products and processes, and reduce perverse subsidies (like those for fat company cars), bad things will become more expensive and indirectly, good things will become relatively or absolutely cheaper. Probably without a change in the overall price level, we'll bring about a major shift in relative prices throughout the entire economy. What is more, because this happens through the price mechanism, it happens very fast. Can you imagine this to have no impact on total demand? Large parts of installed machinery, houses, and cars will suddenly become less competitive. Un-ecological becomes un-economical! Such a price shift can also be expected to spur new and different kinds of demand. Owners of houses, factories, and vehicles will have strong incentives to renovate their property with newer, more efficient equipment. Due to its environmental delay combined with its favourable climate, the theoretical potential for renewal in the South could be even greater than in the North. There are profitable investments to be made – by the private sector, not the partly impoverished states. The South has more wind and more sunshine than the North, but – with the exception of Spain – far less installed wind and solar energy. Cities like Athens, Madrid, Lisbon or Rome could benefit greatly from lining their roofs with solar cells and establishing city toll systems – even generating substantial revenue for ailing budgets.

**Regulation-induced demand.** Keynesians seldom mention the positive demand effects of regulation, Supply Siders never. For them, regulation is a tool of the devil. But why shouldn't smart green regulation help to create jobs? When safety belts became mandatory, someone produced them. Are we supposed to believe that this reduced sales in the car industry? Why shouldn't rules for less noisy airplanes, more efficient cars, water-saving washing machines or better insulated houses generate new demand? All these things must be built and installed by some-one. As a teaser on

top, even poor governments could still give a nudge to investors by offering them moderate interest-rate support. If states and banks cannot behave expansively any more, the only hope lies in the private sector.

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## B. A common vision for Europe

Continent of hope. With some boldness and luck, a stronger, fairer, and greener Europe may evolve from this crisis. We'll have more common governance, i.e. more mutual control of behaviour detrimental to the European commonwealth. We may manage to reduce and green the EU's huge agricultural subsidies. Ireland seems to be undergoing a surprisingly strong recovery – partly due to green elements in the austerity package, like introducing water meters (formerly absent, like in the Soviet Union) and a carbon tax of 15 Euros on all energy sources. Sooner or later, we would have been forced to rebuild our economies in any event, to protect the climate and the environment. Now we realize that our traditional growth drugs are no longer potent. So why not embrace this new driver of prosperity?

Green taxes on plastic packaging, extracted building materials, lignite, urban sprawl, water over-consumption, luxury cars, pollution and car tolls in congested Athens and other cities are the answer to the problem of tax collection. Together with a drastic cutting down of the public sector, they provide the basis for a fast fiscal consolidation.

They will provide the stimulus for intensive growth of green industries (from solar and wind energy, all the way to environment friendly cities and housing). The shift of the tax burden from labour to green taxes will spur additional competitiveness. Combined with less State intervention, this is certain to stimulate not only a rebirth of Greek industry but substantial growth in educational and health services to the broader region of the Balkans and Eastern Mediterranean.

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## C. How to reinvent Greece – the example of an Athens city toll

Greece is a special case in the South, in several ways. In 1981, when it joined the EU, its public debt stood at 32% of GDP and its budget deficit at 2.7%, among the lowest in the EU 10. Frivolous expansionary policies of the first Socialist government and a tremendous growth in the number of civil servants and of the public sector in general, accumulated deficits mostly financed by foreign borrowing and partly corrected by two devaluations. Prior to its joining the eurozone, deficits were eliminated and public debt was somewhat curtailed. But after entering the eurozone, public finances were once more switched into auto-pilot, by conservative governments too. Add to this a tradition of excessive State intervention and poor law compliance and you end up with a Soviet-Greek economy, as one of the authors of this article labelled it in 1978.

No wonder the Country's productive base and even its mainstay tourist industry were undermined. A solution, even at this last moment, is feasible if two things are done: **First** a drastic fiscal reform and consolidation and **second** a return to a sound productive base, fully exploiting the country's comparative advantages, i.e. a highly educated and enterprising people and its geographic location and climate. A shift to the green economy provides the answer to both.

Sometime crises present unique opportunities for implementing far-reaching reforms that under business-as-usual conditions would be impossible. A city toll could be a case in point. Until today,

city toll systems have been debated in many parts of the EU, but actually enacted only in two major cities, i.e. London and Stockholm. In both cases, political resistance has been heavy in the beginning but more and more, the citizenry seems to have come to accept the virtues of these systems.

### Exhibit 5) Positive effects of the London city toll<sup>3</sup>

Revenues and costs 2006/07 in £		Expenditure of net revenues 2006/07 in £	
Charge Revenue	158 m	101 m	Bus network improvements
Enforcement revenue	55 m	14 m	Roads and bridges
Total Revenue	213 m	5 m	Road safety
Total Operating Cost	90 m	3 m	Walking and cycling
Net Revenue	<u>123 m</u>	<u>123 m</u>	Total expenditure
Traffic Impacts	Business Impacts		Environmental Impacts
<ul style="list-style-type: none"> <li>▪ Traffic entering zone reduced by 21% (4+ wheels)</li> <li>▪ Chargeable vehicles down 30%</li> <li>▪ 50-60% of trips to central area moved to public transport</li> <li>▪ cycling up 43%</li> <li>▪ Bus patronage up, bus services performing better since charging</li> <li>▪ Western extension – in line with TfL forecasts (traffic reductions of ca. 10-15%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overall congestion charging had broadly neutral impact on business.</li> <li>▪ Central London economy has performed positively since charging.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Improved vehicle technology and the introduction of Congestion Charging have led to reductions in: <ul style="list-style-type: none"> <li>➢ Oxides of nitrogen (NOx)</li> <li>➢ Particulate matter (PM10)</li> <li>➢ Carbon Dioxide (CO2)</li> </ul> </li> <li>▪ Initial discount for alternative fuel vehicles helped support early market</li> <li>▪ 40-70 less personal injury road accidents a year</li> </ul>

In many Southern European metropolises, the arguments for such schemes seems even more pressing. Often, the public transportation systems leaves much to be desired, not always because many antique treasures prohibit fast construction like they do in Rome. Lisbon introduced the parking fee for zones (higher prices in the centre) with no significant results because of the high number of company cars for private use in Lisbon (the driver doesn't pay for parking or the company has private garages). Lisbon also introduced a restriction zone for cars before 1992 with no catalyser. However, due to several years of car scrapping programs the major of this cars are classic with a special permit to circulate on parades.

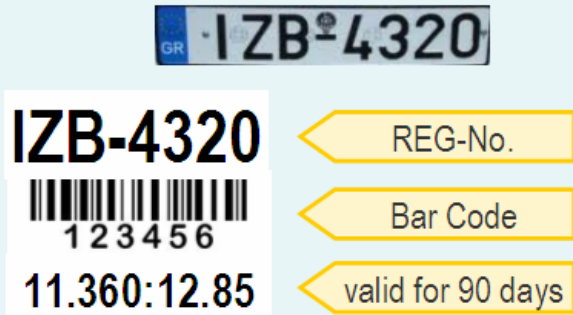
The revenue potential of city tolls is limited since they can be applied only to the few largest cities of any country and part of the revenue must be used for investments to strengthen alternative modes of transport. Given this, it become paramount to develop technological solutions that avoid wasting much of the potential revenue for administrative and bureaucratic costs like dedicated sales channels.


<sup>3</sup> Source: Lucinda Turner, *Congestion Charging in London*, 8<sup>th</sup> GCET, 2007, Munich

In this paper, we propose a web-based system that uses registry numbers as only necessary identification to control legitimate vehicles through a combination of cameras and pedestrian guards with handy-devices to check legitimacy of parking and driving vehicles.

#### Exhibit 5) Elements of a simple “BOARDING CARD CITY TOLL”

Business model	Necessary investments
<p><b>Simple booking system</b> via internet with access from everywhere, even for tourists, based on license plates and credits cards</p> <p><b>Max. period length 90 days</b>, max. advance booking 120 days (for greater ease of control)</p> <p><b>Daily rate 5€</b>. Only slow regression of daily rate for periods &gt;5/ &gt;30 days. Rates can be lower for days with less traffic.</p> <p><b>No dedicated distribution network</b> necessary</p> <p><b>Print-out a home PCs</b> or in shops for 1 Euro fixed fee.</p> <p><b>Optical control</b> through electronic cameras and through toll guards with cell phone app</p>	<p><b>Software</b> to administer bookings and payments; no control of payer's identity necessary beyond credit card</p> <p><b>Control cameras</b> at all entry and exit points</p> <p><b>Bike Avenues:</b> Designated roads cleared for bicycles only</p> <p><b>Bus Avenues:</b> Designated roads only for buses, taxis, street cars</p> <p><b>New Green Buses:</b> Part of revenue should be set aside for low-emission speed buses</p>
	<p><b>EXPECTED RETURNS p.a.</b></p> <p><b>€ 500 Million to 2 Billion</b></p>





Start simple, complications will follow soon enough – the design of the system should follow this wise counsel given to GBE 2008 by former Commissioner Franz Fischler at our founding event. In Athens proper, the population is only 700.000, but the metropolitan area houses over 3 million people and the Larger Urban Zone comprises over 4 million, making it the seventh largest LUZ in the EU ([en.wikipedia.org/wiki/Athens](http://en.wikipedia.org/wiki/Athens)).

Athens already has a restricted zone called “daktlios” or ring. Within this zone, cars with even registry numbers can enter only on even dates, and vice versa. Some people have bought a second car only to bypass this restriction.

Assuming an average of only 1-2 million users daily, spending on average Euro 500 to 1000 annually on the system, **revenues in a careful estimate could range from Euro 500 million to 2 billion at least.** This is not an amount to be neglected in Greece's fiscal situation, even if half or even two third of the revenue should go in investment, mainly for buying and running new buses.

A similar, much more detailed proposal by Yannis Paleokrassas goes much further and includes not only all of the Attica peninsula (with 4 million users!) but also Thessaloniki, Achaia, and Heraklion (Crete). **The total revenue here is €B 3,5 to 4,1 for Attica alone and €B 5 to 6 for all the five toll areas (page 23).** The rate per entry for passenger cars is calculated at €3,5 to 4, similar to our *daily* rate of maximum €5. The proposal also includes details calculations for *motos*, taxis, and trucks.

Under pressure from her creditors, Greece has agreed to privatize € B 50 of government possessions. Of course, critics are speaking of a sell-out of national treasures, understandably. But one wonders why the same people never criticized the horribly bad management of these assets. Mismanagement of public assets is also a form of sell-out!

But leaving aside this controversy, we should also look at the following aspect, not always fully realized. Increasing green taxes, or creating new bases for green revenues like city tolls, may offer some compensation for the loss of state property due to enforced privatisations. **By taxing emissions or the use of public streets, the government effectively nationalizes formerly free goods.**

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## D. Further innovative ideas for a greener future

### Installing a Desertec test plant in Crete

Spain already has some huge solar plants. Why not convince the Desertec to install a pilot installation in Greece? Presently the plans for Arab countries could be retarded due to the Arab revolution. The German-based Energiewerk-Stiftung has proposed to put a plant in Crete.<sup>4</sup>

### Let's finally put a price on empty bottles, through a forced deposit or a tax

Everybody has seen the pictures of the many empty water bottles infesting all warm countries. By giving monetary incentives for recycling, these countries will end up burdening their beaches and surrounding seas with millions of bottles.

### Taxes on building materials following example of British query tax

In physical terms, building materials make up the largest share of exports for many countries. After all, buildings dominate the world of man-made objects, by far. The British have made excellent experiences with their so-called query tax. The tax first went up, then down, because construction firms started to use much more recycled material.<sup>5</sup>

### Greening the Med – giving a new sense to “Mare Nostrum”

Imagine a common strategy of all Mediterranean countries for greener shipping and fishing. In such an alliance, higher standards both on shipping and fishing could be enforced in all Mediterranean ports.

In shipping, thousands of ships would have to be modernized, in particular their engines, resulting in more jobs for shipyards and engine suppliers. This would not only reduce CO<sub>2</sub>-emissions, but also save fuel imports, and reduce water pollution from exhausts and poisonous waste.

In fishing, this would probably incur some income losses in the short run, but stabilize and increase the fish populations in the medium and long run.

Even without a larger scale solution for the entire “Med”, Greece could create enormous positive effects simply by enforcing sterner rules on its large fleet of islands ferries. If ship-owners are allowed to raise prices accordingly, most of the resulting investments should be very profitable and also affordable, perhaps with some EU funding to help the start.

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<sup>4</sup> DESERTEC itself is rather sceptical for solar thermal plants in Greece and sees more potential for photovoltaic plants, for instance to cover regional power needs for air conditioning.

<sup>5</sup> See paper presented at GBG conference in Berlin on May 6<sup>th</sup>, 2011, by Dominic Hogg: [www.foes.de/pdf/2011-05\\_FT\\_Ressourcen\\_Praesentation\\_Hogg.pdf](http://www.foes.de/pdf/2011-05_FT_Ressourcen_Praesentation_Hogg.pdf).