

# ***Greening the economy in times of fiscal crisis***

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# ***The triple crisis economic-social-environmental***

- Governments thought they solved the financial crisis of 2008 by salvaging banks, but created a worse **fiscal/economic** crisis that undermines European and global stability.
- Current austerity programmes lead to recession and unavoidably to **social** unrest.
- Nothing is done to arrest **climate change**; its acceleration threatens the ecosystems and in the end life on the planet.

# *Can green taxes do the trick?*

- Klaus Töpfer in a similar crisis in the 90's had said:  
*"It is not despite but because of the crisis that we must pursue environmental policies"*.
- Green taxes represent the strongest instrument of environmental action and simultaneously of budget consolidation because:
  - They act through the market, by changing relative prices and therefore consumption and production patterns. Their impact is very quick.
  - They address the structural problems mentioned above, as well as cyclical problems.
  - They are more acceptable to society than salary and pension cuts, especially if used (even in part) to reduce social contributions and income taxes.

# ***What are green taxes?***

- ❑ Common taxes redistribute income among people. Green taxes redistribute natural resources among people and present and future generations.
- ❑ They do so by integrating external environmental and social costs into prices and the market.
- ❑ Their tax base falls into four main categories:
  - i. mineral fuels and energy*
  - ii. other natural resources and products*
  - iii. transport (e.g. cars, road and city tolls)*
  - iv. emissions and pollution (including solid & liquid waste)*
- ❑ They are indirect taxes levied at source, on value or weight at a flat or progressive rate, rising with the quantity consumed or emitted.

# How do they work?

- ❑ Green taxes curb the overuse of natural resources and energy, environmentally harmful products (*such as agro-chemicals*), emissions and waste. Car taxes, in addition, help to reduce road congestion.
- ❑ Usually, part of green tax revenues is recycled to reduce social insurance contributions and/or income tax; this is specially helpful in recession periods.
- ❑ Other ascertained impacts: increase in efficiency and competitiveness, net growth in GDP and jobs.
- ❑ By-products: surge in green technology and green industries (e.g. renewables, bioculture); shift to rail, sea and mass transit systems.

# ***Tools for budget consolidation***

- ❑ Among all taxes, green taxes are the easiest to collect, fastest to produce an impact and most difficult to evade.
- ❑ Green taxes, in comparison with wage cuts or increases in VAT, consolidate the budget without producing a recession that erodes the tax base.
- ❑ On the contrary, they induce an increase in resource use efficiency and create a range of new green industries.
- ❑ Apart from reducing main budget deficits, they improve the deficits of public transport and social insurance organisations.

# ***A triple-win balance sheet***

In comparison with present restrictive policies of budget consolidation, the use of green taxes:

1. Brings in the extra revenues required, in a more certain and cheap manner, without producing an economic recession.
2. Consequently, it does not lead to the same social unrest; surely an increase in car taxes causes less friction than a salary or pension cut.
3. Has positive environmental and intergeneration equity impacts, which today count for people.

# *Structural longer-term changes*

In reality in the medium-to-long run, we achieve a four-win situation as green taxes:

1. produce a profound structural change towards a new model of a low carbon economy and a moderate society;
2. create a new tax structure, equitable among labour, capital and environment, which is an incentive for job creation and environmental protection;
3. Extend the economic life of scarce resources well into the future and stimulate technology to look for substitutes;
4. and, finally, lead to a fast curb on emissions, arresting effectively climate change with its catastrophic impact on life.

# *A concrete 4-win example*

- During my term as Finance Minister in 1990-92 the budget deficit was reduced from 17,6% of gdp to 7,1%, through a batch of measures.
- One of them was: doubling the registration tax for big cars, combined with a cut in half for new clean cars, if they replaced an old car which had to be scrapped.
- The results:
  - 1/3<sup>rd</sup> of the car fleet was renewed.
  - pollution in the Athens region was reduced by 40%.
  - number of cars registered and relative budget revenue doubled.
  - Income and employment in the car and scrap sectors grew.

# *Some implementation tips*

- ❑ Green tax reform calls for a mix of taxes (e.g. on quarries, agro-chemicals, mineral fuels and non-green electricity, overuse of water and other resources, packaging and waste, car taxes and tolls in congested areas, emissions, land use etc) and a critical mass equal to about ten percent of total tax revenues.
- ❑ Tax rates should be fixed in proportion with relative external environmental costs.
- ❑ They should be carefully designed, pre-announced and staged over a period, to produce maximum impact.
- ❑ The negative impact of some of them, on low-income groups must be redressed, through well-known tools.

# *A dynamic mix for quick effect*

- Budget consolidation is urgent. It must start at once by increasing existing green taxes, abolishing all environmentally harmful subsidies and introducing new green taxes that need no preparatory period.
- Then continue with other new green taxes that need some technical or fiscal preparation. Recycling of tax revenues to reduce labour taxation is a *sine qua non* of the reform, but may be phased in line with the urgency of fiscal consolidation.
- Anyway green taxation is a dynamic tool. As its environmental goals are achieved (e.g. fuel use falls), the tax base diminishes. Green taxes must then shift to the plenty other “bads” that create environmental or social externalities, from hazardous chemicals all the way to aesthetic and noise pollution.