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TAXING FOR SUSTAINABILITY – A CONCEPT FOR A NEW MILLENIUM

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Green Budget Germany (Forum Ökologisch-Soziale Marktwirtschaft e.V./ FÖS) is a nonprofit organisation, founded in 1994, with membership open to everyone. We specialize in Market-Based Instruments of Environment Policy (MBI) and participate in the German and European Ecotax and Emission Trading debate with own contributions. We seek dialogue with the business, scientific and political communities. With a number of partners, we launched **Green Budget Europe** as European Platform to advance MBI on September 25th, 2008 in Brussels. Among other publications, we publish newsletters in German and English: ÖkoSteuerNews and GreenBudgetNews.

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The puritans of Massachusetts were practically minded people. Much as they despised sins like drinking, whoring or gambling: they did not really believe in the immediate disappearance of these vices. The least they could do, therefore, was to tax these activities. As long as sin was to prevail, sin taxes could at least render some revenues for the commonwealth.

The existing tax systems of most countries in the world are far from taxing vices and unavoidable evils, quite to the contrary! In far too many countries, the highest tax burden is levied on labor and consumption, namely those economic activities that we value most.

Throughout Europe, the concept of ecotaxes is more and more seen as the appropriate answer to this paradox. Instead of taxing desirable activities, we should rather tax those transactions and activities which we need to curb anyhow to preserve the environment and to achieve a transition towards a more sustainable equilibrium between man and nature.

In this line of thought, ecotaxes are not only considered the superior form of fiscal policy in relation to other, more conventional ways of taxation, they are also praised as the superior instrument of ecological policy in comparison to other, more conventional tools of environmental policymakers.

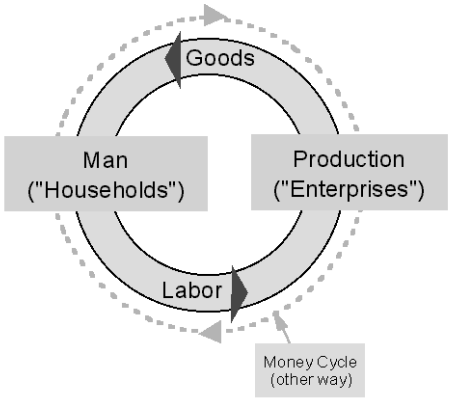
The argument is summed up in the concept of a double dividend: Ecotaxes are better than other taxes because they generate simultaneously, monetary revenues for the government and ecological improvements for the environment.

In most central European countries, considerable progress in this field is being made – mainly Scandinavia, Benelux, Austria, Switzerland, Germany and even the fiscally conservative Great Britain. But within these countries, opposition to the concept is strong and outside of them, literally no progress has been made. In the European Union, Ireland and Spain are the strongest adversaries, in the Western World as a whole, the U.S. is the country with the lowest energy prices and the highest political resistance to the grand concept of ecotaxes.

Apart from the usual ingredients of industrial lobbyism and openly reactionary antiecological populism, there may be a deeply rooted misunderstanding about the nature of the economic value creation cycle that stands in the way of acceptance of eco-taxes.

Chart 1: Traditional View of the Value Creation Cycle

The economic process is usually depicted as transactions between humans ("doing business with ourselves")



All in all a virtuous, wealth creating cycle

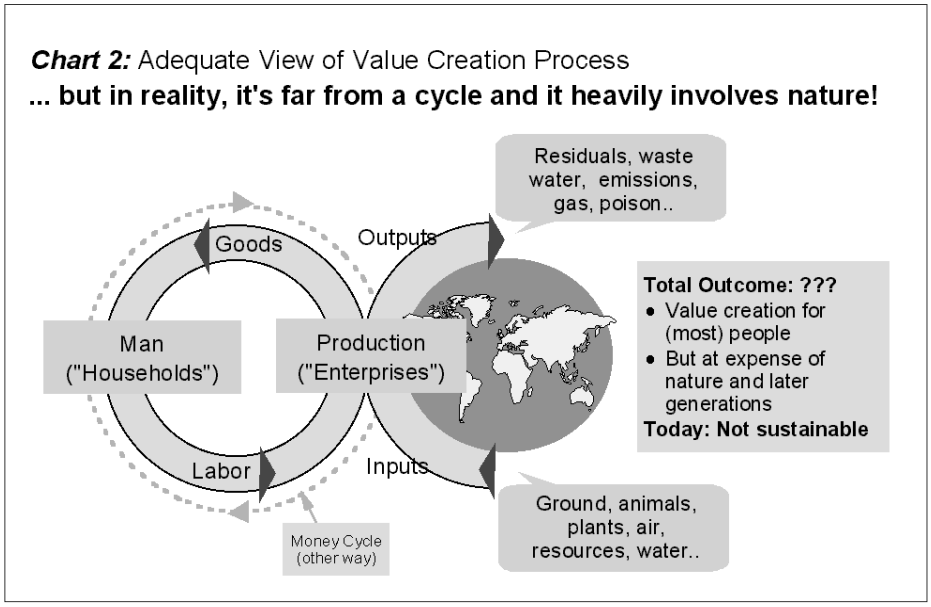
- Cycles are stable and repeatable
- Measured are monetary, not physical transactions
- Financing of government burdens cycle through
  - direct taxation (of incomes)
  - or indirect taxation (of purchases)
- Nature provides its services free of charge ("free goods")

Total Outcome: Positive!

Traditionally, young students of economics in most countries are fed with more or less refined schemes of the economic cycle that look a lot like **Chart 1**. The economic value chain is depicted entirely as a process of us humans "doing business with ourselves". All transactions take place between groups of individuals or collectives, namely

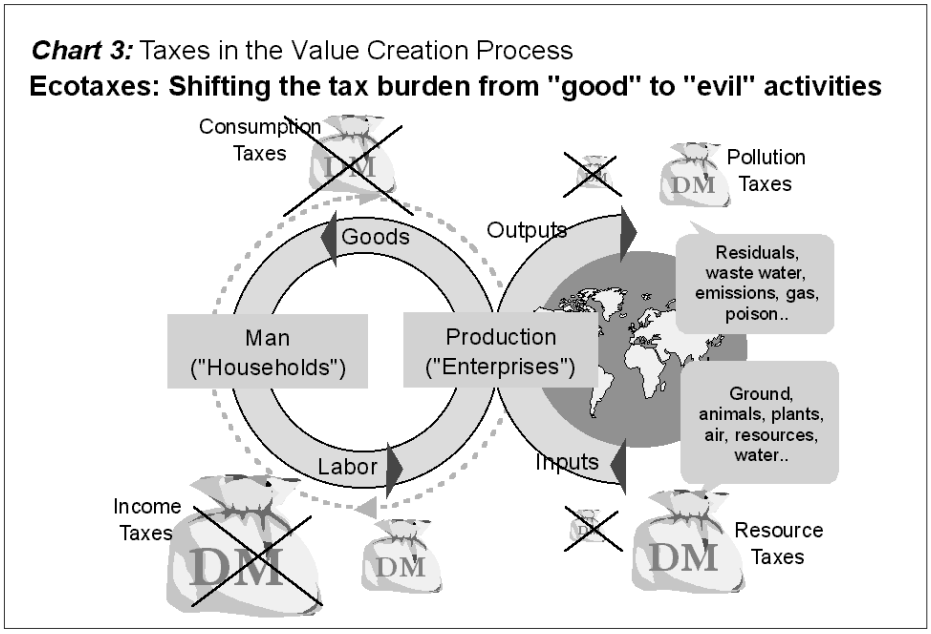
- "households", i.e. people that work (or provide other means of productions) and consume;
- "enterprises", i.e. groups of people that come together to use means of productions in different combinations to produce goods and services
- and, in more refined models, "government", a sector which is financed through taxes or debts and provides public goods or transfers.

All this is still very simplified and ignores the fact that in truth, nobody belongs only to one of the sectors but rather plays different roles in different sectors, i.e. could be at the same time performing activities of a worker, an investor, a tax payer, a public servant, or a consumer... Despite of the increasing model refinement attained by textbooks and professors of macroeconomics, one sector usually stays totally out of the picture, namely nature. As one German saying goes, we are making up the bill without the host. In reality, the actual process of production and consumption nearly always involves nature. The entire economic process can be seen as a "metabolism with nature", as was genially phrased by Karl Marx. The true character of macroeconomic value creation is therefore much better symbolized by **Chart 2**.



In the late 18th century, there was a large ideological debate between the so-called physiocrats and the modern economist which ended with the total defeat of the former. Rightly so, because physiocrats, in tending that all real value creation derived from land respectively nature, greatly overstated the importance of the agricultural sector, did not understand the enormous potential of the emerging industrial sector, and politically, often supplied the background melody for overcome positions of the landed gentry and feudal interests.

But perhaps the victory of the "modern economists" of the 18th and 19th century over the physiocrats was too complete, perhaps it is their late revenge that in overcoming their outdated concepts, we went too far and came to overlook and forget the economic contribution of nature altogether.



If we reflected the role of nature in the value creation process more correctly, we would probably change our habit of concentrating the tax burden on transactions between human institutions or sec-

tors and would put much more emphasis on taxing “transactions with nature” (as indicated in **Chart 3**).

For these activities, where we use nature either as a resource or as a place for dumping our residuals, are the societal sins of our modern age, much more evil in the long run than drinking, gambling or whoring...

In a non-Puritan, more enlightened world society that has learned to treasure and preserve its natural resources, ecotaxes could become the modern sin taxes, taxes that would help to achieve sustainability instead of creating unemployment or curbing consumption indifferently.