Environment-friendly tax structures for inclusive growth

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Tax structures for inclusive green growth

- Green taxes (or tradable permits) and elimination of environmentally harmful subsidies:
  - explicitly price environmental externalities,
  - increasing the cost of environmentally harmful behaviour
  - Improve competitiveness of clean technologies
  - Help equalise marginal abatement costs

- As a result, they encourage
  - cleaner production and consumption
  - more efficient use of resources
  - Investment and innovation

- ... helping prevent future growth bottlenecks
Tax structures for inclusive green growth

- Green taxes raise revenues which can be used to:
  - Make growth more inclusive
  - Help with fiscal consolidation in high-debt countries
  - Reduce more growth-distortive taxation

- Shifting tax structures from income taxation towards alternative revenue sources can boost growth
  - More entrepreneurial incentives and to work, save and invest
  - 1% point shift in revenue share can increase GDP p.c. by 0.6-2.3%

- A green tax reform can have environmental, social and economic benefits
Large scope for shifting to environmentally-friendly tax structures

Env-related tax revenues in % of GDP, 2010

*: 2009 figures

Per cent of GDP

Energy  Motor vehicles  Other

*: 2009 figures

* OECD average

Per cent of GDP

Mexico  United States  Chile  Canada  Australia  Japan  Spain  France  Poland  Hungary  Slovak Republic  Switzerland  Belgium  Greece  Ireland  Germany  Luxembourg  Norway  Austria  Italy  Portugal  Greece  Spain  Germany  Greece  Portugal  Ireland  UK  France  Italy  Sweden  Korea  Finland  Czech Republic  Estonia  Norway  Iceland  Russia  Turkey  Denmark  Argentina  Brazil  China  Colombia  Costa Rica  Dominican Republic  Guatemala  Peru  Uruguay  South Africa

Weighted average

4
Large scope for reducing environmentally-harmful subsidies

- Subsidies to FF in non-OECD countries (2008-10):

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Billions of nominal U.S. dollars per year


Tot. subsidies in OECD countries estimated at 60bn $ in 2011
Eliminating fossil fuel subsidies

- Good for environment and good for growth

% point increase in GDP from unilateral subsidy removal

Multilateral subsidy removal would also lead to 6% less greenhouse gas emissions globally in 2050 than BAU
Prices matter and induce substitution away from fuel use

Fuel-related tax base and oil price, OECD average
Prices matter – and spur efficiency

Sweden’s charge on NOx emissions

Decoupling of energy production and NOx emissions since 1992

Significant reduction of abatement costs

Prices matter – and spur innovation

Innovation in fossil fuel combustion efficiency

Innovation in renewable energy

Post-tax oil price and patenting

Principles of good green fiscal reform

- Tax = marginal social damage of environmental externality
- For same externality, tax uniformly across different emission sources
- Cost-effectiveness and environmental integrity

- But principles rarely complied with: e.g. diesel vs gasoline, implicit CO2 taxation, biofuel subsidies
- Cost-benefit or multi-criteria analysis important to design green fiscal reform
Why is green fiscal reform difficult?

- Uncertainties related to the valuation of effects
- Proxy, measurement, monitoring and enforcement problems
- Market instruments require well-functioning markets
- Information deficit on equity effects of subsidies
- High “visibility” of taxation relative to other green policies (direct real income losses)
- Potential regressivity of some green taxes
- Competitiveness issues for global public goods (e.g. GHG)

Need to design socially conscious and inclusive green fiscal reform
Taxes, environment and inclusive growth

- Additional revenues can be used to offset possible regressive effects of rebalanced tax and subsidy structure
  - Compensate households for increase in prices
  - Target transfers to low-incomes

- Better pricing of ecosystem services can alleviate poverty in various ways:
  - Improved health from reduced pollution
  - Safer reliance on natural resources on which livelihoods of poor hinge
  - Revenues can finance improved access to basic services

- Recycling revenues to reduce labour income taxation can also push up employment, though not by much
Thank you!

For more details:

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www.oecd.org/env/policies/database