

Eco-taxes and Perverse Subsidies

By Michael Jessen October 29, 1999

It shouldn't be surprising that the word for a compulsory contribution to the support of government and a noun signifying a "burden" are one and the same - tax.

According to Auditor-General Denis Desautels, Canadian tax evasion is costing federal and provincial coffers an estimated \$12 billion a year. In a recent report to Parliament, Desautels quoted a 1997 Gallup poll that suggested 73 percent of Canadians would accept an offer to evade taxes when buying goods and services.

Since the 1970s, economists have been promoting taxes on pollution and other "bads" such as waste and resource use to take the place of taxes on "goods" such as work, income, and savings. The idea of eco-taxes has certainly been talked about, but only a few European countries like Sweden, Denmark, Spain, Germany, the Netherlands, and the United Kingdom have implemented any.

The idea behind eco-taxation is to encourage people to do things that have less impact on the environment - such as using public transportation - or to discourage people from doing things that are bad for the environment, such as creating pollution or using lots of energy.

Currently, by taxing drivers for ownership of vehicles rather than taxing their use, we are subsidizing the cost of driving AND the production of harmful greenhouse gas emissions. According to Paul Hawken, Amory and L. Hunter Lovins, authors of the book "Natural Capitalism," hidden automobile costs total nearly \$464 billion annually. These perverse subsidies include taxpayer funded road construction and the \$75 per barrel cost of protecting the Persian Gulf shipping lanes.

In 1998, Dr. Norman Myers analyzed the world's **perverse subsidies (those that leave the environment and the economy worse off than if the subsidy had never been granted)** in six sectors: agriculture, energy, transportation, water, forestry, and fisheries. His conclusion: \$1.5 trillion per year is spent by governments to "protect" these sectors, an amount that represents twice the money spent on defense and weapons annually.

It is ironic that the world subsidizes environmental degradation, cars, the wealthy, corporations and any number of technological boondoggles, while the clean technologies that will lead to more jobs and innovation are often left to the "market."

Taxes are one of the most powerful instruments of change. Some companies, for example, tend to view their profits as more important than the social and environmental impact of company practices. But if pollution is going to cost more than cleaning up, it's a pretty good incentive to stop polluting.

In their book "Manual 2000 - The Ethical Consumer Guide," John Elkington and Julia Hailes say that eco-taxes can "mean that governments have a better chance of meeting their tax revenue targets, increasing employment and helping clean up the environment at the same time. For instance, revenues from eco-taxes can allow governments to reduce payroll taxes and the GST, thus stimulating employment and economic activity," the authors continue.

Another proposed tax change is the so-called "**Tobin tax**," named for Nobel Laureate James Tobin. **It would be a very small tax, less than one percent, applied to currency transactions, and collected globally. The impact of such a tax would be astounding, as an estimated one and a half trillion dollars changes hands daily in world currency markets. Funds raised through a tax on currency speculation could fund programs to eliminate poverty globally, operate the United Nations, and clean up the environment.**

The New York-based organization **Sustainable America** has produced an environment-friendly taxes organizer kit to help groups organize to create sustainable communities. The eco-tax rationale is simple, says Sustainable America. "If we continue to pollute our water and air, destroy our ecologically sensitive lands and over-extract natural resources, as we are today, we will end up impairing the essential infrastructure we and future generations will need to live and progress."

Ten kinds of eco-taxes are described to replace traditional taxes. They would alleviate a broad array of environmental hazards: global warming; discharges of industrial poisons into air and water; agricultural toxics such as fertilizers and pesticides; smog created by motor vehicles; suburban sprawl and urban blight; contaminated land; municipal garbage; excessive use of water; destruction of forests; and depletion of fisheries.

While some of the Sustainable America proposals are provincial or national in scope, land taxes are one area that can be tackled by local government. According to **Sustainable America**, "we need to begin to question and change the existing municipal policies that promote sprawl.

One popular suggestion involves turning property taxes into a powerful incentive for less land speculation and more development in city and town centres and adjacent neighbourhoods.

"Analysis shows that if we shift urban property taxes off of buildings and onto the land beneath them (awarding development and penalizing land speculation), higher density development would result in improvements for cities and downtowns," says Sustainable America. Their organizers kit details how the two-rate taxation has worked in Pittsburgh and Allentown, Pennsylvania and in 24 cities in Victoria, Australia.

In the Northwest Environment Watch report "*Tax Shift*," authors Alan Thein Durning and Yoram Bauman outline a program for the Pacific Northwest with concrete details and workable solutions.

"In some parts of the Northwest - British Columbia, in particular - elected leaders may carry forward the tax shift revolt. If they do, they will certainly make the most popular changes first: perhaps shifting a portion of business taxes onto major point-source polluters or lowering sales tax rates by extending the base to include pesticides. They may experiment with land-value taxes in areas zoned for commercial uses or in depressed neighbourhoods desperate for new development," the authors say.

That taxes are too high is one point just about everyone agrees on. Blanket tax cuts without corresponding new revenue sources will only further reduce the capacity of government to deal with problems. One way to work toward the elimination of those problems entirely is through eco-taxes.

"A tax shift is not intended to redefine who pays the taxes but only what is taxed," say the authors of "*Natural Capitalism*." "Work is freed from taxation as is business and personal income. Waste, toxins and primary resources make up the difference. As the cost of waste and resources increases, business can save money by hiring now-less-expensive labor and capital to save now-more-expensive resources. As business saves by increasing resource productivity, higher resource taxes may ensue, because there will be a smaller base of resources and waste to tax. That, in turn, will spur further research and innovation in resource productivity. A positive feedback loop develops that incrementally generates more demand for labour while reducing demand for resources - and, important, less need for taxes in the first place, because the tax shift will reduce many of the environmental and social problems that government budgets seek to address."

Other studies such as "*Tax Waste, Not Work*" by the San Francisco-based organization **Redefining Progress** and "*Tax Reform that Agrees With Vermont*" by the **Vermont Fair Tax Coalition** reach similar conclusions. The blueprint for a new tax system has been produced. It is now time for government leaders to act.

"Nothing in this world is certain but death and taxes," said Benjamin Franklin. **At least with eco-taxes, we could have a system that benefits the living and those yet unborn.**

ONE SMALL STEP - According to Worldwatch Institute researcher David Roodman, 90 percent of the world's \$8 trillion yearly tax burden is levied on work and investment, while less than five percent comes from taxes on environmental harm. Taxing pollution could raise more than \$1 trillion a year worldwide, says Roodman, which could be used to cut taxes on wages and profits by up to 15 percent. Tell local and national politicians that you support a tax shift; make them aware of the benefits of eco-taxes.