The use of revenue from green fical reform

Eike Meyer | Reunión de expertos “Instrumentos económicos para la internalización de costos ambientales” | Santiago de Chile | 27 March 2019

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Presentation outline

1. Introduction
2. Revenue potential of green fiscal reform
3. Options for using revenue
4. Considerations on how to use revenue
5. How is revenue used today?

Introduction: environmental taxes and their revenue

Environmmental taxes…

… the only environmental policy instruments, that do not cost money but create revenue.

… usually unpopular.

… their revenue creates desires all around:

- „It´s a tax, the revenue must not be earmarked.“
- „It´s an environmental tax, of course the revenue must finance environmental goals“
- „It hurts the poor/companies, of course the revenue must be used to compensate them.

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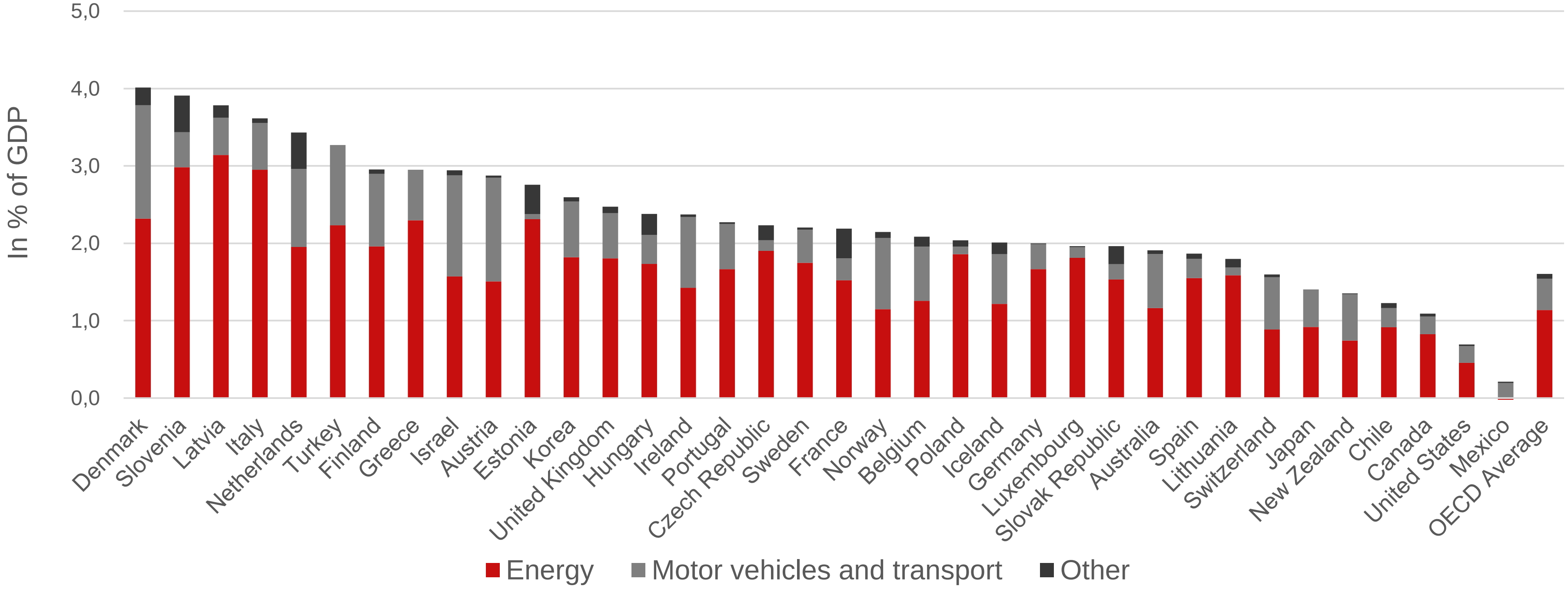
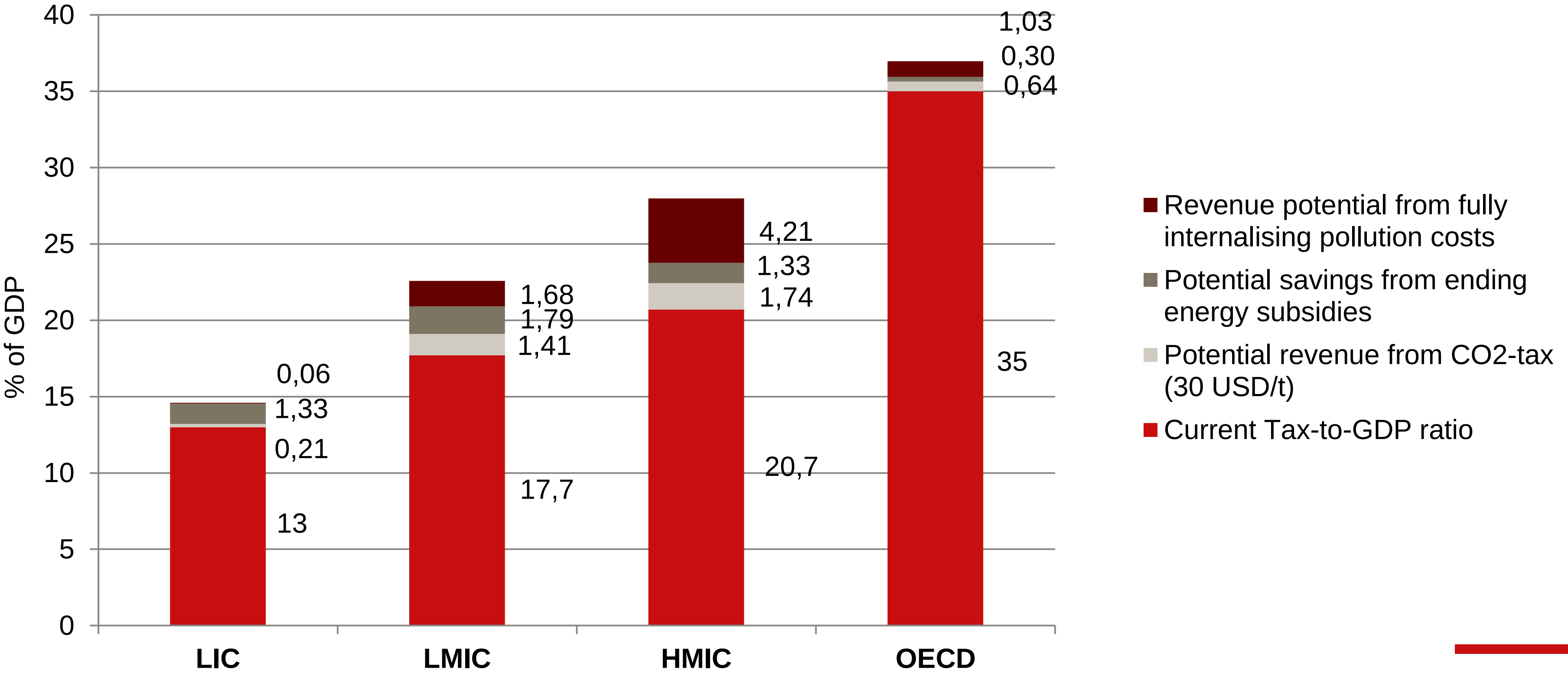
Current revenue and revenue potential of green fiscal reform

Revenue from environmentally related taxes in OECD countries (2014)

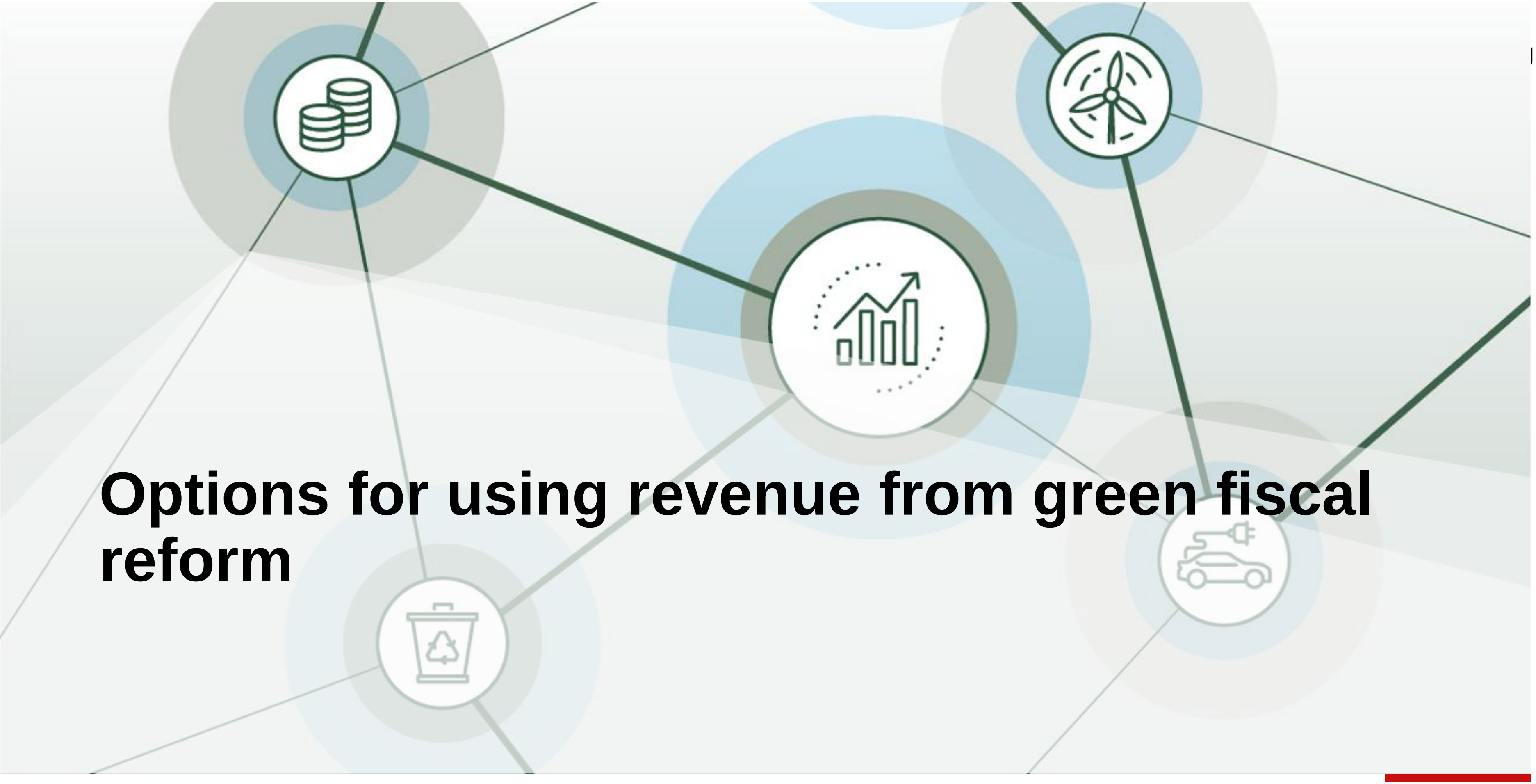


 Source: OECD Stat, 2014 (https://stats.oecd.org/Index.aspx?DataSetCode=ENV_ENVPOLICY#)

Average revenue potential of socially optimal energy taxation in countries in different income groups



 Source: OECD 2018 (https://www.oecd-ilibrary.org/taxation/domestic-revenue-mobilisation_a87feae8-en and IMF 2015 (https://www.imf.org/en/Publications/WP/Issues/2016/12/31/How-Large-Are-Global-Energy-Subsidies-42940)



Options for using revenue from green fiscal reform

Options for using environmentally related tax revenue

- Fiscal consolidation
- Increased spending
- Green spending
- Reducing labor taxes
- Reducing capital or corporate taxes
- Directed social ransfers
- Uniform transfers

Legal aspects of using environmental tax revenue

- In many countries earmarking of tax revenue is not possible or limited (total coverage principle)
- In certain circumstances, tax-financed special assets can be created
- Even without earmarking, tax revenues can be attributed to a purpose by political declaration („soft earmarking“)
- Non-tax revenue can always be earmarked.

Considerations on how to use revenue from green fiscal reform

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General wisdom of public economics on using revenue from environmental taxes

- Focused on efficiency and equity

- If the initial tax system is suboptimal, using revenues to correct distortive labor taxes perform well both for equity and efficiency.

- Trade-off: Corporate/capital tax reductions are most efficient but least equitable.

- If the tax-system is (close to) optimal, lump-sum payments perform best in terms of equity and efficiency.

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And yet…

Benzin 5 DM · Tempo 100 · Hasch frei · NATO auflösen

Grüner Alptraum

Die linke Basis schockt die Realos! Auf dem Parteitag von Bündnis 90/Grüne in Magdeburg beschlossen die Delegierten das Wahlprogramm 1998 – ein Horrorkatalog! Beispiele: Ein Liter Benzin soll bald 5 Mark kosten. Haschisch und Marihuana sollen legalisiert werden. Die NATO soll abgeschafft, das Asylrecht aufgeweicht werden. Lähmendes Entsetzen bei der Grünen-Führungsspitze. Fraktionschef Joschka Fischer aschfahl: „Nun bin ich die Außenminister-Diskussion los." SPD-Kanzlerkandidat Gerhard **Schröder**: „Ein Benzinpreis von 5 Mark ist wahnsinnig! Mit mir nicht machbar!" Außenminister **Kinkel** (FDP): „Deutschland darf nicht außen- und wirtschaftspolitischen Geisterfahrern überlassen bleiben."

Das Alptraum-Programm der Grünen – Seite 2.

(Bild-Titelblatt, 9. Mai 1998)

Additional considerations on acceptability of revenue use

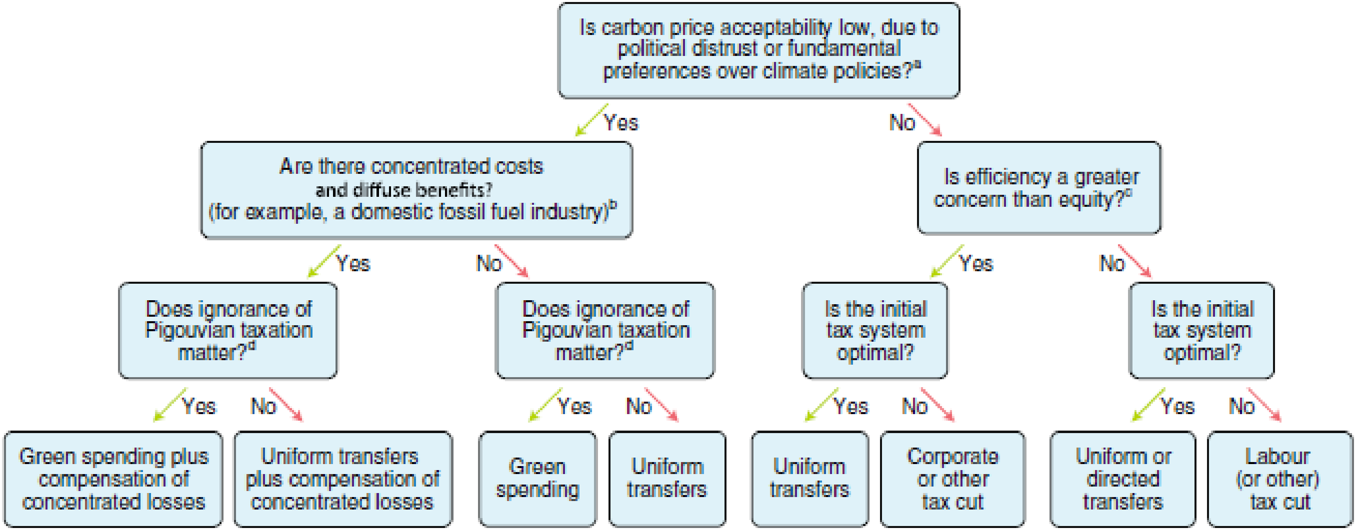
- Political trust
- Support for climate policy
- Is Pigouvian taxation understood?
- Distribution of costs and benefits

Recycling mechanisms ranked for effciency, equity and acceptability (Klenert et al. 2018)

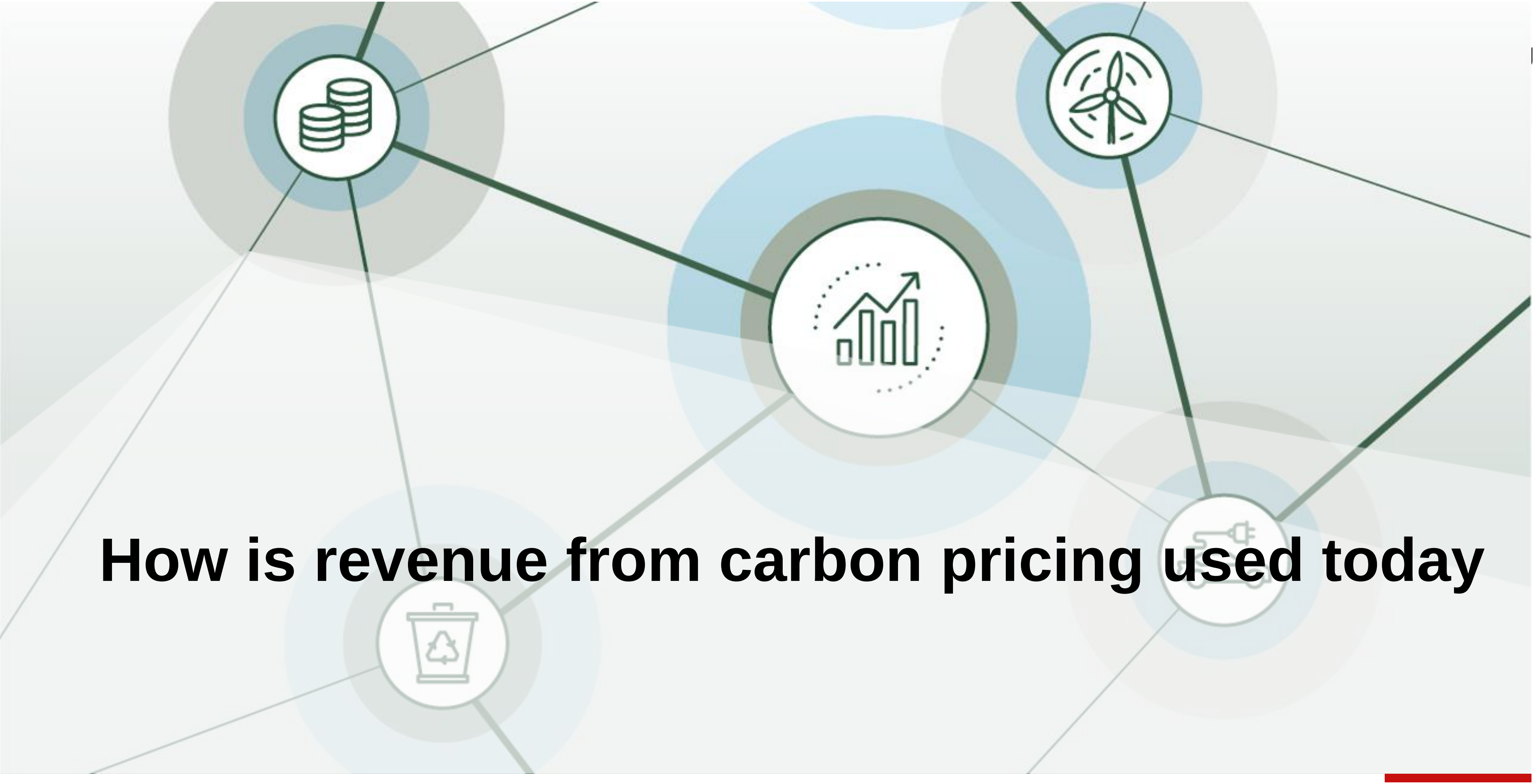
Recycling mechanism	Efficiency	Equity	Acceptability
Labour tax (initial system non-optimal)	+	+	0
Labour tax (initial system optimal)	0	0	0
Capital/corporate tax (initial system non-optimal)	+	–	0
Capital/corporate tax (initial system optimal)	0	–	0
Directed transfers	0	+	+
Uniform transfers (initial system non-optimal)	0	+	+
Uniform transfers (initials system optimal)	+	+	+

 Source: Klenert et al. 2018 (https://www.nature.com/articles/s41558-018-0201-2)

Decision-tree for carbon pricing revenue recycling (Klenert et al. 2018)



 Source: Klenert et al. 2018 (https://www.nature.com/articles/s41558-018-0201-2)



How is revenue from carbon pricing used today

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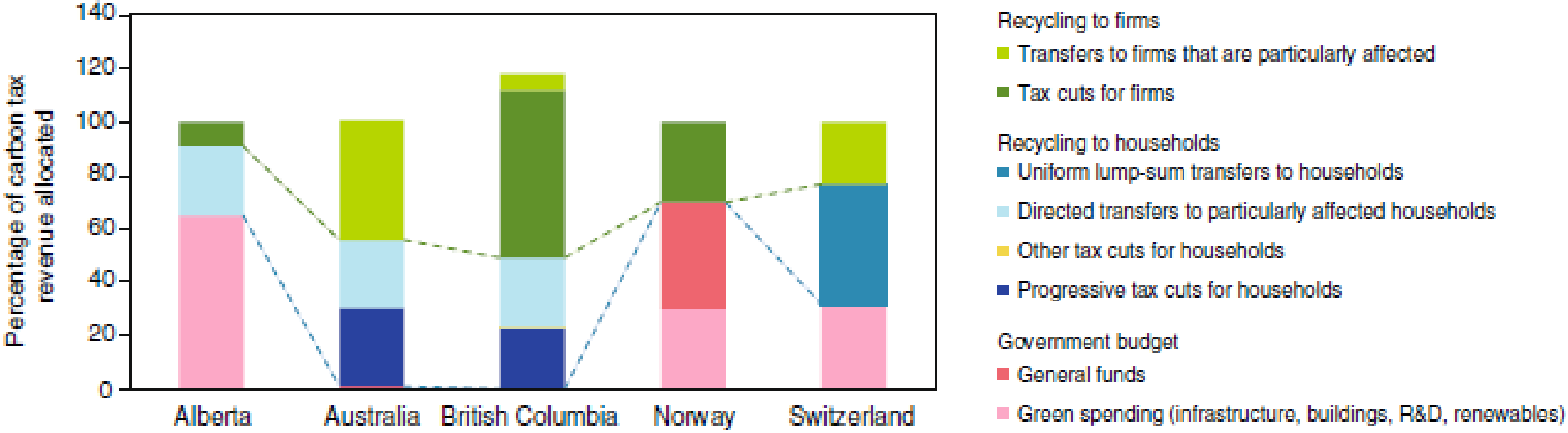
Real-world revenue recycling (2013)



Thank you!

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