

AN ALTERNATIVE TO ENVIRONMENTAL TAXES? REPLACING THE SOCIAL CHARGES BY AN ECO-TAXATION BASED ON POLLUTING CAPITAL

Leo Dayan¹, Bernard Dupont²

Translation from French : Jacques Hallard

The challenges of the French "Environmental Grenelle Process" expected to focus on choosing a sustainable development promoting environmental protection, competitiveness, territorial attractiveness, full employment and accessibility of all consumers to environmentally clean products. But environmental proposals referred to the conclusions could result in new budgetary expenditures for the State³ and in addition of new taxes. It is unclear how this tax increase would be up to the challenges posed, and social equity and economic efficiency would be reconciled by encouraging sustainability.

The taxation is bringing the environmental burden on consumers and less fortunate peoples. The eco-taxation favours a restorative strategy rather than a preventive approach and guides the market towards investment and research in improving existing technologies rather than changing them. This approach is costly, pernicious, unfair and overall inconsistent.

Sustainability raises the question of reducing quantitative and qualitative control of flows and stocks of withdrawn matter and energy, and collected waste. The aim is increasing the productivity of natural resources taken to produce more with less and to outlaw the use of polluting substances or confining them into tight and stable environments to produce better. This goal led to reuse any waste of a resource for another, to establish eco-links between local activities. But regardless of resource productivity is also encouraging work, training and human engineering. A condition for implementation of eco-links is not to restrict the hiring and seek full employment of human potential. Some social security contributions high labour costs and discourage hiring. Delete employers' payroll taxes is necessary but is only possible by introducing a new compulsory levy.

One first idea would be to remove these charges and simultaneously to introduce an additional mechanism for VAT, so that governments have the same budget. This social VAT has strengths.

It has no inflationary effect, is neutral on labour, capital and the State incomes. It encourages firms to hire by reducing labour costs, It responds well to the goal of reviving employment, but its major flaw is ignoring the objective of sustainable development and damage the environment because its revival effect will boost growth according to a homothetic blueprint.

¹ Leo Dayan, University of Paris 1 Pantheon Sorbonne. Scientific Director of APREIS (European and International Actors, Practices, Research for Sustainability www.apreis.org)

² Bernard Dupont, University of Lille 1. Scientific Adviser to APREIS.

³ Ecological bonuses for the purchase of more clean cars

A mechanism of ecological VAT should, it is believed, avoid this threat. If this eco-tax does not change the price of production, it amends however the consumer prices. Add the current VAT rate further increases sales prices. This proposal is only favourable to the government, whose revenues will increase. Employees see their purchasing power cut. There is any incentive for the firms to hire. The ambition of an eco-tax is to restructure demand in pushing buyers of non-ecological materials and goods, but the mechanisms are uncertain and relied negligent reviving employment.

An innovative tax reform would be to abolish social charges for employers and simultaneously create an eco-tax on polluting capital. The salary costs decrease, employment is revived and the State increases the cost of polluting capital in order to maintain the same budget. The prices of production remain the same, as consumer prices because there is no reason to change the rate of VAT. This reform ensures neutrality on the budget, incomes and prices of production and sale. More importantly, it affects the heart of the polluting production system by activating the mechanisms of substitution between factors of production, as polluting capital becomes more expensive than working capital and than non-polluting capital. For the firms, the only way out is to distort the mix of technologies by more intensive use of labour and clean capital and less polluting capital.

In total, the abolition of payroll taxes makes the economy more competitive, reduces the grounds for relocation; it promotes employment and rehabilites socially. The eco-tax on polluting capital balances the social accounts, encourages companies to innovate and to invest in eco-links, protects preventively nature and health. In two words, two measures: sustainable development.

Some points to be clarified. First of all, sustainability legitimates a tax on imports of non-renewable and polluting materials and goods to promote investment in eco-links. The countries whose growth depends on the export of these products will receive compensation. Then, price controls are incompatible with the European market, the time required for the change of technological trajectories requires transitional measures. Finally, the success of the reform will be measured by the phasing out of polluting technologies and therefore about shrinkage of the base of assess for social security. The solvability of social organizations requires other fiscal instruments in a new revised context of full employment and decreasing costs associated with unemployment and environmental diseases.

It remains to develop the criteria defining the polluting capital and to discuss practical arrangements. And when they buckle down to this task, the Economics and Finance Ministry will discover it is also Ministry of Sustainable Development, the Ministry of the New Economy: that of sustainability.

June 2008
