Social protection and redistribution policies for green growth

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Why have environmental taxes?

• Aim is to put human activity on to an environmentally sustainable footing while maintaining (and improving) living standards

• Environmental taxes* aim to make the price of consumption goods = marginal social cost (i.e. the economic cost of production + social cost of environmental degradation*)

• Other policy instruments work by regulating activity – also impose costs

*Other taxes could target other social externalities
Why be concerned about social protection?

- Fairness – concern that the burden of adjustment falls on those most able to bear it rather than the least well off
- Political economy – worthwhile reforms are more likely to gain support if perceived to be fair and equitable (dimensions of equity include vertical and horizontal equity, intergenerational equity, international equity, ....)
- Effectiveness – well designed compensation may help transition to a cleaner/greener society
Distributional analysis

• Aims to identify who is impacted.
• Dimensions:
  – Income Vs Expenditure
  – Household type (singles, family, etc)
  – Geographical (urban, regional, rural, etc)
  – Age of household
  – Education, occupation, skill level ...
• What data and tools do we need?
Distributional analysis - factors

• Different impacts for different consumption goods or services
  – E.g. carbon/energy intensity of the item taxed
  – Importance of the item in household consumption
  – Substitutability and elasticities (price/income)
• Different results depending upon whether analysis is based on income or expenditure
  – Effect of savings and borrowing
  – Life cycle effects (e.g. students and pensioners)
• Examples of distributional analysis*
  – Transport fuel
  – Heating fuel
  – Electricity

* Based on work of the JMTEE, ‘The distributional effects of energy taxes’ COM/ENV/EPOC/CTPA/CFA(2014)36
Average taxes on energy carriers as % of net income or pre-tax expenditure 21-country averages

- **Income basis:** Tax on expenditure item ÷ pre tax total income; by pre-tax total income deciles
- **Expenditure basis:** Tax on expenditure item ÷ pre tax total expenditure; by pre-tax total expenditure deciles
Average taxes on energy carriers as % of net income or pre-tax expenditure 21-country averages

- Expenditure analysis shows taxes on energy as less regressive than income analysis
- Transport fuel taxes overall proportional (income basis) or slightly progressive (expenditure basis)
- Taxes on heating fuels slightly regressive (income basis) or proportional (expenditure)
- Taxes on electricity more regressive than taxes on heating fuels and more regressive on an expenditure basis than on an income basis.
Other considerations

• Compensation versus transitional assistance
  – Should compensation be based on current consumption patterns?
  – Should there be a temporary adjustment assistance with less ongoing compensation?
  – Budget sustainability considerations

• Targeting efficiency
  – Should we compensate everyone or just the needy?
  – Blanket exemptions mean we compensate many who do not need compensation
Discussion leaders:

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