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

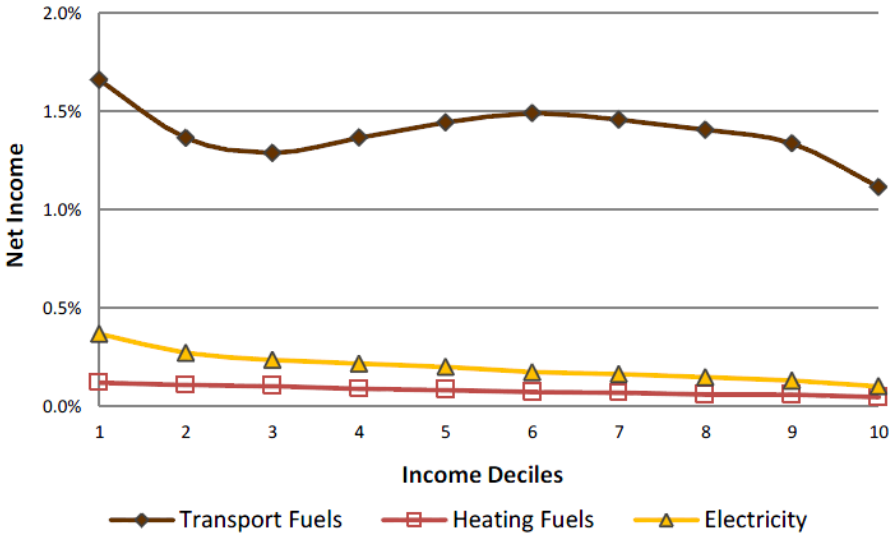
- Aims to identify who is impacted.
- Dimensions:
  - Income Vs Expenditure
  - Household type (singles, family, etc)
  - Geographical (urban, regional, rural, etc)
  - Age of household
  - Education, occupation, skill level …
- What data and tools do we need?

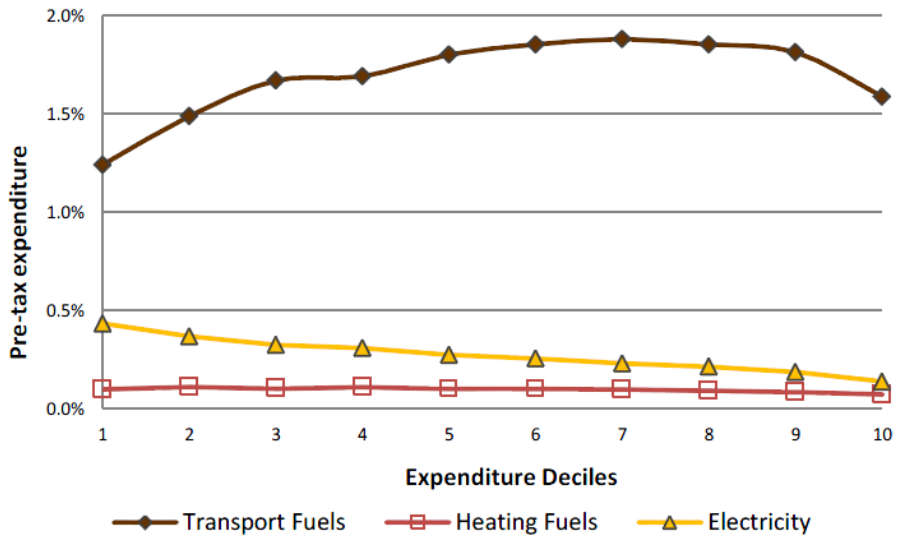
Distributional analysis - factors

- 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)

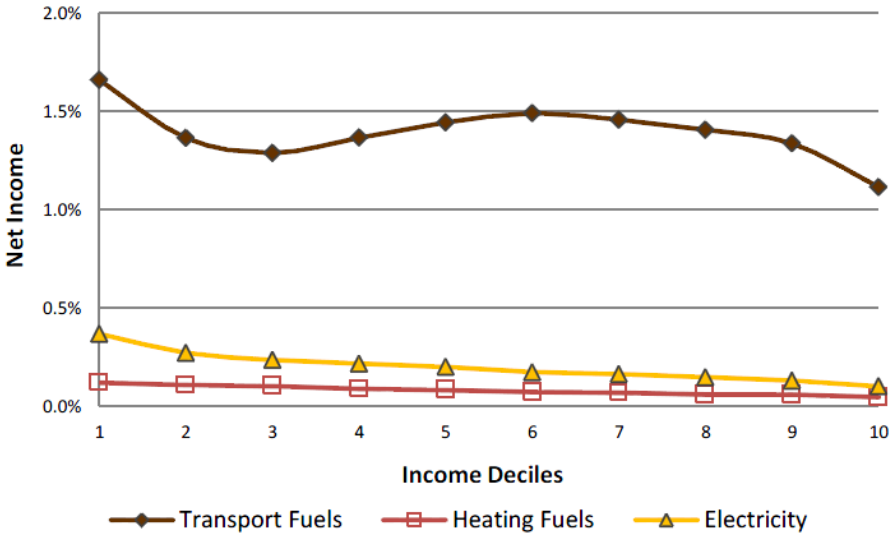


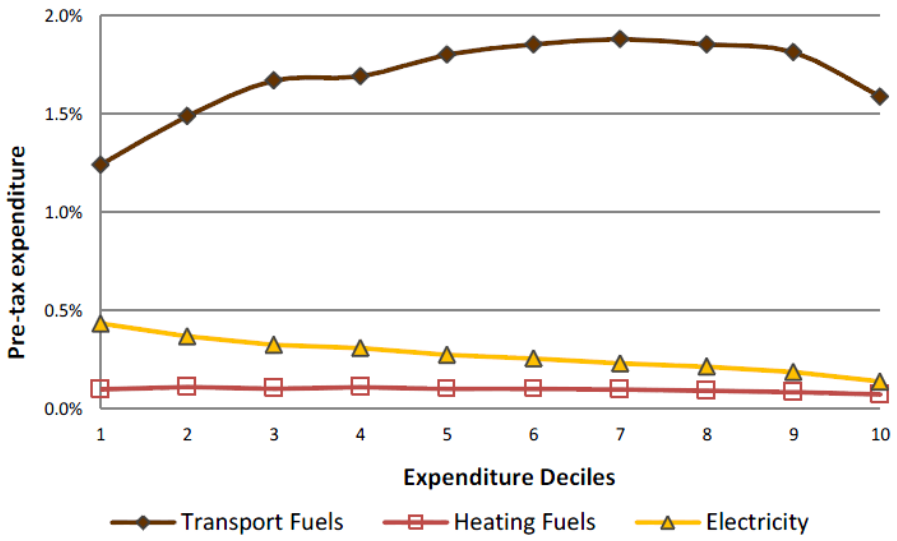


- Income basis: Tax on expenditure item ÷ pre tax total income; by pre-tax total income deciles

- 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:

- ***Sunghoon Hong,*** Korean Institute of Public Finance
- ***Leida Rijnhout,*** Director, Global Policies and Sustainability Unit, European Environmental Bureau
- ***Stefan Speck***, Project Manager, Integrated Environmental Assessments Programme, European Environment Agency
- ***Christian Valenduc***, Senior Advisor, Belgian Ministry of Finance