

in brief...

Saving the economy and the planet

The current economic crisis may actually offer an opportunity to set the world on the right track for addressing climate change, writes **Ralf Martin**. He suggests that governments should seize this chance to promote pro-environment fiscal stimulus measures as well as an environmental tax reform.

The current global crisis (economic) and the potential global crisis (environmental) are connected – or at least they should be.

Some worry that the current crisis may make an environmental disaster more likely by making governments and companies less inclined to implement the necessary regulatory framework and make the required investments. As journalist and environmental campaigner George Monbiot has written, we might be remembered as ‘the generation that saved the banks and let the biosphere collapse’.

But there is a more hopeful version of the two-crisis connectedness. The current mess might actually help us to address climate change and other environmental problems.

The global economic crisis as a lesson in the global ‘tragedy of the commons’

The global economic crisis illustrates how a global system can suffer from failures that build up slowly over a long time as a result of behaviour that each set of individual, institutional and national actors finds rational or at least politically expedient.

It also shows that such crises can be extremely costly to address after it is ‘too late’, even those that would be

relatively cheap to deal with early on. The parallels with climate change are obvious.

The global response to the economic crisis as an opportunity

Another thing the economic crisis has illustrated is that governments can act quite decisively if necessary. These days, governments around the globe seem to be competing in putting together ever more spectacular rescue packages and fiscal stimuli. Clearly it would be good if some of these government handouts could come in the form of much needed investments required for making the transition to a carbon-free economy.

A good idea for Europe, for example, would be any contribution towards an integrated superconducting electricity grid that can simultaneously harness and distribute solar energy from northern Africa and offshore wind energy from Northern Scotland and other places (see <http://desertec.org/>).

Governments should promote fiscal stimulus measures that benefit the environment



The economic crisis might actually help us to address climate change

Another suggestion is to have subsidies for improving the energy efficiency of the housing stock. This would very directly help homeowners struggling with mortgage payments as well as the hard hit building industry.

Climate change policies as a tax bomb shelter

A big worry with all of such measures is of course that somebody in the future has to pick up the tab. The UK opposition parties have accused the government of heading towards a 'tax bombshell'. Is this unavoidable? It might be that an old policy measure from the environmental economists' toolkit is just what governments need right now to help both the economy and the planet while avoiding a future tax bombshell. It's called an environmental tax reform.

At present, most tax revenue is derived from taxes on income and labour. In an environmental tax reform, we would reduce these kinds of taxes and – in a revenue-neutral way – levy taxes on energy usage or directly on greenhouse gas emissions. Thus, rather than taxing productive activities, we would tax damaging activities such as pollution.

This would not only make much more economic sense, but also provide a stimulus for jobs in both the short and long run. Thus, it would be the ideal policy to implement now in an effort to boost employment. But even better, it is also a sustainable stimulus package that does not require any extra borrowing.

Fixing the regressive features of pollution taxes

The standard argument against pollution taxes is that they are likely to be regressive since poorer people spend a

larger fraction of their income on energy and thereby pollution. But there are clever ways of dealing with this. For example, since poorer people receive an even larger fraction of their income in wages, proceeds from CO₂ or energy taxes could be used to reduce wage taxes specifically, which would then offset the regressive impact of pollution taxes.

Some simple arithmetic¹ suggests that this could increase the income of the average wage earner by as much as 21%. Indeed, since the consumption behaviour of poorer people is also more sensitive to changes in income, this could actually provide an additional boost for the economy.

Conclusion

The damage being wreaked by the global economic crisis is nothing compared with the 'environmental credit crunch' that could occur, at least according to climate change campaigners. Governments should seize this 'win-win' chance to promote fiscal stimulus that is also pro-environment.

They should also take the occasion to embrace an environmental tax reform by reducing wage taxes while increasing taxes on greenhouse gas emissions. This would provide a stimulus for employment while keeping government budgets in balance and contributing to saving the planet in the long run.

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¹ <http://personal.lse.ac.uk/martinr/envpol/papers/taxAppendix.pdf>

