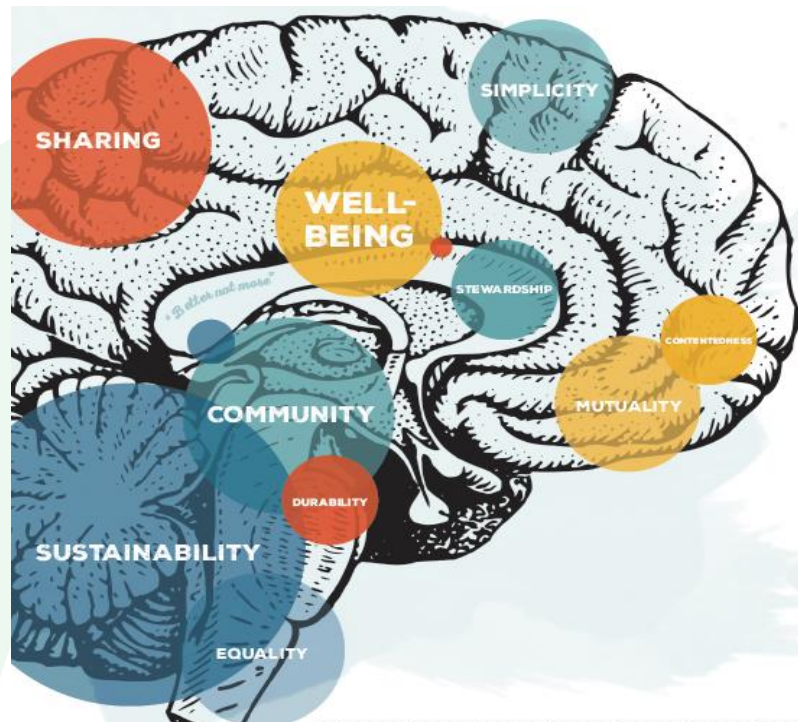




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Green taxation for a Post-growth Economy

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Friends of the Earth Europe gratefully acknowledges financial assistance from the European Commission and Umweltbundesamt. The contents of this document are the sole responsibility of Friends of the Earth Europe and cannot be regarded as reflecting the position of the funders mentioned above. The funders cannot be held responsible for any use which may be made of the information this document contains. Detailed information about Friends of the Earth Europe's funding can be found at: www.foeeurope.org/about/financial



In most countries, taxation of both citizens and private corporations is the primary source of state revenue. In the shift towards a post-growth economy, taxation will be very important along with tariffs, penalties, and subsidies. By taxing certain economic activities, governments can have some control over both desirable and undesirable industries or consumption patterns. In addition, since taxation is a key monetary resource for governments, it also helps to fund public services that are designed to redistribute wealth. Hence, **green taxation policies can be designed to encourage, limit, or redistribute the profits of market activities** toward a more just society that exists within the biophysical capacity of its environment.

Governments need to be aware of some important limitations to current taxation schemes that encourage growth rather than environmental conservation and restoration.

Firstly, citizen and corporate taxes are primarily based on revenue, rather than material or energetic use. As such, environmental impact is rarely addressed through taxation schemes, although it should be encouraged further if not prioritised. The use and exploitation of natural resources should be limited, and taxation can be an effective mechanism in some circumstances. There is widespread consensus among ecological economists and many environmental organisations that **society should tax what is harmful to the environment, such as natural resource extraction, rather than what is beneficial, such as income from work**. The most efficient way for doing this is imposing taxation at the source, so that the cost of primary extraction is always reflected in every step of the production process.

Secondly, it is often assumed that market 'externalities' – the bad effects of industry – can simply be solved either by penalising bad market activity through a tax or, alternatively, by creating another 'market' to put a price on undesirable transactions. For example, while carbon taxes can function as a disincentive to carbon emissions, carbon trade schemes assume that once you create a property rights structure for carbon emissions, industries will limit emissions more efficiently without top-down regulations. However, all industries will inevitably try to shift their costs to society or the environment, and therefore neither a taxation structure nor regulating property rights will be sufficient to limit market externalities.

Thirdly, industrial growth is not only generated by rational choices and supply and demand, but is also due to changing social norms. One such social norm is what it is called "conspicuous consumption", i.e. the drive for people to consume commodities simply because it sets them apart from others. This norm is self-perpetuating, causing more and more non-functional growth. **Since taxes mainly penalise income rather**

than expenditure, they miss an opportunity to make conspicuous consumption a disincentive, thereby driving consumers to spend lavishly on goods that display their wealth, further encouraging a culture that gives material and materialistic consumption a high value.

Finally, current existing taxation schemes are neither formulated through participatory institutions, nor do they take into account a complex and constantly changing economy. In some rare cases, proposed changes receive feedback from citizens through participatory focus groups or surveys. In most cases, taxation is only democratic inasmuch as those elected by the citizens will have the greatest role in implementing policy changes. However, the actual process of designing new taxation schemes remains a highly bureaucratic and technocratic process out of the public eye.

One major worry for any government wanting to shift to an equitable post-growth economy is that sources of state revenue will decline, since taxes will be tied to undesirable industrial and consumer activity, which is designated to decrease. In the long term, a key challenge will be to maintain adequate sources of revenue to fund necessary state services such as pensions, health care and transport infrastructure. But this challenge can be addressed by **adopting a more progressive approach to wealth taxation and, even more importantly, by closing tax loopholes and banning tax havens.**

If Europe gets serious about fighting climate change and imposes a cap or a tax on its carbon emissions from production processes, **it will become necessary to impose Border Carbon Tax Adjustments to protect domestic producers from competition from countries that do not tax or cap emissions.** Until recently, such tariffs were deemed politically unrealistic, but the World Trade Organization has now admitted that its rules do not prohibit such tariffs, and there is growing political recognition that tariffs are an option to defend countries from countries that do not take similar commitments to cut their emissions. Recently, the French President Emmanuel Macron and IMF chief Christine Lagarde publicly supported this idea.

Differential taxation could also be introduced on goods and services which are more durable, more useful and less harmful to the environment and health. Tax exemption for repairs could be one example. Tax breaks on repairs would make it attractive for consumers to keep products longer in use, but also create pressure on producers to offer long-lasting, repairable products which, in turn, could be priced up. Consequently, the price per service enjoyed would still be decreasing, which is important for a post-growth economy entailing declining purchasing power for

consumers. **Tax breaks on repairs would also strengthen local initiatives like repair cafés or ‘makerspaces’ which would then have an impact on social aspects of sustainability**, strengthening local communities, and building social capital. Furthermore, automatisations is much less of a threat to repair and recycling as it is to mass production: REconomy jobs (repair, reuse, recycling, remanufacturing) are qualified and more secure than production jobs.

At the EU level, such tax breaks are ruled through the ‘Value Added Tax Directive’ which at the moment contains a list of repair activities for objects eligible for reduced VAT rates—including shoes, textiles and bicycles, but not furniture, and electronic equipment. Currently, the European Commission is proposing to extend the VAT exemption to all repair activities, if not otherwise stated. An alternative way to create green price signals would be through ‘extended producers responsibility schemes’, so that producers are responsible for the treatment or disposal of post-consumer products.

This Discussion Paper is based on the analysis presented in the booklet [Sufficiency: Moving beyond the gospel of eco-efficiency](#) published by Friends of the Earth Europe in March 2018.



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