A Climate of Equality

Protecting the Environment and Safeguarding Justice in a Progressive Tax System

Jacqueline Cottrell
Director, Ecottrell Ltd.
Freelance associate, Green Budget Germany

Workshop to launch new VIDC study, A Climate of Equality

A Climate of Unfairness:
Dimensions of Inequality in Climate Policy

1. Inequality of exposure
   => Climate change are environmental degradation are obstacles to poverty alleviation.
   => Climate change threatens to push as many as 132 million people into poverty by 2030.
   => Poses the gravest threats in poorest parts of the globe: SSA and South Asia

2. Inequality of representation in policymaking
   => high vs. low-income groups
   => gender

A Climate of Unfairness: Dimensions of Inequality in Climate Policy

3. Inequality of contributions to pollution

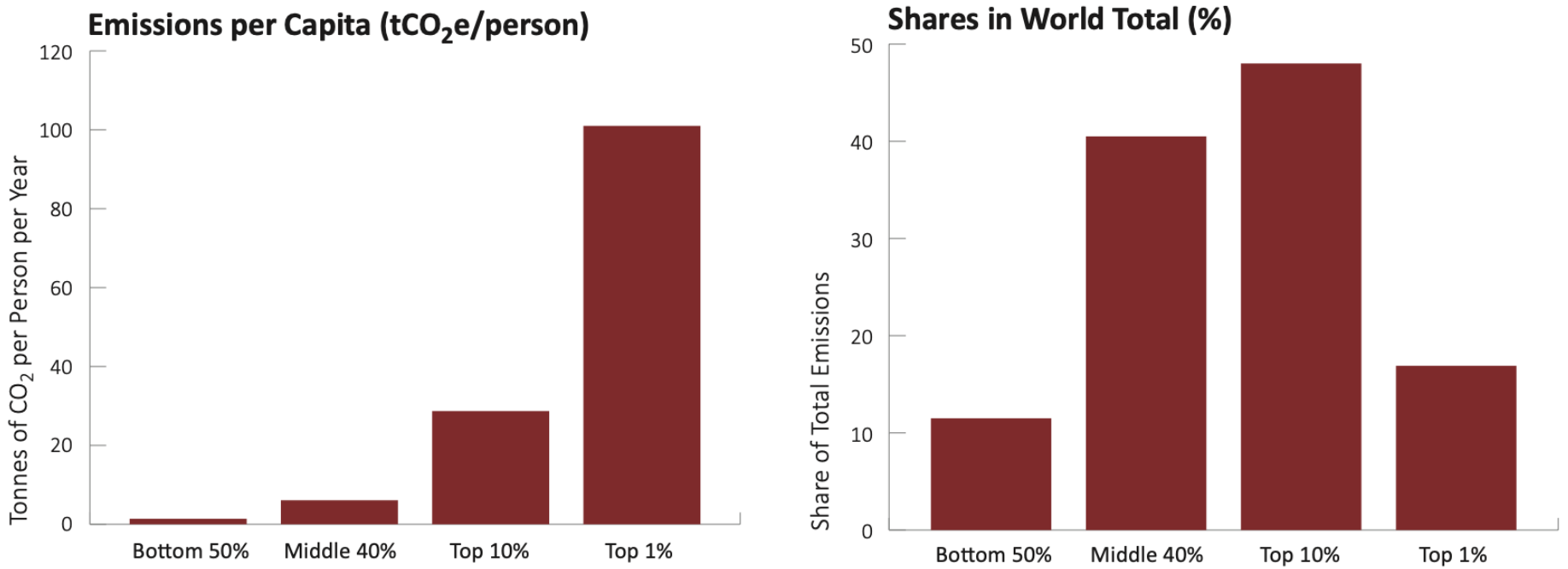


Figure 1: Emissions per capita and the share in global emissions by global emitter ranking (2019)

Source: Chancel et al. 2023

A Climate of Unfairness:
Dimensions of Inequality in Climate Policy

4. Inequality of outcomes resulting from environmental taxation

   => Regressivity vs. Progressivity: does it matter?

   => In Low and Middle-Income Countries (LMICs) absolute impacts of price changes on the incomes of poorest and most vulnerable are more important

   => How can we obtain meaningful progressivity through a combination of measures: environmental taxes (ET) / carbon taxes (CT) and expenditures

   => In some contexts, ETs can have progressive impacts
   e.g. domestic electricity, private vehicle ownership and use

The implications of environmental effectiveness for fairness, equity and tax justice

⇒Social equity (and competitiveness) concerns often result in ET being introduced at too low a rate

⇒Fail to bring about meaningful behavioural change, influence investment decisions, and thus fail to realize environmental improvement

Examples (but there are many more!)

- Average carbon tax rate in MICs around EUR 5/tCO2
- In Nepal, Pollution Control Tax EUR 0.01/litre – less than 1% of the fuel price
- In Guyana, environmental levy on non-returnable beverage containers set at EUR 0.05 in 1995, has not been reviewed or increased since

Failure to implement carbon/environmental taxation represents a failure to implement the polluter pays principle (PPP)

- ⇒ PPP = polluter should in principle bear the cost of pollution
- ⇒ Failure to implement PPP and protect the environment perpetuates inequality of exposure and the inequality of contributions to environmental degradation
- ⇒ We can implement the PPP through the introduction of ET at appropriate level alongside social mitigation and compensation instruments

Predicting impacts

⇒ Social Impact Assessment

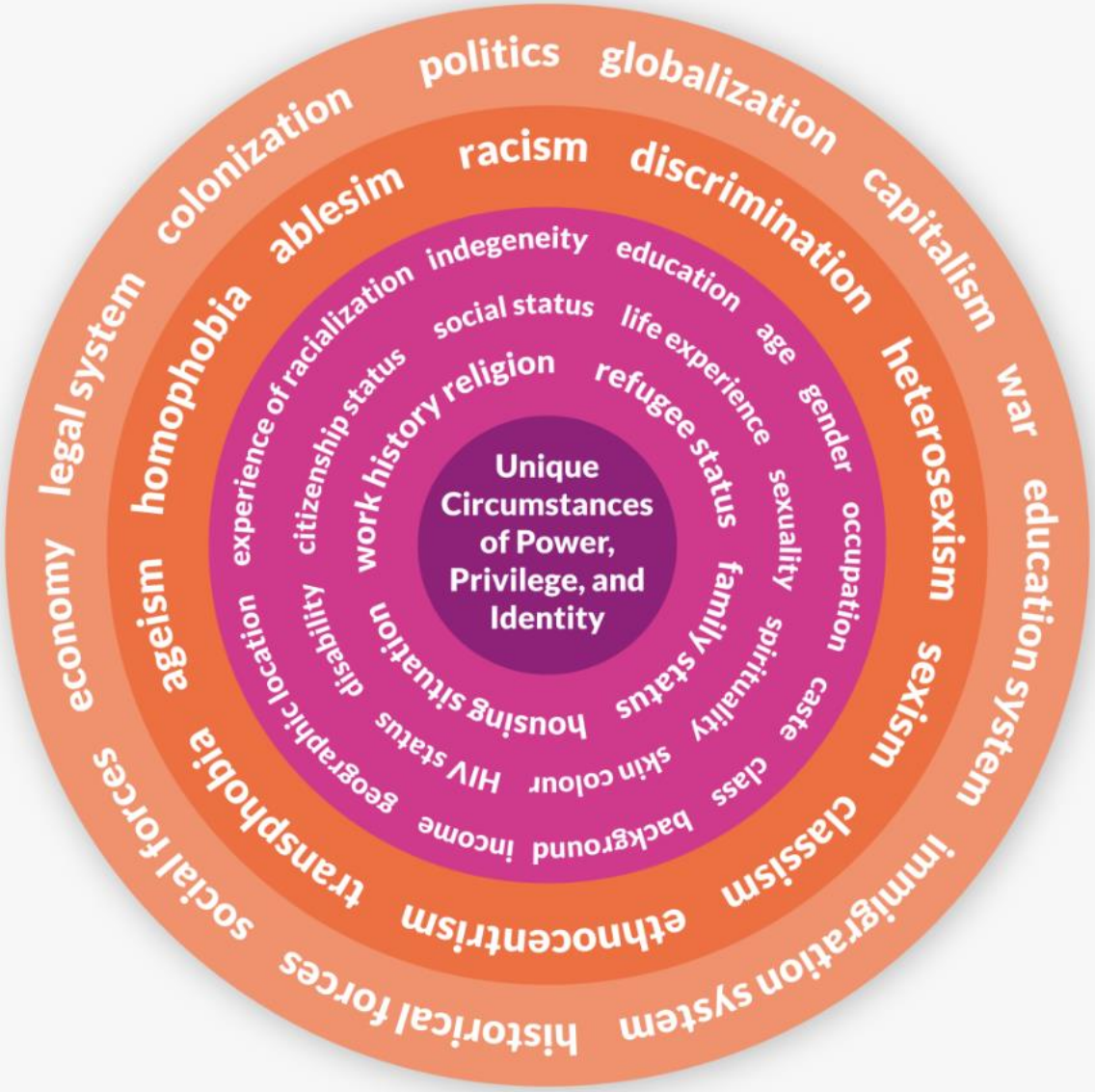
⇒ Availability and price of less polluting alternatives / technologies

⇒ Intersectionality and multiple dimensions of deprivation

⇒ Factors beyond household income to determine vulnerability

⇒ Multiple positive and negative, direct and indirect impacts on prices, access to goods and services, employment and subsistence, assets, etc.

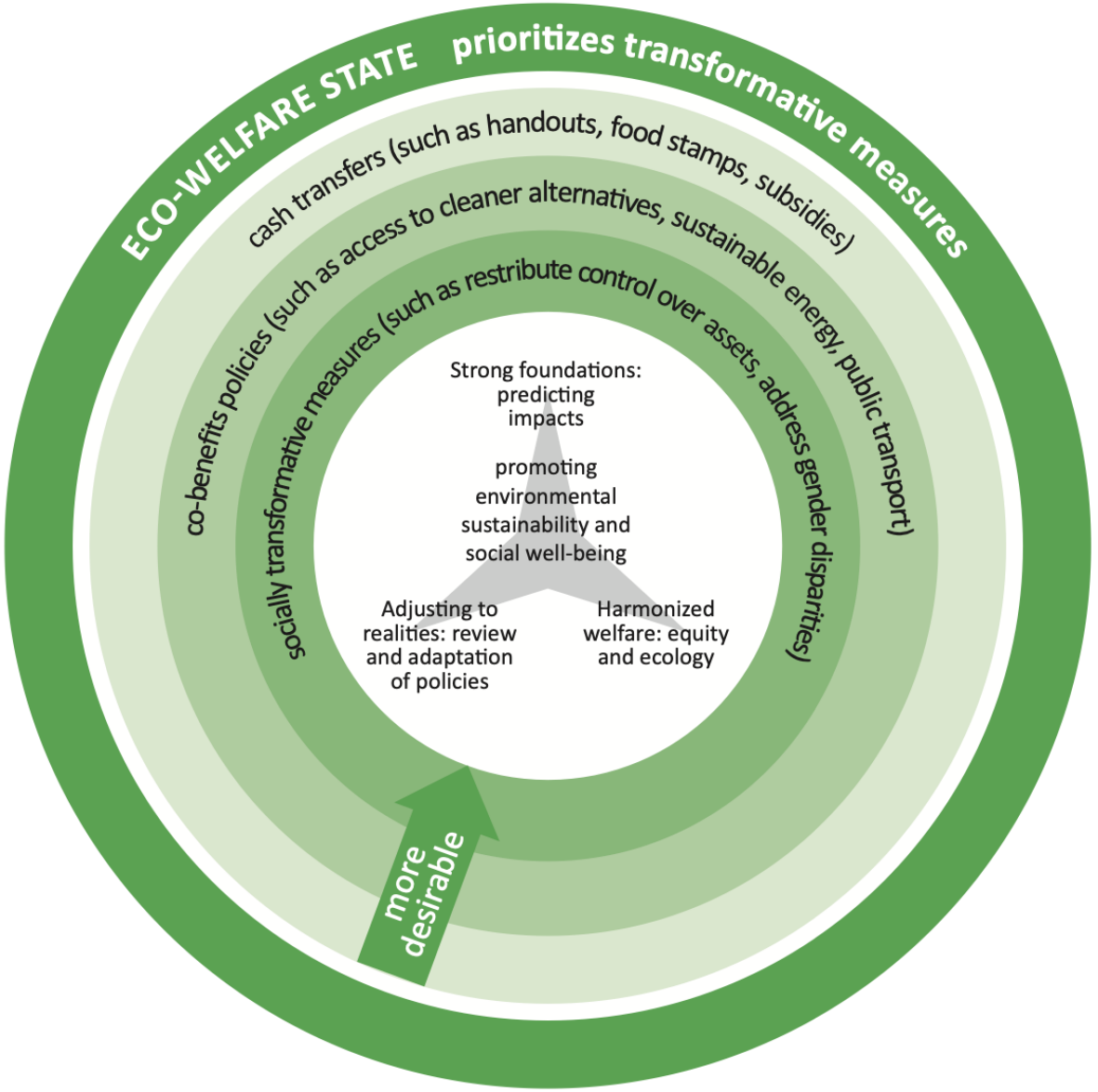
⇒ Dynamic: understand impacts and responses over time



Source: https://womenfriendlycitieschallenge.org/intersectionality/

Integrated approaches to embed ET within the eco-social welfare state

"A political and economic system in which the government simultaneously prioritises environmental protection and citizen well-being [and] emphasises harmonised policies and programmes that promote environmental sustainability and social well-being"



Examples of (eco) social welfare measures

⇒ Retaining incentive effect through access to alternative technologies, e.g. PROSOL in Tunisia

⇒ Guaranteeing energy access, e.g. through lifeline tariffs for electricity supply in the Republic of South Africa

⇒ Digitalised welfare system, e.g. smart cards in Indonesia

⇒ Transfers to bank accounts of poor citizens using ID systems, e.g. in India

⇒ Cash transfers, e.g. in Senegal, distributed through the post office network

⇒ Enhanced access to key services, e.g. access to healthcare and primary education in Ghana

⇒ Low-tech solutions drawing on local knowledge to identify vulnerable households, e.g. village leaders in Kenya and local communities in Rwanda

Environmental taxation and gender

⇒ Indirect taxes: women are disproportionately represented among low-income earners, very likely to be more affected

⇒ ET/CT on goods and domestic services have a high potential to disproportionately impact women

⇒ Excise might result in higher burden for a certain gender – if excise represents the **true cost of a good or service**, this is simply the PPP – distribution fairly reflects undesirable behaviour of the consumer

⇒ In such cases, gender-based differences in taxation are justified by policy objectives relating to health or the environment

⇒ However, if costs are not internalised, there may be a bias, with one gender subsidizing the other

⇒ Tackling gender bias within the tax system calls for a broad approach - not considering ET in isolation but the fiscal system and eco-welfare state

Carbon taxes, environmental taxes, luxury taxes

⇒ Wealthy tend to pollute most because they consume more energy products and are able to access energy-intensive products

⇒ Per unit carbon taxes implements the PPP – by levying a tax per unit of carbon emitted – directly taxes over-consumption by wealthy individuals in proportion to their carbon emissions

⇒ Those who emit most carbon will pay more carbon tax

⇒ Sequenced introduction of ET or CT can target goods and services consumed more by wealthier income groups, e.g. gasoline (rather than diesel), purchase and circulation of private vehicles, progressive taxes on frequent flyers

Last word: complementary taxes with different objectives and tax bases

⇒ There are many proposals for direct taxes that link wealth, capital accumulation, and climate change, e.g. levies on carbon-intensive investment portfolios or wealth taxes with a pollution top-up element

⇒ These are not levied on an environmental tax base and are not primarily designed to bring about environmental improvement through mitigation of pollution or GHG emissions

⇒ Such taxes will not deliver climate and environmental objectives as efficiently as ET and CT levied directly on environmental tax bases (e.g. carbon or pollution)

⇒ Direct taxes levied on carbon-intensive economic activities can serve other purposes, e.g. raise revenue to help close the climate finance funding gap, redistribute burden of taxation, or finance a progressive and inclusive social and ecological welfare state

⇒ More holistic approaches to fiscal policies (taxes and expenditures) can enable higher carbon and environmental tax rates and so deliver on climate and environmental policy objectives

Thank you for your attention!

Jacqueline Cottrell
Freelance Associate, Green Budget Germany
Director, ECOTTRELL LTD.

Jacqueline.Cottrell@foes.de
Tel: +44 (0) 789 43 42 504

Linked in:
https://www.linkedin.com/in/jacqueline-cottrell-green-fiscal-policy-consultant/