

Ecological tax reform in Germany: handling two hot potatoes at the same time

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Abstract

Combining environmental with employment objectives, ecological tax reform (ETR) envisages a double dividend. While research has mainly focused on the socio-economic and environmental impacts of ETR, there is less literature on the social responses. This paper gives an overview and history of German ETR as well as investigating the understanding of perceptions and attitudes towards ETR of those being “subject to tax”. The research is based on qualitative social research methods. As with the other PETRAS papers, interviews were conducted with policy-makers and business leaders and focus groups were formed with lay persons. The results show that responses of policy-makers and business leaders are modest. Although some criticisms about the specific design of the German ETR remain, complaints towards ETR are settled. Attitudes appear influenced by more fundamental convictions such as economic interest or altruistic views. In contrast, ETR appears to politicise common people. Attitudes are influenced by the overall comprehension of the ETR concept, the expected impacts, perceived information deficits, as well as a general distrust in politics. Our data show that the linking of environmental and employment objectives is not understood and not welcomed. In order to increase social acceptance, the paper discusses refocusing ETR on environmental objectives, modestly increasing the share of ETR revenue spent for environmental purposes, removing inconsistencies in the ETR design, and improving information policy.
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1. Introduction

In 1999, ecological tax reform (ETR) was introduced in Germany. German ETR has two objectives. The first is environmental protection, and in particular, the reduction of greenhouse gas emissions as a means of climate change mitigation. The second objective is to reduce the statutory pension contributions in order to reduce labour cost and to increase employment. Both issues have high political visibility in Germany. Environmental policy has been a top priority issue for years but is perceived as being complementary to economic policy and, therefore, competes with other issues.

Unemployment is the biggest issue of public concern and the share of long-term unemployment is continuously increasing. At the same time, the social security system, which is based on the idea of intergenerational justice and compensation, is under scrutiny. ETR addresses all these complex issues with one policy at the same time in an intellectually appealing way. However, other views are that ETR mingles all these crucial issues and does not solve any of them sufficiently. Only a few other policies at issue have polarised the debate as much as the German ETR, not least due to its long history of discussion. Massive criticism contrasts with almost unconditional support.

A review of social responses to ETR in Germany shows that acceptance has generally appeared to rise and fall over the years. Before and during the implementation of ETR, industries and business associations raised most criticism. Once in force, criticism

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expanded to other interest groups and to the general public. In May 2000, when fuel prices exceeded the symbolic price of 2 DM for the first time, the debate reached its climax of negative social response.¹ While protests were organised against rising fuel prices in several other European countries at that time, public protest in Germany was mainly directed against ETR (BMU, 2002, p. 97).² The ensuing discussion between opposition parties and those in government, varying lobby groups as well as government administration was so intense that ETR was close to being dismissed. Countervailing forms of tax relief safeguarded ETR, and the discussion relaxed with decreasing crude oil prices. With its re-election in 2002, the coalition government of Social Democrats and Greens decided not to continue to increase ETR rates beyond 2003. But, although annual increases of ETR ceased after the fifth step in 2003, an increase in the tax on natural gas as well as a reduction of industry exemptions took place in 2004.

The introductory article of this volume outlined the objectives and methodology of the project in detail. Therefore, they will only be partly recalled here. After briefly describing the political and scientific debate on ETR in Germany, the article continues with a presentation of patterns of awareness and understanding as well as attitudes derived from empirical investigations. On that basis, explanatory factors of those patterns are discussed. The article closes with some conclusions on the improvement of social acceptance of German ETR in a broader policy context.

2. Objectives and methodologies

Investigating social responses to ETR, the following objectives are pursued:

- to assess the patterns of awareness of ETR policies,
- to gauge the understanding of the intentions behind ETR,
- to reveal positive or negative attitudes to ETR,
- to identify specific objections to these policies and principles.

In order to address these objectives, the research was designed along the approach of carrying out specific case studies (Yin, 1994). In doing so, this study applied qualitative research methods based on the use of interviews and focus groups. Interviews were conducted

with selected policy-makers and with representatives from businesses. In addition, focus groups were formed with people from the general public.³ In contrast to quantitative social research methods, findings drawn from qualitative methods cannot claim to be statistically representative of the public as a whole or of German industries. Qualitative methods have been chosen because they are the most appropriate means of uncovering thinking processes underlying attitudes expressed by the interviewees.

To provide a background for the business interviews and the focus groups, eight interviews with policy-makers were conducted between August and October 2000. They cover representatives of the Ministry of Finance (BMF), the Federal Environment Ministry (BMU), and the Federal Ministry of Economics and Technology (BMW), as well as of both parties in government: the Social Democratic Party (SPD) and the Greens (Bündnis '90/Die Grünen). The interviews were held with policy-makers involved in the implementation process of the German ETR. Additionally, two interviews were conducted: one with a former representative of the Christian Democratic Party (CDU) and one with an employee at the German umbrella organisation for business associations, the BDI. While the policy-maker interviews provided useful details on the policy formulation and implementation phases, the policy-makers' suggestions on how to further improve the design of the German ETR partly contrasted with the criticism mentioned by the business interviewees and people from the general public.

In the period between September 2000 and June 2001, 12 representatives from five different companies were interviewed. These comprised a chemical company, a car manufacturing company, a financial institution, a textile company, and a transport and logistics company.⁴ The attitudes expressed towards an ETR reflect both the specific circumstances of the respective companies as well as their general corporate identity. Interpretations drawn from the cases were used to identify and discuss possible general patterns of awareness and thinking.

During February and March 2001, five focus groups were formed with randomly recruited people from the general public. Two groups each were formed with people aged 25–40 and 40–60 years, one of each including people with higher incomes and the other including people with lower incomes. Additionally, a fifth group with people over the age of 60 was formed. In total, with about 10 people per group, more than 50 people were involved. By first considering the overall

¹The increase in fuel prices was only in part due to ETR. More dominant factors were the increase in crude oil prices and the exchange rate of the euro.

²See, for example, the "Bild" newspaper several times, e.g. the 3.6.2000 heading "Hello Chancellor, the car drivers are running away" pointing to the voting power of this group.

³On focus group methodology and particularly validity of data, see, for example, the overview section in Dürrenberger et al. (1997).

⁴The companies interviewed were chosen according to three criteria: the size of the company, its energy intensity, and its assumed environmental attitude.

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