

Environmental tax reform: an assessment of social responses in Ireland

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Abstract

Environmental tax reform (ETR) is widely accepted to be a policy with desirable environmental, and other economic effects. The question arises then as to why its implementation has been so patchy. There is a broad literature on the economic impact of ETR, however, there have been very few research efforts devoted to understanding the roles and imperatives of the public, policy makers, businesses and other stakeholders who are addressed by ETR. This paper examines the impediments to ETR in Ireland. Focus groups were formed comprising of members of the general public and these provided a forum for detailed reactions to the ETR concept. Interviews were conducted with policy makers and key business people in an attempt to identify both the patterns of thinking behind ETR and the main obstacles to its introduction. Having presented the results, a theory of the main impediments to ETR is developed. The opinions of the members of the public, the business community and the policy makers highlight a number of issues that need to be addressed in the future design of ETR in Ireland. The principal potential impediments to ETR include: mistrust of the government, implausibility of the policy, means of hypothecation, information asymmetries, the political system, the structure of government, the macroeconomic environment, the impact on competitiveness, inequity between sectors, regressivity, elasticities and the level of the tax, terminology, and the marketing of ETR.

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1. Introduction

Over the past two decades, economic or market-based instruments have become accepted as effective policy tools to address environmental concerns. The OECD (1997) have defined economic instruments as “those policy instruments which may influence environmental outcomes by changing the costs and benefits of alternative actions open to economic agents....They aim to do so by making the environmentally preferred action financially more attractive”. Put more simply, economic instruments create incentives that encourage people acting more-or-less in their own best interests, simultaneously, to treat the environment in a way that is

in the best interests of the society. In general, economic instruments reward people monetarily for producing environmental benefits and penalise people for imposing environmental costs. They are closely related to the Polluter Pays Principle whereby people are made to pay for using the environment (Clinch, 2000). Economic instruments tend to be favoured by economists in comparison to traditional command and control regulation due to their cost-minimising characteristics (static efficiency), their encouragement of dynamic efficiency, lower informational requirements and relative ease of administration. There is some evidence that environmental performance is improved (Convery, 1998), particularly if reduced bureaucracy makes their implementation easier. In addition, certain economic instruments are revenue raising. However, market-based instruments may be politically infeasible, either because significant price increases would be required to achieve

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environmental goals, or because the instruments are inappropriate in a particular regulatory setting. They may also be politically unfeasible for a variety of other reasons related to public perception and low-price sensitivity. Low-price sensitivity could be caused by several circumstances including: that the good is a necessity for the consumer and/or the substitutability with other goods is low; or the preferences for the goods in question are influenced by non-economic factors like freedom, ethical concerns, principles, or obligations.

2. Irish economic growth and Greenhouse gas emissions

The Irish economy has been the fastest growing in Europe. Annual gross domestic product (GDP) rose by over 60% over the 1990–1998 period, industrial output more than doubled, visitor numbers from overseas rose by over 75%, and retail sales rose by almost 40%. Of the main economic sectors, only agriculture remained relatively static, showing a 3% rise (Table 1).

The high and positive correlation between GDP and energy use has resulted in a rapid rise in greenhouse gas emissions over the past 10 years. This growth has occurred since the 1990 base year for the calculation of emissions under the Kyoto Protocol. Such unprecedented growth has resulted in estimates of, under a ‘business as usual’ scenario, increased total emissions between 37 and 41%. The transport and residential sectors would account for over 44 and 20% of this increase, respectively, with the share of emissions produced by the transport sector rising rapidly and the proportionate share accounted for by agriculture and the residential sector falling (Clinch, 2001). Thus, despite being allowed a 13 per cent increase in emissions due to its status as a ‘cohesion country’, Ireland will exceed its Kyoto target (of 60.74 million tonnes of CO₂-

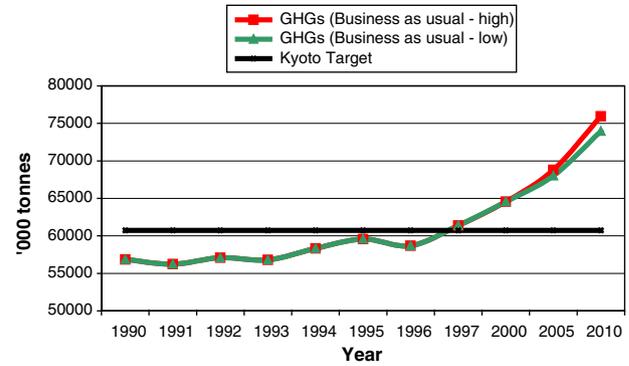


Fig. 1. Business as usual Greenhouse gas emissions, 1990–2010, and associated target for 2012. Source: Clinch (2002).

equivalent) by between 13 and 14.4 million tonnes if business as usual persists (Fig. 1). Irish emissions in 2000 were 23.7% (67 Mt) above 1990 levels (53.9 Mt). Estimates of emissions growth by DIW Berlin suggest that Ireland’s emissions grew by 5.7% (3.8 Mt) in 2001. This would put our 2001 emissions 30.75% (70.5 Mt) above 1990 levels. Preliminary indications from the EPA suggest that the DIW analysis may be an overestimate, but an early EPA estimate of 3.8% (2.5 Mt) growth in 2001 is still the highest in the EU (Green Tax Group, 2002).

While the rate of growth of GDP has been higher than many expected over the 1990–2000 period, it has been clear ever since Ireland signed the Kyoto Protocol that the country faces severe difficulties in meeting the set target. Despite the large amount of rhetoric in various reports regarding the aforementioned suggested initiatives, there have been virtually no significant measures implemented¹ and despite the Bush administration’s withdrawal from the Kyoto Protocol, the EU is pushing forward with the burden sharing agreement (Bonn, 2001) so Ireland still has to live up to its commitments under Kyoto.

With regard to economic instrument use, Ireland opposed the development of a European carbon tax despite the fact that such a flexible mechanism would reduce the cost of emission reduction. However, more recently the Green paper on sustainable energy (Department of Public Enterprise, 1999) advised that the cost of emissions should be borne by energy consumers. In addition, the Minister for Environment and Local

Table 1
Some economic indicators, Ireland, 1990 and 1998

Indicator	Annual output in 1990	Annual output in 1998
Real gross domestic product (Index)	100	161.4
Real retail sales volume	100	139.8
Agriculture (Index)	100	103.0
Industry (Index)	100	202.7
No. of overseas visitors (Index)	100	175.5
Cars registered (Index)	100	168.3
New houses completed (Index)	100	221.9
Electricity output (Index)	100	143.0
Unemployment rate (% in 2000)	13.3	4.4
Total population (Index)	100	105.7

Source: Clinch (2002).

¹Apart from an ambitious forestry programme to double the forest area announced in 1996. This involves planting 20,000 to 25,000 hectares per annum up to 2030. Although the primary goal of this programme is to develop a sustainable wood supply and processing industry, under the provisions of the Kyoto protocol, CO₂ ‘sequestered’ by forests established since 1990 is allowed as a deduction to the overall target. Following the Bonn Agreement (July 2001), industrialised countries can use carbon absorption from forestry management activities up to a set limit in order to meet their emissions targets. Also, under the clean development mechanism, only sinks projects involving afforestation and reforestation can be counted, up to a fixed limit.

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