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ET LE DÉVELOPPEMENT

Ter repetita non placent
For a good use of the failure of the Sarkozy's carbon tax

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<http://www.cfdt.frrewritearticle23599nous-connaitrenos-etudeseconomie-d-une-fiscalite-carbone-en-france.htmidRubrique=8174>

A battle so well prepared

Jan 31th 07: five major candidates to the presidential election (including N. Sarkozy) sign the N. Hulot's *Pacte écologique* and its **carbon tax proposal**

Oct 25th 07: closing the *Grenelle de l'environnement*, **N. S. confirms** his will

Feb 5th 09: N. Sarkozy launches the preparation of a CT (evokes its substitution to the local business rate)

M. Rocard nominated chair and Y. Martin secretary of the experts conference

May 09: 15,8 % for Europe Écologie at the european elections

July 28th 09 M. Rocard, delivers his report (32€/tCO₂) and writes:

« *There is something extraordinary, totally unexpected in such a conflictual society, in the consensus expressed by the quasi totality of experts from all political sensitivity* » (p. 67).

A blitzkrieg so quickly lost

Early July: media activism of F. Carlier (UFC-Que choisir) to defend consumers

Jul 5th 09: J.L. Borloo supports (*Le Point*) a green cheque for households

Jul 6th 09: É. Woerth, ministry of the Budget; argues against in *La Tribune*

The vulgum pecus is lost, the CT tax is dead but sh!

Sep 3rd 09: TNS Sofres opinion poll: *two third of French* are against the CT

Sep10th 09: N. S. settles: **green cheque + exemption** of EU-ETS sectors

Dec 29th 09: the **Conseil Constitutionnel invalidates** the law : « *the magnitude 'of exemptions for the largest emitters contradicted the objective of combating global warming and sheerly broke off the **equality** vis-à-vis taxes*».

March 23th 10: F. Fillon gives up the project

March 24th 10 N. Sarkozy « an interior CT will be subject to a boarder CT »

What was wrong?

- A predictable **double blades razor** syndrom: the 1st blade (equity) lifts up the hair the 2nd blade (competitiveness) cuts it
- the **forgotten conclusion** of the « Mission Rocard » : **no exemption** and « *the setting up of an adequate governance similar to the ‘Green Tax Commissions’ existing abroad to ... assess the use of the (CT) revenues*»
- **Why this advice?**
 - without adequate recycling a CT is costly because of **its propagation**
 - selecting taxes to be lowered concerns **social actors other than environmentalists**
 - Litterature recommends a **switch from payroll taxes to CT** ; this raises **sensitive issues for trade-unions**, including the future of the «paritarism»
- **Why this advice was not waited for?** (*The blitzkrieg is lost early july before the publication of the « rapport Rocard » on July 28th*)
 - The appeal of a political « coup de force »
 - the lack of intellectual preparation of the ‘elites’ ; absence of the energy security issue and of the tax recycling through payroll taxes in the articles and radio-TV fora
 - perhaps the tactical use of **‘useful idiots’** Lenin) to kill the project

Recipe to squeeze the Carbon Tax for ever

- Present it as an ecologist idea (a gift of NS to Hulot RTL early july)
- do not make any reference to energy security
- ignore the lowering of labor taxes; you will avoid discussions with trade-unions
- lazily accept the media segmentation of citizens between « consumers » and « workers » and *de facto* forget the others
- do not control your leftist superego: you will reject any price increase for consumers, say that lowering payroll taxes is a pure gift to the employers and that there is no real link between competitiveness and labor cost
- Do not let 'pro-carbon tax' industry to calm the spokespersons of the MEDEF
- «Green» or «PS» you will not really fight for a CT at the future elections

And Now???
Forget it in an adverse context?

Let us assume political deliberations recognizing

- **The links between major challenges for the French society**
 - Energy security and beyond
 - The ageing problem and the funding of the post WWII social system in an opened economy
 - The seriousness of global warming
 - The necessity (desirability) of a new environmentally friendly innovation frontier
 - The necessity of a 'business context' more favourable to small and medium size industry

Let us assume political deliberations recognizing

The danger of fragmented analysis e.g. the 'pension' problem, climate policies and competitiveness issues

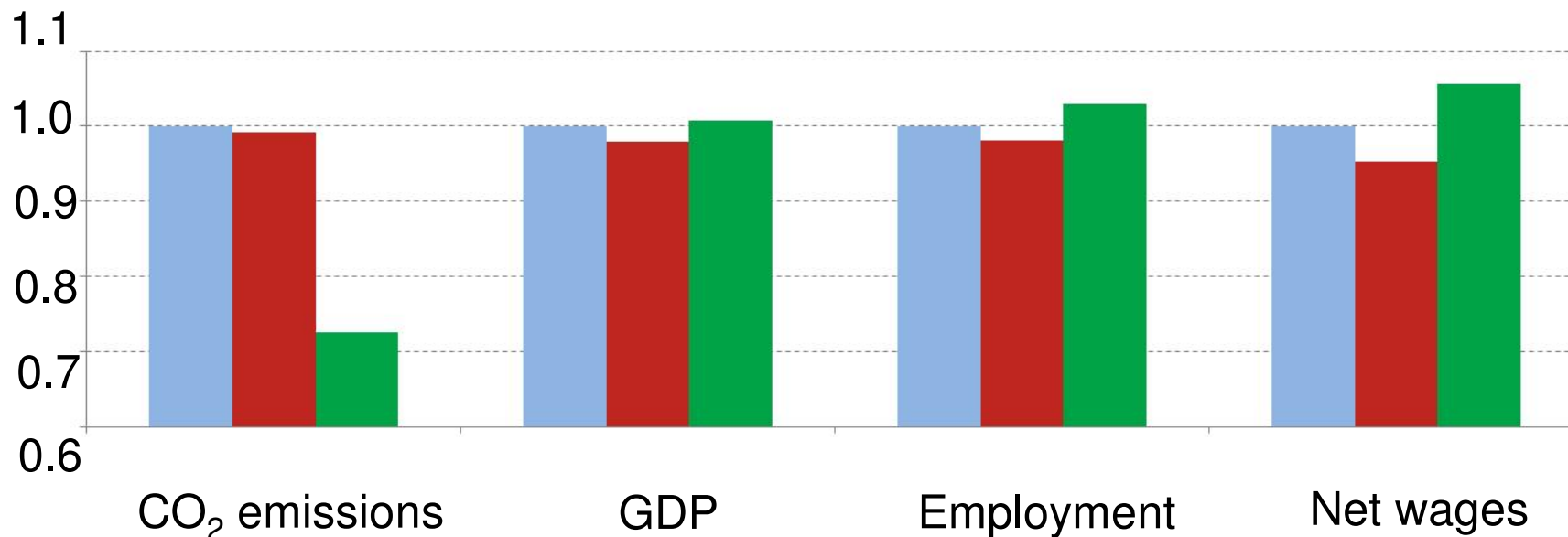
Three reforms to meet the same « deficits control target » over 2004-2020

"Pension reforms"

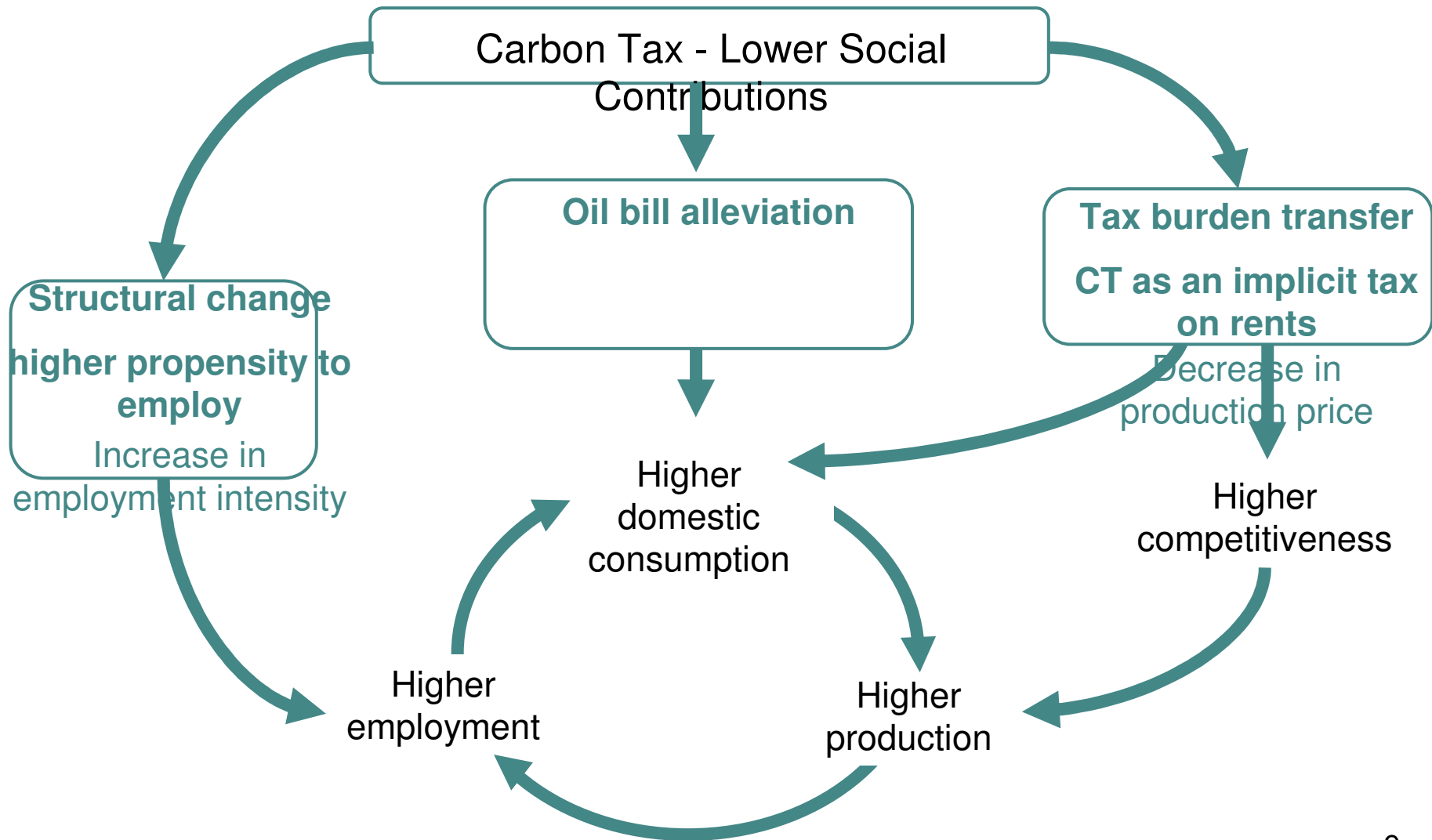
- Higher legal retirement age (>4 yrs)
- Higher social contributions (+7 pts)

"Comprehensive reform"

- €200/tCO₂ - Lower SCC & Higher Income Tax (+2 pts)



The potential virtuous cycle of a carbon tax



To launch this circle in an adverse context

- how to avoid that 'growth austerity' and debt bailout will turn into a « depression economics »?
- how to lower labor costs without penalizing consumption?
- What is the potential interest of a carbon tax by comparison with a value added tax or an income tax?

Carbon Tax and the removal of short term constraints

- Lowering the payroll taxes through energy taxes
 - reduces production costs on average; it is an **implicit tax on rents**
 - is favourable to small and medium size industry (8% of 'losers')

- **BUT**

Why substituting CT/payroll tax lowers production costs

€300/tCO2 and	Green Check	Lower payroll tax
Variation of production costs	+3.7%	-1.0%
energy costs variation	+1.6%	+1.6%
net wages variation	- 0.1%	+1.5%
Payroll tax variation	id.	-3.6%

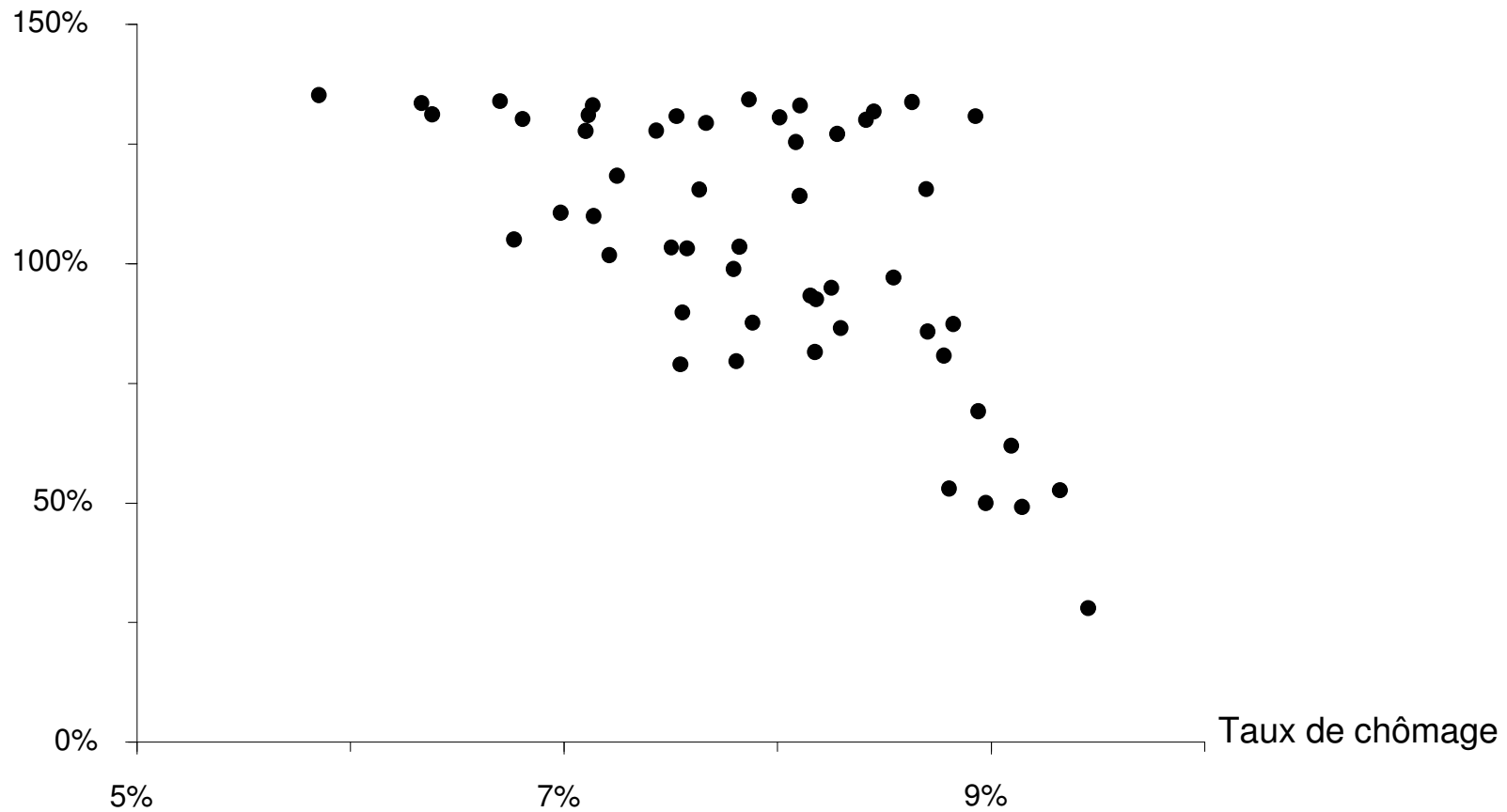
- Same direct impact on the energy bill

BUT when payroll tax are lowered:

- Limited propagation of the costs increases
- Slight alleviation of the tax burden on production; implicit tax on rents
- Higher progression of nominal net wages

This depends upon the social bargaining

Ratio gain de salaire net/ baisse de CSS



Carbon Tax and the removal of short term constraints

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 - blocks the following adverse effect: the less you produce the higher is the labor tax by output; this is not the case for energy related taxes
 - **lowers the 'employment risk'** for a given expected value of sales (about 1% to 2% of total employment for a 5-6% decrease of payroll taxes)

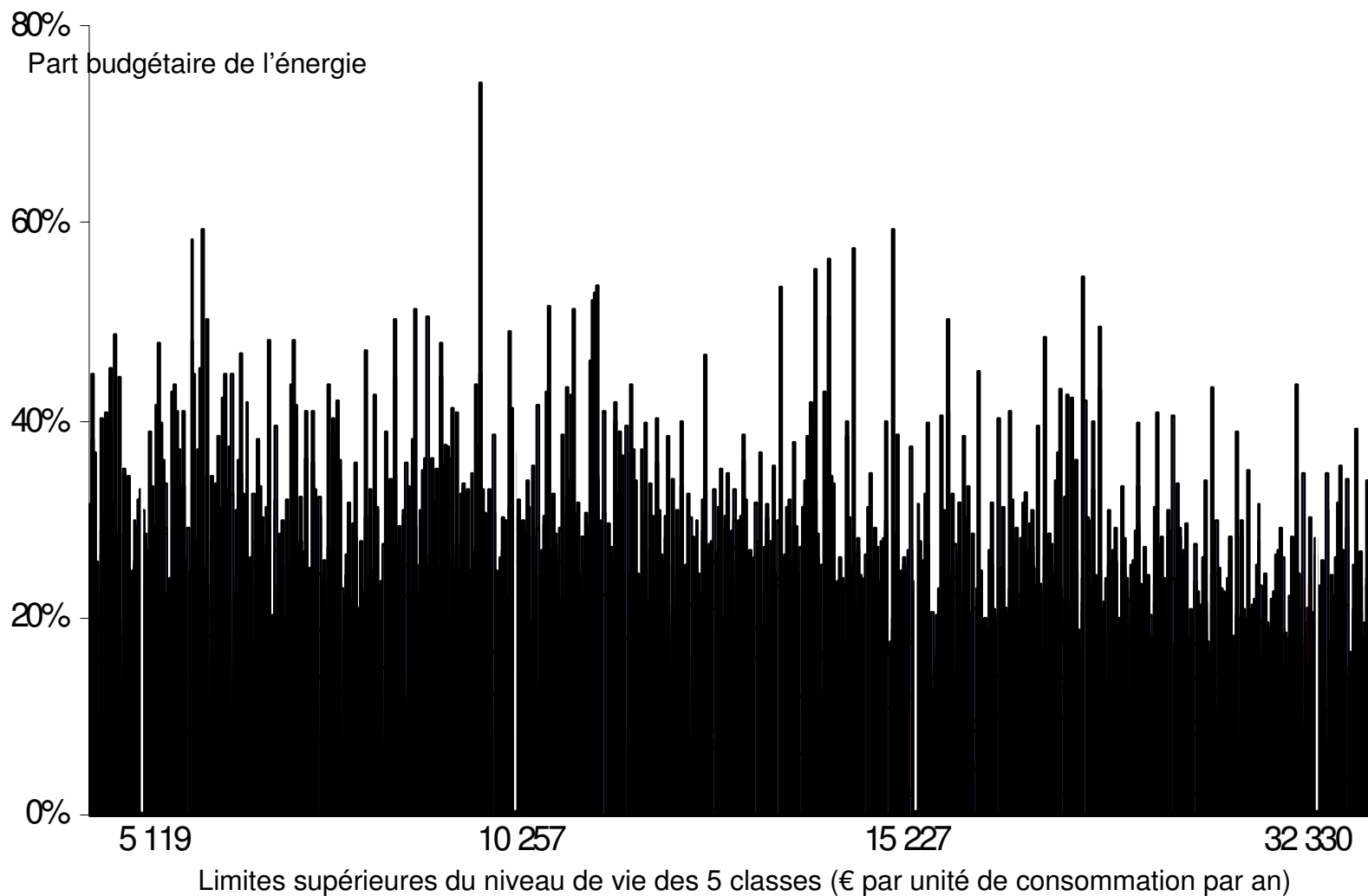
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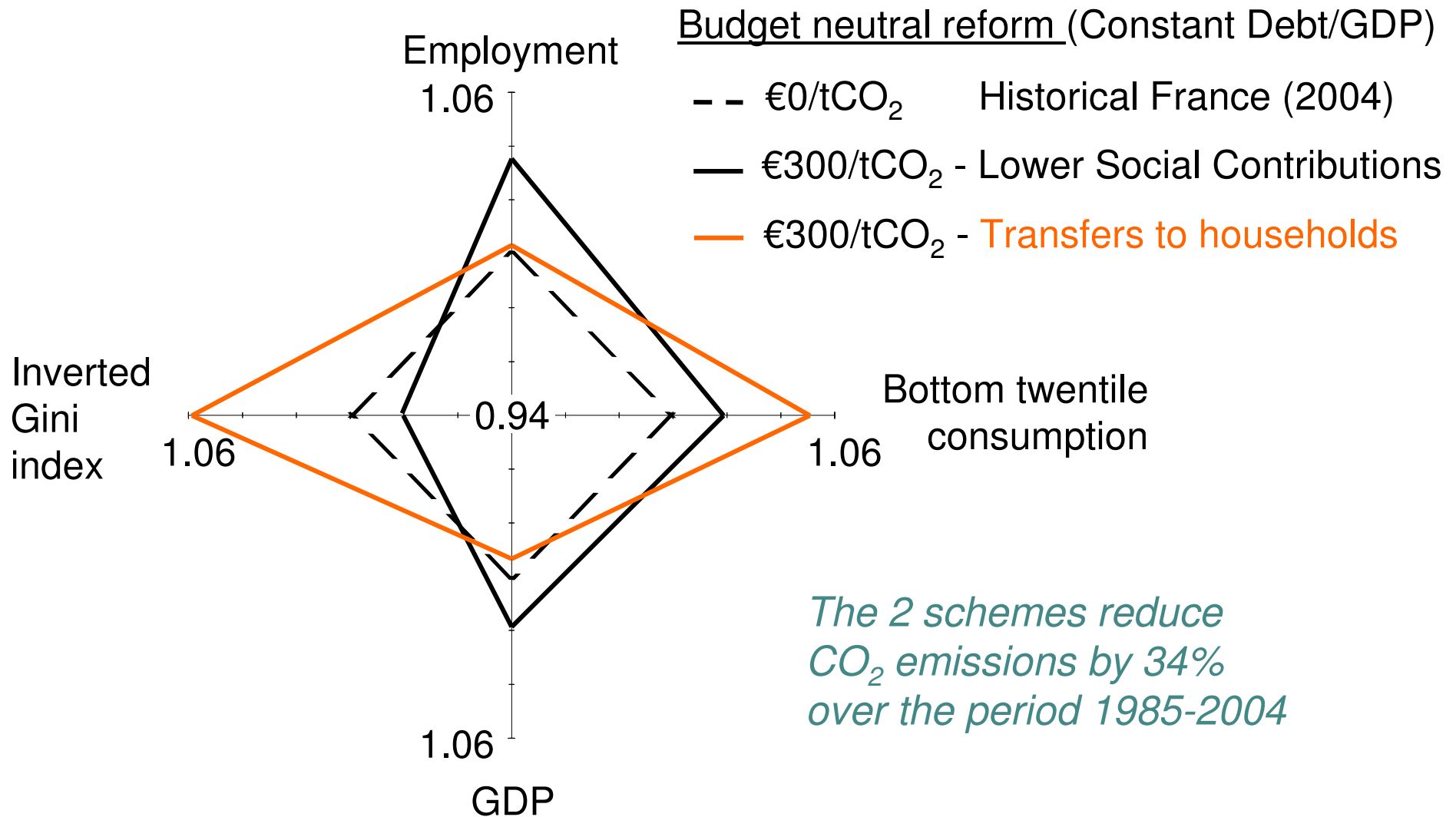
- **Lowering the payroll taxes through energy taxes**
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 - **lowers the 'employment risk'** for a given expected value of sales (about 1% to 2% of total employment for a 5-6% decrease of payroll taxes)
- **Protecting the most energy vulnerable households while non blurring price signals**
 - tax exemption for the 'basic needs' of the most vulnerable households
 - plus support to energy efficiency in the low quality buildings (fiscal incentives like in the 80ies)

BUT

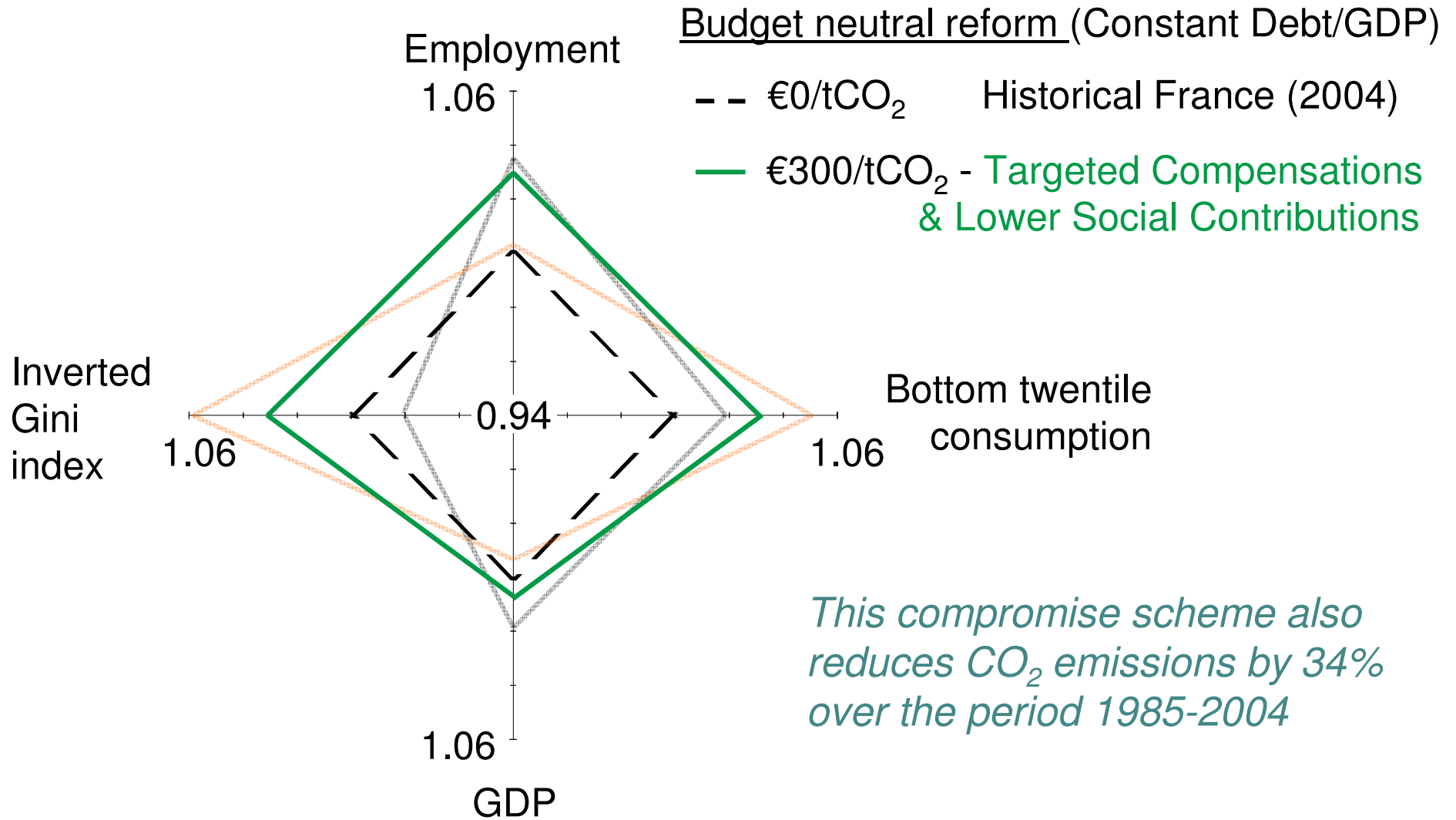
Adverse distributional impacts not a pure rich/poor divide



A Trade-off Between Equity and Efficiency



But there is room for compromises



BUT price signals are not enough

- **A socially acceptable carbon tax reform is neither a ‘magic bullet’ to restore growth over the short term nor a catastrophic burden;**
- **It is beneficial over the long run as part of a broader fiscal reform and a tool for harmonizing fiscal practices in the Eurozone**
- **What matters over the short term is to engage an economic recovery in the EU through investments in low carbon economy**
- **This will not be made on through carbon prices only**
- **This will be made through**
 - **lowering the risks of low carbon investments and breaking the ‘Buridan Donkey’ syndrom which inhibits productive investments**
 - **Resorbing the saving glut and orienting the savings towards energy transition**
 - **Use to do so monetary and financial devices based on an agreed upon ‘social value of carbon’ (*Hourcade, Aglietta Intereconomics 2012*)**

Good news to conclude

Carbon tax has passed the « jamais deux sans trois » test

The road is open for a success story