

Green Budget Europe Annual Conference

***"The future of Europe's economic
governance should be green"***

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Brussels, 5 November 2014

European Union at an impasse

- ❑ The EU since 2009 is in deep crisis: on the surface, it looks economic but in reality it is existential.
- ❑ The Common Market was founded with a federal prospect, that was rendered impossible by successive enlargements, which make unanimity on any serious decision impossible. The euro was disabled at birth, without a common fiscal policy.
- ❑ The unification process has degenerated into a game of bargaining and compromise, with the exception of some advances in the banking sector.
- ❑ The ***Enhanced Cooperation Procedure*** (art.20 of the Lisbon treaty) is a confession of this dangerous deficit, but perhaps it is also the key to its solution. *"No evil is devoid of some good", as we Greeks say.*

The roots of the crisis

- ❑ 20 years ago, I had traced Europe's structural ills to a pervert tax system, over-taxing labour and under-taxing the over-use and abuse of natural resources.
- ❑ I had called it schizophrenic for Europe, where N° 1 problem is unemployment, while environmental degradation and social disintegration follow suit.
- ❑ I proposed to the Commission a *New Development Model**, pivoted on the integration of environmental and social values into the market through EFR. The proposal was pursued by Delors, but eclipsed after we both left the E.C. at the end of 1994.
- ❑ I still believe that such a holistic reform is the **only** one that can pull Europe out of its structural crisis.

The current context

- ❑ Present EU policies (2020, European Semester) are sectorial and fragmented; they miss the forest for the trees. They speak of “market failures” to be corrected, which ex post is a hopeless task. Making the market work for social solidarity and environmental protection is the **only** approach; GFR as the main tool of a New Development Model can do that.
- ❑ Austerity policies, by eroding the tax base, make balanced budgets and a reduced debt almost unattainable.
- ❑ Adding insult to injury, the fiscal crisis is used as an excuse to relax environmental policies:
we cannot afford them; they say.
- ❑ But as Klaus Töpfer German Minister of Environment, in the face of a similar crisis in the 90's put it:

*"It is not **despite** but **because of the crisis** that we must pursue active environmental policies".*

Can green taxes do the trick?

- Green taxes are the strongest instrument of environmental action, as well as of budget consolidation because:
 - They act through not against the market, by changing relative prices, consumption and production patterns. Their impact is very quick.
 - They address structural, as well as cyclical problems.
 - Because of their intrinsic equity, they are more acceptable to society than salary and pension cuts, especially if used (even in part) to reduce labour taxes.

Qualities of green taxes.

- ❑ Common taxes redistribute income among people. **Green taxes** redistribute natural resources among people and generations. Subsidies to environmental “bads” do exactly the opposite.
- ❑ **Green taxes integrate** external environmental and social costs into prices and the market.
- ❑ They admit no tax evasion, have a minimal cost of collection and produce very little recession in comparison with salary and wage cuts.
- ❑ A recent IEEP study confirms that 12 countries which implemented GFR had, over 20 years, substantially higher income and employment growth, as well as increased competitiveness.

A triple-win balance sheet

In comparison with present restrictive policies of budget consolidation, the use of **green taxes**:

1. Brings in the extra revenues required, in a more certain and cheap manner, **without** producing an **economic recession**.
2. Therefore, it does not lead to the same **social unrest**; surely an increase in car taxes causes less friction than a cut in salaries or pensions.
3. Has **positive environmental** and intergeneration equity impacts, which count for people.

Structural longer-term changes

In the longer run, EFR achieves a **four-win situation** as **green taxes**:

1. cause a huge structural change towards a new model of a **low-carbon economy** and a **frugal society**;
2. create a **new, equitable tax structure**, for labour, capital and environment, which is an incentive for job creation and environmental protection;
3. extend the economic life of scarce resources into the future and stimulate technology for substitutes;
4. finally, they can lead to a fast curb on emissions, **arresting effectively climate change** and its catastrophic impact on life.

"Smart, sustainable and inclusive growth".

- ❑ Non of these targets is in sight today. At present, EU has no growth, its economy is not sustainable and social inclusion is on the decline.
- ❑ We claim that EFR is the **only** tool that serves simultaneously **all three goals**.
 - 1.It is certainly **smart**, as it produces 3 and 4-win solutions.
 - 2.It is by definition **sustainable**, as it preserves rather than expends environmental resources.
 - 3.It is undoubtedly **inclusive**, as it integrates social values into the economy.

Hence we call upon the Juncker Commission to incorporate it as a major goal in its policies.

Musts of EU Green Governance

- ❑ The E.U. must lead towards a **Green Development Model**, in response to its peoples' ideals and the fact that more than half of the M-S have already moved towards **Green Fiscal Reform**, which is a good start.
- ❑ A Commission White Paper (after Delor's) should clarify that the **Green Economy** is **central** to the solution of Europe's crisis, not just an extra policy within 2020.
- ❑ Unanimity on this at Council level is a utopia. Thence the Commission must open the Enhanced Cooperation Procedure and form a **Greenzone**, or even better **green** the Eurozone. The Semester policy must be adjusted for participating M-S's accordingly.
- ❑ The Commission must play the leading role in all cases. **Can we move it to do so? We can then hope to move out of the triple crisis.**

The role of other institutions

- ❑ EEA is the second catalyst after the EC. It should be engaged by the EC as its main consultant to prepare the way to **green transition**.
- ❑ European Parliament has consistently been pro-environment and pro-social. It will easily embrace the New Model.
- ❑ The Council has usually the opposite stance and on occasions has raised doubts about the capability of environmental policies to bring about economic development. It must be made to understand that the opposite is true.
- ❑ Hopefully, in the end , **the future of**

EU governance will be green!