Foreword

There are not many things that economists agree on. But there is almost universal consensus among economists that, in many situations, environmental taxation has an important role to play in addressing the multiple issues of overuse, abuse and pollution of the natural environment.

Given this rare agreement one might have thought that environmental taxation would be the first instrument of choice among policy makers as they wrestle with environmental problems. But this is rarely the case.

Part of the difficulty in introducing environmental taxes derives precisely from their policy advantages. They are transparent. They are difficult to avoid. They are effective. While these advantages endear them to analysts, they have precisely the opposite effect on those who are abusing and polluting the environment for their own benefit. Being simpler and more difficult to evade than some other policy instruments, environmental taxes offer much less scope to these actors to game the policy system. And national Ministries of Finance, appreciative of the revenues from environmental taxation, are keen to see environmental taxes well administered and effectively enforced. So, they have attracted substantial opposition from vested interests.

This also reflects the fact that implementing environmental taxation brings its own political and economic challenges. Among the best understood are the potential impacts on the competitiveness of firms, and on relatively disadvantaged households.

The first challenge stems from the international competition relating to the production and sale of many products that damage the environment. Unless all countries tax these products in relation to this damage, those that do not may enjoy a cost advantage that, in the extreme, may drive the taxed company out of business. There is little point in fostering good environmental performance in businesses in ways that stop them doing business, to the benefit to other companies that continue with environmental damage.

The second challenge relates to the fact that many environmentally damaging products, for example fossil fuels and food, to name just two, are also necessities of life, and poor people spend relatively more on them than richer people. Taxing them, therefore, in itself has a higher
proportionate negative impact on poor people than on those with more money. This is unfair.

There are ways to address both these impacts of environmental taxation, perhaps involving use of some or all of the revenues they raise, but in practice addressing these and other environmental taxation challenges are complex and require detailed and careful analysis by economists, lawyers, social scientists and political economists.

The books in the Critical Issues in Environmental Taxation series contain just such analysis. Through the series they have done much to increase knowledge about why and how to introduce environmental taxes, and what can be done to respond to issues such as those mentioned above.

Given the current context of heightened environmental awareness, and the increasing realisation of the urgency of effective responses to the environmental issues facing humanity, these books play an important role in helping policy makers, academics and the concerned general public understand the role of environmental taxation in helping societies move towards a more sustainable use of the natural world.

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