Institute for Economic Studies, Keio University

Keio-IES Discussion Paper Series

Why international cooperation on greening tax system failed?
- The Case of EU, Nordic Countries, and Netherlands -

Shintaro Kurachi, Kazuaki Sato, Leo Shimamura

1 February, 2016

DP2016-001

Abstract

This article shows how the policy of imposing an environmental tax diffused through Nordic countries and the Netherlands. Tax policy continues to depend on political factors, even though globalization has progressed recently. However, policy coordination in international organizations and between developed countries also affects tax policy.

There are three underlying factors for relating the introduction and enlargement of environmental tax to international cooperation.

First, environmental problems have been internationalized. Particularly, global warming and acid rain are no longer just regional environmental problems, and international capital flows have enhanced these problems' importance.

Second, environmental taxation may become an alternative means of raising financial resources in place of the decreasing income tax rate and may also facilitate international capital flows. Actually, the tax structures in developed countries have tended to move from direct to indirect taxation since the 1980s.

Third, if a small country introduces environmental taxation in advance under the open global economy, its competitiveness might decrease owing to increasing domestic product cost. Therefore, it is necessary to introduce deduction rules for industry incentives simultaneously with the introduction or increase of environmental tax.

Environmental taxation may offer a double dividend, not only improving the environment but also reducing tax system costs. However, this measure may cause the double dividend to decrease. Considering this environmental problem and international aspects of environmental taxation together, international policy cooperation over environmental taxation or the introduction of global environmental taxation emerge as options for developed countries.

Carbon tax was introduced in Finland (1990), Sweden (1991), Norway (1991), Denmark (1992), and the Netherlands (1992), in succession. The policy of imposing a carbon tax subsequently diffused among the European Union (EU) countries: for example, England (2001) and Germany (1998~). However, with the exception of Switzerland and Ireland, the policy of environmental taxation has not diffused since the 1990s.

In EU countries, the share of tax revenue from environmental tax in the GDP and overall revenue has decreased. This article argues that the failure of the movement toward environmental taxation in the 1990s has a path dependency.

Previous research shows that the Nordic Council coordinated carbon tax introduction in Nordic countries. Although the carbon tax rate that Nordic countries introduced was very low, a deduction was introduced to avoid decreasing competitiveness (Andersen, M., E. Martin & A. Ryelund, 2006:11). The pace of environmental taxation policy diffusion has been slower and flatter...
than that of other environmental policies, although this mechanism was based not on legal harmonization and levied compulsory burden, but information exchange between policy makers (Busch, P. & H. J?rgens, 2005). The environmental tax rate was low and policy diffusion was slow because of the strong stance of domestic actors against a policy decision. On the other hand, to facilitate the introduction of environmental taxation in the Netherlands, the EC model proposed in the 1980s was adopted (Andersen, M., E. Martin & A. Ryeland, 2006:11). Simultaneously, the Netherlands took the position that “it should be evaluated from the point of view of whether introduction by one country may inspire international introduction” (Okuma, 1993:154).

However, researchers do not always discuss how international cooperation in Nordic countries or the Netherlands affected environmental taxation coordination. Therefore, this article analyzes how the introduction of environmental (carbon) tax in Nordic countries and the Netherlands related to international cooperation in the EU or Nordic Council through consideration of environmental tax theory under the global economy and current policy discussion. This analysis shows the current problem of international cooperation regarding environmental taxation.

The findings of this article are as follows.

First, tax cooperation in the EU has failed thus far, and the character of cooperation has changed from active proposals against environmental and carbon taxation to tax harmonization to coordinate the competitive conditions in the single market. Thereby, the environmental tax structure corresponded sufficiently to international competitiveness and this caused tax exemption and low tax rates. This measure increased political acceptability in each country, although the advantage of environmental tax, for example for cost efficiency, has decreased.

Second, the chain introduction of carbon tax in Nordic countries was the result of cooperation using economic measures of environmental policy. The driving factors are (1) coordinating environmental protection and institutions to encourage voluntary domestic environmental legislation, (2) resolving the problem of international competitiveness and carbon dioxide emissions, (3) finding alternate tax resources for decreasing income tax rates associated with the introduction of dual income taxation. However, while voluntary policy cooperation in Nordic countries made policy diffusion easier, it made the integration of tax rates more difficult, and this tax rate difference has remained.

Third, the Netherlands was affected by the EC proposal, and supported it when the country introduced the carbon tax. At the same time, institutional design decreases the burden on industry from the point of view of international competitiveness. After that, however, the Netherlands has been on an independent path, regardless of the failure of carbon tax harmonization in other EU countries.

Shintaro Kurachi
Graduate School of Economics, Keio University
2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan
shintarouvista@gmail.com

Kazuaki Sato
Faculty of Economics, Keio University
2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan
k.sato.0419@gmail.com
Leo Shimamura
Faculty of Economics, Keio University
2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan
leosmmr@gmail.com