Nordic Experience with Environmental Fiscal Reform in Response to Economic Crises

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What is environmental fiscal reform?

• Shift taxes from economic functions (labour, capital and consumption) to activities that have a negative impact on the environment
  • Fossil energy (including carbon)
  • Air pollution
  • Transport (e.g., vehicle registration based on emissions)
  • Waste

• Reform of environmentally harmful subsidies

• Socially or environmentally productive spending of the revenues

(Adapted from European Environment Agency & OECD)
Nordics pioneered environmental fiscal reform

- carbon taxes imposed in response to a **regional financial crisis** in the early 1990s (Denmark, Finland and Sweden and Norway) and the 2008 global financial crisis (Iceland)
- also tax energy, transport, air pollutants and waste
Environmental Fiscal Reform

- Cut pollution
- Invest in green tech.

Tax Pollution → Revenue → Boost productivity → Jobs

- Cut labor and business taxes
- Boost general revenues
- Social spending
- Stimulus
- Debt reduction

Revenue → Boost productivity → Jobs

- Fund green industries
- Exports
- Regional development

Denmark, Finland, Norway and Sweden

- e.g. Danish wind industry
- e.g. Iceland post GFC
Revenue

- Environmental taxes raised US $7-13 billion in all Nordics in 2018
  - except Iceland (small country)
- 2x environmental tax per capita as OECD average
- Declining source of revenue

Revenue per capita from environmental taxes in Nordic countries compared with OECD average
Source: OECD, 2021
GDP up, emissions down
Implications for India

Scope for further environmental fiscal reform
- e.g. taxes on specific air pollutants to improve air quality and boost revenues
- need to ensure reforms are progressive
- revenues are spent productively

Nordics show that political support can be improved through
- revenue neutrality
  - recycle revenues in **VISIBLE** ways that assist the poor and boost jobs
  - earmarking funds for popular purposes
  - funding alternatives (low pollution technology)
- gradual phase in of higher taxes while reducing exemptions