

THE GREAT GREEN TAX MACHINE

by Sara Carter & Jeff Allen



Ted Miller

In the face of growth, protecting the environment requires policies that provide incentives to businesses

and individuals to prevent or reduce pollution. Unprecedented growth and pollution threaten Oregon's air, water, and natural resources. Salmon stocks are dwindling, traffic congestion is increasing, and deformed fish have been found in the Willamette River.

Conventional regulatory controls at "the end of the pipe" (such as requiring scrubbers on smoke stacks) have reached the limit of their usefulness. While they have reduced some of the worst pollution, current regulations still allow harmful amounts. Becoming more diverse and complex, sources of pollution are increasingly difficult to regulate.

Now we tax things that we do want. Why not tax things we don't want?

Even though tighter federal pollution controls for new cars and mandatory testing in the Portland area have reduced exhaust, the amount of driving has increased more than twice as fast as population growth. Health problems and property damage from smog cost Oregonians over \$200 million each year.¹ Worse, smog damages crops, obscures our mountain views, and contributes to global climate change.

All of us must pay the full costs of our behavior, including those costs imposed on others. Were you charged for every pound of pollution that your car releases, you might combine trips, tune up your car, take public transportation, bike, or walk. In the long run, you might even buy a less polluting car or move closer to work.

With our environmental crisis, Oregon also faces a fiscal crisis. Voters have slashed property taxes; cities and counties have cut services. Environmental programs—from groundwater protection to hazardous waste management—have been among the first victims of the budget ax. The state has become increasingly dependent on unstable lottery dollars and the personal income tax. Although Oregon ranks among the ten lowest states for overall tax burden, it is not likely a majority will raise the property tax or add a sales tax. To invest in our future we need to look elsewhere.

When we tax something, we usually make it more expensive and get less of it. Now we tax things that we do want—homes and income. Instead, why not tax things we don't want—pollution and depletion? Such "green taxes" could help resolve Oregon's environmental and fiscal problems simultaneously.

Green taxes would reduce pollution and resource depletion. In the 1970s, higher costs spurred conservation of energy; in later decades, deposits spurred recycling of bottles. To cut their green tax bills, firms and individuals would try to reduce pollution—avoiding taxes would become admirable! As industry cleans up its act, the costs of environmental regulation, control, planning, and cleanup, would drop.

Green taxes could reduce our reliance on the lottery and property taxes. A tax that would drive emissions out of the environment instead of residents out of their homes would be easier to support—as Oregonians have endorsed cigarette taxes in the past.

Green taxes are "cheaper". Other taxes, which raise the price of labor and

capital, discourage investment in both. One study by the World Resources Institute showed that replacing some personal and corporate income taxes with a carbon tax could generate between 45 and 80 cents of additional economic activity per tax dollar shifted.² Oregon businesses, becoming more efficient, less polluting, and enjoying more control over their tax burden, would gain a competitive edge.



Joe Wallick, OEC

Authors Sara Carter and Jeff Allen await the next paradigm shift.

Green taxes can be easier on low-income Oregonians, especially compared to a general sales tax. Furthermore, most green taxes could be partially rebated on a per-capita basis, making them very progressive. For example, a green tax proposal in Minnesota would eliminate the state income tax for households earning less than \$20,000 and provide \$40 million for low-income weatherization and fuel assistance programs [see box].

Fundamentally, each green tax should be set at a level that reflects the full environmental costs of a particular pollutant. That would make environmental costs part of the 'bottom line' for all of us:

Air pollution taxes—Industrial polluters are currently charged flat fees—ranging from \$447 to \$15,947 depending upon the type of facility—to cover the costs of writing permits and conducting inspections. These fees are not scaled according to the amount of pollution or the damage it

does. Industry pays nothing for polluting our air. Taxes should be charged for every pound of pollution emitted, with higher taxes for more dangerous pollutants. One pollutant alone—fine particulates—kills an estimated 500 Oregonians each year.³ A tax of \$10 per pound on particulate matter would generate \$440 million per year—less than \$1 million per death. Similar taxes should be instituted for volatile organics and oxides of nitrogen (the precursors to smog), sulfur dioxides, and toxic air pollutants such as mercury.

A green tax proposal in Minnesota would eliminate the state income tax for households earning less than \$20,000.

Smog taxes—Much of Oregon's air pollution, particularly summer smog, comes from cars. Car owners in certain areas pay a "smog check" fee to cover vehicle inspection costs, but pay nothing for polluting our air. Smog fees on cars should be based on the number of miles driven, each vehicle's pollution per mile, and the severity of air pollution in a given area. A smog fee averaging one cent per mile statewide would generate roughly \$290 million per year, an amount that approximates the damage done by vehicle exhaust.⁴

Carbon taxes—The scientific community agrees that we are beginning to change the global climate after centuries of burning fossil fuels.⁵ To increase Oregon's energy efficiency and put us at the forefront of international efforts to reduce carbon dioxide emissions, we could levy the carbon content of fuel: higher for coal, lower for natural gas and automotive gasoline, and zero for solar or wind energy. Even a modest tax of \$10 per ton of carbon dioxide would generate \$450 million per year.

Water pollution taxes—Polluters should also be charged a fee for each unit of pollution they put into Oregon's rivers, lakes and groundwater. For example, in 1994 over 500,000 pounds of toxic chemicals were legally dumped into Oregon rivers and lakes by major facilities alone.⁶ Sewage, biological contaminants and sediment discharges are far greater in volume, although less damaging per pound. Amazingly, the state of Oregon has no good estimate of the total pollution it allows into

our water. For discussion purposes, we estimate tax revenue of roughly \$500 million from a comprehensive package of water pollution taxes.

Water degradation taxes—Water degradation taxes should also apply to sources of indirect water pollution, such as pesticides, fertilizers, poor grazing practices, and runoff from construction sites and urban pavement. A 20 percent tax on pesticides and fertilizers alone would raise well over \$40 million a year. Other mechanisms, such as a "pavement tax," could be designed to address other practices that degrade water quality.

Resource excise taxes—To help pay for recovery of coastal coho salmon—threatened, in part, by poor logging practices—timber companies some months ago agreed to a \$10 million increase in the timber harvest excise tax. Such excise taxes could be expanded and increased to promote conservation. A "water harvest" excise tax of ten dollars per acre-foot annually would generate over \$60 million, while increasing the average household water bill by less than one dollar per month. The tax could be higher in basins with less available water.

A carbon tax could generate between 45 and 80 cents of additional economic activity per tax dollar shifted.

Green taxes are not simply another scheme for increasing government revenue. Ideally, green taxes would be used to:

Support environmental programs—At a minimum, polluters—not the general public—should pay for programs to monitor and manage their pollution. To date, the Department of Environmental Quality has been unable to raise its permit fees enough to cover its hazardous waste and other programs. Basing taxes on full social costs would help ensure adequate revenue. Collected green fees could be dedicated to a natural resource fund available for natural resource management, pollution control and prevention, important research and education, and habitat restoration. Already we dedicate funds for roads; Oregon's parks, salmon, rivers, and air are no less crucial an "infrastructure."

Compensate for environmental damage—If environmental impacts cannot be avoided, polluters should pay green taxes to pollution victims. Air pollution taxes could help support the Oregon Health Plan's coverage for those afflicted by asthma and respiratory problems, just as cigarette taxes do. Pesticide taxes could help fund research and treatment for breast cancer and other diseases linked to pesticide exposure.

Reduce other taxes—Green taxes could be implemented instead of others, such as a sales tax or increased business taxes. A substantial package of green taxes could replace lost support for schools while providing income tax rebates to households and payroll tax refunds to employers.

Aren't you letting business simply pay to pollute? Right now, regulations allow and legitimize pollution. Businesses and individuals pollute for free, letting society at large pay the price. Green taxes internalize these costs.

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Minnesota's Carbon Tax*

The Economic Efficiency and Pollution Reduction Act of 1997 came before the Minnesota Legislature this year. It was designed to raise \$1.5 billion in pollution taxes and at the same time reduce payroll and income taxes by a similar amount.

Key Elements:

- A \$50 per ton carbon tax.
- Income tax rebate to each tax filer 16 and older.
- A substantial reduction in employer-funded FICA taxes.
- Renewable fuels exempted.

Some energy-intensive industries would have qualified for exemption from some taxes.

Investments from the tax would have included:

- \$50 million to a loan fund for efficiency improvements in energy-intensive businesses.
- \$20 million to a low income weatherization program.
- \$20 million to low income fuel assistance.
- \$14 million to transit operation.
- \$16 million to bridge repair.

*All information from Sustainable Minnesota, Tax Pollution, Not Work, 1997.

streams, estuaries, riparian areas, and species of birds and fish are all declining. We are selling the natural heritage of future

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generations for short-term profits. Since the legislative arena protects constituencies, and future generations are not here to protect their interests, they can be fleeced. However our state Constitution can be used to give "standing" to others to represent future generations in the courts.

Agencies such as the departments of Fish and Wildlife and of Forestry would be mandated by the Constitution to forbid the destruction of ecosystems. Clear-cutting would become an unauthorized use of ecosystems. Timber industries try to convince the public that all forests are renewable because trees are. Yet, most old growth evolved over so many years that it is virtually irreplaceable as an ecosystem. Forest policy should not be based merely on economics, nor should it subsidize logging at the expense of future generations.

We have been selling the capital of nature, instead of living off of the interest. Trees are sold at less than replacement cost.

Yet if it costs one dollar to plant a tree and it takes two hundred years to reestablish an old growth forest, with compound interest at eight percent, each tree will be worth over \$4.8 million. Since this replacement cost of old growth trees is far greater than the market value of lumber, under

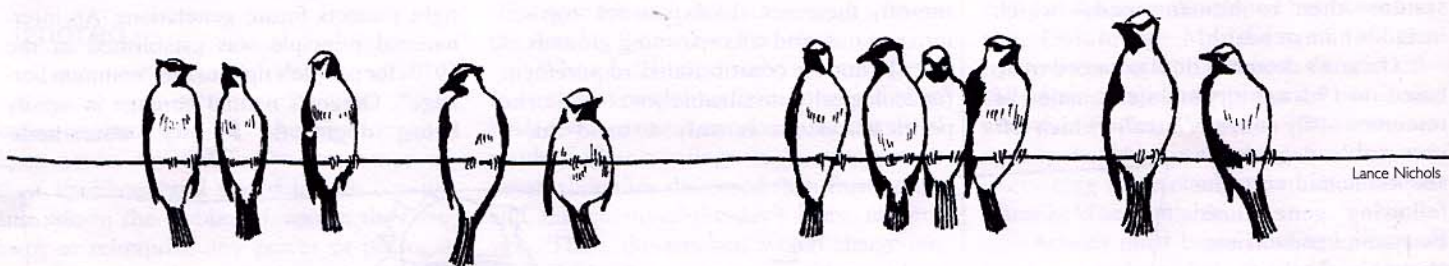
An international principle was established in the 1970s for people's right to the 'common heritage'.

conventional business principles virtually none would be sold. By felling ancient trees and selling them at market value instead of replacement costs, we have given away billions—the world's most massive subsidy.

In those states which have enshrined environmental rights in their constitutions, lack of self-execution has been a major problem. A constitutional provision is self-executing when it can be used in a court without implementing legislation. Oregonians for Environmental Rights, a citizens organization, has researched this problem extensively and has crafted a self-executing state constitutional amendment. Once passed, it will guide Oregon's quality of life into the 21st century.

Copies of this proposed constitutional amendment can be obtained from Oregonians for Environmental Rights, P.O. Box 12252, Eugene, OR 97440. OER invites public participation and comment.

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GREEN TAXES

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Possible Green Taxes (Estimates)

TAX	REVENUE
Carbon Tax	\$450 million
Industrial Particulate Matter	\$440 million
Smog Fee on Cars	\$290 million
Water Pollution Taxes	\$500 million
Pesticides and Fertilizers	\$40 million
Water Excise Tax	\$60 million
TOTAL / YR	\$1.78 billion

Are you proposing we scrap 35 years of pollution control? Not at all. Our current regulatory system has made great progress in cleaning up smokestacks, major water pollution, and car exhaust emission standards. We need both minimum

regulatory standards and positive incentives to solve the tougher pollution problems.

Won't pollution taxes make us dependent on pollution? Implementing green taxes as broadly as possible should maintain fairly stable levels of revenue for a while. Yet over time, taxing pollution will decrease pollution levels and revenue. To avoid hurting established programs, much of the revenue should be rebated directly to Oregon residents. Thus the rebates are all that would decline.

Oregon needs a fundamental overhaul of its tax system. This debate should not be about raising or lowering taxes but focus on reforms that make sense, support economic vitality, and reinforce Oregon's environmental and social goals. Strengthening Oregon's fiscal, economic and environmental health are what the Green Tax Shift could do.

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(1) ECONorthwest, *Implementing Emissions-Aware Automobile Fees: A Report to the Oregon Department of Environmental Quality* (Portland, OR: 1994).

(2) Robert Repetto et al., *Green Fees: How a Tax Shift Can Work for the Environment and the Economy* (Washington, DC: World Resources Institute, 1992).

(3) Natural Resources Defense Council, *BREATH-TAKING: Premature Mortality Due to Particulate Air Pollution in 239 American Cities* (New York, NY: May 1997). Based on data from Douglas W. Dockery et al., "An Association between Air Pollution and Mortality in Six US Cities," *New England Journal of Medicine*, 1993; 329:1753-9.

(4) A smog fee was recommended by a Governor's Task Force in 1991, but rejected by the Oregon Legislature. See *Governor's Task Force on Motor Vehicle Emission Reductions in the Portland Area, Volume 1: Findings and Recommendations* (Salem, OR: 1992).

(5) *Intergovernmental Panel on Climate Change, Report* (Cambridge, UK: Cambridge University Press, 1995).

(6) Environmental Protection Agency, *Toxics Release Inventory* (Washington, DC: 1994).