comments
no. 152– 13 June 2019

# A GREEN NEW DEAL FOR THE NEW EUROPEAN LEGISLATURE

***Alberto Majocchi ****

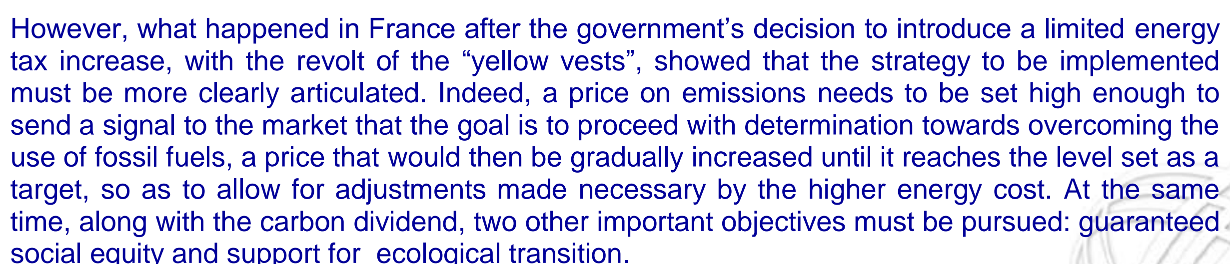
In the new term of the European Parliament, one certain priority is the need to come up with an agenda to manage the structural interventions necessary for the sustainable development of the European economy, in particular to address the dramatic problem of climate change. It is no coincidence that, after the remarkable success of *Fridays for Future,* promoted by Greta Thunberg, the Green group has established itself in the recent elections in many European countries, thus being able to strongly influence the work programme of the new Commission and the new Parliament.

What needs to be done is to clearly establish the objectives of a Green New Deal, now being openly discussed in political debate. It is evident that the ever-looming problem of limiting $CO_2$ emissions is the first issue that needs to be addressed. The 2015 Paris agreements were significant as they involved 195 countries, which committed themselves to setting up national emission reduction programmes in line with the target of keeping the increase in global average temperature to well below 2°C. However, these agreements have some serious limitations; not only are the national programmes submitted insufficient to achieve this target, but the available resources – both to help least developed countries and to finance the transition in the more affluent areas of the world – are still scarce.

After President Emmanuel Macron's speech at the Sorbonne University in September 2017, the idea is becoming more widespread that – even in Europe – market instruments such as tradable emissions permits should be combined with fiscal instruments. Specifically, carbon pricing in proportion to the carbon content of fossil fuels should be combined with an equivalent border tax adjustment on imported goods to impact on carbon footprints which include emissions relating to goods from countries that do not put a price on carbon.

The price suggested by Macron was € 25-30 per tonne/$CO_2$. However, a report by the High-Level Commission on Carbon Prices headed by Joseph Stiglitz and Nicholas Stern has already stressed the need to switch to a price between 40 and 80 dollars in 2020 and to 50-100 dollars in 2030. A recent report by the Commission chaired by Alain Quinet (*La valeur de l'action pour le climat*), drawn up on behalf of the French government, stipulates that a level of € 250 per tonne/$CO_2$ should be reached in 2030. These figures, in fact, seem to be consistent with those suggested in the literature, namely that a price should be set equal to the marginal damage caused by pollution. In the case of climate change, a recent study by Stanford University scientists estimates this marginal damage at $ 220.

However, what happened in France after the government's decision to introduce a limited energy tax increase, with the revolt of the "yellow vests", showed that the strategy to be implemented must be more clearly articulated. Indeed, a price on emissions needs to be set high enough to send a signal to the market that the goal is to proceed with determination towards overcoming the use of fossil fuels, a price that would then be gradually increased until it reaches the level set as a target, so as to allow for adjustments made necessary by the higher energy cost. At the same time, along with the carbon dividend, two other important objectives must be pursued: guaranteed social equity and support for  ecological transition.



To achieve this set of objectives, carbon pricing needs to be part of a broader tax reform project – and an international committee has already submitted a European Citizens' Initiative on this issue whose admissibility has been already recognized by the Commission – which includes both revenues and expenditures. First and foremost, this measure must be based on the principle of revenue neutrality, as revenues must be recycled within the economy, to avoid negative macroeconomic impact. However, from this principle important innovations in the European tax structure also will follow.

Regarding revenues, the carbon dividend from the increase in the price of fossil fuels must be allocated to reduce taxation on the lowest incomes, and in particular on labour incomes, in order to compensate for the greater burden placed on the poorest families and guarantee the social equity of the measure. At the same time, it must be used to trigger the necessary transition of the economic structure towards the goal of a carbon-free economy.

This is a demanding and expensive process. To achieve the goal of sustainable European development within the context of a globalised economy, existing, considerable subsidies for fossil fuels should first be reduced. Then tax reductions for families and businesses that start energy efficiency programmes should also be introduced (i.e. converting buildings so that they save energy, exploit solar energy, use sustainable mobility). Investments should also be encouraged to create adequate infrastructure (low-cost eco-compatible public transport, renewal of the urban structure, relocating productive activities to reduce commuting costs). Finally, research and development programmes should be financed that aim at ensuring that the transition from fossil fuels to renewable energy is fast and affordable, without negatively affecting growth processes and people's level of well-being. Then, while imposing a carbon price, subsidies for renewables, already incentivised by the increase in the price of fossil fuels, could be progressively reduced as well.

A Green New Deal, involving all levels of government starting with the European level, must be at the core of the programme of the new Commission and the new Parliament. This will use the carbon dividend to allocate new resources to the European budget – and as part of the revenues derive from a tax levied on imports, this already constitutes an own resource. These will permit the launch of profound reform of the structure of European public finance that would accompany the structural transformations designed to put the European economy on the path to sustainable development and a greater ability to compete on the world market.

* *Emeritus Professor of Finance at the University of Pavia and Vice President of the Centre for Studies on Federalism (at the end of 2018 he published "*European budget and sustainable growth - The role of a carbon tax" *- Peter Lang)*

(The opinions expressed here do not necessarily represent the CSF)

**CENTRO STUDI SUL FEDERALISMO**
**Piazza Arbarello 8, 10122 Torino - Italy**
**Tel. +39 011.6705024 Fax +39 011.6705081**
**www.csfederalismo.it info@csfederalismo.it**