SUSTAINABLE DEVELOPMENT AND FISCAL POLICIES

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Résumé

Nowadays the future is seen from the perspective of sustainable development. Awareness of the planet’s limited resources led to the creation of protective barriers, there’s no more desire for development at any cost. However, establishing these barriers is the most difficult task - how much can we pollute, what is the correct level of taxation for Pigouvian taxes? State intervention in coordinating these issues is crucial. Through the power of the "invisible hand", the state is the only one that can keep the pollution problem under control. Integrating the concept of social responsibility in the everyday life of the consumer is the most important step for the future.

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1. Introduction

The issue of sustainable development has been observed since ancient times, without having a clear definition. The man was concerned with working the land for him, for his children, grandchildren and the future generations.

With the development, the man narrows his vision on land inheritance and focuses on high and fast profits, which most often affect strongly the social economy.

The concept of sustainable development reminds the individual of the importance of "our common future" and highlights that man should not be concerned only with his own person, human existence being in society, not at an individual level. Currently, efforts are being made to raise awareness regarding the limited capacity of the Earth, since the primary resources, the air, the water and the soil are not inexhaustible and their intense use will have consequences.

At a micro level, this is how sustainable development can be explained in a few words. But the complexity of this subject is exponentially amplified since the man and his social and cultural needs stand at its base.

The overall objective of sustainable development is to continuously improve the quality of life, both now and in the future, by creating sustainable communities, capable of using resources efficiently and to make use of the social and ecological potential of the economy to ensure prosperity, environmental protection and social cohesion.

The evaluation of economic efficiency must be done especially from a social point of view, since the man stands at the base of the economy. If the human being did not consume, nowadays we wouldn’t be able to analyze the economic power, the GDP, the state budget etc.

Social welfare concern should be a priority in every country, business, company, cluster. They should also have social objectives in the country / city where they operate, not just self-interest in order to maximize profits. Integrating social objectives into the main objectives of the companies is state’s duty. The state, through the power of "the invisible hand", needs to ensure the social welfare just as it is concerned about economic growth and development.

Integrating the concept of social responsibility and creating a legal framework for applying the concept in a company is the key to a successful sustainable development. Therefore, we can talk about the need for an "ethical foundation" to place the man, the environment and the social considerations at the centre of the economic activity.

Social management requires that organizations and / or companies integrate the concerns on society, environment and economy into the organizational and developmental culture.

A correct strategy in terms of social responsibility must take into account:
• the sustainable development and to have environmental concerns;
• the respect for human rights and the application of international labour standards;
• the fight against corruption and the maximization of transparency.
Every economic activity has a social impact and therefore we must analyze its influence, whether it generates positive or negative externalities and there should exist measures in order to correct the effects produced in case of a negative social impact.

2. Optimal taxation

Profitable companies bring important contributions to the community by paying taxes to the state, providing workplaces and encouraging the economy. The question at issue in this case is related to the correct level of taxation. What are the fees and taxes that the state must charge to have better care for the society?

Establishing the level of environmental taxes is very important because a high level of taxes can fundamentally affect people's everyday decisions (e.g. the decision to purchase an energy efficient light bulb instead of a classic one, the decision to buy a car).

The main issues that arise in the capitalist economy are negative externalities. They represent "market failures" since it is an expense that is not found in the production cost of economic agents, but consumers and the whole society pay for it.

In order to fix this imbalance in the market or, as they frequently say, to integrate negative effects, the intervention of the "invisible hand" is required. Thus only the state can intervene to quantify these negative externalities and to tax the polluter through the so-called "pigovian taxes".

The instruments that the state may appeal to can be:
• centrally imposed taxes (Pigou taxes);
• decentralized taxes (through tradable pollution permits).

A particular importance should be given to establish the state involvement in the economy (state / market arbitration criterion). This criterion is derived from Hicks-Kaldor compensation test and the Pareto optimality criterion. The state / market arbitration criterion shows that the state must get involved depending on the extent of market limits to allocate resources. Therefore, "the welfare loss generated by the public action must be lower than the welfare loss caused by dysfunctions of market allocation." 1 We should also consider the Hicks-Kaldor compensation test: an allocation X is socially preferable when the people who gain from this exchange compensate those who lose and there’s a gain in the end.

The neoclassical theory

According to the neoclassical theory, market failure occurs when not all the gains from trade are exploited. Externalities are benefits or costs that are not directly involved in the transaction. When a third party incurs a cost as a result of a transaction, it is considered that negative externalities occur and when it receives a benefit, it is considered as positive externalities.

Pollution is an example of a negative externality. When a car manufacturer buys steel for their production, the purchase price for the steel reflects the value of the steel in alternative uses. Therefore, the car manufacturer uses a production factor without paying for it. Because of this, the offer curve does not represent the entire marginal cost of production, the private cost and the social cost being different, thus appearing externalities.

\[ \text{Social cost} = \text{private cost} + \text{externalities} \]

In this situation, the government must intervene to internalize externalities.

A problem that arises is establishing ownership. For instance, in the case of air or water resources the structure of ownership is unclear. The concept of public ownership is ambiguous.

Nobel Prize laureate, Ronald Coase, notes the issue of transaction costs. According to the neoclassical theory, transaction costs are zero, whereas according to Coase, in the real world transaction costs cannot be zero. Thus, he believes that the externalities analysis fails because it does not take into account the transaction costs. Coase’s theory argues that externalities exist in the market because the costs to solve them through negotiation are too high.

The Coase Theorem

The following conditions must be met for the negotiation to take place:
• the ownership must be clearly defined;
• the ownership must be transferable (the polluter pays to pollute or can be paid to stop the pollution);

1 Economia Sectorului Public Conf. Univ. Dr. Cosmin Marinescu Note de curs
• transaction costs are zero or have low costs (informing, monitoring and enforcement of contractual terms).

The Austrian approach

In the Austrian approach, pollution is not a market failure, but a conflict over resource use. Environmental issues are considered to be interpersonal problems regarding the destination of resources. In this situation there isn’t a market failure, but an interpersonal problem that requires solving.

In the Austrian view, there are no objective costs, only subjective costs (having as source the subjective evaluations of individuals).

Therefore, the evaluation issue exists because the private ownership over some resources is not properly established. Once the ownership is established, it is considered that the developer will use resources more wisely.

Also, after establishing the ownership, the negotiations between the polluter and the owner of the polluted resources can begin. Since there are new costs, the polluter integrates them into the production costs.

Pigou highlights this divergence between the private cost and the social cost of an activity; only private costs are reflected on market.

The internalisation of externalities

The internalization of externalities is a very complicated process because quantifying these costs is difficult. This causes a specific economic behaviour, “free-rider” – the beneficiaries hope that others will pay for their consumption (through consumption they also cause public damage).

In this situation, state intervention becomes vital:
• air and water quality standards
• fines
• trade restrictions
• creating national parks and nature reserves
• fiscal instruments in the form of subsidies, taxes and duties

The problem here is to establish “optimal taxation”, since society’s tolerability of taxes and duties is very important.

The fiscal theory has two main components:
• collecting revenues through fiscal policies
• correcting externalities through fiscal policies

According to Pigou, collective optimal taxation does not accept the existence of taxation for collecting budget revenues, state revenues coming from duties and environmental taxes that will return in the economy through a lump sum.

Environmental policies

Environmental damage can lead to direct costs for public finances (e.g. health system costs related to pollution-caused diseases – the treatment of respiratory diseases caused by air pollution). In theory, the application and implementation instruments of the environmental policy help reduce the environmental damage by creating benefits for the public finances, as a result of pollution reduction and reduce expenses needed to prevent damages or ecological reconstruction.

Environmental taxes and fees are used to achieve the objectives of environmental protection, being an instrument of control. By introducing these taxes, production costs for polluting goods increase, stimulating the search for alternative resources that won’t harm the environment.

The level of revenue collected from environmental taxes and fees depend on fiscal elasticity and tax rate. Thus, the smaller the impact of an energy consumption tax, the higher the revenue from this tax. There could also be medium and long term uncertainties on the income flow from environmental taxes, as a result of environmental policy (correcting and reducing the negative environmental externalities through taxation). Some tax bases that will last in time (energy consumption) and the afferent environmental taxes could make an exception; therefore we can talk about a certainty in collecting revenues on long term and also ensuring the reduction of environmental degradation.

The influences of environmental policies on public finances can be:
• the increase of fiscal revenues and expansion of tax base by introducing environmental taxes and fees;
• the reduction of environmental subsidies;
• the reduction of net costs covered by state budget, reduction of environmental damage by improving environmental quality.
Environmental taxes and fees transfer funds from the private sector into the public sector, by lowering private incomes and increasing public funds. One way to mitigate the side effects of environmental taxes is recycling fiscal revenues.

Environmental tax reform (ETR) and the double dividend in Europe

Since the 1990s, several EU Member States (Denmark, Finland, Germany, Netherlands, Sweden and the UK) have implemented Environmental Tax Reforms, shifting from labour force taxes to energy taxes.

Revenues from environmental taxes in the EU ranged from 2.5% - 3% of GDP. On average, environmental taxes represent between 7 and 8.25 percent of total tax revenue. As a result of environmental tax reforms, the intensity of carbon production and consumption dropped more quickly in these countries.

At EU level, environmental tax reform has the following characteristics:

- ETR tries to create 'green' workplaces (related to environmental protection activities) and jobs in companies that have well designed environmental policies
- ETR reorientation by taxing production (e.g. for electricity, the focus has been limited to the energy consumption of households)
  - improving equity:
    - e.g. by introducing personal energy levels in the tax structure (a certain amount of energy per household could be exempt from the carbon tax)
    - for employment, redirecting tax revenue to the labour market (by reducing labour taxes for low-income personnel categories, process that is being applied in Denmark)
  - trying to harmonize reforms between Member States in the long term

Generally, the biggest disadvantage of environmental tax reforms is the unpredictability of taxation directions and objectives in the long run. Also, the most important effect of an ETR is the sustainable change in the taxpayer’s behaviour, achievable if the reliable trends are communicated over a long period, in the tax structure.

Romania collects some of the lowest amounts from environmental taxes as a percentage of GDP. According to the environmental policy, taxes and fees are divided into three main groups: energy taxes, transport taxes and pollution charges.

Poor revenue collection from environmental taxes and fees has a negative influence on Romania’s ability to reach the objectives established in the environmental protection field. It is estimated that tax evasion is of at least 50% for collecting the fee of 1% of the value of timber placed in a manufacturing process and at least 75% for the fee of 1 leu / kg for each tire sold.

The most important tax bases for Environmental Fund revenue collection are:

- energy products;
- resources use fees;
- taxing of measured or estimated emissions of gaseous pollutants or greenhouse gas;
- charges for waste disposal.

The problem that rises with the environmental policies is that such fees do not generate a correct proportionality between the level of fees paid by the taxpayer and the benefits that the use of the Environmental Fund has to create.

Establishing the optimal balance between the need for environmental protection and the pressure generated by socio-economic development is a very complex issue. In the process of establishing the taxation instruments that will lead to a smaller percent of environmental pollution, one of the major obstacles is to establish as accurately as possible the negative effects that these environmental taxes could have on the competitiveness of the economies.

Econometric simulations on the impact of environmental taxes have shown that these would affect certain sectors (such as steel and cement industries) in a higher proportion. To offset these effects it is necessary to implement measures at global or regional level. Several OECD countries have implemented subsidies and exemptions from certain environmental taxes for industries with high energy intensity, so these taxes end up being imposed almost exclusively to households and the transport sector.

Increasing the tax burden on families caused by the introduction of taxes for water consumption, electricity, waste disposal and processing led to the necessity of implementing subsidies through differential pricing. Another approach, implemented by EU Member States, is maintaining non-subsidized prices and offering aid or reduced rates for families with low financial incomes. In terms of limiting the possibilities of abuse, it is considered necessary that these measures should be implemented through the social insurance system, so the incentive system can operate efficiently.

According to the European Environment Agency, there is a wider range of perceptions, rules, institutional structures, regulations and financial instruments that prevent the adoption of environmental taxes on a larger scale:
"the preconception that in order to be effective, taxes must be high. This point of view may undermine a long-term strategic approach. At first, taxes can be set at low levels, so that they don’t cause a significant impact and can be increased gradually, depending on the ability of the target group to adapt its behaviour;
• the preconception on the existence of an inherent conflict between maintaining a high level of income and changing the behaviour of relevant actors. In this case, the authorities fear that the implementation of tax reforms will lead to a decrease of the revenues, at least on short term. However, the experience of many countries shows that this does not happen;
• the perception on the existence of conflicts between EU national rules and at international level regarding the regulations, that would limit the countries room of maneuver in case of reforms regarding the tax and subsidies system;
• a nostalgia regarding the time when social-purpose subsidies in the energy, transport and agriculture field were generalized, so that the price paid by the population was insignificant in relation to the revenues”.

The Environment Fund in Romania

The Environment Fund is an economic-financial instrument designed to support and create projects and programs for environmental protection and to achieve the objectives of the EU in the field of environment and climate change, in accordance with the legal provisions in force. According to the Emergency Ordinance no. 196 of 22 December 2005 the Environment Fund revenues consist of:
• a contribution of 3% of the revenues from the ferrous and non-ferrous scrap metal sale, including goods intended for scrapping
• fees for emissions of pollutants into the atmosphere, that must be paid by the economic operators who have stationary sources whose use affects environmental factors
• fees received from the economic operators, users of new land for the storage of recoverable waste, within the provided limits
• a contribution of 2 lei/kg, paid by the economic operators that place packaged goods on the national market, the ones distributing for the first time sales packaging on the national market and by the economic operators who lease packages, in any form, on a professional basis, for the difference between the amount of packaging waste corresponding to the minimum targets for recovery or incineration at waste incineration plants with energy recovery and recovery through recycling and the amount of packaging waste actually recovered or incinerated at waste incineration plants with energy recovery and recovered by recycling
• a contribution of 2% of the value of substances classified by normative acts as hazardous for the environment
• a contribution of 2% of the revenue from the sale of wood and/or wood materials earned by the administrator or owner of the forest, except for firewood, ornamental trees and shrubs, Christmas trees, wicker and seedlings
• a contribution of 2 lei/kg tire, from the economic operators that place on the national market new tires and/or used tires intended for reuse
• a contribution of 3% of the amount collected annually for the management of the hunting funds, paid by the hunting funds managers
• donations, sponsorships, financial assistance from Romanian or foreign individuals or legal entities and international organizations or bodies
• the amounts collected from the refund of financings, interests, penalties of any kind, other financial operations run from the financial sources of the Environment Fund
• the amounts collected from events organized for the benefit of the Environment Fund
• fees for issuing environmental permits, agreements and authorizations
• interests and penalties of any kind from the Environment Fund debtors
• a contribution of 100 lei/ton, from the administrative-territorial units or, where appropriate, administrative-territorial subdivisions of municipalities, in case of failing to fulfill the annual target of reducing by 15% the amount of waste disposed of in landfills from municipal and similar wastes collected through the public sanitation service
• the eco-tax, worth 0.1 lei/a piece, applied to shopping purses and bags, with integrated or applied handgrip, made of materials derived from non-renewable resources
• the environmental stamp for motor vehicles
• a fee of 0.3 lei/kg, applied only once to the quantities of mineral-based, semi-synthetic, synthetic oils, with or without additives, owed by operators who place such products on the national market
• the amounts collected as a result of applying the penalty of 100 euros for each tonne of carbon dioxide emitted, paid by the operator or aircraft operator who has not returned the certificates for greenhouse gas emissions corresponding to the greenhouse gas emissions generated the previous year, in accordance with the legal provisions in force

2 Strategia Naționala pentru Dezvoltare Durabilă a României Orizonturi 2013-2020-2030
3. Personal opinions and conclusions

Pigouvian taxes represent a control mechanism of the state. Since there is no perfect market and people can not behave properly towards each other without the existence of rules, taxes and fees become compulsory for a healthy society.

According to Pigou, market failure creates externalities. These represent an expense that is not found in the production cost of economic agents, but consumers and the whole society pay for it.

In order to fix this imbalance in the market or, as they frequently say, to integrate negative effects, the intervention of the "invisible hand" is required. Thus only the state can intervene to quantify these negative externalities and to tax the polluter through the so-called "pigouvian taxes".

The issues noticed when setting these taxes are related to the ownership, the proper establishment of the negative externalities value and the return of the money generated by pigouvien taxes to society.

In my opinion, the biggest problem is the return of money to society. Since society does not realize that these taxes and fees are set to "fix" the negative effects created by certain branches of the economic sector, tax evasion occurs. The taxpayer tries to avoid paying them when he doesn’t feel the return of money to his aid.

I also noticed the existence of a large number of environmental taxes and a very small - or even nonexistent – number of "social taxes". The emphasis is placed on taxing polluting factors to a large extent,

3 Institutul Național de Statistică-Comunicat de presa NR.256 /2014
neglecting the "social pollution", sources that discourage people’s correct and healthy behaviour.

An example of social tax that I consider necessary in our country is the tax for products / services that encourage an unhealthy lifestyle and the loss of traditions - for example, fast food restaurants that sell products on public holidays. Profits earned in these periods should be overtaxed as they create negative externalities. Beside the cultural loss, this encourages the consumption of non-traditional foods and leisure in an environment far from tradition. These activities also create health care costs. Romania’s population has a slight tendency toward obesity.

The sums collected from these taxes could be used to implement tradition and health-based projects for children, as they are the main consumers and the basic unit of the future society.

I believe that there should be a higher share of taxes and fees for activities that cause negative social externalities. Quantifying them is very difficult, but their importance is emphasized by the need for a society with a moral quality, traditions and fewer flaws. Society is the most valuable pillar of the economy and of the existence. We can have a clean and unpolluted environment, if we have a healthy society that can highlight it. Values are given by humans and a man who lacks culture and has moral issues can not make use of what surrounds him in a positive manner.

Social welfare concern should be a priority in every country, business, company, cluster. They should also have social objectives in the country / city where they operate, not just self-interest in order to maximize profits. Integrating social objectives into the main objectives of the companies lies with the state, through the power of "the invisible hand". The Government needs to ensure the social welfare just as it is concerned about economic growth and development.

Integrating the concept of social responsibility and creating a legal framework for applying the concept in a company is the key to a successful sustainable development.

The overall objective of sustainable development is to continuously improve the quality of life, both now and in the future, by creating sustainable communities, capable of using resources efficiently and to make use of the social and ecological potential of the economy to ensure prosperity, environmental protection and social cohesion.

The objectives expressed in Romania’s National Strategy for Sustainable Development Horizons 2013-2020-2030 "aim to continuously maintain, strengthen, expand and adapt the structural configuration and functional capacity of the natural capital as a foundation for maintaining and increasing its capacity to support the pressure of social development and economic growth and the foreseeable impact of climate change."

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