

News and Commentary:

Maine Policy Review. Volume 1, Number 1

Environmental use taxes?

by Ralph Townsend

As Rick Minard noted in his article in this issue of *MPR*, the pressures of declining governmental revenues are colliding with the public's continuing concern for a better environment. As we go to press, Governor McKernan has proposed that several environmental initiatives, including local growth management and local dump closings, be suspended to help close the state's continuing budget deficits. Is less environmental protection the inevitable cost of tighter state and local budgets?

Perhaps it is time to re-evaluate the relationship between government finance and environmental protection. Rather than using income and sales taxes to finance environmental protection, perhaps we should consider "environmental use taxes" to finance education and health care. An environmental use tax would charge for the use of environmental resources entrusted to the government, just as other user charges are currently being collected from various users of governmental resources.

For example, Bowdoinham charges one dollar for each bag of non-recyclable trash deposited at its landfill (*Maine Times*, August 16, 1991, p. 9). That disposal fee covers about forty percent of the cost of the town's landfill and recycling center. Of course, the fee does much more than simply cover some of the costs of the landfill; it also provides a strong financial incentive to sort out recyclables. Bowdoinham, in fact, recycles an amazing eighty percent of its trash. Taxes like Bowdoinham's fee not only help finance government; they also reduce the cost of government.

The basic idea of an environmental use tax could be extended to a variety of pollutants. For example, taxes on tailpipe emissions of vehicles would provide incentives for buying low-emission cars and keeping those vehicles tuned up. A tax on untreated sewerage discharges would provide incentives to install treatment systems. Examples of such taxes can already be found in Europe.

The revenues raised by environmental use taxes are potentially very large. A government that implemented environmental use taxes on a "revenue neutral" basis could reduce its traditional taxes on income, sales, or property. Instead of an income tax that discourages work (which we would surely prefer to encourage), government might be financed in part by taxes that discourage environmental degradation (which we would indeed like to discourage). Environmental use taxes have desirable side-effects, while traditional income and sales taxes have undesirable side-effects. In that sense, environmental use taxes are a "better" way to raise the revenues that the government requires. Environmental use taxes might improve both the business environment and the natural environment.

The environmental use tax is not a new idea, but it is an idea that has found a new vitality. Concern over the impact of carbon dioxide (from the burning of fossil fuels) upon global

warming has led to proposals for a national or even international tax on the burning of carbon fuels. If the resolution of the scientific uncertainties over the "greenhouse effect" ultimately supports the need to reduce carbon dioxide emissions, then a "carbon tax" is a serious prospect.

To be sure, environmental use taxes face some serious practical difficulties. The level of any fees must be determined, and then discharges must be monitored and fees collected. The concept is subject to obvious political abuse, as unjustly discriminatory taxes will almost inevitably be disguised as environmental use taxes. But the simple effectiveness of the Bowdoinham trash bag fee would suggest that, in some areas at least, the potential benefits of an environmental use tax are quite large. And if environmental use taxes are indeed a better way to raise revenues than traditional taxes, state government may be wise to consider the opportunities before the federal government preempts the options. As Maine's state and local governments attempt to balance their financial resources against pressing environmental concerns, there may be creative opportunities to be found in environmental use taxes.

Ralph E. Townsend is associate professor of economics. He has served as a member of the Maine Milk Commission and as associate dean of the UM Graduate School.

Full cite: Townsend, Ralph E. 1991. **Commentary: Environmental use taxes?** Vol. 1(1): 150-151.
