

29 – Is the Rhetoric of Environmental Taxes Still Current After the Covid-19 Pandemic? A Policy Analysis

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The COVID-19 pandemic has significantly impacted the climate change debate. During the emergency, people's safety became the main and only item on the political agenda of many governments, especially those of the countries more severely hit by the virus. This naturally brought backwards the debate about climate change and environmental degradation. Additionally, the lockdown rules adopted by many of the most polluting countries has led to a significant drop in daily global carbon dioxide emissions (-17% in April 2020). Government policies have drastically altered the trend of energy demand around the world.

This phenomenon has led us to wonder whether environmental taxation is still a hot topic in the policy debate. The objective of this paper is to analyse the use of environmental taxes under a policy perspective, using the criteria of good tax design to detect whether the pandemic has affected – positively or negatively – their application and adoption.

As environmental taxes are Pigouvian taxes, their objective is to disincentivise a specific behaviour that produces negative externalities, taxing it. They can be considered “self-destructive” as their long-term objective is to annihilate their own taxable base. Therefore, the reduction of pollution is not an actual disincentive to the adoption of this kind of taxes.

Under the economic dimension, environmental taxation can often have counterintuitive consequences. Indeed, behind the “polluters pay” principle, which is the main motto of the advocates of these taxes, lies an important issue. The goods that are targeted by environmental taxes, like fossil fuels, are often fundamental to their consumers, and thus characterized by an inelastic demand. Therefore, producers can easily rebate the tax on their consumers, who will have to use these goods despite the higher prices. In the end, the economic burden can mainly fall upon a disadvantaged slice of the population, which has no alternatives to the use of the polluting good.

According to this evidence, the post-pandemic phase constitutes the perfect moment to adopt environmental taxes, as people have already reduced their use of fossil fuels. Smart-working allows a large number of individuals not to depend on petrol, for instance, when reaching their workplace. People will be able to get used to the idea of higher prices in a moment in which they are freer to decide not to adopt polluting behaviours and to find alternatives for the future.

Biographical note

Amedeo Rizzo works as Academic Fellow at Bocconi University and SDA Bocconi, School of Management, where he carries on research activities on international and European corporate taxation, tax policy, corporate tax governance and accounting. He is part of the Group of Experts on anti-corruption for Transparency International Italy and one of the founding partners of the audit company Imperium Audit SpA. He has previously worked for DG ECFIN at the European Commission and for the International Tax and Transfer Pricing Team of Pricewaterhouse Coopers, Milan. He also collaborated with Centre for Budget and Governance Accountability, India, on financial transparency issues in Asia-Pacific countries. Amedeo graduated magna cum laude with a Master of Science in Law and Business Administration from Bocconi and received a thesis award. Afterwards, he continued his studies with a Master of Science in Taxation at the University of Oxford.