



Briefing Paper

Key points

FISCAL means relating to taxation, public revenues, or public debt.

EFR makes it more expensive to extract, waste and pollute. Businesses are encouraged to be part of the circular economy.

EFR is promoted by the IMF, OECD and World Bank.

A good proportion of the revenues collected goes back to citizens via their tax.

Dividend –bearing surcharges on existing fees are a politically viable way to introduce EFR.

EFR, when properly designed and implemented, can meet environmental goals with net positive impacts on the economy in terms of GDP, government revenues, and employment.

Many would say that we have reached a point where the Earth's population has swelled to such an extent that extractive practices are reaching their natural limitations. The Foundation proposes reforming the monetary system, specifically embarking on an Environmental Fiscal Reform (EFR), where the network of taxes, fees and other charges surrounding the societal system encourage and reward recycling and sustainable practices whilst ensuring distributive effects to provide housing, water and food security to all.

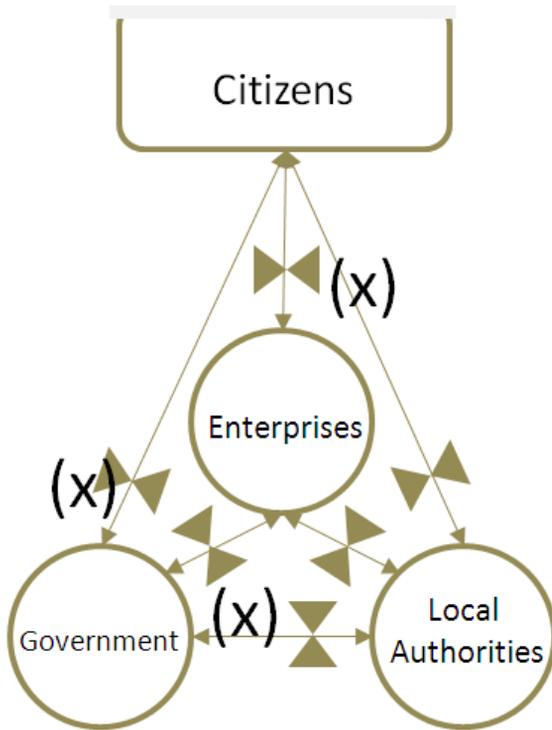
The monetary system we rely on to run our economies is extremely advanced and complex, something that has been developing over hundreds of years. However, it is becoming urgent to address how economic activities are affecting the environment, drawing down resources and indeed failing to counter poverty and starvation. The IMF, World Bank and OECD have all called for reform the monetary system to address poverty along with environmental degradation and depletion. The World Bank says:

By encouraging more sustainable use of natural resources (such as forests or fisheries), reducing pollution from energy use and industrial activities, and stimulating the use of innovative "clean" technologies, EFR can also improve management of the environment. In these ways, EFR can directly and indirectly address environmental problems that threaten the livelihoods of the poor.

The basic premise of EFR is that the state system of money collection— from all the various sources it utilizes – can be redesigned to encourage enterprises to use resources sustainably, and for consumers to demand goods and services that are produced sustainably. Spending less to address environmental problems means more money can be distributed to the poor.

From the World Bank Publication: EFR what should be done and how to achieve it.

To understand how governments might achieve this in practice an overview of how the fiscal system works can be helpful. As shown in the diagram below (explanation). Where potential pollutants are subjects of transactions, and thereby liable to control of fiscal instruments is shown in the diagram below.



We represent citizens at the top, with their money to spend as a stock in a bathtub. Every month, money flows down to the other three classes of actors in the economy; enterprises including banks, the state and the municipality. The next month, the stock of money is replenished by transfer of money between the actors, and up to the citizens. Much of what goes back to citizens is then redistributed back later in the month to the other three classes and so the cycle begins again.

Transactions with pollutants and those affecting job and housing security are surcharged (point X) and the charge raised until the economy responds measured as reduction in imports, reduction in emissions and increase in recycling as well as in reductions in unemployment and insecurity of housing.

Key points

The performance of the economy is continuously monitored. Depending on performance and market demand, surcharges are raised or lowered at regular intervals.

The Foundation replaces “tax and forget” with “monitor and adjust”.

TSSEF suggests levying a surcharge and raising it until the market responds to phase out emissions of the pollutant.

At the same time, the money levied should go back to taxpayers to ensure the economy remains strong.

As the levy will be passed on to consumers, pollutant-bearing goods and services will become relatively more expensive. Sustainable services will be relatively cheaper. And as the introduction of the pollutant into the economy becomes more expensive, so will the demand for its recycling rise.