



## **TAXPAYERS' ALLIANCE RESPONSE: QUALITY OF LIFE POLICY GROUP REPORT**

The Quality of Life [report](#) "Blueprint for a Green Economy: Submission to the Shadow Cabinet" released today is such a lengthy document, with a huge number of recommendations, that it might take an equally lengthy response to properly address. Despite that, there are a number of themes in the report's policy recommendations and analysis that can be responded to more concisely.

- 1. The Quality of Life report is based on suspect analysis and its recommendations will be harmful.** Increased taxes, more regulation, more quangos, a curb of vital infrastructure development and an attack on free trade would hurt British families and businesses and damage our economic competitiveness.
- 2. The report will not command public support.** A recent TaxPayers' Alliance/YouGov poll showed strong public scepticism about the efficacy of green taxes and the motives of politicians in recommending them.
- 3. Further green taxes are unnecessary and would be economically damaging.** A recent study by the TaxPayers' Alliance showed that green taxes are already £10 billion higher than the level need to cover the cost of Britain's carbon footprint - £400 for every household. The report also showed that there are serious flaws in all the major green taxes.

**Matthew Sinclair, Policy Analyst at the TaxPayers' Alliance said:** "Research shows that existing green taxes already more than cover the cost of the UK's carbon footprint, so it is no surprise that a majority of the public think green taxes are just another excuse for politicians to raise revenue. If implemented, these proposals would harm working families, motorists and manufacturers who are already over-taxed. People need politicians to offer genuine tax cuts for going green, not expensive new quangos, draconian regulations and a whole raft of new penalties."

For further information, please contact Matthew Sinclair, TPA Policy Analyst on **07771 990174** ([matthew.sinclair@taxpayersalliance.com](mailto:matthew.sinclair@taxpayersalliance.com)) or Corin Taylor, TPA Research Director on **07866 141110** ([corin.taylor@taxpayersalliance.com](mailto:corin.taylor@taxpayersalliance.com)).

## 1. The Quality of Life Policy Group Report

### The report's recommendations

#### Increased Taxes

- The TaxPayers' Alliance report "The Case Against Further Green Taxes" showed how green taxes are already set £10 billion too high, £400 per household, based upon estimates of the level green taxes should be set at from senior academics and international institutions like the Intergovernmental Panel on Climate Change. Despite that the Quality of Life report proposes big net increases in green taxes:
  1. *Landfill Tax would be increased massively from £24 per tonne to £80 per tonne.*
  2. *Tax on "high-polluting" cars would be increased. Vehicle Excise Duty (road tax) would increase significantly for higher-emissions cars and a new purchase tax would be introduced, increasing the cost of new cars. The report does not recommend, however, that rates of Fuel Duty be increased.*
  3. *Air Passenger Duty would be reformed which should increase its efficacy, taxing planes not passengers, but it would also be raised in real terms. The report also wants the terms for aviation's inclusion in the EU Emissions Trading Scheme to be particularly stringent.*
  4. *The report supports charging VAT on domestic flights.*
- Increases in the Landfill Tax are proposed, despite the tax already being £353 million higher than can be justified in terms of its impact upon climate change. Increases on this scale will inevitably feed back into higher council tax bills – or necessitate variable charging ("bin taxes") – as it is the responsibility of local authorities to manage domestic waste disposal and this cost will fall primarily on them.
- Even without above-inflation increases in Fuel Duty, increases to Vehicle Excise Duty and a new motoring tax would represent higher taxation on motorists. They are already paying, after road spending, between 3.6 and 40.9 times the amount they should be according to scientific estimates of the costs of climate change from bodies like the Intergovernmental Panel on Climate Change (see below).
- The proposed increases in Air Passenger Duty would result in a greater burden on well-earned family holidays for millions of Britons. And changes to the EU Emissions Trading Scheme could result in airlines having to pay a higher price for emissions credits and this cost would be passed on to passengers.
- Imposing VAT on domestic flights is another measure that will increase the cost of travel in the UK. The best way to increase rail passenger numbers is to make rail travel cheaper and/or more convenient. The fact that VAT is currently charged on train tickets is no reason to charge it on flights – it is a reason to remove it from trains.

## Regulation

- This report would create huge numbers of new rules. A few examples:
  1. *Off-setting home improvements with energy-savings*
  2. *Banning stand-by buttons on new electronic equipment.*
  3. *Banning the landfill of non-recyclable waste from 2015.*
  4. *Banning supermarkets selling below cost-price.*
  5. *Placing cigarette-style warnings, of a mandated size, on all car advertisements.*
- All of this extra regulation would require new government spending to monitor and enforce it, whether through existing or new agencies. These costs could eat into the revenue generated by additional green taxes. It would also imply imposing large compliance costs on businesses and ordinary families, with the threat of litigation.
- If the regulatory costs of this report were assessed as a tax rise in the same manner as the Competitiveness Report's reductions in regulation were [presented as a tax cut](#) the final bill would almost certainly add up to many billions.
- For such draconian measures, the environmental justification for some of these proposals is very thin. Landfill will face big tax increases and then severe new regulation but the justification for an imperative to recycle resources which aren't terribly scarce, like paper, is not established. The report appears to be trying to crack walnuts with sledgehammers.

## New Quangos

- The Quality of Life report endorses the creation of expensive new quasi non-governmental bodies – quangos. An early count suggests that the total number of quangos in the UK would be increased by this report. It recommends removing two quangos:
  1. *The Energy Saving Trust*
  2. *The Carbon Trust*
- However, it then recommends the creation of six new quangos:
  1. *The Sustainable Food Trust*
  2. *The Public Diet Institute*
  3. *The One Planet Trust*
  4. *The National Resources Trust*
  5. *The Climate Change Committee*
  6. *The Carbon Trust*

- The Carbon Trust is actually removed, by being combined with the Energy Saving Trust into the "One Planet Trust", early in the report and then "reconstituted" later on. These quangos are unlikely to come cheap and some, like the Climate Change Committee, place policy decisions in the hands of unelected and unaccountable bureaucrats.

### **Curbing Vital Infrastructure Development**

- 1. Plans to build new airport capacity would be put on "hold".*
  - 2. A moratorium would be placed on all plans for motorway and trunk road widening as part of a broader programme to ensure road building is the "exception rather than the norm".*
- Preventing an increase in airport capacity would lead to airport charges rising which would further increase the price of family holidays. If airports become more overcrowded then that might also create more inconvenience as seen recently with baggage handling and security problems at Heathrow.
  - Cutting road spending would further erode the value that motorists get for the huge amount they pay in motoring taxes. Motorists already pay £680 each per year more than the cost of building roads and road transport emissions. That amount would increase with less road spending, even before additional motoring taxes proposed elsewhere in the report are considered.

### **Attacking Free-Trade**

- 1. Local food production is endorsed as more environmentally friendly and conducive to greater food security.*
  - 2. The report proposes that the European Union Common Agricultural Policy (CAP) be maintained, with green modifications.*
- Reducing imports from developing countries would undermine progress on the important objective of ensuring that poorer countries can develop through trade, an objective that was supported by Conservative leader David Cameron earlier this year during his trip to Rwanda following the launch of Peter Lilley's Globalisation and Global Poverty policy group.

### **Background Assumptions**

- There are a number of radical beliefs that underlie this report's extreme recommendations. A few of them:

*Colombia is performing better than the UK; Mexico is performing better than the United States*

- The report endorses the Happy Planet Index, designed to replace GDP as a measure of a nation's progress, produced by the left-wing think-tank the New Economics Foundation. This comes up with its strange results by combining happiness economics, [which shows](#) little increase in happiness with greater prosperity, with a single-minded environmentalism.
- The Institute of Economic Affairs (IEA) recently published a [book](#), "Happiness, Economics and Public Policy" setting out how weak the case is for basing public policy on happiness. Happiness does not respond to the kinds of policies that those advancing happiness-oriented policies suggest it will.
- The idea that Mexico is a better performing country than the United States flies in the face of people's revealed preferences. Ignoring the desire of thousands of immigrants to obtain the high US standard of living in favour of questionnaire evidence on people's happiness is a bad idea.
- The index measures economic performance purely by the ability to use resources as efficiently as possible. This neglects other aspects of economic efficiency like the ability to use human resources efficiently.

*Britain has gone backwards since the late seventies*

- This is the conclusion of another index; the Index of Sustainable Economic Welfare (ISEW) which is endorsed by this report as another way to replace GDP. Professor Nicholas Crafts examined this index in 2001 and found that it double-counted environmental harms and missed many positive advantages of growth not counted within GDP like increasing life-expectancy. After correcting these mistakes he found that GDP is actually an under-estimate of British economic progress according to the ISEW methodology.

*The Stern Review is "too complacent"*

- The Stern Review has been criticised for being too pessimistic by "eminent" climate-change economist Richard Tol and the "father of climate-change economics" William Nordhaus (descriptions from the *Economist*):
- Nordhaus:
  - Pointed out that the study's conclusions rely entirely upon a controversial ethical assumption, that utility should be treated as equally valuable across generations.
  - This assumption appears not to be shared by ordinary people who discount utility over time when, for example, planning what to leave to their children.
  - A majority of the harms described in Stern occur after 2800. Under the same logic of taking costly action to prevent uncertain harms far into the future extreme positions could be justified in, for example, foreign policy.
- Tol (frequently cited within the Stern report):

- Called the study “alarmist and incompetent”.
  - Described how the study takes no account of the potential of adaptation to minimise the harms of climate change.
  - Accused the report of “cherry-picking”, always taking the most pessimistic estimates of potential damage from the reports it studied.
  - Noted that Stern’s social cost estimate is an outlier in the marginal damage cost literature and little explanation is given to justify such an extreme estimate.
- Despite this, the Quality of Life report argues that Stern’s conclusions are not radical enough. This places the report way outside the mainstream of the climate change economics debate.

## 2. Public distrust politicians on the environment...

- The TaxPayers’ Alliance commissioned a recent YouGov poll of more than 2,000 adults into public attitudes towards green taxes. The [major findings](#) were as follows:

### **Most believe politicians are not sincere on green taxes**

- When asked what they thought the primary motivation was for new green taxes, **63 per cent agreed** with the statement: “**Politicians are not serious about the environment and are using the issue as an excuse to raise more revenue from green taxes.**” Only 20 per cent thought that “Politicians are serious about the environment and are bringing in new green taxes to change people’s behaviour to help reduce carbon emissions.”

### **Fuel Duty and Air Passenger Duty seen as unfair taxes**

- **60 per cent** think that Fuel Duty is an unfair tax, compared with just 17 per cent who think it is fair. **45 per cent** believe that Air Passenger Duty is unfair, compared with 23 per cent who think it is fair.

### **Huge number oppose new council recycling charges**

- A vast majority (**77 per cent**) disapprove of local councils placing extra charges for bin collection on top of council tax to encourage recycling, including two thirds (65 per cent) who would “strongly disapprove”.

### **Trebling Air Passenger Duty would not stop people flying**

- **Concern for the environment will not lead people to change their behaviour unless there are significant tax increases** – in the realm that most politicians would be unwilling to advocate. When asked how much extra air passenger duty would have to cost before they chose not to fly, more than two thirds (71 per cent) would only stop flying if Air Passenger Duty was trebled from its current rate. If politicians only doubled it, 81 per cent of people would still choose to fly.

### **New green taxes must only ever be used to reduce other taxes**

- As a result of this scepticism, there was a very strong view that any new green taxes should not add to the already high tax burden but should be met with reductions in

other taxes. A majority (61 per cent) thought that if extra 'green' taxes were raised, "the extra funds should be used to reduce other taxes".

### **Public split on further green taxes**

- There is **no majority support for moving towards additional green taxes**. When asked whether, "Generally speaking do you approve or disapprove of additional 'green' taxes on motoring and air travel?", 46 per cent disapproved while 45 per cent approved and one in four people "strongly disapproved" against less than one in ten who "strongly approved".

### **Most people aware of the high cost they already pay at the pump**

- The poll also showed that most people have a fairly accurate assumption about how much tax they pay for driving. A third thought the proportion of a litre of petrol costing £1 that was made up of tax was less than 60p. More than a third (38 per cent) thought it was more than 70p. In fact, the cost of Fuel Duty and VAT charged on fuel purchases is equivalent to roughly 65p in the pound – which one in five people (21 per cent) correctly estimated.

## **3. ...and they have good reason: green taxes are already used as a revenue-raising measure**

### **The Case Against Further Green Taxes**

- The recent TaxPayers' Alliance [report](#) applies the conclusions of the most prominent experts in the field of climate change research (from the International Panel on Climate Change to academics such as William Nordhaus, "father of climate change economics", and Sir Nicholas Stern), and compares these studies' recommendations of the price the UK should be prepared to pay to offset the cost of the UK's carbon footprint with the actual level of green taxation. Such a comparison is the only way of knowing whether environmental taxes address root problems or whether they are merely revenue-raising measures.
- Covering the main "pollution taxes" of fuel duty; vehicle excise duty (road tax); the Climate Change Levy; Air Passenger Duty; the Landfill Tax and the EU Emissions Trading Scheme, the report investigates each of the green taxes and charges in turn, and reveals that each one has serious flaws:
  - **Fuel Duty** and **Vehicle Excise Duty**, net of spending on roads, are already between three and forty times higher than the level needed to ensure that drivers cover the official and academic estimates of the social cost of CO<sub>2</sub> emissions. This means that each motorist is overpaying by between £548 and £743 each year.



- Under the **Climate Change Levy**, the North East, England's poorest region, pays over 35 per cent more as a proportion of regional Gross Value Added, than the South East, England's richest region outside London.
- The doubling of **Air Passenger Duty** announced in last year's Pre-Budget Report is actually likely to have increased total emissions from air travel, incentivising longer flights within the short-haul and long-haul bands.
- The **Landfill Tax**, which has been increased a number of times by the current government, is already raising up to £620 million more than would be sufficient to meet the social costs of methane emissions from landfill. Planned new bin taxes are likely to represent yet another supplementary charge on stretched household finances.
- The EU's **Emissions Trading Scheme** has resulted in a £470 million subsidy from the UK to the majority of EU countries that have not placed strict targets for overall reductions in emissions.

## Main conclusions of the report:

In many cases, individual green taxes and charges are failing to meet their objectives, are set at a level in excess of that needed to meet the social cost of CO<sub>2</sub> emissions, and are causing serious harm to areas of the country and industries least able to cope.

Taking an average of the most widely quoted official and academic estimates of the social cost of CO<sub>2</sub> emissions shows that green taxes in the UK are already well in excess of the level they need to be to meet these social costs

- The social cost of Britain's entire output of CO<sub>2</sub> was **£11.7 billion** in 2005 but in the same year, the total net burden of green taxes and charges was **£21.9 billion**.
- This means that green taxes and charges are already **£10.2 billion** in excess of the level they need to be to meet the social cost of Britain's CO<sub>2</sub> emissions. This excess is equivalent to over **£400 for each household** in Britain.

Green taxes are therefore already too high if they really are a means of internalising environmental externalities rather than simply revenue-raising measures.