

ECO-LABOR TAX REFORM: EXPERIENCE OF IMPLEMENTATION BY THE EUROPEAN COUNTRIES AND POSSIBILITIES FOR UKRAINE

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Ukraine's current tax system makes energy and natural resources cheap, thus encouraging inefficiency and waste. On the other hand, it makes labor too expensive (additional payroll taxes and mandatory social contributions, paid by employers, average about 37% of a salary), which discourages employment, encourages payment of wages in cash, and fuels the unofficial economy.

Ukrainian GDP composition is a good illustration of this. Its structure leans toward heavy industries (metallurgy, mining, chemical and oil-refining industries, and energy). The share of these industries in the industrial output of Ukraine has more than doubled in recent years, from 23 % in 1991 to 58 % in 2000. Also in 2000, the share of heavy industrial products in Ukrainian exports was over 60 percent. Metal products alone accounted for about 40 percent [10].

Many modern economists such as H. Daly, R. Costanza, L. Brown and others see the problem in the fact that today's fiscal systems reflect the past time goals to exploit natural resources as rapidly and competitively as possible via increasing the productivity of labor and capital. But now natural capital is the scarce resource. The present goal should be to restructure the fiscal system so that the prices reflect the truth, protecting economy's natural supports [4]. Thus, a concept of eco-tax reform emerged, which means the following: tax lightly the things you want more of (labor and income), and tax more heavily what you want less of (resource depletion and pollution of the environment). For some scientists it is known as a double theory hypothesis.

There are quite a few simulations proving the double-dividend theory. Andre et al. [1] believe that it makes sense to perform an empirical analysis to test the economic effects of a specific reform in a selected country or region, by means of Computable General Equilibrium (CGE henceforth) models to assess the economic effects of an ETR. These models perform a disaggregate representation of all the activity sectors and the equilibrium of all markets, according to basic microeconomic principles. The World Bank economist Benoit Bosquet with his research of the 139 computer simulations from 56 studies of eco-labor tax reforms, mostly in Europe and most of which shifted taxes onto energy while shifting them off labor, indicated that eco-labor tax reform indeed benefits both the economy and the environment. The economic simulations showed that reductions in carbon emissions would result in improvements of environmental quality as well as marginal gains in employment levels [2].

In the 1990s a growing number of European countries introduced reforms linking a variety of green taxes to reductions in social security contributions. The tax shifts have amounted to anywhere from 0.2 percent to 2.5 percent of these countries' total tax revenues [2,9]. At the same time a growing number of studies, modelled the economic and employment impacts of ETR. Although the underlying assumptions about the nature and size of eco-taxes, as well as the precise ways in which the tax revenue would be used, vary widely, the key conclusion was that a tax shift is clearly good news for job creation [2].

Thus, both simulations and empirical studies show that the potential impact of a tax shift is likely to be greatest in countries where labor taxation is particularly high, as it is in most of Europe [5,6]. Although economies of developing countries often find more difficult to commit to a long lasting tax reform, due to a low institutional development and the abrupt political changes it drives, Casillas considers that they have more possibilities to implement ETR.

The authors believe that Ukraine should restructure its taxation system according to the principle of eco-taxes, i.e., tax lightly the things you want more of (labor and income), and tax more heavily what you want less of (resource depletion and pollution of the environment). The resource intensive and labor tax heavy economy of Ukraine will benefit from ETR due to increase in resource productivity and increased rate of employment leading towards the effective and efficient economy restructuring. The tax base can be shifted from labor and income to resource throughput at the depletion or pollution ends, or both. The tax shift should be made revenue-neutral to minimize political opposition. This would provide strong incentives for job creation and for higher and officially paid wages, on one hand, and for enhancing resource productivity on the other [8]. This shift could be carried out gradually by a preannounced schedule to minimize disruption and should be a key part of structural adjustment [7].

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