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## The Role and Function of Taxation for Sustainable Economic Recovery Post-Covid-19

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## THE ROLE AND FUNCTION OF TAXATION FOR SUSTAINABLE ECONOMIC RECOVERY POST-COVID-19

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Papers attributable to this special issue are a result of the discussions held at the conference “Sustainable Taxation—Global Challenges and Legal Solutions” organized at the University College of Gävle (Sweden) in April 2019. Despite the papers having been written before the ongoing pandemic, the content of them is now more topical than ever as individual states will, beside the apparent health crisis, struggle with not only financial recovery but also tangible inequality within society. As is discussed next in Prof. Buchanan’s editorial, intergenerational justice is a highly plausible way of moving forward and promoting greater equality not only within tax systems but also within the society in general. Buchanan’s utilization of the U.S. example provides us with highly relevant and thought-proving insights.

As we speak, governments worldwide are structuring their economic recovery measures to mitigate the disruptive effects of COVID-19 and to lay out the foundation for financial recovery post-COVID-19. The papers in this issue provide well-needed insights in how this may be achieved. Davis-Nozemack and Kisska-Schulze deliver an excellent introduction to the concept of sustainable taxation in their paper, *Applying Sustainability to Tax*, in which they address how states can design their national tax policies in order to promote a development which, among other objectives, combats social and financial inequality. Repetti links into these discussions when analysing progressive income taxation in the United States through the perspectives of efficiency and equity in his paper, *The Appropriate Roles for Equity and Efficiency in a Progressive Individual Income Tax*. He argues that the increased focus

on economic efficiency, when formulating tax policy, has resulted in decreased rate progressivity in the U.S. individual income tax, a decrease that has exacerbated inequality. He also observes that empirical studies show that the harms arising from inequality are more certain than the efficiency harms commonly associated with a progressive individual income tax.

Schmiel's paper, *Economic Analysis of Tax Law from a Sustainability Perspective*, eloquently challenges existing preconceptions of wealth taxation and offers insightful lessons on how national tax policy can enforce equity between individual taxpayers and thus also promote intergenerational justice and social mobility.

The paper, *Capital, an Elusive Tax Object and Impediment to Sustainable Taxation*, by Ordower links into this reasoning through a historical exploration of capital taxation in the United States. Larsson and Säve-Söderbergh analyse capital taxation but from a gender perspective when studying the Swedish tax policy behind capital gains taxation in their paper, *Targeting Risk Lovers? Taxation of Private Pension Savings, Risk Preferences, and Gender*. The paper uncovers how the Swedish legislators' ambition to promote gender equality, by offering a more favourable tax regime when taxing capital gains, have had an effect reversed to that initially intended as those taxpayers who primarily take advantage of it are younger men willing to take financial risks when investing rather than women saving for their retirement.

Gunnarsson elaborates on gender equality as a keystone for sustainable tax policies within the EU in the paper, *Fair and Sustainable Taxation—From a European Horizon*. In the paper, the need for increased redistribution is highlighted when analysing existing tax policies at national level. The neo-liberal tendency to promote efficiency before redistribution is thus challenged through both comparative examples and empirical studies gathered from a set of EU Member States. Research which may play a vital part when the EU structures their post-COVID-19 strategy.

A natural part of promoting equality would additionally be to address democratic disparities stemming from increased global mobility within taxpayer groups. The paper, *Voting Rights Compared to Income Taxation and Welfare Benefits Through the Swedish Lens*, by Lind explores political inequality between individuals who move across border in their own accord (such as high-income earners, high-skilled workers and high-net value individuals) and individuals who are forced to move (mainly immigrants). The paper concludes that there

are apparent legal mismatches within legal frameworks comprising taxation, access to (social) welfare benefits, and voting rights, which will need to be amended in order for these taxpayer groups to be on an equal footing.

Additionally, Garbarino explores inequality between states when chartering the international tax regime from a perspective of cosmopolitanism and morality in the paper, *Cosmopolitan Rights, Global Tax Justice, and The Morality of Cooperation*. Developing states have for long struggled with respect to tax allocation between states, and the pandemic only stresses the importance of having a fairer tax allocation as these states are expected to need substantial financial support to be able to financially recover. Digital incomes are at present time of great interest as many states have started to implement (national) digital taxes in order to collect additional tax revenues. There are also ongoing discussions at the EU level of implementing a common EU tax on digital incomes/transactions as a part of the joint plan to financially recover from the pandemic. Marian's paper, *Blockchain Havens and the Need for Their Internationally-Coordinated Regulation*, offers further insights to how states could, or should, tax such digital incomes.

Furthermore, environmental tax policy discussions have regained traction in the aftermath of COVID-19, as environmental taxes, such as the CO<sub>2</sub> tax, promote the environment and the UN's sustainability goals. This revival can for instance be seen within the EU as there are ongoing discussions of having the CO<sub>2</sub> tax as a potential common tax aimed at funding financial support packages awarded to those EU Member States who have taken the worst financial hits during the pandemic (primarily the states located in the south, such as Italy, Spain, and Portugal). Sweden and Denmark were trailblazers when implementing national CO<sub>2</sub> taxes in the early 90s and these insights may provide a firm foundation for the EU discussions on a common CO<sub>2</sub> tax. Skou Andersen and co-authors describe and analyse the EU water framework Directive through the Danish example in the paper, *Implications of Denmark's Water Price Reform for Riverine and Coastal Surface Water Quality*. The paper provides some insights into how individual EU Member States may improve their water quality and by doing so work towards climate goals set up by the EU.

Moreover, in order for states to financially recover from ongoing crisis, they will not only need to strengthen their tax bases and promote a sustainable development within society but also contribute with sustainable tax policies that encourage, rather than hinder,

innovativeness at the company level. In the paper, “*The Bottom Calling the Top*”—*The Selling of Function (PSS) as a Business Model for Sustainability, in Need of Some Assistance from the Legislator*, Karlsson and Kellgren explore the interaction between contract law, accounting standards and tax law when discussing present legal situation for start-up companies targeting the circular economy, in this specific case: the possibility to sell functions rather than products or services.

Despite the grim outlook today, there are still silver linings for those striving towards a sustainable and equal society. Or as European Commission President Ursula von der Leyen expressed it when introducing “Next Generation EU,” the EU recovery plan proposal containing the forthcoming EU budget:

*The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalization will boost jobs and growth, the resilience of our societies and the health of our environment. This is Europe’s moment. Our willingness to act must live up to the challenges we are all facing. With Next Generation EU we are providing an ambitious answer.<sup>1</sup>*

It is therefore sensible to assume that tax policies promoting sustainability and long-term socio-economic change will play a vital part in the financial recovery post-COVID-19, not only at national- but also on supranational level.

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1. European Commission Press Release IP/20/940, Europe’s Moment: Repair and Prepare for the Next Generation (May 27, 2020), [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_940](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940).