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Energy taxes, reforms and income inequality: An empirical cross-country analysis

Walid Oueslati^{*}, Vera Zipperer^{**}, Damien Rousselière^{***} and Alexandros Dimitropoulos^{*}

Abstract:

Environmentally-motivated taxes on energy products can effectively induce households and firms to take into account the environmental externalities of energy transformation and use. The levy of such taxes is, however, often hampered by public concerns over possible distributional effects. This paper analyses the macroeconomic relationship between taxes on energy products and income inequality. It also investigates whether this relationship is different in cases where explicit mechanisms to shift tax burden from labour and income to environmentally harmful activities have been established. In contrast to earlier empirical studies which analyse the distributional effects of energy taxes on the uses of household income, this paper focuses on their macroeconomic relationship with income sources. Using a panel of 34 OECD countries from 1995 to 2011, the paper shows that in the absence of explicit tax revenue recycling mechanisms there is a positive, although modest, relationship between the share of revenues from energy taxes in GDP and the Gini coefficient, which is the adopted measure of income inequality. In contrast, where such mechanisms have been implemented, there is an inverse and relatively stronger relationship between the share of energy tax revenues in GDP and inequality in income sources.

Keywords: Energy tax, environmental tax reform, income inequality, Gini coefficient.

JEL Classification codes: E62, H23, Q48, Q52

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