'Clean tax cuts' and the global free market for plastic solutions

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An estimated 8 million tons of plastic enters the ocean each year — a large number, but dwarfed by the roughly 4.9 billion tons of plastic waste dumped on land and sea since 1950.

The cause: 50 years of disposable plastic products and packaging, with globally inadequate investment in low-waste alternatives and recycling systems. Consumers do not pay — and few companies voluntarily shoulder the full cost of preventing or cleaning up the waste produced by their products. A key barrier to both investment and the rapid adoption of better solutions and policies remains sheer cost.

Much of the world has explored plastic bans, taxes, alternative materials or producer responsibility regulations, but little focus has been given to the potential financial incentives that can drive needed investment and make solutions cheaper, even profitable.

Fortunately, an innovative new class of free market solutions called Clean Tax Cuts, or CTCs, can directly drive up investment and also drive down that crucial cost barrier that has left the world with a large gap in recycling and material recovery capacity.

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CTCs can help scale up powerful circular economy solutions by removing tax and other roadblocks to capital and participation for environmentally beneficial enterprise. They increase investment flows and drive down the cost of capital, and with it, the cost of clean solutions. First suggested by the Grace Richardson Fund in 2016, CTCs explore the simple notion that "If you want more of something, tax it less," a paradigm shift that could drive global prosperity and a cleaner, freer world.

Since then, the Clean Tax Cuts Working Group, an informal collaboration of some 300 scholars, experts and institutes, has pioneered a range of CTC mechanisms tailored to various sector and market needs. Two of the most promising include Clean Product Tax Cuts (a modest tax rate reduction on "clean" business and equity income from "clean" products, services or operations) and Clean Asset Bonds and Loans (tax-exempt green debt financing clean assets).

Key meetings have been co-hosted by groups like Rocky Mountain Institute, The Nature Conservancy, the Sabin Center for Climate Change Law at Columbia University and the R Street Institute. Ocean Recovery Alliance has co-hosted two meetings to explore how CTCs might apply to the problem of plastic waste. These gatherings concluded that CTCs should be able to drive down costs and increase profits, not only for waste management and recycling operations, but also for products that reduce waste, accelerating an array of circular economy and source-reduction solutions.

Driving down costs

Clean Asset Bonds and Loans appear particularly well designed to drive down costs and increase investment for a long list of assets that reduce and recycle waste: integrated cart/truck systems; all the sorting, cleaning, grinding and processing technologies for material recovery facilities (MRFs) and processor plants; long-term recycling contracts; plants that remanufacture recycled plastics into new products; storage facilities and quality testing equipment for recycled materials; software for resource recovery exchanges; low-emission waste-to-fuel and waste-to-clean-energy systems; manufacture and deployment of filters and catchment devices for washing machines, rivers, bays and the ocean; and advanced wastewater treatment technologies.

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CTCs should also drive down costs for a variety of best-practice frameworks: voluntary product stewardship or legislated extended producer responsibility for reducing product life-cycle impacts and waste, concepts championed by the Product Stewardship Institute for the past two decades. CTCs can introduce new cost-cutting, reward-based elements into these frameworks, reducing their financial burdens and increasing their benefits, allowing the most promising systems to expand at scale. Companies, entrepreneurs, governments and communities will benefit from lower costs and higher profits, along with improved environments.

One variation of CTCs, the Clean Product Tax Cut, proposes that the more "clean" products sold (or the greater the measurable impact from income-producing sales, services or operations), the lower the taxes for businesses and investors. All manufacturers, distributors and retailers can be rewarded with clean tax cuts for selling more clean products that either create less plastic waste, use more recycled content or repurpose waste profitably. In addition, the income of operations that manage, recycle or reduce waste, whether recycling facilities or companies following product stewardship best practices, could also be considered "clean income" deserving a clean product tax cut.

Clean Product Tax Cuts might take slightly different forms from country to country, sector to sector. They hold promise most likely as a tailored, rather than a one-size-fits-all incentive. In fact, a single, powerful, globally applicable, rapidly spread incentive would be just the policy catalyst we need in order to scale up clean solutions as fast as possible on a global scale.

Such innovation is at the heart of the Global Clean Free Market Act, quietly floated recently by two members of the Clean Tax Cut working group, the American Council for an Energy-Efficient Economy and the Clean Capitalist Leadership Council. The proposed act offers as a rapid implementation strategy for the most powerful and globalize-able CTC mechanism, the Clean Asset Bond and similar loans.

The Global Clean Free Market Act proposes a simple plug-and-play bill that any state or nation could implement to spark the creation of a powerful, global, clean free market, defined by low taxes, no tariffs and no barriers to participation; in other words, the freest market possible — so long as it prevents or remediates pollution and conserves resources.

High-leverage incentives

As a basic building block for this clean free market, the act introduces a new kind of highly cost-effective leveraged incentive: Clean Asset Bonds and Loans apply policy leverage (a clean tax cut) to financial leverage (private debt). Specifically, these would be tax-exempt private debt securities (green bonds and loans) designed to finance pre-qualified pollution-reducing assets with guaranteed impact (e.g., a zero-emission power source or a recycling plant). These are also the only tax-exempt bonds optimized to work across the $46 trillion global private bond market, which is 12 times bigger than all 50 U.S. state and municipal bond markets combined.

That private market placement makes Clean Asset bonds different from all existing tax-exempt bonds, which are uniformly government bonds. On the other side of such debt is government, which provides no leverage effect. Clean Asset Bonds, however, are private bonds, and on the other side of that debt is equity, which is greatly enhanced by leverage.

Clean Asset Bonds and similar loans magnify financial leverage. Cheap tax-exempt debt drives down the cost of capital, the cost of clean technologies (such as recycling or renewable energy) and the cost of sustainable products produced, while leveraging up growth rates, GDP and return on equity. All investors will be attracted to the higher returns on the equity the capital stack — boosted by tax exempt debt. Fortunately, the equity returns are taxable, bringing in more tax revenue than that lost on the tax-exempt debt.

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Clean Asset Bonds are the only type of tax-exempt bond that attract not just the usual high-net-worth bond investors (globally, not just in one state), but also incent all equity investors globally, and even incent taxable investment. Any nation can adopt the act. Its businesses can then issue Clean Asset Bonds and Loans, which would be tax-exempt to the citizens of every cooperating nation. This allows the rapid expansion of a global market without the need for cumbersome negotiations required to form regional carbon trading markets or free-trade zones.

The immediate advantages of adopting this act should be obvious: the potential to attract large international capital flows for sustainable equity and debt investment, much of it taxable.

Critically, the Global Clean Free Market Act solves an as-yet-unanswered question: How can developed and developing nations finance their Sustainable Development Goals? Clean Asset Bonds can stimulate global investment to finance sustainable infrastructure development everywhere — including First World investments in waste reduction, recycling and product stewardship in places like Africa, Asia and Latin America.

The act proposes a powerful start. Smart policy innovation will lead to even better ways to apply CTCs to plastic waste reduction. The opportunities seem vast. Scholars and industry experts interested in policy design collaborations with the CTC working group are urged to contact the authors.

What better way to resolve today's trade wars, kicked off with 30 percent solar tariffs, than to launch global clean free markets?