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The Impact Of Taxation In Circular Economy/New Tax Thinking :The Case Study USA

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Abstract

The evolution of linear economies has been, inter alia, driven by a market that does not tell the 'ecological truth' as most "environmental externalities" (such as environmental damage caused by extraction but also by the transport or use of resources are not reflected in market prices.

In a circular economy, optimization of the use of non-renewable resources implies taking into account and integrating quantitatively these "externalities" in the calculation of the overall value of a product or a service.

, using statistics gathered from publicly available sources, such as the U.S. Census Bureau. The regression analysis includes economic data from all 50 U.S states from 10 years of a 12-year period. The resulting findings indicate that a tenuous connection does exist between taxes and circular economy, but that the relationship is not consistent or consistently significant across many different possible kinds of circular economy. Thus, eschewing any notions of a one size fits all tax policy. Furthermore, a determination is made that other, non-tax, vi economic and social factors are actually more important to our understanding of circular economy and of what constitutes good policy in this field of economic data

1. INTRODUCTION

The circular economy (CE) is currently one of the most discussed terms among environmental economic scientists and a focus of the European Union Horizon 2020 strategy. Its core defining element is the "restorative use" of resources. Raw materials shall not become discarded waste. Take a second to think about the plastic bottle from which you just drank, the computer you have just typed on, the chair on which you sit. Typically, for such goods, raw materials are taken, the item is produced, then it is consumed and eventually thrown away. The results are shrinking natural resources and growing landfills**.** The circular economy envisions a shift away from such a linear "take-make-dispose" model to a system where products, components and materials are reused in new cycles, thus closing the trajectories into loops. In this system where everything is a resource for something else, the notion of waste disappears.

Fittingly, for a country that was founded in the midst of a tax revolt, the issue of taxation is still perhaps the most argued and most controversial issue in American politics. In the 2012 election, opinions on taxation were one of the most notable differences in ideology between presidential candidates Barack Obama and Mitt Romney. President Obama advocated raising taxes on the upper class to pay for continued spending which, theoretically, would improve circular economy. Presidential Candidate Mitt Romney advocated lowering taxes so as to promote private investment that could also, theoretically, boost circular economy. Two wildly different approaches to policy, based on two different worldviews, and premised on different historical interpretations of past public policy. With this thesis, I intend to discern for myself the answer to the question, "Do taxes have a meaningful impact on circular economy?" To do so, I will use publicly available data, such as that provided by the U.S Census, to perform a regression-based study of historical economic trends during years from 1999 to 2010. A ten-year period that included economic expansions, recessions, and recoveries, taking place under both liberal and conservative governance. The subjects of the study will be all 50 U.S. states during this period of time and the study will control for widely recognized factors in economic performance and various forms of taxes, spending, and regulation. With as many pieces of the economic puzzle assembled as possible, I am curious which way Adam Smith's invisible hand will guide us.

➢ Hypothesis

Do taxes affect circular economy? I think they do, but I do not think they do so significantly. I think the innumerable social, political, and economic factors that theoretically impact and interweave into the tapestry that is the economy, make it impossible to discern what if any effect taxes are having. I think there are too many variables we cannot control for, or even imagine, and that such imperfect information will skew the results. Consequently, I expect my regression to return data showing that many, if not most, of the tax variables I have chosen to include will either prove to be statistically significant, and therefore not predictive of economic growth. Evidence suggests that even when controlling for some of the most widely talked about factors in economic growth, like welfare spending and educational level, there is too much we do not know and cannot reduce into the form of a quantitative study.

2. LITERATURE REVIEW

For these changes to take hold, incentives should be put into place. An appropriate tax policy can provide such incentives. However, our tax system is not yet adapted to promoting the circular economy.

Today, 51 percent of globally collected taxes are derived from labour taxation, while environmental (or consumption) taxes – energy, transport, pollution and resources – represent only 6 percent. The capital market is one of the most important parts of the economy, that it is not covered they're important to anyone (MIR et al., 2020). The use of accounting techniques to generate financial reports, which shows an overly positive view of the business activities and financial position of the company (Hamawandy et al., 2020). Linking people and different world is the work of modern technology is the carrier of globalization all over the world (Othman et al., 2020). Restatement of financial statements to the market contains new information (Sulaiman et al., 2020). Their study revealed that the technical discount rate variations are endogenous whilst non-technical variations contain information about monetary policy (Hasan et al., 2019). FDI is also the essential ingredient to the growth and development of most economies (Baban & Hasan, 2019). The element of knowledge management and innovation are currently considered as integral in all aspects and operations of an organization given the fact that they determine the survival of entities in the corporate market (Jabbar et al., 2019). Corporate governance of firms depends on the ownership structure of the company, on whether the company is owned by a single individual or by a group of people (Al-Kake & Hasan, 2019). The most important factors in the economic growth processing of any country are the commercial transactions and foreign direct investments (Adl.Nawzad, 2020). Financial markets are always responsive to economic and financial crises across the globe (Fria, Hmawandy et al., 2020). the Foreign Direct Investment , improvement in the manufacturing industry, and the perspective consumers' credit improvement (Rjoub et al., 2021). A central bank is a financial institution given privileged control over the production and distribution of money and credit for a nation or a group of nations (Erülgen et al., 2020).

this study provides measures that can be used to enhance such financial performance. In addition, little has been done to explore the area of internal control issues that are hampering financial performance in the Middle East (Mahmood et al., 2020).

Shifting towards a circular economy will involve designing a tax system with a different taxation of renewable and non-renewable resources. Why should we heavily tax something that we want companies to use – humans, who can themselves be considered a renewable resource – while having low taxation on non-renewable material resources?

As early as 1993, the European Commission noticed this need for a tax shift. In 2010, an EU report stated that "shifting taxes away from labour should be a priority for all Member States." More recently, the Rifkin report also outlined the need for a taxation system that would place Luxembourg as the EU circular economy leader on the basis that "an innovative tax system motivates actions to innovate on the production side through resource efficiency

improvements that cut costs, as well as motivating customers to purchase more energy and resource efficient products to lower costs This would ultimately imply a holistic change to the tax system by shifting the tax burden from lab our to (non-renewable) resources, waste and emissions in order to incentivize economic actors to adopt more sustainable business models.

Nevertheless, a complete overhaul of the tax system is very complex. We can and should take smaller steps to change the tax system to support a circular economy.

the implications of different choices over the purpose of a tax:

The tax should be set at a high enough level, or be in some other way designed, to ensure that people or business don't want to pay it, preferring instead to change what they buy, or reduce their overall consumption.

If taken to the extreme, such a tax might seek to 'put itself out of business' by lowering the tax base, thus reducing revenues.

Such taxes are often designed to start slowly and rise over time – such as the landfill taxes that exist in many Member States. This is to provide long-term certainty. But it requires 'staying the course'.

As such, these taxes in particular require multi-year political leadership to introduce and maintain; they will be fiercely resisted by well-organised and powerful lobbies.

The tax must be kept under review to ensure that it is delivering the behaviour change expected.

Conversely, rather than taxing the damaging activity, tax reductions or exemptions can be provided for non- damaging activity. Tax policy can therefore be a 'carrot' as much as a 'stick', depending on design.

On a basic level, everyone understands what taxes and circular economy are, but defining them in such a way as to be useful for a regression analysis is complex. For example, ask yourself, what kind of taxes would we expect to have an impact on circular economy if they were significantly lowered or raised? There are many different answers one could give just out of hand. Income taxes, sales taxes, property taxes, a strong argument could be made for all of those given the right thesis. Then the issue is complicated further by trying to decide on the correct way to measure taxes. Average tax rates? Marginal? Perhaps some combination of the two? Should we use tax rates at all? 11 Should it be a hard number that represents taxes like state revenue? And what exactly constitutes circular economy is potentially up for debate as well. We could use state GDP, GDP per capita for residents, their income, the number of new businesses created, changes in the number and amount of state tax receipts. Independent Variables Hypothetically speaking, any of the aforementioned taxes could work well as an independent variable and any of the economic growth measures could work as a revealing, interesting dependent variable. A model consisting of any permutation of these variables would probably tell us something useful about the effects of taxes on circular economy. Unfortunately, this also leads to consistency problems as researchers can choose very

different variables to represent the same broad ideas. The independent variable most often used in these kinds of studies is, either some form of marginal income tax, or an amount based on total revenue collected through taxes. Poulson & Kaplan (2008) describe marginal tax rates as the best measure for determining the impact of taxes on circular economy because increases or decreases in a marginal income tax rate create incentives economic units, like workers or businesses, to increase or decrease their output depending on what is best for them individually (Poulson & Kaplan, 2008). Other researchers like Plaut & Pluta (1983), and Mofidi & Stone (1990) chose to use total state revenue per capita, because it more holistically addresses the question of how taxes affect circular economy. 12 Benson and Johnson (1986) took this methodology a step further, and divided state revenues by the average of all the state revenues of the 48 contiguous states in order to arrive at an average tax rate. The advantage to this method being that, because tax rates are subject to constant pressure from internal and external forces, they change frequently, and, it is therefore necessary to ensure measurements are always relative to other states, who are facing the same forces. Papke & Papke (1986), reasoning along a similar line of logic, that taxes and expenditures are roughly equivalent economically, substituted marginal capital expenditures for tax rates entirely to explore how the use of this specific tax revenue affected circular economy. Dependent Variables Dependent variables are similarly varied among experiments. Three, Canto & Webb (1987), Helms (1985), and Poulson & Kaplan (2008), use some measure of personal income as their representation of circular economy. This measure is useful, because it gives a clear picture of how people and businesses are affected monetarily by tax policies. However, this approach lacks some important context. Income can mean different things in different places (e.g. $100k per year income means less in California than in Montana). Because of this, other researchers like Plaut and Pluta (1986) chose to use states' rates of unemployment as the dependent variable for circular economy. This way, tax policy could be related to unemployment.

3. METHOD

the methodology that will be used for this regression analysis. It describes the overall structure of the analysis and the assumptions I am making. It lists the variables being used to represent the issues of taxes and circular economy. And it catalogues the control variables that account for the influence of a range of important economic factors.

- **Experimental Design**: My model is a regression-based study design that analyzes the effects of various taxes, state spending, labor, and other economic influences on three separate commonly used measures of circular economy. Other studies are often limited by the fact that they only choose one variable to represent economic growth, like GDP per capita or income per capita. Because of this, they can only speak to how one segment of the economy is impacted.
- **circular economy and Dependent Variables** The first measure I have chosen to represent circular economy as a dependent variable is personal income per capita. I chose it because per capita income is simple to understand and because it says something meaningful about a state's economic health. Higher growth in income per capita means a state is growing

more affluent on average, lower growth or decline means a state's residents are getting poorer. The second measure I have chosen is median household income. Although change in GSP per capita income is a good measure of a state's overall economic growth, it does not speak to who is benefitting, or languishing, economically.

4. RESULTS, DISCUSSION AND ANALYSIS

This chapter will review the results of my regression analysis. It includes an overview of my statistical findings as well as my observations as to the significance of my variables and the relationships they have with one another. It is from these findings that I draw my ultimate conclusions. Preliminary Statistics Before running my regression there were a couple of statistical read outs I felt it necessary to include for comparison purposes and general information. Table 4.1 includes basic descriptive statistics for my regression variables. All values are adjusted for inflation into 2014 dollars using the CPI based U.S. Inflation Calculator. Revenues and expenditures represent combined state and local values.

➢ Regression Data Results

After establishing baseline statistics and testing for variable correlation I began testing the full regression. I tested all the major functional forms, including lin-lin, log-lin, log-semi-log, and quadratic. The dataset was declared to be panel data and regressed using fixed-effects regression with directions to Stata to correct for the higher than normal levels of heteroscedasticity, because of the time-series nature of the study. State and time dummy variables were used to control for within state factors. The quadratic form produced the most significance and was therefore used in my final regressions. Below are my final regression results.

	Regression Results		
	(1)	(2)	(3)
VARIABLES	Income Per Capita	Median Household	Unemployment
		Income	Rate
Avg. Taxes Paid	0.3133**	-0.0399	-0.0001
	(0.142)	(0.137)	(0.000)
Spending Per Capita	-0.0563*	0.0330	0.0001
	(0.032)	(0.075)	(0.000)
% Property Taxes	-93.67	-428.02**	0.0969**
	(121.240)	(192.684)	(0.040)
% Sales Taxes	-194.74	-281.82	0.0682
	(131.056)	(226.694)	(0.046)
% Income Taxes	-181.04	-220.16	-0.0479
	(165.955)	(237.338)	(0.070)
% Business Taxes	1,439.04***	393.94	-0.4625**

	(498.913)	(452.417)	(0.189)
Business Squared	-161.10**		0.0367**
	(70.515)		(0.017)
% Charges	-734.02**	-1,921.64***	0.2774**
	(301.258)	(403.052)	(0.113)
Charges Squared	6.14*	20.83***	-0.0028**
	(3.059)	(3.915)	(0.001)
% Capital Spending	326.10***	599.10***	-0.1762***
	(85.947)	(204.511)	(0.041)
% Welfare Spending	196.62**	265.56	-0.0737*
	(76.189)	(187.779)	(0.038)
% Without HS Degree	-305.06	-803.03**	-0.0263
	(184.318)	(373.555)	(0.091)
% Pop. Under18	239.62	-125.84	0.2573***
	(209.100)	(427.574)	(0.090)
% Pop. Over 65	-53.93	-48.63	0.3318**
	(271.466)	(532.565)	(0.145)
Right-to-Work	-1,463.64***	-233.31	0.5003**
	(460.069)	(1,305.211)	(0.212)
Minimum Wage	3,696.37***	547.24	-0.2724***
	(713.286)	(338.490)	(0.076)
Min. Wage Square	-303.63***		
	(65.200)		
Year 2000	83.43	-1,066.35*	-0.3478***
	(194.028)	(564.552)	(0.087)
Year 2002	639.07	-4,570.65***	-0.3962**
	(465.721)	(1,149.631)	(0.176)
Year 2004	447.16	-10,340.52***	0.6248**
	(703.289)	(1,473.999)	(0.295)
Year 2005	-716.14	-13,541.53***	0.3676
	(849.559)	(1,576.115)	(0.327)
Year 2006	911.61	-15,972.24***	0.1925
	(852.026)	(1,766.935)	(0.382)
Year 2007	1,881.04**	-17,434.34***	-0.2026
	(906.330)	(1,899.628)	(0.431)
Year 2008	1,276.79	-19,039.79***	-0.3000
	(1,287.340)	(2,161.756)	(0.491)
Year 2009	1,228.86	-20,764.53***	0.4828
	(1,240.856)	(2,530.704)	(0.532)
Year 2010	1,239.51	-26,591.91***	3.88***
	(1,383.747)	(2,919.457)	(0.606)

Constant	46,263.82***	135,566.47***	-9.17**
	(14,440.599)	(21,847.691)	(4.545)
Observations	478	478	478
R-squared	0.452	0.886	0.821
Number of State	50	50	50

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1
All real values have been adjusted for inflation

* Variance Inflation Factors

After determining that the quadratic functional form produced the best regression results, I ran variance inflation factor tests on all three of my final regressions to check for multicollinearity. Variance Inflation Factor tests indicate multicollinearity where the VIF value is greater than 10 and the tolerance, which is defined as 1/VIF, is less that .10 (UCLA, n.d.). The only cases of collinearty reported by my VIF tests were in the quadratic terms, which are endemic to the form.

* Regression Findings

My regression results are an interesting combination of expected and unexpected outcomes. Most of the results from my three regressions seem plausible. However, there are a few instances that seem to beg for further study, and suggest the existence of omitted variable bias.

* Income Per Capita

Of the three regressions, Regression 1, the effect of the average taxes paid on income per capita, is the least predictive, possessing an R-squared of just .452. The independent variable, average taxes paid, is significant, and positive with a $.31 increase in income for every dollar extra paid in taxes. This indicates that as incomes rise, so do taxes. For example if income per capita rises by $1, wouldn't we expect taxes per capita to rise also? Because people pay tax on their income, taxes paid are a function of income, which makes this variable endogenous.

* Median Household Income

With an R-squared of .886, Regression 2, the effect of average taxes paid on median household income, is the most predictive of my three regressions. However, average taxes paid, the independent variable, proved to have a statistically insignificant affect on median household income Unemployment Rate

Though not quite as predictive as median household income, Regression 3, which measures the effect of average taxes paid on the unemployment rate, returns with a respectable R-square of .821. As with Regression 2, the impact of average taxes paid on the dependent variable is insignificant. In fact, not only is the variable itself insignificant, but the

coefficient, which had to be rounded to a ten-thousandth of a percent, is exceedingly tiny. A condition repeated by the spending per capita variable. Which means that in the final two regressions, the two broadest variables in play, the independent variable average taxes paid, and spending per capita are either insignificant or possess coefficients that are triflingly small.

Specific revenue variables however, do seem to have a more highly correlated impact on unemployment than they do on my income variable. For example, a 1% increase in property taxes results in a nearly 0.1% increase in the unemployment rate. Two more revenue variables that are significant are percentage revenue coming from business/corporate taxes

<table>
<tr><th colspan="5">Business canvas model for circular economy and taxation</th></tr>
<tr><th>Key Partners</th><th>Key Activities</th><th>Value Propositions</th><th>Customer Relationships</th><th>Customer Segments</th></tr>
<tr><td rowspan="3">• Cooperative networks
• Types of collaborations</td><td>• Optimising performance
• Product Design
• Lobbying
• Remanufacturing
• Recycling
• Technology exchange</td><td rowspan="3">Circular Product
Virtual service
Incentives for customers in Take- back system</td><td>Produce on order
Social Marketing strategies and relationships with community partners</td><td rowspan="3">Customers types</td></tr>
<tr><td>Key Resources</td><td>Channels</td></tr>
<tr><td>• Better Performing materials
• Regeneration and restoring of natural capital
• Virtulaization of materials
• Retrieved Ressources (product, compenents,materials)</td><td>Virtulaization</td></tr>
<tr><td colspan="3">Cost Structure</td><td colspan="2">Revenue Streams</td></tr>
<tr><td colspan="3">Evaluation criteria
Value of Incentives for customers
Guidelines to account the cost of material flow</td><td colspan="2">Input-Based
Availability -based
Usage-based
Performance-Based
Value of retrieved resources</td></tr>
</table>

and percentage revenue coming from charges and fees. Both are quadratic in nature as well. Taxes on businesses follow a parabolic curve and initially yield declines in unemployment of 0.46% per 1% increase, but which is offset by increases of 0.04%. The inflection point of this curve then, is 6.3%. The mean for business taxes as a percentage of revenue is 2.47%, which indicates that, on average, business taxes have a positive overall effect on employment. States whose business taxes exceed 6.3% of their revenue see unemployment rise.

5. CONCLUSION AND RECOMMENDATION

Voodoo Economics is a term coined by then presidential candidate George H.W. Bush during the Republican primary of 1980. It is a synonym for supply side economics, and refers to the "magical" quality of what then candidate Ronald Reagan was proposing, massive tax cuts that were supposedly going to result in circular economy without raising the federal deficit. It is a theory predicated on the assumption that taxes are a powerful driving factor in economic growth, and it has been a driver of public policy ever since the Reagan presidency. So, is that assumption well founded? In the 10 years of voodoo economics covered by this study, what can be said about the relationship between taxes and circular Economy?

Taxes and circular Economy

My hypothesis, that taxes do not have the powerful economic impact we believe them to possess, is largely bared out by my results. My independent variable, average taxes paid, proved statistically insignificant for both median household income and unemployment. The one dependent variable it did have a relationship with, was per capita income, but the positive Snature of the relationship suggests that higher income per capita simply results in paying more in average taxes paid, and that the relationship is more correlational than causal.

In every regression, no more than two tax variables showed significance, and the only two that did were percentage revenue derived from property taxes and percentage revenue derived from business taxes. The insignificance of income taxes in all three regressions is, in my opinion, one of the more interesting findings here. Income taxes are a huge source of debate in the United States, but their actual influence seems negligible. Property taxes, it would appear, have a straight up negative impact on most kinds of economic growth, with increases causing declines in median household income and increases in unemployment. It is recommended then, that these taxes be kept to a minimum. The effect of business taxes, are a more complicated issue. It has a significant effect on both income per capita and unemployment, but it is also parabolic in nature for both. For income per capita, the inflection point is 4.5%, but for unemployment

The circular business model canvas is extended and adjusted to the circular economy version of the business model canvas. It has ninr components; however, one component encompasses three sub-components. Those building blocks allow the designing of a business model according to the principles of circular economy, and consists of:

(1) Value propositions—offered by circular products enabling product-life extension, product-service system, virtualized services, and/or collaborative consumption. Moreover,

this component comprises the incentives and benefits offered to the customers for bringing back used products

(2) Customer segments—directly linked with value proposition component. Value proposition design depicts the fit between value proposition and customer segments

(3) Channels—possibly virtualized through selling virtualized value proposition and delivering it also virtually, selling non-virtualized value propositions via virtual channels, and communicating

with customers virtually

(4) Customer relationships—underlying production on order and/or what customers decide, and social-marketing strategies and relationships with community partners when recycling 2.0 is implemented Sustainability

(5) Revenue streams—relying on the value propositions and comprising payments for a circular

product or service, or payments for delivered availability, usage, or performance related to the product-based service nffered. Revenues may also pertain to the value of resources retrieved from material loops

(6) Key resources—choosing suppliers offering better-performing materials, virtualization of

materials, resources allowing to regenerate and restore natural capital, and/or the resources

obtained from customers or third parties meant to circulate in material loops (preferably closed)

(7) Key activities—focused on increasing performance through good housekeeping, better process control, equipment modification and technology changes, sharing and virtualization, and on improving the design of the product, to make it ready for material loops and becoming more eco-friendly. Key activities might also comprise lobbying

(8) Key partnerships—based on choosing and cooperating with partners, along the value chain and supply chain, which support the circular economy

(9) Cost structure—reflecting financial changes made in other components of CBM, including the value of incentives for customers. Special evaluation criteria and accounting principles must be applied to this component

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