

# The Political Economy of Carbon Taxes

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*Carbon Pricing Policy Design*

Harvard Project on Climate Agreements – Enel Foundation

IETA Pavilion

23<sup>rd</sup> Conference of the Parties

UNFCCC

Bonn, Germany



# Carbon Taxes in Place

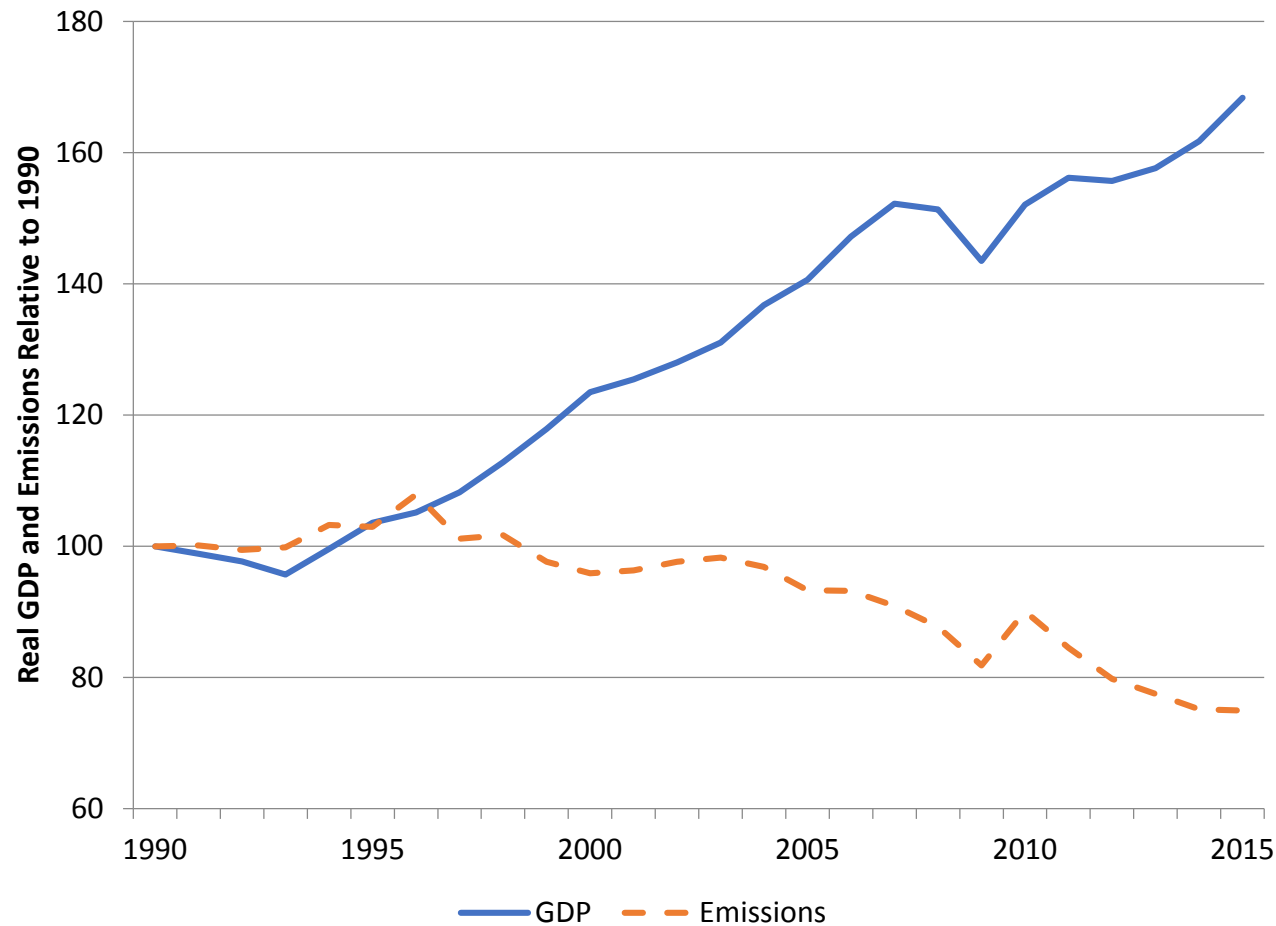
- 16 national or sub-national carbon taxes in place as of mid-2017
- The 1990s wave: Denmark, Finland, Norway, Sweden and others
- The 2000's wave: Switzerland, Iceland, Ireland, Japan, Mexico, British Columbia and others

# Sweden

- Enacted in 1991 covering households and commercial sector at a “standard rate”
  - Industry and agriculture taxed at a lower rate
- Standard rate today is \$130 per metric ton
  - Industry rate at 80 percent of standard rate with gap to be eliminated by 2018
- The commonly expressed concern:

“[a carbon tax would have] devastating economic effects.” *Heritage Foundation (2016)*

# Sweden Economic Performance



# British Columbia

- Enacted in 2008 at C\$10 rising to C\$30 (capped price)
- Tax on all fossil fuels consumed in province and accounts for over 5 percent of provincial tax collections
- Rebated in lower income taxes and household checks
- No impact on economic growth (Yamazaki, 2016)
- Modest impact on emissions (5 to 15 percent)

# Design Considerations

- Coverage
  - Broad is best
- Point of implementation
  - Upstream allows greater coverage but requires crediting for downstream capture/storage
- Border adjustments
  - Political issue more than economic
  - Border adjustment versus subsidies to select EITE sectors
- Existing state carbon pricing policies
- Use of revenue

# Design Considerations: Things to Avoid

- Exemptions
  - Big emitters
  - Small emitters
- Differential rates

# Other Considerations

- Price highly salient (both good and bad)
- Tax provides price clarity
  - Tax adjustment mechanism can be designed to help achieve medium and long run emission targets (Hafstead, Metcalf, and Williams, 2017)
- Evidence suggests ambitious carbon prices can be achieved under tax (World Bank, 2016)
- Complimentary policies do not undermine carbon tax
- Administration can build off existing excise tax structure



# Summing Up: Tax or Cap?

- No right answer. Politics and context matter
- EU went with cap and trade due to unique circumstances of EU governance structure (Convery, 2007)
- California's allowance prices undermined by complimentary policies
  - Same for Quebec and Ontario
- Allowance allocation has political appeal
  - But systems moving to full auctioning
- Federal carbon tax more discussed in US these days
  - Long shot versus longer shot
- Important action may be at the state level

# Thank You

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