

# Designing Environmental Tax Reforms to Increase Political Acceptability

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# Where do we stand?

- Relying on carbon pricing can be an important element of a *fiscally sustainable* and *Paris-compatible* post-recession recovery.
- Currently far from ambition needed to deliver Paris
  - 21% global GHG emissions covered.
  - Less than 10 instruments have Paris-compatible price level.
- How can environmental tax reforms be designed to increase political acceptability?



# What motivates public resistance?

- Personal costs;
- Competitiveness;
- Distributional impacts;
- Skepticism on environmental effectiveness;

Focus on short-term response to Covid-19 crisis unlikely to help.

(Carattinit et al. 2018; Dominioni & Heine, 2019)



Source: Aljazeera

# What designs can help?

- Phasing-in carbon pricing.
- Pros:
  - Can mitigate public concerns from the outset
  - Public gets used to carbon pricing (e.g., learning)
- Cons:
  - Delays mitigation

(Carattini et al. 2018; Dominioni & Heine, 2019)

Widely implemented, can help, but not sufficient



# Timing reform based on fuel prices

- Usual rationale: when fossil fuel prices are low – people feel less the energy price increase due to carbon pricing.
- (Heine & Shoder, 2021): when fuel prices are low, environmental tax reform do not affect GDP adversely.
- Additional rationale.



# Revenue use?

- Earmarking:
  - For **climate change mitigation**
    - Often most supported by the public (misunderstanding of carbon pricing) (Klenert et al. 2018)
    - May allow to meet temperature targets with a lower carbon price and allow for a faster recovery (Catalano & Forni, 2021)



# Focus on increasing level of effective carbon prices

Should we focus on fossil fuel subsidies reforms?

- Pigato, Rafaty, Kurle (2021) recovery spending – larger share of brown spending than green spending.
- Oil price above 80 USD per barrel.
- Perspective from public support: perhaps it depends on the country.
  - Public opposition can be instrument specific and vary across countries.
- Focus on a broader sets of measures (effective carbon price level) can help addressing country specific public preferences.



# Sum-up

- Relying on carbon pricing can be an important element of a *fiscally sustainable* and *Paris-compatible* post-recession recovery.
- Where do we stand on carbon pricing?
- Public preferences are often aligned with many of the policy implications of the three reports – give us something to work with.



# Relevant literature

- Carattini, S., Carvalho, M. and Fankhauser, S., (2018). Overcoming public resistance to carbon taxes. *Wiley Interdisciplinary Reviews: Climate Change*, 9(5), p.e531.
- Klenert, D., Mattauch, L., Combet, E., Edenhofer, O., Hepburn, C., Rafaty, R., & Stern, N. (2018). Making carbon pricing work for citizens. *Nature Climate Change*, 8(8), 669-677.
- Dominioni, G., and Heine, D. (2019) Behavioural Economics and Public Support for Carbon Pricing: A Revenue Recycling Scheme to Address the Political Economy of Carbon Taxation. *European Journal of Risk Regulation* 10(3) 554-570.
- Douenne, T., and Fabre, A. (2020) French attitudes on climate change, carbon taxation and other climate policies." *Ecological Economics* 169: 106496.
- PMR, Using Carbon Revenues, World Bank, 2019.



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