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;

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


Source: Aljazeera
What designs can help?

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

(Carattinit 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


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