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BUILDING POLITICAL SUPPORT FOR CARBON PRICING

How can governments build political support for carbon pricing? This question has challenged policy designers since the earliest programs imposing new prices on pollution, and is currently a pressing issue for Canadian governments trying to create and maintain carbon pricing programs. This brief offers a few insights on strategies for building greater political support for carbon pricing, based on previous experiences with successful programs in the U.S. and abroad. The take home message? **Long running carbon pricing programs tend to generate tangible public benefits beyond emissions reductions that are distributed among citizens in a way that is broadly perceived as fair.**

It is important to note that despite growing interest in carbon taxes, cap and trade programs remain the most common form of carbon pricing in the world today: according to the World Bank, approximately 2 Gt of emissions (CO₂e) were covered by a carbon tax generating approximately \$25 Bn in revenue, whereas 5 Gt (CO₂e) were covered by emissions trading programs generating approximately \$56 Bn in revenue – largely due to the EU-ETS which covered 3 Gt (CO₂e) and \$31 Bn in revenue. Although carbon taxes have important advantages such as greater price certainty and lower administration costs for some types of emissions, cap and trade programs also have several political advantages over carbon taxes. These include the greater environmental certainty of the emissions cap on total emissions, and equally effective incentives for concentrating emissions reductions where the marginal costs of abatement are lowest. Cap and trade policies also allow carbon prices to vary with economic conditions, rather than locking in a fixed price, without distorting the environmental gains captured by the cap. In addition, most emissions trading programs now auction a majority of their allowances to emitters, thereby providing opportunities to use carbon pricing revenue in ways that can benefit the public and increase political support.

Table 1 illustrates the diversity of benefits provided to the public from carbon revenue in several of the largest and longest running carbon cap and trade programs globally. These programs all use auction revenue to generate tangible and widely distributed benefits to the public, rather than for general government expenditures or to fund special projects. **For this reason, it is important for policy designers to recognize the diversity of public benefits that have been important in different policy contexts in promoting the political durability of carbon pricing policies,** whether a carbon tax or cap and trade design.

Table 1: Politically important public benefits from carbon pricing revenue

Type	Description	Key example
Consumer benefits: Reduced energy prices	Subsidies for installation of energy efficiency and renewable energy for households to defray energy costs.	Regional Greenhouse Gas Initiative (RGGI)
Public health benefits: Reduced illness from air pollution / improved quality of life	Funding for transit and zero-emissions vehicles, investments in high efficiency affordable housing.	California
Climate benefits: Reduced threat of climate impacts through accelerated technological transition	Investments in research and development and subsidies for adoption of clean technology.	European Union Emissions Trading System (EU ETS)

For example, the Regional Greenhouse Gas Initiative (RGGI), which was the first major carbon pricing policy in the U.S., created and promoted tangible “**consumer benefits**” through investments in energy efficiency and other programs to lower consumers’ energy bills. In subsequent settings, other public benefits have been more salient. In California, for example, environmental justice concerns made “**public health benefits**” - aimed at improving local air quality and economic opportunity in disadvantaged communities - more important for carbon pricing legislation. In Europe, by contrast, the goal of accelerating a low-carbon transition to reduce climate change threats has been more important. This has led to the dedication of more carbon revenue toward improving low-carbon technology and making it more accessible to the public, thereby generating greater “**climate benefits.**” Finally, many locations also stress the potential economic development benefits of investing carbon pricing revenue in emerging low- and zero-carbon energy industries.

In each of these cases, consumer benefits are an important concern even in combination with other public benefits. In California, for example, one of the world’s first “carbon dividends” was delivered as a credit on electricity bills as a consumer benefit to increase public approval, even as the policy also invested significant revenue in improving local public health. Other pricing policies with “hybrid” approaches combine a dividend or similar consumer benefit with investments in other tangible public benefits. Examples include Alberta’s current carbon pricing policy, as well as British Columbia’s latest investments of revenue from its carbon tax. In almost every case, however, a focus on ensuring and promoting measures to reduce consumer impacts while preserving the higher price signal on carbon-based fuels is important.

Communicating the value of these benefits to the public is also critical—public confusion over carbon pricing is common, so a clear strategy that makes the tangible benefits of the policy very clear to the public is required. Both RGGI and California stressed the potential for carbon revenue to address energy affordability concerns, as well as the additional public health benefits that were prominent in California. Failure to communicate these benefits clearly and convincingly makes a carbon pricing policy vulnerable to the common (and often effective) criticism that the policy is a “tax on everything” that is harming working class families by raising energy prices (e.g., Raymond 2016; Rabe 2018). In addition, allocating carbon revenue to investments that are not delivering tangible, easily identified, and widely distributed public benefits also risks lowering political support in the face of this consumer cost critique (e.g., Raymond 2016; Skocpol 2013). Arguments promoting green economic development are potentially valuable, for example, but often fail to address salient public concerns about higher energy prices or job losses in carbon-intensive industries.

Recent developments in Canada are consistent with these ideas for politically successful carbon pricing. Opposition attacks on the Ontario carbon cap and trade policy focused on consumer costs in 2018, building on public concerns about higher energy and consumer costs in general. The provincial government’s earlier promotion of the program, by contrast, focused on the potential for reducing carbon emissions and promoting new economic development, creating an opening for this consumer costs argument. An important and similar fight is underway in terms of the federal Canadian carbon tax, which includes an explicit carbon rebate for some consumers. Based on the evidence of these earlier programs, the ability of the Canadian federal government to successfully defend that policy may well depend on being able to convey the tangible benefits to consumers from the proposed “carbon dividend” as a counter to arguments about higher consumer energy prices.

Thus, although experience shows us that the distribution of carbon pricing revenue is a key political question, there is no simple answer for how to distribute that revenue in a way that will maximize public approval of the policy. In different political settings, different types of “public benefits” are likely to be critical to the political success and durability of these policies. At the same time, previous experience suggests that cap-and-trade designs offer some important advantages that should not be overlooked, such as greater environmental certainty, as do distributions of carbon revenue that generate broadly distributed and easily recognized public benefits, such as those described in Table 1. Finding the policy design and communication strategy that will best improve public support for the policy requires careful attention to these alternatives, and what concerns are most salient for particular groups affected by the new policy.

For more information:

Rabe, Barry G. (2018). *Can We Price Carbon?* Cambridge, MA: MIT University Press.

Raymond, Leigh. (2016). *Reclaiming the Atmospheric Commons: The Regional Greenhouse Gas Initiative and a New Model of Emissions Trading.* Cambridge, MA: MIT University Press.

Skocpol, Theda. (2013). Naming the problem: What it will take to counter extremism and engage Americans in the fight against global warming. Scholars Strategy Network: https://scholars.org/sites/scholars/files/skocpol_captrade_report_january_2013_0.pdf

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