

The Political Economy of Carbon Pricing: a Panel Analysis

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Abstract In virtually all countries that explicitly price carbon, its effective price, i.e. the emissions-weighted price, remains low. Our analysis focuses on the political economy of this effective price, using data on an international panel of jurisdictions over the period 1990-2012. First, we examine the decision to introduce a carbon pricing policy. Second, we shed light on its stringency. Results show that both the odds of the implementation and the stringency of the carbon pricing policy are negatively affected by the share of electricity coming from coal and the relative share of industry in the economy. The results also broadly support an environmental Kuznets curve hypothesis as gross domestic product increases both the odds of the implementation and the policy stringency. Institutional and political factors are found to influence the implementation but not the stringency of carbon pricing schemes.

Keywords carbon pricing, panel analysis, political economy, electricity sector

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