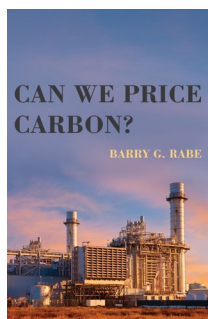


# The politics of carbon pricing



## Can We Price Carbon?

Barry Rabe

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A decade ago it seemed that policymakers worldwide had finally taken advice from economists to heart and embraced carbon pricing as a central instrument in domestic climate policy. Following the example of the European Union's emissions trading system (ETS), Australia, the United States and Canada committed to implementing national cap-and-trade programmes. France, Ireland and the Canadian province of British Columbia opted for carbon taxes. By 2010, however, many national and sub-national plans had been abandoned. Carbon pricing remains a tough political sell.

Against this backdrop, political scientist Barry Rabe tackles a very real question: can we price carbon? A highly regarded scholar of North American climate policy, Rabe delivers an engaging and far-reaching analysis of the politics of carbon pricing that is admirably devoid of disciplinary jargon. He draws primarily on the cases of the British Columbia carbon tax, the US Regional Greenhouse Gas Initiative (RGGI), and California and the Western Climate Initiative (WCI), but with a breadth of 'shadow cases' including Ireland, Australia and the ETS.

Reinforcing conventional wisdom and previous scholarship, Rabe finds that more visible costs render carbon taxes a greater political challenge than cap-and-trade schemes, although political opponents have also succeeded in reframing that instrument as 'cap and tax'. More hopefully, though, Rabe points to the prevalence of US 'severance taxes' (that is, taxes applied at the point of fossil fuel production), particularly in states that export most of their production. The opportunity to shift the tax

burden to consumers in other jurisdictions has given rise to this surprisingly widespread form of carbon pricing — even in fossil fuel-dependent states that oppose other forms of climate policy. Rabe notes that US state governments raise considerably more revenue from taxes at the point of extraction than from all other forms of carbon pricing, but does not report the equivalent state-level carbon prices. A back-of-envelope calculation — dividing severance tax revenues by energy-related CO<sub>2</sub> emissions from domestic sources — suggests a national average in the range of US\$2–3 per tonne of CO<sub>2</sub>. One wonders whether exporting states would maintain their enthusiasm at higher tax rates that could threaten competitiveness or give rise to a significant backlash in Congress from importing states. However, such opposition could prompt collaboration on supply-side pricing among producing states.

One of the highlights of Rabe's approach is his consideration of the full policy life cycle. At the policy adoption stage, he flags the importance of committed champions in leadership positions. Critically, it is not enough for a government leader to trumpet the theoretical benefits of carbon pricing; they must also build a sufficiently broad coalition of political support. If anything, Rabe's broad interpretation of 'adoption' to include commitments to implement carbon pricing underestimates the political challenges at this first stage. Many states and provinces quietly abandoned carbon pricing plans even before following through with legislation or regulation.

Those reversals emphasize the importance of examining the conditions under which carbon pricing policies survive the challenges posed by the defeat or retirement of policy champions, and by persistent pressures to weaken programmes through over-generous permit allocations or tax exemptions. Rabe identifies the critical role of tax or auction revenues in maintaining political support. Examples of this include the RGGI's use of auctions to fund popular clean energy projects and British Columbia's implementation of income tax cuts to offset its carbon tax. Both of these approaches stand in contrast to California's equivocation with respect

to allocation of its ring-fenced auction revenues. Rabe arguably overestimates the salience of British Columbia's tax cuts among voters at large, but that could be remedied via annual dividend cheques. Finally, the book gives welcome attention to the public management challenges of monitoring and adapting carbon pricing over time. Public servants are often unfamiliar with complicated cap-and-trade regimes.

With such an ambitious and broad-reaching scope, close followers of particular carbon pricing schemes will undoubtedly have quibbles. I fear that Rabe is over-enthusiastic regarding his success stories. Public support for British Columbia's carbon tax did not rebound above 50% for three years, and I've argued elsewhere that the Liberal government that implemented the tax survived re-election despite, rather than because of, the carbon tax (<http://doi.org/cfqp>). Although the ongoing commitment of RGGI partner states is a source of hope to be sure, particularly in light of the Trump Administration's dismantling of Obama-era climate policies, I wish I was more reassured by a trading regime that has yet to yield a carbon price above US\$7.50, with correspondingly questionable environmental benefits.

Still, the challenges of effective carbon pricing are hardly Barry Rabe's fault. Fitting of the diverse and complex histories of carbon pricing, Rabe offers no silver bullet. However, his careful scholarship and thoughtful analysis yield many important and nuanced insights. The creativity of subnational governments, the possibility of supply-side pricing and the unavoidable hard work of building supportive political coalitions distinctive to the circumstances of each jurisdiction highlighted by Rabe are all needed as governments look towards carbon pricing in the wake of the Paris Agreement. □

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