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Negotiating a Uniform Emissions Tax in International Environmental Agreements

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Abstract: A consensus appears to be emerging that a global carbon tax is the best policy for managing greenhouse gas emissions. Emissions tax systems are relatively straightforward, cost effective and can generate revenues used to offset other distortionary taxes. Moreover, recent theoretical research (Weitzman 2014) has demonstrated that under some conditions the globally efficient tax rate can be implemented through a majority voting rule. We extend this area of research by examining a uniform emissions tax system in the framework of an international environmental agreement in which only countries that voluntarily participate are subject to the tax. We show that in the simplest situation in which countries have identical marginal benefit and cost functions, the largest stable agreement consists of two countries and the tax system has little impact on abatement levels. Our analysis highlights that by ignoring the participation decision and assuming commitment by all parties, the efficiency gains from a uniform emissions tax system are overstated.

Keywords: global public goods, uniform emissions tax, international environmental agreements, externalities

JEL classification: C7, D7, F5, H4

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