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Author: Jaume Freire-González



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ENVIRONMENTAL TAXATION AND THE DOUBLE DIVIDEND HYPOTHESIS IN CGE MODELLING LITERATURE: A CRITICAL REVIEW

Jaume Freire-González^{1,2}

¹ Department of Economics, Harvard University, Cambridge, Massachusetts 02138, United States.

² ENT Environment and Management, Sant Joan, 39, 1, 08800 Vilanova i la Geltrú, Barcelona, Spain.

Abstract

Computable general equilibrium (CGE) modelling is a flexible and open way to model the economic systems that allow practitioners to assess the impacts of different policies or external shocks over an economic system. There is some empirical literature dedicated to test the double dividend hypothesis of an environmental tax reform using CGE models. This hypothesis claims that is possible to obtain an improvement of both environmental and economic conditions by imposing an environmental tax and recycling revenues obtained to reduce other pre-existing taxes. This research provides a comprehensive review of this literature including a statistical and a meta-regression analysis. 69 different simulations from 40 studies have been analyzed. 55% of simulations have achieved a double dividend, concluding that although the environmental dividend is almost always achieved, the economic dividend still remains an ambiguous question that needs further research.

Keywords: Taxation; CGE; environmental policy; modelling; double dividend.

JEL: C6, H2, Q5

1. CGE modelling and the double dividend hypothesis

1.1. Introduction

Environmental taxation has been growingly seen as an effective economic instrument to create incentives in favor of cleaner production and consumption habits. Concerns about environmental problems like climate change, health or use of resources have fostered its use across different countries and regions on several areas. Some authors highlight the advantages it represents over other economic instruments like payments for environmental services, tradable permit systems.

There is an important discussion around the economic and environmental effects of this economic instrument. Conventional economic theory suggests that increasing the price

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