

“Economic impact of environmental and energy policies in Italy”

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Energy policies are strictly linked to one of the most urgent environmental issue, the stabilization, or even reduction, of CO₂ atmospheric concentration, largely regarded as the main responsible for climate change.

Main anthropogenic sources of CO₂ emissions are indeed activities requiring a direct fossil fuel combustion to produce energy (i.e. transport and power sectors) or the consumption of secondary forms of energy.

Energy policy design cannot thus ignore these environmental aspects and, further, the reduction of CO₂ emissions must strongly rely on energy policies aiming to deeply change production and consumption models, encouraging the reduction of carbon intensity of energy fuels and energy production, the abatement of energy intensity of industrial and transport activities and in the residential and commercial sectors, the reduction of the demand for energy and transport services.

Among available instruments governments may choose from in designing energy policy packages aiming to reduce energy-related CO₂ emissions, market-based instruments represented by fiscal incentives and disincentives are usually regarded as cost-effective policy tools with high environmental effectiveness both in the short and in the long run.

At this regard, environmental fiscal reforms based on carbon taxes are considered as potentially being able to pursue a double dividend: not only improving the environment but also reducing the overall cost of the tax system, including the cost burden imposed by the carbon tax on energy and manufacturing industries and on real returns to factors. The condition for a double dividend to arise is that benefits coming from recycling revenues from carbon tax more than compensate the cost of the carbon tax itself.

To evaluate these conditions, a partial equilibrium analysis, looking at the direct effects to the sector associated with policy intervention, could not be exhaustive and macroeconomic analysis, accounting for interactions and aggregation effects, should be required to adequately consider both direct and indirect effects on the overall economic system and public finance.

Policies that appear to improve efficiency in a partial equilibrium analysis, can indeed emerge as reducing efficiency when general equilibrium interactions are taken in account, arising economic and fiscal sustainability issues.

In a globalized world in particular, economic costs insurgence can easily lead to carbon leakage, moving production abroad, and cause a reduction of national economic activity and wellbeing and nullifying expected environmental benefits.

Theoretical and empirical literature shows that it is not possible to draw generally-valid conclusions on economic consequences deriving from the introduction of a carbon tax or from a specific ETR, but that their final effects strongly depend on country-specific factors (economic, institutional and structural characteristics).

In this presentation, the most relevant factors affecting results are discussed and used to evaluate the potential risks, costs and benefits coming from the introduction of a carbon tax in Italy.