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The cost of a greener economy: How carbon neutrality will affect Denmark's tax revenues and how it should be accounted for

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Abstract

In the Danish Climate Law (*Klimaloven*), Denmark has committed itself to reduce its net CO2-emissions by 70 percent by 2030 and to reach net climate neutrality by 2050 – a commitment the current government intends to move ahead to 2045. Unlike other laws, however, the consequences of the climate law are not directly incorporated in the national accounts and the national long-term macroeconomic forecasts. This leads to a situation where the forecasts for 2045 still predict considerable tax revenues from fossil fuels, combustion engines etc., even though government policy dictates climate neutrality.

On that basis, this paper will estimate the size and nature of the tax revenue loss that would result from net climate neutrality in 2045 and assess how this would influence the national accounts, if appropriately accounted for. In including tax revenues that would be both directly and indirectly affected by climate neutrality, the paper will conclude that the structural deficit will be underestimated by nearly 2 percent of GDP, roughly in line with known estimates from the Danish Ministry of Finance. As I will discuss, this leads to serious concerns about the reliability of the current method of long-term macroeconomic forecasts in Denmark in view of political commitments to deliver CO2-reductions generally, and climate neutrality by 2045 specifically.