

Presenter: Cecilie Marie Løchte
Jørgensen

Strategic interaction in climate policy

Authors and affiliation: Cecilie Marie Løchte Jørgensen and Frederik Læssøe Nielsen, Aarhus University

We investigate strategic interaction in climate actions in a two-country model with integrated capital and goods markets. We find that there is a free-riding issue in the abatement dimension of policy, but that, contrary to common perception, there might be strategic complementarity in the taxation dimension. When trading partners increase their climate tax, it induces a free-riding incentive, as pointed out in the climate literature, but a less fierce tax competition also makes it less costly to raise public funds domestically. Our results show that the green transition may be easier than predicted, as climate actions, at least in the tax dimension, may very well reinforce each other.