PUTTING A PRICE ON CARBON: THE METAPHOR

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Command and Control



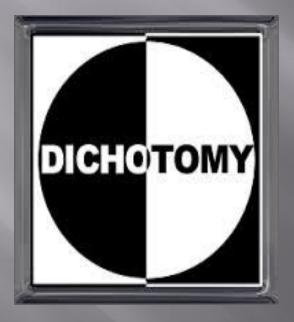
Pollution Trading and Taxes: Government and Market Roles

	Government Role	Market Role
Pollution Taxes	Establish Price	Establish Quantity
Emissions Trading	Establish Quantity	Establish Price

Instruments: Government and Market Roles

	Carbon Tax	Emissions Trading	Traditional Regulation
Government Role	Establish Price	Establish Quantity	Establish Quantity
Market Role	Establish Quantity	Establish Price	Establish Price

Metaphor





- Dynamic versus Static Efficiency?
- Does Lowering Consumer Cost from Regulation Significantly Weaken Dynamic Incentives?
- Design
 - How to Set Caps?
 - Flexibility: Good and Bad?
- Government Role in Economic Transformation?

Conclusion

- Traditional regulation, trading, and taxes all put a price on carbon.
- Third Generation Instrument Choice Debate Should Include Price's Limits, not only its Virtues.