

# 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



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## Limits of Price

- ▣ 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.