Environmental Politics

ISSN: 0964-4016 (Print) 1743-8934 (Online) Journal homepage: www.tandfonline.com/journals/fenp20

The politics of carbon taxation: how varieties of policy style matter

Mikael Skou Andersen

ENVIRONMENTAL POLITICS
2019, VOL. 28, NO. 6, 1084–1104
https://doi.org/10.1080/09644016.2019.1625134

The politics of carbon taxation: how varieties of policy style matter

Mikael Skou Andersen

Department of Environmental Science, Aarhus University, Aarhus, Denmark

ABSTRACT

The momentum achieved for unilateral carbon taxes in seven European countries is examined. Why is it that small countries, despite being vulnerable to forces of international competition, have been able to implement carbon taxes? A review of national experiences does not suggest that the share of fossil fuels in the energy mix defines the room for such taxes, or point to a strong role for traditional left-right ideology. Rather, it is deep-seated patterns of national policy styles with neo-corporatist traits, providing a protective device for the open economies of small countries, which condition the introduction of carbon taxes. The associated routines of decision-making offer coordination mechanisms for proactive macro-economic policies in which carbon taxation can find a place. Parliamentary democracies with proportional representation, as is common in the smaller countries, provide access to government for political parties that pursue carbon taxation. These in turn sensitise larger political parties to climate concerns, as they benefit from institutionalised practices and routines for problem-solving and consensus-seeking.

KEYWORDS Policy style; neo-corporatism; varieties of capitalism; climate policy; carbon pricing; pollution tax

Introduction

The idea of taxing carbon emissions materialised almost 30 years ago at the International Conference of the Changing Atmosphere in Toronto, the first to address both the science and policy of climate change (Toronto Conference 1988). The emerging scientific consensus astonished its participants, who called for immediate action to curb emissions, including a 'levy on fossil fuel consumption in industrialised countries' as a measure to raise funds to support developing countries.

With an established tradition of taxing energy products other than motor fuels, it was not difficult for four Nordic countries to include a carbon component in their excise taxation.[1] Well before the 1992 Rio declaration, Finland pioneered the very first carbon tax (1990). Sweden (1991), Norway (1991) and Denmark (1992) followed soon after. Adoption was by no means uncontroversial and

CONTACT Mikael Skou Andersen msa@envs.au.dk

concerns over competitiveness were voiced by industry and labour unions. Nevertheless, by acting as climate mitigation pioneers it was expected that other countries would follow their example, creating a more level playing field.

Unfortunately, these hopes proved to be wishful thinking. The Netherlands (1992) had indeed introduced a carbon tax component under its pollution tax scheme, but it was soon abandoned in favour of a small users' energy tax (Andersen 1996). Despite an EU leadership role in global climate negotiations, none of the medium-size or larger European countries was willing unilaterally to adopt carbon taxes, although they edged close to doing so on several occasions. Germany, for instance, announced a carbon tax in its 1990 reunification treaty, while Italy even passed the required legislation (1999), only to suspend it soon after (OECD 2002, p. 138). The UK enacted a Climate Change Levy (2001), but with a tax base related to energy rather than carbon, to safeguard domestic coal mining, and earning the reputation of an 'eclectic' tax (Pearce 2006, p. 155).

Initially, Nordic countries retrenched. Sweden, for example, lowered the rate of its carbon tax (Speck 2009). However, from the late 1990s, all four Nordic countries expanded their carbon tax bases and tax rates, thus enabling a reduction of their relatively high labour and payroll taxes. These tax-shifting processes materialised despite the shelving of the European Commission's carbon tax proposal (Zito 2002). Gradually, several smaller countries have adopted carbon taxes, most recently Portugal (2014), while Iceland (2013), Ireland (2010), Switzerland (2008), Croatia (2007), Estonia (2000) and Slovenia (1997) have also found ways to place taxes on carbon. There are, however, often special arrangements for business and energy-intensive industries, as referred to below. France (2014), acting in anticipation of the Paris meeting, remains the exception among larger European countries in adopting a carbon tax (Sénit 2012).[2]

These observations provide the starting point for the research question addressed here: how and why is it that small countries, whose emissions are virtually irrelevant to global climate change and which are more open to forces of international competition, are more likely to unilaterally introduce carbon taxes? The hypothesis is that variations in national policy styles of regulation help explain such policy outputs.

The significance and varieties of national policy styles

Climate change policy relies on a broad range of policy instruments, many of which have been agreed within the EU framework, reflecting EU requirements for unanimity, but also some that remain the prerogative of the nation state. Carbon taxation, although believed to be critical to a timely curbing of emissions, belongs to the latter category, involving most of the controversial issues related to unilateral climate policy action. EU Member

States carry with them different perceptions of the appropriate relationship between state and market. These differences relate not only to political ideologies and beliefs, but are far deeper and rooted in historical experiences and approaches, having caused different varieties of national policy styles to emerge.

These varieties were highlighted in the ‘capitalism-versus-capitalism’ debate that followed the collapse of planned economies in Europe. Following Albert’s (1993, 1996) terminology, a Manchester approach to capitalism favours a less intrusive laissez-faire type of regulation, whereas a Rhineland approach tends to emphasise preventive and precautionary modes of public intervention in the market. The former is associated with majoritarian political systems with high access-thresholds for new interests and issues, whereas the latter is often linked with proportional representation and a consensual tradition complemented by regular interest group consultations (Lundqvist 1980, Lehmbruch 2006, Hockerts and Schulz 2016). The respective approaches are underpinned by different legal doctrines. Roman Law featuring detailed rule-specification is often associated with the Rhineland approach, whereas Common Law with its more active judiciary is linked with the Manchester approach. Smaller European countries tend to display traits of both approaches, requiring careful analysis of their specific evolution and path-dependency.

A conventional distinction in political science between pluralism and neo-corporatism is about political processes per se, but bears some resemblance to Albert’s. It is relevant because studies in the comparative environmental policy analysis literature have found that environmental performance depends on the character of political processes, contrasting pluralist to neo-corporatist democracies (Crepaz 1995, Scruggs 1999). Critics contend that the close relationship between government and peak level interest organisations of industry and labour under neo-corporatism effectively amounts to an economic growth coalition that will be mostly detrimental to environmental protection and climate mitigation. Following Scruggs (1999), the main reason why this view is probably too pessimistic is that neo-corporatist arrangements, which routinely negotiate the division of public goods, are on balance better suited to overcoming collective-action difficulties, including those relating to the environment and climate. The power of national level peak-interest organisations facilitates the pursuit of national rather than particularistic interests. Scruggs argues that once environmental problems have been duly acknowledged and accepted as relevant, neo-corporatist policymaking arrangements are adept at forging compromises effectively, committing the relevant actors to accept and provide support for the goals and means agreed. They are also smarter at finding ways to compensate potential losers in a credible way.

Pluralism implies that regulations are prepared without lawmakers' structured consultations with target groups. Consequently, pluralist systems have difficulty overcoming collective action and coordination problems to achieve good environmental outcomes, as reflected in a propensity for litigation against regulations in the courts. Vogel (1993) maintains that all western democratic political systems should be equally capable of responding to environmental challenges, if changes in the preferences of a large number of voters are intense, but concedes that in the absence of widespread public support particular characteristics of political systems can play a role. While electoral systems with proportional representation allow dedicated green interests access that is not readily available in majoritarian systems, the latter possess some other opportunity structures (Vogel 1993). There are opportunities to promote environmental policies when the executive and legislative branches are controlled by different political parties, an opportunity structure of divided government allowing for policy escalation (Lundqvist 1980). Still, majoritarian first-past-the-post electoral systems reward appeals to median voters, for whom the environment is not usually a highly salient issue (Harrison and Sundstrom 2007, p. 9).

While Scruggs (1999) and Crepaz (1995) substantiate the significance of neo-corporatism for environmental policy performance, their analyses also suggest wider influences relating to the institutional aspects of the political, legal and economic systems, including national policy styles. The decline of neo-corporatism in recent decades has directed attention to these wider framework aspects of both formal and informal institutions. Van Waarden (1995) regards neo-corporatist and consensual mechanisms as important aspects of a broader range of institutionalised practices distinct to individual countries. He defines policy style (ibid., p. 335) as 'the routine choice behavior or "standard operating procedures" which policymakers tend to develop in the policy process', as they try to cope with and reduce complexity. Routines result from lack of time and information, incomplete understanding of causal relationships, ambiguous preferences, and other constraints that limit rational decision-making. Given these uncertainties, policymakers seek to learn from previous experiences and identify appropriate rules of thumb, according to a logic-of-appropriateness.

On closer inspection, national policy styles are embedded in institutions of both state and civil society as the outcomes of long-term historical processes, often dating back to the formative phases of statehood. Given this deep-rootedness, these distinct institutions and their associated regulatory approaches, are unique to each country and not easily changed. These features need to be considered as part of a fine-grained analysis of individual countries that encompasses the design of regulations and inherent preferences for specific approaches. Consensualist traits, for instance, do not always imply neo-corporatism, as illustrated by UK preferences for a flexible and pragmatic regulatory style based on cooperation, which contrasts with the adversarial style prevalent in the USA (Vogel 1993).

The concept of national policy style was coined by Richardson *et al.* (1982, p. 13), who regarded it as resulting from the interactions between the government's approach to problem-solving and the relationship between government and other actors in the policy process. *Government's approach to problem-solving* largely covers what van Waarden refers to as routine choice behaviour, i.e. problem solutions that have proven to draw acceptable responses in the past and which tend to get repeated. For this dimension, Richardson *et al.* (1982) characterise approaches to problem-solving along a continuum from anticipatory or proactive policies to purely reactive modes. In contrast, the *relationship between government and other actors in the policy process* refers to how the government deals with interest groups in society, where a continuum runs from an accommodating policy style aimed at reaching consensus with interest groups, to decisions tending to be made and imposed notwithstanding opposition from such groups. These two dimensions effectively create a two-by-two matrix, whereby four different varieties of national policy style emerge. Some are less preoccupied with reaching consensus, as the state is seen to have a duty to enforce policies even against the wishes of organised interests, although approaches may be more or less proactive. With other policy styles, reaching consensus with interest groups is more of an imperative, even if combined with anticipatory and proactive policy traditions. Finally, some national policy styles display routine choice behaviours in a more reactive mode nevertheless combined with consensual imperatives.

Although the authors make no explicit reference to it, Richardson *et al.*'s (1982) definition, with its emphasis on the relationship between government and other actors in the policy process, provides a link to research on neo-corporatist versus pluralist approaches to policy-making and implementation. The second aspect largely covers this classical dichotomy as discussed above, whereas the first aspect emphasises the national routine intervention *modus* of government. The embeddedness of national policy styles in both state and civil society goes deeper than any individual government and somewhat beyond what can be captured under the active-reactive dimension. Van Waarden's contributions to the concept suggest that inquiries into a nation's policy style need to examine their evolution over long spans of a nation's political history, as policy styles are firmly embedded in specific and interrelated legal, political and administrative institutions that tend to reinforce and strengthen each other. Over time, a particular political culture is formed and there is a 'mutual sustainment' to a nation's political institutions, as 'culture is precipitated and embedded in legal and administrative institutions and the latter in turn buttress these cultural values, making them so enduring' (ibid., p. 361). Though incremental changes come about, any government, notwithstanding its specific political orientation, will be constrained within a path-dependent national policy style as it has evolved over time (Richardson 2017). Until a policy style becomes manifestly dysfunctional, policymakers will tend to stick to established modes of decision-making and implementation.

European integration has delivered a shared regulatory framework, but Member States have not simply converged towards one European model of policy style, as ‘national decision-making procedures, coordination mechanisms and political traditions have remained essentially the same in spite of EU membership’ (Liefferink and Jordan 2005, p. 111). Basically, governments continue to follow pre-existing national patterns of coordination among national actors, suggesting that national policy styles are ‘sticky’.

The proposition that follows from these theoretical considerations in relation to the small countries with carbon taxation is that their national policy styles could have been conducive to their introduction. More specifically, we would expect that the small countries in question have a relationship between government and interest organisations inclined towards corporatist patterns of interest mediation, while their overall regulatory problem-solving approach is to be proactive and anticipatory, favouring coordinated market interventions.

In the next section, the characteristics of seven small EU countries that have introduced carbon taxation are explored, considering both the substantive policy processes and their political institutions, as they can be observed and classified through the lens of the policy style concept.[3] Following Scruggs (1999, p. 30) the analysis goes beyond single-country studies to enable comparison and, given the diverse set of countries, the research design is one of most-different systems design. The focus is on taxes that explicitly relate to carbon emissions. Although taxes relating to energy and transport implicitly affect emissions, they are suboptimally designed to discriminate efficiently according to emissions intensity.[4] The focus on enactment of carbon taxation implies that policy output rather than policy outcome is assumed to provide a marker of successful environmental policies.

Nordic first mover countries

Nordic governments participated in the Toronto conference and were proactive in introducing carbon taxes: in Sweden and Norway social democratic governments mandated expert commissions to review and recommend; Denmark’s social-liberal Minister of Energy announced a carbon tax in his strategic policy document ‘Energi 2000′; and Finland’s conservative-led government took immediate action and enacted one by 1 January 1990.

Although the initial Finnish rate at €1.3/tCO_2 was modest, there was no mistaking the political signal.

Following Molina and Rhodes (2002) distinction between structural and actor-oriented types of corporatism, the Nordic countries practice the latter type, with strategic interdependent behaviour of trade unions, employer associations and party governments, which may or may not lead to consensus. They have a shared political history and continue their close cooperation through the Nordic Council of Ministers. According to Woldendorp's (2011) review of neo-corporatism in small countries, it has largely been continued in a business-as-usual fashion in Denmark, Norway and Finland in recent decades. Sweden has experienced some decline in corporatist practices, as conflicts in the 1980s over the creation of labour funds was followed by a breakdown of coordinated macroeconomic policies, which led to wage drift.

Sweden

The deepest economic crisis since the 1930s broke out in the early 1990s in Sweden, coinciding with the Green Party entering parliament for the first time (Lundqvist 2000). Sweden's carbon tax was enacted as part of a more encompassing fiscal reform. The unprecedented rate of the carbon tax at €80/tCO_2 corresponded with the European Commission's 1990 proposal. The reform simply altered the tax base for energy taxation, relating it to both carbon emissions and energy content (GJ), as Sweden had been taxing business energy use since the first oil crisis. The additional revenues from energy fuels becoming liable to VAT, as required under EU rules, enabled the tax shift that saw the lowering of payroll taxes (Andersen 1996). The carbon tax was nevertheless contested by industry and a centre-right government that came into office in 1993 lowered the rate to about €20/tCO_2 while altogether abolishing energy taxes for businesses. Tensions between the social partners cooled down only towards the end of the 1990s, allowing for improved coordination, but not to previous levels. As the Social Democrats returned to power, a new ambitious 10-year tax-shifting programme was launched. This time it increased carbon and energy taxes in real terms but allowed energy-intensive industries special treatment and exemptions. Further increases were suspended during a period of conservative rule, but in recent years carbon taxation has steadily increased to reach about €120 for households and services in 2018, with business now paying the same rate (EC 2018).

Finland

Finland faced economic difficulties in the early 1990s due to a banking crisis and the demise of Soviet markets causing high levels of unemployment. The carbon tax was soon complemented by an energy tax and the level of taxation increased manifold. According to one insider, the rapid increase of tax rates in the mid-1990s was largely *ad hoc* and without long-term planning (Teir 1996), although government committees had been recommending ramping up energy-related taxes for some time (Komitteebetänkande 1989). Sairinen's (2012) review of the various phases of policymaking provides detailed insights on the compromises reached in Finland, where concerns about impacts on mobility, rural areas and low-income people caused resistance to unilateral action and resulted in some exemptions for energy-intensive industries and domestic fuels. Finland's Green League played a key role, initially by putting the carbon tax on the political agenda in 1989, then by defending it and insisting on increases when the party was a member of the 1995–1999 Lipponen government (Sairinen 2012, p. 429). By 2018 the tax had reached €73/tCO_2.

Denmark

The political process leading to the adoption of Denmark's carbon tax (by 2018 spanning €10–23/tCO_2) was exceptional in that a majority in parliament insisted on the tax against the will of the ruling (minority) coalition government. As the Social Democrats came into power in 1993, the further development of carbon-energy taxation as part of environmental tax reforms, catalysed by a smaller coalition partner,[5] was in line with business-as-usual processes of interest group concertation, as three consecutive fiscal bills were agreed from 1995 to 1999. Business had up to then not been subject to energy taxes. The Danish tax system is largely devoid of payroll taxes and social contributions from employers, so other mechanisms for compensation had to be developed (Klok *et al.* 2006). Unlike Sweden and Finland, Denmark decided to recycle 20 per cent of the revenues for energy efficiency measures, which supported adjustment processes in all parts of business life (Andersen and Speck 2009). Following the shift to a liberal-conservative coalition in 2001, tax increases were put on hold for several years, but in 2009 this coalition reduced income taxes against adjustments and indexation of carbon and energy taxes.

Overall policy styles in the Nordic countries reflect a proactive problem-solving approach and a consensual tradition. Parliamentary institutions feature proportional representation, with an extended accommodation of political minorities through mechanisms that distribute additional seats to mirror closely the share of votes achieved at the national level for each political party. It allows ecologically oriented parties to win seats and gain influence by directly or indirectly participating in government, while having precluded single-party majoritarian governments during this period. The political processes leading to adoption of carbon taxes have been conflictual and with more stop-and-go processes involved than one would perhaps expect from the political science literature that tends to downplay the bargaining and compromising involved with consensual approaches (e.g. Molina and Rhodes 2002). The frequency of special arrangements for energy-intensive industries reflects the ability to strike deals and find means to compensate potential losers, although it has also watered down potential climate mitigation effects (Ekins and Speck 2000). Nevertheless, the patterns of policymaking on carbon taxation are broadly in line with theoretical expectations for relationships between neo-corporatist modes of policymaking and implications for policy outputs.

Countries in transition: Slovenia and Estonia

Surprisingly, it was a small country with an economy in transition that was the first outside the Nordic region to adopt a carbon tax. In 1997 Slovenia exchanged an ad-valorem energy tax with nominal fuel tax rates and a broadening of the tax base involving a carbon tax differentiated according to the specific carbon emissions of fossil fuels. Two more transition economies subsequently followed suit: Estonia in 2000 and Croatia in 2007.

Countries in transition represent a moving target regarding national policy styles, as novel political institutions based on democracy and accountability need a longer time span to define themselves and their *modus operandi*. With a relatively blank slate, learning processes are required for policymakers to identify successful routines for problem-solving. Considering that the countries prior to World War II were briefly independent, democratic and free market-oriented entities, significant path-dependencies are in play too.

Slovenia

Although Slovenia is a young democracy, political scientists agree that 'corporatism has been an influential doctrine in the Slovenian polity since its beginning', as political life has shown a strong inclination to organise around interest groups from the time of the disintegration of the Austro-Hungarian Empire (Luksič 2003, Haček 2009). These policy style traits persisted during the post-war Yugoslavian republic, where Slovenia was the most economically advanced country of the federation and Slovenian intellectual Edvard Kardelj played a key role in developing Yugoslavia's distinctive self-management democracy. In the present-day Slovenian polity, a structured form of corporatism is embodied in the 'National Council', the second parliamentary chamber consisting of representatives from various interest groups.

A steep increase in emissions following a normalisation of the economy triggered Slovenia's carbon tax in a context of fiscal needs (Markovič-Hribernik and Murks 2006). Extensive negotiations conducted by a designated expert group preceded its adoption. Once a formula had been agreed, the subsequent parliamentary approval was relatively smooth, according to Peter Novak, former chairman of Slovenia's CO_2 tax committee (personal communication 19 May 2016). The approach adopted included certain reductions for energy-intensive industries and the hypothecation of revenues for climate mitigation measures (Markovič-Hribernik and Schlegelmilch 1999). Fiscal challenges with high inflation rates during the years from adoption to Slovenia's accession to the EU paved the way for subsequent tax rate increases, whereby today's rate of €18/tCO_2 was reached, apparently without further controversy over its role in the tax system. Slovenia's Green Party was partner in the broad-based coalition governments from 1990–1996, but seems to have had no direct role in devising the carbon tax.

Estonia

Like Slovenia, Estonia was an economically advanced entity within a wider union and proactively pioneered a number of the free market reforms initiated under Gorbachev in the Soviet Union. With Finnish as its second language, it benefits from its proximity to the Nordic countries. Estonia's persistent quest for independence was reflected in the government-in-exile maintained during the entire Soviet era. Unlike Slovenia, no successor party to the Communists emerged, and the government has continuously been firmly center-right with a strong emphasis on economic liberalisation. While Estonia is oriented towards an Anglo-Saxon style of problem-solving, the legacy from the earlier period of independence (1918–1940) has provided the country with a political system based on proportional representation (Panagiotou 2001, Adam *et al.* 2009).

Taxation policy was from the outset based on the principle of a low, flat tax rate for all personal and corporate income, and the carbon tax came into play with efforts to lower the flat tax to 20 per cent (Pettai 2009, p. 77). It was only in 2005–6 that a carbon tax was promoted along with other green taxes under the banner of environmental tax reform, at a time when Estonia's Green Party had surged in the polls (Sikk and Andersen 2009). Starting from a low level, the tax rate has gradually increased, reaching €2/t$CO_{2,}$ and with intentions to align it to the emissions trading system (ETS) allowance price. With a relatively limited share of traditional Soviet-style heavy industries in Estonia, the competitiveness impact of the tax has been limited (Kiuila and Markandya 2009). Reflecting routines of problem-solving, coalition-building and compromise in the parliamentary realm, rather than with interest organisations, seems to have enabled the adoption of the tax.

According to Adam *et al.* (2009) the policy styles and transition paths of Slovenia and Estonia have diverged, the latter favouring a radical approach to problem-solving and the former an incremental approach. Nevertheless, the political institutions of both countries feature proportional representation, accommodating consensus-seeking and a catalysing role by a Green party. Slovenia experienced a more consensual, incremental policy that added carbon taxation into preexisting energy tax structures, and involving negotiations and compromises with relevant interest organisations. Estonia departed in a more radical way by imposing novel tax policies featuring carbon taxation. For both countries carbon taxes anticipated upcoming EU membership and demonstrated commitment to European policies regarding climate and financial stability, even if there was leeway from high emission baselines of the past. The routines of problem-solving can thus be characterised as proactive in both Slovenia and Estonia, while policy styles diverge with regard to the government relationship to other actors in the policy process.

Cohesion countries: Ireland and Portugal[6]

In 2010, Ireland became the first of the initial cohesion countries to introduce a carbon tax. Despite 2010 being an *annus horribilis* with the cost of bailing out Irish banks rising to one-third of GDP, the carbon tax had been agreed in government coalition bargaining in advance of the 2008 fiscal and debt crisis (Convery *et al.* 2013). In Spain, a government-appointed tax reform commission presented a carbon tax proposal in 2013, but it was Portugal that in 2014 became the second cohesion country to unilaterally adopt a carbon tax, following recommendations from an expert commission (Commissão para a reforma da fiscalidade verde 2014).

The Cohesion Fund was established to strengthen the economic, social and territorial cohesion of the EU in the interests of promoting sustainable development, and is reserved for Member States whose gross national income (GNI) per capita is less than 90 per cent of the EU average. Three of the four first-generation cohesion countries owe their economic under-development partly to their totalitarian past, as Portugal, Spain and Greece were fascist dictatorships with command economies well into the mid-1970s. Despite sharing some clientelist traits with these countries, Ireland is often characterised as a pluralist country based on the Anglo-Saxon model (Hall and Soskice 2001, Ó'Riain 2014).

Ireland

Woldendorp (2011) shows how Ireland prior to the fiscal crisis and over a period of 20 years had seen an uninterrupted chain of national agreements on wages and taxes between government, trade unions and employers, reflecting a social partnership very much in line with conventional neo-corporatist policy styles. There is no encompassing welfare state or strong labour party, but well-established patterns of corporatist political exchange had emerged – partly in continuation of a policy style of 'brokerage' dating back to the early years of independence (Ó'Riain 2014, p. 173) – only to be suspended by 2009 (Moran 2010). Ireland has, unlike the majoritarian model prevalent in Anglo-Saxon countries, an electoral system of proportional representation with a single transferable vote, which has allowed a small Green party to emerge and in 2007 to become a coalition partner in Ireland's government.

The Greens had campaigned on introducing a carbon levy, and the coalition government introduced a tax at the rate of €15/tCO_2. Emission projections indicated that without it Ireland would overshoot on its climate policy obligations by 3–5 million tonnes by 2020 (ibid., p. 341). Negotiations with the Troika (European Commission, IMF and European Central Bank) caused exemptions, e.g. for coal, to be abolished and a rate increase to €20/tCO_2 for the purposes of fiscal consolidation. Vehicle taxes were also aligned to CO_2-emissions, strengthening the overall emphasis on taxation policies for climate mitigation.

Portugal

Portugal became democratic in 1974 following a peaceful revolution that resulted in a polity with Socialists and (centre-right) Social Democrats in the dominating roles. The electoral system is based on proportional representation, allowing representation of several parties – including Ecologists – in the National Assembly. Formal corporatist institutions existed during the dictatorship (1926–1974), featuring a distinct chamber of the National Assembly with interest organisations. They were abandoned with the advent of democracy and the freedom to form independent labour unions (Gallagher 1983, p. 62). World market oil price increases around 2000 contributed to the slowing of Portugal's economy well before the present crisis when economic growth declined below the EU average. Portugal embarked upon an energy transition, resulting in renewables now accounting for over half the electricity supply. Nevertheless, GHG emissions have increased by 13 per cent from 1990.

Portugal has a large external debt that was subjected to much higher interest rates following the financial crisis, creating a dangerous fiscal squeeze on the economy in 2011. This situation opened a window of opportunity for the introduction of a carbon tax, but it emerged only after a range of other painful measures had been exhausted. The rescue plan agreement with the Troika included a cut in retirement pensions, which Portugal's High Court ruled unconstitutional. This decision left a gap of several billion Euros to consolidation requirements. A blueprint of a potential environmental tax reform (EEA 2013) gave support to an activist minister and encouraged the centre-right government to establish a Green Tax Reform Committee of experts, which proposed a range of new taxes, including one on carbon. The tax rate (€6.9/tCO_2 by 2018) was designed to reflect the ETS allowance price. The green tax package was largely revenue-neutral, allowing for deductions in income taxes according to the number of dependent children and seniors (Governo de Portugal 2014). The intention may have been to sweeten the pill of harsh austerity measures, but it could not prevent the centre-right government losing the 2015 election.

According to Manuel (2010, p. 8), the fathers of Portugal's revolution railed against eastern European 'socialist misery' preferring to look to problem-solving approaches in Sweden and Germany for inspiration. Whereas Portugal undertook a decisive break with its previous dysfunctional institutions and policy styles, Ireland made a softer departure from British-style majoritarian approaches. The overall tradition of problem-solving in both countries tends towards an incremental policy style, limited by legacies of poor economic performance and troubled pasts. Ireland's carbon tax reflected a short-lived run-up towards a more proactive taxation policy during the 'Celtic tiger' years (Commission of Taxation 2009, Ó'Riain 2014), in contrast to Portugal's tax that came about as a result of fairly reactive processes. Both governments acted in the shadow of proportional representation dynamics, while the international financial crisis and the Troika further catalysed policy-making processes by creating willing Departments of Finance within the government.

Discussion

This concise review of the adoption of carbon taxes in seven small countries shows how circumstances and policy frameworks have differed. Still, such taxes frequently become part of wider fiscal packages that help blur the clear distinction between winners and losers that would follow from a stand-alone carbon tax.

At the time of adoption, several of the small countries had energy systems with relatively high shares of carbon-neutral energy carriers, which lowers political resistance. Sweden, Slovenia and Portugal benefit from significant hydropower resources. Other countries were locked into fossil fuels, so a carbon tax could be expected to create higher economic as well as political costs. Denmark, Finland, Ireland and Estonia relied significantly on coal and other fossil fuels. Closer inspection of tax bands and exemptions to energy-intensive industries reveal implications of the share of low carbon fuels for the level of ambition in carbon taxation (see Andersen 2015), but there is no clear-cut relationship as reflected in the relatively substantial tax rates in Ireland and Finland. Small countries have adopted carbon taxes despite the nature of their energy systems and have gone beyond symbolic measures.

Carbon taxation is advocated by green parties, but in our sample of small countries their role was not always explicit. It is mainly in Ireland and Finland that green parties were able to achieve the tax or rate increases as a policy concession, whereas green or green-ish parties seem to have provided a catalysing effect to governments in other small countries. The entrepreneurs in the core group of Scandinavian countries have been social democratic coalition governments, which introduced carbon taxes as part of wider macroeconomic policy packages in wheelings and dealings with business and labour interests. In Portugal, Ireland and Estonia, and to some extent in Finland, the carbon tax was, in contrast, championed by centre-right coalition governments.

These observations suggest that the feasibility of carbon taxation is not influenced by the nature of energy systems or party political leadership in any simple or straightforward way. Following the theoretical debate reviewed above, the broader features and varieties of the national policy styles of small countries attract attention, i.e. the institutionalised approaches to problem-solving and the relationship between government and other actors in the policy process. The comparative environmental policy literature makes a strong case for the significance of neo-corporatism to the effectiveness of environmental policies. It views neo-corporatist policy arrangements as a necessary protective device for small countries with open and vulnerable economies. Despite the decline of neo-corporatism since the 1970s, policymaking routines involving negotiations with interest groups remained in place and provided a suitable vehicle for policies involving carbon taxation. Traits of interest concertation were also observed in small countries outside the traditional core group of Nordic countries. Legacies from structurally-oriented varieties of corporatism have provided support for consensual mechanisms of policymaking in Slovenia and Portugal, as their national policy styles undergo incremental transformations. Developments in Ireland towards social partnership from 1987–2007 show that such patterns could unfold in small countries with a policy style shaped by a different past. Indeed, evolving practices in Portugal and Ireland were identified early on by Katzenstein (2003, p. 23). While Slovenia, Ireland and Estonia all display traits of proactive policy styles in carbon taxation, Portugal acted according to slightly more reactive routines of problem-solving.

The adversarial nature of policymaking in pluralist political systems is reflected not only in the challenging conditions facing carbon taxes in the USA, but also in the fate of the recent Australian Carbon Pricing Mechanism. Promoted by the Greens, who made use of their pivotal position in the Australian Senate to make adoption of a carbon pricing scheme a condition of their support for a minority Labor government, it was repealed following the return of a conservative majority government (Rootes 2014, Ward 2015). The introduction of carbon taxes in small European countries was controversial in many instances too, however, their policy processes over time involve considerable bargaining and compromise that gradually commits all the main actors to the deals made. Carbon taxes, along with energy taxes, generate significant revenues and make up for other taxes that might be equally unpopular to increase. Under these circumstances, the short-term political costs of continuing carbon taxes are small, although rates or exemptions can be renegotiated.

Thus, the reason why small countries have a greater propensity to introduce carbon taxes seems to be their varieties of national policy styles in which fiscal and macroeconomic policies become subject to intense coordination and negotiation, providing better opportunities for introducing such taxes as part of wider redistribution mechanisms. Indeed, the concept of environmental fiscal reform, whereby labour taxes are cut in exchange for environmentally-related taxes, offers the opportunity to lower labour costs by reducing employers' social contributions. As these are in most cases unitary states, the number of institutional veto points is limited once the government can establish a majority compromise. Electoral systems with proportional representation offer, as Harrison (2010) notes, better access for supporters of unilateral climate mitigation policies, notably parties of green orientation, which can act as facilitators from their position in the political system. In addition, small countries are by virtue of their size often more homogenous overall, limiting the complexity of credible compensation arrangements.

Neo-corporatist systems with formal access to policymaking for regional interests have had more mixed histories. Two countries without carbon taxation often classified as neo-corporatist and core to Rhineland capitalism, Austria and Germany, are federal polities in which there is formal access for regional interests to influence policymaking, via a Federal Council. Even if there is no divided government, individual states (Länder) can join the opposition on specific issues, delaying or blocking approval. Federal countries tend to move forward more slowly, in line with Scharpf's (1988) concept of the joint decision trap. In response to the question of why Germany has no explicit carbon tax, despite its ecological tax reform and high profile on climate policy, former Finance Minister Hans Eichel (SPD) of the red-green coalition replied: 'The political costs of introducing a completely new tax are too high' (personal communication 12 July 2012). Germany, like the Netherlands, instead opted for increases in excise taxes, whereby coal is favoured. A renewed attempt to introduce a climate tax in Germany failed due to opposition from a 'broad coalition of trade unions, industry, brown coal states, Bavarian CSU and eastern parts of SPD', backed by legalistic arguments (Spiegel 2015, Welt am Sonntag 2015).

The national policy styles in Germany and Austria incline towards rule-making, shaped by the path-dependency of ordo-liberalism (Bonefeld 2012). Equal treatment under the rule of law is in jeopardy from carbon taxes that by definition allow for differentiated responses. Yet, Switzerland, a small, multi-linguistic state featuring a comparable regulatory culture, has managed to enact and ramp up a carbon tax by making its implementation conditional on whether the rules – greenhouse gas reduction targets – were complied with (Gerigk *et al.* 2012).

Conclusions

Here, I have extended previous research on the role of neo-corporatism for environmental policy performance into an inquiry on the significance of varieties in national policy styles. The concept of national policy style addresses a government's routine choice behaviours with its relationship to the main actors in the policymaking process. Routine choice behaviours are formed over time as a result of learning processes and the need of policymakers to deal with limited time and resources. This creates coping strategies and political cultures that become embedded in political and legal institutions. Even countries with dysfunctional policy styles that seek to change course are subject to inertia and enduring approaches.

Previous studies of climate policy instrument choices have considered contemporary policy drivers to further multitrack designs for international agreements. Analyses of emission developments and climate policy emulations have nevertheless led to observations that there are underlying 'important background features within the domestic structure of countries that the international climate change negotiations are unlikely to change, at least in the short term' (Lachapelle and Paterson 2013, p. 565).

Here, I have restricted myself to analysing the adoption of carbon taxes in order to improve our understanding of some of the mechanisms at play. I find that the small countries have often adopted carbon taxation due to their basic routines for proactive problem-solving policies, with decision-making that involves consultations between government and the main economic interests an integral part of prevailing national policy styles.

These patterns of interest mediation enable coordination of fiscal and macroeconomic policies with reasonably credible mechanisms for compensating potential losers, thus overcoming political resistance. Exceptions could be observed in Portugal, reflecting a national policy style of more reactive problem-solving although combined with consensus-seeking, and Estonia, reflecting a national policy style of more top-down impositional decision-making although combined with routines for proactive problem-solving approaches. However, the other five countries display broadly comparable traits. In all seven countries carbon taxation has entered policy-making through fiscal reform rather than through climate mitigation policy *per se*, which confirms previous suggestions that carbon taxation's feasibility in fiscal policy vis-à-vis other taxes is better than its feasibility in climate policy vis-à-vis other policy instruments (cf. Jagers and Hammar 2009).

Despite these observations, the role of neo-corporatist routines has overall been somewhat weaker than expected, with consultations and negotiations between government and stakeholders not always involving peak-level organisations. Neo-corporatist modes of decision-making have been in decline in several countries with the most distinctive traits, such as Sweden. While research suggests the presence of neo-corporatist patterns in other small countries, it is by no means as structured or formalised as might have been expected. The legacies of neo-corporatism as well as of old style corporatism (as in Portugal and Slovenia) rather seem to provide a cultural norm for policy-making in which it is routine for government to consult in a structured way with economic interests and in which government is expected to compromise and broker its policies by offering some compensation.

The analysis reveals a stronger influence of the character of political institutions than expected and confirms observations elsewhere relating to the significance of proportional representation and coalition governments (Harrison 2010, Lachapelle and Paterson, 2013). The ability of parties supporting unilateral climate mitigation policies to make it into government helps sensitise larger parties. These observations are in line with Scruggs (1999, p. 6) who states that 'parties under proportional representation may gain policy influence through the process of party competition and compel larger parties to accommodate those interests'. With traditional parties accustomed to neo-corporatist patterns of interest mediation, the dynamics of voter preferences help further political exchanges structured by institutions and problem-solving approaches of preexisting national policy styles. A 'mutual sustainment' between political institutions and the political culture associated with national policy styles indeed seems to be at work, as suggested by van Waarden.

An explanation of why small countries have been more capable of taxing carbon unilaterally, despite being more open to forces of international competition, thus draws on a complex tale of how their political institutions shape national policy styles, understood as a government's relations to the main economic actors and its routines for problem-solving as they have evolved over time.[7]

Notes

1. A carbon tax is defined as a tax levied on the carbon content of fuels (Yokoyama *et al.* 2000).
2. A carbon price floor for emission allowances introduced in the UK (2013) applies to electricity only and is not an economy-wide carbon tax scheme as such. Poland's levy on carbon is part of a general air pollution tax and not a distinct carbon tax, and Ukraine's CO2 charge is set at a symbolic rate of about USD 0.02/tCO2.
3. Norway, Iceland and Switzerland are not EU Member States, while Croatia only recently became so (2013).
4. For a detailed review of tax bases and tax rates see Andersen (2015) and OECD (2016).
5. The Socialist People's Party, which 'has been in many respects a traditional green party, with a participatory and egalitarian culture and a strong emphasis on environmental policies' (Kosiara-Pedersen and Little 2016).
6. The Cohesion Fund, set up in 1994 by Council Regulation (EC) 1164/94, provides funding for environmental and trans-European network projects. The first generation of countries eligible for support included Greece, Ireland, Portugal and Spain.
7. Being more likely to enact carbon taxes is, however, a relative phenomenon. With the Paris Agreement the world has moved beyond unilateral action, prompting larger countries, such as Mexico, Chile and South Africa, to announce carbon taxes.

Acknowledgments

Participants at the 'Climate Politics in Small States' workshop at Dublin City University June 2016 and the INOGOV workshop 'Pioneers and Leaders in Polycentric Climate Governance' Hull (UK) September 2016 provided stimulating comments and suggestions. I am grateful to two anonymous reviewers and the special issue editors for constructive and insightful remarks.

Disclosure statement

No potential conflict of interest was reported by the author.

Funding

This research did not receive any specific grant from funding agencies in the public, commercial or not-for-profit sectors.

References

Adam, F., Primoz, K., and Tomsič, M., 2009. Varieties of capitalism in Eastern Europe (with special emphasis on Estonia and Slovenia). *Communist and Post-Communist Studies*, 42, 65–81. doi:10.1016/j.postcomstud.2009.02.005

Albert, M., 1993. *Capitalism against capitalism*. London: Whurr publishers.

Albert, M. and Gonenc, R., 1996. The future of Rhenish capitalism. *Political Quarterly*, 67 (3), 184–193. doi:10.1111/poqu.1996.67.issue-3

Andersen, M.S., 1996. The domestic politics of carbon-energy taxation. *In*: M. S. Andersen and D. Liefferink, eds.. *The new member states and the impact on environmental policy. Final report to EC-DGXII*. Aarhus: Aarhus University, 111–140.

Andersen, M.S., 2015. Reflections on the Scandinavian model: some insights into energy-related taxes in Denmark and Sweden. *European Taxation*, 55 (6), 235–244.

Andersen, M.S. and Speck, S., 2009. Energy-intensive industries: mitigation and compensation. *In*: M.S. Andersen and P. Ekins, eds.. *Carbon-energy taxation*. Oxford: Oxford University Press, 120–143

Bonefeld, W., 2012. Freedom and the strong state: on German ordoliberalism. *New Political Economy*, 17 (5), 633–656. doi:10.1080/13563467.2012.656082

Commissão para a reforma da fiscalidade verde, 2014. *Projeto de reforma da fiscalidade verde*. Lisboa, Governo de Portugal, p. 293.

Commission on Taxation (An Coimisiún um Chánachas), 2009. *Report*. Dublin: The Stationery Office.

Toronto Conference, 1988. The changing atmosphere: implications for global security. *In*: D.E. Abrahamson, ed. *The challenge of global warming*. Wash. DC: Island Press, 44–62.

Convery, F.J., Dunne, L., and Joyce, D., 2013. Ireland's carbon tax and the fiscal crisis. *OECD working papers*, no. 59. Paris.

Crepaz, M., 1995. Explaining national variations of air pollution levels: political institutions and their impact on environmental policy-making. *Environmental Politics*, 4 (3), 391–414. doi:10.1080/09644019508414213

EEA, 2013. *Environmental fiscal reform – illustrative potential in Portugal*. Copenhagen: European Environment Agency, Staff Position Note 13/01

Ekins, P. and Speck, S., 2000. Proposals of environmental fiscal reforms and the obstacles to their implementation. *Journal of Environmental Policy and Planning*, 2 (2), 93–114. doi:10.1080/714038548

Gallagher, T., 1983. *Portugal: A twentieth-century interpretation*. Manchester: Manchester University Press.

Gerigk, J., *et al.*, 2012. *The current climate and energy policy in the EU and Switzerland*. Zürich: Swiss Federal Institute of Technology.

Governo de Portugal, 2014. *The green growth commitment and the green taxation reform*. Lisbon: Ministry of Environment, Spatial Planning and Energy.

Haček, M., 2009. Understanding politics in Slovenia. *In*: L. Johannsen and K. Hilmer Pedersen, eds.. *Pathways*. Aarhus: Aarhus University Press, 98–116

Hall, P. and Soskice, D., eds. aug 2001. *Varieties of capitalism: the institutional foundations of comparative advantage*. Oxford: Oxford University Press

Harrison, K., 2010. The comparative politics of carbon taxation. *Annual Review of Law and Social Science*, 6, 507–529. doi:10.1146/annurev.lawsocsci.093008.131545

Harrison, K. and Sundstrom, L.M., 2007. The comparative politics of climate change. *Global Environmental Politics*, 7 (4), 1–18. doi:10.1162/glep.2007.7.4.1

Hockerts, H.G. and Schulz, G., eds, 2016. *Der 'Rheinische Kapitalismus' in der Ära Adenauer*. Paderborn: Ferdinand Schöningh.

Jagers, S.C. and Hammar, H., 2009. Environmental taxation for good and for bad: the efficiency and legitimacy of Sweden's carbon tax. *Environmental Politics*, 18 (2), 218–237. doi:10.1080/09644010802682601

Katzenstein, P.J., 2003. Small states and small states revisited. *New Political Economy*, 8 (1), 9–30. doi:10.1080/1356346032000078705

Kiuila, O. and Markandya, A., 2009. Can transition economies implement a carbon tax and hope for a double dividend? The case of Estonia. *Applied Economics Letters*, 16, 705–709. doi:10.1080/13504850701221816

Klok, J., *et al.*, 2006. Ecological tax reform in Denmark. *Energy Policy*, 34, 905–916. doi:10.1016/j.enpol.2004.08.044

Komitteebetänkande, 1989. *Ekonomisk styrning af miljövärden*. Helsinki: Statens Tryckericentral.

Kosiara-Pedersen, K. and Little, C., 2016. Environmental politics in the 2015 Danish general election. *Environmental Politics*, 25 (3), 558–563. doi:10.1080/09644016.2015.1123825

Lachapelle, E. and Paterson, M., 2013. Drivers of national climate policy. *Climate Policy*, 13 (5), 547–571. doi:10.1080/14693062.2013.811333

Lehmbruch, G., 2006. Nationen und Systemtypen in der vergleichenden politischen Ökonomie. *In*: V.R. Berghahn and S. Vitols, eds. *Gibt es einen deutschen Kapitalismus?* Frankfurt a.M.: Campus, 86–95.

Liefferink, D. and Jordan, A., 2005. An 'ever closer union' of national policy? *European Environment*, 15, 102–113. doi:10.1002/eet.377

Luksič, I., 2003. Corporatism packaged in pluralist ideology: the case of Slovenia. *Communist and Post-Communist Studies*, 36, 509–525. doi:10.1016/j.postcomstud.2003.09.007

Lundqvist, L., 1980. *The hare and the tortoise: clean air policy in the United States and Sweden*. Ann Arbor: The University of Michigan Press.

Lundqvist, L., 2000. Capacity-building or social construction? Explaining Sweden's shift towards ecological modernization. *GeoForum*, 31, 21–32. doi:10.1016/S0016-7185(99)00041-X

Manuel, P.C., 2010. Portuguese exceptionalism and the return to Europe. *In*: L. C. Ferreira-Pereira, ed.. *Portugal in the European Union*. London: Routledge, 15–29.

Markovič-Hribernik, T. and Murks, A., 2006. The long road from Ljubljana to Kyoto. *Financial Theory and Practice*, 30 (1), 29–65.

Markovič-Hribernik, T. and Schlegelmilch, K., 1999. Green budget reform in Slovenia. *In*: K. Schlegelmilch, ed. *Green budget reform in Europe*. Berlin: Springer, 293–400.

Molina, O. and Rhodes, M., 2002. Corporatism: the past, present and future of a concept. *The Annual Review of Political Science*, 5, 305–331. doi:10.1146/annurev.polisci.5.112701.184858

Moran, J., 2010. From Catholic Church dominance to social partnership promise and now economic crisis. *Irish Journal of Public Policy*, 2, 1.

Ó'Riain, S.O., 2014. *The rise and fall of Ireland's Celtic Tiger*. Cambridge: Cambridge University Press.

OECD, 2002. *Environmental performance reviews: italy*. Paris: OECD.

OECD, 2016. *Effective carbon rates: pricing CO2 through taxes and emissions trading systems*. Paris: OECD.

Panagiotou, R.A., 2001. Estonia's success. *Communist and Post-Communist Studies*, 34, 261–277. doi:10.1016/S0967-067X(01)00005-8
Pearce, D., 2006. The political economy of an energy tax: the UK's climate change levy. *Energy Economics*, 28, 149–158. doi:10.1016/j.eneco.2005.10.001
Pettai, V., 2009. Understanding politics in Estonia. *In*: L. Johannsen and K. Hilmer Pedersen, eds.. *Pathways*. Aarhus: Aarhus University Press, 69–97
Richardson, J., 2017. The changing British policy style. *British Politics*, 12 (2), 1–19.
Richardson, J., Gustafsson, G., and Jordan, G., 1982. The concept of policy style. *In*: J. Richardson, ed. *Policy styles in Western Europe*. London: Allen & Unwin, 1–16.
Rootes, C., 2014. A referendum on the carbon tax? *Environmental Politics*, 23 (1), 166–173. doi:10.1080/09644016.2014.878088
Sairinen, R., 2012. Regulatory reform and development of environmental taxation. *In*: M.S. Andersen and J. Milne, eds. *Handbook of research on environmental taxation*. Cheltenham: Edward Elgar, 422–438.
Scharpf, F., 1988. The joint decision-trap. *Public Administration*, 66 (3), 239–278. doi:10.1111/j.1467-9299.1988.tb00694.x
Scruggs, L., 1999. Institutions and environmental performance in 17 western democracies. *British Journal of Political Science*, 29 (1), 1–31. doi:10.1017/S0007123499000010
Sénit, C., 2012. The politics of carbon taxation in France. *IDDRI working paper* 20, Paris: SciencePo.
Sikk, A. and Andersen, R.H., 2009. The fall and rise of Estonian Greens. *Journal of Baltic Studies*, 40 (3), 349–373. doi:10.1080/01629770903118740
Speck, S., 2009. Annex: effective carbon-energy tax rates. *In*: M.S. Andersen and P. Ekins, eds.. *Carbon-energy taxation*. Oxford: Oxford University Press, 282–302
Spiegel, 2015. Koalition beerdigt Klimaabgabe. *Spiegel*, 2 July .
Teir, G., 1996. Evolution of CO2/energy taxes in Finland. *In*: European Foundation for the Improvement of Living and Working Conditions, ed. *Environmental taxes and charges*. Luxembourg: Office for Official Publications of the European Communities, 243–248.
van Waarden, F., 1995. Persistence of national policy styles: A study of their institutional foundations. *In*: B. Unger and F. van Waarden, eds. *Convergence or diversity*. Aldershot: Avebury, 333–371.
Vogel, D., 1993. Representing diffuse interests in environmental policy-making. *In*: R.K. Weaver and B.A. Rockman, eds. *Do institutions matter ?* Washington, DC: The Brookings Institution, 237–271.
Ward, I., 2015. The campaign against the carbon tax, the media and a new uncivil politics. *Australian Journal of Political Science*, 50 (2), 225–240. doi:10.1080/10361146.2015.1005571
Welt am Sonntag, 2015. Juristen zerpflücken Gabriels Kohlepläne. *Welt am Sonntag*, 3 May .
Woldendorp, J., 2011. Corporatism in small north-west European countries 1970–2006. *Working Paper Series, Dept. of Political Science, VU University Amsterdam*, no. 30.
Yokoyama, A., Ueta, K., and Fujikawa, K., 2000. Green tax reform: converting implicit carbon taxes to a pure carbon tax. *Environmental Economics and Policy Studies*, 3 (1), 1–20. doi:10.1007/BF03353964
Zito, A., 2002. Integrating the environment into the European Union: the history of the controversial carbon tax. *In*: A. Jordan, ed. *Environmental policy in the European Union*. London: Earthscan, 241–255.