
Making Environmental Policies Acceptable

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Abstract

We assess the short-term consequences of a carbon tax in the French economy, and compare some alternative accompanying policies making acceptable this measure in the country of the "yellow vests". We use a new-Keynesian business cycle model with heterogeneous agents to assess the macroeconomic and redistributive effects of this carbon tax. The carbon tax acts as a negative supply shock to the economy, causing a slowdown in economic growth, an increase in inflation and a rise in household inequalities. We then show how these short-term recessionary effects of the carbon tax would be completely mitigated by a more accommodative monetary policy in a context where inequalities would be reduced. Thus, this policy mix clearly dominates a purely fiscal policy that would redistribute to households the revenues of the carbon tax. For the same impact on aggregates, we finally show that an accommodative monetary policy is more efficient to reduce inequalities than an expansionary policy financing energy renovations.

Keywords: HANK model, carbon tax, policy evaluation

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