Carbon Pricing and Investment

Abstract

How does carbon pricing affect investment in brown firms? During the period 2000–2019, the effective cost of emitting carbon rose by about 400 percent for Swedish manufacturing firms. Despite lower operating margins, high-emission firms significantly increased both total capital investment and the share of investment dedicated to abatement. The response is concentrated among firms with strong internal financial capacity. We find no comparable investment increase in lower-emitting firms or in high-emission industries outside of Sweden.
Our results show that pricing CO2 emissions at a sufficiently high level can incentivize brown firms to make green investments.

This paper is joint work with James R. Brown, Gustav Martinsson and Christian Thomann.

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