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THE SIGNIFICANCE OF THE SWISS CARBON TAX ON ECONOMIC GROWTH: A GREEN ECONOMY PERSPECTIVE

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Abstract:
This study analyzes the significance of a carbon tax for economic growth in Switzerland from a green economy perspective. Through environmental fiscal policy, Switzerland seeks to encourage business routine (business as usual) into a transition towards a low-carbon economy. This study uses a descriptive qualitative method to analyze data from available scientific publications on carbon taxes in Switzerland. Drawing on a green economic perspective, including the Pigouvian tax concept, the marginal social cost of carbon, and the double dividend, this study found that the Swiss carbon tax has double positive benefits. The Swiss model of a carbon tax facilitates efforts to reduce carbon dioxide emissions while simultaneously maintaining economic growth. This condition is achieved through a plan that is designed adaptively and transparently, incorporating a revenue recycling mechanism. The implementation of the carbon tax balances economic growth with environmental sustainability and social justice to ensure a just and sustainable green transition.

Keywords: ***Carbon Tax, Economic Growth, Green Economy, Switzerland***

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INTRODUCTION

The ecological degradation resulting from industrial and business operations and individual lifestyles has spurred various initiatives aimed at mitigating environmental pollution. A classic climate policy dilemma lies in the perceived trade-off between decarbonization and economic growth. Carbon taxes, despite their environmental contributions (Wood, 2018), continue to face criticism for concerns about reducing the competitiveness of domestic industries in foreign markets, decreasing household consumption and purchasing power, and affecting slow economic growth. However, these negative consequences can be mitigated

and transformed into growth potential through appropriate policy design. Switzerland is one of the pioneering countries in the developed European hemisphere to implement a carbon tax. This tax, enacted in 2008, aims to reduce CO_2 emissions from sectors such as industry, electricity, buildings, and transportation by levying taxes on fossil fuel use. The carbon tax rate is not fixed and is subject to change. However, Switzerland's carbon tax rate (US$126) is the second highest after Sweden's (US$144) as of 2025 (Mengden & Nieder, 2025).

Global carbon emissions and global temperatures are raising concerns as they have not shown a significant downward trend. However, the business-environment conflict can be bridged. In a recent study, which reviews carbon taxation, Köppl and Schratzenstaller (2023) found that the carbon tax is one of the most effective and widely implemented economic policy instruments for climate change mitigation. The Köppl and Schratzenstaller's study also shows that, in general, carbon taxes not only play a significant role in reducing greenhouse gas emissions but also influence the structure of the economy and international trade. Their findings provide an important foundation for understanding how environmentally oriented fiscal policies can drive sustainable global economic transformation.

In response to the global climate crisis, many countries have begun implementing carbon taxes, which are fiscal levies on carbon emissions produced by corporate entities to encourage a transition to low-carbon production and consumption. However, implementing these policies has broader economic impacts (Weber et al., 2021). Differences in tax rates across countries can create trade distortions, undermine industrial competitiveness, and trigger carbon leakage by shifting production to countries with less stringent environmental regulations.

To maintain industrial competitiveness, countries implementing carbon taxes often complement their policies with clean energy incentives, carbon border adjustment mechanisms, and international cooperation to harmonize carbon standards. However, the effectiveness of these policies remains a matter of debate, particularly in developing countries facing high transition costs and the risk of declining exports. The experiences of developed countries, such as Switzerland and the European Union (EU) members, show that carbon taxes can reduce emissions without having much negative impact on their economies. It also addresses transparent carbon tax policies and maintains clean energy, social sustainability, and green technology innovation. Therefore, carbon taxes are not simply fiscal instruments, but strategic economic policies that can reshape the

structure of global production. On that account, each country needs to design carbon tax policies that balance between environmental effectiveness, social equity, and economic stability (Perdana & Vielle, 2023).

Drawing attention to the Switzerland case study helps address the specific application of a policy to a particular country, about the significance of carbon taxes for domestic economic development, international trade, and social equity in an open economy. It demonstrates the extent to which Switzerland implements carbon taxes to reduce emissions and maintain economic stability. This paper analyzes Switzerland's experience implementing a performance-based carbon tax with a revenue-recycling mechanism and coordination with the European Union (EU), given Switzerland's unique location at the heart of the EU, while not an EU member state.

LITERATURE REVIEW

The rise of global concern about ecological and environmental degradation has been part of a wider discussion on environmental taxation, which has led to a burgeoning literature. Economists argue that taxing activities that harm the environment is one of the most effective and efficient ways to change behavior (Köppl & Schratzenstaller, 2021). As a pioneering strategy for internalizing the environmental costs of pollution, carbon taxes provide financial incentives for both consumers and corporations to invest in sustainable, low-emission technologies (UNDP, 2025). A carbon tax is a policy instrument implemented by a government to reduce greenhouse gas emissions by imposing a tax on carbon-intensive activities, especially those involving the use of fossil fuels (Remeur, 2020). The rationale for the carbon tax stems from the Pigouvian tax concept. Its history dates back to Pigou's writings on welfare economics (Pigou, 1920), which introduced the concept of externalities (unaccounted-for costs or benefits borne by third parties) and served as the basis for the Pigouvian tax.

Pigou (1920) first proposed utilizing taxation to address negative externalities—costs not reflected in market prices—though his original scope extended beyond environmental issues. His foundational research led to the development of "Pigouvian taxes," which have since become a primary market-based strategy for environmental regulation, most notably through carbon taxes designed to combat climate change (Köppl & Schratzenstaller, 2021). The Pigouvian tax proposes that governments should tax economic activities that generate negative impacts (externalities), such as air pollution, so that these

environmental costs are reflected in the prices of goods and services (László, 2021; Martínez & López, 2024; Milne, 2007; Schaffer, 2021). In other words, the carbon tax aims to internalize the costs of environmental damage into market mechanisms, thus encouraging economic actors to choose more environmentally friendly activities.

The concept of the carbon tax is closely related to the marginal social cost of carbon (MSC), which is the estimated social loss caused by each additional carbon emission. Because carbon's impact is long-term, destructive, and its volume continuously accumulates in the atmosphere, tax rates must take these social costs into account and be consistent over the long term. The carbon tax is also expected to provide a clear price signal to the market, thereby encouraging clean technology innovation and the transition to low-emission energy (Laurent, 2022; Schaffer, 2021).

It is relevant to incorporate the double dividend theory. Its hypothesis posits that governments can achieve two goals simultaneously by reinvesting carbon or pollution tax revenues into social welfare initiatives. Our study utilizes the double dividend concept, which states that the carbon tax not only helps reduce emissions (the first dividend) but can also provide economic benefits if tax revenues are used productively (Acosta, 2015; László, 2021). In this regard, environmental taxes can do more than protect the planet; by recycling that revenue into social programs or tax relief, the government can improve both the environment and the economy simultaneously. Examples include reducing other taxes that are more detrimental to the economy and/or providing subsidies for green energy programs (the second dividend). The carbon tax also embraces the principle of just transition, meaning policies must be designed to avoid burdening low-income groups (i.e., be well-targeted) and to ensure support for affected sectors.

Thus, the carbon tax is not merely a fiscal instrument, but also a tool to drive sustainable and equitable economic transformation. Switzerland has translated this targeted policy guidance into a policy that allocates two-thirds of its carbon tax revenue to the social, household, and business sectors through reductions in health insurance premiums. The other third of carbon tax revenues is used for energy efficiency programs or adaptive green programs.

METHOD

This study uses a descriptive qualitative method to collect data from available sources, such as peer-reviewed journals and online scientific publications,

to examine the objective of this paper. Data sources also include digital sources such as reports, news outlets, and official policy documents discussing carbon taxes, carbon leakage, and cross-border carbon adjustment mechanisms. The qualitative documentary study aims to provide a descriptive overview of Switzerland's efforts to reduce greenhouse gas emissions, particularly through the implementation of the carbon tax.

The analysis was conducted using content analysis techniques through data reduction, presentation of findings, and drawing conclusions. This study also employed a comparative policy analysis approach to identify the impacts of various carbon tax policy models and energy transition support on economic growth, and to examine their relationships with global trade. This method is expected to offer a systematic understanding and practical recommendations for formulating fair and effective carbon tax policies.

RESULT AND DISCUSSION

The carbon tax is a key strategy in responding to the global climate crisis. The implementation of this policy coincides with growing awareness of the urgency of transitioning to a low-carbon economy. Carbon taxes serve as an economic instrument that encourages businesses and the public to reduce their dependence on fossil fuels through a price signal for carbon emissions. In theory, implementing this policy will curb the rising trend of harmful carbon emissions and may even reduce them in the long term. The implementation of the carbon tax may not always disrupt economic growth, especially if tax revenues are recycled to support clean technology innovation and provide adequate social compensation. Energy-intensive sectors such as steel, cement, and textiles face greater competitive pressures than services, pharmaceuticals, or green technologies, requiring specific transition policies to maintain their competitiveness in global markets.

In this context, the Swiss experience provides an interesting example of how the carbon tax can be implemented effectively and balance environmental, economic, and social objectives. Switzerland introduced the carbon tax in 2008 as part of its national strategy to reduce greenhouse gas emissions. This policy applies to fossil fuels, such as heating oil, natural gas, and coal, with the primary goal of reducing dependence on fossil fuels and encouraging the use of renewable energy. The initial tax rate was set at 12 CHF per ton of CO_2 and gradually increased to 120 CHF (US$150) per ton in 2022, depending on the achievement of annual emission reduction targets. The Swiss carbon tax rate has fluctuated, dropping to US$120 in 2025. However, trend analysis since its implementation in 2008 shows a general

upward trend. This progressive rate mechanism, based on results, makes the Swiss carbon tax system adaptive and performance-based, rather than merely a symbolic gesture. The revenue from the Swiss carbon tax reaches approximately CHF 1.2 billion annually. The government allocates approximately two-thirds of this amount for revenue recycling, or direct returns to households and businesses. The remainder is used to fund clean energy projects, green technology research, and energy efficiency improvements. This refund scheme plays a crucial role in maintaining public acceptance of the carbon tax by providing immediate, transparent economic benefits. Through this approach, the carbon tax serves not only as an emission control instrument but also functions as a fiscal redistribution tool that strengthens social justice. From a social perspective, this policy demonstrates the Swiss government's commitment to implementing the principle of just transition. Refunds to households, particularly low-income groups, help mitigate the regressive impact of the carbon tax on energy prices. Thus, the transition to a green economy in Switzerland focuses not only on environmental aspects but also ensures equitable distribution of economic benefits and equal access to energy for all levels of society (Federal Office for the Environment FOEN, 2025a).

The Swiss government's steps to address carbon emissions are also aligned with reducing greenhouse gas emissions as required by the UN Climate Convention. According to data from the Swiss Federal Office for the Environment (FOEN), greenhouse gas emissions in Switzerland decreased by approximately 25% in 2022 compared to 1990 levels (Federal Office for the Environment FOEN, 2025b). Meanwhile, Swiss economic growth remained stable at around 2% per year. This data demonstrates that decoupling economic growth and rising emissions can be achieved if environmental fiscal policies are designed efficiently and based on incentives.

In the context of international trade, Switzerland's position is unique, as it is not a member of the European Union (EU). However, the country enjoys very close economic ties with the bloc. Since 2020, Switzerland has linked its national Emissions Trading System (ETS) with the European Union ETS. This linkage allows for mutual recognition of emissions controls between the two countries (Wallyn & Schmidt, 2024). This step generally exempts Swiss products from the EU's Carbon Border Adjustment Mechanism (CBAM). This exemption applies, of course, as long as they meet the rules of origin (Chen & Kim, 2024). Therefore, climate policy coordination between the Swiss government and the European Commission is crucial to maintaining alignment of emissions regulations on both sides. This alignment helps maintain the competitiveness of Swiss exports in the European market and demonstrates the country's commitment to cross-border climate policy.

The Swiss economy, dominated by the services, pharmaceutical, financial, and high-tech sectors, makes the impact of carbon taxes on export competitiveness relatively moderate. These sectors have low carbon intensity and rely more on innovation than on conventional fossil fuels. However, for the manufacturing and traditional energy sectors, this policy remains a challenge, as increased production costs can impact international competitiveness. To address this, the Swiss government has implemented a revenue recycling scheme that refunds a portion of carbon tax revenues to companies that sign voluntary emission reduction agreements. The Swiss government is also open to investment and supports energy efficiency and clean technology projects. The success of the Swiss carbon tax system is largely due to its high level of fiscal transparency. The government annually publishes an official report on the use of carbon tax revenues, including details of the allocation of funds to the public and the environmental programs funded. This transparency fosters public trust and strengthens the policy's political legitimacy. Public acceptance of the Swiss carbon tax is among the highest in the world, as the public perceives the policy as fair, effective, and providing direct benefits (Federal Office for the Environment FOEN, 2025a). The implementation of carbon taxes can also help businesses transition to more sustainable, environmentally conscious practices and encourage green innovation, thereby improving companies' competitiveness in an open economy.

As of April 2020, 61 specifically designed carbon initiatives had been ratified by 46 countries and 32 subnational governments. These initiatives comprised 31 emissions trading system (ETS) initiatives and 30 other initiatives on carbon taxes. However, of these initiatives, some have been implemented, while others are planned (in progress), at the regional, national, and sub-national levels. Meanwhile, research conducted by Dossa and Miassi concluded that developing countries also need to design strategies for implementing carbon pricing and carbon taxes. Although developed countries such as China and the United States produce more impactful carbon emissions than developing countries, their implementation in developing countries would have the same positive impact on business entities related to environmentally friendly competitiveness (Dossa & Miassi, 2024).

The economic impact is largely influenced by changes in the competitiveness of the manufacturing and service sectors. The double dividend concept serves as an economic shock absorber, transforming potential tax burdens into incentives for efficiency and innovation. A double dividend occurs when carbon tax revenues are recycled through income tax reductions. Meanwhile, the marginal cost of reducing emissions must be equalized across all sectors. Otherwise, the total economic cost will be higher than it should be. Therefore, to avoid disrupting economic growth, a strategy could involve identifying which sectors produce the most harmful carbon emissions but are least costly to reduce. For example, if reducing 1 ton of carbon from the electricity supply sector is cheaper than reducing carbon emissions from

the transportation sector, the reduction strategy should focus on the electricity sector (while the value of the emissions reductions remains the same). With this strategy, national reduction costs can be minimized, and economic growth is not significantly disrupted. The imposition of a large carbon tax should encourage businesses to shift from high-carbon-producing routines to low-carbon or even zero-carbon operations. While changing behavior is difficult, given the impacts of global warming that threaten life on Earth, determining the amount of the carbon tax is crucial to create a deterrent effect for companies from pursuing green innovation under minimal pressure (Conefrey et al., 2008).

The implementation of the carbon tax in Switzerland represents a prime example of internalizing the negative externalities of carbon emissions without sacrificing economic growth. That is to say, Switzerland has effectively integrated the environmental costs of CO_2 into market prices while maintaining steady economic progress. This policy aligns with the Pigouvian tax theory, with a tax rate that approximates the marginal social cost of carbon. The redistribution mechanism for carbon tax revenue also triggers a double dividend: reducing emissions (the first dividend) and promoting economic efficiency through reduced non-tax costs (the second dividend). However, challenges remain, such as expanding the scope of the tax to other sectors, such as transportation beyond general industry and electricity, and progressively increasing the rate. In the context of these global challenges, the carbon tax is considered a highly successful and equitable policy model. The tax is designed to be performance-based, starting at CHF 12 per ton of CO_2 and increasing automatically if national pollution-reduction targets are not met. This arrangement demonstrates that the instrument was thoughtfully and results-based. The key to its success lies in the principle of social justice, which returns two-thirds of all tax revenue directly to communities and companies (revenue recycling), effectively easing the burden of the energy transition and maintaining public acceptance. In addition to maintaining healthy economic growth and competitiveness in international markets, Switzerland has significantly reduced its emissions by 25% by 2022, mainly thanks to policy coordination with the European Union's emissions trading system (Köppl & Schratzenstaller, 2023).

In the context of international trade in an open economy, implementing carbon taxes poses unique challenges. Differences in policy standards across countries can distort trade, increase the risk of inequality, and affect the export structure of developing countries. Therefore, supporting mechanisms such as the Carbon Border Adjustment Mechanism (CBAM), technological capacity building, transition financing, and global policy coordination are crucial to ensure a just transition that does not disadvantage countries with lower economic capacity. Therefore, the effectiveness of the carbon tax depends not only on its implementation as a fiscal instrument but also on integrated policy strategies, international support, and an inclusive transition design. Going forward, harmonization of global carbon standards and a shared commitment to technology transfer and green financing

will be key to ensuring economic sustainability and the success of global climate change mitigation.

Policy design related to the carbon tax rate must consider how to change behavior without disrupting economic growth. By setting a rate with gradual increases, businesses have time to adapt and change their behavior. Thanks to a well-managed revenue recycling system, the refund mechanism can avoid a decline in aggregate demand. A managed transition, such as a gradual and predictable rate increase, significantly helps businesses adapt. At least three stages occur in business entities when the carbon tax is implemented. The first stage is the disruption stage, when the initial carbon tax costs are clearly visible in financial statements, reducing company profits. It is not a hidden overhead cost but rather a cost that puts pressure on companies to change their routines to reduce their carbon tax. It will stimulate the second stage, or the corporate experimentation stage. Companies will be challenged to remap their energy needs and the energy sources they use (from fossil fuels to renewable energy). Business entities will seek to form task forces to conduct audits and activate testing of new technologies that can reduce emissions in their business routine and operations. The company's operational projections will be restructured to ensure the business remains relevant and viable. After this, the business entity will enter the institutionalization phase. Experimental results from the best alternatives will be tested and incorporated into the company's routines (O'reilly & Binns, 2019).

Initiatives for companies include new procedures in a green-economy format, monitored through real-time emissions measurements, and incentives for company managers who successfully meet emission-reduction targets within their departmental routines. Potential obstacles at this stage include a lack of technical knowledge (due to the novelty) and fear of production disruptions arising from changes in core processes (inertia) within the company's routines(Yi et al., 2016). However, a tax refund mechanism for companies that successfully reduce their emissions can help overcome both financial barriers and perceived risk. Through these stages, companies will ultimately shift from high-emitters to low-emitters and ultimately to zero-emissions. If the government provides support during the stages companies experience due to the disruption of carbon tax costs, the transition will be even smoother.

To get a sense of how effective Switzerland's climate policy model is, it is worth noting that there is a considerable variation across countries. For instance. Switzerland employs a direct refund and fiscal neutrality model. Sweden employs a high carbon tax rate (as a deterrent) and fiscal reform. Canada employs a federal model and cash refunds (Green, 2021). Singapore employs a gradual transition and open economy model (Tseng, 2022). Among these countries, Sweden was the first to implement the carbon tax in 1991. Switzerland followed in 2008, and Singapore and Canada in 2019.

CONCLUSION

Switzerland's carbon tax constitutes a crucial tool in driving emissions reductions and the transition to a low-carbon economy. This policy incentivizes changes in production and consumption behavior and supports clean technology innovation, particularly when tax revenues are repurposed to finance the energy transition and social compensation. However, the economic impact of the carbon tax is not uniform. Energy-intensive and export-driven sectors are more vulnerable to competitive pressures, requiring additional policy support to maintain competitiveness, avoid industrial relocation, and prevent carbon leakage.

The policy for transitioning to the carbon tax requires it to be well-managed. Predictability is needed so that business entities can estimate long-term tariff increases and adapt. It is necessary to expand the tax's scope to other sectors in the long term (or to those currently excluded, such as focusing on the electricity sector and temporarily excluding the transportation sector). This expansion of coverage will increase overall economic efficiency. Switzerland's neutral and pro-people revenue redistribution model can serve as a benchmark for other countries seeking to increase public acceptance of carbon pricing policies. A comparison of carbon tax policies across several countries reveals that there is no one-size-fits-all approach. However, elements such as fiscal neutrality, transparent direct refunds, and a predictable tax rate increase schedule have been shown to achieve an optimal balance between environmental sustainability and sustainable economic growth.

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