



Policy Brief 2:3

Excerpt from the Swedish report [Konsumtionens gränser](#). (The Limits of Consumption)



Markus Larsson
PhD, KTH Royal Institute of Technology

Jens Ergon
PhD, Uppsala University

Göran Finnveden
Professor, KTH Royal Institute of Technology

Mikael Karlsson
Associate Professor, Uppsala University

A climate policy for fairness, jobs and growth

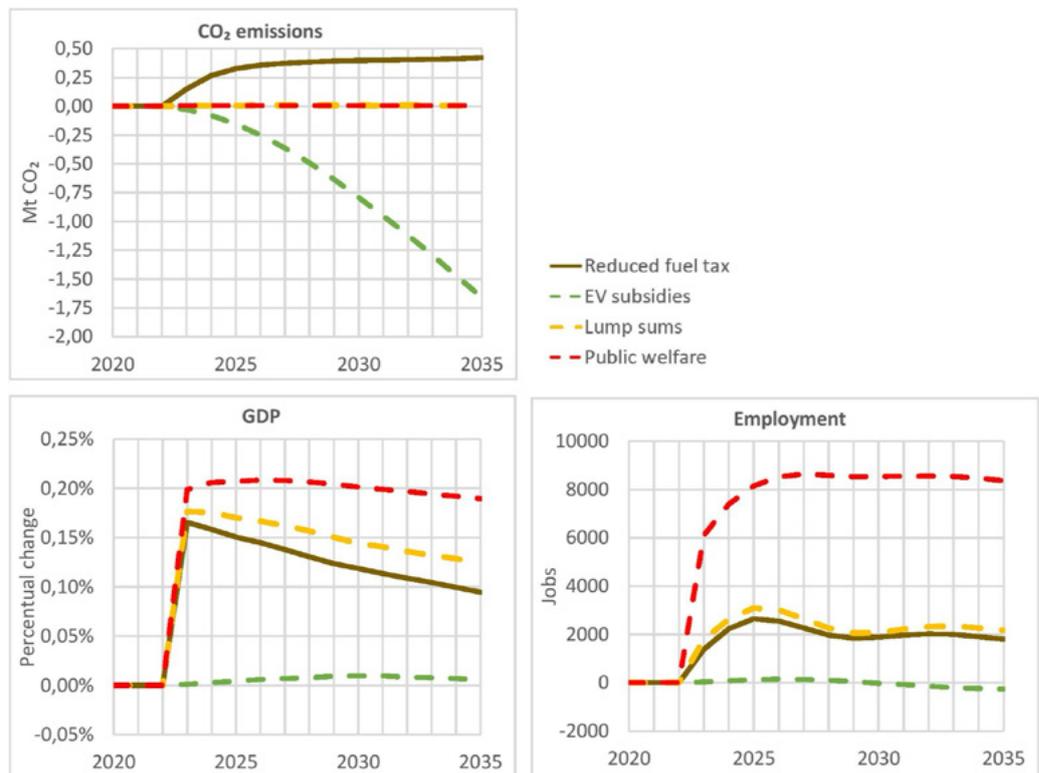
Sweden, like several other EU countries, is currently experiencing a backlash against climate policy. One reason is how climate policy is perceived to affect household finances. In Sweden, fuel taxes and the biofuel blending mandate have been the subject of intense debate, and in many places the question has arisen of how emissions can be reduced while compensating households so that vulnerable groups are not disproportionately affected. Our research shows that there are more effective ways to compensate for high fuel prices than cutting fuel taxes. Such solutions can simultaneously reduce emissions, strengthen the economy, and counteract inequality. Climate policy instruments can therefore be designed to promote both environmental and socio-economic goals.

During the 2022 election campaign, petrol prices became a key political issue. This led the Swedish government to gradually reduce taxes on petrol and diesel between 2023 and 2024. At the start of our study, the tax cut amounted to eight billion Swedish kronor per year. Today, the figure exceeds fifteen billion. This is a substantial sum, and since there are several alternative ways for the state to spend it, all with different effects on emissions, employment, GDP and economic inequality, there is good reason to examine these alternatives.

Payments to households deliver better outcomes than lower fuel taxes

There are several alternative policy solutions for compensating households for high fuel prices that can produce more desirable outcomes than reduced fuel taxes. Our research shows, for example, that allocating eight billion Swedish kronor to welfare services, with half directed to education and half to health-care, would result in significantly better outcomes for both GDP and employment. Another option is subsidies for electric vehicles in the budget and mid-range segments, which would reduce emissions considerably more than any other policy instrument examined in our study.

Households can also be compensated directly. The study shows that general lump-sum payments to households, either targeted at low-income groups or distributed equally to all, lead to a more equal income distribution, while the effects on GDP and employment are comparable to, or better than, those of a reduced fuel tax (see figure). A general reduction in income tax also performs better than a fuel tax cut in terms of emissions and employment, although the effect on GDP is somewhat lower.



Effects of climate policy instruments

Different policy instruments can be implemented to compensate households for high fuel prices. The graphs show the effects on carbon dioxide emissions, GDP and employment for a selection of policy instruments utilizing the same fiscal amount.

Progressive taxation can combine climate benefits with equality

We have also analysed what happens when climate policy packages are combined with progressive tax reforms. Such strategies can reduce economic inequality while financing the climate transition, by ensuring that groups with higher average incomes and larger carbon footprints bear a greater share of the costs. Climate benefits can be increased further if tax revenues are used to subsidise low-carbon alternatives, resulting in emission reductions comparable to those achieved through higher fuel taxes. If the policy package also includes investments in welfare services, such as education and healthcare, it can additionally strengthen GDP, employment and equality.



Combined policy instruments can both reduce emissions and strengthen the economy

The impact of climate policy depends both on which policy instruments are implemented and on how they are combined. Both stronger policies and the right combinations of policies matter. In our study, we analysed only a limited number of policy instruments, but the results show that policy combinations implemented in parallel can amplify the effects, both in terms of reduced emissions and increased equality.

We also found that the climate benefits of the measures could be substantial relative to their cost. At most, the policy instruments analysed could deliver an emission reduction of around 4.5 percent of Sweden's territorial emissions, corresponding to approximately 2.0 million tonnes of carbon dioxide. The eight billion Swedish kronor we worked with represent only 0.13 percent of GDP, yet they can still produce noticeable effects, not only on emissions but also on growth and employment. The effects on economic inequality are more limited, however, and addressing the growing income gaps in Sweden would require more far-reaching measures than those examined here.

In summary, there are several measures that represent far better ways of compensating households than lowering fuel taxes. These policy packages simultaneously reduce emissions, strengthen GDP and employment, and contribute to greater equality. Carefully designed policy packages of this kind have the potential to counter the current backlash against climate policy by reducing the risk that climate measures disproportionately affect vulnerable groups. As the EU intensifies its efforts in the coming years to reduce emissions from the transport sector, policy instruments that take social considerations into account will be important tools for securing both legitimacy and effective outcomes.

Effective policy instruments for compensating households

- Recycling tax revenues as lump-sum payments is more effective than cutting fuel taxes for compensating households for higher fuel costs. It avoids increased emissions while delivering equal or better effects on GDP and employment.
- Combining higher fuel taxes with multiple policy instruments, such as lump-sum payments, green subsidies or investments in public welfare, can substantially increase emission reductions, counteract negative distributional effects, and maintain or improve employment and economic growth compared with higher fuel taxes alone.
- Progressive taxation that finances green subsidies and investments in public welfare can combine emission reductions with reduced income inequality, increased employment and stronger economic growth compared with higher fuel taxes alone.



Further reading – or ask questions using www.greenchat.se/eng

- Ergon, J., Larsson, M., Finnveden, G., Karlsson, M., Gutzianas, I., & Kiss-Dobronyi, B. (2025). Modelling policy packages with combined climate, social, and macroeconomic goals: the Swedish case. *Climate Policy*.
- Ergon, J. (2025). Going Green at the End of the End of History: Multiple crises, backlash, and just climate transformations in Sweden. PhD dissertation, Acta Universitatis Upsalensis, Uppsala University.

This research is funded by the Mistra Sustainable Consumption research programme.

For further information, see:
www.sustainableconsumption.se/en

Reference to this text

Larsson, M., Ergon, J., Finnveden, G., Karlsson, M. (2026).
A climate policy for fairness, jobs and growth. Mistra Sustainable Consumption – policy brief 2:3. Stockholm: KTH Royal Institute of Technology.

