Implementing carbon pricing during the pandemic could help countries recover greener, smarter

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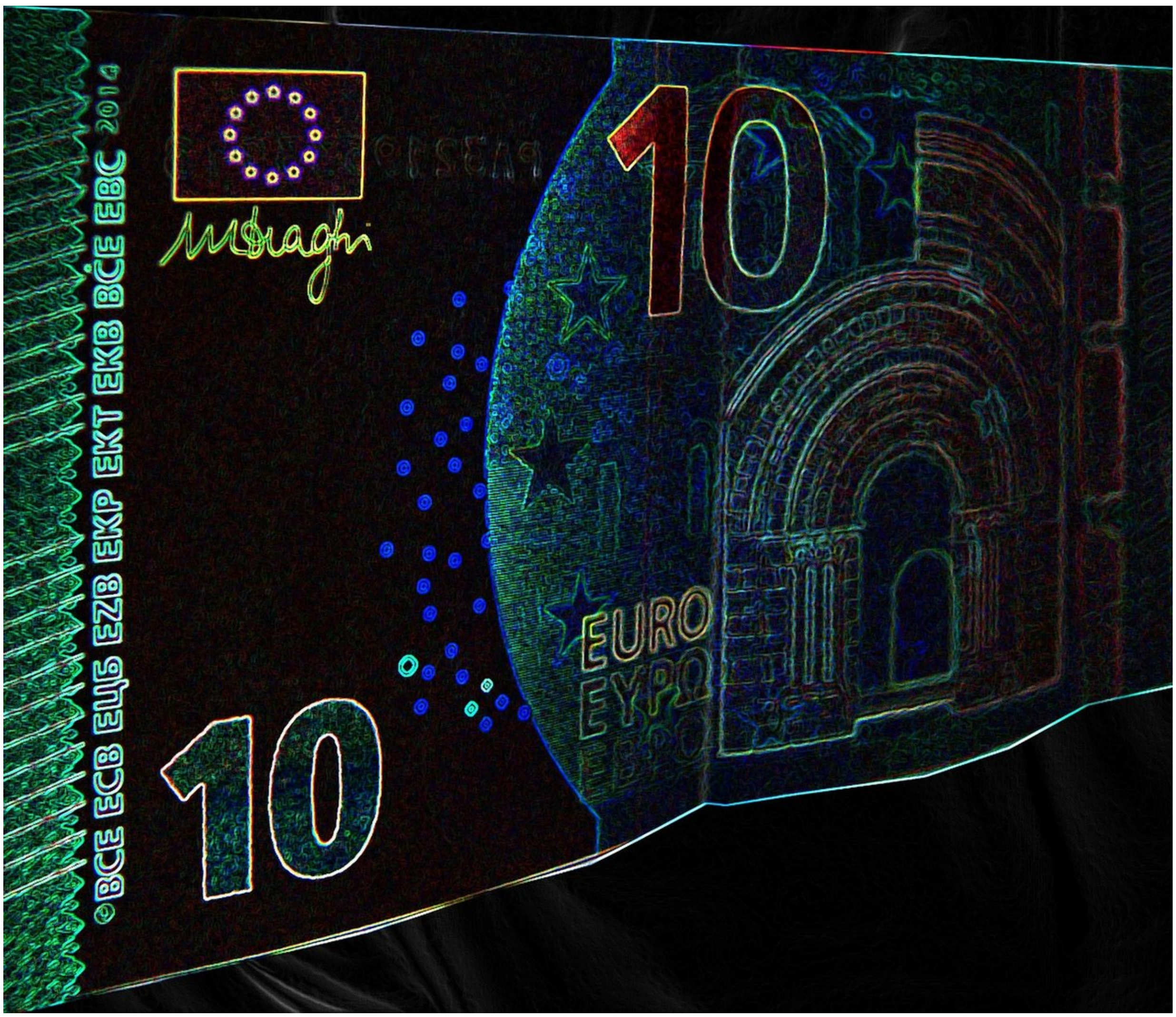

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Countries across the globe have been struggling to deal with the impact of COVID-19 and its accompanying economic slowdown. As economies "build back better," it may be an opportune time to introduce carbon pricing to tackle climate change, according to new Princeton University policy research.

While endorsed by many economists, carbon pricing has been slower to gain traction because of its potential to shock economies and the difficulty of securing political support for increasing taxes. However, fuel prices are already low and people are buying fewer goods and traveling less, so there could be greater benefits to introducing or strengthening carbon prices, the authors argue in the journal *Climate Policy*.

Carbon pricing—whether in the form of taxes or emissions trading—is an economic approach to account for the environmental costs of emitting greenhouse gases from burning fossil fuels. Carbon taxes typically apply to the producer with increased costs ultimately trickling down to any activity using carbon. For example, oil-extraction companies would be taxed, adding costs to any process that involved burning oil. Emissions-trading schemes set some cap on emissions and permits to emit are traded, but the number of total permits available correspond to that cap.

"When we think about long-term problems like the pandemic or climate change, it's easy to assume that the solutions could conflict since they all require massive resources," said lead author Kian Mintz-Woo, a former postdoctoral research associate in Princeton's University Center for Human Values and the Princeton School of Public and International Affairs (SPIA). "But what we describe in this article is how the context of the coronavirus crisis actually provides a unique opportunity for mutually reinforcing forward-thinking solutions to improve sustainability and wellbeing as countries recover."

Mintz-Woo, who recently joined the Philosophy and Environmental Research Institute at University College Cork, Ireland, added that this research expands on an op-ed co-authored with Princeton Professor Peter Singer published on May 7 by Project Syndicate.

With markets already reorienting to adjust to supply-and-demand shocks brought on by the pandemic, introducing carbon pricing now would result in marginally less disruption and could actually help drive greener economic activity. Placing a price on carbon could prompt industries to move away from more costly fossil-fuel intensive practices and toward long-term economic and environmental sustainability.

"Since carbon pollution already increases health and environmental costs borne by society, forcing those generating the costs to pay for them would lead to fairer production and consumption," Mintz-Woo said.

In the context of low fuel prices over an extended period, as seen in recent months, the researchers suggest that a carbon tax could help stabilize prices and ensure that renewable energy sources—the prices of which were becoming cost-competitive even before the COVID-19 crisis—can remain competitive. The researchers say that as economies move toward recovery, a carbon price can drive individuals and firms to adopt less carbon-intensive processes, rather than locking-in unsustainable energy practices that will ultimately require more drastic future corrections.

"Preventing commitment to future emissions is the key," Mintz-Woo said. "But that cannot come at the expense of those who may be at risk for job losses in this transition. Governments should use the revenue to both reduce any regressive effects of the taxation and retrain those who come from industries that could be adversely affected."

The researchers acknowledge that governments are under pressure to prioritize economic recovery from the COVID-19 crisis, so any policy changes with the potential to dampen a stimulus effect could be unpopular. However, they argue that high prices are not the primary obstacle to consumer purchasing; the cause of the economic slowdown has more to do with restricted market activity during the pandemic.

Revenue generated from a carbon price could contribute toward government spending on social safety nets, fund other green priorities to drive innovation and new jobs, or be returned as credits to taxpayers. In all cases, the potential revenue source could be a welcome infusion during the COVID-19 crisis, when regional and national governments face massive fiscal shortfalls which can be expected to grow in the coming months.

"Right now, governments are considering bailouts for carbon-intensive sectors, like the airline industry," Mintz-Woo said. "While it's really hard on employees in that industry right now, government money would be far better spent on clean research and development investments and other strategies to help companies prepare for the future. And that means preparing for employment transitions away from carbon-intensive jobs and towards areas that will be more beneficial to the environment. Carbon pricing can help us do just that."

More information: Kian Mintz-Woo et al. Carbon pricing and COVID-19, *Climate Policy* (2020). DOI: 10.1080/14693062.2020.1831432

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