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Who Can Re-Open – COVID-19 Cap and Trade

We have been reading this past week about the full court press (remember basketball?) by the business community to President Trump and his business-friendly advisers to reopen at least parts of the economy. On the one hand, the incremental cost of the shut down, along with the social distancing, has been staggering (in the billions of dollars). On the other hand, the incremental benefits have also been staggering (less COVID-19 disease and death than otherwise). Disease prevented is more difficult to see than unemployed workers and shuttered factories, but it is real and substantial, and also denominated in the billions of dollars.

The problem of opening things up takes us back to a debate about economic pollution. If one manufacturer has a smokestack (to remove pollution from the building) the effect on the local air is probably small – the atmosphere is able to assimilate small amounts of pollution. If multiple manufacturers have smokestacks, it leads to serious air pollution, respiratory problems, and potential illness and death. One solution is “cap and trade.”

“Cap and trade” was developed as a system to reduce pollution in the atmosphere. Paraphrasing from the Environmental Defense Fund web site (<https://www.edf.org/climate/how-cap-and-trade-works>) the “cap” is a firm limit on pollution, and it can get stricter over time. The “trade” is a market for companies to buy and sell allowances for them to emit only a certain amount of pollution, with the allowances being set by supply and demand. Trading offers companies strong incentives to save money by cutting emissions. Rather than paying \$1,000 per ton to pollute, the XYZ company spends \$800 per ton to reduce pollution. Nearly every serious economist supports this kind of policy. Until the Republican party decided to oppose all taxes (even sensible ones), most Republicans did as well.

No one wants to impose new taxes on business, especially now, but the business interests will not align with society’s interests if they gather workers to produce goods and services, only to send infected workers back out into the economy. A *COVID-19 cap and trade* policy would provide free permits to allow businesses to hire workers, with stiff fines (announced in advance) for those who send (like smokestacks) infected workers back out into the economy. Those who can produce pollution-free (sending out no infected workers to the community), or with low pollution costs (a small number of infected workers) can re-open. Workers’ health and infection must be monitored (taking temperatures or monitoring coughing), like smoke pollution. The benefits would be manifest, and the costs will be manageable. The permits could be bought and sold. Efficient firms, with respect to infection, could reopen. Inefficient firms would remain closed.

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This is a daunting task. At the moment we do not have enough tests or laboratories to diagnose asymptomatic people. Bringing people together in a workplace magnifies and multiplies the problem of disease transmissions.

There is an understandable push to return to “business as usual” in these terribly unusual times. We cannot return to business as usual without appropriate price signals to reduce the pollution. A COVID-19 cap and trade policy would provide those signals and start the economy moving again.

Allen C. Goodman
Professor of Economics