Global coal prices need to rise by two-thirds to take into account carbon damages alone, says the IMF

At a time when the government is not able to muster up courage to cut India's huge energy subsidies, an IMF report recommends India needs to not just cut subsidies, it needs to tax energy usage far more aggressively. The reason is an old one, that there are negative externalities in energy usage which are not being accounted for, but have to be paid at some point in time. Global warming is the obvious result of excess usage of fossil fuels, something that is encouraged by rampant mis-pricing. Since markets do not take long-term costs into account, the only solution for governments is to tax fossil fuels. Were just the carbon cost of coal to be taken into account, IMF managing director Christine Lagarde points out, the price of coal should be about two-thirds more than what it is today—once you take into account air pollution-related deaths in countries like India, the costs would be much higher. Correct pricing of fossil fuels, the IMF says, will reduce pollution-related deaths by 63% and cut carbon emissions by 23%; the impact on the global economy would be huge if, as a result, global warming can be reduced.

Considering the politically sensitive nature of fuel pricing, levying further taxes looks difficult, but what governments can do is to look at fuel mixes. Once there is greater availability of electricity, subsidies on kerosene can easily be eliminated. Once there are more natural gas grids of the type Prime Minister Modi wants, consumer costs will decline—even after taking into account the cost of building the grids—and costly LPG subsidies can be cut. Better urban planning and greater development of public transport are another way to cut carbon footprints, even raising taxes on fossil fuels, without hurting the common man.