

What can we say about inflation, Russia, climate policy, and carbon pricing?

By Dana Nuccitelli, CCL Research Coordinator, updated 3/9/2022

Inflation — the decline of purchasing power as prices rise — is currently at its [highest level in 40 years](#) in the US, and fossil fuels are the category seeing [the biggest price spikes](#). The prices of oil & gas are up by about 40% and 27% respectively over the past year while the costs of most other products we buy have risen by 7% or less. Russia is the world's [third-largest producer of fossil fuels](#) (behind the US and Saudi Arabia), so supply disruptions and sanctions on its oil & gas in response to the war in Ukraine are causing energy prices and inflation to rise further.

Congress is prioritizing curbing inflation and energy prices even as it tries to pass a climate policy package through the budget reconciliation process, with a carbon price still on the negotiating table. Here's what we can say about how climate policy and carbon fee and dividend specifically would impact inflation:

- There are no easy short-term solutions to inflation, which has [largely been caused by supply chain disruptions](#) as a result of the COVID-19 pandemic. These disruptions will gradually be resolved, though the war in Ukraine promises further oil market volatility.
- Increasing domestic fossil fuel production would have a [limited impact on prices](#), which are set in world markets, and the necessary infrastructure build-out would take time. And oil & gas companies resist expanding production because [too much supply can make prices \(and profits\) plummet](#). Moreover, much of that infrastructure would become [stranded assets](#) as fossil fuels are replaced with clean energy to meet climate pledges.
- In general, electricity generated from clean sources is [not subject to the price spikes](#) typical of oil & gas markets. Climate policies that accelerate the transition to clean technologies (and greater energy efficiency) will thus help guard against future inflation.
 - For example, fueling an average American car with gasoline will cost about \$160 this month (up [nearly 50%](#) from a year ago); fueling an equivalent electric car will cost about \$40 this month (up [less than 8%](#) from a year ago).
 - As the electric grid becomes even cleaner, with more of its energy coming from free sources like wind and sunshine and less from unstable fossil fuels, it will become even less vulnerable to inflation spikes.
- Carbon pricing to accelerate the transition to clean energy will cause fossil fuel prices to rise by making polluters pay. That's why smart policy solutions include "cash-back" dividends so that [most households come out financially ahead](#), more than offsetting any inflationary effects.
- [A recent review](#) of carbon pricing systems in Canada and Europe also found that they have had an insignificant impact on inflation in the real world.
- Climate change-worsened extreme weather events [may have played a role](#) in the current supply chain disruptions and inflation, and will play a larger role in the future.

While everyone wants immediate solutions to inflation, those may not exist. When it comes to long-term guards against inflationary pressures, climate policies that accelerate the transition to clean energy will work, but efforts to increase oil & gas production that continue our reliance on unstable fossil fuel global markets will not.

The choice is clear: smart and equitable policies to accelerate the transition to a cleaner future increasingly fueled by American wind and sunshine will make energy more affordable and less subject to inflation while preserving a stable climate. It's a win-win.