

Harper's Got It All Wrong On the "Job-Killing Carbon Tax"

Christopher Ragan
The Globe and Mail, June 4, 2014

In my previous column, I argued that Canadians' next big policy project is to recognize the close relationship between a strong economy and a healthy environment. We all need to understand that actions taken today to protect our environment should be seen as investments that yield greater future economic prosperity.

Last week, Prime Minister Stephen Harper made a common mistake by suggesting that greater environmental protection could only come at the cost of a weaker economy. Asked if new climate-change policies introduced by U.S. President Barack Obama might pressure the Canadian government to act likewise, the Prime Minister said: "No matter what they say, no country is going to take actions that are going to deliberately destroy jobs and growth."

Unfortunately, Mr. Harper's suggestion that policies designed to reduce greenhouse gas emissions must involve significant economic costs fails to take into account the full range of policy tools at his disposal.

How is it possible to promote a stronger economy and a healthier environment at the same time? Many individual policies can address one objective or the other, but the best way to address both at the same time is to think about the workings of our overall tax system, a complex collection of policies that influences most aspects of our economic behaviour.

Canada's current tax system generates incentives that simultaneously reduce our economic prosperity and damage our environment. By having relatively high taxes on income and profits, for example, our tax system reduces individuals' and companies' incentives to work, invest, earn income and generate profit. At the same time, since our tax system contains few penalties associated with polluting activities, it essentially encourages us to pollute more and to be more wasteful in the use of scarce resources. The overall result is a degradation of our natural environment and a reduction in our current and future economic prosperity.

What economists call "environmental fiscal reform" can correct these destructive incentives and help us achieve greater and more sustainable prosperity. With reduced taxes on employment and income, our firms would invest more and the Canadian economy would gradually become more innovative and productive. The quality of our jobs would also improve, as lower income taxes would lead Canadians to invest more in education and training. At the same time, higher taxes on polluting activities would lead each of us to take greater care with our environment, reducing the damage to our natural assets and providing a more solid foundation on which future generations can build their prosperity.

So let's get back to the Prime Minister's recent statements about policies intended to reduce greenhouse gas emissions. Such policies, whether they rely on direct regulations or

carbon taxes or some form of a cap-and-trade system, raise costs for firms and households and, especially over time, lead to reduced emissions. Taken alone, these policies would help the environment but would likely reduce the level of economic activity.

But the whole point of environmental fiscal reform is that such policies are only one part of a coherent two-part policy package. The second part of the package is to use the revenues raised by taxing pollution to finance a reduction in income and other distortionary taxes. Such a combination of policy reforms – with lower taxes on “good” things (income) and higher taxes on “bad” things (pollution) – would lead over time to an economy that is more innovative and productive, more protective of our environment, and fairer to our children and grandchildren.

When Mr. Harper congratulated his Australian counterpart for eliminating that country’s “job-killing carbon tax,” he got it the wrong way around. If the Prime Minister really cares about jobs and investment and prosperity, he should embrace the idea of pollution taxes and campaign against “job-killing income taxes.”

It is time for Canadians to recognize that our current and future prosperity are based on both a strong economy and a healthy environment. And it is time to acknowledge that both can be enhanced through a fundamental redesign of our tax system. Mr. Harper showed great flexibility and open-mindedness in his fiscal response to the global financial crisis. Here’s hoping he shows the same flexibility in leading a fundamental reform of Canada’s tax system – our economy and our environment will be the better for it.

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