# On Carbon Pricing, Private Sector Shows the Way

***Globe and Mail*, Report on Business**
**January 31, 2011**

**by Christopher Ragan**
**Nancy Olewiler**
**Alex Wood**

The gap in government leadership is increasingly being filled by a forward-thinking private sector. Especially in carbon-intensive sectors, such as oil and gas and electric utilities, firms are anticipating what they view as the inevitable policy action: carbon pricing. Companies like Nexen and TransAlta are using "carbon shadow pricing" in their strategic planning and project finance to help guide decision making on capital-intensive projects such as power plants or upgrading-refining facilities.

If Canada's leading firms can see clearly down the policy road ahead and are already building these policies into their long-range plans, what's the problem with the Canadian government? Federal action to design a simple and cost-effective policy that sends clear price signals to all Canadian firms and households is long overdue. The further the private sector gets ahead of the government on this issue, the less credible the political argument that Canadians don't really support a sensible climate-change policy.

Before proceeding, an important myth needs to be slain. Too often we hear the claim that climate-change policies need not impose a cost on economic growth. This is not so. Any sensible economic modeling that has been done on this issue shows that even the most efficient policies with teeth would slow down the growth rate of our GDP (although growth would continue). There are ways to mitigate the effects, for example, by phasing in carbon-price hikes over time and using carbon revenues to reduce tax burdens, but until the country transitions to a lower-carbon economy, growth rates will likely be lower than with no binding carbon policy. It is unrealistic in a modern energy-intensive economy to expect that we could attach a significant price to the burning of fossil fuels without having an impact on economic growth.

Some politicians argue that any "hit" to Canada's growth rate is unacceptable and therefore we should do nothing. This argument creates a false dichotomy between the environment and the economy. Pricing carbon provides long-term benefits, allows Canada to be part of global collective efforts instead of trying to thwart such action, and recognizes that quality of life is based on more than a GDP statistic.

Canada's stated goal of reducing its greenhouse-gas emissions needs to be pursued seriously, but with a clear objective of minimizing the negative effects on the economy's growth rate. We believe that a nation-wide carbon price meets this basic test—much better than the inefficient and costly regulations that are the policy alternative. There are two key reasons why a carbon price would be effective.

The revenues generated by a carbon price (whether it is a carbon tax or an auctioned system of carbon-emissions permits) could be used to finance reductions in corporate and personal income taxes. Most economists agree that income taxes, especially those on businesses, significantly retard economic growth, thus reducing employment levels as well. It makes perfect sense to use the carbon-price revenues to reduce these most damaging taxes, thereby stimulating private investment and productivity growth. As carbon prices rise over time to meet the GHG reduction goals, the rising revenues could be used to further reduce taxes that impede growth or to address fiscal challenges such as the rising health-care needs of an aging population or to invest in infrastructure (e.g., public transit) that helps promote the transition to a low-carbon economy. According to a recent study released by Sustainable Prosperity, revenues from carbon pricing could total up to $55 billion annually by 2020.

Carbon pricing also creates strong incentives to invest in technologies that improve energy efficiency and develop low-carbon energy sources. These actions would improve Canada's weak record on innovation and productivity. Research by the OECD has shown a direct and positive relationship between carbon pricing and innovation, even at fairly low carbon prices. We could eliminate our costly and often ineffective technology-specific subsidies that require governments to pick worthwhile ventures. These problems are avoided with a broad-based carbon price that applies in all regions and all sectors. As has been famously noted by many: governments are terrible at picking winners, but losers are terrific at picking governments!

Sound economic and fiscal policies have been a hallmark of Canada's economic success over many years. But new challenges compel creativity and new approaches. Carbon pricing is not a magic bullet for the challenges we face, but we believe it has a strong contribution to make and should be considered as such. It is time to show leadership.

***

Christopher Ragan is the former Clifford Clark Visiting Economist at the federal department of finance, Nancy Olewiler is Director of the School of Public Policy, SFU and Alex Wood is senior director at Sustainable Prosperity.