Why Saskatchewan Should Join the Carbon-Pricing Club

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Saskatchewan Premier Brad Wall agrees that all Canadian provinces need to do more to reduce greenhouse-gas emissions. Yet he argues that carbon prices should not be used because they would hobble an already-weak economy. He also argues that a better approach is to invest in the development of low-emissions technologies.

Mr. Wall is obviously right to be concerned about the current weakness of the economy, especially in Saskatchewan where low resource prices are causing serious pain. If done well, however, carbon pricing need not weaken the economy, and can actually improve it over the longer term. Several aspects about these policies may lead him to re-think his position.

It is a bad idea to increase taxes when the economy is weak. But carbon pricing need not lead to higher taxes overall and a larger government; instead it can be an instrument of a smarter government that collects its revenues in a way more conducive to economic growth. As in British Columbia, a carbon price can be revenue neutral, with every dollar of revenue returned to the economy through reductions in personal and corporate income taxes. Since 2008, that province has reduced its per capita GHG emissions and its economic growth has outperformed that in the rest of Canada.

Mr. Wall might also be concerned about how carbon pricing would affect Saskatchewan's households and the competitiveness of its businesses. These are commonly heard challenges, and for good reason. But careful use of carbon-pricing revenues can address them directly.

Saskatchewan's electricity comes largely from coal-fired facilities. If carbon pricing drives up the price of electricity, won't the policy be unfair to low-income households? The answer is no. A relatively small share of the revenues from carbon pricing can be given back to the most vulnerable households. By doing so, all households still face an incentive to reduce their emissions but the policy protects the purchasing power of the most vulnerable ones.

The same basic principle applies to the challenge of business competitiveness. By returning some of the carbon-pricing revenues back to the most emissions-intensive firms, as is being planned with the new policies in Ontario and Alberta, they won't lose market share to their out-of-province rivals. Yet the carbon price still provides these businesses with a clear incentive to reduce GHG emissions.

A well-designed carbon price is actually a very balanced policy. It provides a strong incentive to reduce GHG emissions. At the same time, it protects the purchasing power of lower-income households and the competitiveness of the emissions-intensive resource sector.

Premier Wall prefers clean-tech investments such as those in SaskPower's Carbon Capture and Storage facility at Boundary Dam. And such projects are certainly worth supporting: with an economical and scalable method of capturing GHG emissions, we could make a huge advance in addressing the problem of climate change. Such investments raise three important points, however.

First, investing in new technologies requires the use of scarce public funds, most of which come from personal and corporate income taxes. It would be better to raise the necessary funds with a carbon price, thus preventing the economic drag that comes from higher-than-necessary income taxes.

Second, public investments in the development of new technologies are invariably risky; some will work very well while others will fail miserably. A prudent investment portfolio includes a range of promising low-emissions technologies. It's never wise to put all your investment eggs in one basket.

Third, investments in low-emissions technologies make the most sense as a complement to a carbon price, rather than as a substitute. A carbon price generates powerful incentives on both sides of the market; firms and households are led to reduce their GHG emissions, and science-minded entrepreneurs are induced to develop the better technologies that firms and households can then employ. If the goal is to develop clean technologies, a carbon price should be a core part of the policy framework.

GHG emissions in Saskatchewan are the fourth largest among Canadian provinces, but in per capita terms they are the highest in the country. The economy is heavily reliant on natural resources and is currently suffering. So a policy that balances environmental and economic concerns is badly needed.

A well-designed carbon price can reduce GHG emissions, encourage innovation and long-term growth, and protect business competitiveness and vulnerable households. If Premier Wall examines some of the important details of how carbon prices can be and have been designed, he might find himself softening his current position.

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