

'Ecofiscal' policies adjust market forces for the sake of the environment

Jean Charest and Christopher Ragan
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Almost exactly a year ago, the governments of Quebec and California announced an unprecedented North American partnership to link their carbon markets, as part of the Western Climate Initiative. Since then, we have seen momentum build behind a global conversation on carbon pricing, driven by unusual suspects: the World Bank, the International Monetary Fund and U.S. conservatives including Hank Paulson and George Shultz.

On November 4, a group of 12 prominent economists from across Canada — supported by leaders from business and across the Canadian political spectrum — launched Canada's Ecofiscal Commission, a new effort to examine the role pollution pricing (including and beyond carbon) can play in Canada's future prosperity.

These unfamiliar voices in the “environment space” signal growing recognition of a fundamental fact: Our environment and our economies are inextricably linked. In Quebec, where we adopted this premise many years ago, the question remains: Can we continue to lead by adopting policies that give us an environmental and economic advantage? We believe the answer is yes.

Quebecers have long embraced the knowledge that our natural systems have limits. If we ignore them, by using our resources unsustainably or by polluting our natural assets, we then must bear the costs — not only environmental costs, but costs to our economies and the quality of our lives. For example, estimates from the Canadian Medical Association suggest that air pollutants in Canada's cities will impose health costs of roughly \$230 billion between 2008 and 2031.

Human beings cannot redefine the physical and natural laws that govern our ecosystems. But we can employ our creativity and our intelligence to define our economy — a man-made system shaped by millions of human decisions.

Markets have driven remarkable progress by creating the incentives for the innovation in products and processes that improve our lives. But market failures do exist, and the problem of environmental degradation is perhaps the largest of them all.

It falls on government to adjust market prices where necessary to better align private decisions with social objectives. Smart fiscal policies — what we might call “ecofiscal” policies — can help to achieve this goal.

Quebec is already a leading user of ecofiscal policy in regard to carbon. This has enabled us to invest in, and provide incentives for, the development of clean technology, low-carbon transportation and energy efficiency. As global momentum builds for carbon pricing, we are well-positioned to benefit from our steady investment in low-carbon research and design.

While reducing greenhouse-gas emissions is one of the critical challenges ecofiscal policies can help address, it is far from the only one. Internationally, such market-based policies are effectively addressing water quality, air pollution, traffic congestion and landfill waste.

Here too, we are starting to see innovation arise from Quebecers. The Township of Potton reduced residential waste by 42 per cent in one year with a pricing strategy. This past fall, Beaconsfield piloted a household waste-reducing project aimed to price waste and save costs from garbage collection. Early results show a 33-per-cent decrease of solid waste generated by participating households.

As these examples demonstrate, Quebec has already embarked on a journey to redesign its fiscal system in a manner that will help achieve the twin goals of economic and environmental prosperity. Now, as la Commission d'examen sur la fiscalité québécoise prepares its recommendations, there is an even greater opportunity for Quebec to build on this success and demonstrate our leadership.

Over the next five years, Canada's Ecofiscal Commission will build on the examples of front-runners like Quebec to show how much we all stand to gain from smart ecofiscal policies.

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