

For a Fairer and Richer Society, Make the Polluters Pay

Christopher Ragan
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There is widespread agreement that Canadian policy makers should be adopting measures that lead to a better economy – to create higher-paying and more secure jobs, to generate more investment and innovation, and to ensure that whatever prosperity we have today can be sustained and even improved for our children and grandchildren. In fact, this is pretty much a motherhood statement. Who could possibly argue in favour of a “worse” economy?

The disagreement appears when we start thinking about the specific policy actions needed to generate these improvements. Some will argue the need for cuts in corporate income-tax rates because these will provide greater incentives for productivity-enhancing investment. Others will urge greater spending on early childhood education, arguing that our long-run potential is significantly affected by the human capital we acquire early in life. Some will argue the need to improve health outcomes, noting that better health is both an end in itself and a foundation for a better work force. Still others will argue the importance of reducing the public debt, believing that such actions will encourage greater private activity.

Given all of the choices, what are we to do? Figuring out precisely which policies work best is very difficult, even when objective and sensible people examine the same evidence. It doesn't help that the debates over the best policies often get wrapped up with ideological differences. Small-l liberals often see very useful ways for government to play an active role in the economy whereas small-c conservatives often favour reducing tax rates and getting government out of the way.

But whichever policies are best for improving the Canadian economy, there should be unanimous recognition of one simple fact: All of the policy actions described above cost money. Reducing tax rates requires the lost revenues to be somehow replaced. Spending more on education or health care clearly costs money that must come from somewhere. And debt can only be paid down by using money that could have been used on other things. As the famous saying goes, “there's no such thing as a free lunch.”

So, whatever your ideology or preferred policy, we should all recognize that designing and implementing policies to improve Canada's economy requires resources. This raises the obvious question of where to get them.

On that point, here's another idea that we should all be able to agree on. Why don't we require those who pollute our air and land and water to pay a penalty for the costs they're imposing on us? This is only fair. Of course, most Canadian households and firms create pollution of many kinds, but some create a lot more than others, and the big polluters are currently increasing our costs while making off like bandits. Their solid waste fills up the scarce landfill sites, their smokestacks and exhaust pipes emit nasty pollutants into the air, and their toxic effluent goes untreated into our rivers and streams.

This pollution costs us dearly. We pay taxes directly to our governments to clean up some of the damage it causes to our no-longer-pristine natural environment. And when we don't clean it up, the pollution remains in our environment and from there degrades our health and reduces our incomes. Our smoggy cities are becoming a serious health problem; and when our forests and rivers are dying or polluted, nobody wants to buy our lumber or fish. It's hard to have a genuinely strong economy without a clean environment.

Making polluters pay a price for their actions could raise a lot of revenue, which could then be used to reduce income taxes, finance more spending on health and education, or reduce the public debt – or all of the above. But it would also do something else very important. By changing the relative prices that we all face for the various things we buy and actions we take, it would change our behaviour. And over time, it would change it considerably. All Canadians would face powerful incentives to economize on their use of scarce natural resources, to reduce their polluting activities, and to purchase products that lasted longer and used less packaging. Firms would also face incentives to economize on their resource use and to innovate cleaner ways of running their businesses.

In short, making polluters pay can be a powerful way forward for making both a greener economy and also a better one. Who could possibly disagree?

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