

Pricing Pollution is the Right Solution

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Politics, religion, and taxes rarely inspire polite and measured conversation around the dinner table. Yet following the release of Laurel Broten's fiscal review, taxes are the hot topic in many Nova Scotia kitchens.

With 42 overall recommendations, the report offers plenty to discuss. One recommendation has received a great deal of media attention — a revenue-neutral tax on pollution. Though it is only one part of a large package, this idea may lead Nova Scotians to begin a new kind of economic discussion, one that is needed in every Canadian province.

Broten's report notes that most economists favour market-based policies that attach prices to pollution and environmental damage. We call these "ecofiscal" policies, and they can be applied to a wide range of issues including water pollution, residential waste, carbon emissions, and traffic congestion. Exactly how these ecofiscal policies can be designed to work effectively in Nova Scotia is a subject worthy of analysis and debate.

But getting to the discussion of "how" means getting past the debate about "if." That if is generally tied to the mistaken premise that our economy and our environment are a zero-sum game: success for one means failure for the other. This view is very common, and it's the biggest hurdle to moving forward on what we need most: healthy and sustainable economies.

A clean environment is essential to our long-term economic prosperity. Environmental damage takes money out of our pockets, often without our realizing it.

Here's just one example. The Canadian Medical Association estimates that airborne pollutants will increase health costs for Canadians by over \$220 billion over the next two decades. If you add in the lost income from sickness, and also the direct cash costs associated with cleaning up the air, the number gets even bigger. In short, environmental damage is harming our current economic prosperity.

Attaching a price to polluting activities not only encourages households and businesses to reduce pollution, it also provides incentives for the development and adoption of cleaner technologies.

When you put a price on pollution, non-polluting activities become more economically valuable. A few decades ago, ecofiscal policies were used to address sulfur dioxide emissions in the United States; technological innovations increased, emissions fell, and the problem of acid rain virtually disappeared.

Good examples also exist in Canada. British Columbia introduced a revenue-neutral carbon tax in 2008. By law, the extra revenue was returned through reductions in corporate and personal income taxes. The overall result? Per capita fuel use (a major cause of greenhouse gas emissions) dropped by 16 per cent, B.C.'s economy kept pace with the rest of Canada, it now has among the lowest

income taxes in the country, and the policy is widely supported by a majority of British Columbians.

One crucial aspect of ecofiscal policies is often lost in discussions about pollution pricing. When governments attach a price to pollution, the resulting revenues can then be “recycled” back into the economy in order to drive further economic benefits.

One option is to return all of the revenues through reductions in personal and corporate income taxes. Other options include providing relief to the most vulnerable families; investing in clean-tech innovation; and providing critical public infrastructure. Ecofiscal policies do not require an increase in the overall tax burden.

Determining how best to recycle ecofiscal revenues is one of the most important details to be discussed, and different governments facing different economic challenges are likely to make different choices. As with most policy discussions, the regional and local details matter tremendously. That is why these policies are best designed and implemented by provinces and cities.

Nova Scotians have already taken important steps aimed at reducing waste and air pollution and improving water quality. Pursuing the existing opportunities for cleaner energy sources will only add to the reductions in carbon emissions that have already occurred.

Now, as Nova Scotians ask a critical question — how should our government raise its revenues? — there is an even greater opportunity to shape the prosperity of this generation and generations to come. Whether it’s at the kitchen table or the boardroom table, Nova Scotians can consider how ecofiscal policies have supported innovation and growth elsewhere in the world. Now is the time to ask how these policies can be designed to do the same at home.

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