

To Ensure Prosperity, Canada Needs “Ecofiscal” Policies

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The world is increasingly recognizing the linkage between a strong economy and a healthy environment. Yet in Canada, this is old news. Anyone who learned our history with cod, beavers, wheat and lumber knows our economic prosperity has always been underpinned by our natural wealth. The dawning realities of the 21st century nonetheless pose an important question: How do we align the economic goals of our resource-rich economy with the need to protect our environmental assets?

You might think this is mostly about our responsibility on global issues, but it's not. It's about our own economic prosperity, across all our regions. The environmental issues we face right now—from the mounting pressures on our air, land and water to the ongoing process of climate change—directly impact our health, our incomes, and the vitality of our cities. And as the global economy increasingly rewards cleaner technologies, Canadian businesses will be unable to ignore the associated competitive pressures.

In addition to minding our current prosperity, we need to consider our responsibility to future generations of Canadians. Our decisions today will determine whether they inherit our nation's natural wealth and use it to build their prosperity, or instead will be left to deal with the ecological debts we leave behind.

A central task in addressing this challenge is to modernize our country's fiscal systems, which aren't well designed to meet today's challenges. Over many decades, these systems have evolved to the point where they hold back investment and innovation while encouraging pollution and environmental damage. We need to turn this around – to improve both our environmental outcomes and our economic performance.

We can modernize our fiscal systems by using “ecofiscal” policies, so named because they're motivated by the twin goals of economic and environmental prosperity. These policies harness the power of markets and correct faulty price signals to encourage the things we do want (better jobs, investment, and innovation) while discouraging those we don't want (pollution and greenhouse gas emissions).

Canadians can draw on the experience from other countries, where ecofiscal policies have been effectively used to address water conservation, air pollution, traffic congestion, and carbon emissions. Our cities and provinces are confronting these issues every day. What's more, countries that have thoughtfully instituted ecofiscal policies have seen little or no negative short-run economic impact. But they have been rewarded with greater innovation and more business competitiveness, which augers well for their long-run economic performance.

Relative to other developed countries, Canada makes little use of ecofiscal policies. But here lies the opportunity. Provinces and cities across the country could identify many possibilities to put a price on pollution and then “recycle” the revenue wisely to generate economic benefits—by reducing growth-retarding corporate and personal income taxes, returning money to low-income households, or investing in technology or critical infrastructure.

While the guiding principle of ecofiscal reform is pretty straightforward, there is plenty of devil in the details. Doing it right requires serious effort, for two reasons. First, getting smart and effective ecofiscal policies in place requires truly understanding Canada’s unique regional contexts. Our system of fiscal federalism is a complex beast, and policies that work elsewhere may not work automatically if introduced here. Second, several important issues require attention—potential threats to business competitiveness, fairness to lower-income families, the benefits from recycling ecofiscal revenues, and dealing with the diverse regions and their priorities. Smart policy design is rarely simple—but complexity shouldn’t be an obstacle.

In fact, Canadians have long been successful at addressing complex policy issues. Throughout our history, Canadians have come together at crucial moments to create our economic institutions and policies, ones that have contributed enormously to our current prosperity. We can do it again now. Ecofiscal reform is the next, great policy opportunity of our generation.

November 4th marks the launch of Canada’s Ecofiscal Commission—created to help Canadians seize this opportunity. Comprised of experienced and policy-minded economists, and supported by exceptional leaders from business, environment, and of all political stripes, we are committed to putting smart and practical ecofiscal options on the table for consideration by governments across this country.

Let’s talk about the jobs, technology, and industries we need to thrive now and in the decades ahead. Let’s talk about the ecofiscal policies that can help get us there. There is room for many at this table. I hope you’ll pull up a chair and join the conversation.

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