

Carbon taxes, the economy and the poor

Mark Jaccard, Nic Rivers and David Keith

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In a recent article, Aldyen Donnelly argued that evidence from the UK and Norway show that greenhouse gas taxes (a.k.a. carbon taxes) fail to reduce emissions, hurt the poor and cost manufacturing jobs. Throughout the article, she blames academics (“Mark Jaccard, among others”) for promoting carbon taxes when we should instead be explaining the advantages of regulations “like fuel efficiency standards for auto makers and mandates that require electric utilities to buy a certain portion of their total sales from zero-generation sources.”

Donnelly might wish it were only us academics suggesting that pricing is an effective way to reduce emissions. But the CEOs of Canada’s 25 largest corporations and the chief economist of Toronto Dominion Bank, who have recently come out in favour of pricing emissions, are not academics. In fact, a recent poll by BBC World Service showed that 57 percent of Canadians support a carbon tax, rising to 81 percent if the tax is “offset by other tax breaks so that total taxes remain the same.”

Donnelly suggests that carbon taxes and other regulatory policies cannot co-exist. But even we ivory tower academics know the world is not so simple, indeed we have frequently emphasized the potential effectiveness of the very regulatory policies Donnelly is describing. But the norm among countries who are serious about the climate change risk is to apply a combination of policies to ensure we can no longer freely emit greenhouse gases.

So, yes, we agree that greenhouse gas emissions can be reduced by regulations, but we find scant evidence for Donnelly’s claim that greenhouse gas taxes are ineffective, have hurt the poor or have cost manufacturing jobs.

Donnelly claims that Norway’s carbon tax has had a perverse effect in leading to rising emissions relative to Canada and poor economic performance. She invites the reader to look at official national statistics. So we did. According to the national statistics offices of Norway and Canada, during the period 1990-2005, per capita greenhouse gas emissions increased 7.5 percent in Canada but fell 0.4 percent in Norway. At the same time, the Norwegian per capita economic output grew 47 percent compared to Canada’s 30 percent while Norway’s oil and gas production per capita grew at much faster rates than Canada’s.

Norway’s economy has performed wonderfully while its carbon taxes have helped propel it into global leadership in emission reduction technologies. After the imposition of the carbon tax in 1991, the Norwegian company Statoil took the decision to implement the

Sleipner project, in which carbon dioxide is injected into a deep saline aquifer 1,000 metres under the North Sea floor. According to Statoil's website, the "Decision to inject was taken in 1991 following the introduction of a CO₂-tax." ... "The Sleipner West licensees would have had to pay [about \$70 million Canadian per year] in Norwegian carbon dioxide tax had they released the greenhouse gas to the air."

In the same vein, Norway may soon be the first country to generate near-zero-emission electricity from fossil fuels with its coastal project to generate electricity in concert with carbon capture and storage. The pressures of the carbon tax, alongside other policies, are helping Norwegian businesses to become world leaders in the emerging field of clean energy.

Donnelly also claims that carbon taxes hurt the poor, obliging government to provide compensation, as in the UK. But one of the strengths of the carbon tax approach is precisely that, unlike regulations, it provides revenue for ensuring low income groups are not worse off. Technology regulations, on the other hand, force people – rich and poor – to acquire low-emission technologies that are more expensive. They do not compensate the poor or anyone else for this extra cost.

Both taxes and regulations can work well, and both can be misused. The virtue of prices is their transparency and simplicity, and in the resulting gains in economic efficiency. Regulation breeds complexity, as the regulated work their way around the rules. Many regulatory systems must, for example, define a "Best Available Technology" a complex process that opens the door to legal wrangling and back room deals. Such decisions are better made by engineers and accountants responding to a carbon price than by lawyers.

If we Canadians don't care that much about economic performance, we can avoid carbon taxes and regulate our way to greenhouse gas reduction. And, as applied academics, we are willing to help design those regulations in ways that minimize (but cannot eliminate) their negative effect on economic output and on low income groups. But can Canadians really afford to be so cavalier about economic growth?

Finally, Donnelly argues that where they have been applied, particularly in the UK, carbon taxes are now profoundly unpopular. But the same recent BBC poll that showed Canadian support for carbon taxes also showed support in the UK at 54 percent, for an increase in carbon taxes from current levels – support which rises to 77 percent if the extra tax is offset by equivalent tax reductions. After years of this policy, support is very strong, which is surprising when one considers that this is public support for being taxed! Indeed, the opposition Conservative Party in the UK promises to increase the carbon tax if elected. When was the last time an opposition party anywhere was confident enough about public opinion to claim that if elected it would raise a tax?

We agree with Donnelly that carbon taxes are not the be-all and end-all of climate policy. We just wish she would take a more even-handed, "academic" approach to the evidence.

Mark Jaccard and Nic Rivers are with the School of Resource and Environmental Management at Simon Fraser University. David Keith is Canada Research Chair in Energy and Environment at the University of Calgary.