

A tax on carbon worthy of debate

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Many Canadians, including a large number of Liberals, think Liberal Leader Stéphane Dion must be crazy. With oil prices close to \$120 (U.S.) a barrel and gasoline approaching \$1.30 a litre, Dion has been musing aloud about bringing in a carbon tax that would push those prices, in Canada at least, even higher. (See opposite page.)

With anger rising over the cost of gasoline, Ottawa watchers cannot understand how Dion could possibly think he would win over voters with a promise to make them pay even more. Surely, say the pundits, even a policy wonk like Dion must know he would be committing political suicide if he were to adopt such a wonky position.

But Dion has no chance of persuading voters that the idea has merit, if he doesn't put it out for discussion and debate, as he has now done.

Carbon tax or not, Dion is surely right when he says the price of oil and gasoline will continue to rise as China, India and other developing countries push global demand beyond available supplies.

Canadians can either learn to live with those constantly rising prices or, as Dion suggests, they can get out in front of them with a strategy to promote conservation and new technologies for increased efficiency and the development of clean, affordable alternative sources of energy. "The first movers of today – who understand that green technology and energy efficiency are the way of the future – will be the leaders of tomorrow's economy," he writes.

While a carbon tax would create a strong incentive for business and consumers to reduce their dependency on oil and gas, the pain of making that adjustment could be significantly reduced by making offsetting cuts in other taxes, such as income taxes. This is known as "tax-shifting," and it would leave Canadians both with more money in their pockets and with a strong inducement to spend it on home insulation and energy-efficient cars.

Some critics of carbon taxes argue that a country like Canada, with its heavy reliance on trade, would be shooting itself in the foot by imposing the extra cost of carbon emissions on Canadian business in cases where foreign competitors were not subject to an identical tax.

Although everyone would be better off if all countries adopted a uniform carbon tax, until that happens Canada could still protect itself by imposing its carbon tax on imports (as is the case with the GST) and by exempting exports to countries without an equivalent tax. While the latter would to some degree reduce the effectiveness of a carbon tax, the export exemption could be phased out as Canadian firms made the transition to a reduced dependency on oil and gas.

If Canadians are truly committed to doing their part to fight climate change, they will keep an open mind to what Dion is suggesting and join in a healthy debate on the economic and environmental merits and costs of a carbon tax versus the Harper government's alternative of doing as little as we possibly can.