Sustainable Prosperity

Policy Brief December 2010

FOR A LOW CARBON ECONOMY

Sustainable Prosperity is a national research and policy network, based at the University of Ottawa. SP focuses on market-based approaches to build a stronger, greener economy. It brings together business, policy and academic leaders to help innovative ideas inform policy development.

Carbon Pricing, Climate Change, and Fiscal Sustainability in Canada

KEY MESSAGES

- Canadian governments at all levels face significant fiscal challenges in the coming years. These challenges will create a number of constraints on governments, at a time when the role of governments in helping address long-term structural challenges to the Canadian economy is most critical.
- At the same time, and as re-affirmed by the recent Cancun Agreements, climate change remains one of the most pressing of the challenges facing the country, and the globe. There is a need to mobilize private investment and deploy low carbon energy technologies and infrastructure.
- **Sustainable Prosperity believes carbon pricing – either through the sale of allowances for a cap-and-trade system or a carbon tax – can help Canada address both of these challenges.**
- Pricing carbon, many economists agree, is the most effective and efficient measure for reducing the carbon emissions that cause climate change. Moreover, by shifting its tax base towards carbon and pollution, and away from income and labour, Canada can begin to proactively address long-term fiscal policy concerns over the erosion of income-based tax revenues.

Sustainable Prosperity
c/o University of Ottawa
555 King Edward Avenue
Ottawa, ON K1N 6N5
613-562-5800 x3342
www.sustainableprosperity.ca

- Carbon pricing has the additional benefit of incenting innovation and productivity, two things for which the Canadian economy has a poor record. Since a carbon price will have to increase over time to help Canada meet its climate change objectives, the innovation and efficiency incentive will also increase. Moreover, a carbon price would obviate the need for technology-specific subsidies.
- A carbon price will also generate revenues sufficient to not only allow for cutting other taxes, but also give governments the fiscal room to consider a range of other policy options. Those could include addressing concern over a long-term structural fiscal deficit (driven by demographic factors); investing in emission-reducing infrastructure like a "smart grid" or public transit systems, or assisting communities, populations, or economic sectors most vulnerable to energy price increases.

The Issue

Canada has taken justified pride in its economic performance and fiscal management over the last 15 years. But Canada has not escaped unscathed from the financial and economic crisis that has gripped the global community in the past two years. Canada's federal and provincial fiscal position has worsened in recent years due to the necessary fiscal stimulus response to the crisis. In addition to these "cyclical" challenges, Canada faces structural fiscal challenges, including rising health care costs and a declining tax base arising from the aging population.[1]

There remain perennial concerns over the rate and scale of innovation in the Canadian economy, as well as the rate of growth in productivity. Because of how central these factors are to our competitiveness, addressing them will go a long way to ensuring our future prosperity.

In addition, as documented by private analysts like the Conference Board of Canada, economists from Canada's leading banks, and the Bank of Canada, there remain perennial concerns over the rate and scale of innovation in the Canadian economy, as well as the rate of growth in productivity. Because of how central these factors are to our competitiveness, addressing them will go a long way to ensuring our future prosperity.

This Sustainable Prosperity Policy Brief is designed to provide the basis for discussion of the potential role that a national carbon pricing policy can play in addressing some of these issues. The very strong case for the role of carbon pricing in addressing carbon emissions has been studied by many other leading researchers and organizations (including related SP work), and so is not the focus of this Policy Brief.[2] Instead, it will focus on the current and expected status of Canada's fiscal policy, and examine how revenues raised through a carbon pricing policy might provide much needed fiscal options for both national and provincial governments.

1 Ragan, Christopher, *Two policy challenges driven by population aging,* Policy Options, October 2010, 72.

2 For a comprehensive discussion on the benefits of using economic instruments to address environmental problems, see: Hepburn, Cameron, *Regulation by Prices, Quantities, or Both: A Review of Instrument Choice,* Oxford Review of Economic Policy, Vol. 22, No. 2, 2006. Available online at: http://www.economics.ox.ac.uk/members/cameron.hepburn/hepburn%20(2006,%20oxrep)%20regulation%20by%20p%20or%20q.pdf and Goulder, Lawrence H. and Parry, Ian W.H., *Instrument Choice in Environmental Policy,* Resources for the Future, April 2008. Available online at: http://www.rff.org/documents/RFF-DP-08-07.pdf.

The Context

International Developments

Despite concerns over the strength and depth of economic recovery, the emphasis in most countries is shifting from managing private debt to managing public debt. Governments around the world responded to the economic crisis by rapidly escalating public spending in order to support aggregate economic demand. Public officials in most developed economies have recently shifted their attention from increasing spending to fiscal restraint. Especially in the wake of the sovereign debt crisis in Greece, most OECD countries are now quickly reorienting fiscal policies to emphasize debt reduction and fiscal responsibility.

Britain in particular has undertaken deep cuts in public spending to address its budget deficit. At the same time it is pursuing new revenue sources. Funds raised from its Carbon Reduction Commitment (CRC) scheme, originally intended as a revenue neutral system, will now be retained by the UK Treasury to support public finances. The CRC is estimated to generate about 1 billion GBP in annual revenue by 2014-2015.[3]

In the United States, President Obama's National Commission on Fiscal Responsibility and Reform received submissions that advocated using revenues from carbon pricing to reduce the deficit. The Brookings Institution estimates that a carbon tax in the energy sector will create between $140 billion and $250 billion in revenue for the U.S. Treasury per year to 2040.[4]

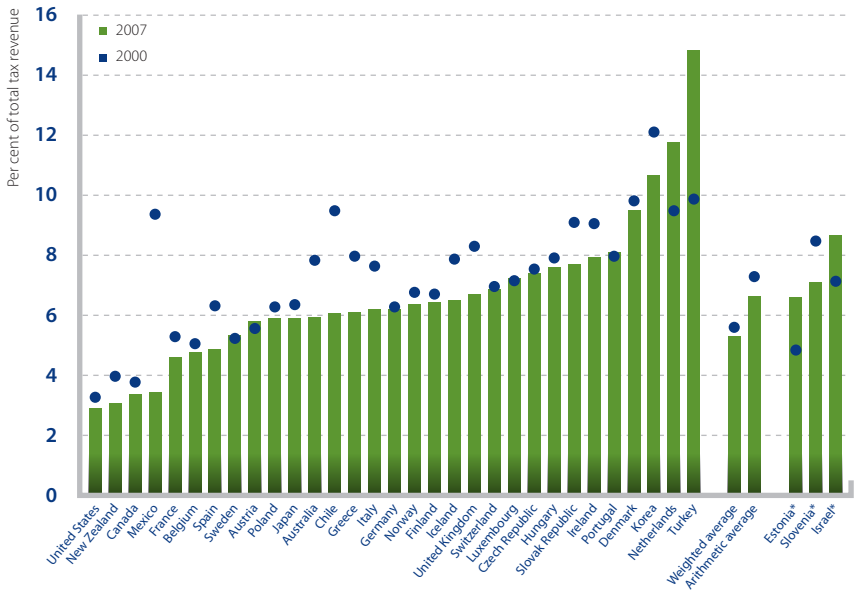
It is also worth noting that the general use of existing environmentally related taxes is much higher in other OECD countries than in North America. For example, as shown in figure 1, more than 14% of Turkey's total tax revenues come from environmental taxes, whereas the figure is less than 4% in Canada and the United States.

It is also worth noting that the general use of existing environmentally related taxes is much higher in other OECD countries than in North America

3 HM Treasury, *Spending Review 2010,* October 2010, 62. Available online at: http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf.

4 The Brookings Institution, *How Climate Policy Could Address Fiscal Shortfalls,* August 20, 2010. Available online at: http://www.brookings.edu/reports/2010/0820_climate_policy_gayer_morris.aspx.

Figure 1: Revenues from environmentally related taxes as per cent of total tax revenue (2007)

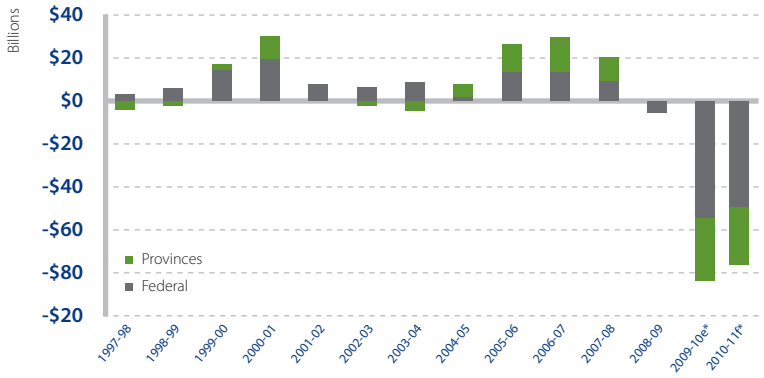


Source: OECD
*Estonia, Slovenia and Israel are accession countries to the OECD, and are not included in the averages.

The Canadian Context

According to the OECD, Canada's net government debt, at 28.6% of its 2009 GDP, stands well below the Euro area average of 51.7% and the current U.S. figure of 56.4%. Canada's federal debt to GDP ratio is expected to peak at approximately 40% in 2011.[5] According to fiscal projections from the U.S. Congressional Budget Office (CBO), federal debt in the United States could exceed 75% of GDP by 2014 and 90% of GDP by 2020.[6] In this regard, Canada is benefiting from the foresight shown by the federal government in the 1990s, which enacted strict spending controls to eliminate the deficit and then took steps to reduce the public debt burden.

Figure 2: Federal and Provincial Budget Deficit/ Surplus (billions) (2010)



Source: TD Economics, August 2010 Government Budget Balances and Net Debt. (Does not reflect October 2010 Fiscal Update).
*Government estimates and forecasts

5 TD Economics, *Government Budget Balances and Net Debt,* 2010. Available online at: http://www.td.com/economics/budgets/govt_budget_2010.pdf.
6 TD Economics, *Canada's Fiscal Exist Strategy,* August 3, 2010. Available online at: http://www.td.com/economics/special/pg0810_fiscal_exit.pdf.

Policymakers are now coming to grips with Canada's current fiscal outlook. With the bulk of stimulus spending now behind them, governments are beginning to take steps to address the new fiscal reality. The federal government and most provincial governments have published plans to address budget deficits within the medium term in their latest budgets. The 2010 federal budget contains a plan to almost eliminate the budget deficit within five years (by FY 2014-15). Most provinces have announced deficit reduction goals within a similar time frame.[7] Regardless of how these plans are implemented, analysts agree that Canada is entering a new period of fiscal restraint as governments across the country work to eliminate deficits.

At the federal level, it remains unclear whether announced deficit reduction plans will be adequate to return the federal budget to balance within the targeted 5 year timeline. According to research from Canada's Parliamentary Budget Officer (PBO), the current federal fiscal structure is not sustainable, and will lead to substantial and sustained increases in government debt relative to GDP over the long-term. The PBO has estimated that increased taxes or reduced program spending, or some combination of the two in the order of 1-1.9% of GDP, will be required to put the federal government back on track to fiscal sustainability.[8] In analysis of the latest federal budget, in contrast to government forecasts, the PBO estimates that there will still be a federal deficit in the range of $15 billion in FY 2014-15[9], whereas the Department of Finance projects a much smaller deficit of $1.7 billion for the same year, as shown in table 1.[10] While the PBO acknowledges that the government could balance budgets within the targeted timeframe, it notes that this would require either "the economy operating significantly above its potential; actions to increase revenues or reduce spending relative to their projected paths; or, some combination thereof."[11]

7 Ontario's economy and fiscal position has fared worse than other those of other provinces, and as a result the Ontario government does not see itself returning to balanced budgets until FY 2017-18 at the earliest. See TD Economics, *Canada's Fiscal Exit Strategy,* August 3, 2010. Available online at: http://www.td.com/economics/special/pg0810_fiscal_exit.pdf.

8 Parliamentary Budget Officer, *Fiscal Sustainability Report 2010,* February 18, 2010, iii. Available online at: http://www2.parl.gc.ca/sites/pbo-dpb/documents/FSR_2010.pdf.

9 Parliamentary Budget Officer, *Economic and Fiscal Assessment,* November 3, 2010, iii. Available online at: http://www2.parl.gc.ca/Sites/PBO-DPB/documents/EFA_2010.pdf.

10 Department of Finance, *Update of Economic and Fiscal Projections,* October 2010, 9. Available online at: http://www.fin.gc.ca/ec2010/pdf/efp-pef-eng.pdf.

11 Parliamentary Budget Officer, *Assessment of the Budget 2010: Economic and Fiscal Outlook,* March 11, 2010, iii. Available online at: http://www2.parl.gc.ca/sites/pbo-dpb/documents/Budget_2010_Outlook.pdf.

Regardless of differences between the PBO and Department of Finance (shown in Table 1), the key fact is that there will continue to be deficits over the next 5-6 years, and that these will only be eliminated if there is a return to the kind of economic growth that preceded the crisis, a plan for spending cuts that is acted upon, and increased revenues. All of these are, at this point, just assumptions. Even in optimal circumstances, reducing deficits requires a high-level of political commitment and fiscal restraint. Analysts estimate that, with interest rates and debt-service costs on the rise, Canadian governments will need to hold annual program spending growth to 1-2% or less in order to consistently reduce deficits. This compares to a recent, country-wide average annual spending growth increase in the 6-7% range. Containing program spending to low levels will be especially challenging for the federal government, given that approximately half of overall federal spending is dedicated to transfer payments to provinces, which the federal government has pledged not to reduce. These are expected to grow by 5-6% per year over the next five years.[12] Given the overall fiscal situation, both at the federal and provincial levels, the planned re-negotiation of the Canada Health and Social Transfer (CHST) and other fiscal arrangements in 2014 looms large.

Table 1: Federal Budget Surplus/Deficit Projections (2010) Parliamentary Budget Officer (PBO) and Finance Canada (October 2010 Update)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
PBO	-53	-40	-29.6	-24.5	-19.2	-14.6	-11
Finance Canada (October 2010 update)	-55.6	-45.4	-29.8	-21.2	-11.5	-1.7	2.5
Difference	**2.6**	**5.4**	**0.2**	**-3.3**	**-7.7**	**-12.9**	**-13.5**

Source: PBO *Economic and Fiscal Assessment 2010,* 2010 and Department of Finance, *Update of Fiscal and Economic Projections,* October 2010.

Unsurprisingly, the deficit reduction plans announced in recent budgets prioritize spending restraint over increasing revenues. Measures that have been explored or adopted at either the federal or provincial level include flat-lining operational budgets and non-core program spending, and curtailing the civil service.

Federal and provincial governments have taken only isolated steps to increase revenues in their latest budgets. These include a built-in, progressive increase in EI premiums federally, increases in value-added taxes in Nova Scotia and Quebec, an increase in alcohol and tobacco taxes in Saskatchewan and Manitoba, and gas taxes in Quebec, and personal income tax increases for high earners in Nova Scotia.

The points made above pertain to Canada's short-term (or "cyclical") budget deficit. In addition to this short-term challenge, there are growing concerns over the potential for a longer-term "structural" deficit. These concerns are largely based on demographic trends, insofar as Canada's aging population will place increasing demands on public resources as health care and old age income expenses rise, while labour-force participation declines, shrinking the tax base.[13]

12 TD Economics, *The Coming Era of Fiscal Restraint,* October 20, 2009, 4. Available online at: http://www.td.com/economics/special/db1009_fiscal.pdf.
13 Ragan, Christopher, *Two policy challenges driven by population aging,* Policy Options, October 2010, 74.

So, whether in the short-term or long-term, Canadian governments are facing the threat of protracted deficits and rising debt. Eliminating these deficits and returning federal and provincial governments to fiscal sustainability will require significant action on the part of both federal and provincial decision-makers. While spending restraints can be expected to accomplish much in returning to balanced budgets, both the federal and provincial governments will need to actively consider innovative new ways of raising revenue in order to help alleviate fiscal pressures. New approaches, such as carbon pricing, can create much-needed fiscal room through which governments can consider a number of policy options that promote long-term prosperity for Canada.

The Fiscal Impacts of Carbon Pricing Policies

The implementation of a carbon price corrects a market failure, by forcing firms to internalize costs (i.e. the societal costs of climate change) that are currently being borne by society. Economists now widely recognize that applying a tax or fee to correct a market failure can improve economic efficiency.[14]

New approaches, such as carbon pricing, can create much-needed fiscal room through which governments can consider a number of policy options that promote long-term prosperity for Canada.

At the same time, putting a price on carbon, whether through a carbon tax or a cap-and-trade system, can generate substantial funds for the government. A carbon tax would provide government with a relatively predictable revenue stream; whereas funds from a cap-and-trade system, from the sale (or "auction") of carbon allowances, are more variable. Revenues in a cap-and-trade system would likely rise in later years as the free allocation of allowances gives way to partial or full auctioning. Most cap-and-trade proposals include cost containment design features, such as allowing for the use of offsets and instituting a price ceiling (and/or floor), thus also placing a limit on potential government revenues.

In addition to the direct benefits of carbon pricing, both in relation to the creation of fiscal room and the incentive it creates to mitigate carbon emissions, are a host of indirect economic benefits. These include the promotion of innovation and efficiency, and of the positive relationship that can exist between innovation, efficiency and productivity.[15] For Canada, where innovation and productivity are perennial concerns, these are important considerations.[16]

Carbon pricing will provide economic incentives for the development of clean technology companies in Canada, which will generate new economic activity. Carbon pricing also has indirect financial benefits that should be assessed when considering their overall fiscal impacts, including reducing or eliminating the need for government to subsidize GHG reductions, and the reduction of air pollutants and associated health care costs.[17]

14 G. E Metcalf, *Submission on the Use of Carbon Fees To Achieve Fiscal Sustainability in the Federal Budget,* Gilbert E. Metcalf, 2010, 86.

15 Organization for Economic Cooperation and Development (OECD), *Taxation, Innovation, and the Environment,* October 13, 2010. Available online at: www.oecd.org/env/taxes/innovation.

16 Martin, Roger and Kemper, Alison, *Carbon Pricing, Innovation, and Productivity,* Sustainable Prosperity, June 28, 2010. Available online at: http://sustainableprosperity.ca/article344.

17 Adapted from G. E Metcalf, *Submission on the Use of Carbon Fees To Achieve Fiscal Sustainability in the Federal Budget,* Gilbert E. Metcalf, 2010.

In addition to the direct benefits of carbon pricing, both in relation to the creation of fiscal room and the incentive it creates to mitigate carbon emissions, are a host of indirect economic benefits.

The actual amount of revenue that can be expected from a carbon price is heavily dependent on its overall design, based on factors such as: price/tax level, rate of price increase, range of emissions sources to which the policy applies, and the manner in which the policy is administered.[18]

The Fiscal Impacts of Carbon Pricing Policies in Canada

Carbon pricing has already generated revenue for the governments of British Columbia (BC) and Quebec. The BC Government introduced a revenue-neutral carbon tax in 2008, which has generated over $848 million in associated revenue to date. By FY 2010-13, revenues are projected to exceed one billion annually.[19] These revenues have already been used to fund over a billion dollars in personal and business tax cuts in the province, including a low-income refundable tax credit, a reduction in the first two personal income tax bracket rates of 5%, and reductions in both general corporate income tax rates and small business corporate income tax rates.[20] Quebec's carbon tax, though more modest than BC's, still accounts for $200 million annually in public revenue.[21]

A carbon pricing policy enacted at the national level could have a similarly large impact on the fiscal outlook of the federal government. Estimates of the revenues that could potentially be created by a carbon pricing policy vary depending on the characteristic of the policy being modeled and the economic assumptions and forecasts employed. However, research indicates that a carbon pricing policy consistent with achieving the federal GHG reduction goal of a 17% reduction below 2006 levels by 2020 would likely result in additional revenue of up to $50 billion annually by 2020. Table 2 shows the various estimates that have been made, which suggest that any carbon pricing policy aggressive enough to achieve Canada's GHG reduction targets would provide a significant new revenue stream for the federal government.

18 Because of these counterbalancing impacts, a strictly 'revenue neutral' carbon price, where all revenues associated with the policy are directly recycled into the economy, results in a net reduction in government revenues from 'Business-as-Usual' projections. The extent of that reduction, however, can be offset by recycling revenues to reduce the overall economic costs of the policy.

19 Government of British Columbia, *Tax Cuts Funded by the Carbon Tax,* n.d. Available online at: http://www.fin.gov.bc.ca/tbs/tp/climate/A2.htm.

20 Ibid.

21 CBC News – Montreal, *Quebec to collect nation's 1st carbon tax,* June 7, 2007. Available online at: http://www.cbc.ca/canada/montreal/story/2007/06/07/carbon-tax.html.

Table 2: Estimates of carbon price revenue by 2020

ORGANIZATION	ESTIMATED ANNUAL REVENUE BY 2020
National Roundtable for the Environment and Economy (NRTEE)	$18 billion[1, 2]
David Suzuki Foundation and the Pembina Institute	$45.5 billion[3]
David Suzuki Foundation	$50 billion[4]

1 NRTEE, *Achieving 2050: A Carbon Pricing Policy for Canada (Advisory Note),* 2009. Available online at: http://www.nrtee-trnee.com/eng/publications/carbon-pricing/carbon-pricing-advisory-note/carbon-pricing-advisory-note-eng.pdf.

2 The NRTEE published this estimate discounted to a present value at a rate of 8%. The undiscounted figure, to enable comparison with the other two numbers, would be $53 Billion.

3 Pembina Institute and David Suzuki Foundation, *Climate Leadership, Economic Prosperity,* 2009. Available online at: http://pubs.pembina.org/reports/climate-leadership-report-en.pdf.

4 David Suzuki Foundation, *Pricing Carbon: Saving Green,* 2008. Available online at: http://www.davidsuzuki.org/publications/downloads/2008/Pricing_Carbon_saving_green_eng.pdf.

Source: Various; see footnotes

While the revenue a carbon price could raise is significant, there are several factors that influence the actual amount from year to year. A carbon price will have an impact on real GDP, which, if negative, would reduce carbon revenues. In addition, the overall impact on the economy of a carbon price is heavily dependent on how the revenue is used. Using the revenue at least partially to reduce deficits, as Britain has recently decided to do, would improve Canada's long-term economic outlook, with a probable minor impact on short-term real GDP growth. An extensive European study on the economic and environmental impacts of carbon pricing found that, although there will be transition costs, overall impacts on economic activity would be positive.[22]

Fiscal Policy Options

The substantial revenue potentially generated by a carbon pricing policy creates a number of policy options for governments to consider. The following uses of revenue have been proposed in various jurisdictions that are currently, or are considering, pricing carbon: [23]

The one most preferred by economists, and which Sustainable Prosperity supports, is to use the revenues to offset reductions in other taxes.

Revenue recycling: Governments have the option to use revenues generated by a carbon pricing policy to recycle the revenues through a number of measures. The one most preferred by economists, and which Sustainable Prosperity supports, is to use the revenues to offset reductions in other taxes. In the case of British Columbia, as described above, the carbon tax revenues are used to offset reductions in corporate and personal income taxes (CITs). This policy is widely understood to be the most economically effective one, in that it reduces taxes that are considered growth-retarding relative to a consumption-based tax or fee (which describes a carbon price). The ability to use carbon-based revenues to actually decrease taxes on corporate and personal income taxes also makes this policy option a particularly attractive one, from a political perspective. Moreover, as recent research has

22 NERI, University of Aarhus (Denmark), Cambridge Econometrics (UK), ESRI (Ireland), IEEP, Univ. of Economics (Czech Republic), PSI (UK) and WIIW (Austria), *Competitiveness Effects of Environmental Tax Reforms,* 2007. Available online at: http://www2.dmu.dk/cometr/COMETR_Summary_Report.pdf.

23 Ellerman, Denny, *Allocation in Air Emissions Markets,* Center for Energy and Environmental Policy Research, November 2009.

shown, this use also allows for design options that would address regional concerns over distributional impacts of a carbon pricing policy.[24]

Deficit reduction: New revenues can be used to reduce the deficit and borrowing needs, thereby reducing the tax burden on future generations. A number of U.S. states participating in the Regional Greenhouse Gas Initiative (RGGI) have already taken proceeds from the auctioning of emission allowances for use in general government revenues; and, as mentioned earlier, the U.K. government recently announced as part of its austerity measures that it would be "clawing back" the levy that corporations have been paying as part of their Carbon Reduction Commitments (the expected proceeds for government will be GBP 1 Billion annually).

Public investment: Increased fiscal space provided by a carbon pricing policy would allow governments to increase their investments in public goods relating to mitigation of climate change (e.g. providing R&D incentives or investing in a "smart grid" or public transit) and adaptation. These kinds of investments, of course, would need to be weighed against the investment incentive provided by a carbon price itself. But the two factors arguing in favour of such investment would be: (1) the very nature of public good-type investments, where private investment will not happen, or not happen in the absence of some degree of public investment; or (2) the small incentive created by the low carbon price that would likely characterize any carbon pricing policy in its early stages.

Addressing distributional issues: Because carbon pricing, and its impact on energy prices, is likely to be regressive for those with lower incomes, governments could choose to allocate some of the carbon policy revenues to help offset those impacts.[25]

In considering these options, governments should consider a number of criteria, including environmental effectiveness, economic efficiency, distributional impacts (equity), and administrative and political feasibility.[26]

24 Peters, Jotham, Bataille, Chris, Rivers, Nic and Jaccard, Mark, *Taxing Emissions, Not Income: How to Moderate the Regional Impact of Federal Environment Policy,* C.D. Howe Institute, November 2010. Available online at: http://www.cdhowe.org/pdf/Commentary_314.pdf.

25 For a thorough discussion of these criteria, see NRTEE, *Achieving 2050: A Carbon Pricing Policy for Canada (Technical Report),* 2009. Available online at: http://www.nrtee-trnee.com/eng/publications/carbon-pricing/carbon-pricing-tech/carbon-pricing-tech-backgrounder-eng.pdf.

26 Rivers, Nic, Distributional Incidence of Climate Change Policy in Canada, Sustainable Prosperity State of Knowledge Report (forthcoming).

Implications for policymakers:

1. Canadian governments at all levels face significant fiscal challenges in the coming years. These challenges will create a number of constraints on governments, at a time when the role of governments in helping address long-term structural challenges to the Canadian economy is most critical.

2. While plans to reduce budget deficits, largely through spending constraints, are in place, government are ignoring a potentially large source of new revenue: carbon pricing. A carbon price, whether implemented via a carbon tax or cap-and-trade system, can raise revenues, while at the same time contributing to the achievement of environmental goals.

3. The specific value of a carbon pricing policy lies in how it is uniquely able to address both the environmental challenge of climate change, but also in addressing perennial structural challenges around innovation and productivity. This "win-win" is particularly acute when carbon revenues are used to offset decreases in income and corporate taxation, which has the effect of removing a disincentive to investment, employment, and savings.

The specific value of a carbon pricing policy lies in how it is uniquely able to address both the environmental challenge of climate change, but also in addressing perennial structural challenges around innovation and productivity.

4. Because of the fiscal space it helps to create, a carbon pricing policy also help broaden the range of fiscal policy options available to governments, at a time when those options are otherwise narrowing.

5. At the federal level, studies indicate that a carbon pricing policy capable of achieving Canada's GHG reductions goals could result in up to $50 billion per year in new revenue by 2020. This new revenue would provide government with choices to make on the use of that new fiscal resource, including: reducing other taxes thought to be more distorting, reducing and eliminating the deficit, providing public support and investment to the transformation of Canada's energy system to a low-carbon one, and assisting those most negatively impacted by a carbon price.

6. All Canadian governments should carefully evaluate the role that carbon pricing policies can play in simultaneously meeting their climate change policy objectives while enhancing fiscal sustainability.

Recommendation:

Sustainable Prosperity recommends that the potential role of carbon pricing in Canada's fiscal policy be seriously considered by the federal and provincial governments (at least those that are not doing so right now). As for the use of those revenues, SP strongly endorses the view of many economists that reducing other taxes serves a number of long-term economic interests, and so should be the preferred long-term option. But there is also a need to recognize the role of carbon revenues in addressing both cyclical and structural deficit concerns.