



## **UDI-ER Brief – Carbon Pricing in Alberta**

By: Robert P. Murphy, Senior Fellow, Fraser Institute<sup>i</sup>

### **I. EXECUTIVE SUMMARY/INTRODUCTION**

- This report “provides a review of the theoretical and empirical evidence on the impact of carbon taxes on economic performance with the object of helping to inform policy development in Alberta on this critical issue.”
- Alberta’s Climate Leadership Plan (CLP) is a counterproductive policy package that is currently flawed as it inhibits “the province’s economic growth at a far higher cost than necessary to achieve a very modest impact on global climate change.”

### **II. THEORY – ECONOMIC IMPACTS OF A CARBON TAX**

- The following are economic principles that would reduce the economic harm of a carbon tax:
  - Universal Coverage:
    - To be most effective, a carbon tax should be applied as widely as possible (i.e. across numerous jurisdictions).
    - Universal coverage mitigates a process of “leakage”, where emissions will migrate from jurisdictions governed by a carbon tax to those that are not.
  - No Policy Layering:
    - If a carbon tax is imposed, then other regulations designed to correct the negative externality of climate change should be removed as the redundancies will lead to economic inefficiencies.
  - Revenue Neutrality:
    - True revenue neutrality means that revenue derived from a carbon tax “should be returned to taxpayers rather than used to fund additional government expenditures.”
    - Furthermore, to be the most efficient, carbon tax revenues should be used to cut the most economically harmful taxes – corporate taxes and/or personal income rates on interest, dividends and capital gains.
    - Taking the revenue from the carbon tax and using it to provide lump-sum rebates to lower economic households is the least economically efficient option.

### III. PRACTICE – ECONOMIC FLAWS IN ALBERTA’S CLIMATE LEADERSHIP PLAN & CONSIDERATIONS FOR ALBERTA’S POLICY MAKERS

- Judged by the three aforementioned principles, in practice, Alberta’s CLP is deficient. Therefore, Alberta’s policy makers should keep the following in mind:
  - From a provincial perspective, there is very little Alberta can do to impact *global* greenhouse gas emissions. In other words, the carbon tax at the provincial level acts as a symbolic gesture while having no effect on the level of global emissions. Furthermore, policy makers should be mindful of the issue of “leakage” – where investment will inevitably move to jurisdictions without a carbon tax. This has a dual effect of doing little to reduce global greenhouse gas emissions while also hurting the provincial economy.
  - In the same vein of universal coverage, “it makes little sense for Alberta to have a carbon tax *higher* than the minimum required at the federal level.” In other words, the provincial carbon tax should never be higher than what is regulated by the federal government.
  - If there is a requirement from the federal government that all provinces require a carbon tax, then it is crucial that the provinces have “discretion over the use of the collected funds.” As mentioned above, to be most efficient economically, a carbon tax should be truly revenue neutral.
  - If a provincial carbon tax is in place, then other regulations (e.g. caps on emissions from certain sectors) should be repealed as these will create economic inefficiencies in the form of unnecessary added costs.

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<sup>i</sup> For the full document, please click on the following link: [https://www.fraserinstitute.org/studies/carbon-pricing-in-alberta?utm\\_source=Fraser-Institute-Enews&utm\\_campaign=Carbon-Pricing-in-Alberta&utm\\_medium=Fraser\\_Update&utm\\_content=Learn\\_More&utm\\_term=526](https://www.fraserinstitute.org/studies/carbon-pricing-in-alberta?utm_source=Fraser-Institute-Enews&utm_campaign=Carbon-Pricing-in-Alberta&utm_medium=Fraser_Update&utm_content=Learn_More&utm_term=526)