

Tory candidate Michael Chong's carbon tax policy was doomed even before Trump won

Matthew Lau

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Federal Conservative party leadership candidate Michael Chong has repeatedly pointed out in leadership debates and online that his proposed tax plan has been endorsed by a number of economists at Canadian universities. The plan is detailed, and there is much to like: cutting personal income tax rates, reducing corporate taxes by \$1.9 billion per year, and eliminating some wasteful tax expenditures to make the income tax system less complicated. But one of the central pillars of his plan — a carbon tax that will rise to \$130 per tonne by 2031 — is fatally flawed.

On Chong's campaign [website](#), we find this quote from the University of Calgary's Trevor Tombe: "He explicitly wants to raise the carbon price to \$130 per tonne. That shows he's serious about meeting the 30 per cent (emissions) reduction target — and he's serious about doing it in the most economically efficient way possible." Prof. Tombe is completely right, for replacing regulations with a tax is the most efficient way to reduce emissions, and a tax above \$100 is probably needed for Canada to hit its 30-per-cent target.

But here is something else Prof. Tombe is right about: In a [Maclean's column](#) in October, he wrote that "worse than missing targets is setting them in the first place; they're aiming at the wrong thing." The logic is that emissions taxes should be based on the size of negative environmental effects resulting from carbon emissions, or the "social cost of carbon" — not on arbitrary targets.

It does not make sense, in other words, to implement a \$130 tax on an externality that doesn't even come close to amounting to \$130 worth of damage. Not even if the tax is supposed to be revenue neutral, which is Chong's proposal. Not even if it means that we'd get to eliminate the mess of federal climate regulations we now have, which Chong promises to do, replacing them all with his carbon tax.

The pro-carbon-tax group Canadians for Clean Prosperity — whose director Mark Cameron is also quoted on Michael Chong's website praising the candidate's plan — notes on its website that Environment Canada and the U.S. Environmental Protection Agency (EPA) estimate the social cost of carbon to be around \$30 per tonne today. It's true that the social cost of carbon rises over time. But even by the EPA's estimate (which [research from the Heritage Foundation](#) suggests is probably overstating the social cost of carbon), it is unlikely to approach \$130 a tonne by 2031.

To make matters worse, even if Chong can somehow scrape back federal emissions regulations, his \$130-a-tonne tax would still be layered on top of countless provincial regulations. So, while such a high tax, by itself, would be overkill enough, adding it to provincial anti-emissions schemes would make it that much more costly. Unless provincial governments are also going to suddenly agree to dismantle their own anti-emissions plans (many of which are already irreversible) the best role for the federal government to play on emissions is probably to do nothing.

Chong's campaign claimed in a recent fundraising email that the case for his carbon tax grew only stronger after the election to the presidency of Donald Trump, a climate skeptic who opposes anti-fossil-fuel policies. In fact, the election left the case for Chong's proposal weaker than ever.

Economists at the Cato Institute recently issued a study looking at the effect of B.C.'s \$30-per-tonne tax on carbon emissions, which is often held up as an example of a successful Canadian implementation of carbon pricing. They estimated that a significant portion of the reductions B.C. saw in emissions from gasoline — potentially as high as four-fifths of it — was likely due to B.C. passenger and commercial drivers buying more gasoline in other, cheaper jurisdictions. They note a distinct spike in the border traffic between B.C. and Washington state after the carbon tax was implemented.

It's a safe bet that a decent portion of the emissions reductions that would result from Michael Chong's pricey tax would simply be emissions relocating, not disappearing. Cross-border shoppers and truckers will surely be encouraged by such a policy to cross the border south with an empty tank and return north with a full one. Any businesses that were able to relocate their emissions-intensive activities to the U.S. would surely do so.

Chong should be congratulated for at least attempting to streamline Canada's tax system and climate policy, but his aggressive carbon tax is doomed to failure. His leadership rival Maxime Bernier is also offering personal and corporate income tax cuts, but without a carbon tax that will burden the economy. Other candidates might have similar ideas. Conservatives already have a better plan to choose from.