

# From Decentralized to Integrated Carbon Taxes: Lessons from Tax Policy in the Canadian Federal System

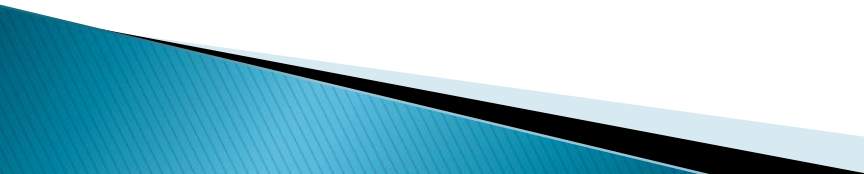
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# Climate Policy Landscape

- ▶ Federal government
    - Regulatory sector by sector approach (progress halted)
  - ▶ Provincial governments (10)
    - Carbon tax – British Columbia & Quebec
    - Cap and trade – Quebec
    - Emission–intensity based regulation – Alberta
    - Elimination of coal fired electricity generation – Ontario
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# Key Question

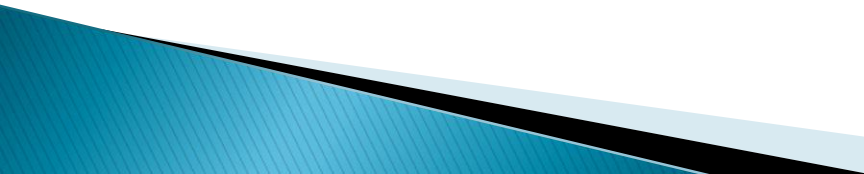
From an economics perspective, compared to a national level or harmonized approach, decentralized and uncoordinated approach to climate policy in Canada is:

- more costly
- less efficient and
- less effective at reducing emissions

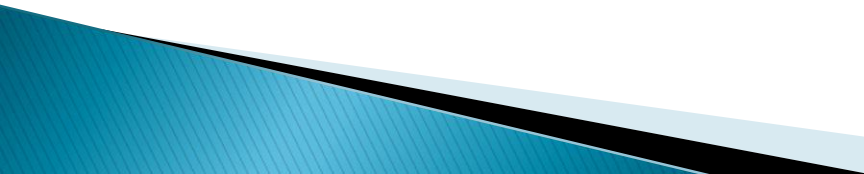
Is the current patchwork of climate policies the unavoidable price of Canadian federalism?

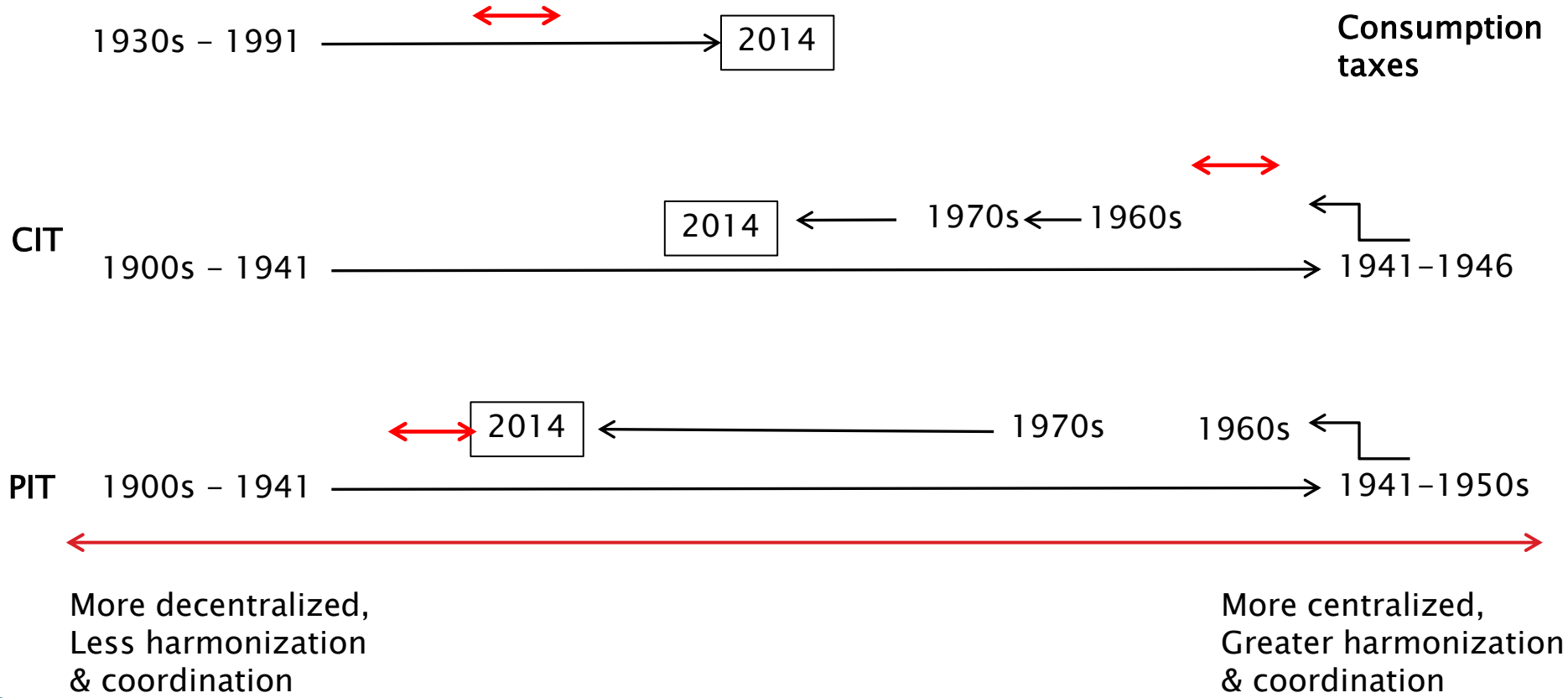


# Examine federal–provincial tax arrangements

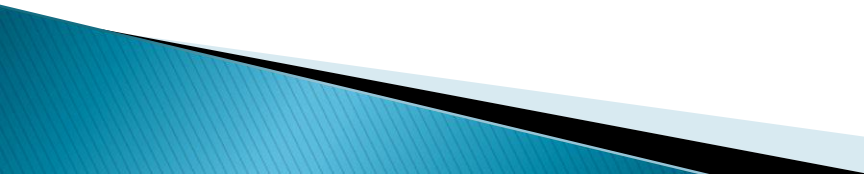
- ▶ federal & provincial governments have jointly occupied major tax bases (**corporate & personal income tax, consumption tax at retail level**)
  - ▶ History of harmonization & coordination of these taxes offers insights for our prospects of moving from the current decentralized and cost–ineffective approach to a more harmonized federal–provincial carbon tax approach
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# Given joint occupation of tax bases, how much harmonization (from an economic efficiency perspective)?

- ▶ More harmonized & coordinated
    - Corporate income tax
    - Carbon tax
  - ▶ More decentralized & uncoordinated
    - Personal income tax
    - Consumption tax (retail sales)
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# History of tax harmonization & coordination reveals three lessons

1. Process takes **time**; change is often incremental
  2. A **catalyst** often needed to force a departure from the status quo
  3. “**Sweeteners**” often needed to facilitate, and overcome resistance to, harmonization & coordination
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# Prospects for a federal–provincial carbon tax system

2014



More decentralized,  
Less harmonization  
& coordination

More centralized,  
Greater harmonization  
& coordination

## Lesson 1: time

## Lesson 2: catalysts

- a change in US climate policy is the most likely catalyst

## Lesson 3: sweeteners

- transitional grants, centralized collection free of charge;



# Summary

- ▶ Canada's experience with tax harmonization and coordination suggests that a more harmonized federal-provincial carbon tax system is possible – **time, catalysts, and sweeteners**
- ▶ **BUT there are other hurdles/challenges**
  - Range of different approaches (tax, permit trading, regulation)
  - Lack of federal presence in carbon tax field
- ▶ Next research question: how to overcome these hurdles