

## Carbon Pricing as a Government Revenue Tool Good or Bad?

Whether one agrees with carbon pricing or not, governments must be careful when going down that road. Governments that consider consumption/emissions taxes as general revenue sources or dedicated revenue for selected projects, can find themselves in a spiral of diminishing revenue requiring ever increasing tax levels. Ottawa and Ontario have several examples of this. Ottawa has dedicated the gas tax received from the province to the LRT project; however the recent drop in gas prices resulted in revenues lower than budgeted. This type of revenue deficit can have ramifications for the project going forward.

Another example is the deficit in Ottawa water and sewer revenues. Because of promoted water conservation there has been a reduction in water consumption resulting in less money coming in than was budgeted for. This has forced the city to consider new water taxation schemes that will bring in more money from rate payers. In a similar situation Ontario found itself with reduced electricity consumption due to a successful conservation program which resulted in lower revenues. As with the Ottawa water example this resulted in increases in hydro rates to compensate for the reduced revenue.

As we can see from these examples basing operational revenue on consumption can lead to unforeseen revenue deficits which can lead to increases in taxation levels, which in themselves can lead to greater conservation and further revenue shortfalls.

Carbon pricing is the most recent example of a consumption tax that could result in a revenue spiral for governments. In fact the objective of a carbon tax is to reduce fossil fuel consumption and CO<sub>2</sub> emissions. If a price on carbon works as expected, it will result in less emissions and thus reduced revenue. If a government budgets revenue from carbon pricing to general revenue or dedicate projects like green renewable energy projects, then reduced emissions over time will result in revenue deficits. The only way the government could compensate for such deficits would be to increase the carbon price or reduce spending in an ever ending spiral.

The only way to avoid such unforeseen revenue difficulties is to make carbon price revenue neutral. That is to say all the money collected with carbon pricing is returned to the taxpayer in some form of rebate or green dividend. In this manner as emissions are lowered and revenue is reduced the green dividend will also be reduced and there will be no pressure on the government to raise prices to cover off losses in revenue. Carbon Pricing must be truly revenue neutral.

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