

WE MUST GREEN THE MARKET

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Modern capitalist markets are among the most amazing institutions humankind has ever created. They are mighty engines of innovation and wealth. They allow societies to quickly adapt to a world full of disruptions and surprises. And by linking billions of producers and consumers every day, they generate price signals that help people around the world decide what to make and what to buy.

But when it comes to conserving Earth's natural environment, our markets are badly broken. For our planet's future - and for our future prosperity - we must fix them.

The underlying problem is that we don't pay the true environmental costs of making, using and getting rid of the products we buy. Take the gasoline we use in our cars. Every time we push down on the accelerator pedal, we emit a blast of carbon dioxide that contributes to global warming. Our children and grandchildren will pay for this warming - in the form of higher food prices from drought, heat waves and floods, greater health expenses from diseases that thrive in warmth, more property damage from storms and rising seas. Those huge future costs aren't reflected in today's gasoline's price. In effect, our children and grandchildren are subsidizing our current mania for driving.

The same problem arises with electricity from coal-fired power plants. This electricity may seem relatively cheap, but air pollution from these plants is a major cause of thousands of premature deaths in Canada each year - costing our society billions of dollars. And the plants' enormous carbon emissions also contribute to climate change. Because neither power companies nor their customers pay the full costs of coal electricity, cleaner sources of electricity (like wind or solar) are relatively more expensive in the marketplace, even though their overall cost to society is often less.

Indeed, everywhere we look, we see products whose prices don't reflect the true environmental costs of their production. Local food often costs more than imported food, because we don't pay for the climate

change caused by getting it to our tables or the damage to soil and water from poor farming practices. Recycled paper usually costs more, too, because we don't pay for the loss of virgin forests or for the water and air pollution from making non-recycled paper.

So, while most of us want to protect the environment, we operate in an economic system that encourages us to harm it. Our moral and economic motivations point in opposite directions. It's time we got them pointing in the same direction.

Economists say we can do this in two ways: We can apply green fees or taxes to reflect a product's environmental harm, or we can create a market for nature's environmental services that we now treat as free.

In Canada right now, both approaches are on the table to combat climate change. The federal Liberals have proposed a carbon tax (joining B.C. and Quebec), while the Conservatives and several provinces are proposing carbon trading - creating a market in rights to emit carbon dioxide.

There are advantages and disadvantages to each approach, but most economists say taxes and fees are more economically efficient, because they involve less bureaucracy and provide clearer signals to companies and consumers. Either way, though, both approaches require government intervention - not to distort markets, but to make them work the way they're supposed to work, by counting real costs.

Yet putting a price on carbon is just a first step. If we want to build an economy that can prosper without ruining our natural environment, we'll have to price other types of environmental harm as well, such as water depletion, smog, toxic pollution and the destruction of wildlife habitats.

Such policies would be good not only for our environment, but also for our economy. In fact, they offer a way out of the narrow environment-versus-economy logic that dominates public discussion of environmental protection. The revenues from green fees or taxes, or from auctioning emission permits, can be used to reduce inefficient taxes on income, employment or investment. We can tax things we want to discourage, such as pollution and resource waste, not things we want to encourage, like income, employment and investment. Also, putting a price on

environmental harm spurs green innovation, because companies will pursue the huge potential profits from developing technologies and practices that reduce environmental damage.

The economy of the future will reward energy efficiency, clean production and wise use of natural capital. That's why England, Germany, Denmark, Australia and more recently California and British Columbia have been moving ahead with strong policies to integrate environmental costs into market prices. If Canada as a whole doesn't make this shift, it risks being left behind in the transition to a new global economy.

On the other hand, we can leave to our grandchildren a greener, more prosperous Canada - and set a global example of a sustainable society - if we start making markets tell the environmental truth.

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