

CARBON TAX IN CANADA

Frank DeJong / 27 October, 2018

A [carbon fee and dividend will begin in Canada](#) this January, the first national level carbon tax in the world.

But interestingly, carbon taxation is fraught with variables, a complicated whack-a-mole game, which I think will reduce housing costs as well as reduce CO2 emissions.

If fossil energy was purely a house-like asset -- if the price directly reflected the cost of production -- a carbon fee would behave like a Pigouvian tax and effectively reduce emissions.

But since it is also a land-like asset, with the price partially set by what the market will bear, prices and CO2 levels will not respond, for example, like a tax on cigarettes. Instead, the merchants of doom will be forced to forgo some of the rent they normally pocket (equivalent to the tax), leaving the price, and thus the amount of energy used and the amount of CO2 produced, mostly unchanged.

Also, if landowners decide fossil fuel use is inelastic -- that they generally have no choice or desire but to continue using it at present levels -- some of the rent that accrues to the upfront cost of land will be diverted to fuel costs, thus slightly reducing land values.

So, because fossil energy has both a cost of production and attracts rent (it's both house-like and land-like), the modest carbon fee and dividend scheme that Canada is planning will probably reduce both CO2 emissions and housing costs a small amount.

(Rent is like a water reservoir, if there are leaks it will draw down. If everyone took up smoking or ate more chocolate, the rental value of land would draw down as some of it would be distributed more widely through production economics. Conversely, if people stopped buying cars, thus raising their disposable income, the price of land would be bid higher with the savings.)