Playing with Fiscal Fire: The Politics of Consumption Tax Reform

by

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Abstract

Drawing on the case of consumption tax reform, this dissertation investigates the varying capacity of governments to enact and institutionalize “general-interest reforms” (Patashnik 2003). The study advances a two-stage theory of policy reform. The first part explains why some governments, in spite of the political risks, decide to pursue general-interest reforms. In this first stage, two variants of policy learning—rational learning and emulation—are proposed to explain policy uptake. The second stage of the theory builds on policy feedback scholarship (Pierson 1993; Mettler and SoRelle 2014), claiming that the durability of a reform hinges on policy design. It proposes that governments can prompt various policy feedback effects through policy design and communications. Such efforts can shape the political incentives and perceptions of interest groups, opposition parties and voters at key junctures in the policy process.

The study illustrates the analytic value of this approach through two distinct but complementary empirical strategies. First, through comparative case analysis using mainly qualitative techniques of elite interviews and document analysis, it compares the varying experiences of two Canadian provincial governments—Ontario and British Columbia (BC)—with value-added tax (VAT) reform. While each government chose to pursue VAT reform in the late 2000s, only in the case of Ontario was it successfully implemented while the BC government was forced to reverse its policy decision. Second, through a series of survey experiments, the study tests whether issue framing and policy design can shape mass receptivity to various tax reforms (e.g., carbon, sales and income taxes). The findings from the case studies as well as the survey experiments provide novel insights into the importance of policy design. The study holds important implications for our broader understanding of the mechanisms underpinning policy change and stability.
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CHAPTER 1 – INTRODUCTION

Introduction

In recent decades, processes of economic globalization have had a profound impact on the policy agendas of domestic governments. In a global economy marked by greater trade and mobile capital, elected governments have been forced to grapple with a new set of structural challenges. Chief among these pressures has been the need to remain economically competitive. The design of fiscal policies is one of the key levers that states can use to attract and sustain economic investment. Various policy experts have urged governments to carefully evaluate the macroeconomic impact of their fiscal policy choices. In the Organization for Economic Cooperation and Development’s (OCED) examination of subnational governments in the United States and Canada, one frequent criticism is the persistence of retail sales taxes (RSTs). Economists and other policy experts across the ideological spectrum have derided RSTs, expressing a clear preference for value-added taxes (VATs). According to these policy experts, the central problem is that RSTs do not distinguish between goods and services purchased for consumption from those that are procured for capital investment. As a result, RSTs are widely seen as an impediment to private sector growth and thus detrimental to a jurisdiction’s relative competitiveness. In 2008, in its Economic Survey of Canada, the OEC noted:

Tax cuts have been a good use of budget surpluses [in Canada], but there is plenty of scope left for efficiency-enhancing, revenue-neutral tax reform ... Attractive opportunities for base broadening and shifting remain to be exploited ... Remaining provincial retail sales taxes, penalising business inputs, should be converted to more efficient value added taxes [and] harmonised with the federal GST.

The OECD's preference for VATs emanates from the policy experiences of other economies. With the exception of the United States (US), every OECD member state has some type of VAT system in place. Eliminating sales taxes on capital investment has significantly reduced marginal effective tax rates (METR) on new investment (Schenk and Oldman 2007). In the US, there has been no genuine attempt to enact a national VAT.

In Canada, efforts to switch to a VAT model have been marked by varying degrees of success. The Canadian experience with VAT reform has been politically controversial with voters (Eccleston 2007) and complicated by the country’s federated structure (Bird, Mintz, and Wilson
2006). Both the federal and provincial governments in Canada\(^1\) collect sales tax, placing considerable pressure on governments to engage in some form of policy cooperation. Despite objections from the public, the Canadian federal government managed to enact a national VAT sales tax in 1991, the Goods and Services Tax (GST). Many policy experts believed the experience with the GST would eventually trigger sales tax reform at the provincial level. The belief was that the fiscal and economic benefits of the reform would become too apparent for provincial governments to ignore. By 2009, though, only half of the provinces had converted their sales taxes system, with the older model still in place in two of Canada's largest economies, Ontario and British Columbia (BC).

The varying uptake of VAT reform in the Canadian context offers a clear illustration of the difficulties that expert-backed policy solutions confront in the policymaking process. The chief issue is that the economic logic of VAT reform and the political logic of VAT reform are often at odds. The bounded nature of human rationality often inhibits political actors from recognizing their interests vis-à-vis VAT reform. Across various provinces, policymakers have chosen to retain an inferior sales tax system despite the availability of an alternative with a much stronger record of economic efficiency. Rational models of decision making would expect such evidence to trigger diffusion across non-VAT provinces. Yet, across the Canadian federation, receptivity to sales tax reform continues to be marked by resistance in some provinces, even while other provinces adopt the VAT. These differences in policy uptake illustrate the complex relationship between policy ideas, electoral incentives and entrenched material interests. These developments suggest a need to investigate mechanisms of decision making, including rational learning and emulation. Understanding how stakeholders construct their interests and respond to tax reform, however, requires attention to policy design.

*Consumption Tax as a General-Interest Reform*

VAT reform, as well as many other changes to tax policy, can be conceptualized as what some political scientists have termed *general-interest reforms*. These describe policy reform efforts which “eliminate or curb existing special-interest benefits in order to promote economic efficiency and/or equity” (Patashnik 2003, 204). Introducing such reforms can be fraught with political risk since they impose material losses for powerful groups that have historically benefitted from the

\(^{1}\) In Canada, territorial governments also possess the constitutional authority to levy sales taxes.
status quo. On the other hand, the benefits of these reforms tend to be diffuse (i.e., unorganized groups), often making it difficult to mobilize a pro-reform coalition. The *Tax Reform Act of 1986* in the United States serves as a classic illustration of a successful general-interest reform (Derthick and Quirk 1985). Responding to concerns about the inequitable and inefficient effects of the federal tax code, the US Congress enacted sweeping tax policy changes, eliminating many of the special tax provisions for businesses and providing significant income tax relief for individual Americans (Patashnik 2003).

All tax reforms are not created equally. Although economists have long preferred VAT to RSTs, the assumed political risks have tended to make elected officials particularly wary of pursuing reform. In the case of a VAT, while businesses can quickly reap the policy benefits, the broader economic benefits for consumers, such as lower prices for goods and services, tend to be delayed. Benefit timing, then, introduces another complication for reformers. This “short-term pain for long-term gain” dynamic presents a major dilemma for democratic governments (Jacobs 2011). Existing theory expects that because loss imposition carries such high electoral risk—largely due to voter myopia—politicians have strong incentives toward inaction (Healy and Malhotra 2009), thus leaving highly inefficient tax policies in place. Empirically, however, some governments have decided to take the political gambit. In 2009, two of Canada's largest provincial governments surprised many political observers and experts, announcing their decision to replace their retail sales tax with a VAT.

This is a study about why governments decide to pursue general-interest reforms as well as why there is empirical variation in the political receptivity to such changes. The study draws from research on case studies of consumption tax policy changes as well as survey experiments to address these questions. Two central empirical questions motivate this study: First, *why, in spite of the political risks, do some elected officials decide to introduce consumption tax reform?* Second, *why does the political reception of consumption tax introduction vary?* In other words, why do only some political communities mobilize against major tax policy changes? Understanding the conditions that enable governments to introduce and institutionalize general-interest reforms holds important implications for our broader understanding of decision making and the interaction between mass publics and policymaking elites in the policy process.
The dissertation investigates variation in the capacity of governments to enact and institutionalize various general-interest reforms. Specifically, the study compares the varying experiences of Ontario and BC with enacting a VAT, the Harmonized Sales Tax (HST). The study examines primary documents and analyzes media sources and interview data with 40 relevant policy participants, including politicians, public servants, and stakeholders. The data obtained provide insights into the relative role of policy learning and policy emulation as well as the role of policy feedback effects. Second, to probe the sensitivity of citizens' tax policy preferences, the study examines the results of survey experiments with a representative sample of the Canadian population (n =1534). In these experiments, respondents were presented with three distinct policy problems—deficit reduction, climate change and infrastructure investment—along with three proposed tax policy solutions—income, carbon and sales taxes. Respondents randomly received different subsets of information about the framing of policy problem, the cost of the policy, and the timing of policy benefits. The findings from these survey experiments are particularly important in helping clarify the relative importance of framing effects and policy design features for mass tax policy preferences. Overall, then, the study relies on a variety of inferential strategies to examine the micro- and meso-level mechanisms underpinning elite and mass political behaviour.

A Preview of the Theory
The study develops an analytical framework for explaining policy change in two distinct stages of policymaking. The first part explains why some governments decide to pursue major tax reform, proposing two variants of policy learning—rational learning and emulation—as the mechanisms leading to policy uptake. Under rational learning, with the help of policy experts, elected officials engage in a highly systematic examination of the policy problem, prompting a shift in causal beliefs about the nature of the problem and the suitability of a given instrument. Under the second type of learning, policymakers’ efforts are less careful and systematic. Instead, facing internal and external constraints, decision makers engage in satisficing behaviour (Simon 1985), relying on heuristics as way to interpret and guide their policy choices, ultimately leading to emulation.

The second stage of the framework builds on policy feedback, arguing that receptivity to policy change by civil society depends on the design of a policy reform. Specifically, it proposes that policy designs can be constructed in ways that prompt specific political responses from these set
of actors. First, governments can design policies so that they provide compensation to negatively affected groups. Elected governments have long relied on the distributive politics to mitigate opposition to major policy change (Pierson 1996). Second, the design of policies, however, can also reconfigure the interests and/or perceptions of actors over time, illustrating the role of policy feedback effects (Pierson 1993; Mettler and SoRelle 2014). Policy feedback scholars have conceptualized such responses as either resource/incentive effects or interpretive effects (Pierson 1993; Mettler 2002). Resource/incentive effects describe how policies adopted at t₁ can influence actors’ interests and subsequent political behaviour at t₂. Feedback scholars have also examined how policy feedbacks can operate at an ideational and/or cognitive level. Interpretive effects refer to the “impact of policies on the cognitive processes of social actors,” including their “political identities, goals, and strategies” (Pierson 1993, 610). This study argues that choices around policy design can transform elite and mass policy preferences by influencing their material resources and/or the interpretation of their interests. In turn, these processes can affect the willingness of such actors to mobilize against—or in support of—a general-interest reform.

This analytical framework makes three major contributions to public policy scholarship. First, it advances an explanation for both processes of decision making and the public’s reception to policy reform. In doing so, the theory brings citizens and their policy preferences “back” into policy studies. Second, it contributes to recent theorizing of policy feedback effects (Jacobs and Weaver 2015; Skogstad 2017), specifying how the allocation of policy losses—and not just benefits—can prompt self-reinforcing and self-undermining policy feedback effects. To date, studies of policy feedback have largely focused on how policies create bases of support through the provision of policy benefits (Campbell 2012). Less clearly understood is how governments can create public support for interventions that inflict highly visible losses on voters and groups (Jacobs and Weaver 2015). This study helps fill this gap by theorizing the role that policy design plays in shaping political reception. Third, the analytical framework bridges insights from punctuated equilibrium theory (Jones and Baumgartner 2005) and policy feedback theory, theorizing the interaction

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2 Thank you to my external reviewer, Alan Jacobs, for identifying the importance in distinguishing between distributive politics and policy feedback effects.

3 The distinction between resource and incentive effects has been less clearly developed in the literature (e.g., Pierson 1993). Recent scholarship (e.g., Mettler 2002) has sought to provide a clearer analytical distinction between such effects. This issue is examined more closely in Chapter 3.

4 By public reception, I am referring to the political responses of mass publics and civil society groups.
between political institutions, issue salience and policy feedback effects. In doing so, the study nuances our understanding of how information is processed in policymaking.

The remainder of this introductory chapter unfolds in the following manner. In the next section, the chapter describes the broader theoretical issue of policy reform. This section identifies the complexities of policy change in advanced liberal democracies as well as specific contextual factors that contribute to policy inertia. In section III, the chapter examines why the issue of taxation and specifically consumption tax reform are particularly well suited for addressing the research questions. In section IV and V, the chapter describes the empirical puzzle motivating the study as well as outlines the research design. In the concluding section, the chapter provides a preview of the study.

The Context: The Challenges of Policy Reform

The question of tax reform speaks to a broader theme in policy studies scholarship: the general difficulties confronting major policy change. More often than not, efforts to enact major policy reform confront stiff and highly effective political opposition (Cairney and Heikkila 2014). In recent decades, much comparative public policy research has been invested in understanding the factors that shape policy reform with specific attention to the mechanisms that reinforce existing policy arrangements. Concepts such as path dependency (Pierson 2000a), policy feedbacks effects (Mettler and SoRelle 2014), and policy monopolies (Jones and Baumgartner 2005b) have been particularly important in explaining how the political power of certain constituencies—and their policy preferences—become institutionalized. Empirically, using case study research, policy scholars have examined the various features of the policy process inhibiting the efforts of pro-reformers. Interest group mobilization (Hacker and Pierson 2011; Pierson 1996; Huber and Stephens 2001) and opposition from the public (Quirk and Hinchliffe 1998; Soroka and Wlezien 2010) are common obstacles to policy change. Actors and groups can frustrate the policy goals of elected officials by exploiting institutional veto points (Immergut 1990; Pierson 1994; Tsebelis 2000) and by effectively marshalling their political resources (Korpi 2006; Culpepper 2010). Political science research also indicates that in some cases, policy makers' ideas can prevail, demonstrating the capacity of some governments to overcome resistance to reform (Derthick and Quirk 1985; Patashnik 2003; Béland 2009; Mandelkern and Shalev 2010). Efforts to enact major policy reform, then, are variable and contingent. Other scholars have explored how powerful
policy monopolies can be dislodged, emphasizing the strategies “policy losers” can use to advance their goals (Baumgartner and Jones 1993).

Agenda-setting scholars have focused on the importance of windows of opportunity, focusing events (Kingdon 1995; Birkland 1998) as well as venue shifting (Pralle 2003). In a similar vein, ideational scholars have explored how the emergence of new policy paradigms can be used to displace existing ones (Hall 1993; Skogstad 2008). The general view is that the conditions that enable reforms to enact change tend to be rare and fleeting, often implicating the role of contingency and broader exogenous shocks.

The Changing Political Context
Over the past few decades, the political context across liberal democratic systems has also shifted, making the political task of building public support for major policy reform even more daunting. Although this has been more pronounced in the United States, other mature democracies have witnessed an erosion of mass faith in public and private institutions. Across industrialized democracies, the post-1970 era has been marked by a clear and systematic pattern: declining levels of trust in government and institutions (Nevitte 1996; Keele 2007). Declining public trust suggests that governments may not possess the same political flexibility that their predecessors enjoyed. This has important implications for the capacity of government to introduce and justify major policy reform. Waning trust in government has two layers. On the one level, citizens lack confidence in the state's basic capacity to resolve complex policy problems. Commenting on the US political system, Steinmo (1994:106) argues Americans distrust their government because they think “it doesn’t work very well.” Furthermore, other research suggests that dissatisfaction with economic performance and levels of trust are correlated with one another. Citizens report higher levels of trust in prosperous times and declining levels of trust in hard times (Chanley, Rudolph, and Rahn 2000). Canada has not been immune to this trend. In 2013, only 37% of Canadians reported having a “great deal” or “some” confidence in the federal Parliament (Cotter 2015). Cost overruns and various other policy boondoggles have likely contributed to the public's declining confidence in the effectiveness of public policy. Waning trust in government also has a second dimension. Sometimes voters do not believe the government will act or is acting in the public interest. For citizens, there is often a lingering suspicion that policy decisions reflect the priorities of well organized interests or the interests of politicians. According to Gallup (2010), only 19% of
Americans said that they trusted government do what is right “always” or “most of the time.” To put that data point into comparison, over 53% of Americans shared that sentiment in 1952. The lack of faith in elected government not only raises a host of normative questions but also helps contextualize the broader political environment in which major policy reforms are proposed and evaluated.

*Not All Reforms Are Created Equal*

The challenge confronting major policy reform speaks to another core challenge facing democratic societies: myopic decision making. Across several issues, including climate change, infrastructure investment, and the fiscal sustainability of social programs, there are obvious signs of policy failure on the one hand, and insufficient policy action on the other. One thread across economic competitiveness and these other issues is the temporal nature of their impacts. Many of the most profound consequences associated with these policy problems will not be fully realized for decades. Within the North American context, governments have had the tendency to defer definitive action, leaving the resolution of such issues to future generations. In other cases, governments have undertaken some degree of action but these efforts often fall short of comprehensive policy change. Only in exceptional cases have policy makers mustered the political courage to embark upon major policy reform. In the case of climate change, policy experts have argued that in the absence of major reform, the costs associated with climate change will only exponentially increase over time (Stern 2007). The reluctance of elected governments to engage in major policy reform does not stem from a shortage of policy ideas. As is the case with economic competitiveness and VAT reform, policy prescriptions such as carbon taxes are widely known and have proven effective elsewhere (Harrison 2010). Policy inaction cannot be attributed to limited policy capacity either. Modern bureaucratic state possesses impressive analytical, fiscal and organizational capabilities (Steinmo 2010). Particularly across the OECD, the modern state can design and implement appropriate policy responses.

The failure of governments to respond to various policy challenges in large part stems from a lack of political will. As Alan Jacobs (2011, 17) has observed, addressing large and significant long-term policy challenges hinges on a willingness of elected officials to enact *policy investments*. For Jacobs, these describe “an intertemporal policy choice with two key structural features (1) the *extraction of resources in the short term* and (2) the dedication of those resources to a *mechanism of intertemporal transfer.*” As Jacobs illustrates, one aspect that makes introducing policy
investments so politically difficult is the relative immediacy of the costs and the delayed nature of
the even greater policy benefits. The following description of climate change's impacts helps
capture this aspect of the dilemma:

[t]he problem with global warming—and the reason it continues to resist illustration,
even as the streets flood and the forests die and the mussels rot on the shores—is that
experience is an inadequate guide to what’s going on. The climate operates on a time
delay. When carbon dioxide is added to the atmosphere, it takes decades—in a
technical sense, millennia—for the earth to equilibrate ... the warming that’s being
locked in today won’t be fully felt until today’s toddlers reach middle age (Kolbert
2016).

Given politicians' interest in avoiding blame for unpopular policy actions (Weaver 1986), it is
assumed that many elected officials lack the electoral motivation to introduce major policy
reforms, including enacting VATs or carbon taxes. Even if forward-looking policies have a strong
empirical record of effectiveness in other jurisdictions, the perceived political risks associated with
reform may be too great for risk-averse elected officials to stomach.

Fear of electoral punishment plays a prominent role in contemporary policymaking. As Jacobs
(2011, 28) has put it: “a bias toward the present seems built into the temporal rhythm of
democracy, an unhappy side effect of the frequent and competitive elections that lie at the core of
popular rule.” Representative democracies tend to induce risk-averse political behaviour (Pierson
2000), encouraging politicians to choose more incremental courses of action. Additional
institutional structures help reinforce such cautiousness, including strong opposition parties,
aggressive news media, and a politically engaged civil society. Most would agree that these
accountability mechanisms are signs of a healthy and vibrant democratic system. At the same
time, these twin forces create a policy dilemma: How can democratic societies confront some of
their toughest policy challenges if their elected officials are too fearful to pursue the necessary
courses of policy action? If officials are unwilling to do so because a policy does not align with
their values or the ideological priorities, then this challenge is easily reconcilable. If, however, the

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5 This inquiry is distinct from Jacobs’s (2011) study in a couple of important ways. First, Jacobs is concerned with
understanding how political actors confront distributive challenges with specific attention to the intertemporal
dimension of policy design. While temporality is a theme throughout this study (and particularly in chapter 8), this
analysis is less explicitly concerned with how governments (and other policy actors) conceptualize their long-term
interests and policy impacts. Second, since VAT reform does not involve a direct intertemporal transfer mechanism,
the reform would not be considered an example of a “policy investment” (see Jacobs 2011, 17). Jacobs’s study,
however, offers an important set of conceptual tools for understanding how electoral, cognitive and institutional
factors structure policymaking.
source of government inaction stems from a fear about the political consequences alone, then from a democratic theory perspective, it is prudent that we attempt to reconcile this tension.

**Why Taxation?**

The main political challenge facing decision-makers in the introduction of new taxes is straightforward: such policy interventions raise the risk of counter-mobilization by organized interests and/or electoral retribution. Perceptions of electoral risk can lead governments away from taxation and toward alternative policy means, including regulations. As Rabe and Borick (2012, 360) argue, policy tools such as command-and-control regulations “may be far less efficacious [...] but are far more feasible politically for their near-invisible imposition of costs.” Elected officials’ preference for regulation over taxation, then, tends to be rooted in electoral considerations. For voters, taxation is one of the most visible forms of state coercion. The effects of taxation are thus easily traced back to the choices of government officials. This notion of ‘traceability’ (Arnold 1990) is important as it commonly leads risk-averse politicians to select instruments that are less visible and thus less politically contentious. As Barry Rabe (2010, 585) has suggested, politicians will “go to considerable lengths to avoid policies that might impose costs that could be traced to their action...”

Students of democratic politics have long recognized that the electoral consequences of highly salient public policy choices weigh heavily in the mindsets of elected decision-makers. A large swath of literature in political science takes this a step further, maintaining that politicians’ goal of re-election overrides all other considerations (Downs 1957; Mayhew 1974). This highly stylized depiction of politics is difficult to reconcile with other findings. Empirical studies have demonstrated that politicians’ behaviour cannot always be reduced to electoral calculations; elites’ policy preferences can also reflect general-interest and/or long-term public policy goals (Derthick and Quirk 1985; Jacobs 2009). The implication of these competing findings is that whether politicians privilege electoral goals or policy goals is an empirical question.

Remarkably, students of politics have an underdeveloped theoretical understanding of how the politics of taxation operate. This is striking for several reasons. First, tax systems determine both the size and scope of governmental activity. Studies of the welfare state are central to comparative politics scholarship (Esping-Andersen 1990; Garrett 1993; Pierson 2001; Huber and Stephens
yet the emphasis of this research has been on government expenditures, such as public pensions, unemployment insurance and healthcare. These studies have tended to ignore the revenue tools that governments use to finance social programs. Second, taxes are by far the most dependable revenue tools that public treasuries rely upon to fulfill their most basic and advanced responsibilities. Managing the public purse is a central responsibility of the state and thus a perennial consideration for elected officials. Comparing the varying ways in which governments raise revenues can reveal a lot about the ideas of policy makers as well as how political power is distributed across a society (Steinmo 1989). For instance, what micro-level assumptions about individuals and corporations’ incentives underpin tax policies? How do tax policies seek to reconcile competing sets of material interests? Choices about taxation are inherently political but this is too seldom recognized in the literature. Debates about taxation feature active contestation among governments, political parties, interest groups and voters over competing sets of ideas and/or interests. Efforts to enact major changes to how governments collect money, or tax reform, provide a clear illustration of these important political dynamics at play.

**The Empirical Puzzle**

An examination of consumption tax reform is particularly well suited to advance scholarly understanding of the conditions that prompt general-interest reforms. Decision making about taxation forces governments to carefully contemplate the expert advice they receive about policy effectiveness with competing advice they receive from political experts about public receptivity. An exploration of how governments make decisions about tax reform can help shed light on the role that public opinion—or policymakers’ perceptions about mass opinion—plays in the decision making process. Existing findings suggest that taxation elicits negative responses (McCaffery and Baron 2006). As a result, the explicit commitment of government to raise a tax provides an important opportunity to explore how governments justify their choices and better understand the other strategies used to institutionalize, politically controversial policy reforms.

**The Harmonized Sales Tax (HST)**

When are elected officials and voters willing to use taxation as a mechanism to resolve a public policy challenge? In recent decades, Canadian governments and politicians have attempted to deal with several long-term public policy problems using consumption taxes. The common thread across these cases is efforts by elected provincial governments to address these policy problems
with consumption tax reform. Amongst Canadian provincial governments, several puzzles emerge because, despite some important similarities, the empirical outcomes in these policy areas diverge.

This study explores two cases of VAT reform in Canada, specifically the introduction of the Harmonized Sales Tax (HST) in the provinces of British Columbia and Ontario. Following the 2008 economic crisis, both provinces faced fiscal and economic policy crises and ultimately chose to enact VAT reform as a policy response. Both provincial governments claimed that harmonizing the provincial sales tax base with the Canadian federal GST, a VAT, would make their economies much more competitive. Other provincial governments in Canada—namely Saskatchewan and Manitoba—faced similar economic conditions but ultimately resisted calls to pursue harmonization.

Table 1.1: Universe of Value-Added Tax (VAT) Cases in Canada 1991-Present

<table>
<thead>
<tr>
<th>Case</th>
<th>Policy Output</th>
<th>Status of Tax Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario HST Decision (2009)</td>
<td>Enacted*</td>
<td>Intact*</td>
</tr>
<tr>
<td>British Columbia HST Decision (2009)</td>
<td>Enacted*</td>
<td>Reversed*</td>
</tr>
<tr>
<td>Quebec QST Decision (1993)</td>
<td>Enacted</td>
<td>Intact</td>
</tr>
<tr>
<td>Manitoba HST Decision (2009)</td>
<td>Not enacted</td>
<td>N/A</td>
</tr>
<tr>
<td>Prince Edward Island HST Decision (2012)</td>
<td>Enacted</td>
<td>Intact</td>
</tr>
<tr>
<td>Federal Government GST Decision (1990)</td>
<td>Enacted</td>
<td>Intact</td>
</tr>
<tr>
<td>Saskatchewan HST Decision⁶ (1991)</td>
<td>Not enacted</td>
<td>N/A</td>
</tr>
<tr>
<td>Newfoundland and Labrador HST Decision (1996)</td>
<td>Enacted</td>
<td>Intact</td>
</tr>
<tr>
<td>New Brunswick HST Decision (1996)</td>
<td>Enacted</td>
<td>Intact</td>
</tr>
</tbody>
</table>

⁶ In the early 1990s, the Government of Saskatchewan gave serious consideration to harmonizing its provincial sales tax base with the federal GST. Before it could legislate the policy change, however, the Progressive Conservative government was defeated at the polls in the 1991 provincial election. Sales tax reform was shelved by the subsequent NDP government.
The decision to adopt HST in BC and Ontario can be used to better understand why some governments choose to enact a general-interest reform. Both provinces have competitive electoral systems (three competitive parties in Ontario and two competitive parties in BC), where defeat at the ballot box for introducing controversial policy change is a plausible outcome. In other words, the decision to enact the HST in either province cannot be readily explained by a lack of electoral competition. Similar to other provinces, segments of the public sector, the business community, and policy community had long called on these governments to introduce VAT reforms. Finally, most provincial economies in Canada are highly dependent on demand from the American market, making concerns about competitiveness particularly important to elected governments. In sum, the political conditions, economic and structural pressures that BC and Ontario confronted were not atypical.

These cases also share several similarities, providing a good opportunity to assess the explanatory power of the theory advanced. Although these cases exhibit differences from each other (see below), various similarities make them good candidates for a “most-similar systems” research design. While each province was provided with some flexibility (see chapters 4 and 5), in the case of the HST, these governments were introducing very similar policy changes. Each provincial government was presented with a virtually identical proposal from the federal government in a very similar economic context, being introduced as a response to the effects of the 2008 economic crisis. Some of the other potential cases, from Atlantic Canada for instance, however, unfolded in a different economic context and were marked by an identical outcome. A key distinction between the Atlantic case studies and the Ontario HST is that only in the latter did the government survive the subsequent election.\(^7\) One of the central puzzles motivating this project is understanding the capacity of the Ontario government to escape voter retribution. Although the dissertation could

\(^7\) The BC government survived as well but its policy reform did not, putting it in a class of its own.
examine the decision making processes in the Atlantic cases, these cases exhibit limited variation on the second dependent variable of interest.8

The BC and Ontario cases represent successful instances of policy uptake. There is an effort throughout the empirical chapters to also illustrate variation across time within these cases as well. Specifically, governments in Ontario and BC had considered VAT reform at various points in time. Instead of using a negative case, the dissertation aims to identify what made the conditions in 2009 ripe for policy change. A key theoretical claim developed in Chapter 3 is that the problem of attention can be overcome when focusing events draw the attention of governments and civil society. Finally, the concluding chapter provides some additional discussion of the Manitoba case, where the government chose against following Ontario and BC’s lead.9

The Ontario and BC case studies, however, are also marked by variation. Most notably, the Ontario government imposed the HST and was re-elected—despite implementing the controversial tax. According to one political observer, the HST was a distant political consideration for many Ontario voters (Radwanki 2009). The outcome in the case of BC was remarkably different. A grassroots coalition organized under the leadership of former Premier Bill Vander Zalm successfully triggered a province-wide referendum on the tax. In the summer of 2011, voters in BC chose to return to the older sales tax system, marking the first time in Canadian history that a tax had been overturned via referendum (McArthur 2011).10 In contrast, there was no comparable political mobilization in the Ontario. The HST and the government responsible for adopting it survived the 2011 provincial election. The relative success of the Ontario government in implementing an ostensibly identical tax invites us to theorize about the factors that shape tax reform.

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8 This also explains why the federal government’s experience with the GST was not used in this study. While the GST certainly represents a general-interest reform, the defeat of the government in the subsequent election makes this a less puzzling case to explain.

9 The initial plan for the dissertation was to include three separate chapters, examining the experiences of Ontario, BC and Manitoba. To make the project more manageable, however, the case of Manitoba was eliminated. Chapter 9 provides some discussion of the Manitoba case, including some evidence that lends support to the first part of the theory. Additional empirical work, however, will need to be completed to better illustrate the decision making mechanism(s) that led to the outcome in this case.

10 The HST was also the first time that citizens in the province successfully triggered an initiative process using a petition application. Since the Recall and Initiative Act was introduced in 1995, eight of the nine petition applications had failed to meet the signature threshold. For discussion see Tellier (2016).
The HST Elite Level Puzzle

What can explain the decision by both the governments of Dalton McGuinty in Ontario and Gordon Campbell in BC to choose tax reform in the first place? Other provinces such as Manitoba faced similar economic problems but ultimately decided to leave their taxation regimes unaltered. One possible explanation for this is an electoral incentive theory of policymaking. But even a cursory look does little to explain the variation, and in particular, the behaviour of elites in the BC and Ontario governments. A switch to the HST introduces new costs for voters in the short run by increasing the costs of various goods and services that had been previously exempt under the PST. The HST might have been the preferred instrument choice of policy experts and even some organized interests but it is unclear why electoral considerations were not decisive in decision making. Some analysts have stressed the importance of electoral security in the pursuit of major policy change (Garrett 1998; Jacobs 2011). Yet it is far from clear that either of these governments possessed much in the way of electoral slack; both governments faced strong opposition parties which were strongly opposed to the tax (see below).11 Moreover, studies investigating loss imposition (Pierson and Weaver 1992; Lascher 1998; Pal and Weaver 2003) stress the interaction between institutional factors and blame avoidance tactics. Yet these accounts fail to explain the behaviour of these policy makers in these two cases. The effects of taxation are so highly visible, minimizing the opportunities to escape blame and in fact making the effects directly traceable back to the actions of the government. In short, the puzzle is this: why did the provinces of British Columbia and Ontario go ahead with such an electorally risky policy instrument, whereas other provincial governments, facing a similar policy problem decided to retain the status quo?

The second puzzle of these cases is variation in the response to tax reform. Mass publics and organized interests responded in very different ways—and the difference is crucial because it explains why the HST persists in one jurisdiction and not the other. Existing theories of policy variation are ill-equipped to unlock this puzzle. Political cultural theories point to prevailing attitudes, norms and values toward the political system as major sources of cross-provincial

11One alternative explanation for the difference across BC, Ontario and Manitoba are the political party in power and their associated ideological goals. However, if the HST uptake was rooted in ideological goals then it is unclear why Saskatchewan under the right-of-centre Saskatchewan Party considered harmonization but decided against it. Moreover, Campbell and McGuinty were both initially against HST and so this leaves the possibility that learning was at play in these cases. Another plausible alternative for explaining Manitoba’s decision is that its provincial economy is fundamentally different from the other two provinces that chose adoption. If this was the case though, then it is unclear why several Maritime provinces adopted the HST in the 1990s. In short, there does not seem to be a very convincing connection between HST uptake and political ideology or political economy factors.
variation in policy outcomes. The British Columbia political culture is characterized as more polarized than other provinces with a strong bent towards populism. Ontario’s political culture, on the other hand, is often depicted as more deferential to authority than its provincial counterparts (Wiseman 2011). But political cultural theories are unlikely to take us very far in explaining the variation, relying too heavily on static conceptualizations of mass publics and under-specifying causal mechanisms (Johnson 2003). More problematic for this explanation is that political cultural theorists cannot account for why there was such pronounced opposition to the HST in BC but relatively less organized opposition to the carbon tax the year prior (Harrison 2012). Furthermore, it is unclear whether Ontario can be genuinely described as deferential—this is the same electorate that used mass protests and other mobilization tactics to oppose—and in rare cases defeat—various policy reforms, such as hospital closures, pursued by the Harris government in the mid-1990s (Tuohy 1999).

A pure institutional explanation might seem well suited to account for the difference in the outcomes in the Ontario and BC HST cases. Unlike in Ontario, BC residents can use referenda legislation to put a policy issue on the agenda. The absence of this institutional opportunity in Ontario might explain the varying outcome. The varying capacity of voters to challenge provincial legislation in the two cases seems like a crucial difference. On the surface, this offers a parsimonious explanation for the variation across the cases. The empirical analysis provided throughout the study, however, suggests there are limits to this as an explanation. First, if the broader institutional rules are what determine political outcomes, implying that the feedback effects created by a policy design are less important, then we should expect to see evidence of this in similar cases. That is, if opponents in BC were simply responding to the incentive structure provided by the institutional context then presumably that political behaviour should be consistent across time. In 2008, the BC government enacted a provincial carbon tax, and yet, popular backlash to the tax was minimal and regionally concentrated (Peet and Harrison 2012). Crucially, opponents failed to use, or even consider using, the province’s recall and referendum legislation. When the tax was debated during the 2009 election campaign, voters failed to get behind the opposition’s “axe the tax campaign.” Existing analyses suggest that the political success of this tax can be linked to the design of the tax policy and a broader attention shift to economic concerns (Harrison 2012). By contrast, the way the BC HST was introduced and designed, I argue, is central to explaining the ultimate defeat of the tax. This suggests that political institutions can
refract but do not solely determine political outcomes (Thelen 1999). In the subsequent empirical chapters, the study shows how aspects of the policy design and the broader institutional context each structured the incentives of the HST opponents in the BC case.

Second, the pure institutional account is difficult to reconcile with various aspects of the Ontario case. Although voters in Ontario did not have access to referenda, this does not mean the HST did not confront electoral tests. Following the government’s HST decision, seven by-elections took place in Ontario. Despite the intense efforts of both opposition parties (explored in chapter 6), voters did not use these by-elections to exact retribution on the governing Liberals. This suggests that the either the sales tax reform was not salient enough to the electorate (unlikely, given the opposition parties efforts), or that voters had acquiesced to the policy change. In sum, the puzzle remains: why, faced with an identical policy change, did the public in British Columbia mobilize to overturn the tax, whereas the Ontario electorate responded with relative acquiescence?

The Puzzle of Ontario

The political response to the Ontario government's tax reform package not only departs from historical experience in Canada but is also difficult reconcile with existing theory, namely, the retrospective model of voting. The Ontario government became the first government in Canadian history to implement a VAT and not face a complete rebuke at the ballot box. The prevailing empirical evidence does not align with the expectations of the retrospective voting model. According to this theory, vote choice is a function of how the electorate evaluates the performance of incumbents, especially but not limited to their policy choices (Fiorina 1981). Retrospective voting studies have been more commonly applied to American elections (Healy and Malhorta 2013) but comparative policy scholars have, either explicitly or implicitly, built the assumption of the model into their own theories or explanations (see, for example: Arnold 1990; Pierson 1994; Pal and Weaver 2003; Jacobs 2009). One benefit of the theory is that it offers a clear set of predictions. When highly salient policy choices are made that do not align with a majority of the electorate's preference, the theory expects that incumbents are more likely to be punished by voters in the subsequent election (for review, see Healy and Malharta 2013). Some have theorized that institutional factors, such as the distribution of legislative power or nature of the electoral system, can influence voters’ retrospective evaluations. Retribution for unpopular action, for instance, is expected to be easier for voters within a parliamentary system compared to a
congressional system. The logic is that within the former system, voters enjoy a greater capacity to attribute responsibility for unpopular actions. The lines of accountability for a policy decision under a parliamentary majority government are much clearer or cognitively accessible for the average voter (Weaver and Rockman 1993; Pierson 1994; Pierson 2001; Pal and Weaver 2003). In the Ontario HST case, however, there is limited evidence that voters used the 2011 election to hold the government to account. This is puzzling given the enduring unpopularity of the government's decision on sales tax reform. Furthermore, as described below, at no time did the McGuinty government face much in the way of organized backlash. Although the retrospective model has little to say, at least explicitly, about institutional mechanisms such as by-elections, it is only logical to assume that voters’ dissatisfaction would be exercised through such mechanisms. In Ontario, voters were given a clear opportunity to pass judgment on the government's decision on several occasions but failed to mobilize against the policy.\(^{12}\)

*Elections as Policy Accountability Mechanisms*

As an alternative explanation, the literature on incumbents and economic performance expects that a government's chances of re-election will align with the performance of the economy. In democratic systems, incumbents are rewarded by voters when economic conditions are favourable (Lewis-Beck and Stegmaier 2000) and they are much more likely to be punished by voters during times of stagnation or high inflation (Hibbs 1986). The mechanism of voter accountability, however, hinges on an assumption of rationality. Other studies have shown that voters’ attribution of responsibility is affected by several factors, including the clarity of responsibility which can be mediated by institutional factors, including the constitutional division of legislative powers (Cutler 2004; Anderson 2006). Although the HST was the result of federal-provincial cooperation, there is little evidence to suggest that voters had trouble distilling responsibility. Second, as alluded to above, retrospective models of voting also contend that an incumbent's major policy choices will weigh heavily in the voters’ decision making (Healy and Malhorta 2013), especially when these policies increase voters’ tax burdens (Geys and Vermeir 2008). The Ontario case, however, presents a real challenge to this prevailing wisdom. The government had overseen a period of high

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\(^{12}\) In the 2011 provincial election, the McGuinty Liberals were reduced to a minority but they were just short of a majority by one seat. According to a recent analysis of the election, energy policy, rather than tax policy, was the most important issue in several ridings (especially rural ridings) and contributed the most to the government's loss in vote and seat loss (Stokes 2015).
unemployment and sluggish economic growth (Ontario Ministry of Finance 2016). More importantly, the major tax reform that it had pursued had, at least in the short run, resulted in higher costs for many goods and services. Again however, voters did not use the general election—or by-elections in the interim—to punish the government for the state of the economy.

Data Collection and Methods
This section describes the research design for the dissertation. The first subsection discusses the rationale for within-case and comparative case study process tracing, the primary approach for data collection and analysis. The second subsection specifies the methods that were used to test the elite-level part of the analytical framework. The third subsection describes a two-staged inferential strategy for examining political reception at the mass level.

Process Tracing
As the recent advances in public policy scholarship have shown (Hall, 1993; Jacobs, 2011), process tracing is particularly well suited for investigating the plausibility of casual theories. Process tracing enables analysts to draw inferences based on careful, thick description of case studies. One of the most important values of process-tracing is that it allows researchers to observe dynamic processes within a specific set of cases (Collier, 2011). The proposed analytical framework specifies a number of informational and behavioural process-related implications that ought to be observed in case studies. Demonstrating the presence of learning, for instance, requires empirical demonstration that shifts in cognition, rather than shifts in material interests or incentives, are responsible for elites' attitudinal change. Although some policy scholars have used large-n research designs to test for learning (e.g., Gilardi, 2010), these designs do not yield very convincing tests of learning. Learning, in such studies, is often assumed to have occurred rather than being carefully empirically demonstrated. The best way to assess the role of learning is by carefully reconstructing the decision making process with specific attention to how policy information affects decision-makers’ beliefs, behaviours and choices.

A second advantage of process tracing is that it enables the analyst to study a political phenomenon as it unfolds over time. This is particularly important for this project since processes of attention and learning imply a specific sequencing. If idea carriers are important in shifting the attention of politicians, then we ought to see these carriers as important in the stages of problem-
definition, alternatives specification, and instrument choice selection, rather than after. Quite simply, if learning is at play, then expertise should be sought out and used during the decision making process, not used for political cover after the fact. The third advantage of process tracing is that it allows the analyst to test for rival theories and their associated causal mechanisms. In this project, interest-based theories that focus on the electoral self-interest of politicians can be tested against ideational hypotheses.

The most important data sources for this part of the project are semi-structured interviews with decision-makers in each of the cases. Key decision-makers in these cases are first ministers, cabinet ministers, senior level bureaucrats, interest group leaders and policy experts. The main goal of the interviews was to better understand the causes of policy uptake (or lack thereof), by unpacking the black-box of decision making. Interviews yielded data to help pin point the sets of causal factors that led certain actors to support a specific policy intervention and reject others. These interviews were also useful in uncovering politicians’ motivations about their evolving construction of a policy problem, instrument choice and about the influence of other actors. The key test of the theory is whether the alteration of causal beliefs accounts for the uptake of the policy idea. The study also uses interviews as a way to map the sequencing of events, helping illuminate the mechanisms that trigger attitudinal change. If actors can recall a particular actor (i.e., an idea carrier) or specific event (i.e., a focusing event), shifting their attention and influencing their mental construction of a policy problem, then this would suggest the plausibility of some type of learning at play.

The problem with elite interviews is that they can be subject to measurement error. Politicians might have incentives to conceal their true motives or misrepresent the actual process of decision making. To help get around these problems of measurement error, interviews with other actors, who lacked similar incentives, were conducted. In particular, interviews with senior bureaucrats or policy experts who were involved in the process of decision making will help validate (or invalidate) the claims of the politicians.

An analysis of elite communications is the second major methodological strategy. Although examining cabinet minutes would be useful, these data are not available for any of the case studies. The study draws on government reports, briefing materials, press releases, and statements
in the legislature. Coupled with interviews, these data could be used to illustrate how elites communicated to the public.

The study examines the policy intervention in question by analysing the most important primary documents associated with the policy change, such as budgetary documents. This helps to determine stated rationales that governments have used for each policy intervention. Moreover, I created timelines for each of the cases in order to understand the role of timing and contingency in the decision making process.

**Method for Studying Mass Publics**

Although a convincing case can be made for process tracing at the elite level, this is admittedly a more difficult case to make at the mass level. Most studies that examine public acceptability rely on large-n research designs. The benefit of a large-n design is that representative samples can be used to draw generalizations about public opinion and policy. This project departs from this conventional strategy by studying public acceptability through a combination of case study research and a series of experimental surveys. I explore each of these in turn.

An examination of public acceptability of consumption tax reform is crucial to the aims of the study. There are some practical limitations to using conventional public opinion methods to studying these particular cases. First, in the Canadian case, time-series data that track attitudes towards specific public policies are relatively sparse. Although the Canadian Election Study offers some data taxation preferences broadly speaking, these attitudes are often divorced from the specific policy context in which I am interested. Second, the analytical framework I propose below is a dynamic one that allows for considerable opinion change over time. Public attitudes towards specific policy proposals can undergo significant change over the course of a policy debate. Understanding the sources of these shifts requires specific attention to the context of the policy debate. Third, survey questions often ask respondents about “more spending” or “less spending” on a policy area but these questions give us a narrow view of policy preferences. While many would conflate increased consumption taxes with “more spending”, this is not necessarily the case with revenue-neutral taxes. If public opinion is the most important variable in explaining the fate of tax reforms, then we should be able to observe the importance of this variable in case studies as well.
Experimental methods have become an increasingly prominent tool used to address questions in political science. Experiments are particularly well suited to test hypothesized causal relationships since they allow the investigator to compare the effects of treatments on subjects with that of a comparable control group (Gerber and Green 2012). For this study, I use a series of online survey experiments to tests hypotheses surrounding mass public support for consumption tax reform. The survey is experimental because it probed individuals’ opinions under different sets of informational conditions. This allowed me to better isolate the causal factors that explain when voters will support policy interventions in the face of immediate costs. Political scientists interested in mass political behaviour and its implications for public policy have successfully implemented online survey experiments (Jacobs and Matthews 2012). Similar to the procedure used by Jacobs and Matthews (2012), the survey experiment exposed all respondents to a policy brief. The policy brief provided respondents with information regarding a specific policy problem—climate change, economic competitiveness and infrastructure investment—and proposed an expert-supported consumption tax reform. The sample size (n=1534) allowed me to control for other potential factors that influence tax acceptability such as income, level of education, partisanship and age.

Looking Forward: Plan for Dissertation

In Chapter 2, the dissertation situates the study in the broader literature on taxation. Specific attention is paid to how taxation has been examined by various disciplines in economics and political science. Additionally, this chapter provides discussion of the historical evolution and logic of the VAT. Four of the subsequent empirical chapters of the dissertation (Chapter 4-7) explore case studies of VAT reform. Beyond this, the chapter also identifies some of the institutional complexities surrounding sales tax reform in Canada.

In Chapter 3, I describe the theory that will be used to test the empirics. In this chapter, I outline a mid-range theory of tax reform, describing several hypotheses to be tested in the empirical part of the dissertation (specifically, Chapters 4-8). The study proposes a two-staged theory to understand the uptake of consumption tax reform as well as explain empirical variation in the institutionalization of such reforms. The analytical framework identifies a clear set of causal propositions, while also capturing the complexity and contingency of policy reform. The contribution of the framework is two-fold. The first part of the framework brings together insights
from work on policy ideas (Hall 1993), multiple streams framework (Kingdon 1984; Birkland 1998; Zahariadis 2003), and policy diffusion (Weyland 2005; Gilardi 2010), identifying the conditions enabling tax reform to emerge on the government’s agenda. To explain policy uptake at the elite level, the theory proposes two alternative mechanisms: learning and emulation. Although learning and emulation can produce similar outputs in the short-term, the theory expects these mechanisms to have varying consequences for the political fates of policy changes. Specifically, governments that learn, rather than emulate, are likely to enjoy greater success in institutionalizing a policy reform.

In Chapter 4, the dissertation describes and explains the Ontario government's decision to adopt the HST reform in 2009. The chapter traces the key sets of policy developments between the onset of the financial crisis in September 2008 and the announcement of the policy in March 2009. This chapter finds empirical support for the hypotheses outlined in Chapter 3, illustrating the importance of focusing events, learning and incentives. Primarily through interview data, document and secondary analysis, the chapter explains the role of Ontario Ministry of Finance officials and other policy experts in persuading Premier McGuinty to pursue sales tax reform.

In Chapter 5, the dissertation turns to the decision by the Campbell government in British Columbia to follow Ontario’s lead. In this case, the BC premier’s beliefs about the policy idea did not shift in position. Instead, internal (i.e., fiscal) and external (i.e., time) pressures, led the government to engage in satisficing behaviour (Simon 1985), leading it to conclude that sales tax reform was the best means to resolve a fiscal dilemma. The government did not use the HST as a tool to respond to the economic crisis or even improve economic competitiveness as had been the case for other reform adopting governments in the federation, including Ontario. The chapter investigates and illustrates the operation of an alternative mechanism driving decision making: emulation.

The purpose of Chapter 6 is to understand the nature of political opposition to the HST in Ontario. Specifically, it describes how the Ontario government sought to manage the public reception to sales tax reform, exploring the relative effectiveness of such efforts. The findings presented in the chapter provide an important illustration of the second stage of the framework developed in Chapter 3. The chapter finds the Ontario government’s success in institutionalizing sales tax reform stemmed from its capacity to create self-reinforcing policy feedback effects (Jacobs and
Specifically, the government’s policy rollout and implementation influenced the political behaviour of voters, organized interests and the opposition by reconfiguring these actors’ political incentives and material resources.

In Chapter 7, the dissertation explores the contrasting experience of the BC government in defending and eventually repealing the Harmonized Sales Tax. The chapter argues that a flawed policy design and communications strategy fundamentally compromised the government's capacity to garner support from key organized interests and the public. These strategic miscalculations, coupled with distinct institutional rules (i.e., recall and initiative), carved opportunities for anti-tax mobilization. The chapter illustrates the utility of the framework developed in Chapter 3, explaining the link between mass attention, institutional arrangements and policy feedback effects.

In Chapter 8, the study present findings from a series of survey experiments that were used to examine the relative malleability of citizens’ tax policy preferences. This part of the dissertation tests various framing effects hypotheses, examining whether issue frames can independently influence citizens’ evaluation of tax policy proposals. It is important to note that the experiments do not test the same set of hypotheses examined in the case studies. Examining the effects of policy feedbacks (e.g., incentive effects) are challenging to test in a survey experiment. To properly test for such effects, an experiment would need to observe how preferences and political behaviour shift over time, demanding a much more complex and expensive research design. As an alternative, the aims of the survey experiments included in this study are much more elementary. The study seeks to address a more basic question that has been neglected in the literature: how do citizens respond to the presentation and design of different tax policy options? Framing, or issue framing, refers to efforts by political actors, to emphasize a specific dimension of a policy problem, or understanding of a policy problem (Stone 1989). Political actors have the capacity to frame policy issues in ways that can help garner public support for their position (Druckman and Lupia 2000). The chapter presents evidence that citizen attitudes toward taxation are linked to how policies are designed rather than simply how they are framed. The chapter uses three cases of tax reform to test this argument: sales taxes, income taxes and carbon taxes. In none of these cases did

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13 These findings are also discussed in a separate co-authored manuscript “Public Acceptability of Taxation: An Experimental Examination.” The study and empirical analysis was completed in collaboration with Peter Loewen.
citizens systematically express more (or less) of a preference for a tax when it was framed in a specific fashion. In contrast, citizens became more (or less) receptive to tax policy changes as the tax rate was altered. Although this chapter only investigates one type of policy design feature, it suggests the analytic purchase of manipulating policy design to better understand the nature of citizens’ tax policy preferences.

The concluding chapter of the dissertation provides a synthesis and comparison of the empirical findings presented in the study. It also provides review of several of the hypotheses that were tested in the case studies and survey experiment, addressing why some hypotheses did not bear out empirically. More substantively, the concluding chapter reflects on some of the theoretical and policy lessons from the empirical findings.
CHAPTER 2 - THE POLITICS OF TAXATION: SITUATING THE STUDY

Introduction

The purpose of this chapter is three-fold. First, the chapter describes the concept of taxation, outlining its purpose and function in public finance. Second, the chapter surveys the existing social science literature on the subject of taxation. Specific attention is paid to how tax has been examined within economics and political science. The third aim of the chapter is to describe a specific case of tax policy reform: the VAT. Four of the subsequent empirical chapters of the dissertation (Chapter 4-7) explore case studies of VAT reform. VAT reforms have a rich policy history, spanning well beyond the analysis presented here. Over the past 50 years many jurisdictions across the developed and developing world have implemented some kind of VAT reform (Morris 1970; Tait 1988; Schenk, Thuronyi, and Cui 2015). A comprehensive examination of VAT reform is beyond the scope of the analysis. As such, the chapter examines VAT reform specifically within the Canadian context. This part of the chapter outlines the basic policy rationale proffered by economic and tax policy experts, illustrating the strong intellectual foundation of the policy idea.

Beyond this, the chapter also identifies some of the institutional complexities surrounding sales tax reform in Canada. The policy developments described and analyzed in the subsequent empirical chapters did not unfold in a vacuum. Actors’ preferences and beliefs about sales taxation have evolved within a broader historical context. This chapter, then, offers a useful historical primer for the theoretical discussion (Chapter 3) and the five empirical chapters (Chapters 4-8).

The Function of Taxes in Democratic Systems

Across both space and time, taxation has formed a core part of government activity. All governments—from the most democratic to the most authoritarian regimes—use taxation as a primary means to function. As Hyman and Strick (1995, 17) put it, taxes can be conceptualized as the “principal means of financing government expenditures.” In a similar vein, taxes can be conceptualized as “obligations to contribute money or goods to the state in exchange for nothing in particular.” Viewed this way, they should be understood as distinct from user fees and other monetary payments to the state since they are not “paid in direct exchange for a service” (Martin, Mehrotra, and Prasad 2009, 3).
Modern states share several fundamental characteristics, many of which hinge directly or indirectly on fiscal capacity. First, jurisdictions enjoy a monopoly over the use of force. Through its legitimacy, the state can compel its citizens to take certain actions. In this respect, no other institution rivals the power of the state. Second, one of the most important capabilities of the modern state is the capacity to enforce tax laws. Taxes have traditionally been used by societies to resolve various coordination problems. Societies can achieve collective goals largely due to the state’s ability to enforce rules (Ostrom 1990; Moe 1990). These two features of the modern state—coercion and taxation—are distinct but interdependent. Governments can exercise a monopoly on force but only if they possess sufficient fiscal resources to carry out that force. Taxation, then, solves a broader collective action problem by acting as a stable and predictable source of revenue. For states to provide public goods, including the military, revenue from taxation is essential. As summarized by one set of scholars:

Taxation furnishes fungible resources to the state ... it is unlike other sacrifices that the state demands from its citizens (e.g., compliance with traffic laws), and even unlike other forms of state extraction (e.g., conscripted military service). The resources extracted through taxation are exchangeable for other resources; they make possible not just one state action, but most if not all of the state’s activities (Martin, Mehrotra, and Prasad 2009, 4)

For economists, taxation is important for both normative and positive economic theoretical considerations. Taxes are important because they affect the “economic incentives to produce and consume.” (Hyman and Strick 1995, 17). When decision makers are contemplating different ways to finance government, public finance scholars stress the need to carefully balance considerations of fairness and efficiency. In this vein, taxation should also be understood as operating within the context of the broader goals of the modern state. As Bossons (1969) suggests, the provision of public goods is one of the oldest and more important social objectives of the modern state. Taxes often function as inputs necessary to finance government-supplied goods and services, or other times used to redistribute purchasing power among citizens. In conceptualizing taxation this way, economists have tended to think about taxes in a highly functionalist sense. Taxes are generally regarded as essential to the operation of the modern state largely due to their revenue function. As explored below, however, taxes are also highly politicized.

The immense growth of government expenditures in the post-WWII era has resulted in greater reliance on taxation. But taxes are not just used for revenue generation. In other instances, taxes
can be used to promote or penalize certain kinds of behaviour. By making a specific behaviour more economically costly, taxes can reconfigure individuals’ incentives to engage in that action. Many jurisdictions, for example, have deemed certain activities—such as gambling—and certain substances—such as tobacco—as undesirable for society. Governments have adopted “sin” taxes that function as a mechanism of social control. Under these types of taxes, governments collect revenue but the broader purpose behind the tax is to make the behaviour costlier. Revenue can often serve as a latent benefit of the tax but it is not its primary function. In a recent work, Maslove (2010) has argued taxes can be conceptualized as operating along a continuum with taxes as revenue generation on one extreme and taxes as regulation on the other. According to this understanding, some taxes, such as income taxes are “put in place primarily to raise revenues and are intended (in their pure form) to impact economic behaviour as little as possible” (2010, 111).

Although the capacity to tax is a perennial feature of the modern state, there are systematic differences of taxation across jurisdictions. First, there is procedural variation in how tax policy changes are approved. The process of making changes to tax law vary across jurisdictions. While some jurisdictions require public approval through referenda for increases to subnational income and sales taxes, such as the state of California (Sears and Citrin 1982), others have no such requirement. Tax policymaking in the latter operate in a similar fashion as other types of law making. In addition to procedural differences, there are substantive variations in terms of what a jurisdiction decides to tax. The types of items a government decides to tax—whether it be income, goods and services, or property—is entirely contingent on the decisions of policy makers. This suggests, despite the universality of taxation, as with many other aspects of politics, the substance of taxation policy largely depends on the context in which policy is made. By the same token, because the act of taxation is universal, it is instructive to consider how this common policy instrument interacts with other features in the political environment.

**Instrument Choice**

Taxation should be understood in the broader context of the instrument choice literature. According to Howlett (1991, 2), policy instruments are “the generic term provided to encompass the myriad techniques at the disposal of governments to implement their public policy objectives.” Taxation represent one of the state’s more visible, coercive and thus contentious policy instruments. Scholars have offered several useful ways to organize our understanding of
instrument choice. Some have pointed to the trade-offs that decision makers confront in the use of different instruments.\textsuperscript{14} Canadian political scientists have sought to simplify instrument choice by pointing to four different categories of instruments: regulation, subsidies (direct expenditures), public ownership and moral suasion. According to Doern and Wilson (1974), these tools can be largely understood as operating along a continuum of coercion with moral suasion being the least coercive and regulation being the most coercive. The limits of this conceptualization arise because the typology loses some of the nuances within these categories. The typology, for example, conflates several distinct policy instruments under the umbrella term of regulation. As argued below, however, taxation and command-and-control regulations ought to be considered as distinct policy instruments. These tools are often rooted in different logics; they send stakeholders very different signals and often elicit different kinds of behavioural responses.

A helpful set of insights in the policy instrument literature comes from Linders and Peters (1989). They argue that instrument choice needs to be seen as a decision that is influenced by the sets of beliefs, attitudes, and perceptions of policy makers. Instead of emphasizing coercion, they stress four attributes of each policy instrument: (1) its relative resource intensiveness; (2) how selective and precise the targeting is; (3) how significant the political risk is (i.e., nature of support or opposition, visibility of instrument); and (4) whether the government faces ideological constraints. This offers a useful way to study instrument choice since it helps identify the specific trade-offs decision makers confront. May (1992) argues that one important contribution political scientists can make is to focus on the idea of political acceptability. More recently, proponents of nudge theory (Thaler and Sunstein 2008; Sunstein 2014) have described the interaction between cognition, the design of a policy instrument and the likelihood of behavioural uptake. These findings suggest the value in examining how the specific design of a policy instrument can shape the political reception of that instrument.

Political scientists have less frequently theorized the political implications of tax policy decisions. Existing scholarship in the tradition of Canadian public administration examines public finance and taxation (Good 1980; Maslove 1989) but tends to be heavily descriptive and apolitical. Studies

\textsuperscript{14} Linders and Peters (1986) have outlined almost 20 different types of policy instruments, including: cash grants, loan guarantees, certification, contract, quality standards, information, loans, public investment, government-sponsored enterprises, tax breaks, government provision, quotas, jawboning, in-kind transfer, fee/charge, fine, prohibition, public promotion, insurance, and price control.
from comparative politics give us good reason to reject the apolitical view of taxation. As Guy Peters (1991, 21) has argued, political considerations are the pre-eminent factor shaping tax policy choices. In his view, “[t]axes are simply too important as political actions—in both real and symbolic terms—to permit other types of factors ... to have anything other than a secondary influence over the final selection of tax instruments.” Decisions over tax require decision makers to make tough and explicitly distributive trade-offs. The process of tax policymaking often invites political conflict, particularly since changes to tax policy can significantly affect well-resourced actors with clear policy preferences (Hale 2002).

*The Politics of Policy Tools*

When seeking to deal with many pressing policy problems, a common dilemma that governments face is a choice between regulation (i.e., rule-making) and taxation (i.e., direct cost imposing). Regulations are generally understood as rules or measures that “influence the behaviour of economic agents, whether work effort, investment activity, or consumption levels and patterns” (Maslove 2010, 6). Regulations often grow out of policymakers’ desire to induce behaviour change. The choice between regulation and taxation is not just policy choice but is influenced by political considerations. Regulations, for example, confer certain political advantages over taxes. Regulations are often more politically acceptable to mass electorates (Rabe and Borick 2012). The reason is that the financial costs associated with regulatory measures are often less discernible to citizens. Voters cannot as easily trace the economic effects of these regulations back to the policy choices of decision-makers. The costs that regulations impose are often indirect and become hidden in the costs of goods and services. As R. Douglas Arnold (1990) has argued, albeit in a different context, the more complex the chain of causation is in a political or policy process, the less likely voters can deduce responsibility and exact retribution on politicians.

If taxes can be thought of as direct costs that the government imposes, regulations are best understood as imposing indirect costs. For many policy analysts, the propensity of decision makers to choose regulations over taxation is regrettable. In the context of climate change policy, for example, taxation (or some form of carbon pricing) is viewed as a highly effective and efficient response to the policy problem (Rabe and Borick 2012). The main benefit of the instrument is that it actively deters the consumption of fossil fuels by putting a price on carbon. Empirically, however, the uptake of this specific policy instrument has been slow (Harrison 2010,
Governments have been reluctant to introduce carbon taxes, and have instead often employed command-and-control regulations in its place. Sometimes these choices are influenced by the “rules of the game” but other times they reflect a reluctance to impose such a visible and direct cost (Rabe and Borick 2012). The choice of regulation over taxation often forces decision-makers to trade-off policy goals for political goals. In climate policy, regulations can raise production costs for industries, which are then often then passed onto consumers. Viewed this way, regulations operate as indirect taxes on consumers. Second, regulations do not always incentivize the same kind of behavioural change that a tax would, and under certain conditions can have perverse consequences. Again, in the case of a carbon tax, while industry must conform to regulatory standards, there is little economic or market incentive for them to go beyond what the regulation requires. A tax, on the other hand, provides economic incentives for industries to continually minimize their tax incidence. This suggests, then, that market-based policy instruments like a carbon tax have a very different behavioural effect on stakeholders than regulations. Based on the highly politicized nature of taxes, it is striking then that political scientists have been reluctant to theorize about the politics of taxation.

The Study of Taxation in Social Science Research

The relative importance of public finance and taxation to the operation of the state has resulted in scholarly attention from a variety of social science researchers. As Martin and his colleagues (2009, 1) put it:

Sociologists know that nearly every issue with which they are concerned – the obligations of the individual to society; the powers and legitimacy of the state; the allocation of public and private resources; the rise of bureaucratic administration; the reproduction of class, race, and gender inequalities – runs through the issue of taxation.

Economists and political science scholars have also all weighed in on issues of public finance but—as one would expect—with different sets of analytic aims. Government tax decisions, as well as macroeconomic policy more generally, are vitally important. These policy choices get at some of the most fundamental issues that are important to both political scientists and economists.

Within social science, economists have been the most keenly engaged with taxation. Within the field of economics, public finance is an entire subfield devoted to understanding and explaining the fiscal activities of the state. The study of public finance broadly concerns itself with how
governments tax and spend as well as how policy decisions can influence the allocation of resources (Rosen, Wen, and Snoddon 2012). Public finance scholars have developed useful ways to conceptualize the state’s influence on policy outcomes, outlining the variety of fiscal tools governments have at their disposal and identifying the trade-offs policymakers confront in selecting such tools (Rosen, Wen, and Snoddon 2012; Hyman and Strick 1995). Governments have macro policy levers available to them, most notably taxation, borrowing, the expansion of the money supply, and user fees (Hyman and Strick 1995). The study of public finance goes beyond this; there is a strong tradition of policy analysis in public finance scholarship. According to Holcombe (2005: 140, emphasis added), a central aim of the subfield is to “identify problems that might arise in the market allocation of resources and then to determine some type of optimal policy that can be used to correct this problem.”

The emerging subfield of behavioural economics has fundamentally changed the way that scholars think about public policy choices. One of the more recent trends in economics research has been attention to how individual consumers or voters respond to different policy alternatives. A large part of this has come out of a recognition that individuals do not respond to tax policy in ways that standard economic models had long assumed. A prevailing belief in neoclassical economics was that individuals are rational and will always behave in ways that maximize their expected utility. The dominance of this assumption meant there was no real need to investigate or empirically test whether individuals behaved rationally. In the context of tax policy, the implication was that individuals would be expected to prefer tax policies that economically benefitted them. Through various studies of other phenomena, however, scholars noted recurring violations of this broader rationality principle (Kahneman and Tversky 1979). Framing effects and other cognitive biases, such as loss aversion (Wilson 2011) were found to lead individuals to make choices that did not align with their actual interests when defined narrowly according to utility.

These findings have spawned renewed interest in understanding the cognitive basis of decision making—that is, cognitive psychology—and the implications of the biases it entails for microeconomic decisions—that is, behavioural economics. Relaxing these assumptions about rationality did not imply an abandonment of prediction for economists. Although actors face problems with cognition, it has also been found that they fall short of rationality in fairly patterned ways. Mapping out these cognitive biases and investigating their effects in both laboratory and
field settings have been goals of behavioural economics (Wilson 2011). In recent years, scholars have looked to apply these insights to fiscal policy choices.

In one compelling offshoot of behavioural economics, scholars have developed the subfield of behavioural public finance. This subfield seeks to apply the insights of behavioural economics to fiscal policy dilemmas. McCaffery and Baron (2006) have been at the forefront of this line of inquiry, noting the systematic failure of citizens to react either rationally (or consistently) to tax policy proposals. For these scholars, this is problematic since voter preferences can induce elected officials to pursue sub-optimal tax policies. McCaffery and Baron point to governments’ tendency to choose hidden or low-salience taxes, such as corporate income taxes, to fund expenditures. Although politicians and citizens might prefer such taxes, economists advocate against hidden taxes because they can promote inefficiency and/or affect horizontal and vertical equity.

One prevailing finding across several studies in behavioural public finance has been an aversion to tax. This is hardly surprising and is connected to the broader general cognitive bias of loss aversion described in Chapter 3. Individuals do not respond to logically equivalent gains and losses in a symmetrical way (Kahneman and Tversky 1979; Soroka 2006). It has also been found that when a fiscal policy measure is described as a “tax” to subjects, it tends to elicit a much stronger negative response than when labelled as a “fee” (McCaffery and Baron 2006). In addition to loss aversion, subjects are also influenced by the presentation of information, or put differently, are subject to framing effects. Individuals’ assessments of tax are vulnerable to the presentation of a choice set, rather than the logical implications of the choice. McCaffery and Baron (2006), for example, find that individuals strongly support policies when they are framed as “child bonuses” but are much more averse to the frame of “childless penalties.” What seems to be driving these behaviours is the role that salience plays in human reasoning (Taylor and Fiske 1978). Salience drives a lot of behaviour in decision making where individuals react more strongly to things that are more apparent or vivid. Taxes are politically challenging because they are interpreted or coded by subjects as losses —triggering loss aversion—but the framing of the policy can further intensify that aversion.

One of the more important studies that has come out of behavioural public finance comes from McCaffery and Baron’s (2006) examination of isolation effects. In their study, the authors find that in the context of fiscal policy preferences individuals systematically focus on some salient
cues, while ignoring other important information signals. Through a series of online survey experiments the authors illustrate how isolation effects influence citizens' evaluations of different fiscal policy options. In one experiment, the authors examined how the relative transparency of a tax influence subjects' attitudes, making use of the prevailing preference for progressive tax policies in the electorate. Due to focusing effects, however, when subjects were given the option, they preferred the less progressive tax policy design (that is, they preferred receiving tax deductions over income taxes). The authors find respondents became more favourable towards income taxes and less favourable towards tax deductions but only when subjects were treated with a prompt. Respondents who were prompted to think about the distributive effects of the policy became more favourable to income taxes. They explain this as function of an isolation effect, how people selectively attend to data or aspects that are “immediately before them” (McCaffery and Baron 2006b, 290). The study suggests that subjects can be prompted, under certain informational conditions, to change their tax policy attitudes.

One possible reason that individuals do not like direct and thus transparent taxes—such as income taxes—might be linked to the psychological phenomenon of the endowment effect (Wilson 2011). Individuals might be less sensitive to hidden or indirect taxes due to their relative visibility. For example, an employer’s contribution to public pension plan (an example of a hidden and indirect tax for employees) is rarely regarded as lost income because individual employees never really see this (and yet employers account for this in compensation). An employee’s contribution to the Canadian Pension Plan (CPP), however, is much clearer. This has important implications for the ways in which policy makers go about designing tax policy instruments. Policies can be designed in such a way de-emphasize the visible costs that are associated with the tax.

Researchers have gone beyond these basic findings to consider the implications for economic behaviour. In a notable field experiment, Raj Chetty and his colleagues (2007) made an important discovery about how the presentation of tax information can influence consumer behaviour. In the experiment, the authors posted price tags on several items in a grocery store displaying the tax-inclusive prices of the taxes. Doing so, they found reduced demand—when compared to the control group’s behaviour—for the relevant goods by 8%. In contrast, consumers had very little reaction to taxes when they were added at the cash register. This suggests that the form in which tax information is presented can have an independent influence on consumption patterns. If this is
the case, then we should also expect people to have different political reactions to taxes, depending on the form that a consumption tax takes in imposition.

Political Science Research and Taxation

Policy decisions about taxes invoke distributive questions, and by implication, represent political choices. Conflicts over which groups in society should pay more or less tax are recurring themes of the modern election campaign. Students of electoral politics (Zaller 1992; Page and Shapiro 1992; Stimson 1999; Bartels 2005; Soroka and Wlezien 2010; Burstein 2014) have been more attuned to the link between tax policy and electoral politics, even if indirectly, than other political scientists. Many large survey data sets, such as the European Social Survey (ESS), National Election Study (NES), and Canadian Election Study (CES) ask respondents about appropriate levels of taxing and spending. But even for scholars who rely upon these data sources, there is a prevailing tendency to focus disproportionately on the expenditure side of the ledger (e.g., Howard 1999; E. Huber and Stephens 2001). Given the prominence of tax debates that take place during and between election campaigns, we should expect a much clearer understanding of how citizens think and reason about tax policy choices.

In some ways, political scientists have left the systematic study of taxation to economists or public administration scholars. Part of this stems from the interest in what governments do, rather than how they are able do it. Students of the welfare state have examined changes to expenditures—and sometimes revenues—across comparative settings (for review, see Pierson 1996) but taxation is seldom considered in its own right. This is unfortunate. A focus on tax has the potential to bear considerable fruit. As Steinmo (1989) has argued: “[t]axation is at the center of ideological debate between left and right in every modern welfare state…. [it] is a critical arena in the politics of who gets what in society and who pays for it in all polities” (500, emphasis added). In addition to the instrument choice literature discussed above, taxes provide an excellent opportunity for political scientists to probe a fascinating and universal phenomenon. First, given risk-averse politicians, the decision of some politicians to pursue controversial tax policy reforms is counter-intuitive and thus worthy of scholarly attention. According to John Campbell’s (1993, 171) earlier summary of the field (e.g., Reese 1980; Hansen 1983), “fundamental changes in taxation are rare ... tax policymaking is more a matter of incrementally adjusting the existing tax code because policy makers generally prefer to avoid upsetting voters with radical tax reforms.” Second, and related to
the former point, many changes to taxes introduce changes that are salient to the electorate but are also highly complex. This has important implications for the political consequences that are likely to ensue. The high salience of tax changes means that voters will be more likely to punish officeholders than a lower salience policy change. To compound matters, the complexity of tax and the fiscal policy system mean that governments will likely have difficulty trying to explain and justify the nature of the policy change.

**Explaining the Structure of Tax Systems**

Political scientists have sought to explain variation across tax policy systems at the macro level. In *Taxation and Democracy*, Sven Steinmo (1996) examines the structure and development of tax policies in three countries, specifically Sweden, the United Kingdom and the United States. In his book length treatment of the subject, Steinmo attributes variation across tax systems to the structuring effect of constitutions and electoral systems on elites' incentives. Across his case studies, Steinmo notes general public opposition to new taxes or tax reform, yet his institutional analysis pays disproportionate attention to elite decision making. In Steinmo's view, citizens can constrain the options that are available to decision makers but the precise ways in which they constrain remains underspecified in the book. In a second important book, Guy Peters (1992) examines tax policy but in a much more general way than Steinmo. Rather than explaining cross-national variation, Peters seeks to understand tax policymaking as a distinct class of political phenomena. Peters explains how taxation differs from other policy areas such as welfare state spending or from other instruments of the state, such as regulation. According to Peters (1992), more so than any other policy area, “political considerations” drive tax policymaking. Yet it is not entirely clear what exactly these political considerations are. To his credit, Peters devotes an entire chapter to the “public acceptability” of taxation. The chapter, however, is fairly limited in providing an explanation for mass political behaviour vis-à-vis taxation. Much of the chapter summarizes findings about mass attitudes towards tax, many of which are intuitive. For example, citizens in OECD countries are, by and large, averse to new taxes and hold the belief that they pay too much tax. Tax aversion is more pronounced in the Anglo-American democracies than in parts of Europe. There is, however, no real effort to advance any causal explanation for the variation in Peters' findings. Finally, political scientists have also stressed the relationship between trade and taxation. The tax burden within a given country is related to the openness of the economy. As economies became more dependent on trade, governments used taxation as a way to “finance
expensive macroeconomic stabilization programs, such as social insurance, unemployment compensation, and job training” to buffer against the effects of the swings in the international political economy (Campbell 1993, 168; Cameron 1978).

The most important contribution to understanding Canadian tax policy comes from Geoffrey Hale's (2002) *The Politics of Taxation in Canada*. Hale provides a rich and provoking account of tax policymaking in Canada. The book traces the evolution of all aspects of the federal tax system through interviews, archival research and secondary accounts. Tax policymaking, Hale argues, is a function of finance ministers attempting to balance the demands of a diverse set of interest groups, including voters’ tax policy preferences. The analysis provides some important empirical insights into the process of decision making within the Department of Finance. Hale describes public opposition to various tax policy changes in Canada, including the Goods and Services Tax (GST), but the analysis of the nature of public opinion is quite limited. Beyond Hale's analysis, Canadian public administration scholars (see, for example, Good 1980; Maslove 1989) have also provided descriptions of how tax policymaking operates within the federal Department of Finance. These analyses tend to neglect the political considerations, such as how mass opinion can shape or constrain the tax policy decisions made by officials.

In a more recent exploration of tax policymaking, Eccleston (2007) explores the politics of consumption tax reform across four countries: Japan, the United States, Canada, and Australia. Specifically, Eccleston strives to explain why a complex policy idea such as VAT was adopted in some jurisdictions but not others. Eccleston (2007) identifies several conditions under which a consumption tax is likely to be introduced. First, policy solutions must be framed in a way that are consistent with embedded social norms, such as the distributive impact of the tax. Second, a “window of opportunity” must open to allow tax reform on the public agenda. Finally, there must a policy entrepreneur who cares enough about the issue and who is willing to exert time and energy to build and cultivate a supportive political coalition. In the Canadian GST case, Eccleston cites Conservative Prime Minister Brian Mulroney and Finance Minister Michael Wilson as the pivotal figures (see below for discussion). More than Steinmo and Peters, this explanation affords political considerations and citizens a much more prominent role (particularly, the first condition). Norms are the main way by which the public shapes tax policy choices. Understanding which sets of social norms are relevant and how these norms are activated — or primed, or framed — in tax
policymaking remains unclear. From the comparative literature, Eccleston provides the most useful framework and set of findings of which to build to date.

The Architecture of Canadian Fiscal Policy

The operation of the tax system in Canada is not fundamentally different from its comparative counterparts. Like most industrialized countries, Canada’s federal, provincial and municipal governments rely heavily on taxation as their source of revenue. The national tax system in Canada is primarily made up of four main revenue components: income taxes, sales and excise taxes, social insurance taxes (payroll taxes), and other less significant revenue streams (Hale 2002). These revenue sources are shared by different governments in Canada. Both the federal and provincial governments hold constitutional authority over taxation. The federal government has the legal authority to impose any kind of tax and can incur debt to finance public expenditures. Provinces and territories are not allowed to levy indirect taxes but can charge direct taxes for revenue generating purposes. The courts have allowed provincial and territorial governments to use sales and excise taxes by deeming such taxes as a form of direct taxation (Rosen et al. 2012). Although income tax represents the highest contribution to government revenues, money collected for the GST, PST, and HST are also significant.

Over the past 80 years, personal income taxes (PITs) have steadily grown as a percentage of total public revenue in Canada. To put this into context, prior to World War I, the Canadian government primarily relied on custom duties as a major revenue source. In 1934, during the Great Depression, income payroll and federal sales tax were only 37% of all federal revenue but by 1994 they constituted 83% (Rosen et al. 2012). Thus, there has been pronounced trend in Canada over the course of the 20th century: a shift toward consumption—such as sales taxes—and income taxes—including payroll taxes—and away from duty-related taxes with increases in free trade.

Evolution of Sales Tax Policy Changes in Canada

Starting in the 1920s, the Canadian federal government began to levy a tax which applied to all sales except those at the retail level. By 1924, the tax was changed into a Manufacturers Sales Tax (MST). The MST also did not apply at the retail level and was therefore invisible to the average consumer. The MST was very unpopular with manufacturers, however, since it was applied at the wholesale level, it never garnered much attention or criticism from the public (Bird 2012).
Although the MST underwent some changes over time, it stayed largely intact until the early 1990s.

In the post-war era, the provinces had also established their sales taxes, but unlike the MST, these taxes were levied directly at the retail level. All provinces in Canada, including Alberta, at some point one or another, levied their own provincial sales tax. Beyond concerns about the structure of these PSTs (see below), there were obvious disadvantages to this dual system of federal and provincial sales taxes. It meant affected industries had to comply with two different sets of tax systems and rules. Yet for decades, the MST and various PSTs served a fundamental purpose for governments, providing stable revenue sources for federal and provincial treasury departments. This was particularly important during economic downturns when revenues from corporate and individual income taxes declined. Between the 1960s and 1980s, however, various committees were established to consider better alternatives for the Canadian tax system. In 1966, the Report of the Royal Commission on Taxation, or the Carter Commission, recommended a nationally integrated retail sales tax where the provinces would collect provincial retail taxes (Bird 2012). This policy idea was never taken up despite a growing recognition amongst experts and politicians—at least privately—that the existing system was doing harm to the competitiveness of the Canadian economy (Hale 2002).

The Intellectual Push for VAT Reform

In the menu of policy options before policy makers in sales taxes, governments essentially have two main options. Of those two options, however, policy experts have long stressed the superiority of VAT (e.g., the GST-HST) over retail sales taxes (RSTs) (e.g., PST). The former is widely seen as leading to more equitable and efficient economic outcomes. As Charles Lamann, an economic policy expert at the Fraser Institute, described it:

> From a policy perspective, the tax policy conclusions surrounding a value added tax like the HST, a move towards that type of tax, is a desirable move from the standpoint of public policy on a particular tax policy. Why? Because it’s a more growth-orientated taxation than the old provincial sales tax. Economic research is quite clear that type of tax that the GST represents, and the integrated HST would represent, is one that is more growth-friendly because it taxes consumption instead of income and investments. From a tax policy perspective, it was the right move. You’ll find agreement [about this] across the political spectrum.\(^{15}\)

\(^{15}\) Interview, Charles Lamann, Vancouver BC, February 2015.
As a policy idea, the VAT finds its intellectual roots several decades back. In the aftermath of the Second World War, American policy experts were trying to help the Japanese government deal with the country's ailing public finances. The VAT was first proposed as a new way that the Japanese treasury could use to tax consumption but without discouraging investment. The problem with pure retail sales taxes or RSTs, the model that most jurisdictions used prior to VAT systems, is that while these taxes generate revenue for government, they have deleterious effects on other parts on the economy. Despite initial enthusiasm shortly after the Second World War, VAT systems did not pick up much momentum until the early 1960s. It was at this time that an influential report on European economic integration singled out a VAT as a vitally important economic idea. After this report, VAT-style taxes proliferated in Western Europe beginning with France in 1967 (Eccleston 2007). After witnessing the economic benefits of this sales tax for early movers, public finance economists and other tax policy experts encouraged widespread adoption of VATs across the world. As of today, among the OECD countries, VATs can be found in 34 of its 35 member countries, with the United States being the only outlier. While political observers might be struck by the rapid spread of the policy idea, the widespread diffusion of the instrument is less puzzling for tax policy experts. With the sole exception of British Columbia, no jurisdiction in the world has reverted back to the older model after implementing a VAT (Richards 2012).

Sales taxes are among of the most common revenue tools on which governments across the world rely to raise revenue. Historically, public treasuries have relied on two types of systems to tax the consumption of goods and services: the Retail Sales Tax (e.g., PST) system, and the newer valued-added tax (e.g., GST-HST) system. The main problem with RST systems is that they fail to distinguish between consumption by consumers and capital investment by businesses. Provincial sales taxes are distinct from the VAT taxes, such as GST/HST. The main difference is that PSTs result in businesses paying sales taxes on all their capital inputs. Under this system, then, goods are taxed at each point of the manufacturing cycle, rather than only at the final point of sale. Under an RST, these costs end up being embedded throughout the production process, cascading over different stages of this process.

Based on this critique, economists have long stressed the superiority of the VAT to an RST. There has been widespread uptake of this policy idea across the world. Tait (1988, 3) highlights the unprecedented nature of the spread of the VAT, observing: “[t]he history of taxation reveals no
other tax that has swept the world in some thirty years, from theory to practice ... Every continent now uses the VAT, and each year sees new countries introducing it.” As noted above, a common criticism about the RST is that while such taxes generate much needed revenue for government, they also produce several deleterious economic impacts. VATs resolve this problem by issuing input tax credits (ITCs) to businesses. Under a VAT system, businesses are charged initially but then deduct business-related input costs they are charged (for discussion, see McKenzie, 2009). Again, under an RST model, the source of the problem is that businesses pay sales taxes on all their capital inputs (e.g., equipment, operating costs etc.). In effect, under VAT the Marginal Effective Tax Rate (METR) on new investment can be greatly reduced. If businesses can demonstrate that a particular cost was undertaken for carrying out its operations, that is, a capital input, then the government will provide an input tax credit. In doing so, a VAT system reduces the METR on new investment for businesses. There are also downstream benefits that result from VAT for consumers. The empirical evidence from jurisdictions that have made the switch is that in the long run consumers will experience savings in the form of lower prices as businesses pass on their reduced tax burden (Bird, Mintz, and Wilson 2006; Smart 2007; Kesselman 2011).

The political challenge with this type of policy change is important, albeit complicated. Under an RST system, because the cascading costs of the tax become embedded into prices, they are not visible to consumers. In this way, for the average voter, the switch to a VAT solves a costly, and yet nearly invisible, economic problem. The more significant issue is how a switch to a VAT broadens the tax base. RSTs, particularly in the Canadian context, had been designed at a time where the primary goal was to tax the consumption of goods, rather than services. The proliferation of the service sector has meant that RST systems in Canada treat the sector in a highly arbitrary fashion. As time has gone on and as the service sector has made up a larger portion of the economy, this arbitrariness has created market inefficiencies as well as starved the provincial government of an important revenue source. A VAT system works by broadening the tax base, extending goods and services that may have been previously exempt (e.g., dry cleaning, haircutting, and bookkeeping). But these changes are often offset for consumers, at least in the aggregate, through eliminating the downstream effects of the cascading problem. The political challenge, though, is more cognitive than economic. Most consumers are likely to perceive a

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16 Interview, Michael Smart, Toronto, January 2015.
17 Interview, Kevin Milligan, Vancouver BC, July 2015.
change to a VAT as a tax increase. Citizens' inability to recognize their own material interests illustrates the negativity bias (Lau 1982) and loss aversion (Kallbekken, Kroll, and Cherry 2011). These cognitive biases act as disincentives for governments to switch over to a VAT system.

*The VAT Comes to Canada: The Goods and Services Tax*

Although it took the federal government a couple decades to do so, in 1991, the Parliament of Canada enacted a federal VAT tax: the Goods and Services Tax (GST). The new federal tax, however, was not coordinated or harmonized with provincial sales taxes. Although provincial coordination was an initial aim of the Mulroney government (Hale 2002), officials were much more concerned with the more basic objective of turning the MST into a VAT. Even though federal Finance officials had recognized the deficiencies with the MST system, problems began to surface in the 1980s that made the existing tax system fiscally unsustainable. The primary impetus for this was the sales tax base was eroding and the country was facing increased fiscal deficits (Hale 2002; Robertson 2005; Bird and Gendron 2009). Various industries that were subject to the tax secured exemptions. These exemptions put pressure on the federal treasury since it effectively narrowed the tax base. Facing subsequent deficits, the federal government chose to raise the MST rate from 9 to 10% in 1984, then again to 11% in 1986, again up to 12% in April 1986 and finally to 13.5% in 1989 (Bird, Mintz, and Wilson 2006). The increased revenue might have been good for the federal balance sheet but it placed Canadian manufacturers at a competitive disadvantage each time the rate was raised.

Despite consensus on the desirability of reform among federal Finance officials, two challenges hampered progress on a nationally integrated sales tax system. First, although there was broad acceptance of the superiority of a VAT within the federal government, this enthusiasm was dampened by the provinces. Numerous provincial governments expressed concerns about how a national VAT would affect provincial tax capacity. These concerns, at least in the opinion of experts, were largely warranted. As Bird and his colleagues (2006, 889) point out, subnational governments preferred to have separate sales tax systems so that they could “retain some degree of fiscal autonomy.” Beyond the familiar barrier of policy coordination within a federal framework, elected officials at the federal level had electoral reasons to fear reform. There were concerns at the time about how turning the invisible, and yet economically costly, MST into a visible VAT-style tax would play out with the electorate (Eccleston 2007). These fears were subsequently
confirmed in the late 1980s when Finance Minister Michael Wilson announced that the federal government would be replacing the MST with the GST. So while the issue of a national VAT sales tax had been floating around for a couple of decades (Bird 2012; Bird and Gendron 2009), various political factors impeded progress on this file. This all changed, however, with the re-election of Mulroney-led Progressive Conservatives in the 1988 Federal Election.

The negative response by the public as well as the highly controversial way in which the Mulroney government secured the enabling legislation has been the subject of several studies of the GST (Campbell and Pal 1991; Hale 2002; Eccleston 2007). The purpose of this chapter, however, is not to re-examine the politics of the GST. The experience of the federal government with the GST, however, is important for a couple of different reasons. First, the adoption of the GST was a “critical juncture” (Thelen 1999) for tax policymaking in Canada. Enacting the tax not only demonstrated to federal Finance officials that a VAT-style tax could be successfully implemented in Canada, but also the experience placed pressure on the provinces to reform their own sales tax system. Even though the GST move was unpopular, policy experts largely concluded that the policy demonstrated the value of the VAT. The tax reform fulfilled the two goals it sought to achieve, first, serving as a stable revenue source—and thereby helping with the ballooning federal deficit—and second, eliminating the hidden taxes on exports and investment (Bird and Gendron 2009). In a different vein, the GST experience highlighted the electoral risk a government faced in making sweeping changes to the sales tax system. Although many factors likely contributed to the defeat of the PC government in the 1993 federal election, analysts have singled out public opposition to the GST as a primary determinant of vote choice (Frizzell, Pammett, and Westell 1994). The consequences of GST reform weighed heavily inside minds of decision makers at the provincial level. In the 1990s and early 2000s, if sales tax reform came up for debate within caucus, the idea was always shot down. The GST reform at the federal level had lasting political consequences, even for provincial governments contemplating major sales tax reform. In Hale’s (2002, 221) analysis, the GST experience “demonstrated that much of the public is more concerned about the prospect of paying higher taxes than about theoretical arguments concerning tax fairness or economic efficiency.” At the same time, Don Drummond, one of Canada’s leading public economists, identified some interesting patterns about mass responses:

In public opinion surveys there are two kinds of questions on the GST: there are singular and paired questions. On the singular questions, everybody says they hate
the GST. There’s a very different result when you look at the paired questions. So the question: “would you prefer to pay the GST or HST, or personal income taxes,” – respondents would rather pay the GST. There, the taxpayer turns out to be quite sophisticated because the view behind that when you do focus groups, is that you can’t avoid the personal income tax. It’s automatically taken off, and in fact you often pay it twice because you pay it again on any investment returns, whereas you don’t have to pay the GST if you don’t consume, so you have a choice in the matter. It is always to simply put down as an axiom that everybody hates the GST, and I don’t think that is an accurate depiction of it. People hate taxes in particular, but when you start asking them questions amongst taxes, GST doesn’t come out all that badly.\(^{18}\)

The Push for a National Sales Tax or Harmonized Sales Tax

Although the federal government in the 1990s was fully convinced by the merits of VAT taxes, provincial leaders were not nearly as supportive. The Alberta, Ontario and BC governments launched a constitutional challenge to the GST arguing that the tax went beyond the constitutional authority of the federal government. The courts, however, ultimately sided with the federal government. The Government of Quebec, on the other hand, came to recognize the superiority of the VAT and decided to work with the federal government by replacing its existing PST with a new provincial VAT: the Quebec Sales Tax (QST). The federal government negotiated an agreement with Quebec where the provincial treasury would collect both the GST and the QST (Bird et al. 2006). In the 1990s, the federal government had a considerably more difficult time trying to convince the other provinces to make changes to their sales tax systems.

After the introduction of the GST by the federal government in the early 1990s both levels of government were pressured by experts and stakeholders to harmonize their sales taxes. The fact that many businesses had to comply with two separate tax systems was viewed as a major impediment to Canada's economic competitiveness and administrative efficiency for governments. In the 1990s, economists joined the federal government and argued the provinces must shift away from the PST model. Many of Canada’s leading think tanks, such as the CD Howe Institute, the Canada West Foundation and the Conference Board of Canada had historically called for provinces to eliminate their PSTs. One straightforward way of doing this was to streamline the federal (GST) and provincial (PST) portion of sales taxes. This is essentially the idea of tax harmonization. While this sounds quite straightforward, it is more complicated in practice. Since

\(^{18}\) Interview, Don Drummond, October 2015.
the GST is already a VAT tax, it does not require any structural change. Under harmonization, the provincial portion of the sales tax must be reformed so that it has an identical tax base and set of rules.

Institutional factors make provincial sales tax reform more complicated in Canada than in other federal jurisdictions. The switch in Canadian provinces to a VAT system involved two distinct changes. The first was the replacement of the existing retail sales tax with a provincially determined VAT. The second, however, relates to Canadian federalism. Canada is distinct from many other jurisdictions in that each order of government can impose a sales tax (Bird 2012). Although, the constitution limits the type of taxes each order can levy. Since Canada already has a VAT imposed at the federal level—the GST—there is a compelling rationale to leave collection of any new provincial VAT with the existing GST. Rather than having provinces set up a new VAT system on their own, tax collection can be handled by the Canadian Revenue Agency (CRA). The other benefit is that businesses only have one agency and one set of rules with which to comply. Administratively, then, the benefits of having one point of tax collection are clear cut. Apart from Quebec, provinces which have made the switch to a VAT system have also uploaded the collection of sales taxes to the CRA (Hale 2002).

Sales tax reform also shifts considerable authority away from the provinces and towards the federal level. So, although provincial governments can benefit from the policy shift from a macroeconomic standpoint, it comes at a considerable cost to control. To take one example, even though provinces are not forfeiting revenue under harmonization, they lose control over the administration of sales tax collection. Such reform is likely to be opposed by bureaucratic agencies which are responsible for provincial sales tax administration. So, while senior officials in the Ministry of Finance may laud the broad economic benefits, public service unions and workers in the sales tax division likely have a distinct perspective. These issues surrounding autonomy have historically formed a major sticking point in federal-provincial discussions over sales tax reform.\textsuperscript{19} Beyond the issue of displacing government workers, agreement between federal and provincial governments must be reached on a whole host of important fiscal details, including determining exemption rules and rate changes.

\textsuperscript{19} Confidential Interview, Toronto ON, November 2015.
In sum, sales tax reform is complicated in any jurisdiction looking to switch over to a value-added system. As in any policy transition, the beneficiaries of the policy status quo, including affected government departments, have clear incentives to resist reform. Sales tax reform, or at least this particular variant, is further complicated in the Canadian context by the fact that it requires intergovernmental agreement. Administratively however, sales tax collection can be streamlined by exclusively leaving it to one administrative body, such as the Canada Revenue Agency. It is important to emphasize that just because there is only one tax levied and one agency responsible for enforcing compliance, this does not affect the revenue that each level of government is entitled to. That is, when provincial governments harmonize their sales taxes, they do not forego sales tax revenue. Harmonization merely combines a federal sales tax rate with a provincial rate. This also means that each level of government can independently make changes to its respective rate, as the federal government did in 2007, and the Nova Scotia did in 2012.

Finance officials in Ottawa had hoped that they would be able to negotiate tax harmonization agreements with the provinces. The Conservatives in the 1990s spent so much time and effort getting the GST pushed through federally that there was little appetite to start negotiating tax reform with the provinces. The election of the Chrétien Liberals in 1993, however, forced the issue of sales tax reform back on the agenda. A major part of the Liberal platform was a commitment to repeal the much maligned GST (Eccleston 2007). After assuming office though, the Liberals began to reconsider their position on the GST. One of the first things they did in office was ask the House of Commons Finance Committee to consider sales tax alternatives. To the government's surprise, the committee ended up coming back with a recommendation to keep the GST. Moreover, it recommended that the provincial sales taxes should be converted into a VAT-style tax or harmonized into the GST (Bird and Gendron 2009). Paul Martin, the Finance Minister, ended up taking the advice of the committee and took the recommendation to the provinces. In October 1994, Martin met with all his provincial counterparts and made the case for sales tax harmonization.

In 1996, the federal government made some headway in sales tax integration. Finance Minister Paul Martin managed to entice three Atlantic provinces—New Brunswick, Nova Scotia and Newfoundland and Labrador—to harmonize their sales taxes. Part of the reason for uptake was the federal government provided $961 million to the three provinces (in total) over the next four years
Along with the Quebec Sales Tax (QST), the HST meant that almost one-third of Canadians operated under a VAT system. Although the federal government had partially succeeded by bringing Atlantic Canada on board it failed to convince the other larger provinces that VAT reform was in their fiscal and economic interests. The provinces were not persuaded. In the case of BC, the NDP Finance Minister, Elizabeth Cull, rejected the federal offer. According to media reports, Cull was not convinced that the accompanying changes to sales tax exemptions would be in the interest of British Columbians nor was she persuaded by the claim that business savings would be passed onto consumers (Clarke 2009). Based on evidence presented in the subsequent chapters, until the summer of 2009, this was the last time that the federal government and BC government engaged in any formal discussion of sales tax harmonization.

Just as the federal government approached Ontario and BC about harmonization in 2009, Prince Edward Island became the latest province to harmonize its sales tax system with the federal GST in 2013. The only provinces today that are not part of the GST/HST system are the three western provinces: Saskatchewan, Manitoba, and British Columbia. The following four chapters examine phase II of sales tax harmonization Canada, exploring the varying experiences with HST reform in Ontario (Chapter 4 and 6) and British Columbia (Chapter 5 and 7).

The purpose of this chapter has been two-fold. The first half sought to provide a general overview of taxation and tax policymaking. The chapter began by sketching out how scholars have conceptualized taxation as well as explored how tax policy changes introduce distinct political challenges for politicians. The review of the academic literature on the subject of tax suggested that political scientists have been less engaged with the systematic study of taxation despite its politicized nature. In the second half, the chapter identified the evolution of tax policymaking in Canada, with specific attention to the case of sales tax reform. Experience in the Canadian context demonstrated the extent to which political and institutional challenges have structured reform efforts in the past. These themes are returned to and explored in the next four chapters.
CHAPTER 3: A THEORY OF CONSUMPTION TAX REFORM

Introduction

The purpose of this chapter is to develop a theoretical explanation for the following two questions: First, what set of conditions prompt elected governments to enact general-interest reforms? Second, why are these reforms institutionalized in some cases but not in others?

The chapter advances four central claims. First, it argues studies of policymaking would be greatly enriched by paying greater attention to the role of mass publics in the policy process. Better incorporation of citizens into theories of the policy process can deepen our understanding of how citizens shape—and are shaped by—policy reform. Second, the chapter suggests a more fruitful starting point for understanding policy change is to explore how central characteristics of a policy reform affect the political viability of the idea. It argues that policy viability is a function of issue complexity, policy cost, issue salience and issue fragility. Building from policy diffusion scholarship (Boushey 2010), the chapter proposes a schematic for organizing policy reforms. Third, the chapter proposes a two-stage analytical framework to understand the uptake of general-interest reforms and explain empirical variation in the institutionalization of such policy changes.

The framework identifies a clear set of causal propositions while also capturing the complexity and contingency of policy reform. The contribution of the framework is two-fold. The first part brings together insights from work on policy ideas (Hall 1993), multiple streams framework (Kingdon 1984; Birkland 1998; Zahariadis 2003), and policy diffusion (Weyland 2005; Gilardi 2010), identifying the conditions enabling policy reform to emerge on the government’s agenda. To explain policy uptake at the elite level, the theory proposes two alternative mechanisms: learning and emulation.

The second part of the framework offers an important contribution to our understanding of distributive politics and policy feedback effects (Pierson 1993; Bélard 2010; Campbell 2012). In the enactment and implementation stages of policymaking, the framework explains how governments can dampen opposition to major policy change from organized interests and the public. By enlarging the scope of policy benefits or by offering compensation to policy losers, governments can help mitigate public backlash. Moreover, it also demonstrates how policy designs can produce incentive effects for politicians, interest groups, and interpretive effects for
mass publics over time. The argument is that policy designs enacted by governments at $t_1$ have political consequences for actors, contributing to either policy sustainability or policy reversal at $t_2$. To date, much of policy feedback scholarship has focused on how policies afford particularized benefits, creating strong bases of support in civil society (Mettler and Soss 2004), altering the incentives of politicians and thus contributing to policy stability over time (Jacobs and Weaver 2015). One contribution of the theory adopted below is that it explains how the distribution of policy costs—as opposed to exclusively benefits—can create feedback effects. In addition, the theory explains how degrees of mass attention to the costs of a reform are mediated by the design of political institutions. These varying processes of policy feedback effects can be used to explain variation in the institutionalization of a policy reform.

*Plan for the Chapter*

The chapter is organized in the following sections. In Section 2, the chapter provides a broader review of research on the politics of policymaking, examining institutional, interest-based, and ideational explanation of politics. The analysis explores important insights from these literatures as well as some explanatory limits in the case of consumption tax reform. In Section 3, the chapter outlines the political factors working against the prospect of tax reform, identifying the policy dilemma facing elected politicians. Section 4 explains how combining existing insights from scholarship on public policy and mass political behaviour can offer important insight into the policy process. In Section 5, the chapter provides discussion of the politics of policy reforms more generally, examining why and how different aspects of a reform’s characteristics influence the receptivity of a policy idea at the elite level. Drawing on existing work in policy diffusion and policy feedback effects, it argues there are central features of tax reform that decrease the likelihood of it getting on the agenda. Identifying these attributes and how they interact with the political process are a useful precursor for understanding the conditions that prompt the uptake of major fiscal policy changes.

In Section 6, the study discusses some of the micro-level assumptions that underpin the analytical framework. The theory is anchored by specific micro-level assumptions about individual decision making, modelling policy elites and mass publics in distinctive ways. In Section 7, the chapter proposes a two-staged analytical framework (see Figure 3.3 and Figure 3.4) of the policy process, linking mechanisms of learning and emulation to policy uptake. The second part of the framework
theorizes how material/incentive effects and interpretive effects (Pierson 1993) influence policy elites (policy makers and interest groups) and mass publics. Across both stages of the framework, attention (Simon 1985) plays a key role in structuring how actors process and respond to information. This section describes the causal logics as well as identifies indicators and observable implications of the theory. Finally, the chapter describes various alternative hypotheses that are tested in the empirical analysis (Chapters 4–8).

**Situating the Theory**

Studies of public policy and decision making have proliferated over the past few decades (John 1998). In political science research, explanations of policymaking tend to focus on institutional, ideational and interest-based factors. This section describes some of the causal logics of these approaches, with particular focus on studies where policy change is the main dependent variable. The section also reviews some of the limitations of these existing theories. For greater clarity, this section primarily deals with studies examining efforts by governments to enact major public policy changes.

*The Political Economic Context*

In recent decades, public policy scholars have been interested in explaining the capacity of governments to enact sweeping and controversial policy changes. Like much of political science research, interest in this subject was prompted by various puzzling political developments. Interest in questions of political economy and the fiscal role of the state followed after the 1970s, a period marked by considerable political and economic turmoil. Rising inflation, stagnant economic growth, the maturation of welfare state programs and the aftershocks of the oil crisis forced governments to experiment with different policy ideas and tools (Hall 1993). These macroeconomic pressures put considerable strain on public treasuries and the pocketbooks of voters. The persistence of new economic challenges as well as the state's seeming inability to fully address them gave rise to new sets of political ideas. Chief among these were ideas about the role of the government in managing the economy. During this period, treasury departments, particularly in Anglo-American democracies, started to abandon the post-war commitment to Keynesian economics and shifted toward a model of monetarism (Hall 1989). These ideas were most aggressively championed by right-of-centre political parties, leading to the election of several reform-oriented governments. These governments were keen to overhaul the social and
economic role of the state. The elections of the Thatcher government in the UK, the Reagan government in the US (and to a more limited extent the Mulroney government in Canada) embodied this profound ideological shift. The Thatcher and Reagan governments pursued many economic policy changes, including massive cuts to personal and corporate income tax rates. When these governments set their sights on making major changes to existing welfare state programs, including public pensions, health care, and public housing, their effort met considerable resistance. These new sets of policy ideas and the accompanying political struggle captivated the interest of public policy researchers.

*Institutional Accounts*

The politics of welfare state retrenchment created a series of inexplicable policy developments for political science research: the endurance of welfare state policies in the face of broad ideological assault and broader fiscal pressures. A key barrier identified was the importance of voters. In these cases, governments confronted voters and/or well-organized interest groups who managed to skilfully exploit the design of political institutions to undermine policy change. Powerful forces helped stabilize the welfare state, given the high electoral costs of retrenchment initiatives. This is not to say that change and retrenchment were impossible. As Pierson (1996: 174) observes:

> Many programs experienced a tightening of eligibility rules or reductions in benefits. On occasion, individual programs (such as public housing in Britain) have undergone more radical reform. In countries where budgetary pressures have been greatest, cuts have been more severe (Pierson 1996, 174).

This political context sparked scholarly interest in the nature of elite political behaviour and in explaining variation in government capacity to impose losses. Weaver's (1986) pathbreaking analysis of blame avoidance helped establish a research agenda for this subject. Weaver's discussion of incentives was crucially important in correcting the prevailing view, which assumed credit-claiming lay at the heart of decision making. Weaver argued avoiding blame for unpopular choices was a central motivation in politics but poorly understood or explained. The incentive to avoid blame could be explained by voters' negativity bias, that is, their “tendency to be more sensitive to real or potential losses than they are to gains.” Blame avoidance was a theme continued by Weaver and several collaborators over the 1990s and 2000s. In a series of insightful pieces on welfare state retrenchment, Pierson (1993, 1994, 1996) fused scholarship on blame avoidance with historical institutionalism, offering a powerful and enduring explanation for
resilience of welfare state programs. For Pierson, through processes of path dependence, welfare states had mobilized new constituencies through the provisioning of social benefits. Moreover, existing political institutions, or the “rules of game” worked to shape incentives and strategies of these groups, providing opportunities to protect their benefits.

Modelling politicians and the political process in this way had two distinct advantages. First, it provided greater analytical clarity about the different incentives that politicians hold. Second, it drew attention to the strategic aspect of politics, explaining how governments could deploy specific strategies to attain their goals, including obfuscation and dividing and conquering (Pierson 1994). This line of inquiry led to a series of studies examining the efforts of reform-oriented governments to pursue unpopular policies. Interest in Pierson’s work continued in the late 1990s and early 2000s, with a series of works seeking to understand empirical variation. Why, for instance, were some governments successful in imposing visible losses on specific constituencies? The explanations adopted in these studies focused on the interaction between institutional rules and the role of organized interests. Comparing the experiences of Canadian and American governments, scholars argued that loss imposition capacity is more limited in a congressional system due to the ability of potential policy losers to mobilize and exploit the variety of veto points in the policymaking process (Lascher 1998; Pal and Weaver 2003). As Pierson and Weaver (1992) note, the concentration of authority in parliamentary systems also concentrates accountability, making it much more risky to impose loss than in institutional systems where the buck could be more easily passed.

Over time, institutional scholars have looked more carefully at welfare state policies, finding evidence of retrenchment but also the absence of large-scale policy change. One particular promising area of research has been through concepts of policy drift and conversion (Thelen 2004; Hacker 2004). Drift explains how changes in the operation or effect of policies can occur without significant changes in those policies’ structures. The argument is that keeping social policies off the agenda is a strategic action pursued by welfare state opponents who aim to incrementally block compensatory interventions that are designed to ameliorate intensified risks. Hacker (2004) argues that drift is more likely to occur when there is a high number of veto players and high social support for a policy. In contrast, conversion explains how policies can be adapted by ground-level changes in institutions and administrative procedures, prompting changes in the delivery of
policies. This incremental turn in welfare state scholarship has been an important contribution to the literature, explaining how the sources of policy change can be endogenous, thereby turning attention to quiet politics. In doing so, it has helped historical institutionalists deal with a common explanatory challenge: accounting for change in the absence of some exogenous shock (Thelen 1999).

These advances in institutional scholarship have significantly improved our understanding of how politics of the welfare state is structured by the incentives created by institutional structures. At the same time, they are less helpful in explaining variation in changes to fiscal conditions. Expenditure decisions are distinct from revenue decisions. Governments have much less flexibility in how they design revenue generating tools. The institutional set of explanations fails to explain empirical cases where political institutions are relatively similar but the willingness of governments to engage in major fiscal policy change varies. Furthermore, by placing too much emphasis on structure, institutional analyses might overlook the agency of political action; that is, the capacity of actors to advance their goals and alter their political trajectories. Although drift and conversion offer an important correction to this view, this scholarship would benefit from greater attention to the intricacies of policy development, especially in how actors can use framing (Cox 2001) and policy design (Jordan and Matt 2014) to overcome traditional obstacles to reform. This is not to suggest that institutions are not important in shaping outcomes. One of the main original insights of new institutionalism that “institutions constrain and refract politics but they are never the sole ‘cause’ of outcomes” (Thelen and Steinmo 1992, 3). Our models of policy change need to theorize the ways in which institutions can mediate the effect on our variables of our interest. Jacobs’ (2009, 70) examination of how “the degree of institutional insulation” within a political system is causally related to other conditions in his model (mental models and electoral safety), demonstrates the fruitfulness of this approach.

*Interest-Based Models*

A considerable portion of the policy studies literature asserts that the most significant factor in understanding policy dynamics is the influence of organized interests. Organized interests have been shown to have a powerful effect on policy outcomes, especially in cases where issue salience is low and organized interests have material interests at stake (Korpi 2006; Culpepper 2011; Hacker and Pierson 2010) The reasons for this are manifold: organized interests enjoy
disproportionate access to decision-makers; they can effectively marshal their organizational resources to exploit a variety of institutional venues (Immergut 1990); and finally, policy makers have financial and/or political incentives to be responsive to these groups (Hacker and Pierson 2010). A second line of reasoning, rooted in rational choice theory, focuses on the cross-sectional distribution of costs and benefits of policies and what this implies for interest group behaviour in the policy process. When policy interventions seek to produce some kind of diffuse benefit for the public at large, this often translates into concentrated costs for an interest group. Consider, for example, a policy that seeks to cut agricultural subsidies to lower prices for consumers. Based on the logic of collective action (Olson 1965), existing theories would predict that organized interests will triumph in this instance since they are more likely to attend to policy information, mobilize their resources and pressure policymakers. The beneficiaries of the policy (i.e., the public at large) do not have the same incentive to mobilize since the relative benefits tend to be more diffuse (Wilson 1980). The expectation of this theory is that general-interest policy reforms have little potential to be enacted due to the problems of collective action. But as will be explored below, there are theoretical and empirical reasons to reject the applicability of the assumptions of interest-based models to understand variation in consumption tax reform.

Although interest-based theories have had some success in explaining a wide range of political phenomena, there are a few problems with applying these theories to the study of major tax reform. The first is that these theories have a challenging time making sense of the enactment of general-interest reforms. Several studies have documented episodes of general-interest reform succeeding; that is, where extremely well organized interests have been defeated and the public interest has prevailed (Derthick and Quirk 1985; Patashnik 2003). For Derthick and Quirk (1985), the key to understanding these anomalies is the role of ideas, and specifically the capacity of experts to convince politicians of the merits of the policy and the congruence of the policy’s aims with politicians’ ideological beliefs. This is important for our purposes since consumption taxes share some of the attributes of a general-interest reform. It can be argued that externalities fit into this category, a problem that carbon taxes seek to resolve, as well as taxes that exempt certain goods and services. The second issue with interest-based accounts is that they are ill-suited to account for policy episodes where issue salience is high. Introducing new taxes or increasing existing ones requires policy makers to make highly visible policy changes that affect both organized interests and the public at large. It is unlikely that organized interests can simply exert
their power through what Culpepper (2011) terms ‘quiet politics’. Based on these concerns, the most important barriers to taxation likely will not stem from the powering (Heclo 1974) of organized interests, at least not exclusively.

*Ideational Explanations*

Interest-based accounts are not the only theories of the policy process that might be helpful in explaining patterns of policy reforms. Several other scholars have focused on the role of ideas and idea carriers in explaining policy change. They include but are certainly not limited to: the beliefs of the actors in the policy subsystem (Sabatier and Weible, 2007); the role of policy entrepreneurs in advancing particular ideas (Kingdon 1984); the manipulation of existing policy images and search for alternate decision making venues (Baumgartner and Jones 1993; Pralle 2003); or the arrival of new political actors with fundamentally different understandings of policy problems and policy goals (Hall 1993; Skogstad 2008). While these approaches privilege different elements of the political environment, they all point to plausible sets of ideational factors that can influence the receptivity towards reform.

An ideational framework is probably more useful for examining the puzzling phase of policy-making; that is, how policy elites rely on ideas to formulate beliefs, define goals and rank preferences. These theories, however, tend to be elite-centric and do not consider the behaviour of mass publics in their analyses. If mass publics pose the most significant barrier to imposing a tax increase then we need a theory explain how, when and why mass publics deem a tax increase as acceptable. Ideational factors likely play a key role in explaining public acceptance but the specific causal mechanisms—such as framing, learning/persuading, powering through policy design—need to be investigated.

**The Challenge of Tax Reform**

Tax reforms pose a thorny political challenge for elected officials. Primarily due to their distributive impacts, tax policy changes are distinct from other types of reforms. To take one example, when elected officials announce a new government program, they typically assume that a supportive coalition will mobilize and coalesce behind the government policy. Existing work suggests political mobilization is much more likely when the benefits (or costs) of a policy change affect a concentrated clientele and less likely when the affected constituency is more diffuse.
Thus, the nature of collection action varies, typically hinging on how a proposed policy change will shift existing costs and benefits. This literature assumes groups consist of *instrumentally rational actors* (Zagare 1990). The logic is that political actors will expend resources in the prospect of their own gains, or to protect their existing benefits. When policies are more diffuse, however, actors are more likely to free ride on the efforts of others. Patashnik (2003, 203–4) frames the collective problem this way:

> When the benefits of a given policy are concentrated but its costs are diffused, the beneficiary group will recognize that its interests are at stake and will have a strong incentive to mobilize. In contrast, the more diffuse group (e.g., consumers, taxpayers) that bears the policy’s costs either will be unaware of these costs or will be indifferent to them.

Findings from cognitive psychology reveal a different pattern (Tversky and Kahneman 1985), suggesting different implications for how individuals’ receptivity will respond to altering costs and benefits. Across a variety of empirical settings, individuals exhibit a strong aversion to loss; they are much more sensitive to losses and negative information than to logically equivalent gains (Wilson 2011) and positive information (Bloom and Price 1975; Lau 1982; Soroka 2006). The political implications of these behavioural tendencies are remarkable, especially in understanding how mass publics respond to the prospect of material losses (Pierson 1996).

Policy changes that reconfigure the existing distribution of material benefits and costs, including many comprehensive tax reforms, introduce new costs for concentrated and diffuse clienteles alike. Many tax reforms have this effect because they broaden the existing tax as a mechanism to achieve greater macro-economic efficiencies and/or equity. Among general-interest reforms, scholars have also examined the political difficulties surrounding various regulatory policy changes, including telecommunications, agriculture, commercial airlines, and government procurement (Kingdon 1984; Derthick and Quirk 1985; Patashnik 2003; 2008). The conditions enabling governments to succeed in enacting such reforms are both infrequent and fleeting.

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20 Tax reform is admittedly a broad term that could potentially involve any change to tax policy (e.g., introduction of tax cuts, tax expenditures). By tax reform in this study, I am referring specifically to large-scale policy efforts that fundamentally restructure or reorganize a tax system. Examples of this include: the introduction of a new tax (e.g., introduction of GST in Canada, 1991); efforts to significantly alter structural elements of the income tax system (e.g., 1988 federal income and corporate tax reform in Canada) and significant changes to the tax code (e.g., United States 1986 tax reform). Marginal adjustments to tax rates would typically not be considered an example of tax reform.
Problems of collective action and other individual-level cognitive biases are key sources of policy inaction.

**Bridging Policy Studies and Mass Politics**

This study combines theoretical insights from two disparate sets of literature in political science research: public policy and mass political behaviour. Comparative public policy scholarship has proliferated in the past few decades. A main strength of this field has been its capacity to distil complex processes of decision making through careful explorations of how micro-, meso- and macro-level variables influence policy outputs (Cairney and Heikkila 2014). As Peter John has argued, these studies have yielded compelling insights into the role of “ideas, agendas, policy analysis and coalition-formation” (John 1998, 11). The impact of policy scholarship has been far-reaching, influencing the wider discipline’s understanding of causal mechanisms that drive broader institutional change, including shifts in attention, (Jones and Baumgartner 2005), ideas and norms (Berman 2001; Bleich 2002), learning (Hall 1993; May 1992; Blyth 2007), endogenous drivers of institutional change (Hacker 2004; Thelen 2004) and framing effects (Stone 1989; Cox 2001). The policy process literature has made great strides in advancing our understanding of politics but can be faulted for being too concerned with elite behaviour. Many policy process theories (Cairney and Heikkila 2014) tend to downplay the role of mass publics and their policy preferences. On the other hand, public opinion and elections scholars, particularly in the United States, have been criticized for the opposite, too rarely exploring the relationship between mass political behaviour and public policy. The lack of common ground has meant infrequent engagement across these traditions. Mettler and Soss (2004) identify the endurance of “systems theory” as a major culprit. In their view, systems theory has continued to serve as a heuristic for scholars’ conceptualization of the political process, specifically in its portrayal of mass policy preferences as “system inputs” and public policies as “outputs” of the system. This is problematic. As Mettler and Soss (2004, 55) explain it:

> Relegated to opposite ends of the political process, these subfields remain effectively cordoned off from each other. Students of mass politics usually treat public policy as a remote, eventual target of political action, or as an indeterminate object of citizen preferences. Scholars who study policy formation focus on elite representatives and advocates, addressing mass publics primarily as background influences on the more proximate policy actors.
This is regrettable since each subfield has important sets of tools and insights to bear on questions of public policy and political behaviour. At the same time, Mettler and Soss might be overstating the case. Many public opinion and political behaviour scholars have examined mass policy attitudes in their work (e.g., Zaller 1992; Bartels 2005; Stimson, Mackuen, and Erikson 1995; Manza and Cook 2002; Burstein 2003; Soroka and Wlezien 2010). Yet existing scholarship tends to model the relationship between policies and citizens preferences in a highly linear and system theory-like fashion, with some important exceptions (e.g., Soroka and Wlezien 2010). The result is that many public opinion-public policy research efforts fail to examine how policymaking elites and mass publics interact as a specific policy develops over time. Beginning with Zaller (1992), though, public opinion research has increasingly examined the elite-level determinants of public opinion. Since then, various studies have demonstrated the extent to which mass policy attitudes derive from elite or partisan cues (Jacobs and Shapiro 2000; Cohen 2003; Bullock 2011). The prevalence of mass cue taking from elites suggests a need to examine how these interactions structure policymaking dynamics.

There are a variety of key ontological assumptions that underpin policy process research. To some degree, these ideas sit uncomfortably with some assumptions in political behaviour work. First, the policy process is understood to be made up of hundreds of elite actors who often possess different values, interests, perceptions, and policy preferences (Sabatier 2007). These actors invest political resources into converting these beliefs into policy action. One critique of some public opinion scholarship is that it assumes the median voter is the singular “driving force behind policy” (Hacker and Pierson 2010, 154). According to this perspective, policy outputs are not puzzling since they can be explained by locating the preference of the median voter. Of course, governing is much more complex than this stylized model suggests; policy decisions are shaped by a plethora of actors with varying interests.

A related concern for policy scholars is the assumption of re-election as the pre-eminent goal of elected officials (Mayhew 1974), ignoring the role that policy-oriented motivations might play. The difference in assumptions is important. As Jacobs and Shapiro (2000, 25) explain, the median voter theorem “predicts that politicians perceive high personal benefits from adhering to centrist opinion and minimal costs from compromising their policy goals”, although a policy-oriented motivation stresses the “benefits from pursuing their preferred policies while sizing up the
electoral risks as manageable.” Although there is variance in terminology, in policy studies there seems to be a prevailing belief that policy decisions can reflect both electoral concerns and policy motivations.

One helpful way to think about this is that “holding office is a means to policy end” for elected officials. Politicians try to “optimize between electoral and political considerations ...” (Jacobs 2009, 32). Another alternative is that the median voter might carry some influence but that power might vary depending on political conditions. The influence of public opinion is often contingent upon the individual characteristics of the policy output in question, especially with respect to how salient the issue is (Culpepper 2011). Second, in a given policy domain, there are normally multiple programs that involve multiple levels of government which can affect policy outputs and outcomes (Sabatier 2007). Studying public opinion and preferences can be difficult in this respect since voters’ understanding of which level of government or agency is responsible is hampered by the sheer complexity of multi-level (Cutler 2004) and nested forms of governance (Howlett 2009).

Third, policy scholars generally agree that the minimum time span for a full “policy cycle” (from problem identification to implementation and evaluation) in the policy process is usually not less than a decade (Sabatier 2007). For policy scholars to properly examine a policy development, their analysis depends on careful examination of how these complex policy subsystems, involving a multitude of actors and nested institutions play out over an extended period. In comparative politics, historical institutionalists have been acutely sensitive to this issue of temporality. As Pierson (2004, 16) explains:

... because many important social causes and outcomes are slow-moving—they take place over quite extended periods of time and are only likely to be adequately explained (or in some cases even observed in the first place) if analysts are specifically attending to that possibility.

This is not to suggest political behaviouralists have been indifferent to temporal considerations (for example, see Page and Shapiro 2010). Yet, a considerable portion of work on the policy-public opinion nexus relies on a snapshot of policy attitudes, failing to examine the broader political context in which these attitudes and beliefs have developed. As Pierson has described it, the problem in these studies is that variables are being completely “ripped from their temporal context” (Pierson 2000b, 72).
On the other hand, the literature on the policy process has committed the opposite offence, paying insufficient attention to the influence of mass opinion on elite decision making. Some of the dominant theories of the policymaking process primarily focus on elite decision makers (Baumgartner and Jones, 1993; Sabatier and Weible 2014, 2007; Kingdon 1984). For some policy areas, it might be more reasonable for scholars to ignore or downplay mass policy preferences. As described below, different types of policy challenges elicit varying degrees of interest from the public. As examined below, when a policy area is highly technocratic and complex, policy outcomes tend to reflect the preferences of an entrenched policy network (Sabatier and Weible 2007; Boushey 2010). At the same time, most policies have highly salient consequences for mass publics. The effect of policies, especially the effects of macro-economic decisions, can influence the subsequent decisions that voters make at the ballot box (Fiorina 1981; Hibbs 1986). Moreover, as the literature on policy feedback research demonstrates, policies enacted at $t_1$ have important consequences for political behaviour at $t_2$. Existing policies can reconfigure voters’ resources, shift their beliefs, and affect their incentives to participate in political life (Mettler 2002; Campbell 2003; Weaver and Lerman 2010). The policy feedback literature, then, turns “systems theory” on its head. Rather than functioning as “inputs”, citizens' policy preferences derive from their experience with earlier policy choices. These feedback loops suggest a concerted effort is needed to examine how elites and mass publics interact and make decisions over the course of policy development.

The Importance of a Policy Reform’s Characteristics

Causal explanations for why certain policy decisions are chosen by elected governments need to be grounded in a clearer understanding of how the specific characteristics of a policy affect the reception of these ideas at the elite level. All policy reforms are not created equally. This study is fundamentally concerned with explaining the political dynamics associated with tax reform, a highly controversial form of state action. Prior to describing the factors that explain the uptake of reform, it is instructive first to explain how the individual attributes of a particular policy reform affect their political viability. This can provide a clearer understanding of the specific factors that push certain reforms on the agenda and keep others off the table.

Scholars have, in varying ways, theorized the independent impact of policies on political outcomes. This basic, though, important idea is commonly traced back to Schattschneider’s (1935,
observation that “new policies create a new politics.” A generation later, Lowi (1972) continued this theme by creating a typology of policy types. As Smith (2002, 379) claims, one of the innovations of Lowi’s theorizing is the notion that “public policies can be systematically classified, and that associated with each policy category are distinct and predictable patterns of political behavior.” Lowi’s insight has been incorporated into the broader literature, especially in terms of examining patterns of policymaking across different sectors. Using the case of agricultural policy, Coleman, Skogstad and Atkinson (1996) show how paradigmatic change can occur endogenously within a policy network, not requiring the broad sociological and authority shifts that Hall (1993) describes in his work. Moreover, as Peter John (1998, 6) observes, decision making processes and the prospect of policy success are often a function of “the type of activity public action seeks to regulate.” Examining why or how these attributes matter should play a more prominent role in our analysis of policy change.

To some degree, the idea that “policies cause politics” has been most well developed in comparative politics by historical institutionalists. Within the realm of policy studies, policy feedback scholars have been at the forefront of this effort (Skocpol 1992; Hacker 2002; A. L. Campbell 2012). Using a logic of path dependence, these scholars argue policies feedback into the political system, shaping the capabilities, interests and beliefs of elites as well as the policy attitudes and political behaviour of mass publics (Pierson 1993).

Scholars began by outlining these types of feedback effects but over time have offered insight into the conditions that prompt feedback effects. One particularly useful set of insights comes from Soss and Schram’s typology of feedback effects, identifying the conditions in which such effects are more likely to occur at the mass level. For Soss and Schram (2007, 121), the strength of a policy feedback stem from the relative visibility of a policy (“low” versus “high”) and proximity (“proximate” and “distant”) of its impact. The argument is that feedback effects will be stronger the higher they are in visibility and the closer they are in proximity (and vice-versa). A regulation affecting a relatively small and isolated industry, such as nanotechnology, would be characterized by lower visibility and greater distance. The inverse of this would include policies having highly observable and direct effects, such as public pension policy.
In recent years, scholars have begun to examine the conditions under which an existing policy might be subject to subsequent reform. According to Weaver (2010, 142), three broad types of feedback effects are likely to influence agenda-setting:

*Political effects* concern whether a program generates a growing support coalition and/or powerful interests that prefer a regime transition. *Fiscal effects* refer to demands on the government budget, notably whether a policy generates revenue to pay for programmatic costs. *Social effects* refer to costs and benefits that are imposed on groups in society. A negative shift on any of these dimensions may place reform on the agenda – though incremental reforms are likely to be considered before paradigmatic.

Pursuing a related but distinct line of inquiry, policy diffusion scholars have also heeded Schattschneider’s insight that the characteristics of a policy influence subsequent politics. Scholarly work on policy diffusion seeks to explain the spread of innovative policy ideas from one jurisdiction to another at the sub-national (Walker 1969) and global level (Dobbin, Simmons, and Garrett 2007). Work by scholars in comparative politics and international relations aims to understand the causal mechanisms that affect the speed and the uptake of policy reforms.

One helpful set of insights comes from Boushey (2010). In a comprehensive study of subnational diffusion in the United States, Boushey suggests policy innovations contain important characteristics—issue complexity, cost, salience and fragility—affecting both the political viability of a reform as well as its relative speed. First, policy innovations with greater complexity make processes of policy evaluation and implementation much more difficult, broadening decision making processes to include more experts, thus slowing down policy development. Second, policy reforms characterized by higher costs are also marked by slower patterns of diffusion. Unlike policies that are more symbolic, these policies require that governments find sufficient fiscal resources for financing these new ideas. Third, policy innovations vary in issue salience. However, this characteristic can either work to facilitate or impede reform. On the one hand, issues with high salience can “precipitate sudden change”, or on the other hand, some issues with high salience can “invite mass political conflict and disagreement, resulting in institutional gridlock and policy inertia” (Boushey 2010, 67). Finally, policy innovations can vary in terms of fragility or the “degree of perceived organized resistance to policy adoption” (68). That is, the expected political consequences of enacting the policy are important in shaping receptivity at the

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21 This is particularly problematic in many US states where governments, by law, cannot run budgetary deficits.
elite level. Consistent with the social construction literature, (e.g., Schneider and Ingram 1990),
governments will be more likely to embrace policies when they impose costs on negatively
socially constructed group, such as prison inmates, and more likely when interventions provide
benefits to positively constructed groups, such as children.

Figure 3.1: Political Viability of a Policy Reform

Although Boushey is interested in explaining the speed and uptake of a policy innovations, the
argument that the individual characteristics of a policy influence how the political system
processes it is highly instructive. In many instances, elected officials make decisions about the
feasibility of policy change strictly by analyzing some of its inherent features. The argument
advanced in this section is that elected officials infer the political risks and opportunity costs associated with reform based on a profile of the reform.

Following Boushey, this chapter argues that mapping out the characteristics of policy reforms is helpful as a starting point in explaining why some reforms are more (or less) likely to get on the government’s agenda. In the case of consumption tax reform, several inherent features make reform less politically palatable, making these set of policy ideas less likely to be chosen as courses of action. Under certain conditions, however, these factors, which ordinarily reinforce the status quo, can be dislodged or at least undermined by an exogenous shock and endogenous feedback (The chapter describes these in conditions in a subsequent section).

Table 3.1: The Political Viability of Tax Reforms

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Key Indicators</th>
<th>Consumption Tax Reform</th>
<th>Cuts to Consumption Taxes</th>
<th>Introduction of Tax Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of Policy Reform</td>
<td>To what degree does the design of the reform require the input and advice of policy experts? Does the reform fundamentally restructure a department or agency or create a new one?</td>
<td>High</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Costs of Policy Reform</td>
<td>To what degree does the reform fundamentally shift the expenditures or revenues of the government?</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Issue Salience of Policy Reform</td>
<td>To what extent are the media and attending public within a</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>
The argument advanced is that the more complex, costly, salient and fragile a policy reform is, the less likely it will gain receptivity at the elite level. When policy innovations measure “high” on the indicators described in Table 3.1, we would expect less uptake of these policies. As Table 3.1 indicates, consumption tax reform scores “high” on all the relevant indicators. A second notable feature of consumption tax reform is that it is characterized by high complexity and saliency. In many cases, these attributes tend to be inversely related; policy issues high in complexity tend to be associated with less issue saliency. This explains why complex regulatory decisions that typically affect a narrow set of interests are less likely to garner the attention of the media. In contrast, moral policy reforms, such as same-sex marriage, tend to be characterized by less cognitive complexity and higher issue salience (Boushey 2010). This is not to suggest that all tax policy issues are characterized by high complexity and salience. Table 3.1 also uses the example of tax relief (i.e., tax cuts) and tax expenditures (i.e., tax credits) to illustrate this point. Tax cuts primarily involve a decrease to the rate—a policy benefit to many individuals and groups—but do not involve making any fundamental change to the operation of the tax. To use Hall’s (1993) terminology, it is an adjustment in policy settings, rather than a change in the policy goal or instrument. Tax cuts are much less cognitively, fiscally and organizationally complex than switching to a VAT system or introducing a new consumption tax (e.g., a carbon tax). At the same time, we would expect diffuse tax cuts to personal income taxes or to existing sales taxes to elicit higher levels of public attention. On the other hand, introducing tax expenditures benefitting particular industries or groups are likely characterized by less issue saliency.

Returning to Soss and Schram’s (2007) discussion of issue proximity and visibility is particularly helpful in understanding these nuances of tax policymaking. Diffuse taxes such as personal income (PIT) and sales taxes have highly proximate and highly visible effects. Voters directly
experience these policies (i.e., pay taxes), and particularly in the North American context, the effects of such taxes are extremely visible through payroll deductions (e.g., PIT) and tax-exclusive pricing (i.e., sales taxes). In contrast, tax expenditures that benefit narrower sets of interests are a lot less visible and proximate to the broader public, meaning the likelihood of mass attention to these policy reforms is lower.

**Phases of Policymaking**

There are several ways to analyze the process of policymaking. One prominent tool is the stage-model of policymaking, or the policy cycle, which divides the process into phases of problem definition, agenda setting, policy formation, implementation, and evaluation. Although lauded as a helpful shortcut for simplifying policymaking, the model has been justifiably criticized for suggesting policymaking proceeds in such a neat and compartmentalized fashion (Cohen, March, and Olsen 1972). The policymaking process is not as linear. The “stages” are much more fluid than this model suggests (Howlett, Perl, and Ramesh 2009). At the same time, examining how a policy unfolds in discrete steps can be a useful analytic strategy, enabling us to better systematize casual processes and sequences in the policymaking process. One particularly important implication of this is that different meso-level factors will be more important during distinct phases of policy development. Ideas and learning are likely more important in decision making since they involve knowledgeable policy elites who are well equipped to search for and study policy alternatives. Tax reforms and other major fiscal policy changes are particularly useful to study in a stage or phase-like fashion. Although a considerable amount of proposed government policy is kept out of the public’s view, fiscal policymaking is treated with an even higher degree of issue sensitivity and confidentiality. Fiscal policy changes can have major macroeconomic effects. For ethical reasons, it is important for governments to keep policy details largely outside of the public purview, that is, until a definitive public policy is ready to be announced.

**Figure 3.2: Explaining a Successfully Institutionalized Policy Reform**

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Initiation</td>
<td>Policy Enactment → Implementation → Institutionalization</td>
</tr>
</tbody>
</table>
Figure 3.2 outlines a schematic for conceptualizing separate phases of the policy process, particularly as it relates to major fiscal policy changes. The policy process begins with policy initiation. This involves quiet politics (Culpepper 2011), a period dominated by elected officials, government bureaucrats and political staff. In this phase, elected officials and their staffs assemble information about a policy problem and seek to understand various policy alternatives. By the end of this stage, a government has decided on a path forward, having typically defined the broad strokes of a policy reform.22 The enactment phase is conceptualized as beginning as soon as a government has indicated its plan to pursue a particular course of action, rather than the process of legislative approval. In parliamentary systems, once cabinet decides on a particular course of action, the likelihood of a government reversing course is low (Pierson and Weaver 1992; Savoie 1999). This is quite distinct from congressional systems where bills or proposed policies regularly fail. Within a parliamentary context, legislation is important but the politics of enactment, or the selling of the new policy, often begin before the government has introduced and passed the enabling legislation. In the enactment stage, the government tries to build support in civil society for its new policy direction by describing and justifying the policy change. This often includes opening up the previously closed decision making process to allow for formal or informal stakeholder input. The first two phases—initiation and enactment—are relatively separate. At the same time, there might be some blurring across these phases. Governments often have strategic (and ethical) reasons not to outline their position prior to announcing an official policy. However, for strategic reasons, it might be in their interest to signal to stakeholders and the media that reform is on the horizon. To do so, they might use informal channels, such as interviews with the press, leaks to the media, or rely on issue surrogates, such as third-party experts and political observers to make the case for reform for them.

Many large-scale policy reforms, including tax reforms, take time to be fully implemented, and so there is often a time lag between the initial announcement of the policy and the full implementation (for example, see Figure 3.3 and 3.4). Implementation is the third phase of policy that occurs when governments put legislated policy changes into action. In the case of consumption tax reform, this might involve creating the bureaucratic division responsible for overseeing the execution of the reform. It might also involve technical assistance for stakeholders,

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22 In some cases, the decision can be to retain the status quo. See discussion in concluding Chapter about sales tax reform in Manitoba as an example.
helping to ensure that they have the knowledge and protocols in place to abide by the new policy. Unless there are major problems or unintended consequences that emerge in implementation, the phase tends be characterized by less political conflict than in enactment. As Patashnik (2003) suggests, after a policy is implemented often “the focus of policy-makers, the media, and the general public will predictably shift to other matters.” Yet in some cases, even after a policy has been fully implemented, the issue remains salient. The perennial salience of the Affordable Care Act in the United States is a noteworthy example. In these types of cases, reform opponents attempt to frame a subsequent election as a de facto referendum on the issue. Other times, however, a policy reform is fully implemented and not subject to major policy modification or discussion (i.e., attention) in the political system. By virtue of this inattention, a policy reform becomes institutionalized: the final phase of policymaking. As the theory describes below, researchers require a fuller understanding of the mechanisms that lead some reforms to stick, and others to be repealed.

Figures 2.3 and 2.4 provide an empirical illustration of how the political system’s attention—measured by number of newspapers articles—varies over the course of a policy development. Using the HST cases in Ontario and BC to illustrate this dynamic (further explored in Chapters 4-7), the evidence reveals how policy reforms often receive very little attention during policy initiation and a significant uptick in media attention during the enactment stage. Depending on the political reception of the reform, attention to reform can increase (negative reception) or decrease (positive or ambivalent reception). The analytical framework outlined in a later section explains some of the mechanisms that help reinforce or limit levels of attention.
Figure 3.3: Ontario HST Media Coverage

Toronto Star HST Coverage
HST Coverage (2007-2012)

Source: ProQuest Database Search

Figure 3.4: HST Media Coverage in BC

Vancouver Sun HST Coverage
(2007-2012)

Source: ProQuest Database Search
Micro-Level Assumptions
A recent trend in comparative public policy scholarship has been to better define micro-level foundations that underpin theories of public policy. This section fleshes out some of the micro-level assumptions that inform the analytical framework developed in this study. The framework makes three crucial assumptions. First, following Simon (1985), all actors are assumed to be cognitively bounded decision makers whose cognitive capacities are in turn undercut by three factors: scarcity of attention; uncertainty; and framing effects. I argue each factor is consequential for how actors formulate beliefs, rank their preferences and go about securing their goals. Second, the framework holds that elite decision-makers rely on ideational or cognitive processes to cope with these cognitive limitations. Third, the framework assumes that different actors’ decision making capabilities are bounded by different modes of information processing. Voters and politicians manage the complexity of policy problems and the political world more generally, in varying ways.

Limits on Full Rationality
The microfoundation of the framework departs from the standard assumption of rationality. Rational models assume individuals will assign probabilities and expected utility functions to all potential outcomes and then choose the one that yields the highest utility (Shepsle and Bonchek 1997). In policymaking terms, the implications of full rationality are straightforward: actors are capable of clearly defining a policy problem, can rank their preferences, and will choose the means that they expect to best meet their goals accordingly. While rational models have had some success in explaining a range of political phenomena (Downs 1957; Levi 1989), findings from cognitive psychology and behavioural economics have cast doubt on the micro assumptions of this model. In particular, scholars have uncovered a variety of cognitive biases that inhibit rational calculation, cause preference reversals, and lead to sub optimal choices (Druckman and Lupia 2000; Jones 1999; Tversky and Kahneman 1985; Wilson 2011).

As an alternative, scholars have increasingly looked to cognitively bounded rationality to better approximate decision making processes. Although the concept and its implications do not share the parsimony of the rational choice models, it describes human behaviour more accurately by considering various cognitive limitations. Scholars using cognitively bounded rationality models
propose three fundamental assumptions: first, actors are assumed to have relatively stable preferences; second, they are seen as intendedly rational (i.e., goal following); and third, they are assumed to be subjected to a host of cognitive limitations – such as scarcity of attention, uncertainty, and framing effects (Jones 1999; Simon 1985; Weyland 2005; Jacobs 2011). These cognitive limitations are particularly important for modeling elites in policymaking settings since they can influence how political actors respond to information and incentives, as well as offer important insights into how they approach policy problems, goals and instrument choice.

Although actors face problems with cognition, it has also been found that they tend to manage their limitations in predictable ways. One of the main vehicles through which actors reduce uncertainty is to use ideas in the policymaking contexts through policy frames. Bleich (2002) argues that actors will rely on ‘policy frames’ to serve as cognitive and moral maps. According to Bleich (2002, 60), these policy frames help actors:

- identify problems and specify and prioritise their interests and goals;
- point actors toward causal and normative judgements about effective and appropriate policies in ways that tend to propel policy down a particular path and to reinforce it once on that path ...

Attention is the key causal mechanism that links policy frames with their formation of beliefs. This theorizing implies that policy-makers will not engage in an exhaustive search for relevant data but use mental models (Jacobs 2011) or frames to structure and simplify their searches. These concepts are related but also distinct from issue framing discussed in the context of mass political behaviour. Policy frames help elected officials cope with complexity but likely at the cost of missing important signals coming from the environment. While some have examined the issue of limited attention and its implications for agenda-setting (Baumgartner and Jones 1993), this more recent theorizing suggests that attention is the key cognitive mechanism that influences how decisions are made (Jacobs 2011).

**Different modes of information processing**

Decision making models need to describe how an actor confronts an information-rich environment and uses data to update his or her beliefs. Findings from cognitive psychology have pointed to two different modes of information processing. Under **heuristic processing**, actors evaluate data points by using low-effort information processing. Here actors are more likely to judge messages based on salient cues and draw inferences by retrieving information
from their memory (i.e., drawing on past experience). In contrast, *rules based processing* or systematic processing describes how actors approach information more systematically. Here individuals focus on the content of the message and use logic and analytical reasoning to interpret information. Both models are consistent with the model of bounded rationality, as even those that are rule-based processors are limited in memory and attention (Smith and DeCoster 2000 cited in Jacobs 2011). In *Governing for Long Term*, Jacobs (2011) extrapolates these cognitive insights, arguing politicians and interest group leaders are more likely to be systematic information processors. Jacobs offers a convincing rationale for this. First, politicians, bureaucrats and interest-group leaders often have a vested stake in the substance of policy (i.e., instrumental to policy/political goals). Second, they are well equipped to marshal their organizational and cognitive resources to better understand policy problems. Third, in comparison to voters, they have “well-developed ideas about politics and policy – such as ideologies and causal theories – that help guide and structure their processing of information” (Jacobs 2011, 41). The use of ideational frameworks to reason through complex policy problems has been empirically demonstrated by scholars who have examined the role of policy paradigms (Hall 1993; Skogstad 2008). The framework adopted for this study assumes that decision makers are bounded learners; they use signals from the environment to update their beliefs but fall short of comprehensive rationality.

There is ample evidence to suggest that mass publics do not approach politics or decision making in an identical fashion. The assumption is that, unlike policymakers, voters do not have the same incentives to invest the same levels of cognition to carefully attend to policy. This assumption is informed by decades on scholarly research on political knowledge. The general view is “the ‘average’ citizen is woefully uninformed about political institutions and processes, substantive policies and socioeconomic conditions (Delli Carpini 2000, 133). This lack of understanding would seem to imply citizens do not actually hold meaningful attitudes about public policies, raising the question as to the sources of mass public attitudes. While there is debate, some fairly convincing longitudinal survey data indicates that strategic efforts by elites can have a powerful effect on the publics’ policy attitudes (Zaller 1992). Since citizens possess such underdeveloped understandings of policy problems (or complete ignorance), they have incentives to take cues from actors who are seen as more credible on the issue. Lupia and McCubbins (1998) take this a step further and try to explain
the causal link between elite communication and mass opinion. For these authors, deferring to elites is a rational response as uninformed voters overcome the costs of acquiring information by using cues from the environment—such as opinion leaders or party identification—to formulate their attitudes and policy preferences. In cognitive psychology terms, cues operate because they activate associative processing. If voters are more likely to use heuristic processing, then empirically, we should expect to see them even more susceptible to cognitive limitations.

**Explaining Policy Uptake and Sustainability**

Work on policy feedbacks and learning examines the degree to which policy makers’ previous experiences serve to determine both the scope of policy solutions available to policy makers, and in some cases, problem definition (Mettler and Soss 2004). Learning has been advanced by several ideational scholars as a causal mechanism by which policymakers alter their causal beliefs about policy instruments, goals and settings. At its core, policy learning can be best understood as how exposure to new information can alter the behaviour of political actors. As Hall (1993, 278) conceptualizes it, learning occurs when “individuals assimilate new information, including that based on previous experience, and apply it to their subsequent actions.” Although there are many approaches to learning—social (Hall 1993), political (May 1992), policy-oriented (Sabatier and Weible 2007), and instrumental (May 1992)—these mechanisms share the basic assumption that learning entails “an improved understanding of cause-and-effect relationships in light of experience” (Meseguer 2006, 36).

Since taking concerted action requires actors to manage uncertainty, various policy process scholars have theorized about causal mechanisms that link uncertainty and governmental action. One criticism of learning that Pierson (1993, 616) notes in his early summary of the field, is that the policy learning literature lacked clarity with regard to “the conditions that lead particular actors to view previous initiatives in positive or negative terms.” Below I propose that elite actors’ preferences regarding consumption tax reform can result from processes of learning.
Within policy diffusion scholarship, analysts have theorized different variants of policy learning. The first group includes rational learning, bounded learning, social emulation and competitive emulation and assumes goal-oriented” or “problem-solving” behaviour. The second group includes processes of normative isomorphism and coercive isomorphism. Rather than being guided by a utilitarian logic, these mechanisms involve “socialization, persuasion, or the desire to signal credibility ...” (Gilardi 2003 cited in Meseguer 2006, 36). This study and theory consider decision making about fiscal policy choices to be primarily guided by a logic of consequence than a logic of appropriateness (March and Olsen 1989). As such, the remainder of this discussion focuses more specifically on goal-oriented types of learning.

Many studies in the diffusion literature emphasizing learning examine how jurisdictions draw insights from other jurisdictions. Inspired by findings in cognitive psychology, the bounded learning approach explains how actors search for information but do so in ways that economize limited time, resources and attention. It describes how “actors try to get new information from the experience of others, but use cognitive shortcuts rather than Bayes’ rule to update their beliefs” (Gilardi 2003, 6). Weyland’s examination of pension reform diffusion across Latin America offers a nice illustration of this, explaining how decision makers’ availability bias, representativeness biases as well as anchoring heuristics structure their search for policy information. In some cases, the result is the selection of sub-optimal policy reforms, which could be explained by the effect of these biases. This phenomenon is distinct from rational learning where:

Governments observe the experience of [others] with different policies, they use that information to update their prior beliefs using Bayes’ rule, and they switch to policies with the highest expected utility. Intuitively speaking, applying Bayes’ rule entails weighing the observed average experience positively by the amount of information available and negatively by the variability of experience (Meseguer 2006, 39).

According to Kahler (1992, 124), students of learning must undertake “the empirical task of demonstrating that a particular behavioral change is the result of a clearly specified cognitive alteration at one level or another.” Adjudicating whether decision makers are

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23 Bayes’ rule is a concept in statistics referring to “the probability of an event based on the prior knowledge of the conditions that might be related to the event” (Gupta 2017).
engaging in rational or bounded learning, then, demands an examination of how beliefs have changed.

Less clearly developed in the literature is distinguishing learning from other causal mechanisms, which can appear remarkably similar. In their review of the diffusion literature, Dobbin et al. (2007, 462) critique policy learning scholarship for its failure to discriminate “learning from mindless emulation.” In this regard, it is imperative to identify the observable implications of learning and emulation. According to Meseguer (2005, 73):

> Governments may imitate what peer countries do simply because they are peers, or governments may imitate what apparently successful countries do simply because they are high-status that are considered to know best. Yet in either case, emulation does not entail any enhanced knowledge of what is at stake.

This conceptualization is consistent with the existing literature. The first type of emulation Meseguer describes can be considered cultural emulation or social emulation, where governments act “based on taking cues from other countries in a given social network” (Brune and Garrett 2000, 7). The second type is more akin to competitive emulation, involving governments “trying to keep up with their competitors by emulating their policy choices” (Brune and Garrett 2000, 1). There is considerable empirical evidence of the latter mechanism. Governments follow economic peers by mimicking regulatory requirements, curbing investment risks and reducing tax burdens (Dobbin, Simmons, and Garrett 2007). Since tax policy changes invariably include discussions about tax competitiveness, we might expect this type of motivation to be in play in consumption tax reform.

Although the existing literature points to social emulation and competition, there remains a gap in the literature. In some cases, governments decide to borrow policy ideas from their peers but have distinct instrumentally rational motivations for doing so. Policies have multiple effects, and so even though the instruments might be identical, decision makers might have distinct goals in mind. Competitive and social emulation seem to imply decision making processes that are marked by some level of deference. Particularly in the case of competitive emulation, jurisdictions might vary in policy capacity, and so it is plausible for jurisdiction B to mimic jurisdiction A’s policy with the hope that its more knowledgeable and wealthier peer might be onto something. In other instances, however, a scenario where deference is less important is plausible. Below I argue that jurisdictions will emulate because
they have come to believe that a reform is within their interests. This is distinct from learning because policy makers’ beliefs about a policy’s effects have not undergone a profound shift, and yet, they have drawn something from the experience of another jurisdiction.

**Explaining the Policy Initiation Stage**

Why do governments decide to engage in consumption tax reform, given the political risks associated with reform? Part II of the chapter reviewed the central characteristics of tax reform that act as disincentives for pursuing major policy change, making an electoral-based explanation unlikely. Yet empirically, we know that some governments embark upon controversial, loss-imposing policy reforms. Since these policy changes tend to inflict losses on specific groups or voters, we would generally expect reforms to be antithetical to politicians’ electoral interests. Alternatively, it is plausible that under certain political conditions, such as when governments possess electoral slack (Pierson 1996), that policy makers might be more willing entertain such policy ideas. Electoral slack can enable incumbents to absorb the electoral consequences of their policy choices. As described in the previous chapter, governments can be afforded greater political flexibility when the chances of them losing power in the next election are diminished. They might, for example, face a weak or a divided opposition (Pierson 1996). Jacobs (2011, 44) provides a helpful operationalization of this concept in his discussion of **electoral safety**, a necessary condition in his theory of policy investments. According to the theory, capacity to withstand voter backlash is a function of the degree of electoral competition a government faces, its capacity to strategically design policies, and the occurrence of a focusing event.\(^{24}\) Conditions of low electoral competitiveness in stable democracies tend be relatively rare, however. Moreover, as discussed in the previous chapter, there is empirical evidence in the Canadian context of governments deciding to enact consumption tax reform in the absence of electoral slack or safety. The introductory chapter outlined two cases of this: the Harmonized Sales Tax in BC

\(^{24}\) In his work, Jacobs (2011) is seeking to understand intertemporal policy dilemmas. This study is more akin to what he describes as a struggle over distributive politics since governments must decide how to allocate costs and benefits across groups, rather than intertemporally. While there is a temporal element to many consumption tax reforms, including VAT reform, the policy mechanisms undergirding reform are not intertemporally in nature. Even a carbon tax, while promising future benefits (i.e., curbing effects of climate change) cannot be considered a policy investment, at least not in the way that Jacobs conceptualizes it.
and Ontario. There are other examples, though. In 2008, for instance, the BC government introduced a carbon tax, deciding to enact a policy in spite of facing a reasonably strong opposition party (Harrison 2012). One of the main puzzles this study and the theory attempt to grapple with is how to explain the pursuit of consumption tax reform in the absence of electoral slack. Since electoral considerations do not seem to determine outcomes in these cases, the framework uses ideational variables as a starting point. This is not to suggest electoral interests do not matter but rather these considerations shape rather than determine behaviour.

The causal logic of the analytical framework is proposed in Figure 3.5. The theory expects that a necessary but insufficient condition for reform is the availability of an exogenous policy idea: a policy innovation in another jurisdiction. Governments’ willingness to reform their consumption tax systems depends on an existing policy model, from which they can draw. As Gilardi (2010) has argued, policy innovations provide useful empirical information to governments about both policy effects and political implications. This policy innovation provides them with a template, or a policy frame, in terms of how a policy problem can be interpreted and later how a reform can or should be designed. Policy innovations function in a similar manner as a policy stream in the multiple streams framework policy: policy solutions often precede the identification of problems (Kingdon 1984; Zahariadis 2003).

**Figure 3.5: Explaining the Decision to Pursue Policy Reform (Initiation)**

```
Feedback Effect (T₁)          Moderator          Feedback Effect          Mediator          Outcome (T₂)
Policy Innovation →          Focusing Event ←          Learning →          Capacity →          Policy Enactment
                      Emulation
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The framework presented in Figure 3.5 implies a series of testable implications which are presented as hypotheses below.

**Ha1** - Governments will be more likely to pursue consumption tax reform if they can draw from the experience of a similar jurisdiction.25

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25 Hypotheses marked “Ha” test the first part of the theory (Figure 3.5) while hypotheses marked “Hb” test the second part of the theory (Figure 3.6).
Ha2 - Governments will be more likely to use an existing policy innovation as a reference point in their deliberations about consumption tax reform.

Reference to the policy innovation should be apparent in briefing materials, communication documents and should be identified and recalled in interviews with decision makers who were involved.

At the same time, this is an insufficient explanation why decision makers suddenly attend to a policy innovation (idea). Although we might expect finance officials and other members of the policy subsystem to be aware of the existing policy innovation, we require an explanation for the timing. What makes the policy innovation salient to decision makers? Or what causes the policy problem, however defined, to be placed on the agenda? The theory expects a relationship between a focusing event (Kingdon, 1995) and the policy innovation. Focusing events help secure the attention of policymaking elites, making a policy problem and/or a solution more salient. According to Birkland (1998, 54) a focusing event refers to a relatively uncommon event that is relevant to a particular locale and can be “reasonably defined as harmful or revealing the possibility of potentially greater future harms.” Focusing events are important because they shift attention of decision makers to consider the drivers of a policy problem, leading to a process of problem-definition (Zahariadis 2003) and a surveying of different policy options. Such uncertainty is important because it provide windows of opportunities for experts, especially within government, to offer policy advice to the government. Policy entrepreneurs can play a particularly significant role by shifting the attention of decision makers to policy innovations that exist in the policy stream.

Focusing events play a central role in various accounts of policy change but what makes them distinct in the case of general-interest reforms? Why, in the absence of a focusing event, are we unlikely to observe policy change? The argument developed here is that focusing events help draw attention to sets of policy problems that are traditionally ignored in the political system, including policy problems that general-interest reforms seek to resolve. First, one of the challenges in building support for general-interest reforms is that the consequences of inaction are less visible to the public and media. Not only is there an
absence of interest groups drawing attention to the issue (see below) but the limited visibility of the problem gives politicians limited incentive to address it. A focusing event can help draw the media and the public’s attention to a general-interest problem, such as economic competitiveness, by putting the costs of the status quo into clearer focus. Not only does can focusing events put pressure on policymakers to address a general-interest problem but can also provide them with a rationale for sweeping policy change. It is highly unlikely that policymakers would choose to adopt a general-interest reform in the absence of some focusing event since it would make the political task of policy justification even more daunting.

Second, there are a limited number interest groups that will advocate for policies that will yield diffuse benefits than those that will push for concentrated benefits (Olsen 1965). In the case of VAT reform, these advocates will typically be limited to businesses with an aerial or horizontal view of the economy (e.g., a Chamber of Commerce) who might see the value of policy change for its membership. Since the reform will produces many diffuse benefits, however, there is limited incentive for narrow interest groups to lobby the government for policy change. It is not that these interests are necessarily against reform, most are simply unlikely attending to the cost of the status quo for themselves and to the broader economy. A focusing event can help shift the attention of interest group leaders to signals (i.e., costs) about a general-interest policy problem, such as economic competitiveness.

In sum, the focusing event makes the policy problem more salient to relevant policy actors. The framework hypothesizes that focusing events lead the government to consult with the bureaucracy to help construct the policy problem as well as identify potential policy positions. If focusing events are important in driving agenda-setting dynamics, then we should observe the following:

Ha3 - Governments will be more likely to put consumption tax reform on the agenda when a focusing event draws its attention to a structural economic problem.

Ha4 - Governments will be more likely to shift its organizational resources to investigating the sources of the perceived policy problem after a focusing event.
Policy Learning
The framework hypothesizes two distinct causal pathways that can lead to the pursuit of consumption tax reform. In the first causal pathway, actors are hypothesized to undergo a process of policy learning. Elected officials work alongside bureaucrats work to construct the nature of a policy problem, including its causes. Meaningful policy learning involves intellectual introspection; it is a comprehensive and iterative process that should lead to a revision of causal beliefs. The main expectation is that this process of learning leads decision makers to revise their assumptions about a specific instrument, in terms of either the policy consequences (what are the expected effects of the policy) and political ramifications (how will the policy be received). If learning is an important mechanism linking the focusing event and decision, then we should observe the following processes:

Ha5 - Elected officials who engage in learning should be able to point to specific empirical data that influenced their causal beliefs about a policy instrument.

Ha6 - If governments are learning (and not simply emulating or being coerced), then actors should exhibit behaviours that are consistent with learning, such as systematic examinations of similar reforms’ impact in other jurisdictions and as well as invest resources in understanding how the policy might influence their jurisdiction.

Emulation
A second alternative pathway to policy enactment is through emulation. This describes when policymakers decide to mimic the policy choice of another jurisdiction. As described above, emulation and bounded learning are contested concepts in the literature. Following Gilardi, this chapter conceptualizes emulation as a form of bounded learning. Emulation generally can emanate from external social, cultural, and economic pressures. That is, actors will be prompted to adopt a policy alternative because of another jurisdiction’s experience has been made salient. This decision produces a shift in the calculus; however, emulation (that is, the underlying cause of the decision) does not have to be driven entirely by external pressures. The external pressure is a necessary but insufficient condition. A policy innovation developed elsewhere might put something on the agenda and the government might decide to emulate
that decision but governments will emulate because they deem that action as consistent with their internal interests, or responsive to endogenous pressure. The framework expects governments to copy or mimic a jurisdiction’s policy idea because they view it as a solution to an internal policy problem. Emulation is akin to bounded learning because actors engage in a limited search for information and satisfice based on the information they have. But it is also distinct from bounded learning in that it involves less effort to learn about the policies’ effects. Similar to Weyland (2004), the theory expects that policymakers will make sub-optimal decisions due to the prevalence of various cognitive biases. Evidence of the availability bias, representative bias (Weyland 2004) and optimism bias (Thaler and Sunstein 2008) should be more prevalent when decisionmakers emulate, rather than learn. There are several observable implications of this proposed causal logic:

Ha7- Governments that emulate will spend less time and resources studying a policy reform; as such, the decision making process should be characterized by less deliberation and taking place over a relatively short period of time.

Ha8 - Governments actors that emulate a policy (rather than learn) should spend less time and resources consulting with experts than government actors who learn.

Ha9 - When government actors emulate, we should expect the sources of information that governments consult to be highly selective and consistent with heuristic information processing (We might, for example, observe decision makers arriving at decisions using cognitive shortcuts, such as the availability bias, representative bias and anchoring).

Evidence of cognitive shortcuts would include designing the policy in ways that are more consistent with that of another jurisdiction, even if less applicable (Weyland 2005). Political risks might be inferred from a limited number of cases (and the wrong ones). We might also observe other types of cognitive biases at play.

*Political Capacity to Manage Electoral Risk*

Finally, politicians must possess the political incentives to adopt general-interest reforms. As explained above, policymakers will typically be wary of policy interventions that inflict
highly visible losses on groups. Focusing events and processes of learning or emulation might shift the ideas of elected officials but this is likely insufficient to prompt a change in behaviour. The theory argues that politicians will only adopt general-interest reform when they perceive the electoral risks to be manageable. Various factors can shape perceptions of electoral risk. We might expect, for example, governments to be more willing to adopt a general-interest reform earlier its mandate and less likely the closer they get to an election. For politicians, the assumption is that voters will be more likely to punish at the ballot box when information about costs is more accessible. If policymakers adopt reforms earlier in their mandate, this information is forced to compete with other policy decisions and developments that take place after. We might also expect governments to be more willing to pursue a general-interest reform when they have pursued similar courses of action in the past without electoral punishment. Policymakers may also seek to manage electoral risk through policy design, a theme explored in the next section. The theory expects governments to be more likely to pursue general-interest reforms when they can use policy design to the offset losses imposed on specific constituencies. Since governments are limited in their fiscal capacity to provide compensation, we might expect them to finance these through revenue losses (i.e., deficit financing) or assistance from another level of government with an interest in the reform.

In sum, the analytical framework expects that governments will decide to pursue tax reform under specific conditions. Attention must be directed to a problem and an existing idea. Governments must perceive the political risk for policy adoption to be manageable. Finally, they must possess the incentives to do so, which is ultimately shaped by their capacity. In the first step, elected officials’ attention is shifted to a specific policy problem through a focusing event. The availability of an existing policy innovation provides an existing model of how to respond to the policy as well as an empirical record for officials to study and understand. How governments respond to that depends on the strength of the focusing event. A stronger signal of policy failure can prompt a process of policy learning where they systematically study the effects of the policy, using evidence from existing jurisdictions as a key reference point. The process of learning should unfold over a lengthy period. Experts, within and outside government, should be helping reduce the uncertainty of elected officials by providing evidence and interpretation of that evidence. A weaker signal of policy failure,
on the other hand, can lead to satisficing behaviour. Under emulation, the attention of government actors is also shifted by a focusing event to a particular policy innovation but the subsequent response to that information is systematically different. Rather than learning, governments engage in satisficing behaviour (Simon 1985).

**Policy Feedbacks and Policy Change**

This chapter argues that a focus on policy design and policy feedback effects (Pierson 1993; Mettler and SoRelle 2014) are helpful in explaining the varying political reception to tax reform. The enactment and implementation phases of the framework explain why some consumption tax reforms are reversed, while others become institutionalized. The theory builds on existing work, describing how a combination of distributive politics and policy feedback effects shape the political response of key political actors. First, governments can design policies in ways that offset some of major costs of reform for particular interests.

Second, drawing on existing work, it examines how policy makers can manipulate the “twin categories of resources and interpretative elements to nurture positive feedback effects” (Jordan and Matt 2014, 229, citing Patashnik 2008; Jacobs 2010). Below the framework builds on this, stressing how different policy design features can produce *self-reinforcing* or *self-undermining* feedback effects (Jacobs and Weaver 2015).

As noted in chapter 1, there has been some conceptual ambiguity surrounding material/incentive feedback effects. Earlier work on feedback effects stressed the ways which welfare state policies reconfigured the *material* position of political actors. By affording groups with new benefits, policies provided program beneficiaries with the incentive to mobilize against policy change. Such mobilization also shaped the incentives of politicians, making it much risky to pursue policy change (Pierson 1993). The predominant focus on incentives, however, overlooked other variants of resource/incentive effects. Metter (2002), for example, illustrates the analytical value of parsing out different types of resource effects. She explains how the resources conferred by policies can affect both the *incentives* and the *capacity* of political actors. Capacity feedback effects are distinct from incentive effects because they operate by equipping political actors with greater competence to engage in political action.\(^26\) Capacity feedback effects are a type of resource effects but they do

\(^{26}\) Metter’s (2002) examination of the effect of the G.I. bill on American veterans is an excellent empirical illustration of this. The educational provisions of the bill not only provided veterans with access to post-secondary education but also strengthened their aptitude for political participation.
not necessarily result from a shifting political calculus. The chief focus of this study, however, is on the incentive effects of tax policy changes on political behaviour.\footnote{Thank you to Carolyn Tuohy for drawing my attention to the importance of this distinction.}

Policy scholars tend to conceptualize policy feedbacks as slow and evolving political processes. Grounded in path dependence, policy feedback effects are treated in the literature as something that strengthens or self-reinforces over time. As Jordan and Matt (2014, 227–28) describe it, policy feedback analysts seek to “understand how policies, once adopted, restructure and reconfigure politics in ways that shape and, in particular, limit subsequent policy process.” This approach, in large part, derives from historical institutionalism’s ontological focus on how timing, sequences and path dependence affect political phenomena. As Pierson suggests (2000, 255), new institutions “entail high fixed or start-up costs”, prompting vast societal shifts in behaviour and leading to “learning effects, coordination effects, and adaptive expectations.” Over time established institutions, including public policies, can generate powerful inducements, helping reinforce their long-term stability. Policy ideas become normalized and accustomed to by government actors and civil society. By the same token, public policies are not completely resistant to change (Béland 2010).

Similar to historical institutionalism in the 1990s (Thelen 1999), policy feedback scholars have had greater success in explaining the sources of policy stability than change. The prevailing finding is that groups and voters coalesce to protect their benefits, serving as a stabilizing force in politics (For review, see Béland 2010; Campbell 2012). Yet, it is not entirely clear why some policy feedbacks prompt instability and can foster policy change down the line.

In a useful departure from the literature, recent scholarship (Weaver 2010; Jacobs and Weaver 2015) theorizes a different set of endogenous feedback mechanisms that can generate self-undermining effects. Self-undermining processes can prompt major policy change down the road. This is distinct from the logic of self-reinforcing processes which is central to many policy feedback accounts. Jacobs and Weaver (2015) explain why policy feedback effects can prompt interest groups and electoral coalitions that initially favoured a
policy reform to reverse their policy preferences and help trigger policy change. According to their argument, policies are particularly vulnerable to shifts when their effects lead to unanticipated losses for these groups. In doing so, these authors offer an important contribution to the literature, explaining how policy feedback effects can also operate as a destabilizing force. In the case of voters, they describe how negativity bias, framing effects and other information conditions can undermine public support for a policy, opening up opportunities for voters to be “persuaded of the need for or acceptability of major policy change” (447). Gaps, however, persist in the literature. First, Jacobs and Weaver’s analysis is focused on unanticipated losses. Sometimes, however, as in the case of tax reforms, losses are intentionally imposed, largely to deal with the perverse incentives and/or effects created by an existing policy. We require a clearer understanding of how these influence mass public support and interest group support for policies. Second, the existing literature treats policy feedback effects, at least implicitly, as stable over time. Yet there are good reasons—particularly given insights from cognitive psychology—to assume that voters’ interpretation of policy effects will vary over time. The argument advanced below is that the timing and duration of policy feedbacks matter for how they influence future politics.

“Sticker Shocks” and Consumption Tax Reform
Policy feedback effects will depend on how policies are designed, including the cost and benefits they deliver as well as the information the policy design makes more or less salient. The VAT is a good example of this. In the North American context governments do not mandate tax-inclusive pricing, making the visibility of tax policy changes, or consumers’ attention to the cost of the policy, much more salient. This explains the dilemma that elected officials—particularly in North America—face in their efforts to reform sales taxes. Increases to a sales tax rate or a broadening of the tax base to include previously exempt goods and services (e.g., VAT reform) can prompt sticker shock. This describes the difference between the market price of a good and consumers’ reference point, the latter of which derives from their previous experience purchasing that item, (Chang, Siddarth, and Weinberg 1999, 1978).

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28 Weaver (2010, 141) recognizes the potential for this, arguing: “It is also possible that feedback effects may differ over time. If feedback effects from a policy regime are relatively weak in their early years but grow stronger over time, or may be positive at the outset but turn negative over time.” But he does not explore the point much further.
Since VAT and other consumption tax reforms tend to broaden what is taxable, the assumption is that consumers will be attentive to these changes since they are paying more for these goods and services. Based on the phenomenon of loss aversion, we would also expect consumers to be more sensitive to tax increases rather than to equivalent decreases. These price changes will be relatively easy for voters to trace back (Arnold 1990) to the effects of a policy change. This is a clear example of a policy feedback mechanism since the policy is redistributing the material cost of a product (in the case of VAT, redistributing the perceived cost from the business to consumer). Naturally, the follow-up to all of this is what are the implications for mass political behaviour? A policy can have material impact but what is the subsequent impact on mass political behaviour, that is, the effect part of policy feedback effect?

Weaver (2010, 137) describes self-undermining effects as “consequences of policy” which work to undermine the long-term “political, fiscal or social sustainability of a particular set of policies.” In the case of consumption tax reform (and other taxes), the empirical puzzle is why don’t we observe these self-undermining processes having much impact? Consumers are forced to bear these highly visible costs, and yet, for the most part, these policies remain intact. Part of the explanation for the durability of consumption tax reforms, as theorized below, is the self-reinforcing effects created by the policy. Stakeholders, including treasury departments and businesses, adapt their fiscal and accounting systems to the new system. Moreover, in the case of VAT reform, tax revenues are increased for governments (incentive effects) and businesses either adapt to the new system (learning effects) and may enjoy new materially benefit under the new systems (i.e., tax credits for inputs). Yet for the average voter, every trip to the cash register is a stinging reminder of the costs of the reform. It seems plausible that most voters would prefer a return to the status quo, and so they likely have incentives to elect a government that will help accomplish this. This is a different form of policy feedback effect than has been traditionally theorized in the literature. Policy feedback scholars have theorized about the ways in which policy benefits are experienced by

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29 In fact, political strategists have drawn important lessons about the (in)visibility of tax cuts, finding that voters are much more responsive to some tax cuts (e.g., sales taxes) than to other tax cuts (e.g., personal income taxes) (Flanagan 2009).

30 Weaver (2010) initially termed this phenomenon negative feedback but the term was changed by Jacobs and Weaver (2015) to “self-undermining” to avoid confusion with punctuated equilibrium’s use of negative/positive feedback (Personal communication with author).
mass publics and groups (Mettler 2002; Campbell 2003). Less frequently theorized has been how policies impose material costs on these groups, and the resulting impacts for political behaviour.

Direct taxes are distinct from other types of losses, such as expenditure cuts, since these policies are directly “feeding back” every time a consumer makes a taxable purchase. Governments, for instance, might seek to reduce health care costs by reducing physician pay or by reducing fiscal transfers to hospitals. For the average citizen, the effect of this loss would be less visible and less direct or “proximate” (Soss and Schram 2007). In fact, citizens probably would not be aware of expenditure cuts, unless this information is relayed via the media, opposition, or advocacy groups. Viewed this way, changes to consumption taxes are quite distinct from other types of policy changes.

The Puzzle of Timing: The Fleetingness of Mass Opposition to Tax Reform

Theories of policy feedback should be able to explain whether imposing costs and delivering benefits produce different political consequences down the road. Prospect theory—and associated concept of loss aversion—suggest that individuals respond differently to losses than to gains. According to Levy (1996, 181), loss aversion describes the tendency of actors “to overvalue losses relative to ‘comparable’ gains....” Further, Weaver (1986, 373, emphasis in original) describes the political implications of these biases:

   [individuals that] have suffered losses are more likely to notice the loss, to feel aggrieved and to act on that grievance, than gainers are to act on the basis of their improved state. In short, voters are more sensitive to what has done to them than to what has been done for them.

Although changes to tax policy tend to be politically risky, it is generally the case that once fully enacted these reforms tend to remain in place. Revenue-strapped governments will have clear incentives to retain these policy changes but in many cases the reforms are politically unpopular, making it difficult to square with existing policy feedback research. One might expect that since consumption taxes lead to consumers experiencing such highly visible losses that this would prompt popular demand for policy reversal. Jordan and Matt (2014, 232) describe the causal sequence of a self-undermining feedback this way:

   If the overall feedback effect is negative ... then we would expect [a policy] to be undermined at t1, which could in turn trigger a set of policy responses ranging from
fairly small adjustments in the setting of a policy instrument through to its complete
collapse and eventual replacement at t1 and t2.

But in the case of taxation, we rarely observe the “complete collapse of the policy”,
suggesting an unobserved mechanism at play. One part of the explanation might be related
to the initial “sticker shock” associated with a new tax wearing off over time.\footnote{Thank you to Andrew Owen for sharing this insight with me.} Just as
interest groups adapt to the status quo, consumers simply adapt to the new effects of the
policy. While the tax remains visible (explicitly in the form of receipts), this becomes
normalized over time, and thus not necessarily longer explicitly acknowledged as a loss. The
process of normalization is important but poorly theorized in the feedback literature.
Alternative feedback mechanisms might also be important here. We might expect mass
publics to be much more aggrieved when a new consumption tax (e.g., a carbon tax) is
adopted as opposed to a policy that increased an existing tax (e.g., GST increase) or even
when major structural changes to an existing one (e.g., PST to HST).

I argue that finite attention in politics is key to understanding how the process of tax
normalization unfolds. In a series of works, Jones and Baumgartner (2005a; 2005b) have
shown that attention affects how governments make policy decisions. In the punctuated
equilibrium model, decision makers are much more likely to lurch from one policy problem
to another, explaining the punctuated nature of policy outputs over time. The behavioural
foundation of their analysis is bounded rationality, arguing a scarcity of attention leads
decision maker to under-attend to signals of policy failure. A powerful and vivid policy
signal such as a focusing event can suddenly prompt attention but that effect is only
temporary. This is the natural course of political processes that scholars have long noted.
Downs (1996, 1) describes the prevailing dynamic of attention this way:

A systematic ‘issue attention cycle’ seems [to] strongly influence public attitudes and
behavior concerning most domestic problems. Each of these problems suddenly leaps
into prominence, remains there for a short time, and then [...] gradually fades from
the center of public attention

In a similar vein, sticker shock, or attentiveness to the costs of a tax policy begins to wear
off over time. Voters and the broader political system shift their attention to other issues.
Attention to policy feedbacks of a policy reform, however, will also depend on the behaviour of policy elites and the mediating impact of political institutions. Below I hypothesize that public attention to controversial policy reforms and their associated feedback effects can be reinforced in certain institutional contexts. This is an interpretive mechanism because the material impact of the policy effect remains relatively constant over time, yet the relative salience of the issue is conditioned by the institutional context.

**Theorizing Institutionalization**

The theory of policy institutionalization outlined in Figure 3.6 describes the causal logic of the framework. This part of the theory is used to explain empirical variation in the varying institutionalization of consumption tax reforms. The argument is that decisions about policy design made in the first stage structure the political development and reception of the reform. This section describes how policy designs have different immediate political consequences for political mobilization and even more crucially different feedback effects down the road. Although the previous phase of policy development focused on the role of policymaking elites, this phase considers how reform is received, interpreted and acted upon by other policy elites (interest groups and opposition parties) as well as mass publics.

First, governments can make strategic choices about the design of a policy reform in order to shape the initial stakeholder response to a policy change. Policymakers, for example, might attempt to offset some of the costlier impacts of a reform by offering some form of compensation to specific interests. If specific sectors of the economy, for example, are disproportionately affected by a policy reform, governments can include provisions in the legislation which aims to mitigate these impacts. Through distributive politics, governments can dampen the incentive of groups to mobilize against the proposed reform. This can also apply to mass publics where governments include compensation mechanisms to assist individuals and families with the financial cost of the policy transition.

Second, by overhauling a major part of the state’s fiscal policy system, a government can plant the seeds of institutionalization through policy feedback effects. Through strategic policy design, governments can make it very costly for future governments to repeal the reform. Consistent with the logic of path dependence (Pierson 2000), by implementing a radically different consumption tax system, governments can effectively tie the hands of
future governments, setting up high transaction costs for overturning the new policy and return to the status quo. As Patashnik explains (2003, 205), political institutions, including institutionalized ideas (Pierson 2005), can be designed in ways that “discourage government actors from adopting new policies contrary to a policy reform.”

**Figure 3.6: Explaining Receptivity Toward Policy Reform (Post-Enactment)**

<table>
<thead>
<tr>
<th>Policy change ($T_1$)</th>
<th>Mechanism</th>
<th>Mediator</th>
<th>Outcomes ($T_2$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy design</td>
<td>Distributive politics</td>
<td>Institutional context</td>
<td>Institutionalization</td>
</tr>
<tr>
<td>Feedback Effects</td>
<td></td>
<td></td>
<td>Policy reversal</td>
</tr>
</tbody>
</table>

In a counter-intuitive way, the theory expects opposition parties to be important in helping secure the institutionalization of a tax reform. After a government has fully implemented a consumption tax, opposition parties, which had likely opposed the reform will have their policy preferences transformed. Prior to the implementation, one expects opposition parties to act according to short-term electoral incentives. Since tax policy changes are inherently controversial, we generally expect the policy reforms to be relatively easy and simple targets for opposition parties. The theory, however, expects that as the policy is fully implemented, there will be a corresponding decrease in attention and opposition to the reform. As soon as the policy reform has been implemented, the incentives of opposition will be reconfigured. As experienced political actors, opposition parties are likely to recognize the procedural hurdles associated with repeal and more importantly, the dramatic fiscal costs. Opposition parties, then, mindful of the costs of repeal will stop objecting to the policy. As a corollary, they should also be less likely to run on a subsequent platform of overturning the tax. Béland (2010, 574, emphasis added) summarizes the dilemma facing opposition politicians this way:

Elected officials seeking to dismantle, replace, or transform such policies are likely to face not only resistance from interest groups and existing bureaucratic constituencies but major transition costs that could make path-departing change both expensive and politically perilous.
In cases that opposition parties take the cynical route, the theory expects them to reverse course once taking office. The decision by the federal Liberals to retain the Goods and Services Tax (GST) after winning in the 1993 election serves as a highly instructive example. Upon taking office, the Liberals came to realize that the GST was a highly efficient and effective revenue stream (Hale 2002), forcing them to abandon their campaign pledge to repeal it. This explains how a combination of changing interpretations and interests can induce new policy preferences.

Hb1 - Political parties that are out of power and opposed to reform should invest more political resources into opposition tactics prior to the implementation of a tax reform and less investment into such tactics after the policy is implemented. This should only characterize the behaviour of political parties that are out of government.

Hb2 - Political parties that are out of power and opposed to reform should switch their position after a reform has been implemented.

In short, the theory expects opposition parties to reverse their policy preferences as the government and civil society adapt to the policy changes. The logic of Hb1 and Hb2 is that opposition parties are looking to the next election. It is much easier for these parties to advocate against policy change prior to implementation but once these changes have taken effect, it becomes much riskier for them to run on a subsequent platform promoting repeal and if successful in that next election implement those policy changes. We might, however, expect opposition parties’ behaviour to diverge from the expectations of Hb1 and Hb2 under specific institutional conditions. If a tax reform, for example, has been implemented but then is subject to a referendum, then, opposition parties might continue to exhibit opposition to the tax (Hb3).

Based on the micro-assumptions described above, the implications of resulting changes to the fiscal policy structures of the government are probably less of a concern for voters. Presumably, voters possess less knowledge about public finances and the implications of restructuring a major public revenue stream. So, although this explains how a reform
feedbacks by restructuring the incentives of the opposition, the theory needs to account for why other stakeholders in the jurisdiction respond the way that they do.

*Distributive Politics and the Political Incentives of Organized Interests*

Various policy studies have examined the importance of organized interests in preventing or helping facilitate policy change. Less attention has been paid to how organized interests behave in response to the effects of a policy reform. Studies in American politics have analyzed how various policy reforms have influenced the behaviour of individual citizens and groups. Andrea Campbell’s (2003) analysis of Social Security demonstrates how the public pension program transformed seniors—a previously latent group— into the most active age groups in American politics. Social Security benefits provide seniors with money and free time, increasing their levels of political participation to protect these gains, and providing incentives for interest groups to mobilize seniors by “creating an identity based on program recipiency” (Campbell 2012, 336). In Béland’s (2010) review of policy feedback research, he identifies the importance of the American Association for Retired People (AARP) as an interest group, linking the group’s legislative experience and policy expertise over time to the incentive effects identified by Campbell.

The idea that policies can shape interest group behaviour is also a theme in Theda Skocpol’s (1992, 59) work on civil war pensions. In her analysis, she describes how “veterans became self-consciously organized and mobilized to demand ever improved benefits” after federal legislation introduced these benefits. Many of these studies, then, have focused on how policies create incentives for interest aggregation. Less frequently studied, however, has been how policies provide resources/incentives to existing groups and the implications of this for their political behaviour.

The framework claims that there are two additional modes through which governments can use to shape incentives, particularly as they relate to tax policy. First, they can provide groups with tax expenditures (or tax credits) that significantly improve the material wellbeing of their membership. This would seem particularly likely when tax incentives are provided to a specific industry. Similar to Campbell’s (2003) conceptualization, the tax reform might provide material benefits to the organized interests, providing them with incentives to support and even defend tax incentives. For example, across developed
countries, home mortgage interest deductions have widespread support among key groups, including homeowners, the real estate and construction industries. Second, in enacting a new tax or reforming a new system, governments can induce learning and/or adaptation effects (Pierson 2000) in the private sector. As discussed above, organizations will design their financial statements and accounting systems around the design of the sales tax system. This can affect the policy preferences of interest groups representing these industries. Since governments rely on businesses to collect sales tax for them, a change to the system can have important effects. Businesses that adapt to a new sales tax collection system, for example, make organizational and mental investments into the new system. Since switching back to an older system would force them to bear high administrative costs, we would expect them to prefer this to a new system or a subsequent round of policy changes. In fact, interest groups, such as businesses associations, whose membership stand to materially benefit from a particular tax reform may invest political resources in defending it, and vice versa.

Hb4 - Interest groups facing the prospect of significant material benefits from a consumption tax reform should be less likely to politically mobilize against the reform.

Hb5 – Tax policy reforms that generate learning or adaptation effects should produce an accompanying shift in policy preferences from t1 to t2 for organized interests. Specifically, groups that were once opposed to the policy change during policy imitation ought to tone down their opposition once learning and adaptation effects have been internalized.

Feedback Effects Regarding Mass Publics
Governments are mindful of how citizens experience tax policy changes as well as loss imposition more generally. For strategic reasons, policy makers can attempt to temper the effects of the policy (the costs) and the accompanying bad publicity in the media. One way to do this is by introducing offsetting or compensatory measures. Welfare state scholars have long pointed to such compensation as a deliberate blame avoidance strategy, used to curb the level of public backlash that government faces (Pierson 1996). This strategy is distinct from obfuscating responsibility for the loss, a separate blame avoidance strategy rooted in interpretive or cognitive effects. In this scenario, policymakers can attempt to shift
responsibility for policy decision and its resulting effects. The idea is that this makes “traceability” (Arnold 1990) more difficult for voters. At the same time, governments might try to pass the buck when there are multiple levels of government involved in the decision. Interestingly, governments that compensate are not trying to distract voters from the loss. Instead, they are recognizing the imposed loss and as a result, validating the concerns of the policy losers.

The framework expects policy reform to influence the material resources as well as create interpretive effects for voters. Above, the chapter discussed how tax policy changes can distribute benefits and costs and explained why these are likely to prompt certain political behaviours. Although voters stand to gain through many types of tax policy reforms, many of the benefits associated with these reforms can be temporally delayed and/or less visible. For instance, one of the central benefits of switching to a value-added tax system is that the savings realized by businesses will, over time, be passed down to consumers, in the form of lower prices. Following Jacobs and Weaver (2015), the expectation is that voters’ negativity bias with trump these less visible and delayed (Jacobs 2011) policy gains.

Hb6 - After a tax consumption tax reform is implemented, voters will become less intensely opposed to the consumption tax over time.

*Interaction with Institutions*

How institutions interact with policy feedback mechanisms is an important gap in the literature which was recently addressed by Skogstad’s (2017) analysis of self-undermining feedbacks. Examining the case of EU biofuel policy, Skogstad demonstrates how the EU’s monitoring and review provisions often open “a window for skilful political actors to draw attention to the costs or benefits of existing policies” (Skogstad 2017, 26). Such regular reviews provide “clear prospects for critical junctures in policy evolution” (Bulmer 2009, 316), since they open up “opportunity for policy losers/critics to reopen policy debates and highlight the costs of policies” (Skogstad 2017, 26).

Based on similar logic, the theory expects governments to be less successful in institutionalizing reform when political institutions afford opportunities for reform opponents. What makes reform opponents successful is their capacity to retain the political
system, and the public’s focus, or attention, to the costs of a reform. As a result, the theory expects jurisdictions that have greater vehicles for direct democratic participation (i.e., recall and referenda) to provide more opportunities for reform opponents. Using these institutional mechanisms can enable reform opponents to keep the media and the public’s attention on the negative consequences of the policy change. In the absence of these democratic mechanisms, governments will enjoy greater success in institutionalizing tax reforms. Although governments under such institutional conditions will need to face voters in a subsequent elections, the expectation is that the issue-attention cycle described by Downs (1996), coupled with the transformed preferences of opposition parties will help institutionalize reform.

Hb7 - Jurisdictions that provide greater vehicles for democratic participation, such as voter initiatives, will be less likely to institutionalize a consumption tax reform than compared to jurisdictions that provide fewer vehicles.

Hb8 - In jurisdictions that have greater opportunities for democratic participation, levels of public and media attention to the effects consumption tax reform should stay relatively stable. In jurisdictions with fewer avenues for democratic participation, public and media attention to the effects of the policy should decrease.

Hb8b - In jurisdictions that have greater opportunities for democratic participation, tax reform opponents should enjoy greater success in mobilizing the public against a reform. The theory also expects the reception of tax reform to be shaped by how governments introduce reforms as well as the specific design features they incorporate. The way governments put consumption tax reform on the agenda can shape how stakeholders and the media respond to it. The expectation is that reforms that are carefully announced and introduced with solicit various kinds of media attention than reforms that are announced unexpectedly. On the policy design front, governments should experience greater success in institutionalizing a consumption tax reform when the policies create material feedback effects for key constituencies.
Hb9 - When governments signal to stakeholders that consumption tax reform is on the government’s agenda, they should face less pushback from stakeholders.

Hb10 - Governments that embed sales tax changes within a broader tax reform package are more likely to succeed in institutionalizing the change than governments who fail to enlarge the scope of tax policy benefits.

Hb11 - Governments that offset financial losses with highly visible policy benefits should enjoy greater success in institutionalizing consumption tax reform than governments that fail to offset losses.

**Alternative Explanations: Framing Effects**

One alternative and plausible theoretical explanation for variation in policy institutionalization— that is, the second part of the framework—is that some governments are more successful than others at framing a policy intervention. That is, governments can manage and cultivate public support by focusing on a particular aspect of the issue. The argument is that governments might be able to withstand opposition to tax policy changes when they are able to frame the policy change in a way that resonates with the public or other key actors. Framing is a deliberate and strategic effort used by political actors—both proponents and opponents of a policy intervention—to build coalitions of supporters (Praelle, 2003). Framing refers to making one dimension of a particular policy issue or problem more accessible or salient than another dimension. The most basic feature is that the framing effects do not have to alter the causal beliefs of the actor; rather frames alter attitudes by limiting the salience of certain considerations. If a specific frame generates attitudinal change then this suggests a similar cognitive logic that occurs in cue taking. Frames operate at the cognitive level by encouraging certain ways of thinking about a policy dilemma, setting the bounds on the relevant criteria that individuals consider. In policymaking, issue framing effects are relevant because they draw a voters’ limited attention to a single dimension of a policy.

As an alternative and more parsimonious explanation, this study will examine the explanatory power of framing effects in explaining tax reform. For instance, does framing a
tax reform as “win-win”, or a policy investment (Jacobs 2009) for consumers, explain empirical variation across tax reform cases? Experimental studies on framing have indicated that effects can be short-lived, particularly with effective counter-framing (Chong and Druckman 2007). In other studies, issue framing has been used to explain varying levels of public support for controversial policy changes (Cox 2001). Issue frames can be studied by examining the political communications that actors use to portray a policy problem or intervention. Certain attributes of a policy will be the focus as a way to draw voters’ attention to some specific dimension of an issue (and often away from some other dimension).

There are clear testable implications of framing theory which can be used to assess whether elite framing of policy interventions shapes mass reception of tax reform. First, if frames are having an effect, then we should expect to see individual voters using those issue frames in their evaluation of the policy. Second, in cases where governments use issue frames, we should expect to see a corresponding relationship between the frame and attitudinal change. If governments decide to use a particular issue frame at T1 then we would should expect to see attitudinal change at T2, and not vice versa. Examining framing effects in case studies might be methodologically problematic since it will be difficult to isolate the causal impacts of specific issue frames. As a result, this study provides a more rigorous examination of framing effects through a survey experiment in Chapter 8.

**Conclusion**

The central purpose of this chapter has been to describe and explain a theory of consumption tax reform. Drawing on ideational, diffusion and policy feedback scholarship, the chapter outlined a two-staged theory of consumption tax reform. The chapter described the central micro-level assumptions of the framework as well as identified several meso-level causal mechanisms. The purpose of the rest of this study is to examine the explanatory utility of this analytical framework by examining several case studies and other empirical data on consumption tax reform. In the concluding chapter, the study will discuss the empirical results of the study and the implications for the framework outlined.
CHAPTER 4 – POLICY LEARNING AND TAX POLICYMAKING: THE CASE OF THE HARMONIZED SALES TAX IN ONTARIO

Introduction

In the fall of 2008, public treasures across the world braced themselves for one of the worst economic downturns in recent memory. The global financial crisis had far-reaching consequences. In Canada, the effect of the downturn was particularly pronounced in the province of Ontario (see Table 4.1). From October 2008 to October 2009, Ontario’s labour market shed 205,900 jobs, representing over a three-point increase in the unemployment rate in that 12-month period alone (LaRochelle-Côté and Gilmore 2009). At the outset of the crisis, the initial policy response of the Ontario government was similar to action taken elsewhere. The McGuinty government announced a series of spending measures, including labour retraining for displaced workers in the manufacturing sector. Ontario’s manufacturing base had already been under stress with 198,600 jobs lost between 2004 and 2008 (Bernard 2009). What compounded the challenge for Ontario, then, was growing recognition that its economic troubles were more structural than cyclical. This recognition forced Premier Dalton McGuinty—along with his closest advisors—to carefully examine their economic and fiscal policy options. By early 2009, it became increasingly clear the government was planning something significant. In the March provincial budget, the McGuinty government announced one of the most sweeping and politically controversial fiscal policy changes in the province’s history, eliminating Ontario's Retail Sales Tax (RST), or Provincial Sales Tax (PST), and replacing it with a federally harmonized VAT, or the Harmonized Sales Tax (HST). In this, the government took a major political gamble about halfway through its second mandate.

Table 4.1: The 2008 Financial Crisis and the Canadian Labour Market- By Region

<table>
<thead>
<tr>
<th></th>
<th>October 2008</th>
<th>October 2009</th>
<th>Job Losses Total</th>
<th>Change (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>17,194.70</td>
<td>16,794.80</td>
<td>-399.9</td>
<td>-2.3</td>
</tr>
<tr>
<td>Atlantic</td>
<td>1,114.70</td>
<td>1,105.90</td>
<td>-8.8</td>
<td>-0.8</td>
</tr>
<tr>
<td>Quebec</td>
<td>3,890.20</td>
<td>3,828.10</td>
<td>-62.1</td>
<td>-1.6</td>
</tr>
<tr>
<td>Ontario</td>
<td>6,719.00</td>
<td>6,513.10</td>
<td>-205.9</td>
<td>-3.1</td>
</tr>
</tbody>
</table>

32 Consistent with colloquial use, the chapter will refer to the RST as the PST.
The political risks of enacting major tax reform are well known to political analysts. More often than not, the policy benefits associated with many tax reforms, especially those supported by economists, are diffuse and/or temporally distant (Derthick and Quirk 1985; Patashnik 2003). Politicians must often convince voters that a highly complex fiscal policy change is genuinely within the public interest, and not simply a covert effort to raise taxes. A shift to a VAT model of sales taxation, such as the GST/HST system in Canada, makes that task even more politically complicated. In most cases, a switch to a VAT will broaden a jurisdiction’s tax base, increasing the costs of many services and goods that had been previously exempt. Moreover, the immediate benefits of VAT reform tend to disproportionately benefit businesses, while the diffuse economic benefits for consumers, typically in the form of lower prices, tend to be delayed. Introducing new costs for voters and organized interests provide powerful political incentives for them to mobilize against policy reforms (Sears and Citrin 1982; Pierson 1996). The risk of popular revolt poses an electoral dilemma for politicians. Historical experience with sales tax reform (explored in Chapter 4) validates the fears of politicians. Prior to the Ontario government’s experience in 2009, no government in Canadian history had survived the subsequent election after introducing a VAT. The historical lesson was clear: governments enacting sales tax reform do so at their own electoral peril.

The McGuinty government’s decision to pursue the HST, then, poses an empirical puzzle for students of public policy: why, despite the high electoral risks, did the McGuinty government enact major sales tax reform in Ontario? The analysis below illustrates that there was nothing inevitable about the HST decision. Provinces which stood to materially gain from sales tax harmonization, such as BC, Manitoba and Saskatchewan, at least initially chose to adopt much more incremental and politically palatable courses of action. Just months later, though, the BC government—citing concerns about the competitiveness gap that had been created by Ontario’s
policy shift—followed suit on sales tax harmonization. Yet, the Ontario government's decision to act first is notable. The decision making process that led the Ontario government to pursue such a comprehensive and political risky policy change merits careful examination.

The central aim of this chapter is to describe and explain the Ontario government's decision to adopt the HST reform. In doing so, the chapter aims to test the theoretical propositions outlined in Chapter 3. The chapter relies on 22 elite interviews conducted with former elected officials, political advisors, policy experts, federal and provincial civil servants, and journalists (see Appendix A for full interview list). Beyond these accounts, the chapter draws on primary documents, secondary literature, and media analysis. The chapter traces the key sets of policy developments between the onset of the financial crisis in September 2008 and the announcement of the policy in March 2009. To put the magnitude of policy change into proper temporal context as well as survey the influence of feedback effects (e.g., learning), the chapter traces key punctuations in Ontario sales tax policy.

The chapter unfolds in the following sections. In the next section, the chapter provides a brief overview of sales tax policy in Ontario. Emphasis is placed on developments in the post-1991 period, following the federal government's decision to bring in Canada's first VAT, the federal GST. In demonstrating both the administrative feasibility and macro economic benefits associated with VAT reform, the GST reconfigured the set of policy alternatives available to provincial governments. The third and main section of the chapter describes the decision making process leading the McGuinty government to pursue the HST in Ontario. This section examines the underlying political and economic context as well as describes the sequence of policymaking processes. In the concluding section, the chapter summarizes the key findings in relation to analytical framework and hypotheses discussed in Chapter 3. It finds that a focusing event is particularly important in explaining the specific timing of the decision. Processes of policy learning involving policy experts from outside and inside government help explain why elected officials abandoned their previous opposition to the reform. Finally, the Ontario government was able to design a broad tax reform that was both comprehensive and politically judicious.

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33 Many officials from B.C. claim that Ontario's decision altered the economic incentives to pursue in sales tax reform. The fear was that Ontario's tax reform would put B.C. at a competitive disadvantage and therefore encouraged a re-examination of the policy (confidential, personal communication with author).
The Evolution of Sales Tax Policy in Ontario

Since the 1960s, provincial sales tax revenues have served as a central revenue source for the Ontario government. These taxes serve as the second most important stream for the provincial treasury. In the 2015-16 fiscal year, the province collected $23.5 billion in sales tax revenue, representing about a quarter of the province's total revenues. Only the provincial income tax represents a larger proportion of revenues (Ontario Ministry of Finance 2016). Table 4.2 outlines the breakdown of revenue sources in the province, illustrating the relative importance of sales taxes to province’s public finances. Although Ontario depends on federal transfers to finance many of its social policy expenditures, including health care and education, these transfers are less than the total funds it generates from consumption taxes.

Figure 4.1: Ontario Sales Tax Revenue, 1980-2003

Source: Robertson (2005)
Table 4.2: Ontario Ministry of Finance - Revenue 2009/10 - 2011/12

<table>
<thead>
<tr>
<th>Revenue Source (Millions)</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>23,421</td>
<td>23,711</td>
<td>24,548</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>6,227</td>
<td>18,813</td>
<td>20,159</td>
</tr>
<tr>
<td>Corporations Tax</td>
<td>5506</td>
<td>9067</td>
<td>9944</td>
</tr>
<tr>
<td>Education Property Tax</td>
<td>0</td>
<td>5659</td>
<td>5764</td>
</tr>
<tr>
<td>Employer Health Tax</td>
<td>4545</td>
<td>4733</td>
<td>5092</td>
</tr>
<tr>
<td>Ontario Health Premium</td>
<td>2763</td>
<td>2934</td>
<td>2916</td>
</tr>
<tr>
<td>Gasoline Tax</td>
<td>2336</td>
<td>2358</td>
<td>2380</td>
</tr>
<tr>
<td>Land Transfer Tax</td>
<td>1015</td>
<td>1247</td>
<td>1432</td>
</tr>
<tr>
<td>Tobacco Tax</td>
<td>1083</td>
<td>1160</td>
<td>1150</td>
</tr>
<tr>
<td>Fuel Tax</td>
<td>658</td>
<td>702</td>
<td>710</td>
</tr>
<tr>
<td>Beer and Wine Tax</td>
<td>0</td>
<td>397</td>
<td>561</td>
</tr>
<tr>
<td>Electricity Payments</td>
<td>516</td>
<td>321</td>
<td>367</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>322</td>
<td>562</td>
<td>321</td>
</tr>
<tr>
<td><strong>Total Tax</strong></td>
<td><strong>65,451</strong></td>
<td><strong>71,664</strong></td>
<td><strong>75,988</strong></td>
</tr>
</tbody>
</table>

Other Revenue Sources

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government Transfers</td>
</tr>
<tr>
<td>Government Business Enterprises</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
</tr>
</tbody>
</table>

Ontario's PST was first introduced by the Leslie Frost government in 1961 through the Retail Sales Act. Unless exempted, goods and services procured in the province were subject to a sales tax. All provincial governments in Canada, with the sole exception of Alberta, impose retail sales taxes most consumer goods and some business services (Hale 2002). Unlike the income or payroll tax, however, retailers were responsible for collecting these taxes and then remitting to the government. There were incremental policy changes over time—including rate changes and exemptions to the tax base—but the structural basis of the PST remained largely intact between
1961 and 2009. Despite the relative stability of sales tax policy, policy experts had long been critical about the inefficiency of the PST tax base. The PST’s flaws were made especially apparent during the national debate over the federal GST (Hale 2002). Despite the lack of public support for the GST (Eccleston 2007), the new federal tax was lauded by economic policy experts as a highly efficient and cost-effective instrument to generate revenue for the federal government (Robertson 2005).

Harmonized Sales Tax: Round 1

In the mid-1990s, the newly elected federal Liberals took steps to harmonize the deeply unpopular GST with provincial sales taxes.34 After abandoning their commitment to repeal the GST, the federal Liberals sought to make changes to the existing policy. As described in Chapter 2, the idea behind harmonization was to retain the structural features of the GST, while making the provincial sales tax base identical to the former tax. Although successful in securing policy change in three Atlantic provinces, the federal government faced intractable opposition from various provincial governments. Ontario, Alberta and BC, were ultimately unconvinced (Beauchesne 1996), compromising the Liberals’ effort to construct a nationally coordinated sales tax policy. The chief barrier, according to Hale (2002, 208), were provincial governments “jealously guard[ing] their control over the design and collection of sales tax and consumption taxes, resisting periodic federal efforts to develop a ‘harmonized’ tax base.”

One important change resulting from this agreement was a reduction in the provincial portion of the sales tax rate from 10 to 8% in the Atlantic provinces.35 So, while the provincial sales tax base in these Atlantic provinces grew to align with the much broader GST base, these changes were offset with a reduction in the tax rate. The rate was changed to 15% (8% provincial, and 7% federal) and the new HST was put into effect April 1, 1997. In addition, the reform also uploaded all sales tax collection to Revenue Canada (now CRA).

 Debates over the GST (and later HST) in the 1990s had the unintended consequence for Ontario, forcing the issue of sales tax reform on the provincial agenda. GST adoption federally and the HST reform in Atlantic Canada highlighted two key lessons for provincial policy makers

34 The history of the GST and its political consequences are examined in greater detail in Chapter 2.
35 It was not entirely clear from why a rate reduction was not seriously considered by the McGuinty government in 2009.
elsewhere. First, it demonstrated the economic benefits to be realized by switching to an HST. As time went on, Ontario and other holdouts now possessed concrete evidence of the relative effectiveness and efficiency of a VAT system (Smart 2007). Moreover, as Robertson (2005, 28) finds, when the three Atlantic provinces enacted HSTs, they were able to “significantly reduce their tax administration costs.” Over time, the empirical record in these provinces validated the theoretical arguments long made by public and private sector economists (Bird, Mintz, and Wilson 2006).

The other lesson from Ottawa Atlantic Canada, however, was more political in nature. These experiences underscored the political risks of reform. After enacting the GST, the federal Progressive Conservatives (PCs) were rebuked at the ballot box, largely, though not exclusively, for bringing in the maligned GST (Eccleston 2007; Bird and Gendron 2009). The electoral fate of the PCs weighed heavily in the minds of politicians in Ontario and elsewhere. The fact that Prime Minister Mulroney had been “completely obliterated by the GST” meant that sales tax reform became a “third-rail of politics” in the province. But as Robertson (2005) helpfully points out, while the GST and HST reform share policy similarities and objectives, the politics they engender are distinctive. In the case of the GST, the federal government brought in a “new” tax. From the perspective of the average voter, the GST was a new and highly visible cost that affected nearly every economic exchange. The discussion in Chapter 3 illustrated the importance of the relative visibility of a policy’s cost on voters’ evaluations of it. The enactment of an HST is distinct since it blends two existing taxes together. Given the magnitude of the policy change in the case of the GST (i.e., from no explicit tax to a new sales tax), one would expect the public reaction to be much more extreme than in the case of a less comprehensive sales tax policy change (i.e., a change in the sales tax base). The relative visibility of the policy’s cost was much greater in the case of the GST since the cost of the former policy had been embedded in the cost of goods. Even if inaccurate from an macroeconomic perspective, the GST was perceived by voters as dramatically increasing the costs of goods and services.

36 Interview, Sean Mullin, Toronto ON, November 2015. Mullin served as a senior policy advisor to the McGuinty government during the decision to enact the HST.
37 Of course, as the previous Chapter showed, this is misleading. The old MST was a hidden tax on manufacturers that was embedded in the price of goods and services.
38 Interview, Don Drummond, October 2015.
Policy Innovation and Policy Feedback Effect of GST and HST on Ontario

Since the adoption of the VAT at the federal level, provincial governments in Ontario have, at least internally, periodically revisited the issue of VAT reform. Governments of all ideological stripes examined VAT reform at some point in their tenures. In the early 1990s, under Premier Bob Rae, the New Democratic government created the Fair Tax Commission, mandating it to review the province's tax policies. Part of the Commission's work involved a working group, charged with examining options for combining the GST and RST. The commission’s report, however, identified concerns about the regressive impact of applying a single tax rate across various income groups (Robertson 2005), leading the Rae government to keep the status quo. The experience of examining sales tax issues in the Ministry of Finance provoked interest and support of tax reform among senior officials. After the Rae government was defeated in the 1995 provincial election, it was replaced by a reform-oriented government. The PCs under Mike Harris and his successor, Ernie Eves, were enthusiastic about many different fiscal policy reforms but sales tax harmonization never gained much traction. The province was approached, at various times, by the federal government but there was little desire within the premier’s office for pursuing reform. Even among provincial ministers who expressed private support for the idea, there was a prevailing sense that politically stickhandling tax reform would be too challenging.

Following the election of the McGuinty Liberals in 2003, discussion of sales tax reform arose once again. Upon taking office, the newly elected government discovered that their predecessors had “left the fiscal cupboard bare.” The province’s public finances were in much poorer shape than the Liberals’ predecessors had led on. As a result, Finance officials presented the premier and finance minister Greg Sorbara with a series of fiscal policy options, including a “Made in Ontario” VAT. Even though the deficiencies of the PST system were identified in their discussions, the Ontario Health Premium (OHP) was decided upon as the best way to shore up the province’s coffers. The Liberals caught considerable electoral flack for violating a campaign pledge not to raise taxes.

39 Confidential Interview.
40 Ibid
41 Ibid.
42 Interview, Sorbara.
43 Ibid.
44 Interview, Dalton McGuinty, January 2016.
At the same time, VAT reform as a policy idea had been planted in the Ontario Ministry of Finance. Although elected officials in the 1990s and 2000s had little desire to pursue policy reform, the idea of policy change, directly fuelled by the experience in Ottawa and Atlantic Canada, had resonated with many officials in the ministry. Ministry officials reported that during the 1990s and 2000s VAT reform would be “routinely presented” to elected officials anytime the latter group were looking for “bold revenue generation ideas.”

The presentation of VAT reform by Finance bureaucrats early in McGuinty’s first mandate speaks to this. The success of GST and HST elsewhere in improving the efficiency of sales tax collection piqued the interest of Ontario ministry officials. It is also clear, however, that these policy successes were insufficient to drive policy change on their own. Politicians at the highest level were much less enthused by the idea, in part because they were mindful of the political causalities associated with these policy successes. These developments in Ontario are consistent with the expectations of H_A1 which stresses the importance of existing policy innovations in securing the interest and attention of actors. It is clear that VAT reform elsewhere in the federation garnered the attention of ministry officials. The case also demonstrates that a policy innovations is a necessary but insufficient condition for enacting consumption tax reform. For HST reform to be taken up in Ontario, an additional confluence of forces would need to come about.

_A Changing of the Guard in Ottawa_

The idea for sales tax reform went dormant for most of the remainder of the federal Liberals’ tenure in office. The policy, however, received renewed interest with the election of the Harper Conservatives in 2006. A key policy goal for the Harper government, particularly in the early years, was to improve Canada’s economic competitiveness by lowering the marginal effective tax rate (METR) on new investment. In the second budget, the Tories made two important announcements, signalling the intergovernmental component of this goal. First, they encouraged the provinces with economic incentives to either eliminate or reduce provincial capital taxes, claiming that elimination could bring the METR down by 1.3 points (Department of Finance Canada 2007, 237). In doing so, the announcement set the stage for using financial incentives to encourage the provinces to follow its lower tax agenda.

The second development was a call for promoting sales tax reform in provinces, encouraging holdout provinces to follow Atlantic

45 Confidential Interview.
46 Confidential Interview.
Canada. In the 2007 budget, the government claimed getting the five remaining provinces to move to a harmonized system would reduce Canada’s “overall METR would decline by 6.2 percentage points.” Moreover, if the Ontario government alone did it, it would “lower the Canadian METR by 4.5 percentage points” (Department of Finance Canada 2007, 238). The 2008 budget went even further, stressing the federal government's commitment to help “facilitate” sales tax reform (Department of Finance Canada 2008). The budget did not specify how much assistance it would provide to the provinces but the fact that it was included in the federal government's most important piece of legislation is telling. Again, the federal government signalled the importance of the Ontario economy to the health of the broader national situation claiming the METR in Ontario would fall by 11.2%, just with this measure, translating into $5 billion in annual savings for Ontario businesses (Department of Finance Canada 2008, 98).

In the winter of 2008, federal Finance Minister Jim Flaherty scaled up efforts to push Ontario toward sales tax harmonization. Although discussions were held, negotiations never picked up momentum in early 2008 (Howlett 2009a). Neither office, at the time, made these discussions known to the public. Furthermore, in early 2008, federal Finance Minister Flaherty made several comments to the media about Ontario’s fiscal policy decisions. In the lead up to the provincial budget, Flaherty publicly derided the McGuinty Liberals in a series of scathing speeches and statements, criticizing them for failing to lower their provincial tax rates. In fact, at one point, Harper’s most senior minister told reporters “[i]f you're going to make a new business investment in Canada, and you're concerned about taxes, the last place you will go is the province of Ontario” (Canadian Press 2008). When pressed on the specific issue of sales tax reform, McGuinty expressed scepticism about the effects, calling it an “ideological non-starter” (Cowan 2009). Frosty relations between the two governments did not give proponents of sales tax reform much faith in the prospects of a federal-provincial accord. According to federal insiders, Flaherty just assumed that he would have to wait until a PC government took back power at Queen’s Park.47

The preference for a VAT system was not limited to those within provincial and federal finance ministries. As described in the chapter 1, over the years, several economists, international organizations, policy experts and interest groups had been highly critical of Ontario’s PST system. Even before the recession, both the Canadian Council of Chief Executives and

47 Confidential Interview.
Canadian Manufacturers and Exporters had been in support of sales tax reform. According to one former Assistant Deputy Minister, Steve Orsini, these groups viewed replacing the Ontario PST as the “single most important thing that the province could do to strengthen its competitiveness.”

The call for reform was not limited to domestic policy circles. The OECD (2008) urged Canadian provinces to boost competitiveness through sales tax harmonization with the federal GST. Many business organizations and industry associations in the province also signalled a strong preference for sales tax reform. For many businesses, the advantages of reform were clear:

By removing different layers of tax at different levels of production, [a value-added system] frees up more capital for companies, and ultimately, the net result of that is that there’s a flow to consumers with a decrease in actual price of those goods. By removing those taxes throughout that process, it frees up additional capital for investment, whether it be capital investment or investment in employees. This is such a significant move that government can undertake to facilitate job creation.

In fact, for years, the HST was the number one item on the Ontario Chamber of Commerce's provincial budget “wish list.” There was a wide range of organizations of varying ideological persuasions and economic interests calling on the government to bite the bullet on sales tax reform. According to Sean Mullin, a senior policy advisor to Premier McGuinty, there was a similar belief:

The consensus among experts for as long as I’ve been involved, and ever since I came to the Ontario government was, harmonization with the federal government was a no-brainer from the policy perspective. There’s nobody who really debated whether it was a good idea ... And it’s not that anyone did a comprehensive study but you know, governments touching consumption taxes are usually bad for government’s lives.

For years, though, the premier and successive finance ministers did not give much attention to this issue. This all seemed to change starting in the fall of 2008.

The Decision to Support Sales Tax Reform

During the fall of 2008, Ontario found itself in an increasingly precarious economic and fiscal position. Following the near collapse of global financial markets, the effects on the Ontario economy were becoming increasingly apparent. At the time, McGuinty was receiving daily

48 Interview, Steve Orsini, Toronto ON, December 2015.
49 Interview, David Pryce, December 2015.
50 Interview, Stuart Johnston, December 2015.
51 Interview, Mullin.
briefings on the severity of the economic situation in Ontario.\textsuperscript{52} Forecasters in the Finance Ministry estimated that in 2009 the provincial GDP would contract by 3.5\% and the provincial unemployment rate was likely to increase by 2.6 percentage points (Ontario Ministry of Finance 2009a).\textsuperscript{53} If correct,\textsuperscript{54} these projections meant the Ontario economy was heading for one of the worst economic downturns in recent memory. In one briefing, the premier was told that if nothing was done “the province could lose up to 400,000 manufacturing jobs.”\textsuperscript{55} Although the effects of the downturn were being felt across the country, the outlook in Canada's largest province seemed especially bleak (see Figure 3.1). Ontario's former Finance Minister, Greg Sorbara—who also served as an advisor to the premier during the crisis—captured the ministry’s view this way:

> The world’s economy was going to hell in a hand basket. Ontario was one of the places where the great recession was going to have a huge impact. Not just on our financial institutions, which were not being as severely hit as US financial institutions, but the auto sector and manufacturing sector were heading for disaster ...

The sense of economic panic and uncertainty across the province were putting increased pressure on the government to do something. According to one communications advisor, over the fall of 2008, the media and business community had been hammering the Liberals for not doing anything about the province’s competitiveness problem.\textsuperscript{56} For the previous two decades, Ontario ranked near the top of the Institute of Competitiveness and Prosperity’ competitiveness rankings but by November 2008, the province had fallen to last place in those rankings. At that point, Ontario’s METR on new investment was one of the highest in the developed world (Greenberg 2009e). The concern was that if nothing were done to address this issue, capital flight would begin.

By October 2008, the McGuinty government had been at the helm for about 6 years but managing an economic crisis had been unchartered territory. During his tenure, Ontario’s economy had averaged reasonable GDP growth (~2\%), enabling the Liberals to bring in five consecutive balanced budgets (Ontario Ministry of Finance 2008a). This is not to suggest that it was all smooth sailing for the government. Prior to the crisis, there had been a steady stream of concerns about the

\textsuperscript{52} I\textit{bid}
\textsuperscript{53} As it turns out, the ministry’s job loss projections had underestimated the depth of the crisis. Between October 2008 and 2009, the province lost 205,900 jobs, a 3.1 point decrease in total employment (LaRochelle-Côté and Gilmore 2009).
\textsuperscript{54} As Table 4.1 indicates, these economic forecasts were actually too conservative.
\textsuperscript{55} Interview, John Wilkinson, Toronto, ON. January 2015.
\textsuperscript{56} Interview, Sorbara.
\textsuperscript{57} Interview, Chris Morley, November 2015.
health of the Ontario economy, particularly its manufacturing sector (Bernard 2009). Ontario's economy had traditionally depended on US demand for Ontario's manufacturing exports. Intense global competition for manufacturing—coupled with a steady increase in the Canadian dollar in the 2000s—had steadily contributed to a decline in Ontario's manufacturing sector (Drummond and Burleton 2008). Manufacturing’s share of total employment in Ontario declined from 15.8% in 2000 to 10.3% in 2011. Moreover, its share of the province's GDP declined from 23 to 15% over that same period (The Mowat Centre 2014). The Great Recession not only revealed a threat to revenues but also put the magnitude of Ontario’s economic troubles into sharper focus. As Don Drummond, a leading economist and advisor to the government noted:

The [2008] Ontario recession was an odd one in that it disproportionately hit one sector, and that was manufacturing. I think it was more the trend decline in Ontario’s manufacturing that was most concerning for the government, which had been going on for a while ... But then when it took the extra blow from the financial crisis then the recession, I think that really caused a lot of concern ... Officials began to say ‘oh my goodness, there’s something going on here trend-wise ...  

By November 2008, the full weight of the economic pressure began to weigh heavily on the premier. According to one policy advisor, during one of the initial discussions about the 2009 budget, the premier made it clear that “all policy options need[ed] to be on the table.” During discussions, McGuinty and his advisors considered everything from short-term stimulus spending to a complete restructuring of the entire provincial tax system. The magnitude of the economic crisis had convinced the premier that something structural needed to be done. The economic context gave the government a compelling justification to make to the voters. As the former premier later remarked: “It is sometimes crisis conditions that allow us to do things that we otherwise wouldn’t be able to do.” Similarly, as one policy advisor to the Minister of Finance recalled the following:

There was a feeling that the government had to do something significant in response to the global financial crisis, and that the response needed to be more than short term ... The belief at the time was that the economic conditions had created the political space for the government to do something bold.

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58 The decline of manufacturing sector is a familiar story in Ontario. For a good discussion see Mowat Centre (2014).
59 Interview, Drummond.
60 Ibid.
61 Interview, Dalton McGuinty, January 2016.
62 Interview, Alex Mazer, October 2015.
What the precise policy response to the recession was going to be, though, remained unclear. Recall that just a year earlier, McGuinty had described the VAT as an “ideological non-starter.” But something began to change. In the past:

   Every time [the business community] advocated for [HST] back in the 2000s, [they] ran against a brick wall. But there was change of heart with the McGuinty government ... There was an evolving idea simultaneously in the public service as well as on the political side that broad based tax reform was possible and would be beneficial to the economy.63

The economic situation, then, was crucial in opening up space for new and even controversial policy ideas. The 2008 economic crisis undoubtedly served as a “focusing event” for the McGuinty government, drawing its attention to its fiscal and competitiveness challenges and the need to respond accordingly. The willingness of the premier to put all the “options on the table” as well as to devote unwavering attention to this issue in the fall of 2008 helps illustrate the effect of the recession. The behaviour of the McGuinty government is, then, largely consistent with the expectations laid out in Ha3 and Ha4. The 2008 economic was a key turning point for the government, dramatically shifting the government’s attention to fiscal and economic issues, thus opening a “window of opportunity” for tax policy changes. It is highly unlikely that the premier would have been as receptive to major structural changes in the absence of this focusing event. Although Ontario had been facing many of these challenges before the crisis, the economic collapse helped bring these issues into dramatic focus, putting even more pressure on the government to respond with both bold and swift policy action.

A Narrowing of the Policy Options

In the fall of 2008, the premier was presented with two research reports, which helped prompt a fundamental re-assessment of fiscal policy options. The first was a report, Time for Vision: Much of the Foundation of Past Economic Success Has Crumbled, released at the end of September 29, 2008. The report, whose data and conclusions were formed before the height of the financial crisis,64 was co-authored by Don Drummond. The argument was clear: times were changing and the Ontario government needed to adapt its economic and fiscal policies to reflect these changing realities. The report identified sales tax reform as a highly sensible path forward. According to the

63 Interview, Johnston.
64 Interview, Drummond.
authors, the sales tax system was less of a concern in the past because other macro economic advantages made Ontario a competitive place to invest. Businesses had long benefitted from the Canada-US Auto Pact, a low dollar, and low energy costs. Over time, broader economic changes—particularly trade liberalization—rendered these advantages obsolete. In a scathing assessment of the effects of the PST, they argued the existing system “where almost half of the revenue comes from capital and other business inputs, has no place in a modern economy” (Drummond and Burleton 2008, 16, emphasis added). To begin Ontario’s economic transition, the province needed to consider enacting a VAT and harmonizing it with the existing federal GST.

The substantive policy analysis presented in the report prompted a serious rethink by the premier. Two pieces of evidence were particularly striking for the premier. First, if Ontario failed to do anything, it risked having its manufacturing sector completely hollowed out. Second, new economic evidence had emerged from research on the impact of harmonization in the Atlantic provinces. The Time for Vision report cited work done by an economist, Michael Smart, whose new research illustrated that after the HST was implemented, businesses passed savings of sales tax reform onto consumers in Atlantic Canada. The premier went back to his finance minister and senior officials in the Ministry of Finance. Officials largely affirmed the claims made by the TD report, as well as Smart’s research. The tremendous weight the McGuinty government attached to the experience of Atlantic Canada in its evaluation of VAT reform provides empirical support for Ha2. This new empirical data about the effects of VAT reform within the Canadian context was crucially important for McGuinty’s assessment.

The Time for Vision report was an important starting point for the premier, not so much in that it offered a policy solution but in its clear and highly cogent diagnosis of the causes and consequences of the policy problem. Secondary accounts and media reports have argued that the Time for Vision report was important in the premier’s “change of heart” (Abbott 2015; Benzie 2009d) but interview data suggest the premier’s shift in causal beliefs were more complex. As examined below, other actors and ideas contributed to this evolution.

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65 Interview, McGuinty.
66 Ibid.
67 Confidential Interview.
68 Interview, McGuinty
69 Ibid.
The *Time for Vision* report and these discussions were important in that it led the premier to question some long-held assumptions about fiscal policy. According to Drummond,\(^{70}\) the analysis sparked the interest of the premier.\(^{71}\) After reading the report, the premier reached out to several business leaders, bank CEOs, and economic policy experts, including Drummond, to hear their perspectives on modernizing the sales tax system in the province (Benzie 2009).\(^{72}\) The nature of these discussions varied. Drummond pulled together academics and other public finance people to brief government about what the economic experience had been on the Atlantic harmonization. Moreover, McGuinty had hosted several informal dinners to assemble Ontario’s large bank CEOs—including TD Bank’s Ed Clark—and other economic experts to discuss the province’s economic options. Drummond recalled the following about this experience:

> McGuinty’s office invited me to go to a dinner and at every placemat was a copy of that report. We sat down, but instead of the appetizer, we discussed the report. I noticed the premier had underlined and highlighted all through this thing, and he basically wanted to spend the evening discussing that report.\(^{73}\)

The report, coupled with these other discussions informal discussions, seemed to convince the premier that the problem was indeed structural and that the tax system needed an overhaul. Reflecting on the timing and his evolution on the policy, McGuinty offered the following explanation:

> I had heard for a number of years that we were one of the few remaining holdouts in the world when it came to not having a value-added tax but hadn't fully appreciated the impact of this ... I got some excellent policy advice from the Ministry of Finance and from folks outside government, which said that we should adopt the HST, that it would make our businesses more competitive, it would lead to increased business investment, create jobs, raise incomes, it was going to allow for price reductions on many consumer goods ultimately. They told us that a large part of our economy was based on exports, but that 140 countries were—that our companies were competing against—had a single tax that gave their businesses an advantage ...

The decision making process revealed by interview data, however, suggest a more complicated process. The *Time for Vision* report TD report was helpful in shifting the premier’s attention to sales tax harmonization. The public service, as explored below, played an instrumental role in

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\(^{70}\) Interview, Drummond.

\(^{71}\) Confirmed in interview with McGuinty.

\(^{72}\) Confidential Interview, October 2015.

\(^{73}\) Interview, Drummond.
persuading the premier that a broader tax reform could be designed in ways that minimized the distributive—and potentially politically explosive—impacts of changing the sales tax system.

*The Role of the Chamber of Commerce*

In 2007, the Chamber of Commerce decided to commission a study examining the effect of a move toward a VAT in Ontario. The study provided the most comprehensive evidence of the benefits of reform for local Ontario businesses. The initial findings were presented to the premier in the fall of 2008. Part of the reason the report was so important was because of its comprehensiveness. The Chamber had been in regular contact with various finance ministry officials. At one point in early 2008, the Chamber approached senior finance officials, indicating they were planning to do this study. Ministry officials asked to be kept apprised on the research, supplied the Chamber with some questions of their own, and provided technical information. The research was thorough; it examined what the fiscal impact of sales tax reform would be on every type and size of business in the province. According to the Chamber’s former Vice President of Policy Research:

>We worked on this report and kept the Ministry of Finance informed of the progress of that research. In fact, in a sense, they were part of that research because they were asking questions—really technical questions—that we would then incorporate into our research, so we would have those answers in that full report. I wouldn’t say it was collaborative, but it was cooperative in that the Ministry of Finance was curious about the answers to their own internal questions, and they wanted an affirmation or confirmation of the math that they did internally ... At the end of the day, when we delivered our report on the HST, it enabled Ministry officials to trust our numbers because we didn’t just do the math and then presented them with a *fait accompli* ... They knew the progress of our research and they knew what we were looking at. That gave them a sense of confidence about the numbers at the end of the day, which I think contributed to their decision to pull the trigger on broad based tax reform.

It’s not entirely clear whether the premier or the finance minister knew that finance officials had informally been working with the Chamber. This was an important development, though. A major interest group in the province providing insights into distributive impacts would make the task of

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74 Interview, Johnston.
75 This research would later be released in the Chamber’s (2009) report “Made in Ontario: The Case for Sales Tax Harmonization.”
76 Interview, Johnston.
convincing premier to “pull the trigger” much easier. As the Chief of Staff to the Finance Minister noted:

The Chamber had actually done all of this work, producing a report that came out right at the time we began to seriously consider reform in Finance ... that was helpful in terms of being able to provide a voice on behalf of the business community in Ontario on the need for reform.\(^78\)

Although, it is important to note that while the Chamber was fully in support of harmonization, there were some divisions within the business community. According to Drummond:

Ontario had a financial sector that was fairly dubious about the whole effort… the financial sector had an interesting position on harmonization because it actually gets hurt because of the nature of how the GST applies to financial services. They were going to lose a lot of money and they had not come out and supported it. Ed [Clark], however, eventually managed to get all the bank CEOs to endorse it. I think that was important.

The Chamber’s analysis had presented extremely detailed benefits of VAT reform, outlining its predicted impact on productivity gains, increases in wages and disposable income for consumers, and as a revenue tool for governments.\(^79\) The research findings and recommendations were endorsed by some of the “most “influential thinkers in McGuinty's sphere” (Greenberg 2009e).\(^80\)

This policy information from the Chamber, then, reinforced the advice the premier and the finance minister had been receiving from finance officials. It is also clear that the premier had begun to develop a new appreciation for the importance of fiscal policy for investment decisions. In late 2009 during a Q&A with reporters, McGuinty’s statement could have been mistaken for Flaherty’s. He had fully transformed his perspective on the issue:

We know what TD Bank tells us: when we move ahead with the HST in the first year, 80 percent of the savings generated by business are passed to consumers. By year three, 95 percent of the savings are passed onto consumers. A report just came out from Jack Mintz. He tells us over the course of the next 10 years, that because of our package of tax reforms, 591,000 more jobs will be created than would have otherwise been created. $47 billion more will be invested in businesses than would than would have otherwise been invested; incomes will grow up to nine percent more than they would have otherwise (HST Q&A... 2009)

\(^{78}\) Interview, Pryce.
\(^{79}\) Interview, Johnston.
\(^{80}\) The report was endorsed by Don Drummond, chief economist of TD Bank Financial Group; Roger Martin of the Institute of Competitiveness and Prosperity; the Canadian Manufacturers and Exporters; the Certified General Accountants of Ontario; the Conference Board of Canada; the Ontario Road Builders Association; the Ontario Trucking Association; and the Retail Council of Canada (Greenberg 2009e).
Upon reading the Chamber’s research findings, McGuinty reportedly turned to his advisors and said: “Let's do this. Let's look at some options.” For the first time, the premier’s staff and finance officials had been explicitly instructed to “seriously explore HST reform.”  

These instructions, according to insiders, meant two things. First, it meant that an agreement with the federal government would need to be initiated. Second, it meant that in preparation for the budget, staff and finance officials would need to start designing two parallel budgets, one with the HST and a second alternative budget without the HST. The latter spoke to the fact that Ontario officials were confident that a deal could be reached with Ottawa.

Bureaucratic officials played a vitally key role in helping reinforce the arguments and evidence being presented by outside experts. The enthusiasm for the tax policy reform within the Ministry of Finance was noted by many officials and political observers. As Smart suggested, “there were key personalities in the bureaucracy pushing this for a long time. It was largely a question of getting the politicians to sign onto it.” Chief among these was one of the Assistant Deputy Ministers (ADM) of Finance. Many interviewees pointed to the importance of this ADM and his team. Sorbara, the former Finance Minister stressed how indispensable finance officials were:

The Ministry of Finance, and particularly [the ADM], had just studied this issue for such a very long time. The ministry is made up of a team of very, very competent bureaucrats. I suspect think this gave Ontario has a competitive advantage in negotiations, relative to its counterparts.

Reflecting on the groundwork laid by senior officials in finance, one McGuinty policy advisor stated:

I know [the ADM] had started to do work on this a year or so in advance. I think in retrospect [his] work was absolutely critical to our ability. We had an incredibly small window of time to do all the work that we did, to come up with the policy options that we did and to think through the analysis that was required for the successful execution.

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81 Interview, Mullin.
82 Interestingly, this helps explain why the HST serves as a standalone Chapter in the budget. The government had long been preparing for the possibility that negotiations would not be successful with the federal government, and as a result, they had a have a completely separate budget ready
83 Interview, Smart.
84 Interview, Sorbara.
85 Ibid.
The Role of Political Information

The McGuinty government’s change in position on sales tax would not be made public until it had secured a federal agreement, or until it had devised a political strategy for implementation. Work on these two political processes began simultaneously. Although the premier had been persuaded by the policy merits of reform, concerns about the politics lingered. Lee Greenburg (2009a), a provincial reporter summarized the political dilemma this way: “Harmonization was a high-risk play. If [McGuinty] passed on tax reform, he risked being blamed for the province’s economic decline. If he adopted it, he risked a popular revolt.” The premier echoed this sentiment, recounting the following:

I didn’t want to die a political death doing what I thought was the right thing to do, so I worked with some great policy minds within the Ministry of Finance and some great political minds within my office, and we crafted a policy that ultimately, I would argue proved to be elegant. While I would not say that HST was warmly embraced by Ontarians generally, it was grudgingly accepted as an economic imperative and something that we all had to do in order to make ourselves stronger.

The main concern from both the policy and political perspective was the potential for regressive impacts on low-income Ontarians. A second and related concern was voters would see this as shifting the tax burden from businesses to voters.

Prior to the federal-provincial negotiations getting under way, two further developments helped move along sale tax reform. First, while McGuinty was undergoing this change in beliefs, the province's Finance Minister, Dwight Duncan proved less convinced by the idea of reform. The finance minister had expressed scepticism about the timing and the government's capacity to manage the reform. For reasons that remain unclear, Duncan became convinced that a VAT was the right move. Gaining the minister's support was particularly important. Finance would be stick-handling the negotiations with the federal finance department. Moreover, from a political standpoint, it was important too. If the government went ahead with reform then Minister Duncan would be the public face of the HST. As one political advisor noted: once Duncan got on board,

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86 Ibid.
87 Interview, McGuinty.
88 Interview, Mazer.
89 Interview, Robert Benzie, October 2015.
“there was no daylight between premier, the finance minister, political staff in either office or the public service.”

The second development relates to “policy” information being collected within the public service. Throughout the decision making process, the premier had been receiving conflicting advice from experts, including finance officials, and his political advisors. Some in the latter group could not get past the political risks of reform and were very close to convincing the premier to abandon this “politically suicidal mission.” The concern was that the HST was going to be “a gift to the media and the opposition.” The left was going to say the government was increasing costs on the poor, and the right was going to say that this was a tax grab. Unbeknownst to elected officials and their political staff, senior officials in the Ministry of Finance had quietly been laying the groundwork for the possibility of sales tax reform in Ontario. Behind the scenes, officials had been using economic modelling to analyse the impact of sales tax harmonization on different types of Ontario businesses and households. Based on historical experience, and the federal government’s earlier stated commitment, these officials knew that some financial assistance could be expected.

One outstanding issue was understanding how the province could design the tax reform in a more politically palatable way, designing the reform in a way that did not leave affected Ontario businesses and individuals and families materially worse off. Harmonization was good for certain industries, but if it were done alone, it indeed would be perceived and experienced, at least in the short-term, as a shift of the tax burden from businesses to consumers. The political solution, then, was to offset the cost of the transition with various tax credits and tax cuts. How the tax reform could be optimally designed and how much it would cost were not known, and in fact, were challenging to figure out. Through advanced economic modelling, finance officials had been covertly simulating thousands of different policy designs, including several different permutations of tax cuts and credits with a VAT tax in place. These analyses gave ministry officials considerable confidence about the amount of money they would need to extract from the federal government in their negotiations: $4 billion. This latter development was crucially important.

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90 Interview, Chris Morley, November 2015.
91 Interview, McGuinty.
92 Ibid.
93 Interview, Mullin; Interview, Steve Orsini, Toronto ON, December 2015.
94 Interview, Orsini.
Although policy experts within and outside government had convinced the premier about the policy logic of reform, political uncertainty about the effects of the reform lingered. The Ministry of Finance, however, provided a clear political road map: embedding sales tax reform within a broader tax reform package (described in Chapter 6). As McGuinty commented:

> The materials produced by the Ministry of Finance were impressive, especially the various case studies for various businesses and various family incomes. I was only in politics for 22 years, which is the blink of the eye in the grand scheme of time, but I’ve never seen anything quite like it in terms of the depth of the effort. \(^ {95}\)

Processes of policy learning, then, played a central role in the premier’s evolution on HST reform. The premier’s casual beliefs about the efficacy of VAT reform as a policy response underwent a considerable shift. The interview data as well as the specific sequence of decision making reveal the importance of policy and political information driving that shift. This is largely consistent with the expectations of Ha5 and Ha6. Learning implies a process where actors carefully incorporate and assemble new information. The premier, his advisors and the finance officials conducted a highly systematic examination of VAT reform. Over the course of the fall, this group of actors consulted extensively with experts within the bureaucracy as well as outside government. Consistent with the hypotheses, there was considerable investment into understanding the effect of the instrument, including examining how similar reforms had played out in other jurisdictions. Independent economists and other experts, including Don Drummond, were helpful in drawing the government’s attention to the success of the instrument elsewhere. Experts in the bureaucracy were more helpful in describing and demonstrating the impact of tax reform in the Ontario context.

*The Federal-Provincial Agreement*

In early 2009, federal-provincial discussions over harmonizing the sales tax system got underway, resulting in a highly secret memorandum of understanding (MOU) being signed on March 10.\(^ {96}\) According to officials who participated in negotiations, the Ontario government was highly successful in achieving all the conditions that it had sought.\(^ {97}\) The Ontario government secured

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\(^ {95}\) Interview, McGuinty.

\(^ {96}\) Interview, Mullin.

\(^ {97}\) Interview, Mullin. Interview, Orsini.
$4.3 billion HST transition payment from Ottawa, $300 million more than it had needed to help finance its tax reform. This section describes the key developments that led to this intergovernmental agreement.

The Ontario government had privately been considering tax reform in the fall of 2008 but knew that reform would require financial assistance from the federal government. Based on research done by the Ontario Ministry of Finance and the Chamber, the government knew that policy design would be key to managing stakeholder responses. Even though harmonization had broad support within the finance ministry even its most ardent supporters knew, from a distributive impacts perspective, federal assistance would be imperative. According to a provincial finance official, for officials to recommend the premier proceed:

[The Ministry] needed policy flexibility, we needed to ensure that we could manage some of the transitional fiscal impacts, especially the shift of tax burdens to businesses to consumers. Doing so would require a federal partner ... In the 2007 federal budget, government said in its accompanying publication called “Tax Advantage”, something like, “the government is committed to establishing the conditions that will encourage new capital investment in Canada and is ready to work with the provinces that would like eliminate their retail sales taxes, and move to a harmonized tax.”

The Ontario government, then, needed to find out how much the federal government was willing to help. In early 2009, Ontario’s finance minister reached out to his federal counterpart, saying that the McGuinty government wanted to begin to discuss restructuring “Ontario's archaic tax system”, including a cut to the corporate income tax rate, a key priority for Flaherty. Later, Flaherty instructed his officials to begin preparing for negotiations (Benzie 2009d). Certain time constraints meant that the federal government and the province would need to act quickly. First, the provincial and federal budgets were coming up, and so, if they were going to do sales tax harmonization, the fiscal policy implications needed to be addressed in both budgets. Second, the federal government was adamant the tax policy changes had implemented no later than July 1, 2010. The whole point was not just the economic perspective to move to the VAT but to have a single point of tax collection, so proper mechanics had to be in place and transferred over to the CRA by July 1.

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98 Confidential Interview, November 2015.
99 Confidential Interview, January 2016.
100 Interview, Mullin.
The negotiations over the more technical details occurred between federal and provincial finance officials, including how much flexibility the province had in deviating from the GST base. There was also some political intervention from the finance minister’s office and the premier’s office “around the bigger questions.”101 These significant issues included how much compensation the federal government would offer and how much future control the province would have on setting tax policy since the policy would be administered by the CRA. In 2007, the federal government and the province had agreed to streamline collection of federal and Ontario corporate income tax through the CRA, and so there had been a recent history of cooperation. Another crucial negotiation was around the transfer of employees. Several Revenue Ontario employees needed to be transferred to the CRA, or otherwise compensated for the elimination of the sales tax branch in the Ontario government.102 Given the power and influence of the Ontario Public Sector Union (OPSEU), this was a very significant part of the what had to be negotiated with the federal government.

The negotiations between the two sides broke down at one point, making the prospect of an agreement unlikely, especially given the time constraints. The federal government had offered $3.2 billion but Ontario officials were adamant that this was insufficient (Benzie 2009), deciding to walk away from negotiations. Accepting this result, political staff in the Premier’s Office and the finance ministry began to prepare for a budget without sales tax reform. Finance officials in Ottawa and at Queen’s Park, though, had developed a “good working relationship” and were keen to see an agreement be reached.103 Unbeknownst to their political masters, these officials re-engaged, attempting to iron out the major sticking points. Ultimately, they reached an agreement that was acceptable to both sides.104 Many interviewees suggested that the agreement, and the resulting policy changes in Ontario, would not have been possible without the “extraordinary efforts of these dedicated public servants.”105

On March 9, 2009, the Government of Canada and the Government of Ontario signed a memorandum of agreement, providing the framework for HST implementation. The agreement contains many details that are beyond the scope of this analysis but the Ontario government

101 Interview, Mazer.
102 Ibid.
103 Confidential interview; Confidential interview.
104 Confidential interview.
105 Interview, Pryce; Interview, Mullin.
successfully extracted a key number of concessions. Overall, Ontario managed to secure a degree of policy flexibility that had not been afforded to the Atlantic provinces. First, it was able to provide point-of-sale (POS) rebates to consumer of up to 5% of the Ontario GST base. In the past, the long-standing federal position on sales tax harmonization was “all or nothing.” Officials in the CRA were concerned about jeopardizing the efficiency of the tax base.  

For years, Ontario had been unsatisfied with this position because it wanted “more control over the politics.” Second, the HST rate would be fixed at 13% (8% provincial and 5% federal) for two years. After that, the province could alter its portion of the rate, as could the federal government. Third, the province could restrict input-tax credits (ITCs) for larger businesses up until 2018. ITCs are one of the most important policy benefits of sales tax reform for businesses. Businesses are provided with rebates for all sales taxes they pay on purchases and expenses related to the commercial activities of the business (e.g., rent, telephone services, fuel costs etc.). Under the new HST system, all businesses would qualify for these rebates. Delaying these permanent but highly significant benefits for larger businesses would enable the government to adapt to these new expenditures. Finally, perhaps the most important part of the MOA was the $4.3 billion (the details of how these funds were used is a central part of Chapter 6). The assistance from the federal government was three times per capita of what had been given to the Atlantic provinces in the 1990s. One McGuinty advisor attributed these concessions to effective negotiating: “We were prepared to walk away, and I think that was critical to our success ... It gave us everything we needed from an implementation perspective.” On the other side, a federal policy advisor offered the following assessment:

I think Ontario pushed harder [than BC and the Atlantic provinces], and we wanted to make this happen too, so there were just harder negotiations ... To be honest, when we started advocating for this, we didn’t actually think any of the provinces would take us up on it, so it was one of those things where we realized to actually get a deal done, we would have to be a bit more flexible. In the end, we were happy with the

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106 Interview, Mullin.
107 Interview, Wilkinson.
108 The rate was also a significant change because the initial position of the federal government was that there had to be a uniform HST rate across the country. Over time, officials in the CRA decided that provinces could have different HST rates.
109 The HST system essentially exempts inputs costs for businesses but rather than rebating these costs at the point-of-sale businesses claim them on their HST/GST return. If these expenses are approved by CRA, businesses are provided with ITCs.
110 Confidential Interview.
111 Ibid.
112 Interview, Mullin.
deal. We probably gave more flexibility and a bit more money than we would’ve liked, but it was like any sort of deal, we were just happy to get it done ... Also, for the federal bureaucracy, this was something they’d long been championed, so they were super aggressive in terms of trying to ensure something happened.\footnote{Confidential Interview.}

But bureaucrats were probably only afforded so much flexibility. One interviewee offered the following conjecture:

If I’m federal Finance, and the tax officials and the programs officials, I’m looking to do the minimum required to get a deal done. I’m going to want them to pay ... Somebody at some point would’ve have had to make the decision to proceed with providing that additional support, and I would assume that that decision would’ve gone up and made at the political level.\footnote{Confidential Interview.}

There are different ways to interpret the behaviour of federal government. One optimistic reading is that this was seen as a “window of opportunity” (Kingdon 1995) for Flaherty to achieve a long-standing policy goal. To get Ontario to sign on, Flaherty knew that he had to create favourable political conditions, thus requiring additional concessions be made. This ideational, or policy-motivated, explanation of Flaherty's behaviour seems reasonable. There were also, to be sure, political incentives for Flaherty to get this deal done.

Here we had a motivated federal Minister from Ontario who had been the provincial Minister of Finance so he knew the impact that this would have directly. He also represented a jurisdiction that has a heavy auto sector footprint. So, I think from a number of perspectives he looked at this, and I think instinctively for him it was the right thing to do, and that in the large part is what got us there.\footnote{Ibid.}

But it also evident that Flaherty championed this idea, at a time his government was facing immense economic and political challenges.\footnote{As Mullin reminded me in our discussion, these negotiations were taking place on the backdrop of the coalition crisis in December 2008 and January 2009.} As one former federal Conservative policy advisor noted:

There was real resistance in the PMO to [the Ontario HST] happening. So as much as we were negotiating with Ontario, we were also negotiating with the PMO because they were not keen on wearing any of this. There were many in the room that were very hawkish.\footnote{Confidential Interview.}

A more cynical argument is that Flaherty and the prime minister were perfectly content with helping the Ontario government to sow the seeds of its own electoral destruction, and yet this
Machiavellian interpretation does not sit well with the evidence. In fact, an important finding is that despite the war of words between the two governments in the media, there appears to have been a very reasonable and productive working relationship between Dwight Duncan and Jim Flaherty's office.\textsuperscript{118} McGuinty highlighted the importance of the underlying context in shaping the ultimate argument: “Economic circumstances make for strange bedfellows ... We both knew that these were tough times and we both recognized that Ontario is Canada's most powerful economic engine” (Benzie 2009d). The sales tax policy changes, coupled with decision to cut corporate tax rates was expected to have a major short- and long-term economic impact on the province. As the Former Chief of the Staff to the Finance Minister noted:

In doing [tax reform], we were taking the province from having the highest marginal effective tax rate of the OECD down to the lowest effective tax rate in the OECD, which obviously has a significant impact on foreign direct investment/potentially has an effect on foreign direct investment, and new investment in the province.\textsuperscript{119}

The MOU was eventually signed into a Comprehensive Integrated Tax Coordination Agreement (CITCA). The agreement was ratified by the Ontario legislature on December 15, 2009 through the Ontario Tax plan for More Jobs and Growth Act.

With the agreement in hand, the premier was ready to tell his caucus that the Ontario government was not just considering sales tax reform but would be announcing a comprehensive overhaul of entire tax policy in the provincial budget in the following week. To the shock of some political observers and allies, the premier had “reversed a political lifetime of anti-tax cut rhetoric with a business-friendly budget” (Greenberg 2009a).

Various contextual factors, including the state of the economy, helped push sales tax reform on the Ontario government’s agenda in the fall of 2008. The crisis was important in triggering a process of policy learning within the Premier’s Office and the Ministry of Finance. Although both sets of factors help explain why and how the position of Premier McGuinty shifted, these were not sufficient conditions for policy change. To fully embrace sales tax reform, the premier had to balance his new-found wisdom about tax reform and economic competitiveness with the risk of electoral fallout. The federal government gave the Ontario government greater fiscal capacity to

\textsuperscript{118} Confidential Interview.
\textsuperscript{119} Interview, David Pryce, December 2015.
design tax reform in a way that was acceptable to the Ontario government. It is highly unlikely that the McGuinty Liberals would have enacted the HST without the federal government’s financial assistance. The negotiations with the federal government were essential in getting the McGuinty government to adopt the HST. The province would not have been enjoyed the fiscal flexibility to offset the most controversial distributive effects of the tax reform with tax cuts and credits. As one interviewee described it “Kudos to the McGuinty government for having the courage to make those changes, but they would not have done that without the federal government as a partner. They had to have had the feds there.”

To contain political opposition to the HST, the government included cuts to the province's corporate income tax (CIT) rates, HST transition cheques to most individuals and businesses, as well as other incremental tax policy changes (Ontario Ministry of Finance 2009b).

**Implications and Conclusion**

The McGuinty government's evolution on the issue of sales tax policy—and its broader decision to enact tax reform—can be attributed to several factors (see Figure 4.2). First, the economic crisis was a key focusing event, catapulting the issues of economic competitiveness and fiscal policy on to the government’s agenda. It is clear that finance officials—and even some political staff—had serious concerns about the structural health of the Ontario economy, prior to the onset of the crisis. The culminating job losses, particular in the manufacturing sector, had been worrisome but apparently not enough to merit a comprehensive policy response by the government. This all changed in the middle of September 2008. The economic downturn—punctuated by the collapse of Lehman Brothers and the US federal bank bailouts—dramatically shifted the attention of the Ontario government. Responding to the economic crisis became the preeminent focus of the Premier’s Office and the Ministry of Finance. Without these visible signs of economic policy failure, it is highly unlikely that the premier would have chosen such a risky action.

Second, the economic crisis was important in garnering policymakers' attention but failed to provide a blueprint for policy action. Processes of policy learning, facilitated by policy experts within and outside the government were crucial. The magnitude of the economic impact was uncertain but Ontario’s dependence on the health of the US economy immediately set off alarm

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120 Interview, Johnston.
121 In fact, the former premier cited Former Obama Chief of Staff, Rahm Emanuel's oft-cited remark: “You never let a serious crisis go to waste.”
bells in the Ministry of Finance. Dire economic forecasts from finance suggested short-term spending measures would be needed to offset declining revenues and job losses. As the premier and his advisors began to study the issue, though, it became increasingly apparent that the financial crisis had accelerated rather than caused Ontario’s economic problems. The timing of Don Drummond’s TD report was important in helping frame the policy problem for McGuinty as one of economic competitiveness. The report outlined clear drivers of the policy problem (e.g., a rising dollar, trade liberalization) and outlined a couple of policy alternatives, most notably eliminating the province’s RST system. Drummond’s report as well as extended discussions with experts, business leaders and finance officials was the first step in policy learning.

**Figure 4.2: Explaining the Ontario HST Decision**

<table>
<thead>
<tr>
<th>Policy Idea (T₁)</th>
<th>Focusing Event</th>
<th>Feedback Mechanism</th>
<th>Capacity</th>
<th>Outcome (T₂)</th>
</tr>
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<tbody>
<tr>
<td>Value-added tax reform</td>
<td>The economic crisis</td>
<td>Learning</td>
<td>Federal assistance</td>
<td>HST Decision</td>
</tr>
</tbody>
</table>

Over the next two months, the premier and his advisors undertook a comprehensive effort to better understand the economic and fiscal impacts of introducing sales tax reform, drawing on two key sources: external and internal research. First, the Chamber of Commerce’s work on this specific policy idea was an important source of information for the premier. The Chamber had long advocated reforming the sales tax system but lacked a strong evidentiary basis for its preferred policy. In 2007, and with some help from the Ministry of Finance, it embarked upon a comprehensive study of how a VAT would affect Ontario businesses, voters and the provincial government. By the fall of 2008, the Chamber had enough confidence in its data to share its preliminary findings with the premier and his advisors. In doing so, the Chamber provided compelling evidence that VAT reform could significantly help these interests.

Second, the Ministry of Finance’s long standing expertise and preference for the VAT model was crucially important in fully transforming the premier’s policy preferences. The Drummond and Chamber reports helped identify the policy problem and a possible solution but these were insufficient for securing policy change. As described above, political advisors, including the finance minister, had been advocating against the premier's preferred course of action. Managing the political risk of the reform was deemed important but the premier's team lacked a clear
understanding of how to properly manage the politics of this. The empirical work conducted by Ministry of Finance officials greatly helped reduced the premier's political uncertainty. Specifically, their advanced economic modelling capacity, which was unparalleled across provincial finance departments, provided key insights into how a broader tax reform could be designed to minimize the negative impacts of HST on stakeholders. This work by finance officials gave the province an advantage in negotiations, since they knew exactly how much money they would need in order to optimally design the reform. The comprehensive efforts by the government to assemble information about the impact of HST illustrates the importance of learning in understanding this policy development.

Beyond this, the case also speaks to the importance of agency and institutional factors in understanding the policy decision. The conversion of McGuinty’s beliefs were important but so too was the institutional context that enabled action. By virtue of holding a very powerful position of premier in a majority Westminster-style government, the premier had the capacity to proceed with sales tax reform.

The federal government was also instrumental in the ultimate policy decision; sales tax reform would not have been pursued without their leadership or financial assistance. Although there were important endogenous processes that shaped the premier’s beliefs about tax policy and economic competitiveness, the federal government’s willingness to offset the political and fiscal costs afforded the province with greater capacity to carry out reform. Ontario benefitted from the fact that the federal Finance Minister, Jim Flaherty, was keen to push sales tax reform as a policy idea as well as willing to using his power and position to craft the enabling political conditions. On the one hand, the Ontario government appears to have been more skilful in the negotiations—particularly in successfully extracting key concessions from the federal government. On the other hand, the role of federal and provincial finance officials should not be underestimated. These officials were motivated by the prospect of implementing a much more efficient, fair and effective tax system in Canada’s largest province.

In the end, there was nothing inevitable about the pursuit of sales tax reform as a policy response in Ontario. A more risk-averse provincial government could have easily turned to less risky policy alternatives, including tax cuts, labour retraining programs, and economic stimulus. In Ontario, the macroeconomic benefits of sales tax reform had long been known to policy experts. The perennial
barrier to reform had been an absence of political will. In contrast to his predecessors, Dalton McGuinty decided to bite the bullet on sales tax reform. This chapter has sought to describe and explain the confluence of factors that made that policy decision possible. It has argued that various contextual factors including the presence of a policy innovation and a focusing event helped push HST reform on the agenda. It has also argued that processes of learning convinced the government to pursue reform, while fiscal capacity provided it with the means to carry out the reform.
CHAPTER 5 – POLICY EMULATION AND TAX POLICYMAKING: THE CASE OF THE HARMONIZED SALES TAX (HST) IN BRITISH COLUMBIA

Introduction

On July 23, 2009, the BC government announced a major overhaul to its provincial sales tax system. With the finance minister on his flank, Premier Gordon Campbell announced BC would follow Ontario’s lead by harmonizing its provincial sales tax (PST) with the federal GST. The summer press conference set in motion what would become one of the most contentious policy debates in the province’s recent history.

The proposed policy shift caught nearly everybody in the province by surprise. Less than two months before, the electorate had given the Campbell government a third consecutive mandate, and yet, the BC Liberals had made no mention of sales tax reform on the campaign trail. Some of the government’s staunchest allies on the business community were shocked by the announcement. Harmonization signalled a major departure from the Campbell government's long-standing opposition to sales tax harmonization. Since first taking office in 2001 the premier and successive finance ministers had—both publicly and privately—expressed opposition to sales tax harmonization.

Politics in Canada’s most westward province has long been noted for populism and political polarization (Wiseman 2007). The battle that would ensue over the HST between 2009 and 2011 did little to alter this perception of BC politics. The public's response to the HST, particularly the citizen-initiated HST referendum, will be explored in Chapter 7. Yet first, deserving of exploration is the puzzling decision by the Campbell government to embark upon sales tax reform HST in the first place. The decision to forge ahead with such a controversial policy idea on the heels of a historic election victory is the main subject of this chapter.

The timing of the government’s announcement, as well as the reversal in Campbell's preferred tax policy raise several questions. First, what transpired between the election in May 2009 and the July press conference to push HST on to the agenda? One explanation popularized by HST opponents and some media outlets (see Chapter 7) was that the Campbell government had been planning to bring the HST in all along (c.f. Brown 2012). Yet the evidence presented below largely confirms the

government’s long-standing claim that harmonization was not seriously considered until after the election. A second related question is what can account for the premier’s sudden change in policy preferences? One possibility is that—similar to the previous chapter—the premier underwent a significant transformation in beliefs about the efficacy of VAT reform as a policy instrument. An alternative explanation, however, is that the change was prompted by factors exogenous to the specific policy issue of HST or the policy problem of economic competitiveness.

This chapter grapples with these questions through two analytical strategies. First, recognizing that policymaking rarely takes places in a vacuum, the analysis sets out to describe the broader historical, political and economic factors in the backdrop of the decision making process. The premier’s decision cannot be adequately understood without taking into the account the context in which they were governing. The spring and summer of 2009 were marked by heightened economic anxiety, triggered by a sharp decline in provincial revenues. While it is tempting to restrict focus to these proximate political economic considerations, existing public policy scholarship gives us good theoretical reasons to look further back in time. In recognizing the importance of path dependency and critical junctures in policymaking (Pierson 2000), this analysis will examines how the previous policy choices had important implications for the HST decision. In addition, the fact that similar policy developments in the province of Ontario had occurred just months earlier suggests the need to investigate different mechanisms of policy diffusion (Dobbin, Simmons, and Garrett 2007) as rival explanations. Second, the chapter uses a variety of data sources, including interview data, primary documents, and media analysis to provide insight into the decision making process of the BC government. In doing so, the chapter seeks to address one of the core questions driving this study: under what sets of conditions will elected governments decide to pursue tax policy reforms?

The chapter advances two central claims. First, Premier Campbell changed his policy preferences, but not through a process of learning. Learning— as conceptualized in Chapter 3 (Hall 1993; Weyland 2005; Meseguer 2006) and illustrated in Chapter 4—generally implies a systematic process of careful analytic reasoning whereby decision makers puzzle over the fundamental nature of a policy problem and goal. The evidence presented below, however, suggests a different dynamic at play. Premier Campbell’s beliefs about the policy idea did not shift. Instead, internal (i.e., fiscal) and external (i.e., time) pressures led the premier and finance minister to engage in satisficing behaviour (Simon 1985). This led them to conclude that sales tax reform was the best means to
resolve a fiscal dilemma. The government did not use the HST as a tool to respond to the economic crisis or even improve economic competitiveness—as had been the case for other adopters in the federation. Improving economic competitiveness was a rationale for sales tax reform—and one later proffered by the government—but the evidence suggests that this concern did not motivate the behaviour of decision makers. The chapter illustrates the operation of an alternative mechanism driving decision making: emulation. Underpinned by a different causal logic, actors that emulate—rather than learn—are likely to exhibit specific behavioural patterns. For example, since emulators are simply mimicking, they are likely to invest fewer cognitive and organizational resources into studying a policy problem and the effects of the instrument than learners would. We should also expect emulators to arrive at their decisions over a much shorter span of time than learners. Finally, when governments emulate, rather than learn, we should expect them to satisfice in decision making. That is, we should expect them to be goal-oriented but to restrict their focus to a limited number of dimensions.

Second, the chapter suggests a plausible reading of the case is that actors were behaving “intendedly rational” but were bounded in key ways (Jones 1999, 298). The impetuous quality of the policy decision, including the government’s failure to fully investigate and understand the consequences of reform’s impacts, reflects these cognitive lapses. In tracing the evolution of the policy process, harmonization was seized upon by decision makers as a policy solution for a distinct political problem: the size of the provincial deficit. Though there can be multiple rationales for pursuing a policy reform, the move in BC was motivated by powering considerations more than puzzling ones (Heclo 1974). For example, as one policy expert suggested, “as a general rule, provincial governments do not overhaul the tax system in order to deal with a cyclical problem like a budgetary deficit.”123 Facing pressure from the premier and finance minister to find a new revenue source, finance officials turned to the federal government’s long-standing HST transition assistance as a solution. Crucially, the federal offer had been made salient to finance officials following the Ontario government’s decision, thus influencing the cognitive underpinnings of this policy process.

The remainder of this chapter unfolds in four sections. Section II describes the evolution of sales tax policy in BC. As explored in Chapter 2, efforts to harmonize federal and provincial sales taxes in Canada have been a recurring goal of the tax policy community. This section traces the history of

123 Ibid.
these taxes within the provincial context of BC. In section III, the chapter describes the context facing decision makers in BC, offering analysis of the political, fiscal and broader economic climate in early to mid 2009. In the fourth section, the chapter carefully describes the processes of decision making that led to the HST decision, identifying key junctures and sequences in policymaking. The final section of the chapter returns to the hypotheses outlined in Chapter 3, providing further analysis and reflections on the empirical findings.

The Place of Sales Taxes in BC Public Finances

Similar to other Canadian provinces, the BC provincial government’s revenues derive primarily from personal income taxes, corporate income taxes, sales and property taxes. For many years, the province also relied on a consumption tax on goods and services as a major revenue tool (Ministry of Finance 2007). In its 2008/2009 fiscal year, the provincial treasury collected about $5.06 billion in revenue from the provincial sales tax, making it the third largest source of revenue for the provincial treasury, just behind personal income taxes and federal transfers (Statistics Canada 2009). In the same fiscal year, sales tax represented 13% of the total revenue the province collected. By comparison, about 16% of the total revenue (~$6.2 billion) came from personal income taxes (PIT), while 15% (or ~$5.9 billion) came from federal transfers (Ministry of Finance 2009a).

The first sales tax in BC was introduced on July 1, 1948 under the Social Service Tax Act at a rate of 3%. Like many RSTs (largely known as the provincial sales tax, or PST), the tax applied to most goods or services purchased within the province, unless subject to a legislated exemption. The PST was administered by the BC Ministry of Revenue. Companies doing business in the province were required to have a PST number. Under this system, businesses were required to charge the PST on consumer purchases (including to other businesses) and then remit those repayments to the Ministry of Revenue.

Over time, various provincial governments made incremental changes to the scope of the tax. Similar to other provinces, over time the province either increased the tax rate or reduced the sales tax base by enacting tax exemptions. One notable example took place in 1987 when the Social

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124 The province also collects fuel, carbon, tobacco and property transfer taxes.
125 Interview, Kevin Milligan, Vancouver BC, July 2015.
Credit government raised the PST rate to 6% (BC Stats 1996). Recognizing the potential political fallout of this, the government included a series of offsetting exemptions. The government introduced an exemption on all restaurant meals, a decision with fateful consequences for the HST over 20 years later. One of the main challenges the BC government would later confront in implementing the HST was a fiscal inability to extend the exemption to restaurant meals (explored in Chapter 7). Prior to the exemption, for about 40 years, restaurant meals had been taxable under the BC’s PST system.

While the provincial sales tax has been a pillar of public finance in BC, over the years it had been roundly criticized. Complaints about the arbitrary nature of PST exemptions and tax enforcement had been common in tax policy circles. Similar to criticisms noted in Chapter 2, policy experts and a number of those in the business community complained about the “antiquated” structure of the province’s sales tax. Just as had been the case with the federal GST (and the PST in Ontario), the idea to replace the PST with either the HST or some other VAT had been floating around the Finance department since the early 1990s (Ministry of Finance Official 2015).

Finance Minister Hansen’s predecessor, Carole Taylor, did everything in her power to keep harmonization off the agenda. As one observer described it: “Taylor squashed the idea of harmonizing the sales tax whenever it came up. I think she was more of a political pragmatist who recognized how dicey a file it could be.” Taylor did not take issue with merits of the reform but apparently believed it would be perceived by the public “as a tax shift from businesses onto voters.” The fact that it was Taylor who opposed the policy change was particularly important.

Although it has been well documented across many studies that first ministers exercise an inordinate amount of control in Canadian and provincial politics, proponents of the centralization of power thesis (Savoie 1999) concede, among cabinet ministers, finance ministers remain the most powerful. Taylor's retirement from provincial politics in 2008 was a crucially important turning point. Her successor, Colin Hansen, did not have the same strong preferences about sales tax reform, and so when the issue was forced on the agenda, it was received with a more open mind.

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126 Interview, Finlayson.
127 Interview, Thomas.
128 Interview, Cayo.
129 Interview, Colin Hansen, Vancouver BC, July 2015
According to those most familiar with provincial politics, it is highly unlikely, if not impossible, that harmonization would have been proposed had Minister Taylor been at the helm of Finance.\(^{130}\)

Organizations representing business interests in the province, such as Business Council of British Columbia (BCBC) and the BC Chamber of Commerce, had long advocated sales tax reform. In fact, despite objecting to the lack of consultations ahead of the proposed HST, the BCBC ended up fully endorsing the Campbell government’s decision. As the Chief Policy Officer indicated, BCBC had long championed a “major overhaul of the sales tax system”, stressing the advantages of a harmonized sales tax in several reports and communications materials.\(^{131}\) There had been several calls within the tax policy community to turn the tax into a VAT as well as deal with the highly arbitrary nature of the exemption problem. As one observer put it:

> The culmination of this structurally inferior tax and these absurd exemptions that had come to be written into it over time made me and others strong advocates of the VAT. Also, the administrative convenience of having a single tax – you know, a single set of papers, a single set of auditors, all that stuff, just made so much sense.\(^{132}\)

Despite recurrent criticism, there was little appetite at the political level for major policy change. Governments in Victoria, whether led by the BC Liberals or the NDP, proved unwilling to “touch the tax with a ten-foot pole.”\(^{133}\) One particular challenge for reformers was that any efforts to expand the tax base would prompt opposition from the public and industries whose goods and services had been except from the tax. In addition to these distributive impacts, a related challenge was temporal. Under a VAT (see Chapter 2), businesses would benefit from the input tax credits (ITCs) for all sales taxes paid on capital investments. The economic theory and evidence of VAT reform suggest that over time the cost of the goods and/or services for consumers will come down. The challenge for politicians, however, is the delay in policy benefits; it represents a non-simultaneous exchange (Jacobs 2011). Business experiences the policy benefits in the first fiscal year whereas voters must wait for prices to come down over several years. Within government, there were serious reservations about the ability of governments to convince the public that shifting the tax burden from business to individuals would be in their economic interest.

\(^{130}\) Interview, Vaughn Palmer, July 2015.
\(^{131}\) Interview, Finlayson.
\(^{132}\) Interview, Don Cayo, Vancouver BC, July 2015.
\(^{133}\) Ibid.
On the federal side of things, it did not seem to matter which party was in power, Finance ministers in Ottawa had been keen to push for federal-provincial sales tax harmonization. In several of Jim Flaherty’s budgets and economic updates between 2006-09, the finance minister urged provincial governments to consider harmonizing their sales taxes, firmly committing federal assistance for the transition. In one notable speech to the Calgary Chamber of Commerce, Flaherty (2008) stressed that VAT reform was: “the single most important step that could be done to help relieve the tax burden on business.” His former political staff in Ottawa stressed the priority of provincial sales tax reform for the late finance minister. From a political and a policy perspective, the motivations of the federal government are clear. From a policy standpoint, and specifically an administrative and economic efficiency perspective, Ottawa was keen to see a streamlined tax system; these preferences were particularly strong among senior officials in the Canada Revenue Agency. Politically, the federal government faced less risk in partnering with the provinces on sales tax harmonization. Since the HST primarily involves provincial governments making the highly visible changes to the tax system, these decisions are most likely interpreted by voters as provincial policies. Citizens have been shown to have limited understanding of the complicated implications of fiscal federalism (Cutler 2004). It is safe to assume the federal government defined the political risk as manageable. For provincial politicians, though, concerns about the electoral risk were paramount, helping explain the reluctance of other provinces, such as Saskatchewan or Manitoba, to partner with their federal counterparts.

Even before the HST was announced in BC, there was a growing number of experts calling on the province to harmonize. In March 2009, sales tax reform gained salience as Ontario’s decision to harmonize garnered the attention of the national news media (Cowan 2009). Policy experts in the province called on the BC government to see what kind of deal the federal government had on the table. After the Ontario decision, one of the province’s leading economists—Jon Kesselman at Simon Fraser University—predicted that harmonization for BC was “not a question of if but when.” The competitive disadvantages created by the Ontario move coupled with some level of compensation from the federal government was too great for BC to ignore (Kesselman 2009). That is, the Ontario HST decision fundamentally reconfigured the economic and fiscal policy incentives

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134 Confidential Interview.
135 Confidential Interview; Confidential Interview.
136 Interview, Anna Rothney, December 2015.
for those in the Ministry of Finance. Kevin Milligan, an economist at the Vancouver School of Economics, used the following example to illustrate the competitive dilemma facing the province:

Imagine a software company looking to illustrate the choice between [BC] and Ontario. They can choose Mississauga or they choose Burnaby [...] If you choose to locate in Burnaby under the PST system, you’re paying 7 percent sales tax for the desk, for the computer, for the pens, for all of that stuff that you’re buying just to setup shop. You’re paying 7 percent on all that. In Ontario, [with the new HST] you get all that back and that’s just a huge advantage. If you’re a business in BC, you can make that up but you’re starting 7 percent behind the starting line. That’s a huge competitive disadvantage.137

The political instincts of Kesselman and others in the media proved ultimately correct. As one interviewee described it:

The Ontario announcement was largely responsible for pushing this within the Ministry of Finance. Prior to that, the federal government would offer HST to provinces but there were specific rules of engagement. The two that were always problematic—which led to the distributional impacts—were that the province had to have an 8% HST, and there could be no changes to the tax base within the province. This all changed with the Ontario agreement. They changed the rules and they said okay, BC could have a different rate and a 5% deviation from the [GST] tax base. So yeah, the move in Ontario in early 2009 just changed everything for us.138

As the Ontario-Ottawa agreement was being announced in the Ontario budget, news began to travel westward to the BC Ministry of Finance. A central responsibility for bureaucratic officials is “to keep an eye on developments across the federation, particularly when it involves deals with Ottawa.”139 On March 26, 2009, an Assistant Deputy Minister (ADM) at Finance provided a briefing note presumably for Finance Minster, Colin Hansen. In addition to briefing the minister on the situation in Ontario, the note also outlined the expected distributive and fiscal impact if BC decided to pursue a similar policy. According to a freedom of information request by the CBC, communications between federal and provincial officials began on March 26, 2009. The documents also showed that:

The [BC] government had expert advice that the new tax might hurt the province’s unemployment and economic growth for up to five years before the benefits were realized. The documents also appear[ed] to support, however, B.C. Finance Minister Colin Hansen's assertions that the Liberal government did not actually decide to bring in the new tax until bureaucrats briefed him on the province's financial future after the May 2009 election (CBC News 2010a).

137 Interview, Kevin Milligan, Vancouver BC, July 2015.
138 Confidential Interview.
139 Confidential Interview.
The specific economic context in which the BC government reconsidered its previous opposition to sales tax harmonization is vitally important. In the first couple of months of 2009, the effects of the global recession were in full force, exacting a toll on provincial and federal revenue. In BC, government revenues fell by almost $1 billion from between the 2008/09 and 2009/10 fiscal years (Ministry of Finance 2011). The government, however, claimed in January 2009 that despite the downturn, it committed to staying out of the red. But amid warnings from private sector economists and other troubling indicators, by the beginning of February, the premier admitted his government would have no choice but to run a small but temporary deficit (Palmer 2009d). The admission was a symbolic blow for the fiscally conservative government. Upon being elected in 2001, the BC Liberals government had introduced the Balanced Budget and Ministerial Accountability Act, enacting a legal requirement for the province to balance the budget each year. The effects of the economic crisis, however, forced the government to amend the act, allowing the two years of deficit spending. Hansen defended the amendment to the act, telling reporters:

... given the way we've seen revenues erode over the last three weeks, we were left really with no other option ... the alternative would have been to significantly cut back on the important and vital funding for health care, education and social services (CBC News, 2009).

In the lead-up to the 2009 election, the Campbell government released a budget, detailing how it planned to respond to the crisis. According to Budget 2009, the BC government’s projected revenue for the 2009/2010 fiscal year was expected to be $2 billion less than the 2008 budget had forecast. The decline in expected revenue was primarily the result of decreased royalties from natural resources as well as drops in income tax revenues. The government sought to portray its move into the red ink as temporary but necessary. In the government’s own words: “revenue weakness has required the government to suspend its balanced budget legislation ... to protect vital health care, education and social services”(Ministry of Finance 2009a, 7). Following the release of the budget in February, RBC (2009) offered the following description of the fiscal and economic picture in BC:

With revenues evaporating quickly, balancing the books in this economic storm increasingly appeared improbable even to a government as staunchly averse to red ink as the current provincial government. Last week, the balanced budget legislation was suspended for a period of two years (starting April 1), clearing the way for the return of deficits in the province after five consecutive years of surpluses. Therefore, it came as no surprise in yesterday’s budget that the books will be marked in red
during the next two fiscal years with projected deficits of $495 million in 2009-10 and $245 million in 2010-11. With the legislation exemption expiring thereafter, the government is projecting a balanced budget in 2011-12.

In addition to a decline in revenues, the province’s labour market continued to decline. By the end of 2009, BC experienced a 2.1 percentage point decrease in the employment rate, a total of about 48,500 job losses. Over that time period, only Ontario and Newfoundland and Labrador experienced higher job losses (BC Stats 2015). In March, after the budget, the economic picture worsened with withering royalty and tax revenues and an uptick in job losses. In 2008, BC's economy grew by 0.2% and then shrunk by 2.3% in 2009 (see Figure 5.1). As Figure 5.1 shows, commodity-based provincial economies, such as those of Newfoundland and Labrador, Alberta and Saskatchewan were hit particularly hard in 2009 and the BC economy, also with a strong resource-based economy faced similar headwinds. Finance officials attributed much of the economic contraction to a drop in demand for BC forestry raw materials and manufactured goods (Ministry of Finance 2010).

Figure 5.1: The Great Recession and Provincial Economic Growth, 2008 and 2009

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140 Confidential Interview.
As Harrison (2012) notes in her examination of the BC carbon tax, the recession made economic management the defining issue of the 2009 BC provincial election campaign. In fact, the recession may have inadvertently helped the government’s re-election odds. The province had introduced a carbon tax in 2008, a deeply unpopular measure in some parts of the province. The recession, however, enabled the BC Liberals to reframe the ballot question. All of sudden, the issue became which party was best equipped to navigate the province through difficult economic times.

The 2009 Provincial Election
A fixed-election date law, enacted in 2001 by the Campbell Liberals, meant that voters would have an opportunity to pass judgement on the government’s plan for coping with the recession. Although the premier committed to some stimulus spending in the campaign, his government had also firmly pledged to return the province to a balanced budget. A considerable portion of the BC Liberals’ campaign platform was taken from its February budget. Over the campaign, the issue of the sales tax reform arose, largely in response to the Ontario government’s recent deal with the federal government. Some interest groups asked the two major parties whether harmonization was something they would consider, if elected. As then NDP leader Carole James recalled:

> The [HST] question came up during the election campaign. We were asked whether we would consider an HST consumption tax and harmonize the two taxes. And both political parties pretty well answered the same, which was at this time, we’re not looking at it. It was not something under consideration and it wouldn’t occur. This sent a clear message to business folks as well as other people who had asked the question. So, the government won the election in May but with the understanding that harmonization was not going to be looked at.141

In mid-April, two weeks into the campaign, Campbell was pressed by reporters on the fiscal situation but committed his government to running a $495 million deficit (Palmer 2009d). On election day, voters supported the BC Liberals’ incremental approach. The electoral returns on the evening of May 12 did little to alter the political makeup of the BC legislature, giving the Campbell Liberals a comfortable majority. Both parties experienced marginal increases in seats (+3 for the BC Liberals, +2 for the NDP) as well as in popular vote (+0.03% for the BC Liberals, 0.62% for the NDP) (Elections BC 2009).

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141 Interview, Carole James, March 2016.
Inside the Decision making Process

The BC government’s decision to enact the HST unfolded over the course of two months. Attention to the policy problem increased over the course of early to mid May. On May 7, a few days before election night, the premier was briefed by his own deputy minister on the state of public finances. Based on the returns in the first month of the fiscal year, revenues were off finance’s targets by between $200 to 300 million. Campbell, however, chose not to convey this information to voters until August 2009 (Palmer 2009d). Then, a week later—or two days after the election—the premier had a second important meeting, this time with the deputy minister of finance. On election day, finance officials had run some economic forecasts based on the emerging economic picture. According to the new estimates, the projected deficit for the fiscal year would be between $1.1 to 1.3 billion, much larger than what Campbell had promised back on the campaign trail. The message from finance was clear: “the economic outlook and state of revenues were much grimmer than previous forecasts had predicted.” According to the former finance minister, the meeting forced the government and the premier into “panic mode.” Over these series of meetings, then, these indicators all seemed to point to mounting evidence of policy failure. This certainly served as a focusing event (Ha3 and Ha4) for the government but was distinct from most focusing events in that it was not visible to the public. The premier and finance minister had political reasons for concealing this information. The government had just won re-election; springing this information on a completely unsuspecting public would create a major political headache for the Liberals.

A similar, though less specific version of events was described by Martyn Brown, the former Chief of Staff to the Premier, in his recent e-book. According to Brown, just after the election, the government faced:

... an unanticipated and massive budget deficit that was growing worse by the day [...] The economic impact of the global crisis also exceeded the expectations of the government’s independent, expert forecast panel, as well as the government’s even more conservative budget planning assumptions (Brown 2012, 542).

The news seemed to have put Campbell in a difficult political bind less than a week into his third mandate. Campbell had promised during that election that core social services would be spared from deep cuts. According to officials acquainted with the decision, it was at this point when

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142 Interview, Hansen.
143 Interview, Colin Hansen, Vancouver BC, July 2015.
144 Ibid.
Campbell asked finance officials to “go and figure something out.” Ha4 expects that following a focusing event governments will shift organizational resources to study the sources or causes of a perceived policy problem. The construction of the policy problem by Campbell is particularly telling. For Campbell, the policy problem was the deficit and the goal was to find ways to eliminate it. This is quite distinct from the Ontario government who interpreted the 2008 economic crisis as signalling a broader structural problem with the provincial economy.

On May 15, mindful of Ontario’s deal with the federal government, officials in Victoria began to inquire about the harmonized sales tax, trying to assess whether the federal government would be willing to cut BC a similar deal. On May 24, at a federal-provincial meeting between the finance ministers in Quebec, Hansen told federal Finance Minister Jim Flaherty that BC was “considering changing [its] previous position on opposition to the HST” (Palmer 2009d; Whitcombe 2011). The unwelcome news continued to mount for the government, putting further pressure on it to find a new revenue stream. The government was slow, however, to admit this to the public. On July 10, Hansen was forced to concede to reporters: “Given what I know today I am not optimistic at all that the $495 million [deficit] is anywhere near possible” (Now It’s Job Cut...2009). One of the leading political journalists in the province, Vaughn Palmer, spent a considerable part of 2009 and 2010 interviewing officials and reporting on the HST. In his opinion, the HST decision was rushed and haphazard. Based on his assessment:

The new Deputy Minister [of Finance] and Hansen lowballed what it would take in terms of a deficit to balance the budget. They announced a deficit of [...] half a billion dollars or something like that and it was unsustainable. Then they went through an election swearing up and down that this was going to be the deficit and weren’t in a panic. Two days after the election, Campbell gets the briefing from the new Deputy Minister of Finance saying, ‘Boss it’s actually going to be a lot bigger than that, than what you said during the campaign’ Campbell blew his stack and said ‘why am I hearing this now?’ The Deputy assured the Premier he’d go find the money. The Deputy knew damn well what had happened in Ontario. And he also knew that feelers had been put out by Ottawa and that any other province that wants to harmonize can have the money.
After engaging in informal discussions, finance officials came back to the premier saying the federal government was willing to provide a transition fund should the province harmonize its sales tax. The officials began discussing and the final offer made worked out to $1.6 billion. Unlike the Ontario case, the federal government was much firmer in its position. According to one of the negotiators on the federal side, the explanation for this was simple:

After dealing with Ontario, there was a template in place. I mean, there was a fair amount of negotiations about what specific exemptions could happen, what they could use with their different parts that they excluded and stuff like that, but once that was kind of settled and determined in Ontario, it gave us a template for going forward with BC as well any other province that was interested.

Third-party analysis suggested the federal offer was in line with what the Ontario government received:

I don’t want to say with certainty that it was the exact same amount per capita, but it was very similar per capita and it was based on the same formula. There was zero controversy in BC around what it was receiving in comparison Ontario. The only controversy was that Flaherty said if you back out of the tax, you have to repay the transition fee.

In June, however, federal finance gave officials in Victoria an update (the CRA collects BC’s corporate income taxes) on its tax transfers. It was at this time BC Finance officials were told that the actual collected revenues would be even worse than what the province’s economic models had predicted in their election day economic projections. In the end, this meant that “even the federal harmonization money was not going to fix the budget...” Yet the government still decided to stick with harmonization. According to one account:

Campbell, in an effort to not get himself accused of being misleading on the question of the deficit ended up being accused of being a liar on his tax plans. The Liberals had a caucus meeting in early July. Cabinet looked at what it would take in terms of spending cuts to actually hit their deficit target. They realized that it was a hell of a lot of money and many of them were not willing to take the heat for the cuts. They had the option of this harmonization deal, where Ottawa will write them a cheque for $1.6 billion. So rather than cutting all of these programs, they decide to harmonize. It was completely rushed and without much foresight... Campbell and Hansen thought

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149 Interview, Hansen.
150 Confidential Interview.
151 Interview, Michael Smart, Toronto ON, January 2015.
152 As part of an agreement with the federal government (see Chapter 4), the Canada Revenue Agency collects the province’s corporate income taxes.
153 Confidential Interview.
154 Confidential Interview.
they could sort it all out by the next election and that people will have forgotten it. Nobody in the room was thinking, ‘wait a minute, we’ve got this Recall and Initiative legislation that will allow, that will keep this in front of the public until the next election.’

The financial assistance provided to the BC government by Ottawa seems to have played an key role for Premier Campbell and the finance minister. It seems extremely unlikely that the government would have pursued the HST without the financial kickback from the federal government.

While the decision making process seemed less orderly than ideal, it is important to note that various bureaucrats reported feeling confident about the merits of the federal deal. In their view, this was a good policy for the residents of BC and the province was getting a reasonable deal to implement the policy. Over the previous months, throughout much of the election campaign, these officials had spent time analyzing the provisions of the Ontario agreement. The agreement left many in the finance department “confident and even enthusiastic” about the prospect of bringing in sales tax reform. As one official recalled:

> It was really the Ontario move that made the move to an HST more palatable for the bureaucracy. The government had always understood – you know, various governments over the years have always understood the economics of it. It was a superior, faster-growing tax revenue source. And you know, we knew that you could deal with low income impacts through refundable credits and things like that. But you know, because of those stumbling blocks on the rate and the exemptions, it wasn’t given too much thought until 2009. The Ontario agreement changed our entire evaluation.

Hal predicts that governments will be more likely to pursue consumption tax reform when they can draw from the experience of a relatively similar jurisdiction. The Ontario government’s decision to pursue sales tax reform were unquestionably instrumental in the BC government’s decision. The idea of receiving federal assistance for harmonizing the provincial and federal sales taxes became much more prominent to finance officials in BC only once the Ontario deal had been announced. Interview data suggests that there had been no talk of sales tax reform or federal assistance in the province of BC prior to March 2009.

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155 Interview, Palmer
156 Confidential Interview.
157 Confidential Interview.
158 Confidential interview.
Discussion within the provincial bureaucracy only began after media reports surfaced that Ontario and Ottawa had reached on sales tax reform (CBC News 2010a).

The version of events relayed by various officials in the ministry as well as Minister Hansen were largely echoed or confirmed by Martyn Brown (2012, 564), former Chief of Staff to Premier Campbell. According to Brown, the uptake or shifting calculus of enacting the HST can be attributed to two main factors. First, as discussed above, the government was facing a huge and unexpected fiscal crisis; the HST was identified as a potential way out of this fiscal problem. Second, through discussion with Ontario and the federal government, BC provincial officials learned that Ontario had been given flexibility in the structure and design of the HST, helping deal with previous policy concerns about bringing in the tax. This was important because it meant that in addition to enabling provincially tailored exemptions, including point-of-sale fuel tax rebates (an important provision given the existing carbon tax), BC could also adjust the provincial portion of the rate after 5 years. The behaviour of BC government officials here is largely consistent with the expectations of Ha2. This hypothesis predicts that government actors will use an existing policy innovation as a reference point in their deliberations about consumption tax reform. Ontario’s HST policy design seemed to weigh heavily in the BC government’s decision to approach the federal government.

According to one federal staffer, even throughout negotiations, the differences in dealing with two provincial governments were widely apparent:

The contrast dealing with the BC government was just stark. I remember asking questions like ‘what’s your plan’ and [BC officials] just didn’t really have an answer… ‘We’ll announce it, and we’ll start rounding up some supporters. Businesses are supportive of this, so we’ll get them on side’. But there really wasn’t, at least in my view, a plan to have the state fully engaged and stuff like that. It was nothing at all like Ontario ... I just think BC totally underestimated the response, were not ready with a preconditioning plan and stakeholders lined up. The capper was just timing, with him [Campbell] looking like he lied in the election and they were sneaking something once they had a majority.”

As Brown (2012, 544) and others stressed however, one of the chief constraints facing the BC government was time to make the decision. The BC government was given “a very short time window” for adopting the HST because the federal government wanted the BC change to

correspond with “Ontario’s timeline for sales tax harmonization.” According to Drummond, the federal government really did not have to demand this but “did so for their own political reasons. They wanted the money to be booked in that fiscal year.” This condition of an agreement was made clear from the start. According to Hansen, as discussions began in May, the federal government made it clear that if the province was interested in implementing the policy, it would need to finalize the decision by the middle of July; this was a time sensitive offer. Bureaucrats and political staff in Ottawa also confirmed the condition. Ontario’s decision to go first, in retrospect, gave it a slightly stronger hand in negotiating than BC enjoyed. This gave it more time to prepare stakeholders. As Don Drummond suggested:

   The federal government played hardball [with BC]. They didn’t extend the timeframe for the offer for the [transition payment] being available, so the BC government was left with a very short window in which to accept the thing and take the federal funding. Even if they wanted to and were capable of amounting much of a campaign, they simply had run out of time.

The federal government was in a stronger negotiating position with the BC government. The agreement with Ontario had set a template that the federal government could invoke to justify its position. In the case of BC, the federal government was offering them a fiscal solution to their deficit but accepting the cash would mean playing by Ottawa’s terms. According to Hansen and others, “we were rushed by the feds ... there was a complete absence of a communications plan. In fact, many of the communication plans were done as we went along ...” As Chapter 7 describes, this lack of planning contributed to the demise of the policy:

   I think a lot of British Columbians were caught off-guard because it wasn’t an agenda item that the government telegraphed. It was kind of sprung on them, and because of that the lack of communication in the rollout of the policy is ultimately what led to this groundswell of discontent in this province.

Many interviewees who were not directly involved in decision making but had observed the premier and the government offered various explanations for the decision. For some, the pace of the policy change, a decision pursued with very little outside input was not exactly uncharacteristic of this
government. As one journalist put it: I think [Campbell] looked at that money, he knew it was a generally good policy idea and said yeah, let’s do it. I mean, really that’s the only way to make sense of the timing of the decision.”\textsuperscript{167} Others shared a similar sentiment but stressed the strategic imperatives at play. As Palmer explained, concerns about the deficit were the primary motivator: “I think that’s the reason it was rushed and panicked and poorly thought-out. It’s funny that it was a response to some other problem they created for themselves by low-balling the deficit figure.”\textsuperscript{168}

Bill Tieleman, a former strategist, commented:

\begin{quote}
I think they just panicked and you know, they were going to have this billion dollar plus deficit and they had promised there would be no deficit. They needed to find money, they looked around and went ‘oh, the HST’ ... I’ve had this confirmed by people in the know. This explains why there was no research papers, why there was no notice to the business community, it was just like do it, do it fast, go talk to the [federal] Conservatives, make the deal, come back and announce it. There were not any secret papers, there weren’t any secret documents, in fact, there weren’t any documents at all. They did not do the research, they did not do the studies, they did not do the polling or the focus groups. One would expect this from a government that had spent millions on polling and focus groups. There was none of that.\textsuperscript{169}
\end{quote}

Tieleman’s observation about the lack of documentation and empirical evidence is quite telling. Had the government been more systematic and deliberate about this policy decision, there would be evidence of this. Across primary documents collected through freedom of information requests and interview data, there is no evidence to suggest the issue was carefully studied at any point by the premier and finance minister. According to Ha7, governments that emulate will spend a lot less time and energy studying a policy reform than governments that learn. The types of activities actors engage in is also quite telling. Officials in BC spent a considerable amount of time examining the Ontario-Ottawa HST agreement, rather than carefully examining how the reform would impact BC individuals and families. Ha8 expects that processes of emulation will be characterized by less consultation with experts than governments who learn. It is clear from the evidence presented that the premier and finance minister collected and synthesized very limited information from major stakeholders or from experts outside the government. In fact, it was the swift quality of the decision making process that formed a major part of the HST opponents’ later critique. As Carole James suggested “Nobody thought that a government could just turn on a dime like that. Usually when

\textsuperscript{167} Interview, Cayo.
\textsuperscript{168} Interview, Palmer
\textsuperscript{169} Interview, Bill Tieleman, January 2016.
governments talk about doing things, it’s a normally year to change something, especially if it’s something as significant as tax policy.”

Other political observers and policy participants echoed these sentiments but identified the importance of the premier’s personal motivations. According to one account, the premier had already told those in his inner circle that this would be his last term. As a result, leaving office with a balanced budget took on greater significance. He saw “this part of his legacy as paramount.”

The Campbell Liberals had been in power for 8 years. Some suggested that one of the major reasons they had been able to stay in power is because the Liberals were perceived as competent economic managers. Prior to the recession, they made largely made good on their fiscal and tax policy commitments. As Milligan described it, the electorate “seemed to trust them” on these core fiscal issues. Prior to 2009, they had lowered taxes and brought in consecutive balanced budgets.

When the effects of the financial crisis hit BC, like many right-of-centre politicians, the premier had to re-evaluate his opposition to deficits.

One of the central challenges was that the federal government agreement hinged on the Ontario timetable. This left Finance, the Premier’s Office and political staff with virtually no time to prepare. As Palmer pointed out, however: “The Premier and Finance Minster should have gone back to Flaherty and Harper and said, ‘we want to do this, but, you know, we’ve got to get British Columbians ready for this thing. Could you make an exception or announce that other provinces might be looking at this and we want to give them more time?’”

In this respect, the decision is revealing of the BC government’s fixation on dealing with the deficit, rather than attention to how to manage the political impact of the reform.

The Invisible Gorilla?

The announcement by the Campbell government it would harmonize the provincial sales tax in July 2009 culminated after weeks of negotiations with the federal government. The HST might be the preferred instrument choice of federal and provincial finance officials as well as business interests but it is still unclear why political or electoral considerations did not figure prominently in the

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170 Interview, James.
171 Interview, Thomas.
172 Interview, Milligan.
173 Confidential interview.
174 Interview, Palmer.
decision making process. One possibility is that the BC government was guided by its recent experience with tax reform. As mentioned above, the government had successfully, though not entirely without controversy, brought in the carbon tax in 2008. There was some public opposition to the tax but the long-term electoral damage to the BC Liberals ended up being quite limited. As Harrison (2012) finds in her examination of the carbon tax, the provincial NDP witnessed an initial uptick in public support following its “axe the tax” campaign in the summer of 2008. The global recession, however, shifted voters’ attention to the economy, prompting a surge in support for the government (Harrison 2012). Yet, if the BC government had learnt a lesson from the carbon tax case, it appears that it drew the wrong conclusion from that experience. The BC government’s decision making process and announcement of the HST was very different from the carbon tax. In the latter case, the government told the public and stakeholders that they were contemplating the tax. As Palmer recalled:

The government laid it all out before a budget. They then brought in a budget and the big news was that they were bringing in all of these things to mitigate the impact. The breaking news in the budget was not that they were bringing in the carbon tax but that they were going to make this revenue neutral by lowering other taxes to offset it. Now, the carbon tax still took a pretty rough ride. The opposition opposed it and the government defended it but they stuck to it and, you know, they gave themselves enough time before the next election to implement it. It was well thought of though, a complete difference.

The Campbell government seemed to have drawn the wrong lesson from the carbon tax case. Much like with the Ontario HST, the BC Ministry of Finance had put a lot of effort into developing a comprehensive communications strategy around the carbon tax, conveying how the policy would work and how revenues would be returned to consumers. Former politicians, officials, and interest group leaders credited communications materials, such as the budget, as helpful in containing the public backlash to the carbon tax. The experience with the carbon tax, then, seemed to provide the government with a relatively successful model to

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175 According to polling data cited in Harrison’s (2012) study, over 2007 and 2008, the NDP led the BC Liberals in public opinion polls. By October 2008, as public attention shifted was shifting to the economy there was an accompanying increase in support for the BC Liberals. According to Harrison, this affirmed the government’s advantage on economic issues. For discussion of “issue ownership” see Petrocik, Benoit, and Hansen (2003).
176 Interview, Palmer.
177 Confidential Interview.
draw upon. In the case of the HST, the belief amongst politicians was that public opposition could be managed.178

Ha9 expects that when governments emulate, rather than learn, they are more likely to draw on highly selective sources of information. Decision making is conducted through heuristic information processing. In deciding to adopt the HST, the BC government seemed to use the carbon tax case as a representative case of how the electorate would respond to a major tax policy change. The lesson drawn from the carbon tax experienced seemed to be that the public might not be thrilled but eventually they would become less opposed to it. The case study, then, illustrates the long-term implications of heuristic information processing.

Both the carbon tax and the HST were implemented by the same division within the Ministry of Finance. But as one former official put it: “the carbon tax and HST were adopted and designed in completely different ways. We spent and were afforded much more time to study and analyze different carbon tax policy options.”179 In an important distinction, the BC HST was very different in that many of the most important decisions were made through processes of intergovernmental negotiations. According to individuals working in the Ministry of Finance, in terms of developing the policy, “we played a more active role in terms of eliminating the PST rather than designing the HST.”180 It appears, then, that the decision making processes surrounding the two taxes were marked by very different dynamics.

Analysis and Implications
What can explain the decision of the BC government to pursue the HST when it did? One potential explanation is that the Campbell government acted because the Ontario government’s decision put competitive pressure on it to follow suit. According to diffusion scholars, the logic of a competition-induced explanation is that policy developments elsewhere alters the structural or economic incentive for governments to adopt the policy reform; staying with the status quo policy becomes too much of a structural disadvantage (Dobbin, Simmons, and Garrett 2007). The problem with this explanation is that the HST decision in BC was made too hastily to reflect a genuine concern about horizontal competitiveness. Based on the interview with the finance minister and

178 Interview, Hansen.
179 Confidential Interview.
180 Ibid.
finance officials, the impact of Ontario decisions on the BC economy and its implications for business investment decisions was never systematically examined (at least not before the decision was made).\textsuperscript{181} Competitive pressures were later cited by the government as part of the rationale—as explored in Chapter 7—but there is no evidence that competitive pressures induced policy adoption.

A second alternative is learning. That is, politicians in BC underwent a process of learning which was facilitated by policy experts within the Ministry of Finance. Again, however, the evidence presented above does not align with this theory. Finance officials were provided with the policy goal (reducing the deficit) and tasked with finding an instrument that could help secure that aim. A process of learning would involve contemplation of the policy goal as well surveying different means to realize that goal. As demonstrated above, finance officials in Victoria were not afforded sufficient time or resources to study the distributive impact of sales tax reform. Finally, at no point did the government seek out expert advice from outside the government, which is not a requirement of learning but its absence is striking.

Overall, the HST case in BC represents a clear example of haphazard policy decision making: actors settled on a policy based on emulation. The actions of the individuals involved can be understood as goal-oriented or “intendedly rational” on the one hand but greatly bounded by internal and external constraints. The premier and finance minister decided to follow Ontario’s lead, mimicking the policy instrument, deciding that the move would help them out of political predicament. Viewed this way, the decision was consistent with their interests. Yet by all accounts and evidence presented, the policy decision was made without carefully attending to the consequences of the decision. Moreover, there is limited evidence to suggest that other policy alternatives, such as delaying the HST, designing the reform in a different way, or finding a different revenue mechanism, were considered. As identified in the case description above, the decision was a function of key constraints, some created by external forces and others self-imposed.

Policy scholars have long noted that the policymaking rarely approximates rational decision making (Cohen, March, and Olsen 1972). In the garbage can model or multiple streams framework (Kingdon 1995), decision makers are conceptualized as goal-oriented, and yet bounded by cognitive (e.g., attention) and environmental (e.g., time) limitations. The BC case illustrates an instance of

\textsuperscript{181} Confidential Interview.
actors settling on a solution, simply because it was “floating around” (Kingdon 1995). Based on the interview data, what sets the BC case apart from the previous case study, however, is that the policy decision did not reflect careful consideration of the policy impacts or political consequences. The BC government faced problems with its public finances but the emerging understanding in the Ministry of Finance was that these troubles were fleeting; the government was facing a cyclical downturn in response to the global recession. Based on several interviews, it is also clear that the HST was not selected as a policy response because of its macroeconomic benefits. While both Campbell and Hansen recognized the macro advantages of VAT reform, evidentially, this was not the logic that persuaded these actors.

The policy decision ultimately reflected elected officials being inattentive to the political consequences of the reform they were proposing. As described in Chapter 3, emulation refers to instances when governments mimic a jurisdiction’s policy idea because they view it as a solution to an internal policy problem. Emulation is akin to bounded learning because actors engage in a limited search for information and satisfice based on this limited information. However, it is also distinct from bounded learning in that it involves less effort to learn and study about the policies effects. The BC case reveals how limited cognitive capacities to define and sort out political impacts as well as time constraints shaped decision making.

Compared to the Ontario case or the earlier experience with the carbon tax, the government seemed less attuned to political consequences of its decision, attending to a limited set of dimensions. Premier Campbell and his advisors failed to attend to several signals. Adoption in Ontario made the policy idea salient for BC decision makers. The premier, however, restricted his attention to the policy idea, rather than carefully observing how the Ontario government was carefully laying the groundwork for HST. Part of this can be explained by time constraints facing the government. Moreover, the BC government failed to attend to the possibility that organized backlash through BC’s voter initiative and recall legislation could be used. The government was fixated on one dimension or consequence of the policy reform. This singular focus on the deficit not only made the decision easier and relatively quick, it also contributed to the flawed policy design (a theme examined in Chapter 7).

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182 Interview, Hansen.
Several other factors (see Figure 5.2) help explain the swiftness of the government’s decision. First, the focusing event in this case was not the financial crisis as had been the case in Ontario. Instead, the shift in attention to the HST stemmed from two sources. First, the Ontario government’s decision to pursue sales tax reform made HST salient as a policy innovation. Second, the government’s declining fiscal health was made salient to the premier in the final days of the election. During the 2009 campaign, the Ontario HST drew the attention of political participants but the issue was effectively put to rest when both major parties expressed opposition. Ontario’s decision, though, did not stop Finance Ministry officials from investigating and attending to the details of the Ontario reform. The Ontario move made HST reform much more salient to elected officials and bureaucrats after the Premier demanded the bureaucracy come up with a fiscal solution to the deficit in early May. The provincial bureaucracy was confident about the federal government’s financial assistance and so they quickly seized on this as a policy solution. Even though the federal government had long indicated a willingness to help provinces with the transition, it is highly unlikely that without Ontario’s move BC officials would have latched onto this policy shift. Finally, the BC government’s decision to pursue the HST would not have been possible without financial assistance. The assistance of the federal government was crucial in securing the support of the Campbell government.

**Figure 5.2: Explaining the uptake of the BC-HST**

<table>
<thead>
<tr>
<th>Policy Idea ($T_1$)</th>
<th>Focusing Event</th>
<th>Feedback Mechanism</th>
<th>Capacity</th>
<th>Outcome ($T_2$)</th>
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<tbody>
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<td>Value-added Tax reform</td>
<td>The Ontario 2009 Budget</td>
<td>Instrument Emulation</td>
<td>Federal Assistance</td>
<td>BC-HST Decision</td>
</tr>
</tbody>
</table>

Inattention to the distributive implications of the policy change and the associated political challenge were rooted in a few different missteps, primarily cognitive failures. First, part of the reason harmonization was chosen resulted from a flawed understanding of how the public would react. The Campbell government had not had previous experience with sales tax reform so it faced a high degree of political uncertainty. At the same time, the government could rely on its previous experience with the carbon tax, a policy choice that seemed to work out reasonably well. The problem, however, is that the government ultimately misread what the BC carbon tax was a case of.
Several factors, including the recession, helped the government absorb the electoral consequences of the carbon tax. As Harrison (2012) has noted, one of the only reasons why opposition to the carbon tax was not more decisive in the 2009 election is because the recession had shifted attention to economic management and away from the environment and tax issues. Although the evidence for this claim is more limited, it seems plausible that elected officials drew an inference from their experience with the carbon tax. This is important in explaining why the government would do something that was so politically risky: it believed, based on its previous experience with the electorate and a similar instrument, that it could weather the storm. Explaining behaviour this way is consistent with what cognitive psychologists term the “representative heuristic”, or a tendency of individuals to “draw excessively clear, confident and firm inferences from a precarious base of data” (Weyland 2005, 264).

**Conclusion**

Overall, governing elites in the BC case spent a lot less time and resources than in Ontario examining the issue of sales tax reform. The decision making process was characterized by very limited deliberation, and in fact, seems to have stemmed from just a couple of exchanges between the premier and the Deputy Minister of Finance. Following these communications, the premier decided to forge ahead with sales tax reform, telling his finance minister and then days later other cabinet ministers. Second, consistent with expectations, the Campbell government did a very limited scan of the environment, failing to consult with experts outside the government and discussing sales tax reform with government bureaucrats in a relatively limited way. Finally, the evidence suggests that the government was highly selective in terms of the information it consulted, suggesting heuristic-information processing at play. In seeking to manage the political risks of introducing tax reform, the government seemed to have drawn on a limited and flawed understanding of its previous experience.

On the surface, the BC decision looks similar to Ontario. A fiscal crisis led a government to experiment with a politically controversial policy idea. Yet a closer examination reveals the extent to which alternative internal and external pressures lay at the heart of the ultimate decision. The offer of financial assistance from the federal government was fleeting, and the government ultimately decided to take a gamble. The fateful political consequences of the Campbell government’s HST decision in BC are the subject of Chapter 7.
CHAPTER 6 – THE RECEPTION OF HST IN ONTARIO

Introduction

On election night in October 2011, to the surprise of many political observers, voters in Ontario re-elected the McGuinty-led Liberals. Nearly a quarter century had passed since Ontario voters had given a government a third consecutive mandate. Beyond this, the Liberal victory was notable for several reasons. First, over the past decade, Ontario had faced strong economic headwinds, making a stay-the-course pitch to the electorate difficult as an electoral strategy. Once the steady economic engine in the country, for the first time, under the Liberals in 2009, the province began receiving equalization payments (Eisen and Lammam 2016). Second, broader economic forces—largely outside of the government’s control—also worked against the Liberals’ electoral prospects. The provincial economy was still reeling from the effects of the 2008 global economic downturn. Other electoral challenges were self-inflicted. Many pundits expected the controversial decision to introduce the Harmonized Sales Tax (HST) would cripple the Liberal’s pursuit of a third mandate (Huber 2009; Coyle 2009a, 2009b; cf. Radwanski 2009a).

On election night, however, the Liberals defied pre-writ expectations, receiving a plurality of popular support across the province, falling just one seat shy of a majority. Party insiders credited the Liberal win to stronger leadership, campaign missteps by the opposition, and risk-averse voters (Wells 2011). What this short-term analysis misses, however, is the events that preceded the election. Earlier in the year, the province’s two main opposition parties made the strategic decision about the 2011 ballot question, choosing against framing the election as a de facto referendum on the HST. In doing so, the opposition effectively legitimized the Liberals’ signature economic policy, thus failing to offer voters an anti-HST electoral alternative. At first blush, this choice might be interpreted as a miscalculation by a politically inexperienced opposition. After all, both parties were seeking to replace the governing Liberals and public opinion was decidedly anti-HST.

Yet as this chapter explains, the passage and implementation of the HST fundamentally transformed the policy preferences of key sets of actors, providing little electoral incentive to run on an anti-HST platform.

The purpose of this chapter is to understand the nature of political opposition to the HST in Ontario. Specifically, the analysis seeks to describe how the government sought to manage the
reception of sales tax reform as well as explore the relative effectiveness of such efforts. To do so, the chapter relies on “within case-analysis” (George and Bennett 2005, 18), to provide a clear and systematic explanation of the events transpiring between the announcement of HST in March 2009 (Chapter 4) and the 2011 election. The findings presented in the chapter provide an important illustration of the second part of theoretical framework developed in Chapter 3. Overall, the chapter finds the Ontario government’s success in institutionalizing sales tax reform stemmed from choices about policy design and its efforts to initiate self-reinforcing policy feedback effects (Jacobs and Weaver 2015). Specifically, the government’s policy rollout and implementation influenced how the public thought about reform—an interpretive effect—and through policy design shaped the political behaviour of voters, organized interests and the opposition by reconfiguring these actors’ political incentives and material resources.

The chapter advances the three following claims. First, public reception toward sales tax reform in Ontario was significantly influenced by the government’s strategic rollout of the policy. The government engaged in a strategy of preconditioning. That is, prior to officially announcing the policy, the government signalled that sales tax reform was under consideration, enabling it to test out the political reception of the idea as well as provide space for reform proponents to make the case for policy change. In doing so, the government helped prompt a broader discussion in the media, introducing voters to the mechanics of the reform and the necessity of the policy change. By the time the reform was formally announced there was little uncertainty about what the instrument was and why it was being pursued, enabling the focus of the media and the public to shift to issues of policy design. This chapter argues this process of preconditioning influenced how the public interpreted the reform, helping explain why the public opposition to HST was characterized by relatively low intensity.

Second, as alluded to above, the design of the government's tax reform fundamentally shifted the electoral incentives of the two opposition parties: the Progressive Conservatives (PCs) and the New Democratic Party (NDP). Consistent with a logic of policy feedback effects (Pierson 1993), the impact of the government's tax reform package was so pervasive that it made the fiscal and political costs of policy reversal too prohibitive for the opposition. As demonstrated below, recognition of these impacts shifted the political calculus of both opposition parties, helping permanently embed the policy change in Ontario’s public finances.
Finally, by embedding sales tax reform within a broader tax reform package, the government was successful in tempering opposition from key stakeholders. Specifically, enlarging the scope of tax reform to include various forms of tax relief and tax credits meant the McGuinty government created new policy beneficiaries as well as helped temper the sting of the losses imposed. Key organized interests, such as small businesses and unions, came to view the new policy arrangements as consistent with their material interests and chose not to mobilize against the tax. The chapter traces the decision making process that led to these specific policy design features as well illustrates the subsequent impacts—or the policy feedback effects—on these actors.

This chapter draws on a rich set of data sources, including research interviews with 22 of the main policy actors involved, primary documents produced by the government, media analysis and secondary literature. The chapter proceeds in several sections. In section II, the chapter begins where Chapter 4 left off, examining how the Ontario government began to lay the political groundwork for the introduction of the HST. In section III, the analysis turns to the specific details of the tax reform, describing the ways in which the government sought to—or in some cases, failed to—anticipate the nature of the opposition. The next section examines the importance of a political entrepreneur in communicating the complicated policy benefits—or policy feedbacks—to a key set of actors. A political entrepreneur describes a political actor that attempts to marshal support across civil society for a specific policy intervention during policy implementation. This is distinct from a policy entrepreneur described by Kingdon (1995), an actor who attempts to push a policy onto the agenda. Political entrepreneurs can be conceptualised as the political “bridge between those advocating new policy ideas (policy entrepreneurs) and the institutions implementing them”. More than anything, these actors help “shape the terms of political debate” (Hogan and Feeney 2012, 3). In the fifth section, the chapter examines the legislative enactment and implementation of the policy. In section six, the analysis reflects on the behaviour of the opposition and voters in the case study, explaining their lack of political mobilization against the tax. In section seven, the chapter summarizes the main empirical findings vis-à-vis the analytical framework (described in Chapter 3). The concluding section offers some concluding thoughts about the case, while comparison of the Ontario and BC cases is undertaken in the concluding chapter.
Preparing to Sell the HST
As Chapter 4 illustrated, sales tax reform initially emerged on the government’s agenda in the fall of 2008. Knowledge of this, though, was restricted to a handful of people in the Premier’s Office and the Ministry of Finance. The premier faced a political dilemma. On the one hand, the economic context meant voters needed assurance the government was doing something about the localized effects of the global downturn. On the other hand, the government was about to initiate covert discussions with the federal government about harmonizing the federal and provincial sales taxes. By January 2009, the public pressure on the premier was mounting. It was estimated that about 71,000 jobs were lost in the province in that month alone. 183

By the end of January, the Premier’s Office decided, pending the agreement with the federal government, the HST would be the centrepiece of the Ontario budget. Recognizing the magnitude of the policy change and high potential for public backlash, the government wanted to do everything in its power to proactively manage public opinion. According to interviews with political staff and other observers, early on, the government decided it needed to prepare the public, or “precondition them.”184 As one advisor put it: “Once our people had an initial interest in doing the HST we knew that in advance of the budget we needed to begin dropping hints, or using the political tactic of preconditioning.”185 One way to do this was, first, to highlight the severity of the crisis. Although broader political and economic developments helped underscore the magnitude of the global crisis, the government needed a clear justification for taking such a bold step. Second, the government needed to convey a willingness to be open to various policy options, including sales tax reform. The government’s communications strategy, as evinced below, was designed to shore up intellectual support, or as one cabinet minister put it, this was to “line up vadiators from the policy community.”186

The first implicit suggestion the Ontario government was considering tax reform came at the end of January 2009. To cope with the effects of the recession, McGuinty stated his government was considering several policy options. Citing the economic context, the premier stressed the need for his government to “rethink” several existing policies (Howlett 2009a). After this initial volley, the

183 Interview, Dalton McGuinty, January 2016.
184 The term “preconditioning” was used by every political staff that were interviewed for this project.
185 Interview, Alex Mazer, October 2015.
186 Interview, John Wilkinson, Toronto ON, January 2015.
premier started to drop subtle hints to journalists, suggesting something more structural was under consideration. At one point, the premier invited reporters into his office to discuss the economic situation. During the exchange, the premier spoke about the severity of the economic impact of the recession, stressing his government was surveying all possible options (Greenberg 2009c). After the reporters left his office, they were perplexed by the purpose of the meeting; the premier had called them into his office but had failed to offer any concrete details. According to one of the reporters: “we didn’t know what [McGuinty] was going to do. We couldn’t figure out if it was beer in corner stores or what. He was very, very strange with us–almost philosophical.” In retrospect, the premier’s statements reflected the fact that major changes were under consideration, but one of them, the HST, hinged on an agreement being reached with Ottawa. On a second level, the premier was signalling to the media that something major was in the pipeline.

In February, the premier again spoke about economic policy options but this time was much more direct about potential policy alternatives. Speaking before a crowd of Liberal supporters in Niagara Falls, McGuinty told attendees that reforming the province's sales tax was one potential tool for improving the province’s economic competitiveness. During his remarks, McGuinty talked about the need to help “businesses remain competitive during the recession.” On the specific issue of sales tax reform, he referred to the “emerging consensus around harmonization” (CBC News 2009a). By February, the narrowing of the government’s policy options to deal with the recession was becoming increasingly clear to the media and the politically attentive public. This kind of media coverage had two benefits for the government. First, it would signal to the federal government that the province was serious about sales tax reform. Although discussions were ongoing with the federal government, according to federal political staffers, the federal finance department could not figure out how serious the Ontario government was about reaching an agreement. These comments and statements to the media led officials in the federal finance department as well as the Prime Minister’s Office to conclude the Ontario government was “not kidding around about sales tax harmonization.” Second, by failing to provide reporters with any concrete policy announcements, the premier’s comments provoked a broader discussion in the media about the best way to cope with the recession. Among other things, this led reporters to

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187 Interview, Robert Benzie, October 2015.
188 Ibid.
189 Confidential Interview, January 2016.
190 Ibid.
begin reaching out to experts to find out what types of options would be on the table.\footnote{191} Fortunately for the premier, the strategy paid off. As explored below, the premier’s statements prompted a flood of discussion in the media, providing an opportunity for the tax and broader economic policy community to describe the importance of sales tax reform.

A Little Help from My Friends

The decision of the government to float the prospect of sales tax harmonization sent an important message to proponents of sales tax reform in the policy community: if they wanted the policy reform, now was the time to step up. Prior to the release of the budget which outlined the HST policy, supportive news stories and op-eds began to surface in the media. As one staffer noted, this coverage and commentary was very helpful in “warming the public up to HST.”\footnote{192} The former Chief of Staff to the Finance Minister explicitly described the payoff of this approach:

> With the HST we wanted to signal early that this was something that we were looking at doing. I think preconditioning the environment around the need for something like this was important ... By the time Budget day came around, it was an opportunity to brief stakeholders and media and others on the details as opposed to having to answer a whole serious of questions, like ‘where did this come from?’ and ‘why are you doing this?’ and ‘what were you thinking?’. We sort of answered those questions already in February.\footnote{193}

To be sure, the tactic of preconditioning is politically and ethically complicated. On the one hand, governments tend to avoid disclosing too much information about the budget prior to the day it is unveiled. On the other hand, this does not preclude them from telling the media and the broader policy community that certain policy goals and even specific policy instruments are under consideration. Part of the government’s careful strategizing on communications stemmed from lessons drawn in its previous experience with tax policy changes. In 2003, a dire fiscal situation led the premier to introduce a very unpopular health care premium. The decision nearly cost the Liberals the subsequent election in 2007. In the premier’s view, the lesson was clear from the health care premium: the government had failed to explain the problem that needed to be solved. The premier described the legacy, or effect, of that experience in shaping his approach to communications:

\footnote{191} Interview, Benzie.
\footnote{192} Interview, David Pryce, December 2015.
\footnote{193} Ibid.
One of the lessons I learned was the importance of communication. You can tear your hair out trying to figure out what the best policy is, but listening to as many people as you can and trying to fashion something that, if you’re really lucky, approaches some element of wisdom, once you’ve done that – that’s just the beginning. Then comes the most important part. You’ve got to communicate it, and especially you’ve got to communicate the ‘why’. You got to tell the public: ‘I’m doing this because I honestly think we need to do this.’

Other policy advisors also stressed the importance of preconditioning the public. As Drummond recalled: “The government had a whole plan laid out to sell it, to precondition it. This was coordinated and planned. It was something they were worried about, and rightly so. This had the potential to be so politically dangerous for them.” One benefit of publicly floating ideas is it tends to prompt responses from actors in favour (and those in opposition) to the idea. In the beginning of 2009, numerous studies or reports by third parties started to emerge encouraging the provincial government to pursue sales tax reform. In some cases, the government benefitted from the abundance of research materials that economists and think tanks had laying around from the GST days; these materials provided a strong intellectual justification for tax reform. This rich supply of policy-relevant information is largely consistent with existing descriptions of the policy stream (Kingdon 1995). In other cases, however, supporters of tax reform seem to have heeded the government's call to arms. One advisor to the Finance Minister Duncan cited the political advantages of this:

    When the think tank community and others got a sense, the government might be interested in HST, they started commenting on it; this gave the government a chance to see how the public and the press reacted. It also created some sense that there was change coming, and it would be potentially in the budget.

In early March, the C.D. Howe Institute, a prominent think tank, released a policy brief urging the government to enact sales tax reform (Poschmann 2009). In a similar vein, just days before the budget, the Canadian Council of Chief Executives (CCCE) released a public letter, describing a harmonized sales tax as “the single most powerful measure [the Ontario] government could take to encourage renewed business investment and growth” (2009, 1). One staffer reflected on the advantages of this:

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194 Interview, McGuinty.
195 Interview, Don Drummond, November 2015.
196 Interview, Mazer.
Obviously with budget secrecy you cannot disclose the elements contained therein. But that doesn’t preclude governments from being able to communicate the importance around certain policy initiatives. I think if you go back—you’d have to go back and check the media—there was the possibility of bringing in the HST. I think that in conjunction with a number of third party reports helped reinforce the prospect of HST. It ultimately helps warm the public up to the idea.\textsuperscript{197}

According to Hb9, when governments signal to stakeholders that consumption tax reform is on the horizon they will be less likely to receive pushback from groups negatively affected by the policy change. The Ontario HST case reveals the importance of how preconditioning can influence the political reception of consumption tax reform.

One of the most important developments, though, was a study (described in Chapter 4) by the Chamber of Commerce entitled “Made in Ontario: The Case for Sales Tax Harmonization.” Even though the chamber had long been on record as favouring harmonization or a provincial VAT, they decided that a comprehensive study of the broad economic impact on the province would be most effective.\textsuperscript{198} The report's release was supplemented with an op-ed in the \textit{Toronto Star}. The chamber's President, Len Crispino (2009), summarized the research findings but also turned to the issue of fiscal mitigation, stressing options for the government to curb the negative distributive impacts of the reform. The intense media coverage of the chamber's work was undeniably convenient for the government. These policy ideas lent credibility to McGuinty's declaration that there was “an emerging consensus” around the need for tax reform. One official with the Ministry of Finance stressed the importance of the timing of this report’s release.

The Ontario Chamber of Commerce issued a report that highlighted and recommended strongly [the HST]. That was certainly something that really gave it a higher profile, or put it back on the front-burner from a political perspective.\textsuperscript{199}

There is no evidence to suggest that there was explicit communications coordination between the government and the chamber. As noted in Chapter 4, though, the chamber had been in discussion with the government on the specific subject of sales tax reform. If the government's goal was to

\begin{flushleft}
\textsuperscript{197} Interview, Pryce.  \\
\textsuperscript{198} Interview, Johnston.  \\
\textsuperscript{199} Confidential Interview.
\end{flushleft}
prompt statements of support from the policy community, then the evidence suggests that the chamber and other key players in the policy community were willing to play along.

A few days before the Ontario budget was released, Premier McGuinty was asked pointedly by reporters about whether the budget would include the HST. Discussions around sales tax reform, as Chapter 4 described, had taken place periodically between Queen's Park and Ottawa. This time, however, McGuinty shifted his answer, saying HST was “not the kind of thing you'd want to pursue unless at the same time, you were going to find a way to protect families” (CTV News Toronto 2009). In conjunction with commentary from the broader policy community, this statement helped reinforce the shifting policy narrative. The relevant question was not whether HST was an effective instrument to Ontario's short- and long-term economic problem (this was presented by McGuinty and others as a given). The key criterion to evaluate it was whether the reform was properly designed. To use Peter Hall’s (1993) terminology, the premier and his policy allies, then, were seeking to shift the debate to discussions of the settings of the policy instrument, rather than whether the policy instrument ought to be pursued.

The decision of the McGuinty government to publicly muse about sales tax harmonization played an important role in how the politics of reform eventually played out. In addition to the economic crisis, discussions of sales tax reform garnered the media’s attention. Through the media, evidence suggests voters and other stakeholders began to think about sales tax reform through the frame of economic competitiveness. In the months leading up to the budget, the government, the media and the sales tax policy community had identified a clear policy problem and were signalling a plausible intervention that enjoyed broad support in the policy community. Interview data and media analysis suggest that prior to the budget, there was also no competing policy idea presented in the media by the opposition or by other groups in civil society. Discussion began to ensue in the media about how best to design the instrument, rather than contestation over the effectiveness or need for the policy idea. By the time the policy was introduced, the attention of the media, and as a result the public had already shifted to questions of design, rather than the appropriateness of the idea.

Confidential Interview.
Framing the Policy Context

On March 26, 2009, the Ontario government finally announced it would be switching to a value-added sales tax system and harmonizing it with the federal GST, beginning July 1, 2010. To justify the drastic reform, the government was careful to stress the precarious economic situation:

Ontario is feeling the effects of the global economic crisis. The impact on economic growth, jobs and investments is directly affecting Ontario people, families, communities and businesses. The challenge is significant, but it’s one the people of Ontario will meet and overcome. This Budget lays out the McGuinty government’s strategy to help families being hurt by the global recession today. But it does more than that. This Budget takes action to make Ontario more competitive. A strong, competitive economy helps families and businesses take advantage of the next generation of growth, and maintains and enhances the province’s cherished public services (Ontario Ministry of Finance 2009a, ix).

A closer analysis of primary documents reveals the extent to which the government was trying to downplay the adoption of the HST. On the specific issue of changes to the sales tax, the government was very careful. This budget was enacting a “comprehensive tax reform package”, not simply switching the sales tax system. As the government’s “Budget Backgrounder” document described it:

Comprehensive tax reform is the single most important thing the government can do to create jobs and position the economy for future growth. It would provide a lifeline to thousands of businesses today and would position the economy for rapid growth as Ontario emerges strongly from the economic downturn. Reforming Ontario’s tax system is the essential next step in the McGuinty government’s plan to build Ontario’s future economy, which would improve the quality of life for all Ontarians (Ontario Ministry of Finance 2009c, emphasis added).

Some industry representatives stressed the importance of pairing the sales tax reform with these broader changes:

We were really impressed at how the government weaved it all together. They understood that if they implemented the HST alone, it would be a big hit to the economy because they needed to reform some other components. Not necessarily to soften the blow, but to provide tax relief in areas that were important. That way if you did the math, in total, it was a net gain.  

Although the documents released were crucially important for describing the policy rationale and effects, from a political perspective, what happened over the course of budget day with media and stakeholders was also vitally important. The budget lockup with the media and various

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201 Interview, Stuart Johnston, December 2015
stakeholders provided a critical opportunity for the government to frame the narrative as well as alleviate the concerns of traditional opponents to sales tax reform. A budget lockup offers an opportunity for media and relevant stakeholders to review the details of the document hours before the announcement. As interviews with political staff revealed, considerable efforts went into crafting communications materials to be circulated to these groups during the budget lockup (see appendix C for examples). For the government, the main strategic aim was to ensure that the media were covering the details of the policy, rather than questioning the basic rationale for the policy reform.

“Adding a Little Water to the Wine”

As described in Chapter 4, the government was fully aware that sales tax harmonization would prompt opposition from negatively affected interests. The agreement with the federal government, though, afforded the Ontario government fiscal flexibility to make the reform more politically palatable. In exchange for this, the province committed to maintaining sales tax harmonization for at least five years. This was a crucially important provision, locking-in—even if temporarily—the sales tax policy change. Under the agreement with the federal government, Ottawa would give the provincial government $4.3 billion, with $3 billion in 2010 and the remainder to be transferred in 2011 (Cowan 2009). This money, however, would need to be returned to the federal government should the government switch back to the older PST system. As the leader of the Official Opposition described it, these provisions added to the “sunk costs”, making a commitment to repeal a lot less attractive for the opposition.

The initial Memorandum of Understanding (MOU) with Ottawa completely left it up to the Ontario government to decide how it would use the federal transition money. One advantage the Ontario Ministry of Finance possessed, as described in Chapter 4, was advanced capacity to model the micro-economic impacts of the policy change. This was a crucial resource for the finance officials. There was nothing comparable in other provincial treasury departments across the country. From an economic policy perspective, this capacity enabled officials to identify—and

202 Interview, Sean Mullin, December 2015.
203 Interview, Chris Morley, November 2015.
204 Interview, Mullin.
205 Interview, McGuinty.
206 Interview, Tim Hudak, December 2015.
207 Confidential Interview.
with great precision—what the short-term economic impacts of different policy designs would look like. The federal funds gave the Ontario government the financial means to help mitigate the impacts identified in these models. The Ontario budget announced several features that were being introduced as measures “to support the transition to the new sales tax system” (Ontario Ministry of Finance 2009c, 2).

The government assumed the move to harmonization alone would be welcomed by the most of the province's business community. It also knew many segments of Ontario's service sector—which had historically been exempt from imposing PST—would be opposed to the policy change. As one industry representative stated:

Some of the service sector businesses had issues with it, like lawyers; they now had to add a tax. The real estate industry were upset because the housing market had to add the tax. The HST was a bit of a hit in certain quarters and so it had the potential to be quite explosive. Even though, generally speaking, the net benefits of a value-added tax was much better than what the old sales tax was.

There were many other affected industries, including dry cleaning, hair and beauty care. Under the new sales tax regime, these retailers would need to impose an additional 8% tax on consumer purchases. To help deal with these anticipated objections, the government included various tax policy changes (see Table 6.1). First, the government included various tax relief measures, specifically targeting both large and small businesses. The focal point of this tax relief was a cut to the general corporate income tax rate (CIT). In 2009, the CIT rate stood at 14% but the reform would cut that rate by two percentage points in 2010 and by additional two points by July 2013. The government also included specific tax relief for small business owners, eliminating the Small Business Deduction Surtax as well as cutting the small business income tax by a full percentage point (for timeline and specifics, see Table 6.1). This combination of tax relief measures was expected to yield $4.8 billion in savings for Ontario businesses between 2010 and 2013 (Ontario Ministry of Finance 2009b). In doing so, Ontario’s Marginal Effective Tax Rates (METR) on new investment would be almost cut in half, from 33 to 18.6%.

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208 Ibid.
210 Interview, Stuart Johnston, December 2015.
Table 6.1: Business Tax Rates After 2009 Ontario Budget

<table>
<thead>
<tr>
<th>Timing of Policy Change</th>
<th>General Corporate Income Tax (%)</th>
<th>Manufactures and Processing Income Tax Rate (%)</th>
<th>Small Business Tax Rate (%)</th>
<th>Small Business Deduction Surtax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-July 1, 2010</td>
<td>14</td>
<td>12</td>
<td>5.5</td>
<td>4.25</td>
</tr>
<tr>
<td>July 1, 2010</td>
<td>12</td>
<td>10</td>
<td>4.5</td>
<td>0</td>
</tr>
<tr>
<td>July 1, 2011</td>
<td>11.5</td>
<td>10</td>
<td>4.5</td>
<td>0</td>
</tr>
<tr>
<td>July 1, 2012</td>
<td>11</td>
<td>10</td>
<td>4.5</td>
<td>0</td>
</tr>
<tr>
<td>July 1, 2013</td>
<td>10</td>
<td>10</td>
<td>0</td>
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This package of tax cuts was especially well received by business groups and economists. Commenting on the 2009 Ontario Budget, the former Director of Policy at the chamber recalled his initial response to the budget: “I remember being in the budget lockup reading this thing, and being asked by one of the premier’s staff, ‘well what do you think?’ And I just grinned because I said almost everything we’ve been asking for, for years, is in this budget.”

Endorsements of the Ontario budget were not limited to advocacy groups. Months later, noted economist Jack Mintz, who had long championed VAT reform, released a policy paper endorsing the Ontario government's budget in the strongest possible terms:

This is the largest change ever seen in a single budget, [which will lead to] the sharpest reduction in the tax burden on capital investment in any one province. Coupled with federal reductions in corporate taxes and Ontario’s already legislated elimination of all remaining capital taxes, Ontario will see its effective tax rate on new investments by medium and large businesses plummet from 33.6% in 2009 to 23.7% in 2010 and then to 18.5% by 2018 (Mintz 2009).

Between the budget's announcement of the HST and implementation 16 months later, various stakeholders in the private sector helped reinforce the government's message: this tax package was good for Ontario's business community. Many organizations decided to line up in support of it, forming the “Smart Taxation Alliance.” The alliance was made up of several important players in the province, including the Ontario Chamber of Commerce, the Canadian Council of Chief Executives, the Canadian Manufacturers & Exporters Ontario, the Certified General Accountants of Ontario, the Ontario Road Builders’ Association, the Ontario Trucking Association, the Retail Council of Canada, TD Bank, and the Toronto

211 Interview, Stuart Johnston, December 2015
Board of Trade (Benzie 2009f). Through its broadened policy reform design, then, the McGuinty government had motivated the business community to mobilize in favour of its tax reform package. The lack of organized opposition to the HST in Ontario illustrates the importance of policy design, thus providing strong empirical support for Hb4. Consistent with the hypothesis, facing the prospect of significant material benefits from a tax reform, interest groups in Ontario mobilized in favour of the HST.

Convincing the Public

Ministry of Finance officials were confident these offsetting tax cuts and credits would make Ontarian residents better off as well. Political staff in the Premier’s Office, though, knew most stakeholders, especially voters, would not be fully cognizant of the broader package of policy benefits. On budget day, the takeaway for voters and certain groups would be that Ontario was introducing a VAT in the budget, causing several goods and services to cost more. To help mitigate this singular focus, the government took proactive steps to put the HST within the broader context of the budget’s tax reform package. The belief was that this would help reduce opposition from organized groups who would be interested in the details:

Launching the HST during Budget Day was critical, because if you try to do an HST announcement and have all the social policy people show up, they probably wouldn’t show up. But they all show up for the budget because they want to know how much you’re going to increase social assistance that year. All those people are locked into a room. We had these incredible case examples, all these case examples of it would affect people on [Ontario Disability Support Program], how it affects single mothers, seniors, two-income households, all this kind of stuff. These case examples saved us because we went in there and said ‘this is a tax reform that you probably don’t know anything about.’ Those who know consumption tax reform think that consumption tax is generally regressive, which it is, in isolation. These case examples allowed us to say 'let us show how this package of reform comprehensively makes our system more progressive'.

The premier and his team, then, needed to be mindful about how the reform would be received by groups on the left. Historically, progressive groups, including the provincial and federal NDP, were sceptical of a value-added tax system. Their chief argument was that providing Input Tax Credits (ITCs) to businesses for their capital costs—the central

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212 Confidential Interview.
213 Interview, Sean Mullin, December 2015.
economic advantage of VAT—would shift the tax burden from businesses to consumers.\textsuperscript{214} The response to this is straightforward: eliminating taxes on capital costs (a hidden tax on consumers), would result in lower prices. Yet, what made the Ontario government's argument even trickier is that the reform would impose new taxes on various services that had not been taxed, especially heating and other energy costs. The anticipated argument from the left was that Ontario was in the midst of a recession and while harmonization might be good for businesses, it would burden households with new costs.\textsuperscript{215} These objections were anticipated by finance officials.\textsuperscript{216} While 83\% of consumer expenditures would see no change with HST, opponents would likely highlight the 17\% of goods and services that would increase. As a result, the McGuinty government decided to include tax relief measures that would disproportionately benefit the working class.\textsuperscript{217} The budget included $10.6 billion in tax relief over three years by cutting PIT, and introducing two new tax credits: the Ontario Sales Tax Credit and the Ontario Property Tax Credit. The lowest PIT tax bracket was cut by from 6.05 to 5.05\%. This translated into a tax cut for 93\% of Ontarians, and meant that about 90,000 residents would not pay any provincial PIT. The Property and Sales Tax Credits aspect would replace existing tax credits but were much more generous: $1.9 billion in 2010-11, $2.3 billion in 2011-12, and 2.4 billion in 2012-13 to Ontarians (Ontario Ministry of Finance 2009b). This was a very important part of the government's efforts to win over support from the left. The fact that these groups never mobilized against the HST provides even greater empirical support for Hb4. As Steve Paikin noted: “The decision to simultaneously bring in some fairly significant tax cuts was smart. Mulroney didn't do this in ’88 with the GST. I think the cuts made it a much less bitter pill to swallow.”\textsuperscript{218} Hb10 suggests government that embed sales tax changes within a broader tax reform package are more likely to succeed in institutionalizing the change than governments who fail to enlarge the scope of policy changes. One policy advisor to the finance minister described the government's thinking here:

\begin{quote}
In terms of offsetting cuts, a lot of thought was put into making the change overall progressive so that people on the low end would be better off. I think that was a very
\end{quote}

\textsuperscript{214} For explanation, please see Chapter 3 \textsuperscript{215} Interview, Dalton McGuinty, January 2016. \textsuperscript{216} Confidential Interview. \textsuperscript{217} Confidential Interview. \textsuperscript{218} Interview, Steve Paikin, Toronto ON, December 2015.
important part of making it work, and I would say it's almost a precondition for making any sales tax reform sustainable politically in the long term. Another staffer echoed this sentiment, discussing the difficult political position this put the NDP into:

The fact that low to low-middle income families were overwhelmingly benefitted from the tax changes was crucial. These families had more money in their pockets. Even if the NDP tried, I don't think they would be able to find a single individual or family making under $30,000 a year who would be economically worse off under our tax plan.

The government knew that it had to proactively deal with concerns coming from progressive organizations. According to communications staff in the Premier's Office, they wanted to avoid any characterization in the media that the HST was a tax hike on Ontario's working poor. Decisions to embed broader policy benefits for specific groups provides further empirical support for Hb4.

To articulate the feedback effects of these policies, the government designed communications materials that would help groups understand the impact of the reform described above. Many of the numbers in the budget were presented in the aggregate (e.g., the new tax credits were promised to provide $2.4 billion of tax relief in 2012-13). Political advisors were mindful that they needed to convey these interventions on a more individualized level. As a result, they presented the projected impact through a variety of vignettes. For example, they presented the impact of the entire tax reform package on a couple with two children making $70,000. In these examples, they provided the impact of HST, tax relief and the net impact of the entire tax package (see appendix C). They included similar tax impacts for various businesses, including manufactures, restaurants, retailers, and software publishers. Again, this was a strategy designed to frame the budget as introducing a broader tax reform package and not just about sales tax reform. The specific distributive impacts ended up being important when the government later needed to convince specific industries, particularly the service sector, that the tax reform was in their interest. This is an explicit illustration of government actors using tools of policy design to create

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219 Interview, Mazer.
220 Interview, Morley.
221 Ibid.
222 They replicated these graphs for several different stakeholders, including: single individuals (making $30K), single senior (with $20K pension), and a single parent with two children (on Ontario works).
political support for loss imposing policies. By embedding the HST within a broader tax reform package the government could foster support among various business interests. By pairing HST with significant tax relief, the policy created strong political incentives for business groups to defend (or at least not oppose) the entire reform.

Since organized labour in Ontario had been concentrated in the manufacturing sector, the reaction by the left to the HST announcement varied. On the one hand, some groups were still concerned about the effect of the HST on the working poor. On the other hand, union leadership representing manufacturing interests recognized the benefits of harmonization. Helping the government here was that the Ontario labour movement’s relationship with the provincial NDP had tenuous in recent years. In the end, the government received very little pushback from organized labour, especially in comparison to BC. As recalled by the Chief of the Staff to the Finance Minister:

I don't recall the unions being that active in a negative way. Same with the left-wing groups. I think in large part it’s because of what we were able to do in terms of providing some transition support for individuals [...] and I think being able to do that and communicate we were doing that quickly – if you’re confronted by saying, 'These groups are going to be inversely impacted.' And we’re able to say, 'Well, we’re providing transition funding and we’re doing some things with respect to income tax, it negates that fairly quickly'.

Jim Stanford, a former economist for Ontario’s largest trade union, Unifor, recognized the benefits of sales tax harmonization for manufacturing and supported the specific design of the Ontario VAT, particularly given its offsets. At the same time, he noted that there were divisions within the labour movement about it:

My advice to the CAW leadership was the transition from the PST to the HST, which was largely revenue neutral [...] was not something we should oppose. Most of the people who were opposing it were opposing it for partisan, political reasons, to try and damage the ruling Liberals, as opposed to some kind of principal economic policy perspective, or economic or social policy perspective. In fact, the redistributional tweaks on the HST side [...] the system distributionally was going to be fairer than the former PST, and that was clear. There was no argument actually about that. Politically, it became very difficult for us, because we had a lot of friends, NDP in particular, who were trying to go to town on this PST-HST transition, I think in a very mistaken way.

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223 Interview, Jim Stanford, January 2016.
224 Ibid.
225 Interview, Pryce.
226 Interview, Jim Stanford, January 2016.
The government's efforts to stress that this was a “comprehensive tax reform package” was not just important as a policy strategy for reducing distributive impacts (and economic outcomes) but, as advisors noted it, was strategically beneficial. Combining a controversial policy measure, such as sales tax reform, with more palatable ones has long been a legislative strategy in democratic systems. In the United States, this usually takes the form of log-rolling or pork barrel spending where Members of Congress build temporary legislative coalitions by supplementing legislation with particularistic benefits for certain districts. The logic of party government, and the practice of strong party discipline, prompted a different type of strategy in parliamentary systems. Rather than shifting the incentives of politicians, designing a broader reform package can serve as an ideational weapon (Blyth 2001) for parliamentary governments seeking to build a broader civil society coalition. In stressing that this was a tax reform package, the government was attempting to downplay some of the costs of the switch to the HST by highlighting the accompanying tax policy benefits for specific groups and individuals. This made it difficult for the opposition parties to vote against tax cuts for businesses (the PCs) and tax relief and credits for working families and individuals (the NDP).

Compensation or Bribing Taxpayers with Their Own Money?
In addition to tax relief, the budget also included one-time transition payments that would be given to most Ontario individuals and families. In total, the government spent $2.7 billion in 2010-11 and $1.3 in 2011-12 on this. Residents would receive transition benefit payments in June 2010, December 2010 and June 2011, all conveniently before the October 2011 election (a fixed election day mandated by provincial law). The legislation specified that families with net incomes of $160,000 or less would receive three payments totalling $1,000, while single individuals with net incomes of $80,000 or less would get three payments totalling $300 (Ontario Ministry of Finance 2009b). These one-time rebates worth just under $1000 total would be mailed out to Ontarians in three instalments. The last transition payment would be sent out to residents just four months before the election. The opposition was quick to criticize some of these “compensation” measures. The transitional cheques were derided as a cynical ploy by the government to bribe Ontarians with their own money (Leslie 2009). There are good theoretical reasons to suspect that electoral incentives
motivated the government here. This is largely consistent with what Weaver (1986) describes as a credit-claiming opportunity. Moreover, as Pierson (1996, 147) has suggested, when governments are seeking to bring in controversial policy changes, especially ones that impose visible losses, they will “develop reforms that compensate politically crucial groups for lost benefits.” According to the premier's advisors, it was important that the government provide cheques, in addition to the tax cuts. The tax cuts would help curb the economic impact of HST transition but the transition cheques would serve a political function.\(^{227}\)

Expanding the base of the tax would provide the government with additional revenue but the design of the reform to include transition cheques and the various tax cuts imposed a tremendous cost of the government. One advisor in the Premier's Office described the basic dilemma facing the government:

> We knew that it would be perceived as a tax increase even if it meant that government was losing revenue. That made it a very peculiar political problem, and to be frank, a difficult communication challenge. On the public acceptability side of things [which was done later], I will say that what was done to manage it was very much unlike BC. We made a very deliberate commitment at the outset to turn every penny of what the federal government gave us to Ontarians. Many segments of the population were actually better off as a result of the sending out of those rebate cheques ... The decision was made upfront and it was a condition of us moving forward that it was going to be a revenue loss for the Ontario government, a net gain for people in the low and middle-income segments of the population.\(^\text{228}\)

The transition cheques certainly gave the government some breathing room. In an interview, Robert Benzie argued this likely made a difference in terms of how the tax reform was received by the public. In his view, the decision to mail out the cheques and especially the timing was part of the reason the HST was not a larger issue in the 2011 election campaign. Benzie admitted he expected the issue to dominate the campaign but “smart decisions” including the transition cheques helped to absorb some of the political anger.\(^\text{229}\) Hb14 expects public opposition to a tax to be reduced when governments offset policy costs with highly visible policy benefits (a form of credit claiming).

Although the decision to offer cheques to Ontarians was depicted by the opposition and the media as cynical ploy, political staffers described the motivations as less opportunistic. According to

\(^{227}\) Confidential Interview.
\(^{228}\) Interview, Morley.
\(^{229}\) Interview, Benzie.
interviewees, the decision about how to allocate the money was made very early on and motivated by concerns about economic impacts. The premier’s advisors leaned heavily on the modelling work done by the Ministry of Finance. Sean Mullin, the Premier’s point man on HST, described the situation this way:

If you looked at the impact of HST on individuals, the impact was greatest in the first year or two. So, we’d create these models to see what the tax impact would be before July 1, 2010, and then here’s what they were after … People would tend to be worse off in the first year because all the impact from the HST would affect them right away on services, but it wouldn’t get passed onto goods for a couple of years. The notion is, if you layered in these one-time payments, you create a scenario where people were better off for that year or two transition which then allowed the long-term scenario to take place which you could model and you could then assume now that these savings have been passed on, there’s still not worse off. So, the actual benefit of having cheques go out before the election politically was great as well, but you don’t win elections on things like that …

To be sure, the government could have used the transition funds from the federal government to provide even greater tax relief or tax credits but chose not to. While nobody was willing to admit it, it is clear the cheques served as a political purpose. The cheques provided a highly visible opportunity for credit claiming, helping to dampen some of public discontent with the HST

Selling the Policy Benefits: The Role of a Political Entrepreneur

A month after the budget was presented, despite all the “preconditioning” efforts, the government was facing strong political headwinds. There was a general feeling of uneasiness amongst the Liberal caucus. Liberal MPPs had been receiving lots of negative feedback from their constituents. In attempting to defuse the anger and confusion, the premier asked all cabinet ministers to highlight the benefits of the tax reform in all speeches and public appearances (“Harmonized Sales,” 2009). Two months after the budget, public opinion polls emerged, confirming what the Liberal caucus was telling the finance minister and premier. The results of a national poll on sales tax reform yielded some disappointing. According to the Nanos poll, in Ontario, only 23% reported positive feelings about harmonization, with 67% opposed to the idea, and 10% of the public undecided. Most concerning was the finding that only 21% of Ontarians believed harmonization would be positive for the ailing economy, whereas 51% said it would be negative

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230 Interview, Mullin.
and 7% unsure (Benzie 2009a). Other polling evidence continued to mount over the next month, affirming public discontent. A poll from Ipsos Reid found that opposition to HST in Ontario had grown to 74% in the spring (Greenberg 2009a). Heading into the summer of 2009, things did not look particularly good for the government. On the other hand, political advisors claimed that the government did not panic in the face of these polls. As one advisor in the Premier's Office put it:

>We knew before the budget was made that this was going to be seen as a tax increase. The decision to proceed was made full well knowing that. So, any subsequent polling or feedback confirmed what we already knew. It didn’t present new information. It was essentially confirmation that what we knew all along was true. In some ways, because we knew that and because we were under no illusion the fact that this was going to be warmly embraced, we knew that was the lens that we were going to be working with.  

Even though McGuinty and his advisors anticipated the nature of the public's reaction, they also assumed that they would have tools to help mitigate some of the political damage. The government had planned to launch a sophisticated public relations effort, helping inform individuals and businesses about the effects of the proposed HST. The campaign was supposed to tell stakeholders about the technical changes being introduced, the broad macro benefits of sales tax reform, and some of the specific offsetting measures, including exemptions and the rebate cheques. The communications plan, however, faced an early setback. The Liberal government's own Government Advertising Act (GAA), which it had brought in during its first mandate, had come back to haunt it. The purpose of the legislation was to limit the use of taxpayer dollars on promoting partisan goals. The Liberals, however, had planned an entire HST campaign to promote the tax reform. After reviewing the communications materials, the Auditor General, Jim McCarter, deemed the ads problematic and inconsistent with the aims of the GAA (Benzie 2009b). This criticism ultimately led the government to back away from this plan, announcing they “would respect the rules” surrounding political advertising (Ferguson and Benzie 2009a). The Auditor General's decision seriously hampered the government's communications rollout. The finance minister vented his frustration to the media, conceding the government had effectively tied its own hands with the GAA. The challenge was the HST was a complicated and counter-intuitive policy to defend certainly one that “didn't lend itself to an eight-second sound bite” (Howlett 2009a). The

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231 Interview, Morley.
Auditor General did eventually approve a set of communications materials but these were limited to describing technical changes to Ontario tax laws.

The hurdle set up by the GAA also created some internal problems for the government. During the McGuinty government's initial decision to enact the HST, the cabinet had largely been kept in the dark. When presented with the agreement, they agreed to support it but with assurance from the premier that the policy would be accompanied by a well developed “communications plan replete with endorsements from third-party business groups, unions, and academics.” (Benzie 2010b). The dispute over advertising, then, presented an unanticipated political headache for the government. In the end, the government decided to use some Liberal Party funds as a way to finance several television, print and online advertising materials (Ferguson and Benzie 2009b). Yet without government funding, the scale of the public relations campaigned was scaled back significantly.

**Bringing Down the Political Temperature**

In June 2009, just a couple of months after the budget, the premier was facing increased pressure to rethink the government's communications strategy. In addition to the issue with the Auditor General, caucus members were growing increasingly uneasy with the HST, claiming they were getting “hammered” by their constituents. 232 The media coverage had not helped. The HST was unveiled in March but most of the coverage had shifted to negative impacts of the reform, particularly the increase to the costs of goods and services. There was limited attention given the fact that 93% of Ontarians would be receiving rebates to overcome these costs (Benzie 2009c).

As mentioned above, the private sector was generally supportive of the tax reform but it took leaders time to gain the support of individual businesses. Many small businesses were initially sceptical of the policy change because they did not fully understand its distributive implications. As the Chamber's Director of Policy recalled:

> I can tell you, even half way through that, the Premier’s office were quite irate. They did not think that the business community, generally speaking, was doing enough to explain the tax changes that they made for businesses. Their frustration was coming from the fact that there was a lot of confusion and push back from businesses as well as consumers. I think politically, they were in a panic mode – they thought they had everyone behind their back, but there were certain elements of the business community that was confused, and certainly the consumers, politically, they were confused because they just see that there’s an increase in tax, not knowing how it

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232 Confidential Interview.
effects the entire economy and then the tax savings that resulted in those tax changes. We ended up going on the road. I was out there with senior Ministry officials as well as other business people. 233

Since the chamber was a major proponent of the reform, it decided to help with the effort, meeting with its members across the province and trying to convince them that HST and the broader reform package would be in their material interests.

In addition to help from the chamber, the trajectory of HST reform seemed to fundamentally change at the end of June, following a small cabinet shuffle. In a surprise shakeup, the premier decided to appoint MPP John Wilkinson from Southwestern Ontario as Minster of Revenue. Wilkinson's newly created ministry 234 would take over responsibilities from the Ministry of Finance for promoting the tax reform package, including the HST. As the premier commented, they ended up deciding on Wilkinson because they thought he would be an “effective spokesperson” who could be used to help “people really understand what the policy was all about.” 235 The premier would not be disappointed. Interviewees identified the value of Wilkinson’s folksy approach to political communications. According to Greg Sorbara, the former finance minister and 2011 election campaign chair for the Liberals:

The first couple of months were difficult but this all changed when the premier decided to ask John Wilkinson to become the Minister of Revenue. He had one mission: he was the happy warrior. He went to every church basement, every town hall, to sing the praises and the joys of a new tax system. He was incredible. He would never turn down a speaking opportunity, and he was able to both explain how the HST would help everyone, and how the HST would strengthen the Ontario economy. On this one file, John Wilkinson was out there every day. Selling and selling and selling. Selling, talking, absorbing the anger. Part of what we do as politicians is just absorb the anger of the people. 236

Prior to becoming an MPP, Wilkinson had worked as a certified financial planner in Southwestern Ontario. Part of this job involved describing how tax policy changes would affect ordinary people. 237 By all accounts, Wilkinson became the government's most effective communicator on the HST. Colleagues and political analysts alike praised his effort, emphasizing his ability articulate to small business owners how they would be relieved of the burden of a retail sales tax.

233 Interview, Johnston.
234 Revenue had been a standalone ministry in the Ontario Government from the late 1960s to the early 1990s.
235 Interview, McGuinty.
236 Interview, Sorbara.
237 Interview, Wilkinson.
As Robert Benzie described it, in replacing Duncan with Wilkinson the government recognized it needed “less Winston Churchill and more Jimmy Stewart.”\footnote{238} Every single individual interviewed identified Minister Wilkinson's appointment as a crucial turning point in the fate of the HST. As Sean Mullin described it:

> The HST is complicated even for people who follow this, so not everyone understood that moving from a retail to a value-added tax actually has a huge impact on the efficiency of the tax system. The idea of John going around and not necessarily telling a retail story, but going around to economic leaders, chambers of commerce, Lions Clubs, and all these things all across the country, was to get into those people the idea that maybe you don’t love this thing, but here’s why we’re doing it. Doing something like that can bring down the temperature quite a bit.

Wilkinson visited stakeholders across the province and in a very straightforward manner could articulate “this is what the HST is and this is exactly why it is going to be good for your guys’ businesses.”\footnote{239} Conveying the policy benefits to this constituency was particularly important in helping ensure that stakeholders understood how the HST would affect them on an individual level. One of the basic challenges governments confront in enacting tax policy changes is explaining the effects in an accessible and straightforward way. As Sean Mullin recalled:

> We needed [Wilkinson] out there because the filter in the media was such that as soon as you got into any level of complication there they would just – I mean, it wasn’t their job to write pieces about complicated tax laws. We got a few good pieces [in the press], but we needed to tell the story hundreds and hundreds of times. John would tell them about the credits, cutting personal income tax, the fact that it was revenue neutral, the fact that we were going to ask the auditor general to report on that. The average person inherently does not trust in any government when it comes to tax policy, so this was really important.\footnote{240}

One other reason that Wilkinson was particularly effective is because of the regular communication between his office and Liberal members. As Sorbara detailed: “during caucus meetings, some members would complain to the premier, saying: ‘Man, I’m getting the shit kicked out of me on this HST thing’. At this point, John Wilkinson would pipe up and say, 'Why don’t I visit your community and give 2-3 speeches'.”\footnote{241}

\footnote{238} Ibid.  
\footnote{239} Interview, Benzie.  
\footnote{240} Interview, Mullin  
\footnote{241} Interview, Sorbara.
Recalibrating the Policy Design

Though many of the HST details were covered in the budget, the government still needed work out some aspects of the policy.\footnote{Confidential Interview.} One issue that had not been decided yet was which items would be subject to a point-of-sale exemption. As part of the agreement with the federal government, the province could exempt 5\% of the entire tax base. This had important political advantages since it enabled the province to set aside specific goods and services that would not be charged the provincial portion (8\%) of the HST. For many economists as well as tax “purists” working in the CRA\footnote{Confidential Interview.}, this was sub-optimal part of the intergovernmental agreement. Exemptions like this, policy experts argue, create distortions in the market by arbitrarily exempting some goods and services.\footnote{Interview, Kevin Milligan, Vancouver BC, July 2015.} But in the provincial government’s view: “The exemptions were, in the grand scheme of things, relative trade-offs that had to be made. Reasonable accommodations to essentially bite the bullet to make a policy change that no one was ever going to reverse.”\footnote{Interview, Morley.}

At the time of the budget, the government had announced that it would exempt some items, namely: children’s clothing and footwear, children’s car seats, books, diapers and feminine hygiene products (Ontario Ministry of Finance 2009a). But the government also stated that it would hold discussions with stakeholders to determine which other items should be exempted. The point-of-sale exemptions provided an important policy design opportunity for the government to mitigate some of the political backlash. In October 2009, shortly before the HST legislation was introduced, the government announced that newspapers and fast food and beverages under $4.00, would be added to the list of exemptions.\footnote{The exemption only applies to the provincial portion of the HST. The federal portion of the HST, or the GST portion, still applies to these purchases.} These point-of-sale exemptions were reported to have cost the provincial treasury about $325 million per year (Huber 2009). The political motivations to include these specific items was abundantly clear to observers. The previous tax system had exempted these items, and so, one of the most visible effects of the HST, at least for consumers, would be on some of these everyday purchases. As one columnist argued, the fast food exemption allowed the government to blunt some of the most biting criticisms coming from the two opposition parties. For months, HST critics hammered the government on this, saying their policies were going to make things like coffee and newspapers more expensive for Ontarians.
(Radwanski 2009b). Promising these changes well after the HST had been announced had another political benefit as well. The McGuinty government had made it look like it was listening to stakeholders and taking steps to moderate the HST's impact based on feedback. In reality, the government knew it would introduce these exemptions all along; it was simply a matter of deciding when it would announce it.\textsuperscript{247} Interview data, however, also reveals the extent to which industry pressure played a role in this decision. Several interviewees identified Tim Hortons as a major political headache for the government.

Another described the political pressure more explicitly: “Tim Hortons had threatened to put up signs on every single cashier outlet across the province, saying that this tax increase was a result of the Ontario government. And so, based on that, [the restaurant exemption] became a priority to add that to our 5%.”\textsuperscript{248} One advisor to the finance minister described the importance of these measures for the business communities, stating:

\begin{quote}
A lot of thought was put into mitigation and a lot of money was invested in mitigation, so not only the things that were included in the original package, but also subsequent exemptions that were introduced around, for example, fast food was one of them, and the housing benefit that was enhanced. Those were probably the two main ones, but a lot of thought was put into making sure the business community would buy in.\textsuperscript{249}
\end{quote}

The efforts by the McGuinty government to use policy design to mitigate political backlash from organized interests illustrate the importance of policy feedback effects in explaining political behaviour. The fast food industry in the province had adapted to the policy benefits (i.e., exemptions) that had been created by PST system. If the government broadened the tax base to now tax meals under $4.00 they risked raising the ire of a politically powerful group as well as their customers. The key to managing this was either to design the reform in ways that either compensated losers (e.g., cheques to the public), a form of credit-claiming, or exempting powerful interests from the effects of the policy. Although the latter may have worked against the spirit of the reform (i.e., enhancing efficiency), adding some “water to the wine” restructured the political incentives of key actors, helping to secure the political viability of the HST.

\textsuperscript{247} Confidential Interview.  
\textsuperscript{248} Interview, Mullin.  
\textsuperscript{249} Interview, Mazer.
Legislating and Implementing the Reform

In November 2009, Ontario’s Minister of Finance, Dwight Duncan introduced Bill 218, the *Ontario Tax Plan for More Jobs and Growth Act, 2009*. After the second reading, the bill was referred to the Standing Committee on Finance and Economic Affairs. As debate around the HST bill commenced, media and public attention shifted back to the HST. In early December 2009, an Angus-Reid poll revealed that 75% of Ontarians were opposed to sales tax harmonization, with 70% of Ontarians saying their opinion of the McGuinty government had worsened due to the HST. The online poll found that 76% were aware of the changes to the tax and 83% of respondents believed that the tax policy change would make goods and services more expensive (Ferguson and Benzie 2009c). Another poll by conducted by Canwest News found 74% of Ontarians opposed, with a full 90% of respondents believing it was a tax grab by the provincial government. If there was any silver lining in the Canwest Poll, it was that opposition to the HST was somewhat higher in BC, registering at 82% (Pilieci 2009).

In December 2009, the opposition parties tried to take advantage of the public’s disdain for the HST. The Tories used a variety of stalling tactics in the legislature, including invoking several points of order and points of privilege to garner media attention. At one point, three members of the PC caucus staged a protest at Queen's Park (Greenberg 2009d). At this point, the tone of the debate in the Ontario Legislature shifted, resulting in the ejection of the three members for using “unparliamentarily-like language” (Greenberg 2009c). The Liberals’ comfortable majority, however, meant that the opposition tactics could be easily overcome. Citing concerns over the HST's impact on Ontario families, both the NDP and the PCs voted against the legislation. During the second reading, NDP leader Andrea Horwath summarized her party's position on Bill 218 this way:

>I have to say that we have been very vocal in our opposition to this wrong-headed move by the government. I say ‘wrong-headed’ specifically and purposely. Why? Because this government is prepared to basically bring in a piece of legislation that hits families when they’re already down; a bill, a tax measure, that makes life a heck of a lot less affordable, at a time when the people of this province are suffering significantly from a protracted recession, from a downturn in the economy (Hansard, 2009a).

The NDP, then, were framing the move to the HST as economically detrimental to voters' pocketbooks. The PCs also vocalized their objections but used a different line of attack. For the
PCs, the HST was a tax grab by the McGuinty Liberals. During the bill’s third reading, PC MPP Lisa McLeod derided the legislation, saying:

It has been clear since the Liberals announced their intention to harmonize our sales tax with the federal GST and implement a $3-billion tax grab that the PC caucus would oppose it every step of the way. We promised Ontarians that we would fight the $3-billion Liberal tax grab on the middle class and seniors tooth and nail. We promised Ontarians that we would use every legislative tool at our disposal to fight their 8% tax hike. And we promised Ontarians that we would be their voice in the HST debate, because the official opposition knows they can’t afford another McGuinty tax grab—not this time and not ever again. I admit this fight with the Liberal majority was an uphill battle. The odds were stacked against us. The Liberals, of course, later today, will use their majority to ram this $3-billion tax grab through

(Hansard 2009b)

Despite the objections of both opposition parties, the Ontario Legislature passed Bill 218 in the mid-December. The legislation was voted on along party lines with 52 voting in favour and 29 MPPs opposed. The government's tax reform package received Royal Assent on December 15, 2009. The changes to the sales tax system, however, would take another six and half months. Officials in finance and revenue worked tirelessly to ensure that the government and the private sector were prepared for the HST on July 1, 2010.250

Between the time the legislation was passed and its implementation in July 2010, the government had a few more issues to work out. The government, for example, had to come up with an agreement with First Nations in the province. There were concerns over a variety of point-of-sale exemptions that status Indians receive. The government, however, was able to negotiate a temporary mail-in rebate program, and promised to permanently resolve the issue over the first few months of implementation.251

By June 2010, just as the tax was about to take effect, the government stepped up its communication efforts. The government had already conveyed the technical changes to stakeholders, including residents. But in the late part of June 2010, there was a renewed effort to frame the justification for the policy change. As one columnist put it, McGuinty was stressing the HST as a matter of duty, using wartime rhetoric to build support for HST, at one point, saying: “We have a more challenging and more competitive world, and as a society, our generation has

250 Confidential Interview.
251 Confidential Interview.
got to step it up. I think the noble ideal that inspires our generation is the same one that inspired all the others.” Polling data conducted right before the HST was fully implemented revealed some interesting patterns. The Liberals showed considerably less damage in the polls than anticipated. An Ipsos Reid poll released in June 2010 found the Liberals’ support at 37%, dropping one point from 6 months prior. The PC stood at only 32%, a decline of 2 points and the NDP were up 5 points to 20%. Yet, the poll also found that opposition to the HST was at 75%. For the purpose of comparison, at the time, support for the Campbell BC Liberals had dropped to 20% at the same time (Greenberg 2010). So, while the HST remained very unpopular at this point (see Figure 6.4), the government looked like it was weathering the storm. A few weeks after the HST had been implemented, Angus Reid conducted an important poll, examining Ontario (and BC) residents’ opinions about the quality of HST implementation (See Figure 6.1 and Figure 6.2). Among Ontario respondents, when asked “All things considered, would you say the provincial government did a good job or a bad job in explaining its decision to implement the HST?” only 12% of Ontarians believed the government did a good job, as compared with 3% in BC. The more telling finding is only 45% thought the Ontario government did a “very bad job.” While hardly an endorsement of the government, the government fared much better than its counterparts in BC, where a whopping 75% of voters held this view (Matas and Hunter 2010). These polling data seemed to suggest Ontarians were unhappy about the HST, were not entirely impressed by the government’s communications efforts but were still willing to support the Liberals in the next election.
Figure 6.1: Ontario Mass Opinion - Quality of HST Government Communication

Has the Ontario provincial government done a good or bad in its explaining its decision to implement HST?

Source: Angus-Reid 2010, cited in Matas and Hunter (2010)

Figure 6.2: BC Mass Opinion - Quality of HST Government Communications

Has the BC provincial government done a good or bad in its explaining its decision to implement HST?

Source: Angus-Reid 2009, cited in Matas and Hunter (2010)
After the HST policy was fully implemented across the province, the tax received very little attention in the provincial media (see Figure 6.3). Media attention to HST peaked in three periods: during the initial announcement (March 2009), during the final passage of the enabling legislation (December 2009), and finally just before it was fully implemented (July 2010). Crucially, however, media attention to the issue after full implementation completely dropped off. This is broadly consistent with the expectations of Hb9: in jurisdictions that have greater opportunities for democratic participation and levels of public and media attention to the effects consumption tax reform should correlated with one another. In jurisdictions without these avenues, such as Ontario, public and media attention to the effects of the policy should decrease over time. In addition to these electoral institutions, interviewees also public attention to the quality of the HST’s implementation:

The implementation of the HST system was high quality. Bureaucrats in Ontario and in Ottawa were ready for this. It seems easy to say now, but you have all of this machinery collecting a retail sales tax up until June 30, 2010. And the next day, that machinery has got to shut down and a new machinery, run by the CRA, has got to – and every cash register has to be changed, every business has to go through a training process, and it was just a tremendous job done primarily by the bureaucrats in Ontario helping people cross over the bridge into the new world of the HST. If that implementation had sort of blown up in their face, I think the issue would have been [more important in the] election campaign. But the quality of implementation was just superb. It was the Ministry of Finance in their finest hour.252

This observation suggests an important relationship between the feedback effects created by the reform and the level of public attention to those effects. One of the reasons the public attended less to the effects of the HST over time seems to be the relatively seamless process of policy implementation. Retailers and other businesses were more attentive to these changes given the effects of the policy.

252 Interview, Sorbara.
Those working on the policy in the Premier’s office also stressed the relative seamlessness of the post-implementation process. In Ontario, after the policy was fully implemented, sales tax reform became somewhat of an afterthought:

After implementation, it was about some fighting the fires, but once we got through that first month or so, it became yesterdays news. Then in the election I remember Andrea Horvath was focused on the energy piece exempting home heating ... So, she had a piece in her platform, Tim Hudak had a piece in their platform, but it became piece-meal and focused on subcomponents of it as opposed to the big picture.

The Role of the Opposition and Voters

So far, this chapter had largely focused on the actions of the government to mitigate backlash. To what extent were HST opponents successful in mobilizing opposition? How did the opposition parties attempt to mobilize public opinion against the tax? Between the HST announcement in March 2009 and implementation in July 2010, there were emerging signs of popular discontent. In the end though, the anti-HST movement never really picked up enough momentum. As Steve Paikin, one of the province’s leading political observers, recalled:

I cannot remember a single demonstration at all in the province. Or at least, I can’t recall one of any significance. I suspect this was because either the public thought...
this wasn't as bad as the opposition was saying, or this kind of does make some sense, or that we’ve got other bigger fish to fry.253

It is quite telling that public opinion firms in the province stopped surveying respondents about their views on the HST after September 2010. Yet it is also striking from the existing public opinion data (see Figure 6.4) that at no point did the public warmly embrace the policy idea. The level of opposition remained stubbornly high across the development of the policy. A plausible explanation for this is that the nature of opposition never reached a threshold of intensity, or a critical mass, to prompt mass organization and mobilization (a theme reflected on in the concluding section). The decision by the opposition parties to not revisit the issue in the lead-up and throughout the election campaign helped to shift the public’s attention to other issues. This provides strong empirical support for the Hb1, which expects opposition parties to invest more political resources into opposition techniques prior to implementation and less investment after the policy is implemented.

Figure 6.4: HST Public in Ontario - March 2009 to September 2010

Although both opposition parties objected to the McGuinty government’s HST from the start, there was never any attempt to coordinate action between the two. This lack of cooperation between the

253 Interview, Paikin.
opposition parties was not unusual but is a noteworthy difference from BC. As explored in the next chapter, in BC, an alliance of strange bedfellows had developed among members of the former BC Social Credit party, the BC Conservatives and the provincial NDP. There was no comparable anti-tax mobilization within (or even outside) the Ontario party system. In fact, at one point during the legislative debate, the NDP shifted its sights onto the PCs. Horwath argued that if Tories were serious about wanting to stop the HST in Ontario then they should focus their energies on their federal cousins. The federal government led by the Harper Conservatives were enacting in the necessary federal legislation to codify the provisions of the Ontario-Canada CITCA (Howlett 2009b). The federal Parliament voted 253-37 in favour of the enabling legislation.

There were some efforts by the opposition parties to mobilize public opposition toward the tax, yet these efforts were limited to a specific time period (summer to December 2009), when the issue was “red hot.” In the summer of 2009, for example, the NDP leader, Andrea Horwath presented to the legislature an anti-HST petition which had garnered 50,000 names (Greenberg 2009b). But this campaign lacked sufficient momentum. It is relatively easy to get people to sign an anti-tax petition but voters seemed to lack the intensity to organize rallies against the tax at Queen’s Park. By the provincial election in October 2011, the NDP had decided opposing the tax was not in its interests. The party’s platform called for eliminating HST on home heating but there was no indication that it would remove the tax. The NDP, then, was tinkering at the margins but they had accepted that HST was now a permanent part of the province's fiscal policy system. Hb2 expects opposition parties to change their positioning on a tax reform after a policy change has been implemented. The NDP’s shifting behaviour over the course of the HST in Ontario, from announcement to implementation, provides clear evidence in support of this hypothesis.

Opposition to the HST for the Progressive Conservative Party of Ontario was a bit different but broadly consistent with the expectations of Hb2. The new PC leader, Tim Hudak, had been elected by his party in June 2009, shortly after the HST was announced. In his first major economic address to Economic Club of Canada, Hudak criticized the McGuinty government's tax policies, saying that the fiscal policies were “killing jobs” in the province. He went on to describe the HST

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254 Interview, Hudak.
255 Interview, Mullin.
as a $2.5 billion tax grab (Talaga 2009). Even with Hudak at the helm, though, it still was not entirely clear how the PCs would navigate. The HST decision put the Official Opposition in a politically awkward situation. First, even though the federal and provincial parties had not been formally linked, the fact remained the Conservative Party of Canada and the Ontario PCs had overlapping membership. Several members of the Harper cabinet, for example, had served in the previous PC government in Ontario. Jim Flaherty, the federal minister responsible for pushing the HST agreement in Ontario, for example, had previously served as Ontario Finance Minister. Steve Paikin described the predicament facing the PCs this way:

Once you realize that Stephen Harper and Jim Flaherty are helping to make this happen, how exactly are you opposing this? With what straight face, Tim Hudak, are you opposing this? I just think that this just took the legs right out of Hudak and the PCs’ argument.  

Second, many of the groups and organizations, especially in the private sector who had traditionally supported the Ontario PCs, were in favour of Liberals’ HST. One industry representative described the PCs’ positioning this way: “I think that the opposition mischaracterized what the tax changes were for political reasons. I don’t think they did the math, or if they did the math, they didn’t care. Politics, being such as it is, they saw an opportunity to exploit this as a wedge issue.” Finally, the Liberals’ tax reform package had included several tax cuts for large and small businesses; this had long been a demand of the PCs, especially after the recession. These factors made it very difficult, although not impossible, for the PCs to forcefully come out against the HST.

These constraints, however, did not stop the PCs from attempting to exploit what it perceived to be a real vulnerability of the government. According to Tim Hudak:

We decided to use the full slate of opposition tactics. You know, number one, first we tried to stop it or soften its blow. Secondly, we tried to raise its profile. This was a tax increase dressed up as an economic policy. This way people could understand what the actual impact of them in the pocketbook would be. HST would probably be the item that was featured [in] the most in terms of our opposition communications. We communicated directly to taxpayers along what it was going to mean to their

256 Paikin Interview.
257 Confidential Interview.
258 These factors were mentioned by several interviewees.
personal chequebook, largely through highlighting what it was going to do through heat and hydro bills.\textsuperscript{259}

Hudak also claimed that some institutional barriers impeded the effectiveness of the Progressive Conservatives’ tactics: ‘We were barely halfway through the Liberals’ majority government mandate, so the tools to stop it are somewhat limited. In BC, they had a flag to rally around and that was the referendum Ontario did not have anything like it.’\textsuperscript{260} There is something to Hudak’s discussion of institutional opportunities or lack thereof. According to Hb8b, in jurisdictions that have less opportunity for democratic participation, tax reform opponents should have greater difficulty in mobilizing the public against a reform than in systems that provide greater opportunities for participation. The failure of both opposition parties to build momentum for each anti-HST campaign suggests an important link between institutions and political mobilization. At the same time, as discussed below, the opposition had other outlets, including by-elections, to leverage the public's opposition to the tax. According to Hb10, in jurisdictions with less opportunities for democratic participation reform opponents will be less successful in drawing the public’s attention to the policy costs of a consumption tax reform than such political actors would enjoy in jurisdictions with greater vehicles for democratic participation. The Ontario case study largely aligns with the expectation of this hypothesis. The two opposition parties were effective at drawing the public’s attention to the negative effects of the HST but such attention waned over the course of the policy’s implementation. The opposition parties could not rely on an institutional mechanism, such as voter initiative or a public referendum, to attract the public’s attention and cultivate opposition.

By the time the 2011 election came around, there was some focus on taxes but no longer was the focus on the HST. Tim Hudak described the decision making process surrounding election preparation this way:

\begin{quote}
We looked at a number of strategic options in terms of how to approach the election campaign, one of which was to portray Dalton McGuinty as the tax man who would take more of your money and waste it, it’s time for a change, and I would be the acceptable alternative to the McGuinty government. Another option we considered was making it a referendum, that we’d have a repeal of the HST, and focus the election campaign around that. We chose the former, which was where McGuinty
\end{quote}

\textsuperscript{259} Interview, Hudak.

\textsuperscript{260} \textit{Ibid}. 

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was going to increase your taxes and waste your money and we needed an alternative to the existing government. A big part of that proposition we had was that we would actually give you relief to your pocketbook, and we chose, as one of our policies, to take HST off of heat and hydro. So, it wasn’t repeal the HST, it was a more narrow scope really hitting on the major areas where HST was going to increase costs.261

Asked why the PCs did not make the HST a centrepiece, Hudak stated: “while it was still a hot issue, it wasn’t as red hot as it had been late 2009-2010. Some of the sticker shock had worn off. It was still there, but not at the burning hot level. This was important in shaping our electoral strategy.”262 Hudak’s observation about the public’s “temperature” reflects the essence of Hb6: after a tax consumption tax reform is implemented, voters should become less intensely opposed to a consumption tax over time. This demonstrates how anger, if not cultivated or reinforced, can begin to fizzle out over time. The polling evidence suggested the public might have been truly upset about the HST and genuinely believed that it was a tax grab. But as Downs (1972) famously illustrated, the attention of the electorate inevitably shifts to other issues over time. Attention can sometimes remain focused on an unpopular government policy. For example, the federal GST was implemented in the beginning of 1991 but still very much played a role in the 1993 federal election campaign. The key difference in the GST case and the HST case in Ontario is the extent to which opposition was reinforced through civil society, the media and the opposition parties. One might argue the decision against turning the 2011 provincial contest into a referendum on the HST was a strategic misstep by the Hudak PCs. This might overlook some important feedback effects created by the policy change. When Tim Hudak was pushed on his decision, he responded: “Remember the HST had already been implemented. Businesses and families had already adapted it, and so, repealing it meant that we’d have to undo it all.” This demonstrates the importance of the policy feedbacks in structuring the political incentives of opposition parties. Implicit in Hudak’s statement is recognition that the PCs would be held accountable for the effects of policy reversal. The institutional context in Ontario would give the opposition parties, should either form government in the subsequent election, the unilateral capacity to undo the HST. Concentration of policy authority in the Ontario context, then, also means that accountability is concentrated (Pierson and Weaver 1992). The limited

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261 Interview, Hudak.
262 Ibid
opportunities for blame avoidance seems to have structured the political incentives for the PCs. The empirical evidence, then, is broadly consistent with Hb3, which expects the positioning of opposition parties to be shaped by the institutional context.

The decision by the PCs (as well as the NDP) to forgo the HST as a wedge issue in the 2011 election campaign must be examined with the material feedback effects created by the HST. Their behaviour is largely consistent with the expectations of Hb2, which expects opposition parties to change positions on a tax reform after a policy change has been implemented. The logic is that once a tax reform’s effects have taken shape the political incentives to be opposed to the policy are reduced. ⁶³ A repeal of the HST would involve the PCs having to: a) implement a full reversal to the sales tax collection system across the province; b) return the transition funds to the federal government; and c) either reverse the accompanying tax cuts that were brought in, or increase the provincial deficit to pay for these. Going back to the PST sales tax system alone would create massive chaos, given that tax collection authority had been completely transferred to the CRA. One of the premier’s former advisors helpfully summarized the dilemma facing the opposition:

> What are you going to do, go back? Change it? Are you going to undo the tax changes that have happened at like 8 million businesses across Ontario? Are you going to actually advocate for – and this was absolutely key – are you actually going to advocate for splitting up and making businesses collect taxes twice? ⁶⁴

These material feedback effects created by the HST, then, had a strong influence on the strategic thinking of the two opposition parties. While the initial reform may have been controversial with some groups and citizens, the opposition parties faced a difficult challenge after the benefits (and costs) had been adapted to (and thus institutionalized) across the province.

By July 2010, small business owners had implemented the necessary changes but also were experiencing many of the benefits of the tax reform package. Minister Wilkinson and the chamber were important in helping convey those policy benefits. If Hudak had promised to repeal the HST and its accompanying tax relief, this would have risked alienating a key

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⁶³ Interview, Hudak.
⁶⁴ Interview, Mullin.
constituency of the PC electoral coalition: small business owners. Forcing another major policy change and one that would certainly negatively affect small business owners’ bottom line. This is generally consistent with Hb5: interest groups in opposition to a tax reform during policy initiation will be less intensely opposed following the implementation of the reform. The idea here is two-pronged. First, such groups are likely attentive to other policy benefits that result from the reform. Second, the process of implementing these changes for businesses shifts the political calculus.

These impacts of policy reversal weighed heavily in the minds of Hudak and his campaign team.265 In fact, as Steve Paikin thoughtfully pointed out: “the opposition in Ontario may have learned a key lesson from the federal GST. Don’t do something stupid, like promise to get rid of it like the [federal] Liberals did and then come in and the first thing you do is say, ‘This actually makes a lot of sense and we’re keeping it.’”266 Hudak did allude to the risk of promising to repeal the tax but with a different take, saying: “If we had said we’d rescind the HST it may have fanned the flames a little bit but there was a considerable risk that people would say, “You’re just a politician making a promise that you don’t believe in.””267

Explaining the Public’s Curious Reaction in Ontario

Interviewees identified different reasons to explain the reaction of the Ontario electorate. Their responses reflect different perspectives as well as reflecting the multitude of factors at play. As one expert concluded: “It is easy to talk about how the British Columbia did it wrong but I was impressed by the people in Ontario. From the very beginning, the government and [the ADM in charge] recognized this was going to be an uphill battle. This would require a marketing effort on their part.”268 Steve Paikin shared these sentiments, arguing:

You have to hand it to McGuinty and Duncan and Wilkinson for making the case successfully. At the end of the day it’s about persuasion, about politicians being able to persuade people to go Left instead of Right, or you know, whatever. Those guys made a better case, and the public responded accordingly.269

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265 Ibid.
266 Ibid.
267 Interview, Paikin.
268 Interview, Michael Smart, Toronto ON, January 2015.
269 Interview, Paikin.
McGuinty, as well as many of his advisors and colleagues, seemed to share the view that the public came to see it as a necessary evil:

> While I would not say that HST was warmly embraced by Ontarian’s generally, it was grudgingly accepted as an economic imperative and something that we all had to do in order to make ourselves stronger.\(^{270}\)

The issue of time and timing were also cited by interviewees as important but in varying ways. For some of the politicians and political staff, the fact that the recession happened closer to the beginning of the government's mandate gave the McGuinty Liberals more flexibility.\(^{271}\) It gave the government sufficient time to negotiate an agreement with the federal government, design the tax reform properly, communicate the policy changes to stakeholders, implement the policy, and then still have more than 14 months before the next election. Beyond being concerned about the politics, there were also practical or policy-related benefits. As the former Chief of Staff to the Finance Minister described it:

> Given the fact that we had a fairly lengthy runway, almost 15-16 months, it allowed an opportunity for us to continue consultations to ensure that we were in a position to mitigate any of those potential negative impacts. It’s always one of those things where you worked through a policy there’s the unintended consequences that nobody may have thought of. Have the consultations, work with the effective parties, be really open about it and willing to listen, and understand what the concern is, and as I said there is there’s maybe a certain line of what you can’t cross in terms of providing support, but just be open to the discussion and creative in terms of bringing solutions forward.\(^{272}\)

Others stressed the importance of the specific mitigation tools the government used, which helped to absorb the intensity of the public's anger. Using highly visible policy benefits to curb public opposition to tax policy changes (Hb11), seemed to help moderate the negative reaction of the public. These policy design features seem to have helped to keep “the crowds off of the front lawn of Queens Park”\(^{273}\) at precisely the right time. Hb6 suggests that following the implementation of a consumption we should expect the intensity of the public’s opposition to decline over time. The Ontario HST case provides mixed support for this hypothesis. The idea underpinning this hypothesis is two-pronged. First, once the material benefits of a reform begin to be experienced it is expected that these feedback

\(^{270}\) Interview, McGuinty.
\(^{271}\) Interview, McGuinty.
\(^{272}\) Interview, Pryce.
\(^{273}\) Interview, Sorbara.
mechanisms should help curb the intensity of the public’s opposition to the reform. Second, given the issue-attention cycle, it is expected that the media and the public’s attention will shift to other political issues, thus blunting the momentum of any public mobilization.

Figure 6.3 provides some support of the latter; the media lost interest in the HST following its introduction. On the other hand, the polling data cited in Figure 6.4 seem to suggest that the level of public opposition remained consistently high, even after the policy was implemented. What this polling data fails to capture, however, is the relative value that the public placed on the issue. Put differently, we do not know how intensely opposed the public were to the issue. The interview data and other qualitative evidence above reveals an absence of public mobilization.

Don Drummond articulated a very different view of the nature of popular opposition, stressing the importance of political institutions in explaining the fate of the reform. For Drummond, a likely reason why Ontario still has the HST is simply because its residents were not given the chance to directly vote it out:

> We presumed that HST was accepted in Ontario, but you don’t know. There was no referendum, there was no vote on it. Yes, the government that brought it in did get re-elected but there was a whole bunch of other factors. Keep in mind that not too long before that election, the presumption was the polls did indicate that the Liberals weren’t going to get re-elected. It wouldn’t shock me that if we had an apples-to-apples referendum in Ontario, I wouldn’t be shocked if the result was fairly similar to that of British Columbia.²⁷⁴

This seems to lend support empirical support for Hb7: jurisdictions with less vehicles for democratic participation should enjoy greater success in institutionalizing a consumption tax reform than jurisdictions with more open democratic institutions. In the Ontario case, HST opponent did not have any institutionalized mechanism to rally around, reducing both the political incentive and opportunity to mobilize against reform. Moreover, Hb8 expects there to be a correlation between levels of media attention to a tax reform and the design of electoral institutions. Figure 4.3 provides some empirical evidence for this hypothesis. Outside of elections and by-elections, the province of Ontario provides limited opportunities for direct democratic participation. The case in Ontario was also marked by declining media attention

²⁷⁴ Interview Drummond.
to the issue of HST following policy implementation, suggesting a plausible link between the two.

On the other hand, if Drummond’s explanation is right and Ontarians were simply looking for an outlet to channel its political anger then we should have seen indicators of such opposition elsewhere. There is reasonable evidence to reject this theory of the case. Between the fall of 2009 and the spring of 2010, a series of by-elections were triggered across the province with the departures of several prominent Liberal cabinet ministers. Both the PCs and NDP saw these as opportunities to dislodge the government's HST. There was a deliberate effort by the parties and the local candidates to turn the by-elections into referenda on the government's HST decision. In the first by-election, in the Toronto riding of St. Paul's, NDP leader Andrea Horwath campaigned for her candidate, portraying the proposed HST as a shift of taxes from corporations onto voters (Benzie 2009e). The Liberal candidate and later cabinet minister, Eric Hoskins, easily fought off the challenge, winning the Liberal stronghold by a healthy 18 point margin (Ferguson 2009). Over 2010, the opposition parties continued to use this anti-HST playbook across three more by-elections (Toronto Centre, Ottawa West-Nepean, and Leeds-Grenville). Ultimately, though, the opposition parties’ laser focus on the HST did “not appear to have a lot of traction with voters.” None of the seats changed hands in the legislature. The Liberals held onto three urban seats, while the PCs retained one of their rural seats (Benzie 2010a). The notion, then, that the public was completely consumed with opposition to the HST does not bear out empirically.

The next chapter discusses the ways in which the design of political institutions influenced the behaviour of policy opponents in BC. Although it is difficult to address Drummond’s argument since it is a counter-factual, the BC case study offers a quasi-natural experiment. In the BC case, the intensity of the public’s reaction in Ontario was qualitatively different than in BC. How political institutions interacted and helped cultivate public anger in BC is explored in the next chapter.

**Bringing it All Together**

This section summarizes some of the main findings as they relate to the theoretical framework proposed in Chapter 3. First, the government took creative and proactive steps to *prepare* the public and civil society for the HST announcement. Aided by the work of the
tax policy community, the intellectual justification for the tax had been made clear ahead of the announcement. Although most Ontarians were likely not aware—and probably not reading the op-ed pages of the Toronto Star—this process of softening up the system for reform (Kingdon 1995) influenced how the media covered the story. In doing so, the government was able to shape the reaction of the public to the reform. When the government announced the policy reform in the budget, the announcement did not catch any serious political observer by surprise. The premier’s early musings about the need to consider the HST was successful in mobilizing the policy's most ardent supporters, most notably the Chamber of Commerce. By the time the reform was included in the budget, among the media and the attentive public, there was limited uncertainty about why the tax was being pursued. Although the public remained generally opposed through much of the policy’s development, the opposition seems to have been marked by low to moderate intensity. A lack of public mobilization in the province—as measured by the number of public protests, limited petitions and by-election results—lend credibility to this characterization.

Second, the chapter finds the government’s full implementation of the tax reform package profoundly shaped the political options available to the opposition. The opposition parties used several strategies to prevent the adoption of the policy, yet once it was enacted, their behaviour dramatically shifted, reflecting the influence of policy feedback effects. Following implementation, rather than challenge the underlying policy idea, the opposition began criticizing the settings of the policy instrument. In doing so, the opposition effectively validated or legitimized the government's decision to enact the HST. Understanding the behaviour of the opposition is best explained as the result of various self-reinforcing feedback efforts (Jacobs and Weaver 2015). As time went on and the new sales tax system had been fully implemented, the costs of switching back to the older system were significantly increased. Consistent with the theory, stakeholders in Ontario adapted to the new system, including the benefits afforded by the new system. For business owners in Ontario, the new system provided direct and indirect benefits. The VAT system provided ITCs for businesses in the province, greatly reducing their tax incidence and freeing up capital for other economically productive purposes. Second, the process of sales tax collection had become streamlined through the CRA, meaning Ontario businesses now only had to fill out one set of forms and deal with one government agency. This greatly reduced
the administrative costs associated with tax compliance. Third, with the broader tax policy changes—specifically, corporate/small business tax relief and tax credits—businesses were afforded new policy benefits, providing clear economic incentives to defend the new system. If the opposition parties promised to go back to the older system, they risked facing a mobilized business community (large and small) which had adapted to the distribution of concentrated and/or diffuse benefits. As a result, the incentive to oppose the HST for opposition parties was significantly reduced; the implementation of the policy had produced self-reinforcing (Jacobs and Weaver 2015) resource feedback effects for key constituencies.

Fourth, the government was mindful about the bounded nature of voter rationality, even if implicitly. While officials did not use the terminology of behavioural economists, there was an acute awareness of how loss aversion and negativity bias would affect citizens’ (and even businesses’) interpretation of their own material interests. Officials in the Ministry of Finance and in the Premier’s Office helped design policy features and communications that minimized the salience of the costs of the tax reform, while attempting to make the benefits of the reform more salient and visible. Doing this in the case of HST proved difficult, however. Rather than simply trying to frame the HST as a win-win for consumers and businesses, the government acknowledged the impacts and offset them through tax relief and consumer rebate cheques. These attributes of the policy design helped significantly curb the intensity of voters’ aversion to the HST. Features such as permanent tax relief for individuals were policy benefits that were delivered on a recurring (annual) basis, while the consumer rebate cheques delivered benefits at a time when public opposition was at its highest. A key insight here is that policy designs do not need to provide voters with compensation on a long-term basis. Just as there is a window of opportunity for issues to get on the agenda, there is a narrowing window of opportunity for tax reform reversal. Policy proponents need to ensure that the benefits of a reform were being delivered and communicated for a limited time period. For the HST to stick in Ontario, the government had to get it fully implemented. Once the self-enforcing policy feedbacks were fully in effect and the public’s attention began shifting to other salient issues, the government did not need to worry about a tax revolt. To put it crudely, the cheques were temporary bridging mechanisms that helped the government keep the public off the Queen’s Park lawn when it mattered most.
Designing the policy instrument was obviously one step but, as the case study demonstrates, the public and other stakeholders needed to be made aware of how these changes were affecting them. That is, feedback effects can be important but only if stakeholders with imperfect information are aware of them. Beliefs about the sales tax, particularly among organized interests, were influenced by the government's communications strategy. The challenge was to demonstrate how the tax reform would make stakeholders and the public better off. To this end, the government needed to be able to communicate the effects of the policy design. In the case of Ontario, the appointment of John Wilkinson as revenue minister was crucial in this respect. It is here where the government stumbled but ultimately recovered. The lesson is clear: having a good policy design is not sufficient for tempering opposition. The average voter and business does not read policy documents or relevant legislation; political entrepreneurs can help fill the information gap. This suggests the need to theorize more carefully about interpretive effects.

**Concluding Thoughts**

In addition to the implications for policy feedback effects, the case of the Ontario HST illustrates a number of interesting features that have important theoretical and/or empirical implications. First, the case revealed more evidence of learning by the government but a different phase of policymaking than agenda setting (see Chapter 4). Mistakes were made throughout the government's efforts to sell the HST to the public. At several key junctures, though, key reversals were made around communications and policy design decisions, enabling the government to correct course. Bringing John Wilkinson on board, for example, was a key turning point in the government's experience with HST. The agenda-setting literature stresses the skillfulness of policy entrepreneurs (Kingdon 1995), coupling problems and solutions and getting things on the government agenda. This case suggests a need to think about the role of actors who help frame and sell the merits of a policy reform following its enactment (Patashnik 2008).

Third, once again, the Ontario government also benefitted from a highly competent bureaucratic organization, providing it with a high level of expertise to navigate an immensely difficult and complex policy area. Rather than latching onto a policy solution, the government was able to think carefully and comprehensively about the implications of the
reform for stakeholders, and by implication, for the government's political future. These strategic decisions made it much more difficult for policy opponents to criticize the tax reform. This is part of the broader argument this dissertation makes. Although the dissertation has separated elite decision making and the reception of the decision, these are related. Several key choices were made in the decision making process that had important implications for how the reform was ultimately received. This theme is revisited in the concluding chapter.

Finally, based on the empirical findings, a final theoretical implication is the value in nuancing our understanding of public opposition to policy change. In many ways, our understanding of public opinion is simplified as an either an instance of “opposition” or “support.” That is, we tend to conceptualize public support in binary terms. In this case, the Ontario government never cultivated strong public support for HST, and yet, it was relatively successful in facilitating public acquiescence. Typically, political scientists stress how, under conditions of quiet politics, or low salience, governments can get away with enacting unpopular policies (Culpepper 2010). We require a clearer understanding of the role of intensity in policy preferences and political behaviour, including better ways to empirically measure such phenomena.
CHAPTER 7 – THE POLITICAL RECEPTION TO TAX REFORM IN BRITISH COLUMBIA

Introduction

In August 2011, voters in BC made political history, becoming the first jurisdiction in the Commonwealth to overturn a tax via referendum. In the mail-in vote, BC residents were tasked with deciding whether the province should eliminate the HST, the controversial sales tax reform introduced by the Campbell government in July 2009. The outcome was closer than most expected but 55.4% of BC residents who participated in the referendum voted to repeal the HST, effectively bringing back the older PST system.

The HST referendum was not a case of a government looking to solicit policy advice from the electorate. Rather, a grassroots campaign to overturn the tax was instrumental in triggering the historic vote. When the BC government showed initial no signs of backing down from the tax, opponents organized under the banner of Fight HST. Flexing its political muscle, the group took advantage of provincial legislation that allows voters to propose or repeal legislation. Using provisions of the Recall and Initiative Act (discussed below), in April 2010, Fight HST launched a highly successful voter initiative campaign. By the summer, the group’s voter initiative secured enough support across the province to force the HST back to the provincial legislature. Facing a stunning public rebuke of its signature economic policy, the government agreed to let voters determine the fate of HST reform in a 2011 referendum.

The capacity of voters to initiate legislation is a distinct and consequential feature of BC politics. The Recall and Initiative Act sets out strict rules for how citizens can initiate legislative action. First, the act requires organizers to collect signatures from at least 10 percent of the registered voters in every provincial riding over a 90-day period. If this requirement is met, the petition is then sent to a special legislative committee, which decides whether to refer the legislation to a vote in the legislature, or whether to put it to province-wide referendum. Since

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275 There is provincial legislation in the Alberta requiring proposed constitutional amendments to be put before voters. Despite some previous efforts by backbench MLAs, Alberta, does not have legislation that enables citizens to initiate formal petitions.

276 According to the act, if the special committee chooses the referendum option, there are strict majority requirements for the proposed bill to succeed. Not only does the bill require backing from 50%+1, it also requires support in each of the at least two thirds of the ridings (For excellent discussion, see McCarthur, 2012).
first enacted in 1993, no initiative in the province had ever come close to meeting the signature threshold (Tellier 2015), making the success of the anti-HST campaign even more remarkable.

Consistent with an institutional account of policymaking, then, it seems BC’s “rules of the game” (Immergut 1990; Tsebelis 2000) provided HST opponents with an opportunity to mobilize against the tax. On the surface, this institutional account provides a parsimonious explanation for what transpired in the BC case. Unlike in Ontario, HST opponents had access to a distinct set of political tools, effectively counterbalancing the government's monopoly on policymaking authority. What is less clear from the pure institutional account, however, is why HST opponents were able to overcome the high threshold mandated by the Recall and Initiative Act. As examined below, while effective organization and strategic decision making played a role in its success, the sheer level of public anger across the province should not be discounted. An analysis of the factors that shaped the public’s initial response to the HST is required for a fuller understanding of the BC case. Rather than simply affording an opportunity for policy opponents, this chapter argues two things. First, the public’s reaction to the reform can be traced back to the design of the HST reform, including the manner in which it was introduced. Second, the institutional context influenced the political reception of HST but in ways that are more nuanced than standard institutional accounts stress. Instead of just providing a strategic opening for opponents, the institutional context was important helping to retain the broader public’s focus on the unpopular effects of the policy.

The story of the HST in BC offers other important lessons for scholars, illustrating the political challenges of implementing a complex tax policy reform. As Chapter 6 demonstrated, it is possible to mitigate the intensity of public opposition to a controversial tax reform. The BC HST case offers an important lesson: how initial decisions made by elected officials about policy design can aggravate public opposition to a policy reform. These political developments in BC are even more puzzling when considering the Campbell government’s record in office. Throughout its two previous mandates, the government handled a number of controversial policy changes with impressive political dexterity. In 2007, for example, the Campbell government enacted the BC carbon tax. The policymaking process was characterized by wide consultation with citizens, businesses and experts. In the end, the government settled on the carbon tax, the first of its kind in North America (Harrison 2012; Peet and Harrison 2012; Rabe and Borick
The government took proactive steps to make the policy change more politically palatable, requiring that the tax was revenue-neutral. The inclusion of various forms of personal and corporate income tax relief helped blunt some of the public opposition to the carbon tax. During the implementation of the carbon tax, the government also illustrated a willingness to learn and re-calibrate. When concerns were raised about the disproportionate impact on rural residents, the government adjusted the policy, introducing the Northern and Rural Homeowners Benefit (Tellier 2016). Although the carbon tax was never fully embraced by the electorate, the government's signature environment policy did not upend its quest for a third majority government (Harrison 2012). In fact, the BC carbon tax was later hailed by experts as a model for how governments ought to introduce, design and implement a carbon pricing scheme (Porter 2016; Beaty, Lipsey, and Elgie 2014). It is striking, then, that a government lauded for its skilful handling of tax policy was the same government that oversaw the HST. As one journalist put it, in his 30 years of covering provincial politics, the HST was “the worst handled public policy initiative” he had ever seen. Understanding the sources of political failure in the case of the HST is the subject of this empirical chapter.

In Chapter 6, the dissertation explained why the Ontario government was successful in containing popular opposition to the its HST. Why, then, did the HST become such a lightning-rod for voter discontent in BC? Contrary to the Ontario experience, once the HST was legislated in BC, public attention and opposition to the tax intensified. This chapter seeks to explain this experience. The analysis suggests that various contextual factors influenced the political reception of HST in BC but the chapter attributes the outcome to three primary factors. First, the haphazard decision making process, as described in Chapter 5, had lasting political consequences for the public reception of the reform. Several strategic missteps—particularly in the design of the policy instrument—provided incentives for HST opponents to mobilize against the tax. Second, as other analysts of the case have noted (Abbott 2015; Robertson 2012), the government's communication strategy, or lack thereof, greatly hampered its ability to persuade stakeholders that policy change was in their material interests. These two pieces of the case are

277 Interview, Don Drummond, October 2015.
278 Confidential Interview.
279 Interview, Vaughn Palmer, July 2015.
280 The chief empirical purpose of this Chapter is to describe and explain how the politics of the BC HST unfolded. Critically, the focus of the analysis is not on the referendum result, nor on the referendum campaign. Instead, the aim is to better explain the events that led up to referendum.
connected to policy design. The way in which the Campbell government designed HST made the task of convincing the public that it would benefit from the tax reform much more difficult. Finally, the specific institutional context in BC exacerbated several of the government's early missteps, helping sustain the public’s attention to the negative effects of the HST, thus reinforcing mass opposition to the tax. Conceptually, the chapter draws on ideas from the policy feedback literature (Pierson 1993; Mettler and SoRelle 2014; Jacobs and Weaver 2015) to better understand the dynamics of the case study. In line with theoretical claims outlined in Chapter 3, the analysis attributes the ultimate defeat of the reform to a failure of policy design. The government did not create sufficient incentive effects. Facing the prospect of material losses, the new policy increased the political incentives for voters and other key groups to mobilize against the tax.

The chapter draws on several materials, including research interviews with key policy participants, primary documents, the secondary literature, and media analysis. The chapter is comprised of five main sections. In the second section, the chapter describes the events leading up to the announcement of the policy, including the role of the 2009 provincial election campaign. In section three, the chapter describes the specific policy design features of the HST, describing the failure of the policy to elicit support from key groups (a key source of success in the Ontario case). In section four, the chapter turns to the political response to the HST, examining the positions of key interests and the public. In section five, the chapter describes the efforts by the Fight HST movement to reverse the tax through the Recall and Initiative Act as well as how the BC government responded to anti-tax sentiment. Section six draws on the analytical framework in Chapter 3 to provide examination of the empirical findings. In the concluding section, the chapter offers some concluding thoughts on the case.

The Harmonized Sales Tax in British Columbia

As examined in Chapter 5, initial discussion of sales tax reform took place in the weeks leading up to the 2009 provincial election campaign in BC. The Ontario budget included a plan to harmonize the province’s sales tax with the federal Goods and Services tax (GST). News of Ontario’s policy shift quickly made its way westward, prompting several organized interests to inquire about its implications for fiscal policy in BC. During the campaign, the Greater Vancouver Home Builders Association asked the two major parties—the BC Liberals and the
New Democratic Party (NDP)—about its positions on sales tax harmonization. The NDP responded saying it had no plans to harmonize the sales taxes. Similarly, the BC Liberals claimed the move “would reduce the provincial government's ability to unilaterally adjust sales tax rates and make it harder for future provincial governments to lower or raise sales tax rates, which reduces flexibility” (Simpson 2009). Previous governments in Victoria had long cited this loss of fiscal autonomy as a key impediment to reform. A second organization, the BC Restaurant Food and Services Association, circulated a similar questionnaire, also inquiring about sales tax harmonization and received a similar response from the incumbents (CBC News 2010b).

Since neither political party seemed particularly inspired by the HST move in Ontario, sales tax reform received limited attention in the 2009 provincial campaign. This is not to suggest that economic or fiscal issues were downplayed. The downstream effects of the Great Recession as well as the Liberals’ pre-election budget helped elevate the importance of pocketbook issues. The focus on macroeconomic management worked to the advantage of the government. Voters perceived the BC Liberals to be most competent party on this file. As reported across many public opinion surveys, the governing Liberals enjoyed a 30- to 34-point advantage over the NDP on this issue (Harrison 2012, 399). With the ballot question working in the government's favour, it came as little surprise when the Campbell Liberals were re-elected with a majority on election night.

The Announcement

On July 23, 2009, Premier Campbell and his finance minister, Colin Hansen, called a press conference to announce BC would be following Ontario’s lead on HST. Initially, the premier justified the policy shift on competitiveness grounds, arguing the province needed to close the

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281 The BC Liberals' full response to this questionnaire was this: “While some British Columbians have suggested that a harmonized PST and GST might be beneficial, others have pointed out that it would extend the PST tax base to a broader range of goods and services that are presently exempt from provincial sales tax. Such items that are currently PST exempt include energy efficient appliances, membership fees for clubs and gyms, newspapers and magazines, taxi fares, restaurant food, and the professional services of architects and accountants. This is a major concern. The BC Liberals are also mindful that a harmonized GST would reduce the provincial government’s ability to unilaterally adjust sales tax rates. The harmonized GST would make it harder for future provincial governments to lower or raise sales tax rates, which reduces flexibility. In short, a harmonized GST is not something that is contemplated in the BC Liberal platform, but we are committed to improving the tax system” (Quoted in Brown 2012, 521).

282 Confidential Interview.
competitive gap created by Ontario’s move. In his remarks, Campbell stressed the HST was “the single-biggest thing we can do to improve BC's economy” (CBC News 2009b). It had only been 10 weeks since the election. The surprise HST announcement sent shockwaves through the political system. As one policy expert put it: “I think everyone in BC was just completely caught off-guard. This wasn’t an agenda item that the government telegraphed. It was just kind of sprung on everyone.”

Though the BC Liberals had rejected sales tax reform at several points in the past, they claimed that the Ontario move altered the policy analysis in a couple of different ways. First, the agreement between Ottawa and Ontario revealed that the federal government was willing to relax requirements, giving provincial governments greater flexibility in designing the tax. Rather than having an identical tax base as the GST, the agreement with Ontario allowed deviations from the GST base, so long as these did not “exceed 5 percent of the estimated GST base…” (Legislative Assembly of British Columbia 2009, 39). Second, akin to what policy scholars have described as a competition-induced diffusion (Dobbin, Simmons, and Garrett 2007), the Ontario decision shifted the macro-economic incentives of the BC government to pursue a similar course of action. As one journalist put it, for BC, the Ontario move “opened up a competitive gap that would have threatened to drain corporate investment east” (Brethour 2009). As Chapter 5 illustrated, however, the latter seemed to be an ex post justification for the policy shift.

When the policy shift was announced the government sought to stress the general policy benefits of a VAT. As discussed in Chapter 2, many of these benefits had been identified in existing economic research (e.g., Smart 2007). First, harmonization would help the province attract new investment. By not subjecting businesses to taxes on capital inputs, it was expected the HST would reduce the province’s Marginal Effective Tax Rate (METR) on new investment from 26.4 to 15.7%. This would leave BC with one of the most competitive tax regimes in country. According to the estimates provided by the BC government, BC businesses could expect to save $150 million each year. Finally, by eliminating the provincial sales tax the government could significantly reduce the costs of sales tax administration. All sales tax collection in the province would be uploaded to CRA. The Ministry of Finance estimated that such a move would save the

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283 Interview, Charles Lammam, Vancouver BC.
provincial treasury about $30 million annually (Government of British Columbia, 2009). Thus, there was a strong policy case to be made for the sales tax harmonization.

The disadvantages of the RST model have long been known to economic experts in BC. The chief problem is that sales taxes on capital and other business inputs raise the cost for businesses, discouraging investment in “machinery, equipment, technology, vehicles, construction materials and other components of the capital stock”, and thus hurting productivity and dampening wages (British Columbia Business Council 2009, 2). Most but not all the Business Council of British Columbia’s (BCBC) membership284 was strongly in favour of sales tax reform prior to the government’s announcement.285 Prior to enactment, the province’s METR stood at 31.6% in 2007, with the provincial PST contributing to one third of the METR. With Canada’s third highest METR, a VAT was seen as sure way to attract more capital into the province. Eliminating the PST and replacing it with the HST was expected to yield a 15.7% decrease in the province's METR on new investment (see Figure 7.1) (Ministry of Finance 2009d). From the standpoint of various business interests across the province, there were clear policy benefits to be realized by the policy shift. Yet the business community as a whole was not consulted nor deployed to sing the praises of HST reform.

284 BCBC is similar to the Ontario Chamber of Commerce but rather than representing small businesses or a specific industry they function more as a coordinating horizontal business association in the province.
285 Interview, Finlayson.
Despite these policy benefits, the government spent insufficient time in the first few weeks explaining how BC residents would be affected by the change. The effects of the proposed HST were considerable. Services that had been previously exempt, including restaurant meals, real estate fees, haircuts, gym memberships and private automobile sales would now be subject to the tax. In a major departure from the Ontario case, it took the government months to release a full list of exemptions.286 The effects of these tax policy changes, or the impacts of these policy feedbacks, ended up being consequential for how the public responded to the tax.

Chapter 3 theorized that when governments fail to signal to stakeholders that consumption tax reform is on the horizon, they are more likely to face pushback from stakeholders (Hb9). One of the most striking things about the BC government’s rollout of the HST was the absence of stakeholder support. As the previous Chapter demonstrated, in preparation for a major policy change, governments will commonly try to shore up support in civil society for a government initiative. In announcing a policy, governments might highlight expert endorsements or unveil a policy proposal at the site of a business that stands to benefit from the policy move. This was,

286 Confidential Interview.
however, not the case with the HST in BC. As one of the leading journalists in the province noted:

The HST started with this disastrous launch. The government communications people were given 48 hours’ notice that it was coming. They had no time to get ready, they had no validators [sic]. When the government makes big announcements, especially on something as big as tax policy change and are arguing it is important for the economy, you should have some validators [sic] there with you on the stage. On that day, there were none ... 

Stakeholders in the business community conveyed a similar sentiment, stressing the lack of warning or consultation by the government. As Robertson (2012, 115) suggests: “It is not clear whether [business organizations] were even aware in advance of the announcement that the province was finally going to follow [their budgetary] recommendations.” This was confirmed by Jock Finlayson of the BCBC. Many leaders in the business community, including BCBC, had advocated in favour of sales tax reform at various points in time but they too were left completely in the dark. Some business groups received calls from the Premier’s Office just hours before the press conference and were told: “The government is going to be doing this wonderful thing today and we’re positive the business community will love it.” Yet this departed from standard practice that BCBC and other groups were used to. According to Finlayson, the Campbell government had “failed to engage with [the BCBC] or really anybody else in the business community...” When other policy changes of this magnitude had been proposed in the province, such as North American Free Trade Agreement (NAFTA), groups including the BCBC’s advice had been solicited by the government well ahead of major policy shift. The puzzling thing, of course, is that there had been “widespread support for sales tax reform in the business policy” and broader tax policy community.

Dissatisfaction with the existing PST model had been widespread among various business groups. Unlike supply-side economics, or other fiscal tax policy ideas, there had been

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288 Ibid.
289 Interview, Palmer.
290 Interview, Gregory Thomas, Vancouver BC, July 2015.
widespread consensus about the desirability of a VAT over retail sales tax. Businesses in the province saw the HST as “more growth-friendly since a VAT taxes consumption instead of income and investments.” The BCBC and other business groups could have provided important advice to the government about how to broaden the appeal of the reform. The lack of consultation was confirmed by other policy participants. One political staffer in Ottawa said the following:

The contrast of dealing with the BC government [as opposed to Ontario] was just stark. I remember asking questions like ‘what’s your plan’ and they said something like, ‘we’ll announce it, and then we’ll start rounding up some supporters. Businesses are supportive of [HST], so we’ll get them on side’. In my view, they really didn’t have a plan. They simply were not ready with a preconditioning plan and stakeholders lined up.

By all accounts, the rollout of the HST announcement had been poorly handled. In fact, every interviewee identified—often unprompted—the differences across the Ontario and BC announcements of their respective HSTs. Here is how one individual in BC described the contrast:

The Ontario government was so much more deliberate in communicating the fact that they were bringing in sales tax reform First, they started off by saying, ‘we’re going to look at doing this.’ Then they also assembled a bunch of business groups that also thought it was a good idea. When they announced what they were going to do HST the public reaction wasn’t like ‘where the hell did this come from’ and the news story wasn’t, ‘Jesus, we didn’t know they were going to do this’. They started a debate around it basically saying: ‘if we’re going to do this, this is how we should do it’ […] A lot of the initial coverage was there’s this kind of relief and there’s that kind of relief” and they’ve done this and they’ve done that. The news coverage right from the beginning was about the positive steps the government had taken to mute the impact.

Similar to the decision making process, the HST announcement in BC had been done hastily. Vaughn Palmer recalled the following about the media’s reaction to the announcement:

The media basically got a notice saying this afternoon the Premier and the Finance Minister will be making a statement in Vancouver that is of enormous importance for the BC economy. This was weeks after the election. Honest to god, we had no idea what was coming, there were no hints at all. And then of course, we get this

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293 Interview, Charles Lammam, Vancouver BC, February 2015.
294 Confidential Interview.
295 Confidential Interview.
announcement, and it’s even not that they’re thinking of doing sales tax reform, but that they’re just doing it, just ploughing ahead on it ...  

Part III: The Design of the Reform

The design of the HST reform and the changes it proposed to the PST contributed to the negative reception across the province. Part of the challenge resulted from the fact that the BC government was dealing with a different status quo. Successive provincial governments in BC had exempted a larger proportion of the sales tax base than many other provinces. In the 1980s, the Social Credit government, for instance, had brought in several exemptions for small businesses, eliminating the PST on hard hats, safety boots, smoke detectors and items used in farm production. A subsequent administration, led by Bill Vander Zalm, made the significant decision to exempt restaurant meals. In the 1990s, the NDP government had its own political or policy rationales for removing the PST on alternative fuel vehicles, jet aircraft, and goods used by the aquaculture industry (Palmer 2009a). A governing tradition had emerged whereby governments sought to curry political favour with various industries or groups by enacting sales tax exemptions. These earlier policy decisions would come to hold important consequences for receptivity toward HST reform. Consistent with a logic of policy feedback effects (Pierson 1993), businesses and individuals had adapted to the distribution of policy benefits. Consumers and some industries in the province had become accustomed to the largely invisible, and yet material, policy benefits associated with exemptions.

Anticipating some of the pushback from individuals and businesses, the government decided to include some three major offsetting measures within HST reform. First, the government announced a BC HST tax credit for low income residents, a measure that augmented the existing GST tax credit (Ministry of Finance 2009b). The government was attempting to deal with objections that expanding the sales tax base would have a regressive impact on the province's poor. The government, unlike in Ontario, did not include any offsetting personal income tax cuts or other forms of tax relief. According to Jim Stanford, the result was that the “the after-HST distributonal impacts were much more equal in Ontario than in BC.” Second, the reform included a series of point-of-sale rebates on all fuel purchases and a partial rebate for the private

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296 Interview, Palmer
297 Interview, Don Cayo, July 2015.
298 Interview, Jim Stanford, January 2016.
portion of new house purchases (Legislative Assembly of British Columbia 2009). Residents had recently experienced a tax increase on motor fuels, an intended effect of the BC carbon tax. The motor fuel exemption, then, seemed motivated by a concern about tax saturation. One official described the decision making process around the policy design:

We recognized that there’d be an issue with restaurants and various things, but you know, you can't really enter into a tax like the HST and then immediately undermine the whole basis for the tax by exempting everything. But what we did do is, we worked within the limitations that we had, which was 5% of the tax base, and tried to align those sorts of exemptions with, you know, what people would – a lot of people would notice, you know, like the children’s clothing and a few things like that. But also, we went a little bit further and we were able to provide our own point of sale rebate, over and above what was allowed under the 5%. For example, residential heat and electricity – it’s taxable under the HST, but because there are so few service providers for residential energy, we were able to work with those entities and provide an immediate point of sale rebate.

The cost of the residential energy exemption was slated to cost the provincial treasury about $175 million in the first year of the HST and an additional $220 million the year after. To offset the impact of the change on municipalities and parts of the third sector, the HST would also provide a rebate for municipalities and not-for-profits (Ministry of Finance 2009d). Overall, the Ministry of Finance estimated that 83% of goods and services consumed within the province would not be affected by the change.

With the exemption of the expanded tax credit, though, the government did not offset the HST with tax cuts for businesses or individuals. Instead, Campbell and the finance minister decided that the entire $1.6 billion federal transition payment would be used to pay down the provincial deficit. In doing so, the government failed to draw a key lesson from Ontario: the need to embed HST within a broader tax reform package. The expansion of the GST tax credit and point-of-sale rebates offered some relief for taxpayers but there was a notable absence of offsetting measures for most groups. Chapter 3 theorized the importance of these mechanisms, arguing the provision of highly visible offsetting policy benefits is important in helping a government institutionalize a consumption tax reform (Hb11). The HST policy design in BC, however, failed to provide consumers (or disproportionately affected

299 Confidential Interview.
300 Confidential Interview.
301 Confidential Interview
businesses) with highly visible benefits. While the sales tax credit for low-income families was increased, there was a key political problem with this strategy. In providing a means-tested policy benefit, the government failed to offer a highly visible benefit to middle- or high-income voters. On the one hand, the government could make the plausible argument that these constituencies would directly or indirectly benefit from the switch to HST. On the other hand, as set out in Chapter 3, voters are disproportionately sensitive to policy changes that inflict highly visible losses. Moreover, given the relationship between income and voter turnout (Campbell 2002), the Campbell government’s decision to make these policy benefits means-tested was politically fraught. As identified by several interviewees, the failure to solicit public support through policy design was a major strategic misstep by the government. As one observer commented:

> What was really important was how the transition payment was used. BC basically had said it was going to use it to pay [deficit]. Ontario sent the cheque to its people. I don’t know if it was exactly the $4 billion that they got or whatever the total was, but they did provide Ontarian’s with a cheque. They basically funnelled the federal government money to the people. I think this made them more willing to support the tax.  

Based on calculations done in the Ministry of Finance, the government argued that several sectors across the provincial economy would be much better off under the HST system. The HST would be expected to save $2 billion in costs for BC businesses, saving the construction, ($880 million), transportation ($210 million), manufacturing ($140 million), forestry ($140 million) and mining, oil and gas ($80 million) (Ministry of Finance 2009b). While many sectors of the economy had clear economic incentives to support the move, their support was much less visible than that of opponents. The government, however, had failed to do anything to appeal to negatively affected sectors—such as tourism, real estate, restaurant and home construction—which were opposed to the move (Abbott 2015). Unlike in Ontario, there were also no offsetting corporate income or small business tax cuts.

Using an identical sales tax base as the GST meant the HST would impose new costs onto many consumers and businesses. The existing sales tax base was a little bit narrower in BC than in other provinces. There were more things exempted from the tax base, with restaurant meals being a key

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302 Interview, Charles Lamman, Vancouver BC, February 2015.
one. A central challenge with the HST is that the policy change affected many businesses which never had to charge PST on their services. These businesses now had to impose an additional 7% cost via the HST, explaining the incentive of these business interests to mobilize against the reform. More so than any other effect of the HST, complaints by the restaurant owners and the industry association were a major headache for the government. By contrast, restaurant meals in Ontario never enjoyed an exemption, allowing the government to retain its taxable status with the new HST in place with no public pushback. This reveals an important difference across the two cases. An initial policy decision made at T₁ can have policy feedback effects at T₂. If the Social Credit government had never introduced the initial restaurant meal exemption in the 1980s, it is certainly plausible that the nature of the opposition to the HST in 2010 would have been much different.

In Chapter 3, Hb10 predicted a strong relationship between governments that embed consumption tax reforms within broader tax relief packages and the relative success of institutionalizing that reform. The narrow scope of the HST policy design in BC and the eventual defeat of the HST provide strong empirical support for this part of the theory.

Part IV: The Response to the HST

Much of the post-HST announcement fallout centered on questions about processes of decision making. The government was being accused of misleading voters about the HST and the size of the deficit during the campaign. In the months that followed, voters and the opposition wanted to know “what the government knew about the deficit”, the HST “and when they knew about it.” A poll conducted after a budget update in September revealed the extent of the political damage of the HST announcement. According to the Angus Reid poll, 3 of 4 respondents believed the “Liberals intentionally misled voters about the province's worsening financial situation during the spring 2009 election.” (Palmer 2009d). Over the next two years, the fallout over the HST decision came to be the defining issue of provincial politics.

The premier's decision to spring the HST on an unsuspecting electorate was also derided as a political misstep by many of the government's allies. Even some former high-profile cabinet

303 Interview, Michael Smart, Toronto ON January 2015.
304 Interview, Finlayson.
305 Interview, Palmer.
ministers openly criticized the move. Carole Taylor, who had previously served as Campbell's finance minister raised objections in the media. During her tenure at finance, Taylor had been lobbied to bring in a VAT but on several occasions, the move was rejected, defined as too “punishing on consumers” (Palmer 2009c).

Various organized interests lined up to criticize the government's move. Restaurant owners were the first out of the gate, expressing outrage to the media about the move. Restaurants in the province had only been required to charge PST on alcohol, effectively leaving meals and other beverages exempt. Under the new system, restaurants would now be required to charge a 12% rate on all food and beverages, increasing the price of most products by 8% (F. Anderson 2009).306 One representative of the industry suggested that the HST would cost the restaurant owners about $500 million in the first year of HST alone (Brethour 2009). Moreover, as described above, the government had assured the industry that it had no plans to move on an HST. The Canadian Restaurant and Foodservices Association recognized the broad benefits of HST reform, especially for some capital-intensive industries but claimed that the reform would be “devastating for British Columbia's labour-intensive food service industry”(Legislative Assembly of British Columbia 2009, 38). Like many negatively affected sectors, however, the industry was simply looking for an exemption.307

Representatives from the real estate industry also raised immediate objections to the HST. In an op-ed written in the Vancouver Sun, one of the industry leaders warned about the impact. Although the government had committed to offering a partial rebate for the industry (see below), the move was criticized because “the HST [would] apply to services that were previously exempt ... such as appraisals, home inspections, survey certificates and realtors fees.” To address these concerns, John Tillie, the industry head, called for exemptions of all the transactional costs associated with home purchases. He also urged the government to increase the rebate threshold

306 Other changes to goods included: residential fuels (electricity, natural gas) and heating, basic cable TV and residential phones, non-prescription medication, vitamins and dietary supplements, bicycles, school supplies (books would continue to be exempt), magazines and newspapers, work-related safety equipment, safety helmets, life jackets, first-aid kits, smoke detectors and fire extinguishers, energy conservation equipment (e.g., insulation, solar power equipment). Changes to services included: hair care, dry cleaning, household appliance repair services, maintenance, real estate fees, health club membership, movie and theatre tickets, funeral services, accounting and home care services, airline fares within Canada (F. Anderson 2009)

307 Confidential interview.
from $400,000 (Tillie 2009). Gregory Thomas, the BC director of the Canadian Taxpayers Federation, described the headache the government had created for itself:

You had all the restaurant industries and all the real estate industry, these are traditional supporters of government. They’re been completely blind-sided. In both these scenarios, those things were easily addressed ... You could have given a real estate industry some relief on the property transfer tax and you could have given the restaurant industry something. I mean, when it was introduced, every waiter and bartenders slapped the bill on the table and there’s a harmonized sales tax, your restaurant cheque was 5 percent higher or whatever. Not happy campers. And this is a large part of the service economy, it’s a lot of folks.308

On the other hand, there were some groups that applauded the move.309 A few days after the announcement in July, BCBC offered its full support, describing the move as: “... the most important provincial tax reform in a generation” (British Columbia Business Council 2009, 1). Even with some business support, this was not enough to drown out the popular opposition. As Carole James pointed out:

Even though initially you had lots of business groups coming forward and saying, ‘this makes sense, we think the HST is something to look at’. The anger from the public was just so strong and so clear. Everything from services, plumber, electrician, construction, hairdresser, all those little kinds of basic services. And then also getting rid of your exemption on things like children’s clothing and those kinds of things that previous governments over years had implemented as tax policy. So, it became pretty clear that there was going to be a tax revolt in British Columbia over the HST and sure enough, that’s what happened.310

The Reaction of the Opposition

The timing of the policy announcement, just two months after the last election, almost ensured some level of public pushback. Some voters felt that they had been misled or “hoodwinked” since there had been no mention of this in the election campaign. As Geneviève Tellier summarizes it, a lot of the anger had been “fuelled by the apparent lack of transparency”, the public believed they had been misled by the government (Tellier 2016, 9).

308 Interview, Gregory Thomas, Vancouver BC, July 2015.
309 Interview, Finlayson.
310 Interview, Carole James, March 2016.
In the weeks following the announcement, the Official Opposition was quick to pounce on the consumer impact of the HST. The NDP's Finance Critic penned a scathing op-ed in the *Vancouver Sun* criticizing the government on a couple of different grounds:

... the Campbell government is about to raise [residents'] taxes an estimated $4 billion over their term, without the mandate to do so and without even a semblance of consultation with business and ordinary taxpayers. That's wrong. And that's why we're calling on the government to take a second look and abandon its plan to raise consumer taxes by harmonizing our provincial sales tax with the federal GST (Ralston 2009).

For the NDP, the lack of consultation with the public was the central issue. According to its former leader Carole James: “To bring it in without any kind of discussion, really just amplified where the unfairness was in the tax.”

In discussions with the provincial media, the NDP was careful to highlight the negative consequences for utility bills and other goods and services. Recognizing the issue had traction with voters, the NDP seized the opportunity and began mounting an anti-HST campaign towards the end of the summer (Palmer 2009b). From the very beginning, the NDP, led by James, believed that its only chance of defeating the government on HST would be mobilize public opinion and discourage the government from tabling the legislation in the first place. For the Official Opposition, the belief was that if HST were enacted and implemented, it would be “very, very difficult” to get rid of it (Palmer 2009b). According to Hb1, opposition parties should invest more political resources into opposition tactics prior to the implementation of a tax reform and less investment after the policy is implemented. The NDP’s behaviour here is largely consistent with this. There was, however, was no genuine discussion in NDP circles about using the *Recall and Initiative Act*. According to James, the sole objective at that point was to “convince the government “against bringing in the tax.” The opposition was keenly interested in getting the government to reconsider the policy. As James recalled:

In the beginning, it was simply how much pressure can we put on government to undo their decision. That was basically the push was we need to get government to undo this decision. The public was angry, there had been no consultation, the government needed to reverse itself. And this had to get done before the agreement was signed.

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313 Interview, James.
The nature of the NDP’s opposition was interesting, however. Jim Stanford described the varying incentives underpinning the reaction of the NDP and the BC Labour movement to the HST:

Party politics were driving all of it in BC— and not policy. For various reasons, the labour movement in BC came out strongly against the HST version. Jim Sinclair [head of BC labour movement] came out very strongly against this. He and I had some dialogue on this; he was very strong on the distributional impact, saying that this was a gift for business. I didn’t fully accept that argument, but I’m also part of a labour movement, so I understand that there are a range of motives, not just policy motives, that govern our decisions and our actions. There’s no doubt in BC’s case: the stronger link between the labour movement and the NDP, and the anticipation of that time that they could really oust the Liberals in the next election. I mean everybody thought the NDP was going to win that next election. everybody thought the NDP was going to oust the Liberals and this would be a handy thing to hammer the Liberals with.314

Opposition to the tax was beginning to gain momentum with online petitions being collected and discussion of recall campaigns for Liberal MLAs. The NDP leader, Carole James, also begun to hold meetings with disgruntled stakeholders, while Minister Hansen, had agreed to sit down with the restaurant industry and come up with a solution to the issue (Matas 2009). By the fall, the government was the defensive and opponents had begun to flex their political muscle.

*The September 2009 Budget Update*

About six weeks after the initial HST announcement, the government outlined an update of the fiscal situation in the province. On September 1, 2009, the government revised its forecasts from the February budget. The finance minister projected a $2.8 billion deficit for the 2009/10 fiscal year, expecting this to decline to $1.7 billion in 2010/11 and $945 million in 2011/12 (Ministry of Finance 2009c). The budget update also was one of the first genuine efforts by the government—having been over 6 weeks since the initial announcement—to outline third party support for HST decision. The budget and accompanying communications included endorsements from the BCBC, economists, think tanks and some industry associations (Ministry of Finance 2009d). Yet the endorsements of the HST did little to temper public opposition (see public opinion polling data in the next section).

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314 Interview, Stanford.
The budget update and HST communications were subject to considerable criticism in the media and by stakeholders. Some analysts suggested the HST and budget update were “so badly communicated to British Columbians that [many residents] didn’t realize, that they were actually going to be further ahead if they kept the HST than if they got rid of it.”\textsuperscript{315} In fact, the BC Ministry of Finance attempted to model the impact of the HST but was forced to use aggregate data on average household spending patterns to discern the impact of HST. Based on the forecasts of finance (see Table 7.1), with the exception of low income families (under $30K), most income groups in the province would experience a net increase in total sales tax paid. What is also revealing is the convoluted manner in which the tax policy changes were described in the BC budget. While the Ontario budget included several clear illustrations of the expected tax impact, this was certainly not the case in BC. Much of the emphasis of the BC’s Budget update was put on third party endorsements rather than clearly explaining the distributive impacts of the policy change, including the policy benefits. The budget update included a section and table outlining the impact on individuals and families but only described the most basic effects of the tax changes (see appendix D).

Table 7.1: Impact of Harmonization on Individuals and Families Before Removal of PST

<table>
<thead>
<tr>
<th>Sales Tax Changes</th>
<th>Single Individual with $25K</th>
<th>Single Individual with $80K</th>
<th>Family of four with $30K</th>
<th>Family of four with $60K</th>
<th>Family of Four with $90K</th>
<th>Senior couple with $30K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provincial Sales Tax</td>
<td>(412)</td>
<td>(1039)</td>
<td>(740)</td>
<td>(983)</td>
<td>(1253)</td>
<td>(756)</td>
</tr>
<tr>
<td>Harmonized Sales Tax</td>
<td>581</td>
<td>1,466</td>
<td>950</td>
<td>1261</td>
<td>1607</td>
<td>1018</td>
</tr>
<tr>
<td>Change in payable taxes</td>
<td>169</td>
<td>427</td>
<td>210</td>
<td>278</td>
<td>354</td>
<td>262</td>
</tr>
</tbody>
</table>

Personal Tax Measures to Offset HST

| BC HST Credit                 | (84)                        | -                           | (762)                    | -                        | -                        | (260)                    |
| Increase to basic personal credit | (72)                     | (72)                        | -                        | (144)                    | (144)                    | -                        |
| Personal Income               | (156)                       | (72)                        | (762)                    | (144)                    | (144)                    | (260)                    |

\textsuperscript{315} Interview, Palmer.
<table>
<thead>
<tr>
<th>Tax impact</th>
<th>Net change in Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>355</td>
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<td></td>
<td>(552)</td>
</tr>
<tr>
<td></td>
<td>134</td>
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<tr>
<td></td>
<td>210</td>
</tr>
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<td></td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, British Columbia 2009b

*Signs of an Anti-Tax Revolt Brewing*

Public opinion polls conducted just weeks after the initial announcement confirmed the government's worst fears. In a poll released by Angus Reid, 75% reported opposition to the tax, while an Ipsos Reid poll pegged opposition as high as 85%. The BC Liberals were fresh off an election victory and yet the backlash against the policy was so strong that it began to eat into support for the government. By comparison, while opposition to the tax remained high in Ontario, there was no corresponding drop in support for the McGuinty Liberals (see Chapter 6). It seems that BC residents were less willing to separate the policy from the government. Less than four months after the election, the BC Liberals had bled considerable public support.

Support for the governing party had fallen 12 percentage points since the election, while the NDP saw its level of support unchanged (Karp 2009). By the end of the summer, public opinion polls continued to show a downward trend for the BC Liberals (38%) and an increase for the NDP (46%) (Fowlie 2009a).

Beyond poor polling numbers, public opposition to the HST was becoming evident in other forums. A Facebook group “No BC HST” was set up by Bill Tieleman, a political strategist who had served in Glen Clark's NDP government in the 1990s. At one point, the group was attracting about 6,000 people a day, eventually topping out at around 136,000. As part of their strategy, Tieleman and others began to look for policy and communication materials from the Ministry of Finance to mount their case against reform. In their quest for information, however, they quickly realized “there weren’t any research papers or background papers on HST.” This discovery, weeks after the announcement, only emboldened their cause since it suggested to them there had “literally been no preparation for the HST by the [BC] government.”

It was also during this initial period in the summer when former Premier Bill Vander Zalm began to mobilize his existing network of supporters against the policy. The former premier circulated

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316 Interview Tieleman
an angry letter to media outlets, calling on residents to revolt and threatening a “recall of the entire government” (CBC News 2009c). In August, the former premier met with Chris Delaney, the deputy leader of the BC Conservatives to discuss how they could oppose the HST. A few weeks later, they decided to join forces with Bill Tieleman, meeting with him that month to discuss strategy at a restaurant in Vancouver.\(^3\) The anti-HST coalition, or Fight HST, not only possessed an experienced and charismatic leader with Vander Zalm but Delaney and Tieleman provided access to NDP and BC Conservatives networks. Less than month after the policy announcement, the magnitude of public opposition was becoming increasingly apparent. With Delaney and Tieleman assisting Vander Zalm, the trio announced that they would be launching an aggressive campaign to stop the tax by using the province's Recall and Initiative Act (Tebrake 2009). Beyond the criticism the HST was receiving from the provincial opposition, the government was beginning to face anti-tax mobilization out the legislature.

Chapter 3 theorized that in jurisdictions that provide greater opportunities for democratic participation tax reform opponents ought to face less difficulty in mobilizing the public against the policy change (Hb8b). Fight HST enjoyed remarkable success in mobilizing the public. During the summer, the group organized a series of anti-HST rallies, drawing thousands of BC residents. In September, at the largest rally, outside the Vancouver Convention Centre, about 2000 people assembled to protest the tax (CBC News 2009d). In the middle of September, Vander Zalm also did a joint appearance with the NDP leader (Bailey 2009). The Fight HST group focused its efforts on identifying the negative consequences for voters’ pocketbooks. Vander Zalm was keen to stress the visibility of the reform's effects on voters, saying: “[Voters] will be reminded every time they make a purchase, every time they pay their rent, every time they pay their [condominium] fees, when somebody gets buried, when they get a haircut, a tooth fixed” (Bailey 2009). An Ipsos-Reid poll conducted in mid-September after the rally showed that the Liberals trailed the NDP by 10 percentage points, while the premier's approval rating declined by 15 points (Hunter 2009).

\(^3\) *Ibid.*
Figure 7.2: Opposition to BC HST (2009-2011)

![BC residents Against HST](chart)

Source: Angus Reid (2011)

Strategizing the Initiative Campaign

Since enacted in 1994 by the NDP government, no citizen or group had successfully launched either an initiative or recall campaign. Any citizen in the province can either propose or amend legislation using the initiative procedure. As described above, if this is successful then a Select Standing Committee on Legislative Initiatives determines whether to table a bill in the House (to reflect the change) or put to a province-wide vote.

Within the Vander Zalm-led group, there had been internal debate about whether the initiative procedure should be used. According to Tieleman, the initial belief was that the act was “toothless” because it would shift the bill back to Victoria where a government controlled committee could easily defeat it. A second important consideration, however, was that they wanted to ensure that the petition campaign would not fail. The act required the signatures to be collected within a 90-day period, and so they needed to be strategic about when to begin the campaign. If they failed to meet the legislative requirements (described below), they risked opening an opportunity for the government to frame it as a public endorsement of the HST.\(^{319}\) In October 2009 they decided to push ahead with the initiative but wanted to be strategic about the

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\(^{319}\) Ibid.
timing. Concerns about the weather in the North and in the BC interior led them to delay the launch of the petition until April 2010.\footnote{Ibid.}

For the Vander Zalm-led effort to prompt an initiative successfully, then, the HST petitionerers had to first collect signatures of at least 10\% of registered voters (who voted in the last election) in all 85 of the province's ridings. The odds and historical experience seemed stacked against them. According to Tellier's (2016) study of voter initiatives, eight of the nine initiative petitions that have been submitted have failed to meet the threshold set out in the act. Vaughn Palmer echoed the political difficulties associated with this:

> Initially the view was that these laws were written to be very difficult to use, because the government that brought them in, in the 90s, didn’t really want people recalling an initiative. That was true, but it also one of the measures of just how pissed off and double crossed British Columbians felt was this phenomenal success of the initiative campaign. I remember talking to NDP MLAs, the first weekend of collecting signatures and one of them came to me and he said, look I sat on the committee that drafted that legislation. I know we drafted it to make it nearly impossible to use, but this thing is going to work, I’m telling you this campaign is going to succeed.\footnote{Interview, Palmer.}

Importantly, efforts to use the government’s initiative legislation did not stem from the Official Opposition. According to Carole James:

> We certainly didn’t begin the recall or the initiative campaign [...] That began with a number of grass roots organizations and individuals who came together. Bill Vander Zalm got involved, the former Premier and that really gave it the publicity. I think it kind of grew, it certainly wasn’t something that I heard discussed in the beginning as leader. It wasn’t a discussion that we had. In our view, the next election was four years away. There weren’t election strategies at that stage because we just finished off the election [...] And as I said, I think most people feel the referendum situation is a very tough bar. And I think very few people thought that it was going to be successful.\footnote{Interview, James.}

**Revamping the strategy**

Starting in the fall of 2009, the government made some slight adjustments both to its framing of the HST and to the policy design. The government began soliciting feedback on the upcoming budget through various public consultations across the province (as had been the case historically). The Select Standing Committee on Finance and Government had the responsibility
“[t]o examine, inquire into and make recommendations with respect to the budget consultation paper prepared by the Minister of Finance ...” (Legislative Assembly of British Columbia 2009, ii). Over September and October 2009, the committee began consultations across the many communities. With its legislative majority, the BC Liberals held a majority on the committee. The committee received almost 3,500 submissions from residents, resulting in 28 recommendations. On the HST, the committee reached the following conclusion:

While support for the HST from the business community and others was strong, many participants disagreed with the implementation of the HST. The report acknowledges that certain sectors of the economy will require implementation mitigation strategies. The majority of the Committee voted for eight recommendations to address issues relating to the implementation of the HST, while the remainder of the Committee felt that the HST should be abandoned. (Legislative Assembly of British Columbia 2009).

Various business interests had endorsed the adoption of the HST during the public consultations, including the BC Chamber of Commerce, the Institute of Chartered Accountants of British Columbia, various primary industries, the manufacturing and export sector, as well as insurance and telecommunications industries. The committee's report did acknowledge the objections received from several individuals and industries. The report included a sample of responses, all of which seemed to highlight the concern that the tax was shifting the tax burden from businesses to consumers as well as disproportionate impacts on specific industries. Despite providing an outlet for opponents of the HST, the committee ended up doing little to appease their concerns. With its majority on the committee, the Liberal MLAs were able to help advance the policy goals of the Premier's Office. According to the report's executive summary, “[t]he majority of the Committee voted for eight recommendations to address issues relating to the implementation of the HST, while the remainder of the Committee felt that the HST should be abandoned” (Legislative Assembly of British Columbia 2009, iv). While the report acknowledged the opposition it argued that “the maximum 5 percent exemption” gave the government very “little room to implement mitigation measures”(Legislative Assembly of British Columbia 2009, 39). The committee went on to make a series of recommendations but ended up proposing some marginal changes. To address the concerns raised by the real estate industry, the committee recommended that the HST rebate threshold for new homes be raised from the proposed

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321 The committee was chaired by John Les, a Liberal MLA. The remainder of the committee was made up of six Liberal MLAs and 4 NDP MLAs.
$400,000 (Legislative Assembly of British Columbia 2009). On November 19, 2009, the finance minister announced that the government would be increasing the HST rebate for new homes from $400,000 to $525,000 (Ministry of Finance 2009e).

The Campbell government responded to initial opposition by attempting to draw a clearer fiscal policy link between HST revenues and social program expenditures. In the budget speech, the government committed to “allocate every dollar from the HST (and four other taxes) to health care.” The strategy was ridiculed in the media (Palmer 2010a). According to George Abbott, a former cabinet minister, there was a complete disconnect between the Premier's Office and Ministry of Finance in terms of who was “driving the communications/strategic planning on the post-announcement communications about the HST.” Moreover, the confusion around HST communications had been compounded by a “recent recession-driven cut, from $26 million to $8 million, in the government's communications budget” (Abbott 2015, 17). As one ministry official described it: “We did not produce nearly as much communications materials about the benefits of the HST as Ontario. [Ontario was] showing how the dollars from the Feds were going to be distributed…”

Over the course of the fall, polls continued to reflect dissatisfaction with the government’s performance, with the BC Liberals dropping five percentage points in the polls. At this point, two minor parties in the province, the Greens and BC Conservatives were benefiting from the government's misstep, garnering the support of 10% and 7% of voters, respectively (Fowlie 2009b). When BC voters were asked specifically about the issue of HST, voter sentiment was decidedly negative. In an early December poll, Ipsos-Reid found that 82% opposition toward the HST. By this time, one of the petitions circulated had reached over 100,000 signatures (Yaffe 2009). The issue was not going away, seriously undermining the Campbell government’s attempt to pivot to other agenda items.

The Introduction of HST Legislation

In the early part of 2010, the government benefitted from the public's shifting attention to the Winter Olympic Games. The Premier’s Office had hoped to benefit from what was largely considered a local and national success. Advisors in the Premier's Office believed that opposition

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324 Confidential Interview
325 Interview, Hansen.
to the tax as well as Premier's flagging polling numbers might turn around.\textsuperscript{326} By the early spring, though, the government was forced to redraw the public's attention to the issue. The proposed HST would take effect in just a few months (July 2010), and so, the government had little choice but to introduce the bill during the spring sitting of the legislature. In March, the BC government introduced Bill 9, or \textit{The Consumption Tax Rebate and Transition Act}. Rather than focusing on the HST, which he knew to be politically toxic, the finance minister framed the bill as having one central aim: “to provide for the winding down and elimination of the provincial sales tax” (Palmer 2010b). With the introduction of the enabling legislation, the NDP seized the opportunity to bring greater public attention to the issue. In a rare move, the NDP House Leader, Mike Farnworth, demanded a recorded vote on the first reading of the bill. Recognizing that there were internal divisions with the BC Liberal caucus, the opposition had hoped to embarrass the government. The government's seat advantage meant that the NDP would need to pick off a handful of Liberals. In the end, 47 Liberals voted in favour, while 34 New Democrats and the lone independent opposed it (Palmer 2010b). The legislative tactics are broadly consistent with the expectations of hb1, which expects opposition parties to invest much more heavily in opposition tactics prior to the implementation of the policy.

While the HST was being introduced and debated in the legislature, the tax remained very unpopular with the public. In March 2010, an poll conducted by Angus Reid found that 77\% of respondents opposed the HST (Hunter 2010). A second poll conducted in April found that support for the Liberals had declined by 17 points since the election (from 46 to 29\%). The Official Opposition enjoyed a commanding 18-point lead, having the support of 47\% of voters. As discussion about the legislation got under way, opposition increased to the tax with 82\% reported being strongly opposed or opposed to the tax (Fowlie 2010a). Unlike in Ontario, the introduction of the legislation had only reinforced public attention and opposition.

\textbf{Part V: The HST Initiative and Referendum Campaigns}

In April 2010, the Fight HST movement began its 90-day drive to collect signatures across the province. Vander Zalm would serve as the “campaign's public face and official proponent” (Ward 2010b). Fight HST's main campaign was launched in the Premier's Campbell's riding of Vancouver Point Grey (Palmer 2010c). According to various accounts, the grassroots campaign

\textsuperscript{326} Confidential Interview.
had been carefully organized to realize success. The organizers spent the winter months planning out the petition strategy. In each of the province's regions, there were local organizers and volunteer captains in each riding. These networks were then responsible for coordinating the door-to-door petition sign ups (Ward 2010a). Prominent members of the NDP caucus decided to join Vander Zalm's “army of canvassers.” In total, more than half of the BC NDP caucus has been formally registered to collect signatures (Hunter 2010a). As Tieleman described the campaign:

This was a very smooth operation. We literally had BC Liberals working with New Democrats, working with old Social Credit members. It was truly – there’s no campaign like it, I’ve ever seen in my life. I’ve been involved with or seen and just a phenomenal campaign and just all those things came together and so all the things are coming together for us and the government just continually doing the wrong thing.

The Fight HST’s campaign began to reveal signs of success very early on. About a third of the way through the 90-day campaign, Vander Zalm and his organizers reported a very warm and productive reception to their campaign, noting success in ridings held by the BC Liberals. The rules governing the collection of signatures allowed the organizers to shift canvassers across ridings, and this ended up being important to their strategy. In one of the ridings they secured 10% within 24 hours. According to one of the organizers:

Once we got going we knew it was going well. We established a weekly media announcement of how many more signatures and we were doing announcements every week. Every Sunday we would announce how many more signatures and it just kept going up and up and up.

By their fifth week, the organizers reported that they had exceeded their 15% target in 33 provincial ridings. Of these 33, 19 were in ridings that had been won by the government in the previous election (Palmer 2010d). It was clear by this point that the electoral coalition that had re-elected the BC Liberals were turning on the government’s signature policy.

The success of the Fight HST movement began to have reverberations in Victoria. The government faced a major blow in June 2010 with the resignation of one of its cabinet ministers.

327 Confidential Interview.
328 Interview, Tieleman.
329 Ibid.
330 Ibid.
331 Interview Tieleman.
Blair Lekstrom, the Minister of Energy, Mines and Petroleum Resources announced that he was leaving cabinet as well as the government caucus over the HST decision.\textsuperscript{332} Pressure from constituents had played a crucial role in this decision. Days before the resignation, Fight HST organizers announced that in seven Liberal-held ridings the amount of collected signatures had surpassed the total number of votes received by the Liberal MLA (Fowlie 2010b). According to some, the NDP’s existing infrastructure was important in helping the campaign succeed. This enabled Fight HST to use the provincial party’s maps, lists and ground game.\textsuperscript{333} Others stressed the importance of Vander Zalm in cultivating support and attracting media attention. Vander Zalm was somebody who was “cut from a populist cloth”. His “charismatic” and “populist style” seemed to lend itself well to a campaign that about fostering anti-elite resentment. Vander Zalm not only brought a folksy charm to the HST fight but he also brought an existing network on supporters from the Social Credit days.\textsuperscript{334} As one observer put it:

\begin{quote}
With any type of political issue, you need to be organized. The fact that there was a leader, Bill Vander Zalm, who felt strongly about his views [...] he was able to spearhead this petition that ultimately led to the referendum [...] So it started with that discontent, someone taking advantage and organizing politically and making it a more substantive issue ... \textsuperscript{335}
\end{quote}

Similarly, as Carole James noted:

\begin{quote}
Most of the people got involved really because of Vander Zalm. A lot of them were kind of offshoots of Vander Zalm’s organizational structure. His involvement really gave [the Fight HST] movement the publicity that it needed to have. I mean, Vander Zalm got involved and it just took off from there.
\end{quote}

\textit{The Government and the Initiative Campaign}

The government made major strategic missteps along the way in responding to Fight HST’s initiative campaign. Rules from the Elections BC mandated that if the government wished to advertise during the campaign, it would need to register with the independent agency. If it did so, it would also be given a limited budget. The government, however, decided against signing up as opponent.\textsuperscript{336} The government assumed that the “populist uprising against the harmonized sales tax would falter without any counter-attack” (Palmer 2010e). When it realized that the Fight

\textsuperscript{332} Interview, Thomas.
\textsuperscript{333} Ibid.
\textsuperscript{334} Interview, Thomas.
\textsuperscript{335} Interview, Lammam.
\textsuperscript{336} Interview, Tieleman.
HST side would have a monopoly on information, it attempted to use their own their existing communication apparatus. This further inhibited the finance minister’s capacity to defend the HST. The only places for him to do so were “Question Period, media scrums and letters to the editor” (Palmer 2010e). Second, the government ran into other troubles with Elections BC. The HST was supposed to take effect on July 1, and so the government planned to circulate an information leaflet about the changes. Elections BC, however, ruled that the government’s leaflet “would constitute a violation of the rules that govern the citizen-driven initiative process.” (Hunter 2010b). For several months, then, Fight HST enjoyed a relative monopoly on the HST debate. According to several supporters of the HST, this enabled Fight HST to spread misinformation about the impacts of the tax. Over its three month campaign, with 6,500 canvassers deployed, the Fight HST movement was able to collect more than 700,000 signatures (Hunter 2010d). In the beginning of July, just a few days after the HST took effect, Vander Zalm and his anti-HST organizers brought 85 boxes filled with the petitions to Elections BC (Matas 2010). By August, Elections BC certified the petition (Bailey 2010a).

In July, just as the HST was taking effect, Angus Reid decided to ask voters to evaluate their opinion of the HST as well as the government's success in communicating it to the public. The poll asked respondents to evaluate how well their respective government had communicated the HST. As Figure 7.3 and 7.4 illustrates, BC residents were completely unimpressed with the government’s handling of the communication. Over 75% of respondents in BC (versus 45% in Ontario) believed that the government did a “very bad job” of communicating the HST" (Matas and Hunter 2010). Voters were not very impressed in Ontario; however, but it is also clear that BC residents felt much more strongly about it.

337 Confidential Interview.
Figure 7.3: Evaluation of HST Provincial Communications (Ontario)

Source: Angus Reid (2010)

Figure 7.4: Evaluation of HST Provincial Communications (BC)

Source: Angus Reid (2010)
Attention then turned to the special legislative committee tasked with deciding what to do with the anti-HST petition. The committee had two options. It could either refer the bill, the HST Extinguishment Act, to the legislature for a vote or it could subject the bill to an initiative vote (similar to a referendum, but ultimately non-binding). The legislative committee—controlled by the governing Liberals—decided to that a referendum would be held in September 2011 rather than referring the issue to the legislative debate. After the committee announced this decision, the premier stated that the HST would be scrapped if a majority of residents voted against the tax. For an initiative to succeed in the province, it would need to receive 50% of support in each riding across the province. Facing growing public pressure, Campbell decided to eliminate this specific majority requirement, choosing instead to abide by a simple majority across the province. This surprising announcement was a major concern for HST proponents:

We had realized early on that the government was in trouble when the Premier announced that when the petition campaign succeeded and then the Premier announced that you wouldn’t require 60 percent majority to introduce the bill in the legislature, which he could then defeat, that he would actually go with the 50 percent majority and act referendum. He obviously was acting outside of the boundaries of the legislation as it exists, he blind-sided the caucus and Cabinet with all that, made it tougher to win the referendum.

A Change in Leadership

Following the success of the petition, in the fall of 2010, signs of internal dissent were becomingly increasingly apparent in the Liberal caucus. It had been over a year since the HST was announced but support for the government had not recovered and the policy was in jeopardy. In October, the premier’s numbers reached rock bottom with only 9% of residents polled approving of his job. Support for the Liberals was also down to 24%, suggesting that the NDP was approaching majority support across the province. The poll also found that 72% of residents would vote to abolish the HST in the referendum scheduled for September (Ward 2010c). These polling numbers seemed to have prompted a rethink within the Premier's Office. The premier took to the airwaves, attempting to build public support by announcing a 15% tax cut for residents with incomes up to $72,000 (Fowlie 2010c). The promise, however, did little to appease the growing sense of unease within the Campbell caucus. A caucus rebellion over the

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338 Confidential Interview.
339 Interview, Thomas.
introduction and handling of the HST triggered Campbell’s resignation in early November. Campbell announced that he would stay on until a leadership vote was held at the end of February (Hunter and Stueck 2010).

The resignation seemed to have given the governing Liberals a lifeline. Following Campbell's resignation announcement, the Liberals were just five points behind the NDP, marking a significant improvement for the government’s popularity. The poll conducted by Mustel found support for the NDP at 42%, the Liberals at 37%. The poll also found that anger over the HST was beginning to dissipate, which the pollster attributed to scheduling of the referendum for September 2011 (Ward 2010d).

**Figure 7.5: Public Support for Provincial Parties in BC, 2009-11**

![Party Support in B.C. May 2009 - February 2011](image)

The BC Liberals decided to elect the one outsider in the contest who was not part of the caucus during the HST debacle: Christy Clark. Clark had served in the previous Liberal government as Education Minister and as Deputy Premier. She had served in the BC Legislature until 2005 but had left provincial politics and took up a job as a radio show host in Vancouver (Bailey 2010b). Clark had initially campaigned on holding a free vote on the HST, rather than holding the
referendum but a few weeks before the leadership contest, Clark reversed herself committing to hold the referendum if elected (CBC News 2011). Clark was elected on the third ballot beating out two former cabinet ministers, Kevin Falcon and George Abbott.

The decision to replace Campbell with Clark, the outsider, paid off for the BC Liberals. In the days following the contest, polls showed a five-point lead for the Liberals over the NDP for the first time since the announcement of the HST (Fowlie 2011). At one point, in October 2010, the Liberals had trailed by 25 points, so the Clark turnaround was quite significant One of Clark’s first orders of business was to appoint a new cabinet. Clark did not include Colin Hansen in her new ministry, giving her leadership rival, Kevin Falcon, the thankless task of defending the HST ahead of the referendum. By this time, the polls also showed opposition to the tax still high but declining. According to the poll, 54% of residents would vote against it, with 33% preferring to keep it and the remainder undecided This was a major departure from the July 2010 poll conducted by the same firm which found opposition at 75% (Fowlie 2011a). The resignation of Campbell, then, seemed to have helped absorb some of the political anger. The declining intensity of public opposition to the HST provides empirical support for the notion that the passage of time and public support are correlated (Hb6). In the case of the HST, what pollsters might have been picking up on is anger towards the government and specifically Campbell. With Campbell’s resignation, support for the HST increased.

New Government, New Strategy
In April, the Clark government made its first effort to modify the tax reform package in an effort to build support before the referendum. The government sent out mailers along with a cheque to about 1.1 million residents in the province, telling them that “going back to the provincial sales tax means significant change, particularly in what people receive” (Matas 2011a). Under the old PST system, adults with incomes up to $15,000 would receive a $75 annual credit. Under this new system, though, the government would provide $230 as a tax credit for families with incomes up to $20,000 (Matas 2011a). The finance minister also announced a Talking Tax Tour, involving public forum discussions with businesses and residents about how to make the HST more palatable, including a cut to the rate.
Beyond this, the Smart Tax Alliance was formed as the pro-HST group to back the HST in the province. The alliance was made up of a coalition of 43 business and industry groups in the province which either recognized the policy benefits or stood to lose from the reversal. The group became registered with Elections BC as the official proponent of the “No” side. As a result, the group was given $250,000 in public funds to mount its campaign in support of the HST (Fowlie 2011b). According to some observers, though, these pro-HST business groups had largely been absent from the public debate prior to the referendum campaign. Although various business interests, including the restaurant and real estate industries, had been vocally opposed to the HST when it had first been announced, these groups became less vocal over time, particularly in the referendum campaign. According to Charles Lamann:

> Even certain groups that were initially opposed to the tax became more friendly to it... There were some changes among the big players [...] I would say in particular the restaurant people. I think they changed their tune, softened up a bit. Some others did too – I just don’t remember. It’s not fresh in my mind.\(^1\)

Hb5 expects interest groups that opposed to a tax reform during policy initiation to be less intensely opposed following the implementation of the reform. The idea is that interest group will be become more attuned to the policy benefits as they begin to experience the costs and benefits of the new policy. By the referendum campaign, the Smart Tax Alliance had assembled a much wider range of sectors, including agriculture, forestry and the restaurant industry, to come out in support of the HST. The change in the position of the restaurant industry is particularly telling, revealing the importance of feedback effects in altering policy preferences. When the HST had first come into effect, the industry had been staunchly opposed to move. According to industry insiders, after the first year of the HST, it became apparent that the impact was not as significant as once believed. This led many restaurant owners to prefer the HST system over the older two-tax system, a complete reversal in policy preferences from 2009. By the time the tax had been fully implemented these businesses were beginning to realize other benefits of having a streamlined VAT. In particular, these businesses now only had to comply with one set of sales tax rules (Stueck and Dhillion 2011) and were also beginning to receive ITCs for business inputs. The HST experience in BC reveals how, over time, policy feedback effects can transform policy opponents into proponents.

\(^1\) Interview, Lamann.
Although businesses were coming around to the HST, most of the public still remained opposed to the policy change. A couple of months before the mail-in referendum, an expert panel that had been tasked by government with examining the economic impact of the HST, including the cost of switching back to the older PST system, released its report. The difficulties of transitioning back to the old system were stressed. The panel warned that it could take two years, since the government would need to negotiate the end of the sales tax harmonization with the federal government. The tax policy change had produced many changes that would have to be undone, including restoring older tax laws and regulations, rebuilding the entire provincial sales tax branch and rehiring some 300 tax collectors, and provide enough time and flexibility for businesses in the province to re-establish two separate tax accounting systems” (Palmer 2011). The panel, however, did note that for the economy the HST will yield “significant improvement in competitiveness for the export industries, an added spur to investment and growth in most sectors, concluding the group’s consensus was that the HST will be a net benefit to the economy” (Palmer 2011). Finally, it noted that the HST would cost the average family in the province an additional $350 annually. Based on this last point, the Clark government began to grapple with how to close this fiscal gap for families (Hunter 2011). If Clark was asking residents to support the HST in the referendum, it was important to make it a net positive for them. Accordingly, over the next few days the Clark government “weighed different policy options” with the hope of building public support through a redesign of the policy.341

The Clark government responded to the panel’s report by promising a cut to the HST rate from 12 to 10% as well as a one-year transfer payment for families with children, low income earners and modest-income seniors. The new finance minister said that the tax cuts and credits would be paid for through a hike to the corporate tax income tax rate as well as delaying a cut to the small business tax cut. It was expected that the taxes would cost BC businesses $653 million more dollars in taxation between 2013 and 2015. The business community, however, backed the hike to the corporate tax rate, with the BCBC, the Canadian Taxpayer Foundation and the Smart Tax Alliance all claiming that, on balance, it would be worth it, due to the enormous impact of the HST (Matas 2011b). Gaining the support of the business community for a corporate income tax rate reveals how wedded this group was to the new sales tax system, a key demonstration of how

341 Interview, Thomas.
material policy feedback effects can reinforce support over time. Again, consistent with Hb5, business interests had begun to see the material benefits of the HST which helped grow support for the HST.

On the public opinion side, it appeared that between the new premier and the proposal to increase credits and cut the rate that voters were being persuaded to have another look. In a poll conducted after the proposed changes, 54% of decided voters wanted to get rid of the tax, compared with 46% who now backed the tax (Hunter 2010c). Although the gap persisted, the government had convinced many of the undecided voters to consider backing the HST. The results of the referendum provide evidence for Hb7: jurisdictions that have greater opportunities for democratic participation, such as recall and voter initiatives, will have less success in institutionalizing a consumption tax reform than jurisdictions without these avenues.

By May 2011, public support and opposition for the HST was nearly identical. It is important to note that this tightening up in the polls occurred following the Clark government’s proposal to reduce the rate (Richards 2012). The latter development suggests that public opinion is quite responsive to changes in policy design, a theme returned to in the next chapter.

All the changes announced by the Clark government, however, proved ineffective in persuading a majority of BC residents to support the new sales tax. On August 26, 2011, the government announced the results of the mail-in referendum. More than 1.6 million BC residents participated, with 54.7% voting to extinguish the new HST tax and 45.2% voting to keep the HST. While some voters had come around to the idea since the height of the opposition, the change in policy design and political leadership was insufficient to overcome the anti-tax resentment that had swept across the province.

Although the majority of voters supported eliminating the tax, the tightening of the results over time provides further evidence that public opposition to a consumption tax reform will decline over time (Hb6). As Lamann remarked:

I think really is interesting and worth noting [...] when the HST was announced to ultimately rescinded, there was increasing approval by the public for the HST [...] It was very well known for people that were in this debate, the anti-HST side started
with about 80% support. By the time the referendum came, I believe it was whittled down to 55-45%. 342

Based on the survey data (Figure 7.6), it seems reasonable to suggest that the HST became somewhat normalized, or at least, politically acceptable. In the absence of experimental data, it is difficult to disentangle the precise drivers of mass opinion shifts. It is notable, however, that as the effects of the HST were being experienced across the province (post July 2010), there is an accompanying decrease in opposition to the policy. This interpretation is broadly consistent with the evidence presented above regarding the restaurant industry. What is also worth noting is that public opposition (see Figure 7.2 and Figure 7.6) registered its highest and most intense points during two periods: following the initial announcement (summer 2009) and during the initiative campaign period (April to June 2010).

Figure 7.6 Public support for Eliminating HST in BC (Polls and Results), 2010-2011.

![Graph showing public support for eliminating HST in BC from June 2010 to August 2011. The x-axis represents dates from June 2010 to August 2011, and the y-axis represents support levels. The graph shows a decrease in support over time, with the highest points during two periods: following the initial announcement (summer 2009) and during the initiative campaign period (April to June 2010).]

Source: Angus Reid 2011 (cited in Richards 2012).

342 Interview, Lamann
Introducing a new consumption tax will always be fraught with political difficulty, primarily because it is a loss imposing activity (Pal and Weaver 2003). As theorized in Chapter 3 and illustrated in Chapter 6, however, the “issue-attention cycle” (Downs 1996) typically give loss imposing governments some political breathing room. Public attention to the effects of a policy reform, even if unpopular, will often recede over time. In BC, however, the HST petition and referendum campaigns helped undercut that general trend. Figure 7.7 illustrates this point. The Fight HST movement enjoyed remarkable success in sustaining media (and thus public) attention to the HST’s hypothetical effects.343 The initial pattern of media attention to HST in BC and in Ontario is remarkably similar. The key contrast, however, is that media attention precipitously declined in Ontario following the enactment of HST legislation (see Chapter 6, Figure 6.4). In BC, however, media attention surged after the legislation was passed. A key turning point seems to have been in March and April 2010, coinciding with the initiation of Fight HST’s petition campaign. Fight HST was very successful in keeping the unpopular tax in the news until its formal defeat in the August 2010 referendum (see Figure 7.7). According to Hb8, in jurisdictions with greater opportunities for democratic participation, levels of public and media attention to the effects consumption tax reform should stay relatively stable. In jurisdictions without such avenues, public and media attention to the effects of the policy should decrease and shift to other issues. The BC HST case, then, broadly supports this hypothesis. The explanation for the varying surges in attention is obvious: there were political developments for the media to cover in BC but not in Ontario. The perennial focus on the HST in BC politics for two years resulted from the institutional context. The relentless focus on the HST disrupted the standard issue-attention cycle, helping retain the public’s focus to unpopular aspects of the tax. Support for repealing the tax, however, declined as the effects of the policy began to be experienced. Various claims made by Fight HST and other opponents about the HST’s effects were not borne out empirically.

343 During the initiative campaign, the HST still had not taken effect.
Part VI: Discussion

This section discusses some of the main findings as they relate to the second stage of the theoretical framework proposed in Chapter 3. The BC HST case offers important insights into how the introduction of a tax policy change can have feedback effects on voters, organized interests and the opposition. Crucially, however, the nature and operation of these feedback effects differ from those discussed in Chapter 6, helping explain the varying fates of the HST reform in each case.

The HST in BC was politically unpopular for two primary reasons. First, for many voters in the province, the manner in which the HST was announced was politically illegitimate. Many voters believed the government had intentionally misled them during the 2009 election campaign. Second, the policy resulted in various negative impacts on voters’ pocketbooks (at least in the short-term), raising the costs of various goods and services. The institutional context in BC, and specifically the use of the Recall and Initiative Act, helped trigger a series of political processes with important consequences. Beyond triggering a referendum, one of the chief impacts of the
voter initiative campaign, I argue, was that it helped retain the public’s focus on the HST controversy. Over the course of two campaigns—first the petition and then the referendum campaign—the Fight HST movement was able to (re)focus the public’s attention to the effects of the HST, including the manner in which it was introduced.

Second, other aspects of policy design or distributive politics are also particularly helpful in understanding the behaviour of political actors. In BC, the Campbell government failed to incorporate tax policy design features that would mitigate the intensity of public opposition’s reaction to the HST. There was nothing resembling temporary (e.g., HST transition cheques) or permanent (e.g., personal income taxes) policy benefits for most voters in the province. The BC government had also failed to incorporate sufficient policy measures to offset voters’ suspicion that HST was a tax shift from businesses onto consumers. In fact, by failing to provide much in the way of tax relief for voters, the policy design reinforced the narrative that this was a tax transfer, rather than a measure designed to improve the BC economy.

The HST policy did produce various consequences but its effects were conceptualized by the public as either material losses or benefits that would be delayed in time. The primary policy benefit of HST reform was a reduced deficit, a relatively diffuse and medium- to long-term benefit for mass publics. Although the Clark government tried to strengthen the visibility (i.e., rate change) and distribution (i.e., CIT rate hike for businesses) of the HST’s policy benefits, it was too late by that point. Public opinion on the HST had largely congealed by that point, suggesting a limitation to the use of policy benefits, or distributive politics, as a way to contain public opposition. Moreover, the Clark government could not deal with the other unpopular aspect the tax: the way in which it was introduced. It is highly unlikely that a set of policy benefits could counteract these concerns about the democratic legitimacy of the decision.

Third, the Campbell government failed to convince key sectors of the business community that the reform was also in their interests. The policy shift was staunchly opposed by various sectors of the provincial economy which were negatively affected by the HST. The decision by the restaurant and real estate industries to mobilize against the reform is another clear example of how incentive effects of policy, in this case losses, influence the political incentives to organize against reform. The Campbell government also mistakenly assumed businesses that would benefit from the reform would automatically coalesce in favour of the policy change. Although
many businesses ultimately supported the move, these supporters did little to vocally counteract the Fight HST movement. There were obviously additional reasons for this lukewarm reception to HST. Unlike in Ontario, the BC government failed to consult with them prior to the announcement. Industry organizations, including members of Smart Tax Alliance did eventually step up their efforts to defend the HST but those in the businesses community only really did this once the policy benefits associated with HST appeared to be in jeopardy. The difference in political behaviour across the winning and losing business sectors is a classic illustration of how actors will process gains and losses asymmetrically (Soroka 2006). Only in the face of prospective losses were business actors willing to politically mobilize. The change in the policy position of some industries, particularly the restaurant industry, illustrates the importance of policy feedbacks.

Finally, the HST as well as the specific institutional context created a peculiar set of feedback effects for the NDP, the Official Opposition. Consistent with the expectations of the theory adopted in Chapter 3, the NDP criticized the government’s policy reversal. At the same time, the NDP was attempting to juggle a competing set of interests, each conditioned by ideational and institutional factors. Electorally, the NDP had much to gain by coming out against the HST. The government had introduced an unpopular measure shortly after vowing to do the opposite. But the NDP and especially its leadership wanted to prevent the government from implementing the HST in the first place. Similar to the Ontario case, then, the opposition was mindful of the fiscal ramifications of the policy change and behaved accordingly. While some NDP MLAs and partisans saw the HST as an opportunity to blame the government for an unpopular decision, its leader and others had concerns about the long-term fiscal implications of policy reversal. However, the successful HST petition by Fight HST put the NDP in another interesting bind. As described in Chapter 3, one of the reasons that opposition parties transform their policy preferences on a consumption tax is due to feedback effects of the policy. Parties will define reversal as against their interests because of the fiscal impacts and the associated political consequences. Yet in the case of BC HST, if the HST were overturned by the public via referendum, then the NDP could not be held responsible for the impacts. It would simply be a case of “letting the people decide” (Johnston et al. 1992, 3). In this case, then, there seems to be limited support for the hypothesis that opposition parties will switch positions on a consumption tax after it has been implemented (Hb2). The theory expected the feedback effects created by the
tax reform to reconfigure the political incentives of the opposition parties. The incentives of the NDP, however, were also profoundly shaped by the institutional context in which they were operating. The incentive to oppose the HST was reinforced by the popular support that had been reinforced throughout the initiative and referendum campaigns.

According to Hb3, the behaviour of the opposition parties should also be conditioned by the institutional context. Specifically, opposition parties should be sensitive to how the institutional context creates opportunities for blame avoidance. If the opposition parties can facilitate repeal but there are opportunities to avoid or dilute responsibility for the effects policy reversal, then the hypothesis was that they would more likely to take steps to help facilitate repeal. The NDP’s behaviour in this case is generally consistent with this expectation. The NDP were fairly aggressive critics of the government’s HST. The Official Opposition backed the Fight HST side in the 2011 referendum, viewing the campaign and vote as an important opportunity to rebuke the government’s policy. While the NDP and its leadership did not formally organize the Fight HST, various members of the party seemed to have played an informal role.

At the same time, the case also reveals some internal ideological tension the NDP faced in positioning itself on HST. As several interviewees pointed out, a broadened sales tax base (under HST) would have provided future NDP governments with the fiscal resources to carry out many of their most important policy goals. The BC HST illustrates the tension between the NDP’s short-term strategic imperatives and long-term policy goals.

**Part VII: Concluding Thoughts**

The defeat of the Harmonized Sales Tax in the province of British Columbia offers a cautionary tale for governments looking to bring in consumption tax reform. The findings and analysis presented here should be understood as unfolding within the decision making context described in Chapter 5. The choice to emulate Ontario’s decision—and its failure to learn—ended up having important consequence down the road. Two initial mistakes were made that contributed to the developments described in this chapter. First, the BC government failed to fully investigate the distributive implications of the HST. A failure to do so contributed to a policy design that did not ameliorate these impacts, helping prompt political opposition from voters and specific

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344 Interview, Milligan. Interview, Finlayson.
groups. Second, the government failed to draw the appropriate lesson from the Ontario HST case, or from its previous experience with the carbon tax. The Campbell government chose to mimic Ontario’s policy instrument but failed to attend to the comprehensiveness of the Ontario decision making process. Even more remarkable, the government could have leaned heavily on its previous process and design with the carbon tax but failed to do so. The consequences of decision making through “satisficing” are all fully borne out in the findings and analysis presented above.

The BC case also underscores the need to better understand the nature of how the public reacts to major tax policy changes. Given the sheer visibility and proximity of consumption tax reform, it is difficult to imagine an electorate responding positively to a major tax policy change. Yet the BC tax reform seemed to be introduced and designed in ways that triggered or at least reinforced voters’ existing cognitive biases. In the case of Ontario, such biases were offset; a well devised communication strategy and a policy design were instrumental in blunting popular opposition. Yet this analysis and Chapter 6 presented evidence that public opposition—measured through polling data—was comparable across the two provinces. Interview data and other indicators suggest that the intensity of public opposition was much more pronounced in BC. It is prudent, then, to develop better measures of intensity in our understanding of public opinion. More generally, we require a clearer understanding of how citizens respond to tax policy alternatives. This theme is the subject of the next and final empirical chapter of the dissertation.
CHAPTER 8 – EXPLAINING MASS TAX POLICY PREFERENCES: AN EXPERIMENTAL APPROACH

Introduction

In democratic systems, citizens—by and large—seem to accept the *quid pro quo* of taxation and government services but only begrudgingly. Opposition to new or increased taxes is well documented in academic research (e.g., McCaffery and Baron 2004) and popular writing (e.g., Lepore 2012; Porter 2012). Efforts to enact major tax policy changes almost invariably result in some level of political opposition. Political history is littered with examples of politicians who attempted raise taxes only to find themselves thrown out of office by voters in the subsequent election (Sears and Citrin 1982; Peters 1992). Of course, all tax policy changes do not automatically prompt tax revolts. As the previous chapters illustrated, the degree of popular opposition to tax reform is variable and contingent. This raises a very simple, and yet neglected, question: under what conditions are citizens willing to accept major tax policy changes? Inversely, what factors lead citizens to oppose major tax policy changes?

As explored in Chapter 3, much research in political science concerns itself with understanding the actions of government (public policy), or exploring the evaluations of the state's actions by citizens (public opinion). Each research tradition has yielded important insights into mass political behaviour (Erikson, Mackuen, and Stimson 2002; Burstein 2003) and elite policymaking (Schalger 2007). Remarkably however, the politics of taxation has never been prominent in either set of literature.\(^\text{345}\) As Andrea Campbell (2009, 48) has noted: “Although taxation constitutes one of the main linkages between citizens and government, the study of public opinion and taxes has generally taken a backseat to accounts of the elite politics of tax policy.”

For students of public policy and mass political behaviour this inattention to tax policymaking is remarkable. As examined in Chapter 3, taxation plays an essential role in politics, and yet, the politics of revenue generation is rarely examined by political scientists. John Campbell offers a similar critique of political sociology, arguing this subfield has “paid much more attention to the determinants of expenditures than taxes” (1993, 164). In Campbell’s view, this is problematic since the determinants of each type of policy are not necessarily the same.

\(^{345}\) One exception here is political economy scholarship which has a rich tradition of examining the relationship between levels of government spending and mass policy preferences (Meltzer and Richard 1981; Moene and Wallerstein 2001; Alesina and Glaeser 2004; Larcinese 2007).
In this chapter, two basic empirical questions are addressed. First, when are citizens willing to pay new taxes or increases to existing taxes? Second, what sets of factors are most important in securing their support?

Addressing these questions makes three important contributions. First, the chapter addresses an important limitation of the existing empirical analysis in the dissertation by using survey experiments to isolate the factors that shape mass political behaviour. Second, in a key departure from existing work on taxation, the chapter seeks to clarify and understand the nature of citizens' tax policy preferences. Existing taxation studies focus disproportionately on elite decision making (Steinmo 1993; Peters 1992; Hale 2002). Public opinion is treated in these works as a constraint on policy makers' options, and yet, there is little systematic effort to explore or understand the nature of mass opinion, including determinants of attitudinal change. The results presented in this chapter help fill this gap in the literature. Second, the chapter contributes to recent work on the relative importance of framing and timing as a variable in explaining mass political behaviour. Specifically, the chapter builds on Jacobs and Matthews' (2012) work on intertemporal policy dilemmas, examining how the timing of a policy's benefits influences citizens' willingness to support an intervention. In contrast to these authors’ findings, however, the chapter finds limited evidence that citizens exhibit a bias in favour of short-term policy benefits. The concluding chapter of the dissertation provides discussion and synthesis of the findings from the survey and case studies.

This chapter proceeds in the following sections. In the second section, the study outlines some important gaps in the political science literature on taxation with specific attention to mass political behaviour. In section III, the main hypotheses are outlined and discussed. Section four of the chapter describes the method used to measure mass tax policy preferences. In section five of the study, the main findings of the survey experiments are presented and discussed. The concluding section of the chapter discusses the implications of the findings and future areas of research.

**Taxation and Political Science Research**

Determining what level of taxation is appropriate and what types of taxes should be levied are common sources of political disagreement. Conflicts often stem from varying sets of goals, values and/or economic interests. For some, tax policymaking can evoke images of rent-seeking interest
groups pressuring elected officials. Groups which represent particularistic interests (Wilson 1980) deploy their resources and compete to ensure government’s favourable tax treatment. Existing studies of taxation describe a policymaking process that aligns with this pluralist narrative. Tax policymaking is, at times, a function of the state seeking to balance the competing demands of varying sets of organized interests (Peters 1992; Hale 2002). Others, however, stress the degree to which autonomous political officials and the design of political institutions explain the tax policy outcomes (Steinmo 1989, 1993). These theories of tax policymaking are elite-centric, however, obscuring a less visible but crucially important source of tax policymaking in democratic systems: citizens.

For many policy scholars, inattention to tax might stem from the fact that citizens play a limited role in the design of tax policy. In most democracies, citizens have limited direct input into the substantive content of revenue decisions. This does not render citizens’ preferences unimportant. Citizens also have very little direct say about the proportion of expenditures allocated to defence spending. Yet a common finding across various democracies, is the relatively robust relationship between levels of government spending and public opinion preferences (Hartley and Russett, 1992; Munroe 1998; Soroka and Wlezien 2010). As explored in Chapter 3, elected officials have powerful electoral incentives to align their choices with the spending preferences of the electorate. We might expect the same set of incentives and dynamics to affect how elected officials establish tax policy, while noting voters’ aversion to tax. Such themes were prevalent across Chapters 4-7.

On the other hand, other scholars are less optimistic about the capacities of citizens to discern their own interests vis-à-vis policy change. Bartels (2005), for example, has shown that citizens are poor at assessing the effects of a tax policy change on their material well being as citizens do not have meaningful preferences about policy. Scholars have found that the average voter lacks a sufficient understanding, or sometime possesses a factually inaccurate view of the world (Kuklinski et al. 2000). Other research on political knowledge lends credence to this view (Sniderman 1993). Rather than form independent ideas about societal problems and policy alternatives, citizens develop attitudes towards policies through a reliance on heuristics, frames, or cognitive shortcuts. In policy debates, voters will often take cues from elites, partisan labels, and other authorities (Zaller 1992; Jacobs and Shapiro 2000; Cohen 2003; Bullock 2011). These findings suggest that because citizens’ cognitive capabilities are limited, mass attitudes towards
policy changes are likely sensitive to the types of information presented and, more specifically, the form that the information takes. In the context of tax policymaking, these propositions need to be subject to careful empirical testing.

Observational research on mass tax policy attitudes is sparse, but existing studies identify some revealing patterns. One prevailing finding is that citizens exhibit a general aversion to taxation (Peters 1992). Studies conducted in the UK, US and Germany have additionally found that citizens' tax policy attitudes hold electoral implications. A government's popularity, for example, is shaped by how its tax policies affect individual voters (Geys and Vermeir 2008). Another line of inquiry has been to examine the behavioural consequences of tax policy. Some scholars have examined how the design of tax collection institutions and policies can influence citizens' willingness to engage in tax compliance (Akaishi and Steinmo 2006). These findings provide good insight into the political consequences of tax policies but are limited in explaining how citizen attitudes influence the initial policy decisions made by their governments. The politics of taxation is not just about how citizens respond to tax policies once they are enacted—though an important demonstration of policy feedback effects—but also about how voters' opinions shape or constrain the initial policy choices of politicians. Chapters 4 and 5 of the dissertation described the assumptions that elected officials held about mass tax policy preferences. This analysis seeks to better understand the content of those attitude.

**Mass Publics and Tax Behaviour**

Understanding cross-national variation in tax compliance has been another way that scholars have sought to understand the political psychology of taxation (Akaishi and Steinmo 2006; Steinmo forthcoming; Zhang et al. 2014). There is variation, for example, in how much people are willing to be taxed to provide social services for those in need (Svallfors 2011). Yet political scientists still have not have good explanations for why this is the case. Governments face a basic dilemma which is that people, on average, want government spending but are deeply suspicious of efforts by the states to raise the funds necessary to fund such expenditures (Akaishi and Steinmo 2006). One possible explanation for this is that people have different assumptions or expectations about how their money will be spent by government departments and agencies. According to Rothstein (1998, 2001), tax compliance is correlated with levels of social trust. The argument is that citizens
are more willing to pay taxes but only when they believe that public spending is both fair and efficient.

The theme of political trust also finds resonance in studies that have examined the public acceptability of different types of environmental taxes, including carbon taxes. One helpful conceptual distinction made by economists is between a Pigovian tax and a Ramsay tax. The former refers to taxes that are designed to address externalities (e.g., carbon tax), while the latter are designed to generate revenue. The purpose of the former, however, is not revenue generation (or redistribution). One finding is that citizens do not like Pigovian taxes. When taxes are not being used for redistributive purposes, it is often assumed that they are a tactful way for governments to shore up their coffers (Kallbekken, Kroll, and Cherry 2011). The belief, then, is that taxpayers prefer a clear sense of where the money is being spent and to ensure that it is not wasteful, fraudulent or being spent on things of which they do not approve. These findings help explain the popularity and effectiveness of earmarking. In experimental lab settings, earmarking has been shown to effectively reduce public opposition to new taxes (Kallbekken et al 2011). Earmarking works by committing certain revenues generated by a tax to specific purposes, such as redistribution or tax relief. When taxes are simply collected as general revenue, the belief might be that it is likely to be abused by authorities. Trust is therefore important in explaining this pattern. In their examination of environmental tax reform across several countries, Clinch, Dunne, and Dresner (2006) found that a lack of trust was a key issue driving opposition or a lack of public acceptability in each of the jurisdictions considered. This research finding suggests then that much of tax opposition is linked less to the effect of a tax on one's material wellbeing and has more to do with the perceived goal of the tax.

Beyond the structure of tax policy attitudes, scholars have a fairly limited understanding of the malleability of citizens’ tax policy preferences. The psychological mechanisms that drive changes in citizen acceptance or opposition to taxes remain unclear. Observational and experimental political communications research indicate that public opinion attitudes are open to change. The most common mechanisms underlying attitudinal change are persuasion or issue framing (Chong and Druckman 2007). It is possible that citizens come to support taxation because of the persuasive capabilities of politicians or policy experts. Alternatively, supportive attitudes might be a function of the way in which elites frame a policy problem and solution. In sum, there is a need
to understand the informational conditions in which citizens abandon, or at least, tone down, their aversion to taxation.

The closest study that that tackles these questions is Jacobs and Matthews’ (2012) examination of Social Security reforms in the United States. Using a survey experiment, Jacobs and Matthews seek to explain why citizens exhibit a preference for near-term policy benefits, as compared to longer-term ones. In their analysis, they find most support for the uncertainty hypothesis, the idea that lower levels of trust in government trigger uncertainty about the future delivery of government benefits. The results of this study provide important lessons about how the delivery of cost and benefits is not just a distributive question but also a temporal one (see e.g., Jacobs 2011). Certain policy problems and proposed interventions are characterized by a specific temporal logic. A carbon tax, for instance, will impose near-term costs but the greatest benefits of the intervention will not be experienced for decades. From the perspective of public opinion, Jacobs and Matthews’ findings suggest that citizens may regard tackling climate change as desirable but might be doubtful about the tax's effectiveness (low policy efficacy), or in government's ability to competently manage the policy (low trust in government).

**Theoretical Expectations**

As other chapters of the dissertation have illustrated, taxation is best conceptualized as a loss-imposing activity. Citizens possess a negativity bias; they are more sensitive to losses than to logically equivalent gains. Studies from cognitive psychology and behavioural economics have documented the asymmetrical processing of gains and losses (Kahneman and Tversky 1979; Lau 1982; Pal and Weaver 2003). For governments, such loss aversion greatly complicates their capacity, or at least their willingness, to raise revenue. These sets of cognitive biases can help explain governments' inclination to raise revenue through less visible measures such as corporate income taxes and an avoidance of highly prominent taxes such as sales taxes (Chetty, Looney, and Kroft 2007). At the same time, we know that under certain conditions, such as high electoral slack, some governments can withstand citizens' negativity bias (Jacobs 2011). The reaction of electorates to major tax policy changes or other loss imposing activities (Pal and Weaver 2003) exhibits variation. If this is true, then perhaps it also means that governments have some capacity to shape their political destinies through the design and implementation of a policy reform. To unearth these conditions, we require a clearer empirical understanding of how citizens respond to
the presentation of tax policy alternatives. If policy attitudes are vulnerable to change, and there are good theoretical reasons to expect that they are, then we require an explanation for the sets of factors that drive opinion change. A better understanding of this should yield important insights into the way that citizens reason about complex sets of public policy challenges and the extent to which taxation is a politically viable instrument to address such challenges.

Other good theoretical reasons to expect that public opinion matters in the decisions made by elected officials come from retrospective models of voting that affirm the importance of an incumbent's fiscal policy decisions (Hibbs 1986; Healy and Malhorta 2013). Although limits on vote rationality inhibit voters’ ability to hold governments to account, we can expect that policy issues that are of higher salience (Taylor and Fiske 1978) will be more cognitively accessible in vote choice. Tax policy and tax reforms often yield a higher degree of public attention than other lower salience policy issues such as regulatory decisions (Boushey 2010; Rabe and Borick 2012). The high salience of tax reform coupled with politicians' re-election goals (Mayhew 1974) produces strong incentives for elected officials to align their tax policy choices with citizens' preferences. If tax reforms are an important consideration in elections (Eccleston 2007; Harrison 2012), then a clearer understanding of what factors shape mass attitudes toward taxes is required.

This study starts from the assumption that attitudes toward taxation derive from the way citizens process information. Studies from political science and other social sciences have shown that humans exhibit a strong aversion to loss. Negativity bias and loss aversion are psychological phenomena which have important implications for how voters reason about taxes. Each implies that citizens will weigh the prospects of a financial loss, such as a tax, much more heavily than a prospective policy benefit. This means that regardless of the policy solution a government is proposing to solve, elected officials face the challenge of overcoming biases. Since taxes inflict short-term losses, it is reasonable to assume that voters view them negatively. Despite taxes’ ability to elicit negative responses, it is also reasonable to assume that citizens will, under certain informational conditions, comprehend the basic logic underpinning taxation, and specifically, the necessity of taxation in the provision of public goods. Individuals pay taxes and in exchange, society (or at least, some segment) are provided with some benefit. Such information is not expected to eliminate loss aversion but rather temper its effect. Although voters might not be
responsive to paying more taxes generally, providing them with more information and certain
types of information may shift their attitudes.

Following the theoretical assumptions identified in Chapter 3, citizens are assumed to be bounded
rational (Jones 1999) in their reasoning about their tax policy preferences. Citizens make
evaluations based on prior knowledge and the limited information in front of them but will be
subject to framing effects, source effects (Chong and Druckman 2007), and limited memory
(Taber 2003) and attention (Jones 1999; Chong and Druckman 2007).

Method
To test these hypotheses survey experiments were conducted with a representative sample of
Canadians. This method has the advantage of allowing to test for the effects of multiple different
factors, while limiting potential confounding effects. One trade-off of this approach is the inability
to observe actual behavioural responses to a tax change.

The survey was administered to an online sample of Canadians (n=1534) furnished by Qualtrics.
The experimental part of the study involved varying key parts of policy-related information
presented to subjects within each brief, which is described below.

To address these questions, survey experiments were fielded in February 2016 with a
representative sample of Canadian citizens (n=1534). The purpose of the experiment was to
assess the extent to which varying attributes of policy information, such as the timing of policy
benefits, influenced citizens' willingness to support a tax policy change. Respondents in the survey
were randomly assigned to different policy vignettes. The aim was to gauge respondents' reactions
to a policy brief describing a policy tool designed to address three types of policy problems:

budgetary deficits, inadequate transportation infrastructure, and climate change. Since some forms
of taxation can be obscure and cognitively complex, taxes were chosen that were relatively
comprehensible and salient. Taxes were proposed as a “policy investment” that could be
implemented by the government as a strategy for addressing these problems. Policy investments
describe an intervention that imposes short-term costs on society in order to secure a greater set of
benefits for society in the longer-term (Jacobs 2011).

All respondents received three separate policy briefs that outlined three policy problems and
paired each with a recommended tax policy interventions, specifically, the introduction of a
carbon tax (climate change), or a proposed increase to the existing federal sales tax (infrastructure) and federal personal income taxes (deficit). The policy brief outlined the nature of the policy problem and described why experts view taxation as a viable remedy for the problem at hand (see appendix). All of these policy challenges exhibit a similar pattern in terms of how costs and benefits are allocated over time. In the first case, raising Personal Income Taxes (PIT) to deal with the deficit, for example, leads to a higher income tax incidence for individual taxpayers. The benefits of deficit reduction, including lower levels of debt repayment for taxpayers, often take years to be fully realized. A carbon tax works in a similar fashion whereby citizens must pay higher costs for fossil fuels but the most significant impacts on climate change are often delayed. Similarly, spending on transportation infrastructure demands that governments make investments in the short-term but many of the most expansive projects will take a very long time due to planning, construction, and regulatory approvals. The challenge for elected governments in tackling these issues is two-pronged then. First, as described above, justifying taxation as a response is inherently difficult because of the way that citizens process governmental actions that impose direct, highly visible costs (Arnold 1990; Pal and Weaver 2003; Rabe and Borick 2012). Second, governments need to convince the electorate that taking on these policy challenges is pressing. The issue here is that citizens are much more sensitive to policy problems when their effects are highly prominent (Jacobs 2011). This is why “focusing events” (Kingdon 1995), such as natural disasters or other crises, can be effective in helping secure broad-based support for swift policy action. It can, then, be challenging to build support for tackling policy problems whose benefits are removed in time and whose most significant costs do not appear to be imminent.

To examine the hypotheses (see below), three policy briefs were constructed and contained several randomized elements (see appendix for wording). In each of the policy briefs, three components of each policy were independently and randomly varied:

1. **The timing of the policy problem's consequences.** Subjects either received one of two policy problem frames. The first frame focused on the short-term effects of a policy problem (e.g., the impacts of climate change today). The alternative frame focused on long-term impacts of a policy problem with a policy intervention (e.g., climate change's impact in 30 years).
2. The timing of benefits. Subjects received information that the benefits of addressing the problem would yield either short-term, medium-term, or long-term benefits. Similar to the policy problem hypothesis, the schedule or the timing of the policy benefits were also varied (benefits were stated to be delivered in 3 years, 15, or 30 years). Importantly, the benefits associated with the tax policy increased with each different time interval. That is, the longer the time horizon, the greater the magnitude of the benefits.

3. The costs of the tax. Subjects received varying information about the size of tax increase (or in the case of a carbon tax, varying effects on the price of gasoline). The magnitude of the tax increase varied incrementally from a very small tax increase (e.g., PIT raise of 0.5%) to a large tax increase (e.g., PIT raise of 5%).

Beyond these questions, subjects were also asked standard political and socio-demographic questions: age, gender, party identification, attention to politics, vote choice, province of residence, education and income level. In addition, subjects were asked some specific questions that might be related to support for taxation: vehicle ownership, number of children, trust in government, and belief in government’s capacity to solve problems. These data were collected to assess whether the treatments were being moderated by any of these variables; this is briefly explored below. As the measure of the dependent variable, subjects were asked whether they would be willing to support the tax policy change in question (yes/no/don’t know). The analysis is limited to respondents with dichotomous outcomes of yes or no.

Hypotheses
To study the influence of information on tax policy preferences, two distinct lines of inquiry are pursued. The first approach investigates whether the problem of timing is at the root of aversion to increased taxation. For citizens, is the relative unpopularity of taxes related to the timing of its benefits? In a related vein, is the relative support of taxation explained by the delayed timing of a policy problem's consequences? The second set of hypotheses place more emphasis on how citizens respond to the perceived magnitude of tax increases. Specifically, is there a relationship between the cost a tax imposes and willingness to support it? In other words, are citizens' tax policy preferences more sensitive to the magnitude of a tax's impact?
Hc1 Citizens will be more likely to support tax increase when the policy problem is framed as short-term, than when the policy problem is framed as long term.

Subjects are expected to be more sensitive to how a policy problem is framed. When the focus is on the highly visible and immediate consequences of the policy problem (or policy inaction), subjects are expected to be more motivated to support policy action than when the consequences are presented as also serious but temporally distant. This is tested by constructing a short- or a long-term frame for each of the three policy problems. Since inaction is a more serious problem in the long-run, the vignettes sought to portray the long-term consequences as much more severe than the short-term consequences. Due to myopia though, subjects will likely be more attentive to the timing of the policy's consequences (that is, in favour of the present and biased against the future).

Hc2 Citizens will be more (less) likely to support new taxes when the short-term (long-term) benefits of that policy are made more (less) salient than the long-term (short-term) benefits

Following Jacobs and Matthews (2011), a discounting of future benefits should apply to how people construct their tax policy preferences. The policy problems that are examined in the chapter (deficit reduction, climate change and infrastructure problems) are characterized by a unique temporal profile. While some of the benefits of dealing with these problems can be secured in the short-term, the most significant benefits take much longer to be realized. Voters may be more supportive of a proposed tax when the benefits of the policy were closer in time, especially since benefits are often subject to some degree of uncertainty.

Hc3 The greater the magnitude of the cost of the tax increase, the less (more) likely subjects will support a tax increase.

The expectation is that citizens will rationally respond to the presentation of varying tax rates. That is, mass levels of support for taxation to decline as the rate of taxation increases. All else being equal, the expectation is that levels of public support will increase the lower the proposed rate change.

Beyond these experimental treatments, the extent to which other political factors shaped citizens' willingness to accept tax increases is of considerable interest. Since taxation involves the
government seeking to directly resolve a policy problem (as opposed to leaving it to the market), and given insights from other similar studies (Jacobs and Matthews 2012), the expectation is that citizens must believe that governments have the capacity and the willingness to solve these types of challenges. As a result, we sought to examine the extent to which trust in government, a belief in state capacity, and other variables correlated with support for taxation. Moreover, how these factors condition the effects of the treatments is explored below.

**Results and Discussion**

In this section, the results of several logistic regression models are reported. Each table summarizes the relevant statistics for the relative effect of each treatment across all three taxes. Across all three taxes, there was very little evidence that the temporal framing of the policy problem ($H_{c1}$) or the schedule of policy benefits ($H_{2c}$) influenced respondents' policy attitudes. At the same time, there was some support for the third hypothesis ($H_{c3}$) for two of the taxes (see Table 8.2 and Table 8.3). The magnitude of a proposed tax increase did produce a corresponding impact on subjects' willingness to support the tax.

**Table 8.1: Support for Personal Income Tax Increase with Treatments**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment 1 - Framing of Policy Problem</td>
<td>-0.05</td>
<td>0.07</td>
</tr>
<tr>
<td>Treatment 2 - Timing of Policy Benefits</td>
<td>-0.13</td>
<td>0.12</td>
</tr>
<tr>
<td>Treatment 3 - Cost of Tax</td>
<td>-0.20**</td>
<td>0.04</td>
</tr>
<tr>
<td>High School Diploma</td>
<td>0.12</td>
<td>0.35</td>
</tr>
<tr>
<td>College or Technical Degree</td>
<td>0.22</td>
<td>0.35</td>
</tr>
<tr>
<td>Some University</td>
<td>0.46</td>
<td>0.37</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>0.17</td>
<td>0.35</td>
</tr>
<tr>
<td>Master's Degree</td>
<td>-0.29</td>
<td>0.40</td>
</tr>
<tr>
<td>Professional Degree</td>
<td>-0.21</td>
<td>0.49</td>
</tr>
<tr>
<td>Doctorate</td>
<td>0.73</td>
<td>0.66</td>
</tr>
<tr>
<td>Liberal</td>
<td>0.88**</td>
<td>0.15</td>
</tr>
<tr>
<td>NDP</td>
<td>0.64*</td>
<td>0.19</td>
</tr>
<tr>
<td>Bloc Quebecois</td>
<td>1.28</td>
<td>0.73</td>
</tr>
<tr>
<td>Green</td>
<td>0.54</td>
<td>0.31</td>
</tr>
</tbody>
</table>
In emphasizing either the short- versus long-term threat of the policy problem (H₁), there was little evidence that these frames had any impact. Whether the information stressed the immediate or temporally distant consequences of climate change as a policy problem, for instance, did not seem to influence subjects’ assessment of carbon taxes. This is not merely a matter of precision, as the study is well powered. Respondents were simply non-responsive to this information. In the analysis of the other two taxes, a similar result was returned. Stressing either the short- or long-term risks associated with inadequate transportation infrastructure had little independent impact on respondents' support for a sales tax. Finally, in response to a proposed PIT increase, respondents seemed relatively indifferent to whether the short- or long-term consequences of a high budgetary deficit were emphasized.

Table 8.2: Support for Carbon Tax with Treatments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment 1 - Framing of Policy Problem</td>
<td>-0.005</td>
<td>0.02</td>
</tr>
<tr>
<td>Treatment 2 - Timing of Policy Benefits</td>
<td>0.061</td>
<td>0.12</td>
</tr>
<tr>
<td>Treatment 3 - Cost of Tax</td>
<td>-0.018</td>
<td>0.07</td>
</tr>
<tr>
<td>High School Diploma</td>
<td>-0.25</td>
<td>0.33</td>
</tr>
<tr>
<td>College or Technical Degree</td>
<td>-0.18</td>
<td>0.32</td>
</tr>
<tr>
<td>Some University</td>
<td>0.01</td>
<td>0.35</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>0.26</td>
<td>0.33</td>
</tr>
<tr>
<td>Master's Degree</td>
<td>0.68</td>
<td>0.39</td>
</tr>
<tr>
<td>Professional Degree</td>
<td>-0.013</td>
<td>0.49</td>
</tr>
<tr>
<td>Doctorate</td>
<td>0.34</td>
<td>0.63</td>
</tr>
<tr>
<td>Liberal</td>
<td>1.33**</td>
<td>0.16</td>
</tr>
<tr>
<td>NDP</td>
<td>1.23**</td>
<td>0.19</td>
</tr>
</tbody>
</table>
Second, the expectation was that support for taxation to decline as the expected delivery of the policy benefits receded into future (H_{C2}). The expectation was that the manipulation of this policy information would be important across all three policy areas. Again, the results yielded no appreciable treatment effects. There is no apparent relationship between the schedule of benefits and the support for taxation. This was the result for all the taxes examined in the study (see Tables 8.1, 8.2 & 8.3).

Table 8.3: Support for Sales Tax Increase with Treatments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment 1 - Framing of Policy Problem</td>
<td>0.10</td>
<td>0.12</td>
</tr>
<tr>
<td>Treatment 2 - Timing of Policy Benefits</td>
<td>-0.07</td>
<td>0.08</td>
</tr>
<tr>
<td>Treatment 3 - Cost of Tax</td>
<td>-0.20**</td>
<td>0.07</td>
</tr>
<tr>
<td>High School Diploma</td>
<td>0.08</td>
<td>0.34</td>
</tr>
<tr>
<td>College or Technical Degree</td>
<td>0.09</td>
<td>0.33</td>
</tr>
<tr>
<td>Some University</td>
<td>-0.04</td>
<td>0.36</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>0.10</td>
<td>0.34</td>
</tr>
<tr>
<td>Master's Degree</td>
<td>0.37</td>
<td>0.38</td>
</tr>
<tr>
<td>Professional Degree</td>
<td>-0.13</td>
<td>0.50</td>
</tr>
<tr>
<td>Doctorate</td>
<td>0.74</td>
<td>0.61</td>
</tr>
<tr>
<td>Liberal</td>
<td>0.67**</td>
<td>0.15</td>
</tr>
<tr>
<td>NDP</td>
<td>0.31</td>
<td>0.19</td>
</tr>
<tr>
<td>Bloc Quebecois</td>
<td>-1.13</td>
<td>1.08</td>
</tr>
<tr>
<td>Green</td>
<td>0.04</td>
<td>0.32</td>
</tr>
<tr>
<td>None of the Above</td>
<td>-0.24</td>
<td>0.24</td>
</tr>
</tbody>
</table>
In contrast, the cost treatment is where the most empirical support was found (H_3). A proposed increase to the sales tax was negatively associated with support for the public investment in infrastructure. Similarly, for raising the PIT rate to address the deficit, there was a statistically significant negative relationship between proposed rate and support for deficit reduction. In contrast, however, the carbon tax did not yield a similar pattern as the other two taxes (see Table 8.1).

Given these results, particularly around the carbon tax, other relevant variables were examined. Specifically, subgroups that exhibited more (or less) support for carbon taxes. One finding was a relatively strong and significant relationship between partisanship and support for the carbon tax. Citizens that supported left or left-of-centre parties were more likely to be supportive of a carbon tax (see Table 8.1). A second finding was a fairly strong and statistically significant relationship between age and support for the carbon tax. The younger a subject was, the more likely the support for a carbon tax. Older respondents (55+) were much less supportive, while middle aged subjects (35-54) were in the middle of the two age groups. A consistent relationship was also observed between trust in government and support for a carbon tax. Respondents who exhibited the lowest levels of trust in government had the lowest levels of support for a carbon tax. Taken together, these results suggest that support for a carbon tax does vary as one would expect with several observed variables, yet it simply does not move depending on the rate. Adding to this puzzle, there was an absence of differential treatment effects for the carbon tax rate within any of these subgroups. In other words, these variables do not moderate the impact of this treatments. Finally, for empirical reasons, the analysis was also run without respondents from British Columbia and Alberta. Both jurisdictions have an existing carbon tax in place, and so, it is possible that an unobserved feedback effect influenced the findings. Omitting these subjects, however, failed to shift the results in either direction. Overall, there is simply no support for the proposition that citizens’ preferences for a carbon tax move according to the rate.
The results suggest \((H_{C1}, H_{C2})\) that voter myopia, or short-sightedness, carries less explanatory weight than previously expected. It did not seem to matter how a policy problem was being framed. This departs from expectations set out in the literature, most notably by Jacobs and Matthews (2011). There does, however, seem to be convincing evidence from the results that how the policy is designed—and specifically the setting of the rate—matters for mass tax policy opinion more than anything else.

Alternatively, there is certainly the possibility that the timing manipulations introduced in the experiment were simply ineffective. Since some subjects were receiving treatments that provided conflicting information about time (e.g., the consequences of the problem versus timing of the policy benefits), which may have unintentionally mitigated the effect of these treatments. A final issue worth noting is the possibility of a confound.\(^{346}\) The treatments simultaneously varied the consequences of inaction \((H_{C1})\) and the benefits of policy intervention \((H_{C2})\) as well as when the timing of these outcomes. The consequences of inaction and the benefits of action were presented in a way so that these effects were greater in the longer-term conditions than in the shorter-term conditions. This might explain why subjects did not exhibit the aversion to delayed benefits that was initially hypothesized.

**Conclusion**

The results of the survey experiment yielded two important findings. First, public support for taxation was not significantly related to how temporal dimensions of the policy were framed. In contrast to existing studies (Jacobs and Matthews 2012), the timing of a policy problem's consequences (short- versus long-term) as well as the timing of a tax policy's benefits (near, medium, long-term) had no discernable impact on respondents' willingness to support a tax intervention. Second, attitudes towards a policy were much more sensitive to the cost of the policy, rather than to the framing of benefits. This finding has particularly important implications for how elected governments go about designing and building coalitions. The findings suggest, however, that voters are more sensitive to perceived costs rather than to the framing of the policy's goals and benefits.

\(^{346}\) Thank you to Alan Jacobs for pointing out this potential pitfall of the research design.
CHAPTER 9: CONCLUSION

Introduction

Consumption taxes are commonly proposed policy instruments to deal with a host of governance challenges, including economic competitiveness, infrastructure investment, and climate change. Economists and other experts have long stressed the efficiency of consumption taxes in addressing various policy problems. By switching to a VAT system, governments can generate much needed revenue without compromising their capacity to attract new investment. Revenue from consumption taxes can also be used to finance general expenditures (e.g., social services, debt repayment) or specific public works projects (e.g., public transit). In the case of carbon taxes, governments can prompt a switch to a low-carbon economy without saddling affected industries with new and costly regulations. These types of tax reforms, then, fundamentally involve using the tax system to promote the general welfare of society. They embody what Patashnik (2003) describes as general-interest reforms. Though widely lauded by experts, as this study has shown, the introduction of these policy changes is fraught with political controversy. The purpose of this dissertation has been to identify the conditions that enable elected governments to enact and institutionalize these types of general-interest tax policy changes.

Throughout this study, I have argued that the core barriers confronting the pursuit and durability of such tax reforms are risk-averse politicians and loss-averse stakeholders. To understand how democratic systems can overcome these challenges, this dissertation has called for re-orienting scholarly understanding of the policymaking process. Specifically, I have advocated for an approach that distinguishes between processes of elite decision making, on the one hand, and processes of public acceptance, on the other. As this study has shown, this approach yields two main analytic benefits. First, it allows scholars to distil the operation of distinct causal mechanisms at different junctures of the policy process. Second, it leverages conceptual and methodological tools from two distinct—and yet complementary—traditions in political science research: policy studies and political behaviour.

The dissertation has developed an analytical framework that can be used to explain variation in the capacity of governments to enact and institutionalize consumption tax reforms. First, in the decision making stage, I have argued that ideational forces and timing are most important in shaping policy
action. External forces help structure the decision making context but the process of policy choice unfolds in a highly insulated, elite-dominated setting. A policy reform will get on the agenda when a focusing event garners the attention of elected officials. Policy learning and capacity serve as the two mechanisms that ultimately produce policy uptake. Processes of learning help explain how and why officials revise their causal beliefs about the effects of a reform. Capacity describes the fiscal and organizational means that enable implementation, ultimately shaping the decision to adopt.

Second, it has argued that the political fate of a policy reform is fundamentally tied to the feedback effects generated by the policy change. Governments can determine what sets of costs and benefits are delivered to stakeholders as well as shape when these distributive impacts are felt. Choices about policy design hold important implications for the policy preferences and subsequent political behaviour of a key set of actors—opposition parties, organized interests, and voters—in the policy process. When governments can facilitate the “right” political reception, they can help ensure the long-term durability of a policy reform.

The preceding chapters have sought to illustrate the value of this approach through an exploration of consumption tax reform in the Canadian context. The findings presented in the four case studies as well as in the survey experiments demonstrate the analytical purchase of the framework. The insights offer a novel way to conceptualize how policy ideas, electoral incentives, and entrenched material interests interact at different junctures of the policy process.

The aim of this concluding chapter is to return to the core research questions, synthesize the central empirical findings and identify the implications of the analysis for future research.

**Pulling the Threads Together**

Part I of the study (Chapters 1, 2, and 3) sought to identify the puzzle, research questions and dependent variable at the core of the study. First, why, despite the political risks, do some elected officials decide to introduce consumption tax reforms? Politicians have long been conceptualized as risk-averse and thus prone to incremental policy making (Pierson 2000), so what set of factors make governments more willing to engage with major policy reform? Second, why does the political reception to such policy reforms vary? Changes to consumption taxes tend to produce highly visible, short-term effects for various stakeholders, and especially for consumers. If this is the case,
then why do some political communities become more accepting of tax reform, while others choose to mobilize against them?

Chapter 3 presented several conceptual tools that scholars have used to explain variation in public policy. The chapter identified several limits to existing explanations, discussing how pure institutional, ideational or interest-based accounts are insufficient to address the research questions. As described above, to address these gaps, I outlined a two-stage theory of policy reform. Drawing on existing work on agenda-setting, ideas and policy diffusion, the framework linked policy uptake to focusing events, learning/emulation and capacity. Moreover, it explained how different processes of learning—rational learning and emulation—can produce similar policy decisions. The second part of the framework built on recent theorizing on policy design and policy feedback effects (Pierson 1993; Mettler and SoRelle 2014; Jacobs and Weaver 2015) to explain variation in the political reception to major policy change. It argued that the initial reception to reform is often shaped by how policymakers distributed costs and benefits. Second, governments can shape the ultimate durability of a reform through resource/incentive feedback effects and interpretive feedback effects (Pierson 1993). Depending on the configuration of the design and the institutional context, a policy reform can be self-reinforced or self-undermined (Jacobs and Weaver 2015) over time.

Each of the empirical chapters presented in this dissertation sought to clarify a different facet of policy change. In part II (Chapters 4 and 5) of the study, the dissertation used the Ontario and BC HST cases to illustrate the first part of the framework. These chapters carefully unpacked the “blackbox” of the decision making in each case, presenting data from elite interviews, document analysis and other sources. These chapters showed the operation of different learning mechanisms at play, illustrating how some governments rationally learn (Chapter 4), while others simply mimic their counterparts (Chapter 5). The Ontario government’s careful examination of VAT reform best approximated a process of rational learning. Consultation with policy experts inside and outside government prompted a revision of causal beliefs by the decision maker about the effectiveness of tax reform and its political viability. The BC government took a very different approach. Facing a different policy problem and a different political environment (i.e. limited time, timing in the electoral cycle), the government simply decided to follow Ontario’s lead.

Both case studies revealed that learning is a necessary but ultimately insufficient condition for policy uptake. While learning helped promote belief change in each case, financial capacity
afforded by the federal government was central in the fully convincing officials to act on these beliefs. Neither the Ontario nor the BC government would have chosen to enact consumption tax reform had they lacked the capacity—more specifically, the fiscal support from the federal government—to design and carry out the reform.

In part III (Chapters 6 and 7), the study turned to the political reception to VAT reform in the Ontario and BC HST cases. Why was the Ontario government successful in enacting durable tax reform, while the BC government failed to institutionalize policy change? Officials in Ontario decided early on that they needed to prime, or “precondition”, the political system. This allowed the government to garner political and intellectual support from key actors across the province. Moreover, by announcing the policy shift in a slow and incremental fashion, the government helped solidify its framing of the HST. This change to the tax system was about responding to Ontario’s competitiveness problem, a concern made salient by the 2008 economic crisis. These interpretive strategies were successful in shifting the public’s focus from policy goals to instruments (Hall 1993) and helped cultivate the formation of a pro-HST coalition in civil society. By contrast, the BC government did not make the intellectual case for sales tax harmonization prior to announcing it. Its failure to do so had major political consequences. First, unlike in Ontario, the business community was much more reluctant—and much less prepared—to help the government make its case for the HST. Second, the BC government was forced to invest a lot more time and resources into explaining and justifying why it had decided to bring in the HST. Uncertainty about why the HST was being pursued provided opponents with considerable political space. The varying ways in which the Ontario and the BC governments preconditioned their environments, then, had important political consequences. The cases illustrate the role of priming and other interpretive effects in shaping the initial political response to policy change.

Differences in policy design also played a key role. The Ontario government chose to embed the HST within a broader reform package of tax cuts and credits. This decision had two main political consequences. First, the material interests of core constituencies were transformed by the broader tax reform package. Second, the restructuring of interests shifted the political incentives of two opposition parties. This made it much less politically attractive for either of the opposition parties to campaign on repealing the tax. While voters never warmed up to the HST in Ontario, it is also
notable that public attention shifted to other issues. Chapter 6 illustrated the role that policy design played in helping blunt public opposition to the tax.

In contrast, the BC government chose against placing the HST within a broader tax reform package. While the BC HST included some offsetting measures (e.g., augmented sales tax credits), the reform imposed a series of new policy costs on stakeholders. In fact, the largest beneficiary of the HST reform in BC seemed to be the provincial treasury. The design of the reform, and specifically the salience of losses created by the policy provoked opposition, again opening political space for HST opponents. Opponents to the tax in BC also benefitted from the province’s institutional context: the availability of recall and referenda. The initiative and referendum campaigns allowed HST opponents to keep the public’s focus on the negative effects of the tax. While public opposition to the HST was evident in both cases, voter anger in the BC was shaped by the design of the reform and then reinforced by the institutional context.

The four case studies also illustrated the consequences of decision making processes for political receptivity, demonstrating a link between the two stages of the policy process. In Ontario, a careful and highly systematic process led decision makers to think strategically about the political impacts of the reform and how best to manage these effects. In the BC case, decision makers were much less attuned to these consequences. Decision makers in BC observed the fiscal benefits of VAT reform in other jurisdictions and quickly seized on the idea without much attention to the broader economic and political impact. Reliance on decision making heuristics proved to be very problematic for the BC government. Not only did they underestimate the public’s reaction but they had significant trouble articulating what the policy was and why it was in the province’s interest. This suggests that a superficial understanding of a reform can politically perilous for government. If elected officials plan to introduce complex and politically controversial reforms, it is imperative that they possess a core understanding of the logic of the policy, including its distributive impacts. On the one hand, bounded decision making seemed to have taken place because actors confronted a different kind of time pressure than its counterparts in Ontario. On the other hand, as the first-movers, Ontario faced a lot more uncertainty. There seemed to be a greater willingness to be comprehensive and strategic in their efforts.
This study has attempted to illustrate the downstream effects of policy design and policy implementation. Recent work in behavioural economics has stressed the efficacy of various policy instruments in nudging humans toward specific economic and social behaviours (McCaffery and Baron 2006; Thaler and Sunstein 2008; Sunstein 2014) but political scientists have been slower to incorporate these insights about policy design in their models of politics. The evidence presented in this study demonstrate the varying ways in which decision makers puzzle about policy design (Chapters 4 and 5) and the downstream consequences of those design choices for political behaviour (Chapters 6 and 7).

Connecting and Comparing the Empirical Findings

In part IV, the study reported on the results survey experiments designed to examine the public acceptability of various consumption tax reforms. As illustrated throughout Chapter 4-7, there are several advantages of studying political phenomena through qualitative case study research. Process tracing can yield compelling insights into highly complex and contingent political processes. At the same time, qualitative approaches are more limited in what they can tell us about larger groups of individuals (e.g., voters). It is difficult in a case study to observe why voters behave in a certain way and whether important sub-groups of individuals behave differently. As demonstrated in Chapter 8, survey experiments offer a promising tool that can be used to address these data limitations.

The goal of Chapter 8 was to probe mass support for consumption tax reform by systemically varying the information that subjects received about a policy problem and proposed solution. The main empirical finding is that individuals are responsive to changes in policy design. Specifically, the rate at which a tax is set can shift attitudes about tax reform. These findings are consistent with the expectations of the framework, demonstrating the sensitivity of citizens’ policy preferences to the distributive impacts of a reform. At the same time, Chapter 8 reported less empirical support for the proposition that the framing of policy problems and intervention will shape public attitudes. In the case of income, sales and carbon tax reforms, manipulating the time horizons of either the policy benefits and costs or the policy problem itself did little to shift levels of public support.

These findings have broader implications for scholarly understanding of taxation and mass political behaviour. As explored in Chapter 3, one prevailing assumption in the policy reform literature is that voter myopia poses a central barrier to policy change. The evidence presented
in Chapter 8 casts doubt on this assumption. Impatience about policy benefits is not what seems to be driving mass tax policy preferences. In a recent article, Jacobs and Matthews (2012) investigated a similar phenomenon as this study, finding a reluctance of voters to support short-term losses (e.g., an increase to payroll taxes) in order to avoid some larger and broad-based financial cost in the later future (e.g., an insolvent Social Security fund). The authors attributed this to voters’ uncertainty; specifically, a prevailing lack of trust in government’s ability to resolve the problem. In a departure from their results, the dissertation finds that manipulating the time horizons of either the policy impacts or the benefits of the policy did little to shift policy attitudes. These results suggest that temporality may be less important than previously theorized. Instead, the results imply that other policy design features, such as tax rates, might be more important sources of information for voters. Second, consistent with a recent study on framing (Bernauer and McGrath 2016), our study suggests that there are limits to using framing as a political strategy for building public support. Viewed this way, voters might be more “rational” than they are traditionally given credit for.

Future experimental research on this subject could make a major contribution by varying the policy designs presented to subjects and trying to isolate the specific design features that are linked to opinion change. Jacobs and Matthews (2012) have stressed the importance of trust in government as a conditioning variable. Future work should seek to understand the relationship between policy design and trust. For example, are there institutional mechanisms that can be incorporated that could mitigate the lack of trust in government? Specifically, could “lock boxes” or revenue-neutrality mechanisms prompt less trusting voters to be more amendable to tax reform?

**Future Research**

The remainder of this concluding chapter identifies additional case studies and research questions that can be used to further scholarly understanding. Various policy developments within the Canadian context provide opportunities to test the strength and portability of the framework.

**The Case of Manitoba**

This dissertation examined two provincial case studies of consumption tax reform. Yet as described in Chapter 1 and 3, the universe of cases within the Canadian context is significantly broader. The
province of Manitoba’s experience with sales tax reform offers a highly instructive case, particularly as it relates to the first part of the framework.

In 2008 and 2009 the federal government was keen to reach sales tax harmonization agreements with all PST provinces. Beyond Ontario and BC, the other outliers were Manitoba, Saskatchewan and PEI. In Saskatchewan, the government quickly ruled it out. In Manitoba, however, the provincial government decided to look at the federal government’s proposal more carefully. In the end, however, the government chose against following Ontario and BC’s lead.

Preliminary interview data suggests that while there was a window of opportunity for sales tax reform, several forces worked against the uptake of the HST in Manitoba. First, there were political concerns about the expected political fallout. Similar to Ontario and BC, a switch from PST to HST would have shifted some of the tax burden from businesses onto consumers. Moreover, according to one interviewee, compared to other provinces, the PST tax base was a lot narrower in Manitoba, and so there were genuine policy concerns about the effect of harmonizing the two bases.\(^{347}\) Second, the HST decision seemed to have been motivated by other considerations as well. The effects of the 2008 global economic crisis were not as significant in Manitoba (see Figure 5.1). Thus, the fiscal and political pressure to act was not nearly as strong as in the other two cases. Additional research is required to understand why elected officials in Manitoba chose the policy status quo over reform. More specifically, it would be valuable to consider how the decision making context varied from the two other cases.

Since Ontario and BC’s experience with the HST, there have been other major policy developments. After years of being the only holdout in the Atlantic region, the PEI government announced its decision to enact an HST. The provincial government seems to have drawn many key lessons from its counterparts across the federation. The policy change included a cut to the sales tax rate (from 15–14%). The PEI government also took steps to garner support from key actors in the business community. The policy was also carefully designed to offset concerns about regressive impacts. The PEI government, then, seems to have drawn the appropriate set of lessons from its counterparts.\(^{348}\) In 2015, the PEI Liberals were re-elected with a majority government. This case, then, provides an opportunity to examine how similar and/or different it was from Ontario and BC.

\(^{347}\) Confidential Interview.
\(^{348}\) Interview, Milligan.
Whether learning or emulation mechanisms drove decision making remains an empirical question. To some degree, actors in PEI did not have to engage in the same level of policy learning as in Ontario. The experiences of BC and Ontario provided a blueprint for action. These efforts ultimately paid off political dividends for the government, however.

Disentangling the effects of policy feedbacks on political behaviour in the case of PEI might be more challenging. PEI is distinct, given its proximity to three provinces which had already harmonized their sales taxes in the 1990s. Policy feedbacks, particularly interpretive ones, then, may have played out quite differently than they would have in Ontario and BC. At the same time, the case offers an important opportunity to assess what types of policy feedbacks were created and what effects these had on opposition parties, organized interests and voters in PEI.

Other cases can be used to test the generalizability of the theoretical framework. It is worth noting again that—with the exception of Ontario and PEI—no government that has enacted VAT reform has survived the subsequent election. When three of the Atlantic provinces harmonized their sales taxes with the federal GST in the 1990s their governments were subsequently defeated at the polls. Remarkably, however, the HST survived in all three cases. These cases can be used to test the policy feedback hypotheses developed in Chapter 3. In particular, it would be fruitful to examine why the governing parties that took over from HST enacting governments chose against repeal.

A more appropriate set of comparisons for understanding why governments enact new consumption taxes and how these are received may come from Western Canada. The decision by the British Columbia and Alberta governments to bring in carbon taxes provides an excellent opportunity to study the enactment of new consumption taxes. As discussed in Chapter 7, in the BC carbon tax case, the government was very strategic in how it announced and implemented the policy. The BC government was highly effective in coordinating supporters of the tax (i.e., coalition-building). The carbon tax was made revenue-neutral by including various forms of tax relief for BC residents and businesses (Harrison 2012). In contrast, the Alberta government decided against making its carbon tax revenue-neutral. Instead, the revenues have been used to fund alternative energy projects.

The BC carbon tax has withstood the test of time; it is embedded within the province’s fiscal and environmental policy framework. The fate of Alberta’s carbon tax is less clear. The carbon tax will meet its first serious political test when Albertans go to the polls in 2019. If the current NDP
government is replaced, it is quite possible that a new government will overturn the tax. A comparison of these two cases—and specifically the effects of their varying policy designs—could yield important insights.

**Concluding Thoughts**

The findings presented in this dissertation hold several important implications for our broader understanding of the relationship between public opinion and policy reform. One notable feature of the Ontario HST case was the persistence of mass opposition to the tax. Public opinion remained opposed to the tax, even after the HST was fully implemented. In neither of the HST case studies was the government able to cultivate strong public support. Yet, in the Ontario case, the government did prompt public acquiescence. This suggests that the relationship between public opinion and public policy outputs is more complex than conventionally theorized in the literature (e.g., Soroka and Wlezien 2010). The findings presented here suggest that public opinion can be shifted using priming and manipulations to policy design.

Related to this point, what the survey data in each case failed to capture was the relative importance of the HST issue for voters. This suggests that scholarly understanding of “public support” needs to be more nuanced. Public opinion about public policy tends to be conceptualized in a binary way (i.e., citizens either exhibit either “support” or “opposition” for a policy). Our understanding of public opinion would be greatly enriched by looking more carefully at the intensity of mass policy preferences and the political forces that shape such intensity.

The dissertation suggested that there is an important link between mass attention, intensity and the design of political institutions. The nature of that relationship needs to be better understood at the micro-level. In particular, how do tax policy changes become normalized for voters over time? Is it due to a lack of attentiveness to the negative effects? Additional research is required to examine the dynamic nature of tax policy attitudes. I argued in Chapter 3 that the fleeting nature of attention is one potential mechanism but more empirical research is required to test the veracity of this claim.
Finally, a clearer understanding of how governments can manage politically challenging policy transitions hold important normative implications for democratic governance. On the one hand, there is an increased desire for governments to engage with evidence-based policy making (Head 2010). At the same time, opposition to major policy changes by policy losers pose a perennial challenge to the uptake of such ideas (Trebilcock 2014). This tension between expert authority and public opinion has been a major theme throughout this study. These competing pressures need to be more effectively reconciled. My research findings suggest that policy design has a key role to play. Financial offsets, tax credits and other compensation tactics can mitigate public opposition to major policy change. Critics may argue that these types of measures simply shift the financial burden from narrow interests onto public treasuries. Others might claim that these types of transition measures are self-defeating. While not necessarily misplaced, these concerns about efficiency and effectiveness should not be the only criteria used in our assessment of democratic governance. In an era characterized by declining faith in public institutions, the need for major policy reforms to have some semblance of democratic legitimacy is more paramount than ever.
### Appendix A - List of Interview Subjects

<table>
<thead>
<tr>
<th>Name</th>
<th>Role/Division</th>
<th>Date/Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alex Mazer</td>
<td>Former Policy Advisor, Ministry of Finance (Ontario)</td>
<td>November 2015/Telephone</td>
</tr>
<tr>
<td>Anna Rothney</td>
<td>Former Policy Advisor, Premier’s Office (Manitoba)*</td>
<td>January 2016/Telephone</td>
</tr>
<tr>
<td>Bill Tieleman</td>
<td>Former NDP advisor</td>
<td>Nov 2015/Telephone</td>
</tr>
<tr>
<td>British Columbia Ministry of Environment Official</td>
<td>Confidential</td>
<td>Confidential</td>
</tr>
<tr>
<td>British Columbia Ministry of Finance Official</td>
<td>Confidential</td>
<td>Confidential</td>
</tr>
<tr>
<td>British Columbia Ministry of Finance Official</td>
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<td>Confidential</td>
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<td>British Columbia Ministry of Finance Official</td>
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</tr>
<tr>
<td>British Columbia Ministry of Finance Official</td>
<td>Confidential</td>
<td>Confidential</td>
</tr>
<tr>
<td>Carole James</td>
<td>Former Opposition Leader/NDP MLA (BC)</td>
<td>March 2015/Victoria</td>
</tr>
<tr>
<td>Charles Lammam</td>
<td>Policy Analyst*</td>
<td>March 2015/Vancouver</td>
</tr>
<tr>
<td>Chris Morley</td>
<td>Former Deputy Chief of Staff (Communications), Premier’s office (Ontario)</td>
<td>November 2015/Telephone</td>
</tr>
<tr>
<td>Colin Hansen</td>
<td>Former Minister of Finance</td>
<td>July 2015/Vancouver</td>
</tr>
<tr>
<td>Confidential Interview</td>
<td>Former Ontario Political Advisor</td>
<td>January 2015</td>
</tr>
<tr>
<td>Confidential Interview</td>
<td>Former BC Political Advisor</td>
<td>March 2015</td>
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<td>Confidential Interview</td>
<td>Former Ontario Finance Official</td>
<td>October 2014</td>
</tr>
<tr>
<td>Dalton McGuinty</td>
<td>Former Premier (Ontario)</td>
<td>January 2016/Telephone</td>
</tr>
<tr>
<td>David Pryce</td>
<td>Former Chief of Staff,</td>
<td>December 2015/Telephone</td>
</tr>
<tr>
<td>Name</td>
<td>Designation</td>
<td>Date</td>
</tr>
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<td>---------------------------</td>
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<tr>
<td>Don Cayo</td>
<td>Journalist</td>
<td>July 2015</td>
</tr>
<tr>
<td>Don Drummond</td>
<td>Economist/Former Policy Advisor</td>
<td>Oct 2015</td>
</tr>
<tr>
<td>Federal Ministry of Finance official</td>
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<td>Federal Ministry of Finance official</td>
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<td>Confidential</td>
</tr>
<tr>
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<tr>
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<tr>
<td>Greg Sorbara</td>
<td>Former Finance Minister, MPP and Liberal Campaign Chair (Ontario)</td>
<td>November 2015</td>
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<tr>
<td>Gregory Thomas</td>
<td>Head of BC Desk, Canadian Taxpayers Federation</td>
<td>July 2015</td>
</tr>
<tr>
<td>Jim Stanford</td>
<td>Labour Economist (formerly, Unifor)*</td>
<td>January 2015</td>
</tr>
<tr>
<td>Jock Finlayson</td>
<td>Executive Vice President, Chief Policy Officer, British Columbia Business Council</td>
<td>July 2015</td>
</tr>
<tr>
<td>John Wilkinson</td>
<td>Former Cabinet Minister of Revenue (Ontario)</td>
<td>Jan 2015</td>
</tr>
<tr>
<td>Kevin Milligan</td>
<td>Economist*</td>
<td>July 2015</td>
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<tr>
<td>Manitoba Ministry of Finance official</td>
<td>Confidential*</td>
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<tr>
<td>Michael Smart</td>
<td>Economist*</td>
<td>Jan 2015</td>
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<td>Ontario Ministry of Finance Official</td>
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<td>Date/Location</td>
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<tr>
<td>Robert Benzie</td>
<td>Journalist (Toronto Star)</td>
<td>October 2015/Telephone</td>
</tr>
<tr>
<td>Sean Mullin</td>
<td>Former Associate Policy Director, Premier's Office (Ontario)</td>
<td>November 2015/Toronto</td>
</tr>
<tr>
<td>Stuart Johnson</td>
<td>Former Vice President (Policy), Ontario Chamber of Commerce</td>
<td>December 2015/Telephone</td>
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<tr>
<td>Tim Hudak</td>
<td>Former Official Opposition Leader/Former MPP (Ontario)</td>
<td>Dec 2015/Toronto</td>
</tr>
<tr>
<td>Vaughn Palmer</td>
<td>Journalist</td>
<td>July 2015/Victoria</td>
</tr>
</tbody>
</table>

*Denotes interview was used for both Ontario and British Columbia HST case studies*
Appendix B: Interview Guide

Interview Questions:

1. Could you please describe to me the nature of your work as it relates to the harmonized sales tax?

2. Based on your recollection, when was the first time that the government considered this as a policy response?

3. Often a new direction in policy is taken largely as a reaction to a specific failure or problem? Did a specific event, person or string of events lead the government to change course?

4. What is your understanding of the rationale for why [insert provincial] government adopted this policy?

5. To what extent did experts, like academics or think tanks, influence your thinking or the thinking of others on this policy?

6. How important were developments in other provinces? Were you closely following decisions made about sales tax policy in other provinces?

7. At any point, did your department (or departments in charge) consult with outside jurisdictions to develop the province’s new policy?

8. Economic competitiveness and taxation is not the simplest policy problems to grasp. What kinds of resource did you rely on to help make sense of the policy problem and alternatives?

9. What were the initial challenges you identified regarding harmonizing sales taxes?

10. During your time in government (or working for the government) how did this issue of economic competitiveness and sales tax reform evolve in importance?

11. What ministers and ministries took the lead on the policy file? Was the policy response a particular brainchild on a specific minister?

12. To what extent did the government pay attention to public backlash to the introduction of the new tax?

13. How do you think the public backlash shaped opposition in your own province?

14. Why do you think that making policy changes through taxation is so inherently controversial?
15. What communication tools did your department, or other departments, use to convey information to the public about changes to the tax?

Note: There was slight modifications to this depending on who was being interview. For decision makers, questions focused on decision making processes. While for political observers/experts, questions were restricted to their views/perceptions of the introduction of the policy.
Appendix C: Ontario Government Communication Materials

Table 1: Helping Low- to Middle-Income Ontarians Through Enhanced Tax Credits

<table>
<thead>
<tr>
<th></th>
<th>Maximum Amount(^1)</th>
<th>Phase-out Rate</th>
<th>Phase-out Range — Adjusted Family Net Income(^1)</th>
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<tbody>
<tr>
<td>Ontario Sales Tax Credit (OSTC)</td>
<td>$260 per adult and child in a family</td>
<td>4%</td>
<td>Single $20,000 to $26,500(^2)</td>
</tr>
<tr>
<td></td>
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<td>Family of 2 $25,000 to $38,000(^2)</td>
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<td>Family of 3 $25,000 to $44,500(^2)</td>
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<td>Family of 4 $25,000 to $51,000(^2)</td>
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<td>Family of 5 $25,000 to $57,500(^2)</td>
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<td>Ontario Property Tax Credit (OPTC)</td>
<td>Non-seniors $900</td>
<td>2%</td>
<td>Non-senior Single $20,000 to $65,000(^3)</td>
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<tr>
<td></td>
<td>Seniors $1,025</td>
<td></td>
<td>Non-senior Family $25,000 to $70,000(^3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Senior Single $20,000 to $71,250(^3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Senior Family $25,000 to $76,250(^3)</td>
</tr>
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</table>

Chart 7: Tax Savings for a Manufacturer

Revenue: $5,000,000
Taxable Income: $120,000

89% reduction

Not: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.

Source: Ontario Ministry of Finance.
Tax Savings for a Restaurant

Chart 8

Annual Tax Payable

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$3,500,000</th>
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</thead>
<tbody>
<tr>
<td>Taxable Income</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

2009

- Sales Tax: $5,200
- Corporate Income Tax: $11,000
- Embedded Sales Tax: $13,800

July 1, 2010

- $9,900
- 67% reduction

Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.

Source: Ontario Ministry of Finance.

Tax Savings for a Retailer

Chart 9

Annual Tax Payable

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$600,000</th>
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<tbody>
<tr>
<td>Taxable Income</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

2009

- Sales Tax: $1,060
- Corporate Income Tax: $2,200
- Embedded Sales Tax: $4,300

July 1, 2010

- $2,600
- 66% reduction

Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.

Source: Ontario Ministry of Finance.
## Tax Savings for a Software Publisher

**Chart 10**

### Annual Tax Payable

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Tax</th>
<th>Corporate Income Tax</th>
<th>Embedded Sales Tax</th>
<th>Total Tax Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$13,475</td>
<td>$6,875</td>
<td>$5,050</td>
<td>$25,400</td>
</tr>
<tr>
<td>July 1, 2010*</td>
<td>$5,625</td>
<td>$5,625</td>
<td>$50</td>
<td>$11,750</td>
</tr>
</tbody>
</table>

*The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.

*Source: Ontario Ministry of Finance*

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## Annual Tax Savings to Business — Illustrative Examples

**Table 3**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee Shop</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$2,500</td>
<td>73</td>
</tr>
<tr>
<td>Dry Cleaner</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$960</td>
<td>85</td>
</tr>
<tr>
<td>Forestry</td>
<td>$20,000,000</td>
<td>$20,000,000</td>
<td>$45,000</td>
<td>81</td>
</tr>
<tr>
<td>Hotel</td>
<td>$9,000,000</td>
<td>$9,000,000</td>
<td>$74,500</td>
<td>70</td>
</tr>
<tr>
<td>Landscaping</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
<td>$8,500</td>
<td>84</td>
</tr>
<tr>
<td>Movie Theatre</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$6,400</td>
<td>60</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>$250,000,000</td>
<td>$250,000,000</td>
<td>$230,000</td>
<td>96</td>
</tr>
</tbody>
</table>

1. Tax payable includes sales tax, CIT, embedded sales tax and Capital Tax (where applicable).
2. Full implementation occurs July 1, 2010 for the coffee shop, dry cleaner, landscaper and movie theatre; July 1, 2013 for the hotel, when the CIT rate cuts are fully phased in; and July 1, 2018 for the telecommunications provider and the forestry company, when input tax credits are fully phased in.
Appendix D: British Columbia Government Communications Materials

Table 2  Impact of Harmonization on Individuals and Families Before Removal of Embedded PST

<table>
<thead>
<tr>
<th></th>
<th>Single individual with $25,000 income</th>
<th>Single individual with $60,000 income</th>
<th>Family of four with $30,000 income</th>
<th>Family of four with $60,000 income</th>
<th>Family of four with $90,000 income</th>
<th>Senior couple with $30,000 income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Provincial Sales Tax</td>
<td>-1,039</td>
<td>-983</td>
<td>-1,253</td>
<td>-1,607</td>
<td>-1,018</td>
<td>-756</td>
</tr>
<tr>
<td>Direct Harmonized Sales Tax</td>
<td>581</td>
<td>1,466</td>
<td>1,261</td>
<td>1,607</td>
<td>1,018</td>
<td></td>
</tr>
<tr>
<td>Change in direct sales taxes payable</td>
<td>169</td>
<td>427</td>
<td>210</td>
<td>278</td>
<td>354</td>
<td>262</td>
</tr>
<tr>
<td>Personal tax measures related to harmonization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BC HST credit</td>
<td>(84)</td>
<td>(762)</td>
<td>-</td>
<td>-</td>
<td>(260)</td>
<td></td>
</tr>
<tr>
<td>Increase to basic personal and spousal credits</td>
<td>(72)</td>
<td>(72)</td>
<td>-</td>
<td>(144)</td>
<td>(144)</td>
<td></td>
</tr>
<tr>
<td>Personal income tax impacts</td>
<td>(158)</td>
<td>(72)</td>
<td>(762)</td>
<td>(144)</td>
<td>(144)</td>
<td>(260)</td>
</tr>
<tr>
<td>Net change in tax</td>
<td>13</td>
<td>355</td>
<td>(552)</td>
<td>134</td>
<td>210</td>
<td>2</td>
</tr>
</tbody>
</table>

1 Based on typical consumption patterns from the Survey of Household Spending. Does not include the savings to consumers from business no longer passing on their provincial sales tax to consumers through increased prices.
2 See Table A.3 for a detailed explanation of how these sales tax estimates are calculated.
Appendix E Treatments

1) Income Tax Policy Brief

**Policy Problem:** Canada currently faces a budgetary deficit. A deficit occurs when a government’s spending is greater than the revenue it collects. Many economists view deficits, particularly long-lasting ones, as bad economic policy. A failure to balance the books can undermine [short-term economic growth by making it more costly for businesses to borrow capital, invest in the economy, and provide job opportunities for Canadians today.] OR [long-term economic growth by burdening the cost of public debt onto future taxpayers and forcing future governments to make deep spending cuts.]

**Proposed Solution:** One potential way for the government to eliminate the deficit is to increase Personal Income Taxes (PITs). Many economists see PITs as a fair way to raise revenue because they are progressive (meaning that one's level of taxation corresponds to one's ability to pay). Income tax is the most important revenue source for the federal government, it enables them to directly fund federal programs, such as the Universal Child Care Benefit, food inspection, and military operations. The revenue is also used to indirectly support provincial programs such as health care, education and policing.

**Policy Cost:** An across-the-board increase to Canadians’ existing PIT rate by [0.5/1/1.5/2/2.5/3/3.5/4/4.5/5] percentage points

**Policy Benefit:** The tax increase could produce [a reduction in the deficit and protect the existing level of federal public services by 2019.] OR [a balanced federal budget, protect the existing level of federal public services and make a moderate reduction to the national debt by 2026.] OR [a large budgetary surplus, protect the existing level of federal public services, and make a significant reduction to the national debt by 2046.]

2) Carbon Tax Policy Brief

**Policy Problem:** Climate change represents one of the most challenging policy problems of our time. [Some of the economic impacts of climate change are already beginning to be felt today. Climate change is already affecting key Canadian industries (forestry, fisheries), threatening the livelihoods of indigenous peoples in the Arctic, and costing taxpayers money through responses to extreme weather events (forest fires, winter storms.) OR [The most serious consequences of climate change though, will not be felt until the distant future. Studies suggest that if nothing is done about climate change very soon then future generations in Canada will face serious problems, such as threats to food security, water shortages and increased prevalence of disease.]

**Proposed Solution:** Some policy experts have proposed carbon taxes as an effective response to climate change. A carbon tax is a surcharge on products (e.g., gasoline) and services (e.g., air travel) that use fossil fuels. Carbon taxes work by making fossil fuel consumption more costly, and in doing so, encourage a switch to cleaner energy alternatives (e.g., hydro, wind and solar). Unlike other taxes, carbon taxes are not typically used to generate revenue. Governments can make a carbon tax revenue neutral by using the collected revenue to reduce other taxes (e.g., income taxes). This is how the British Columbia carbon tax is designed. The BC carbon tax has been lauded by economists and scientists for its revenue neutrality and for its effectiveness in reducing emissions.
**Policy Cost:** The most visible effect of a carbon tax will likely be on the cost of gasoline. A carbon tax could increase the price of gasoline by [5/7.5/10/12.5/15] cents per litre, making things like private and public transportation more costly.

**Policy Benefit:** If a carbon tax was adopted today, experts predict that by [2046 we could significantly increase the availability of green energy sources. This would shift Canada to a low-carbon economy and could begin to dramatically to mitigate the negative effects of climate change's impact], OR [2019 businesses could start making large-scale switches to greener energy sources. A change in business energy consumption and investment could help begin Canada's transition to a low carbon economy], OR [2026 we could moderately increase the availability of green energy sources. This would move Canada along a transition to a low carbon economy and begin to mitigate the negative effects of climate change's impact].

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### 3) Sales Tax Policy Brief

**Policy Problem:** Canada currently faces a serious problem with its aging infrastructure. If Canada fails to make adequate investments into its infrastructure today (e.g., public transit, bridges, roads), it could have serious negative economic consequences. A failure to invest could impair Canada's ability to attract new and existing businesses. Businesses want to locate their operations in jurisdictions with reliable transportation infrastructure since it allows them to move people and products both quickly and safely. [Given the low rate of economic growth that Canada is experiencing right now, increasing transportation infrastructure spending could help attract new investment into the Canadian economy today], OR [Infrastructure projects, such as public transit, can often take 15 to 20 years before construction is completed. Ensuring that the infrastructure we need will be available in the future requires government to start making major transportation infrastructure expenditure commitments today].

**Proposed Solution:** Some policy experts have suggested that increasing the federal sales tax could provide the necessary funds to improve Canada's crumbling transportation infrastructure. The increase could allow the government to dedicate this revenue solely to major transportation infrastructure projects. To ensure that the increase does not disproportionately impact those with low incomes, the government can continue to provide offsetting tax credits (i.e., quarterly rebate cheques).

**Policy Cost:** The current federal sales tax rate is 5 per cent. Some policy experts have called for increasing that rate by [0.5/1/1.5/2/2.5/3] percentage points which would increase the costs of most goods (e.g., clothing) and services (e.g., electricity).

**Policy Benefit:** Increasing the sales tax rate by this rate could enable governments to [upgrade and improve existing public transportation services offered to Canadians in urban and suburban areas (e.g., increase number of vehicle fleets and increase service frequency) by 2021], OR [expand the number of rapid transit public transit options for Canadians (e.g., more subway lines and light rail routes) in urban and suburban areas by 2031], OR [create major inter-regional rapid transit public transit options for Canadians by 2046 (e.g., Toronto-Ottawa-Montréal-Québec City, Edmonton-Calgary, Vancouver-Victoria, Saskatchewan-Regina-Winnipeg, and Halifax-St. John-St. John’s)].


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