

A Tale of Two Taxes: The Fate of Environmental Tax Reform in Canada

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Abstract

Policy makers who embrace market-based approaches to environmental regulation, typically eschew carbon taxes in favor of the political advantages of cap and trade, which offers lower visibility of costs to consumers and the opportunity to allocate valuable permits freely to industry. Against this backdrop, the article examines two surprising proposals for carbon taxes, by the government of British Columbia (BC) and by the federal Liberal Party of Canada. Both reflected a triumph of party leaders' normative "good policy" motives over "good politics." The BC tax alone succeeded first because it was adopted by a party already in government. Second, the onset of a recession before the next elections shifted voters' attention to the economy, which advantaged the BC Liberals but disadvantaged their federal counterparts. However, proposals for carbon taxes were unpopular in both jurisdictions, offering a cautionary tale concerning the fate of politicians' normative commitments absent electoral backing.

KEY WORDS: climate policy, carbon tax, cap and trade, policy instruments, Canada, British Columbia

Introduction¹

After decades of ignoring the advice of academic economists, policy makers have begun to embrace market-based approaches to environmental regulation, although with a clear preference for emissions trading over environmental taxes. That pre-disposition is readily explained by the political advantages of "cap and trade" (Baldwin, 2008). In particular, free permits can be "grandfathered" to polluters, not only reducing their compliance costs relative to a tax, but also generating a financial windfall given the newly created market value of those permits. Moreover, the costs of cap and trade to consumers are indirect and thus largely invisible. In contrast, carbon taxes entail a larger and more obvious transfer to the state both from individuals and firms.

Against this backdrop, the article examines two surprising debates concerning carbon taxation in Canada. In February 2008, British Columbia (BC) became the first jurisdiction in North America to adopt a revenue-neutral carbon tax. Despite public opposition, the provincial government stayed the course and has followed through on a series of annual increases to its carbon tax. The fate of a proposal for a national carbon tax advanced by the federal Liberal Party was very different. The Liberals received their lowest-ever share of the popular vote in the October 2008 general election, prompting the party to jettison both the proposal and the leader who had championed it.

This article addresses two questions. First, how can we understand BC and Canadian federal politicians' enthusiasm for carbon taxation despite the political advantages of cap and trade? I argue that both parties' support for carbon taxes reflected a triumph of politicians' "good policy" motives over "good politics." Second, why did the BC Liberals' carbon tax succeed while the federal Liberals' proposed "Green Shift" failed? Although the environment was at or near the top of

the polls when both proposals were advanced, the onset of an economic recession before the next election in both jurisdictions meant that voters were preoccupied with economic, rather than environmental, issues. In both cases, voters opted for the party they trusted most to manage the economy, in so doing handing victory to the BC Liberals but defeat to their federal counterparts. Thus, the survival of the BC carbon tax and failure of the federal Green Shift were to a large degree unrelated to the politics of carbon taxation. However, on balance proposals for carbon taxes appear to have reduced both parties' popularity, thus offering a cautionary tale concerning the fate of politicians' "good policy" motives absent electoral backing.

The Political Economy of Instrument Choice

Political scientists and economists have long noted that concentrated costs or benefits are more likely to be noticed and acted upon politically than diffuse costs or benefits (Lowi, 1964; Olson, 1982; Wilson, 1975). As a result, environmental taxes and regulations (whether conventional or market based), which entail concentrated costs and diffuse benefits, are politically difficult policy instruments to adopt. In contrast, the promise of concentrated benefits and diffuse costs make subsidies a political winner. A prior question for a study of the comparative politics of market-based approaches to environmental policy thus is why politicians would ever be willing to regulate in any jurisdiction.

As discussed below, Canadian policy makers have in fact shown a distinct preference for subsidies over regulatory approaches. However, while the inattention of the beneficiaries of environmental regulation makes regulation politically challenging most of the time, there have been discrete periods when the public has turned its attention to the environment (Harrison, 1996). During such periods, it is easier for policy makers to regulate; indeed, it may be difficult not to do so.

However, during those windows of opportunity, which regulatory approach will prevail and why: taxes, cap and trade, or conventional regulation? This section examines two competing explanations for policy instrument choice, policy makers' normative commitments ("good policy"), and their electoral incentives ("good politics"). Thereafter, the article employs this analytical framework to analyze the two cases, drawing on documentary evidence, public opinion polls, and 33 interviews with public servants and politicians in BC (8) and the Canadian federal government (11), business (2), environmental community (7), and academics and consultants (5).

"Good Policy"

The theory of market-based approaches to environmental policy is hardly novel, having first been advanced in 1920 by Pigou (1920). A survey of members of Congress in the late 1970s found widespread misunderstanding and opposition to market-based instruments (Kelman, 1981). Much has changed since then, however, as academic economists have more actively engaged with the policy community. The cap and trade program for sulfur dioxide established by the 1990 U.S. Clean Air Act Amendments has been widely celebrated (Schmalensee, Joskow, Ellerman, Montero, & Bailey, 1998; Stavins, 1998). In the case of climate change, the potential

for market-based approaches to reduce compliance costs and prompt innovation both loom large given the magnitude of the challenge of transforming economies predicated on fossil fuel combustion (Stavins, 1997). Moreover, market-based approaches are particularly well suited to control of greenhouse gases, both because emissions from most sources can be determined simply based on fossil fuel consumption and because location of emissions is irrelevant.

Cap and trade begins with a fixed quantity of emissions and allows the price of carbon to emerge through trading. In contrast, a carbon tax begins with a fixed price and allows the quantity of emissions to emerge in response. If policy makers had perfect information, they could design either instrument to achieve the same reduction in greenhouse gas emissions. In the imperfect real world, however, taxes offer several advantages over cap and trade. First, a carbon tax can be applied almost immediately, while design of a cap and trade system, and especially decisions with respect to initial allocation of permits, typically takes many years. Second, a stable price signal facilitates gradual adaptation by the business community over time. Although cap and trade does offer certainty with respect to emissions, either the cap or tax will need to be adjusted many times in the decades to come in any case. Third, it is relatively easy to apply a tax that covers virtually all fossil fuel purchases, whereas the need to monitor compliance by individual polluters under cap and trade has limited application to date to large industrial sources, which account for just half of North American emissions. Fourth, the transparency of a carbon tax facilitates adoption of measures to address the expected regressivity of either carbon pricing instrument. Moreover, grandfathering of permits under cap and trade, which has been the norm to date, exacerbates regressivity by handing a financial windfall to relatively wealthy investors. Finally, in addition to the environmental benefits of a carbon tax, the opportunity to undertake corresponding cuts in corporate or income taxes promises additional benefits for economic productivity and competitiveness—the so-called “double dividend” of environmental taxation (Organisation for Economic Co-operation and Development, 2006). Although tax cuts are also viable in theory under cap and trade, if permits are auctioned, free allocation of permits has been the norm to date.

The forgoing suggests that a policy maker sufficiently familiar with the theory of market-based instrument and pursuing “good policy motives” (Weaver, 1986) would opt for a broad-based, revenue-neutral tax, beginning at a relatively low level with a schedule for regular increases until emissions goals are achieved.

“Good Politics”

Even a politician motivated to “do the right thing” must secure election to pursue their good policy motives. This section considers in turn the policy instrument preferences of environmentalists, business, and voters, and the degree to which they reinforce or detract from good policy.

Environmental groups would be expected to be concerned first and foremost with achieving greenhouse gas emissions reductions on an urgent basis. All else being equal, they also would be expected to prefer approaches that are fair and cost-effective. On balance, one would expect environmental groups to prefer a

carbon tax for many of the reasons noted above, although the predictability of emissions reductions under cap and trade might lead some to prefer that approach.

Beginning from a premise that business' central motive is to minimize compliance costs, one would expect industry to prefer subsidies or voluntary programs to regulation of any form. However, if regulation is a foregone conclusion, business would be expected to prefer revenue-neutral carbon taxes and grandfathered cap and trade to conventional regulation, and conventional regulation to non-revenue neutral taxes and cap and trade with auctioned permits (Keohane, Revesz, & Stavins, 1998). The preference for less cost-effective conventional regulation relative to at least some market-based approaches may seem puzzling given the greater economic efficiency of the latter. However, while the latter are more cost-effective from the perspective of society as a whole, it does not follow that they always cost firms less. In the absence of tax rebates or free allocation of permits, firms would need to pay an annual tax or price at auction, in addition to ongoing abatement costs. While the former is merely a "transfer" considered irrelevant from the perspective of economic efficiency, it is, not surprisingly, highly relevant from the perspective of the actor whose wealth is being transferred to the state, particularly since in the early stages of reductions, the combined cost of the tax and abatement can be an order of magnitude or more higher than the cost of abatement alone.

Both a revenue-neutral carbon tax and cap and trade with free allocation offer net savings to business over conventional regulation of comparable stringency. The choice between the two will depend on policy details, but on balance, one would expect cap and trade to prevail for several reasons. First, free allocation of permits offers a significant windfall value to the firm. Second, while free allocation of permits ensures that firms only pay the cost of abatement under cap and trade, even if a carbon tax is revenue neutral for the state, the value of corporate tax cuts to a given firm may not cover the carbon tax bill. Third, the flip side of the rapidity with which carbon taxes can be applied is a valuable delay for the corporate community while the details of a cap and trade program are devised. Fourth, that delay, particularly combined with the complexity of cap and trade, offers considerable potential for rent seeking as individual firms or sectors plead their "special cases." That said, industry has often won concessions as well on environmental taxes, which seldom "wear the clothing of Pigou" (Ciocirlan & Yandle, 2003; Harrison, 2010a).

Two considerations do favor carbon taxes from business' perspective, however. First, taxes offer greater price certainty, which may be particularly important for firms facing price-elastic demand. Second, the ease with which a carbon tax can be applied to large and small polluters alike may lead industry to prefer a tax if they fear that the alternative is to impose a disproportionate burden on them under cap and trade. Indeed, the history of carbon taxes in Europe suggests that, if anything, business has borne less than its share of the tax burden (Harrison, 2010a).

Both environmentalists and industry claim to speak for voters, the former to voters' interest in environmental protection and the latter to their desire for job security. The credibility of either can be expected to turn on cyclical public attention to the environment. When the salience of environmental issues is less than that of the economy, business' arguments are more likely to prevail. However, when the environment is "hot," one would expect environmentalists' voices to carry greater

weight. That said, party coalitions are not remade anew with each policy issue. Thus, a business-oriented party may give greater credence to long-term allies in the business community, while a party with a strong environmental record would be expected to maintain closer ties with the environmental community.

There is also the possibility that voters will express their own preferences, especially if climate change becomes an issue during an election campaign. However, even during periods of heightened salience, it seems unlikely that voters would invest significant time in studying policy options. One would thus expect the public's support for a policy instrument to be weaker the more visible the costs to them. In that respect, cap and trade again has significant political advantages, because the complexity of the system and the indirectness of costs to consumers render costs to individuals relatively invisible. In contrast, the costs of carbon taxes tend to be more explicit for individual consumers—not least given the prevalence of “the t word.” Moreover, as a result of loss aversion, voters' awareness and appreciation of any concurrent benefits in the form of tax deductions are unlikely to match their resentment of the costs (Kahneman, Knetsch, & Thaler, 1991; Weaver, 1986). This is particularly likely when tax benefits are delayed and infrequent, as when they are delivered in the form of a lower bill at income tax time, in comparison with a potentially exaggerated awareness of the costs of a carbon tax on the occasion of a weekly fill-up.

To sum up, although there are many reasons to conclude that a carbon tax is a better approach than cap and trade, “good policy” does not seem likely to yield “good politics.” Although the environmental community might advocate a carbon tax, business and voters at large would be expected to prefer cap and trade.

A Brief History of Canadian Climate Policy

Canada has among the highest per capita greenhouse gas emissions in the industrialized world. In response, Canadian governments have announced a series of ambitious plans promising deep emissions reductions, only to see each replaced by yet another plan with ambitious *new* targets and deadlines. Confronted by inattentive voters, opposition from greenhouse gas intensive industries, and provincial governments defending local industries, Canadian governments have relied almost exclusively on politically appealing but ineffectual voluntary programs and subsidies (Harrison, 2010b; Simpson, Jaccard, & Rivers, 2007). In turn, Canada's greenhouse gas emissions have steadily increased, reaching 26 percent above the 1990 baseline in 2007 (Environment Canada, 2009).

Although a carbon tax was briefly floated for discussion in 1990 when the federal “Green Plan” was under development, it was quickly rejected as a “non-starter” in light of business and provincial resistance (Hoberg & Harrison, 1994). When the Conservative government of Brian Mulroney was replaced by the Liberals under Prime Minister Jean Chretien, the new Prime Minister also insisted that a carbon tax was “not on the table” (Gherson, 1994). As a Chretien Cabinet Minister later recalled, “From that moment on, the line was ‘no carbon tax’” (personal communication, 2006).

When the Chretien government ratified the Kyoto Protocol in 2002, it released an implementation plan that relied primarily on voluntary programs, including

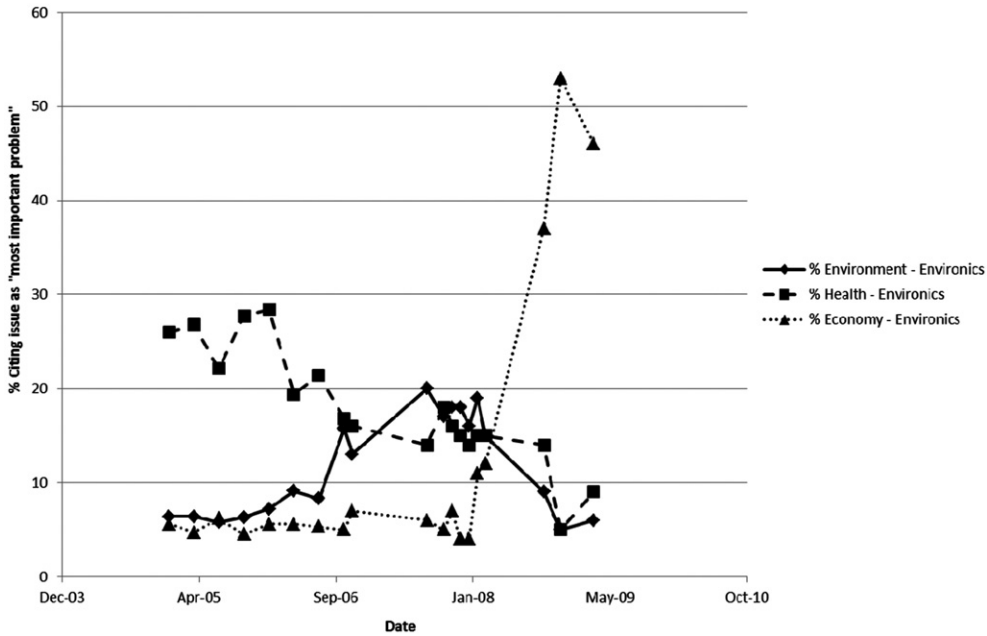


Figure 1. Trends in Canadians' Priorities
Source: Environics.

negotiated “covenants” with industry, and public spending (Harrison, 2010b). However, implementation of even those measures stalled in anticipation of Prime Minister Chretien’s retirement. By the time the Kyoto Protocol took effect in 2005, it was clear that Canada would need more aggressive measures to meet its target. The solution adopted by Chretien’s successor, Paul Martin, was to rely even more heavily on public spending, which accounted for fully three quarters of projected reductions under his government’s 2005 action plan (Harrison, 2010b). The 2005 plan did propose a cap and trade program for large industrial sources but that accounted for just 13 percent of anticipated reductions.

In any case, the Martin government was defeated before implementing either its spending or regulatory proposals. The new Conservative government rejected Canada’s Kyoto Protocol target as infeasible, committing only to *begin* consultations on new regulatory targets. Although the Harper government’s initial strategy had been crafted in response to polls conducted in late 2005, which suggested that Canadians were not focused on climate change, over the course of 2006, the environment surged to the top of the public’s agenda (Figure 1). The government responded by announcing billions of dollars in public spending and by releasing yet another national action plan to address climate change, this time promising a 20 percent reduction below 2006 emissions (about 2 percent below 1990) by 2020. Central to the plan was a proposal to develop a national cap and trade program to take effect in 2012.

Adoption of the British Columbia Carbon Tax

The surge in public attention to the environment over the course of 2006 and early 2007 also prompted provincial governments to launch their own regulatory pro-

grams. However, even in that context, the emergence of a carbon tax in BC was a surprise. The Liberal government of that province, led by Premier Gordon Campbell, had been reviled by environmentalists for deep cuts to its environment budget and for supporting offshore oil and gas exploration and proposals for two new coal-fired electricity-generating stations. It was thus a surprise to many when the provincial government announced in 2007 that climate change would be a key priority in the years to come.

The government's sudden enthusiasm originated with Gordon Campbell himself. Campbell has said that a tipping point for him was a trip to China in 2006, where he witnessed firsthand the high level of air pollution in that country (Simpson, 2008a). Moreover, the economic impacts of climate change were becoming increasingly evident in BC. An infestation of mountain pine beetles, a naturally occurring pest normally controlled by a cold winter, had spread across the province as it experienced warmer weather, wrecking havoc on the forest industry. Premier Campbell may have had stronger than usual personal motives to pursue "good policy" in light of the recent birth of his first grandchild in 2006 as well as greater capacity to do so having won a second significant majority in 2005. The Premier was known by his staff to take a hefty pile of nonfiction on his annual Christmas vacation in Maui, and in 2006, the pile included books on climate change.

In staking out a leadership role among Canadian provinces, Campbell was also encouraged by growing public attention to climate change and, in that regard, by the example of the Republican Governor of California, Arnold Schwarzenegger, who had sailed to reelection in November 2006 by appealing to the center, particularly on environmental issues. In December 2006, the Premier spoke on the telephone to Governor Schwarzenegger, and thereafter two of the Governor's senior environmental advisors were dispatched to BC to advise the provincial government. Premier Campbell in turn visited California in March 2006, and Governor Schwarzenegger traveled to BC in May 2007.

The BC government's new climate policy agenda, unveiled in the throne speech of February 2007, clearly reflected California's influence. The speech announced a target to reduce BC's emissions 33 percent below current levels (10 percent below 1990) by 2020, which, like California's target, was subsequently enshrined in legislation. The throne speech also included commitments that all electricity production in BC must have zero emissions by 2016, that the province would match California's tailpipe standards, and that BC would follow California's lead in adopting a low-carbon fuel standard. Two months later, BC announced that it would join five U.S. states, including California, in development of a regional cap and trade program called the Western Climate Initiative.

The new climate policy agenda was a shock even to business community insiders closely aligned with the Liberal government. The Executive Vice President of the BC Business Council, Jock Finlayson, recalled, "The throne speech was a huge surprise, not just to my organization but to everybody in the corporate community. There really wasn't any advance notice, either through public statements or even through back channels. . . . We were absolutely shocked. . . . I actually dropped my coffee cup, full of coffee, when I was watching [the live broadcast]. . . . That's how surprised we were. I remember the media asking 'were you consulted on this?' and I said 'no' and neither was anybody else" (personal communication, 2009).

A new Cabinet committee on climate action was, auspiciously, chaired by the Premier himself, while the Climate Action Secretariat was housed in the Office of the Premier. Individual Ministries were asked to submit concept papers soon after the throne speech, and the Ministry of Finance's submission included a proposal for a tax shift. In fact, the idea of carbon taxes had reemerged in Canadian political debate in 2006, first during the federal Liberal leadership race (discussed below), and thereafter when the Quebec government announced North America's first carbon tax, although the latter was largely symbolic at just \$3/tonne with no plans for increases.

In the summer of 2007, already having received the Ministry of Finance proposal, Premier Campbell met with a group of his constituents who had formed a group called Voters Taking Action Against Climate Change (VTACC). After the Premier spoke at some length concerning the various measures his government had announced, David Green, an economics professor present at the meeting, responded, "You know, you could do all this with a carbon tax. It will do all of these things and more efficiently." Green, later recalled, "To my surprise, he replied 'We're very interested in a carbon tax.' Then he went into this whole monologue about how to be a successful politician, you had to essentially lead from the rear, as opposed to the visionary thing. . . . He said, basically, there are things that I would like to do but I can't do them unless someone is out there doing the groundwork and making it possible. This is an issue where we can't just jump out in front. We need a groundswell of support" (personal communication, 2009). VTACC set about creating that groundswell, collecting roughly 15,000 names on a petition calling for a carbon tax over the next several months.

In October 2007, Finance Minister Carole Taylor publicly acknowledged that a carbon tax was under consideration for inclusion in the 2008 budget ("Carbon Tax Considered," 2007). Within 2 weeks, she received a letter written by David Green and signed by 70 economics professors from BC's four major research universities calling on the Minister "to include a revenue-neutral carbon tax in [her] upcoming budget" (Green, 2007). Interestingly, the author of the letter, not being an *environmental* economist, was not yet familiar with the alternative of pricing carbon via cap and trade, and thus stressed only the benefits of a carbon tax over conventional regulation. The Minister directed her staff to discuss the design of a carbon tax with the academic community and welcomed the public's submissions on the issue to the finance committee of the legislature (Brethour, 2007).

Environmental groups, such as VTACC, the Pembina Institute, the Sierra Club, and the David Suzuki Foundation not only made submissions, but also mobilized their support networks to submit letters to the Finance Committee. Environmental groups also prompted United and Anglican Church ministers and priests to write to the Finance Minister calling for a revenue-neutral carbon tax (Ward, 2007). In addition, members of the academic community published op-eds calling for a carbon tax in BC (Jaccard, 2007; Mather, Olewiler, & Elgie, 2007). In January 2008, the National Roundtable on Environment and Economy (NRTEE, 2008), a federal government advisory body, called on the government of Canada to "implement a strong, clear, consistent and certain [greenhouse gas] emission price signal across the entire Canadian economy as soon as possible," although the report was agnostic on the choice between a carbon tax or cap and trade.

Perhaps more significant than predictable expressions of support from environmentalists and academics in response to the Minister's trial balloon was the absence of any outcry from the BC business community. With unprecedented public attention to climate change prompting investor anxiety, by 2007, the business community had accepted the need for carbon pricing (Belfry, 2010). Leading business associations, including the Canadian Council of Chief Executives (2008) and even the Canadian Association of Petroleum Producers, cautiously endorsed the NRTEE report. Thus, when the province met with representatives of various business sectors in late 2007 to discuss a possible carbon tax, the BC business community was receptive, viewing the economic efficiency and broad application of a carbon tax to all sources (i.e., not just industry or select sectors) as significant advantages. However, business leaders stressed the need for revenue neutrality. It was clear to the government that the business community would not support a carbon tax intended to generate or redistribute income.

In February 2008, the Finance Minister introduced the provincial budget, which included North America's first revenue-neutral carbon tax. The carbon tax was to take effect on July 1 at a level of \$10/tonne CO₂ (2.4 cents per liter of gasoline), with annual increases of \$5/tonne scheduled through to 2012, at which point the tax would be \$30/tonne. All revenues from the tax were to be returned to taxpayers, two thirds through cuts to individual income taxes, and one third through corporate tax cuts. In addition, a low income tax credit was introduced to counteract regressive effects of the carbon tax. The Finance Minister also announced a one-time Climate Action Dividend of \$100 to be paid to every resident of BC in 2008.

Initial reaction to the carbon tax was supportive. Pundits predicted that other provinces would soon follow suit (Simpson, 2008b). The Canadian Centre for Policy Alternatives, a left-leaning think tank, called the BC tax "well-crafted," while the David Suzuki Foundation described it as a "landmark, a turning point here in BC and in North America" (Vanderklippe, 2008). A coalition of 16 environmental groups sent representatives to the legislature on the day the carbon tax bill was introduced, an unprecedented show of support for a government that previously had few friends in the environmental community (David Suzuki Foundation, 2008a). Even the business community was cautiously supportive. In its annual report card, the Vancouver Board of Trade (2008) gave the budget an "A," in part thanks to a "very smart carbon tax." The BC Business Council offered that "the government deserves credit for designing a balanced package that covers most sources of greenhouse gas emissions and recycles all of the revenue back to households and firms" (Finlayson, 2008).

A poll taken days after the budget announcement found 54 percent of British Columbians supportive and 40 percent opposed to the carbon tax. However, a backlash soon emerged among residents of Northern and rural communities who perceived that the tax was unfair to them because they live in a colder climate and have few, if any, transit options. Although analysis of fuel purchases indicated that, by virtue of shorter commutes, rural residents would actually pay *less* on average than urbanites, perceptions of unfairness persisted, fueled by a historical sense of political alienation among rural British Columbians (Peet & Harrison, 2012). A series of local government resolutions was passed across the North condemning the

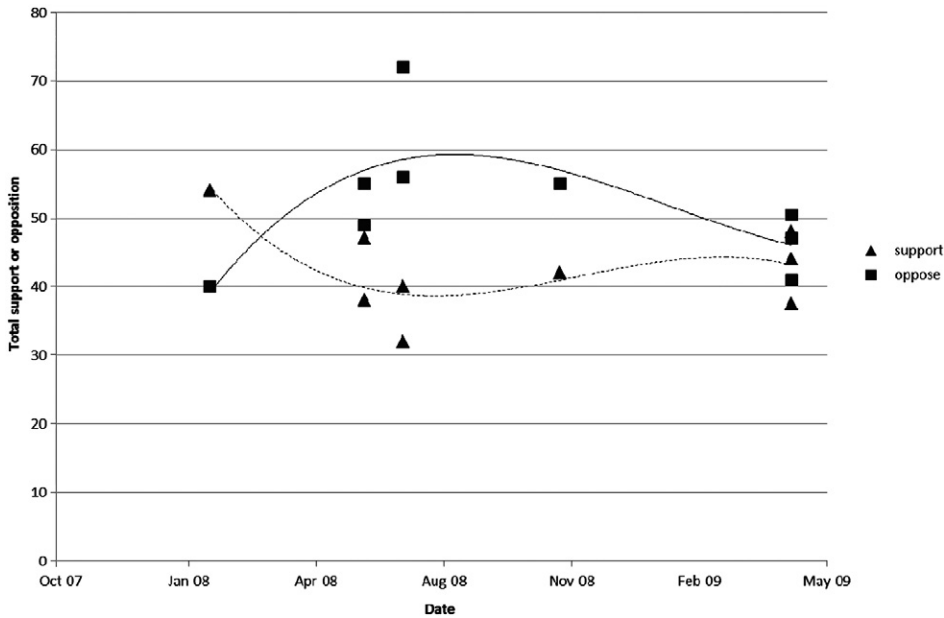


Figure 2. Polling on British Columbia Carbon Tax

Sources: Environics (February, July, May 2009), Ipsos (June, November 2008), Angus Reid (June, July [conducted for New Democratic Party]), Mustel (May 2009). Support/oppose is total of those who “strongly” and “somewhat” support/oppose.

tax, and by May, the Northern Central Municipal Association adopted a resolution condemning the provincial carbon tax.

A spike in the price of gasoline between the February budget and the July 1 date of application also appears to have exacerbated public opposition to the carbon tax. With singularly unfortunate timing, the carbon tax took effect just as the price of gasoline reached its peak, pushing the price per liter over the symbolic \$1.50 mark at Vancouver gas stations. Although the tax accounted for just 2.4 cents of the 40-cent/liter increase experienced by consumers between January and July 2008 (Statistics Canada, 2008), the trend in opposition (Figure 2) suggests that voters may have expressed their frustration with gasoline prices through opposition to the carbon tax.

The provincial New Democratic Party (NDP) jumped on the populist bandwagon. In May 2008, the NDP voted against the BC carbon tax legislation, although the bill passed easily given the Liberals’ majority in the legislature. In June, as the tax’s application approached, the NDP launched an “Axe the Tax” campaign, accompanied by an online petition and public rallies. The leader, Carole James, argued that the tax was unfair, both to Northern British Columbians and to “working people who [must] pay the tax, [while] big polluters get a pass” (James, 2008). As noted above, the former was not borne out by evidence, and the latter was also misleading. While the BC carbon tax (like other carbon taxes globally) does not cover sources that account for roughly 25 percent of emissions (e.g., farms, landfills, and noncombustion emissions from industrial processes), it does apply to all fossil fuel purchases, whether by individuals or firms. Moreover, like the NDP, the Liberal government had committed to a cap and trade program to cover the remaining industrial emissions.

The NDP's longstanding allies in the environmental community were shocked. The party's provincial campaign director was formerly director of the David Suzuki Foundation's climate program and, just months earlier at its annual convention, the NDP had adopted a Sustainability Plan calling for carbon taxes and the leader also had spoken in favor of a carbon tax at a provincial climate change conference (BC NDP, 2007; Grandia, 2009; Simpson et al., 2007). Former NDP member of the provincial Legislative Authority Bob Simpson (personal communication, 2010), reflected, "There were a lot of us in caucus that were shocked at 'axe the tax.'" While caucus members were required to toe the party line, the environmental community was not. Canada's most prominent environmentalist, David Suzuki, declared, "I am ashamed of Carole James and the NDP for using 'axe the tax' as a political opportunity" (Palmer, 2008). Former U.S. President Bill Clinton defended BC's carbon tax during a public appearance in Vancouver (Penner, 2008). Academics wrote op-eds and gave interviews to counter what they perceived as public misunderstanding being encouraged by the NDP campaign (Green, Harrison, Richards, & Olewiler, 2008).

Given misunderstanding of the tax, the immediacy of the costs compared with distant tax benefits, and the concurrent increase in gasoline prices, however, it is not surprising that the NDP's campaign resonated with voters. Voters simply did not believe the government's reassurances that the tax was revenue neutral. In June 2008, 71 percent of British Columbians expected to pay more than they got back through tax cuts, although the true figure would be roughly 50 percent, with the other half getting more back than they paid (Hogben, 2008). The argument that the tax was unfair to average British Columbians clearly resonated with voters as well. An August 2008 Angus Reid poll found that although 54 percent of British Columbians agreed that "putting a price on greenhouse gas emissions is a good idea," only 19 percent thought a carbon tax was the best way to do that, while three quarters believed that government should "exclusively" target "big polluters."

A Proposed Federal Carbon Tax

As Canadians increasingly turned their attention to climate change over the course of 2006, the federal Liberal Party was engaged in a leadership race. Former Environment Minister Stéphane Dion focused his leadership campaign on the environment. Yet it was the front runner, Michael Ignatieff, who as a newcomer to politics felt the need to stake out the boldest environmental position in the leadership race. After reading publications provided by one of his staff, a former student of Canada's most prominent academic proponent of carbon pricing, Mark Jaccard, Ignatieff confronted Dion in one of the leadership debates, stating "We've also got to have popular, practical, believable policies that may involve some form of carbon tax, for example, to increase the penalties on emissions" (Clark, 2006). As Environment Minister, Dion had received similar briefings and drawn a similar conclusion. However, having seen his proposal for environmental tax reform rejected by Paul Martin's Cabinet in 2005, Dion stuck to the safer spending strategy of his 2005 climate plan, responding "I've always been against [a carbon tax]. I will have other ways to get there" (Laghi & Leblanc, 2008). Dion's platform went even further in

stating, “Some of my opponents for the Liberal leadership have suggested that a carbon tax would be the most effective measure to curb climate pollution. This is simply bad policy” (Dion, 2006).

The 2006 Liberal convention offered further surprises. As anticipated, Ignatieff won the first ballot, while Dion finished a distant third. However, as one defeated candidate directed his delegates to Dion and another released his, the combination was sufficient to propel Dion to victory on the fourth ballot. It was the first time the Liberal Party of Canada had ever selected a leader who had not led from the first ballot. The choice of an earnest former political science professor, known for the courage of his convictions rather than his charisma or political instincts, would prove fateful, both for carbon taxation in Canada and the Liberal Party’s fortunes.

As the list of studies and organizations endorsing carbon pricing grew, politicians in all three national parties initially maintained their opposition to carbon taxes. The Environment Minister, John Baird, responded to the January 2008 National Round Table on Environment and Economy report on carbon pricing by stating, “We think a new tax sounds like a Liberal idea” (Curry, 2008). For his part, the Liberal Party’s environment critic offered assurances that his party also opposed a carbon tax, favoring cap and trade instead (Harding, 2008). Within weeks, however, as BC’s new carbon tax initially received a positive reception, Liberal leader Stéphane Dion began to openly muse concerning a similar federal tax shift (Bailey, 2008).

Although the federal Liberals’ proposal was not announced until June, the decision to make a green tax shift the centerpiece of the Liberal platform in the next election was in fact made in late March 2008. Remarkably, no polling was done by the party in advance of the leader’s decision. However, in response to the anxiety within the Liberal caucus, the party did commission a survey by its longtime pollster, Pollara, which concluded that “making a carbon tax shift the key plank in our appeal to the electorate is a vote loser, not a vote winner” (Bryden, 2008a). Anticipating the Conservative Party’s attacks, Pollara warned that a green tax shift was “vulnerable” to being framed as a tax grab, a sentiment echoed by longtime Liberal party strategist, Warren Kinsella, who warned, “A six-year-old could write the attack ads” (Gardner, 2008). Pollara concluded, “It is our recommendation that if a carbon tax shift absolutely must be part of our platform—and we do not recommend this at all—that it only be part of a larger environmental strategy involving actual popular proposals” (Diebel, 2008).

Dion received warnings from other advisors as well. Although sharing the leader’s views of “good policy,” some of Dion’s personal staff recommended against running for election on environmental tax reform, and one advisor left Dion’s team as a result of the decision to pursue the Green Shift. A senior BC official who had been involved with crafting BC’s carbon tax also advised against running for election on such a proposal. Finally, Canada’s most visible advocate of carbon pricing, Mark Jaccard, advised the Liberal leader against a carbon tax. Although Jaccard had signed the BC economists’ letter calling for a carbon tax and had joined other academics in defending the BC carbon tax (Barrett, 2008), he had also experienced firsthand the challenge of defending that policy against a growing chorus of critics in the months since the provincial budget. Jaccard told Dion that a carbon tax was “good policy but bad politics,” to which Dion forcefully responded, “I believe good policy *is* good politics” (personal communication, 2009).

While the Liberals honed their messages in anticipation of a summer release of their proposal, their opponents did not wait for the Liberal plan to attack it, in so doing framing the Liberals' proposal before the Liberals did so themselves. Despite their positions at opposite ends of the political spectrum, the Conservative and the NDP messages on carbon taxation were remarkably similar, in both cases echoing BC NDP's "axe the tax" campaign (Baird, 2008; Layton, 2008a). Both parties advocated cap and trade as an alternative that would make "big polluters pay their fair share" (Layton, 2008b). Both parties decried a tax on "working families" as unfair, promising subsidies rather than taxes to help "everyday Canadians do their part" (Baird, 2008). Finally, both questioned the credibility of the Liberals' anticipated claim of "revenue-neutrality."

The Liberals released their "Green Shift" plan with great fanfare in late June (Liberal Party of Canada, 2008). The party called for a revenue-neutral carbon tax, starting at \$10/tonne of CO₂ in 2009 and increasing by \$10 per year to reach \$40/tonne in 2012. Following academics' advice (Mintz & Olewiler, 2008), the Liberals proposed to waive the carbon tax on gasoline for 4 years, on the premise that the federal excise tax on gasoline was already \$42/tonne. Driven by Dion's own commitment to a three-pillar approach to sustainability, the plan promised a "richer, greener, fairer Canada," with the latter to be achieved via a host of tax credits designed to fight income inequality, assist those with disabilities, ameliorate child poverty, and (presumably in response to the BC experience) ameliorate the impacts of the tax on Northern and rural communities.

Although the Green Shift satisfied calls for carbon pricing from the environmental, academic, and even business communities, statements of support were few and far between. In contrast to environmentalists' enthusiasm for the BC carbon tax, including a joint statement just days after the Green Shift was released (David Suzuki Foundation, 2008b), the environmental community did not rally behind the federal Liberals' proposal. The Sierra Club of Canada issued a press release applauding the plan, but equated Dion's "leadership" with that of the NDP's Jack Layton, who had attacked the idea of a carbon tax. The Pembina Institute issued a press release "welcoming" the Liberal plan for a carbon tax while criticizing the party for not providing details of complementary spending and regulatory programs. The David Suzuki Foundation remarkably did not even issue a statement on the occasion of the Green Shift's release. The environmental community's reticence can be attributed to two factors. First, many environmentalists had personal ties to the NDP leader, Jack Layton, who had won his party's leadership in part on his green credentials. Indeed, rather than publicly criticizing the NDP's position, representatives of Canadian environmental groups met privately with "Jack" to convey objections to his statements concerning carbon taxes.

Second, and more importantly, most Canadian environmental groups have tax status as charities, which precludes partisanship. Given the opposition of both the NDP and Conservatives to carbon taxes, and the centrality of the Green Shift to the Liberals' election platform, a statement of support for a carbon tax could easily be viewed as a partisan endorsement of the Liberals, who were poised to lose the next election in any case. One might ask, then, why the environmental community did not hesitate to speak out in the BC context. However, when environmentalists first expressed their enthusiasm for the BC carbon tax, it was with the expectation that

the policy would be supported by the opposition NDP, which had espoused a carbon tax just months before.

The appearance of partisanship also explains the caution of the academic community. A public statement by 230 academic economists issued during the federal election campaign was much more nuanced than the previous BC statement calling for a carbon tax. The national statement offered broad principles for carbon pricing without indicating support for or even comparing one party's approach with another's.

The business community, although welcoming price certainty and broad application of the proposed tax, was wary of the social policy goals embedded in the package of tax cuts, which raised questions concerning the revenue neutrality for industry. In addition, a representative of a leading business association explained, "because it became such a partisan political issue, I don't think any business organization that purports to have influence in Ottawa wanted to be caught in the position of being seen to endorse one political party or another" (personal communication, 2009). Finally, the choice for business was not necessarily between cap and trade and a carbon tax with comparable targets. The Conservative government's cap and trade proposal, which relied heavily on carbon capture and sequestration, arguably offered the prospect of weaker emissions targets.

The Green Shift also found no support from provincial governments. The two provinces with the most carbon-intensive economies, Alberta and Saskatchewan, adamantly opposed the Green Shift, which would be expected to draw more revenue from their oil and gas industries than it returned through tax cuts, which would be averaged nationwide (Alphonso, 2008; Macgregor, 2008). They were joined in opposition by the Premiers of Nova Scotia and the three Northern Territories, all of whom anticipated increasing revenues from offshore oil and gas ("Carbon Tax Not Answer," 2008; Curry & Scott, 2008). Ontario and Manitoba had already committed to cap and trade, while the two provinces that had adopted carbon taxes, Quebec and BC, were governed by provincial parties that comprise both federal Liberals and federal Conservatives, and they thus declined to wade into a highly partisan federal debate.

Anxiety persisted within the Liberal caucus as MPs reported concerns voiced by their constituents over the summer break (Bryden, 2008b). In response, the Liberal party proposed an additional \$400 million in emissions reduction credits (an offset program that would be of particular benefit to the agriculture and forestry sectors), \$250 million for a new Green Farms Fund, and \$250 million for a green fisheries and transportation fund, a package of subsidies clearly designed to lessen opposition from the fishing, farming, forestry, and trucking sectors.

On September 7, the Prime Minister announced that Canadians would go to the polls on October 14. On the occasion of the release of the Green Shift, the Prime Minister set the tone for the political debate to come in stating that the plan would "screw everybody across the country" (Byrne, 2008). In the opening days of the campaign, the Prime Minister visited a suburban Vancouver family to declare that, "Every politician in history who wants to impose a new tax claims that it's either revenue neutral or it's temporary. It's not true" (Chase & Galloway, 2008). The Conservatives used more pointed messages online, arguing that "Dion's new tax on everything" would "hurt everybody," but especially seniors, rural Canadians, and

young families. Moreover, during the election campaign, the Conservatives added two new arguments, that a carbon tax would “plunge Canada into a recession” and threaten national unity (Akin, Mayeda, & O’Neill, 2008). A series of cartoons attacking the Liberals’ proposal were posted online, including one particularly tasteless one depicting a puffin defecating on a hapless Stéphane Dion. Lest there be any doubt concerning the very different perspectives of the Liberal and Conservative parties, the Conservatives announced a *cut* in federal taxes on diesel fuel during the campaign. Both the NDP and the Conservatives promised a host of spending programs as an alternative to taxing voters. The NDP’s Layton continued his message that “taxing families while letting big polluters do whatever they want is no solution” (Brennan, 2008), although it was far from clear in what way the Liberals, who were proposing a mandatory tax and also had committed to a cap and trade program, were letting business off the hook.

Tensions within the Liberal campaign were evident from day one. Liberal insiders complained that Dion was not following the campaign team’s advice, while Dion’s staff complained that the campaign was not spending enough on ads to get the leader’s message out. A leaked memo to the team preparing Dion for a televised leaders debate reveals a damage control strategy. The memo stressed that testing had shown that “every potential argument in favour of the Green Shift is comparatively weak, vague and ineffectual, when compared to the expected attacks from the Tories—which are effective, sticky and have traction. . . . Since we can’t run from our policy . . . [Dion should say only that the Green Shift would] make polluters pay, and the money goes to reducing people’s income tax. . . . He can’t run from the Green Shift, but he doesn’t have to wrap it around himself.”

To be sure, there were sources of support for the Liberals on the environment. Dion’s strongest support came from Green Party leader, Elizabeth May, who recommended that her own party’s followers vote strategically for the candidate in their riding most likely to defeat the Conservatives (Tibbetts, 2008). A letter signed by more than 120 top Canadian climate scientists blasted the Conservative government’s record and also advocated strategic voting (“Climate Scientists Rain,” 2008). Several web sites emerged to advise Canadians seeking to vote strategically against the Conservatives.

However, although 2008 was the first time environmental issues had ever been prominent in a Canadian federal election, in the end it is unlikely that many Canadians voted based on the environment, strategically or otherwise. As illustrated in Figure 1, the fraction of Canadians identifying the environment as their top priority declined precipitously during 2008, particularly with the onset of a global economic crisis in the middle of the election campaign. While this deflected voters’ attention from the unpopular Green Shift, Dion also consistently polled worse than Harper on economic issues.

The fate of the Green Shift was sealed on October 14, 2008. The Liberal party lost roughly one quarter of its seats and received their lowest share of the popular vote in Canadian history. With Liberal party members openly calling for him to step down, Stéphane Dion announced his resignation within a week. Dion’s successor as leader, Michael Ignatieff, who as a leadership candidate 3 years earlier, had advocated a carbon tax, now reflected “You can’t win elections if you’re adding to the input costs of a farmer putting diesel into his tractor, or you’re adding to the input

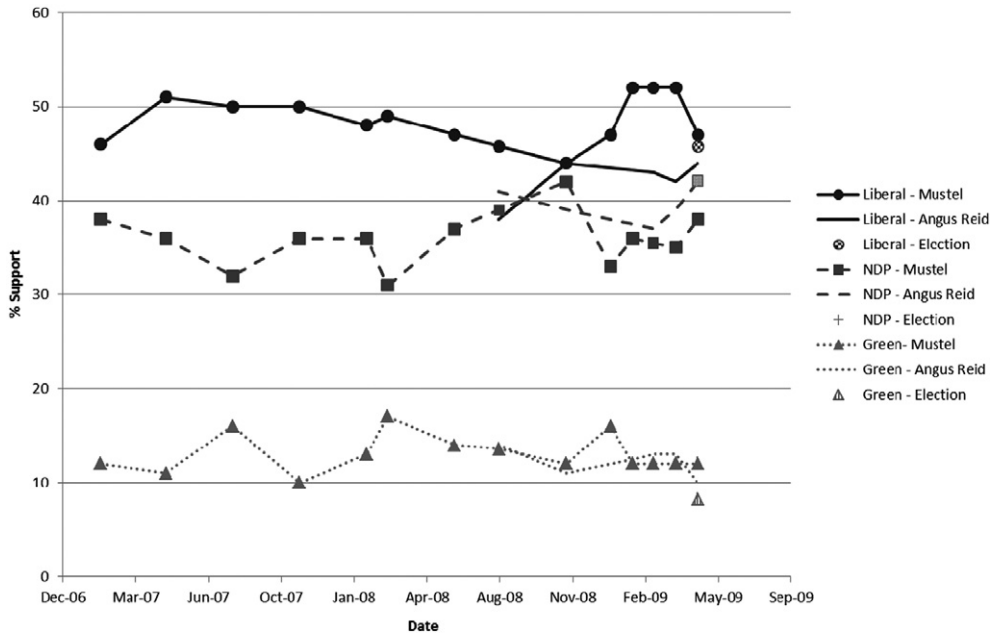


Figure 3. Support for British Columbia Political Parties

cost of a fisherman putting diesel into his fishing boat, or a trucker transporting goods. . . . You’ve got to work with the grain of Canadians and not against them. I think we learned a lesson in the last election” (Whittington, 2009). Dion himself later reflected, “We lost the diesel community” (personal communication, 2009).

After the election, Canada’s leading political columnist, who had applauded BC’s carbon tax and coauthored a book with Jaccard advocating carbon pricing (Simpson et al., 2007), described the carbon tax as the new “third rail of Canadian politics: Touch it and die” (J. Simpson, 2009). In hindsight, Stéphane Dion reflected, “I would say a carbon tax is synonymous with political suicide” (personal communication, 2009).

Survival of the British Columbia Carbon Tax

In response to the “axe the tax” campaign, the NDP surged forward in the polls in the summer of 2008, pulling even or ahead of the Liberals depending on the poll (Figure 3). The Liberal caucus, which had neither initiated the climate change agenda in general nor the carbon tax in particular, voiced anxiety at a fall caucus meeting. In response, the Premier reportedly informed his colleagues, “in no uncertain terms that if they wanted to get rid of the tax they would have to get rid of him” (Palmer, 2009). The caucus was presumably reassured, however, that by the time of the next provincial election in May 2009, the price of gasoline had fallen by \$0.50 per liter. Arguably more important, the economy, which was the Liberals’ strong suit with voters, had eclipsed the environment as voters’ top-of-mind issue.

On the day before the writ was dropped, the timing chosen to capture media attention before the launch of the campaign, the Pembina Institute, ForestEthics,

and the David Suzuki Foundation held a joint press conference to express their support for the BC carbon tax and to call on the NDP to reverse its position on the tax (Campbell, Bruce, & Smith, 2009). In part, this was a reaction to the environmental community's failure to support the Liberals' Green Shift in the 2008 national election. A prominent BC environmentalist reflected, "There were a lot of conversations in the NGO community that we cannot let this happen again. . . . The federal election, and the demise of the potential of having a federal carbon tax, galvanized the environmental movement. There's no question. I mean there were just conference calls and emails and everyone was saying 'we've got to get it together'" (T. Berman, personal communication, 2009). Reflecting their charitable status, the groups' spokespersons sought to walk a fine line between expressing views on the substance of the policy while refusing to say how they would personally vote. However, two prominent individuals in the BC environmental community did express their own positions more explicitly. Tzeborah Berman's letter to Carole James stating that she felt "deeply betrayed" and would no longer support the NDP made front page news in the first week of the campaign (Ward, 2009). The following day, David Suzuki also reiterated his opposition to the NDP's position (Bailey, 2009).

Although the environmental community was virtually unanimous in embracing the carbon tax, there were deep divisions over whether to condemn the NDP, both because the party had stronger positions than the Liberals on other environmental issues and in light of a rift within the environmental community over the Liberals' support for "run of river" hydro-power (Tieleman, 2009a). However, the image of prominent environmentalists attacking the NDP nonetheless captured the opening days of the campaign and tarnished the NDP's green image.

The NDP's 2009 platform placed the party's proposal to "axe the tax" front and center (BC NDP, 2009a). If elected, the party committed to eliminating the carbon tax, but keeping the tax cuts that had been adopted concurrently by the Liberal government. It committed to "make the big polluters pay" through a cap and trade plan while offering assistance to individual British Columbians through a new program of "green bonds." The party obfuscated on the scope of its proposed cap and trade plan, a critical issue since a plan applying only to large industrial courses would cover only about one third of BC's emissions, in contrast to the carbon tax or an upstream cap and trade system's coverage of about three quarters.²

Polling reveals that the carbon tax remained unpopular with most British Columbians in the spring of 2009, if less so than in the summer of 2008. Figure 4 indicates that although the environment was near the top of the electorate's agenda when BC's carbon tax was first announced, it had been overtaken by gasoline prices as the public's top concern by the time it took effect. However, at the time of the election, the electorate's priority by far was the economy, an issue the Liberal party essentially owned. As election day approached, the Liberals led the NDP as the party favored by respondents to manage the economy by a margin of 28 percent–34 percent, depending on the poll.

The carbon tax was not prominent in the Liberal platform nor on the campaign trail. Consistent with the advice Stéphane Dion had received from his pollster, the BC Liberals did not run away from their policy, but neither did they wrap it around themselves. None of the "Six Pillars" the party identified as priorities for its next

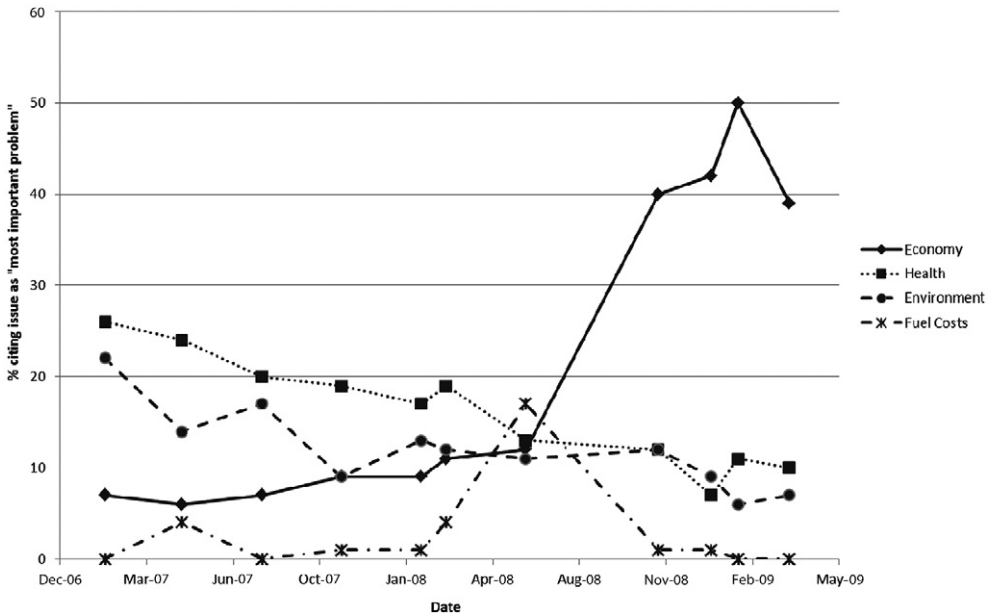


Figure 4. Trends in British Columbians' Priorities

term in office focused on the environment or climate change. Instead, the platform stressed that “confidence and stability are critical to [BC’s] economic strength and prosperity” (BC Liberal Party, 2009).

On May 12, 2009, the Liberals and NDP received roughly the same vote shares as 4 years before, 46 percent and 42 percent, respectively. The Liberals retained their majority, albeit with a reduced number of seats. Although Premier Campbell certainly had not run *on* the carbon tax, it is nonetheless striking that his acceptance speech on election night placed the carbon tax front and center. Surrounded by his children and grandchildren, the Premier argued forcefully that the election results “send a message to others who may have looked at this with trepidation. This can be one, it should be done and it must be done for our grandchildren” (Brethour, Bailey, & Hunter, 2009).

It is difficult to assess the impact of the BC carbon tax on the 2009 election since both the Liberals and NDP staked out positions that risked alienating their traditional supporters: environmentalists in the case of the NDP and rural voters and small business in the case of the Liberals. The NDP’s 2009 campaign chair believes that the party’s fortunes were hurt by its position, especially because the early and negative message of “axe the tax” detracted attention from the positive environmental platform that followed (G. Scott, personal communication, 2009). Others have argued that opposition to the carbon tax benefited the NDP, pointing to exit polls revealing that 57 percent of voters who cited the carbon tax as “very important” to them voted NDP (Tieleman, 2009b). On the other hand, a member of the Liberal campaign team argued that the carbon tax benefited the Liberals, since their position enhanced support among “green” professionals, while the “axe the tax” campaign was not enough to lure core Liberal supporters motivated by economic concerns to the NDP. What seems clearest is that the carbon tax had at best a minor

impact on the outcome of the election, since by the spring of 2009, the issue had long since been eclipsed by the economy. Not only did voters support the Liberals on the economy by a commanding margin, but also the NDP platform's continued focus on the carbon tax, like the federal Liberals' Green Shift, was out of touch with the electorate's priorities. And, any possibility that the carbon tax would alienate economically motivated Liberal supporters was largely laid to rest by the onset of a global recession.

A month after the election, NDP leader Carole James acknowledged that the "carbon tax is here to stay," effectively laying to rest the axe-the-tax campaign ("James makes some, 2009). Moreover, when James announced her resignation as leader the following year, each of the NDP leadership candidates in turn acknowledged that "axe the tax" had been a mistake for the party. However, Gordon Campbell's own resignation in 2010 reopened the fate of a less-than-popular policy that had been personally championed by the Premier. Campbell's successor, Christie Clark's decision to retain the tax and stay the course with scheduled increases through to 2012 (although not necessarily beyond) offers insight into the staying power of a revenue-neutral carbon tax. With tax cuts as well as tax increases already scheduled, had the Premier opted to "axe the tax," she would have been forced to reverse corporate and/or reversing corporate or personal income tax cuts.

Comparing the Cases

A shift in public attention to the environment in 2006 prompted many governments across Canada and parties within them finally to turn from ineffective voluntary approaches to regulation (although subsidies remain as popular as ever.) The question, however, is why the BC Liberal government and the federal Liberal Party alone in North America embraced carbon taxes, while other jurisdictions embraced cap and trade. And why did only BC's tax succeed?

Good Policy Motives

Party leaders' personal commitments were clearly central to proposals for revenue-neutral carbon taxes in both cases, although the leaders' ability to pursue good policy motives, despite the unpopularity of carbon taxes (Lachapelle, Borick, & Rabe, 2012), was possible only by virtue of the concentration of authority within Canada's majoritarian parliamentary system (Harrison, 2007).

In both jurisdictions, growing public concern prompted attention to the issue of climate change. However, the decision to pursue a carbon tax, an academic approach more likely to prompt electoral backlash, reflected the strong and personal commitment of party leaders. In BC, Premier Gordon Campbell championed the carbon tax. It is telling that no polling was done in advance of the carbon tax announcement, and that Campbell personally disciplined his Cabinet and caucus to stay the course when confronted by electoral opposition. The BC Business Council's Finlayson reflected, "This was not something that developed through a grass roots movement within the BC Liberal Party. It wasn't something that bubbled up from caucus. And it certainly wasn't something that Cabinet collectively and enthusiastically embraced. Both the carbon tax, and the earlier throne speech commitment

that laid the foundation for it, were very clearly products of the belief and commitment of Gordon Campbell, and I would say that to some extent he dragged the rest of the government kicking and screaming” (personal communication, 2009). Similarly, the federal Liberal Party’s decision to pursue the Green Shift as a centerpiece of its 2008 election campaign began and ended with party leader Stéphane Dion. Indeed, Dion persisted in his commitment to a carbon tax despite warnings from his pollster, caucus, campaign team, and even some of his closest personal advisors.

The policy prescriptions both Campbell and Dion pursued, unlike broad normative goals of environmental protection and equity, are seldom found in everyday discourse, nor have they been pursued before by policy makers in North America. A decade ago, economist Robert Hahn (2000) lamented a “gulf between the ivory tower and the real world” and encouraged his colleagues to more actively “lobby for efficiency.” To some degree that occurred in both BC and nationally, as academics disseminated policy proposals, published strategically timed op-eds, and collected signatures on letters to federal and provincial politicians. Accidents of timing, as when University of British Columbia economist David Green attended a neighborhood gathering with the Premier, and placements of recent graduates in leaders’ offices also provided a conduit for academic ideas. The tension between academic ideas and politics yielded many ironies—a Prime Minister with a graduate degree in economics rejecting a carbon tax; an economist who had long advocated carbon taxes advising against a federal tax proposal on political grounds; and a former political science professor pursuing normative goals with apparent disregard to positive theories of politics.

Still, one might ask whether the two leaders really believed it would be risky to pursue their preferred policies. Might the same outcome be explained by electoral incentives? In the BC case, the environment was still near, if no longer at the top of, the polls when the carbon tax was adopted. The Finance Minister’s trial balloon in late 2007 elicited expressions of public support for a carbon tax and, perhaps more noteworthy, no marked opposition from the business community. However, the Minister’s own statements acknowledged that the policy was politically risky (Brethour, 2007), a finding supported by subsequent polling on public attitudes toward carbon taxation (Lachapelle et al., 2012). At minimum, the Premier’s good policy motives seem to have tipped the balance on a difficult policy choice. After all, no other province made the same call, even though voters in other provinces were more attentive to the environment in early 2008 than in BC.

The case is more complicated at the federal level. When the decision was first made by the leader’s office, it appeared that the BC carbon tax shift had been a modest political success. However, well before the Green Shift was announced, there were ample signs of opposition in BC, to say nothing of advice from the party’s own advisors that running on a carbon tax would be “Jonestown.” Even then, however, the case for pure ideational motives is complicated in two ways. First, while acknowledging the magnitude of risk, some in the Liberal party saw the Green Shift as the party’s only hope, a necessary “hail Mary” pass by a party behind in the polls with an election on the horizon. Second, as one of Dion’s close advisors elaborated, “Stéphane with all his great qualities, his convictions, his big heart, truly was so naïve to believe that the public would see through it all and come behind him because he was willing to do the right thing, the difficult thing” (confidential

interview, 2009). When asked why he persisted with the Green Shift in the face of contrary advice, Dion himself replied, “Conviction. It was so much what I wanted to do that I thought I would be able to explain to Canadians with conviction” (personal interview, 2009).

A common refrain was that the Green Shift failed because Stéphane Dion is not a charismatic communicator. However, it is telling that the Liberals’ own pollster found that support for the proposed tax shift *declined* after it was explained to respondents. In the end, a senior Liberal advisor reflected, “Would a different politician have been able to sell it? A different politician wouldn’t have proposed it” (personal communication, 2009). Dion’s belief that voters would embrace the Green Shift seems less a case of good politics and good policy fortuitously coinciding than of a politician who felt so strongly concerning what was right that he simply could not accept that voters would not share his views.

The Voters Pass Judgment

Two political parties advanced almost identical policies at roughly the same time. Why did one survive an election while the other was rejected at the polls?

As anticipated, environmentalists supported both the BC and federal Liberals’ proposals for carbon taxes. More importantly, however, both were opposed by a majority of voters, who perceived the costs as punitive and doubted the adequacy of corresponding tax cuts. Although voters’ unfamiliarity with carbon taxation increased opposition at least in the short term, ironically their even weaker understanding of the alternative allowed opponents of carbon taxes to pander to voters’ belief that only “big polluters” would pay under cap and trade. Dion later reflected that, “The beauty of cap and trade was that no one understood what it meant” (personal interview, 2009).

Comparison of the BC and federal elections points to three critical differences between the cases. First, and rather obviously, Gordon Campbell’s party was in government when he opted for an environmental tax shift, while Stéphane Dion was in opposition. Campbell thus was in a position to pass a revenue-neutral carbon tax without seeking the electorate’s prior approval. In contrast, Dion needed, but was unable to secure, the electorate’s support for his proposal.

Second, the environment had been overtaken by economic issues by the time of both elections. In both cases, voters elected the leader they considered best able to manage the economic crisis, in so doing handing victory to Gordon Campbell and defeat to Stéphane Dion. Campbell enjoyed a roughly 30-point lead over his opponent on economic issues, while among voters most concerned about the economy, Dion was 26 points behind Stephen Harper (Covert, 2008). Consistent with this, the Canadian national election study concluded that the main impact of the Green Shift on the Liberals’ fate was in deflecting attention from the party’s position on issues that voters cared more about (Gidengil, Fournier, Everitt, Nevitte, & Blais, 2009). Although some have argued that the carbon tax marginally helped the Liberals, it was in the context of an economic recession that dramatically reduced any risk of voters alienated by the tax moving to the opposition NDP. In the end, BC Liberal government was reelected despite, rather than because of, its carbon tax. That said, Lachapelle and colleagues’ (2012) finding of majority support for the BC

tax in 2011, and of the highest support in the two Canadian provinces with carbon taxes (BC and Quebec), suggests that opposition to carbon taxes may decline with familiarity.

Third, although carbon tax shifts were proposed by a Liberal Party in both cases, the very different party system in the two jurisdictions had important implications. In BC, the carbon tax was advanced by a party with no opposition on its right. Conservative voters who may have been alienated by the carbon tax had no viable alternative. Moreover, the business community's strong relationship with the BC Liberal party arguably allowed business to secure a revenue-neutral tax and the government to appease potential business opposition. At the federal level, even those in industry who had expressed support for carbon taxation were unlikely to challenge the more business-friendly Conservative party. More importantly, the fact that only one of the three major parties in English Canada endorsed carbon taxation, and did so in the context of an election campaign, rendered the issue highly partisan, which had the effect of silencing potential support from academics and environmentalists.

Conclusion

Recent Canadian experience with carbon taxation suggests that there are opportunities for policy leadership on climate change. However, in light of voters' ignorance and rival politicians' opportunism in taking advantage of that, the window of opportunity for bold policy reforms seems narrow indeed. Carbon taxes in North America seem most viable where a party leader is personally strongly committed, his or her party already holds a majority in a parliamentary system, the measure can be passed between elections, and the party can deflect attention from the issue in the next election. If those conditions are absent, even policy makers with the best of intentions would be advised to pursue carbon pricing by stealth, whether via cap and trade or incremental changes to existing, if less broad-based, energy taxes.

Asked about his once-stated conviction that, "When you speak to the minds and big hearts of our great people, good policies translate into good politics" (Gardner, 2008) the party leader who proposed a national carbon tax to Canadians, Stéphane Dion, later reflected, "It's not always true. A very bad policy won" (personal communication, 2009). When good policy and good politics collide, the latter tends to prevail.

Notes

- 1 This research was funded by a grant from the Weyerhaeuser Foundation to the University of British Columbia.
- 2 The platform's emphasis on "making big polluters pay" implied that small polluters would not pay; after all, upstream application of cap and trade would be identical to the Liberals' carbon tax from the perspective of individual British Columbians. However, at the same time, the party spoke approvingly of the Western Climate Initiative's plans for a cap and trade program that covers fuel distribution, and also claimed that an April 2009 National Roundtable Report calling for upstream cap and trade was "similar" to the NDP's plan. See BC NDP (2009b).

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