The Public Acceptability of Taxation: Implications for Canadian Cities

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Outline of Talk

- **Motivation**
- **Situating the Study**
- **Hypotheses**
- **Research Design**
- **Findings**
- **Implications and Next Steps**

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Motivation

- The political challenges of implementing "general-interest" policy reforms and "policy investments"
  - Eliminating inefficient/arbitrary policies, replacing them with policies that advance the public interest
  - Profile: concentrated costs for specific groups and often delayed, diffuse policy benefits
  - Barriers: mass aversion to taxation, risk-averse politicians, and low trust in government

- *When are citizens willing to support, or least tone down their opposition, to tax increases? (Lesch and Loewen, 2017)*

Project Overview

Why do some governments choose to enact tax reforms?	Why do some citizens come to support tax reforms?	Why does the political reception to tax reform vary?
Elite decision making	Citizen decision making	Elite and citizen behavior and interaction
Method: Comparative case studies	Method: Survey experiments	Method: Comparative case studies
Rational learning and emulation	Policy design and framing effects	Policy design

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Situating the Study

- **Taxation, loss imposition and democracy**
  - Taxes are a highly effective policy tool for addressing policy problems
  - Loss aversion, voter myopia and threat of voter retribution at the ballot box

- **The tension between democracy and time**
  - The logic of "policy investments"– policy solutions with short-term pain for long-term gain (Jacobs 2011; 2016)
  - Applicability to urban governance challenges (e.g., infrastructure investment, climate change mitigation/adaptation)
  - But are voters that impatient?

Hypotheses

Can tax aversion be mitigated through policy design and/or issue framing?

H_1 Citizens will be more likely to support a tax when the short-term consequences of the policy-problem are made more salient than the long-term consequences.

H_2 Citizens will be more likely to support a tax when the timing of the policy benefits are closer in time are made more salient than the long-term benefits.

H_3 The greater the cost of the tax increase, the less likely citizens will be in favour of a tax.

Research Design

- Survey experiment ($n = 1562$) with representative sample of Canadians
- Demographic questions (e.g., age, partisanship) and some specific to policy (e.g., car ownership, number of children, issue importance)
- Subjects presented with 3 separate policy briefs

Policy Problem	Proposed Tax Policy Solution
1) Federal budget deficit	Raising existing personal income tax (PIT)
2) Climate change	Imposing a new carbon tax at point of sale
3) Inadequate transportation infrastructure in Canadian municipalities	Raising existing federal sales tax (GST)

Treatments

Policy Proposal	Treatment 1: Costs of Inaction (Short v. long-term)	Treatment 2: Timing of Benefits (short-, medium-, long-term)	Treatment 3: Cost
Deficit & PIT	Negatively affects labour market High debt levels force deeper cuts in future	Some reduction to deficit (2019) Balanced budget with debt repayment (2026)	Increase tax rate: 0.5, 1, 1.5 ... 5%
Climate change & carbon tax	Costs of extreme weather events A threat to food supply	Business invest in green energy sources (2019) Complete switch to low-carbon economy (2046)	Increase gas prices by: 5 cents, 7 cents ... 15 cents/litre
Transit infrastructure & sales tax	Cost to labour market/productivity Threat to long-term competitiveness of jurisdiction	Marginal upgrade to existing transit systems (2019) Completion of major regional rapid transit projects (2046)	Increase tax rate: 0.5%, 1%, 1.5 ... 3%

Sample Treatment: Climate Change

Policy Problem: Climate change represents one of the most challenging policy problems of our time. 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 **10 cents/litre**, making things like private and public transportation more costly.

Policy Benefit: If a carbon tax was adopted today, experts predict that by **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.

Would you be willing to support a carbon tax, as described above?
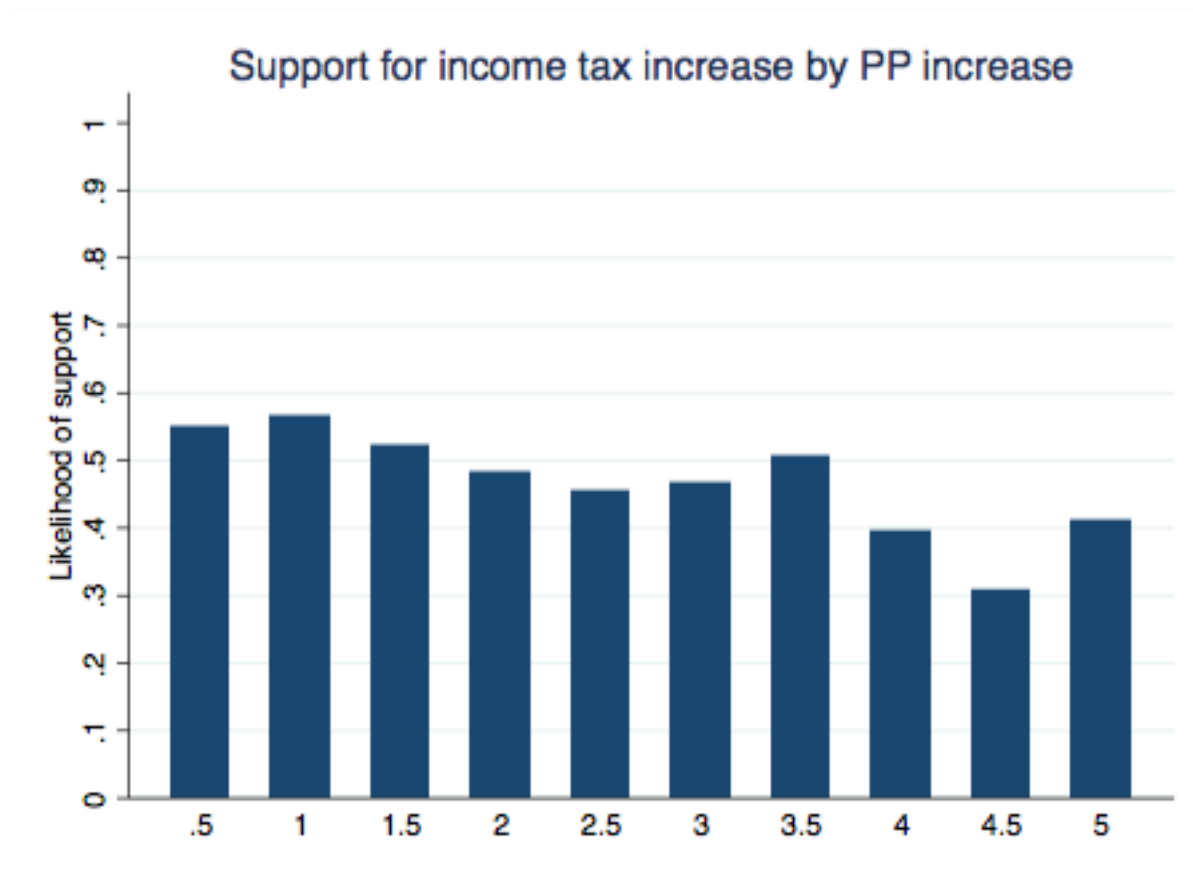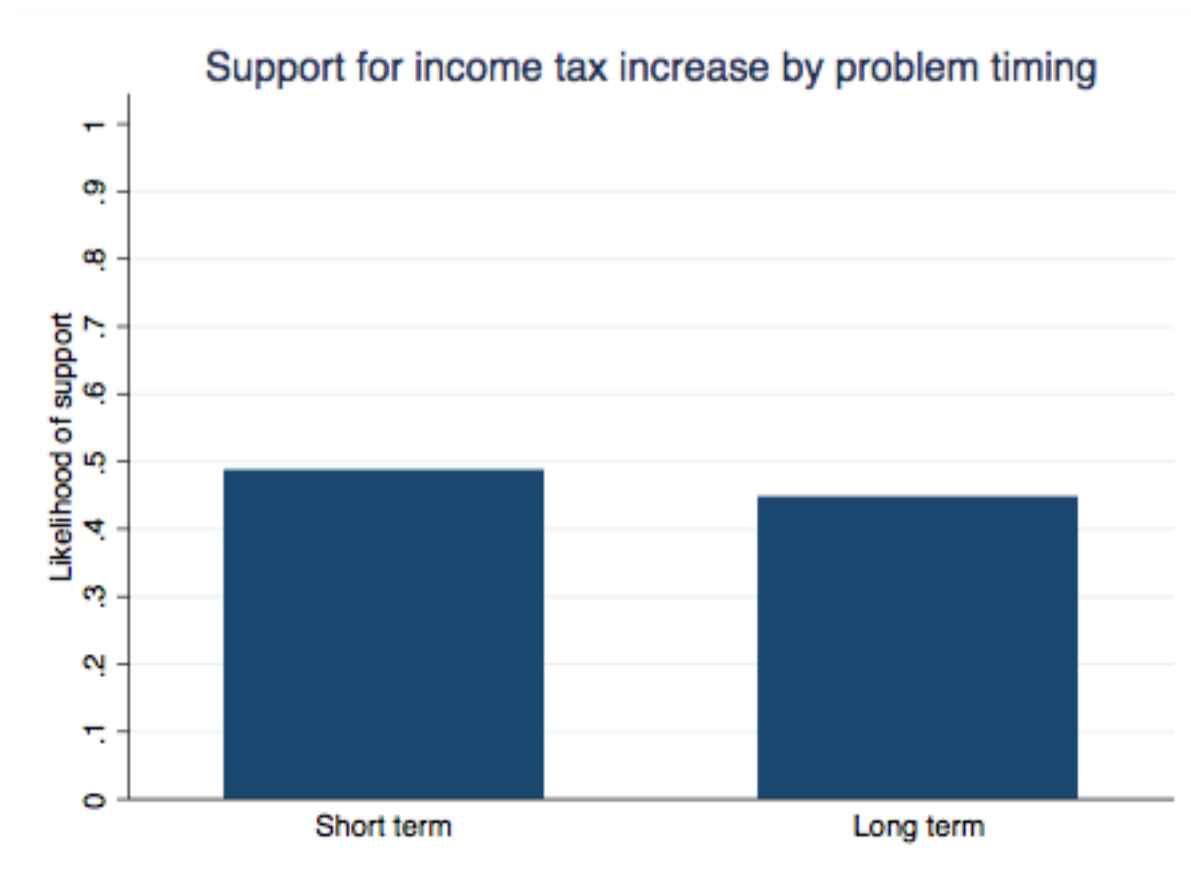
o Yes
o No
o Don't know

FINDINGS

Support for Income Tax Increases

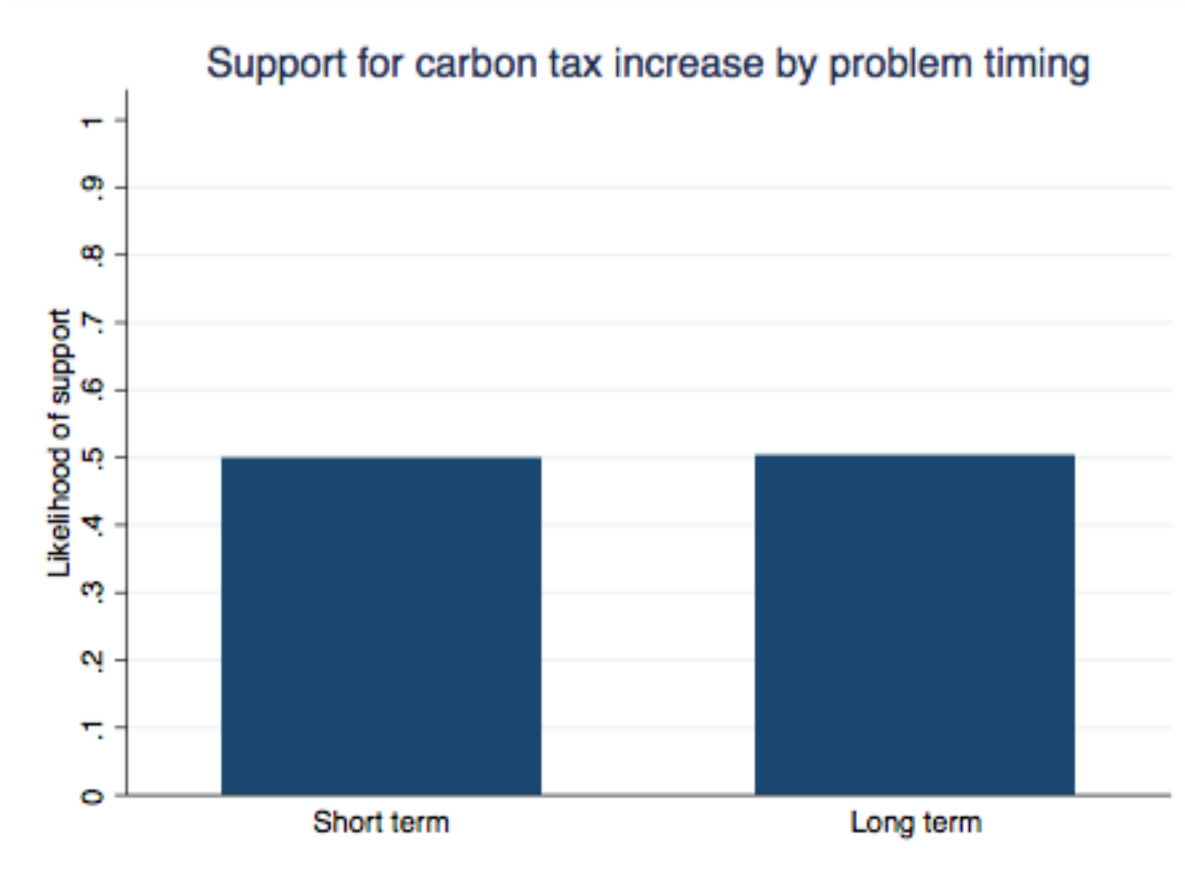| Variable	Coefficient	Standard Error
Treatment 1 - Framing of Policy Problem	-0.05	0.07
Treatment 2 - Timing of Policy Benefits	-0.13	0.12
Treatment 3 - Cost of Tax	-0.20**	0.07
High School Diploma	0.12	0.35
College or Technical Degree	0.22	0.35
Some University	0.46	0.37
Bachelor's Degree	0.17	0.35
Master's Degree	-0.29	0.40
Professional Degree	-0.21	0.49
Doctorate	0.73	0.66
Liberal	0.88**	0.15
NDP	0.64*	0.19
Bloc Quebecois	1.28	0.73
Green	0.54	0.31
None of the Above	0.01	0.23
N = 1,199		
Pseudo R^2 = 0.0465		
* significance at the 95% confidence interval		
** significance at the 99% confidence interval		

Income Tax Results

Support for income tax increase by PP increase

Income Tax Results II

Support for income tax increase by problem timing

Income Tax Results III

Support for income tax increase by benefit timing
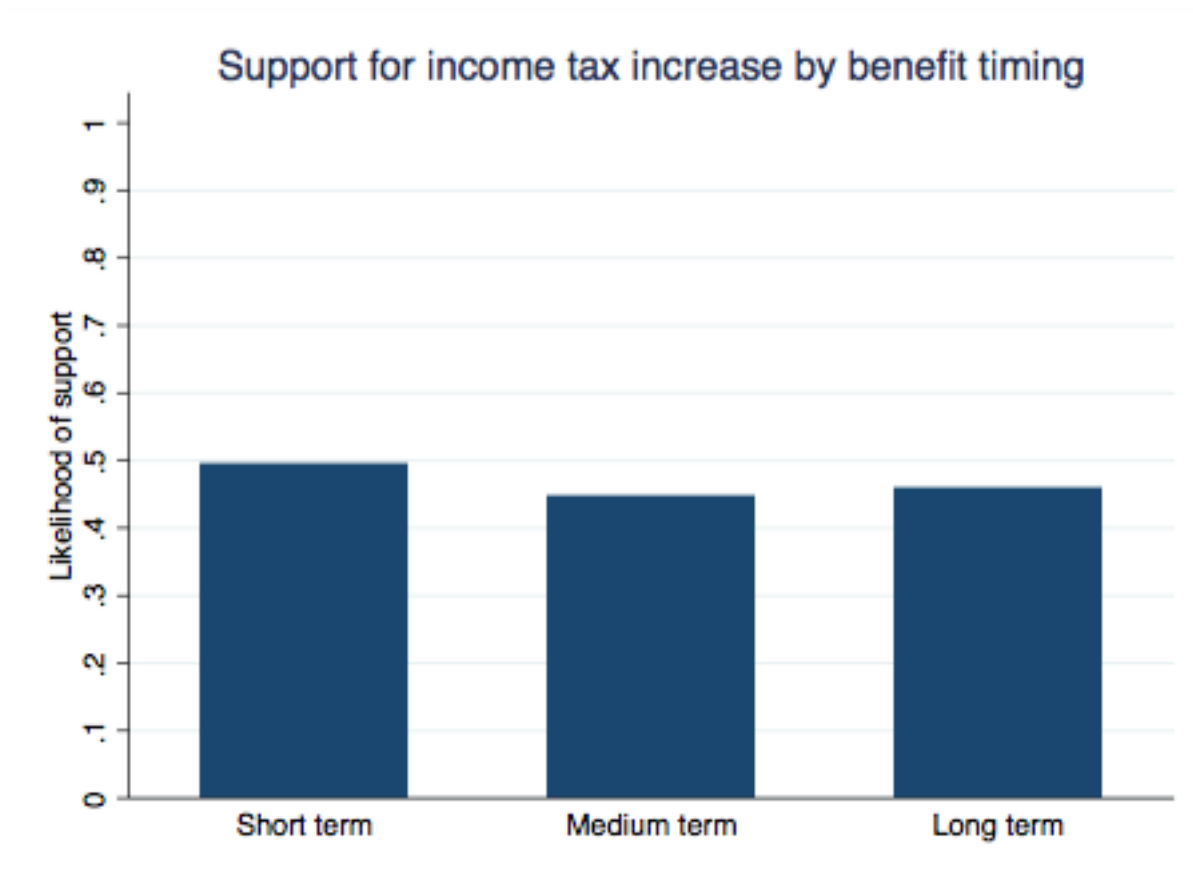
Support for Carbon Tax

Variable	Coefficient	Standard Error
Treatment 1 - Framing of Policy Problem	-0.005	0.02
Treatment 2 - Timing of Policy Benefits	0.061	0.12
Treatment 3 - Cost of Tax	-0.018	0.07
High School Diploma	-0.25	0.33
College or Technical Degree	-0.18	0.32
Some University	0.01	0.35
Bachelor's Degree	0.26	0.33
Master's Degree	0.68	0.39
Professional Degree	-0.013	0.49
Doctorate	0.34	0.63
Liberal	1.33**	0.16
NDP	1.23**	0.19
Bloc Quebecois	3.13*	1.07
Green	2.18**	0.25
None of the Above	0.54	0.22
N = 1,236		
Pseudo R^2 = 0.0797		
* significance at the 95% confidence interval		
** significance at the 99% confidence interval		

Carbon Tax I Results

Support for carbon tax increase by problem timing

Carbon Tax II Results

Support for carbon tax increase by benefit timing

Carbon Tax III Results

Support for carbon tax increase by per cost litre increase
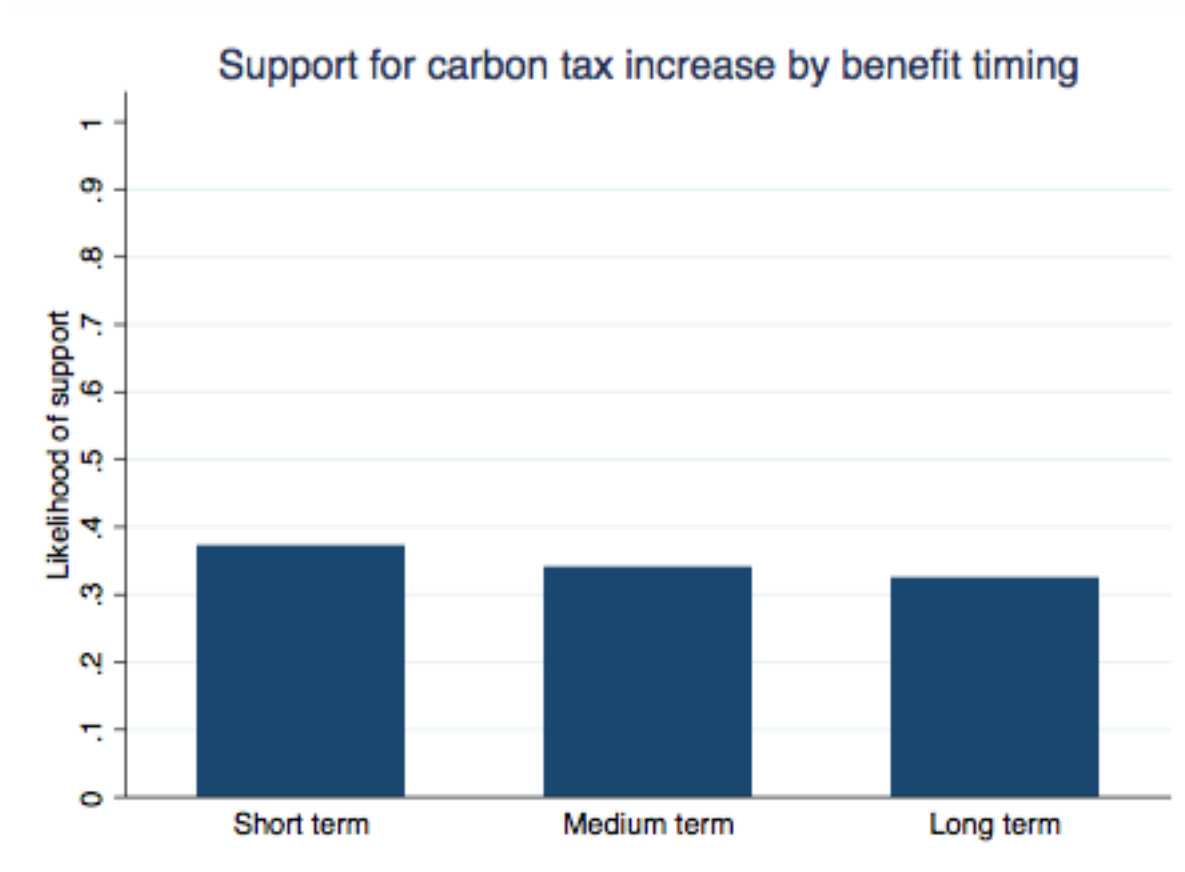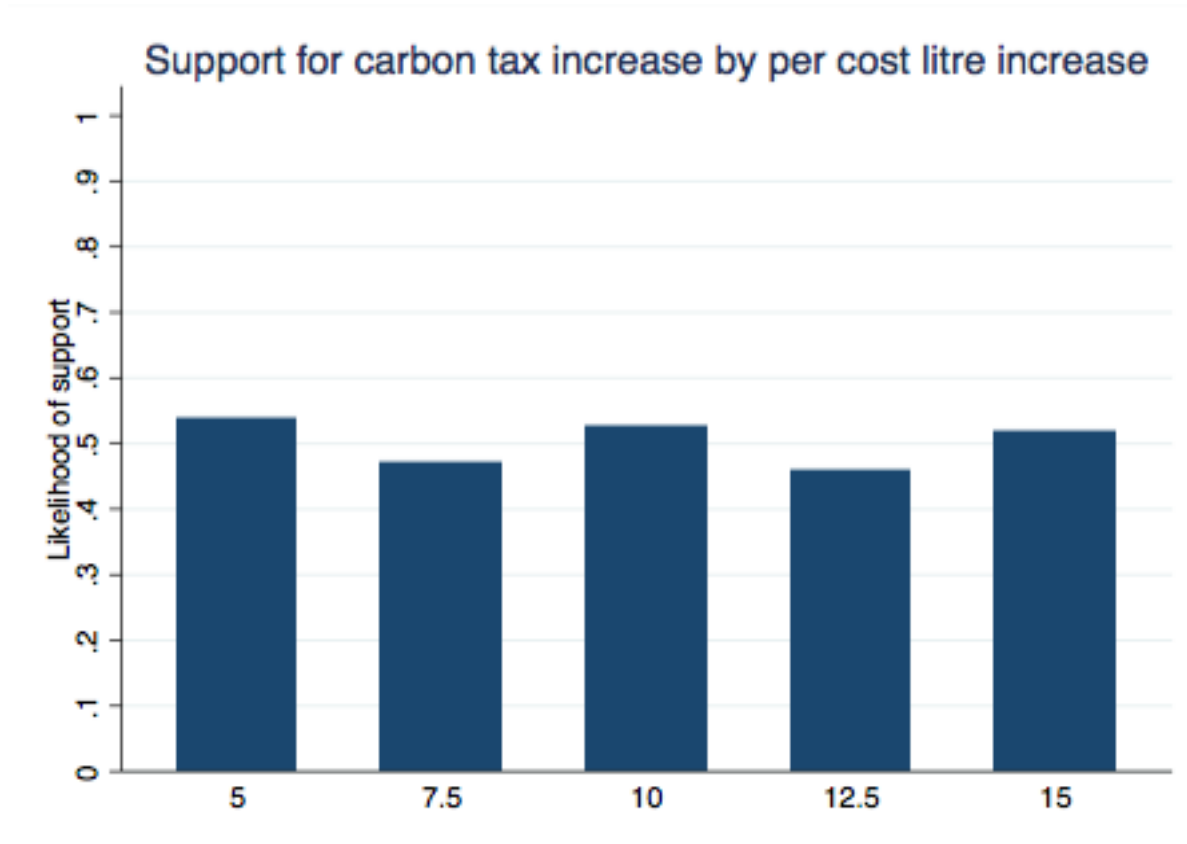
Carbon Tax IV Results

Support for carbon tax increase by rate and education
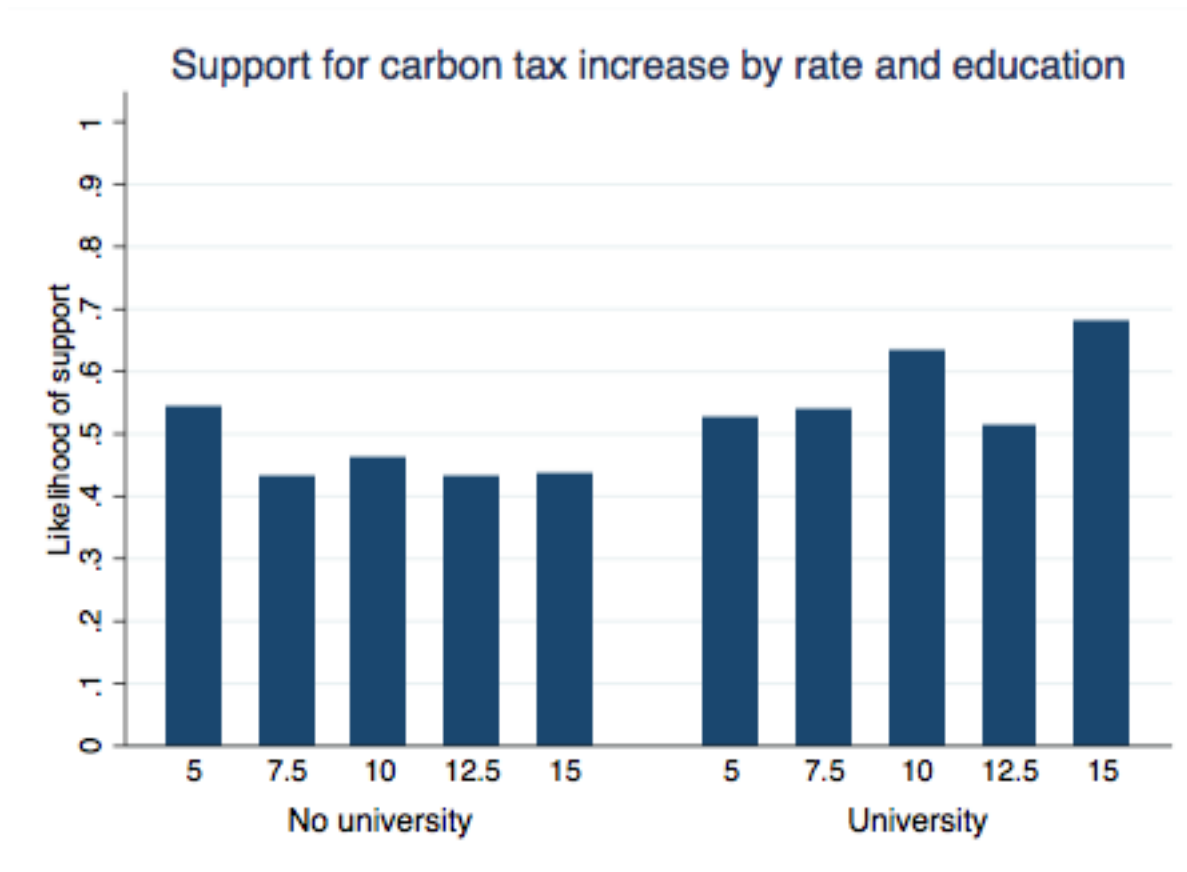
Support for Infrastructure Financing

Variable	Coefficient	Standard Error
Treatment 1 - Framing of Policy Problem	0.10	0.12
Treatment 2 - Timing of Policy Benefits	-0.07	0.08
Treatment 3 - Cost of Tax	-0.20**	0.07
High School Diploma	0.08	0.34
College or Technical Degree	0.09	0.33
Some University	-0.04	0.36
Bachelor's Degree	0.10	0.34
Master's Degree	0.37	0.38
Professional Degree	-0.13	0.50
Doctorate	0.74	0.61
Liberal	0.67**	0.15
NDP	0.31	0.19
Bloc Quebecois	-1.13	1.08
Green	0.04	0.32
None of the Above	-0.24	0.24
N = 1,263		
Pseudo R^2 = 0.0319		
* significance at the 95% confidence interval		
** significance at the 99% confidence interval		

Sales Tax Results I

Support for sales tax increase by PP increase

Sales Tax Results II

Support for sales tax increase by problem timing
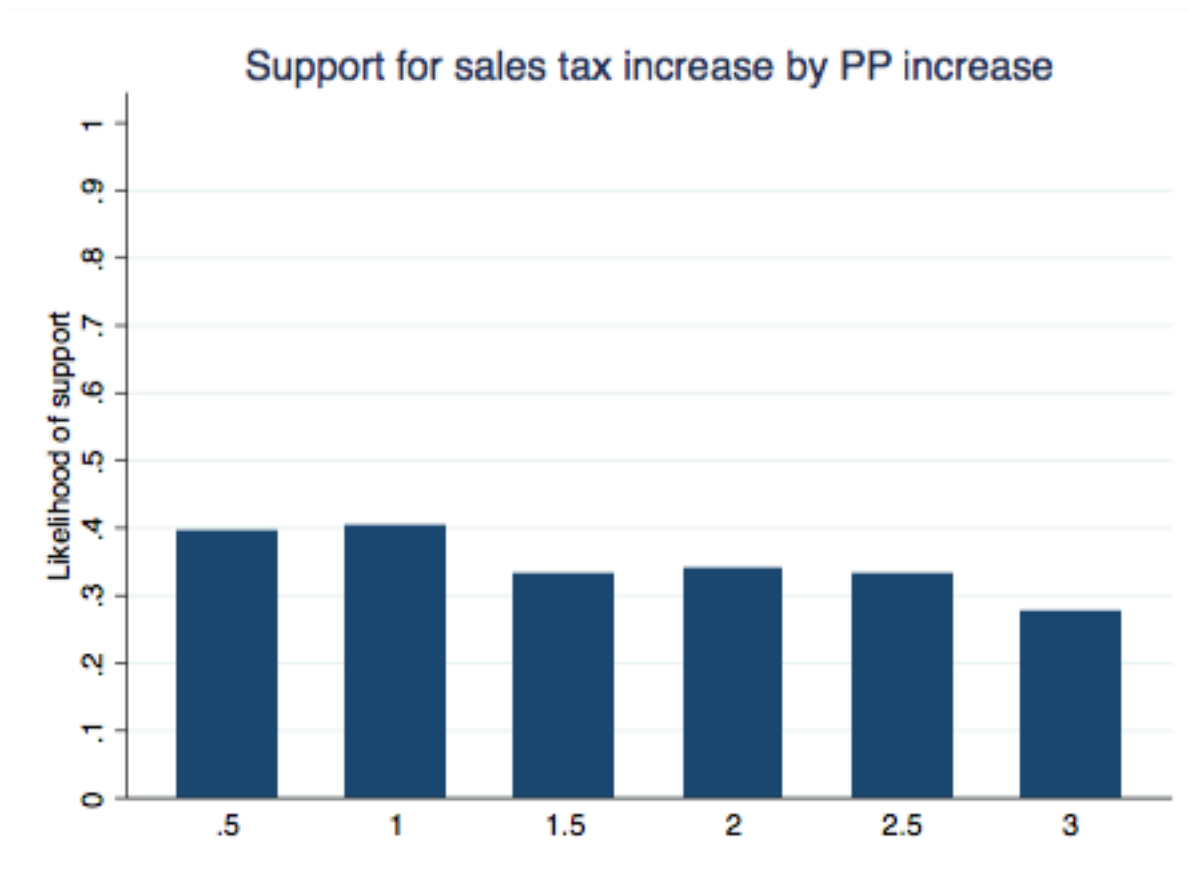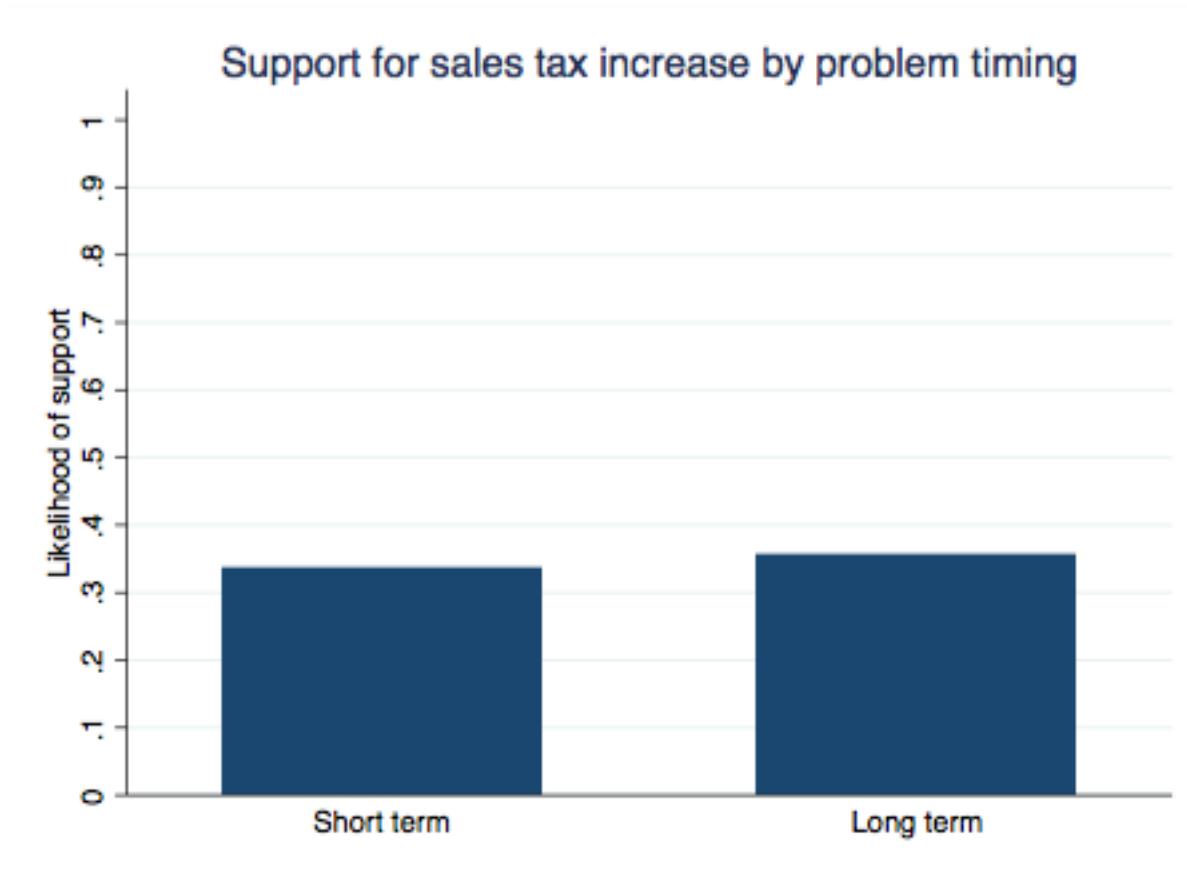
Implications

- Limited evidence of voter myopia and framing effects
  - Framing of problem did not seem to matter
  - Scheduling of policy benefits had limited impact on tax policy attitudes

- Cost of tax had strongest impact but only for income and sales tax increases
  - Suggests that policy design and the setting of the rate are very important
  - Why does the carbon tax operate differently than the other taxes?

- What does this imply for cash-strapped municipalities in Canada?
  - The policy demands placed on cities are growing but the revenue tools are not
  - What can we learn from other municipalities?

Next Steps….

- Public finance, urban governance and transportation infrastructure
    - Are ballot measures a political solution to this vexing policy problem?
    - Sales taxes and infrastructure investment: LA County and Vancouver
    - Mitigating the "trust" problem through policy design?
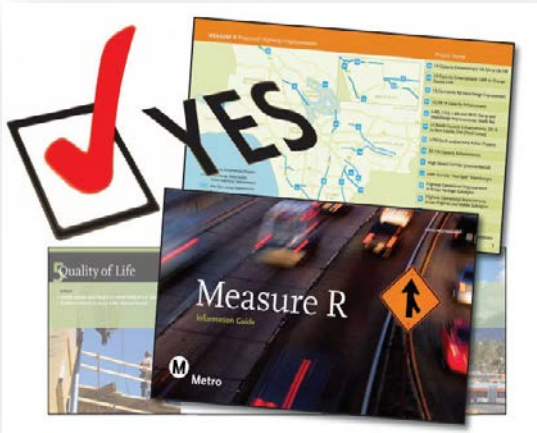
Thank You!

Questions?

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Sample 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. **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).

Cost: The current federal sales tax rate is 5 per cent. Some policy experts have called for increasing that rate by **1 percentage point** which would increase the costs of most goods (e.g., clothing) and services (e.g., electricity).

Benefit: Increasing the sales tax rate by this rate could enable governments **to 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.**