

# The Political Economy of British Columbia's Carbon Tax

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# A Textbook Carbon Tax

- Predictable increases
  - Launched at \$10/tonne CO<sub>2</sub> in 2008
  - Increased \$5/year to \$30/tonne in 2012
- Application to all combustion sources of all fossil fuels
  - 77% of BC's emissions in 2008
- Low income tax credit
- Revenue neutrality
  - Reductions in personal income tax, corporate tax, small business tax

# Four Questions

1. How did BC adopt a carbon tax?
2. How did the tax survive political backlash?
3. What are the longer term prospects?
4. Is it working?

# Why a tax?

- Political disadvantages relative to cap and trade
  - More visible to voters
  - No free permits for firms
- 1. Availability of untapped hydro-electricity
- 2. Public opinion
  - Surge in public attention to environment in 2006/7
  - Calls for C tax from environmentalists, economists
  - BUT voters not calling for a tax

# Why a Tax?

## 3. Right-of-centre government

- Opportunity to win over centrist voters
- Business indulgence (Nixon goes to China)
  - Stationary sources only 37% of emissions
  - Two conditions: Coverage of households; Revenue-neutrality



# Why a Tax?

- Personal commitment of Premier Gordon Campbell
  - Parliamentary majority
  - Between elections
  - Why did he care?
    - Policy wonk?
    - Grandkids?



# How did it survive?

- Backlash against “unfair” tax led by rural communities
- Opportunistic “axe the tax” campaign by opposition NDP
  - Make Big Polluters Pay
- Increase in gasoline price
- Low visibility of tax cuts

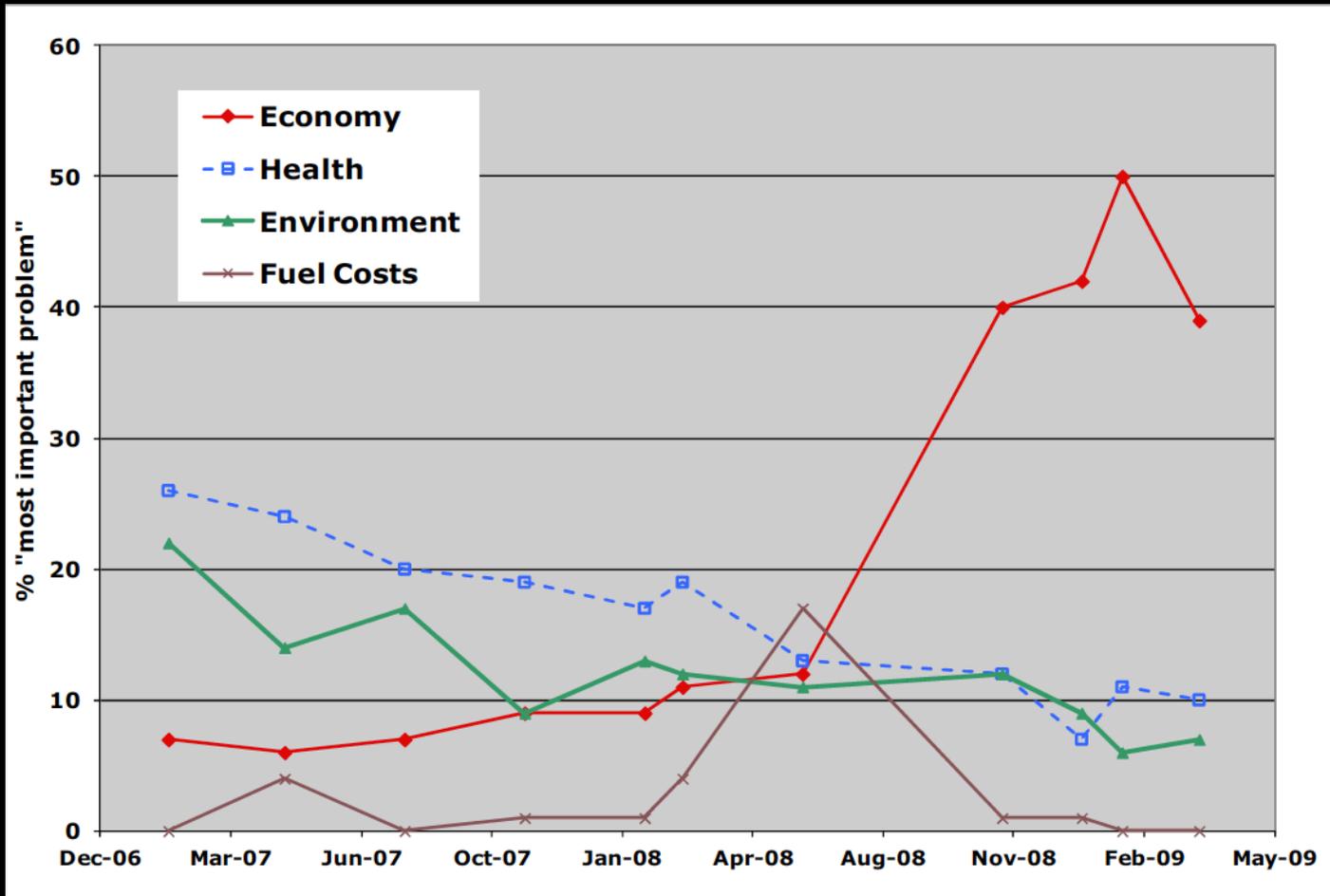


# Decline in Public Support

	Support	Oppose
February 2008	54%	40%
July 2008	40%	56%

Source: Environics

# BC Voters' Priorities



# Saved by the Recession

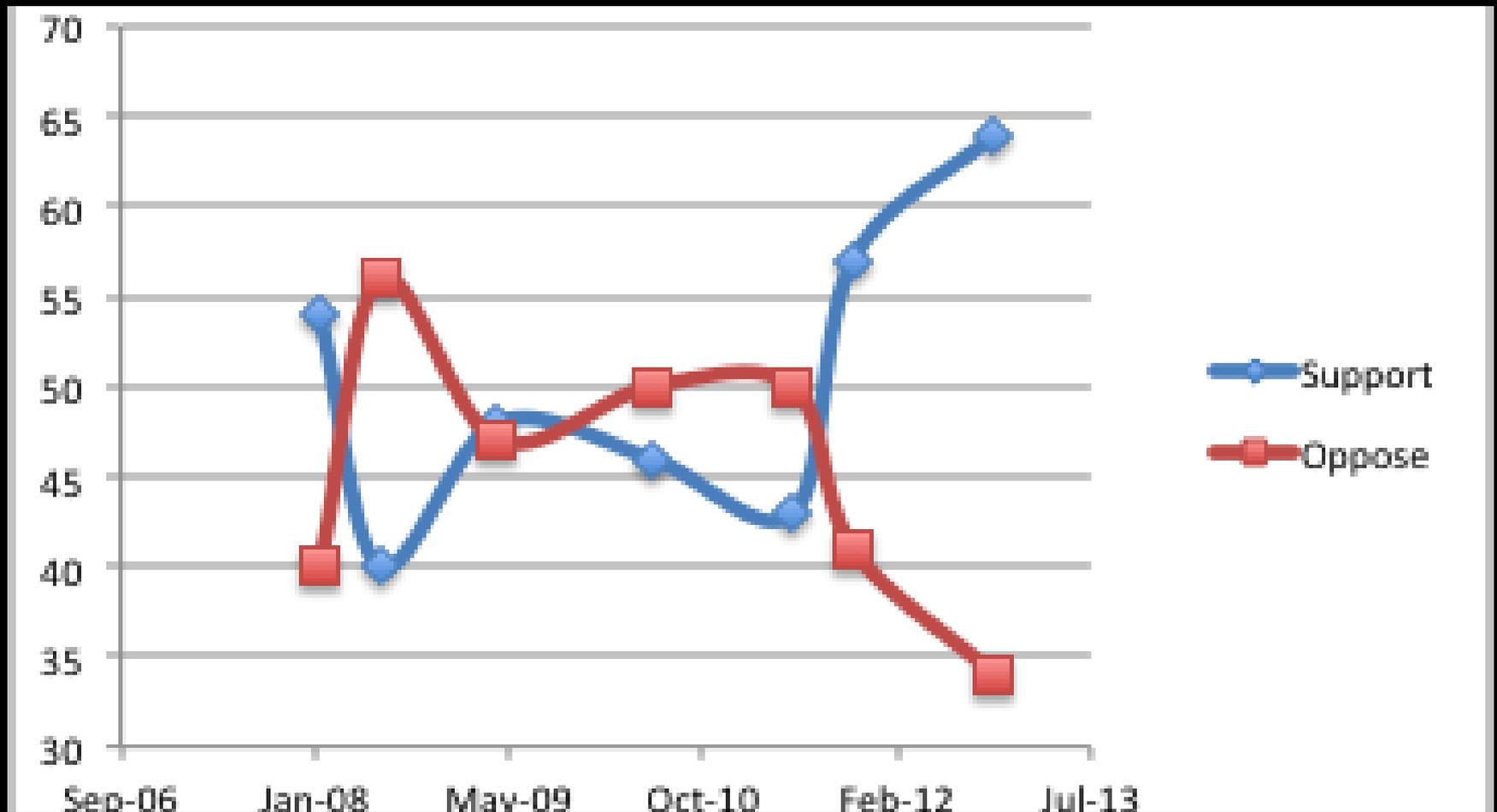
- 2009 Election
  - Liberals led on economy by 30%
  - Barely mentioned C Tax in campaign



# Long term prospects

- By 2012, BC increasingly isolated
  - Failure of national cap and trade in Canada and US
  - State/provincial retreat from WCI
  - Tax now \$30/tonne
- Business concerns about competitiveness
- New Premier announced review of C tax

# Public Opinion wrt Carbon Tax



# Stability of an Existing Carbon Tax

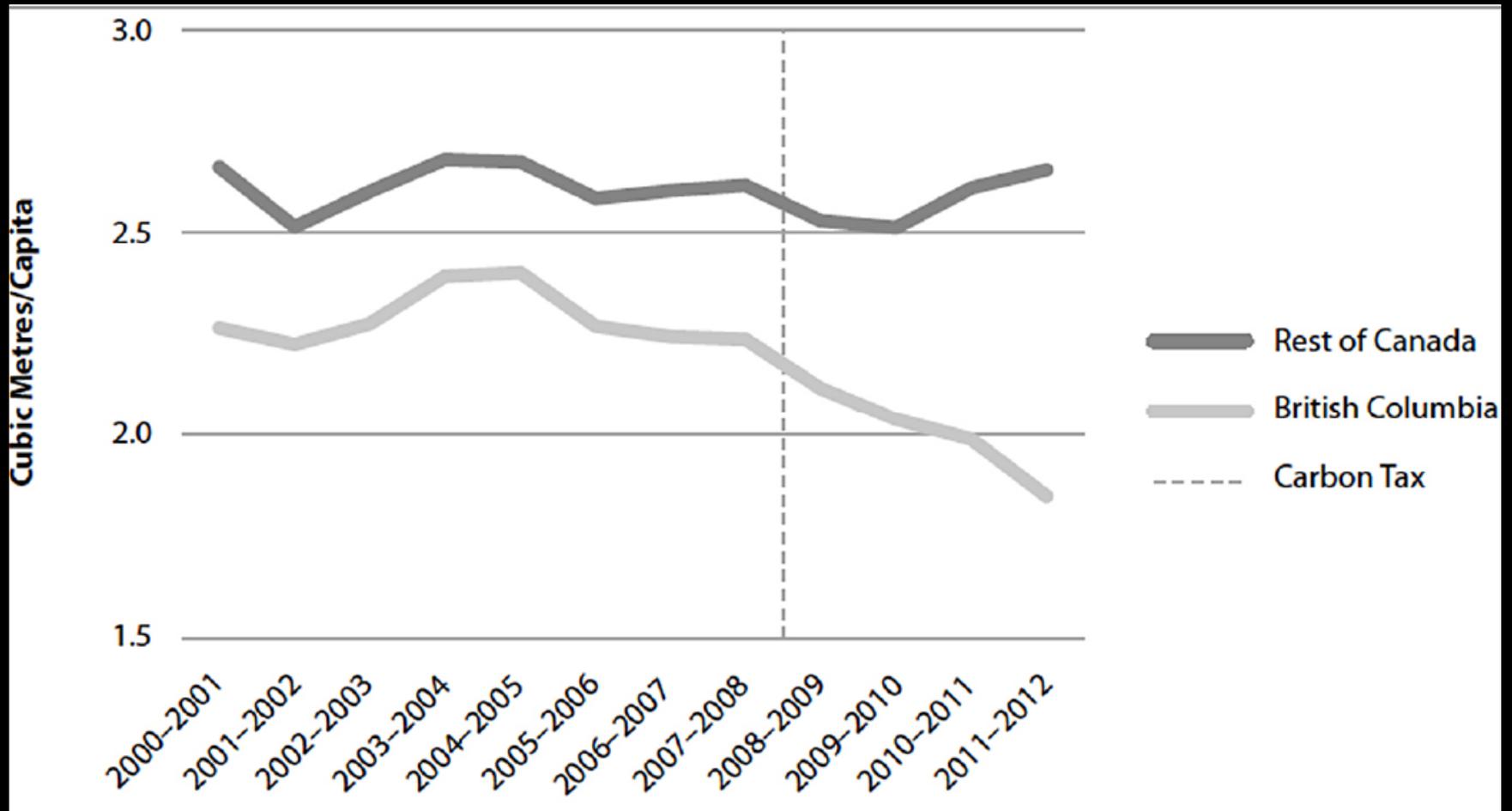
- Decline in attention, rebound in public support
- Business community called only for a freeze
- Government needs the revenue
  - Alternative to alienate voters/business by increasing some other tax?

# Stability of an Existing Carbon Tax

- Outcome:
  - Tax frozen at \$30/tonne for 5 years
  - Minor, but worrying, concessions
    - Northern Communities
    - Local governments
    - Agriculture
- Big challenge will be LNG expansion
  - Irony that coal not threatened, but gas is

# Does it Work?

Sale of Petroleum Fuels subject to BC Tax



# Does it Work?

- Gasoline (Rivers and Schaufele)
  - Response 7x comparable tax-exclusive price increase
- Agriculture (Rivers and Schaufele, forthcoming)
  - No evidence of impacts on competitiveness

# Beck et al

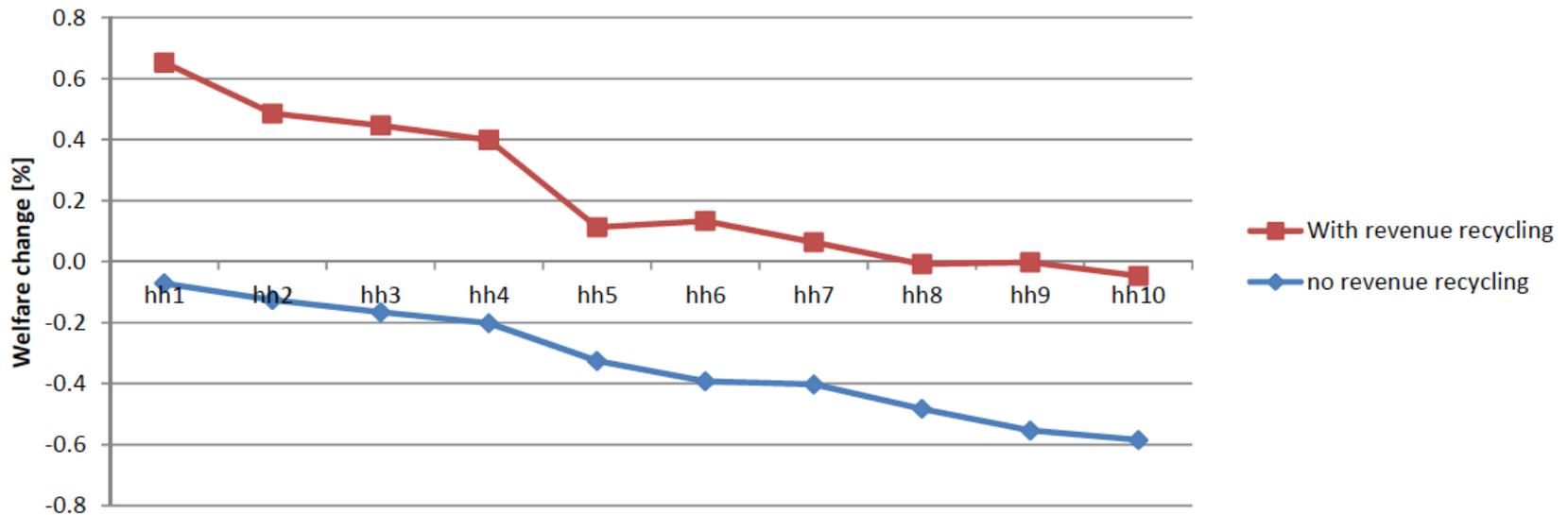


Figure 7: Welfare impacts: No revenue recycling vs. With revenue recycling (% change)

# Summary

- Opportunities for political leadership
  - Cyclical public attention
  - Easier in Westminster systems
  - Right-of-centre governments
- Stability of existing carbon tax, even if revenue neutral
- BUT initial political backlash
  - Will followers have easier ride?