

“Tax Bread— *Policymaking at odds with the polls* You’re Dead”

By Christopher Page

How do opinion polls affect policymaking? V.O. Key argued that public opinion should be understood “as a system of dikes which channel public action or which fix a range of discretion within which government may act or within which debate at official levels may proceed.” In other words, public opinion may not determine policy, but it sets boundaries within which officials act.

The introduction of Canada’s national sales tax in 1987-90 provides an excellent opportunity to explore the role of polling in policymaking. Not only did the Conservative government apparently ignore the polls and other evidence that large majorities of the Canadian public opposed the tax, but the opinion dikes, although more clearly defined than on most issues, failed to constrain the government’s decisions.

In 1987, Canadian government officials had become convinced that it was necessary to replace the Manufacturers’ Sales Tax, a little-known hidden tax they considered an unreliable source of revenue and a deterrent to efficient behavior by businesses.

Public opinion was not ignored in the decision to introduce the replacement tax, which would be christened the Goods and Services Tax, or GST. Indeed, the Ministry of Finance commissioned twenty-one polls and a number of focus groups in the four fiscal years from 1988-89 to 1991-92, mostly dealing with the GST. The results did not alter government officials’ commitment to proceed, as they were confident that the tax was justifiable and necessary.

Christopher Page is assistant professor of political science, Memorial University of Newfoundland.

However, an extensive series of in-person and telephone interviews conducted afterward with officials and pollsters indicated that opinion research played two other roles: it provided a backdrop for several decisions about the design of the tax; and it contributed to the government’s communications strategy.

The GST attracted much media coverage in the period before it was introduced, and would ultimately be visible to consumers. Since the Manufacturers’ Sales Tax it was replacing was invisible, most people thought the GST was a new tax; this helped account for its unpopularity.

The polls confirmed that introducing the GST would be an uphill battle. The key politician responsible, Finance Minister Michael Wilson, opened one meeting with his pollster by asking, “What kind of trouble am I in now?” The trouble was considerable: according to the polls, up to three-quarters of the public opposed the tax.

An early issue was whether to exempt groceries from the GST. In June 1987, Wilson indicated they would be included, reflecting the preference of Finance officials for a broad-based tax.

The proposal sparked visceral objections from the media and opposition parties. “Taxing food in Canada is an unspeakable no-no,” explained William Johnston in the *Montreal Gazette*, “like proposing to tax widows and orphans, to tax the



blind and the lame, or tax the aged gumming their cat food and the homeless foraging in their cold dumpsters.” A poll for the government found 93% of respondents uncomfortable with the idea of taxing groceries. In this atmosphere, Bruce Phillips, a communications advisor to the government, warned Prime Minister Brian Mulroney, “Tax bread—you’re dead.”

Officials in Finance confirm that the decision not to tax groceries was political. As one recalls, “My sense is it was too controversial, politics trumping policy.” However, polling was only a minor factor in the decision. Government officials thought taxing groceries would be too hard to sell to the public, an impression reinforced by input from the media, interest groups, and Members of Parliament.

Another important decision concerned the rate of the tax. Department officials preferred a 9% rate but accepted that lowering it might make the tax more tolerable to the public. Calculations about expected revenue, the weakening economy, and fears of fueling inflation

were all in the background as the decision was finalized.

A poll conducted by Decima Research for the government in November 1989 examined whether the public preferred a 9% tax, or a 7% tax with tradeoffs such as “less protection... to the poor” and “an increase in income taxes for individuals earning \$55,000 or more.” Although some interpreted the findings differently, the polling did not show clear public support for the lower rate. As a Decima pollster explained, “The reactions from the public were a little bit like ‘So you’re going to hit me seven times over the head instead of nine. I’m supposed to feel great about that?’” So the firm’s advice to the government was “better hung for a sheep than a lamb”; a lower rate would have little political payoff.

From interest groups and other organized sources of opposition, however, came indications of intensifying public opposition to the tax, and growing pressure to reduce the rate. A parliamentary committee studying the tax held public hearings and recommended that the rate be reduced to 7%. Other members of Parliament, hearing their constituents’ objections to the tax, delivered the same message, and in December 1989 Wilson announced the change.

Like the exemption of groceries, this decision was more a political one than an economic one. Once again, polling played only a minor part. In this case, it did not even offer clear support for the change in rate. A greater role was assumed by political factors—the public pressure, and hopes on the part of officials that a lower rate would make the tax less unpopular.

The government had announced that the sales tax would be visible, a commitment made without the use of opinion research. Officials hoped the public would accept arguments that a visible tax would be

difficult to raise in the future and that it was more honest than a hidden tax. This approach was favored by Finance officials and supported by large business groups. However, government officials and external advisors explored the possibility of tax-included pricing as a way to make it more acceptable to the public.

Government sources disagreed about the public’s views on this question. This can be partly explained by differences in the polling data. Three syndicated polls conducted in 1989 and 1990, before the tax took effect, produced sharply contrasting results (see Figure 1). Angus Reid’s poll showed support for tax-included pricing, by a margin of 67% to 29%. In contrast, Decima found 64% of respondents agreeing that the tax “must be visible.” Environics found the public divided fairly evenly, with 49% favoring tax-included pricing and 45% opposed. (The differences in the results can probably be attributed to variations in question wording.)

Even if the polls had produced a unanimous signal, the government had to confront another obstacle. Government lawyers advised them of a constitutional problem: the national government did not clearly have the authority to require either visible or tax-included pricing. If it tried, it might provoke a court case from provincial governments, which opposed the federal plans.

If the polls had given a clear message, the government might have been tempted to risk a constitutional challenge. But in the absence of solid evidence on public opinion, Wilson announced that the decision would be left to individual merchants, who would be required to display signs indicating whether the GST was included in their prices.

Again, partly because their signals were ambiguous, polls did not figure in this decision. This time the legal advice was most important.

Finally, Wilson initially promised that the tax would be revenue-neutral: at least in the first year, it would generate the same projected net revenue as the old Manufacturers’ Sales Tax. He wanted to prevent perceptions that the GST was a “revenue grab.” While the decision was aimed at influencing public opinion, it was made without help from polls.

Subsequently, polling showed that the revenue-neutral promise produced two problems. It was not credible to citizens because most were unaware of the old sales tax and therefore viewed the GST as a new tax. And it undermined an argument many government officials wished to advance—that the tax could help fight Canada’s deficit.

Once polls had suggested that the deficit-fighting argument was the most promising defense for the GST, the revenue-neutral claim was downplayed. However, this was done without a corresponding policy change: polls affected the language used to communicate the tax, but not its design. As an advisor to the government commented, “A lot of the details were done... in a bit of a public opinion vacuum.”

The revenue-neutral issue reveals the influence of opinion research on government communications to try to raise awareness and alter public opinion. One official explained, “We knew what the polls were going to say about taxing anything. So it was more a question of trying to glean things from the various sources of opinion [research] as how best to sell the GST.”

Some of this opinion research was trivial. Focus groups informed the decision about the color of the signs that advised consumers whether the tax was included in prices, for instance; the recommendation was reported to the minister.

More substantively, the government tested the effectiveness of arguments that could be used to promote the GST in public statements, media releases, brochures, and advertising. And once the government tried to persuade the public that the tax was inevitable, the acceptance of this was measured.

Opinion research also showed that a neutral, informational tone to newspaper and broadcast advertising was preferred to one that appeared to “sell” the tax. The result was a fact-oriented style that one journalist described as “low-key, earnest, barely noticeable, frequently boring.”

The decision to impose the Goods and Services Tax in Canada was emphatically not a political calculation, and polling assumed no role. It was made before government officials were fully aware of the opinion dikes.

However, public opinion potentially contributed to several decisions about the details of the tax. As the opinion dikes became more evident, the government reconsidered the design of the tax to contain the opposition. Hopes of swaying public opinion influenced the decision to exempt groceries, but officials’ logic and instincts were more important than polls.

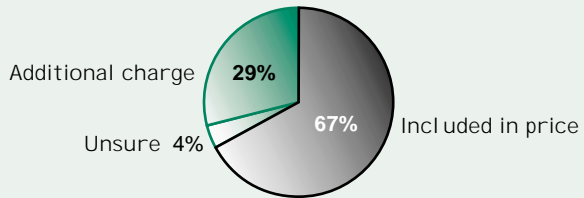
The same pattern applied to changing the tax rate. With ambiguous research on visibility, the constitutional argument prevailed in the decision to allow merchants to choose whether they would use tax-included pricing. Anticipated public reaction explains why the tax was initially described as revenue-neutral, but opinion research contributed to the later emphasis on the tax’s ability to tackle the deficit. Generally, the same decisions would have been made in the absence of polls. More generally on communications, the opinion research exerted more influence.

Why did opinion research play such a limited role? And why did the opinion dikes not work as described by Key? First, most of the research appeared too late in the policy process, after decisions were already made. Second, legal and economic factors were sometimes critical. Third, when political factors did apply, opinion research was often less clear or less influential than other indicators of public opinion. And, finally, the will of government officials to proceed with what they thought was right left little room for public opinion to influence their decisions. While more research is needed, the case of the Goods and Services Tax suggests that observers should be careful before they attribute policy outcomes to polls.

Figure 1

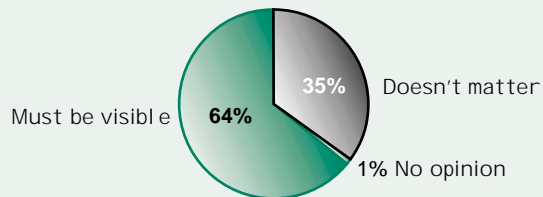
Picture Unclear on Tax Visibility

Question: Suppose that the new federal sales tax were introduced. Would you prefer to have this tax as an additional charge calculated at the time that purchases are made, or would you prefer to have this tax already included in the advertised price of goods and services? (The total cost paid would be the same in both cases.)



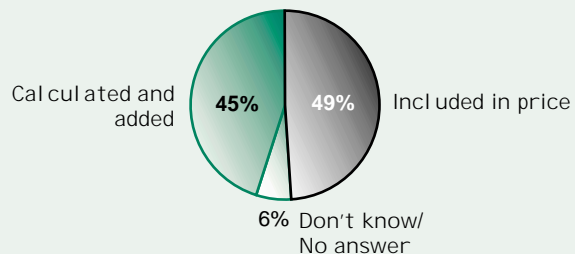
Source: Survey by the Angus Reid Group, January 19-25, 1989.

Question: Some people say that if the new tax is going to be applied, it must be visible—that is, it must be shown separately on the price tags of all products that you purchase. Other people say that it doesn’t matter if the tax is visible as long as there is a sign in the store telling you the tax is included in the price and your tax register receipt shows that it has been paid. Thinking of these two points of view, which one is closest to your own?



Source: Survey by Decima Research, September 15-24, 1989.

Question: If the GST does come into effect, would you prefer to have the tax included in the ticket price of items or would you prefer the tax calculated and added at the cash register?



Source: Survey by Environics Research Group, October 22-November 15, 1990.