**Crisis, uncertainty and urgency: Processes of learning and emulation in tax policy making**

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**Abstract**: This article examines how ideational factors shape policymaking during crisis conditions. Crises can generate ‘problem uncertainty’, in which policymakers are uncertain about the nature of policy problems. Existing studies have linked such conditions to processes of policy learning. Yet crises can also trigger ‘policy urgency’, where policymakers’ preference for immediate policy action is paramount. This study suggests that bounded emulation, in which policymakers copy available solutions without learning, is related to perceptions of policy urgency. To probe the plausibility of the framework the study conducts a comparative analysis of value-added tax reform in Ontario and British Columbia, drawing on 41 semi-structured interviews, policy documents, and news articles. The study finds that high uncertainty and moderate urgency facilitated policy learning in Ontario, while moderate uncertainty and high urgency fostered bounded emulation in BC. The article identifies the implications of the findings for future research on ideas and policy change.

**Keywords:** Policy; learning; emulation; ideas; taxation; uncertainty

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# Introduction

Policy scholars have long identified crises as a critical juncture in which policy ideas are likely to drive substantial policy innovation and change (Kingdon 1995). Crises can generate significant epistemic and political uncertainties, making it difficult for policymakers to calculate their interests (Blyth 2001). Radical uncertainty can generate new opportunities for new ways of thinking. Policymakers can draw on expert advice (Haas 2004; Dunlop 2017), turn to new stakeholders (Breetz, Mildenberger, and Stokes 2018) or engage with the public (Millar, Davidson, and White 2020) to update their beliefs. In short, a crisis can trigger processes of *policy learning*, namely ‘the updating of beliefs based on lived or witnessed experiences, analysis or social interaction’ (Dunlop and Radaelli 2020).

Yet periods of crisis can also serve to spur decision-makers to act first and learn later (Kamkhaji and Radaelli 2017). Crises often generate epistemic uncertainty, but they also foster existential angst. Exogenous forces can dramatically shift attention, leading some governments to rapidly emulate (Boushey 2010) as the perceived impetus to act shortens policymakers’ time horizons. Here, policymaking is less a process of collective puzzling and more a process of copying, as governments attempt to manage perceived risks by seeking out geographically or ideologically available policies. Thus, crises can also prompt processes of *bounded emulation* in which policymakers ‘mimic the policy solution – including instruments and settings – of a peer government because their ideas are cognitively accessible’ (Lesch 2021).

Under crisis conditions then, policymakers can adopt new policies under two different processes – policy learning or bounded emulation. Less is known however about the elements of the policymaking environment that are likely to trigger one pathway over the other. This study suggests that closer attention to ideological conditions of problem uncertainty and policy urgency is a fruitful approach. Drawing on recent developments in the policy learning literature (Dunlop and Radaelli 2020), the article argues that high levels of ‘problem uncertainty’ – that is uncertainty about the causes of policy problems and effectiveness of associated solutions – are likely to generate processes of ‘epistemic learning’ in which policymakers engage with experts to prompt policy action. At the same time, some crises can also generate high levels of issue salience, here termed ‘policy urgency,’ which generates pressure on policymakers to act. Building on findings from policy diffusion studies (Weyland 2005, Boushey 2010) this article suggests that high levels of policy urgency can trigger processes of bounded emulation in which policymakers copy available solutions without updating their beliefs. Following calls for scholars to develop more robust measures of policy learning and emulation (Maggetti and Gilardi 2016; Vagionaki and Trein 2019), the study also proposes indicators observable at both the micro- and meso-level of analysis.

To probe the plausibility of the framework the study conducts a comparative analysis of tax reform in response to the Great Recession in two Canadian provinces: Ontario and British Columbia (BC). In Ontario, high levels of uncertainty regarding economic conditions combined with moderate levels of urgency to foster epistemic learning among the premier, cabinet and key bureaucrats regarding the economic benefits of implementing a value-added tax (VAT). In contrast in BC, moderate levels of uncertainty about long-term economic growth combined with an intense urgency to address public finance problems. These conditions prompted the emulation of a salient and available alternative – the adoption of a VAT. Despite similar policy outputs in each province, the VAT was later reversed in BC. The article concludes with a discussion of the implications of this approach for future research on ideas, micro-foundations, and policy change.

# Uncertainty, urgency, and mechanisms of policy change

Scholarship on policy learning has long identified the role of crises, often in the form of external shocks, in triggering changes in ideological conditions of decision making (Birkland 1998). Crises can generate high levels of uncertainty about the causes of policy problems and the probability of policy outcomes, making it difficult for policy actors to derive their policy preferences from structural factors alone (Blyth 2013). Policy learning scholarship finds that under conditions of ‘radical uncertainty’ in which issue or problem definition is under-defined, policymakers turn to new ideational ‘blueprints’ or ‘paradigms’ to guide policy action (Blyth 2001; Hall 1993). External shocks – such as financial market failures, wars, and global pandemics– provide policy change pathways as policymakers engage with new causal stories and new solution searches (Birkland 1998; Kingdon 1995; Stone 1989). Conditions of radical uncertainty can prompt actors to examine their policy beliefs and update their preferences accordingly (Dunlop and Radaelli 2013; Millar, Lesch, and White 2019). When faced with uncertainty, policy actors can engage in goal-oriented behaviour to maximise their utility, drawing lessons to resolve policy problems (Börzel and Risse 2012). Problem uncertainty thus provides an opportunity for policymakers to learn, whether from epistemic communities (Haas 2004; Dunlop 2017), past experience (Rose 1991) or from other jurisdictions through policy transfer (Stone 2017). Recent scholarship suggests that high levels of problem uncertainty can foster processes of ‘epistemic learning’ from experts and/or social processes of ‘reflexive’ learning in which a broad set of actors examine their deep core values and beliefs (Dunlop and Radaelli 2020). The presumption is in both cases though is that policymakers update their beliefs about the causes of a policy problem and generate new ideas about the efficacy and legitimacy of specific policy solutions. The underlying micro-foundation of epistemic learning is fundamentally that of rational action. Radical uncertainty makes it difficult for policymakers to know their interests, and so they engage in a searching process to reduce uncertainty and update their policy preferences (Millar, Lesch and White 2019). For example, in facing the extreme uncertainty generated by the global Covid-19 pandemic, many leaders turned to expert debate on the relative benefits and drawbacks of mask-wearing, with some countries initially discouraging, then encouraging use after more prolonged deliberation, in a process that took several months (Davidson 2020).

At the same time, the intensity of economic, social, and political crises can generate high levels of urgency, spurring policymakers to act prior to learning (Kamkhaji and Radaelli 2017). Crises draw attention to policy problems, increasing issue salience and widening the scope of conflict (Schattschneider 1960; Baumgartner and Jones 1993). Increased salience can drive policy-makers to over-attend to some issues, diminishing others (Jones 2017; Jones and Baumgartner 2012). Urgency can exacerbate policymakers’ cognitive limitations, making it challenging for them to comprehensively attend to relevant policy information, including signals from peer governments (Simon 1985; Taber 2003). Under conditions of crisis and perceived urgency, policymakers can engage in processes of ‘bounded emulation’ in which policy action is guided by problem definitions that seem representative, or readily available policy solutions, either through geographic or ideational proximity (Weyland 2005; Lesch 2021). In this case, policymakers are less likely to update their policy preferences prior to adoption. Instead, policymakers chose action over inaction and rationalise their choices through post-hoc processes of contingent learning (Kamkhaji and Radaelli 2017). The micro-foundations of bounded emulation are less clear in the policy diffusion and transfer literature. As surveys of the field note (Maggetti and Gilardi 2016), in practice, emulation often functions as a residual ‘catch-all’ category when learning, competition or coercion mechanisms have been ruled out. By and large emulation studies have tended to stress that policymakers adopt policies because they want to emulate other governments and gain legitimacy, reflecting a logic of appropriateness (Dobbin, Simmons, Garrett 2007). While not disputing the empirical prevalence of emulation under a logic of appropriateness (March and Olsen 1989), this article proposes that the concept of bounded emulation allows for an alternative mechanism rooted in a strong micro-foundation. Although policymakers sometimes emulate other governments to ‘be like them,’ findings from empirical studies of emulation suggest that sometimes governments copy their peers just to act. To return to the Covid-19 example, facing an overwhelming third wave of cases in April 2021 the Ontario government rapidly implemented playground closures over the course of a day, in a move contrary to expert advice (Carter 2021) but which drew on a readily available policy instrument used earlier in the pandemic in other jurisdictions.

This study proposes that these findings suggest two pathways from crisis to policy change, with different causal processes and underlying micro-foundations. In the first pathway, a crisis generates high uncertainty about both the causes of an existing policy problem and the legitimacy of potential solutions. Faced with radical uncertainty, policymakers seek out new information through learning, and, based on their findings, update their policy beliefs. At the organizational level, this type of policymaking is likely to be more deliberative, as actors engage in a more intendedly comprehensive search for problem causes and potential solutions. In the second pathway, a crisis focuses attention on a particular policy area, generating high levels of urgency. Faced with pressures to act, policymakers reach out for what is available – either from trusted epistemic communities, proximate jurisdictions, or ideological peers. The presumption here is that policymakers engaging in bounded emulation are more likely to drawing on heuristics or rules of thumb to guide decision making (Weyland 2005).

This analytical framework thus provides guidance for when policymakers learn and when they are more likely to emulate. Relative levels of uncertainty and urgency interact to facilitate policy learning in some cases and bounded emulation in others. Recent research on issue definition and issue attention provide tentative support for this framework. In their study of contested policy areas, Bromley-Trujillo and Karch (2019) find that while perceived uncertainty can serve to slow down legislative adoption, greater issue salience can increase the rate of bill adoptions. Although the study does not examine mechanisms, the findings suggest that uncertainty and salience can have varying effects.

The article postulates that if a crisis generates high problem uncertainty and moderate urgency, learning is more likely (see Table 1). The assumption is that radical uncertainty prompts decision-makers to examine their deep core beliefs. At the micro-level, if actors engaged in policy learning, they are more likely to demonstrate changes in their core beliefs about causes of policy problems and effective solutions. At the meso-level, the framework anticipates the devotion of significant resources to consulting with experts, stakeholders, and/or members of the public. Although moderate levels of urgency prompt the need for action we presume that decision-makers will prefer deliberative processes of policy formation. Empirically, analysts should be able to observe policymakers engaged in comprehensive, iterative processes of deliberation over sustained periods. This type of deliberation is likely to take governments longer periods of time, ranging from months to years. In processes of epistemic learning, policymakers focus on ‘getting it *right*’ rather than ‘getting it right now.’

In contrast, when a crisis generates moderate levels of perceived uncertainty, but high levels of urgency, bounded emulation is more likely. At the micro-level, the framework anticipates that intense levels of urgency will drive individual decision-makers to act prior to updating their beliefs. At the meso level, it expects limited engagement by policymakers with the broader epistemic community. Instead, limited deliberation should unfold over a short period of time, akin to what Simon (1985) described as *satisficing*. High levels of urgency overwhelm the organizational impetus of government to engage with multiple stakeholders in decision-making. Processes of bounded emulation are more likely to unfold rapidly, taking days and weeks, rather than years.[[1]](#endnote-1) In processes of bounded emulation, policymakers are more concerned with ‘getting it right *now*’ than ‘getting it right.’

[Insert Table 1 Here]

# Methodology and Policy Context

This study applies this framework to examine the responses of two governments to the 2008 financial crisis. The study traces policy formulation processes prior to the implementation of a VAT in two Canadian provinces: Ontario and BC. The cases present an opportunity to examine decision-making processes on the same policy issue within a similar time frame and within a period of significant economic crisis (2008-2011). As two significant jurisdictions in the Canadian federation, the provinces are broadly comparable. Ontario is an economic engine of the national economy, providing 37% of Canada’s total GDP, while BC contributes approximately 12% annually (Government of Canada 2019). Although the VAT was adopted and fully implemented by both provinces, only in the case of BC was the policy eventually reversed.

In both provinces, VAT reform was also overseen by governments with significant political experience. The BC Liberals had been in power since 2001, while the Ontario Liberals were first elected in 2003. Despite both operating under the Liberal banner, it is worth noting that the two parties are both philosophically and organizationally distinct (Koop 2011). The Ontario Liberal Party operates as a classic centrist party, maximizing its electoral appeal by drawing on policy solutions from both the right and left. In contrast, the BC Liberal Party operates has established itself as the province’s main centre-right party. As such, supporters of the BC Liberals tend to be more ideologically conservative than their Ontario counterparts. Despite this ideological variation, VAT has not been contested as a left-right issue in Canadian politics. VATs have been adopted by provincial governments from a range of ideological backgrounds (Hale 2002; Bird, Mintz, and Wilson 2006). Though this should limit concerns about comparability, the issue of political ideology and its potential influence on decision-making is explored further in the analysis. Canadian tax policy provides a useful empirical case to probe the plausibility of the analytical framework. Although the federal government currently administers a national VAT, the Goods and Services Tax (GST), provincial governments also levy sales taxes, which they can choose to implement through a retail sales tax (RST) or a federally harmonised (or non-harmonised) VAT. A key advantage of VAT is that it distinguishes goods and services procured for investment versus consumption. In contrast, RSTs require businesses to pay sales taxes on capital expenditures, creating a disincentive for investment (Bird, Mintz, and Wilson 2006). When goods are subject to sales taxes throughout the production chain, these costs cascade and are reflected in consumer prices. Alternatively, in a VAT system, tax is only charged at the final point of sale, allowing businesses to reclaim any sales tax paid on capital costs (James 2015). The consensus among economists is that VATs are not only good for businesses but also beneficial for consumers in the form of lower prices, though this is subject to a time lag (Smart 2007; Kesselman 2011).

At the same time, shifting to a VAT model is not a painless political exercise since it introduces distributive costs. A VAT typically broadens the tax base, subjecting previously exempt items to sales tax. Tax-exempt industries and consumers face highly visible and immediate costs, while the benefits of the policy are both delayed and diffuse. Policies with these distributive and intertemporal implications present an electoral predicament for risk-averse politicians (Jacobs 2016). As a policy issue then, VAT thus provides an opportunity for policymakers to turn to experts and engage in processes of epistemic learning in the face of economic uncertainty, making it a useful test case for the article’s analytical framework. VAT also enables analysts to assess how urgency shapes policymakers’ actions and the potential for processes of bounded emulation to shape policy formulation.

In the Canadian context, sales taxes are complicated by fiscal federalism. In some provinces, governments have retained an RST system. In others, governments have either adopted their own VAT or have chosen to adopt a Harmonized Sales Tax (HST), which aligns the provincial sales tax base with the federal VAT, the GST. From a policy perspective, Canadian economists have been unequivocal in support for a VAT, and preferably federally harmonised (Bird, Mintz, and Wilson 2006). The Canadian federal government has also historically been a strong proponent of provincial sales tax reform. From their perspective, VATs, and particularly a federally harmonised policy design, promote economic competitiveness and can be easily administered by a single federal tax department.

In the 1990s, several governments followed expert advice, adopting a VAT but then paid the ultimate price at the ballot box. In 1991, the federal government implemented the GST but backlash led to the government’s historic defeat at the polls in 1993. This pattern of electoral backlash persisted across the 1990s when five provincial governments lost their subsequent elections after adopting a VAT. These electoral disincentives suggest that policymakers are unlikely to adopt a VAT without a significant impetus prompting urgency to act, such as a desire to attenuate or avoid further economic crisis. Beginning in the mid-2000s, the federal government tried to induce VAT-holdouts, including Ontario and BC. Ottawa would provide provinces with a one-time transition payment to alleviate the distributive impacts on consumers and specific sectors.

The study conducts a comparative within-case study of tax policy formulation and decision-making in each province from 2008-2011. Theory-building process tracing is used to construct a historical record of tax policy development and adoption in each province (Beach and Pedersen 2013; Trampusch and Palier 2016). Drawing on primary government policy documents, news articles, and secondary sources the study charts the timing and sequencing of significant policy decisions, followed by an examination of how and why political decisions were made (Stokes and Breetz 2018). Analytical propositions developed during case analysis were triangulated through interviews conducted with former politicians (6), provincial and federal government officials (15), former political staff (7), journalists (4), interest group leaders (4) and tax policy experts (5). Interviewees were purposively sampled after having been identified through a combination of government documents, media reporting, and snowball sampling. Interviewees were selected because they had either been active participants in the policy process or possessed in-depth knowledge of provincial tax policy. In total, 41 semi-structured interviews were completed, with 22 for the Ontario case and 19 for the BC case. Almost two-thirds of the interviewees (63%) were directly involved in the formulation or implementation of VAT in either province. This included several key decision-makers, including a former premier (Ontario), several cabinet ministers from finance or revenue departments (both Ontario and BC), and several senior civil servants (both Ontario and BC). In cases where politicians were unsuccessfully recruited for the study, the interview sample was expanded to include political staff who possessed intimate knowledge of the decision-making process. Interviews were conducted until saturation was reached. The interviews were conducted in-person or by telephone between January 2015 and January 2016.

## Ontario and VAT Reform: High Uncertainty, Moderate Urgency and Epistemic Learning

*The Policy Context*

In fall 2008, Ontario found itself in the throes of one of the worst economic downturns in recent history. By October 2009, Canada’s largest economy had lost almost 206,000 jobs (LaRochelle-Côté and Gilmore 2009). Before the crisis, there were emerging signs of economic problems in Ontario. Between 2004 and 2008, the province shed 198,600 manufacturing jobs (Bernard 2009). Following the onset of the crisis, the government announced a series of new spending measures, including $4.6 billion for infrastructure, $2.2 billion for post-secondary funding, as well as the $3.5 billion bailout for General Motors (Ontario Ministry of Finance 2009). In March 2009, the government announced that in addition to these measures, it would overhaul its sales tax system, replacing the provincial RST with a federally harmonised VAT.

Ontario’s decision to adopt sales tax reform stemmed from a context of economic decline and deep uncertainty about how to reverse the trend. When indications of the downturn first became apparent, the Ontario government responded like many other governments, stimulating demand by adapting fiscal policy and increasing spending (Ontario Ministry of Finance 2008). Premier Dalton McGuinty was given daily briefings on the impact of the crisis in Ontario.[[2]](#footnote-1) Officials in the Ontario Ministry of Finance warned the premier that the provincial GDP could see a significant drop. In another briefing, the premier was told that if nothing was done ‘the province could lose up to 400,000 manufacturing jobs’, a vitally important sector to the provincial economy.[[3]](#footnote-2)

*The Economic Crisis as a Focusing Event*

These high levels of uncertainty generated by the financial crisis compounded existing signs of economic distress. Between 2001 and 2010, the Ontario manufacturing employment rate had decreased by 5.5%. In the US and Germany, manufacturing had seen a 4.2% and 4.0% decline, respectively (The Mowat Centre 2014). The financial crisis forced a reckoning in the premier’s office that Ontario’s manufacturing sector was facing an existential threat. As one McGuinty advisor, a former finance minister to the premier recalled:

The world’s economy was going to hell in a hand-basket. Ontario was one of the places where the Great Recession was going to have a huge impact. Not just on [its] financial institutions... but the auto sector and manufacturing sector were heading for disaster.[[4]](#footnote-3)

Trade liberalization and other pressures had slowly contributed to the decline of Ontario’s manufacturing sector but the recession helped put the sector’s short- and long-term health into focus. As McGuinty (2015) later recalled:

Nobody saw it coming and when it hit us, we did not fully appreciate how devastating it was going to be... In the initial stages, I was scrambling to get good strategic advice, but it was just not available. Nobody had an answer... I heard a lot about the impact of the recession, but when I asked for their opinions on how long it would last or how to get out of it, they were initially less able to help.

By November 2008, the full weight of economic pressure began to weigh on the government. Two months into the crisis, the premier told his advisors that ‘all policy options need[ed] to be on the table.’ Following this, McGuinty and his advisors contemplated everything from short-term stimulus spending to a complete restructuring of the provincial tax system.[[5]](#footnote-4) Signs of policy failure with regards to existing economic conditions were clear but the precise drivers of the problem were not fully appreciated, indicating higher levels of problem uncertainty.

In a 2009 interview, the premier told reporters ‘When you lose 250,000 jobs in short order, you sober up very quickly... you recognise that you’re going to have to make some difficult decisions in order to strengthen this economy’ (Benzie 2010). Premier McGuinty and his advisors thus faced deep uncertainty about the provincial economy’s future. The financial crisis drew decision-makers focus to a problem that had been present but ultimately overlooked. The premier’s attention to the manufacturing sector prompted a deeper analysis of the economy’s fundamentals. Through discussion and analysis, the premier and his advisors recognised that the downturn was a symptom of a deeper, structural problem. At the same time, although the Ontario government was facing deep uncertainty regarding long-term economic outcomes because the government had initially turned to fiscal policy to support vulnerable sectors and workers, the pressure on the government to implement subsequent measures was more limited, providing more time to puzzle over additional policy measures. Thus the government’s initial foray into incremental fiscal policy change enabled decision-makers to reflect on the nature of the problem they were confronting, including major policy shifts to the provincial tax system.

*Reducing Uncertainty Through Epistemic Learning*

Case analysis finds that these conditions of high uncertainty and moderate urgency prompted epistemic learning in Ontario. At the meso-level, the government engaged in a thorough examination of epistemic reports and widespread consultation with key experts, helping formulate a clearer understanding of the causes of economic decline and potential solutions. First, economic advisors in the Ministry of Finance presented the premier with a report, *Time for Vision: Much of the Foundation of Past Economic Success Has Crumbled.* The report offered a candid assessment: Ontario’s economic and fiscal policies had failed to adapt to an increasingly competitive globalised economy. Higher energy costs and a rising Canadian dollar had made the province a much less appealing place to invest. The authors singled out the RST as a major disincentive for investment. The report also pointed to new evidence on the impact of VAT reform in three Canadian Atlantic provinces (Drummond and Burleton 2008). In these provinces, VAT reform was credited for increasing business investment while also driving down consumer prices in the long term (Smart 2007). The report, then, presented a cogent diagnosis of Ontario’s policy problem and identified a potential policy alternative. After reading the report, the premier reached out to several business leaders, academic experts and finance officials. These discussions helped reinforce the emerging problem-definition and policy solution.[[6]](#footnote-5)

The Ontario case reflects a classic case of policy entrepreneurship (Kingdon 1995) by actors within the bureaucracy who were attached to the VAT as an idea. The VAT system had long been the preferred policy option among senior officials in the finance department. According to one official, the reform was ‘routinely presented’ to politicians when ‘bold revenue generation ideas were solicited.’[[7]](#footnote-6) As one expert explained, ‘there were key personalities in the bureaucracy pushing [VAT] for a long time; it was largely a question of getting the politicians to sign on to it.’[[8]](#footnote-7) When sales tax reform finally got on the agenda, finance officials were well versed in the theory and evidence underpinning VAT reform. This iterative back and forth between elected officials, economic experts and members of the bureaucracy reflects processes consistent with epistemic learning. *Time for Vision* generated a new causal story for the premier, identifying economic competitiveness as the problem frame and pointed to the province’s tax system as a major culprit. This new problem definition reduced problem uncertainty and was further reinforced by other key actors. Key finance officials could help analyse, validate and explain expert ideas and research on sales tax policy to the premier and his cabinet.

Moreover, support for sales tax reform was not limited to finance officials. Several provincial business organizations had historically advocated for a VAT, including the Ontario Chamber of Commerce.[[9]](#footnote-8)In 2007, the Chamber commissioned research on the implications of VAT reform for the Ontario economy. Part of this research involved regular contact with senior finance officials. Ministry officials supplied the Chamber with their own queries and providing technical information.[[10]](#footnote-9) Early findings from the Chamber were then presented to McGuinty and his advisors just as the government was contemplating what to do about the economic downturn. While the *Time for Vision* report clarified the policy problem, the Chamber’s research identified the potential efficiency gains VAT reform could provide for Ontario businesses. The work by the Ontario Chamber of Commerce and Ministry of Finance further reduced the premier’s uncertainty about the efficacy of sales tax reform. . McGuinty had been sceptical about the potential policy benefits of VAT; the Chamber’s research was critical in contextualizing the impact of the reform. Following consideration of both policy reports, the premier turned to his advisors and said: ‘Let’s do this, let’s look at some options.’[[11]](#footnote-10) Officials then began negotiating with their federal counterparts about the one-time transition payment and other key administrative issues.[[12]](#footnote-11)

McGuinty’s decision to move forward with the VAT reflects a significant change in beliefs at the micro-level. Before the crisis, McGuinty had described the VAT as an ‘ideological non-starter’ due to potential electoral risks, as well as whether the instrument was effective (Cowan 2009). When the economic crisis heightened uncertainty, the premier turned to expert advice. Consistent with learning processes, this deep engagement with the policy problem and with experts prompted a shift in the premier’s core beliefs about tax policy. As McGuinty explained:

I had heard for a number of years that we were one of the few remaining holdouts in the world when it came to not having a value-added tax but hadn’t fully appreciated the impact of this. [But then] I got some excellent policy advice from the Ministry of Finance and from folks outside government, which said that we should adopt [VAT], that it would make our businesses more competitive. That it would lead to increased business investment, create jobs, [and] raise incomes.[[13]](#footnote-12)

## British Columbia’s HST: Moderate Uncertainty, High Urgency, and Policy Emulation

*Policy Context*

In July 2009, the BC provincial government announced it would also replace its existing provincial retail sales tax with a VAT. The BC government cited Ontario’s March 2009 decision, saying the province would be left at a competitive disadvantage if it did not follow Ontario, one of its economic rivals (Ministry of Finance 2009). At first glance, this policy change reads like a case of competition-induced policy diffusion, where a competitor’s policy decision makes retaining the status quo too costly and thus results in policy convergence (Dobbin, Simmons, and Garrett 2007). A closer analysis shows that the BC government was far less systematic than a ‘competition’ explanation would seem to suggest.

By early 2009, BC’s resource-based economy was showing signs of a downturn. Provincial revenues had fallen by almost $1 billion during the recession (Ministry of Finance 2011). The crisis had also affected the labour market, with 48,500 jobs lost across the province (BC Stats 2015). Early in the crisis, the BC government, led by Premier Gordon Campbell did not introduce any major policy changes. In October 2008, the premier told reporters that his government had no interest in pursuing ‘deficit financing’ (Fletcher 2008). Unlike his Ontario counterpart, the premier did not consider the financial crisis a source of significant problem uncertainty. The economic threat emanating from the global recession was significant but Campbell and his advisors were also reasonably confident that the economy would rebound. Although there was some uncertainty about the timing and speed of the recovery there was no indication that BC’s economy had a structural problem. In the absence of an existential threat, BC policymakers had less incentive than the Ontario government to engage in policy learning. As time passed however and the economic outlook continued to worsen, the premier’s initial position became untenable. In March 2009, Campbell reversed himself, announcing a $495 million budgetary deficit (Palmer 2009), while committing to a balanced budget by 2011 (Ministry of Finance 2009). The government’s shifting approach to budgeting suggests that by early 2009 it was facing moderate levels of uncertainty, creating conditions for potential policy learning.

As in Ontario, prior to the financial crisis, the sales tax system in BC had been routinely criticised, yet successive provincial governments showed no interest in policy change. Largely for political reasons, politicians refused to ‘touch the [sales] tax with a ten-foot pole.’[[14]](#footnote-13) In Campbell’s case, since taking office in 2001, he had both publicly and privately expressed opposition to the idea.[[15]](#footnote-14)

However, Ontario’s decision to adopt the VAT heightened the salience of the issue across Canadian provinces, including BC. The timing proved awkward. By March 2009, the provincial election campaign had just got underway toward a May 2009 election day. The salience of Ontario’s decision forced the incumbent BC Liberals to restate their opposition to VAT reform in BC. The Liberals portrayed themselves as the safe electoral option given the economic climate, promising to protect social programs through modest deficit spending. This electoral strategy ultimately paid off. The BC Liberals won a majority of seats for a third consecutive election.

Although discussion of VAT reform was kept to a minimum on the campaign trail, urgency regarding the need to revisit the idea was slowly building behind the scenes. Following Ontario’s decision, BC finance officials provided a briefing note for their minister, Colin Hansen. The briefing discussed the anticipated benefits and risks of a similar policy change in BC. Officials also noted that some of the risks could be managed by using funds that the federal government had set aside for such purposes (CBC News 2010).

*Responding to Urgency through Bounded Emulation*

In contrast to epistemic learning in Ontario, the decision to adopt the VAT in BC stemmed from a handful of short meetings between the premier, his senior staff and finance officials, reflecting a process of bounded emulation. This process was driven in part because of high levels of perceived urgency among policymakers regarding the government’s public finances.

Just days before the provincial election, the premier was warned by finance officials that revenues projections for the first month of the year were off by between $200 to 300 million (Palmer 2009). Two days after the election, the premier met with a senior finance official and was presented with an even ‘grimmer’ forecast.[[16]](#footnote-15) The deficit would be twice the size of what Campbell and Hansen had promised earlier. Frustrated by the prospect of a $1.3 billion deficit, the premier, instructed his finance officials to ‘go and figure something out.’[[17]](#footnote-16) Defining the policy problem as an urgent budgetary issue rather than a radically uncertain economic problem had important implications for policy decision-making.

Beyond the urgency generated by the salience of Ontario’s decision to adopt the VAT and the changes in provincial public finances, BC policymakers also found themselves facing urgent time pressure from the federal government. Finance officials approached their counterparts in Ottawa and were told that BC could expect $1.6 billion in compensation for adopting the VAT. The federal government wanted Ontario and BC to implement these reforms on the same schedule and so the offer was time-sensitive.[[18]](#footnote-17) For Campbell, the federal offer presented a convenient (and available) solution to the deficit. A month later, though, finance officials told the premier, yet again, revenues were significantly off-target and that the $1.3 billion deficit figure was likely much larger.[[19]](#footnote-18)

Among finance officials, it was understood that although the effects of the recession were deep, BC was confronting a cyclical economic shock. Decision-makers were under pressure but the nature of the challenge was distinct from Ontario. In BC, finance officials grasped the causes of the downturn and reported feeling confident about the medium- to long-term recovery. Forecasters anticipated that the provincial economy would rebound over 2009 and 2010, particularly as demands for BC’s exports increased.[[20]](#footnote-19) The decision to restructure the entire provincial tax system is, then, somewhat striking. As one policy expert put it, ‘As a general rule, governments do not overhaul the tax system in order to deal with a cyclical problem like a budgetary deficit.’[[21]](#footnote-20)

*The Political Consequences of Bounded Emulation*

Faced with an urgent policy problem and a salient, yet time-limited policy solution, policymakers engaged in a process of bounded emulation. Rather than probing their deep core beliefs about the economy, Campbell and Hansen were spurred to make a rapid decision to alleviate urgent perceived financial and federal pressures. BC’s deteriorating fiscal situation and Ottawa’s fleeting offer presented a dilemma: Officials knew that replacing the sales tax system would have major consequences for stakeholders but they did not believe that they had sufficient time to examine those issues.[[22]](#footnote-21) As a result, there was no systematic analysis of the distributive implications of adopting the VAT within the government bureaucracy before the decision was made. In contrast to Ontario, the government did not engage with or consult with external experts or stakeholders prior to deciding on the VAT. According to one cabinet minister, time constraints were the main factor: ‘we were rushed by the feds... [and so] there was a complete absence of a communications plan.’[[23]](#footnote-22) On July 23 2009 Campbell announced the policy change describing it ‘the single biggest thing we can do to improve B.C.’s economy’ (CBC News 2009).

In contrast to processes of epistemic learning in Ontario, the nature and pace of the VAT decision-making process in BC were much more consistent with a rapid pattern of cognition. As one political strategist pointed out:

The government needed to find money, they looked around and went ‘oh, the HST’… This explains why there [were] no research papers [and] why there was no notice to the business community. There were no secret papers, there weren’t any secret documents. In fact, there weren’t any documents at all. They did not do the research, they did not do the studies [and] they did not do the polling or the focus groups, nothing.[[24]](#footnote-23)

At the meso level, policymakers’ failure to perform any comprehensive assessment of VAT reform and its impact is indicative of bounded emulation. Moreover, the decision to restructure the provincial tax system over such a short period of time suggests that policymakers were drawing on limited amounts of information. Since the government never consulted with experts or stakeholders on this major reform, it is reasonable to assume that the evidence base for the policy was biased and/or incomplete. In addition, there was no indication that actors’ ideas significantly shifted at any point, rather the incentives to adopt VAT changed. As one journalist noted, ‘I think [Campbell] looked at that money [from the federal government], knew it was a generally good policy idea and said yeah, let’s do it... really that’s the only way to make sense of the timing of the decision.’[[25]](#footnote-24) Research suggests that Campbell’s decision to adopt the VAT was likely bolstered by his previous success in reforming carbon pricing in the province. Despite significant differences in the design and roll-out of the VAT, BC’s success with the carbon tax may have prompted over-confidence biases that the government would be able to ‘sell’ the tax during implementation to the public (Lesch 2018).

 The BC government was unprepared for extensive resistance to the distributive impacts of the VAT. Over the fall of 2009, an anti-VAT coalition mobilised and triggered a provincial referendum in August 2011 (Bailey 2010). The VAT issue sparked strong divisions within the provincial cabinet and Gordon Campbell resigned in late 2010. By nearly a 10-point margin, the public voted to restore the provincial RST. Subsequent analyses have attributed the reform’s unpopularity to a poor communication plan and policy design (Abbott 2015; Lesch 2018).

If the Campbell government was reasonably confident that the provincial economy could recover in the medium-term, then the urgency attached to responding to the budgetary crisis might seem somewhat surprising. Understanding the hasty decision to embrace the VAT needs to be examined within the broader context of BC politics. Since the mid-1990s, the BC Liberals have positioned themselves as the ‘more fiscally responsible’ alternative to the New Democratic Party (NDP), the province’s main left-wing party.[[26]](#footnote-25) Upon first taking office in 2001, for example, the Campbell Liberals introduced balanced budget legislation, effectively banning the province from running budgetary deficits. The Great Recession forced the government to amend its signature legislation in order to run a deficit (Simpson and Wesley 2012). Economic stewardship and fiscal restraint had been instrumental to the BC Liberal’s electoral appeal in the 2000s. These issues helped the party attract support from suburban voters as well as mobilise the small-c conservative base.[[27]](#footnote-26) Thus Premier Campbell had a strong ideological motivation as well as the political incentives to prioritise the deficit as an issue after the Great Recession. The political environment differed dramatically in Ontario, where a centrist government enjoyed more ideological room and electoral flexibility in experimenting with different policy approaches.

# Discussion and conclusion

The comparative analysis conducted above provides support for the analytical framework of this study, drawing out the twin influences of problem uncertainty and policy urgency in Canadian tax policymaking in the context of the Great Recession. In the case of Ontario, the study finds that when governments face crises characterised by high uncertainty and moderate urgency, epistemic learning is possible. Radical uncertainty can prompt decision-makers to contemplate their deep core beliefs, seeking out information about both the causes of policy problems and alternative solutions. Moderate levels of urgency are conducive to policy action but provide actors with greater time to engage in iterative solution searches. Although policymakers are still influenced by cognitive constraints, they are goal-seeking in their behaviour. Under such conditions, actors focus on getting the policy decision ‘right’ as opposed to ‘right away.’

In contrast, the study finds that BC policymakers engaged in bounded emulation, allocating limited time and resources to studying the policy problem and solution before implementing the VAT. In line with the proposed analytical framework, the decision-making process in BC was marked by moderate uncertainty. Finance officials knew that the Great Recession was unlikely to have a prolonged negative effect on the province’s long-term economic prospects. Although problem uncertainty was less extensive in BC than in Ontario, the degree of urgency facing policy officials was much more intense. The combination of a rapidly growing deficit, a diminishing timeline to access federal funding, and increasing salience of Ontario’s adoption of the VAT served to drive policy action, fostering processes of bounded emulation. Faced with the need to ‘get it right now,’ the premier and the finance minister settled on a cognitively accessible tax policy instrument. The findings, then, appear broadly consistent with research on heuristic-information processing and policy diffusion (Weyland 2005). Although the scope of the study does not allow us to identify the specific heuristic at play, such as availability bias, this could be the focus of future research.

The findings present several additional implications for future research. First, as the variation in provincial responses to the Great Recession demonstrates, the same exogenous shock can generate different levels of uncertainty, with associated differences in mechanisms of policy learning. Despite the prevalence of scholarship on the importance of uncertainty for policy change (Blyth 2013; Cairney, Oliver, and Wellstead 2016) more analysis of problem uncertainty and its correlations to policy learning is needed. As our empirical analysis demonstrates, although uncertainty and urgency are often interlinked, they can have disparate influences on policymakers, encouraging learning on the one hand and dampening it on the other. These findings align with Kamkhaji and Radaelli’s (2021, this issue) call to refine our understanding of the relationship between different ideational characteristics and policy change.

Second, the findings suggest that the seeds of policy termination can sometimes be found in the process through which policy is made. Public backlash to the policy in BC resulted directly from the lack of attention that policy actors paid to distributive impacts, and in particular limited attention to how the policy was framed and communicated to the public (Lesch 2018). More research is needed to determine whether policy learning can insulate decision-makers from policy reversals and/or whether bounded emulation can nevertheless generate durable policies.

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1. This distinction with regard to time is a relative, rather than absolute measure. As the process of vaccine development for Covid-19 demonstrates, processes of epistemic learning can be extremely rapid, however the process also required an extensive mobilization of resources, supporting the categorization put forward in the analytical framework of the study.

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**Table 1: Measures of Epistemic Learning and Bounded Emulation**

|  |  |  |
| --- | --- | --- |
| Mechanism | Micro-level indicators | Meso-level indicators |
| Policy Learning | Individual decision-makers are goal-seeking in that they are intentionally updating their policy beliefs. | *Extensive resources:* policymakers devote significant resources to expert consultation *Deliberative:* policymakers engage in a more comprehensive, iterative process of deliberation over a longer period of time (months-years) |
| Bounded emulation | Individual decision-makers are acting through copying and likely exhibit heuristic-information processing. | *Limited resources:* policymakers spend limited time and resources consulting beyond government*Rapid:* policymakers engage in limited deliberation over a short time period (days-weeks) |

 [↑](#endnote-ref-1)
2. Author’s interviews. Former Policy Advisor (Ontario). [↑](#footnote-ref-1)
3. Author’s interviews. Former Cabinet Minister (Ontario). [↑](#footnote-ref-2)
4. Author’s interviews, Former Cabinet Minister (Ontario). [↑](#footnote-ref-3)
5. Author’s interviews, Former Policy Advisor (Ontario). [↑](#footnote-ref-4)
6. IInterview. Former premier (Ontario). [↑](#footnote-ref-5)
7. Author’s interview. Confidential. [↑](#footnote-ref-6)
8. Author’s interview. Policy expert (Ontario). [↑](#footnote-ref-7)
9. Author’s interview. Stakeholder group. (Ontario). [↑](#footnote-ref-8)
10. Author’s interview. Confidential. (Ontario). [↑](#footnote-ref-9)
11. Author’s interview. Policy advisor (Ontario). [↑](#footnote-ref-10)
12. Author’s interview. Confidential. (Ontario). [↑](#footnote-ref-11)
13. Author’s interview. Former premier (Ontario). [↑](#footnote-ref-12)
14. [↑](#footnote-ref-13)
15. Author’s interview. Journalist (BC). [↑](#footnote-ref-14)
16. Author’s interview. Confidential (BC). [↑](#footnote-ref-15)
17. Ibid. [↑](#footnote-ref-16)
18. Author’s interview. Former cabinet minister (BC). [↑](#footnote-ref-17)
19. Author’s interview. Journalist (BC). [↑](#footnote-ref-18)
20. Ibid. [↑](#footnote-ref-19)
21. Author’s interview. Policy expert (BC). [↑](#footnote-ref-20)
22. Author’s interview. Former cabinet minister. (BC). [↑](#footnote-ref-21)
23. Ibid. [↑](#footnote-ref-22)
24. Author’s interview, Political strategist. (BC). [↑](#footnote-ref-23)
25. Author’s interview, Journalist. (BC). [↑](#footnote-ref-24)
26. Author’s interview. Former cabinet minister. (BC). [↑](#footnote-ref-25)
27. Author’s interview, Political strategist. (BC). [↑](#footnote-ref-26)