

## **Examining the Political and Economic Effects of a Carbon Tax on Australian Small Businesses**

Climate change is one of the most pressing challenges all countries in the world are confronting today. Potential outcomes of unchecked climate change are extremely serious, and range from destruction of crops to disruption of global trade to increases in natural disasters. The Intergovernmental Panel on Climate Change (IPCC) predicts that by the middle of this century, average global temperatures will rise between 1.3°C and 1.8°C, and by the end of the century, sea levels may rise between 0.18m and 0.59m<sup>i</sup>. One approach that some countries have taken to combat this issue is to adopt a carbon tax, an often hotly contested idea in the political sphere. Australia is the most recent addition to this list, as its carbon tax will be going into effect in July of 2012. Most studies that have been done on carbon taxes have either taken place long before a tax has gone into effect<sup>ii</sup>, to simulate results, or long after, to look at long-term effects<sup>iii</sup>. My research plan is to explore the implications of the tax immediately before and after it has gone into effect, a period of time generally underrepresented in studies. In addition, I plan to focus on the experience of small businesses, a vital part of the economy that is also typically excluded from research on carbon taxes. Because the carbon tax in Australia was passed so narrowly and is continuing to face opposition, monitoring expectations regarding the tax as well as immediate reactions to it and analyzing the harmony or discord between the two will provide a valuable, fresh perspective on a carbon tax. I plan to carry out detailed interviews with a range of small business owners in order to learn how their particular experiences might influence the Australian economic and political climate in the future. This investigation into early responses and preliminary effects will aid in gauging the political viability of the continuation of the policy.

The carbon tax in Australia has long been a hotly debated and controversial topic. In the lead up to the last federal election, in 2010, Labor Prime Minister Julia Gillard specifically said that she would not impose a carbon tax if elected. Yet on election day, neither the Labor or Liberal party won a majority in Parliament, and Gillard needed to find a way to form a minority coalition government. To gain the support of Greens and Independents, Gillard agreed to introduce a carbon tax. The legislation was passed in late 2011. In response to accusations of her breaking a campaign promise, Prime Minister Gillard has stated that the government's carbon pricing policy is not technically a tax, but rather an emissions trading scheme with a fixed price that will later change to a full emissions trading scheme with a price set by the market. The leader of the Opposition, Tony Abbott, has been famously labeled a “weathervane” on the issue of climate change<sup>iv</sup>, as he was vocal about his support for a carbon tax while a cabinet minister in 2009, but in the lead-up to the 2010 election opposed the idea of a tax, and after its passing has sworn a “blood oath” to repeal it if elected.

The economic impact on small businesses will be different than that on big businesses. The 500 biggest polluters in Australia will be directly paying the tax, but small businesses are not included in this list. Instead, the biggest impact for small businesses will most likely come from increases in the price of electricity required to run businesses. While the government is compensating individual households for increases in utility costs, it is not providing such compensation to small businesses. Instead, it is providing certain benefits aimed at making small businesses more energy efficient. These benefits include increasing the small business instant asset write-off from \$5000 to \$6500 and establishing a \$40 million Energy Efficiency Information Grants program to provide information to small businesses on practical measures they can take to reduce energy costs<sup>v</sup>.

Studies on carbon taxes adopted in countries such as Norway and Finland have tended to focus on the effects on consumers or the effects on big businesses. There is a dearth of research on the effects on small businesses, which constitute 96 percent of all businesses in Australia. Most studies also focus solely on economic indicators, neglecting more indirect effects. One study on the carbon tax in Ireland fails to examine indirect effects such as retailers passing on costs to consumers<sup>vi</sup>, and another study from the United Kingdom evaluates how the public decides a policy's acceptability, but ignores specifically how politics is involved<sup>vii</sup>. My project would explore an aspect of the carbon tax that up to now has gone unexamined: the experiences and perceptions of small business owners, and how their experiences with a carbon tax influence not only the future of their businesses but also the future of their political decisions.

The questions I want to pursue include: Will increased utilities costs have a significant negative effect on Australian small businesses? Are Australian small business owners aware of and planning to use the programs being offered by the government to help small businesses deal with the carbon tax? Are effects of the carbon tax changing Australian small business owners' political views? This issue is particularly interesting because Australia has compulsory voting, so people's voting behavior may be more easily swayed by one issue like this, unlike in other countries where voting is not compulsory and so people who vote usually do so because they are very passionate and loyal to one party.

I will collect data to try to answer these questions by carrying out interviews with a range of small business owners in Melbourne, Australia. Melbourne is the ideal location for my study because it is both an area I am familiar with, as well as a strongly representative section of Australia from which to begin examining this issue. My idea is to carry out this pilot study in Melbourne and based on the preliminary results determine whether this area of focus should be expanded to include other regions of Australia. I have established contact with twenty small business owners, confirmed approval to interview several of them, and am in the process of finalizing interviews with an additional few. I am looking to interview twenty to thirty small business owners from a diverse range of businesses in order to also gain preliminary ideas as to what would be most important to study in the future. I plan to further refine the selection of business owners I interview by working with my faculty adviser, Professor Lynne Kiesling of the Economics Department, as well as some contacts of hers carrying out research on Australia's carbon emission policies that will help inform my project. These contacts are: Professor Rimvydas Baltaduonis from Gettysburg College and Professors Tihomir Ancev and Tim Capon and Master's student Elizabeth Bernold from University of Sydney. I plan to communicate with all of them during Spring Quarter as well as throughout my time in Australia to exchange information and ideas about our complementary research. I will complete my project in the appropriate amount of time by dividing my project into four tasks lasting three weeks each: preliminary interviews, analyzing and coding of those interviews, follow-up interviews with the same businesses, and final analyzing and coding of data and drawing conclusions. I will code the data for connections between business owners' familiarity with government programs directed towards small businesses and resultant economic and political changes. I have included the lists of questions I plan on asking in both interviews in Appendices A and B. I will spend the summer living in Melbourne under the auspices of Ms. Gaia Miller-Foote, one of my contacts at the University of Melbourne whom I met while studying abroad Fall Semester 2011. Records of my communication with the small business owners, Professor Baltaduonis, Professor Ancev, Ms. Bernold, and Ms. Miller-Foote can be found in Appendix C.

By the time I leave to begin this project in June, I will have had significant experience completing interviews and manipulating data. In my work as a Bilingual Research Assistant for Professor Nicole Stephens in the Kellogg School of Management and in a Methods of Observing Human Behavior class I have completed interviews and coded responses for three separate projects. In the spring, as part of an internship for academic credit at Baxter International, Inc., I will also have to complete interviews with staff and code that data. In addition, in classes I have taken for my Social Policy and International Studies majors we have discussed the topic of mitigating climate change, so I believe this knowledge from the classroom combined with my practical experience make me well-prepared to carry out my work in Australia.

Upon completing my data collection and analysis, I hope to use the results to form preliminary ideas about the carbon tax's chances of survival in Australia specifically, and the implications of a carbon tax on small business owners across countries more generally. I plan to present these ideas at the Undergraduate Research and Arts Exposition as well as submit the subsequent paper for consideration in journals such as the *Northwestern Undergraduate Research Journal*, the *Colorado Journal of International Environmental Law and Policy*, and the *Duke Environmental Law and Policy Forum*. I also plan to apply for a Fulbright grant next year, in order to return to Australia and build upon my research to see what effects may present themselves over an additional year of the tax being in place. My hope is that the culmination of this research will provide beneficial information to the global community as to the best ways to address climate change.

## Appendix A: First Interview Questions

### Background

1. What is the name of your business?
2. What type of goods/services do you provide?
3. How many people do you employ?
4. Where is your business located?

### Carbon Tax: Anticipated Effects

5. How much detail would you say you know about the carbon tax that will be going into effect on July 1<sup>st</sup>?
6. What do you expect its effects to be on your business?
7. Do you plan to raise prices? By how much? What would you give as the primary reasons you will have to raise prices? Electricity? Sourcing goods/materials from the 500 companies affected directly by the tax? Other?
8. Do you expect you'll have to cut jobs, or cut hours, or change anything else about the way your business operates?
9. Are you aware of the following government initiatives: the increase in the instant asset write-off for small businesses? The Energy Efficiency Information Grants program? The Industry Capability Network? Supplier Advocates? Enterprise Connect?
10. Have you used any of them before? Do you plan to use them in the future?
11. Do you think these initiatives will be enough to make up for any inconveniences to your business caused by the carbon tax?

### Carbon Tax: Political Effects

12. Since you started voting, is there one party you traditionally identified with?
13. In the last election, which party did you vote for?
14. Did you take the potential carbon tax into account when deciding who to vote for?
15. How do you now view the policy the Gillard government passed with regard to her comments in the past that there would be no carbon tax under her government? Do you agree with the distinction that the policy is an emissions trading scheme with a fixed price for the first few years rather than a carbon tax?
16. How do you interpret the fact that Tony Abbott has in the past advocated for a carbon tax, yet now has sworn to repeal the tax if elected?
17. How do you feel about the fact that Gillard seems to mostly have introduced a carbon tax in order to get the support of the Greens to form a minority government?
18. Do you think the effects of the tax on your business will determine the way you vote in the next election? Do you think the way the government is acting towards small businesses with regard to the tax will influence the way you vote in the next election?
19. Do you think any other issues will be more important to you in the next election than the issue of the carbon tax?

## Appendix B: Second Interview Questions

### Background

1. What is the name of your business?
2. What type of goods/services do you provide?
3. How many people do you employ?
4. Where is your business located?

### Carbon Tax: Actual Effects

5. How would you describe the effects of the carbon tax on your business so far?
6. Have you raised prices? By how much? What would you give as the primary reasons you've had to raise prices? Electricity? Sourcing goods/materials from the 500 companies affected directly by the tax? Other?
7. Have you cut jobs, or cut hours, or changed anything else about the way your business operates?
8. Have you yet used any of the following government initiatives: the increase in the instant asset write-off for small businesses? The Energy Efficiency Information Grants program? The Industry Capability Network? Supplier Advocates? Enterprise Connect?
9. Do you think these initiatives are so far proving to be enough to make up for any inconveniences to your business caused by the carbon tax?

### Carbon Tax: Political Effects

10. Based on your experience with the tax so far, do you think the effects of the tax on your business will determine the way you vote in the next election?
11. Based on your experience with the tax so far, do you think the way the government is acting towards small businesses with regard to the tax will influence the way you vote in the next election?
12. Based on your experience with the tax so far, do you think any other issues will be more important to you in the next election than the issue of the carbon tax?
13. Based on your experience with the tax so far, have your perceptions of Julia Gillard's or Tony Abbott's attitudes and actions on environmental policy changed?

#### Appendix D: Selected Bibliography

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- <sup>ii</sup> See Lee, Lin, Lewis, and Chang (2007); Zhang, Wang, & Huang (2011); Bristow, Wardman, Zanni, and Chintakayala (2010).
- <sup>iii</sup> See Lin & Lee (2011); Hammar & Sjoström (2011); Wier, Birr-Pedersen, Jacobsen, and Klok (2005).
- <sup>iv</sup> Malcolm Farr, “Opposition Leader Tony Abbott changes line, says he never supported ETS”, news.com.au, July 20, 2011, accessed February 20, 2012, <http://www.news.com.au/national/opposition-leader-tony-abbott-changes-line-says-he-never-supported-ets/story-e6frfkvr-1226098237952>.
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