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Tax isn't a four-letter word

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Ironically, it is in the anti-tax United States that a conversation has erupted on taxes. Warren Buffett and a few other billionaires helped to open the door, if only a crack, and President Barack Obama made taxing the rich a key means of funding his jobs plan (though it was ultimately ill-fated). In the context of all that is happening right now on Wall Street and beyond, these now seem like small and belated steps. Bigger things are in the air. But the conversation on taxes is now engaged and, judging from the reaction – accusations of class warfare, “no-tax” pledges – tax is a proxy for these bigger things.

In Canada, there is no such conversation – only a few brave voices. We continue to reward politicians who avoid the issues or promise more cuts. But without an honest conversation about tax, we won't be able to face up to our challenges and we will sleepwalk toward a smaller, meaner Canada.

Canadians have traditionally had a more benign view of taxes than have our anti-tax neighbours. We have understood that taxes are the price we pay for civilization and for a better future. While there are legitimate disputes regarding how much tax and of what sort, we have generally accepted higher taxes as a way of funding public goods and services, redistributing income to avoid the worst excesses of

inequality and shaping the future to the extent we can.

But lately another story has been unfolding. In the last federal election, all the parties seemed to be competing for the austerity and low-tax crown. Apart from a skirmish on corporate taxes, nobody wanted to be seen as a tax-and-spender. In Toronto, the mayor won on the promise of tax cuts and an end to the gravy train (if it can ever be found). In the recent Ontario election, we were hearing our own version of “no-tax” pledges. The Conservatives promised deep tax cuts. The Liberals promised no tax increases. And the NDP promised tax breaks for families and small businesses, with some increases for corporations. Shortly before that, B.C. said no to the harmonized sales tax in a referendum that itself is a worrying precedent. Federally, the government is continuing a decade of reduced taxes – even though we are still running deficits and the gap between the very rich and the rest is growing.

It has become a political truism that any politician would have to be nuts to propose tax increases.

So how did “taxes” become a bad word?

In the late 1970s and throughout the eighties, neo-liberalism – free-market ideology – took full bloom in the aftermath of the serious economic stagnation of the time.

The solution, according to neo-liberals, was to let the market do its work and get government out of the way. The best way to do that: cut taxes. As Milton Friedman, chief architect of the neo-liberal counter-revolution, liked to put it, when governments try to solve a problem, they almost invariably make it worse. Progress would come not from our collective efforts to build a better society but from the pursuit of our individual interests in the market. So began three decades of an unrelenting assault on government.

The sales pitch was simple and it was perfect politics: Tax cuts would be so good for the economy they would pay for themselves. Tax cuts are free, the last free lunch. Marketers and hucksters all know how irresistible the word “free” is, but there are always strings.

The notion that taxes are somehow separate from the services and goods they buy is now part of political culture and it has distorted the conversation in Canada as well. One way that this idea is maintained is through the false promise that only waste and inefficiency will be cut. But tax cuts on the promise of ending the gravy train almost never find enough gravy.

The constant assault on government waste and the parliamentary time spent on the scandal of the day have enduring costs; they erode the public's trust in one of our most powerful tools for managing change and shaping the future: our government.

Of course, blind trust is dangerous – governments must be kept in check by a vigilant citizenry, independent judiciary and, if we are lucky, effective media.

But the absence of trust is equally dangerous. It makes it hard for us to act in our own best interests. Most Canadians do know that the teachers and firefighters, the police and health-care workers, the roads and bridges and traffic lights, the help when we are out of work, the child and elderly benefits we receive are all paid for through taxes. But if we believe government is inefficient, wasteful, incompetent or worse, we will always say no to taxes.

We are falling into what game theorists call a social trap. Even when we know that co-operating with others would serve our collective interests, absent trust, we go off on our own. The absence of trust limits our ability to act collectively. It takes the future away from us and hands it to “the market.” No trust. No taxes. Trapped.

Our mistrust of government and preoccupation with uncovering waste led to expensive layers of control and oversight that made government no more accountable or transparent but certainly more risk-averse and inefficient and therefore less worthy of our trust: a self-fulfilling prophecy. So, even as we know more than we ever wanted about how much officials spend on travel and hospitality, government seems more opaque than ever – with almost no debate, for example, on the cuts to the goods and services tax which took more than \$13-billion annually out of government coffers, or almost no information on the costs of the omnibus crime bill or how it is supposed to make us safer rather than just meaner. That is not transparency.

And so, next door, we see Mr. Obama, in speech after speech, gamely trying to remind his listeners of government's positive role in pursuing justice, security and prosperity. He is trying to break out of the trap, and that is a tough road. Trust is much easier to break than to rebuild.

As we cut taxes and make them less progressive, the costs accumulate. In community after community in the U.S., fire stations are privatized, streetlights dimmed, essential services choked. But more insidious and worrisome is the inevitable rise in inequality.

The Conference Board of Canada is the latest to sound the warning that inequality is on the rise in this country. As British researcher Richard Wilkinson has documented, extreme inequality – in particular, the growing gap between a few very rich and the rest – is corrosive and costly. It diverts capital, stifles demand, deprives us of the talent we need, and erodes trust and undermines democracy. It also eventually turns us against each other.

When the middle rungs of the ladder disappear, when the gap becomes too great, feelings of superiority and inferiority follow. Many at the top come to believe that they deserve all they have. In extremely unequal societies, the rich, believing that they truly are the job creators, will often exert their considerable influence to fight against paying more taxes, and they have been very successful.

At the other end, if the ladder's rungs seem too far apart to climb, then those at the bottom will wonder why they should try at all. If we think that others will exploit the system or turn it to their advantage, if we believe the game is unfair, rigged, why participate, why vote, why pay tax?

Perhaps of all the reasons tax has become a four-letter word, this idea of blunted aspirations is key. Baby boomers seem more interested in holding onto what they have than in building something new. And for the first time in generations, older Canadians worry that the young will not have things as good as we did. Taxes are, among other things, an investment in the future. How much harder is that to sell when people think they are managing personal and collective decline? Without hope, many will want to keep all they can to get through the day.

But we are not there yet. Canada remains more equal than our neighbour and we still have extraordinary assets and great promise. Many provincial governments have resisted the call for more cuts. But we certainly cannot afford to wait much longer as the bills for our free lunch pile up: growing inequality, sagging productivity, a deteriorating environment.

We will not retake the future until we change the conversation and that has got to begin with a commitment to greater equality and fairness, to jobs and opportunities for the many rather than wealth for the few, to dignity for all those who fall out of the market in tough times or cannot get in through no fault of their own.

We have to be smart about taxes and we will all have to carry the burden. The consensus among economists was that cutting the GST was a mistake, and most would also defend the HST. And sooner or later we are going to have to put a price on carbon to share the costs of a new economic and energy paradigm. But a good place to start is to ask the rich to step up. When it comes to taxes, it is smart to be progressive, to ask the rich to pay a bit more for that lunch that none of us is getting for free and to ask those who do the greatest damage to the commons to pay more for its preservation.

There is no solid evidence that tax cuts are the road to economic growth or that tax cuts for corporations and the rich produce jobs. Our love affair with low taxes is based on unproven assumptions about the benefits and no accounting of the costs.

It is time to make hard choices about the Canada we want, about what services we see as essential, about how much inequality we will tolerate, about our willingness to take back the future.

What we are seeing right now in the U.S. and spreading to Canada is quite remarkable: People, mostly young, but also across the generations have decided not to wait for their politicians to lead. All great change starts outside conventional politics and right now the “other 99 per cent” are saying no to more of the same on Wall Street, in the oil sands, and beyond. They are saying that the economy and the environment are being wrecked by a powerful few and it is not right that the rest have to pay the freight – and they are demanding better.

We always get more from our political leaders when we demand more, including, I suppose, more taxes. And we always get the government we deserve and the future we are willing to make and pay for.

Alex Himelfarb is a former clerk of the Privy Council. He gave a speech on this subject in Toronto this week that was co-produced by the Literary Review of Canada and TVO.