



TAXES AND PUBLIC SERVICES

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Politics is about choices. But we can't make effective choices without clarity. And that means we have to have an adult conversation about taxes and public services.

What do I mean by an adult conversation. I mean a conversation that starts at A and goes to B, and doesn't assume something that doesn't make any sense to get there. A conversation that re-establishes in public discourse a connection between the public services we need and the taxes that pay for those services. The kind of conversation we expect our children to learn to have virtually from the moment they can talk. A conversation with which most 4-year olds are familiar.

Most four-year olds have figured out that when you go to the store to get something you want, you have to be prepared to pay for it. Yet our political leaders and a lot of the people out there who are paid to try to influence them would rather stand on the corner and try to spit nickels than admit that obvious fact when it comes to the taxes we pay for public services.

And by political leaders, I don't just mean the political leaders and political parties I don't agree with; I mean all political leaders and all political parties.

For the right, the coda to its incessant clamour for tax cuts in response to every public policy issue is the insistence that we can have tax cuts without suffering any decline in public services. Now any four-year old knows that if you go to the store with less money, you're going to come away with less stuff, but conservatives think they have some ways around that problem.

Eliminate government waste, they say, and we can have lower taxes without cuts in services. Sounds good, particularly when the various provincial and federal auditors provide an annual source book of public spending horror stories. The problem is, they don't add up. Pressed for examples, the tax cutters always come up with spectacularly stupid-sounding things that governments have done that actually don't add up to very much money. A little perspective will tell you that, overwhelmingly, public money is spent on things that Canadians value in their everyday lives.

Then there's the argument that if you lower tax rates, government revenue will actually increase. In other words, we can all pay less tax, and government will get more revenue. Try that one on a four-year old. It defies logic. It is also inconsistent with the evidence. Data from the OECD demonstrate that, since 1995, tax revenue in Canada has dropped from 36% of GDP to 33% of GDP. And while that may not sound like much, it represents a drop of nearly \$50 billion a year in public revenue.

And finally there's the argument that if we cut public services, it wouldn't be a bad thing because our public services aren't as good as they should be. Fair comment, perhaps, but not from the very people whose successful campaigns to reduce public revenue have caused those services to deteriorate in the first place. It's more than a bit much to hear from people who have been waging war against public revenue that our roads are full of potholes or that waiting lists are too long for elective surgeries. Any four-year-old can tell you that you don't get what you don't pay for.

The left isn't any better. It campaigns for better public services as if they can be provided for free. Or more precisely, they won't cost us anything because the higher taxes needed to pay for them will all be paid by people we don't know. People who make a lot more money than we do, but not us. Big corporations, but not small businesses.

The hairsplitting this positioning leads to would be amusing, if it weren't so transparent. It used to be that people who made over \$100,000 a year qualified as rich and therefore for membership in the people we don't know who are going to pay for our public services club. Then someone noticed that a construction worker or auto worker who worked a lot of overtime, or an underground miner who mucked like a maniac could make over \$100,000 a year, and the income cut-off jumped up to \$150,000. So an income of over \$150,000 makes you one of the rich, unless it is income from a small business, in which case if it is under \$200,000 it makes you one of the good guys who should get better public services without paying for them.

There are lots of problems with both the economics and the politics of the proposition. One problem with the economics is that if you set the income cut-off high enough to be politically comfortable, there aren't enough people to pay for better public services. Another problem with the economics is that if you raise taxes by a large enough amount on a small enough group of people, they'll try to find a way to avoid paying them. And because these people have lots of money, they can afford to pay people to help them.

If you need proof, just look at the near-hysteria generated by the investment industry in Canada when the Government of Canada closed down an income trust tax loophole that threatened to eliminate corporate taxation in Canada altogether.

The politics aren't much better. People just don't believe you when you tell them they can have something for nothing. At best, then, the argument undermines the credibility of the case for greater investment in public services.

At worst, it reinforces the right's idea that taxes are a burden to be avoided. That's particularly true when the left tries to have it both ways and opposes taxes on the grounds that they impose a "burden" on average families (or whatever the code phrase for "us" today). It seems breathtakingly obvious which ideological position is going to benefit from fomenting of hostility towards taxes — especially when even the emotive language of "tax burdens" and "tax grabs" is borrowed from conservatives. Yet BC's New Democrats based a campaign — a losing one at that — around the idea that a carbon tax imposed a burden on everyday people. In both BC and Ontario, New Democrats are fighting a battle against a "tax grab" over the harmonization of provincial retail sales taxes with the GST. And in an earlier era a broad coalition of the left went to

war against the GST and in the process fed a populist frustration that landed in the lap of Preston Manning and the Reform Party.

I'm not saying that we shouldn't worry about how the obligation to pay taxes is distributed, or that we shouldn't use the tax system as a mechanism for redistribution. What I'm saying is that we shouldn't lose sight of the fact that the main reason we have a tax system is to pay for services that we as a society have decided to consume in common. Using the language of grabs and burdens invites people to ignore the basic fact that taxes pay for public services from which we all benefit.

Furthermore, looking beyond our borders, it ignores the reality that the nations that have the most highly-developed systems of public services pay for them not with taxes that only other people pay, but with taxes like sales taxes and payroll taxes — taxes that are as visible as the public services they pay for. Taxes that everyone pays.

The most important decisions we make as a society concern the balance between what should be provided publicly and what should be provided privately. And right now, we're only having half a debate.

It might be worthwhile to reflect a bit on how we got here.

In the wake of the New Deal of the 1930s and the Great Society of the 1960s, conservatives in the United States were finding it impossible to reverse the tide of public interest in and popular support for expanded public services. Conservative Republicans campaigned against government programs, only to discover that people actually liked their public services. Conservatives could get elected — but not if they held onto their big picture agenda.

The insight in the 1970s that led to conservatives dominating public discourse for the next 30 years was to separate taxes from public services in the policy debate. Instead of campaigning against public services — which people liked — they scared people silly with doomsday scenarios about government deficits and campaigned against taxes, which most people would choose not to pay if they could. Win the battle against taxes, the strategy went, and no government — no matter what its political leaning — will be able to avoid cutting spending.

The separation of taxes from the public services they pay for fundamental alters the terms of the debate.

The consequences are wide-ranging and profound.

Ignoring the public services side of the tax and services trade-off produces a kind of collective self-loathing through which we ignore many of our greatest achievements as a society and leave others to wither away.

It reinforces an atmosphere in which political dishonesty becomes an essential tool for survival.

And it leads progressives into a trap.

When we talk about tax policy, we are often mesmerized by the choice between “progressive” — good; and “regressive” — bad; taxes without reference to the services they pay for. By omission, we reinforce the one-sided nature of the debate. And when we oppose regressive taxes, what people hear is agreement with the anti-tax mantra of the right.

And because we ignore the distributive impact of public services, we fall into the trap of opposing the very taxes that provide much of the financing for the more comprehensive systems of public services upon which the countries whose systems we admire rely.

In the work that Richard Shillington and I did in a CCPA paper released earlier this year, we found that public services in Canada amount to a demogrant — most Canadians derive roughly the same dollar value from public services, regardless of their family type or income. Low income Canadians benefit somewhat more, because of income-related transfer payments like the child tax benefit, employment insurance and the guaranteed income supplement at the Federal level and social assistance at the provincial level, but other than that, the per capita benefit is about the same — \$15,000 — regardless of income or household type. The relative benefit from different types of public services varies by family type and income, but the total is remarkably consistent.

This should have a significant impact on the way we think about tax policy. In essence, any tax that is appreciably better linked to economic resources than flat head tax will, in combination with the public services it pays for, result in a more equitable distribution of resources.

In more politically concrete terms, we found that, had the Harper government acceded to the request of Canadian local government leaders and transferred the revenue from two percentage points of the GST to local governments, and had local governments spent that money on what local governments do, 80% of Canadians would have been better off.

Even the way we *measure* inequality feeds the one-armed debate. Our measure of inequality is the distribution of income, after taxes and transfers — as if the taxes we pay that we don't get back through direct transfer payments are of no value and even less defensibly, make no contribution to the moderation of market income inequality.

We undervalue the public economy in other ways as well. Even in our national accounts, we undervalue public services. By convention, public services are valued at cost; we make no attempt to measure the benefits they deliver. So we implicitly assume that we get no return for our investments in public infrastructure. We implicitly assume that we get no value from the efficiency achieved through public provision of health care insurance. We implicitly assume we get no value from productivity improvements in the delivery of public services, to the point where productivity improvement shows up as a reduction in value.

We underinvest in what we undervalue. And we undervalue public services.

The disconnect between taxes and public services is not politically neutral. It is central to the political strategy of conservatives. And when parties of the centre and left play with that disconnect, it can come back to haunt them.

That observation is critical to understanding the failure of the carbon tax campaign that sank Stéphane Dion's political career. Rather than acknowledge that his poverty reduction platform was a costly measure that would have to be paid for somehow and admit that environmental change was going to require new public investments that would have to be paid for somehow, he tried to sell carbon taxation as a way to cut taxes. Evidently, that didn't work.

It also lies behind the debate we're having right now about how to deal with the fiscal aftermath of the recession.

First, let's look at the stimulus packages. As important as the surge in investment in infrastructure has been to Canada's response to the "great recession" of 2008, it also served to expose how woefully we have been shortchanging our public infrastructure. Because most of the projects that have been pulled "off the shelf" for the stimulus package are things we should have been doing anyway.

We have been paying the price for decades for underinvesting in public infrastructure in Canada. The size of the stimulus package was simply a partial settling of accounts. But despite how obvious it is that previous anti-deficit crusades led to our investing less than we should have in public services, we are about to do the same thing all over again.

It's as if we can't wait for the recession to end so we can get back to another round of deficit fear mongering as the basis for budget cuts and do-nothing government.

It has already started. Playing to the script, the Conservatives are talking about "spending restraint" without, of course, coming clean about what programs are going to fall under the axe, about what they're actually talking about. The Liberals have already bought their ticket to fiscal fantasyland, ruling out tax increases should they defeat the Harper government in an upcoming election.

The conventional wisdom calls for an approach to "balancing the budget" that takes no account of its impact on the services we need. The disconnect between taxes and public services again plays a central role.

When it is said that tax increases are out of the question and the claim is made that spending cuts are inevitable, what is effectively being said is that tax increases cost Canadians something, but spending cuts don't cost us anything. We're repeating and reinforcing that disconnect between taxes and public services. But the issue in front of us goes far beyond the debate over the deficit.

Even with the stimulus spending of the past year, we have a massive task ahead of us to renew our public infrastructure. The gap between the rhetoric about the knowledge economy and our investment in education is large and growing. Growing health care costs highlight the need to address both the delivery of health care and the social determinants of health, both of which demand greater public investment.

And as we turn our attention to the big picture trends that are sure to influence the way we live in the future — the aging of our population; growing income inequality; and the inexorably slow-moving crisis of climate change — all require more public investment, not less. All place greater demands on our ability to accomplish things together, as a society.

We need to have that adult conversation about the public services we need, and the taxes we'll have to pay to provide them, and we need to have it soon.

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