



The Power of Taxes

The Case for Investing in Canadians

By Stephen Dale and Trish Hennessy

What do you think of when you hear the word “taxes”?

Hospitals you can turn to in the middle of the night if you or your children get sick?

The \$10,000 having a baby could cost if you lived in the U.S. and didn’t have health insurance?

An education system that allows even the children of poor families to become doctors, teachers, or engineers?

Government inspectors who make sure highway overpasses are repaired before they fall down, that meat packing plants don’t poison their customers, that a city’s water is safe to drink?

Public pensions that help alleviate poverty among seniors?

These things that made Canada a great place to live are supported by Canadians, and have been for generations, through tax contributions that provide our gov-

ernments with the revenue they need to invest in the public services that matter.

It's a basic act of responsibility — a neighbourly thing to do, really.

Even if you're not feeling that neighbourly, public services add up to a great bargain for Canadians. But the services our taxes fund are often overlooked in debates over tax cuts.

When the federal government cut the GST by 1 per cent in 2007, 80 per cent of Canadians ended up worse off than they would have been if that tax cut had been reinvested in municipal services.

Primed by a relentless anti-tax campaign, many Canadians have been infected with tax phobia.

Tax phobia has made it difficult to recognize the benefits many Canadians have come to take for granted: public services, the chance to get ahead in a safe, peaceful and prosperous country. They're the reason — the hope, the promise — generations of Canadians who came before us agreed to build a tax system in the first place.

Tax phobia has encouraged many Canadian voters to jump at any political promise of tax cuts without asking whether it's a good deal or a swindle.

By most measures, the anti-tax campaign disproportionately benefits Canada's elite. The majority of Canadians lose more than they gain.

When the Harper government cut the GST by 1 per cent in 2007, for example, 80 per cent of Canadians ended up worse off than they would have been if that tax cut had been reinvested in municipal services. That's because tax revenue allows governments to bulk buy services such as health care, education, and public transit. It's kind of like the Costco of public services — it's more affordable than pri-

vate boutique buying and that means more people benefit.

Corporate tax cuts provide a dramatic illustration of the cost of tax phobia.

Canada is currently collecting \$12 billion less in corporate taxes *each year* than it did in 2000. That's about \$400 per Canadian that corporations no longer contribute to the public good. This number will keep rising as more promised corporate tax cuts take effect and tax loopholes are ignored.

Corporate tax cuts were supposed to encourage corporations to invest in Canada's future, but the opposite has happened: companies have been investing less in the machinery and processes that generate employment, while corporate profits have risen dramatically.

It's the same story with individual tax cuts. Personal income tax cuts have become the apple pie of political promises to middle-income families, but it's a tiny minority of rich Canadians who benefit most. For instance, more than half the benefit from capital gains tax cuts since 2000 goes to Canada's richest 1%.

These tax gifts provide a boost to BMW dealerships, yacht clubs and granite countertop manufacturers, but more Canadians are required to carry the cost of dangerously long wait times in emergency rooms, crushing debt loads for university graduates, boil water alerts, collapsing overpasses, and tainted food scares.

Is this the kind of Canada we want?

Here are five reasons to rethink our attitude toward our governments' ability to generate revenue to pay for the things we need in Canada.

1 / Canadians get a true bargain from the public services that our taxes create

Middle-income families in Canada often feel under financial pressure, but the bargain they get from public services is often overlooked: they consume an average of \$41,000 worth of public servic-



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es. Most people would have to take on a second, well-paying full-time job to carry those costs if they had to pay for services out of their own pocket.

But it's not just middle-income families who are getting a deal. The average Canadian enjoys \$16,952 worth of public benefits annually — what someone employed at minimum wage would earn in an entire year.

Almost invisibly, tax-funded services make most Canadians richer in ways that are never reflected in our bank accounts.

2 / Tax cuts compromise public services

We could starve public services to cut taxes, but we'd lose a lot of what it means to be Canadian and most of us would suffer a net loss in our standard of living. We would still need services such as health care, we'd just have to pay for them privately or go without.

The flipside of a lower tax bill is getting nickel-and-dimed with user fees for even the basics in life, such as garbage collection, or settling for inferior public services.

Promises to “increase efficiency” actually mean real, painful cuts to public programs and declines in service quality. The next time your car hits a pothole or your wait for public transit is unbearably long on a cold winter's morn, think about how tax phobia forces governments to cut public service spending in order to please the tax slashers.

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For their part, the tax slashers claim we can deal with this by exercising consumer “choice”: when the public school system starts to collapse, for instance, we're free to pony up for private school.

Health care provides the clearest benefit of strong public programs funded through government revenues. We just



need to look at health care in the United States to see the human cost of having private corporations run what should

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be a public, accessible service: before the Obama reforms, 30 million Americans had no health insurance at all and tens of millions of Americans were forced to pay through the nose for inadequate coverage. Even with modest reforms, the U.S. system remains the most inefficient and expensive in the world and illness remains a personal financial catastrophe for many.

By contrast, Canada's public health

care system — the one previous generations built with their own tax contributions and we sustain through ours — delivers world-class health care quality for all Canadians, and it does so more efficiently than in the U.S.

Putting low taxes and tax loopholes ahead of public services leaves us open to nasty surprises. Remember the poisoned-water catastrophe in Walkerton after Mike Harris cut funding for provincial inspectors in Ontario? Remember how underfunded federal food inspection services led to a widespread outbreak of listeriosis from tainted meats?

3 / **A fair taxation system means more social equality**

Canada's tax system used to be fair: Those with higher incomes contributed more in taxes to fund the public services we all cherish.

But between 1990 and 2005, Canada's tax system got a lot less fair.

The lion's share of tax cuts went to the richest one percent of families: they pay less in taxes compared to 1990 while the poorest 20 percent pay more.

This kind of imbalance in the tax system not only constrains governments' ability to provide high quality public services, it reinforces the growing gap between the wealthiest families and the rest of us.

4 / **Good public services attract business investments and create jobs**

Tax slashers like to whip up a frenzy of fear among Canadians.

Out of fear of losing jobs, Canadians have watched their governments slash the federal corporate tax rate from 28 to 18 per cent within a decade. That has helped corporations in Canada reap record high after-tax profits.

But a lot of working Canadians didn't see their paycheques increase.



In real life, the rate of taxation has little influence on a company's decision to open new factories or offices. What influences corporations are things like good roads, efficient public transit, education and health care — the kind of things we get from our taxes. Good public services attract business. They also make for good communities.

They opened up the halls of higher learning once reserved only for Canada's elite.

They built most of the infrastructure — the roads, bridges, overpasses, water and sewage systems — that we rely on to this day.

Their commitment and sacrifice paid dividends. The gap between the rich and

5 / It's up to us to leave Canada in better shape for our kids than we received it

Flash back five decades, to the 1950s.

Canada had a fraction of the wealth it does today — our economy is now five times larger.

Our parents had way less money but paying taxes wasn't viewed as a hardship. They understood they were pitching in to create something different, a whole new world that gave Canadians more opportunities than any previous generation.

Their taxes helped create universal health care.

They helped establish a public pension program, dramatically reducing seniors' poverty.

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the rest of us narrowed; the middle class grew: Post-secondary education, universal medical care and public pensions meant Canadians had a real shot at a better life than their parents.

But after more than 15 years of tax phobia and public service cuts, we're caught in a downward spiral of diminishing expectations.

Many Canadians now accept that it's impossible to find a family physician or to get prompt treatment at the local emergency room; that to be trained as a lawyer or teacher is only for those who can afford the tuition; that grinding poverty within an affluent nation is the natural order of things.

This pessimism — this sense of resignation — is especially dangerous in a country that faces new and pressing challenges within a tumultuous global economy.

Canada is at a crossroads. Our population is aging. Our youth face a precarious job market. Our need for highly skilled workers is increasing. Our physical infrastructure is crumbling. Demand for public transit and green technologies, for the sake of the environment, is growing.

Does it make sense to shortchange ourselves and our children by opting for tax cuts today that will dangerously erode the quality of tomorrow's public services?

How will history judge us?

There is an alternative!

It doesn't have to be like this.

We could, as family, friends and neighbours, do what generations before us did.

We could take responsibility for the quality of our public services by agreeing to a fair and progressive tax system

that works for all Canadians.

Instead of training our politicians to lie to us about taxes and services, we could reward leaders who see the need for better public services and are prepared to talk straight to Canadians about the need to pay for them. We could reward leaders who are prepared to stand up to the wealthy and powerful; to bring fairness back into Canada's tax system and close tax loopholes.

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It's not an impossible dream. In fact, a number of high profile business leaders — from American billionaire Warren Buffett to Edmund Clark, the CEO of the Toronto-Dominion Bank — declare they would pay higher taxes in order to improve the society around them.

With proper revenue sources, Canada's governments could pay down their deficits, protect our health and safety, and hand our children a more equal, fair and harmonious Canada — a country where no one gets left behind and everyone has the chance to get ahead.

For much of the last century, it's been the Canadian way. It's time for us to get back on track.



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