

# Taxes: the price of civilization

## Fair taxation of people and corporations creates sustainable communities

By Radical Randy

One of the prime strategies of advocates of neoliberal free-market supremacy is the demonization of taxes. Corporate-backed think tanks such as the C.D. Howe Institute and the Fraser Institute, with its “Tax Freedom Day,” as well as ideologically driven groups like the Canadian Taxpayers’ Federation, relentlessly attack taxes and government spending.

The appeal by the right wing to constantly cut taxes may resonate with some, but a disquieting reality underlies it. Working poor and middle class voters are prime targets for tax-cut rhetoric since they pay a disproportionate share. However, once the right-wing politicians are elected, their tax cuts favour wealthy people and the corporations that already pay too little. This is usually followed by a round of cuts in public spending, mainly to the detriment of the most vulnerable. Lower income earners, left awaiting their “tax relief”, are then primed for another round of illusory tax cuts. This is most blatantly obvious in Alberta with former Premier Ralph Klein’s flat tax rate. A recent Parkland Institute fact-sheet, *Giving Away the Golden Egg*, revealed that this has cost the provincial treasury over \$5 billion this fiscal year alone. While a windfall for highest incomes, which are now taxed at by far the lowest rate in Canada, it has resulted in a tax rate above the national average for lower and middle-income earners. Paying more for less: the Alberta Advantage.

Canada’s top tax rate for the highest earners is only 29 per cent. A study by economist Marc Lee for the Canadian Centre for Policy Alternatives, *Eroding Tax Fairness: Tax Incidence in Canada, 1990 to 2005*, found that tax cuts resulted in vastly disproportionate benefits for Canada’s wealthy, with the top 1 per cent of families paying a lower total tax rate than the bottom 10 per cent in 2005.

Additionally, regressive sales taxes such as GST place a heavier burden on the less affluent. Conservative politicians tend to be big fans of cuts to capital gains taxes on profits from assets held mainly by the rich such as stocks or properties as well as income-splitting to reduce taxes for the high-income partner in a couple.

Since the economic meltdown, conservatives have been pushing for corporate tax reductions to stimulate job creation. However, direct government spending creates far more jobs than an equivalent amount in tax cuts. Canada’s supposedly high corporate taxes are below average for developed countries and the European Union. In fact, European countries such as Germany and England have higher corporate taxes but greater productivity than Canada.

## **Social programs: who needs them when we have capitalism?**

As former U.S. Supreme Court Justice Oliver Wendell Holmes asserted, “taxes are the price we pay for a civilized society.” An obvious statement – or, at least it should be. Decades of tax cuts at the federal and provincial level have taken their toll on our poor.

Over a million Canadian children live in poverty while nearly 800,000 Canadians depend on food banks. Reduced government services and stagnant or falling real wages for workers leaves many in precarious circumstances. Rather than adequately fund public pensions, the federal government emphasizes RRSPs, which many can’t afford to pay into. Instead of providing public services or subsidies to the working poor, many conservative politicians would rather give tax credits that only benefit those wealthy enough to afford private services.

Our employment insurance replacement rate is one of the lowest in the developed world. Reduced federal transfers to the provinces for post-secondary funding have left students with crushing debt loads. Canada’s spending on social programs is down to around 13 per cent of its Gross Domestic Product, putting it near the bottom for developed nations. Taxes are increasingly paid by the working poor and middle class while benefits from subsidies, bailouts, and military spending go to corporations which are owned overwhelmingly by the wealthy. Some governments seem to have gotten this whole Robin Hood thing backwards.

One direct consequence of government tax and spending cuts has been the corporatization of our universities. With funding from government agencies drying up university research labs must turn to corporate funding. What should be public knowledge becomes proprietary (like gene patenting).

Beyond tax cuts, billions in lost revenue from corporations and wealthy Canadians disappear into tax havens yearly. Additionally, approximately 60 per cent of international “trade” consists of corporations selling raw materials, components, and finished products between their own subsidiaries and divisions. Since they are in effect selling to themselves the companies can declare whatever cost they want on the transaction. This transfer pricing scam shifts their profits to jurisdictions with little or no taxation.

## **The wrecking crew in action**

A concurrent theme of conservative tax-cutters has been the futility of government attempts to do anything beneficial for its citizens. A major tenet of neoliberal market fundamentalism is the ability of the market to deliver virtually all goods and services more efficiently than governments, whose only function should be to facilitate business. For the political far right, this manifests itself in a denigration, and virtual abhorrence of, government, even when they are in power, particularly for those closely allied with the fundamentalist Religious Right. Governments that hate government. This was certainly evident during the Klein administration as well as the presidencies of Ronald Reagan and

George W. Bush. As Thomas Frank discusses in *The Wrecking Crew*, U.S. tax cuts for the wealthy and big business form part of the framework for eliminating federal government services for the general public. Although campaigning on the need for balanced budgets and eliminating the debt, these right-wing governments will often increase the debt by combining tax cuts with huge increases in military spending as well as generous corporate handouts. Not only do they eliminate public services and programs but, by hamstringing future governments with gargantuan debt loads, they sabotage future efforts to restore these programs. Canada's right-wing politicians do their best to follow this script.

Right-wing political parties and corporate media regale the public with tales of government mismanagement and overspending. What they often fail to mention is that the beneficiaries of these financial boondoggles frequently turn out to be big business allies of the government in question. Huge giveaways to the private sector – like Alberta's \$2 billion carbon-capture-and-storage green-washing program are given generally favourable coverage. Cuts to public programs are often portrayed as necessary for economic survival, yet there never seems to be a shortage of public funds for the next CEO with a sob story passing the corporate hat.

Public sector jobs such as nursing or teaching are often dismissed as being less legitimate than those in private enterprise. Corporate media love to highlight government inefficiency and tax waste but how much more would it cost if we had to pay private companies for the same services? The direct result of tax cuts is the privatization and outsourcing of government services, as we shall now examine.

### **A neoliberal's favourite con: privatization**

The tired mantra of neoliberalism is that any function of government can be better served if outsourced to the private sector. Somehow a corporation – with its higher administration expenses, inflated executive salaries, marketing costs, and need for investor profits – is thought to deliver better service, cheaper. The result of this has frequently been the sale of government enterprises to wealthy investors at fire-sale prices, a one-off chump-change revenue injection to replace lost tax revenue. Meanwhile, the public often suffers higher prices and shoddy service as private corporations cherry pick the market to maximize profitability. Albertans continue to endure high rates under private auto insurance schemes. In the U.S., despite public support, many lawmakers, media and politicians continue to dismiss public health-care as an alternative to their private health-care nightmare.

With so many failures, corporations have had to repackage and rebrand their privatization schemes as Public-Private Partnerships (P3s). In this maneuver, governments lease facilities from corporations for extended periods with guaranteed profit margins to investors, while the public pays the extra cost. An article on P3s by Toby Sanger and Corina Crawley in the April 2009 *Canadian Centre for Policy Alternatives Monitor* thoroughly debunks the claims that they are less risky or less expensive than publicly owned and managed projects, and reveals that the claimed superiority of P3s is based on

fraudulent accounting practices. Additionally, when these projects fail, the taxpayer is left to pick up the tab.

## **Possible futures**

California serves as a cautionary tale for neoliberals obsessed with tax cuts at any cost. Since the 1970s, California's right-wing fanatics have zeroed in on cutting taxes to the point of a revenue collapse. Once possessing some of the best public schools, colleges, and highways in the U.S., California's are now among the worst, with its health-care system ranked at the bottom. The eighth largest economy in the world has been reduced to issuing IOUs, with even California's 'Governator' unable to flex his way out of this mess.

Tax cuts aren't the solution. A better approach is a progressive tax system with far more taxes paid by high incomes, higher corporate taxes and royalty payments. This allows expanded public services instead of saddling us with the privatization schemes right-wing politicians have imposed. We don't need any more tax cuts on the backs of the working poor or future generations. Thanks, neoliberals, but we can't afford any more of your favours.