
Response: Taxation and Competing Prisms of Political Reality

Geoffrey Hale*

KEYWORDS: TAX POLICY ■ TAX RATES ■ TAX REDUCTION ■ TAX REFORM ■ TAX EQUITY ■ TAX STRUCTURE

Discussions of the tax system, particularly as it relates to politics, often evoke very different visions of political life based on different experiences, perspectives, and world views. The three reviews of *The Politics of Taxation in Canada* reflect the adage—“where you sit determines where you stand.” Given the authors’ differences in political outlooks and professional backgrounds, it is not surprising that their assessments of my book reflect fundamentally different views of political and economic reality that relate to one another with difficulty, if at all. One might even say that some of these differences reflect competing moral universes, in which the right or capacity of others to hold morally coherent or valid positions is conceded grudgingly, if at all.

Paul Boothe, a veteran policy analyst and former senior public servant, appears to consider politics, particularly the politics of tax reform, as the art of the possible. His approach is consistent with that of most governments, which attempt to balance competing interests and policy goals while seeking political support from organized interests and public opinion as a related, but often separate, dimension of the democratic political process.

Colin Campbell, whose co-authored works on political parties and ideologies have informed at least two generations of university students on the historical norms and principles of Canadian political parties, appears to view politics primarily as a clash of ideological norms and competing class interests. His views of the politics of taxation are strongly influenced by this outlook and by his perception of the pre-eminence of corporate interests in shaping both public discourse and government policy decisions on the tax system. His analysis addresses some of the most consistently debated questions in the study of Canadian politics.

Linda McQuaig, a journalist, approaches politics as a battle for political and social transformation. For McQuaig, the politics of taxation and most other aspects

* Assistant professor of political science, University of Lethbridge. The author acknowledges the helpful comments of Chris Kukucha, Harold Jansen, Bill Ramp, and John von Heyking.

of politics are a contest between “the rich” or “big business” and their suspected operatives within the political and cultural systems, and “progressive” elements that serve as the vanguard of social transformation and social justice.

Given these differences, it is not surprising that Boothe examines the book through the prism of his experience as a senior government official, and that Campbell would have written a very different book on the politics of taxation. Nor is it unexpected that McQuaig views it as an apology for corporate power.

The reviews reflect competing views of democracy and the role of the state in democratic discourse as much as they do the contents of my book. Space does not allow me to touch on all points raised by the reviewers; instead, I will attempt to address the perennial question of government posed by *The Politics of Taxation in Canada*—how can politicians and public servants organize both the public and the internal tax policy processes of governments to build public support for workable policies that enhance the social and economic well-being of most citizens?

THE POLITICS OF TAXATION AND THE POLITICAL SYSTEM

Democracy, and with it the purposes of and limits on the legitimate use of state power, are concepts whose “true” meaning will probably always be debated by political and ideological partisans. Some observers emphasize contests among politicians and their followers for the electoral support of those over whom they rule. Others note the efforts of citizens and organized interests to influence the actions of governments between elections. Still others take a “transformational” view of democracy based on the “radicalizing . . . effects” of movements committed to the systematic application of egalitarian democratic ideologies more or less at odds with the prevailing political or social system.¹

Observers across the political spectrum have noted that the growth of the modern state has made most aspects of economic and social life, and many aspects of citizens’ personal lives, directly or indirectly dependent on the institutions and policies of governments. The reality of the “embedded state”² gives citizens and businesses a significant incentive to organize and attempt to influence how that power is used, either to foster or accommodate their interests or to prevent others from exploiting them. The relationships between these interests and the politicians and government agencies responsible for key policies may range from close cooperation to mutual exploitation to mutual wariness and even hostility.³

The transformational view of politics and democracy, which is explicit in Campbell’s approach, compares politics and society against an imagined and hoped-for ideal of justice, equity, and sometimes freedom, and finds it deeply wanting. Thus politics becomes the struggle to transform the inadequate, the unjust, and the complacent through rigorous ideological analysis and its application to the competitions of politics and ideas. Step-by-step incremental approaches to solving specific problems or building consensus in support of gradual change are scorned as technocratic, half-hearted, or “value-free.” As a result, Campbell emphasizes the failures of past

and present tax policies to correct the economic inequalities of Canadian society, both for their own sake and as a reflection of the political system's failure to give various disadvantaged "classes" the power to which he believes they are entitled.⁴ This is the "missing book" that Campbell may have hoped to read on the politics of taxation.

However, the diversity of social and economic life frequently defies "one-size-fits-all" solutions and contributes to the politics of brokerage—the balancing of competing or overlapping interests in defining policy objectives. Boothe's main emphasis is on the challenges of designing and actually implementing viable policy changes through the political process. Good intentions, ideological or otherwise, are not sufficient to win support for change through the democratic process. Indeed, the political tests of winning public support usually depend on "which public" is involved, how deeply its members believe their interests to be involved (or threatened), and the relative feasibility of options available not just to policy makers but also to those who must implement the proposed changes. As one who regularly eats lunch at his desk, I may not particularly care about the taxation of restaurant meals in Saskatchewan or elsewhere, even though the issue raises valid questions of fairness and policy coherence. If politicians believe that the political costs outweigh the economic benefits of extending the tax base to include restaurant meals so that other taxes can be reduced or spending commitments increased, economic rationality will give way to the political calculus of decision makers who have to answer to elected parliaments and the wider electorate for their actions.

This example illustrates the tendency of brokerage politics to turn into a political free-for-all in the distribution (or promised distribution) of economic and social benefits by politicians in their pursuit of power, and by the civil servants on whom they rely to design and implement their policies. This process can easily undermine the capacity of governments to achieve broader goals of social and economic progress desired by citizens—either by fostering an exaggerated sense of entitlement among stakeholders or by encouraging different departments and agencies of government to pursue policies that effectively cancel out one another.

In reality, the "conviction" and "brokerage" approaches to politics need not be mutually exclusive. Many of the central debates of Canadian politics since the 1960s have focused on ways to enable Canadians to have their cake and eat it too—government policies that generate economic and social outcomes desired by citizens, and policy processes that allow for the effective participation and accommodation of diverse social and economic interests. The enforcement of fiscal discipline in a context of fiscal and economic sustainability, whether through legislated fiscal rules or cabinet policies consistently enforced by prime ministers and finance ministers, has been an essential element in restoring the capacity for meaningful fiscal choices to governments and citizens alike during the 1990s.

There is a constant tug-of-war among politicians, civil servants, interest groups, and other participants in the policy process, including academics and journalists, to promote changes in both elite and public consensus on many issues of political, economic, and social importance. The purpose of balancing interests and seeking

consensus may be to preserve social cohesion, address the causes of class and other conflicts, or adapt to changing social and economic circumstances. It may also lay political foundations that make it easier to introduce more far-reaching changes as ideas and values gain greater familiarity and acceptance. The changes may be justified on moral or empirical grounds—although, typically, their advocates (like most successful lawyers) rely on whatever arguments are most likely to be persuasive to their audience.⁵

These issues may be inconsequential to academics and policy makers who believe that rigorous ideological analysis should be the primary basis for both the mobilization of democratic political opinion and its application to specific policy problems—and that other approaches are suspect to the extent that they are not explicitly seen to serve their ideological objectives. However, they are central to what Boothe describes as my “hidden book” on “The Art of Tax Reform”: winning both support for tax (and other major policy) changes in general and in the many detailed ways in which they affect the personal and business lives of ordinary citizens.

These ideas speak directly to differing views of the role of abstract ideals in political life that reflect the continuing conflict between the legacies of the European and the Anglo-Scottish Enlightenments. The former emphasizes the importance of conforming social and political organizations to abstract ideals, which may then lead to concrete improvements in economic and social conditions. The latter holds that abstract ideas of the public good should be judged by the way their specific application will affect the well-being of people as individuals, groups, and members of a broader community. Their political acceptability depends on the consent not only of the general public, but of particular groups most directly affected. The tradeoffs inherent in attempting to design policies that accommodate a variety of social interests and competing policy objectives make it politically impossible to design a perfectly rational, neutral tax system from first principles—or to impose it on the public despite what Campbell describes as its trust in the “intrinsic benevolence” of state intervention in society.⁶ Political legitimacy in a democracy depends not only on the motivations of current and aspiring policy makers but, to varying degrees, on the methods used to pursue goals and achieve improved outcomes.

MANAGING CHANGE TO GET RESULTS

This analysis does not assume that either the economic and tax systems or the policies that help to shape them are the best available, as suggested by Campbell, or that the stability of the latter is to be preserved as a primary objective of public policy. If this were the case, I would not have gone to such lengths to examine the challenges and principles of managing policy change in ways capable of serving a broad view of the public interest that is adaptable to the changing expectations of society.⁷ However, these interpretations are only two of the straw men that Campbell erects on his way to dissecting the shortcomings of contemporary Canadian political processes and economic policies.

The use of brokerage politics in the design of budgetary and tax policy goes much further than he acknowledges in attempting to balance the interests of social

and income groups or “classes”—the powerful, those at the margins of the political process, and many of those in between. This reality can be seen in the progressive effect of successive tax changes in shifting the tax burden from the bottom 40 percent of lower-income taxpayers to the top 20 percent of upper-middle-income taxpayers—a trend that tends to apply regardless of the ideological orientation of governments. It is also visible in the federal government’s effort in its 2000 tax reforms to reduce the anomalies in cumulative tax rates that resulted from the combined effects of marginal income tax rates, payroll taxes, and clawbacks of refundable tax credits noted by Davies, Brown, and others in their proposals for enhancing tax fairness.⁸

These processes have not led to a serious reduction in the power of the state, much as this outcome might be desired by many ideological conservatives and not a few members of the business community. Nor do they point to the dominance of a corporate agenda in which politicians and civil servants dance to the tunes of powerful business interests—even though their policy objectives may coincide far more today than they did in the 1970s or early 1980s.

Canadian governments have shown themselves quite capable of pursuing policy changes that accommodate business interests to varying degrees while maintaining considerable control over specific policy decisions and outcomes. Indeed, one might argue that the federal state is better positioned to define and fulfill its main policy objectives than it has been in many years. Fair-minded observers may well challenge its priorities or individual policy choices, such as the consistent diversion of sizable employment insurance surpluses to serve other public uses, its willingness to generate consistently higher surpluses than predicted, and the priorities to which those surpluses are applied. The challenge for any government or political party is to balance the broad principles or objectives of policies that are generally the focus of most voters, for whom the details of policy are often so much background noise, and the specific application of particular policies that involve efforts to combine competing (and frequently legitimate) concerns of specific social and economic interests—including those represented within government bureaucracies or by different business groups.

Campbell dismisses the relative political success of Michael Wilson’s tax reforms of 1987-88,⁹ Paul Martin’s pre-election tax reduction budget of 2000, and more recent provincial efforts at restructuring their tax systems as the “non-politics of taxation” because they did not seek fundamental changes in the tax structure or in the distribution of economic outcomes among social interests or classes. At the same time, he laments both the declining role of political parties in shaping policy debates and proposals for change and my failure to address these legitimate concerns in greater detail.

On the first point, as I have noted in the book, governments have usually found that incremental changes to tax policies are more politically effective than sweeping structural reforms in dealing with distributive issues—whether between economic and social groups or in raising overall levels of taxation to shift economic discretion from individual taxpayers to the state. Step-by-step approaches are less likely to run the risk of creating alternative political coalitions committed to blocking or reversing policy changes.¹⁰

There is little disagreement over the dominance of Canadian political parties by leaders and their coteries of aides and advisers who form a “court” or “virtual party” around their patrons.¹¹ Nor would many argue that this centralization of power has undermined the influence of both parliamentary and extraparliamentary parties as sources of policy guidance. The self-interest of would-be political leaders has frustrated most proposals for substantive change. Frankly, so have citizens’ expectations that governments will organize themselves in ways that enable them to “do something” about pressing social or economic problems without worrying too much about the details and mechanics of policy.¹²

This generic emphasis on using government as an instrument to achieve specific results of public benefit may give way during elections to a more explicitly ideological approach to politics—often as a smokescreen to convince the unwary and the inattentive that particular parties or leaders can be trusted to look after their interests more conscientiously than “the competition.” However, the success of political leaders in using election platforms to advance agendas for major structural or policy changes has usually depended on the existence of a widespread public conviction that it is “the system”—not just particular policies—that is broken or in crisis, that “the system” needs to be changed, and that the changes proposed by particular parties are a plausible response to the problem.

But effective politics should also be able to anticipate and avoid political *and economic* crises, while enabling elected officials to meet their political commitments and creating an environment in which citizens may fulfill their own goals and aspirations. The acquiescence (or complicity) of Canadian governments in the processes of economic globalization may be an affront to traditional notions of democratic sovereignty, as suggested by Campbell and elsewhere by McQuaig. However, the weight of empirical evidence suggests that it can be viewed just as easily as a collaborative effort among governments to manage global processes to maintain a greater degree of national discretion in setting fiscal, economic, and social policies than might otherwise be the case. Canada maintains much higher levels of taxation and government spending than the United States 15 years after the signing of the free trade agreement; Canada’s tax system and rate structures remain significantly different from those of the United States; and Canadian governments have successfully directed significant portions of recent surpluses to social spending priorities such as public health care and education. All of this suggests that the Canadian state is far more capable of pursuing distinctive policies than most detractors of free trade and globalization are willing to admit.¹³

In a relatively open political system in which there are multiple centres of power and different perceptions of “the good,” the raw exercise of power is rarely sufficient either to mobilize public support or to enforce consent on major issues for very long. Those of us committed to the liberal democratic tradition of responsible liberty and government by the consent of the governed believe that this is a matter not just of pragmatic politics, but of principled acknowledgment of democratic norms.

At its extreme, the us-and-them approach to ideological combat requires that one justify one’s own agenda by attributing pernicious motives or beliefs to others. This division of politics into the forces of light and darkness is reflected in McQuaig’s

analysis. I sympathize with her difficulty in wading through almost 400 pages of discussion that are informed by political views and analytical systems with which she is fundamentally in disagreement. Her recollections of Allan MacEachen's ill-fated tax reform budget of 1981 reflect a different reading of history—one that ignores the larger political lessons drawn by most federal politicians and policy makers.

Many thoughtful observers acknowledge that the budget failed politically because MacEachen neglected to build an effective coalition of “winners” to offset the coalition of “losers” deliberately created by his policies.¹⁴ The economic disruption caused by the budget was exacerbated by record-breaking interest rates that drove Canada into the worst recession in 50 years. Organized labour was as vocal as business in its opposition to the budget, albeit on completely different grounds. However, the tactical decisions of labour leaders left them politically isolated¹⁵—which suggests that moral and ideological outrage, by themselves, may not always be effective tools of political persuasion in a world characterized by different understandings of fairness and justice.

Canny political survivor that he always was, MacEachen recognized the necessity of selectively accommodating his critics and broadening the government's base of support in order to deal with the economic crisis—a fact clearly noted in my assessment of his actions. Unlike McQuaig, most governments since 1981 have learned about the interdependence of politics and economics—and about the importance of backing up ideologically noble intentions with political skill, economic literacy, and administrative competence. The political astuteness of Roy Romanow, Eric Cline, and their deputy minister of finance, Paul Boothe, in shepherding the Saskatchewan NDP's tax reforms of 2000-1 through the political process is clear testimony to this reality.

The Politics of Taxation in Canada reflects a particular way of thinking about the art of government and the art of politics as they relate to the organization of fiscal, budgetary, and tax policies to achieve particular objectives—and as they enable interest groups and engaged citizens to influence that process. It examines ways in which governments have learned from past failures and found new and better ways to respond to the concerns of citizens and organized interests and to adapt the tax system to their concerns without sacrificing overriding policy objectives. It also considers ways in which both political and economic analysis, as applied to the tax system, can improve the lives and opportunities of citizens without generating social and political conflict that may frustrate or nullify the benefits sought by well-intentioned reformers, as has happened so often in the past.

It is my contention that this approach to the politics of taxation (and politics in general) has generated and will continue to generate far more winners than losers among ordinary Canadians than obsessive preoccupations with ideological “rigour” or purity. Under normal conditions, no other approach is likely to contain the frailties of the human condition so evident in the workings of our political system in ways that accommodate the diversity and dynamism of Canadian life.

NOTES

- 1 John Medearis, *Joseph Schumpeter's Two Theories of Democracy* (Cambridge, MA: Harvard University Press, 2001), 4.
- 2 Alan Cairns, "The Embedded State: State-Society Relations in Canada," in Keith Banting, research coordinator, *State and Society: Canada in Comparative Perspective*, Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada, vol. 31 (Toronto: University of Toronto Press, 1986), 53-86.
- 3 William D. Coleman, *Business and Politics: A Study of Collective Action* (Kingston, ON: McGill-Queen's University Press, 1988); William D. Coleman and Grace Skogstad, eds., *Policy Communities and Public Policy in Canada: A Structural Approach* (Mississauga, ON: Copp Clark Pitman, 1990); and A. Paul Pross, *Group Politics and Public Policy*, 2d ed. (Toronto: Oxford University Press, 1992).
- 4 These differences are rooted, in part, in the distinction between different approaches to the study of politics and economics: methodological individualism, which views groups as collections of individuals with the capacity to exercise a degree of choice in their actions, and methodological holism, in which the actions of both individuals and groups are conditioned by the exercise of power in a political or societal context. See, for example, Fernando Toboso, "Explaining the Process of Change Taking Place in Legal Rules and Social Norms: The Cases of Institutional Economics and New Institutional Economics" (1995) vol. 2, no. 1 *European Journal of Law and Economics* 63-84.
- 5 Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton, NJ: Princeton University Press, 1989).
- 6 The mobilization of support from organized interests and the general public often owes as much to appeals to selfish interests and passions as to any higher sense of the public interest—even in those who pose as guardians of a supposedly higher social morality. The pursuit of power can be as corrupting as its exercise in the public interest may be ennobling, although the human capacity for self-deception often makes it difficult for those engaged in both to recognize or acknowledge the difference. For this reason, while acknowledging that the Canadian public has recognized the *potential* benevolence of government intervention through much of its history, I don't think it unreasonable to suggest that the promises of politicians and other advocates of "reform" have often exceeded their capacity (and in some cases, their intentions) to deliver on them.
- 7 I have not addressed in detail the role of "fiscal rules" in structuring policy priorities, a topic much discussed in both political and economic theories of institutional design as applied to fiscal policy. This omission reflects the tendency of federal policy makers to enforce budgetary discipline through internal or informal rules that enhance their policy discretion and their capacity to enforce overall policy priorities, rather than binding themselves with formal legislative requirements. See Geoffrey E. Hale, "Priming the Electoral Pump: Framing Budgets for a Renewed Mandate," in Leslie A. Pal, ed., *How Ottawa Spends 2001-2002: Power in Transition* (Toronto: Oxford University Press, 2001), 29-60; and Suzanne Kennedy and Janine Robbins, *The Role of Fiscal Rules in Determining Fiscal Performance*, Department of Finance Working Paper 2001-16 (Ottawa: Department of Finance, 2001).
- 8 James B. Davies, *Marginal Tax Rates: High and Getting Higher*, C.D. Howe Institute Commentary no. 103 (Toronto: C.D. Howe Institute, March 1998); Robert D. Brown, "Tax Reform and Tax Reduction: Let's Do the Job Right" (1999) vol. 47, no. 2 *Canadian Tax Journal* 182-205; and Geoffrey Hale, *The Politics of Taxation in Canada* (Peterborough, ON: Broadview Press, 2001), 280-85.
- 9 McQuaig's portrayal of Wilson's tax reforms as "Bay Street's stranglehold over public policy," while rhetorically stirring, ignores the substantial increase in corporate income taxes introduced between 1986 and 1989, and the introduction of a variety of other surcharges on businesses (as well as other Canadians) in his futile efforts at deficit reduction.

- 10 Hale, *supra* note 8, at 27.
- 11 Donald J. Savoie, *Governing from the Centre: The Concentration of Power in Canadian Politics* (Toronto: University of Toronto Press, 1999); Jeffrey Simpson, *The Friendly Dictatorship* (Toronto: McClelland & Stewart, 2001); and Reg Whitaker, "Virtual Political Parties and the Decline of Democracy" (2001) vol. 22, no. 5 *Policy Options* 16-22.
- 12 Public opinion research suggests that only about 30 percent of citizens pay consistent attention to the political process. The other 70 percent is engaged only sporadically or superficially, if at all.
- 13 William Watson, *Globalization and the Meaning of Canadian Life* (Toronto: University of Toronto Press, 1998); and John Helliwell, *Globalization: Myths, Facts, and Consequences*, C.D. Howe Institute Benefactors Lecture (Toronto: C.D. Howe Institute, November 2000).
- 14 G. Bruce Doern, "Liberal Priorities 1982: The Limits of Scheming Virtuously," in G. Bruce Doern, ed., *How Ottawa Spends Your Tax Dollars: National Policy and Economic Development 1982* (Toronto: Lorimer, 1982), 1-36, at 10; Allan M. Maslove and Heidi I. Eicher, "Reforming Taxes: Where To Go and How To Get There," in Michael J. Prince, ed., *How Ottawa Spends 1987-88: Restraining the State* (Toronto: Methuen, 1987), 176-210; and Christina McCall and Stephen Clarkson, *Trudeau and Our Times*, vol. 2, *The Heroic Delusion* (Toronto: McClelland & Stewart, 1996), 232-40.
- 15 McCall and Clarkson, *supra* note 14, at 260-61.