History of Tax Reform Purged of Class Warfare and Drama

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At the end of *The Politics of Taxation in Canada*, Geoffrey Hale comments that current circumstances prevent governments, whether federal or provincial, from engaging in "the politics of class warfare."[1] In many ways, that line sums up the central message of this account of the recent history of Canadian tax reform—that there used to be divisive class warfare back in the 1970s and early 1980s, when Ottawa attempted to take away some of the tax privileges of the wealthy, but that government tax policy these days is free of class bias. Of course, another possibility is that Hale is simply more supportive of what's going on now, that he's pleased that the tax reform upstarts have been defeated and the dominance of the financial elite has been firmly restored. The class war has been won by the side Hale supports and has therefore, in his mind, gone back to being invisible.

Things might look different to someone on the other side of the barricades. But then the millions of Canadians who would have benefited from the two serious tax reform attempts that came out of the Finance department—of all places—in the Trudeau years almost certainly have no idea what they missed out on when business succeeded in blocking most of the reforms. The public's consciousness of tax policy—of what has and hasn't happened in the past and what is and isn't possible today—is largely shaped by the small community of tax professionals and business economists who either work directly for the financial elite or simply share its world view. To this community, Hale's book will be an enjoyable romp through the annals of past triumphs and will soothingly reinforce everything they've been up to in recent years and even endow their activities with a sense of worthiness and public purpose. Not surprisingly, the book was a runner-up for the prestigious Donner Prize, given out each year for the best right-wing book on public policy in Canada.

The Politics of Taxation in Canada is an exhaustive account—370 pages long, although it seems much longer—of the tax policy debates of the Trudeau, Mulroney,

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and Chrétien years. There is plenty of useful information here, and it is presented in an accessible (if not interesting) manner. The brief biography in the book tells us that Hale is now an assistant professor of political science at the University of Lethbridge, and that he has "an extensive background in public policy and business-government relations." In fact, Hale was a fierce partisan in that divisive class warfare of the Trudeau years. As head of the Canadian Organization of Small Business, Hale fought passionately against the tax reform initiatives. Nonetheless, the book's tone is never haranguing. Rather, it takes a dry, academic approach. But that doesn't mean that it's even-handed or that it provides a particularly thoughtful analysis. Indeed, the book not only fails to capture the inherent liveliness of tales from the tax reform battles but it also, in largely whiting out class politics, misses the essence of the story.

Any meaningful analysis of the tax reform attempted in Allan MacEachen's 1981 budget—or in Edgar Benson's 1969 white paper on tax reform—must put these initiatives in the context of the reality of the enormous power wielded by the financial elite. Whether one supports or opposes this power, one can't ignore it, for the simple reason that it is central to what happened. The financial elite cares deeply about the shape of the tax system. The enormous effort and financial resources that business, its organizations, and the legions of tax professionals it employs put into winning tax concessions and thwarting unwanted tax changes are too important to the final shape of tax policy to be left out of the story. But one gets little sense of this from reading Hale's book. Rather, one is left with a sense that there are many very influential vested interests out there, pushing and prodding the tax system in various directions, and that business is just one of the many players in this pack.

The MacEachen budget, which was inspired in many ways by the tax reform principles that emerged from the Royal Commission on Taxation (the Carter commission) in the 1960s, was based on the notion that the tax system could be made fairer and more efficient by removing the special concessions that the financial elite had won for itself and using the savings to reduce tax rates across the board for all taxpayers. Thus, the MacEachen budget closed a large number of loopholes, particularly some that were very important to powerful business interests. At the same time, it reduced tax rates, including the top marginal rate, which was brought down from 65 to 50 percent. Although there was some benefit for high-income earners in the lower top marginal rate, this was not enough in most cases to compensate for the loss of particularly favourable loopholes. Indeed, overall, well-to-do individuals and corporations would have lost some ground, while most of the rest of the country would have gained a bit. Whatever the merits of this Carter-style reform, a small coterie of highly motivated business interests and the business-owned media were determined not to let this pass. And, as Hale knows (but gives little flavour of in his book), hell hath no fury like a business interest at risk of losing a favoured tax concession.

In Hale's telling, the line between business and the public is blurred, so that resistance seems to be coming from the public at large. We are told that the budget was imposed on "an increasingly skeptical public,"[2] that it reinforced the "mistrust of many taxpayers"[3] and became "associated both in media commentary and the public mind" with economic dislocation.[4] One gets little sense of a massive campaign orchestrated from the boardrooms of the nation—a campaign that was perhaps ultimately absorbed by a largely uninformed public—but that was very much the work of powerful interests out to defend their special privileges. In fact, Hale deliberately muddies the waters when he writes of "the highly disparate nature of the coalition against [the budget]."[5] He even tries to suggest that there was a kind of popular opposition sparked by concerns that "wealthy and influential interests were able to obtain changes in the budget"[6]—presumably a reference to the lowering of the top marginal tax rate, which was part of the Carter-style aim of lowering all tax rates.

Having thus obscured the nature of what MacEachen—probably the most socially progressive finance minister the country has ever had—was attempting to do, Hale is able to assert that the failure of the 1981 budget was due to the "unilateral, confrontational fashion"[7] with which it was introduced. He then can go on to conclude that the lesson learned was "the political futility of attempting to redesign the income tax system from first principles" and the difficulty of making fundamental policy changes without "extensive consultation."[8] In fact, what the whole fiasco surrounding the MacEachen budget really demonstrates is the enormous power of the business lobby and the extraordinary difficulty of making any changes to tax policy without gaining the approval of powerful business interests. Redesigning the tax system from first principles and doing so without extensive consultation would have been possible had the thrust of the changes been acceptable to the business elite—as was proved when the Mulroney government managed to push through the GST, despite the opposition of virtually every group in the country, except big business.

Similarly, Hale's omission of the power of the business lobby also pervades, and distorts, his analysis of the Mulroney and Chrétien years. The success of the Conservative finance minister Michael Wilson in implementing his 1987 tax reform—the antithesis of the MacEachen reform—is chalked up to a "process of careful political management and consensus-building"[9] rather than to the fact that, by giving business interests exactly what they wanted this time around, Wilson enjoyed their full support and therefore encountered no meaningful opposition. Hale goes on to argue that Wilson created "the least hospitable political climate for special interest pleading on tax issues in many years."[10] This statement is true only if one considers business something other than a "special interest," because Finance listened so attentively and sympathetically to the special interest pleading of Bay Street that the budgets of the Mulroney years became almost indistinguishable from documents prepared by business-funded think tanks. Again, one may consider this a good thing, but the reality of the victory that business scored and the extent of Bay Street's stranglehold over public policy should at least be acknowledged.

Hale also credits Wilson with setting the stage well for the Liberal finance minister Paul Martin, who followed through with similar tax policies, as well as deep spending cuts, which Hale approves. What Hale doesn't mention is that

Martin's policies ensured that the deficit was reduced primarily through cuts to social programs—cuts that were enthusiastically endorsed by business and that had a particularly harsh impact on lower- and middle-class Canadians. To some, like Hale, this may have simply felt like sensible policy, made necessary by the "realities of economic globalization." To others, it may have felt more like a kind of undeclared class war.

Hale is clearly satisfied that things are now moving in the right direction, and he buttresses the case for low social spending by arguing that it has something to do with maximizing freedom and individual choice. So, for instance, he argues that government support for families should be aimed at accommodating "parental choices." That certainly sounds like a laudable goal. But, in urging that government put money directly into the hands of parents, he is also trying to ensure that the money isn't spent on public programs—for example, early childhood education. This is not a neutral position, nor is it a position that would maximize freedom for all.

Rather, Hale's solution would financially benefit families where one parent, usually the mother, stays at home; but in doing so, it would preclude the possibility of governments establishing a comprehensive, affordable early childhood education program that would be enormously beneficial to working families, not to mention their children. So, hiding behind the apparently neutral guise of increasing "parental choices," Hale is in fact taking a strong position that would increase freedom for some, particularly stay-at-home mothers, and decrease freedom for others, particularly struggling working families. Hale alludes to this possible reduction of freedom in passing, without mentioning the particular impact it has on low-income families, and then quickly focuses on the fact that a national child-care program would have the effect of subsidizing upper-income families. This is a red herring and a blatant attempt to turn the class issue inside out in order to make it appear that social spending results in special privilege. The "subsidy" a national day-care program would provide for the rich is the same "subsidy" that it would provide for everyone else, just as happens in a national health-care or public education system. That's the whole point of universal programs—to provide equally for all members of society.

Hale's book is a handy primer on some of the big issues that have dominated tax debates over the past few decades. Rather than scouring through the budgets of years gone by to refresh one's memory, one could instead reach for *The Politics of Taxation*. But don't be lulled by the book's dullness into thinking that it's simply a neutral assessment. One suspects that beneath his academic reserve, Hale is still a fierce ideological partisan.

NOTES

1 Geoffrey Hale, *The Politics of Taxation in Canada* (Peterborough, ON: Broadview Press, 2002), 369.

2 Ibid., at 170.

3 Ibid., at 164.

4 Ibid., at 165.
5 Ibid., at 170.
6 Ibid., at 167.
7 Ibid., at 169.
8 Ibid., at 176.
9 Ibid., at 194.
10 Ibid., at 200.