
Policy Forum: Comments on *The Politics of Taxation in Canada*, by Geoffrey Hale

Editor's note. Most writing on tax policy involves policy analysis—an analysis of the desirability of alternative features of the tax system using the traditional theories, principles, and tools of public finance. It is normative in character and aims to justify proposals for reforming the tax system. Less commonly, tax policy writing aims to explain why the tax system has the features that it does. In the disciplines of political science and economics, however, there is a large and rich analytical literature that seeks to develop models of the policy process and to explain legislative and other outcomes of the process. In Canada, there have been two well-known books on the politics of taxation—David A. Goode's *The Politics of Anticipation: Making Canadian Federal Tax Policy* (Ottawa: Carleton University, School of Public Administration, 1980) and Irwin Gillespie's *Tax, Borrow and Spend: Financial Federal Spending in Canada, 1987-1990* (Ottawa: Carleton University Press, 1991). Douglas Hartle's monograph for the Foundation, *The Revenue Budget Process of the Government of Canada: Description, Appraisal, and Proposals*, Canadian Tax Paper no. 67 (Toronto: Canadian Tax Foundation, 1982), and his discussion paper for the Economic Council of Canada, *Political Economy of Tax Reform: Six Case Studies*, Discussion Paper no. 290 (Ottawa: Economic Council of Canada, 1985), provide a public choice perspective on Canadian tax reform. Leslie MacDonald's PhD dissertation, "Taxing Comprehensive Income: Power and Participation in Canadian Politics" (unpublished PhD dissertation, Carleton University, 1985), has been widely read and referred to, as has Linda McQuaig's journalistic examination of tax reform in Canada, *Behind Closed Doors: How the Rich Won Control of Canada's Tax System . . . and Ended Up Richer* (Markham, ON: Penguin Books, 1987). The most recent and comprehensive account of the political economy of taxation in Canada is Geoffrey Hale's *The Politics of Taxation in Canada* (Peterborough, ON: Broadview Press, 2002).

Tax policy studies attempt to provide an answer to a simple question—what factors explain the tax reforms and changes enacted by the government? Most analysts concede that a great many factors account for policy outcomes, but they fall, surprisingly neatly, into different camps depending on the relative weight they assign to particular factors. Some analysts, who have been described as environmental determinists, believe that global and international forces and the domestic social and economic environment largely determine policy outcomes. Others emphasize the importance of the political culture, prevailing opinions, and political parties and their associated ideologies. Still others look to the distribution of economic power in society and the resulting pattern of interest group activity in attempting to explain political outcomes. The analysts who emphasize the distribution of power

themselves fall into two broad groups. On the one hand, pluralists believe that power is widely dispersed in society and that citizens join shifting coalitions of groups to pursue their various interests. They argue that the government acts as a neutral arbiter between these groups and that it usually accedes to the wishes of the majority on any particular issue. On the other hand, various schools of elitists and neo-Marxist class analysts view economic and political power as being highly concentrated. One school, the instrumentalist, argues that the ruling economic class is able to convert its economic power into political power through a variety of direct means such as political party financing, ownership of the mass media, and cultivation of strong links between business and political elites. Another school, the structuralist, argues that the ruling elites are themselves often divided but that they are still able to exert enormous political power simply because of their privileged position in a capitalist economy—the economy depends on them entirely for new investments and the creation of jobs. Another school of policy analysis, the neo-institutionalist, explains the government's tax policy decisions by referring primarily to the formal governing institutions involved in the process. Finally, the school of public choice theory argues that policy outputs can be explained largely by examining the self-interest of the proximate decision makers—civil servants seeking to increase their own power and prestige, politicians hoping to get re-elected, and interest group leaders attempting to appease their members.

Geoffrey Hale, in *The Politics of Taxation in Canada*, takes the position that tax policy making in Canada is considerably constrained by the forces of globalization and the integration of the Canadian and US economies. In this respect, he might be labelled an environmental determinist. He argues, however, that within these constraints tax policy outcomes are largely determined by the play of diverse pressure groups and the government's need to satisfy the median voter. In this respect, his position is similar to that of the traditional pluralists. On the basis of his views of the forces that determine tax policy outcomes, he offers a number of guiding principles and strategies that a government must use if it is to be successful in implementing tax reforms. Essentially, he offers an account of the federal government's major tax reform initiatives over the past 40 years and an explanation of which were successful and which were not in the light of these principles and strategies.

In the course of developing his major thesis, Hale richly details the political history of taxation in Canada over the past 40 years. In separate chapters, he discusses the major forces influencing tax reform, including the role of ideas; the factors that result in the constitution-like characteristics of the tax system; the institutions and processes of tax reform, including the role of the Department of Finance; and the role of interest groups and public opinion. He explains the various tax reform initiatives during the Trudeau, Mulroney, and Chrétien administrations and delves into sales tax reform. He devotes separate chapters to changes in the personal income tax, business taxation, and federal-provincial fiscal relations and a chapter to taxation, the family, and civil society. Finally, in the concluding chapter, he discusses four factors that are likely to continue the trend of tax reduction in Canada.

Colin Campbell's primary concern with *The Politics of Taxation in Canada* is that Hale gives too little weight to the role and influence of political parties and their ideologies in the tax policy-making process. Moreover, Campbell charges that Hale ignores the importance of the widely accepted view in Canada that government has an important role to play in promoting economic security, social cohesion, and other Canadian values. Campbell also argues that Hale's discussions of several issues "would be improved by an analysis of issues of class and power, which Hale's consensus or brokerage model of political analysis assumes to be non-existent or irrelevant." In response to Hale's argument that Canadian tax policy making has been constrained by globalization, Campbell reviews the changed nature of globalization over the past 20 years and expresses concern about its implications for democratic governance. In the light of these perceived constraints on democratic decision making and Hale's systems theory approach to political explanation, Campbell suggests that a more appropriate title for the book might be *The Non-Politics of Taxation in Canada*.

Linda McQuaig, on the basis of her review of Hale's book, might be categorized as an unrepentant class analyst. She believes that business holds a privileged position in our political system and that it gets almost anything it wants. In her view, successful tax reforms and changes have been those that, by and large, have benefited business interests; unsuccessful ones have been those that would have increased taxes on business. Presumably, McQuaig would suggest as an alternative title for Hale's book the title of her own comment—*History of Tax Reform Purged of Class Warfare and Drama*.

Paul Boothe agrees with Hale's framework for explaining Canada's tax reforms and changes, and he too suggests an alternative title for the book—*The Art of Tax Reform*. He reviews the guiding principles and strategies of tax reform that Hale draws from his detailed examination of tax reforms and changes over the past 40 years. The principles include the need to be clear about the goals of tax reforms, to balance competing principles, and to ensure that the timing of reforms coincides with complementary economic and social conditions. The strategies include consultation, communication, and compensation. Boothe then uses this framework to re-examine two recent tax reform efforts in which he was personally involved: the introduction of the goods and services tax (GST) in 1990 and Saskatchewan's 2000 personal tax reform. He finds that the framework explains why the introduction of the GST was such a political disaster and why the Saskatchewan reforms were a political success. He concludes that Hale's book should be "required reading for all finance ministers and deputy ministers who are contemplating the perils of tax policy change."

In his response to these commentators, Hale reminds us of the adage "where you sit determines where you stand." After reviewing the various perspectives from which the commentators approached his book, he elaborates on the central question it poses—"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?" In

explaining the shape of the tax system in a democracy, he underlines the important role of diverse groups with competing interests and different values. He contends that the “diversity of social and economic life” precludes the kind of single-minded pursuit of a tax system that is congruent with one overarching ideology as suggested by Campbell. Hale argues that McQuaig’s position, which portrays society as a predominance of business interests over a non-elite rather than a competition among groups, is contrary to the evidence. He points out, for example, that the MacEachen budget of 1981 failed not only because it was opposed by business interests but also because MacEachen failed to build an effective coalition of policy “winners,” and that the Wilson tax reforms of 1987-88 were successful even though they increased taxes on business interests. Hale concludes that his pragmatic approach to the art of government and the politics of taxation “has generated and will continue to generate far more winners than losers among ordinary Canadians than obsessive preoccupations with ideological ‘rigour’ or purity.”