

# Tax isn't a four-letter word<sup>[1]</sup>

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## EXCERPTS:

Ironically, it is in the anti-tax United States that a conversation has erupted on taxes. Warren Buffett and a few other billionaires helped to open the door, if only a crack, and President Barack Obama made taxing the rich a key means of funding his jobs plan (though it was ultimately ill-fated). In the context of all that is happening right now on Wall Street and beyond, these now seem like small and belated steps. Bigger things are in the air. But the conversation on taxes is now engaged and, judging from the reaction - accusations of class warfare, "no-tax" pledges - tax is a proxy for these bigger things.

In Canada, there is no such conversation - only a few brave voices. We continue to reward politicians who avoid the issues or promise more cuts. But without an honest conversation about tax, we won't be able to face up to our challenges and we will sleepwalk toward a smaller, meaner Canada.

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So how did "taxes" become a bad word?

In the late 1970s and throughout the eighties, neo-liberalism - free-market ideology - took full bloom in the aftermath of the serious economic stagnation of the time.

The solution, according to neo-liberals, was to let the market do its work and get government out of the way. The best way to do that: cut taxes. As Milton Friedman, chief architect of the neo-liberal counter-revolution, liked to put it, when governments try to solve a problem, they almost invariably make it worse. Progress would come not from our collective efforts to build a better society but from the pursuit of our individual interests in the market. So began three decades of an unrelenting assault on government.

The sales pitch was simple and it was perfect politics: Tax cuts would be so good for the economy they would pay for themselves. Tax cuts are free, the last free lunch. Marketers and hucksters all know how irresistible the word "free" is, but there are always strings.

The notion that taxes are somehow separate from the services and goods they buy is now part of political culture and it has distorted the conversation in Canada as well. One way that this idea is maintained is through the false promise that only waste and inefficiency will be cut. But tax cuts on the promise of ending the gravy train almost never find enough gravy.

The constant assault on government waste and the parliamentary time spent on the scandal of the day have enduring costs; they erode the public's trust in one of our most powerful tools for managing change and shaping the future: our government.

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We are falling into what game theorists call a social trap. Even when we know that co-operating with others would serve our collective interests, absent trust, we go off on our own. The absence of trust limits our ability to act collectively. It takes the future away from us and hands it to "the market." No trust. No taxes. Trapped.

Our mistrust of government and preoccupation with uncovering waste led to expensive layers of control and oversight that made government no more accountable or transparent but certainly more risk-averse and inefficient and therefore less worthy of our trust: a self-fulfilling prophecy. So, even as we know more than we ever wanted about how much officials spend on travel and hospitality, government seems more opaque than ever - with almost no debate, for example, on the cuts to the goods and services tax which took more than \$13-billion annually out of government coffers, or almost no information on the costs of the omnibus crime bill or how it is supposed to make us safer rather than just meaner. That is not transparency.

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The Conference Board of Canada is the latest to sound the warning that inequality is on the rise in this country. As British researcher Richard Wilkinson has documented, extreme inequality - in particular, the growing gap between a few very rich and the rest - is corrosive and costly. It diverts capital, stifles demand, deprives us of the talent we need, and erodes trust and undermines democracy. It also

eventually turns us against each other.

When the middle rungs of the ladder disappear, when the gap becomes too great, feelings of superiority and inferiority follow. Many at the top come to believe that they deserve all they have. In extremely unequal societies, the rich, believing that they truly are the job creators, will often exert their considerable influence to fight against paying more taxes, and they have been very successful.

At the other end, if the ladder's rungs seem too far apart to climb, then those at the bottom will wonder why they should try at all. If we think that others will exploit the system or turn it to their advantage, if we believe the game is unfair, rigged, why participate, why vote, why pay tax?

Perhaps of all the reasons tax has become a four-letter word, this idea of blunted aspirations is key. Baby boomers seem more interested in holding onto what they have than in building something new. And for the first time in generations, older Canadians worry that the young will not have things as good as we did. Taxes are, among other things, an investment in the future. How much harder is that to sell when people think they are managing personal and collective decline? Without hope, many will want to keep all they can to get through the day.

But we are not there yet. Canada remains more equal than our neighbour and we still have extraordinary assets and great promise. Many provincial governments have resisted the call for more cuts. But we certainly cannot afford to wait much longer as the bills for our free lunch pile up: growing inequality, sagging productivity, a deteriorating environment.

We will not retake the future until we change the conversation and that has got to begin with a commitment to greater equality and fairness, to jobs and opportunities for the many rather than wealth for the few, to dignity for all those who fall out of the market in tough times or cannot get in through no fault of their own.

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