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# Selling our Soul for Lower Taxes

Governments at all levels are increasingly obsessed with tax cuts. In 2007 they should stop cutting. Here's why.

Other countries, using different tax and public policy strategies than ours, have significantly lower poverty rates, more equal income distribution, higher pensions for seniors, greater economic security for workers, lower infant mortality rates, longer life expectancy, higher educational outcomes, less drug use, better environmental performance, greater levels of trust, higher productivity, and higher GDP per capita. In Canada we are moving ever further away from the policies that produce these desirable outcomes. Instead, we cut taxes.

A recent study by tax-law professors Neil Brooks and Thaddeus Hwong shows that all tax revenue collected in Canada as a percentage of GDP dropped from 36.7% in 1998 to 33.5% by 2004. In 2006, tax revenue took a further dive as the Harper government cut the GST by 1%, and promised close to $20 billion in further tax-cuts in the 2006 budget.

The Manitoba NDP has been similarly swept up in the tax-cut frenzy. In the 2006 Throne Speech, the Province boasted that "The last seven years has delivered the largest tax cuts ever provided to Manitoba families and businesses." Cumulative cuts in provincial taxes since 1999 will result in a loss of $618 million in 2006 and beyond, with promises to cut personal and business taxes even further in 2007. Provincial tax cuts together with the Harper government's tax cuts are resulting in modest tax savings for low and mid-income earners, and pretty hefty savings for high-income earners. This comes at a very high cost to Canada and Canadians generally, because it limits our ability to invest in the social and economic infrastructure that has historically been the heart and soul of Canada, making ours one of the most desirable countries in the world in which to live.

Yet Prime Minister Harper is on record as saying "all taxes are bad".

A quiet but growing number of Canadians are questioning the wisdom of tax cuts as we begin to see what is at stake. A recent national poll conducted by the Canadian Centre for Policy Alternatives tells us that 76% of Canadians believe the gap between rich and poor has widened over the last ten years and 88% said it would be better for Canada if the income gap were reduced. Approximately half say they are just a few pay cheques away from being poor. Canadians are worried that we are becoming increasingly like the U.S.

The income gap is growing. Statistics Canada's most recent ***Income in Canada*** report shows that from 1995 to 2004 the average after-tax income of the lowest quintile increased by $400, while the average after-tax income of the highest quintile increased by $20,000. The percent of income paid in income tax by the richest quintile has fallen from 25% in 1995 to 22% in 2004. The concentration of wealth for those in the highest wealth quintiles grew from 1999 to 2005; those in the mid-wealth quintiles saw decreases and those in low-wealth quintiles fell even further behind to a negative net worth.

Tax cuts are a major cause of this growing inequality. Yet politicians promise to keep cutting.

Taxes in Canada have already been cut too deeply. Brooks and Hwong show that among high-income OECD countries, Canada's tax revenue as a percentage of GDP is already well below the average. They show that high-tax countries have had greater success at achieving their social objectives—without economic penalty.

Using 50 commonly used social indicators, Brooks and Hwong show that outcomes in high-tax Nordic countries are better than in low-tax countries and in particular the U.S., the country that tax-cut proponents most often use as a model. Norway out performs the U.S with higher GDP per capita and higher productivity. The World Economic Forum ranks high-tax Nordic countries among the most competitive in the world.

Low-tax countries like the U.S. have higher rates of poverty, high mortality rates, lower life expectancy, and poorer life satisfaction than high-tax countries. Yet business groups continue to call for tax cuts. While the lure of tax cuts may seem tempting for Canadians feeling financially insecure, many are beginning to see the evidence that tax cuts provide benefit primarily to high-income earners, and come with a high cost for the rest of us. The recent loss of billions of dollars from federal tax cuts has cost us a national child care program and hopes for a national pharmacare program plus cuts to literacy programs and women's programs – programs essential to increasing equality of opportunity.

Here in Manitoba, the tax cuts keep coming while physical infrastructure decays, the health care system erodes and the poorest among us continue to see their incomes fall to well below the poverty line. Cutting taxes will not correct these problems. Public investment will. While politicians try to reassure us that we can have it all—tax-cuts and better services—it just doesn't add up. You simply cannot be a low-tax jurisdiction AND have the level of services that provide us with the hard-earned security of knowing that we have access to health care, elderly and disabled Canadians have decent economic means and our children will have access to child care, education and future economic opportunities.

With both provincial and federal elections looming, we can bet that a tax-cutting agenda will be advanced as the panacea for all that ails us. But the price of tax cuts is too high. In 2007 we need to remind politicians of this by saying 'no more' to tax cuts that benefit wealthy Canadians at the expense of the economic security and well-being of all Canadians.

- Shauna MacKinnon

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