

# Canada needs to compete – here's how we can win

The long-term consequences of Canada having higher tax rates in almost every bracket than the United States are easily predicted and potentially very damaging to this country

by Conrad Black



**It is a well-known** and almost uncontested economic aphorism that you will get more of whatever you officially incentivize. Welfare dependency, if made more attractive, becomes more popular, and as Nigel Lawson, then British chancellor of the exchequer in the Thatcher government said as he slashed income taxes in 1988: “The economics are simple. If you reward enterprise, you get more of it.” One of the great economic booms of British history was in progress.

The wisdom of this principle leads directly to the vexed discussion of social priorities. No one now disputes that the private sector creates more jobs with investment than the public sector and its so-called multiplier effect – the expansive consequential spending is higher in the private sector than the public sector. The issue becomes whether it is better public policy to reduce taxes, stimulate economic growth and place all bets on President Ronald Reagan's famous assertion that "The only welfare system we ever had that worked is a job," or whether, inefficient though it is in generating economic growth, we should vary the application of these economic lessons by increasing inefficient varieties of public welfare spending to alleviate the condition of comparatively disadvantaged people. In practice, almost all sophisticated democracies oscillate between the two poles.

In extreme terms, the pure capitalist model would reduce all taxes to the bare fiscal bones necessary to pay for essential state functions, such as constabulary and justice, national defence, education and basic services, and a safety net that is comparatively threadbare. At the other end of the policy spectrum, the democratic left (that is confiscatory socialists who support free elections and other freedoms and civil rights that authoritarian Marxists do not accept), want high taxes, and a massive government-directed reallocation of resources between people and activities. Doctors, for example, become effectively government employees, and in the peppier and more traditional circles, "the commanding heights of the economy" are nationalized in state-owned companies. And private education is severely discouraged as inequalitarian. This can also lead to controversial issues such as the recent flare-up in the United States about the desirability or otherwise of compulsorily busing large numbers of schoolchildren out of their neighbourhoods and all around metropolitan areas in pursuit of racial balance in classes and equal standards in all schools.

In general, I have always been an advocate of leaving as much as can be done without unacceptable humanitarian shortfalls on the private sector, and leaving people free to dispose of their incomes and conduct themselves as freely as can be done while contributing adequately to maintain an orderly and progressive society, and as long as the exercise of personal liberties does not encroach on the ability of others to exercise their own liberties. I agree altogether with the founder or inspirer of much of the modern welfare and emergency relief concepts in advanced countries, Franklin D. Roosevelt, who regarded direct cash payments to the able-bodied unemployed of sound mind as "the pauperism of the dole." Conservatives have made a terrible tactical as well as historical error by claiming Roosevelt was on the left. He saved a capitalist system that had collapsed when he entered office in 1933. The unemployment rate was over 30 per cent with no direct relief for them and the entire stock and commodity exchange and banking systems had closed their doors. He rebuilt it while conserving 95 per cent of it, guaranteed bank deposits and low-rate mortgages, made the government a huge but temporary preferred shareholder in the banking system, and put millions of people into workfare conservation and infrastructure programs as the private sector gradually revived and recruited them back into the normal work force.

I have in past columns proposed various methods of self-reducing taxes on high-wealth people and corporations to alleviate poverty in schemes that the taxpayers would design and administer themselves, as they do with bona fide charities. The tax rate would fall as the level of defined poverty in the country fell. The interests of the rich and the poor would be exactly aligned and the greatest commercial talents in society would be giving some of their attention to our most intractable problem – poverty.

I do not accept the Biblical edict that "Ye have the poor always with you." (Matthew 26; 11). But I think we have gone

as far as we usefully can with well-worn methods of the public sector using tax-paid funds to employ large numbers of people to dollop out money in pursuit of an ever-shrinking return on society's social investment. I'm not imputing discreditable motives or incompetence to any one or group; I just don't think we can milk any more objective progress out of the system we have and we are long past the point of diminishing returns. The fetishistic official Canadian opposition to private medicine and insistence on the fraud of equal treatment for everyone regardless of means, and the reflex to tax more and spend more on socialized medicine on the theory that the national health service will improve thereby, is bunk.

Returning to the most immediate related question, tax policy, Canada is swimming against the international trend. Canada does have good unemployment numbers, though not as astonishing as those in the United States, where there are now 1.6 million more positions to fill than unemployed people, and closing off the influx of unskilled workers illegally entering the country will assure brisk income increases for relatively low-income jobs and continued full employment. To a large extent, though it is difficult to quantify exactly, our low unemployment numbers are caused by American economic growth because almost 40 per cent of Canadian economic activity is in the commercial relationship with the United States. But the long-term consequences of Canada having higher tax rates in almost every bracket than the United States are easily predicted and potentially very damaging to this country. The departure of international companies from Canada (i.e. Barrick Gold) and the decline in foreign investment in Canada are already evident and unless they are reversed, the results will be grievous and we won't have long to wait for them.

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As mentioned, the recent trend has been to tax reduction in the principal economic countries. There is now an almost world-wide intensifying competition for capital, talent and business, and countries are showcasing tax reductions and simplifications and deregulation. Australia, perhaps the closest comparative economy and society and political system with Canada's, and which has long had a higher standard of living than Canada, has just re-elected a government on a campaign platform to eliminate \$200 billion (Canadian) from tax collections, flatten taxes, and leave 90 per cent of income-earners at the same reduced level. In 2001, Russia, admittedly not a pristine model of governance, imposed a flat income tax of 13 per cent, and tax revenue rose 50 per cent in two years. In Bulgaria (2008), Hungary (2012) and in the Baltic and some other Central European states, the same formula of lower and flatter taxes has been successfully implemented. Italy's flamboyant populist government has announced plans for a 15 per cent tax on all families' incomes up to 85 thousand dollars. Italy and Portugal are both enticing wealthy foreigners with minimal tax on their world-wide incomes. The recent American tax cuts ranked with those of Presidents Kennedy and Johnson in 1965, and President Reagan in 1981, as the greatest in American history, and cut the income taxes of 82 per cent of American taxpayers and of all businesses.

People who earn money have not been motivated to enrich anyone but themselves, though almost everyone acknowledges the need for an adequately funded state. The overbearing, unimaginative, confiscatory attitude of the present regime in Ottawa, in addition to its profligate spending in many areas and official cowardice in vital economic growth sectors such as pipelines, is creating a competitive disadvantage for Canada that will be onerous. The tax proposals of the government and official opposition should be scrutinized carefully before the country votes in October. (No such exercise is likely to be fruitful with the NDP or the Greens.)

Four more years like the last four and another five countries will pass Canada in per capita income. No matter how hard we try to convert the social safety net into hammocks in exchange for the votes of their occupants, countries have to compete as people and corporations and sports teams do, and economically, we are not competing well now.

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