# Canada's Liberal government embraces the tax-cutting agenda of big business

**Keith Jones**
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The chief spokesmen and strategists for Canadian big business have given their grudging approval to the new federal budget. They consider it an important political victory that the Chretien Liberal government has ignored public concern over the lamentable state of Medicare and other public services and placed tax cuts at the top of the national agenda. But big business deems the five-year, $58 billion plan of personal income, corporate, and capital gains tax cuts outlined in Monday's budget as no more than a down payment.

"The Liberals seem to have gotten the message that the new economy requires not just occasional tax breaks here and there," said Thomas D'Aquino of the Business Council on National Issues. The head of Canada's most powerful business lobby group said he was gratified the Liberals have "actually committed themselves to a five-year tax reduction strategy and the minimum amount of that will be $58 billion." But, D'Aquino hastened to add, quicker and deeper cuts are needed if Canadian companies are not to lose ground to their foreign rivals. "My argument would be, we should be matching the Americans on corporate tax levels right now, because the competition for people and business and investment and innovation is now—it's not three years from now, it's not five years from now."

D'Aquino's remarks were echoed by the president of the Canadian Chamber of Commerce. "Slow and steady just doesn't meet international tests these days," said Nancy Hughes Anthony. "Many of our strongest competitors are busy slashing taxes as we speak."

The *Globe and Mail*, the traditional mouthpiece of Toronto's banks and brokerage firms, said the budget for the 2000-2001 fiscal year represented "progress, but it is modest, and too much of it is promised five years out." Conrad Black's *National Post*, which has been even more strident than the *Globe* in denouncing the tax burden on corporations and the well-to-do, headlined its post-budget editorial "It's a start."

During their first mandate (1993-97), the Liberals won the accolades of big business because they imposed massive spending cuts that dwarfed those of their Tory predecessors and, in per capita terms, exceeded those of all of Canada's G-7 rivals. The Liberals cut the transfers that the federal government makes to the provinces to pay for health care, post-secondary education and welfare by fully one-third and drastically tightened unemployment insurance eligibility requirements.

But in recent years, as the federal government has begun to wrack up significant budgetary surpluses and the perception has spread among Canada's elite that it has not reaped the same rewards from the current economic expansion as its rivals to the south, there has been a growing clamor from big business and the political right for tax cuts.

This campaign, which has now been embraced by the Liberals, underscores that the hue and cry about the federal deficit was largely manufactured so as to provide a justification for sweeping cuts in social spending and radical, regressive changes in social policy. Having secured steep cuts in government support for public services and the poor in the name of fighting the deficit, big business wants to ensure that the share of the national income appropriated by capital and the managerial and professional elite continues to swell at the expense of working people. Thus it demands that the lion's share of any budget surpluses be expended on tax cuts, not reinvested in public and social services.

The Liberals are trying to sell their plan of tax cuts as a boost to low- and middle-income Canadians. In this endeavor, they are using the flat tax scheme of the Reform Party, the official opposition, as a convenient foil. But in real dollar terms it is the well-to-do, and above all the super rich, who will gain the most—indeed, far and away the most—from the Liberals' cuts to personal income taxes. According to one estimate, of the $14 billion in annual tax reductions that are to kick in by fiscal year 2004, 19 percent will go to those with incomes of more than $100,000.

And the reduction in capital gains taxes is even more skewed in favor of the most privileged. In 1996, more than 66 percent of the total capital gains reported for income tax purposes went to the 1 percent of highest-income earners.

The Liberal budget reduced personal income, capital gains and corporate tax rates, and announced the phased elimination of a surtax on higher income Canadians, but it made no mention of the regressive Goods and Services Tax (GST). Abolition of the GST was one of the principal planks in the election platform on which the Liberals returned to power, after nine years in opposition, in 1993. But no sooner had they regained office than the Liberals shelved their promise on the GST.

As part of their ongoing campaign to push the Liberals still further to the right, the big business media, or at least much of it, has portrayed the Liberals' plans to spend $13.3 billion more over the next four years as spendthrift. In fact, the federal government continues to spend billions less on programs and transfers today than in 1993, even before inflation and the increase in the population are taken into account. In his last three budgets, Finance Minister Paul Martin has not increased real, per capita federal program spending by a single dollar. Moreover, Martin has vowed that should a recession throw the government's budgetary projections off, he stands ready to impose still further cuts. “The days of deficit are gone,” declared Martin in his budget speech. “And they are not coming back.”

Well over 20 percent of the total new spending announced by the Liberals in this week's budget—$3.17 billion—is earmarked for the Canadian Armed Forces and for tightening border security.

The Liberal budget provides not a dime for social housing, although homelessness has emerged as a major problem in Toronto and Canada's other major urban centers. Asked why they are ignoring the homeless, the Liberals retort that the provinces and municipalities can finance social housing projects from their part of a $4 billion infrastructure fund. But provincial politicians have ridiculed the idea, saying the state of the country's highways, water systems and bridges is such that all the new money is already accounted for.

Cuts to the unemployment insurance program played a key role in eliminating the federal deficit, with Ottawa seizing the annual surpluses the Employment Insurance fund piled up after the government cut benefits and restricted eligibility. Whereas in the early 1990s more than 70 percent of the unemployed were eligible to collect jobless benefits, today less than 40 percent qualify.

But despite record federal surpluses, no one in political or business circles will even entertain discussion of returning to the pre-1992 rules for jobless benefits. Faced with evidence that women were among the biggest losers from the eligibility changes, the Liberals have modified the rules governing parental leave, but otherwise all the cutbacks remain.

The new federal budget provides just $2.5 billion over four years (or $625 million per year) in additional money to the provinces to help pay for post-secondary education, health care and welfare. This increase means that the provinces will receive on average $15.5 billion a year for the next four years under the Canada Health and Social Transfer (CHST). This compares with some $18 billion in fiscal 1993-94.

In the five years since 1995, the federal government has reduced its transfers to the provinces for public and social services by $35 billion. These cuts have led to massive increases in college and university tuition, as well as a sharp deterioration in the quality of post-secondary education.

But it is in the health care sector that the effects of the cuts have been most keenly felt. There has been a wave of hospital closures. Long waiting lists for the treatment of even life-threatening conditions, and hospital emergency ward closures due to overcrowding, are now commonplace across the country.

Nonetheless, popular support for the maintenance of a free, universal health system remains strong. Opinion polls have repeatedly shown the majority of the public supports reinvesting money in the health care system over tax cuts. Last year there was strong public support for strikes by nurses in several provinces, including Quebec and Saskatchewan, although the strikes were in defiance of the law.

In recent weeks, federal Health Care Minister Alan Rock has conceded that the very future of Medicare is at stake. Before the tax cuts and other changes announced in this week's budget, the Finance Ministry predicted the federal government stood to accumulate a surplus of about $100 billion over the next five years. Yet the Liberals are not prepared to provide more than $2.5 billion in new funding for health care, post-secondary education and welfare.

Faced with a barrage of criticism over their failure to inject significant sums of money into a health care system that is hemorrhaging from years of cutbacks, Rock and Martin are now saying that Ottawa might provide additional funds. But they want to tie any further increases in federal funding to major structural changes to Medicare. According to news reports, Rock is championing a homecare scheme, the purpose of which would be to provide cheaper care by shortening hospital stays and shifting some of the burden for providing care to patients' families.

The provinces object to the Liberals' spearheading a restructuring of Medicare because health care is a provincial responsibility under Canada's constitution and several of them want to go much further than the Chretien government in allowing the private sector to provide frontline health care services.

Ontario Tory Premier Mike Harris was quick to seize on the meager increase in the CHST to raise the banner of privatization. He said the lack of federal funding for health care is forcing his government to consider user fees and a greater role for the private sector in health care. “We look forward with interest,” said Harris, “to hearing whether we're supposed to get more private-sector money, whether individual Canadians are supposed to pay more, or just what it is we're supposed to cut.”

Saskatchewan's New Democratic Premier Roy Romanow, whose party in the past has laid claim to being the father of Medicare, is urging that a Royal Commission on health care be struck so as to determine what “core” services Medicare should continue to cover.

While Ottawa and the provinces dispute how Canada's universal public health care is to be cut back, all are agreed that this is necessary. Reports the *Globe and Mail*'s Jeffery Simpson, “no serious politician in the country ... believes the health-care system as currently structured and financed can be sustained.”