Canada's "mini-budget" lets rich appropriate still greater share of social wealth

Keith Jones
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Big business, the corporate media, and the political right have lavished effusive praise on the Liberals' October 18 federal "mini-budget." Even Ontario Premier Mike Harris—who has repeatedly chastised the Liberals for not financing steep tax cuts through further cuts to public services—enthused, the federal government "is talking my kind of language."

Little wonder. Heavily skewed in favor of those with the highest incomes, the federal tax cuts will enable the owners of capital and the managerial and professional elite to appropriate a still larger share of social wealth. Moreover, with the Liberals having allotted $100 billion to their five-year tax reduction plan and $22 billion toward paying down the national debt in this and the previous fiscal year, little remains of the projected federal budgetary surpluses. Certainly, not the financial means to increase federal spending to repair the damage done to public and social services by a decade of draconian cuts. And come the next economic slump, the fiscal and political pressures for a new volley of public spending cuts will be nigh irresistible.

A study of the personal income tax cuts that the Liberals made in last February's budget found 19 percent of the total monetary benefit will accrue to the 2 percent of taxpayers with annual incomes above $100,000. The 39 percent of taxpayers with incomes between $25,000 and $50,000 will, by contrast, reap just 27 percent of the tax savings.

The cuts announced in the October 18 mini-budget are even more weighted in favor of the most privileged. Effective January 1, the Liberals are slashing the taxation rate on the lowest bracket (the first $30,700 in income) by 1 percent to 16 percent and on the second bracket (from $30,700 to $61,500) by 2 percentage points to 24 percent. The tax rate on income between $61,500 and $99,999 is being cut by three points, or three times the cut in the lowest bracket, to 26 percent.

The most affluent will continue to pay a tax of 29 percent on that part of their employment income that exceeds $100,000. But the Liberals have abolished a 5 percent surtax on income over $85,000, and the rich and super-rich will reap the lion's share of the increase in the capital gains tax exemption. In February, the Liberals increased that exemption from 25 to 33.3 percent. Then last week, and effective immediately, they raised it to 50 percent, which is 10 percentage points higher than even the Canadian Chamber of Commerce was seeking. In 1996, 55 percent of the value of all capital gains exemptions went to the 1 percent of taxpayers with incomes of at least $150,000, including a whopping 41 percent to the 0.4 percent of taxpayers making more than $250,000 a year.

The increase in the capital gains exemption means those making in excess of $100,000 will be subject to an effective tax rate of just 14.5 percent on income derived from the sale of their stock, real estate and other investments. Prior to last February's budget the effective rate was slightly above 25 percent.

The Liberals' February budget was crafted to enable the government to maintain the pretense that the "dividend" from years of fiscal austerity is being distributed equitably. The increase in the capital gains exemption and the elimination of the surtax on income between $55,000 and 85,000 were supposedly "balanced" by increases in the Goods and Services Tax Credit paid to those with low incomes and an enriching and widening of the Child Tax Credit. (Both these refundable credits actually arise from reactionary changes to government policy over the past decade. The GST is a regressive, sales tax; the Child Tax Credit, which replaced universal family allowances, discriminates against those on welfare.) The mini-budget, by contrast, provides low-income families only a pittance in additional credits—an $8.33 per month, per child increase in the Child Tax Credit and a this year-only payment of up to $250 to offset increases in the cost of home heating due to the oil price surge.

In tabling his mini-budget, Finance Minister Paul Martin savaged the Alliance proposal to scrap a progressive tax system in favor of a 17 percent flat tax. But the Liberals' tax cuts do much to “flatten” the tax system, thus lessening its compensatory effect on the income inequities produced by the capitalist market. And this at a time when social equality is growing by leaps and bounds. (A recent Canadian Center for Policy Alternatives study found that between 1993 and 1998, the average after-tax income of the richest quintile of taxpayers rose 13.1 percent or more than $11,000, while that of the poorest fifth of all Canadians rose only 1.4 percent or about $250.)

The Liberals are also cutting the general corporate tax rate by 1 percentage point next January 1 and by 2 further points in each of the following three years. In February, the Liberals had promised to lower the corporate tax rate from 28 percent to 21 percent over five years, but to the chagrin of big business they did not lay out a timetable for the reductions, apart from announcing next January's 1 percent cut. When these cuts are fully implemented, the combined federal-provincial corporate tax rate will be about 35 percent, which is lower than in most US states. But Canadian business leaders are already urging still steeper cuts, arguing that Washington and many US states are readying to enact further corporate tax cuts.

Taken together, the Liberals' February budget and this month's “mini-budget” constitute a shift in federal government policy as significant as that effected by the Liberals in 1995 and will have no less of an impact on class relations.

In 1995, little more than a year after winning office on a pledge to make job creation the pivot of government policy, the Liberals launched far and away the greatest program of public spending cuts in Canadian history. The transfer payments that Ottawa makes to the provinces to help fund health care, post-secondary education and social programs were cut by one-third. Changes were made to unemployment insurance that effectively deny benefits to the majority of the jobless. Annual federal program spending (that is, all government spending other than transfers to the provinces and payments on the national debt) was slashed by 13.9 percent or $13.4 billion between 1993 and 1997.

In the last year of the Mulroney Tory government, total federal government expenditure (apart from debt payments) was more than $120 billion. In fiscal 1997, it was $108.8 billion. Meantime, the federal spending to GNP ratio had shrunk to the lowest level since the early 1950s, that is to the level of a period before the establishment of the main Welfare State programs.

The Liberals and the political and corporate elites argued that it was the urgency of eliminating the annual federal budget deficit that made such sweeping spending cuts necessary. But now that the budget has been balanced and the Treasury is amassing huge surpluses, big business and its political representatives oppose any major reinvestment of resources into public and social services.

The purpose of the current crusade to cut taxes, like the deficit war before it, is to radically redesign social policy so as to enable capital and its managerial elite to appropriate a greater share of social wealth. Not only do reductions in public and social services expenditure result in tax cuts that swell the incomes of corporations, the rich and the super-rich. They render working people more dependent than ever on the capitalist market for their livelihood, and thus serve to depress wages and working conditions.

A slew of studies, including by the government's own Statistics Canada, have shown that Canadian society would be as socially polarized as that of the US were it not for the redistribution of income through the tax system and social benefits. The tax cuts the Liberals have implemented over the past year will sharply curtail the “progressive” or leveling character of the tax system, while ensuring that the federal state lacks the financial means to sustain the social welfare programs of the past.