Canada: Liberal campaign side-swiped by insider-trading allegations

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The Liberals' re-election campaign has been sideswiped by allegations that some Bay Street firms and traders may have profited from prior knowledge of a government announcement concerning the taxation of corporate profits and stock dividends.

On Wednesday, the Royal Canadian Mounted Police (RCMP) announced that it is conducting a criminal investigation into events surrounding a large spike in the value of selected shares on the Toronto Stock Exchange (TSE)—a spike that occurred just hours before Finance Minister Ralph Goodale announced, to the great satisfaction of corporate Canada, that income-trusts would retain their tax-free status and that the Liberal government was slashing the rate at which stock-dividend income is taxed.

Canada's national police said a criminal investigation is needed to determine whether anyone in the Liberal government or civil service leaked information about Goodale's November 23 announcement, thus enabling one or more brokers and institutional investors to financially benefit.

Traditionally, the RCMP refrains from revealing or otherwise commenting on criminal investigations with potential political ramifications during election campaigns. But a few hours after revealing that it had launched a probe into the November 23 share spike, the RCMP issued a press release in which it asserted that "at this time there is no evidence of wrongdoing or illegal activity on the part of anyone associated with this investigation, including the Minister of Finance Ralph Goodale."

The opposition parties have trumpeted the RCMP investigation as further proof of their claim that the Liberal government is mired in corruption, and are demanding that Goodale step down or be fired as finance minister pending completion of the police probe.

This is especially true of the official opposition Conservatives. In imitation of the tactics their US Republican allies employed against the Clinton administration, the Conservatives have fastened on scandal-mongering as a means of attacking the Liberals, while avoiding debate over their own right-wing policies and associations.

"It's all part of a pattern," declared Conservative leader Stephen Harper. "We have a government that has a legacy and ongoing pattern of scandal and corruption ... and the only way to [get responsibility and accountability] is [to] remove the whole bunch of them on January 23 ...."

Predictably Liberal Prime Minister Paul Martin rejected the calls for Goodale to step down, proclaiming him a "good" and "honest" man. It is almost unthinkable that Martin could accept Goodale's resignation in the middle of an election campaign that the Conservatives have proclaimed a veritable referendum on Liberal corruption. Not only is he arguably the second most powerful minister in Martin's government, he is a longtime ally of the prime minister in the Liberal Party's internal wars.

The opposition knows all this. That is why some Conservatives and Conservative supporters found it difficult to restrain their delight at the RCMP announcement. "Ralph Goodale may have cost the Liberals this election," wrote John Ibbitson in Thursday's *Globe and Mail*. Ibbitson, who first came to journalistic prominence as a booster of the right-wing Ontario Tory government of Mike Harris, added, "The opposition parties have tried to make Liberal arrogance and corruption the ballot question in this election. Paul Martin insists his party has gotten past the unpleasantness of the sponsorship scandal. And now this comes along. ... How many times can the Liberal Party ask us to suspend judgment on its moral worth?"

The editorial boards of Canada's two national dailies have been much more circumspect.

The *National Post* is a self-proclaimed neo-conservative broadsheet that, in its efforts to boost Conservative fortunes, has been quite prepared to portray the Liberals as virtually a criminal organization. But in an editorial titled "Let the RCMP decide," the *Post* declared Friday that it was premature to call for Goodale's resignation.

The *Globe and Mail*, the traditional voice of Canada's financial establishment, labeled the demands for Goodale's resignation "rash," then weighed in with a strong defence of his character, saying the finance minister has a "hard-earned reputation for probity."

However, the *Globe* did take some shots at Goodale, accusing him of mismanaging the income-trust issue—that is to say, he should never have suggested that the federal government might begin taxing the profits of income-trusts, a financial vehicle created in the 1980s so as to enable corporations to avoid paying taxes on their profits.

Two inter-related issues lie at the root of the corporate media's restrained reaction to the allegations of Liberal government involvement in insider-trading.

First, any serious police probe into the stock-market spike of November 23 threatens to involve a significant section of Canada's corporate elite, since large institutional investors were the ones doing the vast bulk of the buying in the hours before Goodale's "good news" announcement. According to the *Globe*, "trading on November 23 saw a broad surge in income trusts and stocks with healthy dividends," but "there was no single source for the activity, as brokerages associated with all of the big six major banks featured as the top buyers on the day's largest gainers."

Second and even more fundamentally, the *Post* and *Globe* are wary of having light shone on how the government arrived at its November 23 income trusts-dividend policy announcement, because of what it would reveal about the relations between big business and the federal

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government. Under the Liberal government of Paul Martin and Jean Chretien, as under the Mulroney Conservative regime that preceded it, government policy has been ever more directly dictated by, and formulated on behalf of, Canada's corporate elite.

In September, Goodale announced that the tax department was temporarily suspending the issuing of advance tax-rulings for companies preparing to transform themselves into income-trusts. These rulings effectively serve as guarantees that Ottawa will grant the prospective income-trust the tax-free status that its owners seek.

Goodale said the suspension would remain in place for up to half a year while the government considered possible changes to the rules governing income trusts. In explaining the possible need for changes, the finance minister noted that recent years have seen a boom in the creation of income trusts. Whereas the first trusts had typically been already-developed oil or natural gas properties, income trusts have spread to many other sectors over the past decade as more and more companies seek to escape taxation. Indeed in the weeks prior to Goodale's announcements, several signature Canadian companies, including Canwest Media, telecommunications giant Bell Canada, and several of the country's major banks, said that they were either going to transform themselves into income-trusts or had begun exploring the implications of such a move.

Goodale said he was concerned about how the income-trust boom would affect the federal government's revenues, but also about its longterm impact on the international competitveness of Canadian companies, since the income-trust structure encourages companies to distribute profits to their owners, rather than reinvesting in research and technology.

Corporate Canada's response to Goodale's musing was swift and strong. Some went so far as to blame him and the Liberals for a stock sell-off that cut the TSE's total value by over $20 billion.

If the government wanted to stop the surge of capital toward interest-trusts, proclaimed Bay Street, the solution was not to tax their profits, however modestly, but rather to "level the playing field," by slashing the rate at which the dividends paid out by traditional joint-stock companies are taxed.

In their attack on the government, the corporate elite sought to enlist the support of pensioners, although it is big business that has led the charge to reduce pension entitlements and slash the public services upon which the aged depend. That this campaign had some success is indicative of the extent to which the traditional government-secured pension structure has been undermined, rendering the incomes of ever-greater numbers of retired middle- and working-class people dependent on the vicissitudes of the stock market. It also is a product of the prostration of the traditional labor organizations, the trade unions and the social-democratic New Democratic Party. In the absence of a progressive working class alternative, sections of the population become vulnerable to the cynical and hypocritical appeals of big business.

Goodale and the Liberals responded to the increasingly shrill outcry over the income trust issue by setting out to win back business's support, announcing a further round of tax cuts in their November mini-budget and then, when it became clear that the government was only days away from being toppled in the House of Commons, rushing to impose Bay Street's preferred solution to the income-trust issue.

On November 22, Goodale announced that in light of the government's imminent demise, he would be making a policy pronouncement on the income trust issue, effectively putting an end to a public consultation process that was to have continued until the new year. The following morning his aides confirmed that he would be making an announcement later that day, after the markets had closed.

It is neither impossible nor implausible that someone in the government or civil service leaked the gist of what Goodale was to say and that some Bay Street players decided to take advantage of this insider information. As the names Enron, Worldcom and Northern Telecom attest, the corporate elite have increasingly resorted to speculation, the looting of public assets, shoddy and fraudulent bookkeeping, and outright theft to boost profits.

But given the relations that exist between government and the corporate elite—the Liberals' eagerness to please and rally Bay Street's support on the eve of an election call—it is also possible that Goodale and the Liberals tipped their hand, with various suggestions in the preceding days and weeks that the government was mindful of business's concerns and that Bay Street would not have reason to be dissatisfied with the government, but without ever revealing policy specifics.

Goodale's November 23 decision to maintain the tax-exempt status of income trusts and slash the dividend taxation rate is in keeping with the evolution of Canada's fiscal and social policy over the past quarter-century and more. Parallel with the scaling back of public and social services and the ever-more direct subordination of social policy to the demands of the capitalist market, federal and provincial governments have increasingly shifted the burden of taxation from business to individuals, even while making the personal income tax system less and less progressive.

As Eric Reguly of the *Report on Business* noted, whereas in the 1960s total corporate tax revenue was about 60 percent of the revenue raised from individuals, today it is just 30 percent of personal tax revenue.

While the Conservatives may posture over the insider-trading allegations surrounding Goodale's November 23 policy announcement, and the NDP and the pro-Quebec independence Bloc Quebecois may make calibrated appeals to popular discontent over the cuts to jobless benefits or the dismantling of public health care, all the parties standing in the January 23 election are as subservient as the Liberals to big business and have been party to the ever-widening offensive against the working class.

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