Confédération des syndicats nationaux

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Standing Committee on Finance

as part of the

2007 pre-budget consultations

by the

Confédération des syndicats nationaux

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We would like to thank the House of Commons Standing Committee on Finance for giving the Confédération des syndicats nationaux (CSN) the opportunity to express its opinion on the social and economic goals that the next federal budget should seek to promote. The CSN represents 300,000 members located across Québec and Canada, working in various sectors of the economy,

Criteria that should guide the federal government on taxation

Taxation: a way to fund the services and programmes that the public wants

For the CSN, taxation is first and foremost a way to fund the public services and social programmes that society has collectively chosen to give itself. This means that tax levels and the tax burden can't be weighed in isolation from the public goods and services that taxes enable the public to obtain. What the CSN defends is not the tax burden *per se*, but rather the integrity of the public services and social programmes that taxation makes possible. For instance, Canadians and Québécois have given themselves a public health-care system that, contrary to the situation in the United States, is accessible for the entire population, and this necessarily has an impact on tax levels. The same is true in post-secondary education which, despite rising tuition in recent years, remains more affordable in Canada than in the United States because of government funding. These two examples – and there are many more that could be cited – illustrate that the tax burden depends above all on the social needs that the population democratically decides to meet collectively, through the State. In the context of a federal structure like Canada, having services and programmes that correspond to the needs of the population also implies the existence of mechanisms for financial or fiscal transfers that enable the provinces to meet their constitutional spending responsibilities on their own.

In the debate on taxation, concerns about incentives stemming from the tax structure all too often override the ultimate reason for taxes, which is to provide adequate funding for public services and social programmes. Of course the tax system's impact on work, investment and savings must be taken into consideration, but meeting the needs expressed by the population is still the main purpose of taxation; and to do so, government must be able to afford what needs to be done. Canadians and Québécois still believe that government intervention in various fields (health care, education, income support, etc.) is necessary in order to make values of social justice and equal opportunities a reality in Canada. Indeed, governments, and notably the federal government, are dishonest in constantly presenting Canada's tax levels as a handicap, since in return for the tax burden, Canada has public services and social programmes that are superior to what exist in certain other countries like the United States, for example. Thus, despite overall taxation that is higher in Canada than in the United States, a CSN study using data from Runzheimer Canada showed that the overall cost of living for Canadian households was systematically lower than for U.S. households, notably because health care, post-secondary education, child care, public transit and so on all cost less.[1] The study also showed that the overall cost of living was lower in Québec than in Ontario or British Columbia. And corporations benefit from the existence in Canada of a universal public health-care system that means they pay less for their employees' medical insurance here than they do in the United States.

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1 *Analyse du coût de la vie des ménages: comparaison entre Montréal et d'autres villes nord-américaines*, Confédération des syndicats nationaux (CSN), January 10, 2005.

As well, international data show that even in a context of globalization, there is social consensus in various quarters on desirable levels of total tax burdens, or the size and extent of government's role in society, which amounts to the same. For 2004, the OECD reported that the total tax burden in Canada corresponded to 33.5% of the GDP. This was lower than the average for OECD countries (35.9%) and Europe (38.3%), but higher than for the United States (25.5 %)[2] and Pacific OECD countries (29.4 %). So Canada still has significant leeway for setting aggregate taxation levels that meet the needs of Canadians and Québécois.

Taxes and transfers: a way to reduce inequality in household incomes

Another major objective for the tax and transfer system is to reduce income inequalities. The reduction of market income inequalities is an important factor of solidarity and social cohesion. (Market income is income generated by the economy before taxes and transfers.) Since 1989 there has, unfortunately, been growing inequality in the distribution of household income after taxes and transfers. A recent study by Statistics Canada showed that from 1989 to 2004, redistribution as a result of the tax-transfer system only offset very partially the growing inequality in market income.[3] In contrast, from 1979 to 1989 the tax-transfer system had more than compensated for growing inequalities in market income, thus helping to reduce household income inequality for that period. Since 1989, then, household income inequality has been aggravated, a trend that government policy has done nothing to stop (the Gini coefficient[4] for after-tax household income went from 0.277 in 1989 to 0.315 in 2004).

Other indicators point to growing income inequality in Canada in recent years. From 1989 to 2004, the average after-tax income in the bottom 10% of families dropped by 8%, while the average income of the top 10% rose by 24% (the absolute spread in after-tax income between the lowest and highest 10% went from $110,000 in 1995 to $147,000 in 2004).Furthermore, the proportion of households whose after-tax income lies between 75% and 150% of the median after-tax income dropped from 52.1% in 1989 to 47.3 in 2004, which indicates a polarization of incomes and a shrinking middle class.

Some measures taken by the federal government have had the effect of accentuating a more unequal distribution of incomes stemming from free market forces. This is the case, for example, with lower tax levels and less progressive taxation of personal income, the growing non-inclusion of capital income in taxation, reforms that have limited access to employment insurance and the elimination of POWA (Programme for Older Worker Adjustment). Provincial governments, notably in Québec, have also made personal taxation less progressive during the same period while tightening up access to income security programmes.

According to Statistics Canada, it is clear that without an increase in the income tax paid by high-income households and an increase in government transfers to low-income households, the growing inequality observed in the distribution of market incomes will continue to be

[2] Tax revenue as a proportion of the GDP went up to 26.8% in 2005, however, while remaining stable at 33.5% in Canada.

[3] HEISZ, Andrew. *Income inequality and redistribution in Canada: 1976 to 2004*, no. 11F0019MIE20077298, Statistics Canada, May 2007.

[4] The Gini coefficient ranges from 0 to 1, with 0 corresponding to perfect equality in income distribution and 1 to perfect inequality in income distribution. The Gini coefficient is the indicator most commonly used to measure income inequality.

reflected in a growing inequality in household income after taxes and transfers. The CSN considers that the Canadian government, in conjunction with provincial governments, must design a tax-transfer system that will have the short-term effect of limiting growing income inequality. In the longer term, social justice demands that income inequalities among households be reduced to a minimum. The CSN does not believe that sustainable economic growth and social development can be based on growing inequality.

Restoring fiscal balance: for respect for Québec's jurisdiction

A fair and effective functioning of the Canadian federation implies that each level of government dispose of the budget revenue needed to meet its constitutional spending responsibilities. For ten years, the Chrétien and Martin governments ignored this requirement in order to put federal public finances on a sound footing and encroach on certain provincial jurisdictions that were deemed strategic. The result was a major vertical imbalance between the federal government and the provinces, including Québec. To cite Thomas J. Courchesne: *"…Ottawa succeeded in putting its own fiscal house in order by "downloading" a major part of the deficit to the provinces, i.e., by creating a vertical fiscal imbalance in the federation."* [5]

The election of a Conservative government at the beginning of 2006 was thus seen as an opportunity to return to a federalism that was more respectful of the provinces' constitutional jurisdictions, especially since in a speech given in Québec City on December 19, 2005, Stephen Harper pledged to resolve the fiscal imbalance. With their first budget, the Conservatives presented a general plan that was supposed to lead to renewed fiscal balance between the central government and the provinces. But it was with the 2007-2008 budget that the Conservative government finally showed its hand on the issue of fiscal imbalance. Although the solution proposed by the Conservative government is certainly an improvement for the provinces, it is only partial and is not enough. The new transfers in the form of equalization payments and social programmes amount to much less than the $3.9 billion annually that is the consensus in Québec. It is also less than the amount demanded by the Council of the Federation's Advisory Panel on Fiscal Imbalance, not to mention the demands of the Québec Commission on Fiscal Imbalance (the Séguin Commission). For the next two years, the Québec government will only receive $2.479 billion more. Contrary to what Finance Minister Flaherty has said, it's not all done: the solution proposed in the budget does not restore fiscal balance in the federation even if some progress has been made. From the CSN's viewpoint, the solution proposed by the Harper government has a number of weaknesses, in addition to being unsatisfactory in financial terms:

- The solution adopted by the federal government ignores the fiscal transfer solution proposed by the Séguin Commission, which is the only solution that can solve the fiscal imbalance once and for all and give the Québec government genuine autonomy in its fields of jurisdiction.

[5] COURCHESNE, Thomas J. *Balanced Budgets: A Canadian Fiscal Value*, Queen's University, February 2006. Courchesne is a professor of political economy at Queen's University in Kingston, Ontario. He is also a senior fellow with the Institute for Research on Public Policy (IRPP) in Montréal. He is well known for his work on fiscal federalism.

- The additional financial transfers in the 2007 budget confirm Québec's dependence on the federal government for both the design and the funding of social programmes, since the Harper government continues to impose national standards in a number of areas in return for financial transfers, despite a professed stance that is less centralist. Like the previous government, the Conservative government continues to impose conditions for obtaining federal funding, notably through the use of trust funds. For example, the budget allocates $612 million for the Patient Wait Times Guarantee Trust Funds. In doing so, the federal government compromises the decision-making and budget autonomy of the provinces and Québec.

- Not only are the additional financial transfers to Québec insufficient, but they come largely from the equalization programme, which is hardly progress in terms of Québec's autonomy. It is rather incredible that the crux of the proposed solution to the fiscal imbalance between Ottawa and Québec is more equalization, which is a programme whose objective is to reduce the horizontal fiscal imbalance (among the provinces).

- When it comes to solving the real problem, namely the vertical fiscal imbalance (between Ottawa and the provinces), Québec hasn't obtained much:

    - There is no additional funding for the Canada Health Transfer (CHT), even though the pressure caused by public spending on health care and social services is the main source of fiscal imbalance. The central government has no intention of adding to the transfers provided by the fall 2004 federal-provincial agreement except for the funds dedicated to wait-time guarantees in health care.

    - For the Canada Social Transfer (CST), Québec receives only $7 million more in 2007-2008 and $254 million en 2008-2009. This latter amount includes $188 million for post-secondary education – a paltry amount in light of the reinvestment that the Summit of the Council of the Federation on post-secondary education called for in February 2006.[6] In post-secondary education, the federal government has increased direct spending and interference through its knowledge economy programmes instead of contributing adequately to funding for provincial education systems.

    - Improvements to the CST also include $58.7 million for childcare services, which is fairly minimal given the previous government's undertakings to hand over $240 million.

- In short, it is false to claim that fiscal balance has been restored in the federation The proof is that despite the solution to the fiscal imbalance proposed in the budget, the federal government still has an appreciable capacity to increase its own spending (too often in fields of provincial jurisdiction), reduce taxes, devote significant amounts to paying down the public debt – all measures that indicate much more leeway than the provinces have, except for Alberta. Furthermore, as has been the case for years, the federal government's budget surpluses proved to be higher than what had been budgeted: for the period from April to June 2007, the budget surplus was already $6.4 billion instead of the $0.3 billion surplus forecast for the entire 2007-2008 budget year.

6 I.e., reinvestment of $4.9 billion for Canada as a whole, and $1.2 billion for Québec.

Despite the O'Neill report, the federal government's budget framework is still designed to generate systematic budget surpluses at the end of the fiscal year, which has the notable effect of allowing the government to put large amounts towards repaying the public debt without having to account to the House of Commons for how the surpluses are used. After condemning this practice when the federal Liberals did it, the Conservatives are now demonstrating the same lack of transparency.

- Finally, there is still not any mechanism to limit federal spending power in fields of provincial jurisdiction. If the federal link is maintained, then Québec should have the right to opt out with full compensation when the federal government chooses to encroach on its fields of jurisdiction. This principle makes it possible to reconcile the use of federal spending power where provinces don't object with respect for Québec's constitutional jurisdictions.

How should individuals and corporations be taxed?

The tax system has to balance a number of objectives; some of the most important of these were mentioned in the first section. To achieve these objectives, government must first decide how the tax burden will be distributed between corporations and individuals before deciding on the distribution of the tax burden within each of the two groups of taxpayers. Given the many types of taxes and charges that are possible, plus historical and ideological preferences, each country's tax system is configured more or less uniquely. Thus governments, including the Canadian government, have considerable leeway in setting the aggregate level of the tax bite and structuring the tax-transfer system. The chart appended to this brief illustrates the diversity of choices made by the various OECD countries.

In recent years, Canadian governments, including the federal government, have implemented numerous tax cuts with a view to making the economy more competitive and in particular stimulating productivity. These changes have modified the tax structure by reducing the use of taxes deemed less favourable to economic growth (corporate income tax and capital tax in the case of companies, and income tax and goods and services tax for individuals). As a result, the federal government's budget revenue is projected to correspond to 15.8% of the GDP in 2007-2008, compared to 18.4% in 1991-1992.

It should be noted that the decline in the size of the tax-transfer system as a proportion of the GDP stems directly from the Canadian government's espousal of neo-liberal economic tenets, which hold that too large a tax burden and well-developed social programmes necessarily reduce growth in the GDP. This ideology is promoted by many international institutions like the OECD and the IMF, which regularly call for Canada to liberalize all its markets and cut taxes, without regard for public services and social programmes. Yet even in the realm of economics, serious studies show that the existence of well-developed social programmes and the taxes needed to fund them does not carry a cost in terms of reduced economic growth or productivity.[7] In other words, social democracy is not incompatible with growth in the GDP and productivity, as Scandinavian countries have shown for years. As Peter H. Lindert has put it, *"It is well known that higher taxes and transfers reduce productivity. Well known – but unsupported by statistics and history.… A bigger tax bite to finance social spending does not*

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7 LINDERT, Peter H. *Growing Public*, Cambridge University Press, 2004.

correlate negatively with either the level or the growth of GDP per capita." [8] The Canadian government would do well to draw on his studies, since as public opinion polls have repeatedly shown, Canadians and Québécois want to live in a society whose social cohesion is ensured by accessible public services and quality social programmes.

After these remarks, here are some comments on what we think should be done with taxation in Canada.

Distribution of the tax burden between individuals and corporations

Tax experts and economists specialized in public finances often say that in reality, only individuals pay taxes since corporations (which are corporate entities) can transfer the impact of their legal tax burdens to other economic players – to workers, for example, through slower growth in wages, or consumers through higher prices. So some observers consider that taxing individuals only would improve economic efficiency, with net corporate revenue being taxed through income tax on shareholders' income. There are a number of arguments that contradict this simplistic view of matters:

- Corporations, and in particular large corporations, are distinct entities from shareholders, with the latter having relatively little control over senior corporate managers. So taxing shareholders can't be equated with taxing corporations.

- Corporations benefit from numerous goods and services delivered by government: infrastructure, labour force training and education and health and social services systems. As well, government is often called upon to use public funds to compensate for negative externalities inherent in production processes (pollution is one example of a negative externality). So corporations should pay for these services, just as individuals do.

- If corporations weren't taxed, much of the net revenue generated by the corporate sector would go directly to foreign owners without any taxes being paid to the federal or provincial governments, since there is a lot of direct foreign investment in Canada (in fact, the trend towards foreign groups acquiring Canadian companies has gathered steam recently).

- Corporate taxation is one of the mechanisms that governments use to recover the economic return to corporations exploiting natural resources and other companies that have received government privileges.

- One of the classic arguments used to justify the existence of corporate income tax is that it protects the integrity of the personal income tax system. If there was no corporate income tax, shareholders could deliberately choose to let their revenue accumulate within the corporation and thus reduce the tax they pay as individuals.

Other arguments could be cited, but the ones just mentioned suffice to illustrate the need for corporations to contribute to governments' budget revenue. In past decades, the share of

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[8] Peter H. Lindert teaches economics at the University of California - Davis and is a research associate with the *National Bureau of Economic Research.*

corporate taxes in government tax revenue has declined, dropping from 28.6% in 1950 to 21.4% in 1965 ad 15.6% in 2004. In 1950, corporate income taxes paid to the federal government amounted to 4.3% of the GDP; the corresponding figure for 2004 was 2.39%. In 2004, corporate income taxes paid to the two levels of government were equal to 3.49% of the GDP.[9]

Corporate taxation

Many organizations (employer associations, the OECD and the IMF, not to mention think tanks like the C.D. Howe Institute) are currently pressuring Canada to reduce the corporate tax burden. According to them, weak growth in Canada's productivity and intensified international competition make tax cuts necessary.[10]

Although corporate taxation is unquestionably one of the factors that determine the competitiveness of the Canadian economy, it is still only one of a number of factors. To be convinced, all it takes is a look at the work done by organizations that produce comparative studies of countries' competitiveness, such as the Institute for Management Development (IMD)[11] or the World Economic Forum (WEF).[12] Both of these organizations take into consideration a wide range of factors to rank countries on the basis of their competitiveness. Along with taxation, they consider factors as diverse as the quality of corporate management, the effectiveness of higher education and job training, public health, the condition of infrastructure, macroeconomic policy, the capacity for innovation, labour market institutions, the degree of competition in commodity markets and many others. So taxation, in particular corporate taxation, is just one of the determinants of country's competitiveness. The WEF global competitiveness index ranked Canada 16th our of 125 countries in 2006, while the IMD global competitiveness index placed it 7th out of 61 countries and regions compared in 2006. Although such classifications are always somewhat arbitrary, these rankings do provide an encouraging picture of Canada's competitive level, in contrast to perceptions based exclusively on disappointing productivity trends.

Furthermore, the insistence of employer associations and international organizations on recommending lower corporate taxes as a way of accelerating growth in productivity and the GDP seem excessive. Canada's performance with regard to economic growth was excellent on average compared to that of many advanced economies in recent years. The IMF estimates that Canada's real GDP grew at an average rate of 3.2% for the period from 1999 to 2008 (projections were used for 2007 and 2008). This is a higher rate of growth than the average observed over the same period for European countries (2.1%), Great Britain (2.7%), Japan (1.6%), Sweden (3.1%), Norway (2.6%) or the United States (2.8%). Countries like Australia and New Zealand are on a par with Canada. From 2003 to 2006, Canada's economic growth lagged behind that of the United States, but the IMF is predicting slightly higher growth for Canada in 2007 and 2008. On the whole, growth in Canada's real GDP for the past decade was one of the best among Western industrial countries, during a period when the corporate tax burden was higher than it is now (budgets in recent years have brought in a number of

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9 *Revenue Statistics 1965–2005*, OECD, 2006, p. 232, and *Fiscal History of Canada*, Canadian Tax Foundation, 1989, pp. 8 and 123.

10 *Canada OECD Economic Studies*, June 2006, and *Canada: 2007 Article IV Consultation – Staff Report*, IMF, February 2007.

11 *IMD World Competitiveness Yearbook*, Institute for Management Development, Lausanne, Switzerland, 2006.

12 *The Global Competitiveness Report 2006-2007 – Creating an Improved Business Environment*, World Economic Forum, Geneva, Switzerland, 2006.

measures aimed at reducing corporate taxes). So corporate taxation levels have not hindered growth in the GDP.

We have to be prudent about the need to reduce the corporate tax burden in order to stimulate growth in productivity. A number of sources (Statistics Canada, OECD, IMF) confirm that growth in apparent labour productivity has been mediocre in Canada since 2000 compared with many industrialized countries, including the United States. In theory, the argument that a reduction in the tax burden would enable companies to invest more and thus spur growth in productivity seems plausible. But as we will see next, matters are not so simple, and expectations in this regard have to be qualified.

As has already been mentioned, a number of tax breaks have been introduced since 2000, coinciding with a deterioration in Canada's performance in terms of productivity. Clearly, these measures have not had any impact on productivity trends in Canada. Recently, the Conservative 2006 and 2007 budgets introduced measures that will lower the marginal effective tax rate (METR) on corporate investment from 34.0% to 28.6% by 2011. In addition, the projected elimination of provincial taxes on capital will reduce this rate to 27.3%, giving Canada the second lowest METR in G7 countries. Furthermore, if the provinces that have not yet harmonized their sales tax with the GST agree to do so, Canada's METR could drop to 21.1%. This would give Canada the lowest tax rate on investment among G7 countries by a wide margin in 2011.[13] All these measures are based on the premise that the main reason for poor productivity is insufficient investment, particularly in equipment and machinery. If this is so, the measures already announced should more than suffice to generate accelerated investment.

However, Statistics Canada recently released a study that comes to the surprising conclusion, in light of public debate on apparent labour productivity, that Canada's poor performance in this area compared to the United Sates for the 1996-2006 period is relatively unrelated to a lack of investment in Canada and not related at all to labour input, which corresponds to what we see in the United States. The principal cause of poor growth in productivity is more a matter of the evolution of multi-factor productivity (MFP), namely the efficiency with which various production factors (capital, labour, etc.) are associated to generate the GDP.[14] The nature of multi-factor productivity is poorly understood, but economists generally consider that it depends on factors such as technological progress and the organization of work. According to Statistics Canada, MFP was responsible for 92% of the unfavourable gap in apparent labour productivity between Canada and the United States for the period from 2000 to 2006. During this period, growth in apparent labour productivity was 1.9 percentage points lower in Canada, with the spread attributable to MFP being 1.8 percentage points. In other words, Canada's productivity problems are basically related to the quality of the interaction among various production factors rather than a lack of investment in physical and human capital. Given this, there is no guarantee that a reduction in the corporate tax burden would spur renewed growth in productivity even if it triggered accelerated investment, since the problem seems to lie elsewhere.

Indeed, for several years now corporations have benefited from favourable investment conditions. The Canada-U.S. exchange rate has favoured the acquisition of machinery and

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13 *Budget 2007 – Aspire to a stronger, safer, better Canada*, Government of Canada, p.255.

14 *Long-term productivity growth in Canada and the United States*, The Canadian Productivity Review , no. 15-206-XWE2007013, August 2007.

equipment by Canadian companies since 2003. Québec and other provinces have adopted tax measures aimed at stimulating investment – to no effect so far. Since the turn of the millennium, Canadian corporations have posted historically high levels of profits, particularly in comparison with the prevailing situation for U.S. companies. Despite all this, growth in investment remains weak in Canada, especially in manufacturing. It seems that Canadian companies are too busy investing in financial assets, buying back stock, engaging in direct investment abroad, carrying out mergers and acquisitions and paying outrageous compensation to senior executives. There is good reason to wonder what impact further reductions in corporate taxation would really have on investment.

Given what has just been said, and given the recommendations made by employer associations and certain international organizations like the OECD and the IMF, the CSN considers that:

- The government should not pursue recommendations calling for a standard reduction in tax levels for all industries. The government must continue to play a role in resource allocation in the economy, notably through taxation. Corporate taxation should be one of the Canadian government's preferred tools for implementing industrial policy. As such, it should be adapted to the specific characteristics of the various sectors of the economy.

- The tax structure should preserve lower tax rates for small and medium-sized businesses, which create the majority of jobs. The Department of Finance must, however, ensure that owners of businesses are taxed fairly on their employment income, so that the principle of horizontal equity with other high-income workers is respected.

- It may be useful to reform corporate taxation to make less use of taxes that are least favourable to job creation and investment, providing that such changes are revenue-neutral for the budget.

- Potential tax breaks should target companies that invest in physical or human capital, innovation or R&D.

Personal taxation

Individuals bear the brunt of the tax burden, paying income tax, goods and services tax, employment insurance premiums and contributions to the Canada Pension Plan. Personal income tax accounted for 25% of the federal government's tax revenue in 1950, 31% in 1965, 57.7% in 1995 and 49% in 2004. In 2004, personal income tax revenue was equal to 7.48% of the GDP, compared to 3.78% in 1950.

Consumption taxes accounted for 29.8% of the federal government's tax revenue in 1975, and 23.9% in 2004. They corresponded to 3.65% of the GDP in 2004. Employment insurance premiums and contributions to the Canada Pension Plan accounted for 2.5% of federal tax revenue in 1965, and 10.68% in 2004. They amounted to 1.56% of the GDP in 2004.[15]

These data show that personal income taxes are still the main source by far of federal government revenue. Because this revenue source accounts for such a large share of the

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15 *Revenue Statistics 1965-2005*, OECD, 2006, p. 232 and *Fiscal History of Canada*, Canadian Tax Foundation, 1989, pp. 8 and 123.

government's total tax revenue, it is crucial that it be a progressive form of taxation if we want the overall federal tax system to be progressive too (most other sources of government revenue are regressive or at best proportional).[16] Yet the progressivity of the tax system has been substantially eroded in the past two decades, first through the introduction of a less progressive structure of marginal tax rates for income brackets, and then by a reduction of the relative weight of personal income tax in the government's overall tax revenue. For the CSN, a tax system that is progressive on the whole is a major factor for solidarity and social cohesion. This means that personal income tax has to be progressive enough to offset the effect of other sources of government revenue.

A fair income tax system also requires that individuals be taxed on income from all sources, be it from work or from capital. Right now, capital income gets preferential treatment. For example, only 50% of capital gains are included in taxable income. Similarly, income that senior management derives from stock options is taxed at ridiculously low rates. Despite the recent and opportune introduction of a deduction for work-related expenses, it is still true that the possibilities available to workers for reducing the tax they pay bear no relation to the possibilities enjoyed by individuals declaring capital income (for example, as a way of supporting small business owners, the recent budget raised the cumulative capital gains exemption from $500,000 to $750,000). Ideally, the CSN would like to see tax authorities return to an application of the Haig-Simons principle, reiterated by the Carter Commission on taxation in Canada in the 1960s, according to which any net increase in an individual's purchasing power should be taxed, regardless of where it comes from. In light of the preceding comments, the CSN considers that:

- The federal government should stop reducing the tax income collected from individuals, since the federal government's services and programmes leave much to be desired in a number of areas and do not meet the needs clearly expressed by the populations of Canada and Québec – be it the federal contribution to provincial spending (health care and social services, post-secondary education, income security, child care), employment insurance, the Older Worker Adjustment Programme, social housing, Aboriginal communities, etc. Contrary to what the government thinks, the population realizes full well that repeated tax cuts lead to an erosion of public services and social programmes, and surveys show that people are opposed to this trend. As well, the government's strategy of paying down the debt contributes actively to the under-funding of programme spending.

- It is possible for Canada to establish a tax system that makes it possible to fund well-developed public services and generous social programmes, as the Scandinavian countries, for example, have done, without harming economic growth. This does not rule out companies making a reasonable contribution to the funding of government activities. This said, though, it is clear that the funding for social democracy must come mainly from individuals. This kind of blueprint for society also implies that government promote values of social justice and equal opportunities.

- The government should not pursue proposals that call for higher consumption taxes and lower personal income taxes as a way of stimulating savings and investment. Taxes on

[16] A tax is progressive when the personal tax rate goes up as personal income increases. A tax is regressive when the tax rate goes down as individual revenue increases. Finally, a proportional tax levies the tax at the same rate for all individuals, regardless of their level of income.

consumption are generally regressive. Furthermore, personal income tax in Canada already has the characteristics of a consumption tax. The Canadian tax system already exempts a large part of most taxpayers' savings (RRSP and RPP deductions, non-inclusion of capital gains on the principal residence, etc.). The advantage of taxing consumption through income taxes is that it can then be done progressively.[17] The government should not, however, go any further in this direction, since the possibility of deducting other forms of savings would only benefit high-income taxpayers, thereby increasing after-tax income inequality in Canada; and we have already seen that this has increased since 1989.

- A stand-alone employment insurance fund must be created that would be separate from government accounting, to avoid having the government dip into the fund for other purposes. In 2005, Stephen Harper's Conservatives supported Bill C-280, introduced by the Bloc Québécois precisely to create such a separate employment insurance fund. Today, they must show workers that their support wasn't merely political opportunism.

- The division of tax revenue should be reviewed to favour the provinces, and in particular Québec, so that they recover genuine autonomy in their fields of jurisdiction. The fiscal transfer solution proposed by the Séguin Commission to put an end to fiscal imbalance is still relevant, despite the partial solution to this problem in the Conservative government's 2007-2008 budget.

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17 KESSELMAN, Jonathan R. and CHUNG, Ron, *Tax Incidence, Progressivity, and Inequality in Canada*, Canadian Tax Journal, vol. 52, no. 3, 2004.

APPENDIX

Table A. Total tax revenue as percentage of GDP

	1975	1985	1990	1995	2000	2003	2004	2005 provisional
Canada	32.0	32.5	35.9	35.6	35.6	33.6	33.5	33.5
Mexico		17.0	17.3	16.7	18.5	19.0	19.0	19.8[3]
United States	25.6	25.6	27.3	27.9	29.9	25.7	25.5	26.8
Australia	25.8	28.2	28.5	28.8	31.1	30.7	31.2	n.a.
Japan	20.9	27.4	29.1	26.9	27.1	25.7	26.4	n.a.
Korea	15.1	16.4	18.9	19.4	23.6	25.3	24.6	25.6
New Zealand	28.5	31.1	37.4	36.6	33.6	34.4	35.6	36.6
Austria	36.7	40.9	39.6	41.1	42.6	42.9	42.6	41.9
Belgium	39.5	44.4	42.0	43.6	44.9	44.7	45.0	45.4
Czech Republic				37.5	36.0	37.6	38.4	38.5
Denmark[1]	39.3	46.5	46.5	48.8	49.4	47.7	48.8	49.7
Finland	36.7	39.9	43.9	45.6	47.7	44.6	44.2	44.5
France[1]	35.5	42.4	42.2	42.9	44.4	43.1	43.4	44.3
Germany[2]	35.3	37.2	35.7	37.2	37.2	35.5	34.7	34.7
Greece	21.3	28.0	28.7	31.7	37.3	36.3	35.0	n.a.
Hungary				42.1	38.7	38.1	38.1	37.1
Iceland	30.0	28.2	31.0	31.2	38.3	37.8	38.7	42.4
Ireland	28.7	34.6	33.1	32.5	31.7	28.7	30.1	30.5
Italy	25.4	33.6	37.8	40.1	42.3	41.8	41.1	41.0
Luxembourg	32.8	39.5	35.7	37.0	39.1	38.2	37.8	37.6
Netherlands	39.6	41.0	41.1	40.2	39.5	37.0	37.5	n.a.
Norway[1]	39.3	43.0	41.5	41.1	43.0	42.9	44.0	45.0
Poland				37.0	32.5	34.9	34.4	n.a.
Portugal	19.7	25.2	27.7	31.7	34.1	35.0	34.5	n.a.
Slovak Republic[1]					33.1	31.2	30.3	29.4
Spain[1]	18.4	27.2	32.5	32.1	34.2	34.3	34.8	35.8
Sweden	41.6	47.8	52.7	48.1	53.4	50.1	50.4	51.1
Switzerland	24.5	26.1	26.0	27.8	30.5	29.4	29.2	30.0
Turkey	16.0	15.4	20.0	22.6	32.3	32.8	31.3	32.3
United Kingdom	35.3	37.7	36.5	35.0	37.2	35.4	36.0	37.2
Unweighted average:								
OECD total	29.7	32.9	34.2	35.1	36.6	35.8	35.9	n.a.
OECD America	28.8	25.0	26.8	26.7	28.0	26.1	26.0	26.7
OECD Pacific	22.6	25.8	28.5	27.9	28.8	29.0	29.4	n.a.
OECD Europe	31.3	35.7	36.5	37.6	39.1	38.3	38.3	n.a.
EU19	32.4	37.7	38.4	39.1	39.8	38.8	38.8	n.a.
EU15	32.4	37.7	38.4	39.2	41.0	39.7	39.7	n.a.

n.a.: Indicates not available.

Note: EU15 area countries are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal , Spain, Sweden and United Kingdom.

EU19 area countries are: EU15 countries plus Czech Republic, Hungary, Poland and Slovak Republic.

1. The total tax revenue has been reduced by the amount of the capital transfer that represents uncollected taxes.
2. Unified Germany beginning in 1991. Starting 2001, Germany has revised its treatment of non-wastable tax credits in the reporting of revenues to bring it into line with the OECD guidelines. The impact of this change is shown in Table D in Part I of this report.
3. Secretariat estimate, including expected revenues collected by state and local governments.

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