

Opinion: 'Anti-tax' accusation based on silly and simplistic arguments

BY MARK MILKE AND CHARLES LAMMAM, SPECIAL TO THE VANCOUVER SUN MARCH 16, 2015



Taxpayers receive the best bang for their buck in terms of economic and social outcomes when total government spending is about 30 per cent of the economy, according to research referred to by Mark Milke and Charles Lammam of the Fraser Institute.

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In a recent column about the Metro Vancouver transit plebiscite, Sun columnist Daphne Bramham complained about business leaders who talked “way more about cutting taxes for poor beleaguered taxpayers for the past 30 years than they have about the valuable services tax money provides.”

Bramham blamed so-called “anti-tax” groups such as the Fraser Institute for helping drive this worrying trend. This is silly and simplistic. Let us explain.

Taxes are indeed needed to fund important government services, critical both to a well-functioning economy and more generally, civilization. But there is a point when a larger, more interventionist government, combined with a heavier tax burden, can stunt economic growth and social outcomes, or achieve those outcomes only at great additional cost.

For instance, government spending becomes unproductive when it goes to such things as corporate subsidies and overly generous wages and benefits for government employees. In these cases, regular people do not see tangible benefits from the additional spending.

The real issues are: what's the right size of government and mix of taxes to fund it? The answers hinge on a proper understanding of what government can and should do, and what it should avoid.

Research shows that taxpayers get the best bang for their buck (in terms of economic and social

outcomes) when total government spending is around 30 per cent of the economy. In Canada, total government spending is now 41 per cent, down from about 53 per cent in 1992, but still higher than what is optimal.

That means there's room to scale back. When governments faced major fiscal problems in the 1990s, they responded with sweeping action to cut spending and reform programs, leading to a major structural change in the government's involvement in the Canadian economy. The reforms created room for important tax reductions and ultimately helped usher in a period of sustained economic growth and job creation.

So it's not surprising Bramham and others feel that the public discourse since the 1990s has focused primarily on tax reductions and ensuring the correct tax mix. The reforms worked.

Still, the average Canadian family currently pays 42 per cent of its income in taxes. That's more than they pay for basic necessities like food, clothing and shelter combined.

Bramham also simplistically equates higher taxes with better government services. While that assertion is unsupported by the evidence, it also under-estimates how special interest groups often capture higher taxes for their benefit.

For example, in British Columbia, government worker wages are, on average, 6.7 per cent higher than wages of comparable private sector workers (after accounting for education, length of time in the workforce, type of job, and other relevant factors).

That wage premium, which does not include the more generous non-wage benefits (pensions, earlier retirement, job security) that the government sector also likely enjoys, means less tax money is available for transit, health care and education.

You can point out that governments and taxes are necessary — taxes are the price we pay for civilization, as the cliché goes, without making the simplistic error that ever-higher taxes equals evermore civilization. Taxes don't always buy more services; they often buy more costly government. The two are not the same.

The mix of taxes is also important. All taxes are not equal since some impose much greater economic damage than others. Consider the now infamous HST debate in B.C. Fraser Institute researchers played a prominent role in noting the benefits of the now-defunct tax relative to the PST/GST system it replaced. Anti-tax zealots certainly would not have taken such a position.

Voters in the plebiscite, which proposes a regional PST hike to fund transit expansion, should understand the economic problems associated with this particular type of tax that discourages investment and job creation.

Last, and perhaps most important, it's not even clear that governments in Metro Vancouver need the extra revenue. Municipal governments would do well to more heavily scrutinize their spending choices before requiring Metro Vancouverites to pay higher taxes, simplistic arguments notwithstanding.

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