

THE NATION

G.M.
Jan 21
2000



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Experimenting in Alberta

Starting in 2001, provincial income tax in Alberta will be calculated not as a percentage of federal tax payable, but as 11 per cent of taxable income above the personal exemption of about \$11,000. There will thus be one rate for all, rather than an escalating set of rates as in the federal income tax. It will still be true that, the more you earn, the more you pay (11 per cent of \$100,000 is five times as much as 11 per cent of \$20,000); but you will no longer pay a proportionally higher tax simply because you earn more.

Because the government is lowering the total amount to be collected, everyone will get a tax reduction of some sort. Because of the generous personal exemption, more Albertans will pay no provincial income tax at all. And the single rate should remedy the work disincentive that higher-income people face under graduated taxation, because the government will no longer take a rising proportion of additional earnings.

The single-rate tax also strikes a potentially mortal blow at the redistributive psychology of the welfare state. The system of graduated or "progressive" taxation encourages taxpayers to demand government programs and services in the belief that the rich, who face higher marginal tax rates, will pay most of the cost. Progressive taxation fosters a predatory mentality in which voting majorities coalesce to impose higher tax burdens on the numerically outnumbered well-to-do.

Indeed, the rich do pay. The top 5 per cent of Canadian tax filers pay 35 per cent of all income tax, and the top 12 per cent pay 57 per cent. But there is no limit to what people desire when they think someone else is buying, so the political demand for government programs grows until the burden of high taxes extends throughout the society. The "rich" who were to be made to pay turn out to include everyone who has a job.

Over time, a flat-rate tax system will encourage a more realistic attitude toward government programs. Those demanding additional services will learn that each additional percentage point of governmental expenditure requires a proportional contribution from all taxpayers.

There remains plenty of room for a well-funded public sector. Those who want government to build highways or operate schools can vote to that effect, knowing that they, like all other taxpayers, will pay the same additional share of their income for additional services.

There is also room for compassion. There is nothing to stop the tax-paying majority from agreeing to exempt a low-income minority from that burden. Indeed, such compassion characterizes the Alberta experiment, which will have a higher personal exemption than the current federal system. Contrast this to the parody of compassion under progressive taxation, in which members of the majority vote to tax other people more heavily to help third parties.

We need to rip away the veil of hypocrisy from the ugly face of Canada's much-vaunted compassion. Compassion means devoting your own time and money to help the less fortunate; it does not mean giving away other people's money. Moreover, the bogus compassion of the welfare state camouflages the greed of those who vote for income transfers to enrich themselves, without pretending to help the less fortunate.

Alberta's experiment in tax reform is a major step toward recovering the proper rationale of government, which is to protect the rights and property of all, not to engage in coercive redistribution. Will it have as much influence in the rest of Canada as did Alberta's earlier embrace of balanced budgets and debt reduction? Perhaps, but it will be a longer and more difficult struggle, because the Canadian liberals and social democrats who came to appreciate the necessity of fiscal responsibility still believe in the virtue of the redistributive state.

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