

Wealthy go AWOL in deficit fight

Tor Star Tue Sep 7 2010, By [Linda McQuaig](#)

Ever since the 2008 financial crisis, Canadian banks have enjoyed almost heroic stature for not being like those bad Wall Street banks that collapsed, triggering a global recession.

Certainly there's been no talk of imposing higher taxes on Canadian banks, to make them help pay for the huge government deficits brought on by the financial crisis and resulting recession.

That wouldn't be fair, since our banks — unlike the Wall Street banks — played no role in bringing about the financial crisis.

But why doesn't that logic apply to other groups who also played no role in bringing about the financial crisis?

Specifically, why doesn't it apply to Ontario's public sector workers, who certainly did nothing to provoke the financial crisis, but who are being singled out to play a particularly large role in deficit reduction.

Under Ontario's two-year public sector pay freeze, for instance, a nursing home worker earning \$25,000 a year would give up a hefty \$1,000 annually, says Erin Weir, an economist with the United Steelworkers union.

Ontario argues that its huge deficit leaves it no choice but to cut public sector pay.

But that doesn't explain why, at the same time, it is cutting corporate taxes, making the deficit even bigger. This summer, the provincial corporate tax rate was reduced from 14 to 12 per cent, and it will be cut to 10 per cent by 2013, draining \$2.4 billion annually from the provincial treasury.

Perhaps these tax cuts are necessary to stimulate the sagging economy?

But there's little evidence they do this. Certainly, there's no requirement that the tax savings be invested in Ontario.

Indeed, even before the recession, corporations were consistently investing much less than they reaped in profits, says Weir. Now, with significant idle capacity in Ontario, there is even less incentive for corporations to invest.

Nor is there any evidence that our corporate tax rates are uncompetitive. A recent study by consulting firm KPMG confirmed that Ontario's corporate tax rates — even before the cut — were lower than comparable U.S. jurisdictions.

As for the heroism of our banks, it's true that Bay Street didn't indulge in as much reckless financial speculation as Wall Street did — but not for lack of trying.

Canada's financial sector had been pushing for looser rules that would have allowed Canadian banks to operate like those on Wall Street.

A 2007 paper from the [C.D. Howe Institute](#), a Bay Street-funded think-tank, argued for Canadian banks being permitted to deal in “credit risk derivatives, loan syndication and especially securitizing asset positions” — the now-notorious menu of financial practices that wreaked havoc on Wall Street.

But rather than being asked now to contribute to deficit reduction — along with public sector workers — the financial sector stands to be the single largest beneficiary of the province's corporate tax cuts, saving roughly \$500 million in taxes this year.

In fact, the public sector pay cuts, which might save the province an estimated \$1.7 billion annually, won't really reduce the deficit at all. They'll help pay for the corporate tax cuts.

In other words, that \$1,000 taken away from the struggling nursing home worker earning \$25,000 a year isn't really going toward deficit reduction. It's going into reducing the taxes of some of our richest banks and corporations.

No doubt, there are highly paid economists out there who can explain why this policy is sensible.

Linda McQuaig's column appears every other week. lmcquaig@sympatico.ca