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Kinder, gentler Conservatives

Heading into a tight fall election campaign, the governing Tories need to embrace policies that show they care, while remaining true blue. Many Canadians feel left out of the vaunted prosperity they are told to look for all around them. Stanley Hartt has the prescription for Harper.

Stanley Hartt

As political documents go, the April 21, 2015 pre-election federal budget nailed it. Not so many years ago, budgets were financial plans, and Ministers got in trouble if their contents leaked. Nowadays, the trial balloons and flags run up the flagpole have taken over the news cycle in the lead up to the actual budget speech and there were few real surprises.

Even in the face of dramatically reduced revenues from the oil patch, the Minister of Finance was able to conjure up the promised balance between revenues and expenditures. That was important symbolically, because it fulfilled a promise and allowed the governing Conservatives to proclaim, with justification, that they represented sound fiscal management. This boast was not

frivolous: it marked the formal end to the enormous stimulus consciously injected into the economy during the global financial crisis, (which produced the largest deficit in Canadian history), and underlined the government's contention that, while preserving functionality in credit markets, the temporary intervention had avoided building in long-term structural distortions.

The trick was to do all of the above while still having sufficient resources to add to the baubles dangling from the Conservative Christmas tree in the form of tax expenditures aimed at the core constituency of their voters. The government has long defined itself as appealing to the classic "hard-working" Canadian family of husband, wife, and children. Tax credits or cheques for children's

fitness or participation in the arts, for using public transportation, for the costs of child care, for student textbooks, for serving as a volunteer firefighter, and dozens of other targeted measures have permitted the government to trumpet that it has introduced more than 180 tax relief measures at last count.

Budget 2015 was no exception. The Tax Free Savings Account annual contribution limit was increased to \$10,000. The minimum annual withdrawal from a Registered Retirement Income Fund was eased. The Universal Child Care Benefit and the Child Care Expense Deduction were enhanced. But the most-anticipated tax reduction of all, the Family Tax Cut, (known

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colloquially as “income splitting”), which permits couples to shift up to \$50,000 in income from a high earner to their lower-earning spouse, was introduced, although, in order to avoid the accusation that this is a plum for the rich, savings from this measure are limited to \$2000.

The problem, however, is not that these measures, individually or collectively, are in fact regressive, offering proportionally larger advantages to higher income earners. The opposite is actually true. The risk, rather, is that thousands of individuals of potentially conservative bent may not recognize themselves in the list of favoured activities targeted by the various Tory tax incentives, and may even feel left out of the vaunted prosperity they are told to look for all around them.

The government crows that its sound economic management has resulted in “solid performance, [with] over 1.2 million more Canadians ... working now than at the end of the recession in June 2009 – one of the strongest job creation records in the G-7 over this period [and that] the majority of these net new jobs have

been full-time positions in high-wage, private-sector industries”.

But senior workers, too old to employ yet too young to retire, and laid off highly-paid manufacturing workers or white collar executive level and clerical employees are living with a shrinking world of opportunity. They live off short-term, contract assignments which they find it harder and harder to obtain; they face increasingly thinner opportunities to earn a living; they are anxious about their futures in a world where our retirement savings regime is fractured into a hodgepodge of plans and programs, public and private. They feel left out by the rhetoric. But these folks do not show up in unemployment statistics and know that they are not included in the pretty little picture of middle-class prosperity.

Then there are the younger voters, just starting out in their working lives, who sense that the lifestyle available to their parents from career choice, advancement, income appreciation, and a rising standard of living will all be harder to come by in an age of underemployment, part-time, temporary jobs, and an absence of correlation between educational achievement and the behaviour of the labour market.

We know that governments are careful not to claim to be the source of employment growth, that jobs are actually created by the private sector. Governments usually acknowledge that their role is limited to creating the environment in which risk-takers will invest, build enterprises, and employ people.

But if the recent Alberta election is any indication, people upset by the perception that the government is not “doing” enough to alleviate hardship will turn a government out. The falling oil price was certainly not something the PC government of Alberta could have done a whole lot to prevent. The consequences in terms of mass lay-offs, inability to meet mortgage or car loan payments, and other financial pressure led to an unprecedented turn to the left and a majority NDP government. To be fair, Premier Jim Prentice helped this phenomenon along by arranging the defections from the Wild Rose Party, the too-tough by half austerity budget, and some loose-lipped quotable quotes.

So, as the October federal election shapes up as a battle among the three major parties all claiming to advance the interests of the “middle class”, some recognition of the burdens many face would be a good idea. Not statements of the “I feel your pain”, or “Message – I care” kind that contributed to the defeat of President George H. W. Bush at the hands of Bill Clinton, but some acknowledgement of the lot of these other “hard-working” Canadians would be in order.

No electoral strategist would advise the Prime Minister to



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dismantle the system of much-beloved targeted tax measures on which the Conservatives have built their appeal to a strong swath of the Canadian middle, certainly not before an election. But it would not be inconsistent with Conservative philosophy to grasp that:

- one really good way to boost investment and employment is to lower the marginal tax rate across the board, and
- after the election, a revenue neutral tax reform which eliminated many if not most preferences, credits, deductions, and other tax expenditures in exchange for a meaningful reduction in rates would be a strong boost to the economy.

The opposition's reaction to the budget appeared anxious enough to scrap some of the new proposed tax expenditures, but the push from the Liberals to scrap the government's package of family benefits including the income-splitting tax measures, and cancel the near doubling of tax-free savings account limits actually has less to do with preferring tax relief over targeted preferences than with objecting to the fact that the cost of these measures will leave the cupboard bare for a future government. The big spenders do not like a strategy which "starves the beast" by limiting the resources available to fund new big ticket initiatives!

As for the NDP, they have said that they would roll back income-splitting and keep the TFSA limit at its original \$5500. They would, however, keep the boost to the universal child care benefit and the tax cut from 11 percent to nine percent for small businesses.

By proposing a \$3-billion tax hike on the "wealthiest"

Canadians, creating a new tax bracket of 33 percent for Canadians who make more than \$200,000 a year, Liberal Leader Justin Trudeau makes it clear that his is not a strategy of broad-based tax relief.

Canadians earning \$200,000 do not think of themselves as wealthy. Remember when former Finance Minister Michael Wilson got into trouble by declaring that "Canada suffers from an acute shortage of rich people"? He meant that our income distribution is bulked up around median numbers, so that "tax the rich" is a futile political strategy. A new, higher top tax bracket is the antithesis of what we need if promoting saving, investment, and enterprise is how we propose to create growth and employment.

So the dilemma is that the highly popular, loyalty-inspiring tax breaks are the core of the Conservative platform and the opposition parties threaten to dismantle them at their political peril, particularly if not in exchange for lower tax rates. Music lessons and girls' soccer, not to mention help with child care expenses, are in themselves a kinder, gentler image for the government to project, as are ways to augment savings for retirement.

The stimulating effect of significantly lower personal and corporate income tax rates takes time to work its way through the economy. Also, the process by which growth is generated in a free market economy is not completely understood by many.

How then can the government put a more attractive, less severe face on its platform offering without appearing to abandon its core political base? The answer lies in communicating messages of trust and hope. Trust, because electors don't vote

for a laundry list of “what have you done for me lately”, but rather a sense that, as to issues that have not even arisen yet, this party or that one can be expected to deal with them effectively. Hope, because everyone wants to believe that life can be better for them, or at least for their children, as a result of their own efforts or the government’s.

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The severe messages of sound economic management and vigorous protection of citizens by combatting the scourges of terrorism and criminal activity need to be complemented by the rhetoric of trust and hope. On social issues, the Prime Minister has managed to sideline the most polarizing of those questions which divide us. The recent spate of Supreme Court of Canada decisions which seemed to isolate the government on *Charter* issues need not have been allowed to seep into the public consciousness as slaps on the wrist for hard right stances that are out of step with mainstream thinking.

Nothing in the window can have the direct, personal appeal of the use of the tax system to encourage and reward certain behaviours and activities, because the results are so tangible and immediate. But here is a list of some examples of things the government could crow about that would have wide appeal and seem more addressed to the average voter than the targeted base:

- work towards a joint tax return for spouses. The Americans have had this since 1948, albeit more as the result of a desire to have uniform tax treatment for all Americans, whereas, previous-

ly, only parties married under the community property regimes of 8 states with civil law antecedents had benefitted from this ultimate recognition of the principle of “family income”. Warning: extremely expensive;

- assistance to municipalities to improve infrastructure, including transit, already something the government has begun addressing;
- privatization: Ontario’s Liberals have legitimized policies that propose to use the proceeds of the sale of Crown assets to fund urgent priorities. A premise that state-owned enterprises, especially those engaged in commercial activities with mandates to operate as if they were private sector businesses, should be considered for sale rather than being blindly held onto, is already the norm in the UK. Assets that should be at the top of the list for privatization have already been analysed in previous editions of *Inside Policy*;

- veterans and seniors: everyone is a bleeding heart when it comes to these two categories of citizens. The stories about veterans being nicked and dimed over benefits absolutely must stop. The response to the Supreme Court decision on physician-assisted suicide will need to appear compassionate as well as designed to prevent abuse while respecting *Charter* protections;

- medical research: flow through shares for life sciences and medical research would stimulate the commercialization of Canada’s leading biotech research capabilities in much the same way that the flow-through mechanism has enabled early-stage mining and oil and gas companies to explore for and develop their resources with access to capital and stock exchange listings; and

- balance the constant push for mandatory criminal sentences with grants to the Association in Defence of the Wrongly Convicted on the basis that keeping the right people in jail but speedily exonerating the innocent saves fortunes in incarceration costs and subsequent damage awards.

There could be much more than listed here. The point is a softer face is called for now that the government is seeking its fourth mandate and can no longer position itself as the tough but realistic outside force for change. Build the platform where the people already are. ✿

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