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*Canadian Business Review*  
Summer 1988, p.39-40.

## **Behind Closed Doors: How the Rich Won Control of Canada's Tax System ... and Ended Up Richer**

By Linda McQuaig, Viking Penguin Books Canada Ltd., Markham, ant., 1987, 400 pages, \$24.95.

Kenneth Carter, Chairman of the Royal Commission on Taxation, is the hero in this Manichean saga of tax policy over the 20 years since his commission reported. An accountant and card-carrying member of the Toronto establishment, Carter is an unlikely protagonist for a populist diatribe. His simple but eloquent taxation philosophy that "a buck is a buck" underpins McQuaig's criticism of the current tax system.

The villains and knaves in this piece are most finance ministers and deputy ministers, and the assorted business executives, tax lawyers and accountants who, in McQuaig's view, first succeeded in blocking Carter's valiant attempt at reform and then in undoing any vestiges of reform that had managed to slip through.

For those interested in Canadian tax policy, this book has all the excitement of a murder mystery with the victim being the tax system. The index reads like a who's who of the Canadian tax policy community. Indeed, on picking up this book many tax professionals will be tempted to flip to the index to see what McQuaig has to say about their friends and colleagues. What they will find is not very flattering and, having read it, most will breathe a sigh of relief that their own names are not included. Others will be surprised to see that such important figures in tax policy as John Allen, Fred Gorbet, David Dodge, Nick LePan, Al Short and Satya Poddar are not mentioned.

The book is highly charged ideologically and should not be taken as an objective analysis of the development of Canadian tax policy. The book's central tenet is that rich individuals and large corporations have succeeded in capturing the tax system and shifting billions of dollars in tax burdens from their backs onto the backs of ordinary Canadians. In contrast to the usual dry technical style in most works on tax, the author freely tosses about such emotive terms as "rich" and "poor" and even "class".

The book comes close to suggesting that a conspiracy of unscrupulous politicians and bureaucrats, greedy business executives, and mercenary lawyers and accountants is behind the alleged deform of the tax system. In McQuaig's view this group has been aided by the ignorance and indifference of a general public that has been excluded from the "cosy world of tax" and kept in the dark by an "unwritten code of silence" among tax professionals.

Most business-oriented readers are probably asking why they should undergo the self-flagellation involved in reading this book. The answer is that the book is extremely lively and well-written and is a veritable gold-mine of tax history and anecdotes, most of which ring

true. Where else can the reader be entertained while reading about charitable foundations, reorganizations, Scientific Research Tax Credits (SRTC), and other esoteric subjects? The SRTC episode is especially exciting, involving a student who raised millions of dollars for computer research after flunking a beginning computer course and a promoter of a submarine project who disappeared after substituting another corpse at his own funeral.

The book contains fascinating accounts of the process of tax reform in the early 1970s, the subsequent period of retrenchment, and the November 1981 MacEachen tax reform budget. Unfortunately, the book, which was finished in August 1987, does not provide thorough coverage of the government's June 1987 tax reform package, the description of which reads like an afterthought (only some 15 of the more than 400 pages deal specifically with that reform). McQuaig is quite outspoken in her criticism of recent reform, saying that it takes "tax policy in a seriously regressive direction" and "isn't tax reform at all, [but] ... the hijacking of tax reform". But she fails to recognize that like the MacEachen budget-for which she ranks Allan MacEachen and Ian Stewart alongside Kenneth Carter in the pantheon of tax reformers the latest round of tax reform moves in the direction of implementing Carter's simple concept of treating all income the same.

When it comes to tax philosophy, McQuaig is regrettably imprecise and simplistic. To her credit she is in favour of treating all income the same and taxing it at progressive rates, but she never specifies exactly what she means by "all income" and "progressive rates". McQuaig is steadfast in her opposition to tax expenditures affecting business and investment income, but she provides no details on what the reference tax system, the departures from which would constitute tax expenditures, should look like.

Important issues McQuaig neglects entirely are the appropriate treatment of illusory inflationary income and capital gains. Presumably an appropriate reference tax system would be inflation adjusted and would not count such items as income. From this point of view, some tax expenditures such as less-than-full taxation of capital gains and accelerated write-offs can be considered *ad hoc* inflation adjustments.

McQuaig does not put much weight on the efficiency goal of tax reform and does not consider high marginal tax rates to be disincentives to work, save and invest. She is against tax breaks to stimulate savings and investment and any shift in the tax base from income to consumption.

McQuaig does succeed admirably in her objective of taking the subject of tax out of the technical realm and into the popular arena. Anyone who is interested in the tax debate should read this book if for no other reason than to get a better understanding of the populist point of view as put forth by a particularly eloquent exponent as well as to enjoy a lively anecdotal history of tax policy formation over the past 20 years. But because of its definite ideological slant, this book requires a *caveat emptor* and should be read in conjunction with some of the less colourful but more objective standard tax studies published by the Canadian Tax Foundation and other technical sources.