

General Payroll Taxes: Economics, Politics and Design

by Jonathon R. Kesselman

Toronto: Canadian Tax Foundation, Canadian Tax Paper No. 101, Pp. xiii, 391.

Much has been written about the workings of the benefit-linked payroll taxes that are used to finance social security. But relatively little was available about payroll taxes that raise funds for general revenue purposes, that is, until Jonathon Kesselman came along with this thorough and comprehensive book.

A wide range of issues are covered in this pathbreaking book: the role of payroll taxes in the OECD area; the economic impact of payroll taxes; their design; the experience with provincial and state payroll taxes in Canada and Australia; the use of payroll taxes to reduce income taxes or finance social security; and the use of a payroll tax as a replacement for the GST.

Because of the book's origin as a vehicle that pulled together the author's previously published work on payroll taxes, with revised articles being utilized as the core of the substantive chapters, there is a certain amount of repetition in the book. This can be tedious for those intent on reading the work straight through from cover to cover, but helpful for those that want to read individual chapters on their own. Readers that persevere will be rewarded with information on everything that

they could conceivably want to know about payroll taxes. Well almost everything. There is only one brief paragraph on state payroll taxes in the United States that leaves the reader with more questions than answers. A major gap?

For Kesselman, this book must have been a labour of love. His enthusiasm for payroll taxes permeates every chapter, culminating in chapter 8, where he devotes almost a hundred pages to presenting his well-argued case that the GST should be replaced by a federal payroll tax supplemented by a cash flow tax on business. Kesselman starts with a demonstration of the equivalence between a direct consumption tax (DCT) made up of these two components and a VAT, the main difference being that the DCT is on an origin basis and the VAT on a destination basis. To Kesselman, this makes no difference because the exchange rate will depreciate to offset any adverse impact on our competitiveness. Others though may be more sceptical.

Kesselman makes many points to support his case for a DCT. Two seemed particularly telling. First, it would be easier to establish a broad base with a payroll tax than with the GST because the payroll tax is levied on production rather than consumption. Second, payroll taxes in Canada would still be well below those in the United States even after any increase.

In chapters 5 and 6, after an in-depth review of the

experiences of Canadian provinces and Australian states with payroll taxes, Kesselman pronounces them to be successful. Payroll taxes are said to be simpler in concept and application than other taxes and their bases and coverage are broader. These chapters provide the empirical support that is behind Kesselman's his penchant for payroll taxes.

Kesselman's book is made all the more timely by the Canadian federal government's newfound reliance on employment insurance contributions for deficit reduction, which raises the question of whether the federal government is being forced down the road to a general payroll tax by its own revenue needs. Too bad Kesselman doesn't address this issue.

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