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Why a wealth tax in Canada is a horrible idea

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February 5, 2021

Eat-the-rich rhetoric is good politics but bad policy. The wealthy minority contribute precious investment and much-needed employment, but no good deed goes unpunished. The spectre of a wealth tax, which hangs over Canada, epitomizes infantile, self-defeating governance.

Last autumn, federal NDP Leader Jagmeet Singh introduced a motion in the House of Commons calling for a "super-wealth and an excess-profits tax on big corporations profiteering from the pandemic." As if the ends justified the means, the NDP called for the revenue to be spent on social and health-care programs as well as "a guaranteed livable basic income."

Even though the motion was defeated on Nov. 16 by a vote of 292 to 27, future attempts at a wealth tax are likely. They're intensifying and garnering support among middle-class Canadians who don't foresee that this theft could one day come knocking on their doors.

A strong middle class

In its recent throne speech, the federal government pledged to institute a wealth tax to fund the COVID-19 spending plan. Prime Minister Justin Trudeau declared that rising inequality and a "hollowed-out middle class" are two of the most important issues facing our generation.

Such claims obscure the reality. Data from Statistics Canada show that wealth held by the lowest three income quintiles actually increased from 27.1 per cent in 2010 to 29.5 per cent in 2019. Recent research by Philip Cross at the Fraser Institute reveals that Canada's middle class holds proportionally more financial assets than the middle class in the United States.

Cross goes on to argue that extreme inequality is a U.S. talking point that distorts Canadian policy debates. Bemoaning the evils of the millionaires and billionaires is fashionable, and this kind of economic populism has run rampant the past few years. Elizabeth Warren and Bernie Sanders exemplify top U.S. presidential contenders who have insisted the rich must "pay their fair share."

It appears to be working. A poll of 1,660 Canadians by Abacus Data revealed that 79 per cent supported a one per cent wealth tax on fortunes of $20 million and larger. As for political parties, 93 per cent of Bloc Quebecois supporters polled, 87 per cent of NDP, 86 per cent of Liberals, and even 64 per cent of Conservatives are in favour of the tax.

Such unanimous support from supporters of all parties for a tax increase is uncommon. David Coletto, CEO of Abacus Data, explains that "raising taxes on the rich and highly profitable corporations is one of the few ideas that both progressives and right populists agree on."

The mirage of a wealth tax

The problem with a wealth tax, as Cross argues, is that it is an illusory pot of gold. The proposed wealth tax would raise "0.2 per cent of GDP, a drop in the bucket compared with this year's deficit of over 16 per cent."

A wealth tax of one per cent may seem insignificant but Alan Viard, an economist at the American Enterprise Institute, explains the compounding deleterious effects. Unlike income taxes, which apply to income flows, wealth taxes compound over time. For instance, a household with constant wealth over a decade would end up paying 10 per cent.

So you can count on families and firms looking for ways to shift capital assets out of Canada to avoid a long-term drain.

Research from the Cato Institute has found that targeting wealth for higher taxation is often counterproductive. In Europe, for example, imposing a wealth tax was expensive to implement, generated little revenue, and encouraged avoidance, evasion and brain drain. The negative implications were so large that the number of European countries with annual wealth taxes has decreased from 12 in 1990 to three today. Ireland, Austria, Denmark, Finland, Germany, France and the Netherlands have all repealed their wealth taxes.

It is worth remembering that the income tax in Canada was introduced only as a temporary measure to deal with government debt incurred from the First World War. Over 100 years later, the government appetite for the income tax has only grown and little could be more decidedly permanent.

Does anyone believe a new wealth tax would be a once-only shakedown? If its revenue fell short of the funding needed for social and health-care programs, would the rate not get bumped up to two or three per cent of wealth? Would politicians not target those with net worth of $1 million or less?

Given human nature, we naturally tend to rationalize taxes on others. However, the arithmetic is undeniable: we can't solve our problems by soaking the rich. Besides, Canadians would be wise to ponder a question posed by the economist Thomas Sowell: "What exactly is your 'fair share' of what someone else has worked for?"

The trajectory of any kind of wealth tax is certain to parallel the history of our income tax – a permanent and increasing one. The result would inevitably be a distressed economy and a hollowed-out middle class becoming more real than imagined.

Though inconsequential in the voting booth, their impact on the Canadian economy is all-important.

No one will rush to defend this loathed minority. However, their number includes some of our brightest and best, innovators, wealth creators and job creators vital to our economy. These people and corporations, if so inclined, can easily move their talents and their capital out of Canada to friendlier jurisdictions.

You do not make a poor man rich by making a rich man poor.

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