

## View From the Greenback Side

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From where I sit on the “greenback” side of the border, the financial actions taken in Ottawa regarding the taxation of income trusts deserve three very uncomplimentary descriptors: malfeasant, mendacious, and malicious.

### ***Malfeasant:***

The purpose of the hysterical and inflammatory cries of “tax leakage” was to obscure the real issue: the politicians in Ottawa acted to protect themselves from the threat that income trusts posed to their careers.

Consider the political dynamic before income trusts came on the scene. Corporations created wealth. Politicians acted as middlemen. They confiscated part of the wealth from the corporations as a tax, skimmed off a cut as administrative overhead, and redistributed the remainder to individuals as “social spending”. Corporations do not vote. Taxing corporations had little political downside. Individuals do vote. Transferring wealth to individuals had lots of political upside. Secure political careers are built around exploiting this simple dynamic. This is all elementary Politics 101.

Now consider what happened when trusts entered the picture. Trusts also create wealth. However, trusts transfer this wealth directly to individuals. Politicians get cut out as the middlemen. Trusts represent a mortal threat to the careers of the current crop of politicians.

“Tax leakage” is an inflammatory catch phrase with no substance whatsoever. Wealth created by the trusts does not disappear off the face of the earth. The amount of wealth remains the same whether or not it has been transferred from a trust to an individual. It is only the ownership that has changed. After transfer, the wealth remains vulnerable to taxation. Where is the “tax leakage”? If the need for additional social spending is compelling, tax the new owners. Am I really to believe that the Ottawa politicians do not know how to write a new tax?

Of course, writing that new tax is exactly the threat that trusts pose to the career politicians. Those new owners have the vote. Eventually those new owners will realize that they are not being taxed for their own benefit. Their reprisal is likely to be spirited, with untoward consequences to the career politicians. We are back to a simple political dynamic: taxing voters is dangerous, taxing non-voters is safe. This is all just some more elementary Politics 101.

The “Pro Politician Parties” in Ottawa acted decisively to protect their careers from the threat of being cut out as middlemen. Moreover, they acted to stifle the consultation process. Trusts are detrimental to their careers. Trusts got crippled. A discussion of whether trusts might be beneficial to the Canadian economy was not permitted to happen. These actions are so self-serving that they deserve the epitaph “malfeasant”.

***Mendacious:***

The Tories campaigned on a policy of “Tax trusts? - Never!” They got elected. The coalition of “Pro Politician Parties” then hastily and secretly convened in a back room. They ram-rodged legislation that compressed “never” down to four years. The threat to their careers posed by the trusts was so simple that even the politicians in Ottawa had to of understood it from the start; unless, of course, they were implausibly stupid. There was no “reversal”; they just plain lied about their intentions. The euphemistic descriptor for these actions is “mendacious”.

***Malicious:***

The existing trusts could have been grandfathered. Political self-preservation was assured when the wholesale conversion of additional corporations to trusts was legislatively staunched. The growth of current tax revenues in this time period spoke to the absence of any current fiscal need. The existing trusts posed no threat other than they set a “bad” example of how individuals could benefit from the corporate creation of wealth *without* the intervention of the Ottawa middlemen.

Premeditatedly, the “Pro-Politician Parties” chose to force the reversion of the existing trusts to corporations. The result was predictable. The valuations of the existing trusts plummeted. This was an act of reprisal designed to punish those investors who had the audacity to put money into financial instruments that the current crop of politicians found threatening. Forcing this reversion can euphemistically be described as “malicious”.

***After Thoughts:***

The consequences of the financial actions that came out of Ottawa go beyond retirees and will affect all Canadians. Financial lies and reprisals are scary stuff to all investors, both domestic and foreign. Trusts were the target that week. What will be the target next week? Whose answer can you rely upon? The political risk of doing business in Canada has increased. The consequences to new business formation, old business expansion, and growth in employment are all negative. As a foreign investor, I have been treated more honorably by third world dictatorships than I have been by the Canadian legislature.

The euphemistic description of what I saw in Ottawa was a malfeasant, mendacious, and malicious coalition of politicians out to protect their careers at everyone else’s expense. The dysphemistic description of what I saw in Ottawa was a gang of financial thugs run amuck. From either viewpoint, according the approbation “Honourable” to these gentlemen seems misplaced.

I’m a retiree and a US resident. The taxation of trusts has crushed my retirement plan in two ways. The income stream from these trusts is now short lived. The income stream is further jeopardized because the trust business models are starved for capital. Lastly, my savings available for redeployment into other investments have been devastated. I sympathize with those Canadians who were invested in trusts and find themselves in a similar situation.