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To: Brief to Standing Committee on Finance, Parliament Buildings

From: EconomicInequality.ca

We are a group that has focused on economic inequality for more than a year in the Toronto area, convening public meetings and supporting broad public discussion of this issue. Details of our activities can be found on our web site, www.economicinequality.ca.

Economic Inequality, The problem

Growing economic inequality in Canada is a problem that has seemingly become ingrained into public consciousness, and a talking point that shows no sign of slowing down.

Total taxation rates in Canada have been steadily declining since the 1970s in parallel with reductions in the funding of social programs. These changes are reflected in increased economic inequality.

The damage that this inequality causes, not only to individuals but to the economy as a whole, is a subject that many Canadians are not only aware of, but are actively worried about and, as the Broadbent institute notes, there is wide support for taking action for change.

There is significant data from around the world demonstrating that countries with less economic inequality can appreciate some important social benefits:

- lower crime rates,
- improved individual health
- higher rates of education
- less social unrest
- lower rates of drug and alcohol abuse
- greater rates of personal happiness

The Spirit Level, Why Equality is Better for Everyone by Richard Wilkinson and Kate Pickett provides an excellent summary of the analysis of data about economic inequality and shows that everyone, including the wealthy, benefit from more equality.

It is also clear that reducing economic inequality can make a society more productive and efficient, and provide individuals with an enhanced sense of well-being.

Taking action

It is critical that governments at all levels take immediate action to reduce the trend of growing economic inequality. Governments must use all the tools within their reach - fiscal, social and labour market policy - to reduce inequality. There is wide scope for action, as noted below.

Steps needed to reduce economic inequality

1. Leaders and governments should agree in principle to reduce economic inequality.
2. A consensus should be reached by political leaders on the nature and extent of the economic inequality evident in Canada. This can be reached through a relatively short and swift study relying on the plethora of existing documents on the matter.
3. Public discussion should be held, conducted in a timely fashion, of the exact programs to be implemented, the funding involved, and the sequencing, and the changes favoured in this discussion implemented.
4. An independent commission should be established to undertake a thorough review of the tax system, with a view to recommending changes which will create a more economic equality.

Some of the changes needed at the federal and provincial levels:

Changes to fiscal policy

- Increase tax rates on higher incomes
- Review, limit and/or eliminate tax expenditures: i.e. foregone tax revenue resulting from tax deductions and credits, many of which disproportionately benefit the wealthy
- Tax income from capital (including capital gains) at the same rates as employment income: including limiting or eliminating tax free savings accounts which disproportionately benefit the wealthy. Alternatively, consider some form of inheritance or wealth tax.
- Eliminate tax minimization approaches such as offshore tax plans, family trusts, income splitting strategies, etc., which benefit primarily the wealthy.

Changes to social policy

- Increase National Child Benefit
- Increase accessible, affordable child care
- Expand affordable housing
- Reform social service programs, and increase payments
- Support for human rights, legal aid, youth justice and programs
- Strengthen the public education system
- Introduce a living wage for full time employment
- Implement a national and/or provincial Housing Benefit
- Ensure all residents of Canada have access to all services including health, social, and emergency services

Changes to labour market policy

- Increase minimum wages
- Encourage good living wage jobs
- Enhance employment insurance
- Strengthen strategic skills training, apprenticeship, school-to-work transition programs
- Address the significant inequities of programs in First Nation communities
- Increase the Working Income Tax Benefit
- Reinforce fair working conditions, enforcement of labour standards and support for employment equity
- Ensure equal pay for equal work for temporary migrant workers, and allow them to apply for permanent resident status.

The Tax System

The tax system needs to be reviewed, both nationally and provincially.

Fairness and efficiency are essential attributes of a good tax system. Most would agree that the wealthy should pay higher taxes. Many credits and deductions, often introduced for political reasons, should be eliminated to make the tax system understandable and more efficient. Income from capital has been lightly taxed relative to employment income over the past decades, and consideration should be given to changing this. Poverty could be substantially reduced if not eliminated with a living wage tax credit.

And there are other reasons to review the current tax system. As many have acknowledged, retirement security is increasingly left to individuals and many do not have the capacity, inclination or knowledge to provide for retirement. A tax review could address this challenge, as it could help address healthcare costs which will increasingly squeeze out other priorities unless we address how we will pay for

health care. Lastly, and more controversial to some but in our opinion nevertheless true, intergenerational fairness demands that we prevent the degradation of the natural world. Our economy needs to be transformed in the next decades, and a robust ecological tax review would be an essential step to that transformation.

For all of the above reasons, it makes good sense to take a good hard look at the current tax system. This has not been done in the last forty years, when the Carter Commission on Taxation reported. We believe a similar kind of study should be undertaken by an independent commission.

Conclusion

Clearly, there are many ways of starting to reduce inequality. We suspect there is certain to be agreement among different political players on some of these means at a national level; similarly provincial governments can each choose their own actions.

Respectfully submitted by
EconomicInequality.ca
Co-ordinator, John Sewell, john@johnsewell.ca, 416 977 5097

Steering Committee members:

Liz Rykert , liz@metastrategies.com
Walter Ross, waltergr@sympatico.ca
Anna Willats, awillats@sympatico.ca
Margaret Smith, smith107@sympatico.ca
Alison Kemper, alison.kemper04@rotman.utoronto.ca
John Stapleton , jsbb@rogers.com
Russ Ford, russf@lampchc.org
Anne Hume, jannehume@yahoo.ca
John Sewell, john@johnsewell.ca
Rob Howarth, robinhowarth@gmail.com
Wayne Olson, wayne.olson@rogers.com
Margie Zeidler, wayne.olson@rogers.com
Jack Rising, stillgotlegs@gmail.com
MaryAnne Cooper, macooper86@gmail.com
Charles Campbell, chascamp@sympatico.ca