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**Thursday, April 25, 2013**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Thursday, April 25, 2013

•(0845)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order, the 116th meeting of the Standing Committee on Finance.

Our orders today, pursuant to the order of reference of Wednesday, June 13, 2012, are for continuing our study of income inequality in Canada.

I want to welcome all of our witnesses here today and also our witness in the U.K. Thank you so much for being with us here this morning on this very important study. I will list all the individuals who will be presenting.

First of all, from Queen's University we have Professor Robin Boadway.

Welcome.

From the University of Ottawa we have Professor Miles Corak. From Carleton University we have Professor Ian Lee. From the Canada West Foundation we have senior economist Michael Holden. We have the president of the Canadian Medical Association, Anna Reid.

Welcome to the committee.

From the Conference Board of Canada we have the president and CEO, Daniel Muzyka. From the Frontier Centre for Public Policy we have senior policy analyst Benjamin Eisen.

Welcome to you as well.

From the United Kingdom we have Professor Richard Wilkinson.

Professor Wilkinson, can you hear me okay?

**Dr. Richard Wilkinson (Emeritus Professor, Social Epidemiology, University of Nottingham, As an Individual):** Yes I can, thank you.

**The Chair:** Thank you for joining us this morning.

Each of you will have five minutes, maximum, for an opening statement, and then we'll have questions from all the members.

We'll begin with Professor Boadway, please.

**Dr. Robin Boadway (Professor, Department of Economics, Queen's University, As an Individual):** Thanks very much for inviting me. I submitted a brief that you will have access to. I will take my five minutes just to highlight the main things that come out of that brief.

What I would argue is that the tax transfer system has become less redistributive, while inequality has increased, and that not enough targeting exists in the system. Too many tax expenditures are going to the better off. As the federation becomes more decentralized, groups of persons for whom the provinces are responsible have fallen behind and obtain little support from the federal government. More generally, horizontal imbalances in the federation threaten our social fabric.

I made several specific proposals, which are discussed in more detail my brief. Let me just run through them very quickly. These are intended to make the tax transfer system fairer and more resilient to economic shocks, while at the same time maintaining efficiency and tax revenues.

Here's my wish list. I would make all tax credits refundable, including the current non-refundable ones. I would condition many of them to income, the way we condition the GST credit. I would enhance disability tax credits and make them available to all provincial disability recipients. I would improve the EI-welfare nexus, so that the transition from one to the other is smoother.

A far-ranging reform would be to make the EI system two-tiered at the federal level. The first tier for a certain period of time would be like the current system, which replaces lost income. The second tier, for people who stay on a little longer, would be based on need. Then the fallback would be the provincial welfare system. I would make training and employment services available to all workers, whether they're on EI or not. I would finance EI from general revenues, rather than from the current regressive payroll tax.

On the capital income side, I would eliminate the dividend tax credit and make the taxation of dividends, capital gains, and interest more even. I would rationalize the corporate tax to make it distortion-free and make it a tax on supernormal profits, or so-called rents.

With respect to federal-provincial tax room, I would do everything to prevent further erosion of the federal share of tax room. I would return the equalization system to a formula-driven system. I would make sure that the social transfers to the provinces grow at the average rate of growth of provincial program spending, and I would make them conditional on provincial tax capacities to enhance the equalization system.

With respect to equality of opportunity, the current post-secondary education programs at the federal level serve middle- and upper-income persons quite well. Low-income persons would benefit from more targeting of tax benefits and from enhancing the Canada learning bond and Canada student grants programs. The post-secondary education system in Canada is actually in crisis, and I would consider creating a post-secondary education grant parallel to the CHT and CST, the Canada health and Canada social transfers.

That's my five-minute wish list.

Thank you.

**The Chair:** Thank you very much for your presentation.

I'll turn to Professor Corak, please, for yours.

[*Translation*]

**Dr. Miles Corak (Professor, Graduate School of Public and International Affairs, University of Ottawa, As an Individual):** Good morning, everyone.

[*English*]

My written submission focuses on concrete policy measures that are meant to speak to the fifth of the committee's terms of reference, to "provide recommendations on how best to improve equality of opportunity and prosperity for all Canadians".

I take equality of opportunity to mean that children can become all that they can be regardless of family background. In particular, adult outcomes like earnings and incomes are the result of talent and energy, not position or privilege. Parents play the central role in determining the life chances of their children through the quantity and quality of time they spend with them and by the monetary resources they have to invest in them. Money is not everything, but money matters.

The recommendations I would ask you to consider are intended to support families in their role as primary caregivers. They are intended to offer insurance against inequalities in both monetary and non-monetary resources, and to offer adequate support to the least advantaged.

Firstly, the committee should give consideration to significantly increasing the working income tax benefit, the WITB. The design of this program is a best practice in the provision of income support. It should be the main instrument for preventing inequalities at the lower end of income distribution from becoming too great. The committee should examine the implications for expenditures and work incentives of raising the benefit level so that most working Canadians will take home roughly one-half the median income. It should also consider reducing the rate at which benefits are phased out, so that the WITB extends into the range of lower-middle family incomes.

Secondly, the committee should give consideration to doing this in conjunction with the reform of the employment insurance program that changes part of the program into wage insurance, particularly for longer-tenured workers suffering a permanent layoff. This would in effect deliver benefits for the design inspired by the WITB. This would encourage laid-off workers to accept new, lower-paying jobs, knowing that wages will be topped up to some significant fraction of their old wage.

Thirdly, if tax and transfer policy is to encourage increased engagement of parents in the labour market to obtain adequate income to support their children, then there is also a need to recognize that families are increasingly time-stressed. Parents face not just labour market risks, but also a host of demographic risks associated with marital disruption, child illness, the onset of disabilities, or other non-market activities. The committee should give consideration to building and generalizing recent changes in the EI program by allowing parents to take a leave from work throughout their lives for reasons they deem important for their family.

The committee should give consideration to introducing a system of personalized accounts in the EI system from which families could draw, depending upon the extent of their surplus. The eligibility rules of the program could be relaxed and lower-income families could be given more of a public subsidy in these accounts. All families would have the flexibility to use their surplus to support a leave from work according to their own timing and purpose.

Finally, the committee should be aware that there have been significant increases in the fraction of total income accruing to a small minority of the population. In part, this has increased income inequality, but its importance for equality of opportunity is that over the longer term it will also change wealth inequality.

Wealth inequality has also been on the rise in Canada, but up to now this has been driven by increases in home equity and pension assets. Inheritances have played a role, but not a major role. This may well change in the future because the increase in top income shares is likely to persist. At some point, this concentration of income will be felt in wealth, and eventually in bequests. In the federal system of taxation, this will become a significant gap that contributes to inequality and inequality of opportunity.

Accordingly, the committee should examine more complete taxation of all sources of income, including all sources of capital income. Alternatively, it should give consideration to an inheritance tax and the disincentives of that in the manner discussed by, among others, the OECD.

Thank you, Mr. Chairman.

● (0850)

**The Chair:** Thank you, Professor Corak.

We'll go to Professor Lee, please.

**Dr. Ian Lee (Professor, Carleton University, As an Individual):** Thank you for inviting me.

I had prepared what I thought were some elegant empirical slides and then your committee decided to double the presentation, to double the time. Fair enough, and I think many other witnesses will likely present some excellent empirical data, so I completely rewrote my presentation. I have the slides there as background.

I have a deeply personal interest in the subject of inequality, social hierarchies, and barriers because at the age of 18, in 1971, I dropped out of grade 12 high school. However, for those who blame society, I think I would like to suggest are wrong. I dropped out of high school, and society couldn't attend my classes and do my homework when I stopped going. The real reason was that at 18 I thought life was a big party, and I wanted to party as much as possible. I did not drop out because I experienced low income or income inequality. That has causality running backwards. Dropping out of high school caused my subsequent low income that placed me in the bottom quintile, because I was not qualified for higher-paying jobs.

However, after two years of partying, I became dissatisfied with this life. Being left behind and being at the bottom motivated and drove me to do something completely different. I applied to many different companies and, after many rejections, I was hired at the very bottom by a large American company called Avco. They proceeded to train me, and I want to emphasize that word "train". They trained the dickens out of me. I eventually became branch manager at the age of 24.

But far more importantly for this committee, they offered to reimburse me for university courses successfully completed if I agreed to enrol part time as a mature student, which I did. I started at 20 and graduated 10 years later—completely part-time—at the age of 30. Then, partly because of the training and the education, I was recruited by the Bank of Montreal, where I became a mortgage manager.

The point of this narrative is that education is the most radical liberating force in the world, for it involves the development and education of the most valuable asset in the entire world: the human mind. Education enables high school dropouts to become mortgage managers in large banks, and it enables high school dropouts to become professors who appear before the Canadian House of Commons finance committee to discuss inequality from first-hand experience.

Now, let's talk about inequality. As the philosopher Hannah Arendt taught us, equality is the absence of difference—ten equals ten—while inequality is the presence of difference—five is not equal to ten. Restated, we live in a world characterized by plurality, diversity, and heterogeneity. Each is a synonym for inequality or difference.

The academy is an excellent example of contemporary societal inequalities. There are full professors, such as some people here today, who earn much larger salaries than associate professors, who in turn earn much larger salaries than assistant professors. Moreover, full professors often have no teaching load at all, while associates and assistants teach four, five, or six courses.

However, I am not suggesting that the university system is unfair or exploitative or that full professors should not possess the pronounced advantageous privileges and benefits of being a full

professor. In vigorous defence of this, they earn and deserve the significantly higher salaries, status, and radically reduced teaching loads that accrue to them. Although the university creates significant inequalities, it is not unfair and it is not illegitimate. The university is a microcosm of the larger society of corporations, NGOs, the public sector, politics, sports, and entertainment, each with its own hierarchies and inequalities.

However, as Professor Deirdre McCloskey—formerly Donald McCloskey, prior to her gender transformation—an economist and historian at the University of Illinois, has argued in over 400 peer-reviewed articles and 18 books, the market economy has generated far greater benefits than any other system in history. She notes what she calls "the Great Fact". After thousands of years of humans around the world living on a dollar a day, after 1800, almost overnight, we went to \$150 a day in today's dollars, an increase of between sixteen- and a hundredfold.

The outcome of this great fact, she argued, is that the poor have benefited the very most from the market economy. This suggests that we should be facilitating and fostering innovation, creative destruction and growth, which she characterized as Schumpeterian growth, instead of protectionism that produces inequalities by benefiting crony capitalists—think of the pernicious supply management.

In conclusion, I do not question the statistics that will be presented today showing the correlations between social pathologies or—in much more accurate English—bad decisions or bad behaviour on the one hand, and low income and income inequality on the other. However, I profoundly disagree with those who claim income inequality causes bad decisions or bad behaviour. Bad decisions and bad behaviour cause income inequality by dropping out of school....

In my slides, I have one critical slide which shows that the people in the two bottom quintiles in Canada and the U.S. have the lowest levels of education. This is why governments must much more aggressively encourage the 45% of adult Canadians who do not have post-secondary education to return to school—"levelling up", as it's characterized by the Public Policy Forum, the Canadian literacy network, and the Canadian Association of Manufacturers & Exporters—and I would argue, by tying EI, welfare, and other government assistance programs to re-enrollment and retraining. It may be argued that some are not capable, but I think this is an inaccurate assumption.

●(0855)

If we really want to address inequality in this country, we must attack these inequalities through a levelling-up program, because post-secondary education is the most radical and the most effective policy of all in addressing inequality. I know it, because I did it.

Thank you.

**The Chair:** Thank you very much, Professor Lee.

We will go to Mr. Holden now, please, for your presentation.

**Mr. Michael Holden (Senior Economist, Canada West Foundation):** Good morning.

I'll start my presentation with some brief observations about income inequality trends in Canada, and then follow up with some suggestions about the types of federal policy action that would be most beneficial.

Income inequality is a challenging subject. This is something that's politically sensitive and ideologically polarizing. Most of us would probably agree that too much inequality is a bad thing. It leads to social exclusion, crime, political disengagement—but the question is, how much inequality is too much? The answer to that is subjective, and that makes the thoughtful, unbiased study of inequality very difficult. What makes matters worse is that data on income inequality is very easy to spin. Anyone with an agenda, whether on the right or the left, can easily create the impressions they wish through selective presentation of numbers.

For example, earlier in your testimony, you may have heard that Canada is more unequal today than it was 20 or 30 years ago. Someone may have said that inequality has held steady since the late 1990s. In the past 10 years, the bottom 20% of Canadians has seen the fastest growth in after-tax incomes. In the past 10 years, the top 20% has captured 46% of all income growth. Now, all these facts are true. So how is this possible? How can some argue the rich are getting richer, but others say inequality has remained unchanged since the late 1990s? It really comes down to a matter of selective interpretation of numbers.

I have an example here. Suppose we have a society of two people; one earns \$100,000 a year and the other earns \$10,000. Now, let's say each receives a 10% raise. Have we become more unequal? Some will say, "No, both are now 10% richer." Before, one made 10 times as the other, and now, one still makes 10 times as much as the other. Nothing has changed. Others would argue that things have in fact become worse. The gap between the two people used to be \$90,000, now it's \$99,000. A full 91% of all the income gains that year went to the richer person. They're wider apart than ever. These are two interpretations of the same thing, and they create very different impressions.

My advice to the committee in studying the numbers as they're presented is generally to be wary of information that relies heavily on dollar figures. Percentages, relative growth, and the ratios comparing the rich and the poor are what matter.

A more extreme example will show you what I mean. Suppose that in that two-person example our salaries were \$1 and \$2 a year, and the next year they went up to \$98 and \$100. Then, in that case, is inequality lessened? I'm sure most people would say yes, but if you

believe that in the first example I gave that inequality had widened, because the richer person captured most of the income gains, then logically you would have to argue that the same was also true in the second case. They used to be \$1 apart, now they're \$2 apart.

Now, my point is not to cast doubt on the existence of income inequality or its importance as a public policy issue, but rather just to serve as a warning that we distract ourselves from the real issue when we get caught up arguing about the selective interpretation of numbers. Moreover, I submit that equality of opportunity and poverty reduction matter far more than equality of income.

So how do we improve equality of opportunity and keep income inequality from deteriorating? I'd like to draw your attention to four specific issues.

First, the federal government must improve economic prospects for aboriginal Canadians. This is especially an important issue in the west. The federal government needs to better foster economic development on aboriginal reserves. It needs to greatly enhance the quality of on-reserve K-to-12 education, and it needs to improve aboriginal skills training and labour force engagement.

Second, policies that address income inequality must not impede labour mobility. In fact, the federal government needs to do better than just remove barriers; it needs to encourage labour mobility. There is a desperate need for workers in the west, especially in Saskatchewan. The unemployment rate there now is 3.9% and industry-specific labour shortages are already impeding growth in that province. Meanwhile, we have surplus labour capacity elsewhere in the country. It makes no sense to spend money on policies and programs to kick-start economic development in struggling regions, when doing so effectively prevents other parts of the country from growing at their full potential.

Third, we need a strong focus on education and skills training. On the education side in particular, there's the ongoing mismatch between the skills that students are developing and those in demand by employers. The stubborn social bias favouring universities over technical schools has to end, and we need to ensure that rising tuition does not create a barrier to entry for poorer students.

I'll close on the issue of taxes. Our progressive tax system already partially smooths out income inequality. It could probably do more, but we need to tread carefully on tax policy. Government revenues today already depend heavily on the contributions of the rich. The wealthiest 10% collect 35% of income and pay 55% of taxes. These are also the most mobile Canadians. We can very quickly solve income inequality by driving the rich out of the country, but our tax revenues would evaporate, taking away our capacity to implement programs and policies to help the poor. This is not to say that increasing taxes on the richest Canadians should be off limits, but it would be more useful to focus on measures to help lower-income earners and help reduce poverty than to focus unduly on penalizing the rich.

● (0900)

Thank you for your time.

**The Chair:** Thank you very much, Mr. Holden.

We'll go to Ms. Reid, please.

**Dr. Anna Reid (President, Canadian Medical Association):** Good morning.

I'm very pleased to bring the Canadian Medical Association's perspective on income inequality to your committee.

You may wonder why the CMA, which represents over 78,000 physician members, is actually concerned about income inequality. We know that every day, patients with illnesses of every kind crowd our clinics and our hospitals. When we look at the health outcomes of these patients, we find that only 25% are determined by the health care system. Another 25% are determined by biology and genetics.

Having a much greater impact are such factors as the state of a person's housing, whether they get enough to eat, how educated they are, and what kind of experiences they had in their early childhood. These social determinants of health in fact account for 50% of the health outcomes.

The most influential of these determinants is income. We know that if you're rich in Canada, you will be healthier than if you are poor. The poor experience higher rates of suicide, mental illness, disability, cancer, heart disease, and chronic illnesses such as diabetes. We know that the poor are 1.9 times more likely to be hospitalized. The poor are three times less likely to fill prescriptions and 60% less able to get needed tests because of cost. The poor live shorter lives. Poverty in childhood can be a greater predictor of cardiovascular disease and diabetes in adults than later life circumstances and behavioural choices.

There's a cost to this poverty and the disparity between the rich and the poor. The poor tend to consume more health care services than those of higher socio-economic status. According to one estimate, about 20% of total health care spending in Canada can be attributed to income disparities alone. A study done in 2011 by the Saskatoon Poverty Reduction Partnership found that over the course of a year, low-income residents consumed \$179 million more in health care costs than middle-income earners.

While economics are important, so too are fairness, dignity, and compassion. Canada's doctors are concerned that as a nation we are not doing enough to address these factors.

Among the CMA's recommendations, we suggest that as federal departments develop new policies, they put them through the test of a health impact assessment to evaluate the potential effects on the health of Canadians. Under such a process, greater scrutiny might have been accorded to changes to the qualifying age for old age security and to new rules for employment insurance, both of which will have far-reaching consequences on some people's incomes. Every action that has a negative effect on health will lead to more costs to society down the road.

But it's not just about what we doctors think. The CMA has been conducting a series of public town halls around the country asking Canadians about how the social and economic conditions of their communities affect their health. We've gone from Calgary to Hamilton to Charlottetown, as well as online, and we're hearing how low incomes are undermining Canadians' health.

This public response is really not surprising. According to the Conference Board of Canada, more than one in seven children in Canada live in poverty. And let there be no doubt—this poverty will limit the ability of these children to live lives that are as long and healthy as children who come from wealthier families. Success in ameliorating seniors' poverty is acknowledged as one of the great policy achievements of recent decades. Building on that success, the federal government should explore and establish programs that eliminate poverty for all Canadians.

In conclusion, the CMA commends this committee for studying this very important issue. Income inequality matters to physicians, because it translates to health inequity. That runs counter to everything that we've been taught to believe as physicians and that we work towards achieving.

It's worth noting that countries reporting the highest population status are those with the greatest income equality, not the greatest wealth. Canada's a wealthy country, and there's no reason why it cannot have greater income equality too.

Greater income equality can reduce the burden of disease in Canada, lessen the pressure and costs on our health care system, and help ensure that every Canadian has a chance to be a productive, contributing, and healthy member of society. Canada's physicians believe that every Canadian deserves a chance to live a healthy life, and I believe that how well we are able to achieve health equity for our citizens should be a measure of the humanity and soul of our nation.

Thank you very much.

● (0905)

**The Chair:** Thank you very much for your presentation.

We'll hear now from Mr. Muzyka, please.

**Dr. Daniel Muzyka (President and Chief Executive Officer, Conference Board of Canada):** Thank you, Mr. Chairman and committee, for inviting me.

We submit that this is an issue that is important to review and monitor and to create a public policy framework around. My comments and the data behind them can be found on our website, in a section called “How Canada Performs”.

How is inequality measured? There are three ways.

One, the Gini coefficient, which I'm sure you've heard about, ranges from zero to one, where zero is perfectly equal distribution of income. Canada ranks 12th out of 17 peer countries on the Gini index, with number 1 being Denmark, and the worst performer, number 17, being the U.S. As we did, 12 of 17 peer countries experienced an increase in the Gini coefficient from the mid-1990s. The countries with the lowest Gini coefficients during that period, Sweden and now Denmark, have either implemented or are looking at measures to increase their Gini coefficient.

The second way to measure it is to divide the population of income into groups such as fifths, or quintiles. The facts are that the largest gain has been seen in the top quintile—something that's been noted before—and the lowest increase has been in the third or middle quintile. The middle class is truly being squeezed.

The third way to calculate it is to calculate the gap in average income between, let's say, the richest 20% and the poorest 20%. As is also the case for most of our peers, the gap in Canada is growing. This is due largely to technology and globalization, but also to tax policy.

Because of the use of different measures, income inequality can be open to different interpretations. But it is clear under all measures that inequality increased in Canada during the 1990s, something that has happened with a majority of our peer countries. We are higher than we used to be, but we are somewhere in the middle of our peer group, and we are not getting worse. Nor do we have the extent of the issues being raised in the fairness debate by our neighbour.

There are two other factors, often raised in any discussion of income inequality, that complicate discussion of the issue. First is income mobility. The ability to move between income ranks is often raised in a discussion of inequality. The second, absolute versus relative incomes, is usually a discussion about how a rising tide raises all boats.

Is income inequality really an issue in general? Experience and objective research tell us that it can be if it rises too high, but there has to be some inequality for markets to function and to create incentives for effort and investment.

The negative impacts of high levels of inequality include a break in social cohesion and a rise in political instability, a consequential decrease in foreign and domestic investment, a decrease in economic growth potential—and this is from a recent IMF study—and a waste of human potential. If lower-income individuals have more limited access to education, skills training, and employment, we will not be fully utilizing the skills and capabilities of all of our citizens. Another issue is a more limited ability by individuals in lower-income ranks to apply their skills to pursue entrepreneurial

opportunities. Finally, there is a limiting of the government's ability to deal with economic shocks by raising taxes or cutting spending.

There are also arguments that higher levels of inequality support economic efficiency, innovation, and entrepreneurship. Does this mean we don't have to worry about inequality? No. We want to maintain good mobility and we want to worry about structural inequality, because not everyone has the means or access to move between income groups. But mobility does not remove all of the other negative impacts of higher inequality, including those on growth potential, use of skills, etc.

Are we where we want to be? Should we actively address this issue? The answer is that we probably should. On balance, we can do a little better. But like most economists, I have a second opinion. Do it in a forward-looking way rather than through an immediate structural shift. Acting precipitously has more downside than upside. The IMF rightly warns that poorly designed efforts to reduce inequality could distort incentives and undermine growth. One needs a win-win policy implemented over time.

How could we go about it? Are there some levers? You've heard a number of them today. Invest in education: early education, primary education, secondary education, and post-secondary. You have to address all of them. Invest in early childhood development. Recent research strongly suggest there's a huge payback. Implement active labour market measures to boost employment. Improve access to capital for those in lower-income ranges—microfinance, for instance. Remove the welfare wall built into the tax system, and eliminate distortions and improve efficiency in the tax system.

● (0910)

What are the conclusions? Under all measures, inequality increased in Canada in the 1990s. We are higher than we used to be. Again, we're somewhere in the middle of the pack, and we're not getting worse. This is an issue that deserves close attention. Inequality can undermine Canada's economic performance and prevent individuals from reaching their full potential. Numerous policy levers exist and can be refined to actively address the issue.

Thank you very much.

**The Chair:** Thank you very much.

We will now go to Mr. Eisen, please.



**Mr. Benjamin Eisen (Assistant Research Director and Senior Policy Analyst, Frontier Centre for Public Policy):** Thank you very much for the invitation to appear today. The very existence of this study reflects the fact that there is a growing consensus around the world that evaluations of national economic performance shouldn't rely exclusively on measures of overall growth in gross domestic product. We should also take into account the extent to which the benefits of growth are broadly shared across the entire income distribution. This is a welcome development.

In Canada, as in many other affluent countries, high earners have enjoyed a large share of overall income gains in recent decades while real income growth through much of the rest of the income distribution has been somewhat slower. This sluggish income growth in the middle and bottom of the income economic distribution over the course of several decades should certainly be taken seriously. There are effective policy responses available, which I'll discuss later and which I expand upon in my written brief.

However, the committee should also recognize that there are powerful demographic and economic forces that are driving strong income growth at the top of the distribution and that these forces are likely to continue pushing in the direction of continued income inequality growth.

First, Canada's population is aging. Generally speaking, there's a greater income inequality among older workers than younger workers. The wages and salaries of highly skilled workers tend to increase faster over time than the wages and salaries of less skilled workers, leading to greater income disparities towards the end of careers than existed at the beginning. It's for this reason that the American economist Tyler Cowen went to far as to say much of the measured income inequality growth that we've seen is a matter of demographic fiat. Perhaps that's somewhat of an overstatement, but it's a very important factor that has contributed to income inequality growth in North America.

Secondly, there are global economic market forces related to globalization and technological change that are continuously driving up demand for highly skilled labour. This rise in demand for highly skilled labour is likely to continue, driving significant income gains for high earners. There are many policy options that can help increase the after-tax incomes of low- and middle-income families. The committee should study and pursue these types of reforms while recognizing that continued income gains at the top are likely. The objective should be to identify policy options that can contribute to robust income gains for families in other parts of the economic distribution as well.

The OECD has performed extensive research on policy strategies designed to mitigate income inequality growth. Their research deserves careful attention from Canadian policy-makers. OECD research suggests that some policy options represent a trade-off between the objectives of reducing income inequality and promoting economic growth. The key examples they cite are increases in corporate and personal income tax rates, which the OECD observes would likely decrease income inequality because these taxes are so progressive, but would also likely hinder economic growth because of negative effects on labour use, productivity, and capital accumulation.

However, the OECD research also identifies a number of policy approaches that do not entail this trade-off. In fact, there are other strategies likely to produce what they describe as a double dividend, which can help mitigate income inequality while contributing to growth. I suggest that the committee focus its attention on this second category of policy responses. Strong economic growth is absolutely essential to Canada's efforts to reduce poverty and ensure adequate government revenue generation. Policy responses to inequality that come at the cost of lost growth are likely to be self-defeating.

The OECD describes several broad policy strategies that are likely to produce this double dividend I've described. Their advice includes expanding the quality and reach of education. We've heard several suggestions along those lines today. They also include efforts to promote the successful economic integration of immigrants. In 2012, the Frontier Centre for Public Policy published an e-book by Professor Bryan Schwartz of the University of Manitoba, detailing strategies to reduce barriers to occupational freedom for new immigrants to Canada, many of whom have difficulty having credentials recognized. Efforts we can make to improve their successful economic integration will create the double dividend of reducing income inequality between immigrants and native-born Canadians while at the same time contributing to overall national income.

Finally, on strengthening tax policies that increase the after-tax incomes of low- and moderate-income families, strengthening the working income tax benefit is one that immediately comes to mind, a policy that might be paid for by eliminating deductions that benefit the affluent. All these approaches are applicable in the Canadian context, and I discuss them all in greater detail with specific recommendations in my written brief.

There are many policy strategies that can help promote strong income growth through the income distribution, and many of these strategies can help strengthen the economic performance of the country taken as a whole. There need not be a trade-off between mitigating inequality and promoting growth. By proposing these types of policy strategies, the committee can help promote economic opportunity for all Canadians while contributing to our country's prosperity in the years ahead.

Thank you.

● (0915)

**The Chair:** Thank you very much for your presentation.

We will go now to Professor Wilkinson for your five-minute opening statement, please sir.

**Dr. Richard Wilkinson:** I would like to use this as an opportunity to first emphasize the kind of damage that inequality does to a society. We went through a whole range of outcomes, looking at different levels of health, child well-being, and mental illness, homicide rates, imprisonment levels, teenage birth rates, drug use, kids' math and literacy scores, and social mobility in rich, developed countries, and found that all these things are worse in more unequal countries.

People, I think, have been surprised that something like income inequality can affect so many quite different outcomes. The explanation is that, basically, what we're saying is that problems related to social status within society—in that all these problems are more common at the bottom of the social ladder—get worse when we increase the social status differences in a society. They don't just get a little bit worse; these problems get anything from twice as common up to ten times as common. All these problems tend to move together in different societies, so the U.S. does worse than any of the other developed countries or nearly worse than any of the others on homicide rates, obesity rates, mental illness, drug abuse, teenage births. Life expectancy there is amongst the lowest in the developed world. All those problems are better in the more equal countries—the Scandinavian countries and Japan.

We don't have time to go into the causal mechanisms in detail, but basically what income inequality does is intensify all the ways in which class and status imprint themselves on us throughout life. The differences in performance of more and less equal societies are so large—as I say, with sometimes tenfold differences in some of these outcomes—because although these problems are worst at the bottom of society, with greater inequality the whole social fabric of a society is affected and the problems become worse amongst the vast majority.

These are not simply problems of poverty. Michael Marmot, who is perhaps the pre-eminent world expert on health inequalities, often says you can take away all the problems of poor health and poverty and still have most of the problem of health inequalities left. The health inequalities are a gradient going right across society, so even the people just below the richest have worse health than the richest. It's not a problem that you can understand simply in terms of unemployment, homelessness, and things like that. We're all part of this picture of health inequalities and also the gradients in the other problems I've mentioned.

The reason Canada does better than the U.S.A. on so many of these outcomes seems very clearly to be because you are more equal. In analyses of homicide rates and death rates from all causes, Canadian provinces come very much where you'd expect them to on the more equal end of the U.S. states.

I think people sometimes imagine—and we've had criticisms from the far right suggesting this—that we've manufactured the data by picking and choosing and so on. We never pick and choose data. We never decide what data is comparable. We simply download the data from WHO or OECD or the UN human development website, and include all the data they provide for the countries we're looking at. There's absolutely no picking and choosing. Yet, we find this consistent pattern, a tendency for more unequal countries to do worse across the whole society.

• (0920)

The methods we've used in our book, *The Spirit Level*, are very simple and straightforward because we were trying to communicate a picture to a wider public. But in medical journals in particular, the epidemiology journals, there are much more sophisticated analyses. For instance, colleagues from the Harvard School of Public Health did an analysis of multi-level models, looking at the effects of

income inequality on health, after controlling for individual income and often education as well.

• (0925)

**The Chair:** Professor Wilkinson, could I get you to wrap up, please? Then we'll go to questions from the committee members.

**Dr. Richard Wilkinson:** Yes.

There are much more sophisticated analyses, and many of the analyses have been covered—in as much as 200 papers—in the academic journals on health and inequality and on homicide and inequality. There's massive literature on this, and some of it very sophisticated. What's in our book is not the whole picture.

Thank you.

**The Chair:** Thank you very much for your presentation.

Perhaps I'll explain, in response to Professor Lee, that we did combine the two panels this morning. We felt it would be better to have a larger discussion over a two-hour period. I hope everyone can stay for the full two hours.

I'll remind everyone that members have a very short time for questions and answers. I'll ask members to direct their questions, and witnesses to be as brief as possible in their responses.

Ms. Nash, please.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you, Mr. Chair.

Good morning to all the witnesses. Thank you for joining us here today. We do only have five minutes, so we have a short timeframe to ask questions in.

I was struck, when I read your book, Professor Wilkinson, by the impact, the vast impact, of inequality on people at all social levels, and the variety of outcomes.

To Professor Boadway, you discuss in your brief a rising trend of income inequality in Canada. Can you describe when you think this trend began, and what some of the main contributing factors are to rising inequality in Canada?

**Dr. Robin Boadway:** This is a very big question.

As one of the other witnesses said, it probably goes back to the early 1990s. Many things have happened in the world to cause inequality in OECD countries, including more competitiveness for manufacturing industries. We've seen a decline in manufacturing industries and the middle-income jobs that go with the industries. We've seen a competing down of redistributive policies because of mobility of capital and highly skilled people across countries.

I think it's hard to pinpoint exactly what the cause of it is. My concern is really more that we haven't responded as well as we could have. At the same time as inequality has increased, our policies have become less and less effective at dealing with it.

**Ms. Peggy Nash:** Just on that, because I know you're also a tax specialist, one thing we've seen is a trend to more specialized tax credits. I'm wondering about your take on how specialized niche tax credits fit into the overall framework of a progressive tax policy system.

**Dr. Robin Boadway:** Well, tax credits are there for different reasons. Some tax credits are there to impart progressivity to the system, such as personal tax credits, disability tax credits, seniors tax credits, and so on. Other tax credits are there to try to encourage people to behave in certain types of ways—giving to charity, giving political donations, riding public transit, putting your kids into fitness programs, and so on.

My concern with these tax credits is that they're not very effective, for one thing. In many cases they're just credits that go to people who would have done the same thing anyway. Public transit is a good example. Most people who get public transit are not changing their behaviour in the least possible way.

Moreover, the credits tend to be almost regressive. They tend to go to people in the middle class. The educational savings tax credit is a good example of that. In some sense the RESP is a good program, but it's not very well targeted.

**Ms. Peggy Nash:** Thank you.

Professor Corak, I'd also like to ask why you think inequality is on the rise. You have written about a trend of wage polarization, about technological change, and changes in the labour market as contributing to rising inequality.

Can you expand on some of the structural factors that are influencing this trend?

• (0930)

**Dr. Miles Corak:** Generally, the way labour economists think about this is the interaction between technical change and globalization. This began, probably in the late 1970s and early 1980s, to polarize the labour market. People who traditionally did routine tasks, whether they were physical or cognitive, saw the value of those skills fall tremendously. As a result you saw weekly wages at the lower end fall significantly in Canada. On the other hand, people who did non-routine tasks, whether those were physical or cognitive tasks, saw the returns to their skills rise significantly.

The third reason that inequality rose was because of the very significant rise in the share of income going to the top 1%. That happened for different reasons as well—technology, globalization, but also changes in corporate culture and our proximity to the U.S.

All of this has led to higher inequality in Canada steadily since the early 1980s, but the take-home pay after taxes and transfers has remained basically the same. The tax and transfer system outdid the market in the growing market inequalities up until the mid 1990s. After that, either because of a lack of political will or for whatever reason, the tax system began to echo the market much more and we lost the distributive role.

That said, in Canada, the tax transfer system significantly does change inequality.

**The Chair:** Thank you.

Thank you very much, Ms. Nash.

We'll go to Ms. McLeod, please.

**Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC):** Thank you, Chair.

Thanks to all the panel members. This has been the start of a great conversation today.

First of all, I'd like to focus in a little on education. I think everyone here talked about the importance of education. I have to presume you mean finishing high school, and not necessarily university but some sort of post-secondary trade or skills.

Is that what people are defining as important in terms of income inequality? Does anyone care to jump into that one?

We're not saying it's just universities that are important but also getting the skills and trades for the jobs.

Mr. Muzyka.

**Dr. Daniel Muzyka:** If you look at it, I think education at all levels is important. This goes to getting people at early ages into the educational system, making sure we develop their natural skills and abilities and that they stay in.

Post-secondary education covers a whole array, not just universities but colleges, trade schools, the polytechnics.

**Mrs. Cathy McLeod:** I just wanted to make sure we weren't completely focused on a university because I think that piece is important.

I know there's often talk about universality versus targeting. Certainly I feel very fortunate in my life. I know many people who feel very fortunate, whose children have finished university and have managed to finish debt-free, and of course have been supported by their families. Should we be creating a universal system, or should we be giving a hand up to those people who really need the help, who would be challenged to go to university or a trades program if nothing else existed?

Actually, the same goes for child care. I never thought it made any sense for the government to be supporting my child care and also the child care of my choice. Let's talk a bit about that targeting to those most in need versus universality.

Mr. Lee, do you have anything to say there?

**Dr. Ian Lee:** First, I want to agree with your comments. When I said post-secondary, I meant university or college or trade.

I don't believe it's appropriate that everybody goes to university. The latest HRSDC stats show about 22% go to post-secondary. I can't remember the number—Professor Corak would probably know—but the number that go to college is a little bit higher. Of course, trades are the third one. That's the first point.

I'm not worried about who goes on to post-secondary. I just don't get worried about that. I'm worried about the 45% of adult Canadians who do not go on to post-secondary, whether it's college, trade, or education. The literacy network is using a methodology that ranks literacy on a scale of 1 to 5, and industry and government today need a level 3 literacy, as a minimum. They have found—I don't know the source of their methodology, but they're in partnership with HRSDC, as well as the association of manufacturers and exporters—that 48% of adult Canadians do not reach level 3 literacy. Well, if you don't reach the minimum necessary to work in federal, provincial, or municipal government, hospitals, universities, colleges, or private sector, then you're going to be in the bottom quintiles.

There's no magic to this. If you don't have the skill sets to be hired, you're going to be filtered out. You will not even be interviewed. You won't even be screened in. It's just a fantasy for anyone to think today that if you have grade 10 you can go in a management training program with IBM, or the Bank of Montreal, or the Government of Canada to become a vice-president or a deputy minister down the road.

We certainly have to address high school dropouts. The latest numbers, again from HRSDC, are that just under 10% of Canadians today are dropping out, so that's come down significantly. But we have to deal with the 45% who don't have PSE and the 48% who are not at level 3 on the literacy standards.

• (0935)

**The Chair:** You have one minute.

**Mrs. Cathy McLeod:** I think what I'm hearing from that is, if we are providing support, instead of providing very expensive universal programs, we should look at the people who are really challenged in their lives and target the support to those people.

Is that something that—

**Dr. Ian Lee:** I would agree with that.

**The Chair:** We have three people who want to comment.

Ms. McLeod, who would you like? Can you direct it, for a minute here?

**Mrs. Cathy McLeod:** I'll go to Dr. Reid.

**Dr. Anna Reid:** We know that the best return on investment, in terms of health outcomes down the road, is early childhood development and education. That means before you get to kindergarten.

We know that the kids of people living in poverty do not do as well by the time they get to kindergarten. They're already marked for life. So, that's the area, if we want a good return on investment. The numbers are anywhere from 1:6 to 1:8 returns. We need to start looking at those areas.

**The Chair:** Thank you, Ms. McLeod.

We'll go to Mr. Brison, for your round, please.

**Hon. Scott Brison (Kings—Hants, Lib.):** Dr. Reid, to that point, the Fraser Mustard and Margaret McCain studies on this would bear that out, that the economic return for investment in early learning—particularly for children in high-risk situations—is probably the greatest area of return, in terms of investment in education.

Mr. Muzyka, you're experienced both in higher education and now with a think tank. You agree with this as well.

Is there a risk, Mr. Boadway, that we'll see a gap in the provinces' capacity to afford things like early learning and education, with the balkanization in the Canadian economy and the deeper divides, fiscally, between provinces in terms of capacity?

If we agree that it's important, is there a risk that inequality of opportunity among provinces is going to grow?

**Dr. Robin Boadway:** I think that's key. That's the key argument behind equalization-type programs, providing basic services at comparable levels across Canada.

To me, equal opportunity is putting people on the same playing ground to begin with, which means giving everybody an opportunity to develop their skills early in life. To hark back to the universality versus targeting, I think where universality is important is in achieving equal opportunity. Targeting is more important in dealing with the consequences of how people use that equal opportunity.

Most of the programs that deal with equal opportunity are actually provincial responsibilities. Yet, if you look at subsection 36(1) of the constitution, it says explicitly that the federal government and the provinces have joint responsibility for achieving equality of opportunity.

**Hon. Scott Brison:** Would you agree that there's a significant gap between the ability.... I have friends who are paying \$12,000 a year for their kids to be in early learning programs where their two-year-olds are able to count to 10 in Spanish. Then I have other friends who can't afford that, and their kids are not getting that sort of educational opportunity. I know some other people who struggle with literacy themselves and can't even read to their children.

Is that not, perhaps, the best bang for the buck in terms of public investment in that early learning area? Again, with the gap between fiscal capacity among provinces, that will deepen in time if we don't address it.

**The Chair:** We have Professor Wilkinson as well, Mr. Brison, but whom do you want to go to first?

**Hon. Scott Brison:** Dan, and then Professor—

**The Chair:** Okay.

• (0940)

**Dr. Daniel Muzyka:** If we look at the evidence from some of the programs, there's a recent study of the U.S. head start program. You want to invest early. You want to target those investments to those who can ill-afford them, to answer the earlier question. But there's a "but"—you have to follow up. This is why you have to go through the entire educational continuum. If you don't follow up in the early education, the lead falls off.

**Hon. Scott Brison:** Thank you.

Professor Wilkinson.

**Dr. Richard Wilkinson:** May I remind you that the rises in income inequality that have taken place in so many of the rich, developed countries has not been driven by changes in education systems. The runaway incomes at the top are a quite separate phenomenon, and that's what has driven the widening income differences. Of course education, particularly early education, is important. But it's a different subject.

Income inequality matters for its own sake. If you look at the major changes in inequality in the 20th century, you get high inequality until sometime about 1930, and then it slides all the way through the thirties, forties, fifties, sixties, seventies, and then you get the modern rise of inequality. That is, as Paul Krugman says, driven by politics. We know that the newer liberal economics that came in at the beginning of that rise is crucial.

**Hon. Scott Brison:** Thank you, Professor Wilkinson.

The CMA has indicated—and you, Dr. Reid, have said—that the changes in EI and in the old age security system could have a deleterious effect. Professor Boadway, you referred to an offloading of federal policy to the provinces.

Could those changes, and the requirement for provinces to pick up the slack through welfare systems, deepen income inequality?

**The Chair:** Keep your answer brief, please, Professor Boadway.

**Dr. Robin Boadway:** Clearly, at the bottom end of the skill distribution, that's the case. People who are not eligible for EI or who have exhausted their benefits and go on provincial welfare are noticeably worse off than other people in society. Those people are the ones who are the provincial responsibility at the moment.

**The Chair:** Okay, thank you.

Thank you, Mr. Brison.

Mr. Hoback.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair.

Mr. Lee, I really appreciate your testimony and how you gave your own personal experience about growing up and getting through it. When I listened to it, it kind of reminded me of some similarities to my own situation. There was one time in your life when you realized that there was more to this, and then you got a job, and you got a job with a company where you had the ability to go on with continuing education. I had the same thing. I got into a company that encouraged education, whether it was formal education through university or something else.

What we did in this last budget with the skills training grant of \$5,000-\$5,000-\$5,000, do you feel that is one of those things that will encourage more employers to proceed with that skills training and the education for the skilled jobs we need right now?

**Dr. Ian Lee:** I was in the budget lock-up all day, like everyone else. They won't let you out before four o'clock. That was the part that captured my attention in the budget lock-up. I believe in retraining, both formally through post-secondary, and training delivered by companies.

We have been criticizing elected officials like you. Academics and NGOs have been criticizing what we've been doing in Canada for as long as I can remember, literally for entire my adult life, the last 40 years. I thought for a long time that one of the flaws was that it was top-down rather than bottom-up, and that it was driven by people in Ottawa or Toronto. There is nothing wrong with people in Ottawa or Toronto—I'm from here—but they don't understand what's going on in a small town in the Maritimes.

To respond to your question, the proposals in the budget brought the business employer into the game. They have to put skin in the game, so to speak, so that now it's a tripartite sharing between federal, provincial, and the employer working with the employee. But I think the driving force under the new policy is going to be the employer and the employee. The employee has to be involved, because he or she has to buy in and be committed to the retraining. That's why I was very strongly supportive of that proposal in the budget.

**Mr. Randy Hoback:** Obviously, as you progressed in your career, you took your training and finished your university degree 10 years later. I give you credit for going through and having the perseverance.

What I find interesting right now is that there always seems to be this thought process that when you get to grade 12, hey, you're done school. There's no more training. There's no more need to learn anything else beyond that.

That's probably one of the biggest lies out there right now.

• (0945)

**Dr. Ian Lee:** I agree.

**Mr. Randy Hoback:** I think there's always training going on.

How do we change that perception within the education system from a federal level—because that is controlled by the provincial level—so that we actually see that endorsement of ongoing lifelong learning, ongoing lifelong training, so that it becomes part of our culture?

**Dr. Ian Lee:** I'm not sure what the federal government can do. I mean, at the provincial level it is changing. You can see it in the statistics. That is to say, the dropout rate has been steadily declining over the past 10 to 15 years. The participation rate has been climbing for those who attend college and university and trades.

So I think there are changes going on, but I don't think it's fast enough, because we're in a much different economy than even 30 years ago or 20 years ago. It's much more sophisticated. Grade 12 is just simply completely inadequate.

I tell my own students, if you don't go on to college or university or trades, you'll be in the bottom two quintiles, I think, for the rest of your life. The data is very clear. In the slides I've provided to the committee, you will see the data. It is StatsCan data.

**Mr. Randy Hoback:** Do you think we have enough...? From talking to some of the younger people in our economy, I guess one of the concerns from Saskatchewan is the actual opportunity to get into these courses.

I'll use the example of an electricians course in Prince Albert. For the longest period, up to actually three weeks ago, they could get to a certain level of journeyman's status, and then they had to go to Moose Jaw or somewhere else. There was always a bottleneck there, and not enough spots. We opened up more spots in Prince Albert so that they could do it in Prince Albert.

Do you think we need to see more provincial spending in that area so that there's actually not just the opportunity from the employer for the employee to go on and take that training, but actual spots in the skills that are required?

**The Chair:** You have one minute.

**Dr. Ian Lee:** I'll be very quick.

I don't have that data at my fingertips, but I certainly have spoken to a lot of employers and individuals who have expressed great frustration.

I think we do a fairly good job, notwithstanding Professor Boadway's comments, at universities, but the colleges have been the poor sisters, as have the training programs we've established. Not everybody is going to go to university. Only 20% of Canadian adults go to university. That means 80% don't. This means we have to get them into college, I think, or into trades.

**Mr. Randy Hoback:** Okay.

Just quickly, Mr. Holden, you kind of made reference to the difference between using statistics in terms of percentages versus real dollars. You used one example of a 10% increase. Could you just highlight how that impact can actually distort numbers?

**The Chair:** Can we get a very brief response, Mr. Holden?

**Mr. Randy Hoback:** If we don't have time, you can make a written response, too, Mr. Holden.

**Mr. Michael Holden:** Sure.

Well, in terms of the 10% increase, I wanted to highlight the fact that a lot of the time, if you have somebody at a low-income level and a high-income level and they both increase by the same amount, you end up changing just the size of the number that you're talking about, rather than the level of inequality between the two.

That was the point I was trying to highlight there.

**The Chair:** Thank you, Mr. Hoback.

[Translation]

Mr. Caron, you have five minutes.

**Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP):** Thank you very much, Mr. Chair.

Since we started this study, we have heard a lot about education and training of the workforce. I expect that to continue until the end of the study. I don't think anyone on our committee or even in the House will deny that those are extremely important aspects for greater equality for opportunities. However, although Mr. Boadway and Mr. Wilkinson spoke about it a bit, we have always minimized one aspect, and that is restructuring the economy and the impact it has.

Mr. Holden, you gave figures and simplified examples. I understood, but I would like you to provide more information. Since 1990, Canada's GDP has increased in real terms from about 60% to 80%, while actual salaries have stagnated. So revenue from growth has not been from salaries, but rather from capital. We acknowledge that people in the last two quintiles have, at least, very little revenue from capital. Is that not an example of the current systematic problem that leads to income inequality?

[English]

**Mr. Michael Holden:** The question of the factors that have been contributing to inequality were discussed by Professor Boadway I think very well—i.e., that things like technological change, the move of manufacturing overseas, and the loss of manufacturing employment have contributed to that problem.

On the increase in salaries, it's true that salaries have not increased to the same extent that the GDP has over the years. There has been some increase recently. There was a substantial decrease in the early 1990s, in particular, in incomes across Canada. We spent most of the rest of the decade and into the 2000s catching up on average for the entire economy.

I think one of the things that happened at the same time was that there became, over that same time period, an increase in the premium of particular types of skilled labour. Through technological change and other factors, these skilled jobs became much more valuable to our economy, and so we saw a polarization over that period.

● (0950)

[Translation]

**Mr. Guy Caron:** Would you say that the federal government made a mistake when it began to record the restructuring of the economy that came from the effects of globalization? In fact, should we have transition and direct assistance programs for workers who were victims of that restructuring because they were forced to change industry and who might, for example, need workforce training programs to renew their skills and capacities?

One of the problems we had, for example, with markets opening up from NAFTA and other free-trade agreements was the fact that there were very few concrete measures for workers who were going to be displaced because our manufacturing sector was going to weaken.

[English]

**Mr. Michael Holden:** The difficulty, I think, is that it's easy to look at these things with 20/20 hindsight. The move to free trade, I think most people would agree, has benefited Canada on the whole. There have been industries that have shut down. There have been other industries that have prospered as a result, and in some cases what happened was unpredictable. The big example, in the late eighties when free trade with the United States was coming in was that we thought our wine industry was going to be decimated and it would no longer exist. That turned out not to be the case.

I think at the time these kinds of transition programs are being developed, it's difficult to predict what the needs are going to be.

[Translation]

**Mr. Guy Caron:** I would like to give Mr. Muzyka and Mr. Boadway an opportunity to respond.

Mr. Muzyka, what do you think?

[English]

**Dr. Daniel Muzyka:** I think there are a couple of things in here that are important. You've heard the word "globalization" in terms of the income shifts, but technology is also a huge force that impacts that middle class, in which the value of the information and consolidation skills has become lower. Technology replaced a lot of those. We did actually see that the average income level—I'm just reading this—of the lowest-income group in Canada, after taxes, transfers, and inflation adjustments, rose from \$12,600 in 1976 to \$14,600 in 2010. That's in 1976 dollars.

I think the bigger impact is because of technology, in some ways, hitting that middle class group.

[Translation]

**Mr. Guy Caron:** To wrap up, I would like to give Mr. Boadway a chance to respond, as well.

[English]

**The Chair:** Very briefly.

**Dr. Robin Boadway:** I'll just make one comment about training. One ought to distinguish in the training debate between training of new workers coming into the labour force and retraining of workers who have lost their jobs through layoffs or technological shock or whatever, a lot of which happened in the 1990s and the early 2000s.

The evidence on retraining of people who have lost their jobs and have come into the workforce is mixed. People find jobs through training, but they very rarely recoup the wage level they had before the job loss took place, and I think that's where the tax-transfer type of redistributed systems are really quite important.

**The Chair:** Thank you.

We'll go to Mr. Van Kesteren, please.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Chair.

Thank you, all, for coming here.

Mr. Lee, are you a professor of economics?

**Dr. Ian Lee:** No. I'm in the Sprott School of Business at Carleton University.

**Mr. Dave Van Kesteren:** We talk about the poverty level, and I think Mr. Caron was talking about how incomes have failed to rise. Is it fair to do that and not put into the equation the benefits that we as a society have obtained since, say, the fifties in health care? If I'm working for an employer, I may be paid \$20 an hour, but if I'm getting dental and health care, etc., and we have paved roads.... The list goes on and on.

Is it fair to compare those and not put that into the equation?

**Dr. Ian Lee:** I think I understand your question. That's why I was referring to Professor McCloskey at the University of Illinois who has studied the origins of the market economy and what it has done.

I should have disclosed earlier that almost immediately after I became a professor in 1988, the Berlin Wall came down, and beginning in March of 1990, I started teaching in countries that were under the former communist system. I've taught in just about every form of communist country in the world. I've been teaching in China since 1997, and I've taught in Russia, Bulgaria, and so forth.

Although they had radical equality in these countries, they were all radically poor. I saw this up close, first-hand, and personally, because when the wall came down, they didn't suddenly become wealthy western countries. It took literally 10 years. Some of these countries still haven't transformed. I'm talking about countries such as Ukraine and Russia, which are still radically unequal and radically corrupt, whereas Poland transformed much more rapidly, so it has become much more successful.

• (0955)

**Mr. Dave Van Kesteren:** So they need all those layers of wealth that we've accumulated.

There's one thing that's not coming into this equation, and that is experience. You spoke of your experience. I could speak of my experience, and I think probably others could too. I was born poor. I know what poverty is, so when people talk about poverty, here's the thing that poverty did for me: I didn't want to stay poor.

But there was opportunity back then. That's the difference I see. I don't see too much opportunity. I remember that as a young man.... And listen, I finished Grade 12. I went to Grade 13 for one week and said, "Forget it, I'm going to work." I saw opportunity as a young man, as I think every young woman did. Everybody saw opportunity. At every street corner, it was "I could go into business doing this" or "I could go into business doing that". That opportunity is gone. Would you agree with that?

**Dr. Ian Lee:** Indeed. There's a professor at the London Business School—I wish I could remember his name—who is originally from India. He said that people look at the slums of Calcutta and say, "Oh, look at all these victims." He said, "All I see are entrepreneurs."

**Mr. Dave Van Kesteren:** I just came from South Sudan. I see the same thing. It's a poor country. I'm not worried about those people because those people want to go...they just see opportunity.

**Dr. Ian Lee:** Where you stand depends on where you sit.

**Mr. Dave Van Kesteren:** I'm going to ask another question. We've compared the rich countries to the poor, and in the developed countries the United States comes out at the bottom. What would happen to this world if the United States were to collapse? What would happen to the GDPs of all these other countries?

**Dr. Ian Lee:** I fully acknowledge the inequalities. They are there, and of course we want to reduce them. Of course we do. But at the same time, I think we are ignoring the larger picture. As Professor McCloskey has noted, in the last 200 years the average human being around the world has gone from a dollar a day in the western countries to \$150 a day almost overnight, from 1800 to 1900, and this is something that we should be celebrating, I think, rather than condemning.

**Mr. Dave Van Kesteren:** Are we missing something? I seem to remember that the Americans used to say "give us your poor and give us your downtrodden". Did they see something that we don't see today? Did they see that as a vehicle to lift that nation out of poverty?

**Dr. Ian Lee:** Going back to my experience in travelling in these very poor developing countries, there's one thing that struck me over and over.

I haven't counted them up, but I've done somewhere between 80 to 100 trips in the last 15 or 20 years to these countries, and the lineups outside the Canadian and the American embassies for visas to emigrate are 10 times longer than those outside any other embassy of the embassies I see. I am always teaching in capital cities, such as Sofia, Bulgaria, and Bucharest, and Kiev, and the lineups are vastly longer.

People see these two countries and for whatever reason...we could say they are uninformed, except that they have relatives who tell them what's going on here.

**The Chair:** Okay.

A very brief question, please.

**Mr. Dave Van Kesteren:** I'll be very quick.

I had a group of young people who came in, and I applaud them. They were advocating for higher education for the poor. I asked each one of them where they came from. They all came from parents who were professionals who pushed them...except for one student who came from immigrant parents and whose dad said, "Listen, you're not going to do this, so you're going to school." Is that a pretty good analysis as to why we're not having success—

**The Chair:** Okay.

Very quickly, please.

**Dr. Ian Lee:** I'll be quick: yes.

**The Chair:** Thank you.

[Translation]

Mr. Côté, you have the floor.

**Mr. Raymond Côté (Beauport—Limoilou, NDP):** Thank you very much, Mr. Chair.

Instead of focusing on emotions, I will stick to facts and figures.

Ms. Reid, I very much enjoyed your presentation. I must tell you that, for the past 30 years, one of the areas I have been personally interested in is the public health system, its impacts and related costs. One thing I'm particularly interested in and that I found very interesting in your presentation is that, when we talk about social determinants of health, in reality, factors like housing situations, adequate nutrition and so on account for 50% of a person's health status and that it is income that has the most impact in that regard.

I would like to bring another point up with you, and I will tell you that my question will be fairly difficult.

Let's agree that Canada's current universal health care system has been the victim of significant neglect, particularly at the federal level. In fact, the initial agreement in the 1960s stated that the federal government would cover half the costs. It has dropped significantly since then.

Could you please comment on the fact that this may be affecting health care coverage for the less fortunate and inequality among the provinces, since some of them are in a much better position to support their health care system, despite the neglect at the federal level?

• (1000)

[English]

**Dr. Anna Reid:** We know that the health care system has a lot of problems. It's responsible for about 25% of your health outcomes, which is not inconsiderable. One of the big issues we see as physicians is that the health care system only covers physician visits and hospital care. There are many other things going on outside of the health care system that are difficulties for people who don't have adequate income right now. For example, we know that one in 10 Canadians cannot afford to buy their own prescription medication. So we've been advocating for some sort of pharmacare plan that would find ways to fill in those gaps. This would involve a pooling of risks between public and private plans so that every Canadian can have access to their needed medication. That's certainly a big concern and it's something outside the Canada Health Act.

The same goes for long-term care, home-based care. We know very well that if you are poor in this country, your prospects of requiring any kind of reasonable long-term care are not good. You may block up hospital beds. For example, my father has advanced dementia and I pay \$6,000 a month to put him in assisted living with care. If I did not have that money, he would be sitting in a hospital bed right now at the Ottawa General Hospital and bumping the cost of the system up. These are the issues outside the current health care system that I think we need to put some public policy towards.

[Translation]

**Mr. Raymond Côté:** Thank you, Ms. Reid.



The Beauport—Limouilou riding, which is located in Quebec City, is particularly disadvantaged. I have a table from the public health authority that outlines these differences. For some health factors, that sometimes doubles. That's the case for mental health, in particular. It is a huge motivation for me, as a politician. Thank you very much for the information about that.

Professor Wilkinson, in the observations I've made in the past 30 years or so, I have been struck by the fact that a comprehensive public system where there is large public coverage was much less costly. The case in the United Kingdom is very interesting in that respect. In fact, when I consulted the OECD data for 2007—I don't know if more recent data is available—I saw that the United Kingdom is in a particularly good position with a health system that costs much less than in other G7 countries, while providing coverage to much more of the population. This is the case compared with Canada and, more particularly, the United States, which is the extreme case for G7 countries.

Would you like to comment on that?

[English]

**Dr. Richard Wilkinson:** I think there are economies in the administration of health services that are funded out of taxation rather than insurance systems. Certainly, it's a benefit that the coverage is universal. But I think it's important to recognize that there are not strong relationships between almost any measure of health care—whether it's hospital beds, doctors per head, or expenditure per head—and accrued outcomes like death rates.

Health services are important, but much more important is whether you get a life-threatening disease to start with. It is a matter of the social and economic conditions in the society that the influence of those sorts of factors vastly outweigh the importance of medical care in determining things like life expectancy.

• (1005)

**The Chair:** Okay, thank you.

[Translation]

Mr. Côté, your time is up, unfortunately.

[English]

Mr. Adler.

**Mr. Mark Adler (York Centre, CPC):** Thank you, Chair.

First, let me retrace a little history. We've had in this country a system of universal single-payer medicare. Historically, we've had good, well-funded social programs. We have had more of a social focus than, say, the Americans. Going back to the sixties, the U.S. had the "New Frontier", the "Great Society" programs, where the impetus was on challenging the American people to lower taxes. Here in Canada, we had the so-called "Just Society", which led to increase in taxes, which led to wage and price controls, which led to inflation, which led to high interest rates.

How effective would you say the Just Society experiment was? Dr. Lee, would we have been better off going down a Great Society route as opposed to a Just Society route?

**Dr. Ian Lee:** Are you referring to Lyndon Johnson's "Great Society"?

**Mr. Mark Adler:** Yes.

**Dr. Ian Lee:** I hadn't prepared for that, although I wrote a comprehensive exam on that about 25 years ago during my Ph.D., so I'm stretching back into my memory.

Very quickly off the top of my head, I think most policy analysts think that the "Great Society" was a failure. I'm thinking specifically of Professor Aaron Wildavsky, who was the first dean of the graduate school of public policy at UC Berkeley. He was a very brilliant individual. He came to Carleton University a few years ago before he passed away. He spoke about the Great Society and went into—call it—the pathologies of the Great Society. There were a lot of failures.

I know this sounds jingoistic on my part, but I do think that we've adopted a more balanced approach in Canada.

**Mr. Mark Adler:** Dr. Muzyka, could you also comment on that?

**Dr. Daniel Muzyka:** I think there are a lot of parts of the "Great Society" program that we've seen haven't functioned over time. I would tend to agree that the more balanced approach has probably functioned a little bit better.

**Mr. Mark Adler:** Would you say, then, that our experiment has led to greater or less income mobility? Assuming that it has led to less income mobility, would that have created more income inequality, because you don't have the incentive to aspire to anything more, as opposed to the American experiment, which tended to be the opposite?

**Dr. Daniel Muzyka:** Our income mobility is actually higher, in terms of our ability to go up through the income ranks, if you will, the quintiles.

**Mr. Mark Adler:** How successful has that been, that upward movement?

**Dr. Daniel Muzyka:** We have actually been fairly successful in terms of income mobility. It's interesting, and I know that Professor Wilkinson could reflect on this. If you look at families, I think the statistics in the U.K. show that about 50% of the income gap that your parents have stays with you. If I remember correctly, in Canada it's about 19%. It's a difference in mobility. In Canada we have a higher mobility than in the United States as well.

**Mr. Mark Adler:** So in your opinion, the vertical mosaic doesn't really apply any longer here in Canada.

**Dr. Daniel Muzyka:** I'm sorry, I'm not familiar with the phrase.

**The Chair:** You have 30 seconds.

**Mr. Mark Adler:** You talked a bit about the Gini coefficient, which is on a scale of zero to one. Canada is twelfth, the U.S.A. is seventeenth.

Where are we missing? Why are we twelfth? Why aren't we in the first one to three, or one to four? What are we missing?

**Dr. Daniel Muzyka:** These are complex sets of factors, really. You've heard from several people that it's really hard to pick it apart.

One of the things that I emphasized earlier that's rather interesting is that if you look at the Gini index, the ones that have the lowest Gini index are trying to raise theirs a bit. They need a little bit more incentive for people to try.

I just came back from Denmark. Sweden was number one in the Gini index pool. They had the lowest Gini index. They moved back from that. They had the largest rise in the Gini index so they wanted more inequality to provide incentive.

**Mr. Mark Adler:** In terms of—

**The Chair:** Thank you.

I'm sorry, you're out of time, Mr. Adler. I apologize.

We'll go to Mr. Rankin, please.

•(1010)

**Mr. Murray Rankin (Victoria, NDP):** Thank you, Chair.

Thank you to all of our witnesses for being here today.

I want to start my questioning with Professor Boadway, but I invite others to jump in.

Sir, I think you've talked in some of your research about the federal and provincial tax systems becoming less progressive through changes that have benefited mostly high-income earners, such as reduced marginal income tax rates for those earning the highest incomes, and through the introduction of federal non-refundable tax credits, which you've talked about, and through the reductions of capital gains taxation.

I want to ask you to talk a little bit more, because on your wish list this morning you talked a bit about the desire to make all tax credits refundable. I'd like you to talk a little bit more about that specific topic, and I invite others to do so as well. If you could, comment on any fiscal impacts such a change would have.

**Dr. Robin Boadway:** Thank you for giving me the opportunity.

Non-refundable tax credits are in the tax system primarily to make the income tax system more progressive.

We now have the technical capability of making them refundable, since the introduction of the HST credit, the child tax credit, and so on. There's no region in logic why non-refundable tax credits should be non-refundable. Making them refundable would essentially convert the income tax system into the analog of a negative income tax system, and would be much fairer.

How would we finance this? I think the way we would finance them would be by making them more targeted. Accompany refundability of tax credits with making them more income tested, and reduce the value as you go up the income scale. I think it's a perfectly feasible thing to do.

**Mr. Murray Rankin:** Do any others wish to comment on that, on the non-refundable?

Professor Corak.

**Dr. Miles Corak:** I defer to Professor Boadway on this. I think this is absolutely correct.

**Mr. Murray Rankin:** All right. May I then take you to the other part that I read from your research? You've done an awful lot on, and spoke again today about, reducing capital gains taxation. You suggested, in particular, eliminating the dividend tax credit, which I presume the lowest quintiles just don't have the opportunity to take advantage of. By definition, it affects and helps those in the higher income bracket. I'm assuming that's the implication.

What about the fiscal? Have you studied the fiscal implications and the consequence of taking that off? Because the claim is it's an incentive to investment, the dividend tax credit, in Canadian companies. What would the consequence be, and is it worth doing so if there are negatives?

**Dr. Robin Boadway:** There's always a trade-off between redistributive equity and consequences, inefficiency consequences, but I think in this case they would be minimal. The dividend tax credit applies only to dividends earned in unsheltered assets. Most people in the lower, middle, and even getting towards the upper income classes can, in principle, nowadays put all of their savings into sheltered assets, which even though some of them are held in Canadian corporations are not eligible for the dividend tax credit. The dividend tax credit for one thing is unfair because it only goes to people who are receiving dividends outside of sheltered assets.

I also think it's unnecessary. The rationale for the dividend tax credit is to compensate people for corporate taxes paid at source on the income that generated those dividends in the first place. But in a global economy like we have now with free movement of capital all around the place, it seems better to assume that corporate income taxes are not borne by shareholders. They're shifted to labour and other factors of production. The rationale for the dividend tax credit is not there; the fairness is not there. What only remains are the comments you made that it may give an incentive for these entrepreneurs either not to save or to put their money elsewhere. In my view, that's probably relatively minimal.

**The Chair:** You have one minute.

**Mr. Murray Rankin:** Mr. Holden, you made a number of very helpful comments. One of the recommendations you made was that we encourage labour mobility. You talked about Saskatchewan as one example. We have a constitution that guarantees labour mobility rights. What can the federal government do to achieve that goal, in your judgment?

•(1015)

**Mr. Michael Holden:** There are a few things. Removing barriers to interprovincial trade is something that can help in that area. One of the things I was going to suggest, which just got cut, was that the government does provide some tax credits for individuals to move across the country or to move for distances larger than I believe 40 kilometres. Those could be expanded upon or increased.

One of the things I think should not be touched... Sometimes it's mentioned that the equalization program, as it exists in Canada, acts as a barrier to labour mobility. I do not agree that's the case at all.

**Dr. Daniel Muzyka:** You come from a province that's trying to reduce the barriers to mobility. TILMA, for instance, was a good first step in terms of reducing barriers. We have accreditation barriers between provinces that shouldn't exist. There is a long list of those that reduce labour mobility in what is a comparatively small population.

**Mr. Murray Rankin:** Thank you.

**The Chair:** Unfortunately your time's up, Mr. Rankin.

We'll go now to Mr. Jean, please.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you, Mr. Chair, and thank you to all the witnesses.

I would like to start with Mr. Holden. You're an economist. You have actually mentioned previously that, "The best policy option for reducing poverty among youth and young adults is to create strong conditions for economic growth and job creation."

Do you remember making that statement?

**Mr. Michael Holden:** Yes.

**Mr. Brian Jean:** Would you still agree with that?

**Mr. Michael Holden:** Yes, absolutely.

**Mr. Brian Jean:** Could you just tell us whether or not you were pleased with the new Canada job grant? That was the commitment from the federal government to work with the provinces to increase apprenticeship opportunities and to provide under-represented groups with help.

**Mr. Michael Holden:** I thought it was an interesting idea. As was mentioned before, it does put the onus on businesses, employers, and employees to take the initiative to meet their own specific labour needs. That was a positive. I hesitate only because the program hasn't been implemented yet. There's been negotiation—

**Mr. Brian Jean:** I understand totally. If there's more skin in the game, you're going to have more commitment from employers—

**Mr. Michael Holden:** It remains to be seen how well it works, but it has potential. Yes.

**Mr. Brian Jean:** You also mentioned in relation to seniors, and I quote again:

The proportion of seniors living below Statistics Canada's after-tax low-income cut-off (LICO)—the most commonly-used measure of low income—fell from 26.1% in 1979 to 5.2% in 2009. Seniors now have the smallest incidence of low income of any age cohort.

Do you agree with that as well?

**Mr. Michael Holden:** Yes.

**Mr. Brian Jean:** So we've had some good successes in that, and you must have been pleased with the government increasing the guaranteed income supplement for the most vulnerable seniors and removing 380,000 seniors from the tax rolls. Those were good steps by the government?

**Mr. Michael Holden:** There are a lot of steps that we're taking.... As mentioned before, removing or almost eliminating seniors' poverty has been one of our policy successes in the last decade or two.

**Mr. Brian Jean:** I think somebody mentioned they didn't like tax credits—I think it was Mr. Corak—and I was suspect for a few years

as well, but we did have tremendous success with tax credits as ridership went up after we introduced the tax credit on transit passes. I wanted to mention that, because we did see empirical evidence to prove that.

I want to spend the last two minutes of my time on aboriginal Canadians. I'm from Fort McMurray. There has been tremendous success in my communities. We have five bands involved in the aboriginal groups that work specifically in the oil sands, and we now have Dave Tuccaro, who is the richest aboriginal in Canada—I think has somewhere over \$100 million in personal wealth—and we have a lot of aboriginals who work in the oil sands at Syncrude and Suncor. At Syncrude, I think it's 15% or 14%, and about 9% at Suncor.

This is an open-ended question. Do you see a successful correlation between aboriginal Canadians' successes and the resource sector? Because that's what seems to be driving the wealth of many aboriginal Canadians, and of course most aboriginal Canadians who live on reserves live in isolated areas where resource booms are happening. So do you see the correlation that opening up the resource boom will help the most vulnerable people?

Mr. Holden, maybe you could comment on that?

**Mr. Michael Holden:** I think that's absolutely where the greatest potential lies as it stands now.

I live in Alberta, and one of the biggest public policy issues we study is how we can help aboriginal Canadians better share in the economic opportunities from resource development on the reserves, or on projects that pass through their reserves.

• (1020)

**Mr. Brian Jean:** Some of the more recent investments by our government in building and renovating schools on reserves is the best we could do as far as the return on investment. The low-hanging fruit of who needs it most is aboriginal Canadians, who have the highest incarceration rate, the highest growth rate, and the lowest education rate of any group in Canada. The more we concentrate on that...and what we've done we should continue to do. Is that fair to say?

**Mr. Michael Holden:** More of that kind of work is needed. There's also more work needed, I think, in helping build the capacity to better participate in these kinds of economic development projects that we're talking about.

**Mr. Brian Jean:** Do I have one minute?

**The Chair:** You have thirty seconds.

**Mr. Brian Jean:** Mr. Eisen, you mentioned that it is important to recognize the technological and economic forces driving income gains at the top, and to recognize that these gains are not necessarily coming at the expense of other workers.

Would you agree with that?

**Mr. Benjamin Eisen:** Yes.

**Mr. Brian Jean:** Could you comment on that?

It seems to me that what you're saying is just because people are making more income, it doesn't mean they're taking it away from the low-income earners.

**Mr. Benjamin Eisen:** Yes, I would say that. I think that obviously as technology advances the returns to investment and high skill go up. There's global competition and markets for these sorts of very skilled and talented individuals, and the wage growth that's been taking place at the top of the income distribution for those workers is very likely to continue. I don't think that it necessarily comes at the expense of other workers in the economy.

**Mr. Brian Jean:** Thank you very much.

**The Chair:** Thank you, Mr. Jean.

Ms. Glover, please, for your round.

**Mrs. Shelly Glover (Saint Boniface, CPC):** Thank you, Mr. Chair.

Welcome to all the witnesses, again.

Mr. Holden, I have to say that the quote you provided that Mr. Jean just read out about job creation almost mirrors what the OECD was saying, and the OECD Secretary General Angel Gurría said, "Increasing employment is the best way of reducing poverty".

I keep hearing here over and over again, let's get people trained, let's give them the skills, let's give them the education so they can get these jobs. We have to create jobs, though, too. So Canada, thankfully, has the best job creation record of the G-7 since the recovery.

Having said that, we also should talk about taxes. I read your briefs, many of you address how taxes affect income inequality, and so I'm going begin by turning to the Frontier Centre for Public Policy, because you haven't had much time to talk here. I'm going to quote your brief. You write that "the 'wrong' way to address inequality...is the introduction of growth-restricting increases on personal and corporate tax rates paid by high earners".

Why is that?

Mr. Holden, could you please follow the Frontier Centre for Public Policy?

**Mr. Benjamin Eisen:** Thank you.

Well, I'll circle back and say that the reason I said that, and the reason I believe it, is that strong economic growth is absolutely essential for everything we're trying to do for poverty reduction and for generating enough revenue to pay for high-quality social programs. So steps we take that have a negative impact on economic growth are undesirable.

I refer back to the OECD studies that I discussed, saying that some of the most progressive taxes in our system—some of the ones that you would naturally and obviously think increasing would be a wise strategy or a potentially effective strategy for addressing income inequality—are also growth-restricting. The OECD has identified them as taxes that are particularly inefficient and particularly likely to restrict economic growth.

So if you raise personal income tax rates and you raise corporate income tax rates, you have these negative effects on growth, which

harm people throughout the income distribution. Now that's not to say that, for revenue generation, we can't change the tax code in ways that ultimately make it more progressive but which are more growth-friendly, which I think we can.

I just think that increasing rates is generally not the way to do it. I think there are a lot of tax deductions and exemptions that benefit disproportionately high-income earners. In my brief, I suggested a comprehensive view of those deductions with an effort to try to make the tax code simpler and more growth-friendly, and ultimately, it could have a really positive effect on—

**Mrs. Shelly Glover:** So, in closing loop holes—I read your brief and I thought that was excellent—we've closed 75 so far. We're moving toward that in budget 2013. So that's excellent.

What else did you say about it?

**Mr. Benjamin Eisen:** Well—

**Mrs. Shelly Glover:** And can you give me a minute for Mr. Holden at the end, Mr. Chair?

**Mr. Benjamin Eisen:** Yes, the more growth-friendly ways—and the other thing about that is you can use the revenue from that to open up and expand the tax deductions that benefit low-income earners.

Circling back to the original question, we don't want to impair growth. We want growth-friendly strategies, and I think raising rates on some of the most inefficient taxes in our system is not the way to address inequality. I think there are better strategies that can accomplish what we're trying to do and can even make the tax code more progressive and won't have these negative effects on growth that we're concerned about.

● (1025)

**Mrs. Shelly Glover:** I appreciate that very much.

Go ahead, Mr. Holden.

**Mr. Michael Holden:** I'd emphasize what you mentioned before about creating conditions for economic growth and generating economic growth as a prerequisite for any initiative we want to take in terms of addressing income inequality or quality of opportunity.

For that we need to ensure we have good market access, that we don't face significant barriers in international trade, and that we continue to be an attractive investment environment both for Canadians and for foreigners looking for investment opportunities here.

**Mrs. Shelly Glover:** Thank you.

I did want to address Dr. Reid.

I think the comment you made about your father was impactful—\$6,000 a month because he requires some extra assistance because of his dementia. It made me think about the transfers we provide to provinces.

Of course, Mr. Boadway in his wish list said we should match the program spending in provinces with transfers. Well, we have been increasing transfers in health—6% every year—and yet when we were here last year, we talked about how the provinces are only spending 3.08%, aside from what Alberta was spending. It was the only province that was spending over the 6%.

I'd love to see them spend that 6% we give them in its entirety and put it toward things like that. But how do we incent the provinces who are getting record levels, \$62 billion at this point, from this government? We've never slashed them like the Liberals did. How do we incent them to do it?

**The Chair:** Give a brief response, please.

**Dr. Anna Reid:** My brief response would be to put some accountability measures on the money that you transfer to them. That would be my brief response.

**Mrs. Shelly Glover:** I'd love to do that.

**The Chair:** Okay, thank you.

Thank you, Ms. Glover.

I'm going to go to Ms. Nash, please.

**Ms. Peggy Nash:** Thank you very much.

It's a shame in a way that we have so many witnesses here and that each one doesn't get more time.

Mr. Wilkinson, I'd like to offer you just a bit more time to speak. There's so much we could ask you in terms of the research you've done, but I need to split my time with Mr. Caron.

I'd like to ask you, in terms of both the causes and the solutions to inequality, what role wage polarization has played in the increase in inequality. We've heard about technological change and economic restructuring, but is it inevitable that we end up with wage polarization and a lower middle class wage, as it were? Can you comment on that?

**Dr. Richard Wilkinson:** I think you're right that the big shift in income distribution has been driven by widening wage differentials—earnings differentials. If you look at the pay gap between CEOs in the top 300 U.S. companies—and these trends are fairly typical of other countries just a bit more exaggerated—compared to the average production worker, up until about 1980 the CEOs were getting 25 times or 30 times as much as the average production worker. By 2000, or early that decade, they were getting 300 or 400 times as much. This has happened in one country after another. It happened first in English-speaking countries—a little bit later, actually, in Canada—and then it spread to non-English-speaking European countries.

I would just say, though, that when people are talking about economic growth and inequality, there's a lot of research looking at the relationship between equality and growth. Although there are some papers that come down on either side of that, the majority suggest that greater equality is good for growth. That's partly because more unequal societies have lower social cohesion. They have more crime. Kids have lower math and literacy scores. You have more people in prison. You have lower social mobility. You're wasting a lot of your talent where you have great inequality.

**Ms. Peggy Nash:** Thank you for that.

I guess you also have more social spending dealing with the consequences, as well as people in the middle and lower income levels having less disposable income to invest in the economy and generate growth.

How much time do I have left, Mr. Chair?

•(1030)

**The Chair:** You have about two and a half minutes.

**Ms. Peggy Nash:** Okay. I'll turn it over to Mr. Caron.

Thank you, Professor Wilkinson.

**The Chair:** Monsieur Caron.

[*Translation*]

**Mr. Guy Caron:** My question is for Mr. Boadway and Mr. Corak.

I imagine you are aware of the changes to the employment insurance program, not just with respect to what was outlined in the 2012 budget, but also the changes to pilot projects. Surely you've heard about what is happening with the temporary foreign workers program. We're not talking about temporary foreign workers who come here to fill positions following a labour shortage, but rather situations where companies use temporary foreign workers instead of the available Canadian labour force. What will the impact of those two situations be on the trend relating to income inequality?

Mr. Boadway, you may start.

[*English*]

**Dr. Robin Boadway:** The impact of the temporary foreign workers?

[*Translation*]

**Mr. Guy Caron:** I am also talking about employment insurance reform.

[*English*]

**Dr. Robin Boadway:** These are very difficult questions.

I think it's too early to say what the effect of the EI reforms is going to be. It depends on how the seasonal industries respond to the reforms and how the training part of it changes.

That's similarly with respect to the temporary worker program. It's clear that the temporary worker program benefits temporary workers, but whether it benefits any other workers in the economy is not entirely clear. It certainly couldn't have a positive benefit on workers elsewhere in the economy, to the extent that it crowds out their opportunity to get a job; although I'm not familiar with all the arguments about how people are not moving to get the jobs in the first place.

I think it's an open question.

[*Translation*]

**Mr. Guy Caron:** Mr. Corak, what do you think?

**Dr. Miles Corak:** Thank you very much for the question.

[English]

To relate this to the previous discussion we had, Ms. Glover's discussion, inequality is rooted in the labour market, and the tax and transfer system is basically a bandage on top of that. What we want to build up is a high-pressure economy at the lower-end skill level. Let the demand outstrip supply, and you'll see wages rise.

In both cases, the employment insurance program and the temporary worker programs, the design of these programs in effect offers a wage subsidy to low-skilled employees. As Professor Boadway said, the evidence is not yet in on this, but I can't see how that can promote a high-skilled, high-wage economy at the low end.

[Translation]

**The Chair:** Thank you, Mr. Caron.

[English]

I want to start my round with Mr. Muzyka.

I'll refer to the study you have on your website, the Conference Board study. The poverty rates you have on your website for child poverty, working-age poverty, and the elderly, indicate they were all increasing from the mid-1990s to the late 2000s. Yet, when I go to Statistics Canada's website and the low-income rates from 1976 to 2009—I have it here, and we have it on another chart to 2012—it's 13% in 1976, and 14% in 1983. The highest is 1996, at 15.7%, but since that time it's gradually reduced. In 2009, it was 9.6%, and it's fallen further since that time.

Clearly there are two sets of numbers here, one from Statistics Canada and one from the Conference Board. Can you explain what that difference is?

**Dr. Daniel Muzyka:** If I may, Mr. Chair, I'd like to turn it over to the person who's actually an expert on that, Brenda Lafleur.

**Dr. Brenda Lafleur (Program Director, Conference Board of Canada):** What are the two numbers that you're referring to? We use data from the OECD. What it does is it takes all of the data from all the different countries and makes sure that it's comparable.

**The Chair:** I'll explain. You have poverty rates on your website.

**Dr. Brenda Lafleur:** Right.

**The Chair:** You have the child poverty rate, the working-age, and the elderly. You show them all increasing. According to Statistics Canada, the low-income rate has decreased since the mid-1990s. In those three groups, if they are going up, you would not expect the LICO—the low income cut-off—rate to drop. So why is the low-income rate dropping according to Statistics Canada?

**Dr. Brenda Lafleur:** The LICO is a different measure. What the OECD uses is a relative measure, so it's a certain proportion that are below a certain median income. You can get two different results from it.

**The Chair:** With poverty, though, would you say that poverty is getting worse for elderly, for children, for working-age, or would you say that, in fact, it is improving somewhat?

• (1035)

**Dr. Brenda Lafleur:** Each of those is different. For the elderly, for certain, it was one of the big successes of the Canadian story to have it come down from such high levels in the 1970s. In the last

few years—and all of the data supports this—it's been creeping up a little. But it still is one of the lowest rates, and it's certainly one of the lowest rates around the world.

**The Chair:** For children and for working-age, how does it look?

**Dr. Brenda Lafleur:** Working-age is increasing, and it has been increasing over the last, say, 20 years. For children, it has been increasing as well.

**The Chair:** The biggest concern for the Conference Board is working-age. Is that correct?

**Dr. Brenda Lafleur:** Correct. We're concerned also with the squeezing of the middle class. If you look at the working-age poverty rate and you see we have a large portion of people of working age with inadequate education levels, that's a problem.

**The Chair:** We have a lot of measures in this country for trying to deal with this issue—a very progressive income tax system, a refundable GST credit, a Canada child tax benefit, a refundable national child benefit supplement, a refundable working income tax benefit, a guaranteed income supplement for low-income seniors. There are a lot of policy measures in place.

Can you give us some advice on what works well and what perhaps we should do in addition to this? Do some of these not work as well as we think they do?

**Dr. Brenda Lafleur:** If you look at the impact of the tax and transfer system over the last few decades, you find that it has been reducing inequality. It has been less effective since the early-1990s. These data have been borne out by our studies and by major studies around the world. You're right that certain programs have been put in place, and they're good programs. But the government has also cut some programs, and that has had a negative impact on income inequality.

**The Chair:** The last government put in place two of the credits, at least two. The working income tax benefit, WITB, was put in place by this government, and we increased—

**Dr. Brenda Lafleur:** Correct.

**The Chair:** —the funding for the Canada child tax benefit and the national child benefit.

**Dr. Brenda Lafleur:** The world is changing, and globalization, and all of these things are changing so quickly that in fact you probably have to move faster on a lot of these programs. If you look at globalization and what's happened to those working class people, the programs you're putting in place are not being as effective as they could be.

**The Chair:** I'm out of time, since I cut everybody else off. But what I'm looking for, as the chair, is whether these specifics work well. Do they not work well? Are there types of programs like this that we should mirror, things like WITB? I think we need some very specific advice, so if anyone wants to submit that to me afterwards, I'd appreciate it.

But my round is up. I will go now to Mr. Brison.

**Hon. Scott Brison:** Thank you, Mr. Chair, and my thanks to each of the witnesses for appearing this morning.

A Liberal government was proud to introduce the WITB measure in the fall of 2005, prior to our being given a sabbatical in January 2006. But we're glad the Conservatives kept that measure, and we support it heartily.

**The Chair:** [*Inaudible—Editor*]

**Some hon. members:** Oh, oh!

**Hon. Scott Brison:** Well, yes. It's been twice extended, but we've learned enough. We're ready now to go back to work.

Mr. Eisen, you believe we can have tax reform that could render taxes more progressive and fairer, and at the same time be pro-growth. We can do both.

**Mr. Benjamin Eisen:** I think we can.

**Hon. Scott Brison:** Do you believe that...? You mentioned some of these tax measures. I think you referred to them not as loopholes, but... What were some of these tax credits?

**Mr. Benjamin Eisen:** I think I said deductions and exemptions.

**Hon. Scott Brison:** Deductions. That's right. Ms. Glover, I think, said loopholes.

**Mr. Benjamin Eisen:** Most of the things that people deduct and take credits off of marginal rates.

**Hon. Scott Brison:** For instance, the hockey tax credit and the caregiver tax credit, all of which we would support...the ostensible objectives. But do you believe that they're not necessarily changing behaviour, or that many of these are, in fact, benefiting people who would already do those things anyway and might represent a potential source of revenue to reform the tax system to be fairer and more pro-growth?

• (1040)

**Mr. Benjamin Eisen:** Yes. A great many of those types of complications in the tax code that have been.... Over a very long period of time.... There's a lot of attention paid to different ones very recently. But there's a lot of complexity in the tax code, and a lot of the deductions or credits and additional complications do very little to change behaviour. This is true of many activities that governments subsidize. Benefits wind up going to people whose behaviour is exactly the same as it was before. There's obviously a case to be made for using...I'm saying "subsidy" as a very broad term that encompasses tax deductions.

**Hon. Scott Brison:** Making them non-refundable, does that not render the tax system less progressive, Mr. Boadway?

**Dr. Robin Boadway:** Indeed. They're not available to people who are in a non-taxpaying position.

**Hon. Scott Brison:** Dr. Reid, the changes to OAS and EI, would you, and the CMA...? Are you arguing, based on your testimony, that in fact it is increasing income inequality?

**Dr. Anna Reid:** Our argument is that it would be good to put these changes through a health impact assessment tool before they're taken into policy, to see what the potential impacts on health outcomes would be down the road. That's what we would have liked to see happen. But certainly we are very much concerned about those poor seniors.... I don't mean poor seniors; rather, seniors who are living with less money, the impacts of the OAS changes for sure.

**Hon. Scott Brison:** Professor Wilkinson, go ahead.

**Dr. Richard Wilkinson:** One thing missing in this discussion is reducing income differences before tax. The runaway incomes at the top, which have been driving the widening gap, really reflect a lack of constraints at the top, a lack of democracy. We need to deal with it by legislation, which exists in many European countries—I don't know whether in Canada—to have employee representatives on the remuneration boards, but also to encourage all forms of economic democracy, whether it's employee-share ownership, employee-owned companies, mutuals, or cooperatives. We must grow that sector of the economy.

Instead of having 300:1 pay differentials, typically, have 5:1, 10:1, or 20:1. That's the direction we must go if we're going to reduce these differentials within companies.

**Hon. Scott Brison:** Thank you very much.

There's been some reference to EI reform, both by Professor Corak and by Professor Boadway. Regarding the financing of EI, that is, moving it from payroll premiums, as being regressive, to general revenues, would you agree that may be one approach we ought to take? Do both of you agree?

**The Chair:** Just a brief response from each, please.

**Dr. Robin Boadway:** Yes. That was in my brief.

**Dr. Miles Corak:** Yes. If you don't do that, it seems the financing of the program should be tied more to the risk of unemployment. In effect, the current financing is a subsidy to firms that tend to lay off more.

**The Chair:** Thank you, Mr. Brison.

We'll go to Ms. Gallant, please.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Thank you very much, Mr. Chairman.

Mr. Eisen, one of the elements in your brief referred to the right way to address income equality. It said the way to do this is to promote the economic integration of new Canadians. Budget 2013 specifically states:

The Government has made significant progress implementing long overdue reforms to Canada's immigration system with a focus on attracting talented newcomers with the skills and experience that our economy requires.

Many of the initiatives outlined in budget 2013 address exactly what you have pointed out are needed. We opened the new skilled trades immigration stream in January. We will reopen the federal skilled worker program, and with an updated point system. We're launching start-up visa and much more.

How do these initiatives work to attract skilled immigrants and to capitalize on their talents and training? Are we on the right track?

**Mr. Benjamin Eisen:** I think significant progress has been made, and I think that governments across Canada, including the federal government and many provincial governments, are taking positive steps.

I think there remains work to be done. I think there are still barriers to economic integration. There are still barriers to professional practice for highly trained and skilled new Canadians. I'll refer once again to the study we published by Professor Schwartz, who is an expert on these matters, who's written extensively on it for the Frontier Centre.

I have no doubt that there certainly have been very positive steps taken by the federal government and by many of the provinces, but I think there's important work to be done. It was pointed out earlier that Canada is a destination of choice. I think that making sure we remain one of the most attractive places for immigrants to immigrate to, and that once here the people we attract are best able to contribute to the economic life of our country, are some of the most important things we can do to ensure our prosperity in the years and decades ahead. I hope the progress in this area continues.

• (1045)

**Mrs. Cheryl Gallant:** Thank you.

Mr. Chairman, I think Mr. Muzyka would like to answer.

**Dr. Daniel Muzyka:** I wanted to go back to this professional barrier. This actually is something we do need to address. A lot of that is at a provincial level.

The professional barriers do stop many of the immigrants or a number of skilled immigrants from progressing into the jobs we would want them to have so that they could add value to society as well as have successful careers.

The other thing I wanted to mention was that also having the opportunity to stay here for three years after completing graduate education has been a huge draw for talent from around the world. It's something we need to continue to look at. These are non-fiscal sorts of opportunities for us to create more value in society.

**Mrs. Cheryl Gallant:** I'll share the rest of my time with Ms. Glover.

**The Chair:** You have about two minutes.

**Mrs. Shelly Glover:** Thank you.

Do you have any other suggestions on how we might address some of those challenges with some more cost-neutral suggestions?

**Dr. Daniel Muzyka:** I think some of it involves having dialogue with professional bodies about minimum requirements, ensuring that we have good processes, and looking at educational opportunities. Some of the requirements that professions have relate to education. Finding ways for these folks who have come in from other countries to progress into a career here and to gain the required skills very quickly is very helpful.

I think those are things that aren't necessarily costly. Some of it involves just saying, this is what we need and here's how we're going to deliver it, in terms of knowledge.

**Mrs. Shelly Glover:** Very good. Thank you.

I do want to address something Professor Corak mentioned. You mentioned that in your wish list you would see a leave from work for families so that they could just do what they deemed to be important for their family.

Have you talked to businesses about how the heck they would actually be able to continue to thrive and do business if families are simply deciding, "Well, this is important, so I'm taking a leave"? We have a labour shortage in Saskatchewan and Alberta.

I'm just curious to know how you think this is going to work for employers. Are you expecting employers to basically eat the cost of this?

**Dr. Miles Corak:** "Eat the cost of it"; I'm not sure what that means, Madame.

**Mrs. Shelly Glover:** I'll explain what it means. If you take people out of the workplace, you have to put others in. If they're on leave, they're still being paid. The new ones also have to be paid. Who's paying for this?

**Dr. Miles Corak:** We already do that in the system, and this is nascent in the system as it is. We have parental leave. We have leave for child care.

**Mrs. Shelly Glover:** You're saying increase this?

**Dr. Miles Corak:** Yes. It would be to build upon that precedent.

**Mrs. Shelly Glover:** So how much is it going to cost, and who's going to pay for it?

**Dr. Miles Corak:** It is designed.... Maybe "paternalistic" is too strong a word, but children need the inputs from their parents, not just in the early years—

**Mrs. Shelly Glover:** I understand that, sir. We already have these in place, and you want to increase them. I'm asking you very specifically if you are expecting the employers to pay for this and how much it is going to cost.

**Dr. Miles Corak:** No. In my brief I suggested that we could put in personalized accounts in the system, so that—



**Mrs. Shelly Glover:** So taxpayers pay.

**Dr. Miles Corak:** No, the individuals themselves pay. I contribute to EI. I don't necessarily use it. A surplus is developed in that envelope. Then I have the freedom to use that surplus.

The labour market is much more flexible than it was, and employers seem to have accommodated maternity and parental leave positions without any concerns.

**The Chair:** Thank you.

On behalf of the committee I want to thank all our witnesses who are with us here today in Ottawa, and Professor Wilkinson for joining us from the United Kingdom.

If any of you wish to consider anything further, we are putting all the briefs online on the finance committee website. If you wish us to consider posting anything online, please submit it to the clerk and we will ensure that happens.

Thank you so much.

The meeting is adjourned.

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