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## Standing Committee on Finance

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EVIDENCE

**Tuesday, April 30, 2013**



**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

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• (0845)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I will call this meeting to order. This is the 117th meeting of the Standing Committee on Finance. Our orders of the day are pursuant to the order of reference of Wednesday, June 13, 2012, and we are continuing our study of income inequality in Canada.

I want to welcome all of our witnesses joining us here this morning, and I will present them now.

First of all, we have Mr. Stephen Richardson, executive fellow from the University of Calgary. Welcome.

We have Professor Michael Veall, Department of Economics, McMaster University.

We have, from the Assembly of First Nations, Chief Executive Officer Mr. Peter Dinsdale. Welcome to the committee.

We have, from the Broadbent Institute, the chair and founder, Mr. Ed Broadbent. Welcome back to Parliament, Mr. Broadbent.

From the Canadian Centre for Policy Alternatives, we have Madame Armine Yalnizyan. Welcome.

[Translation]

We are also welcoming Peggy Taillon, from the Canadian Council on Social Development, and Michel Venne, the Director General of the Institut du Nouveau Monde. Welcome.

[English]

And from the University of British Columbia, we have Madame Nicole Fortin.

Madame Fortin?

It's 5:45 a.m. in B.C., so she may have gone for a coffee.

We welcome all of you to the committee. We have a large panel today of very distinguished guests. Thank you for being with us.

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

We'll begin with Mr. Richardson's presentation, please.

**Mr. Stephen Richardson (Executive Fellow, University of Calgary, As an Individual):** Thank you, Mr. Chairman.

I'd also like to thank the committee for the opportunity to appear here this morning.

In my opening remarks, I will briefly provide some context for the issue of income inequality and comment on some measurements.

The first point of context is that income inequality is a natural result of free markets that price goods, services, and capital according to supply and demand accounting for risk. Redistribution of income through taxes, transfers, and subsidies is the way in which governments act to reduce income inequality. Note, however, that redistribution mechanisms can have negative effects on the economy—for example, where high levels of taxation on business or skilled labour are used. Redistribution funded by government borrowing can also cause issues in terms of inequities between generations.

The second point of context is that income inequality is inherently a relative concept, and measures of it in a given population show only relative relationships. For example, a rich country producing a large, absolute amount of income could have a higher level of income inequality than a poor country producing a small amount of income, yet a sizable proportion of the persons living in the poor country would improve their economic welfare by living instead in the rich country.

The third point of context is that the determination of a correct or appropriate level of income distribution as a goal in itself is based on normative judgment derived from an ethical or a political framework. For example, at the political extremes, certain forms of socialism have a goal of absolute economic equality, while certain forms of libertarianism will consider very high levels of inequality as appropriate. Typically developed economies with free markets accept a position in between these extremes.

Though statistical or economic analysis cannot determine a correct level of income distribution, it can assist in measuring income inequality. These measurements of income inequality in a population can be used to benchmark inequality and redistribution against both historical and international comparisons.

Gini coefficients are a commonly used measure of income inequality in a population. A Gini is a measure of statistical dispersion, that is, the unevenness of a variable over a population, with a Gini coefficient of one representing complete unevenness—that is, inequality—and a Gini coefficient of zero representing complete evenness—that is, complete equality. Gini coefficients in between obviously represent intermediate amounts.

Now I'd like to refer to two figures that I think can be found in the materials that were handed out to members ahead of time.

This is a chart that shows the Gini coefficients for income distribution in Canada for all families from 1976 to 2010. The data is from Statistics Canada. The blue line shows the inequality measured by Gini coefficients pre-tax and transfer, that is, before any redistribution. The red line shows the reduced inequality after taxes and transfers are taken into account, which in effect shows the amount of distribution.

My figure 2, which I'm not going to put up at the moment, because I would use the rest of my time trying to get these two computers to do it—I'll put it up immediately after—just shows the difference between those two lines over time.

Figure 1 indicates that post-tax and -transfer, income inequality in Canada that takes account of redistribution increased during the time period from 1976 to 2010 by about 8.5% in total, but with virtually no increase in the last 10 years measured.

Figure 2 will indicate that the scale of redistribution of income by government increased during the same period by about 27%. Although it did drop from its peak in 1994, the scale redistribution has been relatively stable for the last 10 years measured. Moreover, as measured by the OECD—and this is not on the slides—the Canadian post-tax and -transfer income inequality for the late 2000s of 0.324 is very close to the OECD average of 0.314, compared to, for example, that for the U.S., which is much higher at 0.378.

● (0850)

What are my public policy conclusions? In my view, these historical and OECD benchmark comparisons suggest that the Canadian system of income redistribution is working well, and there's no reason for public policy in Canada to target income inequality as a general issue. However, in order to maintain and improve equality of opportunity and living standards for Canadians, continuing attention should be paid to more precise targeting of existing and new policy initiatives using existing resources that can specifically assist lower-income Canadians. For example, consideration could be given to reducing the phase-out threshold for OAS, which is currently available unreduced up to \$69,562, and not eliminating it completely until the person has an income of about \$112,000 a year. Using these cost savings could increase the benefits to lower-income Canadians who require this more.

There are other examples, but I think I've probably used my time, so I'll stop.

Thank you for your attention, and I'll be prepared to take questions.

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

We'll now go to Professor Veall, please.

**Dr. Michael R. Veall (Professor, Department of Economics, McMaster University, As an Individual):** Thank you for this opportunity.

The motion proposes an examination of best practices that reduce income inequality and improve GDP per capita. Turning to GDP per capita, Canada's recent productivity growth has been slow. In terms of output per hour, growth averaged about 4% per year until the early 1970s, but it has fallen since. This century, it's averaged only 1% per

year. Moreover, the gains the economy has generated have gone disproportionately to the top of the income distribution. Between 1986 and 2010, the after-tax, after-transfer incomes of the bottom 90% of the population increased by about 19%, after adjusting for inflation. The incomes of the top 1% increased by 77%. The incomes of the top 0.01% increased by 160%, to about \$4.7 million per year, after tax.

There are big policies on both the productivity and inequality fronts. I think you'll probably hear about some of that today. Instead, I've elected to focus on just three smaller policy directions that might draw support from across the political spectrum. These are not silver bullets. At best, I would describe them as silver BB pellets. They're small.

The first policy direction relates to the regulation of corporate finance. Randall Morck, a distinguished professor of business at the University of Alberta, argues that the Canadian corporate sector underperforms because of a low level of shareholder democracy and high insider power. He notes that the Yale School of Management concluded that Canada had the highest rate of insider trading among all developed economies. Low shareholder democracy and high insider power might contribute to high executive salaries, but even if not, a weak commitment to broad shareholder accountability makes it harder to raise money on Canadian capital markets and to replace tired management with innovators.

Professor Morck suggests continued attempts to introduce national securities regulation to prevent a race to the bottom by provincial regulators. He also suggests tax disadvantaging shares with different levels of voting power because such shares enhance the ability of insiders to control corporations.

The second policy direction relates to intergenerational mobility. Children should have a good chance at success, regardless of the status of their parents. Long-run productivity growth is higher when society gets the best out of everyone, not just the best out of those who were born with relatively high incomes. The current published evidence suggests that Canada has had a high intergenerational mobility, by international standards, probably due to relatively equal access to high-quality schooling and prenatal health. Provincial budget crunches may jeopardize this. Federal policy interaction with the provinces may become even more important.

The third policy direction relates to taxation, perhaps particularly appropriate to talk about on April 30—I got mine in last night. I do not believe we currently have the evidence to be sure that an increase in marginal tax rates at the top will raise much tax revenue. Perhaps a better, immediate approach is to eliminate those tax expenditures that both distort productive activity and benefit the affluent. I strongly support the removal of the labour-sponsored venture capital fund tax credit in the recent federal budget as well as changing the dividend tax credit so that it cannot exceed the corporate tax paid in the case of small business. I would suggest the proposed study examine other measures, such as the employee stock option deduction.

As former Rotman business school dean, Roger Martin, writes in his book, *Fixing the Game*, stock options contributed to the financial crisis by giving an incentive to corporate executives to focus on the information that the company released, not on true corporate performance, or, as Arianna Huffington somewhat harshly put it in her review of his book, “We’ve gone from an economy based on making things to one based on making things up.”

Staying with the tax system, I support moving towards refundable tax credits. A small example is the children’s art tax credit and the children’s fitness credit. Elimination of these would save \$220 million for other purposes. But if they are to exist, I believe they should be refundable. As I have written elsewhere:

In effect these subsidize the participation in the arts and sports activities for children in all families except those too poor to be subject to personal income tax, probably the only families for which the subsidy might make an appreciable difference.

I thank you for your attention.

● (0855)

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

We’ll now hear from Mr. Dinsdale, please.

**Mr. Peter Dinsdale (Chief Executive Officer, Assembly of First Nations):** Thank you very much to the committee for inviting us here to make the presentation. I would also like to acknowledge that we are on unceded Algonquin territory, and we thank them for allowing us to gather here.

We’re very pleased to make a brief presentation and provide our recommendations to your study on income inequality and the relationship to taxation.

As you near the end of your hearings on this matter, I know you’re well aware of the terms of income inequality in Canada, and in particular that first nations continue to rank very last here.

In the 2010 study published by the Canadian Centre for Policy Alternatives, they outline the persistent and growing income inequality of aboriginal peoples, which is generally 30% lower than the immediate income of non-aboriginal Canadians. At the current rate of change, the author has estimated it would take 63 years for that gap to be bridged.

According to StatsCan, in 2010 the average annual income of a first nations person on reserve was \$14,000, compared to \$18,400, which is the poverty cut-off line for those same communities. In northern remote communities, the cost of essential goods and services is at least 30% higher. We’re seeing tremendous income inequality, and also gaps and opportunities.

So many of our communities are facing crippling poverty and wider social implications. The question is, how do we handle this, and what do we do? To paraphrase Mr. Scott Brison, who introduced the motion for this current study...he said that first nations income inequality is a demographic and economic ticking time bomb. The question is, what do we do for change?

For many years, AFN has made submissions to the federal government on their budget process for needed investments in these various areas, although significant change has not yet occurred. That’s what I would like to focus on briefly here: the change that’s required.

I’d like to speak briefly on taxation issues. For first nations governments and citizens, which this committee has heard before, what I’m about to say will be fundamentally different.

In the past 20 years of erosion, the courts are breathing new life into the tax immunity provisions of the Indian Act and how they impact our communities. The fishermen’s decisions in the Robertson and Ballantyne as well as the Bastien and Dubé cases represent legal outcomes that we need to build on, and frankly this is a shared success.

We need to work together to ensure that the law develops in a positive way so that we can achieve corresponding policy outcomes by engaging and working with the federal government to restore fairness, predictability, and fair rendering of the tax rights of first nations governments, as they agreed to as part of the treaty-making with this country and as part of the go-forward solution.

Another practical component addressing inequality is building instruments to assist first nations governments in addressing their tax priorities, tax issues, and tax jurisdiction. The AFN has proposed a national conference on revenue options and generating revenue streams. There's much to be learned from other governments, both indigenous and non-indigenous.

I'd also like to talk briefly about natural resources. In 2011 KPMG introduced a guide to Canadian mining taxation, which was specifically targeted towards potential foreign investors and partners. There's not one single reference to first nations governments, first nations peoples, or first nations rights. This is not an oversight by KPMG, but it shows you that the tax system, which ignores first nations governments whose communities these very natural resources are on, is certainly a challenge that we must work together to address.

We can talk about lots of examples, but I want to talk about a positive example. Out of Fort McKay First Nation is one great success story. There are only 700 on-reserve residents in Fort McKay. After over 20-plus years of creating companies to serve the oil sands industry, they now employ 4,000 people, both aboriginal and non-aboriginal. Imagine if we had 100 more Fort McKays across this country. What would the income inequality be in these communities then?

This past March, Fort McKay Chief Jim Boucher told the Canadian Association of Petroleum Producers that the federal government has failed to acknowledge first nations rights to resources and to have a say in how these resources are to be developed. I quote:

Canada has not stepped up to the plate with respect to dealing with the First Nations on a treaty issue basis, and...it's not contributing to a healthy economic development situation.

For us this solution appears relatively simple.

● (0900)

**The Chair:** One minute.

**Mr. Peter Dinsdale:** One minute. Thank you. I'll summarize that solution in one minute.

If Canada truly wants to benefit from the projected \$650 billion in new resource-based projects, then make sure, either through tax breaks or by recognizing treaty rights and treaty jurisdictions, that every first nations community has the opportunity to share in that prosperity.

In closing, the Assembly of First Nations' recommendation on how to reduce income inequality and how best to improve equality and opportunity and prosperity for first nations and all Canadians is to work with first nations to bring about fundamental and transformative change. This includes a re-examination of equalization, fiscal transfers, and resource-revenue-sharing regimes, and an assessment of a taxation framework that reflects first nations

jurisdiction and supports investment in our communities, as well as targeted investments in education, literacy, and training.

We can no longer allow the human and social costs entrenched in inequality to continue. While the solutions are not simple, the benefits will include us all.

Thank you.

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

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

[*Translation*]

**Hon. Ed Broadbent (Chair and Founder, Broadbent Institute):** Mr. Chair, members of the committee, I am really pleased to be joining you today.

[*English*]

This is especially so on a subject of such great importance to a large majority of Canadians, and especially, I note, today, when tax returns of all Canadians are due.

I want to make two points at the outset. The first is that extreme inequality undermines democracy and the common good. The evidence is in. Very unequal societies do much worse, including in such fundamental terms as health and the real equality of opportunity for children.

Second, I want to underscore that the level of inequality in a nation is ultimately a matter of political choice. Despite common exposure to globalization and other forces of economic change, which are real, a good number of advanced industrial countries have clearly been able to remain much more equal than others. They're all facing the global circumstances, but politically, they've made adjustments to that. So I repeat, a number are much more equal than others.

Canada used to do quite well at achieving broadly shared prosperity, but changes in the job market, changes in our tax system, and cuts to social programs from the mid-1990s have pushed us strongly, I believe, in the wrong direction. As a result, Canada today has a major inequality problem.

Part of the solution lies in achieving a fairer distribution of market income by creating more good, middle-class and unionized jobs. Another important part of the solution is to make major changes in our tax transfer system. Experts have shown us that its redistributive impact has shrunk significantly, to the point that it is now one of the least fair in the OECD.

Our institute says that the goal should be to reform our income security system so as to eliminate poverty and significantly narrow the growing gap between low- and higher-income Canadians. This goal should be met by building incrementally on existing income support programs targeted to different age groups and by promoting greater tax fairness. The maximum level of income-tested child benefit should be raised to cover the full cost of raising children.

We should significantly increase the federal working income tax benefit to support the working poor and deal with the growing reality of low pay and precarious work.

I want to give credit to the government for creating the working income tax benefit, a new form of benefit here in Canada that can promote employment as the best path out of poverty. However, the current benefit is extremely modest, as members will know, and is lost completely at low levels of employment income. I believe it should be increased significantly and phased out more slowly as income rises.

In addition, we should eliminate poverty in old age by raising the guaranteed income supplement. Canadian seniors, on a global basis, technically and statistically, are the best off in the world right now. But we still have a number of Canadian senior citizens who need assistance and we should be providing that.

Finally, a long-term goal—this would clearly involve complex negotiations with the provinces—would be to abolish welfare as it currently exists and replace it with an income support program for working-age adults, delivered as a negative income tax. This approach, as again I'm sure members will know, has been broadly championed across the political spectrum, including by my once friend and colleague from a different life, Senator Hugh Segal, and by the late Tom Kent.

To pay for change, these improvements to our income support programs can be financed by making our income tax system much fairer. We have proposed a number of approaches in our discussion paper, which the institute produced on inequality.

We should scale back special tax breaks that deliver huge benefits to the very well off, such as the exclusion of 50% of capital gains income from taxes and low tax rates on gains from stock options. For a functional market-based economy, I believe these existing benefits are not necessary.

We should be looking to more progressive income tax rates, and we should be cracking down on tax avoidance.

● (0905)

Revenues can also be gained by more broadly applying the principle of polluter pay.

In summary, Mr. Chairman, concrete steps can be taken to make our tax and transfer system a much more effective vehicle for closing the growing gap in Canada between the very rich, on the one hand, and the middle class and the poor on the other. Priority, as I've suggested, should be given to fundamental reform of our income security system.

Thank you very much.

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

Next, we will have Madame Yalnizyan, *s'il vous plaît*.

**Ms. Armine Yalnizyan (Senior Economist, Canadian Centre for Policy Alternatives):** Merci.

I thank you very much, Senator...not yet "Senator" Brison, right?

**Voices:** Oh, oh!

**Ms. Armine Yalnizyan:** —for bringing forward this opportunity. I thank very much the whole process that permits us to talk about what is perhaps one of the defining issues, not only for Canada but around the world, on the future of democratic capitalism and globalization.

Don't ask me, ask the World Bank what they think about rising inequality. Provocative words coming out of the World Bank are that perhaps rising inequality is increasingly threatening and undermining democratic capitalism.

The International Monetary Fund, again, no left-wing pinko organization, says that the more inequality you have, the shorter the spells of growth you have, the more volatility you have in markets, and the less overall growth you have over a sustained period.

Internationally referenced Canadian academic Miles Corak, from whom you've heard, has noted that there is a tight correlation between the degree of inequality in society and the degree of mobility, both social and economic, for the next generation, which is clearly something that violates the very principles of meritocratic societies. If you think these trends are only happening elsewhere to other people, think again. The same things are happening in Canada.

The Conference Board of Canada has warned that growing income inequality left unchecked in this country will lead to lost potential, increased costs, squandered opportunity, and potential social unrest. Those are words from the Conference Board of Canada.

Data from the Organization for Economic Co-operation and Development show that whereas Canada, from the mid-1980s and mid-1990s, bucked the international trend towards rising income inequality, since then Canada has slipped most rapidly down the international rankings, from 14th place to 22nd place, from above-average to below-average equality, while at the same time, 15 of 34 OECD nations reduced inequality.

The University of Toronto's Centre for Urban and Community Studies has launched path-breaking research showing how income inequality leads to people living in more rich neighbourhoods, more poor neighbourhoods, and fewer middle-class neighbourhoods. If you think you can predict poverty by postal code, you know you're creating problems, and it creates problems for the way we raise our kids and the opportunities that are hard-wired into their environment.

Between 1981 and 2010, the economy more than doubled, in inflation-adjusted terms, but poverty has been on the rise.

I ask you to look at the first table I've distributed for you, the "Percent of People with Incomes below the Low Income Measure", in after-tax terms, by age group. You will notice that seniors' poverty rates are increasing, working-aged adults' poverty rates are increasing, and children's poverty rates are higher today than they were in 1989, when all parliamentarians stood together and said that child poverty in a nation as rich as Canada was a travesty and it needed to be eliminated by the year 2000. It has been pretty much eliminated in Denmark, Sweden, Norway, and Finland. We know this can be done, should we wish to do it.

I ask you to look at the second chart I've distributed, which shows the percentage of Canadians in low-, middle- and high-income classes. The group of people earning a middle-class income, between \$30,000 and \$60,000, has been shrinking over time. The group earning less than \$30,000 is higher today than it was in the mid-1970s—and this is all in inflation-adjusted terms—and the group earning above \$60,000 is rising. This leads to, of course, who at the top is earning the most. Professor Veall indicated that those in the top income group have seen the biggest share of income growth.

I point you to my third and last chart in the presentation, which shows that the top 1% took 32% of all income gains in the decade before the crisis. That, ladies and gentlemen, is four times the amount of a similar period of growth in the 1960s and twice the amount of the Roaring Twenties.

What can the federal government do? You can introduce direct income measures. We've mentioned some of these today: the working income tax benefit, refundable tax credits, enhancing the child tax benefit, the OAS or the GIS, or more sweeping reforms such as the guaranteed income supplement. Also, improving access to EI is important for our macroeconomic strength, so that we can more recession-proof in future.

If you don't choose to do direct measures, you could indirectly support the provinces and territories, eight of which have committed themselves to poverty reduction strategies. The federal government should support these initiatives. You seem to like experimentation at a provincial level, and the alternative federal budget has outlined how such a plan could take place.

In terms of tax measures, we've talked a lot about what could be done to raise taxes, but enforcing the rules that exist requires enhancing, rather than cutting, the staff at the Canada Revenue Agency and following through on prosecution of tax evasion.

• (0910)

I would recommend also that you avoid expanding the tax free savings account, and do not introduce income splitting for families with young children, both measures the parliamentary library has shown increase disparities, rather than reduce them. You can improve the supports and services, as you have done in measures such as Pathways to Education funding, and you can target additional revenues raised or not forgone by alleviating the pressure on the middle- and low-income households through child care, transit, housing, and post-secondary education.

Can I just close by saying that the most immediate concern is the temporary foreign worker program?

**The Chair:** Be very brief.

**Ms. Armine Yalnizyan:** Some changes were introduced yesterday. Pursuing a low-wage strategy is a disaster for Canada. It needs to be further revised, and strengthening the role of labour market policies cannot be stressed enough. A correlation between unionization and greater equality has been well documented, and we'll hear more about it today.

• (0915)

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

We'll now hear from Madame Taillon, *s'il vous plaît*.

**Ms. Peggy Taillon (President and Chief Executive Officer, Canadian Council on Social Development):** Good morning, everyone. Thank you very much.

Thank you, Mr. Chair, for seating me beside Madame Smarty-pants here, because I get to take a different tack, knowing that Armine would bring forward a lot of great solutions and also help us dissect the numbers.

I'm the head of the Canadian Council on Social Development, the oldest organization of its kind in Canada, founded in 1920. We came up with the concept of EI, disability pension, and old age pension, to name a few important policies.

I want to talk about inequality from the perspective of, "Why bother?" Armine is right, this is a defining issue, and it's important that you are exploring it in the way you are today. But why bother? Is it just a buzz? Is it something that came out of the Occupy movement, or is it something much more substantial than that?



Fundamentally, if inequality is left to fester, it will tear apart the very fabric of Canadian society. Equality connects us. It binds us together and it builds cohesion, and social cohesion is critical. It's not just the absence of conflict, it's the ability to move forward in the same direction with shared purpose. It is a requisite for a smaller trading country like Canada. We can only exercise our full strength through some essential level of agreement as a country. Canada must have a continuous nation-building process by furthering a genuine consensus across provinces, cultures, and languages. We require more than a passive tolerance of one another for us to advance our common problems and our common purpose.

At the core of our Canadian idea there has been a broad definition of success as shared progress for all citizens, measured in terms of income, opportunity, well-being, and the enjoyment of social rights and freedoms. It has been coupled with a special responsibility to ensure that those who are vulnerable are not left behind. In Canada the assumption of common advancement has reached across political perspectives, governments, and generations. This Canadian aspiration gave expression to an underlying individual value of hard work, fairness, merit, and shared responsibility. But we are at a crossroads. We are faced with a choice of shared prosperity or increased polarity. Decades of accomplishment in support of our shared advancement have been followed by a period of stagnation, as Armine and others have indicated today. It's stalling progress, and now that progress is beginning to unravel.

Consider the following. We are running the very real risk that our children will be the first reverse generation in Canadian history: one that is less well off than any one before it—less well off in employment opportunity, health outcome, the environment they inherit, income attainment, and the list goes on. Growing income inequality is becoming entrenched. Middle-class families are working more but not getting ahead, except by borrowing more than they have to spend. Poverty is becoming a bog that entraps people contending with life challenges or transitions caused in part by ineffective government policy. Our collective failure to grasp sustainable development and deal with our environmental concerns puts us on the other side of our values and our international expectations. In part, is this because we have lost the will and the focus? It's a question for all of us to answer.

In recent years, almost imperceptibly, Canadians have been cajoled to reduce their expectations, to accept a lower common denominator of what we can accomplish together. Individuals and families are being encouraged to look after their own interests. Economic problems are now portrayed as the result of international or global conditions well beyond our reach.

**The Chair:** One minute.

**Ms. Peggy Taillon:** Our policy choices are reduced to growth in GDP, our so-called standard of living, regardless of the benefits that are delivered for the well-being of average Canadians. Social needs and government responses are vilified as complex, costly, and muddled jurisdictionally.

We can't afford to take our social cohesion for granted. The increasing contrast between our lived reality and the country that most Canadians presume they live in means there's a short distance between where we are today and further alienation. There's a tremendous opportunity today to forge a new consensus for Canada.

Canadians are fundamentally generous and optimistic people. We still have time to exercise our enlightened approaches to major challenges, from an aging population to a shrinking labour force, to competitiveness and poverty, in ways that can galvanize most Canadians to become engaged in our next nation-building process as a country.

There is no magic in addressing inequality, but it does take leadership.

Thank you.

● (0920)

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

[*Translation*]

Mr. Venne, go ahead.

**Mr. Michel Venne (Director General, Institut du Nouveau Monde):** Good morning and thank you, Mr. Chair. I will speak in French.

I want to begin by thanking all the members of the committee for looking into income inequality and, more generally, social inequality. Income inequality cannot be addressed through discussions on income alone, as that problem is often caused by inequalities in health, education, and access to culture and information. Income inequalities are either the result or one of the causes of inequalities among us, in society, such as inequalities in terms of opportunities.

The mission of my organization, the Institut du Nouveau Monde, is to engage Canadians to take an interest in what is happening in society and to discuss it. The institute is an organization that defends democracy and not social rights. Today, you are discussing a topic of key importance for our society in our main democratic arena, Parliament.

Social inequalities are the very issue the institute will address in a large public debate that will be held over the next two years. Since we work in Quebec, the debate will be held in that province, but we would be pleased to open it up to all of Canada.

Why did we choose this topic? Whether we are talking about the World Bank, the OECD, the IMF, the World Economic Forum held in Davos or the Conference Board, everyone—with the exception of a few economists—is saying very clearly that the increase of inequalities has become counterproductive.

Inequalities have always existed and will continue to exist, but their worldwide increase is now threatening peace and economic growth. This information is not coming from me, as I am not an economist. This has been stated in all major economic publications last year, including *The Economist*. They are saying that we have gone beyond the point where inequalities are productive.

We may think that inequalities are a good thing because they encourage people to do better and do more. However, inequalities are currently so significant—especially between the richest 1%, 3% and 5%, and others—that the incentive to do more and better has disappeared. They are already so rich that the difference between being a bit richer or a bit poorer is no longer a motivating factor for increased productivity. It is also no longer a motivating factor when it comes to creating jobs or investing in the country. So we have achieved a level of inequality that is counterproductive. Awareness of that phenomenon is necessary.

The second reason I am so happy you are discussing this issue is that the main problem with inequalities is the refusal to discuss them. This is something of a taboo topic. People seem to think that the issue is not serious, since inequalities have always existed in society. The other day, someone told me that people have always been jealous of the rich, but all they had to do was follow their lead—as if that were easy or possible. It is not.

The topic is somewhat taboo, and people seem to be reluctant to discuss it. One of your roles, as elected officials, is to study important topics, even when they are taboo. Why?

I want to begin by making a distinction. I am not talking about the fight against poverty.

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

**Mr. Michel Venne:** I am talking about inequalities, not only between the richest and the poorest, but also between the richest and the middle class. That issue has already been raised. We all agree that the fight against poverty is extremely important. We cannot abide people living in poverty in Canada. That goes against our values.

Policies have been adopted, but they have to be enhanced. Reports are constantly indicating that our policies are still not effective enough to eliminate poverty in the country. However, we have the means to do that. Of course, fighting against poverty helps reduce inequalities, which in turn facilitates the fight against poverty.

I am getting to the heart of the issue. Why is it so important to look into inequalities? Beyond moral issues and the principle whereby everyone should have access to equal opportunity, inequalities hurt our economy. Why? Because strong and stable growth across the country requires a strong and stable middle class. Why? Because its members consume, work, produce goods and services, and buy them.

Do I have a minute left, Mr. Chair?

• (0925)

**The Chair:** No.

**Mr. Michel Venne:** I thought I had a minute left. So I will wrap it up.

We need policies to ensure that the middle class is stable and strong. Some ideas have already been put forward. We at the institute encourage continuing this debate. If I had a single recommendation for you—besides those I have already issued—it would be to continue the discussion across Canada. This is a new topic and a new concern. You should carry on this work.

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

[English]

Now we'll go to Professor Fortin in British Columbia.

Thank you so much for being with us here this morning, especially as I know it's three hours earlier for you in B.C. We welcome your five-minute opening statement, and then we'll go to questions from members.

**Prof. Nicole Fortin (Professor, Vancouver School of Economics, University of British Columbia, Senior Fellow, Canadian Institute for Advanced Research, As an Individual):** I'm glad to be here.

Today I will provide some highlights on a recent paper on Canadian wage inequality in Canada.

As others have said, it's important to note that the changes in income inequality in Canada have been different from changes in the United States, where the changes were larger, happened earlier, and resulted in greater gains at the top than in Canada.

Second, as already mentioned, the Canadian fiscal regime does somewhat lessen the blow of increasing inequality. In 2009, the inequality in the after-tax and transfer of family income was 28% lower than the before and after-tax transfer of family income inequality. Nevertheless, given the tension between redistribution and economic growth, it's important to consider the economic forces that are behind the changes and whether they can be addressed directly.

To understand how these forces work, we have to note that in the 2000s especially, the Canadian experience with wage inequality has been one of wage polarization. When we're talking about wage polarization, we're talking about situations where the wage of the median worker—and here I am talking mostly of the median male worker—is not improving as much as those at the bottom or at the top. In the 2000s, the real—meaning after inflation—hourly wages of the median male have increased by 5%, while the wages of the men at the top 90% have increased by 12% and those at the bottom by 9%.

That being said, in terms of the Canadian post-recession experience, from 2009 to 2012 we have seen decreasing wage inequality. This is in contrast with the U.S., where wage inequality has continued to increase.

So what are the driving forces behind the difficulties of the middle workers? They are usually attributed to two forces: declining unionization rates and technological change. In Canada, the decline in union coverage of males has been quite substantial; it dropped from 47% in 1980 to 25% in 2012. The reason that declining unionization rates do contribute to the polarization of male earnings is that the union premium is highest in the lower wage distribution of males.

Technological change is also thought to adversely affect mostly the routine, male-dominated jobs that are in the middle of the wage distribution, the wages on the plant floor.

Let's note that these forces apply less to women because they are more likely to work in the wider public sector, including the health and education sectors. So women fare generally better against these winds of change than men; however, there remains a gender gap.

In terms of some of the policy options that work with these forces, many of them come under provincial jurisdiction. They would include the support for public education. Most of the time we talk about higher education, but it's also important to have policy to foster high school completion. When we're talking about exclusion, we're usually talking about individuals who have not completed high school. Support for a minimum wage in an appropriate range is among the policy tools to be thought about, as is support for collective bargaining.

As I noted, Canada has performed relatively well in terms of generating new university degrees. However, it is important to note that not all carry the same prospect of high-paying jobs. In a changing environment, information relative to the prospects of the different degrees I think is quite important.

Raising the minimum wage is a tool that can help reduce inequality at the very bottom of the wage distribution. However, because there is limited spillover, it's not a very effective tool overall.

Moving in the direction of a policy environment that is more supportive of unions, especially in terms of the procedure governing union certification, is one option to be considered.

Let me conclude by saying, as many others have done before me, that while growth-oriented economic policies, such as encouraging trade and deepening investment in new technology, may provide the basis for economic success for future generations, these policies may also have the effect of exacerbating inequality. This should be kept in mind to continue to get public support for such policies.

This concludes my remarks.

• (0930)

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

We will begin members' questions with Ms. Nash, for a five-minute round.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Five minutes, after all those wonderful presentations, is a bit challenging.

Let me begin with an issue that Mr. Venne raised, which is that of course we need to eliminate poverty and have measures that can do that. We've heard many of those today, but what about the stagnating incomes of the middle class? My question is, most broadly, where will the middle class jobs come from?

Specifically, can you give some examples of countries that have resisted this widening inequality? What measures have countries that have managed to maintain a strong middle class taken to do that, and where are the good middle-class jobs that young people aspire to in those countries?

It's a broad question. I'll ask it to Ms. Yalnizyan, Monsieur Venne, and Madame Fortin.

**Ms. Armine Yalnizyan:** Good middle-class jobs can come from anywhere. Around the world, whether you're talking about IT, high-technology information jobs or resource-based industries, we see that it depends on how you treat the environment for labour relations. Canada has been pursuing a low-wage strategy for several decades now. We have an unusually high proportion of low-wage jobs.

Income inequality doesn't fall from the sky. We look at one another and we value each other's work. We say it's normal that that guy gets that much and that person gets that much, so there's a kind of social and cultural consensus around the value of different forms of work, which is why I have pointed out the importance of unions in many of the jurisdictions in which growing inequality has not occurred and in fact has been reversed. There has been a strong union component because that's actually the countervailing voice to the growing strength of employers everywhere around the world, especially in the wake of the recession—there's been growing corporate concentration.

If you cannot negotiate on an equal playing field and have some kind of collective strength, more of the rents from this process will flow to the employers and to the property owners.

You also asked a question about what these nations are doing that prevent the middle class from stagnating. Let me run a thought experiment on you. What if we had no reduction in income inequality at all but we improved people's access, whether they're low, high, or middle income households, to transit, to more affordable and accessible, high-quality child care that prepares kids for learning readiness, to better public school education and high school completion, and to more affordable housing? All of those things will improve our quality of life and create a richer middle class. I think we can do this.

• (0935)

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

[Translation]

Mr. Venne, do you have anything to add?

**Mr. Michel Venne:** I am accompanied by my colleague Nicolas Zorn. He is the researcher who put together our file on social inequalities and all those issues, so I will ask him—if that's okay with you—to answer your questions and any other questions.

Nicolas.

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

**Mr. Nicolas Zorn (Project Officer, Rendez-vous stratégique, Inégalités sociales, Institut du Nouveau Monde):** Good morning, ladies and gentlemen members of the committee.

The problem, in terms of middle class income, is that there is some polarization, which is in part due....

[English]

**The Chair:** We're having a problem with translation.

[Translation]

**Mr. Nicolas Zorn:** Is it okay now?

[English]

**The Chair:** Please continue.

[Translation]

**Mr. Nicolas Zorn:** In particular, the polarization is due to a drop in trade unionism and an increase in competition among developed countries. Free trade contributes to that polarization. It's not tragic to lose your job, but being unable to find another one is. The issue does not lie in the fact that the market is very competitive, but that it takes no heed of individuals. The longer we wait, the more compromised the human capital becomes. The solution has to be based on access to education, lower tuition fees and public child care.

The problem is not that economies are more competitive, but that the risks involved in that increased competitiveness are not shared equally. The tragedy is in the fact that some people lose their job and take a few weeks to find a new one, but others take two years and give up after a while.

[English]

**The Chair:** We're over time, but, Professor Fortin, could you just very briefly respond to that question?

**Prof. Nicole Fortin:** [Technical Difficulty—Editor]...in routine jobs that have been displaced. It's good to hear that those who are doing very well have been able to recycle, many of them in IT jobs and so on. There are possibilities there, of course. The lowest performing will move to service jobs, which are lower paying. Many of those service jobs, though, are less prone to issues of outsourcing, so they can resist some of these winds of change we've been talking about.

An economy such as Germany's, which is built on the exportation of machine tools in quite large part, has performed relatively well. However, there's been some polarization of earnings, even in a country where apprenticeships and training of skilled workers is very important.

There's a sense that taking a diversified approach, continuing to train workers to perform and having more technology-oriented jobs, is the way of the future.

**The Chair:** I'll just point out to all of our guests here and all colleagues that members have five minutes, so it's a very short period of time. It goes by very quickly. I would just ask everyone to be as concise as possible.

We will go to Ms. McLeod, please.

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

Thank you to all the witnesses for some great presentations.

Seeing as it's tax day...I heard a few comments in terms of the tax system. As the parliamentary secretary for the national revenue agency, I just want to make a note that certainly our goal is closing the tax loopholes. We've made significant progress. There's certainly more to do in terms of tax evasion and offshore tax havens.

As for CRA staffing, we actually have 400 more auditors than we did in the past. As far as where we've looked at reductions goes, of course, I think probably most people have electronically filed.

Really, we are trying to refocus our resources to actually do exactly what you said.

I certainly wanted to make that comment and not leave it unresponded to, because we do recognize how important it is to have a tax system that's fair to all Canadians.

I will start my questions with Mr. Richardson. I appreciate your article, "Some Observations on the Concept and Measurement of Income Inequality". You state that "income inequality is a relative concept". We've heard from other witnesses who've also said that looking at a single group as a snapshot in time doesn't actually look at an absolute level.

I've watched a number of young adults, friends of my children, who have graduated from high school and graduated from university. Certainly many of them are enjoying life right now. They're certainly not at a high-income level. I anticipate that will change over time.

Can you elaborate? Does a single sample group give us a true picture of the real economic conditions? Just talk a little bit more about your graphs.

● (0940)

**Mr. Stephen Richardson:** I think the point is fairly straightforward, in that a country like the United States or Canada could have a very high level of income inequality and yet the people at the middle or even the bottom of the income scale would be, in absolute terms, more well off economically than some place that had a very equal distribution—maybe some place like Cuba, which is very equal and very poor.

It doesn't mean that income inequality is not an important concept in Canada, so I'm not intending to demean the idea or the importance of it. I would note however—I don't know if it's possible to view the first slide again. I apologize to Nicole Fortin if it blots out her presence momentarily.

This point goes to the question of overall economic growth and overall income levels. There have been a number of comments about the growing inequality gap. Well, actually, those are the numbers. If you look at the red line, there is almost no increase in inequality in the last ten years. In fact, the actual percentage increase in the last ten measured years, according to Statistics Canada—I don't make this stuff up, I just use it—is 0.4%. If the rich are getting richer, which may be the case, something else has to be happening as well to result in not having an overall increase in inequality. That means that some other people on the income scale have to also be doing well.

So the fact that there is greater growth in some parts of the income scale may raise some issues, but from the overall data it looks as if Canadians in general—as I think Madame Fortin mentioned as well—are really doing a lot better than some other countries, particularly the U.S.

**Mrs. Cathy McLeod:** I see you're using the Gini coefficient, and I understand that's a fairly common tool. Obviously it can provide us with valuable information.

What are some of the lacks or issues with the Gini coefficient as a measurement tool?

**Mr. Stephen Richardson:** There are lots of issues with the Gini as a measurement tool, although it's not clear there is a better one.

The other tool that I'm familiar with has been used in Statistics Canada in work by Frenette, Green, and Milligan. Instead of the labour surveys and the types of data that are used in the Gini coefficient, they have used income tax data and related materials. They've written a couple of papers. Their last one was in 2009, I think. I have the reference if anybody wants it.

They have indicated that they think perhaps the Gini coefficient, to some extent, understates the effects of the two ends of the income spectrum. However, when they did their results, they really weren't significantly different from what you're seeing here, in effect. They've only done them through the year 2000.

**Mrs. Cathy McLeod:** Do you have any comments regarding mobility? Is there any good tool that looks at mobility?

**Mr. Stephen Richardson:** I'm not an expert on that. Maybe Michael Veall would like to comment on that.

Mobility is a very important issue, because again, even when you look at stable inequality, when you look at income distribution, we don't know it's the same people at the high end all the time. It may be people who are there once and then gone because they've had some large realization. So mobility is an important issue.

I can't give you too much detail, but maybe Michael....

• (0945)

**The Chair:** I think we have two who want to comment. Again, we're running very short on time.

I have Ms. Fortin and then I have Mr. Veall, please.

**Prof. Nicole Fortin:** There is only one tool to describe wage inequality. This would actually add more emphasis to what's happening in the middle.

To the extent that we're concerned about people at the top getting an increasing share over time, they're not necessarily describing that phenomenon.

I've provided some charts in the brief that I've given that show alternative ways of describing that. They're mostly graphical in nature.

In our discussion paper we also talk about the role of income mobility, that is, the idea that from year to year a person's income may vary, and what impact it could have on wage inequality and whether it could help. Basically the big facts still remain, even when we take into account the idea that from year to year each person's income may vary.

**The Chair:** Okay.

**Dr. Michael R. Veall:** I'll just say, really quickly, that these are really long-term things. Even when you look at the last 10 years, it's correct, as Stephen Richardson said, that when you look at that

period there isn't much of an increase in inequality. In fact, this is a roller-coaster period. We had the dot-com bust, we had the financial crisis—it goes all over the map. Really the big increase in inequality was, roughly speaking, from 1985 to 2000, and since then it's hard to tell.

But the question was also about intergenerational mobility. Of course, intergenerational mobility by itself is a very long-run thing; you're talking about how parents' income affects their children's income. It's a very long period. The best data we have suggests that in Canada, intergenerational ability is still pretty good.

**The Chair:** Thank you.

Thank you, Ms. McLeod.

Mr. Brison, please.

**Hon. Scott Brison (Kings—Hants, Lib.):** Thank you very much.

When Governor Carney spoke on this issue, he said that those who say income inequality is not an issue are wrong, and those who want to make it into one of class warfare are wrong, but that the real focus ought to be on that issue of equality of opportunity.

The issue of disparity between provinces is one that ought to concern us. There's a growing gap in terms of the fiscal capacity and situations of individual provinces. To what extent does that represent a threat to equality of opportunity in terms of the capacity for provinces, for instance, to fund public education?

**Dr. Michael R. Veall:** I agree. I think that is where the focus should be. Of course, education, kindergarten to grade 12, is a provincial responsibility, but there are interactions with the federal government. But that is essentially the problem. In a country where people can move across the country, you could not invest sufficiently in the education of children in one part of the country and then they move across the country and they're not as productive as they might be. It's obviously an issue that has a national repercussion.

**Hon. Scott Brison:** Zanny Minton Beddoes, the economics editor for *The Economist* magazine, said when she was in Ottawa a few weeks ago that one of the reasons why income inequality is so great in the U.S. is that education is funded by the local tax base, and of course rich communities get great schools and poor communities get poor schools. So we could see, with the balkanization of the economic situation to provinces, a direction not dissimilar to that.

She also said that the greatest area of equality of opportunity investment to address this is investing in children. To what extent does Canada need to have a more focused approach to early learning and child care in Canada?

**The Chair:** We have Mr. Broadbent, who wants to comment.

Is that who it's to, Mr. Broadbent?

**Hon. Ed Broadbent:** I'd like to reply specifically to Mr. Brison's question, and to the earlier one on the whole notion of equality of opportunity.

There isn't a sane adult in Canada, whatever the ideological perspective, I think, who would be against equality of opportunity. For me, the serious debate, though, is between those who see a link between equality of opportunity and substantive equality and those who don't. The evidence is I think very clear, whether it looks at the work of Wilkinson and Pickett, and I'm sure the committee is familiar with that work, *The Spirit Level*, or Joe Stiglitz, a Nobel prize winner who has written on inequality.

The clear point I would make, but I won't elaborate because of the time, is that it becomes almost meaningless to talk about equality of opportunity—and the data supports this—unless you narrow the gaps. If kids growing up don't have adequate housing, if they don't have early education opportunities, as upper-income people do for their kids in many countries, the beginning in life with serious inequality undermines the notion of equality of opportunity. I'll just make that point and pass over to Scott's question.

I think increasing the allocation of funds for pre-school learning, pre-school opportunities for children, is of fundamental importance. And to make a non-partisan comment, I think the Government of Ontario and its initiatives recently in trying to deal with that issue are very progressive.

So beginning with pre-school children, with a lot of emphasis... again, I think the evidence around the world is that it's a very important initiative to take.

• (0950)

**The Chair:** Mr. Brison, you have one minute.

If we can do it very briefly, Madame Taillon...

**Ms. Peggy Taillon:** I want to reinforce this. I talked about dealing with inequality through building stronger communities and social cohesion. Early learning and child care do that. Obviously, there are huge benefits and lots of evidence to support the benefit to kids of putting them in school earlier, with full-day kindergarten. As a mom of a six-year-old, I see the benefits in my son.

The other benefit is that once you're attached to a school, your family is attached to a school and attached to a community. If you consider a new Canadian, for example, coming in, feeling very isolated and really unsure, when their kids start school, all of a sudden the family is part of a community as well. Many women who are staying at home in very traditional roles, as new Canadians, feeling very isolated, are now all of a sudden interacting—dropping their kids at school, speaking to other parents. It's a huge way to build the fabric of a community and to create a cohesive society.

**The Chair:** Thank you.

I'm trying to be very fair with time. We are going over.

Professor Fortin, make a very brief comment, please.

**Prof. Nicole Fortin:** I would simply like to mention that the big educational divide in Canada is with aboriginal communities. This is really where a lot of emphasis should be placed. If we're thinking that the basic building block begins with education, this is where the big gaps are.

**The Chair:** Thank you.

Thank you, Mr. Brison.

Mr. Hoback, please.

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

I welcome everybody here this morning.

**Ms. Yalnizyan,** you make a comment in your tax measure recommendations:

Avoid expanding TFSA[s] and do not introduce income splitting for families with young children. Both measures widen, rather than reduce, disparities.

Can you explain why you think those are bad programs? What data lie behind your thesis on that?

**Ms. Armine Yalnizyan:** The Library of Parliament in 2006 released a document, presumably at the request of the government because you were interested in these measures, showing that the distribution of benefits from these two measures combined.... Well, the income splitting was divided between seniors and young families. That package of income-splitting measures cost roughly \$5 billion at that time.

At that time, they said that \$2.2 billion went to families with young kids, and that 8% of that bundle of money would flow to the bottom 50% of families. The higher up the income ladder you went, the more the benefits of income splitting accrued to very high-income earners. The bottom 50% of families in 2006 were at less than \$60,000, so the 50% of families raising kids who were making less than \$60,000 would get 8% of the benefit of that measure. Single parents, who are the poorest parents, would see nothing of it because there's no income to split.

With respect to the tax free savings account, the tax expenditures report that came out two months ago, in February 2013—note that it was the first time we lifted the hood on the tax free savings account—showed that people who were most likely to benefit from that measure were older than 65 and of high income. Although there was quite a large take-up of the program, the real benefits accrued to those with high incomes who had surpassed their ability to contribute to RRSPs. What was clearly created was an ability to expand tax sheltered accounts.

You've probably heard from the chartered accountants of Canada, who have referred to this tax measure as revolutionary. It's revolutionary, sir, because it is going to create a huge hole in the public purse as time progresses.

• (0955)

**Mr. Randy Hoback:** I find that interesting, because if you go back to my constituents in Prince Albert, you'll find that the tax free savings account, no matter what age group you're in, has been viewed as very positive.

**Ms. Armine Yalnizyan:** I'm sure it has been viewed as very positive, because there's a general culture out there that says taxes are a burden and we shouldn't pay them. Anything you can do that communicates to people that you don't have to pay taxes seems to be a winner, which is what you guys campaign on. But at the end of the day, by not paying for the system we have, we're going to be transferring the costs to the next generation. It's a deficit that we pass to the next generation like any other.

If we're not collecting enough revenues, we can't maintain our standard of living down the road.

**Mr. Randy Hoback:** I guess I take an approach that is a little different. When you leave that revenue with the family and let them choose how to spend it, it's better for society as a whole, because they're spending money as a family unit; they're maintaining the family as they choose. I guess we differ a little on how the benefits of those funds will flow through.

**Ms. Armine Yalnizyan:** Can I just—

**Mr. Randy Hoback:** Unfortunately, I only get five minutes. I just wanted to understand your logic behind that.

Mr. Veall, you talked a bit about loss of shareholder democracy. I want to pull this back into the study we're doing here.

Can you elaborate on that?

**Dr. Michael R. Veall:** There's obviously an issue with accountability, if shareholders do not get to have meaningful input into decisions at the corporate level. I suspect that in a large number of cases it doesn't make much difference.

The problem is that in cases in which it does make a difference, we'll have some small group of insiders who are effectively controlling the corporation, and whether we like it or not, the rest of us are, at some level, stakeholders. In particular, there are cases in which shareholders would probably change management and end up with a new, more innovative group, and they simply can't, because of the way the shareholding is structured in that particular entity.

**Mr. Randy Hoback:** You also made a comment about a national securities regulator. Do you feel this would be one way to stop that process?

**Dr. Michael R. Veall:** At the moment, somebody starting a corporation in Canada can choose their regulator, and it may be that they choose regulators who are not as careful as I would expect a national securities regulator to be.

**Mr. Randy Hoback:** You also talked about intergenerational opportunity. I believe you talked about how Canada is doing so well that no matter what generation you're born into, those opportunities are there, whether in education or health.

Can you expand on that?

**Dr. Michael R. Veall:** It is of course a problem with data that we know what happened to a previous generation but we don't really know what's going to happen to the current generation. It could be that intergenerational opportunity is deteriorating, but we just will not be able to record that as data. If you think essentially about the previous generation, the work by Miles Corak, whom you have heard from, tends to say that Canada does as well in intergenera-

tional mobility as other countries that have much more equal distributions of income than we have.

This is why I emphasize the threat that comes through provincial government deficits in many of the provinces: they are the deliverers of education, and it matters to that.

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

[*Translation*]

Mr. Caron, go ahead.

**Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP):** Good morning. I want to thank all of you. Your presentations were excellent. Unfortunately, five minutes is really not enough to ask all the questions.

I want to begin with Mr. Richardson.

I will set the charts aside because they are always a bit misleading. I would like to focus on the tables you have submitted. You are telling us that the income inequality issue is relative because an increase in the Gini coefficient is not that bad, since the redistribution factor has not decreased. So the situation is not so bad, relatively speaking.

However, when I look at the figures, and especially those since 1994, I see that there are few changes to the Gini coefficient in Canada before taxes and transfers—be it for all families or economic families. Yet there is a marked increase in the Gini coefficient—so an increase in inequalities—after taxes and transfers. That increase is about 10% in both cases. I would go as far as to say that this correlates with the fact that the redistribution factor dropped by 20% during that time.

Would I be wrong to believe that, since 1994, the redistribution effect of Canadian policies has been decreasing significantly, thus leading to an increase in inequalities based on the Gini coefficient, after taxes and transfers? So there is a lot less redistribution in our system.

• (1000)

[*English*]

**Mr. Stephen Richardson:** I think you're absolutely correct in your interpretation of the data in terms of the redistribution. Redistribution went up hugely from 1976, and particularly during the 1980s and into the early 1990s. Around 1994 it peaked, and there was a reduction in the scale as a proportion of the amount redistributed after 1994, though this has levelled out over the last ten years.

I think the reason historically—I'm not making any comment in favour of or against it—that this happened was that the redistribution in the late 1980s and early 1990s was being funded by deficit financing by the government, and in particular by borrowing by the government. Canada reached a fiscal crisis around 1995-96, and there was definitely a cutback of transfers to provinces and presumably of some of the services that are involved in redistribution, and that had an effect on reducing redistribution.

As I say, it's been pretty stable since then. It's a question of whether you think getting back to it would justify doing so through government borrowing. I don't think it's a good idea, because it's unfair to future generations. It takes you back to asking what you do and how you fund it.

[Translation]

**Mr. Guy Caron:** We can always debate that families in general paid for the deficit fight in the 1990s. The fact remains that the impact of the measures chosen by the government of the day—and continued by subsequent governments since 1994—have resulted in income being much less redistributed. In addition, after taxes and transfers, the Gini coefficient—or income inequality—has increased. Do you agree with that?

[English]

**Mr. Stephen Richardson:** It did increase from the high point of equality and redistribution prior to 1994, as I said.

[Translation]

**Mr. Guy Caron:** I have two other questions for you.

First, I see that your statistics end in 2008. So they do not really reflect the impact of the latest financial crisis. I don't think the figures are available. The OECD has no figures either on what has been going on since 2008. Be that as it may, you have no statistics beyond 2008.

Second, I would like to hear what you think about the following issue. Redistribution measures in Canada generally consist of taxation or social programs such as employment insurance, old age security, and so on. I would like to know something. Let's say we are trying to reduce taxes and split income—a measure that has a regressive impact, according to Ms. Yalnizyan—and we also decrease transfers in employment insurance or old age security, as was the case in recent measures implemented by the government. What kind of an impact do you think that could have on the redistribution factor and income inequality?

[English]

**Mr. Stephen Richardson:** I think it depends on exactly what's done. For example, with taxation, as we were discussing, it's possible, and in fact recommended by the OECD—and I think Michael Veall referred to it—that even if you want to increase tax revenues to do more distribution, the better way to do that is not by raising marginal rates, it's by removing various—

[Translation]

**Mr. Guy Caron:** What will be the impact on the redistribution factor...

**The Chair:** Unfortunately, Mr. Caron...

**Mr. Guy Caron:** What will be the impact of those measures on the redistribution factor?

[English]

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

**Mr. Stephen Richardson:** Tax is a factor, and programs that provide benefits are a factor. But there are also very important elements outside the numbers that we've seen here that provide redistribution, and those would be medical care for Canadians, education, travel services, and other things like that.

**The Chair:** Thank you.

Mr. Jean, take your round, please.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you for coming today.

I'm going to deal with what I think is one of the most serious situations.

But first I'd like to wish our Prime Minister, Stephen Harper, happy birthday. He's 54 today, and I think it's very important. He is one of the most important people to our economy, for certain.

I do want to talk to you, Peter, in relation to what I consider to be one of the biggest issues and dramas, and quite frankly one of the best opportunities we have in Canada. That is, of course, first nations people, with the highest rate of poverty of any group, the highest incarceration rate of any group, and the highest birth rate or fastest growing of any group.

I think it is the best opportunity, because to my way of thinking... and coming from Fort McMurray and knowing Jim Boucher, who used to live with my brother back in the seventies when he was just a young fellow, that is definitely a very successful situation—\$130 million or \$133 million in sales last year—but it's not an unusual story.

In fact, there is a true correlation. My nephew, Dwayne Jean, who is also a treaty aboriginal from Janvier—and I think you know him—started a business two years ago. He just told me—I was pinging him—that he did \$2.5 million last year, and this year he's already at \$5 million and the year is only halfway through. He has a company with 40 employees; he has water trucks and sumping. It is an amazing success story. He has \$2 million in the bank. This is a guy who spent 10 years in and out of jail, in Drumheller in particular, but... tremendous success over the last few years. Why? Because there seems to be true correlation between successful aboriginal communities and resource development.

Would you agree with that?

• (1005)

**Mr. Peter Dinsdale:** I think you're seeing an example of where it works. I don't think there are enough of those success stories across the country.

**Mr. Brian Jean:** That's what I want to concentrate on, what works, because it does work.

**Mr. Peter Dinsdale:** Absolutely.

**Mr. Brian Jean:** I'm from Westbank originally. If you look at what's happening down there with the Louie family in particular in Osoyoos, they talk about capitalism, hard work, and self-reliance. This is a model that can work. It works in southern B.C., it works in northern Alberta, and it's very successful.

How can we get more aboriginals to work? How can we do this, with practical solutions?

**Mr. Peter Dinsdale:** I think it's about fair and equal partnerships. I think that would be the starting point.



First nations are not anti-business or anti-development; they're pro successful partnerships, and I think you're seeing examples of where those occur.

There are too many examples in the Ring of Fire. We could talk about De Beers mines in some locations. We can talk about any number of examples across the country—

**Mr. Brian Jean:** Attawapiskat, in particular.

**Mr. Peter Dinsdale:** There are challenges with the nature of the impact benefit agreements, with how the community actually benefits. It's not enough to come in, take out x billions of dollars of resources in the year, hire 40 people from the community, and call that the relationship.

**Mr. Brian Jean:** Would you call Syncrude's policy, where they have a mandatory 15% aboriginal employment—that's their goal, and they've been working on that goal—

**Mr. Peter Dinsdale:** I can't speak specifically about that. I haven't had the time to go through that—

**Mr. Brian Jean:** Is that the kind of model that you think—

**Mr. Peter Dinsdale:** It's also more about ongoing engagement, about developing not only the relationship on that particular location. It's also about the subsidiary business. It could be a percentage share in the actual operation itself. What's the ongoing engagement?

I remember talking to one of the resource extraction companies about their celebration of the number of wells they had developed in particular first nations to extract oil. When pushed to say why the company was doing this now, it was all about the duty to consult at the time. It was all a rights-based argument that took place.

**Mr. Brian Jean:** Absolutely.

**Mr. Peter Dinsdale:** They weren't doing it prior to that.

I think we need better consultation on accommodation policies and engagement. We have to work together on that, though.

**Mr. Brian Jean:** Agreed. I think it's going that way. It certainly has moved that way. Wouldn't you agree it's gotten a lot better, even in the last 10 years, I would suggest?

**Mr. Peter Dinsdale:** Certainly in the past 10 years.... I think they have a long way to go to get to that \$650 billion potential that Canada has.

**Mr. Brian Jean:** I don't know if you're aware, but we've actually signed over 90 treaties with first nations in the last seven years, compared to the previous 13 years, in which I think there were 8 in total. Do you see that as being part of the challenge and part of the solution?

**Mr. Peter Dinsdale:** Absolutely. It's the implementation of those existing treaties, because there are some challenges with treaties as they've been signed, as they've been implemented, and ongoing comprehensive claims reform to sign new treaties is absolutely essential. That was, in part, the meeting we had on January 11 with the Prime Minister, to follow up on the crown-first nations gathering from the year before. It was on those very things.

I think you have a long way to go on comprehensive claims reform and treaty implementation, but that is absolutely a part of the solution moving forward.

**Mr. Brian Jean:** Do you see that the real success we can have is the actual correlation and partnership between natural resource development in a sustainable way and utilizing those first nations partnerships all over the north, for that particular resource sector?

**Mr. Peter Dinsdale:** Yes, but it's within a broader bundle in the relationship between the crown and first nations.

**Mr. Brian Jean:** Absolutely.

**Mr. Peter Dinsdale:** I think natural resources are a part of the fiscal relationship that exists. Right now, it's primarily contribution agreement-based as opposed to this kind of governance model—

**Mr. Brian Jean:** And a tripartite agreement between industry, first nations, and the Government of Canada....

**Mr. Peter Dinsdale:** Where they work, absolutely.

**Mr. Brian Jean:** Great. Thank you very much, sir.

**The Chair:** You have another 30 seconds, if you want.

**Mr. Brian Jean:** Mr. Chair, I have tons of questions.

I did want to talk a little bit about the dividend cheques. Do you see that as being a successful model? You know what happened with Fort McKay First Nation. I think it was \$20,000 to each member last year in a dividend cheque because they had such a successful year. Do you think that kind of thing, spreading it out to the community members, is a successful model?

• (1010)

**Mr. Peter Dinsdale:** I think you have to balance out individual per capita distribution with what's retained in the communities. I've heard others talk about the economic advantages of addressing income inequality of schools and day care and public infrastructure. A lot of communities don't have schools, they don't have paved roads, they don't have waste-water treatment facilities.

Per capita distribution certainly is one model. I think there are others. Community infrastructure building would be—

**Mr. Brian Jean:** Have a balance.

**Mr. Peter Dinsdale:** Of course, each community has to make those own determinations for themselves.

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

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

[Translation]

Mr. Côté, go ahead.

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

The last testimony has left me frustrated. I will have a question for Ms. Fortin and then another one for Mr. Zorn. I ask that the other witnesses remain silent. They can comment on those questions if any time remains.

Ms. Fortin, I really liked your presentation. I will get straight to the point.

There has been an increase in all kinds of regressive tax measures. Let's take employment insurance as an example. The Parliamentary Budget Officer—in his latest economic and fiscal outlook—said that the rate for every \$100 of insurable earnings could go up to \$2.03 in 2016.

Clearly, this is the type of measure that affects middle-class workers, low-income workers and small businesses. You are conducting studies specifically on women. Some measures, such as new tariffs and the abolition of the tax credit for labour-sponsored funds, seem to have a limited scope when considered separately. However, when combined, they can have a certain impact. What are the general impacts on those categories of workers and businesses, and especially women?

**Prof. Nicole Fortin:** Women are more likely than men to work part time. When employment insurance measures allow part-time workers to accumulate hours to qualify for benefits, that seems to work in their favour.

What was your second question?

**Mr. Raymond Côté:** I was more interested in inequalities and the regressive aspect of the new measures. I was talking about employment insurance premiums and the new import tariff on 1,200 products from about 70 countries. In addition, the tax credit for labour-sponsored funds was eliminated. That initiative enabled workers to contribute to RRSPs, especially in Quebec.

**Prof. Nicole Fortin:** Those measures will affect income after taxes. That should be to the disadvantage of those workers. The impact of trade on the increase in inequalities has been difficult to establish. That is why it is a bit hard to predict anything when it comes to the measures you talked about.

**Mr. Raymond Côté:** Very well. Thank you very much, madam.

Mr. Zorn, I think your report is fascinating. We don't have enough time to talk about it. In the part on taxes, you cite the study conducted by Piketty, Saez and Stancheva, regarding the strong correlation between high incomes and marginal tax rates. That's very interesting. Of course, this observation is not limited to those researchers.

I will be fairly blunt. You may have read famous investor Warren Buffett's letter in *The New York Times* regarding his own experience as an investor. He says that very high tax rates on high incomes don't really stand in the way of money making, contrary to an urban legend. Do you have anything to say about that?

**Mr. Nicolas Zorn:** Thank you for the question.

The Piketty, Saez and Stancheva study, published in 2011, notes a major drop in marginal tax rates in countries where that 1% has increased significantly. The correlation is clear. Even more interesting is the fact that there is no correlation between a drop in marginal tax rates and GDP growth. Consequently, the amount taxed is not related to tax levels. What is taken into consideration is the use of that money.

As for the correlation, marginal tax rates have two effects. The first is the capping of high income, as richer people have a higher savings rate. They do not spend all their money—contrary to the middle class—and they often invest their savings abroad or in the

stock market. That creates an extra income and increases the growth of the richest 1%.

The second effect is that....

• (1015)

**The Chair:** Thank you.

**Mr. Nicolas Zorn:** The other effect is an extraction of income with a lower marginal tax rate. Why? With lower taxes, an individual benefits more from negotiating a higher salary without compensation in terms of a productivity increase.

**The Chair:** Thank you, Mr. Côté.

[English]

Mr. Adler, please.

**Mr. Mark Adler (York Centre, CPC):** Thank you, Chair, and thank you all for being here today.

Mr. Broadbent, it's truly an honour to have you here today. I'm so happy you're here.

I do have a couple of questions for you. I would like to pursue my line of questioning with you, if you don't mind. You spoke in your remarks about governments making political choices, and that's what we do as a government. Our political choice, in terms of the Canada health and social transfer, is the health transfer going up 6%, plus nominal GDP, and the social transfer going up 3%, plus nominal GDP. We give that block transfer to the provinces and they in turn spend it on health, and social transfers are spent on education, etc. They have not been spending all the money we've been giving them—in fact, a lot less than what we've been giving them.

Could you talk a bit about the political choices they are making? We seem to be making the right choices on that front and they are making the wrong choices. Could you comment on how their choices are contributing to social inequality?

**Hon. Ed Broadbent:** All I can say is that the old movies are still with us. When I was around in this place, 150 years ago, we had the same issue with various governments—sometimes a federal Liberal government, sometimes in the past a federal Conservative government—and that is whether the transfers were being used for what they were intended. You have put your finger on a very serious issue.

If I remember correctly—and I think I do—the Romanow commission recommended the big increase at that time. It was big, and it was badly needed. He also recommended that certain reforms go with it—to drive down costs of health care, for example—but he also wanted some kind of agreement that would see the provinces actually spend in areas in which they're supposed to.

As you know, our Constitution has real problems with enforcing that. I don't care about the ideological persuasion of a given federal government; whoever the federal government is will have problems, given the provincial constitutional authority, in enforcing the priorities. All I would hope for is that, in a negotiating process, a mechanism for enforcement be set up.

I would go so far as to say that a certain conditionality should be introduced. If a province is going to get money and negotiates a certain percentage from the federal government, then I think it should be obligated to use that money for what was intended—otherwise, don't take part in the agreement.

Having said that, I don't underestimate the challenge of making that happen.

**Mr. Mark Adler:** Thank you.

As you know, we've also increased the guaranteed income supplement by 25%, which is the largest in Canadian history. Do these initiatives by us solve the problem? No, but we're certainly moving in the right direction.

Could you comment on what happened in the 1990s, when the government of that time balanced the federal budget by cutting transfers to the provinces, and on what effects that had on social inequality?

**Hon. Ed Broadbent:** To give a very brief answer, it was disastrous. I think it was the biggest net cut in social programming in post-war Canadian history that flowed from that.

If I may say so, being as objective and as non-partisan as I can be in this—but it's a judgment—if you look at what Mr. Clinton did in the same period in dealing with deficit problems, did he have massive cuts in social programming in the U.S.? No. Do you know what he did? He stimulated growth in the economy. He said the real way out of this was to get more jobs, on the one hand, and he increased taxes on the rich, by the way.

Very soon the American economy was taking off, and broadly speaking, the Canadian economy started to take off too, because such a high percentage of what we produce is exported to the U.S. market.

• (1020)

**The Chair:** We have about 30 seconds.

**Hon. Ed Broadbent:** This is the subject of a big discussion. It wasn't the massive cutbacks in social programming that turned the Canadian economy around. In my view, it was the booming American economy, created by a different approach by Mr. Clinton, that had that effect.

**Mr. Mark Adler:** I just need 15 seconds.

Thank you.

**The Chair:** Be very brief.

**Hon. Ed Broadbent:** It is a complex issue.

**Mr. Mark Adler:** It is, very; I'd love to pursue this more with you.

I have two very quick questions.

One is, do you have any regrets about the 1979 decision—remember, there was the 18¢-a-gallon issue during the campaign—on bringing down the government?

**Voices:** Oh, oh!

**Mr. Mark Adler:** Second, do you ever think of what could have been, had there been an election in the summer of 1987?

**Voices:** Oh, oh!

**The Chair:** Order.

**Hon. Ed Broadbent:** In the summer of 1987?

**Mr. Mark Adler:** Do you remember? You were roaring in the polls.

**Hon. Ed Broadbent:** Yes, I would think retrospectively that we should have had them.

**Voices:** Oh, oh!

**Hon. Ed Broadbent:** Absolutely, when we were riding high in polls all over the country, I think.... God was not performing correctly in Canadian history.

**Voices:** Oh, oh!

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

Mr. Rankin, please.

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

Thank you, witnesses.

I'm going to follow up on the first of Mr. Adler's questions, not the second. My focus is on federalism.

By way of overview, I'm looking at what practical measures a federal government can take to implement measures to address income inequality. There are three witnesses I'd like to have respond.

First, Mr. Broadbent spoke of welfare reform, acknowledging that it was primarily provincial. He wrote this morning in the *National Post* about the welfare wall and what we do about it—again, provincial issues.

Professor Fortin acknowledged that education, the minimum wage, and collective bargaining are mostly provincial.

Ms. Yalnizyan recommended that we support provincial poverty reduction measures. Again, all are matters provincial.

We have this federal social transfer, and it tends to be essentially a “no strings attached” type of process more and more, yet we have the federal spending power, which is robust.

I'd like to ask the three of you—Mr. Broadbent, Professor Fortin, Ms. Yalnizyan—what we as federal politicians can recommend to specifically address the issues I've referred to in your various presentations, starting with Mr. Broadbent, please.

**Hon. Ed Broadbent:** If I understand the question, and I think I do, a lot of the recommendations that have been made around the table, including those made by me, are within provincial jurisdictional authority. I am in favour of using the federal spending power, but I am also in favour of doing it in what used to be called a cooperative federalist way of working with the provinces and trying one's best to get agreements for changes. I refer in this to the particular form of guaranteed income that I'm saying should be a long-range goal of Canada, which Tom Kent and Hugh Segal have also advocated.

I think those kinds of complex changes in social policy in Canada on the whole require federal-provincial agreement, if we're going to maintain the cooperative kind of attitude in the country. I don't underestimate the difficulty in achieving it, but I think federal initiatives are appropriate, even if to say, "We have money, we have the tax resource as a federal government, and in particular in the case of some provincial governments"—for reasons of inequality that have been raised already—"we're prepared to put up...", and I'm not naming some of the programs that I mentioned, for example, that are in provincial jurisdictional authority, "and we would like you to cooperate." That can be done using the prime ministerial pulpit, if I can put it that way, too, showing federal leadership and talking about the necessity of these things to build a more equal Canada and to put public pressure, if you like, on more provinces to get a sufficient number to have effective programs.

• (1025)

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

Professor Fortin.

**The Chair:** You have two minutes left, so take a minute each.

**Prof. Nicole Fortin:** It's going to be difficult for me to improve on it.

Some of the increase in after-tax inequality of the 1990s, as was pointed out earlier, can be traced back to some cutbacks in social assistance, but also to the removal of some surtaxes in some provinces. There are some that are coming back. For example, in B. C., some of these are coming back.

Now, at the federal level, there remain a few tools, such as the GST credit, the child tax benefit, and the working income tax benefit, which are important programs. A lot can be done by improving on these programs, but I really applaud the point that was being made about leadership. It seems that bringing the issue of income inequality into the news basically may bring the attention of the public to the boards of governance of some firms concerning how appropriate it is to give bonuses and so on to high-paid workers. I think these tools are within the realm of what will be effective.

**The Chair:** There's about 20 seconds left, if you want to comment.

**Ms. Armine Yalnizyan:** I will cede my time so that we can move along.

**The Chair:** Thank you.

Thank you, Mr. Rankin.

Mr. McColeman, please; it's your round.

**Mr. Phil McColeman (Brant, CPC):** Thank you, Chair.

And thank you as well to the witnesses for being here.

I'd like to follow the angle of education, and in particular public policy on education. What our government is facing now, and what future governments will face, is the fact that we're on a trajectory of being a million workers short within this decade of the jobs that are available in this country. I know this is real, because I know it's real in certain regions of the country now, having travelled with the human resources committee and in speaking with employers and employees and unions and whatnot on the various sides.

When you reflect on what has happened over the last number of decades.... I remember when I was in elementary school we had a tech room in which there were tools, and there was the ability to find out whether you had the aptitude to do a skilled trade. It might not have been your choice eventually, but it was there and was available. They were available as well in the tech wing at Brantford Collegiate Institute, where I went to high school; it had a full tech wing—automotive, electrical, carpentry, you name it. For the most part, these are gone in Ontario, as far as I can see, at the elementary level, and we have put a focus on.... I'm as guilty as any, with four children—having graduated three of them with general BAs—who were not employable when they got into the workforce and who had to go back to a year of community college.

I'm painting the scenario for you. Is that progress? Is this the kind of thing we need to reinstitute—matching skills with the job sets that are available? If we're talking about the inequity question, as we are today, is it important? We all know how empowering education is at different levels. Not everyone is meant to be a university professor or a doctor, or, for that matter, a politician. Nonetheless, can I ask you your views on getting that right?

**The Chair:** Is this for Professor Fortin?

**Mr. Phil McColeman:** Yes.

**Prof. Nicole Fortin:** I think you rightly mentioned that many of the technical jobs now almost require some post-secondary degree. A mechanic today uses a computer quite a lot more than before. I think this emphasizes the point that high school completion has to be an important goal of public policy, because indeed many of the skilled worker jobs are increasingly skilled and many of these skills are taught at post-secondary institutions.

**Mr. Phil McColeman:** I see that Mr. Broadbent would like to weigh in here.

• (1030)

**Hon. Ed Broadbent:** To comment briefly, I really strongly agree with your orientation. I grew up in a town with a high school that had what we called "technical training" of the kind you've talked about, and it has disappeared too.

I've been spending some time in recent months in the United Kingdom. A big debate is being waged there. Like so many countries, they're looking at Germany as a model, where they make a distinction between formal academic training, like you and I probably had, and technical training. There's no low status allocated, to put it bluntly—quite the contrary—to working-class men and women who get technical skills. They're being recognized not only all over Europe but elsewhere.

In addition to what's been said already, a point I would make is that it seems to me that an industrial policy for Canada, in the manufacturing sector in particular, might use some kind of incentive in terms of tax systems in regard to corporations—and they have to really do it—for them to have apprenticeship training programs in the industry. That, by and large, as I understand it, is the emphasis in Germany. Also, we should encourage our children. As you say, not everyone is going to be a doctor, and being a skilled worker should have the same kind of positive response from the rest of us.

One thing a federal government could do, it seems to me, is look at the idea of having a tax policy for corporations that is related to skills training.

**The Chair:** Mr. McColeman, you have 30 seconds. Madame Yalnizyan wanted to comment as well.

**Mr. Phil McColeman:** Can I use my last 30 seconds? I just wanted, with Mr. Broadbent here....

**The Chair:** It's your time.

**Mr. Phil McColeman:** Is it fair to say that it will help this inequity gap that we're talking about at this table today if we get the education system back to producing matching people with the jobs that are available?

**Hon. Ed Broadbent:** Well, if it's done and they get the skilled jobs, then it can be, but there's a point that I and a number of others made today. It's that the other thing we have to address, frankly, is unionization.

Germany has one of the highest rates in Europe for unions, and one of the major reasons.... People with the technical expertise that I don't have and who produce the data show that there's a good correlation between good, high-paying jobs and more equality and union presence, so I think we have to encourage that as well.

**The Chair:** Thank you.

Thank you, Mr. McColeman.

We'll go to Ms. Glover now, please.

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

I'm thrilled to have all of you here. What's interesting, as we progress in this study, is the disparity between opinions on whether or not we in fact have income inequality problems here in Canada. It's mind-boggling to see how many surveys are on one side and how many surveys are on the other side, but we'll have to sort that out in the report phase.

Mr. Broadbent, I would like to continue with you for just a moment, as you answered Mr. McColeman. The Canada job grant was announced in the recent budget. Have you had a chance to look at it? What are your thoughts on it? Because it certainly appears that it would solve some of the problems you discussed with Mr. McColeman.

**Hon. Ed Broadbent:** I have not.

**Mrs. Shelly Glover:** Okay, and that's fair enough. Thank you.

How about if we look to one of the reports you did, Mr. Broadbent? I found it interesting, to say the least. It's a 2012 report that of course we're familiar with. It's called *Towards a More Equal Canada*, and it repeatedly advocates for higher taxes as a way to

solve income inequality. In fact, one of the quotes from the report says the following:

Tax cuts have squeezed the services we already have, and made it difficult to talk about expanding the social programs....

Taxes are the hinge that links citizens to one another.

I'd like you to expand on that. What tax cuts are you referring to in that quote? I'm assuming you would recommend that we reverse those?

**Hon. Ed Broadbent:** The tax cuts that I refer to, or that we do, because it was a collective enterprise to produce that report.... A lot of people were involved. A lot of academics across the country contributed to it.

I'm not going to give the statistics off the top of my head, but on the general reduction on taxes going to upper-income Canadians from both Liberal and Conservative federal governments, a disproportionate benefit has gone to upper-income Canadians.

One measure among many that we indicated was to reverse this, to not drive tax rates up to what they were, to the same level of half a dozen or 10 years ago, but to consider, seriously and positively, increasing taxes on the rich.

• (1035)

**Mrs. Shelly Glover:** So tax the rich? What are the other—

**Hon. Ed Broadbent:** Let me put it in context.

It has been said by a number of people in recent years that the top 1% have had about 30% of all the income growth in the country. The argument is that if they have really benefited, to generalize a lot, from globalization and other reasons, disproportionate to middle-class and lower-income Canadians, then the argument is, look at restoring some of the tax rates they used to pay.

**Mrs. Shelly Glover:** I understand what you're saying.

What other tax cuts would you want to see us reverse, because, frankly, those folks are paying the majority of taxes that pay for our social programs. I'd hate to chase them away. Nevertheless, it's a difference in philosophy.

**Hon. Ed Broadbent:** I don't think they're going to go anywhere. The last report and all the survey data do not indicate they're going to pack up and move.

**Mrs. Shelly Glover:** Okay. So what other tax cuts would you see us reverse?

**Hon. Ed Broadbent:** We're talking about capital gains; 50% of capital gains are exempt from taxes.

**Mrs. Shelly Glover:** Any others?

You mentioned the tax credits, for example, that we should eliminate these “boutique” tax credits, is what you called them in the report. What tax credits were you referring to when you made that statement?

**Hon. Ed Broadbent:** Frankly, I would have to check specifically, to look at the list.

**Mrs. Shelly Glover:** We'll accept a written response to the question after the fact.

**Hon. Ed Broadbent:** Sure.

**Mrs. Shelly Glover:** The other things you say in your report, sir, are that we should “consider implementing taxes on...inheritances of wealth which pass morally-unjustifiable class privilege...” and that “significant revenues could be raised by the introduction of a financial transactions tax”.

Would you clarify what taxes you're referring to in that, sir?

**Hon. Ed Broadbent:** The transactions tax is a very old idea that is coming into force. In fact, if I remember correctly, the European Union adopted it last week.

**Mrs. Shelly Glover:** How would you see it work? The financial transactions tax you would implement, how would you see that work?

**Hon. Ed Broadbent:** When you have transactions, movements of capital around, there are two purposes, I remember, when it was first proposed by a Nobel prize-winning economist. One is that it's a source of revenue when there are these flows of billions of dollars, instantly, in seconds. One is to get a source of revenue, and out of this—

**Mrs. Shelly Glover:** But who would you tax, is my question? Who would you tax?

**Hon. Ed Broadbent:** Whoever is doing—

**Mrs. Shelly Glover:** How would you have the tax? Who is it affecting?

**Hon. Ed Broadbent:** Well, whoever is initiating the transfer—

**Mrs. Shelly Glover:** Right.

**Hon. Ed Broadbent:** —would be the source of taxing. One purpose of it is to deter, depending on how it's implemented, highly rapid and highly destabilizing flows. It's a technical matter that, other than making the general observation, I won't go beyond.

**Mrs. Shelly Glover:** Okay.

**Hon. Ed Broadbent:** That's what is in mind with the transfer tax. I repeat that the European Union...with the notable exception of Britain's objecting, and they're not part of the euro, the rest of the western European countries have adopted that.

What was the other tax you referred to?

**Mrs. Shelly Glover:** I think we've run out of time, but I'm referring to your inheritance on wealth tax.

**Hon. Ed Broadbent:** My view is that it should be looked at. We didn't say it should be adopted. Again, if you look at European countries, many, if not most, have some form of tax like that already.

I'm saying that if we really are concerned in general about inequality, these are things we should be looking at. We didn't say they should be, and I emphasize this, all adopted. We said they should be looked at.

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

We'll go to Ms. Nash, please.

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

Mr. Dinsdale, we haven't talked much about first nations this morning. As you've mentioned, some of our most pressing inequality challenges are among first nations.

You talked about a variety of concerns around taxation, around education. Certainly there is a great concern about the 30% gap between what first nations kids on reserves get versus kids in the rest of the country. There were some measures in the recent budget on training for first nations youth.

I'd like to ask you about consultation and about discussions with the federal government and the involvement of first nations in developing a strategy to address inequality and poverty in many first nations communities.

Would you tell me what consultations have taken place?

**Mr. Peter Dinsdale:** It's a little complicated, as I am sure you can appreciate. This takes place at a variety of different levels. The primary importance is consultation with the rights holders themselves, individual first nations themselves.

We've heard it reflected from some of our constituents that notification is not consultation. Coming in and telling that you're doing something does not meet whatever standards we have out there, or they're not seen as the standards we should strive for.

We do have a Supreme Court reference on the matter, in section 35. Any time the right is infringed, or we say it is infringed, there is a duty to consult and accommodate. That doesn't mean there's a veto, but it certainly means there's a requirement to engage in those discussions in good faith.

Of course, Canada endorsed the UN Declaration on the Rights of Indigenous Peoples, and with that comes the free, prior, and informed consent for communities as well, as they go forward.

So what consultation has taken place? I don't think we've seen the substantive consultation process yet that ticks off all those boxes. Certainly I want to acknowledge that first nations have a responsibility to engage in good faith in those consultations, but it can't simply be notification that we're going forward with this and we're interested in your opinions as we go forward with this. I think it was meant to be more iterative.

As it relates to what we stated here this morning about resource development, if you're going to come into a community and extract resources from that community, a variety of negotiations need to take place. Those are understood, affirmed rights to those communities and those areas and those resources.

So I think it needs to be much more iterative. It must be prior to them coming in. It must be collaborative. And it must end in a relationship where the nations themselves are thriving as well as broader Canadians.

● (1040)

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

Mr. Broadbent referred earlier to the importance of a flexible federalism, where the federal government is engaged in negotiations with the provinces.

I assume you would agree, then, that consultation and active negotiations need to take place with first nations across the country as well.

**Mr. Peter Dinsdale:** Yes.

I have two comments. Earlier Ms. Glover commented that there are questions as to whether or not income disparity exists in Canada. We invite you to come to our communities and determine....

I know you weren't saying it doesn't exist, but the debate that exists amongst academics is a very academic exercise: yes, the rich get richer, but the poorer get richer too. The gap that remains, though, is quite evident in communities such as ours. I think the way to move forward is this collaborative process.

On the role of the provinces, the first nations have a unique relationship with the crown, with the federal crown. Of course there is the province in right of the crown, which has resources, so I think it will need to be tripartite. But first nations, I think rightly, look to the federal government first in assertion. Education, for instance, which is a provincial responsibility, of course, is also a federal responsibility. It's a treaty right to education, guaranteed under section 35, that we need to make sure gets maintained in those consultations as well.

**Ms. Peggy Nash:** Thank you very much, Mr. Dinsdale; much bigger discussion.

I'd like to share the rest of my time with Monsieur Caron.

**The Chair:** You have less than a minute, Monsieur Caron.

**Mr. Guy Caron:** Mr. Veall, I wanted to know, first, what your position was on the elimination of the survey on labour and income dynamics, and second, what impact it will actually have on the study of income inequality in the future.

**Dr. Michael R. Veall:** I think if you're trying to influence the economy and know whether policies are working, you need to have the best possible information. I think that was an undesirable move in that direction—less information.

**Mr. Guy Caron:** In my last 20 seconds, Mr. Broadbent, I want to conclude by saying that we didn't have a chance to talk about negative income tax. I think you might have had a better chance of getting some sympathetic ears across the way if you had mentioned that the idea was conceived by Milton Friedman at the time.

**Voices:** Oh, oh!

**Mr. Guy Caron:** That's a way to say that this issue is something that we can actually all study across partisan lines.

**Hon. Ed Broadbent:** I've often said that some Conservatives have very good ideas.

**Voices:** Oh, oh!

**The Chair:** Thank you.

I'm going to take the final round.

In university I actually read that piece by Milton Friedman, although he would describe himself as a Libertarian, probably, not as a Conservative, so there is some commonality across the philosophical divide on that. I have too many questions and not enough time, unfortunately. I did want to get into that and the working income tax benefit.

Professor Veall, I appreciate your recommendations with respect to national securities regulation, intergenerational mobility, and the

removal of labour-sponsored venture capital funds. We may ask you to come back on the budget bill, either this one or the next one.

I did, though, want to focus my comments with respect to Mr. McColeman's remarks and follow up on that. Especially in my area, the demand for people, for skilled and unskilled labour of all types, is the number one issue I get from businesses of all sizes. Small, medium, and large, they all come to me and say, "James, we cannot find enough people." Whether it's BioWare, which is a computer tech company, or a manufacturing processing facility that is running at two-thirds capacity, or a hotel, or a restaurant, all types of business are saying they don't have enough people. There is a skills mismatch, which we're obviously trying to address through things like the Canada job grant.

But I want to focus perhaps on you, Mr. Dinsdale, with respect to the aboriginal community, because my friends were first nation and have, frankly, succeeded. I looked at them when I was sitting around with a number of them. All of them have either a trade or a university education, so I said to them that what was sort of the key to their success was finishing university or a trade school. They looked at me and they all said the same thing. They said, "No, the key was finishing high school." The key was completing high school, so perhaps I'll just ask you to comment on some of the programs that are in place with respect to completing high school, things like Pathways to Education, a program that the government reaffirmed and supported in the last budget, and programs like that.

Could you comment on that and anything else this committee ought to be considering in terms of ensuring that kids do have that great opportunity by encouraging them to complete high school?

• (1045)

**Mr. Peter Dinsdale:** I was going to start off by teasing you and saying that I have non-aboriginal friends who also do very well and some of them are in trades—

**Voices:** Oh, oh!

**Mr. Peter Dinsdale:** —but I would agree that they all have completed high school as well, which would have been the key marker. But I jest. I appreciate the question, though, of course, with the graduation rates.

I think the primary issue right now is the lack of a sustainable system across the country for first nations education. We have such a disparity in funding in schools, in communities. It shocks me when federal departments try to challenge whether or not their rates are equitable on first nations versus off reserve. Are we talking about the same things? Do we have access to counsellors and things of that nature? There are tremendous funding disparities at its core, estimated at up to \$3,000 per student.

I think it's such a structural issue that it's difficult to look past it. It has to be more than just more money. I understand that we need standards and we need measures of accountability, but we can't get beyond the basis that you have to hire teachers, have strong and effective facilities to go to, and actually educate kids through a curriculum. There's no question that this is what needs to take place.

There is a process right now where the federal government is out discussing proposed education legislation. Our hope that it's an open.... You talked about the consultation process that Ms. Nash asked about. It is all about not notifying, and it's also about engaging and working together towards creating a system of education that is appropriate.

I absolutely agree that the education attainment is critical, that high school education is critical. I think we need a collaborative process between our respective governments to help facilitate and make sure we have the best system in place for kids, because ultimately we're all striving for the same thing: a public education system where first nations kids are graduating at the same level.

**The Chair:** My understanding from the national chief, though, is that a lot of his focus has been on education, which is why I addressed the question to you.

**Mr. Peter Dinsdale:** Yes, because that has framed this whole discussion. Without his involvement or this pushing, we wouldn't be where we are today on it.

**The Chair:** But my understanding is that for the investments in Pathways to Education and programs like that, with investments in this year's budget and last year's budget, a lot of them were in fact based on recommendations from him and from your organization. Do—

**Mr. Peter Dinsdale:** I think they're all very welcome. I don't think that's the structural change we're all driving for. I don't want to dismiss them, because I think they absolutely are helpful, but we're seeking broader structural change to the relationship.

I don't think those investments in and of themselves are going to result in first nations kids graduating at the exact same rate as mainstream Canadians—simply not. They're important investments. I think we're looking for greater structural change to help make sure that it takes place across the country at every school. One of the simple calls that we had going into the January 11 meeting with the Prime Minister was that there's a school on every first nations community for those children. Imagine that: a school in all your communities that those kids can access.

There's a school in all of your communities. They simply want the same chance in their communities.

**The Chair:** Thank you.

That's a much larger discussion, and unfortunately we are out of time in terms of our entire committee.

I want to thank all of our witnesses for being here, for your presentations, and for your responses to our questions.

Professor Fortin, thank you for coming in three hours early in British Columbia.

If there is anything further you wish the committee to consider, please do submit it and we will ensure that all members get it.

**Hon. Ed Broadbent:** Mr. Chairman, I wonder—I'm going through an old movie—if you'll permit a point of order. I was told by Mr. Brison that I misinformed the committee on a certain fact. I want to use the opportunity to correct the record.

I gave credit to the government for creating the working income tax benefit. I'm told that this was in fact introduced by the last Liberal Minister of Finance, but regrettably his government was defeated, so it was brought in by the present government.

**Voices:** Oh, oh!

• (1050)

**The Chair:** Order.

Mr. Broadbent, I'll just point out that as an experienced parliamentarian you know that's a point of debate, not a point of order.

**Voices:** Oh, oh!

**The Chair:** Thank you so much, colleagues.

We will meet down the hall for the next meeting.

The meeting is adjourned.









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