

# **The Costs of Inequality and the Role of Taxes: The Case for Progressive Tax Reform in BC**

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## The overall inequality story in Canada

- Income inequality has been increasing in Canada over the past 20 years.
- The richest 20% of Canadians increased its share of total national income between 1993 and 2008, while the poorest and middle-income groups lost share.
- Although the gap widened, Canadians in the poorest income group still saw their income levels rise, but minimally (from \$12,400 in 1976 to \$14,500 in 2009).
- Relatively, however, they are much worse off.
  - > Conference Board of Canada

## The overall inequality story in Canada

- Most gains have gone to a very small group of “super-rich.”
- CCPA work by Armine Yalnizyan uses tax file data to get at top 1%.
- This group—the 246,000 people whose average income was \$405,000—took home almost a third of all growth in incomes from 1998 to 2007, a decade that saw the fastest economic growth in this generation. She notes that: “The last time the economy grew so fast was in the 1950 and ‘60s, when the richest 1 per cent of Canadian took only 8 per cent of all income growth.”

## The overall inequality story in Canada

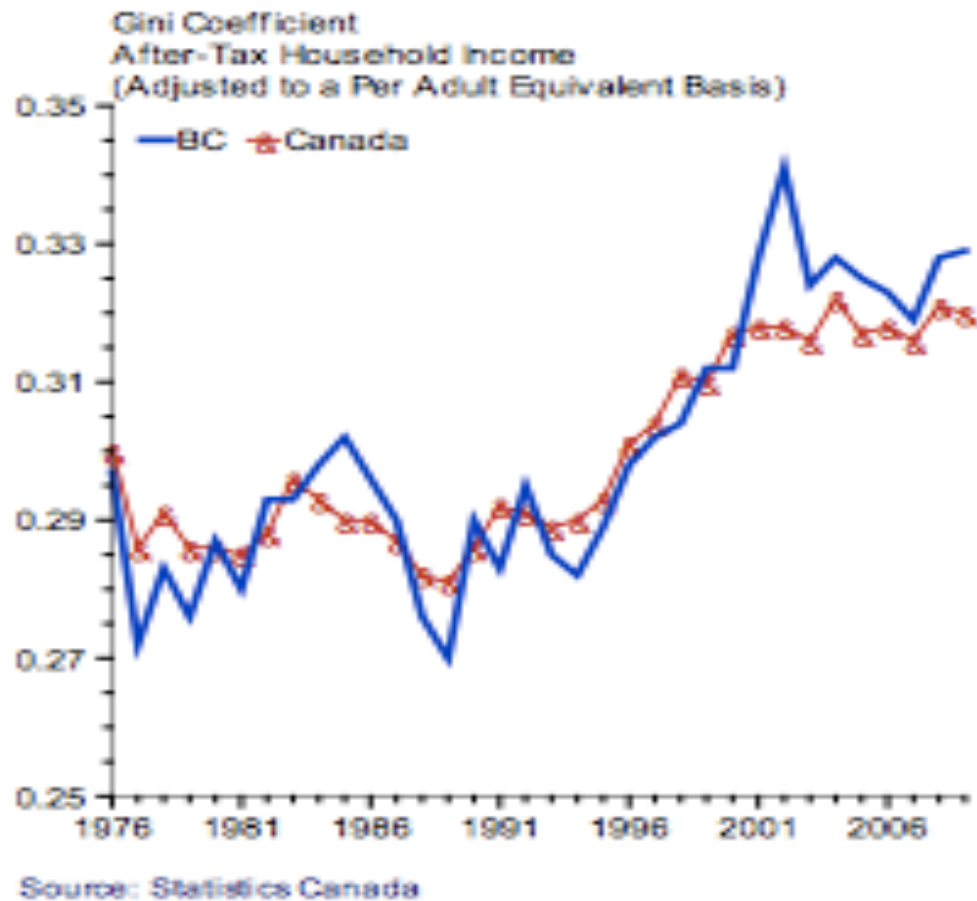
- Among families with children under 18, only the top 10% saw an increase in their share of after-tax income over the last 30 years.
- 9<sup>th</sup> decile saw stagnation
- All other deciles saw a decline.
- Trends: Bottom 40% of families raising children have lower household incomes than a generation ago (inflation adjusted). Despite higher education and dual earners. **The Time Squeeze.**
  - Yalnizyan, The Rich and the Rest of Us

## The overall inequality story in Canada

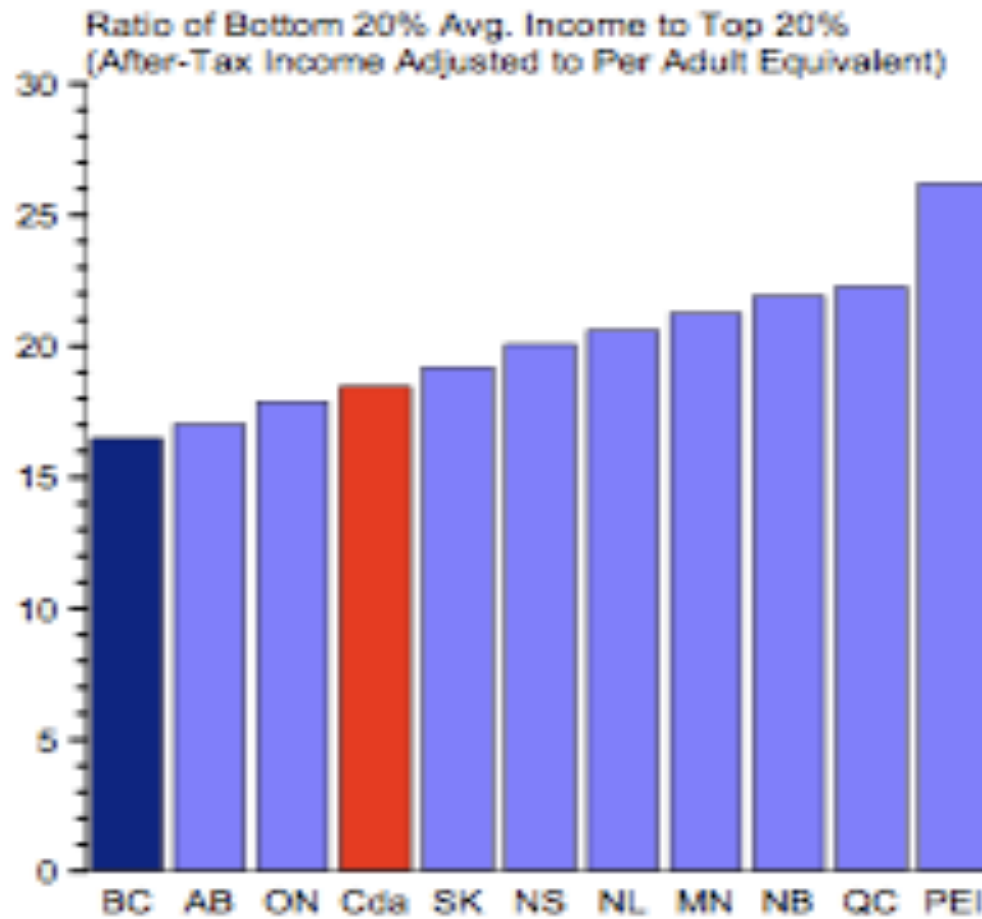
- How do we compare?
- The increase in income inequality has been greater in Canada than in the U.S. since the mid-1990s.
- OCED: Canada ranks poorly, 24<sup>th</sup> out of 34 countries (we used to be 14<sup>th</sup>).

## The overall inequality story in BC

Income distribution in both BC and Canada as a whole has become more inequitable over time



British Columbia had the largest income gap among the provinces in 2009 when comparing the lowest 20% of earners to the highest 20%



Source: Statistics Canada

## Why Does Inequality Matter?

- Bad for the economy
- Exacerbates many social problems
- Bad for the environment and climate
- Bad for democracy; harmful to social cohesion



## Economic Consequences

- “High inequality can diminish economic growth if it means that the country is not fully using the skills and capabilities of all its citizens or if it undermines social cohesion, leading to increased social tensions.”
  - Conference Board of Canada
- Similar warning from IMF: more equality = longer periods of economic growth; more inequality = more volatility
  - Andrew Berg and Jonathan Ostry
- At last year’s Davos meeting of the World Economic Forum, numerous speakers identified inequality as “the most serious challenge for the world.”

## Economic Consequences (continued...)

- Bank of Canada has urged policies to reduce inequality, in order to strengthen the economy.
- Connected to rise in household debt and over-leveraging. Problem, because businesses need purchasing power of the many.
- Wealthy save more, which represented an economic leakage (when savings goes towards paper economy rather than real economy).
- Compounded when wealthy invest in financial assets, creating bubbles, leading to financial instability and recession.

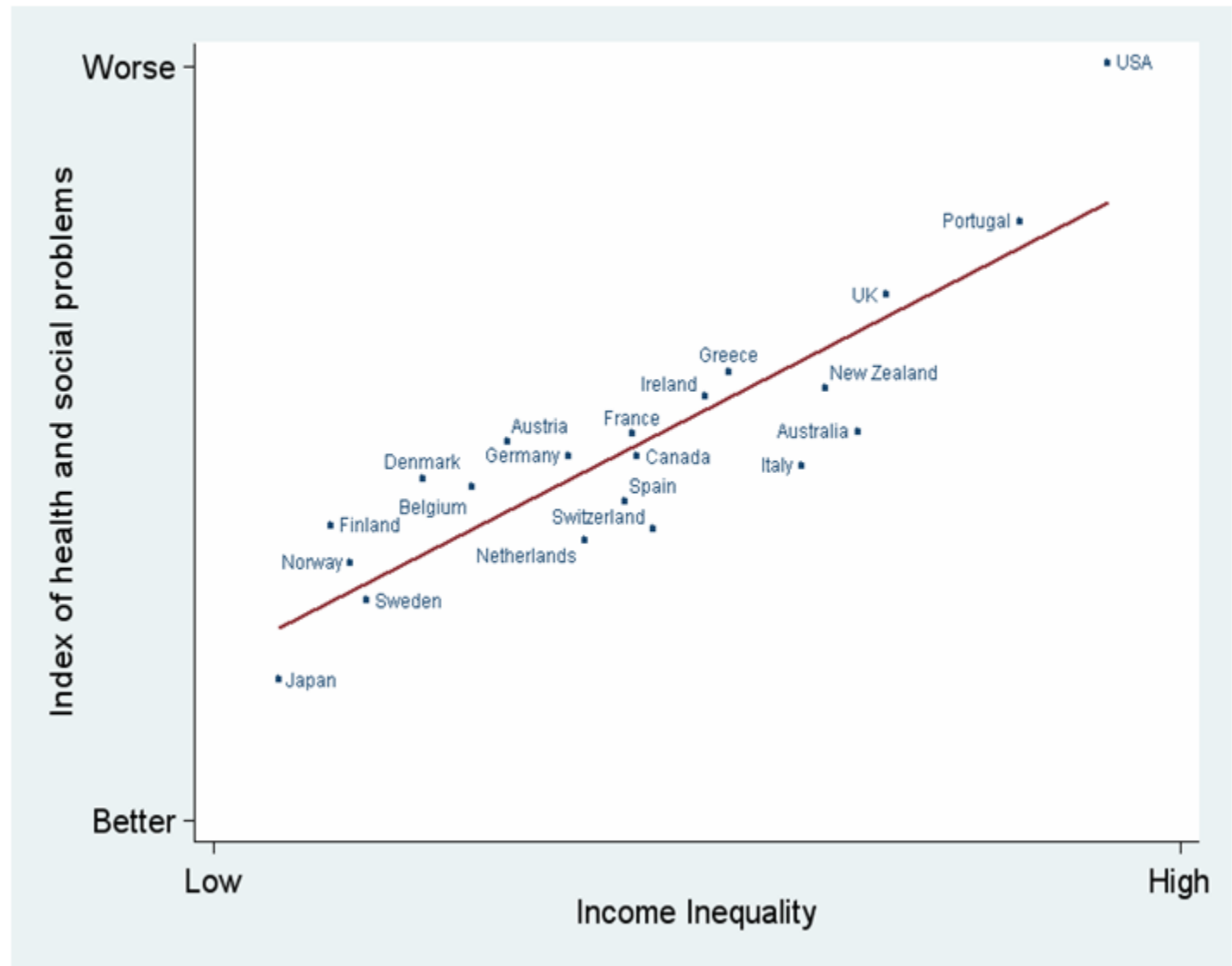
## Social Consequences

- More unequal societies abide more poverty
- Drives up housing costs, undermining affordability
- *The Spirit Level: Why Equality is Better for Everyone*, by Richard Wilkinson and Kate Pickett. More unequal societies face:
  - Less social cohesion and community trust
  - More addiction and mental health problems
  - More teenage pregnancy
  - Higher school drop-out rates and less educational success
  - More chronic health problems (**ACROSS THE GRADIENT**)
  - More violence, crime and higher justice costs
  - Less willingness to embrace environmental changes
    - <http://www.equalitytrust.org.uk/>

## Health and Social Problems are Worse in More Unequal Countries

### Index of:

- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility

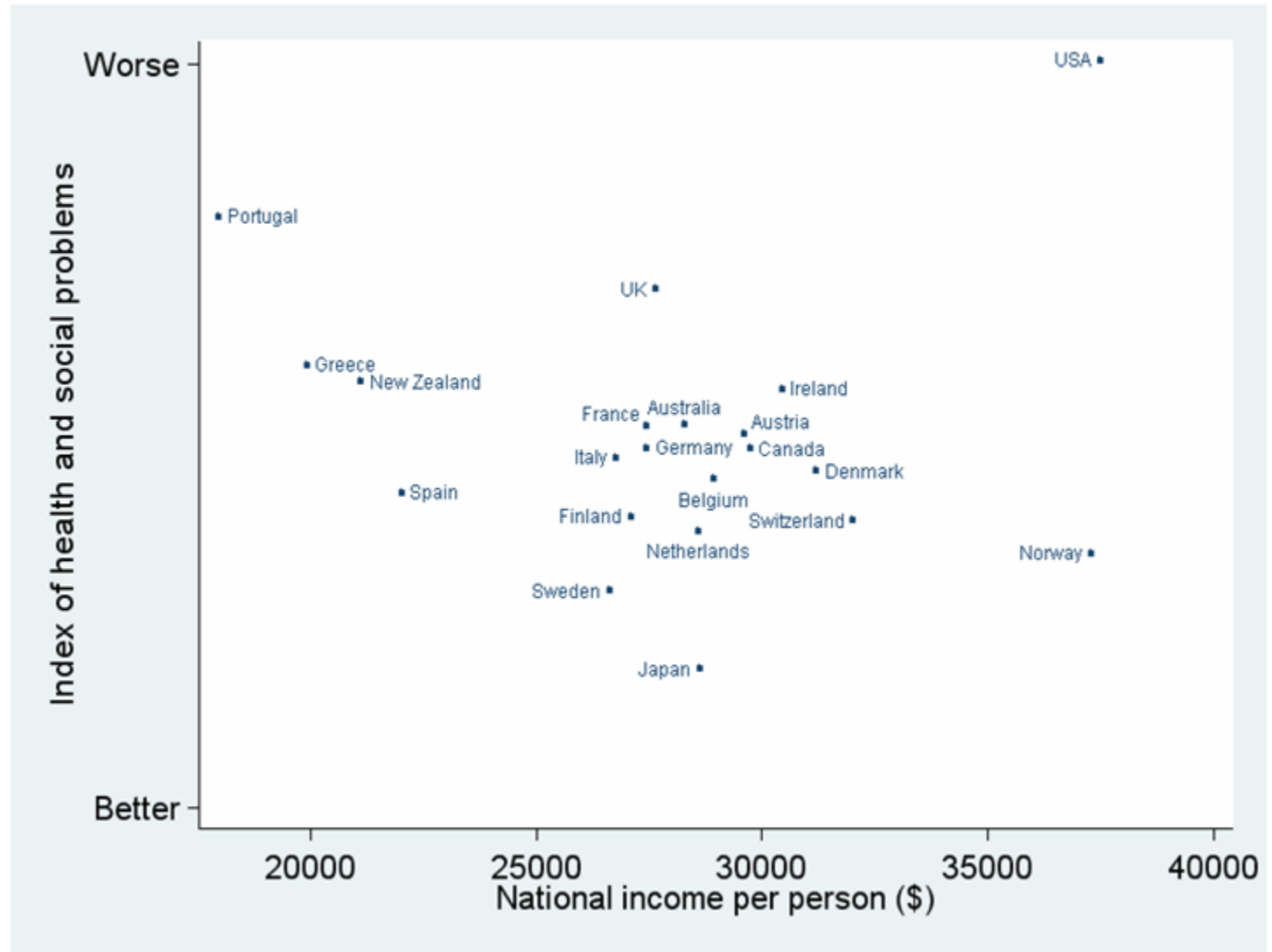


Source: Wilkinson & Pickett, *The Spirit Level* (2009)

## Health and Social Problems are not Related to Average Income in Rich Countries

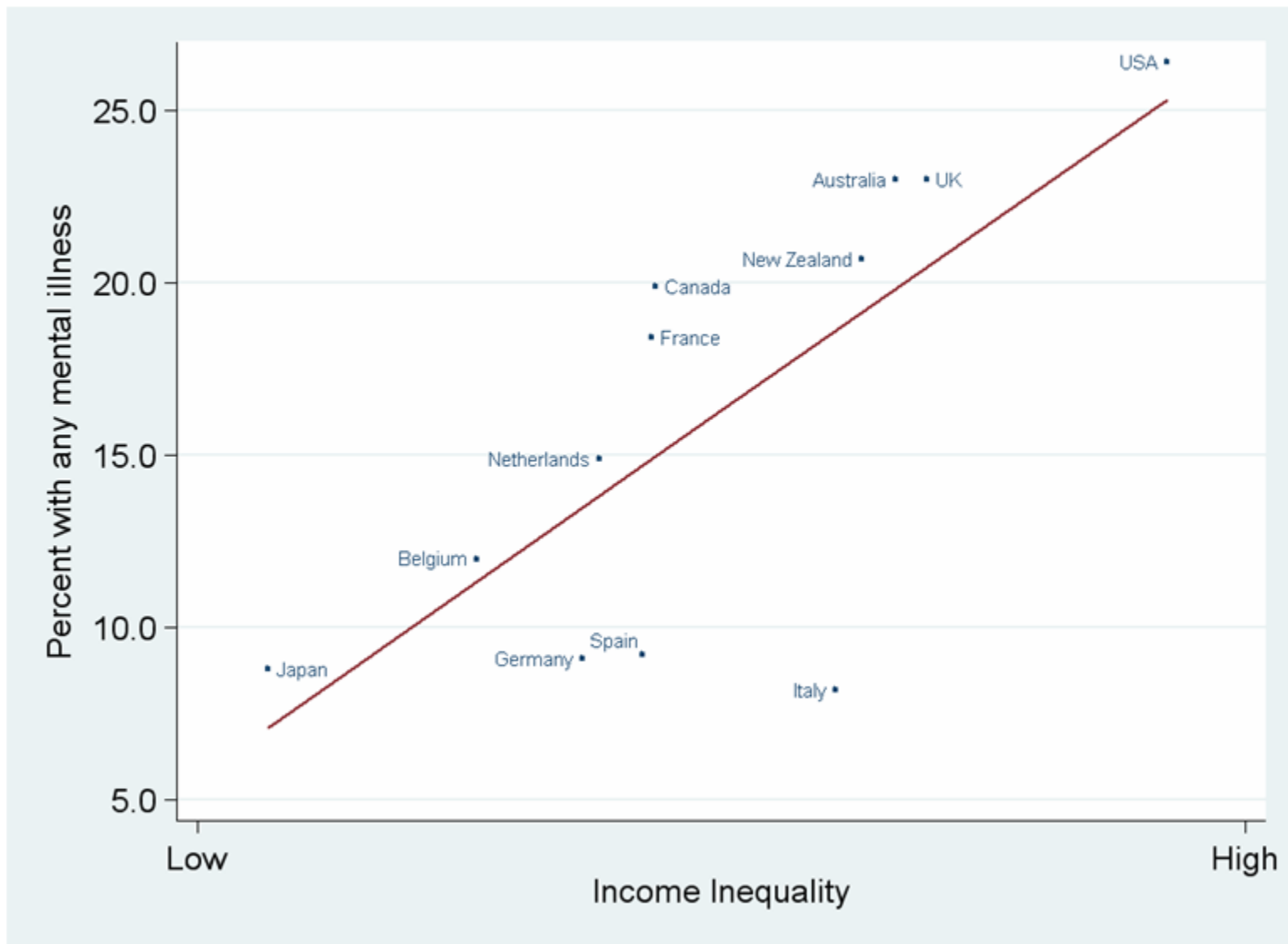
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Source: Wilkinson & Pickett, *The Spirit Level* (2009)

## The Prevalence of Mental Illness is Higher in More Unequal Rich Countries



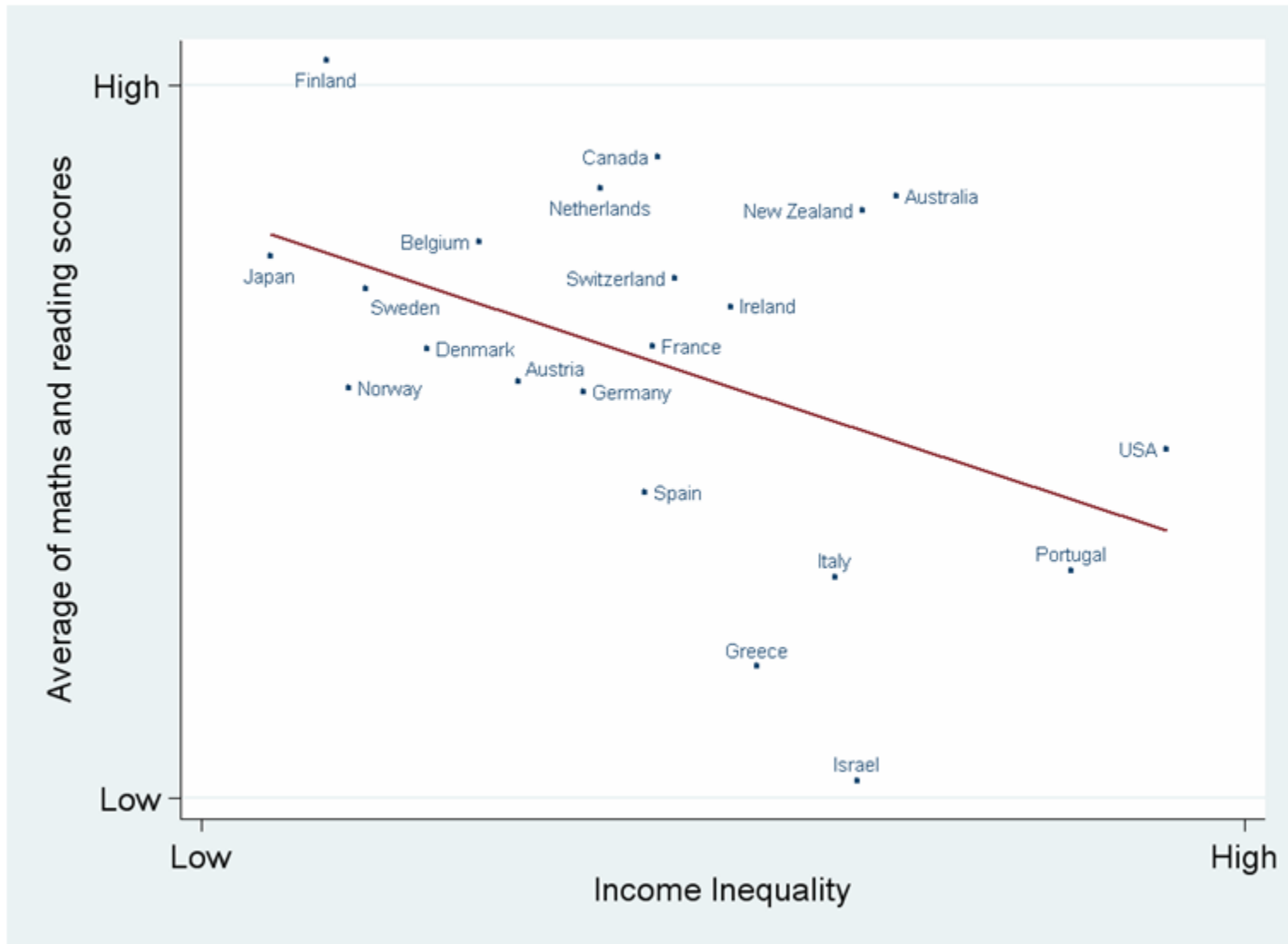
Source: Wilkinson & Pickett, *The Spirit Level* (2009)

## Drug Use is More Common in More Unequal Countries



Index of use of: opiates, cocaine, cannabis, ecstasy, amphetamines

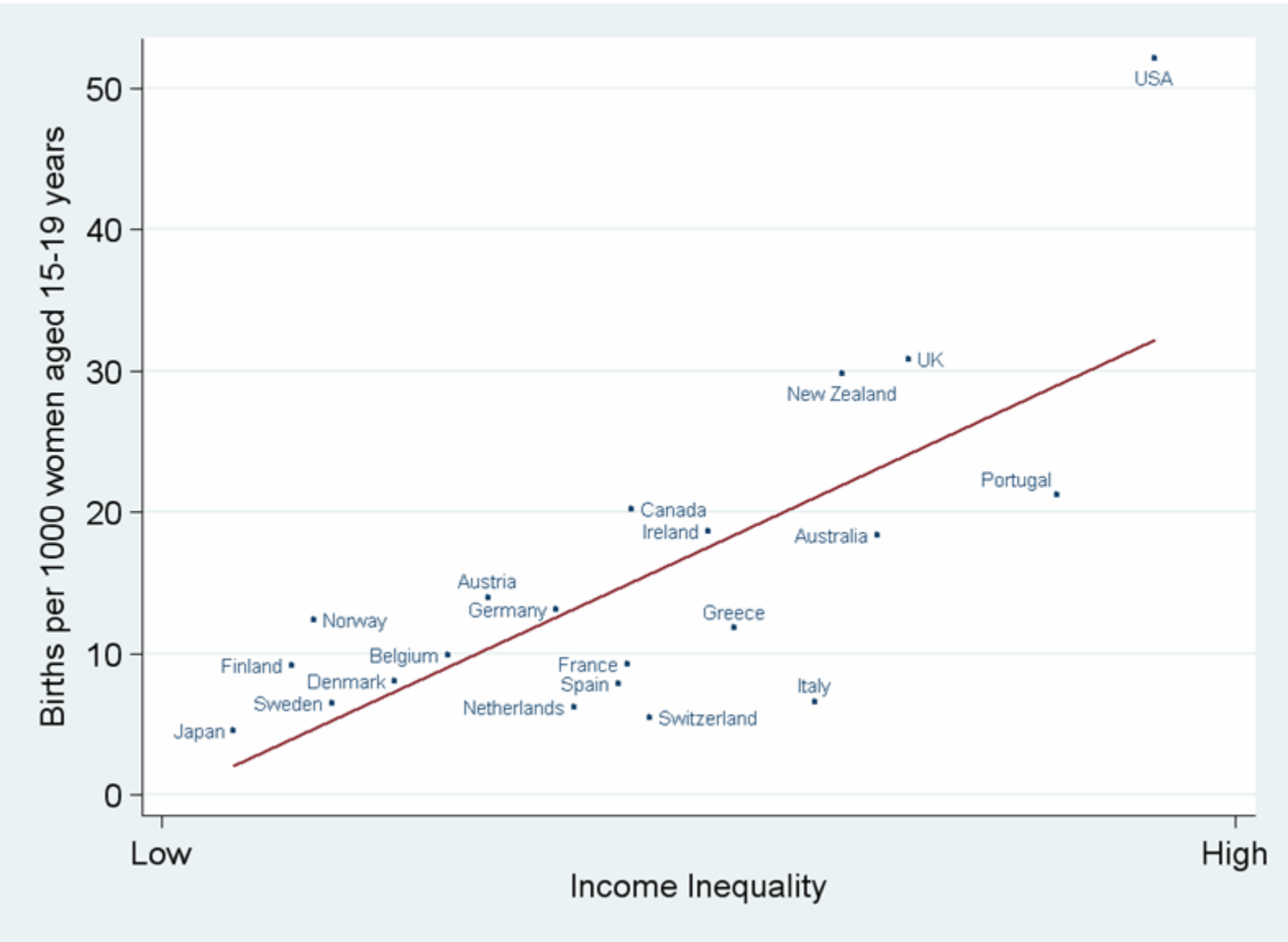
## Educational Scores are Higher in More Equal Rich Countries



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

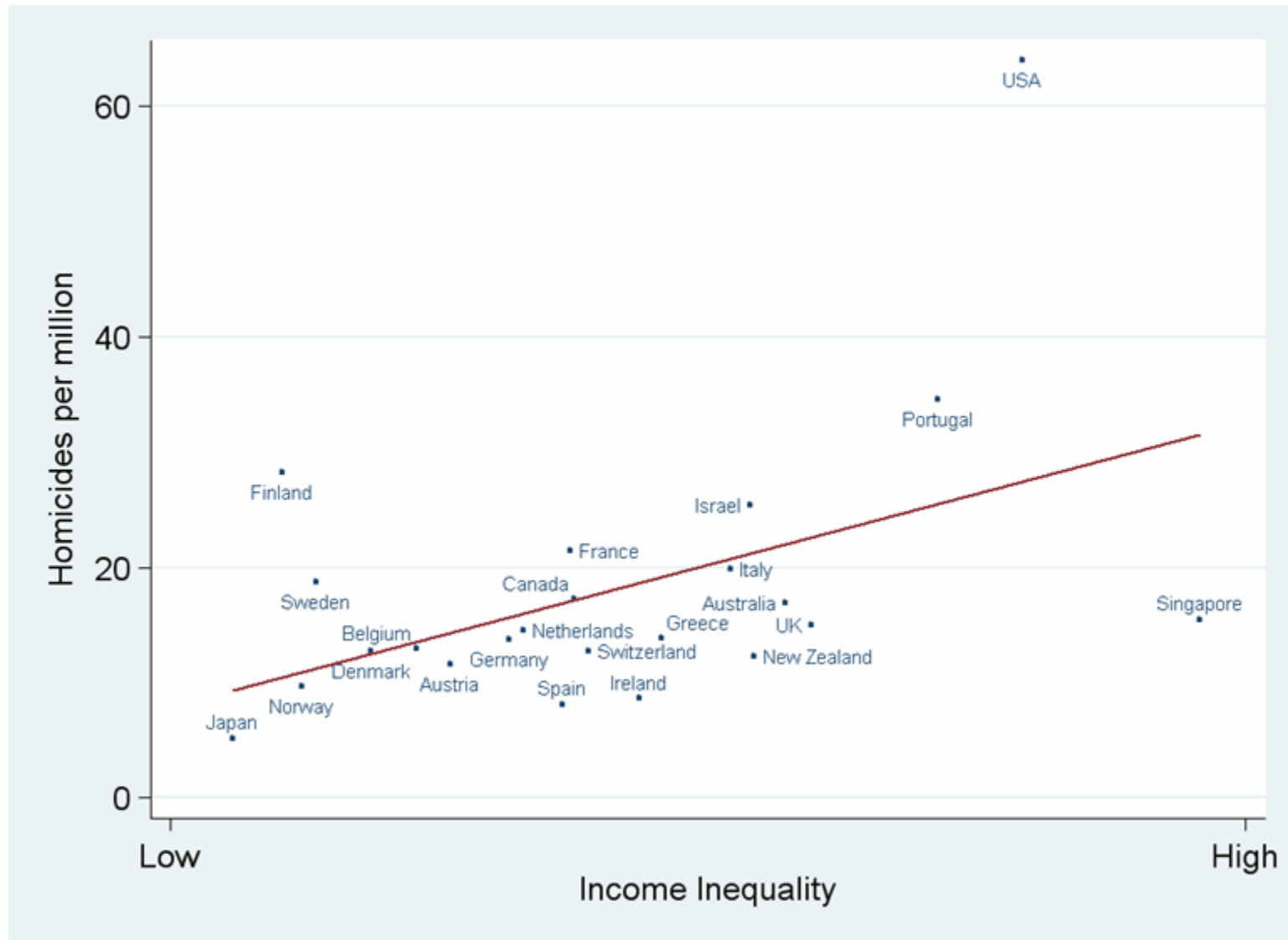


# Teenage Birth Rates are Higher in More Unequal Rich Countries



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

## Homicide Rates are Higher in More Unequal Rich Countries



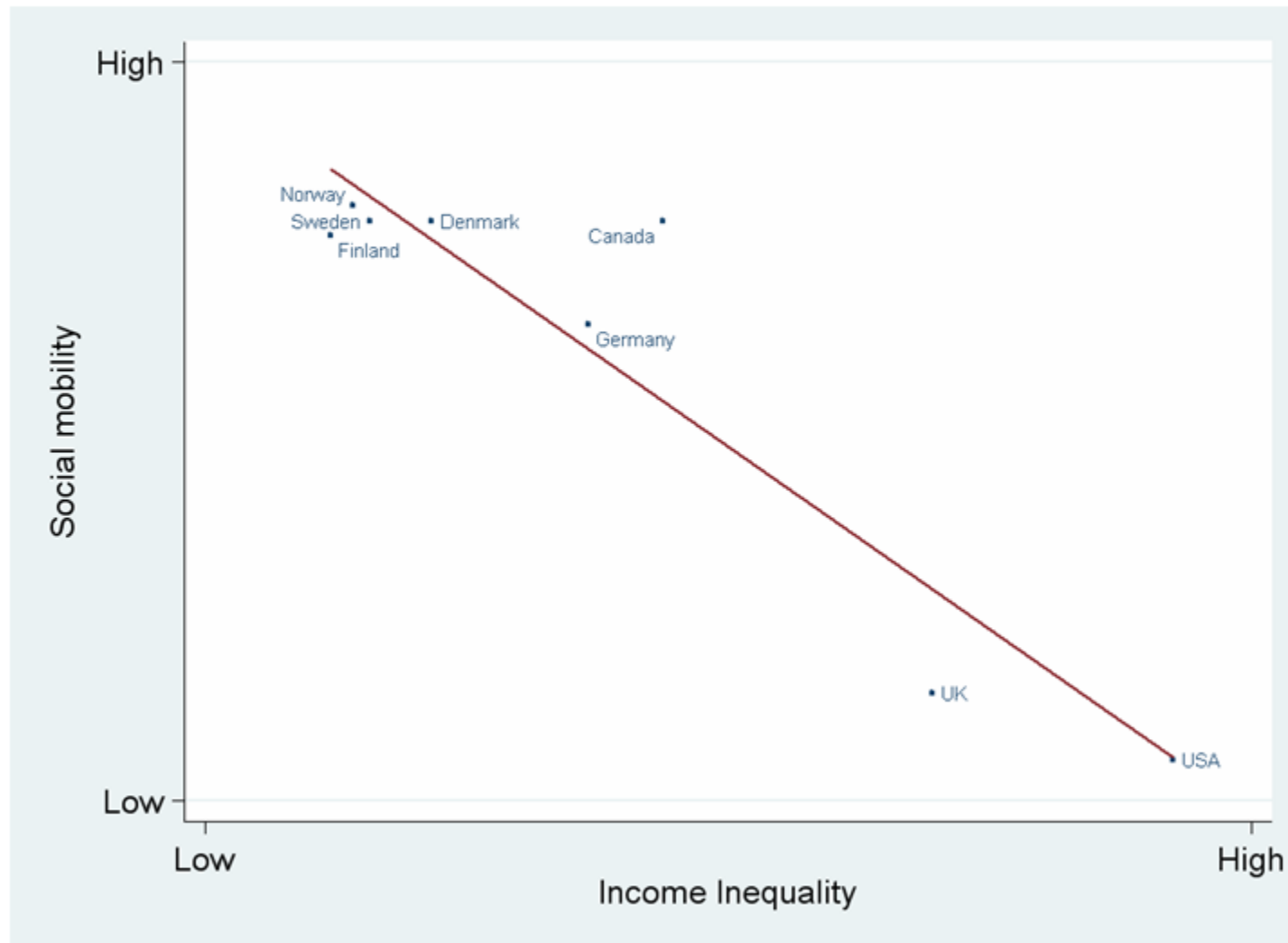
Source: Wilkinson & Pickett, *The Spirit Level* (2009)

# Levels of Trust are Higher in More Equal Rich Countries



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

## Social Mobility is Higher in More Equal Rich Countries



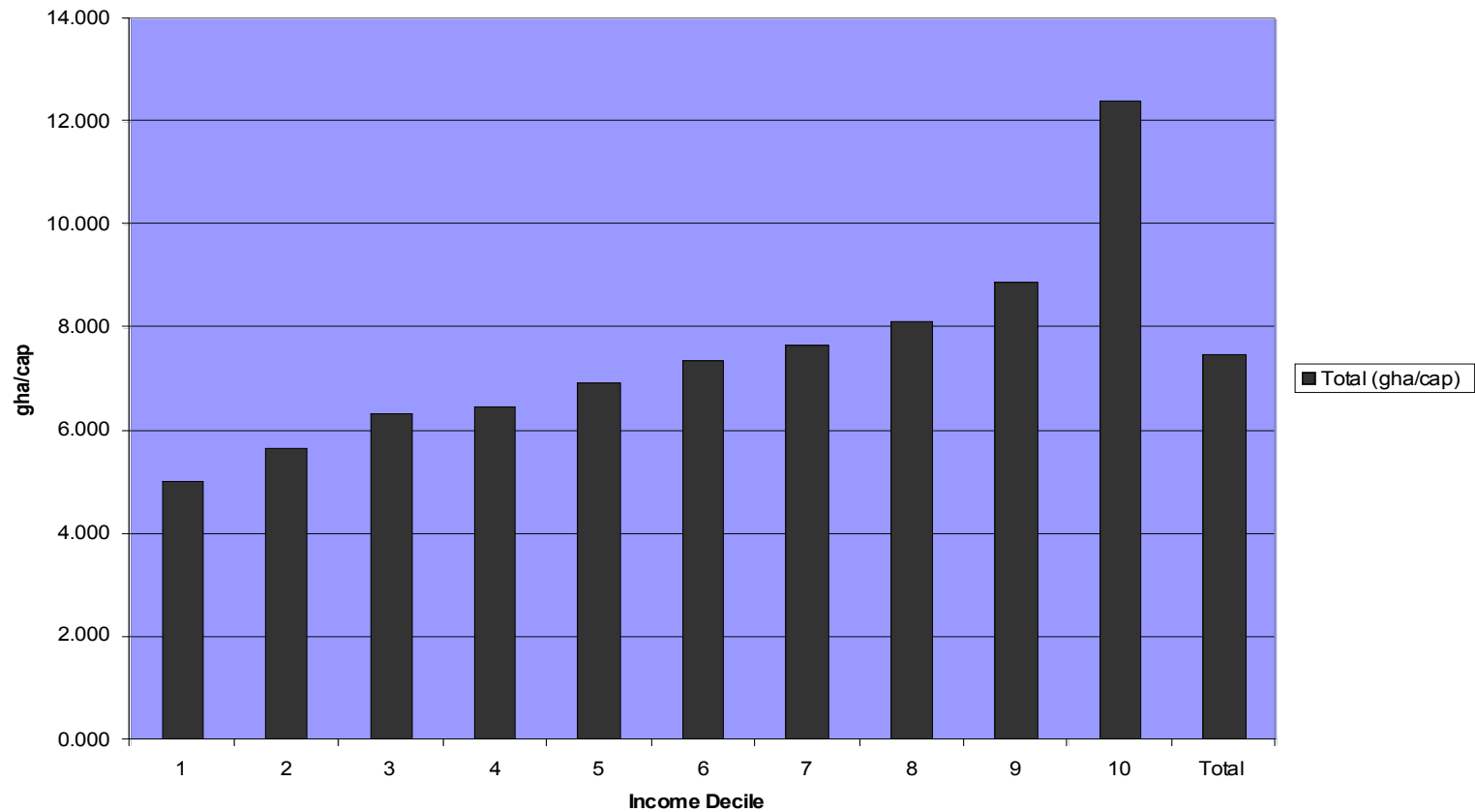
Source: Wilkinson & Pickett, *The Spirit Level* (2009)

## Environmental Consequences

- Inequality undermines trust that we are all in together; makes it hard to chart a shared path.
- Runaway wealth is associated with runaway emissions.
- Almost all climate policies, taken in isolation, have the effect of increasing prices, with a regressive distributional impact. This is not a reason not to proceed. Rather, it means that redistribution measures – both within and between states – must be core to climate action agendas.

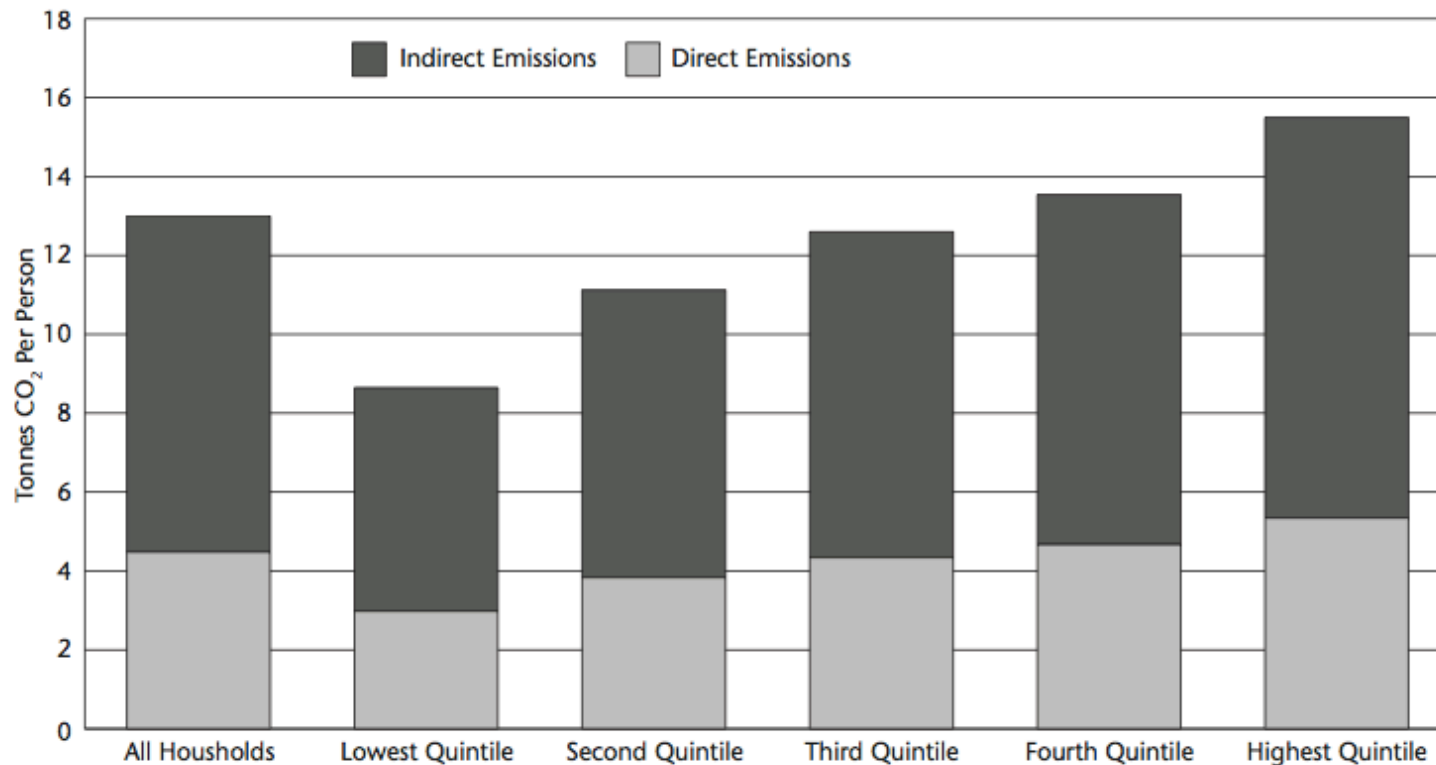
# CCPA ecological footprint study:

Ecological Footprints By Disposable Income Decile - Total



# Who Occupies the Sky?

Figure 1: Canada GHG Emissions Per Person



**Note:** Data are for 2009.

**Source:** Author's calculations based on Statistics Canada, Survey of Household Spending, Energy Statistics Handbook, and Canada Year Book; Environment Canada, National Inventory Report 1990–2009: Greenhouse Gas Sources and Sinks in Canada

## What's driving inequality in Canada?

- While our tax and transfer system reduces inequality, Canada's tax and transfer system is not reducing income inequality as much as it did prior to 1994.
  - "Taxes and benefits reduce inequality less in Canada than in most OECD countries." – OCED, 2011
- On the transfer side, our automatic stabilizers – EI and welfare – have not not kept pace with inflation and do not provide the same coverage.
- On the tax side...

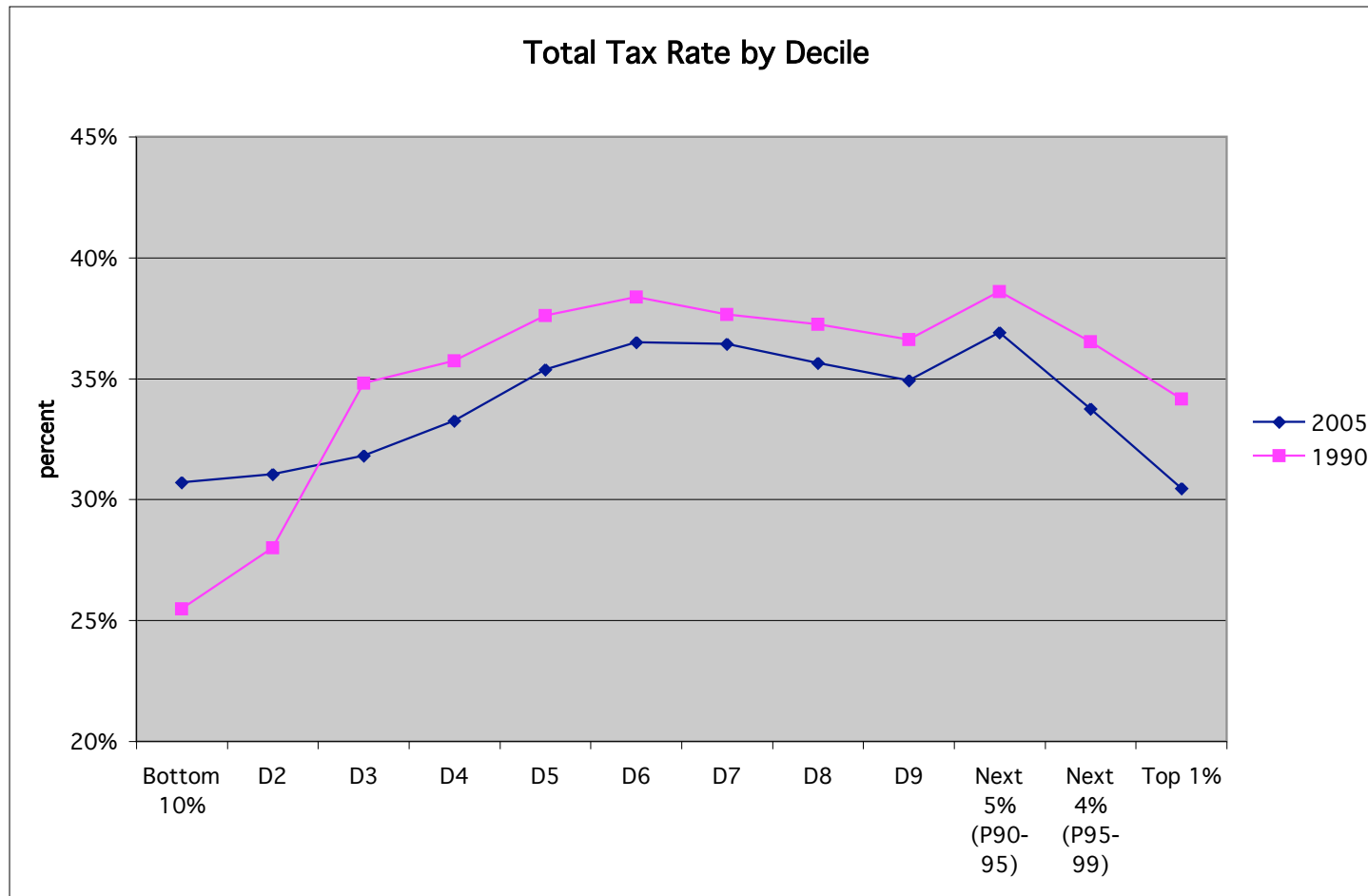


## Interlude

- Seth's Tax Confessions

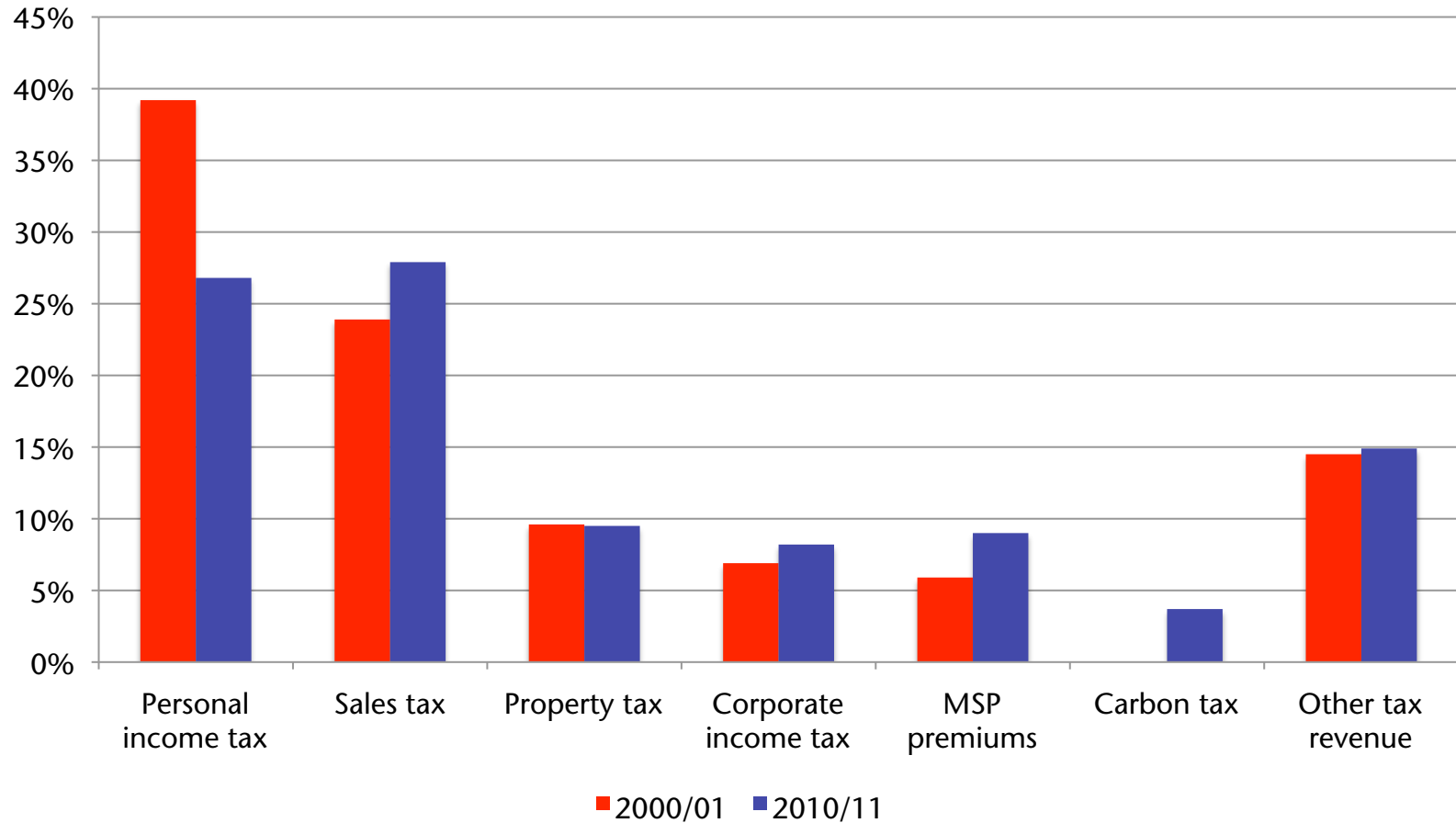
<http://www.policynote.ca/income-taxes-are-a-steal-seths-tax-confessions/>

# Total Tax Rates by Decile of Family Income in Canada



Source: Lee, Marc. 2007. *Eroding Tax Fairness: Tax Incidence in Canada, 1990 to 2005*. CCPA.

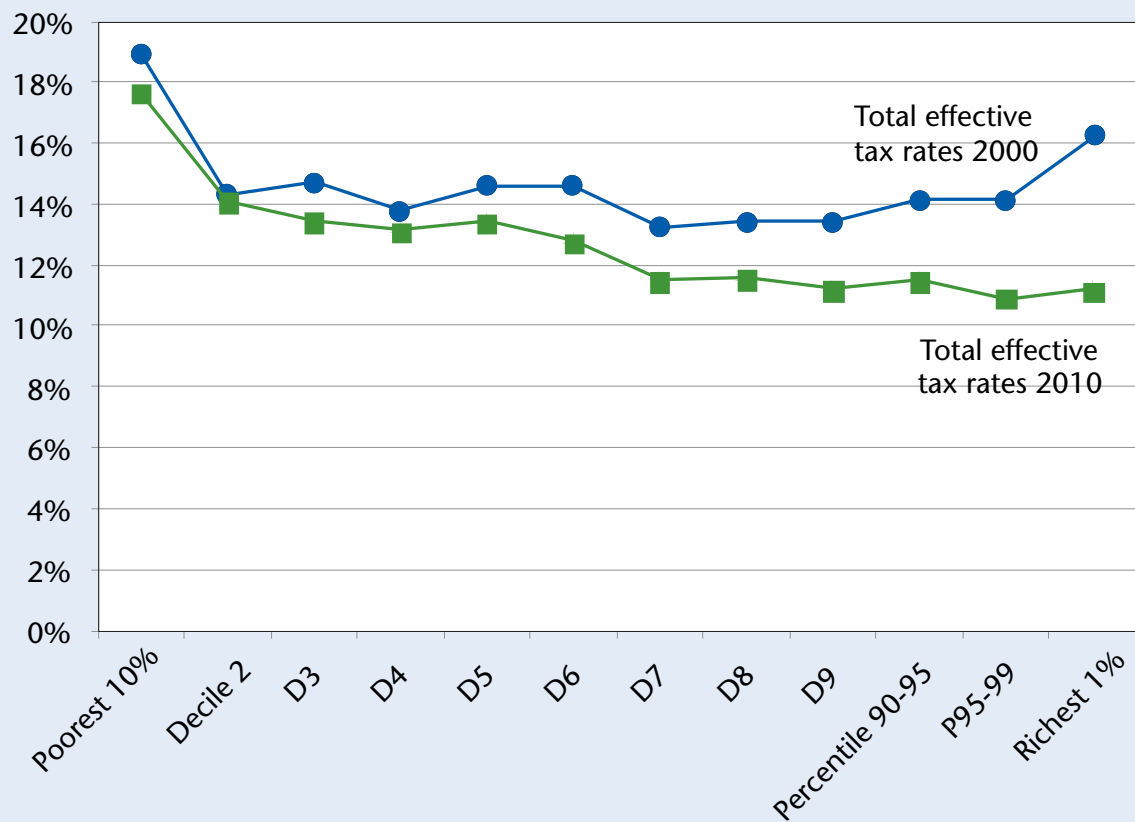
## The Changing Mix in BC's Taxation System: Revenues by Source



Source: Iglia Ivanova's calculations based on BC Ministry of Finance documents.

# The End of Progressive Taxation in BC

Figure 2: BC total personal tax rates by income group, 2000 to 2010



## Tax savings per person

Personal tax cuts have given much greater saving to high income earners:

- Low income households received about \$200/year
- Middle income households: ~\$1,200/year
- Those in the top decile: ~\$9,000/year
- The wealthiest 1%: ~\$41,000/year

## Foregone Revenues

BC taxation revenues fell by 1.7% of GDP between 2000 and 2010, equivalent to \$3.4 billion / year (more than twice last year's provincial deficit).

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Federal tax cuts introduced in the early 2000 have lowered the federal gov't revenues by 3% of GDP, or \$45 billion / year

Harper's tax cuts have reduced federal revenues by a further \$34 billion / year as of last year (PIT, CIT and GST). Another \$5.5 billion is forthcoming by 2013/14.

## The Challenge

- We Need to Raise More Revenues if we are to...
  - Implement a comprehensive poverty reduction plan
  - Seriously tackle climate change, climate justice and implement a bold green jobs plan
  - Enhanced public services (dental, home care, pensions...)
  - Fund new social infrastructure (child care, long-term care, social housing)
- But which taxes? How will people understand it to be fair? How do we talk about it?

## Why Taxes Matter: vital to...

- Fund public services and infrastructure (buying things together that we cannot buy on our own, or that we pay for more equitably and efficiently together)
- Modestly redistribute income, in the face of growing market inequality
- Influence to a modest degree what gets done, produced, etc. (from the private to social sphere)
- Meet a moral obligation to one another (when facing illness, unemployment, poverty and old-age)



## Options (a few ideas for consideration)

- Increase personal income taxes (which brackets? top 1, top 2, top 3? new high-income brackets?); let's be average!
- Eliminate regressive MSP premiums and shift to personal income taxes?
- Increase the carbon tax and expand coverage (and increase the low-income credit)?
- Increase corporate income taxes?
- Increase resource royalties (and broaden base)?
- Increase ceiling on CPP/EI premiums?
- Financial Transaction Taxes (Robin Hood Tax)?
- Inheritance tax?
- Close tax expenditures?
- Legalize drugs and tax?

## Can we have an adult conversation about taxes?

- We need taxes, indeed higher taxes for some
  - Can't just say someone else has to pay more
- Shifting times:
  - Poll results show people are prepared to consider tax increases, depending on the circumstances and how they are used.
- Proposal: A Fair Tax Commission

## Inequality is not inevitable

- “Other countries with similar levels of income per capita have lower income inequality. For example, income per capita in Austria and Denmark is nearly equivalent to Canada’s, yet these two countries have lower income inequality as measured by the Gini index—particularly Denmark.”
  - Conference Board of Canada