

**New Rules for Shared Prosperity:  
A Framework for Reducing Poverty, Socioeconomic Inequities and  
Climate Change**

**DRAFT**

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–Nov.21, 2015

The purpose of this paper is to provide a focus for discussion leading to the development of a framework for a policy and action agenda for PHABC advocacy in pursuit of improved and more equitable population health and social justice.

**Executive Summary**

Socioeconomic (SE) inequities in Canada are increasing and an unacceptable level of poverty persists. Wealth is increasingly concentrated in the hands of the elite (the1%). This leads to poorer population health, increased healthcare expenditures, a slower economy, environmental degradation, climate change, the erosion of democracy and the increasing likelihood of social and political unrest. The reason for this is that the market economy in its present form is failing. It is failing because the business sector is over-focussed on growth, profits and shareholder value. The business sector currently neglects their effects on the distribution of wealth, the health of the population and the sustainability of the environment. Advocacy for “regenerative capitalism” is needed at this time of rapidly changing geopolitical and environmental change to address these concerns and market mechanism failure.

When the market mechanism fails there is a need for effective government intervention. The role of government in catalyzing the evolution to an economy that creates more equitably shared prosperity is to provide some level of redistribution of income and wealth through taxes, transfers and stimulus spending. At the same time government can use policy and regulatory levers to 'nudge' a cultural change in the business sector that can achieve 'predistribution' through more equitable employment incomes and more responsibility for population health and environmental sustainability.

### **Governmental interventions** (federal, provincial and municipal)

Tax policies: (primarily federal and provincial governments)

1. Tax all income sources fairly and equally including capital gains and dividends
2. Increase the top marginal income tax rate
3. Introduce wealth and inheritance taxes
4. Tax socially harmful products and practices (carbon tax, traffic congestion tolls, polluter pays, tobacco, alcohol, sugar, etc.)
5. Reform tax breaks and subsidies that incentivize fossil fuel consumption and instead incentivize innovation in environmentally sustainable and healthy products

Employment policies for all levels of government:

1. Living wage for all employees – direct and out-sourced
2. Equal pay for equal work (across gender ,race)
3. Employee health – parental and mental health leave , personal development, education, affordable medical, medication, dental and alternative health care services

Social and physical infrastructure interventions:

1. Increase welfare rates, EI rates, the Working Income Tax Benefit, the Canada Child Tax Benefit and the GIS for seniors
2. Universal public affordable quality child care
3. Improvements in education primary through post-secondary
4. Improvements in health care
5. More social housing, end homelessness

6. Invest in sustainable energy – including electrical grid improvements, sustainable energy sources
7. Better transit
8. Improved communications
9. Sewage and water system maintenance
10. Environmental protection and restoration

#### Institutional development:

1. A national poverty reduction plan
2. A BC poverty reduction plan ( BC is the only province currently without a plan)
3. Sovereign wealth funds to raise public revenue and sustainably manage natural resources
4. Inequities impact assessment process for policy development
5. Move away from GDP as metric for tracking societal progress – toward a Genuine Progress Index (GPI) and reconstitute the BC Progress Board.

#### 'Nudging' the business sector:

1. Reducing exorbitant CEO/executive compensation
2. Controlling stock buybacks
3. Providing for labour representation on corporate boards
4. Improving conditions for Temporary Foreign Workers

#### **Transformation of the business sector.**

The business sector, for the most part, continues to be focussed on growth, profits and increasing shareholder value. This is a long tradition and unlikely to change quickly. But change is occurring and with the leadership of progressive businesses and academic leaders that look beyond the bottom line, there is some progress in evolving toward 'shared value' as the basis for 'regenerative capitalism'.

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# New Rules for Shared Prosperity: A Framework for Reducing Poverty, Inequities and Climate Change

## Introduction

In BC and across Canada income and wealth inequities have been increasing while unacceptable levels of poverty for families, children and seniors have persisted. This has a number of detrimental effects on our country and society:

1. The burden of poor health and disease is increasing and so driving up healthcare expenditures. Living in poverty with poor housing, inadequate food, limited employment, a sense of hopelessness and constant stress causes poor health, higher health care expenditures and a shorter life. Countries that have higher levels of socioeconomic (SE) inequalities have more stagnant economies(IMF,OECD, World Bank), poorer overall health status and more social unrest. As a result, all citizens, including the rich, are adversely affected.
2. Ongoing injustice and social unrest are seen when SE inequality is evident in a culture. SE inequities inevitably cause inequality of opportunity for families and children which leads to reduced economic mobility. Thus intergenerational poverty and inequity worsens. History shows that social unrest emerges in the form of public and political actions such as extremist movements, religious, ethnic or nationalist divisions, distrust of government and sometimes violence.
3. Economic slowdown as wealth is accumulated by the super elite, less money circulates, consumption declines, jobs are lost and the economy stalls.
4. Environmental pollution, environmental degradation and climate change.
5. Democracy is eroded. As wealth is increasingly concentrated, more money is allocated by elites to electing and lobbying politicians who support the rules favourable to the very wealthy.

## **A Systems Approach**

The economy is a complex adaptive system and is guided by a set of rules that determine how it self-organizes, evolves and what outcomes are produced. The economy generates jobs, incomes and wealth from the production of goods and services through the harnessing of natural capital (land and other natural resources), human capital (labour and ingenuity) and financial/infrastructure capital by organizations in the private (corporate), public (government) and non-profit (NGO) sectors. This system is guided by (government –enforced) rules related to property, monopolies, commercial and employment contracts, bankruptcy, taxation and enforcement. These rules are required so governments can ensure that those participating are treated fairly and have access to rule of law and that citizens have a fair share of the wealth being generated. The market system at present (creating ongoing poverty and increasing inequity) is failing because these rules are being subverted by the economically powerful to serve their own interests.

Is there an alternative? Over the past century other political economic models such as communism have been tried but do not suggest a viable alternative to a market-based capitalist solution. According to leading economists, our best option is to stimulate the evolution of the market-based capitalist model so that wealth and prosperity are more equitably shared by all citizens<sup>1,2</sup>.

To make improvements in our market based economy, a systems approach leads to an examination of the ‘rules ‘ that are driving the system now so that leverage points can be identified that will result in a reinvigoration of the economy and the generation of ‘shared prosperity’. Fortunately, two recent studies by eminent scholars (Stiglitz, Reich) have done this and lead to the following considerations.

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<sup>1</sup> Stiglitz, J.E. Rewriting the Rules of the American Economy. An agenda for growth and shared prosperity. A Report by the Chief economist of the Roosevelt Institute.2015

<sup>2</sup>Reich, R.B. Saving Capitalism: For the Many Not the Few. Knopf, New York 2015

Persistent poverty and an increasing concentration of money and power among the very wealthy will lead to a slow economy, a continued decline in median and low wages, a continued ‘hollowing out’ of the middle class (except in the oil patch)<sup>2</sup>, increasing unemployment, climate change and persistent or worsening poverty. This will have the undesired effects of social injustice and discontent, poorer population health and the erosion of democracy.

It is alarming to note from a *health* perspective that in the US the **life expectancy** of American white men and women without a high school degree has **declined** (by 5 years for women) between 1990 and 2008<sup>3</sup>. A more recent study shows that **all-cause mortality** for middle-aged (45-54) white men and women has markedly **increased** from 1999-2013<sup>4</sup>. In Canada, Statistics Canada reports that SE inequalities are causing 40,000 premature deaths per year, the equivalent of 110 deaths per day<sup>5</sup>. This points out how badly the ‘free market’ economy is failing and causing poorer health and increased mortality. ‘Market failure’ of this magnitude calls for government intervention to catalyze transformative change in the political economy, through progressive government policies and improvements in corporate culture and behaviour.

An examination of the rules that are causing the failure of the market economy identifies the key leverage points and interventions that are the basis of required action both in governments at all levels and in the business and non-profit sectors.

In broad terms the government role (at least in the short to medium-term) will be to redistribute income and wealth so that the current inequalities of opportunity can be corrected. This will require expenditures on social infrastructure such as early childhood development, primary, secondary and post-secondary education, food security, income supports, and healthcare improvements. Physical infrastructure expenditures will also be needed for social housing, affordable

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<sup>2</sup> Green, Riddell, St Hilaire. *Income Inequality – the Canadian Story*. Institute for Research on Public Policy. McGill – Queens University Press, 2015

<sup>3</sup> Olshansky, SJ et al. Differences in life expectancy due to race and educational differences are widening and many may not catch up. *Health Affairs* 2012, 31(8):1803-1813.

<sup>4</sup> Case, A and Deaton, A. Rising morbidity and mortality in midlife among white non-Hispanic Americans in the 21<sup>st</sup> century. [www.pnas.org/cgi/doi/10.1073/pnas.1518393112](http://www.pnas.org/cgi/doi/10.1073/pnas.1518393112)

<sup>5</sup> Tjepkema, M, Wilkins, R and Long, A. Cause-specific mortality by income adequacy in Canada: a 16 year follow-up study. Statistics Canada, 2013.

transportation, renewable energy, as well as environmental and natural resource protection. This obviously requires increasing government revenue (through tax reform and other policies) much of which can have the added benefit of directly reducing SE inequities.

Over the longer term, the business sector must evolve so that there is a fair distribution of income and wealth through employment (so-called 'predistribution').

### **Government Interventions**

The role of government should be two-fold: some redistribution of wealth and income in the shorter term and in the longer term the introduction of legislation, policies and incentives that incentivize progressive reforms in the business sector. The following interventions could support improved and more equitable population health and social justice:

1. Tax and subsidy reforms and incentives to both generate revenue and improve equity of income, wealth and opportunity.
  - a. Increase the marginal income tax rate. This should apply particularly to the extremely wealthy making many millions of dollars a year. How high should the rate be? In the 50s and 60s when prosperity was much more equitably shared, marginal rates were in the 80% range. Some advocates suggest that above a certain high level it should be 100%. 'No one should live in extreme poverty, no one should live in extreme wealth'.
  - b. Tax all income in a fair and equitable way by addressing capital gains, as well as ensuring that dividends and bonus payments are included as income and taxed equally.
  - c. Wealth and inheritance taxes. Canada does not have either a wealth or an inheritance tax. The intergenerational accumulation of family

wealth contributes to the extreme concentration of wealth.<sup>6</sup> Introducing a very small tax on net worth above a substantial threshold and a modest tax on estates again above a reasonable level would both generate revenue and reduce the growing concentration of wealth through intergenerational transfers.

- d. Introduce more taxes for social 'bads' (Pigovian taxes). Goods and services that create societal harms such as poor health or environmental degradation ('externalities') currently are paid for by government because the businesses are not held responsible for the damage and public expenditure they cause. These increased taxation includes pollution including carbon/fossil fuels, traffic tolls and congestion taxes and products such as tobacco, alcohol, sugar and marijuana.
  - e. Reform tax incentives and subsidies so that fossil fuel extraction and consumption is discouraged and incentives that encourage more sustainable energy sources, innovations in socially needed products and services such as energy efficient housing, transit and so forth are in place.
2. Employee benefits
- a. All direct and out-sourced employees receive a 'living wage' at all levels of government: federal, provincial and municipal.
  - b. Supportive family mental health policies for employees.
  - c. Supportive parental leave policies for employees.
  - d. Evidence based workplace health programs for employees.
3. Infrastructure development
- a. Social infrastructure:
    - i. Raising welfare and employment insurance rates, Canada Child Tax benefit, earned income tax benefits and seniors' GIS.
    - ii. Improve early childhood development through implementation of a universal public system of affordable quality child care as well as enhanced entitlement and access to other early childhood development supports.

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<sup>6</sup> Thomas Piketty. Capital in the 21<sup>st</sup> Century.

- iii. Improve primary and secondary education to ensure equity of access to quality education across all neighbourhoods.
- iv. Improve access to post-secondary with free or more subsidized post-secondary education.
- v. Improved healthcare particularly primary and elder care using a community-based primary healthcare system, the benefits being: better accountability and quality of care, interoperative electronic clinical records, more patient and community engagement and co-design of a transformed primary healthcare system through improved governance, more integrated, comprehensive, interprofessional prevention and care throughout the life course.
- vi. Federal pharmacare program
- b. Physical infrastructure:
  - i. Increase options for social housing and more affordable housing options (e.g. co-ops)
  - ii. Commit to sustainable energy with grid improvements, incentives for sustainable energy innovations and development
  - iii. Enhance communications links such as internet, Wi-Fi, etc.
  - iv. Ensure sustainable sewage and water resources.
  - v. Improve transportation infrastructure as related to: transit, roads, bridges, ferries, infrastructure for electric vehicles
  - vi. Invest in environmental protection, restoration and sustainability.
- c. Institutional progress
  - i. Develop and implement a poverty reduction plan federally and in all provinces including BC.
  - ii. Address Sovereign wealth funds at the federal and provincial levels to raise public revenue and better manage natural resources such as fossil fuels, water, forests, fisheries, etc. This has been a successful model in Norway and in Alaska where oil revenue is able to provide a modest guaranteed annual income for all citizens. Alberta has also used this model in the past.

- iii. Develop and utilize an **inequities impact assessment** tool for all government policies.
- iv. Move away from GDP as the metric for tracking societal progress – toward a Genuine Progress Index (GPI) and reconstitute the BC Progress Board.

#### 4. 'Nudging' the corporate world:

- a. Require CEO and Executive compensation be disclosed including salary, stock options such as proceeds of buybacks and bonuses. Link the ratio of the CEO compensation: median employee income to the amount of corporate tax levied (current legislation proposed in California) (Reich). In the US the Dodd-Frank Act already requires companies to publish these ratios. It should be noted that there is no empirical evidence that paying CEOs exorbitant amounts above a generous threshold improves performance.
- b. Increase shareholder rights on 'Say on pay.' In Australia a policy exist that shareholders have the right to force an entire corporate board to stand for re-election if a quarter or more of a company's shareholders and stakeholders vote against a CEO pay plan two years in a row.<sup>7</sup>
- c. Increased scrutiny and regulation of **stock buybacks**.
- d. Develop and implement financial incentives, subsidies, tax incentives and recognition for progressive businesses such as:
  - B corps and triple bottom line (PPP- people, planet, profit),
  - businesses with co-op or employee co-ownership, and profit or revenue-sharing models.
- e. Advocate for equal pay for equal work without regard to race or gender.
- f. Address labour policies:
  - i. Require that all corporate Boards of Directors include labour

**Stock buybacks** refers to a corporate practice whereby company shares are repurchased through the market. This can serve to increase stock prices and shareholder value and also trigger the selling of stock options. The US SEC regarded buybacks as potential stock manipulation and fraud and had regulated restraints on the practice until 1982 – (then reversed under Reagan)

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<sup>7</sup> R. Reich. Saving Capitalism. For the Many, Not the Few. Knopf 2015

representation as is currently required in Germany.

- ii. Make unionization easier in low-wage industries such as retail chains, fast-food chains, hotels and restaurants giving workers more bargaining leverage in contract negotiations.
- iii. Improving conditions for Temporary Foreign Workers – such as allowing more than one employer and fast tracking Landed Immigrant status.

### **Evolution of the Corporate Sector particularly the Financial Industry.**

The economy has become progressively more dominated by a financial sector which includes banks, brokerages and hedge funds, insurance companies, credit card companies and so forth. The corporate sector is driven by many practices that are contributing to growing SE inequities including;

- Rules regarding property, particularly intellectual property such as patents and copyrights that have allowed the creation of monopolies in areas such as electronic platforms, software, pharmaceuticals and communications networks.
- Global trade agreements that have resulted in the movement of jobs offshore and increasing ‘flexibility’ of the workforce resulting in job insecurity, more part-time and temporary work, lower wages, unpaid overtime, and lower bargaining power.
- Financial organisations that prey on the poor such as high credit card interest rates (22%), cheque cashing services and loan sharks.
- Excessive Executive pay driven by bonuses, a high stock option component of income and increasing **stock buybacks** by corporate executives (see p10). This is compounded by Executive Compensation Committees that are dominated by former and current CEOs who award each other ever escalating pay. High executive compensation then ‘spills over’ into executive compensation in all sectors including the public sector. There is abundant evidence that excessively high incomes are not needed to attract competent managers and that these high compensations are not linked to better performance.

The culture in the business community over the past century has been predominantly characterized by a focus on growth, profits and shareholder value. This has led to the practices outlined above that have resulted in increasing SE inequity, poverty and climate change. This perverse culture has endured for over a century and will not be easily transformed. The business culture needs to evolve so that not only shareholders and executives benefit from a successful enterprise but also employees and the entire value chain of suppliers, distributors, employees and communities share more equitably in the income and wealth generated while the environment and natural resources are sustained and climate change is averted.

The good news is such transformative change is occurring in the business culture and with the leadership of progressive businesses and academic leaders that look beyond the bottom line, there is some progress in evolving toward 'shared value' as the basis for 'regenerative capitalism'<sup>8,9</sup>.

### **For debate and further discussion**

1. A guaranteed annual income (GAI) There is broad support for this idea but there must be careful design and analysis to ensure that some vulnerable groups do not lose some of their current benefits and actually become worse off<sup>10</sup>.
2. A financial transactions (TOBIN) tax. This has been tried in Sweden and was unsuccessful because of movement to offshore shelters. Future success for this taxation will require international cooperation and regulation.
3. Patent/copyright law reform with shortening length of protection. Future success for this taxation will require international cooperation and regulation.

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<sup>8</sup> ME Porter, MR Kramer. Shared value. How to reinvent capitalism and unleash a wave of innovation and growth. Harvard business Review. January 2011

<sup>9</sup> J Fullerton. Regenerative Capitalism. Capital Institute, April, 2015

<sup>10</sup>K Battle, Guaranteed income or guaranteed incomes. Caledon Institute of Social Policy. September, 2015

4. Pension and retirement financing with enhancing of the GIS for seniors has been mentioned but there may be a need for broader federal/provincial reforms as is currently underway in Ontario.

### **Is this radical thinking without historical precedent?**

Certainly not. Following the Great Depression starting in 1929, the US government of Franklin D Roosevelt(R) initiated the New Deal which consisted of economic stimulus through public infrastructure expenditures, reforms in financial and labour markets, more progressive taxation and social security. Canada followed suit. We need to learn from this history.

Moreover, many of the policy changes suggested here are already in place in other jurisdictions such as the US, Germany, Australia, Nordic countries, California and Alaska.

### **Will pursuing such a progressive approach lead to wealth and jobs fleeing the country particularly to the US?**

This is a valid concern. However, there is little evidence that this a real risk.<sup>11</sup>

Moreover, the issues of persistent poverty and growing SE inequity are more pronounced in the US than they are in Canada. The effects in the US are reflected in terms of increasing mortality rates, financial and political instability and social unrest as seen from the 2008 Great Recession, the Occupy Movement, and decaying local economies and communities. Since there is no conceivable way in which market forces can be expected to spontaneously equalize income growth rates, stabilize income inequality and prevent a worsening of inequity, the US government will likely have to move in this same direction as it has done in the past. The US is already taking action to control offshore banking and tax evasion. In Canada we should prepare to work cooperatively across the borders to address these problems together.

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<sup>11</sup> L Osberg. How much income tax could Canada's top 1% pay? CCPA, October, 2015

Acknowledgements: many people have contributed to revising and improving this document: many thanks to Adrienne Montani, Brian O'Connor, Ted Bruce, Seth Klein, Roger Wheeler, Larry Marshik, Rick Dauphinee, Desmond Alexander, Bob Evans, Maureen Rowan and the PARC committee of PHABC

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