

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

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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 (the 1%). 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 unrest.

When the market mechanism fails there is a need for effective government intervention. The role of government in restoring a market-based economy that leads to 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’ – more equitable employment income and more responsibility for population health and environmental sustainability.

While the culture in the business community over the past century has been predominantly characterized by a focus on growth, profits and shareholder value, a number of business leaders and organizations are speaking out about the failure of the market economy in its present form. Current practices have resulted in increasing socio-economic inequity, poverty and climate change. The good news is such transformative change is occurring in the business culture. With the leadership of progressive businesses and academic leaders, business culture is

evolving so that not only shareholders and executives benefit from a successful enterprise but also employees and the entire value chain (suppliers, distributors, energy and resource use, employee health and safety, environmental impact) share more equitably in wealth and prosperity.

PHABC looks forward to working with progressive elements in our governments and business communities to look beyond the bottom line and make progress toward 'shared value' as the basis for 'regenerative capitalism'^{1,2}.

Governmental interventions

Tax policies: (potentially federal and provincial governments)

1. Increase the top marginal income tax rate
2. Tax all income sources fairly and equally including capital gains and dividends
3. Introduce wealth and inheritance taxes
4. Tax socially harmful products and practices (carbon tax, polluter pays, tobacco, alcohol, sugar, etc.)
5. Reform tax incentives and subsidies that incentivize fossil fuel consumption and instead incentivize innovation that is environmentally sustainable and supports the creation of 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
3. Employee health – parental, mental health leave provisos, personal development, education

Social and physical infrastructure interventions:

1. Increase welfare rates, EI rates, the Working Income Tax Benefit, the Child Tax Benefit and the GIS for seniors
2. Universal public affordable quality child care

¹ ME Porter, MR Kramer. Shared value. How to reinvent capitalism and unleash a wave of innovation and growth. Harvard business Review. January 2011

² J Fullerton. Regenerative Capitalism. Capital Institute, April, 2015

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 public transit
8. Improved communications
9. Sewage and water system maintenance
10. Environmental protection and restoration

Institutional development

1. A national poverty reduction plan (including BC, the only province without a plan)
2. Sovereign wealth funds to raise public revenue and sustainably manage natural resources

‘Nudging’ the business sector:

1. Reducing exorbitant CEO/executive compensation
2. Controlling stock buybacks
3. Providing for labour representation on corporate boards

Transformation of the business sector.

The business sector, for the most part, continues to be exclusively 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’.

New Rules for Shared 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. Exacerbating the problem, 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 ,so all citizens, including the rich, are adversely affected.
2. Ongoing injustice and social unrest. SE inequities inevitably cause inequality of opportunity for families and children and lead to reduced economic mobility. Thus intergenerational poverty and inequity worsens. And eventually history shows that social unrest emerges in the form of public and political action such as extremist movements and in 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 and 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 its outcomes. We currently have a market based economy that generates jobs, incomes and wealth from the production of goods and services purchased through domestic and foreign markets. This system is supported by 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 a majority of those who are 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 create the conditions for making changes to the market-based capitalist model so that wealth and prosperity are more equitably shared by all citizens^{3,2}.

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.

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)³, increasing unemployment, climate change and persistent or worsening poverty. This will have the undesired effects of social injustice and discontent,

³ 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

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

³ Green, Riddell, St Hilaire. Income Inequality – the Canadian Story. Institute for Research on Public Policy. McGill – Queens

worse 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 women without a high school degree has **declined** by 5 years between 1990 and 2005. This points out how badly the 'free market' economy can fail and lead to 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 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, and income supports, healthcare improvements and physical infrastructure such as social housing, transit, energy and environmental and natural resource protection. This obviously requires revenue (through tax reform and other policies) much of which can have the added benefit of 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

1. Tax and subsidy reforms and incentives: these 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- those making many millions of dollars a

year. How high should the rate be? In the 50s and 60s, a time 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 – capital gains, dividends and bonus payments be 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.⁴ 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') that have to be paid for by government (because the businesses are not held responsible for the damage and public expenditure they cause) – this includes taxes on pollution, including carbon, 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 are provided for more sustainable energy sources, and innovations in socially needed products and services such as energy efficient housing, transit and so forth.

2. Employee benefits

- a. All direct and out-sourced employees receive a 'living wage' at all levels of government: federal, provincial and municipal.
- b. Mental health, parental leave policies
- c. Workplace health programs

⁴ Thomas Piketty. Capital in the 21st Century.

3. Infrastructure development

a. Social infrastructure:

- i. Raising welfare and employment insurance rates, child tax benefits, earned income tax benefits and seniors' GIS
- ii. Early childhood development through implementation of a universal public system of affordable quality child care, and enhanced entitlement and access to other early childhood development supports.
- iii. Primary and secondary education improvements – ensure equity of access to quality education across all neighbourhoods
- iv. Post-secondary – free or more subsidized post-secondary education
- v. Improved healthcare – particularly primary and elder care – a community-based primary healthcare system: better accountability, interoperative electronic clinical records, more patient and community engagement and co-design through improved governance, more integrated, comprehensive, interprofessional prevention and care throughout the life course.

b. Physical infrastructure:

- i. Social housing and more affordable housing options (e.g. co-ops)
- ii. Sustainable energy – grid improvements, incentives for sustainable energy innovations and development
- iii. Communications – internet, Wi-Fi, etc.
- iv. Sewage and water resources
- v. Transportation: transit, roads, bridges, ferries, infrastructure for electric vehicles
- vi. Environmental protection, restoration, sustainability

c. Institutional progress

- i. A poverty reduction plan federally and in all provinces including BC
- ii. Sovereign wealth funds – federal and provincial - to raise public revenue and better manage natural resources – 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) and in the past in Alberta.

4. 'Nudging' the corporate world:

- a. CEO and Executive compensation – require that all executive compensation be disclosed – including salary, stock options (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. 'Say on pay': 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 – current policy in Australia⁵
- c. Increased scrutiny and regulation of **stock buybacks**
- d. Financial incentives and recognition for progressive businesses: B corps and triple bottom line (PPP- people, planet, profit) businesses with co-op or employee co-ownership, profit or revenue-sharing models be encouraged with subsidies or tax incentives
- e. Equal pay for women
- f. Labour policy –
 - i. require that all corporate boards of Directors include labour representation (as is currently required in Germany);
 - ii. make unionization easier in low-wage industries such as

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)

⁵ R. Reich. Saving Capitalism. For the Many, Not the Few. Knopf 2015

retail chains, fast-food chains, hotels and restaurants giving workers more bargaining leverage in contract negotiations

Evolution of the Corporate Sector particularly the Financial Industry.

The economy has become progressively more dominated by the financial sector (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 (patents, copyrights), that have allowed the creation of monopolies in areas such as electronic platforms, software and communications networks
- Global trade agreements that have resulted in the movement of jobs offshore and increasing 'flexibility' of the workforce meaning job insecurity, more part-time and temporary work, lower wages, unpaid overtime, and lower bargaining power
- Financial organisations that prey on the poor – loan sharks, cheque cashing services, high credit card interest rates (22%)
- Excessive Executive pay – driven by bonuses, a high stock option component of income and increasing **stock buybacks** by corporate executives (see p9) 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 (suppliers, distributors, energy and

resource use, employee health and safety, environmental impact) share more equitably in wealth and prosperity.

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'^{6,7}.

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.
2. A financial transactions(TOBIN) tax – which requires international cooperation and regulation, including prohibition of the movement of capital to offshore shelters (learning from the Swedish experiment) – will require
3. Patent/copyright law reform (shortening length of protection) - again requires international cooperation.
4. Pension and retirement financing – enhancing 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

⁶ ME Porter, MR Kramer. Shared value. How to reinvent capitalism and unleash a wave of innovation and growth. Harvard business Review. January 2011

⁷ J Fullerton. Regenerative Capitalism. Capital Institute, April, 2015

financial and labour markets and 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 – Germany, Australia, Nordic countries, California, 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, the issues of persistent poverty and growing SE inequity are more pronounced in the US than they are in Canada and the effects there in terms of financial and political instability and social unrest as seen from the 2008 Great Recession, the Occupy Movement, and decaying local economies and communities, are arguably more profound than in Canada. Since there is no conceivable way in which market forces can be expected to spontaneously equalize income growth rates and stabilize income inequality (in fact inequity will almost certainly get worse), 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. So In Canada we should prepare to work cooperatively across the borders to address these problems together.