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Race to the Top

Developing an Inclusive Growth
Agenda for Canada

BY SUNIL JOHAL & ARMINE YALNIZYAN

Mowat Centre

ONTARIO'S VOICE ON PUBLIC POLICY



School of Public Policy & Governance
UNIVERSITY OF TORONTO

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Income inequality is at or near record high-levels across advanced economies, and the digital revolution is raising concerns that access to well-paying, secure employment will become even more challenging.

1 EXECUTIVE SUMMARY

Governments around the world are coming to grips with the realization that the growth models they pursued for decades have not yielded broadly-shared prosperity for many of their citizens. A generalized tenor of disquiet about the future has arisen from the experiences of Brexit, a rise in populist sentiment in the United States and Europe, a growing recognition that many of the benefits of globalization and free trade policies have not been broadly shared, and the looming threat of trade wars.

Consequently, the conversation for policymakers has turned to “inclusive” growth. How can economic gains be shared more broadly and equitably throughout society? Disruptive technologies like artificial intelligence and peer-to-peer platforms pose tough new questions around how to manage disruption and the transition to an increasingly digital economy in a fair manner that generates well-paying, stable jobs. In our increasingly digital, global world, the competition for jobs and investment is growing more fierce. The most inclusive jurisdictions will be well-positioned to win the global war for talent and capital, and thrive.

For Canadian policymakers, the likelihood of a prolonged period of little or no growth (i.e., “slowth”) is significant. The path forward to a more inclusive model of growth is uncertain. We face clear challenges related to income inequality, wage stagnation and an increase in precarious employment. Reliance upon another commodity boom, export-led growth or further gains from increasing women’s employment are, for various reasons, unlikely to resolve these challenges in the future, as they have in the past.

This report seeks to provide guidance to policymakers looking to put Canada on a path towards more inclusive growth. It begins by assessing Canada’s record across a range of key metrics related to inclusive growth, ranging from income inequality to household incomes to the gender wage gap. It then explores a variety of options that can shape both how markets perform (pre-distribution) and how government policies are developed (redistribution), before concluding with specific recommendations on developing an inclusive growth agenda for Canada.

2 INTRODUCTION

We are entering a world of technological advances that would have seemed fantastical only a generation ago. The promises of new technologies and the anxiety that uncertainty and change naturally bring with them mean that the future of work is a top of mind issue for Canadians and policymakers. The uncertain impact of robotics, the gig economy and artificial intelligence on our economy are overlaid against troubling trends in income inequality and growth in precarious work.

Even coming off the strongest economic performance in the G7 set of nations, and unemployment rates that are the lowest of the past 40 years, Canadians are worried about their own personal finances, whether housing costs or debt repayment.¹ Looking forward, 2017 may mark an outlier in terms of economic expansion.² Canada's economy appears set for a prolonged era of "slowth" (i.e., no or little growth) as compared to historical long-term trends. Gross Domestic Product (GDP) growth over the next 50 years may only reach half the rate it was over the past 50 years (1.5 per cent compared to 3.1 per cent).³

Globally, a generalized tenor of disquiet about the future has arisen from the experiences of Brexit, a rise in populist sentiment in the United States and Europe, a growing recognition that many of the benefits of globalization and the free trade policies of the past three decades have not been broadly shared, and the looming threat of trade wars.

Yet, we have faced similarly challenging circumstances in the early part of the 20th century and created broad-based prosperity for many. We can face the challenges of today and develop a more inclusive growth agenda that works for Canadians from all walks of life and all manner of different life experiences. Doing so will, however, take concerted action from governments, business and individuals.

1 Nanos Research (2017) "The majority of Canadians are concerned about the gap between the rich and poor and housing affordability." <http://www.nanos.co/wp-content/uploads/2017/11/2017-1106-Bloomberg-OMNI-Populated-report-with-Tabulations.pdf>.

2 According to the 2018 federal budget, Canada's 3.0 per cent GDP growth in 2017 is projected to decline to 2.2 per cent in 2018, and then an average growth rate of 1.7 per cent between 2019 and 2022. Department of Finance (2018) "Equality and Growth: A strong middle class." <https://www.budget.gc.ca/2018/docs/plan/toc-tdm-en.html>.

3 James Manyika et al. (2015) "Global Growth: can productivity save the day in an aging world?" McKinsey Global Institute. <https://www.mckinsey.com/global-themes/employment-and-growth/can-long-term-global-growth-be-saved>. The federal government projects real GDP growth of 1.7 per cent per year between 2023 and 2055. Department of Finance (2017) "Update of Long-Term Economic and Fiscal Projections 2017." <https://www.fin.gc.ca/pub/ltefp-peblt/2017/report-rapport-eng.asp>.

Why are we talking about inclusive growth now?

In 1944, the Bretton Woods conference resulted in the emergence of a broad international consensus around key public policies that could encourage economic growth, stemming from the tumult of two world wars and an intervening economic depression. The International Monetary Fund and World Bank were born at the conference, and GDP was adopted as the standard measure of national economic progress.⁴

The 1940s through the 1960s saw the emergence of the welfare state in Canada (and many other advanced economies) with the introduction of programs such as Unemployment Insurance (1940), the National Housing Act (1944), Family Allowance (1945), Old Age Security (1951), CPP/QPP (1965) and Medicare (1966).⁵

Against this backdrop of social progress, the Bretton Woods system of fixed exchange rates for major currencies came to an end in 1971 and was replaced by floating rates. Combined with the oil shocks of 1973 and 1979, the welfare state was stretched as unemployment rates and inflation soared.⁶ By 1980 a new international economic order had emerged, the so-called Washington consensus, focused on a market-driven approach to growth, emphasizing the reduction of public intervention and taxation as key mechanisms for maximizing economic growth.

The “trickle-down” approach to wealth generation has characterized the economic story of Canada and other developed countries for the last four decades, prioritizing tax cuts, de-regulation and privatization. Until recently, international organizations such as the IMF, World Bank and OECD were strong proponents of this growth model, promoting its adoption in the developing world as well as in the world’s richest nations.

Yet, there has been increasing skepticism about the equity of an agenda focused solely on economic growth. Across developed economies, there is an escalating crisis of trust in government. Only 42 per cent of the population in OECD countries have confidence in their national government.⁷ Only 43 per cent of Canadians trust government institutions.⁸ While a number of causes potentially underlie these figures, the notion that globalization and the current economic paradigm is no longer working for too many in society is certainly a key factor.⁹ Income inequality is at or near record high-levels across advanced economies, and concerns are increasing that the digital revolution will make access to well-paying, secure employment even more challenging.

Many government and international organizations such as the IMF, World Bank and OECD are now adding an important adjective to the growth conversation: inclusive. The term inclusive growth acknowledges implicitly that growth has occurred, but that it has not been widely

4 Elizabeth Dickinson (2011) “GDP: a brief history.” *Foreign Policy*, January 3, 2011. <http://foreignpolicy.com/2011/01/03/gdp-a-brief-history/>.

5 Thomas Granofsky, Miles Corak, Sunil Johal and Noah Zon (2015) “Renewing Canada’s Social Architecture.” Mowat Centre. <http://social-architecture.ca/wp-content/uploads/FramingPaper.pdf>.

6 International Monetary Fund “The end of the Bretton Woods System, 1972-1981.” <https://www.imf.org/external/about/histend.htm>; Anton Hemerijck (2013) “Changing Welfare States” Oxford University Press, p126; and Nathan Lewis (2011) “Bretton Woods and the four-decade trauma of its collapse.” *Forbes*. <https://www.forbes.com/2011/07/07/bretton-woods-collapse.html#67dc5d936792>

7 OECD (2017) “Time to Act: Making Inclusive Growth Happen.” http://www.oecd.org/inclusive-growth/Policy_Brief_Time_to_Act.pdf.

8 Edelman (2017) “Trust in Canada.” <https://www.edelman.com/trust2017/trust-in-canada/>.

9 OECD (2017) “Time to Act: Making Inclusive Growth Happen.” http://www.oecd.org/inclusive-growth/Policy_Brief_Time_to_Act.pdf; Joseph E. Stiglitz (2017) “The Globalization of Our Discontent.” Project Syndicate. <https://www.project-syndicate.org/commentary/globalization-of-discontent-by-joseph-e-stiglitz-2017-12>.

shared. In fact, both the IMF and the OECD have documented how increases in income inequality are a drag on economic growth.¹⁰

A review of the landscape for Canadians across issues such as income inequality, precarious work and wage stagnation starkly demonstrates why inclusive growth has emerged as a concern. For example:

- » According to the OECD, the top 1 per cent of earners in Canada accounted for 37 per cent of overall pre-tax income growth between 1975 and 2007.¹¹ Canada's income inequality is roughly on par with the average for all OECD countries since 1985.
- » Roughly 1/3 of workers in Ontario are engaged in precarious forms of work.¹² Non-standard forms of work account for 60 per cent of employment growth in advanced economies since the mid-1990s.¹³
- » Wage stagnation is an endemic feature of life for many Canadians. For example, non-professional and non-management workers in Ontario have seen essentially no wage growth between 1997 and 2016, adjusted for inflation.¹⁴

» Alongside developments in the labour market, gaps remain in the coverage of social programs that could offset some of the effects of wage stagnation or inequality. For example, regulated childcare spaces are only available for roughly 1 in 4 children; 6 million Canadians a year avoid visiting the dentist due to costs; and mental health problems cost the economy at least \$50B while the medicare system provides limited access to mental health services.¹⁵

The World Economic Forum released a report in 2017 which found that more than half of the 103 countries it surveyed saw their Inclusive Development Index (a composite ranking of measures such as median household income, GDP per capita and life expectancy) fall over the past five years. In the 2018 update, Canada ranked 17th out of 29 advanced economies by this measure.¹⁶

10 OECD (2014) "Focus on Inequality and Growth." <https://www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf>; IMF (2011) "Inequality and Unsustainable Growth: Two Sides of the Same Coin?" <http://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf>.

11 OECD (2014) "Focus on Top Incomes and Taxation in OECD Countries: Was the crisis a game changer?" <http://www.oecd.org/social/OECD2014-FocusOnTopIncomes.pdf>.

12 Ontario Ministry of Labour (2017) "Chapter 4: Vulnerable workers in precarious jobs." In *The Changing Workplaces Review – Final Report*. <https://www.ontario.ca/document/changing-workplaces-review-final-report/chapter-4-vulnerable-workers-precarious-jobs>.

13 OECD (2015) "In It Together: Why Less Inequality Benefits All." <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>.

14 Ontario Ministry of Finance (2017) "Chapter III: Employment Trends." In *Ontario's Long-Term Report on the Economy*. <https://www.fin.gov.on.ca/en/economy/ltr/2017/ch3.html#s8>.

15 Martha Friendly et al. (2015) "Early childhood education and care in Canada 2014." Childcare Resource and Research Unit. <http://childcarecanada.org/sites/default/files/ECEC-2014-full-document-revised-10-03-16.pdf>; Canadian Academy of Health Sciences (2014) "Improving Access To Oral Health Care For Vulnerable People Living In Canada." http://cahs-acss.ca/wp-content/uploads/2015/07/Access_to_Oral_Care_FINAL_REPORT_EN.pdf; Mental Health Commission of Canada (2016) "Making the Case for Investing in Mental Health in Canada." https://www.mentalhealth-commission.ca/sites/default/files/2016-06/Investing_in_Mental_Health_FINAL_Version_ENG.pdf.

16 Richard Samans et al. (2017) "The Inclusive Growth and Development Report 2017." *World Economic Forum*. http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf; Richard Samans et al. (2018) "The Inclusive Development Index 2018, Summary and Data Highlights." *World Economic Forum*. http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2018.pdf.

Non-standard employment on the rise: Gigs for everyone?

Non-traditional workers (including part-time workers, freelancers, independent contractors, remote workers, consultants, and contingent workers) make up about 20 to 30 per cent of the workforce in Canada today.¹⁷ Data from the 2016 census reveals that the proportion of Canadian men and women aged 25 to 54 working full-time declined significantly between 2005 and 2015 – from 63.3 per cent to 56.2 per cent for men, and from 46.4 per cent to 43.7 per cent for women.¹⁸

In Ontario, about 27 per cent of the workforce in 2015 was engaged in non-standard employment, which grew at an annual rate of 2.3 per cent between 1997 and 2015 – about twice as fast as standard employment.¹⁹ Ontario's Changing Workplaces Review estimated that 30-32 per cent of workers in Ontario were vulnerable and engaged in precarious work (i.e., working full-time with low wages and no benefits, working part-time involuntary, working for temporary agencies, etc.).

Not only are nearly three out of 10 workers in Canada currently employed in non-standard jobs, this number is expected to rise in the near future. According to a survey, 85 per cent of Canadian companies say that they anticipate the number of contingent workers to increase to 35 per cent by 2025.²⁰ A Canadian Centre for Policy Alternatives report on gig economy workers in Toronto found that 90 per cent of these workers have college or university degrees, and 71 per cent are under the age of 45. Their survey of these workers found that about half (48 per cent) had been doing this type of work for over a year, demonstrating that these are often full-time employment sources, rather than short-term gigs. Critically, more than half (53 per cent) of the respondents said they are only engaged in this type of work until they find something better – indicating a desire for better economic prospects.²¹

However, there is a lack of hard data on the precariously employed in Canada, and no official definition of what constitutes a precariously employed worker (i.e., what combination of low wages, income volatility, lack of benefits, personal preference for certain work arrangements should be taken into account in a formal definition.)²² This gap will need to be remedied in order to design appropriate, targeted policy interventions for workers engaged in precarious work.

17 Randstad (2016) "Workforce 2025: the future of the world of work." <http://content.randstad.ca/hubfs/workforce2025/Workforce-2025-Randstad-Part1.pdf>.

18 Statistics Canada (2017) "Labour in Canada: Key results from the 2016 Census." *The Daily*. <http://www.statcan.gc.ca/daily-quotidien/171129/dq171129b-eng.htm?HPA=1>.

19 Ontario Ministry of Labour (2017) "Chapter 4: Vulnerable workers in precarious jobs." In *The Changing Workplaces Review – Final Report*. <https://www.ontario.ca/document/changing-workplaces-review-final-report/chapter-4-vulnerable-workers-precarious-jobs#ref-52>.

20 Randstad (2016) "Workforce 2025: the future of the world of work." <http://content.randstad.ca/hubfs/workforce2025/Workforce-2025-Randstad-Part1.pdf>.

21 Sheila Block and Trish Hennessy (2017) "Sharing economy" or on-demand service economy? A survey of workers and consumers in the Greater Toronto Area." Canadian Centre for Policy Alternatives, Ontario. <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Ontario%20Office/2017/04/CCPA-ON%20sharing%20economy%20in%20the%20GTA.pdf>.

22 Francis Fong (2018) "Navigating precarious employment in Canada: who is really at risk?" Chartered Professional Accountants Canada. <https://www.cpacanada.ca/en/the-cpa-profession/about-cpa-canada/key-activities/public-policy-government-relations/economic-policy-research/rise-precarious-employment>.

1% of earners
in Canada
accounted for **37%** of
overall pre-tax income
growth between
1975 and 2007*



The richest

42

people in the world
have as much wealth
as the poorest 50%
of the globe**

* <http://www.oecd.org/social/OECD2014-FocusOnTopIncomes.pdf>

** <https://www.theguardian.com/inequality/2018/jan/22/inequality-gap-widens-as-42-people-hold-same-wealth-as-37bn-poorest>.

Inclusive growth in the digital age

Aggregating economic growth at a national or global level masks the challenging local or personal situations that affect large portions of society. The richest 42 people in the world have as much wealth as the poorest 50 per cent of the globe.²³ This should sound alarm bells about what the hyper-concentration of wealth will mean for social compacts that rely upon shared values and experiences. This concentration of wealth is seen most clearly with the rise of digital titans such as Amazon, Facebook and Google. Amazon controls roughly 40 per cent of e-commerce in America, while Facebook and Google take home about two-thirds of digital ad revenues.²⁴ Anti-trust approaches that worked in the days of Standard Oil have yet to be adequately updated to tackle these new firms and their quasi-utility status.²⁵

The prospect of technological change potentially disrupting many sectors of the economy to the detriment of many workers is also looming. Projections for job losses due to advances in artificial intelligence, robotics, and digital platforms for on-demand work range from as low as 5 per cent up to 47 per

23 Larry Elliott (2018) "Inequality gap widens as 42 people hold same wealth as 3.7bn poorest." The Guardian, 22 January 2018, <https://www.theguardian.com/inequality/2018/jan/22/inequality-gap-widens-as-42-people-hold-same-wealth-as-37bn-poorest>.

24 The Economist (2018) "New Titans and how to tame them." 18 January 2018, <https://www.economist.com/news/leaders/21735021-dominance-google-facebook-and-amazon-bad-consumers-and-competition-how-tame>.

25 Caroline Holland (2018) "Taking on Big Tech Through Merger Enforcement." Medium. <https://medium.com/read-write-participate/taking-on-big-tech-through-merger-enforcement-f15b7973e37>.

cent in advanced economies.²⁶ The distinction between technology's impact on jobs and tasks is important. McKinsey estimates only 5 per cent of jobs are likely to be eliminated globally due to automation of 100 per cent of their tasks by 2030.²⁷

Between 2003 and 2013, an average of 5.8 per cent of employees were laid-off in Canada every year; but the average annual hire rate in the job market was 20.2 per cent.²⁸ The destruction rate is easier to estimate than the creation rate for tasks and skills that we can't yet imagine. New technologies always eliminate the need for some skills and jobs, but also always add new skills and jobs to the mix. The net result between job and task destruction and creation is what matters.

A key variable in this concern is what skill mix is left in the tasks that remain. Can people earn as much in the newly created tasks and jobs as the ones that have been destroyed? McKinsey suggests adoption of available technology could automate almost half of existing tasks within jobs, eliminating the need for about 30 per cent of the paid hours worked world-wide. They estimate this would wipe out \$15 trillion in wages globally.²⁹ However McKinsey also estimates that global consumption will grow by \$23 trillion

globally, mostly from increased demand in emerging markets.³⁰

While millions of new jobs will certainly be created in the future, the quality of those jobs is an open question, likely contributing to uncertainty and anxiety among many workers. For governments, business and citizens the question becomes how can we make sure the jobs that we create are well-paying jobs that come with benefits and some measure of security? In other words, what deliberate steps can we take to ensure that decent work is an outcome of change and disruption?

26 James Manyika (2017) "Technology, jobs, and the future of work." McKinsey Global Institute. <https://www.mckinsey.com/global-themes/employment-and-growth/technology-jobs-and-the-future-of-work>; Carl Benedikt Frey and Michael A. Osborne (2013) "The Future of Employment: How Susceptible are Jobs to Computerisation?" University of Oxford. https://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf.

27 James Manyika et al. (2017) "Harnessing automation for a future that works." McKinsey Global Institute. <https://www.mckinsey.com/global-themes/digital-disruption/harnessing-automation-for-a-future-that-works>.

28 Wen Ci et al. (2016) "Economic Insights: Hires and Layoffs in Canada's Economic Regions: Experimental Estimates, 2003 to 2013." Statistics Canada. <http://www.statcan.gc.ca/pub/11-626-x/11-626-x2016060-eng.htm>.

29 James Manyika et al. (2017) "Harnessing automation for a future that works." McKinsey Global Institute. <https://www.mckinsey.com/global-themes/digital-disruption/harnessing-automation-for-a-future-that-works>.

30 James Manyika et al. (2017) "What the future of work will mean for jobs, skills, and wages." McKinsey Global Institute. <https://www.mckinsey.com/global-themes/future-of-organizations-and-work/what-the-future-of-work-will-mean-for-jobs-skills-and-wages>.

» COMPLICATING FACTORS

As the realities of a borderless digital platform economy evolve, they unleash dynamics that make inclusive growth more complicated to achieve: pitting ourselves as consumers vs ourselves as workers; more customized, me-time, fewer collective, shared experiences; a wave of corporate consolidation that is accelerating already uneven bargaining power; blurring jurisdictional boundaries as digital realities vie with place-based realities; and regulatory regimes that, by definition, must lag technological potential.

What we want as consumers often pits us against what we want as workers. At a time when corporations have become hyper-efficient at producing and delivering goods and services to market in the fastest and cheapest way possible, the rational choices we make as consumers often undermine our long-term interests as workers. Consumers have control over what they spend and how they spend it, and most will tend towards the cheapest product that works for their needs. The flip side of every cheap price is often a low wage.

Increasingly the companies producing and delivering consumer products and services are multi-nationals that have perfected the art of lean workforces. Every dollar spent with firms that franchise, outsource or hire temporary, part-time employees without benefits is a dollar not spent with a local firm that may treat its workers better.³¹ Examples of large organizations with outsourced or temporary, contingent workforces become more commonplace every day, whether Amazon's seasonal workforce³² or Uber's independent contractor drivers³³ or even sessional instructors at universities.³⁴

At the same time, macroeconomic data show big businesses tend to offer better wages and benefits, longer job tenure, and more career opportunities than small businesses.³⁵ It's complicated.

Consumer interests (i.e. wanting low-cost goods and services) and worker interests (i.e. well-paying jobs) are fundamentally opposed, and are constantly set against each other in uncomfortable ways.

31 See: David Weil (2014) "The Fissured Workplace." Harvard University Press.

32 Jana Kasperkevic (2014) "Homeless and working for Amazon: the trap of the seasonal job cycle." The Guardian, 4 May 2014, <https://www.theguardian.com/money/2014/may/04/amazon-seasonal-work-homeless-jobs-unemployment>.

33 Felicity Lawrence (2016) "Uber is treating its drivers as sweated labour, says report." The Guardian, 9 December 2016, <https://www.theguardian.com/technology/2016/dec/09/uber-drivers-report-sweated-labour-minimum-wage>.

34 Erika Shaker and Robin Shaban (2018) "No Temporary Solution: Ontario's shifting college and university workforce." Canadian Centre for Policy Alternatives. <https://www.policyalternatives.ca/publications/reports/no-temporary-solution>.

35 David Atkinson and Michael Lind (2018), "Is Big Business Really That Bad?", The Atlantic Magazine, April 2018 <https://www.theatlantic.com/magazine/archive/2018/04/learning-to-love-big-business/554096/>.

What's at stake?

Populism is, at its heart, about giving voice to the common person, particularly as set against the interests of an elite class. Increasingly, our economic growth patterns and distributions are making the case for populism a more attractive one. Governments and political parties seeking to understand the roots of populism and develop thoughtful policy responses to those root causes must start to move forward with an inclusive growth agenda.

Economic anxiety about the future of work and anger about the inequities flowing from current approaches to economic growth continue to escalate, impelling governments across the globe to talk about the need to develop more inclusive models of growth. Words are at least a start, leading to expectations of change for which governments can be held accountable.

Canadian governments have already stated their intentions to broaden their economic mandates to be more inclusive. Prime Minister Trudeau has spoken directly about the importance of inclusive growth as a “path forward” for Canada, and the federal government’s focus on growing the middle class is a clear effort to tackle inclusive growth in a more straightforward way.³⁶ The Government of Ontario has also spoken about the need to create and sustain inclusive growth that benefits

everyone.³⁷ A range of international organizations have also put their hats into the inclusive growth ring. In the past two years alone the OECD, World Bank, IMF and World Economic Forum have released reports or hosted conferences calling for more inclusive growth initiatives.³⁸

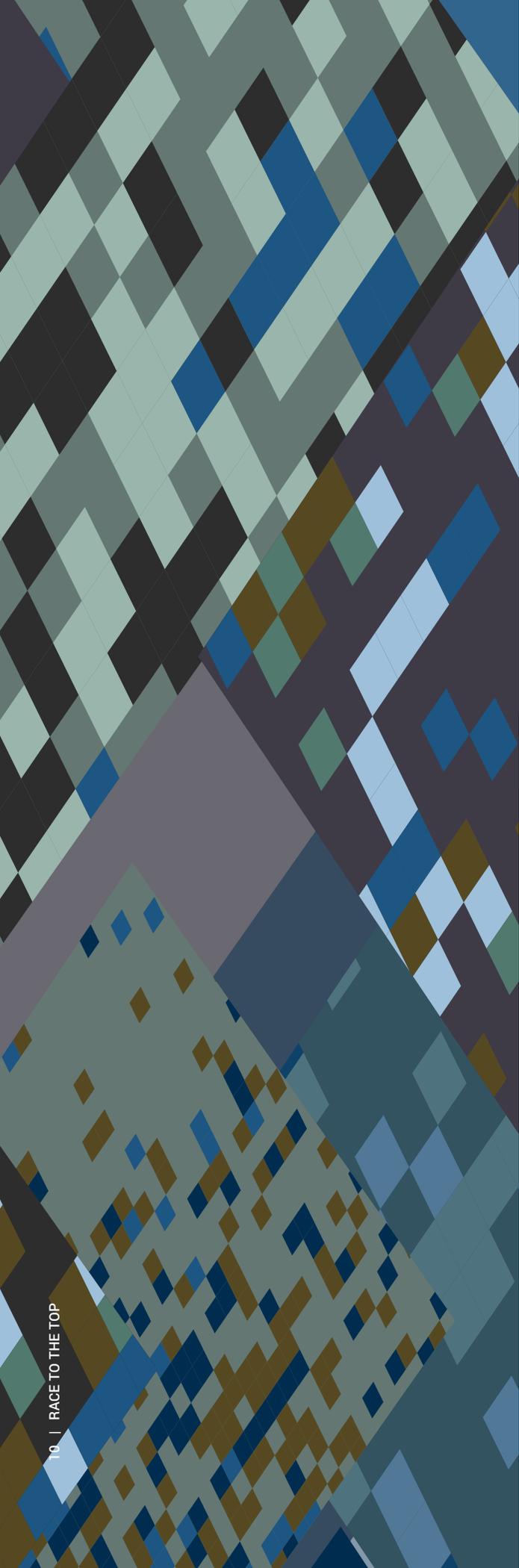
Developing an inclusive growth agenda in the age of digital disruption is a new challenge for all policymakers. At the same time, new potential opportunities exist that have not yet been harnessed. How can we improve lives through the use of big data, artificial intelligence and mobile technology? Technology has proven to make consumers live easier in many respects, but can it make workers’ lives easier by smoothing out the unpredictability of their schedules and travel time? As we free up people’s time from mundane, routine tasks through automation, will people benefit from opportunities at more fulfilling, well-paying positions?

In the past we’d often turn to the Nordic countries such as Sweden and Denmark and envy their efforts at forging inclusive societies. Who will be the Sweden of the 21st century? For Canada to be at the forefront of inclusive growth in the digital age, there are a host of new and old

36 Justin Trudeau, Prime Minister of Canada (2016) “News - The Prime Minister of Canada announces changes to structure and mandate of Cabinet committees.” 22 August 2016, <https://pm.gc.ca/eng/news/2016/08/22/prime-minister-canada-announces-changes-structure-and-mandate-cabinet-committees>; Madalena Araujo (2016) “Justin Trudeau: Growth can work for everyone.” CNN, 26 September 2016, <http://www.cnn.com/2016/09/20/world/intv-amanpour-justin-trudeau-canada-unga/index.html>.

37 Office of the Premier of Ontario (2016) “News Release - Growth that Creates Shared Benefits the Hallmark of Ontario in 2016.” 29 December 2016, <https://news.ontario.ca/opo/en/2016/12/growth-that-creates-shared-benefits-the-hallmark-of-ontario-in-2016.html>; Rural Ontario Municipal Association (2017) “Kathleen Wynne, Premier of Ontario – Keynote Remarks: ROMA 2017 Conference.” <https://www.roma.on.ca/ROMA-Docs/Conference/2017-Presentations/013017PremierKathleenWynneRemarksROMAKeynoteMediaC.aspx>.

38 OECD (2018) “Inclusive Growth.” <http://www.oecd.org/inclusive-growth/>; Richard Samans et al. (2017) “The Inclusive Growth and Development Report 2017.” World Economic Forum. http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf; Alexei P Kireyev and Jingyang Chen (2017) “Inclusive Growth Framework.” IMF Working Papers. <https://www.imf.org/en/Publications/WP/Issues/2017/05/30/Inclusive-Growth-Framework-44951>; World Bank (2017) “Inclusive Growth and the Rising Middle Class in East Asia and Beyond.” <https://live.worldbank.org/inclusive-growth>.



challenges to address. This report starts the process of unpacking these challenges and setting forth policy options for putting Canada on the trajectory to winning the race to the top. Specifically, this report:

- » Assesses Canada's performance on a range of indicators related to inclusive growth.
- » Lays out policy options that might promote inclusive growth, from both a pre-distribution and redistribution perspective.
- » Proposes the framework for a Canadian inclusive growth agenda.

It cannot be
assumed that
we can reverse
or even offset
pressures
towards greater
inequality
through the
mechanisms that
have worked in
the past.

3 STATE OF PLAY: INCLUSIVE GROWTH IN CANADA AND ONTARIO

Canada is not like the US in many regards. But is Canada the exception to global trends when it comes to developments in the middle class and “inclusive growth”? And how does Ontario, Canada’s biggest jurisdiction, compare?

First, there is no definition of what inclusive growth is. What follows is a way to measure and assess trends in the distribution of benefits from GDP growth and trends that might foretell the future of the middle class. No single variable will provide an adequate shorthand for these phenomena, but the following series of metrics provides a comprehensive framework of what inclusive growth might look like. This isn’t just a discussion of inequality, though it does include that.

What may be new for readers is to see how long-term trends in these variables lead to the suggestion that the mechanisms that offset inequality and created more opportunity for individuals and households historically cannot play a similarly large offsetting role in the future. Indeed, nothing in the past 40 years, even phases of robust GDP growth, has materially reversed inequality.

Key metrics

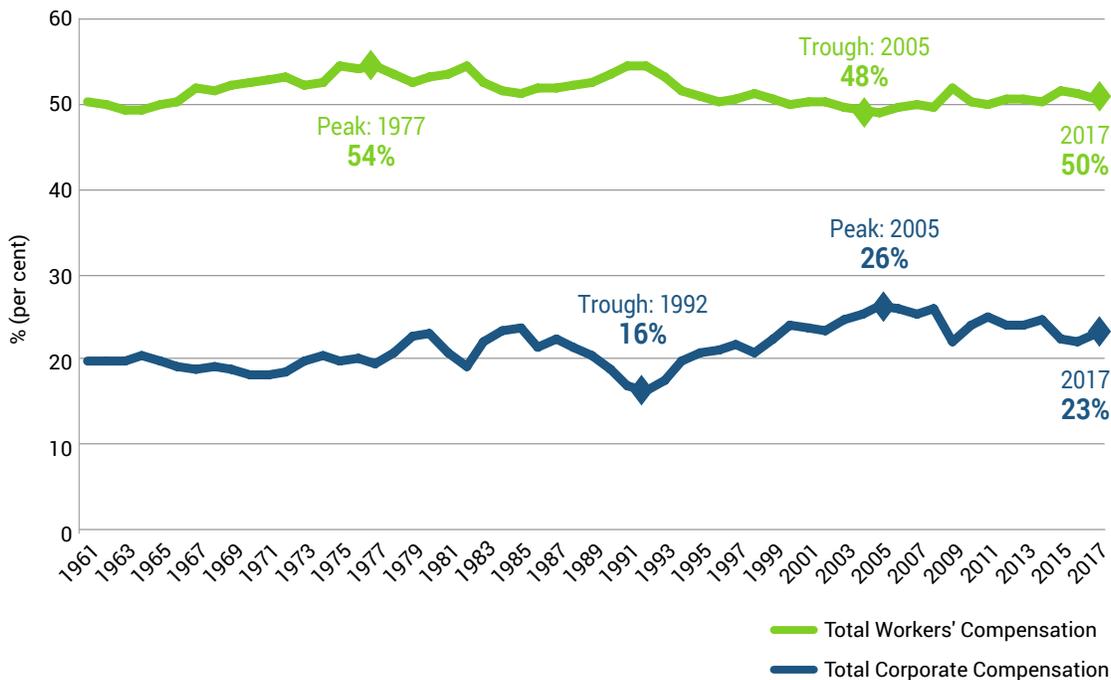
LABOUR SHARE OF GDP

In many rich nations around the world, labour's share of the economy has been shrinking over the past decades.³⁹ In Canada, the labour share is slightly smaller than it was a generation ago, but reached its lowest point in 2005 and has seen modest gains since. Why is Canada such an exception?

» The primary driver of this trend is not rising wages and salaries, which continue to decline as a share of GDP, but growth in pensions. Given its modest growth over the last decade or so, it's worth noting that the labour share of GDP also rises when the profit share declines, and profitability has been waning in parts of the corporate sector in recent years.

- » The growth in the share of temporary and contract jobs also restrains income growth, and polarizes incomes within the labour share.
- » Profits (net operating surplus) have been declining as a share of the economy, though corporations have increased their consumption of fixed capital, another form of corporate compensation. Both revenues and operating margins of the corporate sector are up overall since the recession, and there are enduring pockets of resilience (finance, real estate, construction, education and health care, air transportation, and alcoholic beverage and tobacco production) that continue to strongly outpace the overall decline in profitability.

FIGURE 1
Labour and Corporate Share of GDP | Canada, 1961-2017



Source: Statistics Canada, CANSIM Table 380-0063.

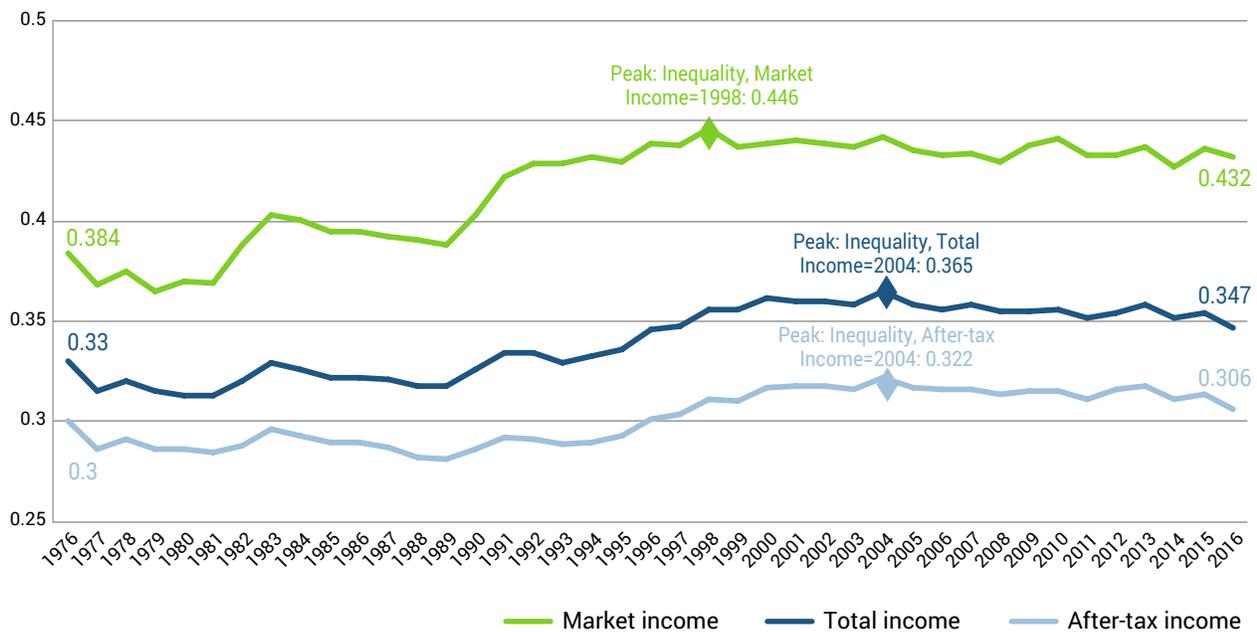
39 International Labour Organization and OECD (2015) "The Labour Share in G20 Economies." <https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>.

» But the fall in global commodity prices has led to a drop in operating profit margins for important industrial sectors such as oil and gas extraction, mining and quarrying. Other industrial sectors like utilities and retail have seen profit margins squeezed by rising competition for market share that is not growing organically through consumer demand. The bullish banking and real estate sectors have not been enough to offset that pinch, economy-wide.

INCOME INEQUALITY

Incomes have become more unequally distributed over the past 40 years as the distribution of earned opportunities and the industrial composition of the economy have shifted. Canada has a rather offbeat story again as compared with other advanced economies. While income inequality is at near its highest level on record, it has not become appreciably worse in the last 16 years or more, as measured by the Gini coefficient.⁴⁰

FIGURE 2
Inequality, Measured by the Gini Coefficient, Adjusted for Household Size, Three Measures of Income | Canada, 1976-2016



Source: Statistics Canada, CANSIM Table 206-0033.

⁴⁰ Its value ranges between 0 (completely equal distribution of income across the entire population) and 1 (a single person has all the income). The formula used to derive this number is better suited to measuring changes in the middle of the distribution than at the tails of the distribution, but it is perhaps the most commonly utilized measure in the study of trends in income distribution. Income data lag by at least 18 months. At time of publishing (April 2018) the most recent income data available was for 2016. These data measure trends in household income, not individual income, because the majority of Canadians live with others; though the percentage of people living alone is rising (28 per cent of households were people living alone in 2016, up from 7.4 per cent in 1951 [Statistics Canada (2017) "Families, households and marital status: Key results from the 2016 Census." <http://www.statcan.gc.ca/daily-quotidien/170802/dq170802a-eng.htm>].)

- » While taxes and transfers⁴¹ reduce the level of income inequality in Canada, they have not reversed its direction, which is driven by trends in market incomes. This includes earnings, returns on investments and private pensions. The key component is earnings.
- » Over time, women's rising education and employment rates have led to better pay, thereby improving household incomes.⁴² This effect has plateaued in the last decade.
- » Robust income growth from job opportunities in the resource-rich provinces of Alberta, Saskatchewan and Newfoundland and Labrador have offset a continued increase in income inequality, using this measure. This effect has also diminished more recently.
- » Irrespective of the strength of these market-driven forces over the course of the 1990s and 2000s, nothing has been a sufficiently strong driver of growth in household income to result in significantly less income inequality.
- » Without the boom effect of the oil-and-gas led energy sector and women's increasing participation in the paid labour market, it is unclear what will offset income inequality in future.

41 Market incomes include earnings, self-employed income, returns on investments, and private pensions. Total incomes include market income plus income supports ("transfers") from governments. After-tax incomes include income from all sources minus personal income taxes paid.

42 Statistics Canada measures household incomes at the national level by adjusting for household size (one, or more people). Over time, aggregate household incomes have risen as a result of the additional labour force participation by women in households of more than one adult, which are the majority.

» COMPLICATING FACTORS

The Rise of the I-World: More customized realities, fewer collective experiences, more challenges to the social ecosystem

One of the features of modern life is the manner in which more and more people are islands unto themselves, unmoored from the political, social and cultural institutions which historically provided a sense of belonging and attachment. Voter turnout rates, attendance at religious services and union memberships have all dropped significantly in recent decades.⁴³ Increasingly, mobile devices, laptops and flat-screen TVs enjoyed from the comfort of one's own home are the basis for our social connections.⁴⁴ Canadians aged 18 to 34 spend 34 hours a week online (compared to 24.5 hours for all Canadians), which leaves little room for real-life interactions.⁴⁵

This atomization coincides with the ongoing emergence of the gig economy (a 2016 survey found that 8 per cent of Americans reported taking on tasks through digital platforms within the past year)⁴⁶ and an army of contingent, just-in-time workers who deliver our food, walk our dogs and assemble our furniture.

At the same time, income inequalities are increasingly manifesting in spatial dimensions, creating low- and high-income neighbourhoods with fewer mixed income neighbourhoods. This means we increasingly don't mix, mingle and go to school with people who differ from us.⁴⁷ Our online lives further exacerbate the echo chamber of our lived experience, as we go online to be affirmed, not challenged, by new perspectives or ideas.⁴⁸ This homogenization of ideas means a less diverse and less robust social ecosystem that over time will only become more stagnant and prone to failure.

How can we adapt policies and programs premised upon a particular understanding of societal and economic relationships when those relationships are increasingly at the level of the individual and are constantly linked and re-linked in new ways? Deliberate efforts at cross-pollination of lived experiences and viewpoints are crucial to overcoming this constant state of flux.

43 Elections Canada (2017) "Voter Turnout at Federal Elections and Referendums." <http://www.elections.ca/content.aspx?section=ele&dir=turn&document=index&lang=e>; David Korzinski (2017) "Religion, Faith and the Public Square." *Angus Reid Institute*. <http://angusreid.org/religion-faith-public-square>; Statistics Canada (2017) "Canadian Megatrends: Unionization rates falling." *The Daily*. <http://www.statcan.gc.ca/pub/11-630-x/11-630-x2015005-eng.htm>.

44 See: Robert D. Putnam (2000) "Bowling Alone: The Collapse and Revival of American Community." Simon and Schuster.

45 Aly Thomson (2017) "Concerns raised as report suggests Canadians spending more time online." *The Globe and Mail*, 21 March 2017, <https://www.theglobeandmail.com/news/national/concerns-raised-as-report-suggests-canadians-spending-more-time-online/article34360751/>.

46 Aaron Smith (2016) "Gig Work, Online Selling and Home Sharing." In *Internet & Technology*, Pew Research Center. <http://www.pewinternet.org/2016/11/17/gig-work-online-selling-and-home-sharing/>.

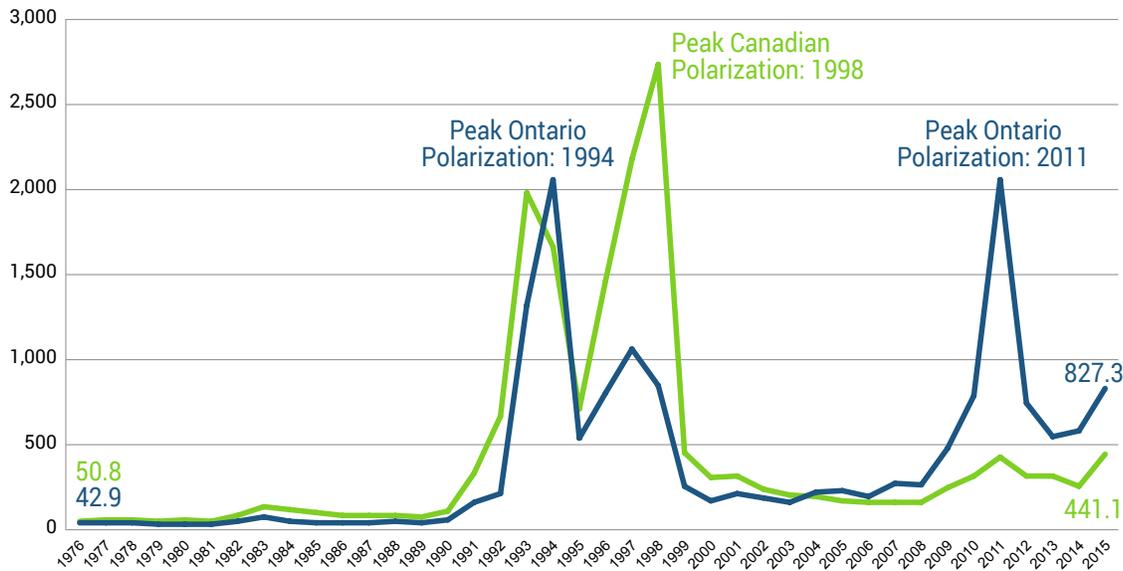
47 Mihaela Dinca-Panaitescu et al. (2017) "The Opportunity Equation in the Greater Toronto Area: An update on neighbourhood income inequality and polarization." United Way Toronto and York Region. https://www.unitedwaytyr.com/file/2017_Opportunity_Equation_Update_Low-Res.pdf.

48 Walter Quattrociocchi (2016) "Echo Chambers on Facebook." SSRN. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2795110.

POLARIZATION OF INCOMES

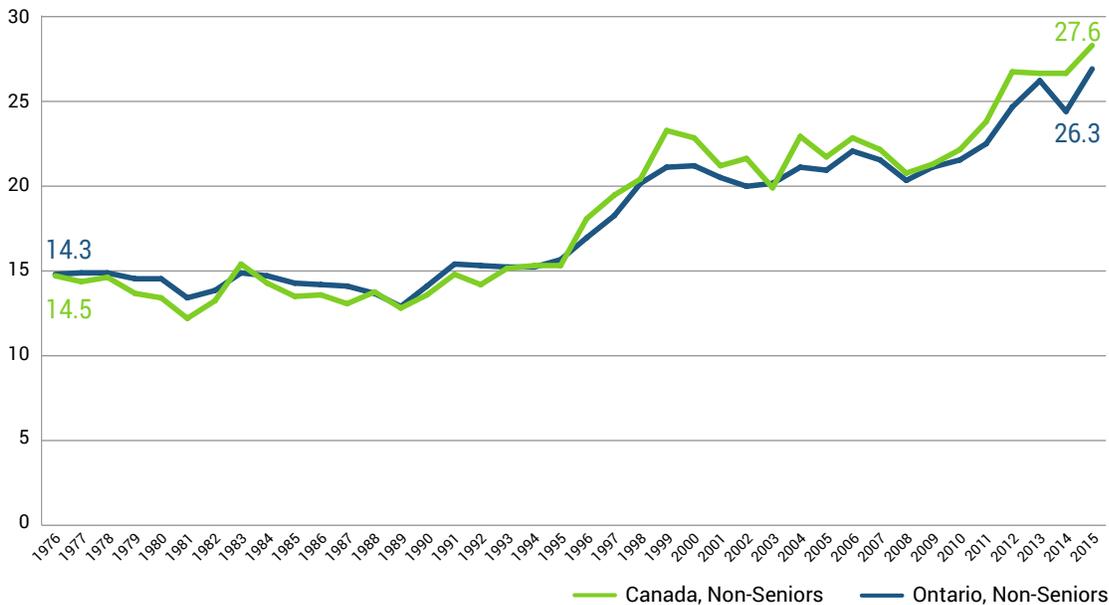
While the Gini coefficient has remained relatively constant for a long period in Canada, the polarization of income, measured by the ratio of top incomes to bottom incomes, continues to rise. This measure relates the incomes of the 90th percentile to that of the 10th percentile, as a ratio.⁴⁹

FIGURE 3
Market Income Polarization (P90:P10 Ratio) | Canada and Ontario, Non-Seniors, 1976-2015



Source: Statistics Canada, Custom Tabulation from Canada Income Survey.

After-Tax Income Polarization (P90:P10 Ratio) | Canada and Ontario, Non-Seniors, 1976-2015



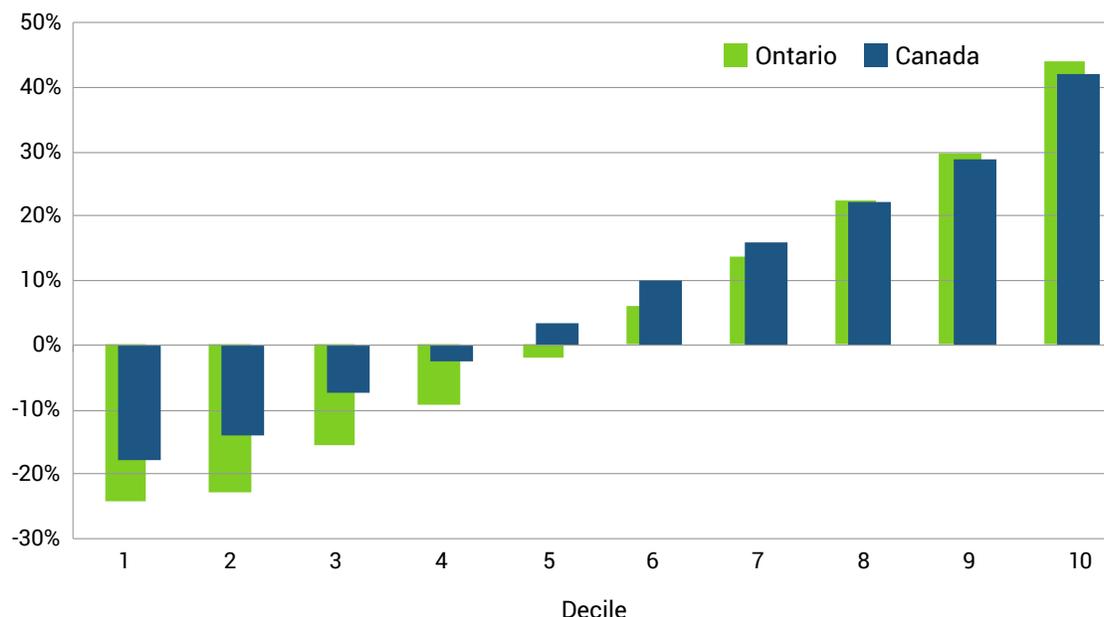
Source: Statistics Canada, Custom Tabulation from Canada Income Survey.

49 Because these trends are driven primarily by the evolution of earnings through the labour market, the following charts only look at non-senior households, comparing polarization in market incomes to that of after-tax incomes, which include the redistributive functions of transfers (income support programs) and income taxes.

- » In Canada market incomes tend to grow far more polarized during recessionary periods. This is mostly because the incomes of those at the bottom of the income distribution fall more steeply, as more people become unemployed. The tax and transfer system moderates the recessionary spikes, but does not reverse the trends.
- » Notwithstanding regional variations, today's after-tax income polarization is at the highest level on record among non-senior households in Canada and Ontario. BC had the most polarization of after-tax income among non-senior households in 2015, followed by Ontario. Only three provinces have seen higher levels of after-tax income polarization earlier than the most recent data point (Manitoba in 2006, Saskatchewan and Alberta in 2013).

- » The biggest concern in this trend is not income growth at the top of the income spectrum, but incomes that were, by 2015, still below 2008 levels (adjusted for inflation) for the bottom 40 per cent of non-senior households across Canada, and the bottom 50 per cent in Ontario, in both market and after-tax income terms. Those in the bottom 10 per cent have seen the greatest loss of incomes since the recession, even in after-tax terms. The average after-tax incomes of the bottom 10 per cent of non-senior households fell from approximately \$10,000 to approximately \$7,500 between 2008 and 2015 in Ontario, and from approximately \$9,500 to \$7,500 Canada-wide.
- » By comparison, average after-tax incomes of non-senior households in the top 10 per cent took a one or two year hit after the recession, but had more than regained the lost ground by 2015, rising from \$187,400 to \$198,000 between 2008 and 2015 across Canada, and from \$202,300 to \$206,100 in Ontario. (All figures are inflation-adjusted and rounded to the nearest \$100.)

FIGURE 4
Percentage Change in Average Incomes between the Periods of 1976-79 and 2012-15 for Income After Tax (2015 \$'s) by Decile | Non-Senior Economic Households, Canada and Ontario



Source: Statistics Canada, Custom Tabulation from Canada Income Survey.

These most recent trends reinforce a longer, generational trend of income polarization. After-tax incomes of the bottom 50 per cent of Ontario's non-senior households are lower today than in a similar non-recessionary period in the late 1970s, adjusting for inflation. (This comparison is based on a four year average of incomes in both periods.)

For Canada as a whole, the bottom 40 per cent of non-senior households have less income, on average, than 40 years ago, when inflation is taken into account.

SHRINKING MIDDLE CLASS

There has been much debate as to whether the middle class is shrinking in Canada, as it has been in the US and other rich industrialized nations. The short answer for Canada is: "yes...but with some important caveats." The equivocation is due to the degree of disagreement over how to measure the middle class, and whether our concern should be the entire population or the non-senior working-age population, on whose shoulders the fates of children and seniors – the latter a growing portion of society – largely rest.

» We hold constant the values of decile thresholds in 1980, adjust them for inflation over time, and look at the proportion of households that fit in each income category over time. This helps clarify whether, over time and compared to a generation ago, there are more people at the bottom (bottom 30 per cent), the middle (middle 40 per cent), or at the top (top 30 per cent). The economy has more than doubled in real (inflation-adjusted) terms since then. Was that enough to shift people out of the bottom, "grow the middle class," and move more people into the top over time?

» When measured by market incomes (that is, before any taxes or government assistance), there was a smaller share of the population with the "middle" incomes of 1980 (adjusted for inflation). While many Canadian households have moved up to the top third of the income ladder compared to a generation ago (34 per cent instead of 30 per cent), there are also more households that have moved to the bottom third (34 per cent instead of 30 per cent), leaving a smaller group in the middle in 2015 than in 1980 (32 per cent instead of 40 per cent).

» One trend that could influence the growth in the number of households falling into the bottom third of the income distribution over time is related to the fact that there has been a steady increase in the proportion of people living on their own over time, from 25 per cent of the population in 1976, to 36 per cent by 2015.

» The trend of a shrinking middle is most pronounced among non-senior households (only 28 per cent of non-senior households now have market incomes in the inflation-adjusted middle-income band that accounted for 40 per cent of such households in 1980), with both more people in the bottom and top thirds of the income distribution. This erosion of the middle is even more stark in Ontario, where incomes that supported the middle 40 per cent in 1980 accounted for only 21 per cent of the non-senior working-age population in 2015. Two factors contribute to this shrinking middle. One is the erosion of market income for households in the bottom third of the income distribution, and in the bottom half of the middle – in total the bottom half of the income distribution. The other is the growing number of households with dual (or more) earners as compared to the past, which nudges them into the higher earning income threshold.

» In terms of after-tax incomes, the trends are softer but the same:

»» Among non-senior households there are fewer households in the middle, but more at the top and the bottom, whether Canada-wide or in Ontario.

»» Across the entire population (i.e., including seniors), a smaller share of the population is in the bottom third; a smaller share of the population is in the middle; and a larger share of households are in what used to be the top 30 per cent of the income distribution.

»» Isn't that good news? Yes, and that's because seniors are doing far better today than they were in the 1980s, due to higher incidence of seniors with workplace-based pensions in 2015 than in 1980, more seniors with more generous private pensions, and better public income supports for seniors.⁵⁰ But when seniors are taken out of the mix, there are more households at both extremes of the distribution. Incomes that used to flow to the richest 10 per cent of working-age households now are enjoyed by 21 per cent of the working-age households; and incomes with which the poorest 10 per cent of working-age households had to struggle are now a reality for 13 per cent of today's working-age households. In Ontario, these trends are bigger: 22 per cent instead of 10 per cent now enjoy "top" incomes; and 15 per cent are struggling with the same income that the bottom 10 per cent lived on in 1980, adjusted for inflation.

»» The hollowing of the middle for non-senior households is all the more striking since the shift upward is propelled by working-age families with children under 18. For this group, income thresholds that used to describe the top 10 per cent in 1980 now account for the top 32 per cent in Ontario and the top 49 per cent in Canada. That's because so many of these households now have two earners working at or near full-time hours compared to 1980; and more single parents are employed as well. The "woman-as-breadwinner" effect has clearly improved the incomes of families with children over the course of a generation.

»» However, at the other end of the income spectrum, by 2015 the share of families with children living within incomes below that which defined the bottom 30 per cent in 1980 hadn't declined very much, in either market or after-tax terms despite the fact that parents were spending more time in the paid labour market in 2015 as compared to 1980. In fact, the decline in the proportion of households with children in the poorest 30 per cent was smaller in after-tax terms than in market terms, meaning growth in taxes paid offset the growth in earned income and income supports for the poorest families.

»» The impact of transfers (income supports) and taxes reduces the polarization of family incomes, and programs of redistribution are having to do more work to soften that trend across Canada and in Ontario. But attenuating polarization is not the same as "growing the middle class." Using 1980 as the reference point, we see fewer households in the middle of the income distribution by 2015 after taxes and transfers, and more at both the top and bottom of the distribution among non-senior households. Among seniors and

⁵⁰ Given the reduction in the incidence of provision of workplace-based pension benefits since the 1990s, and the shift from defined benefits to defined contributions, this golden senior's moment is unlikely to remain the case in 15 years, by which time most boomers will have retired.

families with children under 18, over the course of 35 years there were fewer people in the middle after taxes and transfers, but also fewer in the bottom. For seniors this was because of larger pensions and transfers, and for families with children under 18 primarily due to parents spending more time in the paid labour market.

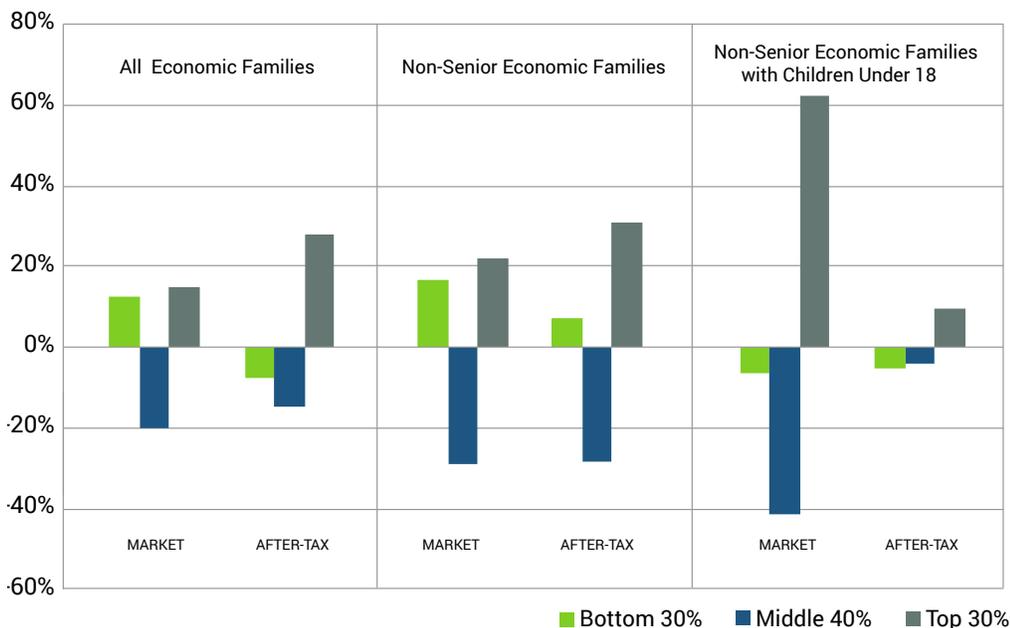
»» Importantly, the recent past has reinforced this trend at the national level. Between 2007 and 2015, more households moved from bottom to middle, and from middle to top, Canada-wide. This is exactly what one would hope economic growth can achieve, and exactly unlike previous recessions, where most household incomes tended to shift down the income spectrum for years after the recession. Does that mean that most people are doing better in Canada, notwithstanding a major recession?

»» Sadly, not really. The Canada-wide gains mask strong regional differences, and are driven mostly by the rapid growth of incomes in Saskatchewan, Newfoundland and Labrador, and Alberta. Canada’s three largest provinces have seen far less substantial gains at the top between 2007 and 2015; and at the bottom of the distribution, Ontario and Quebec saw little or no reduction in the proportion of households living on incomes under the threshold for the poorest 30 per cent of households in 1980. And in BC, the share of these poorest households grew between 2007 and 2015.

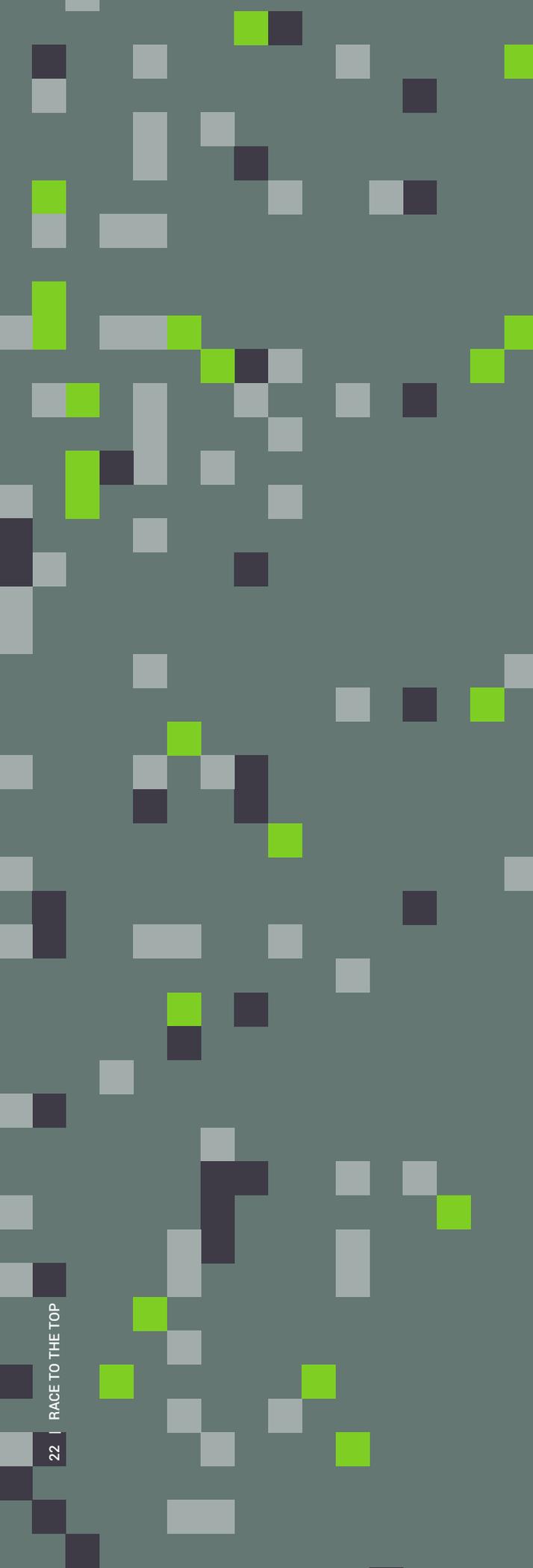
» Without a resource boom, significant increases in the hours worked per household, or broad-based wage growth, it is hard to see where a growing “middle class” will come from, even one based on 1980s standards.

FIGURE 5

A Shrinking Middle: Changes in the Proportion of Canadian Households in the Bottom, Middle and Top of the Income Distribution in 1980, by 2015 (inflation-adjusted)



Source: Statistics Canada, Custom Tabulation from Canada Income Survey.



AVERAGE AND MEDIAN HOUSEHOLD INCOMES

(Market Incomes vs After-Tax Incomes, for different household/family types)

Trends in average incomes have become decoupled from trends in median incomes over time, as averages are increasingly driven by what's happening at the top of the income spectrum. Median market incomes fell across Canada (by 5 per cent) and in Ontario (by 8 per cent) between 1980 and 2015, except for families with children under 18, who increased the amount of paid work per household. Government income supports have largely offset this trend for median households Canada-wide, and mostly offset it in Ontario. However, if government supports are needed to stabilize household incomes at the half-way mark of the income distribution in 2015, it raises the question of what it will take to meet the challenges of the future, if the focus remains on income redistribution.

- » Another way to assess how the middle class is faring is to review trends in average and median incomes. Median incomes (the incomes at which half the population has less income and half has more) have risen more slowly than average incomes over the course of a generation, and particularly in the years since the recession of 2008/2009. The difference between median and average incomes has consequently grown over the course of a generation. The average income no longer represents the income of the “average” household, if that entity could be described.
- » Median after-tax household incomes for all Canadian households, including seniors, rose from \$50,700 to \$56,300 from 1976 to 2015, 11 per cent more, after accounting for inflation. For non-senior households,

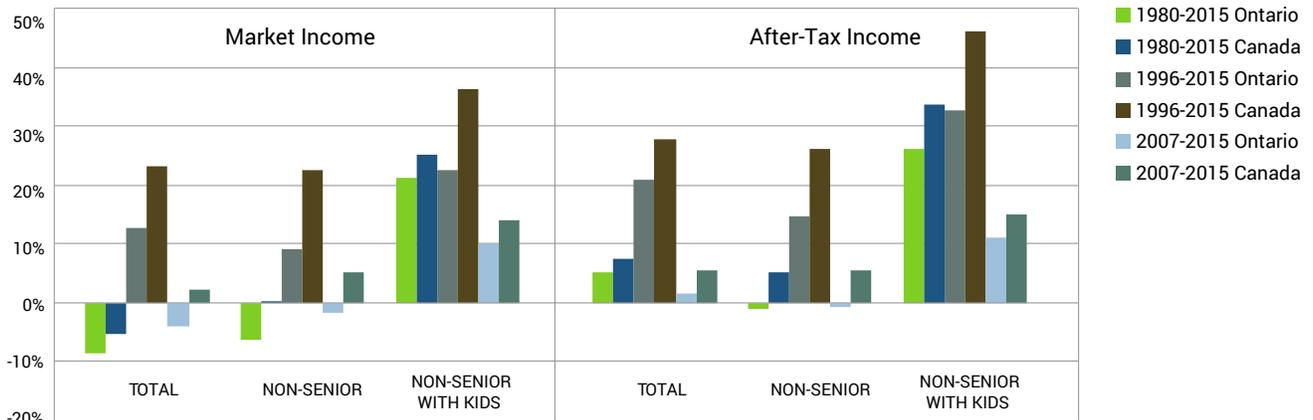
median after-tax income rose from \$55,500 to \$60,000 in that same period, an 8 per cent increase. Among non-senior households with children under 18, median after-tax income saw the biggest growth in this period, from \$62,500 to \$85,300, a 36 per cent increase.

» Average after-tax household income for all Canadian households, including seniors, accelerated much more quickly because of growth in incomes at the top of the distribution. It rose from \$56,700 to \$69,400 from 1976 to 2015, adjusting for inflation, a 22 per cent rise or double the pace of growth of median incomes

for all Canadian households. For non-senior households, average after-tax income rose from \$60,600 to \$72,200 in that same period, an increase of 19 per cent instead of 8 per cent for the median. Among non-senior households with children under 18, average after-tax income rose from \$69,000 to \$95,200, a 38 per cent increase, which is more in line with the increase in median incomes for households with children.

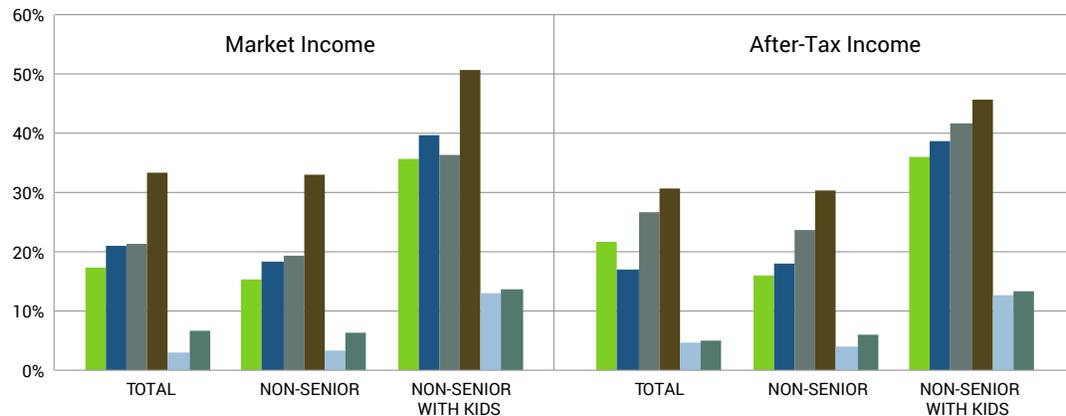
» Ontario's median and average after-tax household incomes start at higher levels, but the rate of growth of income in all categories has been slower than at the Canada-wide level

FIGURE 6
Growth in Median Incomes, Market and After-Tax | By different household types and in different time periods, Canada and Ontario



Source: Statistics Canada, Custom Tabulation from Canada Income Survey.

Growth in Average Incomes, Market and After-Tax | By different household types and in different time periods, Canada and Ontario



Source: Statistics Canada, Custom Tabulation from Canada Income Survey.

over the 39-year period, resulting in convergence around, or just a little above, the Canada-wide levels. That's because jurisdictions with lower pay and income levels in commodity-rich jurisdictions (like Newfoundland and Labrador and Saskatchewan) saw a faster pace of growth in pay rates.

» Canada-wide growth has outstripped Ontario's growth in both average and median household incomes for most of the last 39 years on record. This is particularly true since the recession, because the oil- and resource-rich parts of the country enjoyed a more robust pace of both employment and wage growth for a time.

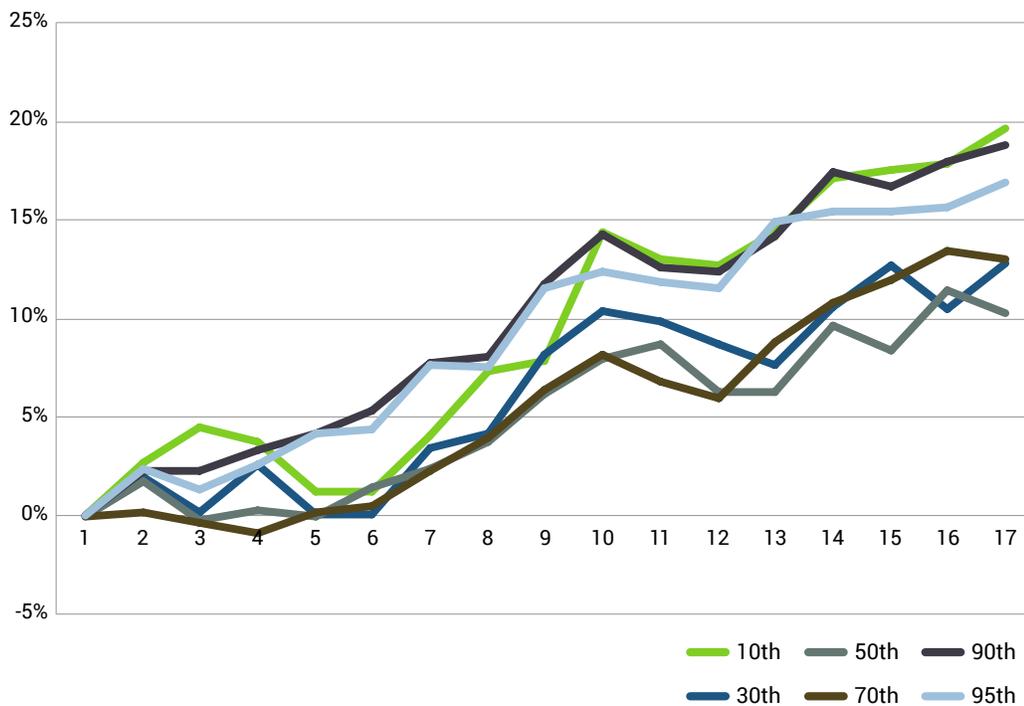
» Since the 2008/2009 recession, the average annual rate of growth in median and average incomes has slowed in all regions, but everywhere growth in average incomes outpaces that of median incomes, which have essentially stalled out in the last few years at the national level.

» By 2015, only non-senior households with children saw even modest growth in median household incomes across Canada.

» The growth that occurred in average incomes is because of gains in the upper deciles, not broad-based growth.

FIGURE 7

High-wage earners have consistently seen the fastest wage growth through the 2000s, but the worst paid earners have also seen important wage growth since the 2008 crisis | Cumulative percent change in real hourly wages by wage percentile, Canada 2000-2016



Source: Statistics Canada, Custom Tabulation from Labour Force Survey.

WAGES BY DECILE (Canada vs US)

Trends in household incomes are primarily driven by paid work. Earnings are a function of both time spent in the labour market and the rate at which people are paid. Given the vast majority of workers put in full-time hours, trends in wage rates are increasingly of concern to central banks and governments all over the world, because of their effects on aggregate purchasing power as well as the distribution of that purchasing power.

In the US, the highest-paid employees saw the biggest wage gains, while the rest of the workforce has barely seen any increase between 2000 and 2015. Canada has, again, a different narrative: while our best paid employees are also seeing the fastest wage growth, the poorest paid are seeing a comparable pace of gains in recent years, albeit from a much, much lower base, resulting in far less money in their pockets. Additionally, wage increases throughout the entire distribution were about triple that of the US between 2000 and 2015. This is largely because of the export boom in commodities earlier in the period, as well as the shifting industrial composition of the economy towards relatively better paid jobs in sectors like finance, real estate, construction and education/health services.

» A recent study by the Economic Policy Institute⁵¹ shows that wage growth in the United States has been concentrated among the highest wage earners, which is in contrast to trends in Canada.

- » While both the 90th and 95th percentile of earners outpaced most workers' wage growth since 2000 in Canada as well, the 10th percentile (near the bottom of the income distribution) has also rivalled that pace of growth in recent years. The major reasons for more rapid wage growth in Canada than in the US between 2000 and 2016 were in the oil and gas, mining and quarrying and construction sectors of the economy (all heavily unionized); growth in the real estate, finance and health and education sectors; and, finally, changes in employment standards regulations in most provincial jurisdictions, which enforced minimum wage increases beyond inflation.
- » Growth has been far more inclusive in Canada than in the US, using the metric of wage rates, and looking at cumulative growth since 2000, after adjusting for inflation. But the weakest growth in wage rates was at the median (the half-way point of the distribution) in Canada; and, generally, the pace of wage growth has been slowing in Canada. It is to this reality that we now turn our attention.

51 Elise Gould (2017) "The State of American Wages 2016." Economic Policy Institute. <http://www.epi.org/publication/the-state-of-american-wages-2016-lower-unemployment-finally-helps-working-people-make-up-some-lost-ground-on-wages/>.

This study examines data on trends for all workers aged 18-64, excluding unincorporated self-employed. The Statistics Canada data examine trends for all employees aged 15 and over, and excludes all self-employed.

» COMPLICATING FACTORS

The power dynamic between business and labour is shifting to business

The labour share of national income in G-20 countries has been falling steadily since the 1980s, overturning conventional orthodoxy that a stable labour share was an accepted fact of economic growth.⁵² Labour's share of income declined in 26 of 30 advanced economies between 1990 and 2009, and this drop for G-20 nations averaged 0.3 percentage points annually between 1980 and the late 2000s.⁵³

In Canada the story is much the same, with labour's share of GDP standing at 50.6 per cent in 2017, down from 54.4 per cent in 1977, while corporate compensation as a share of GDP stood at 23.2 per cent in 2017, up from a trough of 16.3 per cent in 1992.⁵⁴ Why does this matter? If the labour share of national income is declining, there are risks that economic growth will not necessarily lead to household income growth.⁵⁵ Since household consumption and purchasing power is the primary driver of most economies (currently accounting for 57.5 per cent of GDP in Canada), this development alone could slow economic growth. Furthermore, inequality can grow within a smaller labour share of the economy; and higher shares of national income in capital are associated with greater inequality of income distribution, as returns to capital tend to be more highly concentrated within the economy.⁵⁶

Firms are accumulating a growing share of national income, and yet aren't investing it back in their workers. Canadian employers invest roughly 1/3 less in staff training in 2015 than they did in 1993.⁵⁷ Nor are they investing in R&D or other productivity-enhancing investments in machinery and equipment and ICT. Canada is well below US firms on these measures, at 49 per cent, 65 per cent and 53 per cent of US levels respectively.⁵⁸ What then are the benefits of corporations accumulating a growing share of wealth vis-à-vis labour? Policy prescriptions focused on corporate tax reductions may need to be revisited in light of evidence that suggests that firms aren't using these cuts to re-invest in their workers

52 ILO and OECD (2015) "The Labour Share in G20 Economies." <https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>.

53 Ibid.

54 Sunil Johal and Jordann Thirgood (2016) "Working Without a Net: Rethinking Canada's social policy in the new age of work." Mowat Centre. https://mowatcentre.ca/wp-content/uploads/publications/132_working_without_a_net.pdf.

55 ILO and OECD (2015) "The Labour Share in G20 Economies." <https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>; Atkinson, 2009.

56 ILO and OECD (2015) "The Labour Share in G20 Economies." <https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>; Thomas Piketty (2013) "Capital in the Twenty-First Century." Éditions du Seuil, Harvard University Press.

57 The Conference Board of Canada (2015) "News - Turning a Corner: Canadian Employers' Investments in Employee Learning and Development on the Rise." 10 December 2015, http://www.conferenceboard.ca/press/newsrelease/15-12-10/Turning_a_Corner_Canadian_Employers_Investments_in_Employee_Learning_and_Development_on_the_Rise.aspx?AspxAutoDetectCookieSupport=1.

58 Bill Currie and Lawrence W. Scott (2013) "The future of productivity: A wake-up call for Canadian companies." In *Future of Canada series*, Deloitte Canada. <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/insights-and-issues/ca-en-insights-issues-future-of-productivity-2013.pdf>.



or themselves to the extent needed to compete in increasingly global marketplaces.⁵⁹

Digital firms are exacerbating these trends. Facebook, Apple, Intel, Amazon, Microsoft and Alphabet have a market capitalization accounting for 13 per cent of the entire S&P 500, compared to only 5 per cent for the those same companies without Facebook (which wasn't yet a public company) in 2007.⁶⁰ These firms together have a market capitalization approaching \$3 trillion, and their dominance over sectors ranging from retail to apps to search engines is well-known.

Yet, despite their economic importance as measured by market capitalization and revenues, these companies need fewer workers than corporate giants of the past. And that shifts the meaning of their economic importance. For example, AT&T was America's most valuable corporation in 1964, worth USD \$267 billion (adjusted) with 758,611 employees. By comparison, Apple, worth \$750 billion, has 80,000 workers in the United States while Alphabet is valued at USD \$570 billion with only 75,000 employees.⁶¹ The mega-firms in today's digital economy have fewer workers to generate personal tax revenue and are adept at negotiating sweetheart deals with jurisdictions willing to shelter their corporate profits.⁶² Their ability to drive highly lucrative returns to scale and to re-engineer new marketplaces towards networks rather than products also raises significant

questions about how to ensure a competitive balance between corporate and labour interests in the digital world.⁶³

59 The New York Times (2018) "Well-Heeled Investors Reap the Republican Tax Cut Bonanza." 25 February 2018, <https://www.nytimes.com/2018/02/25/opinion/investors-republican-tax-cut.html?smid=tw-nytopinion&smtyp=cur>.

60 Tyler Durden (2017) "Just These Five Companies Account For 28% Of The S&P's 2017 Returns." ZeroHedge, 28 April 2017, <http://www.zerohedge.com/news/2017-04-28/just-these-five-companies-account-28-sps-2017-returns>.

61 Elizabeth Gurdus (2017) "Apple's investing \$1 billion to expand US jobs—here's how many it's created so far." *CNBC*, 4 May 2017, <https://www.cnbc.com/2017/05/04/heres-how-many-jobs-apple-has-created-so-far.html>. ; Derek Thomson (2015) "A World Without Work." *The Atlantic*, July/August 2015 Issue, <https://www.theatlantic.com/magazine/archive/2015/07/world-without-work/395294/>; Rani Molla (2017) "Alphabet has nearly doubled its headcount since 2013 to more than 75,000." *Recode*, 24 July 2017, <https://www.recode.net/2017/7/24/16022210/alphabet-google-employment-employees-doubled-headcount>.

62 Rochelle Toplensky (2017) "Amazon and Apple hit by EU tax crackdown." *Financial Times*, 4 October 2017, <https://www.ft.com/content/69ee1da6-a8ed-11e7-93c5-648314d2c72c>.

63 Marco Iansiti and Karim R. Lakhani (2017) "Managing Our Hub Economy." *Harvard Business Review*, September-October 2017 Issue, <https://hbr.org/2017/09/managing-our-hub-economy>.

AVERAGE AND MEDIAN HOURLY WAGES OF EMPLOYEES

The pace of growth in pay rates has slowed dramatically across Canada in recent years, driven by the slowing pace of economic growth in resource-rich provinces like AB, NL and SK. Today, there is virtually no increase in market-driven purchasing power for Canadians, with wage gains matching or falling behind inflation. The purchasing power of hourly pay rates has been declining for younger Canadians for some time. Without wage growth, it will be difficult to shake off “slowth” - slow or no growth in the economy. While “slowth” is not recessionary, it is a drag on output and future potential, as over 57 per cent of the Canadian economy is propelled by household consumption.

» Figure 8 compares growth in average hourly earnings, which includes higher-earning occupations, with growth in median hourly earnings, which represents rates of pay above and below which half the job market works.

» Over time, both trends show that increases in rates of pay were slowing by 2017; they barely kept ahead of inflation, as measured by CPI.

» These aggregate trends mask important distinctions between workers from different age groups. Inflation-adjusted wage rates of older workers (55+) have seen the least increase in purchasing power over the past 20 years, with declines in many years since the post-2008 crisis. Younger workers (15-24) have seen the most gain in purchasing power between 1997 and 2017, but based on very low rates of pay. And median wages of 25-54 year olds lost as much ground in 2017 as they did in 2011 (which was when the full impact of the recession hit this age group in terms of wage rates), while increases in average pay have slowed significantly since the recession of 2008-9.

FIGURE 8
Annual Growth Rate of Inflation-Adjusted Hourly Wages - Average and Median, All Jobs, Canada, 1997-2017



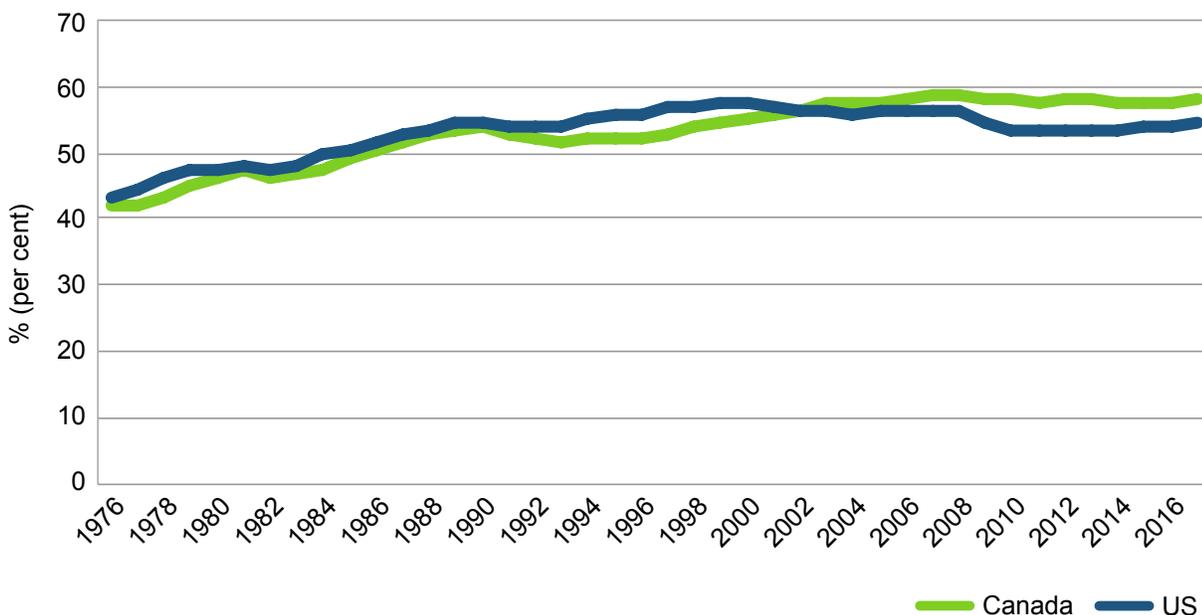
Source: Statistics Canada, CANSIM Tables 282-0151 and 326-0021.

- » Increases in the national average have been spurred by strong wage growth from Alberta, Newfoundland and Labrador, and Saskatchewan, a result of the rapid expansion of the oil and gas sector over the past decade or so.
- » While innovation and technology play an important role in advancing economic potential, it is difficult to achieve economic growth without growing purchasing power, given that most economies are primarily fuelled by domestic consumption.
- » In Canada, household spending drove 57.5 per cent of the economy in 2017, a new record high based on consistent measures of GDP since 1961. Meanwhile, wages and salaries continue to fall as a share of GDP. If wage-led growth becomes difficult to achieve, it will be hard to shake off “slowth.”

LABOUR FORCE PARTICIPATION AND EMPLOYMENT RATES (Canada vs US)

Another feature in the “Canadian exceptionalism” narrative that has accounted for more inclusive growth and less inequality is the impact of women’s rising role in the paid work force. Canadian women traditionally lagged American women’s participation in the labour market, but the situation has reversed since 2000. Women of child-bearing age (25-44) have always worked considerably more than women of all ages (15 and older) and this group of women saw employment rates rise from 50 per cent to 78.6 per cent between 1976 and 2017. But it is mathematically impossible to fuel another 57 per cent growth over the course of the next generation, as there is simply not enough labour “surplus.” That makes what happens to pay rates an increasingly important economic, as well as social, issue.

FIGURE 9
Women’s Employment Rate, Canada and US, 1976-2017



Source: Statistics Canada, CANSIM Table 282-0002; Bureau of Labour Statistics (<http://www.bls.gov/cps/cpsaat02.htm>). Note, in Canada labour force is 15 years and over; in US 16 years and over.

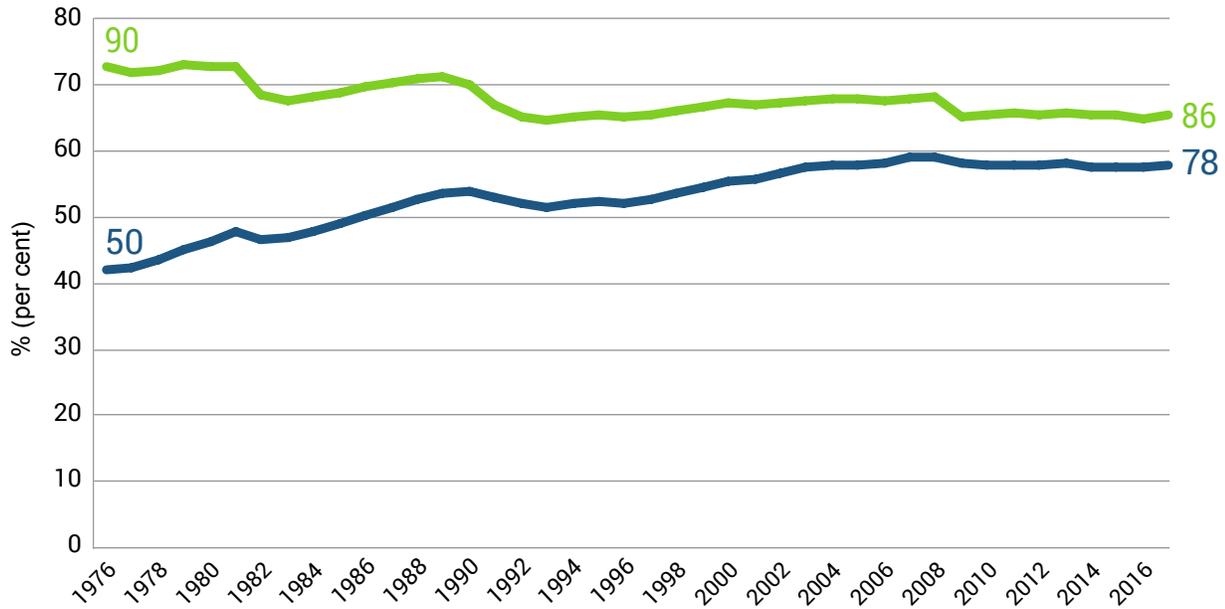
- » One of the ways Canadian households have been able to achieve more inclusive growth than the US, for example, is through women's increasing role in the paid labour market. Since 2000, Canadian women's employment rate has eclipsed that of their American counterparts, and it has stayed that way since.
- » Some theories as to why that happened include: access to more affordable post-secondary education, which permits greater investments in human capital development, and more access to affordable child care than in the US, which permits them to use that human capital.
- » The biggest driver of these trends — and the most challenging for both women and their families, as well as for public policy — is the degree to which women of child-bearing age in particular have increased their labour force participation rates and their rates of employment.

With men's employment rates continuing to decline, and the gap between male and female employment rates closing, the gender wage gap is beginning to emerge as a critical economic, as well as social, issue. The 2018 federal Budget noted that achieving gender equity in the Canadian economy could add \$150 billion to GDP by 2026;⁶⁴ but this will not occur without greater supports to create more affordable access to regulated and licensed early childhood education and care facilities.

64 Government of Canada (2018) "Budget Plan." <https://www.budget.gc.ca/2018/docs/plan/toc-tdm-en.html> based on Sandrine Devillard et al. (2017) "The Power of Parity: Advancing Women's Equality in Canada." McKinsey Global Institute. <https://www.mckinsey.com/~media/McKinsey/Global%20Themes/Women%20matter/The%20power%20of%20parity%20Advancing%20womens%20equality%20in%20Canada/MGI-The-power-of-parity-Advancing-womens-equality-in-Canada-Full-report.ashx>.

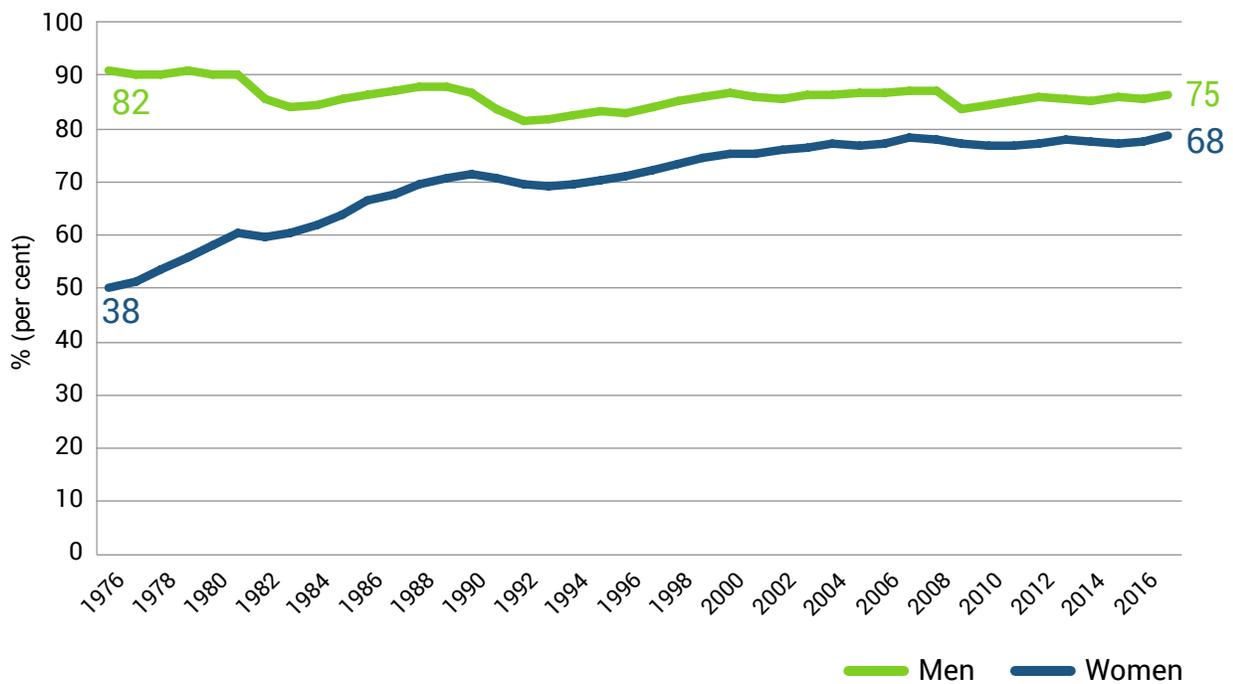
FIGURE 10

Employment Rate: Men and Women, 25-44, Canada 1976-2017



Source: Statistics Canada, CANSIM Table 282-0002.

Employment Rate: Men and Women, 45-65, Canada 1976-2017



Source: Statistics Canada, CANSIM Table 282-0002.

Men Women

GENDER WAGE GAP, BY EDUCATIONAL ATTAINMENT (Canada and Provinces)

Across Canada, there has been a modest reduction in the gender wage gap over the past two decades. However, the trends show large variations. While there are clear benefits to having better education, working in a province with a robust economy and being neither young nor old, the gender wage gap has not consistently fallen in circumstances where these traits hold; nor has the gender wage gap consistently fallen for the new cohort of prime-age workers. Disturbingly, reductions in the gender wage gap have stalled out or the gap has widened since 2011, particularly for workers aged 25 to 44 for almost all categories of educational attainment. (The exception is for those with only high school completion).

The average female hourly wage has gradually increased relative to the average male hourly wage, Canada-wide, from 1997 to 2017 – rising from 81.5 per cent of the average male hourly wages to 86.7 per cent. (This does not include self-employed workers.) This trend includes women and men of all educational levels and all ages of workers, but there are some important and surprising sub-themes in this narrative covering 20 years:

- » The gender wage gap is largest in resource-rich provinces (Alberta, Newfoundland and Labrador, and British Columbia) and smallest in eastern provinces (Prince Edward Island, Nova Scotia, and New Brunswick), jurisdictions where the hourly wages are much lower for all residents.
- » The gender wage gap has shrunk the most (in order) in Nova Scotia, New Brunswick and Manitoba and improved the least in British Columbia, Newfoundland and Labrador and Saskatchewan.
- » The gender wage gap has widened in Newfoundland and Labrador, Quebec and PEI in recent years (mostly since 2011). Ontario's wage gap narrowed more rapidly than the Canadian average over the 20-year period, but that progress has faltered in recent years.
- » The gender wage gap is largest among the least-educated workers, but is showing modest improvement, Canada-wide.
 - »» Among workers with less than high school, women's average hourly wages were 76.9 per cent of men's in 2016, up from 73.4 per cent in 1997. This represents the Canada-wide average for all ages of workers.
 - »» The gender wage gap for workers with less than high school closed more rapidly than any other educational sub-groups, including those with above-Bachelor's degrees. However...
 - »» The gender wage gap for workers with less than high school grew in Saskatchewan and for prime-age workers (25-44) in Ontario since the recession in 2008/2009.
 - »» The gender wage gap for workers with less than high school among prime-age workers (25 to 44) has varied a lot since the recession Canada-wide, with increases in women's relative wages in New Brunswick, but declines in Saskatchewan. The changes are more driven by trends in male wages than in female wages.
- » The gender hourly wage gap is smallest among the best educated workers (with more than a bachelor's degree), having touched or slightly exceeded parity in every province except Ontario and Alberta at some time between 1997

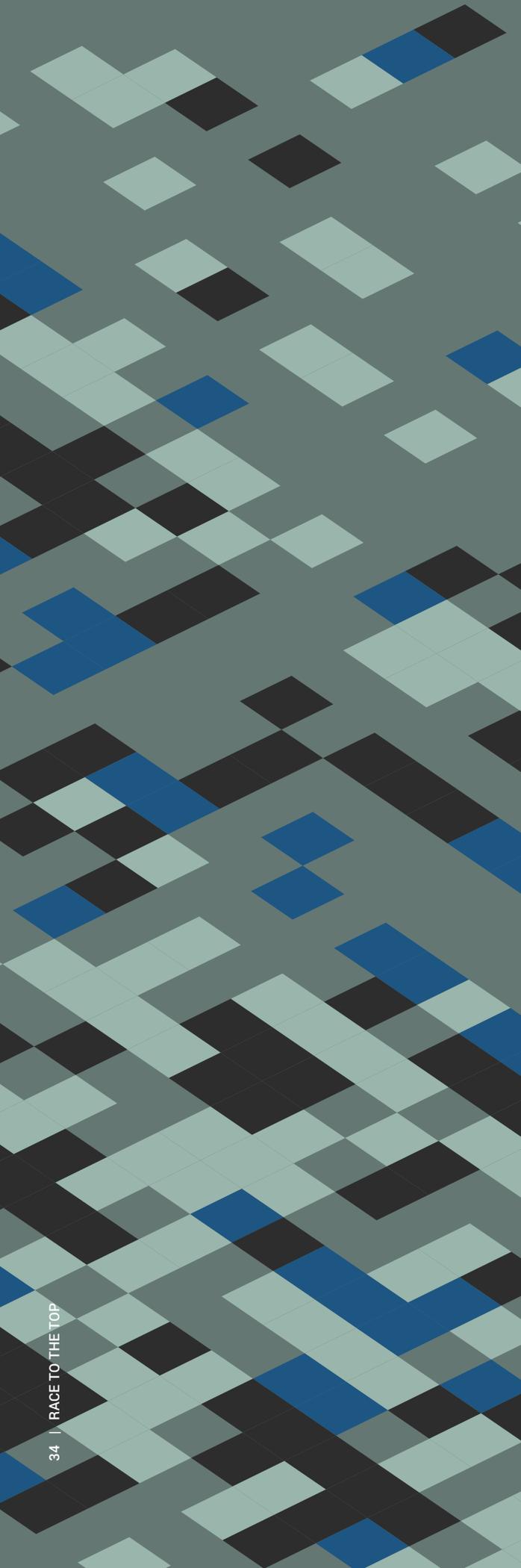
and 2016; but the situation has deteriorated, particularly for workers aged 25 to 44 (falling from 95.1 per cent in 2011 to 90.6 per cent in 2016). Quebec and Ontario have seen the greatest increases in the gender wage gap among people with the most education in the wake of the recession.

- » Among all of the categories of educational attainment, the gender wage gap has been widening for both those with a post-secondary certificate or diploma and those with more than a bachelor's degree since 2011. For those with a bachelor's degree, there has been no further progress in narrowing the gender wage gap since 2011.
- » Though prime-age workers (25 to 44) have less gender disparity in wages than all workers (aged 15 and older), there has been little progress in narrowing the wage gap for this age group since 2011. What progress there has been for Canadian workers as a whole is a result of improvements in the gender wage gap among young workers (under 25) and older workers (45 and older). Why progress in gender parity is stalling among 25-44 year olds, but continuing to slowly improve among all workers, requires further research.
- » A smaller gender wage gap can occur because of improvements in women's wages or deterioration of men's wages. Across Canada, the main reason the gender wage gap has closed was because women's wages improved faster than men's, overall.
- »» The greatest improvements in women's wages occurred, in order, in Alberta, Saskatchewan, Newfoundland and Labrador, and Nova Scotia. For men, the fastest wage gains were also in Alberta, Saskatchewan, Newfoundland and Labrador. Newfoundland and Labrador was the jurisdiction with the fastest wage growth for prime-aged workers (25 to 44).

»» The slowest wage growth for women was in British Columbia and Ontario. British Columbia was the only jurisdiction in which wage gains of male prime-age workers (25 to 44) outstripped those of females in every category of completed post-secondary education (certificates and diplomas, university degrees, degrees above Bachelors).

»» With the exception of Manitoba and Nova Scotia, men with post-secondary certificates and diplomas saw similar or faster wage gains than women with the same educational attainment, particularly in the prime-age workforce (25 to 44).

In summary, there has been a modest reduction in the gender wage gap in Canada over the past two decades, but there has been no consistent improvement by educational attainment in jurisdictions where there has been rapid economic growth or across a new cohort of prime-age workers. As a result, it cannot be assumed that the gender wage gap will eventually close simply because of greater investment in human capital, market forces or the ineluctable process of intergenerational change.



Summary

Canada's story of inclusive growth has been better than that of many nations since the recession of 2008/2009, but the forces that have driven this phenomenon appear to have run their course due to a variety of factors:

- » It does not appear that the commodity boom is returning to propel the economy anytime soon.
- » The future of export-led growth is uncertain given geopolitical realities.
- » Domestic growth is hampered by wage growth that has stalled out.
- » It is unclear how much increased investment in education will yield higher incomes and how broad-based those benefits will be.
- » There is a mathematical limit to increasing women's rates of paid employment that is not far off.

Looking at these trends across a generation, we see that it cannot be assumed that we can reverse or even offset pressures towards greater inequality through the mechanisms that have worked in the past: greater investment in human capital, more paid work effort, the realignment of our industrial base or simply the ineluctable process of intergenerational change.

This raises big questions as to how to produce more inclusive growth more consistently. What kinds of strategic choices could optimize how markets perform and how governments shape markets? What kinds of policies could generate inclusive growth in the early 21st century? The following sections examine a broad suite of measures that could improve outcomes through both pre-distribution and redistribution.

Slowing growth
and technological
change increase
the urgency of
putting the goal of
inclusive growth
at the centre of
efforts to improve
market outcomes
and government
effectiveness.

4 POLICY OPTIONS TO DRIVE INCLUSIVE GROWTH

The goal of inclusive growth is to find a virtuous cycle, where success breeds success, success is widespread and there is less need for government intervention to propel the momentum. This section explores a range of policy options that can shape both how markets perform and how, where markets aren't performing optimally, governments can play a vital redistributive role in society.

These options are presented as a menu – no single option would on its own lead to a more inclusive Canada, but each one can be a part of a suite of policies to move forward towards a more inclusive Canada. Many of the options are within the mandate of governments, while others lie at the individual, community or business level.

The challenge of generating inclusive growth does not require us to completely overhaul our economic system. Nor does it mean we should throw our hands up and say that there's nothing we can do in the face of global trends in globalization and technology. The challenge does, however, require us to think creatively about specific policies and suites of policies, which is the intention of the following scan, organized under the categories of pre-distribution and redistribution.

Pre-distribution: Shaping how markets perform

This section offers a typology for changing practices in the market, looking at the types of change as well as the agents of change. Market performance can be shaped by: skills and education-led growth; wage-led growth; profit-led growth; public infrastructure-led growth; private-sector investment-led growth; statutory/public policy reform-led growth; or trade-led growth. Any of these processes can be targeted to enhance inclusive growth, with a variety of change agents leading the charge: individuals, businesses, communities or governments.

SKILLS AND EDUCATION-LED GROWTH

Individual

» As more people attain professional and academic certifications, individuals are also looking at **“badging,” focused skills upgrading**⁶⁵ in specific, targeted areas. (Examples include: How to install a door rather than a full trades course; elements of the Canadian Securities Course rather than the whole program; a writers’ or marketing workshop; an online tutorial in R coding.) Such coursework can be paid or free. Some courses have more recognition with respect to the subject matter, some because of the source of the training.

Community

» The community provides resources, supports and substance to inclusive growth. Communities are the sites for **incubator projects** for entrepreneurs working in clusters and learning from one another. Communities often self-organize to provide **English (or French)**

as a **Second Language** courses, **immigrant settlement services** and **continuing/adult education programs** long before public funding comes along. Such community-driven measures often cannot be sustained for long – and, consequently, cannot build on success⁶⁶ – without long-term core funding.

Business

» Businesses often decry the skills mismatch between what the labour market offers and what they need. One reason is the fall in on-the-job training.⁶⁷ Businesses can see improved results by providing **more on-the-job training** and mentoring of new workers; greater **paid leave** for more **long-term formal formation** of workers; and more **shorter-term professional development opportunities**. Paid internships should replace unpaid internships for students and young graduates.

65 The definition of badging originates in the IT world (though its application is not limited to that sector), see: Bill Snyder (2016) “IT badges: A new path to better pay?” InfoWorld. <https://www.infoworld.com/article/3081309/certifications/it-badges-a-new-path-to-better-pay.html>; and how employers see them: Jordan Friedman (2016) “What Employers Think of Badges, Nanodegrees from Online Programs.” U.S. News & World Report, 22 January 2016, <https://www.usnews.com/education/online-education/articles/2016-01-22/what-employers-think-of-badges-nanodegrees-from-online-programs>.

66 See, for example: Leah F. Vosko (2006) “Precarious Employment: Understanding Labour Market Insecurity in Canada.” McGill-Queens University Press.

67 Simon Cotsman and Colin Hall (2018) “Learning Cultures Lead the Way: Learning and Development Outlook—14th Edition.” The Conference Board of Canada. <http://www.conferenceboard.ca/e-library/abstract.aspx?did=9398>.

WAGE-LED GROWTH

Individual

- » The most common way people use to improve wages is to change jobs, but there is a growing focus on how to **negotiate better wages and benefits**. The rise of **open documentation tools** permits more individuals to compare the cost of hiring people with the same skills. **Sunshine lists** in the public sector permit comparisons within organizations at the top levels of compensation. The 2018 federal budget announced new pay transparency requirements with regard to compensation practices by gender for corporations in the federally-regulated sector, which covers 1.2 million workers (about 6 per cent of the Canadian workforce).⁶⁸
- » Some **publicly traded corporations** publish information about top management compensation⁶⁹ and there is movement to pressure more information on employment and compensation practices of the entire workforce to be made public. A handful of corporations do so as a corporate social responsibility measure. The website **Glass Door**⁷⁰ permits comparisons of interviewees and workers experiences.
- » **Platform technologies and technologies that are used to track telework** offer a channel for workers to communicate, compare work hours and rates or pay, and to **negotiate better terms for the individual or (more effectively)**

as a group.⁷¹ The biggest barrier to cross in such conversations is **breaking the taboo of discussing how much you make or asking how much someone else makes**.

Community

- » **Platform technology** is being used to form new **platform cooperatives**⁷² and networks; and some unions are using it to **organize workers** by linking them to one another through the technology.⁷³ Similarly, platform technology could be used to create a 21st century version of mutual aid circles for service provision, as **blockchain** technology removes the need for intermediaries.⁷⁴

Business

- » **Gender wage parity** remains an elusive target, but there is increasing pressure for employers to show they are proactively meeting these demands. Employers that systematically train people and move them through the pipeline of talent⁷⁵ and provide **career-laddering opportunities**, from paid internship up, make it easier for people to maximize their potential... and harder to want to leave.

68 Government of Canada (2018) "Budget Plan." pp. 44. <https://www.budget.gc.ca/2018/docs/plan/toc-tdm-en.html>.

69 Claire Suddath (2017) "Why Can't Your Company Just Fix the Gender Wage Gap?" *Bloomberg Businessweek*, 21 June 2017, <https://www.bloomberg.com/news/features/2017-06-21/why-cant-your-company-just-fix-the-gender-wage-gap>; See retail banker Virgin Money Holdings Plc, which operates mostly in the US, and British asset manager Schroders Plc.

70 Glassdoor Website: <https://www.glassdoor.ca/index.htm>.

71 See, for example, Turker Nation Website: <http://turkernation.com/>.

72 See, for example, Platform Cooperativism Website: <https://platform.coop>.

73 See, for example, Fair Crowd Work Website: <http://faircrowd.work/>.

74 See, for example: JP Buntinx (2015) "Harnessing Blockchain Technology To Create DIY Governance 2.0." *The Merkle*. <https://themerke.com/harnessing-blockchain-technology-create-diy-governance-2-0/> and European Commission (2017) "Event - Blockchain for social good | Launching Horizon prizes of EUR 5 million." <https://ec.europa.eu/digital-single-market/en/news/blockchain-social-good-launching-horizon-prizes-eur-5-million>.

75 See: Amy Bell (2017) "Bias in the talent pipeline starts before school." *Financial Times*, 26 September 2017, <https://www.ft.com/content/a89228e2-76d7-11e7-a3e8-60495fe6ca71> and Julie Briggs (2018) "3 Ways Your Talent Pipeline Maximizes the Recruiting Budget." *PandoLogic*. <https://www.pandologic.com/employers/3-ways-talent-pipeline-maximizes-recruiting-budget/>.

» COMPLICATING FACTORS

While Canadian consumers are happy to use the digital services of firms headquartered abroad, they are likely to resist paying taxes on these services. This message was heard loud and clear by policymakers as the Canadian Radio-Television and Telecommunications Commission insisted Netflix should play on an equal footing to domestic content providers by paying taxes on revenues collected in Canada. But customers balked at the idea of paying more, simply in order to level the playing field. Firms providing “over the top” services via the internet that are perceived to be “utilities” (digital diet staples, like Netflix or Google or Amazon) can consequently play at an advantage if they are headquartered outside Canada. Whose rules should apply when globe-straddling digital corporations can seamlessly shift operations to a jurisdiction where they pay low or no tax?

Our place-based conceptions of who provides us with goods and services, and our ability to tax and regulate these entities during the course of that provision, is being tested in the digital era. We are all, disparately, trying to come to grips with how to move forward as cities, provinces or nations in what is an increasingly borderless and global reality, dominated by a handful of large multinationals, a situation that begs for international coordination of regulations and rules.

Government

- » Governments at all levels should be model employers, leading by example to ensure every member of their workforce is paid a **living wage**, including those who are contracted to work for the public sector; **minimizing the use of temporary work**, rather than using it as a way to reduce costs; **pro-rating benefits for part- and full-time workers** so there is no advantage to hiring a part-timer (or replacing full-time workers with part-time workers); **enforcing pay equity and employment equity targets**.
- » In sectors that are known for poor wages and working conditions, establish sectoral bargaining.⁷⁶ Introduce or enforce joint liability provisions in labour standards to reduce the practice of risk-shifting by companies by subcontracting work.

76 See: Ethan Phillips (2018) “The unfinished business of labour law reform in Ontario: A strategy for implementing sectoral bargaining.” Canada Fact Check. <https://canadafactcheck.ca/bill148ontariolabourlawsectoralbargaining/> and Law of Work (2016) “The Model of Sectoral Collective Bargaining Everyone is Whispering About.” <http://lawofwork.ca/?p=8574> for relevance in Ontario; The Institute of Employment Rights (2017) “Study: Exploitation of care workers demands action on sectoral collective bargaining.” <http://www.ier.org.uk/news/study-exploitation-care-workers-demands-action-sectoral-collective-bargaining-for-reduction-in-exploitation-of-vulnerable-workers-in-the-uk/>; and for limitations of the model: Dylan Matthews (2017) “Europe could have the secret to saving America’s unions.” *Vox*, 17 April 2017, <https://www.vox.com/policy-and-politics/2017/4/17/15290674/union-labor-movement-europe-bargaining-fight-15-ghent>.

PROFIT-LED INCOME GROWTH

Business

» **Profit-sharing**⁷⁷ is perhaps the best known incentive to boost the desire to build the company's performance in a way that will also boost the bottom line. Other mechanisms include workplace practices that **create and encourage innovation**⁷⁸ in both process and output. Whereas businesses are often competitors, sometimes **clustering** of corporate functionalities without formal mergers unlocks new potential.⁷⁹ Mechanisms that foster communication and exchange with other players and institutions such as university-based research institutes can lead to new opportunities.

Government

» In the wake of the global financial crisis of 2008, there has been a wave of corporate consolidation⁸⁰ that continues today, creating ever bigger globe-straddling corporate titans. Governments need to **boost their oversight** of monopolistic and oligopolistic corporations with regards to **anti-trust legislation, price controls and regulation, market access and privacy rules**.⁸¹

77 Government of Canada (2017) "Employees profit sharing plan." <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/special-payments/employees-profit-sharing-plan.html>.

78 Nina Sunday (2014) "How to Use Kaizen for Continuous Improvement in the Workplace." *LinkedIn Pulse*. <https://www.linkedin.com/pulse/20140610090246-4806191-how-to-use-kaizen-in-the-workplace-for-continuous-improvement>.

79 See: McKinsey & Company (2016) "Primer on technology superclusters and a fact base on Canada's Toronto-Waterloo Innovation Corridor." <https://www.mckinsey.com/~media/McKinsey/Global%20Themes/Americas/Tech%20North/Toronto-Waterloo%20Innovation%20Corridor%20white%20paper%20-%20fact%20base-20161213.ashx>.

80 Anastasia (2016) "A Historical Analysis of M&A Waves." *Cleverism*. <https://www.cleverism.com/historical-analysis-ma-waves-mergers-acquisition/>.

81 The Economist (2018) "New Titans and how to tame them." 18 January 2018, <https://www.economist.com/news/leaders/21735021-dominance-google-facebook-and-amazon-bad-consumers-and-competition-how-tame>.

» **Tax reforms** come close behind, requiring both more vigilant enforcement of rules for tax evaders and more concerted action across nations [OECD Base Erosion and Profit Shifting (BEPS) initiative]. Whereas there are some tentative steps to review the federal tax code, it is time to have a formal **review**, last undertaken by the Carter Commission (1966), to consider the integrity and purpose of the entire system of taxation.

PUBLIC INFRASTRUCTURE-LED GROWTH

Governments will spend more than \$700 billion dollars on public infrastructure investments in communities across Canada over the next decade. These infrastructure improvements will build the platform for future growth for families, communities and businesses across the country, but there are ways to make these dollars deliver double or even triple duty to taxpayers by using these expenditures to fuel opportunities for improvements in social and environmental objectives.

Individual

» A potentially important way to achieve these goals is through **community benefits agreements**. The degree to which this occurs depends on how engaged individuals in these communities become. Opportunities can emerge for training, jobs and procurement, as well as leveraging new resources to build additional public assets that can be enjoyed for decades, by:

»» Serving on **Boards of Directors** for schools, hospitals and locally-owned public utilities.

»» Getting involved in **Residents' Associations** or groups that use public space (for example cyclists).

Business Community

Communities that have undertaken assets and needs assessment or are organized (through organizations like residents' association, cycling clubs, immigrant community centres, etc.) will be positioned to take greater advantage of the wealth of public investment that will take place across Canada in the coming decade or more by negotiating more far-reaching **community benefits agreements**.⁸² These communities could see greater growth in economic, human and social capital, as well as better environmental and carbon-emission-reducing outcomes, as a result. CBAs can be informed by local business practices and initiatives through **Business Improvement Associations** and other local business interests.

PRIVATE INVESTMENT-LED GROWTH

Individual

» Individual shareholders can also shape market performance. There is a rising trend towards **shareholder activism** that permits individual shareholders with common purpose to join forces to push a corporation into more ethical behaviours or more environmentally or socially sustainable directions.⁸³

82 Institute of Fiscal Studies and Democracy (2017) "Community Benefits Agreements: Empowering Communities To Maximize Returns on Public Infrastructure Investments." University of Ottawa. <http://www.ifsd.ca/web/default/files/Presentations/Reports/17011%20-%20Community%20Benefits%20Agreements%20-%202017%20July%202017.pdf>.

83 See, for example, Shareholder Association for Research & Education Website: <https://share.ca/> and Responsible Investment Association Website: <https://www.riacanada.ca/>.

Community Benefit Agreements

Roughly \$700 billion in public investments in infrastructure will flow into Canada over the next decade – the largest investment in about half a century. If spent in the right way, these funds could drive progress in a number of policy objectives, ranging from greater energy efficiency to spurring inclusive growth. But the process of negotiating, implementing and evaluating community benefits that is associated with large-scale infrastructure investments is complex and takes time. Communities seeking to advance their own interests are typically not experts in sitting down at the negotiating table with experienced infrastructure experts.⁸⁴

Building and sustaining the capacity to advocate for, negotiate, and monitor the development of robust community benefits agreements will be a key factor in determining how much of the billions of dollars that public sector entities spend in the coming years will help achieve broader prosperity. It is possible to build community as we build community infrastructure, but this won't happen by accident. A purposeful commitment to developing capacity in communities, better contract language and a repository of experience will be key to learn as we do, and course-correct on the basis of our learnings over time.

84 Institute of Fiscal Studies and Democracy (2017) "Community Benefits Agreements: Empowering Communities To Maximize Returns on Public Infrastructure Investments." University of Ottawa. <http://www.ifsd.ca/web/default/files/Presentations/Reports/17011%20-%20Community%20Benefits%20Agreements%20-%202017%20July%202017.pdf>.

Community

» “Twin City”⁸⁵ models of interchange at the municipal level between, and even within, countries is a long-standing mechanism to spur innovation and trade by learning from and deepening relations with another city. These locally-rooted partnerships can also trigger a race to the top on a series of objectives, such as the adoption of green policies, innovation clusters or living wages, all of which trigger long-term behavioural change at a society-wide level, unleashing the virtuous cycle of sustainable inclusive growth.

Business

» Some investors are getting more choosy about corporate practices, leading to the rise of corporate policies that stress social and environmental responsibility. Self-marketing through initiatives like **B-Corps**⁸⁶ (Benefit Corporations), and **shareholder activism** among pension fund holders⁸⁷ are pushing corporations to document how human and labour rights are assured throughout their supply chain, as well as how they promote the creation of “decent work”⁸⁸ at home. This is shaping where investments funds are flowing. The best example is the **global divestment movement**⁸⁹ of big foundations, universities and even some state enterprises, away from oil and gas extraction and towards renewable energy futures.

85 Wikipedia (2018) “List of twin towns and sister cities in Canada.” https://en.wikipedia.org/wiki/List_of_twin_towns_and_sister_cities_in_Canada.

86 B Lab Canada Website: <https://www.bcorporation.net/canada>.

87 See, for example, ShareAction Website: <https://shareaction.org/>.

88 Atkinson Foundation (2018) “How can we help you create more decent work?” <https://atkinsonfoundation.ca/community/atkinson-decent-work-fund/>.

89 DivestInvest Website: <https://www.divestinvest.org/>.

STATUTORY/PUBLIC POLICY REFORM-LED GROWTH

Business

» Being a model employer means walking the talk you want others to practice. Labour reforms should: change the definition of employee to include platform/digital/gig workers who are in a grey zone with regard to their status (currently viewed as independent contractors/self-employed); **anchor the minimum wage to 60 per cent of the average wage**⁹⁰ in the workforce, ensuring inclusive growth by making sure wage growth doesn’t become too skewed by changes at the top, the effective practice in a number of European states.⁹¹

» Additionally, require employers to offer **pro-rated benefits**⁹² for part- and full-time workers, so there is no systematically-produced benefit to hiring part-timers; modernize and enforce **employment equity and pay equity targets**; permit **sectoral and/or centralized bargaining**;⁹³ create a **registry of non-compliant employers**⁹⁴ to which workers can contribute and where they can easily access information.

90 Trish Hennessy et al. (2013) “Making Every Job a Good Job.” Canadian Centre for Policy Alternatives, Ontario. <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Ontario%20Office/2013/11/Making%20Every%20Job%20a%20Good%20JobFINAL.pdf>.

91 Line Eldring and Kristin Alsos (2012) “European Minimum Wage: A Nordic Outlook.” Fafo. http://www.world-psi.org/sites/default/files/fafo_report.pdf.

92 Ontario Ministry of Labour (2017) “Chapter 7: Changes to basic standards.” In *The Changing Workplaces Review – Final Report*. <https://www.ontario.ca/document/changing-workplaces-review-final-report/chapter-7-changes-basic-standards>.

93 Josh Mandryk (2014) “The Case for a Stronger Fair Wage Policy in Ontario.” Canadian Centre for Policy Alternatives, Ontario. https://www.policyalternatives.ca/sites/default/files/uploads/publications/2014/05/Fair_Wage_FINAL.pdf.

94 New Zealand has taken steps to create this type of model, see: Immigration New Zealand (2017) “News Centre - Non-compliant employer list implemented.” 27 March 2017, <https://www.immigration.govt.nz/about-us/media-centre/news-notifications/non-compliant-employer-list-implemented>.

TRADE-LED GROWTH

Business

- » Trade is often promoted as the way to grow the economy, with the focus on export-led growth. While outsourcing is one aspect of trade that can improve profitability but reduce broad-based growth, often overlooked is the role of trade in importing labour practices that can disrupt inclusive growth practices.
- » The most important way for Canadian companies to promote more inclusive growth is to limit their use of temporary workers, including **limiting the use of temporary foreign workers and migrant workers as a means of addressing a skill or labour shortage**. If Canadian workers cannot be found to do the job, then Canadian businesses must provide a business plan to show how the transition from reliance on an imported solution will be accomplished and how skills will be developed in the Canadian workforce.

Government

- » The growth of trade agreements as a means to facilitate temporary labour mobility without economic “tests” such as quotas or labour market assessments will make it harder for Canadian workers to compete for work within their own borders. The temporary entry chapters of free trade agreements are moving down the NOC (National Occupational Classification) spectrum, which ensures greater competition for jobs like construction supervisor, engineers, architects and landscape designers, etc. Domestic job creation and skills development programs will be profoundly challenged to meet citizens’ needs for work. **Immigration, trade and skills development policies need to be better integrated at the federal level.**

- » As the federal government engages in the renegotiation and “modernization” of NAFTA as well as implementing or ratifying more “progressive” trade pacts with Europe and the Trans Pacific nations, it should develop **worker equivalents of ISDS** (the Investor-State Dispute Mechanism) to protect communities from social “dumping”; and introduce enforceable multilateral mechanisms to ensure that trade produces a **“race to the top” in labour standards**, rather than a race to the bottom and lowest common denominator practices. As it stands, only one set of economic agents – investors – are protected in free trade deals.
- » **Trade agreements and other policies that encourage the use of temporary foreign workers and temporary economic entrants** [migrant workers] also must be **matched with more pathways to permanence** for those who wish to seek residence/citizenship in Canada.

“Progressive” trade agreements in practice

The Government of Canada has repeatedly expressed its desire to negotiate trade agreements that are ‘progressive’ in recent years. According to the Global Affairs Canada’s departmental plan for 2017-2018, Canada’s progressive trade agenda will “emphasize Canadian values, such as the promotion of human rights, gender equality, transparent and accountable governance and inclusive economic growth.”⁹⁵

The current NAFTA renegotiations are an important opportunity for the Canadian government to put this commitment into practice. The agreement has frequently been criticized for its regressive elements, and putting environmental, health and human rights objectives on the backburner. Foreign Affairs Minister Chrystia Freeland described elements that would make the trade deal progressive:

“In particular, we can make NAFTA more progressive first by bringing strong labour safeguards into the core of the agreement; second by integrating enhanced environmental provisions to ensure no NAFTA country weakens environmental protection to attract investment, for example, and that fully supports efforts to address climate change; third by adding a new chapter on gender rights, in keeping with our commitment to gender equality; fourth, in line with our commitment to improving our relationship with Indigenous peoples, by adding an Indigenous chapter; and finally by reforming the Investor-State Dispute Settlement process, to ensure that governments have an unassailable right to regulate in the public interest.”⁹⁶

It remains to be seen whether Canada will be able to achieve these ambitious goals through a renewed NAFTA agreement. Recent events indicate that the Canadian government has struggled to demonstrate the value of adding progressive elements to trade agreements to its trading partners, as evidenced by postponement of the TPP and halt in Canada-China free trade talks.

Although there are barriers to fully incorporating progressive elements into trade deals, there has been some success. In 2017, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union came into effect. Canada has called this the ‘most progressive trade agreement ever negotiated by Canada and the European Union.’ It includes provisions related to labour standards, environment, and greater ability for states to legislate in the interests of their health and safety.⁹⁷ Despite these provisions, the agreement has still been criticized for prioritizing corporate and investor interests over the public interest, and insufficient enforceable protections for labour rights and the environment.⁹⁸ The same has just occurred with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

95 Global Affairs Canada (2017) “Departmental Plan 2017-18.” http://international.gc.ca/gac-amc/publications/plans/dp-pm/dp-pm_1718.aspx?lang=eng#a6_1.

96 Global Affairs Canada (2017) “Address by Foreign Affairs Minister on the modernization of the North American Free Trade Agreement (NAFTA).” 14 August 2017, https://www.canada.ca/en/global-affairs/news/2017/08/address_by_foreignaffairsministeronthemodernization-ofthenorthame.html.

97 Global Affairs Canada (2017) “News Release - Minister of International Trade supports small and medium-sized enterprises with new quotas for EU cheese.” 1 August 2017, https://www.canada.ca/en/global-affairs/news/2017/08/minister_of_internationaltradesupportssmallandmedium-sizedenterp.html?wbdisable=true.

98 Scott Sinclair et al. (2016) “Making Sense of CETA.” Canadian Centre for Policy Alternatives. <https://www.policyalternatives.ca/publications/reports/making-sense-ceta-2016>.

Redistribution: Shaping government policies

There are three key ways that governments can deploy public policies to redistribute opportunity and access throughout society:

- » Public expenditures that either directly provide public goods and services (e.g., healthcare, affordable housing, child care) or provide access to purchase basic goods and services that aren't provided privately (e.g., electricity, water/sewage). While these interventions do not provide citizens with more income, they do serve to reduce consumption inequality by making services more accessible and/or affordable.
- » Transfers that directly provide citizens with income (e.g., the Canada Child Benefit, Employment Insurance and public pension programs).
- » Systems of taxation, which serve to fund the provision of goods and services, and can range from regressive to progressive in nature (i.e., shifting from taxing lower incomes at higher rates to taxing higher incomes at higher rates) and can tax income, consumption, wealth and property in a variety of ways.

Tax and transfer policies have been less redistributive in recent years compared to past decades, according to the OECD. Key reasons for the declines include reductions in benefits, tightened rules for eligibility and transfers not keeping pace with growth in household costs.⁹⁹

Redistribution plays an important role in impacting inequality. For instance, the EU and the US have similar levels of market inequality, but net inequality is much lower in the EU –its redistribution policies are believed to play an important role in smoothing out inequality.¹⁰⁰

In Canada, redistribution through taxes and transfers has proven to be quite effective in the past. In 1994, redistribution offset market income inequality by one-third, a peak for the 1976 to 2011 period.¹⁰¹ After 1994, however, policy changes at both the provincial and federal levels which reduced benefit rates for employment insurance and social assistance resulted in an increase in after-tax and transfer income inequality.¹⁰² More recently income supports for children and seniors have been enhanced; and there are pilots in several jurisdictions examining the feasibility and impact of a basic income for working-aged adults.

99 OECD (2017) "Making Innovation Benefit All: Policies for Inclusive Growth." <https://www.innovationpolicyplatform.org/system/files/Inclusive%20Growth%20publication%20FULL%20for%20web.pdf>.

100 Zsolt Darvas and Guntram B. Wolf (2016) "An anatomy of inclusive growth in Europe." Bruegel Blueprint Series. http://bruegel.org/wp-content/uploads/2016/10/BP-26-26_10_16-final-web.pdf.

101 Andrew Heisz and Brian Murphy (2016) "The Role of Taxes and Transfers in Reducing Income Inequality." Institute for Research on Public Policy. <http://irpp.org/wp-content/uploads/2016/01/aots5-heisz-murphy.pdf>.

102 Ibid.

While progressive taxation can help to promote inclusive growth, approaches that focus on the tax code can also encounter some important barriers, such as:

- » In general, the public considers the tax system to be unfair, with the perception that the rich are able to successfully avoid paying taxes. Indeed, 81 per cent of Canadian respondents to a recent survey reported they didn't think the top one per cent of Canadians paid enough in taxes, with nearly half indicating they believed politicians were influenced significantly by the richest Canadians.¹⁰³
- » Perceptions of inequality and fairness: A March 2017 study found that U.S. taxpayers changed their perceptions on fairness and distribution levels in the system when presented with more information on the tax code and data on what various income groups pay in taxes.¹⁰⁴ Similarly, another study looked at the inaccurate public perceptions of income distributions and how that affects views on redistribution. It noted that those who had overestimated their wealth in comparison to others were more likely to call for greater redistribution when provided with that information.¹⁰⁵ Greater transparency could increase public support for changes and preferences regarding redistribution levels and simplification in the tax system.
- » Greater concentration of wealth in the hands of high earners could mitigate the effectiveness of traditional approaches to tax and transfer redistributive policies. The concentration

103 Rebecca Joseph (2016) "Canadians believe richest 1% are skipping out on paying taxes: poll." *Global News*, 9 April 2016, <http://globalnews.ca/news/2628574/canadians-believe-richest-1-are-skipping-out-on-paying-taxes/>.

104 Vanessa Williamson (2017) "What Makes Taxes Seem Fair?" Tax Policy Center. <http://www.taxpolicycenter.org/publications/what-makes-taxes-seem-fair/full>.

105 Guillermo Cruces et al. (2011) "Biased Perceptions of Income Distribution and Preferences for Redistribution: Evidence from a Survey Experiment." Institute for the Study of Labor. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.418.7819&rep=rep1&type=pdf>.

of wealth among the top earners in Canada and the US was higher in the 2000s than at any point since the 1930s.¹⁰⁶ Some argue that increasing taxes on the top 1 per cent, particularly at a provincial level, would likely not yield expected tax revenue for reasons such as shifting assets to a different jurisdiction or access to high-priced tax accounting advice.¹⁰⁷ Yet, recent tax increases affecting the 1 per cent in provinces including Ontario, Quebec and New Brunswick have led to an increased share of provincial income taxes paid by those earning more than \$250,000 from 19.9 per cent to 25.7 per cent between 2009 and 2015.¹⁰⁸ Similarly, Statistics Canada data indicates an uptick in the top one per cent's share of all taxes paid, from 20.5 per cent to 22.2 per cent between 2014 and 2015.¹⁰⁹

Redistribution is set to become even more challenging in the years ahead, in an era of slow or no growth (i.e., "slowth") as the economic pie increasingly resembles a zero sum game, with every gain for some perceived as a loss for others. This type of environment is likely to also lead to a more polarized, fractious political context, which makes the introduction of new approaches increasingly challenging. New methods of redistribution that reflect this context as well as the increased mobility of workers and corporations must be considered.

106 Andrew Heisz (2016) "Trends in Income Inequality in Canada and Elsewhere." Institute for Research on Public Policy. <http://irpp.org/wp-content/uploads/2016/01/aots5-heisz.pdf>.

107 Kevin Milligan and Michael Smart (2016) "Provincial Taxation of High Incomes: The Effects on Progressivity and Tax Revenue." Institute for Research on Public Policy. <http://irpp.org/wp-content/uploads/2016/01/aots5-milligan-smart.pdf>.

108 Canada Revenue Agency (2018) "T1 Final Statistics." <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/t1-final-statistics.html>.

109 CANSIM Table 204-0001; Statistics Canada (2017) "High income trends of tax filers in Canada, provinces, territories and census metropolitan areas (CMA), national thresholds." <http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=2040001&&pattern=&stByVal=1&p1=1&p2=31&tabMode=dataTable&csid>.

REDISTRIBUTIVE OPTIONS TO SUPPORT INCLUSIVE GROWTH: TAXATION

- » **Taxing wealth at rates consistent with peer jurisdictions.** Canada is one of only seven countries in the OECD without an estate or gift tax (although the capital gains tax can apply in certain circumstances to estate transfers).¹¹⁰ Canada also does not tax capital gains stemming from property disposition fully, which leads to significant intergenerational wealth transfers that contribute to inequality.¹¹¹
- » **A review of all tax rates (i.e., corporate, personal, sales, property, etc.) focusing on high-earning individuals and firms, that aims to bring Canada closer to OECD average rates.** Canada has not undertaken a major review of the tax system since the Carter Commission in 1966. Over that time the nature of our economy and society has evolved dramatically, and issues such as income inequality have become major policy concerns. A range of commentators have called for a major review of Canada's tax system¹¹² and

110 Claire Young (2017) "Redistribution and inequality: How reforms to tax policy could help close the wealth gap in Canada." Canadian Centre for Policy Alternatives. <https://www.policyalternatives.ca/publications/monitor/redistribution-and-inequality>.

111 Ibid.

112 See for example: Fred O'Riordan (2018) "Why Canada needs a comprehensive tax review." The Globe and Mail, 8 January 2018, <https://www.theglobeandmail.com/report-on-business/rob-commentary/why-canada-needs-a-comprehensive-tax-review/article37529186/> and Michael Wolfson (2017) "Canada needs tax reform. Here's where Ottawa should look to improve the system." The Globe and Mail, 22 December 2017, <https://www.theglobeandmail.com/report-on-business/rob-commentary/is-canada-in-need-of-major-tax-reform/article37422427/>.

Base erosion and profit shifting (BEPS)

It is estimated that about \$100 to \$240 billion (USD) is lost in tax revenue each year due to base erosion and profit shifting by transnational corporations that exploit gaps and take unfair advantage of tax systems in different countries. To overcome this, G20 countries and the OECD jointly developed a BEPS package with comprehensive measures to tackle this issue in 2015. BEPS aims to bring governments across the world together to align domestic and international tax systems, and create a 'modern international tax framework.' In 2016, the Inclusive Framework (IF) on BEPS was established to provide equal opportunity for all interested jurisdictions to work together. Currently, over 110 countries have joined to develop standards and monitor implementation.¹¹³ Along with OECD and G20 countries, developing countries were involved in developing the package as well. BEPS sets out 15 actions to equip governments in addressing tax avoidance.¹¹⁴

It is expected that this global collaboration will lead to a reduction in tax avoidance, and particularly help developing countries that are frequent targets of such tactics. Early results from the BEPS initiative are already being seen – some 125 preferential tax regimes are currently under review and 10 have already been abolished or amended in line with the new rules.¹¹⁵

113 OECD (2018) "Inclusive Framework on BEPS: A global answer to a global issue." <http://www.oecd.org/tax/flyer-inclusive-framework-on-beps.pdf>.

114 OECD (2018) "About the Inclusive Framework on BEPS." <http://www.oecd.org/tax/beps/beps-about.htm>.

115 OECD (2017) "Inclusive Framework on BEPS: Progress report July 2016-June 2017." <http://www.oecd.org/tax/beps/inclusive-framework-on-BEPS-progress-report-july-2016-june-2017.pdf>.

the federal government campaigned on the need to review tax expenditures that benefit high-income earners, but the Department of Finance's work on the file has not yet been made public.¹¹⁶

One key objective of a major review should be an assessment of whether tax revenue is keeping pace with spending priorities. A recent study found that Canada ranked 25th of 35 OECD countries by total tax revenue as a percentage of GDP.¹¹⁷ Notably, countries at the top of the 'high-tax' rankings included Sweden, Denmark and Finland. Not coincidentally, the Nordic welfare model is often held up as the exemplar of how governments should invest more heavily in social programs – the four Nordic countries were all ranked in the top 6 of the World Economic Forum's most recent inclusive growth rankings for advanced countries.¹¹⁸

» **A corporate withholding tax** which targets the accumulation of cash reserves after a finite period could also be a way to incentivize firms to either invest in their workers and their own profitability (e.g., machinery and ICT investments) or be taxed at higher rates on unused funds. Evidence from G-20 countries demonstrates that corporate investment remained flat between 2000 and 2007 and then sharply declined after the global financial crisis.¹¹⁹ Canadian corporations were sitting on more than twice as much 'dead money,' as

former Bank of Canada governor Mark Carney once described corporate cash holdings, in 2012 compared to the mid-1990s, as a share of GDP. This type of approach would obviously need to be designed carefully to target cash hoarding rather than prudent reserves.

» **Exploring taxation models based on extraordinary profits and data usage.** It's not clear if existing approaches to monopolies will be sufficient to reign in the power of the new class of digital titans. Exploring new taxation models which recognize that certain 'natural monopolies' are not healthy and their extraordinary profits should be taxed more heavily based on rents is one option.¹²⁰ Alternatively, taxing the data these firms mine and monetize from individuals could be another means of garnering public tax revenue to fund programs and transfers.¹²¹

» **Greater emphasis on international tax treaties and agreements to stem base erosion and profit shifting.** The OECD and G-20 have led significant efforts on this front in recent years, with more than 100 countries collaborating on ways of ensuring corporations pay their fair share of taxes and that "profits are taxed where economic activities generating the activities are performed and where value is created."¹²²

Estimates put the impacts of BEPS on governments' tax revenue globally at between 4 and 10 per cent of corporate income tax revenues, or between USD \$100B and \$240B

116 Liberal Party of Canada (2015) "Growth for the Middle Class: The Liberal Fiscal Plan and Costing." <https://www.liberal.ca/wp-content/uploads/2015/09/The-Liberal-fiscal-plan-and-costing.pdf>.

117 Richard Shillington and Robin Shaban (2017) "The Brass Tax: Busting myths about overtaxed Canadians." Broadbent Institute. http://www.broadbentinstitute.ca/the_brass_tax.

118 Richard Samans et al. (2017) "The Inclusive Growth and Development Report 2017." World Economic Forum. http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf.

119 ILO and OECD (2015) "The Labour Share in G20 Economies." <https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>.

120 Robin Boadway and Jean-François Tremblay (2014) "Corporate Tax Reform: Issues and Prospects for Canada." Mowat Centre. <https://mowatcentre.ca/corporate-tax-reform/>.

121 Saadia Madsbjerg (2017) "It's Time to Tax Companies for Using Our Personal Data." *The New York Times*, 14 November 2017. <https://www.nytimes.com/2017/11/14/business/dealbook/taxing-companies-for-using-our-personal-data.html>.

122 OECD (2018) "BEPS Actions." <http://www.oecd.org/tax/beps/beps-actions.htm>.

annually (2014 figures).¹²³ The continued growth of the digital economy is likely to make tax evasion and avoidance challenges even more pressing as a policy and revenue priority for governments in the years ahead.¹²⁴

» **Consider adoption of a 'Robot tax.'** Some observers, including Microsoft co-founder Bill Gates, have suggested that a tax on robots could help address the impact of automation on the future of work.¹²⁵ This approach might serve to slow the spread of automation and its potentially negative impacts on the workforce, and also provide support for skills re-training efforts.

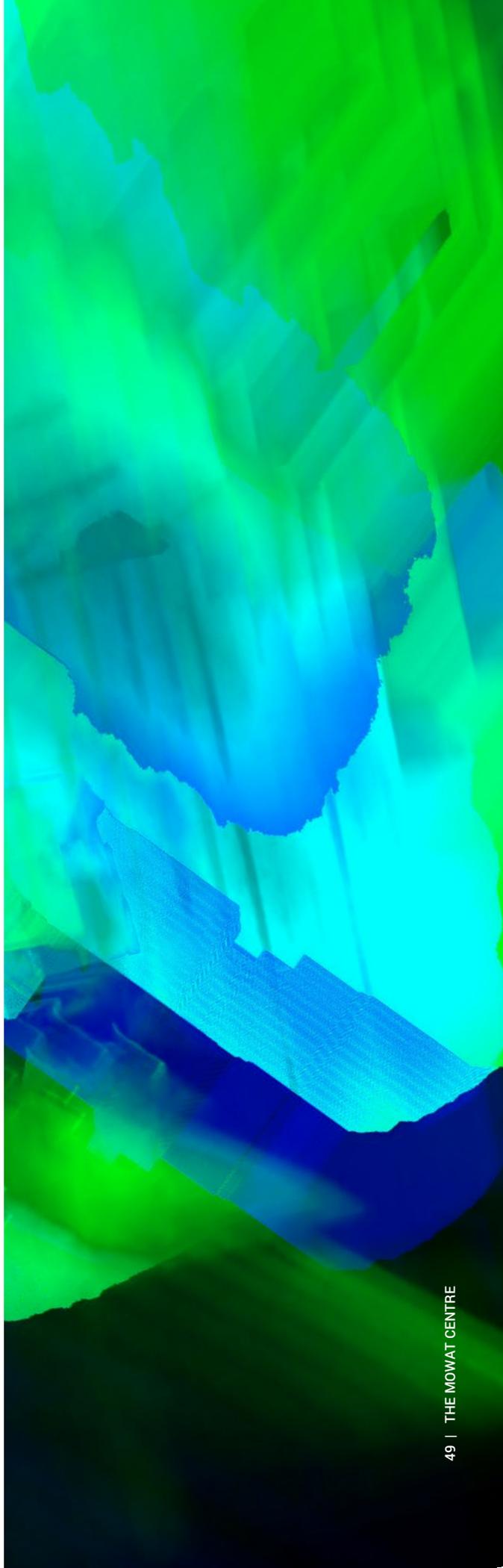
South Korea was the first country to introduce what could be considered a robot tax in August 2017. The country will limit tax incentives for investments in automation technology.¹²⁶ However, there are real questions as to whether taxing technological progress is a worthwhile endeavour, and even more practically how such a tax would work in a global marketplace where jurisdictions that don't adopt such an approach would then become far more attractive to technological innovations.

123 OECD (2017) "Inclusive Framework on BEPS Progress report July 2016-June 2017." <https://www.oecd.org/tax/beps/inclusive-framework-on-BEPS-progress-report-july-2016-june-2017.pdf>.

124 OECD (2015) "Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report." In *OECD/G20 Base Erosion and Profit Shifting Project*. <http://www.oecd.org/ctp/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report-9789264241046-en.htm>.

125 Kevin J. Delaney (2017) "The robot that takes your job should pay taxes, says Bill Gates." *Quartz*, 17 February 2017, <https://qz.com/911968/bill-gates-the-robot-that-takes-your-job-should-pay-taxes/>.

126 Cara McGoogan (2017) "South Korea introduces world's first 'robot tax'." In *Technology Intelligence, The Telegraph*, 9 August 2017, <http://www.telegraph.co.uk/technology/2017/08/09/south-korea-introduces-worlds-first-robot-tax/>.



» COMPLICATING FACTORS

The pace of change and technological possibility far outstrips the capacity to update regulations. Are we doomed to live in a world of Industry 4.0 vs Government 1.0? How can public safeguards become more timely and relevant?

Policymakers in Canada and most of the advanced world have the same broad set of tools at their disposal, whether regulation, taxes or laws. Levers such as legislation, regulatory frameworks and infrastructure development are typically undertaken with the expectation of long life-spans, measured in decades not years, and their genesis also takes time as appropriate due diligence is undertaken.

The increasingly fast-moving society we live in, rife with profoundly new technological possibilities emerging with lightning speed, confounds the planning horizons of government. Uber was the target of regulatory zeal in 2016 and 2017. By late 2017 governments were faced with the choice of being a test-destination for Uber's autonomous vehicles, or risk getting left behind. Difficult decisions often have to be taken more quickly than the usual pace of governments' deliberative processes.

We are also starting to see digital platforms take advantage of the relatively plodding nature of government regulatory processes to hack their own rules. As the Sidewalk Labs "smart neighbourhoods" exercise between Toronto and Alphabet shows, companies that offer cutting edge technologies often jump into the regulatory vacuum, set up shop and dare policymakers to catch up. The challenge is to avoid slipping into a future where citizens are subject to rules and frameworks designed by firms rather than governments.¹²⁷ Consumer protection issues, as one example, are increasingly being adjudicated through opaque processes wherein the corporation increasingly is the arbiter of what's right and wrong.¹²⁸ Markets are shaped, priced and regulated differently when firms have little or no competition to act as a check on unfair practices.

The future of work touches upon all levels of government and many policy domains. It is characterized by significant uncertainty, and the potential for sudden shifts. This is a daunting policy environment to navigate, but not impossible. If fostering inclusive growth became the guidepost for all policy options, then we could more easily measure our progress against that goal. For policymakers, this will require a re-alignment of existing processes and systems. It will also require recognition of the rapidly shifting conditions underfoot which demand constant care and maintenance of new approaches such that they remain relevant.

127 Frank Pasquale (2017) "From Territorial to Functional Sovereignty: The Case of Amazon." Law and Political Economy. <https://lpeblog.org/2017/12/06/from-territorial-to-functional-sovereignty-the-case-of-amazon/#more-442>.

128 Rory Van Loo (2016) "The Corporation as Courthouse." Yale Journal on Regulation, Vol. 33, Issue 2, No. 5, pp. 547-602. <http://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=1491&context=yjreg>.

REDISTRIBUTIVE OPTIONS TO SUPPORT INCLUSIVE GROWTH: TRANSFERS/PUBLIC EXPENDITURES

» **Guaranteed annual income.** In light of persistent inequality and automation, there is growing interest in the concept of a guaranteed annual income (GAI). Since 2017, Ontario, Quebec and BC joined a handful of jurisdictions around the world, such as Finland and the Netherlands, which are implementing pilot projects to test a GAI. Past experiments in Manitoba and the United States have suggested that a GAI would not necessarily disincentivize work as much as was predicted and that it would more likely be effective if it was available across the population rather than to a targeted group. It was also likely to decrease stigma associated with poverty.¹²⁹

However, these pilots were conducted some 40 years ago, and labour markets are radically different today, particularly with respect to female participation rates. New evidence about how transfers of income could dampen female labour force participation rates will be key information to assess from the new wave of pilots being conducted.

Balancing direct fiscal savings from administrative efficiencies as well as the societal benefits of a GAI against the considerable costs of such a program will ultimately be the determining factor in whether it will be viewed as a feasible policy intervention. Implementing a negative income tax over a GAI may be a simpler approach that can more easily be adopted through the

existing tax system,¹³⁰ but issues like expense, opportunity costs and timeliness remain key features of an approach to redistribution that has as many goals as potential designs.

» **Improvements to Canada's existing social architecture.** Pooling and spreading risk more effectively through universal or broad-based social programs is a straightforward, though expensive proposition to enhance opportunities throughout society and expand the social wage. Yet, when compared to the costs of raising everyone to the poverty line through a GAI, which would cost an additional \$30B on top of existing spending, the costs are not as daunting. Half of that \$30B would expand access to high quality child care spaces, post-secondary education, affordable housing, public transit, pharmacare and dental, gradually providing universal coverage within a decade or so.¹³¹ This type of approach may also be more politically palatable, as more people would directly benefit from expanded access to these sorts of programs than would benefit from a GAI option.

129 Melissa Martin (2011) "International Perspectives on Guaranteed Annual Income Programs." *Queen's Policy Review*, Vol. 2 No. 1, pp. 49-61. <http://www.queensu.ca/sps/qpr/sites/webpublish.queensu.ca.qprwww/files/files/22%20international%20perspectives%20guaranteed%20annual%20income.pdf>.

130 See also: Evelyn L. Forget et al. (2016) "Pilot Lessons: How to design a basic income pilot project for Ontario." Mowat Centre. <https://mowatcentre.ca/pilot-lessons/> and Michael Crawford Urban and Christine Yip (2017) "Basic Impact: Examining the potential impact of a basic income on social entrepreneurs." Mowat Centre. <https://mowatcentre.ca/basic-impact/>.

131 Armine Yalnizyan (2017) "Redistribution through a basic income: Are we better off when we have more income, or need less of it?" Canadian Centre for Policy Alternatives. <https://www.policyalternatives.ca/publications/monitor/redistribution-through-basic-income>.

Ontario's basic income pilot

In an age where employment is predicted to get more precarious, governments in several countries are testing the potential of a novel approach – universal basic income – as a means to redistribute wealth, reduce inequality and overcome poverty. Ontario recently launched a basic income pilot to study the potential of a basic income in ensuring economic wellbeing for all. This is the largest trial in North America, which aims to include 4,000 participants over a period of three years.¹³² Taking place in three locations (Hamilton, Brantford, Brant County; Thunder Bay and the surrounding area; and Lindsay), the participants are randomly selected from a pool of eligible candidates.

Apart from being a resident of one of the three test regions, the eligibility criteria include an age range of between 18 and 64, and annual income of less than \$34,000 for singles and \$48,000 for couples. Payments for a single person will top out at \$16,989, less 50 per cent of any earned income, while couples can see a maximum payment of \$24,027, less 50 per cent of any earned income. People with disabilities will receive up to \$500 per month on top of these amounts.¹³³ The pilot aims to test the outcomes of receiving a basic income that provides more money than was available before on daily aspects of life such as food security, stress, mental wellbeing, health, housing stability, education and training, and employment. Eligible candidates not selected to receive the basic income will be the control group, and the outcomes between the two groups will be compared to test the effect of the basic income. A basic income could prove to be instrumental in supporting vulnerable workers, improving health and education outcomes, and ensuring economic equity and wellbeing.¹³⁴

The Mowat Centre's 2016 report, *Working Without a Net: Rethinking Canada's social policy in the new age of work*, and its *Renewing Canada's Social Architecture* series from 2015 with other partners, both explored a variety of potential updates to existing social policies and programs, which won't be covered extensively again here.¹³⁵

Whether expanding medicare to include universal pharmacare and mental health services, increased investments in affordable housing and childcare, reforming the retirement income security system or modernizing our approaches to employment insurance and skills training, there are a multitude of ways in which Canadian governments can invest in the supports and services Canadians require. In a new world of work that could see more people bouncing between part-time gigs, with volatile income levels and little access to benefits through their employer, there's no question that risks for many Canadians are likely to increase.

132 Government of Ontario (2017) "News Release - Ontario Basic Income Pilot Helping Provide More Security and Opportunity," 4 October 2017, <https://news.ontario.ca/mcss/en/2017/10/ontario-basic-income-pilot-helping-provide-more-security-and-opportunity.html>.

133 Government of Ontario (2017) "Ontario Basic Income Pilot – Payment Amount." <https://www.ontario.ca/page/ontario-basic-income-pilot#section-6>.

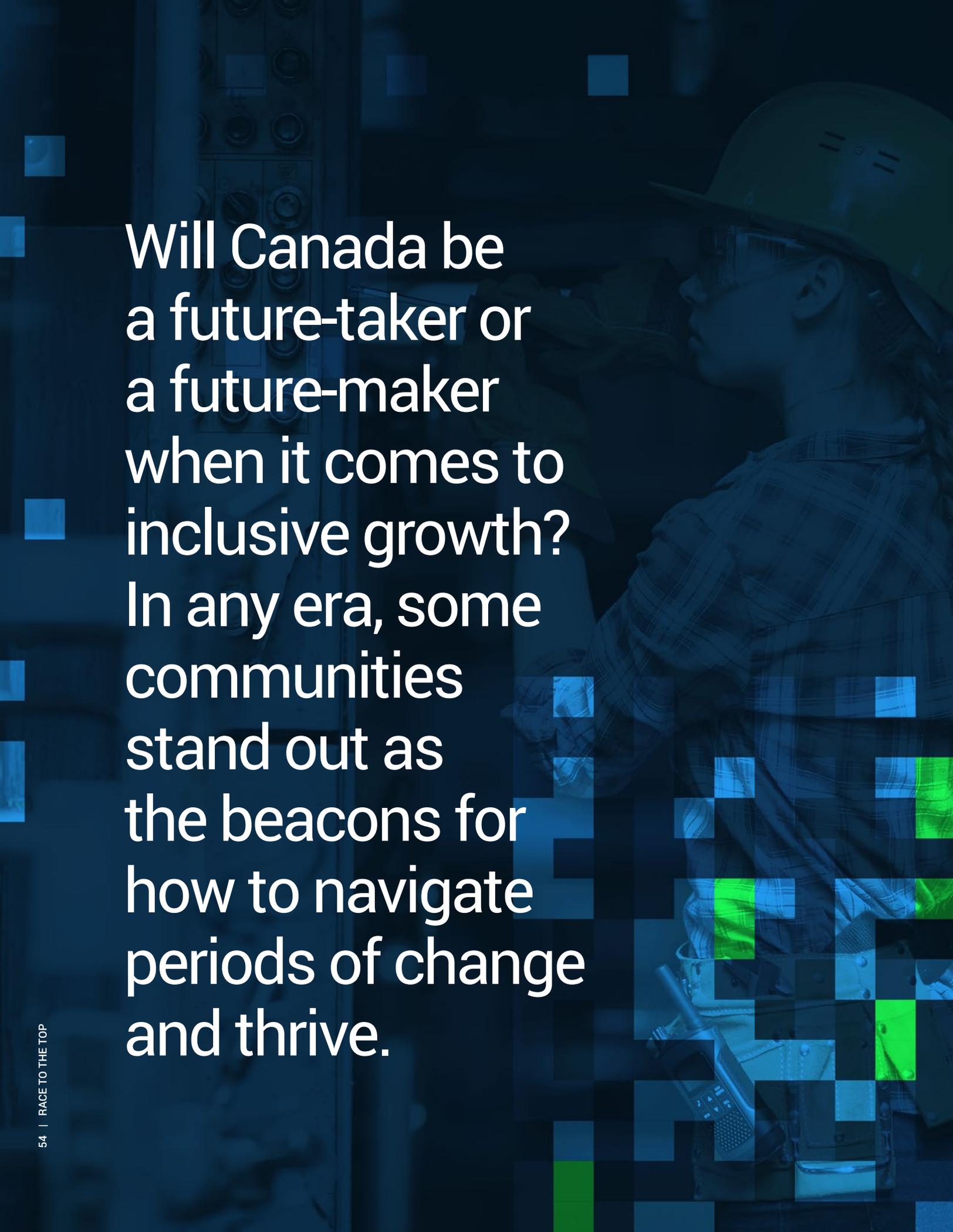
134 Government of Ontario (2017) "Ontario Basic Income Pilot." <https://www.ontario.ca/page/ontario-basic-income-pilot>.

135 Sunil Johal and Jordann Thirgood (2016) "Working Without a Net: Rethinking Canada's social policy in the new age of work." Mowat Centre. <https://mowatcentre.ca/working-without-a-net/>; *Renewing Canada's Social Architecture* Website: <http://social-architecture.ca/>.

A focus on skills training and upgrading is critical as we enter a world of work which promises to be more tumultuous and uncertain than ever before, with higher emphasis placed on STEM skills. This means expansion of access to more effective skills-training programs for adults and also academic preparation and support programs to improve access to post-secondary education opportunities for under-represented students.

Increasing transfers to individuals, through enhancements to programs such as CPP, EI or the Canada Child Benefit are also options to put money directly in the hands of Canadians.

If we agree that a middle or low-income worker will have an increasingly constrained ability to pay, with their earned income, for prescription drugs, child care, dental care and upgrading their skills while also juggling rent payments, hydro bills and other necessities, then we must ask what is the alternative? The only feasible way to extend the purchasing power of increasingly stretched workers, as well as to effectively pool risk and lower system costs, is to provide more affordable access to essential services.



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5 WHAT NEXT? AN INCLUSIVE GROWTH AGENDA FOR CANADA

Canada's path to more inclusive growth is not straightforward. Proven approaches from the past, such as increased women's participation in the labour force and increased investments in education, will continue to be critical, but will have less additional impact going forward than they have had in the past 40 years. Moreover, our redistributive mechanisms as currently designed have done less to reduce inequality over the past two decades than was previously the case.

A protracted period of slow growth, driven primarily by population aging, is both upon us and sure to stay with us for a few decades. This era will require deployment of different, and more creative, policy measures to enhance and sustain inclusive growth. We may need to place a greater emphasis on pre-distribution, and getting markets right in the first place rather than looking to mop up after yet another market failure.

Fortunately, Canada starts from a strong foundation. As the 10th largest economy in the world, with a fraction of the population of other large economies, we are in a good position to plan for our preferred future, whatever it may be. And while we can't be sure we'll get there, we can offer a plan for what the whole world is looking for: a model of growth that focuses on an inclusive society, with opportunity for all and supports for those in need.

People are on the move like never before, being pushed and pulled as they escape dire conditions or look for better opportunities. For better or worse, the world's biggest cities are becoming ever-more-popular people magnets.

The jurisdictions that succeed in building strong, vibrant communities in big and small cities alike are the jurisdictions that will attract investment and talent, and develop a mutually reinforcing positive feedback loop that continues to strengthen communities, families and individuals.

Those places that succeed in both nurturing talent at home and attracting talent from abroad will come out on top. While Canada can't offer the climate of California, we offer the things many people around the world are looking for: trustworthy institutions and regulatory frameworks, a diverse and multicultural populace, and a strong social infrastructure, beginning with our medicare system. If we keep building on these strengths Canada's cities will continue to have a magnetic pull for people from around the world. Drop the ball, however, and coast on what we've had, and we'll find out soon enough there are plenty of other places people will choose to live.

New Zealand – from neoliberal darling to progressive leader

Between the mid-1980s and early 1990s, grappling with a struggling economy and rapidly increasing public debt, New Zealand embarked on a series of market-based reforms that liberalized financial markets, reduced regulations and public investment, and privatized state assets.

These reforms included the removal of agricultural and industrial subsidies, privatization of all commercial state assets, reductions in welfare assistance and comprehensive tax cuts. All areas of public life – ranging from the economy to the environment and social life – were impacted, and income inequality and poverty accelerated rapidly.¹³⁶ The Gini coefficient for New Zealand is among the highest of all OECD countries in recent decades while GDP per capita has continued to rank among the bottom of advanced economies.¹³⁷

The failures of neoliberalism have seen a rising demand from citizens as well as some political parties for a renewed government role in designing an economy that promotes equity and works for all citizens. In 2017 a new coalition government led by Jacinda Ardern of the Labour Party was formed, and immediately dedicated itself to steering the country towards policies that promised more for marginalized New Zealanders on issues such as the housing crisis, homelessness, child poverty and climate change.¹³⁸ The country now aims to bridge the gap between minimum wage and living wage, and plans to increase the minimum wage to \$20 by 2021 from the current rate of \$15.75.¹³⁹ The government has also promised to build 100,000 affordable housing units in the country over a period of ten years for first time home buyers,¹⁴⁰ restore all rivers and lakes to a swimmable state within a generation,¹⁴¹ and achieve net zero greenhouse gas emissions by 2050.¹⁴²

Could New Zealand, once the world's go-to example for how to undertake neoliberal reforms, pull an about-face and provide the new global standard for progressive initiatives? Why shouldn't Canada – or Ontario – compete for that role, and lead the race to the top, in pursuit of inclusive growth?

136 Nick Carroll (2012) "Structural Change in the New Zealand Economy 1974-2012." New Zealand Treasury. <http://www.treasury.govt.nz/government/longterm/externalpanel/pdfs/ltfep-s1-04.pdf>.

137 Jonathan Boston and Chris Eichbaum (2014) "New Zealand's Neoliberal Reforms: Half a Revolution." *Governance*, Vol. 27 No. 3, pp. 373-376. <http://onlinelibrary.wiley.com/doi/10.1111/gove.12092/full>.

138 Charlotte Graham-McLay (2017) "Jacinda Ardern, New Zealand's Sudden Star, Gets Set to Govern." *The New York Times*, 20 October 2017, <https://www.nytimes.com/2017/10/20/world/asia/jacinda-ardern-new-zealand.html>.

139 New Zealand Herald (2017) "Minimum wage to increase to \$16.50 from April, 2018." 22 December 2017, http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11964562.

140 New Zealand Labour Party (2018) "KiwiBuild." <http://www.labour.org.nz/kiwibuild>.

141 New Zealand Labour Party (2018) "Clean rivers for future generations." <http://www.labour.org.nz/water>.

142 New Zealand Labour Party (2018) "Real Action on Climate Change." <http://www.labour.org.nz/climatechange>.

Communities and nations that acknowledge this uncertainty and take strong, concrete action to help people maximize their potential and minimize set-backs will come out on top. We've outlined a number of potential redistributive and pre-distributive interventions that can be undertaken by governments, businesses, communities and individuals in the preceding sections of this report, and tried to show how much more important such measures are going to be in the coming years. We believe many countries will be experimenting with some mix of these options, as individuals and societies search for ways to shape the future before the future shapes them.

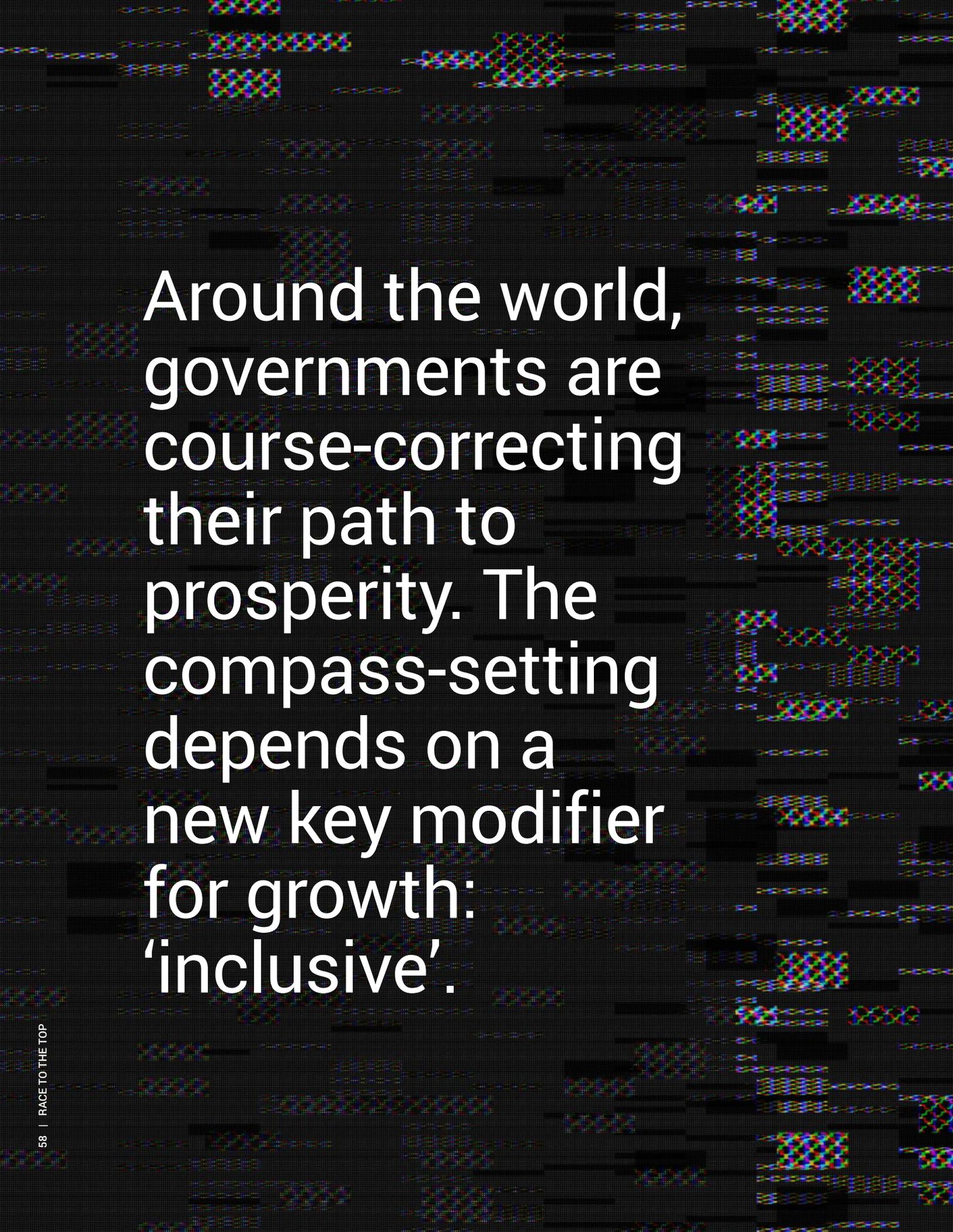
Will Canada be a future-taker or a future-maker when it comes to inclusive growth? In any era, some communities stand out as the beacons for how to navigate periods of change and thrive. Some places — cities, states and nations — will stand out and inspire the world with examples of how to manage the abundance that technology promises alongside the disruption it threatens, for the benefit of all. Why not Canada? Why not Ontario?

Ontario has already provided leadership on a host of policies that provide avenues to inclusive growth, in areas ranging from improvement of public pensions to expansion of basic health benefits to adopting community benefits agreements as part of a massive wave of investment in public infrastructure. Other jurisdictions in Canada and outside Canada are also exploring new approaches to make inclusive growth an achievable goal and a concrete reality. The race is on, and it's a race to the top. Canada could win the goal, but we won't get there without planning, training and course-correcting to achieve the best performance.

Preparing for success and measuring progress

Some specific next steps that Canadian governments could adopt to drive forward an inclusive growth agenda that propels Canada to the front of the global race include:

- » The federal and provincial/territorial governments working together to **develop a shared scorecard for inclusive growth** that includes a broad-based series of metrics (e.g., GDP per capita, the early development instrument, median household income, income and wealth Gini, poverty rate, savings rate, gender wage gap, labour share of income). These metrics should also be designed to report on specific sub-populations and groups within Canada (e.g., women, racialized minorities, First Nations, inhabitants of remote communities).
- » **Benchmark Canada's performance on the scorecard to peer jurisdictions** across G-7 and other advanced economies. Canada is currently in the middle of the pack among advanced economies according to the World Economic Forum's inclusive growth ranking, which employs a broad range of indicators similar to those reviewed in this report.
- » **Set a target to increase Canada's performance on the scorecard** within a reasonable time frame (e.g., to be among the top 3 or 5 countries globally within 10 years).
- » As a work-back, each province/territory and the federal government should **develop public plans that detail planned initiatives to reach inclusive growth targets**, and report annually in their budgets on which projects and programs are being initiated or amended to drive towards those targets. Policymakers should also closely assess existing programs, policies and tax measures to assess which are generating inclusive growth and which are standing in its way, particularly with respect to groups that have been traditionally excluded from prosperity.



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6 CONCLUSION

The focus on inclusive growth today arose from a questioning as to whether growth, without any adjectives, has been producing benefits that are shared sufficiently broadly. The focus on economic growth for growth's sake simply did not create enough opportunity for enough people. Given the evident failure of this strategy, all around the world, governments are course-correcting their path to prosperity. The new compass-setting depends on a key modifier for the pursuit of growth: 'inclusive.'

There are no guarantees Canada will be a leader down this road, given the facts and the pressures. But some place, some community, some group of people will fire imaginations by showing how inclusive growth is not only attainable; it's self-reinforcing. Canada has the opportunity to lead by example, and lead the race to the top, propelled on the journey by the fuel of inclusive growth.

