

Taxes, Transfers and Employment: Policy Changes in Canada in Recent Decades

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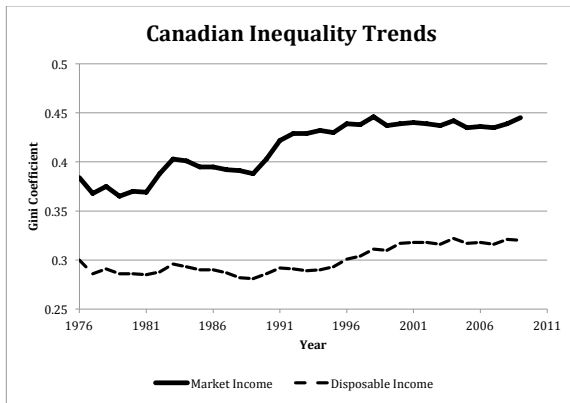
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Three Main Points

- 1 The tax and transfer system changed fundamentally in the mid-90s
- 2 Employment focus has supplanted transfers
- 3 Nonetheless, inequality has not risen strongly raising questions about the role of the resource and construction booms. Is this sustainable? What are the trade-offs?

Tax and Transfer Effects



Tax and Transfer Changes

(Frenette, Green and Milligan(2010), Boadway and Cuff(2011))

Pre-1996:

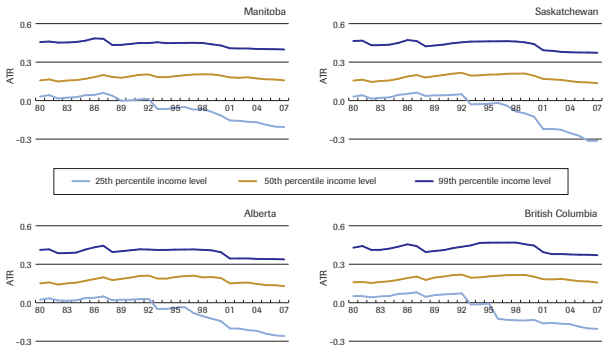
- Rising market income inequality was offset by increased transfers and increased taxes
- Much of this was at the provincial level: surtaxes at the top and more generous social assistance at the bottom - with ongoing increases in both
- By mid-90s, every province but Alberta had over 10% of population on social assistance

Post 1996: Tax and transfer increases were reversed

Figure: Milligan(2009)

the income tax liability. The expansions of the Canada Child

Figure 6: Average Tax Rate with Refundable Tax Credits Through Time for Married Family with Two Children



Source: Calculations from the CbCS calculator.

**Table: Social Assistance Benefit Rates
(Kneebone and White(2009))**

Ontario

	1989-1994	1994-2003
Single Employ.	19.2%	-34%
Single w/child	19.6	-31.7

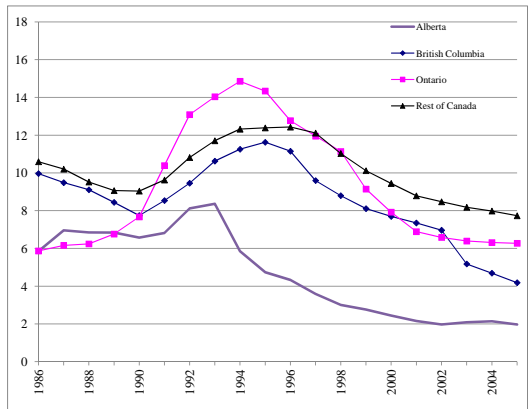
BC

	1989-1994	1994-2003
Single Employ.	3.2%	-17.1%
Single w/child	3.5	-12.3

Social Assistance Receipt

Figure: Berg(2012)

Figure 1: Time Paths of Welfare Participation in Canada*



Social Assistance Reforms

Reforms involved emphasis on work over receipt and diversion from SA

- Ontario Works (1998). Emphasis on moving applicants and recipients to work
- BC: under both NDP and Liberals, introduced a series of measures including an earned income tax credit, stricter evaluation of disabilities, waiting periods, maximum time limits, need to apply on-line
- Move toward a more US style system where emphasis is on aid to children and disabled and discouraging use or emphasizing work and training for others
- Liquid asset exemptions for lone parents were 5K in 1994 in both BC and Ontario. By 2009 \$1550 in Ontario and \$250 in BC

Part of a general shift along the lines recommended by OECD:

- Shift from Passive to Active Support
- WITB and Child Tax Credit fit in this: emphasis on transfers related to work
- Reforms to UI/EI in 1996 had the same goal

Key elements:

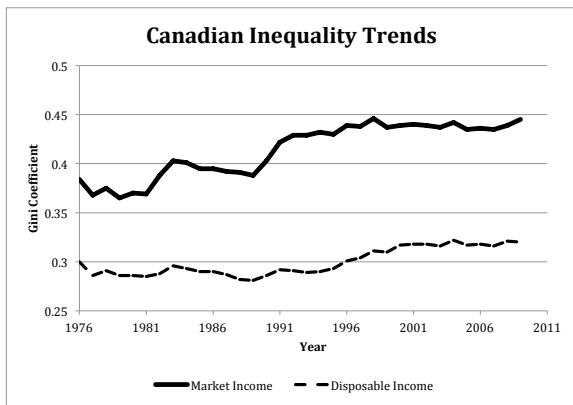
- Employment instead of transfers while out of employment
- Reduce regulation with the aim of improved efficiency leading to better jobs (and wages?)
- Emphasis on human capital
- Georges Juergens, Deputy Head of Mission at the German Embassy in Ottawa (August 14):
 - "We now have both reached the point where you need to find innovation in order to jumpstart the markets, be it in more creative ways of deregulating labour markets, of deregulating export markets or deregulating industry growth,"

Strong Emphasis on Employment

- Seem to want to move down the labour demand curve
 - Reduce union power (stepping into disputes)
 - Bringing in Temporary Foreign Workers to keep wages down in the West
 - Cutting payroll taxes
 - Cutting transfers reduces reservation wages and has this effect

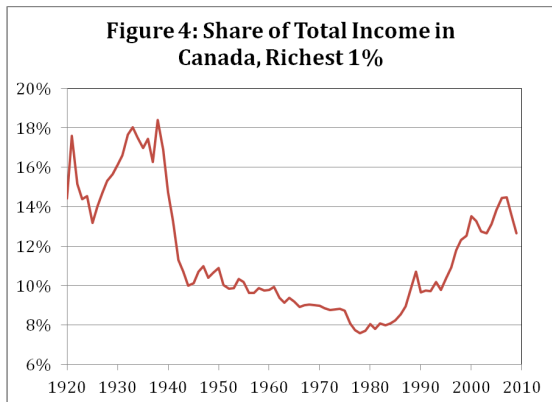
Did It Work?

Figure: Inequality Measured by the Gini has not Been Increasing



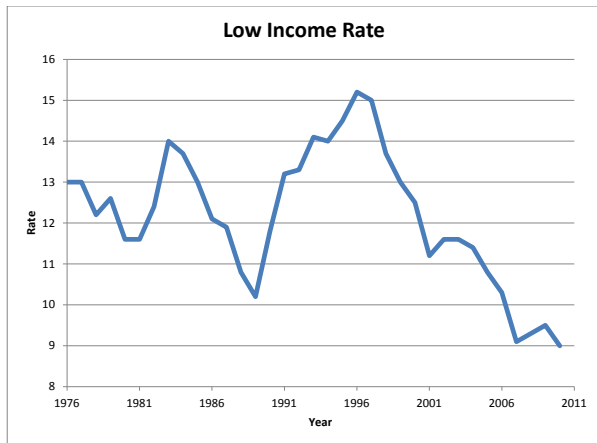
Did It Work?

Figure: Top 1% Income Share Grew Strongly after the Policy Shift



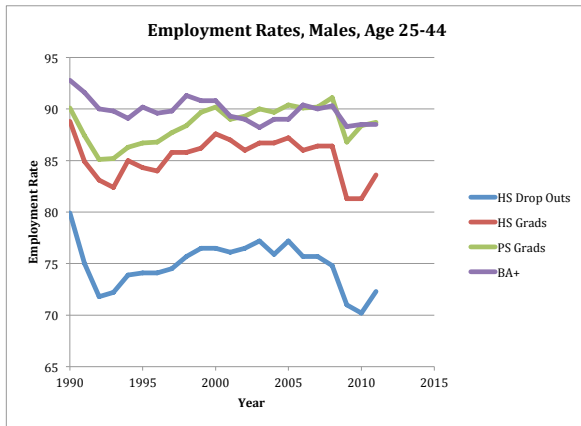
Did It Work?

Figure: Low Income Rate Declined Strongly



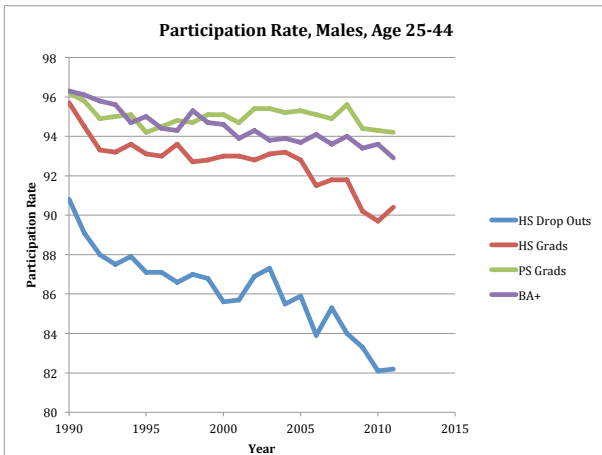
Did It Work?

Figure: Male Employment Rates Conditional on Education Declined



Did It Work?

Figure: Male Participation Rates Declined Even More



Did It Work?

Figure: Female Employment Rates Conditional on Education Improved



Figure: Low Skilled Entry Wages Declined for Decades

Figure 6: Fitted Mean Hourly Earnings, LFS, High School Males, By Job Entry Cohorts

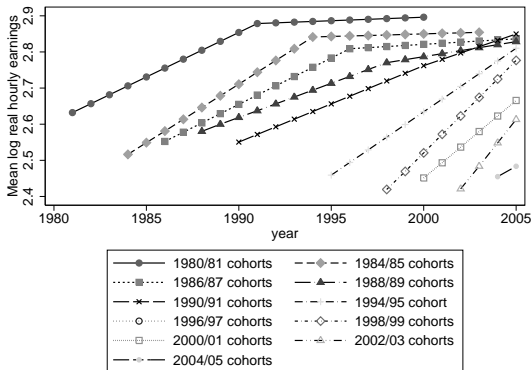
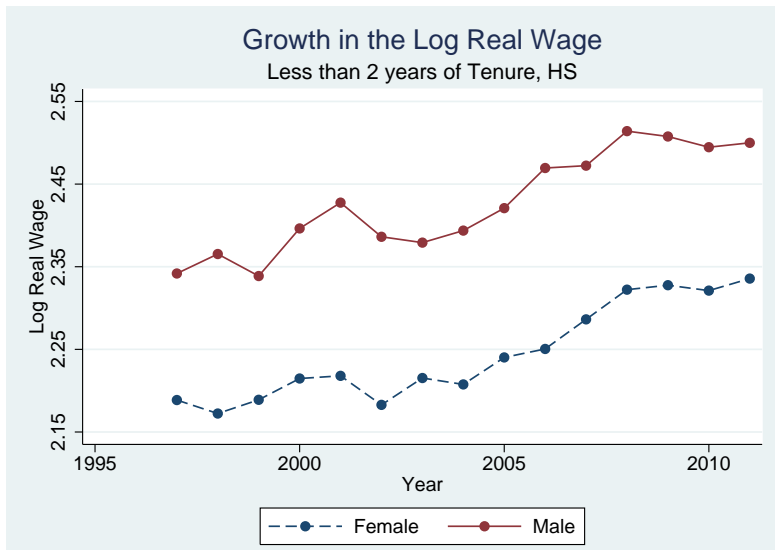


Figure: But Improved Alot in the 2000s

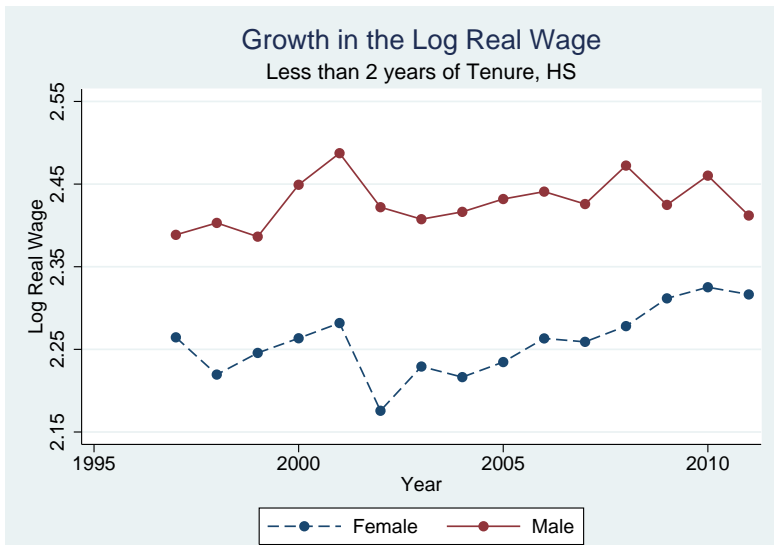


Did It Work?

Figure: This has a Strong Regional Dimension: Alberta

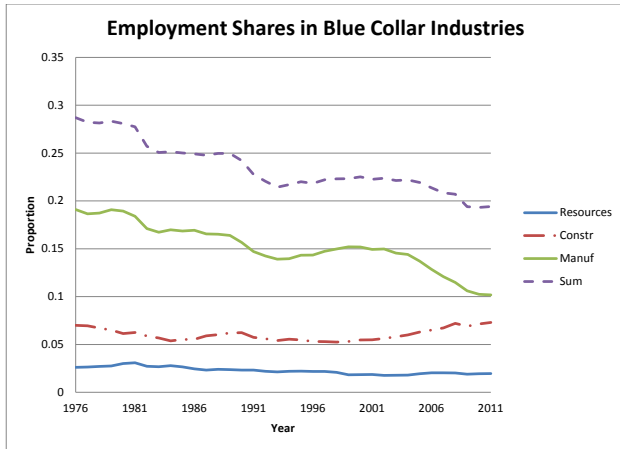


Figure: Ontario



Did It Work?

Figure: Manufacturing Decline Offset by Construction



Conclusion

- Major Policy Shift in mid-90s: reduced access and generosity of transfers, reduced taxes
- Labour Market Dimension: Emphasis on flexibility, human capital and employment
- Inequality worsened at first then flat. Poverty improved. 1% share rose rapidly.

Conclusion

- Hasn't delivered in terms of employment
- Wages have held constant or improved
- Whether this continues will depend on whether construction and resource sectors continue to offset manufacturing
- Regional trade-offs but also trade-offs between environmental and economic goals?