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A Modest Proposal to Tax Canada's Rich

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INTRODUCTION

Jonathan Swift's modest proposal was a powerful satirical commentary on the serious topic of Irish poverty in the early- to mid-18th century. Swift's over-the-top prescriptions – including selling Irish children for food – were designed to cast light on the failures of public policy to create the conditions for economic and social opportunities in Ireland. It was a clever literary device that invariably seized readers and in turn drew attention to the plight of the Irish people and the need for reform. In so doing Swift's famous essay became the gold standard for the use of satire to shape public thinking and influence government policy.

One current policy preoccupation in Ottawa is perceived rising income and wealth inequality and a great deal of the recent federal budget, for example, focused on various redistributive measures aiming to take from those who have and give to those who have not, with often scant regard for the perfectly foreseeable harmful effects such measures will have. In the best Swiftian tradition, then, we thought we might draw attention to the arbitrary and ill-thought out basis of much of this redistributionist mania by pointing out that it has missed an obvious target: seniors.

Indeed if the government is to show fidelity to its belief that we should be taking from those who do well, few groups fit that description better than seniors. And yet the budget not only does not propose making seniors pay more, it promises them yet more benefits quite unjustified by their relative position in the hierarchy of prosperity. Our tongue-in-cheek modest proposal then, is for Ottawa to follow through on its own logic and enact a Seniors Tax.

It may seem counter-intuitive in light of the common perception of financial challenges facing most seniors but the empirical evidence tells quite a different story. Not only are seniors wealthier than younger Canadians, they are the disproportionate beneficiaries of government programs and spending. A Seniors Tax therefore would go a long way in helping the government achieve its redistributionist goals and to offset the "reverse ageism" – that is, a bias in favour of older rather than younger Canadians – inherent in government spending and taxation policy. The old adage about two birds and one stone seems apt.

Of course, we are not *actually* proposing a Seniors Tax. It would represent precisely the type of wrong-headed, redistributionist policy that we lament in this essay. We raise it only to highlight the silliness of federal policy that emphasizes arbitrary and vague concepts like fairness over all other considerations. It makes nearly as much sense as a Seniors Tax.

THE SO-CALLED "FAIRNESS" AGENDA

The Trudeau government's agenda is rooted in the perception that Canadian society is insufficiently fair. Its tax increases on high-income earners, its repeal of income splitting for parents with children, and a series of other policies reflect this view.

The 2016 Budget, for instance, introduced us to David and Neera, a 40-something, middle-class couple who has seen their "sense of optimism . . . steadily erode" because of an apparent lack of social mobility in Canada and an inherent unfairness that has contributed to an "uncertain future" and the "rise of inequality." No wonder David and Neera are desperate for a "new approach."

It sounds awful, but it is not an accurate portrayal of much of the experience in Canada. It might have been true had David and Neera lived in the United States, but fortunately for them, they live in Canada. The Canadian evidence shows that worries about middle-class stagnation and a growing wealth gap in Canada are largely unjustified.

Consider a 2015 *Commentary* published by MLI that draws on Statistics Canada data and other sources to assess the justification for calls for further "fairness" (Speer and Crowley)[1]. The evidence instead finds high levels of social mobility and progressivity in government spending and taxation policy. There is a reason that the *New York Times* has heralded Canada for being home to the world's richest middle class (Leonhardt and Quealy 2014).

Yet, notwithstanding this positive evidence, David and Neera do not feel like "they are getting further ahead," and the government's solution is greater redistribution. As the budget puts it:

"The Government agrees. It is committed to strengthening the middle class, by giving more help to those who need it, and less to those who don't."

This focus on wealth redistribution is at the centre of the government's vision to improve the archetypal lives of David and Neera and the millions of Canadians presumably like them. Fairness is often characterized as a means to an end – that is, creating the conditions for greater social mobility – but sometimes it reads like an end in itself. Wealth redistribution may not change the seemingly hopeless circumstances for David and Neera but, to the extent to which it achieves greater overall fairness, it can perhaps assure them that the government is "on their side."

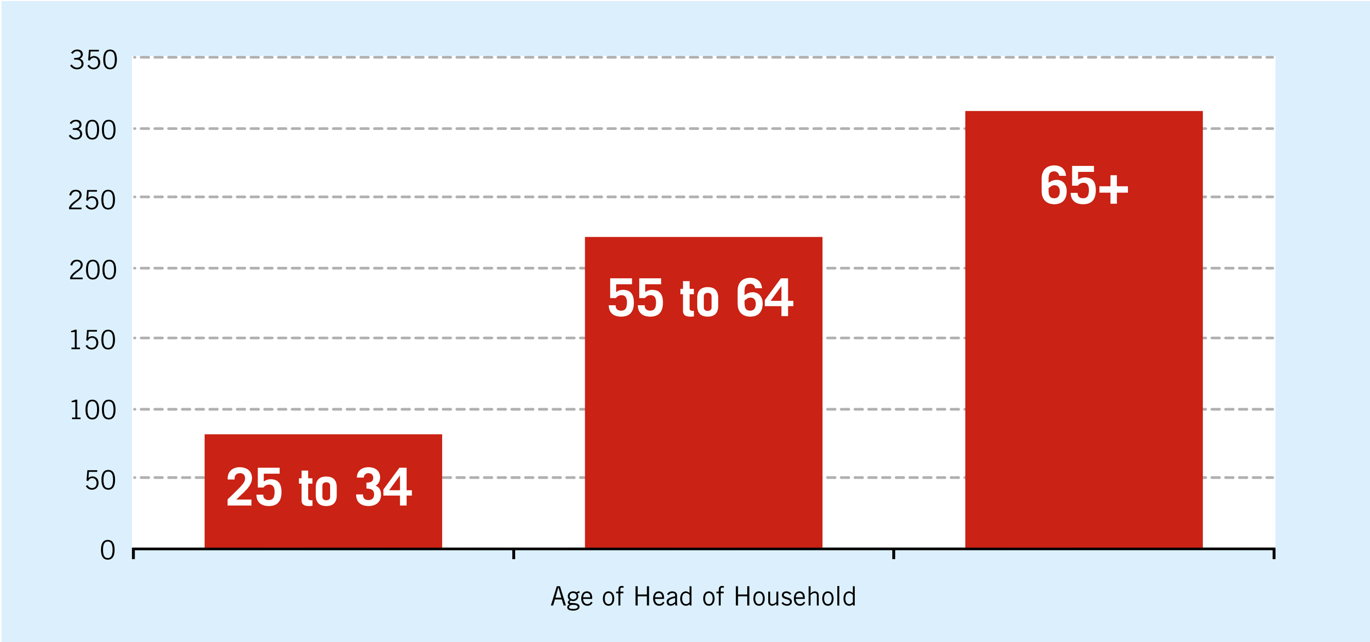
A FAIRNESS AGENDA AND CANADIAN SENIORS

The 2016 Budget sought to advance the government's vision of a fairer society and to create the conditions for greater hope and optimism for David and Neera. It is no accident that variations of "fair" appear 78 times in the 271-page document. The new top tax rate for high-income earners is the most obvious manifestation of this preoccupation with fairness. Repealing income splitting for families with children was another.

Yet the budget did not quite live up to its simple equation of "giving more help to those who need it, and less to those who don't." A real fairness agenda – one that raises taxes and reduces benefits for high-income Canadians – would have focused on David and Neera's parents. Seniors are Canada's wealthiest slice of the population.

There is a tendency to view seniors as a vulnerable population. Yet the facts tell a different story. A 2014 study by the Bank of Montreal found that seniors have seen their wealth grow at a much faster pace – nearly quadrupling – than younger Canadians since 1984 (see chart 1). Canadian seniors are the wealthiest group in the country's history with generous employment-based pensions, significant stock portfolio returns, and historic gains in real estate. As a BMO economist puts it: "Seniors have never been better off financially" (Marr 2014).

CHART 1: Growth in real median net worth of families, 1984 to 2012 (percent change)

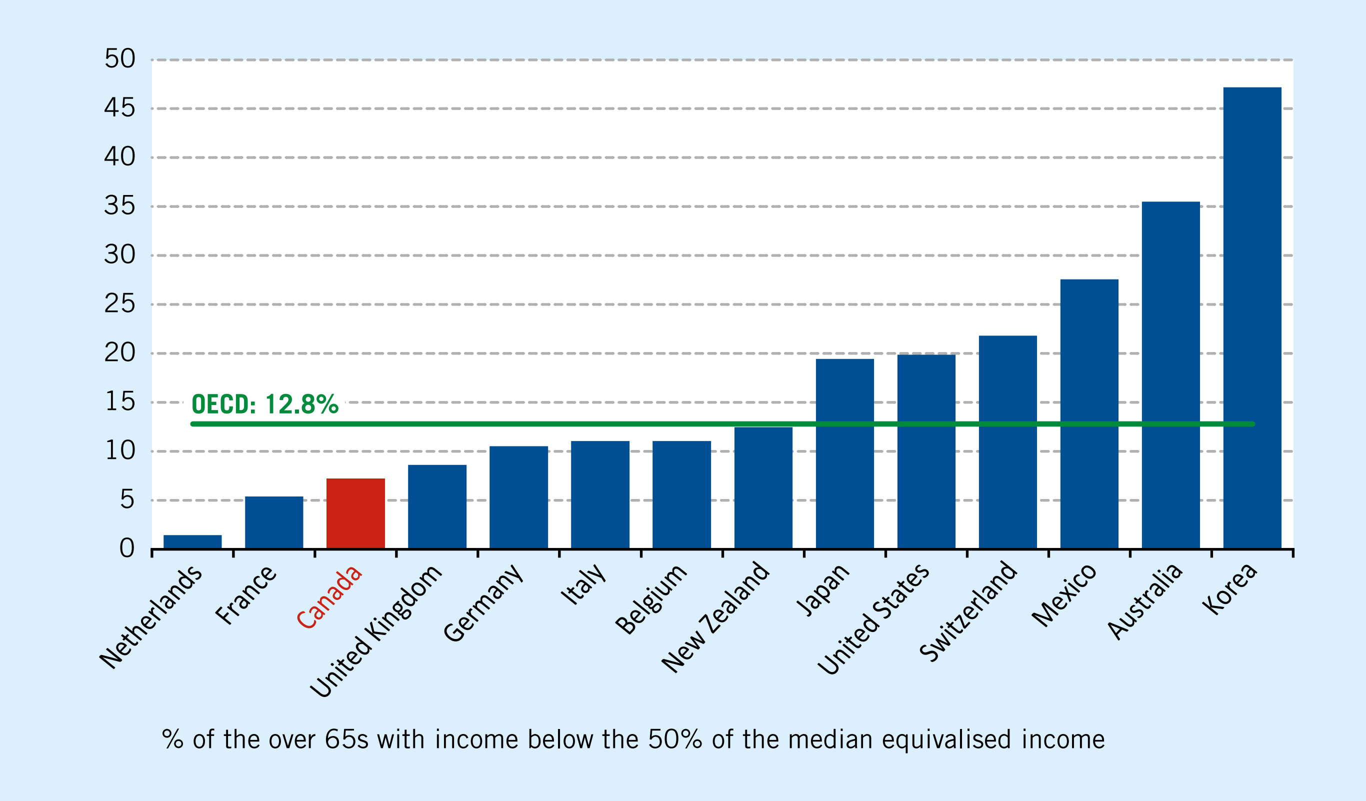


Source: Guatieri 2014, chart 3.

This is a positive development and smart government policy has no doubt played a key role. It was only a few decades ago that Canadian seniors fared poorly relative to seniors in other jurisdictions according to key indicators such as income replacement, accumulated wealth, and poverty rates (Myles 2000). This reversal is rightly heralded as a "Canadian success story" (Osberg 2001).

Tax-advantaged personal and employment-based savings and a strengthening of basic public pensions in the form of Old Age Security and the Guaranteed Income Supplement have contributed to a marked improvement in the financial stability and quality-of-life for Canada's seniors. Consider that between 1980 and 2006, the incidence of low income among seniors decreased from 21.3 percent to 5.4 percent – a lower rate than most other industrialized countries (National Seniors Council 2009). This is roughly half of the share of working-age Canadians who find themselves in the low-income category (Statistics Canada 2013). And, according to the OECD, Canada's level of seniors poverty is third lowest among comparable countries (see chart 2).

CHART 2: Elderly poverty in OECD countries, 2013



Source: Jog and Lee 2016, figure 3; data from OECD 2013.

It is not just low- and high-income seniors who are doing well. Middle-class seniors such as David and Neera's parents are also living comfortably. Consider the median Canadian senior earns about 91 percent as much as the median Canadian – well above the OECD average of 84 percent (Department of Finance Canada 2015). This is to say nothing of rising labour force participation rates for Canadians aged 55 and over. Nearly half of Canadians over the age of 55 are still working and earning employment income (Cross 2014). It shows that improvements in the economic outcomes for Canada's seniors have been broad based.

These positive trends suggest that concerns about the financial stability of Canada's seniors are ill-founded – especially when one compares them to the circumstances facing younger Canadians. While seniors' incomes have increased by 40 percent since 1984, they have risen by 21 percent for baby boomers and just 3 percent for younger Canadians. The result is that the average male aged 65 or older earns $45,817 per year compared to $42,160 for males between the ages of 25 and 34. As for net worth, seniors also perform considerably better. More than 40 percent of Canadian millionaires are 65 and older. The median net worth of seniors has jumped 70 percent since 1999 but remained essentially flat for those younger than 35 (McMahon 2014). The key takeaway is that Canadian seniors are not just experiencing better economic outcomes than they previously did; they are earning more and are wealthier than younger Canadians such as David and Neera.

2016 BUDGET AND CANADIAN SENIORS

The evidence would thus suggest that the government's redistributionism should have focused on transferring income and wealth from seniors to younger Canadians. Yet the opposite is the case. There are several examples of a pro-seniors bias in the federal budget that seemingly runs counter to the idea of redistributing income and wealth from high-income earners to low- and middle-income Canadians.

Consider the matter of income splitting for taxation purposes. The budget repealed income splitting for families with children but retained it for seniors with pension income.

There is solid policy argument for the principle of family-based taxation and income splitting for tax purposes. The basic principle of horizontal equity – that is, that taxpayers with similar incomes ought to pay similar levels of taxation – is offended by the differing treatment of two-income households with different income compositions. A household with two earners with incomes of $50,000 each has a lower tax burden than a household with one earner making $100,000. These two households have the same total incomes and presumably similar costs and yet one faces a much lower tax burden. Income splitting seeks to reduce this differing tax treatment (Crowley 2015).

The Trudeau government is opposed to income splitting based on the principle of vertical equity, which stipulates that those earning more ought to pay more taxes. It has therefore argued that income splitting provides a so-called tax break to higher income families.

Yet the recent budget reaffirmed that it will *not* repeal income splitting for pensioners. It is a peculiar distinction especially since analysis by the Parliamentary Budget Office finds that pension income splitting has similar distributional impacts as income splitting for families with children (Shaw 2014). If the government opposes income splitting because it "disproportionately benefits the wealthiest few" (Liberal Party 2015), it begs the question: how does it justify repealing the option for David and Neera but maintaining pension income splitting for their parents? It is hard not to argue that it is a clear case of an elderly bias in government programs and spending.

Consider the government's decision to return the Old Age Security eligibility age to 65 at a significant fiscal cost over the long term.

The reversal of its predecessor's change to the OAS eligibility from 65 to 67 did not come as a surprise but that does not necessarily make it consistent with efforts to help David and Neera. The gradual increase to the eligibility age was estimated at the time to save the federal government as much as $10.8 billion per year once fully implemented (Curry 2012). The change was made in large part to mitigate a "crowding out" of other spending or the risk of tax increases caused by the rising cost of OAS.

The Trudeau government's decision to reverse the change therefore will ultimately create pressure to realize fiscal savings in other areas of spending. It is a matter of arithmetic. As economist Christopher Ragan (2012) writes regarding Canada's looming fiscal squeeze due to aging demographics: "There are only two broad fiscal choices available: spending programs can be reduced or eliminated or taxes can be increased. There is nothing else." The Parliamentary Budget Office now estimates that maintaining the eligibility age at 65 will add $11.2 billion to the annual federal budget by 2030 (Fekete 2016). This means future tax increases or program cuts for younger Canadians to sustain OAS for Canadian seniors.

And it is hard to justify given that OAS continues to be paid to wealthy seniors. The OAS provides a means-tested benefit for seniors that begins to decline for those seniors with incomes exceeding $72,809 (2015 income tax year). The benefit is fully phased out at $118,055. Because the benefits are calculated on individual (rather than household basis), senior couples – such as David's or Neera's parents – can have a combined income of $236,110 and still receive partial OAS benefits.

Analysis from the Fraser Institute estimates that integrating the OAS means-testing to the maximum pensionable income of $53,600 under the Canada Pension Plan would save approximately $1 billion per year (Lammam and MacIntyre 2016). Such a reform would better focus public resources, free up fiscal space for other priorities, and start to arrest the trend toward a greater elderly bias in government programs and spending.

There are other examples where the budget failed to follow its redistributionist agenda with respect to Canadian seniors. We will address the topic of deficit spending as deferred taxation on future generations, for instance, in a subsequent section.

ELDERLY BIAS IN GOVERNMENT SPENDING

It is important to note that the Trudeau government is hardly the first to exhibit an elderly bias in its taxation and spending policies.

A 2015 study by a University of British Columbia public policy scholar analysed federal, provincial, and local "social spending" to estimate the distributional breakdown by age. The analysis finds that Canadian governments combine to spend between $33,321 and $40,152 per person age 65 and over, $13,635 and $14,800 per person age 45 to 64, and $10,406 and $11,614 per person under 45 (Kershaw 2015). And not only is there is marked difference, but, based on recent trends, it is likely to grow rather than shrink. As Dr. Paul Kershaw points out, the federal government is increasing its spending on seniors at a rate of $12 billion per year (McMahon 2014).

This tilt in public spending and tax benefits toward seniors over younger people is not unique to Canada. Consider the findings of a comprehensive study by Belgian scholar Dr. Pieter Vanhuysse (2013a), who conducts economic and social research with the European Centre for Social Welfare Policy and Research (affiliated with the United Nations). Dr. Vanhuysse's research on 29 OECD member countries finds varying degrees of pro-elderly bias in government programs and spending among all surveyed countries (Vanhuysse 2013b; Isaacs 2009). But it is worth noting that Canada has been identified as one of the "least intergenerationally just" jurisdictions in the developed world (Vanhuysse 2013b; Burkhardt 2013).

Of the 29 jurisdictions, Estonia ranked highest overall in terms of intergenerational justice. Canada is the fifth worst (or least just from an intergenerational perspective) after only the United States, Japan, Italy, and Greece. Vanhuysse's (2013a) estimates suggest that Canadian governments spent about 3.5 times as much on every elderly citizen as they did on non-elderly citizens in 2007/08.

The prospect of an aging population is further driving this trend towards a greater bias in public spending. A 2013 study of the Australian welfare state, for instance, found "a substantial shift" in favour of public spending on seniors over a 25-year period ending in 2010 (Tapper, Fenna, and Phillimore 2013). The British chair of the Social Mobility and Child Poverty Commission (and a former Labour MP) has raised concerns that governments are increasingly "favouring pensioners over their children and grandchildren" and that the risk is age-based political divisions and financial pressure on the social welfare state (Bingham 2013). Vanhuysse (2013a) argues that, for the least intergenerationally just countries such as Canada, "sticking to the status quo would actually be the equivalent to perpetuating a bad deal for young generations." The social welfare state model is increasingly designed to redistribute wealth from the working-age population to retired seniors.

AN ELDERLY BIAS AND GOVERNMENT DEBT

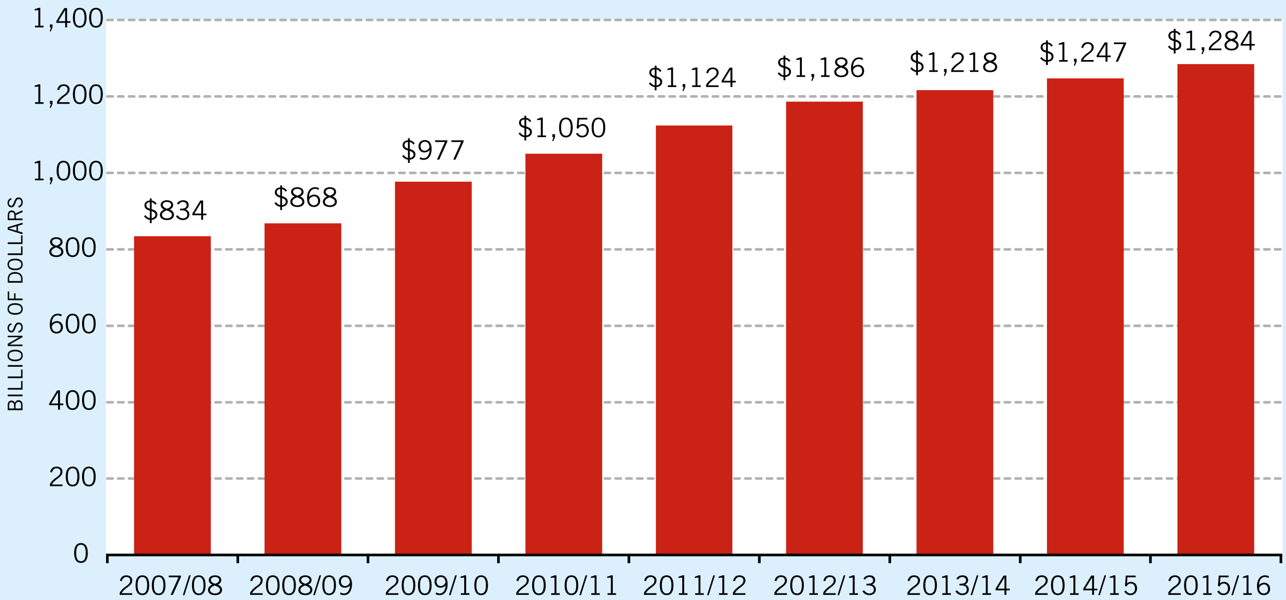
These examples of elderly bias in federal policy only tell part of the story. There are virtually countless examples of federal programming targeting seniors. Until the recent election there was even a federal Cabinet minister designated for seniors. This says nothing about a similar bias at lower levels of government that ranges from tax credits to free transit passes.

But a focus on the elderly bias reflected in the current composition of government programs and spending ignores the intergenerational consequences of deficits and debt. Government borrowing is not costless. It must ultimately be repaid by future generations such as David and Neera's daughters.

Borrowing to pay for genuine investments in long-term assets seeks to ensure that current and future beneficiaries are contributing and that cash payments match an asset's productive lifespan and usage. Debt-financing for current consumption is the equivalent of robbing David and Neera's children to pay for their wealthy grandparents' groceries, clothing, and restaurant meals. And, notwithstanding political rhetoric about "investments", we have witnessed plenty of debt accumulation driven by short-term consumption in recent years (Speer 2016).

Consider that the combined federal and provincial net debt has increased from $834 billion in 2007/08 to a projected $1.3 trillion in 2015/16 (see chart 3). This combined debt now equals 64.8 percent of the economy or $35,827 for every man, woman, and child living in Canada (Lammam et al. 2016).

CHART 3: Combined federal and provincial net debt, 2007/08 to 2015/16 ($ billions)



Notes:

(i) Debt levels for 2015/16 are based on the latest government projections available at the time of writing. The federal government's November fiscal update did not include an updated estimate for 2015/16 federal net debt and the figure used here comes from the 2015 federal budget. Given that the 2015 federal budget projected a budget surplus while the November fiscal update projected a budget deficit, the level of net debt for 2015/16 is likely understated.

(ii) Net debt is presented on a consolidated basis in each province.

Source: Lammam et al. 2016, figure 1; data from Canada, Receiver General for Canada (2008-2015); Canada, Department of Finance (2015a); British Columbia, Ministry of Finance (2015a and 2015b); Alberta, Ministry of Finance (2008-2015a and 2015b); Saskatchewan, Ministry of Finance (2008-2015a and 2015b); Manitoba, Ministry of Finance (2008-2015a and 2015b); Ontario, Ministry of Finance (2008-2015a and 2015b); Québec, Ministère des Finances (2008-2015a and 2015b); New Brunswick, Department of Finance (2014-2015a and 2015b); Nova Scotia, Department of Finance (2008-2015a and 2015b); Prince Edward Island, Department of Finance (2008-2015a and 2015b); Newfoundland & Labrador, Department of Finance (2008-2015).

The recent budget will only increase this debt burden. It anticipates adding nearly $120 billion in new federal debt and counting. The budget does not set out a clear timeline to eliminate the budgetary deficit and there is reason to be sceptical that the government will be able to stick to its spending projections beginning in 2017/18 (Crowley and Speer 2016). The result could be ongoing deficits for the medium- and even long-term.

This type of debt accumulation – particularly when it is to cover the cost of current consumption with no long-term benefit – is effectively a method of "disinheritance" for David and Neera's children. Younger Canadians are stuck covering the interest payments and eventually the principal in exchange for little or no benefit. It is, for all intents and purposes, a redistribution scheme from the young of future generations to the old of the present population. One can begin to understand the genesis of political movements such as "Generation Screwed" and "Generation Squeezed", especially considering the disproportionate wealth of Canadian seniors.

And this also does not account for significant unfunded liabilities such as long-term seniors benefits or health care spending. A 2012 University of Calgary School of Public Policy study of long-term health care spending projections described the current pay-as-you-go financing model as a "Ponzi scheme" that will impose significant fiscal cost on future generations. As the report concludes: "The status quo of health spending promised to Canadians at the current tax price of that spending is not sustainable with an aging population" (Emery, Still, and Cottrell 2012).

This is just one example of the magnitude of unfunded liability facing future generations. A 2014 study estimates the unfunded liabilities from Old Age Security, the Canada Pension Plan, and Medicare to total nearly $2.2 trillion (Palacios, MacIntyre, and Lammam 2014). The Trudeau government's decision to halt the gradual change to the OAS eligibility age will add to the burden of unfunded government liabilities and eventually stick David and Neera's daughters with a rising tax bill (Lindores 2016).

The overall picture of "reverse ageism" can become difficult to fully understand. The combination of elderly bias in the composition of spending at different levels of government, the use of deficit financing to cover current consumption, and the long-term costs of unfunded liabilities is opaque.

The generational accounting of government debt begins to cast light on the magnitude of reverse ageism in government programs and spending. Generational accounting is a way to evaluate the intergenerational distribution of spending and taxation over time. It seeks to measure the lifetime net tax burden of present and future generations based on assumptions about changes to fiscal policy and demographics (Auerbach, Gokhale, and Kotlikoff 1991).

There are legitimate methodological questions about how to implement generational accounting and there is ongoing debate about its utility and fairness as a basis for judging government spending and taxation (Corak 1998). It nevertheless can provide a useful window in the question of generational equity and is a form of fiscal transparency that the federal government should consider as part of its public reporting. It at least begins to ensure a better informed policy process with respect to the intergenerational consequences of government spending and taxation, and would cast light on the inherent inconsistency in the government's fairness agenda.

HOW DOES AN ELDERLY BIAS TAKE SHAPE?

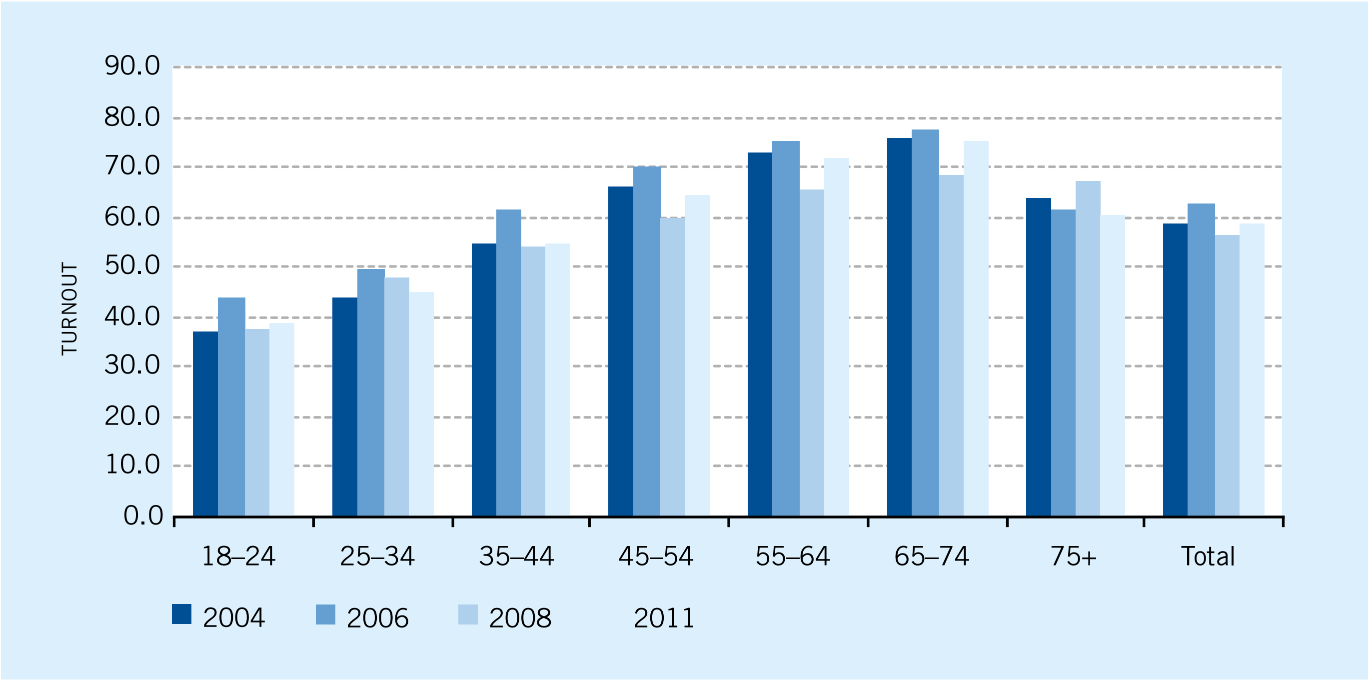
One might well ask how it is that a public policy bias in favour of the elderly and against the young came to be?

A growing body of literature finds signs of what may be called "gerontocracy" – that is, the political power and influence of growing seniors populations in developed countries.[1] The theory is that seniors tend to exhibit higher voter turnout and have more time and resources to participate in the electoral process more generally (including political donations) and thus play a disproportionate role in our politics. Politicians, in turn, respond by crafting policies and focusing spending on the seniors population. This age dynamic is even more acute when one considers the relative political influence of present seniors compared to unborn generations.

It is how we end up with what has been referred to as the "politics of intergenerational redistribution" and a focus on seniors benefits rather than education spending (Tabellini 1989). As one study concludes: "an ageing electorate . . . increases the relevance of pension spending on the agenda of office-seeking policy-makers and tends to increase the size of unfunded pension systems" (Gallasso et al. 2004).

Consider the Canadian political experience as an example. Seniors disproportionately participate in our politics. A multi-election comparison by Elections Canada finds the propensity to vote increases with age and seniors in general vote consistently more than younger adults (see chart 4).

CHART 4: Voter turnout by age group, 2004–2011



Source: Kembhavi 2013; data from Elections Canada.

This finding is consistent with similar Statistics Canada analysis. Voter turnout in the 2011 federal election was 70 percent among those 45- to 54-years old and 82 percent among those age 65 to 74. The turnout rate for those 18- to 24-years old, by contrast, was 50 percent and the national average was 61 percent (Uppal and La Rochelle-Côté 2015). Put differently: David and Neera's parents were statistically more likely to vote than they were.

This type of active political participation is part of the reason that seniors-based organizations such as the Canadian Association of Retired Persons (CARP) exert such political influence. It is no accident that Justin Trudeau (2014) promised to return the OAS eligibility age from 67 to 65 at a CARP conference and held a subsequent event with the organization during the 2015 federal election campaign (CBC News 2015). Seniors vote and politicians are in the business of securing votes. It is this political dynamic that creates the conditions for an elderly bias to take shape in government programs and spending.

CONCLUSION

The federal government has talked a lot about the need for greater wealth redistribution in the name of fairness. It is a key message in the Speech from the Throne, the ministerial mandate letters, and regular utterances from the Prime Minister and his Cabinet.

The finance minister's budget speech, for instance, argued that it is "only fair to ask those who can afford it to pay a little more so that we can help those who need it" (Morneau 2016). And then his budget raised taxes on wealthy Canadians in order to restore hope and optimism to middle-class couples such as David and Neera.

Not only is it not clear how raising taxes on high-income earners will in and of itself benefit our archetypal couple and their young daughters, the government has not even consistently followed through on its so-called fairness agenda. Consider that the recent budget maintained tax breaks and increased benefits for seniors even though the data show that older Canadians are much wealthier than younger families such as David and Neera.

The solution is *not* more redistribution such as a Seniors Tax. It is a broad-based economic policy agenda that creates the conditions for rising living standards and social mobility irrespective of age or income. That is the right plan for David and Neera and their daughters and it is the right plan for Canada.

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Endnote

1 See Slavov, 2006, "Age Bias in Fiscal Policy," for a solid literature review.

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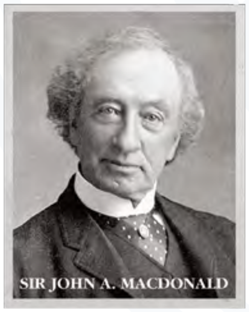

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