



Taxing the rich for the recovery we need

Billions of dollars of tax cuts over the past 20 years have helped the rich get exponentially richer and more powerful than the rest of us, while at the same time starving public services. Taxing the rich will close this gap and fairly fund the COVID-19 recovery that we all need.

The COVID-19 pandemic has magnified both income and wealth inequality in Canada, exposing longstanding unfairness in our tax system. Income inequality is the difference in how much we earn each year, and wealth inequality is about differences in how much we're able to accumulate over time.

The way the Canadian system is structured helps the rich get richer. For example, returns on wealth, such as capital gains or dividends, are not taxed at the same rate as income from employment. These profits are taxed at a lower rate than in the 1990s.

Since the 1990s, successive Liberal and Conservative governments have also cut corporate tax rates in half, and allowed corporations to use accounting tools to avoid paying tax. Corporate tax cuts and loopholes allow shareholders to accumulate more wealth and enable huge compensation packages for executives.

Widening wealth gap

Economists and politicians told us that tax cuts would trickle down and create growth, but that never happened. Instead, we've seen broadening inequality. Between

2010 and 2019, the average wealth of Canada's richest one per cent more than doubled from \$4.9 million to \$10 million. The average wealth of the bottom half of people in Canada grew at a snail's pace in comparison, increasing from \$32,043 to \$37,403. As of 2019, the richest one per cent in Canada owned more than a quarter of the wealth in our country.

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It's not surprising that on top of this pre-existing divide, some of Canada's richest people and biggest corporations have profited handsomely during the pandemic. Between March 2020 and the end of January 2021, the wealth of Canada's top 44 billionaires increased by \$63.5 billion, according to Oxfam Canada. A recent Oxfam International report, *The Inequality Virus*, highlights that the wealth gap is also a gender and race gap. The super rich, who benefit from tax cuts the most, are overwhelmingly white and male. Meanwhile, racialized women bear the biggest brunt of cuts to public services triggered by tax cuts.

Time to tax the rich

Inequality is not inevitable; it is the result of policy choices. Important changes to personal and corporate taxation could help rebalance wealth and power, and would fund public services that are the heart of a more equal society. CUPE has partnered with the Broadbent Institute, Canadians for Tax Fairness and others to call on the federal government to implement a wealth tax, close tax loopholes used to hoard wealth, and implement a tax on excess profits made during the pandemic.

Canada is the only G7 nation that doesn't have a wealth, estate, or inheritance tax for large fortunes. There is growing support for an annual wealth tax in Canada. The Parliamentary Budget Officer (PBO) estimated that a one per cent tax on fortunes over \$20 million could raise \$5.6 billion in the first year alone, and \$70 billion over 10 years. Canadians for Tax Fairness used the PBO data to estimate revenue from a more progressive annual wealth tax. They found that a tax of one per cent on wealth over \$10 million, two per cent on wealth over \$100 million and three per cent on wealth over \$1 billion would generate close to \$20 billion annually in revenue for the federal government.

Another huge tax break that has contributed to growing wealth inequality is the preferential way that capital gains are taxed. Capital gains are profits made through the sale of

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financial investments or real estate (but not your principal residence). Right now, only half of any profit is considered income for tax purposes. Over 88 per cent of the value of this tax break goes to the top one per cent of income earners – people earning at least \$236,000 a year. In the last federal election, the NDP proposed returning the capital gains inclusion rate to 75 per cent, where it was in 2000. This change would raise an additional \$9.5 billion in annual revenue.

Fair taxation funds an equitable recovery

Canada's richest people get most of their wealth from ownership of

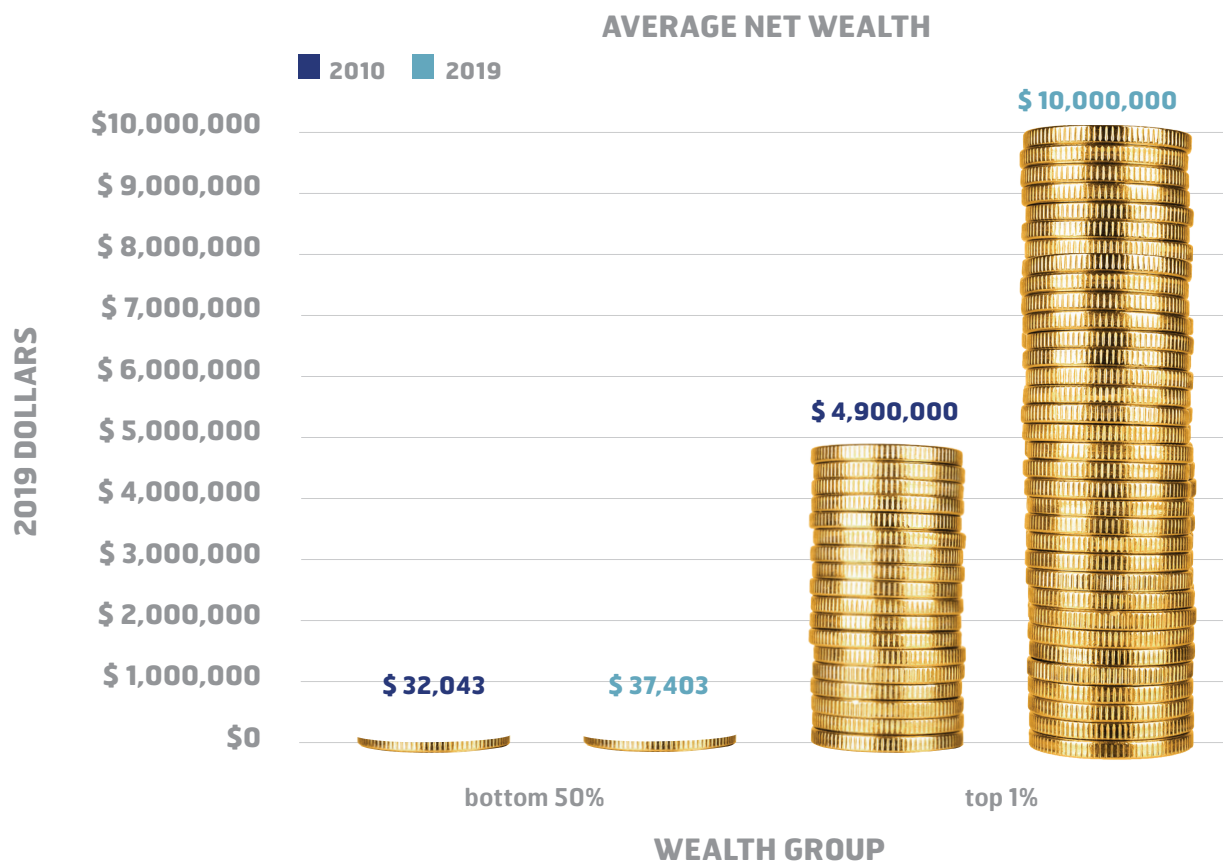
corporations. Corporate tax cuts and tax avoidance have helped enable rising wealth inequality. Restoring the federal general corporate tax rate from 15 per cent to 21 per cent could help reverse this trend and would generate over \$10 billion a year. CUPE's pre-budget submission put forward these and other tax fairness proposals. Together, they would restore \$50 billion annually in federal government revenues.

The federal government could also implement a temporary excess profit tax, like those used during the First and Second World Wars. While some large corporations have seen their business boom during the pandemic,

workplaces based on in-person service or travel have struggled the most under public health restrictions. Corporations that made above-average profits could pay a temporary tax on excess profits to help fund the economic recovery.

The shape of our economic recovery is going to be a key issue in the next federal election, and restoring fairness in our tax system is at the heart of creating a more equitable economy and society. Tax fairness not only prevents wealth hoarding, it also helps pay for the services that we all rely on.

The rich are getting (a whole lot) richer



Source: Canadians for Tax Fairness, 2020

ECONOMIC BRIEFS

Report uncovers Revera tax dodging

Abysmal COVID-19 outcomes in for-profit long-term care homes have put their operators under a much-needed microscope. Revera Living is Canada's second largest for-profit long-term care home operator, and is wholly owned by the Public Sector Pension Investment Board, a Canadian crown corporation. A new report pieces together Revera's subsidiaries and partnerships, finding a complicated web of tax avoidance in their UK operations. The report finds that top Revera executives are also directors of dozens of partnerships in tax havens that form part of an aggressive tax avoidance strategy. Current legislation does not require the same level of financial reporting for Revera's Canadian and US operations. The report recommends that the federal government require clear and public financial reporting for corporations and pension funds.

Data demolishes trickle-down myth

While most know trickle-down economics doesn't work, Alberta Premier Jason Kenney still justified steep tax cuts in 2019 on the premise they would create jobs and boost growth. Finally, there's indisputable evidence this approach doesn't work. Economists



at the London School of Economics analyzed more than 50 years of data on tax cuts across 18 high-income countries in Europe and North America. Using advanced statistical methods, they conclusively found that tax cuts for the rich do not stimulate economic growth or have any impact on job creation. The data did show that tax cuts increase the share of income going to the top one per cent.

To spend, or not to spend?

The US government is considering spending nearly \$2 trillion on stimulus and recovery, an

amount that would normally cause great concern in global financial circles. But it seems economists at the International Monetary Fund have had a change of heart. They've dismissed concerns about too much stimulus causing inflation and argue the greater risk is governments withdrawing pandemic support too early. Janet Yellen, the US Treasury Secretary, has said the US government needs to "act big," and for now it seems the international consensus is on her side. This is good news for proponents of continued fiscal stimulus in Canada.

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CUPE | Canadian Union
of Public Employees

Paid sick days essential tool in COVID-19 fight

Less than half of workers in Canada have employer-paid sick days, and it's closer to a quarter for workers making less than \$25,000 a year. Workers in lower-wage service jobs have been confronted with a terrible choice during the pandemic: isolate at the first sign of potential COVID-19 symptoms or exposure and lose much-needed wages, or hope for the best and keep going to work.

There is overwhelming evidence that paid sick leave and paid quarantine leave are critical to stopping the spread of contagious illnesses. An independent commission that studied the 2003 SARS outbreak in Toronto found provincial compensation for people needing to quarantine was vital to stopping the spread of SARS. The commission recommended that governments have a plan to contain future outbreaks that ensured sick workers could stay home. A study of the 2009 H1N1 pandemic found that workers without

paid sick leave were more likely to go to work while sick, causing an estimated seven million additional H1N1 infections in the United States.

Workplaces have been a source of infection throughout the pandemic in Canada, especially for low-wage workers in food processing, retail, personal care and cleaning services. The Ontario region of Peel, a COVID hotspot in the second wave, has declared 218 workplace outbreaks since the start of the pandemic. Peel has 80 per cent of the warehouse workers in the Greater Toronto Area, and almost half of the COVID cases stemming from workplace outbreaks in the region came from warehouses. A Peel Public Health study conducted between August 2020 and January 2021 found that 25 per cent of workers with COVID-19 symptoms went into work anyway.

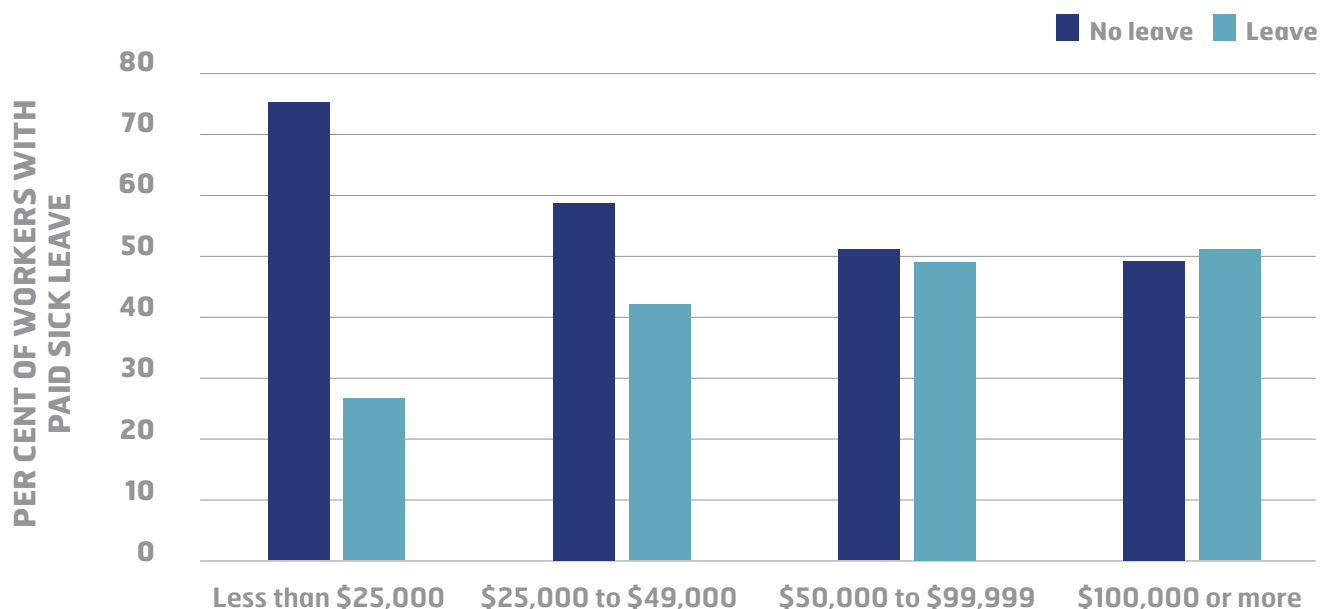
Workplace discrimination has meant that Black, Indigenous, and racialized workers are more likely

to be employed in low-wage service sector jobs. While there is no national data, Toronto Public Health has started collecting this information. The agency has found that people earning less than \$30,000 per year are twice as likely to have had COVID-19 compared to the overall average, and that racialized workers are significantly more likely than white workers to have contracted COVID-19.

A recent Manitoba government report also highlights COVID-19's unequal impact. It shows Black, Indigenous, Filipino, and South Asian people were over-represented in COVID-19 infections recorded between May and December 2020. The report's authors link this outcome to the fact that workers in food processing, the service industry, and transportation made up more than half of all cases where they had information on occupation, and racialized people are more likely to work in these sectors or live with someone who does.

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Paid sick leave by workers' annual income



Source: Statistics Canada, General Social Survey, 2016



ECONOMIC DIRECTIONS

Economic growth — Economic growth had picked up slightly between the first and second waves of the pandemic but stalled again near the end of 2020 as infection rates rose. The Bank of Canada is predicting that our economy will shrink by about 2.5 per cent in the first quarter of 2021 but pick up later in the year as vaccines reach more people. The economic recovery in the United States, Canada's biggest trading partner, looks promising as their federal government is planning substantial stimulus and recovery funding.

Jobs — Employment for higher-wage workers has returned to pre-pandemic levels, but remains about 20 per cent lower for low-wage workers, especially those in highly affected industries such as hospitality, tourism and food services. Long term unemployment has increased dramatically, as almost half a million unemployed workers have been without work for 27 weeks or more.

Wages — The deep and dramatic impacts of this recession will affect bargaining, with public sector employers likely to be especially reluctant to move on wages. The need to recruit and retain more workers in child care, education and health care may result in long overdue wage boosts for these sectors.

Inflation — Overall inflation has been low, coming in at 1.0 per cent in January. The Bank of Canada expects inflation to remain below 2.0 per cent until 2023, leaving significant room for governments to increase spending without causing excess inflation. There are concerns that unprecedented stimulus will spur inflation, but economists at the International Monetary Fund currently think that is unlikely.

Interest rates — The Bank of Canada expects to maintain its key lending rate at 0.25 per cent for an extended period, since it forecasts that inflation will remain well below its target range of 1.0 to 3.0 per cent until at least 2023. The bank will continue to provide support through purchases of long-term government bonds. Government borrowing remains affordable, with 30-year federal government bonds selling at 2.0 per cent interest.

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In the wake of SARS and H1N1, several US states and large cities did mandate that employers provide paid sick leave. Researchers found that having paid sick leave reduced seasonal influenza rates by up to 40 per cent compared to jurisdictions that didn't have it. While Ontario temporarily added two universal paid sick days in 2018, they were quickly removed by the Ford government in 2019. No other substantial

changes to paid leave were successful in any other province or territory.

Employers that push back on paid sick leave are ignoring many hidden costs. Workers who must come to work sick take longer to get better and spread contagious illnesses to other workers and customers. Everyone's less productive when they're sick, and the evidence shows sick workers are more likely to get into accidents at work or make other costly

mistakes. Lack of sick leave also leads to higher employee turnover, resulting in higher training costs and lower productivity for employers.

Low-wage workers are less likely to have paid sick leave and are also less able to afford to take unpaid sick days. Unions, health care experts, and workers' advocates are calling for governments to ensure that all workers have access to paid sick days, during the pandemic and after.