A Macdonald-Laurier Institute Publication

GREAT GATSBY *v.* ZERO DOLLAR LINDA

Assessing the Relationship Between Income Inequality, Social Mobility, and the Tax-Transfer System

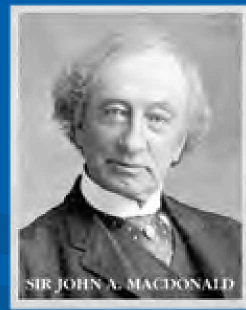
Munir A. Sheikh

April 2015

CELEBRATING 5 YEARS

MLI

5 Years of True North in Canadian Public Policy


SIR JOHN A. MACDONALD

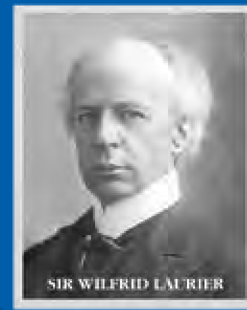
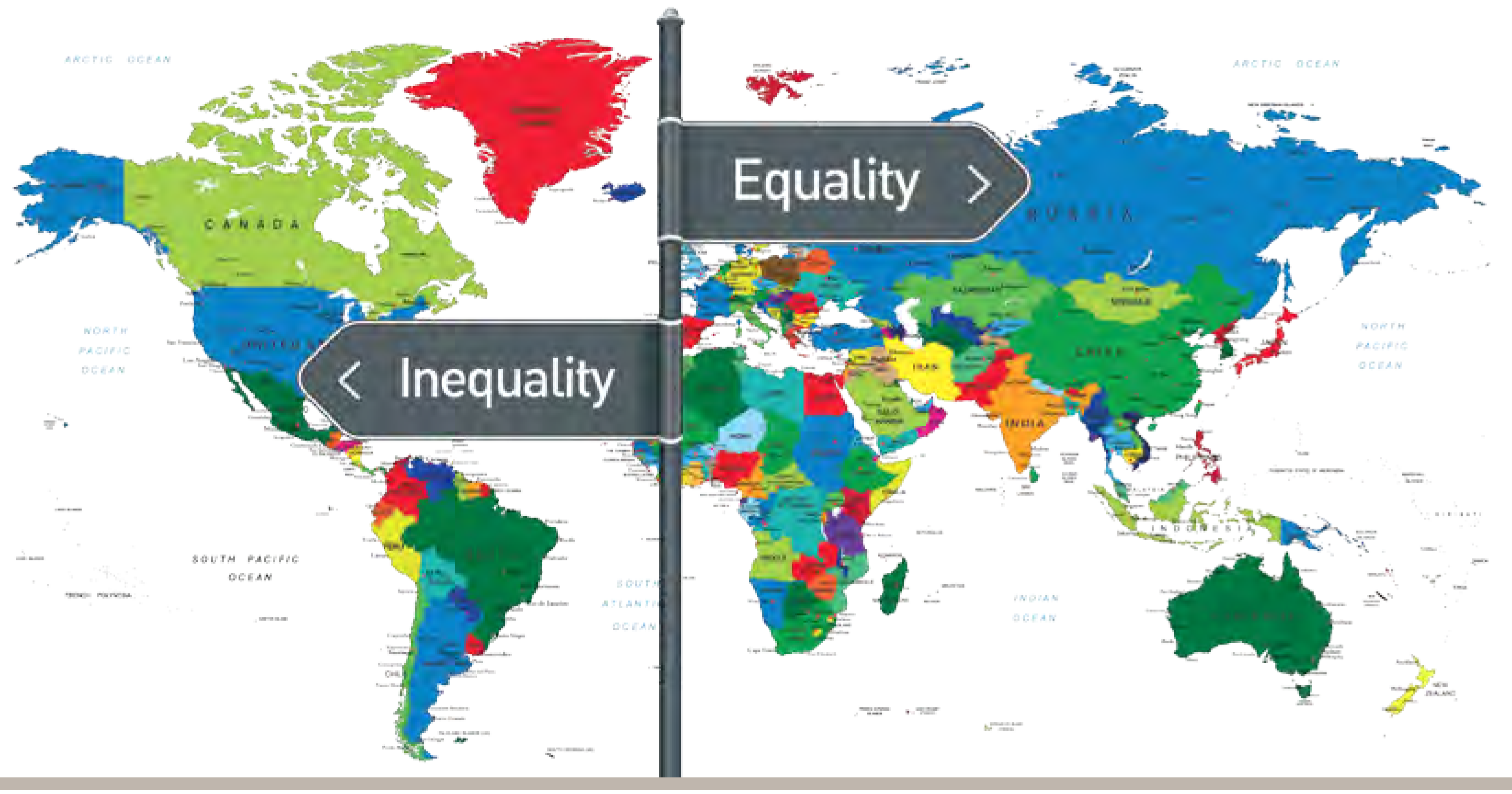

SIR WILFRID LAURIER

Table of Contents

The author of this document has worked independently and is solely responsible for the views presented here. The opinions are not necessarily those of the Macdonald-Laurier Institute, its Directors or Supporters.



Executive Summary

There has been considerable public discussion recently about income inequality and social mobility. Witness the widespread appeal of Thomas Piketty's *Capital in the Twenty-First Century*, which became a best-seller, public protests about the extreme wealth of the "one percent", and politicians' often-stated concerns about wealth disparity. "Tax the rich" is often ventured as a solution to both wealth disparity and a lack of social mobility.

Social mobility refers to low-income earners becoming high-income earners at some point in time or children of low-income parents rising up the income scales when they grow up. Income inequality refers to the gap between those at the top of the income scale and other income groups. Policy-makers need a better understanding of how they are related.

These issues have raised two questions about social mobility: 1) does income inequality reduce social mobility; and 2), is the use of the tax-transfer system an appropriate means to reduce inequality and thus contribute to improving social mobility? Some would say yes and yes. Some have called it the Great Gatsby (GG) model, after the social conditions of the era described in the F. Scott Fitzgerald novel, which featured great wealth disparity and little social mobility, and the unlikely rise to lavish riches of the title character.

However, other research suggests that care must be taken in answering the two questions, as the answers may in fact be no and no, and there is evidence to support this view.

On the first question, of the association between income inequality and social mobility, there is evidence for Canada that shows that: overall income inequality and incidence of low income (poverty) can actually move in different directions; and, it is low income (poverty) that could be the more important determinant of social mobility.

On the second question, in Canada, many inappropriate tax-transfer policies have helped to condemn people to being trapped behind low-income and poverty walls and, rather than improving social mobility, may have worsened it: we refer to it as the Zero Dollar Linda (ZDL) model following Stapleton (2010), who examined the incentives that caused a Toronto woman, Linda Chamberlain, to return to social assistance after a successful attempt to rejoin the workforce.

Examples of programs that may reduce inequality but that under the Zero Dollar Linda model also reduce social mobility include: specialized benefits available to those receiving social assistance but not to those who are working at low incomes; disability benefits which make public support a perversely positive function of income to a certain level; and, overlapping federal and provincial programs clawed back at different thresholds and different rates.

In light of this analysis, the paper offers two policy conclusions. First, despite decades of lip service to the idea of eliminating the welfare and low-income traps, they are still very much with us. Our social policies must, therefore, be reformed with an eye to eliminating this self-imposed but unconscionable and unnecessary barrier to social mobility.

Second, beyond simple income redistribution, done appropriately, policy should be directed at improving the ability of low-income people to acquire useful skills and to be available for work. That points to a greater focus on skills development, availability of extended health care benefits, disability benefits, children's benefits, affordable child care, effective employment services, and comprehensive unemployment insurance. Funding some of these needs, where policy effectiveness can be demonstrated, through a more progressive tax system that would include not imposing unacceptably high marginal effective tax rates on the poorest people, would not only improve social mobility but also reduce income inequality. We can only hope that any new social policies along these lines would be better managed than the existing ones.

Sommaire

L'inégalité des revenus et la mobilité sociale ont récemment fait l'objet de nombreux débats. En témoignent l'immense succès du livre *Le capital au XX1e siècle*, de Thomas Piketty, les manifestations contre les revenus démesurés des « Un pour cent » les plus riches et les préoccupations maintes fois entendues des politiciens au sujet des écarts de richesse. On propose souvent de « Taxer les riches » pour résoudre tant le problème de la répartition de la richesse que celui de la mobilité sociale.

La mobilité sociale fait référence aux personnes à faible revenu qui réussissent à toucher un revenu élevé à un moment ou à un autre de leur vie ou aux enfants de parents à faible revenu qui gravissent l'échelle des revenus quand ils grandissent. Les inégalités de revenu font référence à l'écart de revenu entre le groupe d'individus au sommet de l'échelle des revenus et les autres. Les décideurs doivent mieux comprendre les liens entre ces deux enjeux, qui ont soulevé deux questions à propos de la mobilité sociale : 1) l'inégalité des revenus réduit-elle la mobilité sociale? et 2) le système de transfert fiscal est-il le moyen approprié de réduire les inégalités pour ainsi accroître la mobilité sociale? Certains affirment que la réponse est « oui et oui » à ces deux questions. Ils ont appelé ce phénomène la Courbe de Gatsby, en référence aux conditions sociales décrites dans le roman de Francis Scott Fitzgerald, qui présentait les grands écarts de richesse et la faible mobilité sociale de son époque, ainsi que l'impossible idéal de son personnage principal d'atteindre le somptueux train de vie de la classe supérieure.

Toutefois, des recherches suggèrent que ces questions doivent être traitées avec une grande prudence, que la réponse est « non » dans un cas comme dans l'autre et qu'il existe des preuves à l'appui de ce point de vue.

En ce qui concerne tout d'abord la question du lien entre les inégalités de revenu et la mobilité sociale, l'expérience du Canada fournit des exemples concrets de la relation inverse entre l'inégalité des revenus au niveau global et la fréquence du faible revenu (pauvreté). On observe qu'en fait, le faible revenu (la pauvreté) pourrait bien être le déterminant le plus important de la mobilité sociale.

En ce qui concerne la deuxième question, il faut savoir qu'au Canada, de nombreuses politiques de transferts fiscaux mal conçues, plutôt que d'améliorer la mobilité sociale, contribuent à condamner les gens à demeurer prisonniers de leur faible revenu et de leur pauvreté. Elles ont même peut-être aggravé la mobilité sociale : on a accolé une étiquette à ce phénomène, la « Zero Dollar Linda », en référence à l'analyse de Stapleton (2010), qui a étudié les mesures incitatives ayant amené une Torontoise, Linda Chamberlain, à revenir à l'aide sociale après une tentative réussie d'intégration sur le marché du travail.

Parmi les programmes qui peuvent réduire les inégalités, mais qui renvoient du même coup à la Courbe de Linda, c'est-à-dire qui réduisent la mobilité sociale, nous comptons : les prestations à fins dédiées offertes aux prestataires de l'aide sociale, mais pas aux travailleurs à faible revenu; les contributions gouvernementales liées à l'invalidité qui, de manière perverse, s'accroissent en fonction du niveau de revenu du contribuable touché; et finalement, le chevauchement des seuils et des taux des remboursements prévus dans les divers programmes fédéraux et provinciaux.

À la lumière de cette analyse, cette étude propose deux recommandations de politiques publiques. Premièrement, en dépit des décennies passées à discuter de l'aide sociale et de ses pièges, nous en sommes toujours au même point. Nos politiques sociales doivent, par conséquent, être réformées pour tenter de tenir compte de ces barrières auto-imposées à la mobilité sociale, qui sont inutiles et déraisonnables.

Deuxièmement, bien conçues, les politiques viseraient au-delà de la simple redistribution du revenu en cherchant à améliorer la capacité des personnes à faible revenu à acquérir des compétences utiles et à grossir les rangs des travailleurs. Cela ferait porter l'accent sur le perfectionnement des compétences, l'accès à des avantages médicaux plus étendus, les prestations d'invalidité, les prestations et les garderies abordables pour enfants, un soutien à l'emploi efficace et des allocations de chômage complètes. Dans le cadre d'un système d'imposition plus progressif n'imposant pas des taux marginaux d'imposition effectifs inacceptables aux populations les plus pauvres, des politiques dont l'efficacité peut être démontrée pourraient financer certains de ces besoins, favorisant ainsi non seulement la mobilité sociale, mais aussi une meilleure répartition des revenus. Nous ne pouvons qu'espérer que toute nouvelle politique sociale conçue ainsi sera plus efficace que celles qui existent actuellement.

1 Introduction

An important topic in social policy analysis is income or social mobility, terms that are often used interchangeably in the literature, and refer to whether conditions and opportunities exist such that low income-earners could become high-income earners (intra-generational mobility) or if children of low-income parents could rise up the income scales when they grow up (inter-generational mobility), with family backgrounds playing only a weak role in determining their adult outcomes, and their own hard work playing a much stronger role. Income mobility and social mobility are used interchangeably and include both inter-generational and intra-generational mobility.

There is evidence to suggest the existence of a correlation between income inequality and social mobility. Examples include the work of the OECD (2010, 2011) and Corak (2013). The OECD (2010) has reported that rising income inequality "can stifle upward social mobility, making it harder for talented and hard-working people to get the rewards they deserve." Following Krueger (2012), it is common to refer to this relationship as the Great Gatsby (GG) curve. The Great Gatsby refers to the main character in F. Scott Fitzgerald's novel of the same name and has been linked to the income inequality-social mobility association by Krueger because of Gatsby's rise from poverty to lavish riches.

In discussing this relationship, Corak (2013) comments: "The Great Gatsby Curve is not a causal relationship, but it is too glib to dismiss it by simply saying 'correlation does not imply causation.' Theories of child development and economic mobility suggest it is reasonable to juxtapose measures of inequality and mobility as a starting point for understanding the causal process and its policy implications" (85).

Evidence suggests the existence of a correlation between income inequality and social mobility.

Corak argues that causation most likely runs from high income inequality to reduced social mobility: "Inequality lowers mobility because it shapes opportunity. It heightens the income consequences of innate differences between individuals; it also changes opportunities, incentives, and institutions that form, develop, and transmit characteristics and skills valued in the labor market; and it shifts the balance of power so that some groups are in a position to structure policies or otherwise support their children's achievement independent of talent" (98).

In addition to this line of thought of potential causation running from income inequality to social mobility, income inequality itself has become one of the most important social policy issues of our times. The wide appeal of Thomas Piketty's *Capital in the Twenty-First Century* (2013) has propelled his serious analysis of income inequality to become a best seller. He recommends progressive wealth tax rates and more progressive income tax rates.[1]

A causal relationship from income inequality to social mobility, if it does exist, may have important policy implications. The OECD (2010) argues: "Progressive tax systems and social transfer programs help defray the opportunity costs to parents in poor households of investing in the education of their children . . . Such redistributive policies could thus reduce current income inequalities across parents so that their descendants' income would converge more quickly."

The use of the tax-transfer system, therefore, could be a win-win proposition as it would both reduce inequality and improve social mobility. While Corak's (2013) main focus is on improving opportunities for children, he also mentions favourably the use of the tax-transfer system for redistribution: "Income support to families was also reformed around the same time [in the mid 1990s], delivered through the income tax system and more targeted and generous for lower income families" (97).

While using the tax-transfer system would, by definition, directly reduce income inequality, is such a policy conclusion really valid for also improving social mobility? There are at least three strands of existing literature that suggest such a conclusion may not necessarily hold. Indeed this literature would even suggest the likelihood that such a policy action may diminish social mobility.

The three strands in the literature discuss:

- the importance of the consequences of poverty (or very low incomes, as the definition of poverty is controversial) for social mobility and evidence that poverty and income inequality can move in opposite directions;
- the "welfare wall" which shows that the structure of the welfare system may be so problematic that raising benefit levels may discourage recipients from leaving the system to join the productive workforce; and

- the METRs (marginal effective tax rates) literature that shows that, even at higher income levels, the clawback of social benefits may encourage recipients to stay at those income levels rather than make an effort to move up the income scale.

While some of these channels of influence operate to reduce the mobility of workers from a low-income state to a higher-income state, it is reasonable to argue that the children of those workers who are trapped in low-income states would also have a high risk of being trapped in a similar state when they become adults.

The substantial intrinsic value of SA benefits discourages some to leave welfare to join the workforce and encourages those outside to get in.

Consider an example. The tax-financed provision of public extended health benefits to welfare recipients in Ontario but not to workers, everything else the same, directly reduces income inequality. However, the substantial intrinsic value of these benefits to recipients discourages some to leave welfare to join the workforce and encourages those outside to get in. This reduces their mobility, depresses their incomes, traps them behind a welfare wall, and creates a culture of low income at home, thereby affecting intergenerational mobility.

There is a famous real life example of this phenomenon popularized by Stapleton (2010), which he refers to as Zero Dollar Linda (ZDL). In Stapleton's words:

> Linda Chamberlain is a Toronto woman with serious disabilities living in subsidized housing. Through one of her support agencies, she found part-time work to supplement her disability income. Instead of bolstering this success story, her public housing landlord immediately made her rent unaffordable, while her disability support program severely cut her benefits . . . she too could have done better had she received the help and advice she needed. But she came to the conclusion she could only prosper by leaving the work she loved . . . She represents the great majority of social assistance recipients, who want to get ahead and be as self-reliant as they can under their individual circumstances. Why then, does our social welfare system use very tough, unbending, counterproductive rules to pounce upon people like Linda, treating her as if she were doing something wrong?

To simplify discussion, we label the two models described above as the Great Gatsby model (GG) – which implies that reducing income inequality through the tax transfer system would increase social mobility – and the Zero Dollar Linda model (ZDL) – which suggests that may not happen with inappropriate social policies, and could indeed lead to a reduction in social mobility.

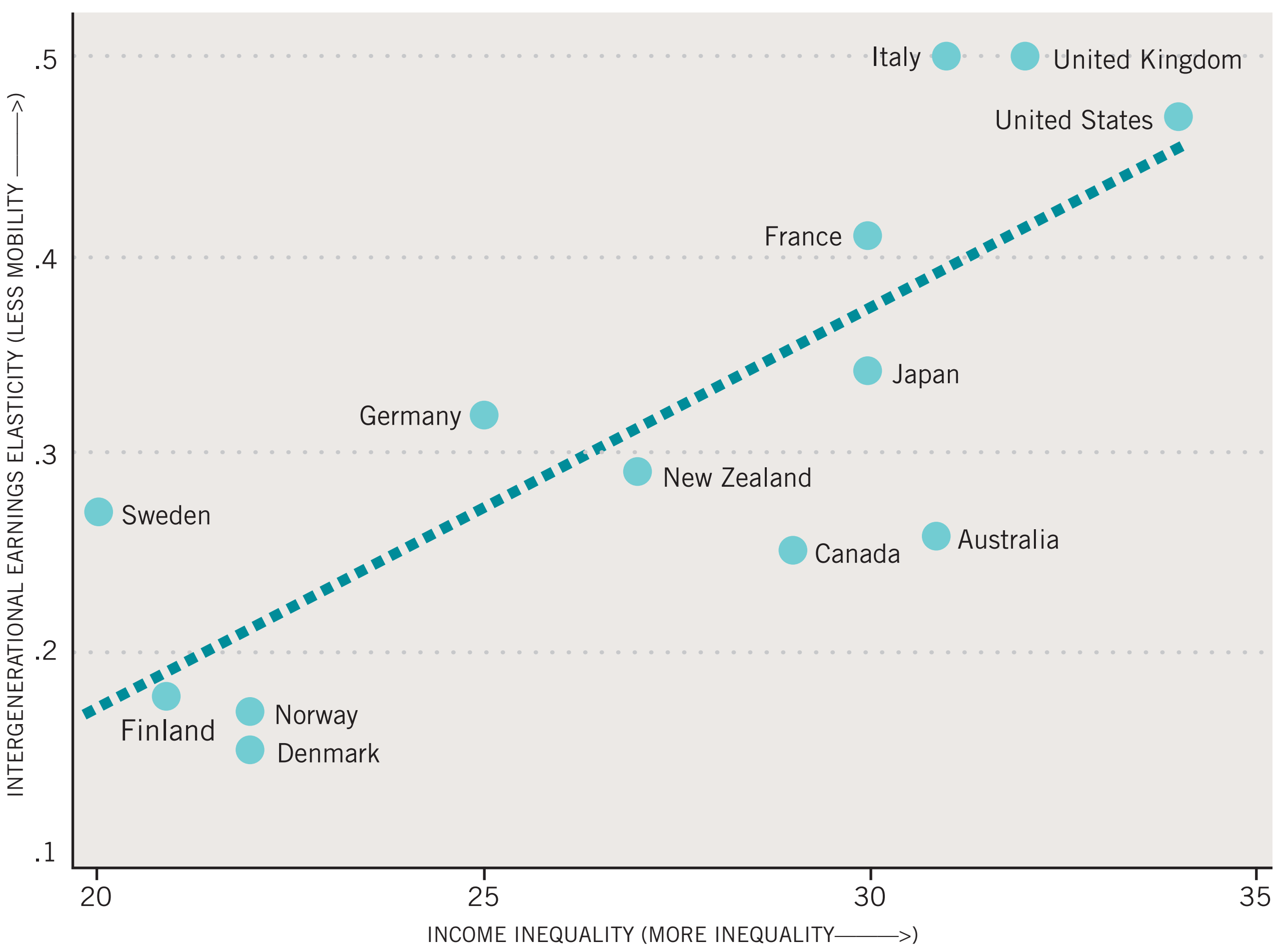
In this paper, Section 2 summarizes the literature on the GG model. Section 3 summarizes the three strands of literature supporting the ZDL model. This includes: the research on child poverty by Ross, Kelly, and Scott (1996) and Ross and Roberts (1999); the recent report of the Commission for the Review of Social Assistance in Ontario (2012b); and the work on marginal effective tax rates (METRs) exemplified by Laurin and Poschmann (2013) and the OECD (2014c). Section 4 reviews the policy implications of each approach. An appendix provides some preliminary empirical analysis of the two competing models.

2 The Great Gatsby Model

Chart 1 from Corak (2013) provides the association between more inequality and less social mobility for 13 countries.[2] Income inequality is captured by the Gini coefficient using disposable income: this statistic, developed by the Italian statistician Corrado Gini, is the most widely used measure to capture the extent of income inequality, with a value of zero showing everyone has the same income, or perfect income equality, and the higher the value, the more unequal income distribution is. Social mobility is defined as the "generational earnings elasticity" between the "permanent earnings" of individuals across two generations in the same family, as the elasticity between paternal earnings and a son's adult earnings (see footnote to the chart). Corak explains that the association works at both the high and low income ends: at the low end, low income means lack of opportunity that restricts children and young adults in that income group from moving up. At the high end an abundance of income provides opportunities to the children and young adults in that income group to stay there, rather than move down.

The Great Gatsby model implies that reducing income inequality through tax transfers increases social mobility.

CHART 1 The Great Gatsby curve, with data from 13 countries



Source: Corak (2013)

Notes: Income inequality is measured as the Gini coefficient, using disposable household income for about 1985 as provided by the OECD. Intergenerational economic mobility is measured as the elasticity between paternal earnings and a son's adult earnings, using data on a cohort of children born, roughly speaking, during the early to mid 1960s and measuring their adult outcomes in the mid to late 1990s.

He quotes Roemer (2004) who argues that there are three ways parents can help their children and give them an advantage:

> First, parents may transmit economic advantages through social connections facilitating access to jobs, admission to particular schools or colleges, or access to other sources of human capital. Second, parents may influence life chances through the genetic transmission of characteristics like innate ability, personality, and some aspects of health, which are valued in the labor market. Third, parents may influence the lifetime earnings prospects of their children in subtle ways, like through a family culture and other monetary and nonmonetary investments that shape skills, aptitudes, beliefs, and behavior.

This is just a summary of a complex idea for the benefit of simplicity.

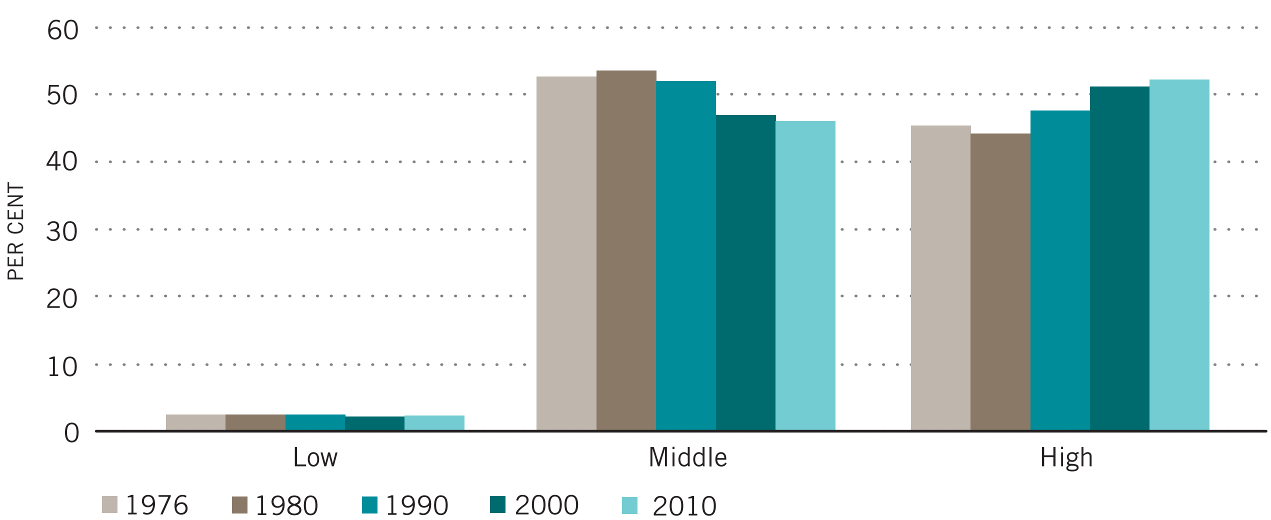
3 The Zero Dollar Linda Model

The Linda Chamberlain story, the Zero Dollar Linda popularized by Stapleton (2012), suggests an alternative explanation to social mobility: social policy that traps poor people behind a welfare wall. Other work done on aspects of Canadian social policy that has similar impacts at the low income end, through substantial increases in marginal effective tax rates, such as that by Laurin and Poschmann (2012), points in the same direction: the impact of social policies in reducing social mobility by trapping individuals in states of low incomes.

The third strand of work focuses on the impact of poverty (lower incomes) in restricting social mobility through a variety of channels not different from what Corak (2013) and the OECD (2011) have argued. The difference is that the emphasis here is on low incomes and poverty rather than income inequality.

While poverty and income inequality may move together, that is not necessarily always the case: as an illustrative example, if one divides the population in three income groups – low, middle, and high[3] – there is no reason to believe a one-to-one relationship for changes in income shares between the high and the low income groups. Charts 2 and 3 make the point.

Chart 2: Market income shares, Canada (percent), 1976–2010



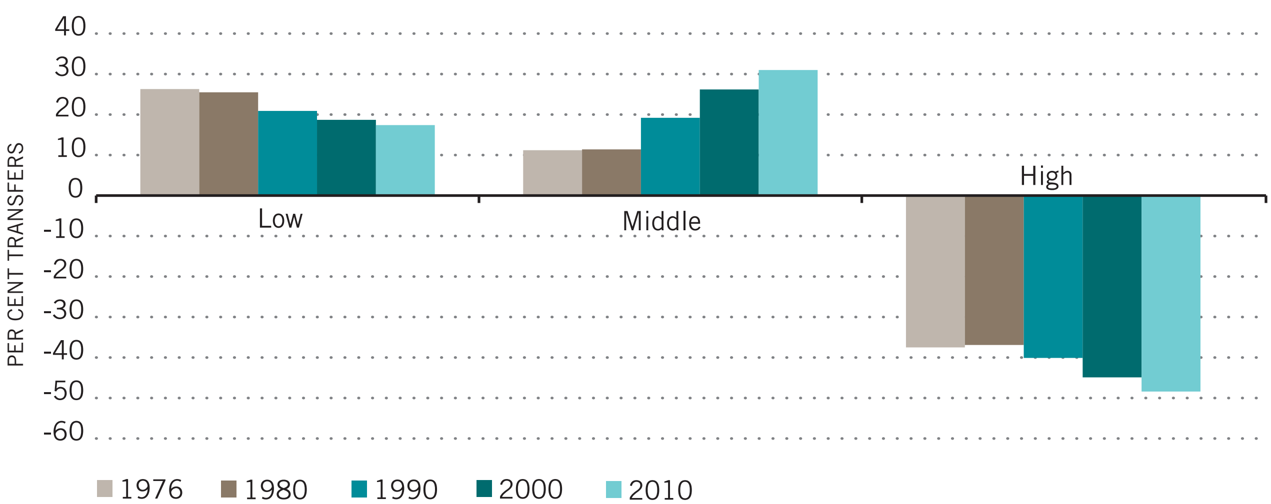
Source: Statistics Canada, CANSIM, 202-0703.
Note: “Low” is the lowest quintile, “high” is the highest quintile, and “middle” is the sum of the middle three quintiles.

Chart 2 shows that, over the period 1976 to 2010, the share of market income[4] in Canada going to the high income group (as captured by the top quintile) rose significantly, that of the middle income group (the sum of the three middle quintiles) fell by an equivalent amount, and that the income share of the low income group (the bottom quintile) was unchanged. Equality of market income, therefore, worsened over this period without any change in the income share at the low end.[5]

The Zero Dollar Linda model suggests poor social policy traps poor people behind a welfare wall.

Looking at the contribution of tax-transfer policies we find in Chart 3 that social policy led to offsetting changes in income inequality,[6] with increased net transfers to the middle income group taking place both through increased net transfers from the high income group – which increased equality – and reduced net transfers to the low income group – which worsened income equality.[7]

Chart 3: Net transfers by income class (percent)



Source: Statistics Canada, CANSIM, 202-0704.
Note: "Low" is the lowest quintile, "high" is the highest quintile, and "middle" is the sum of the middle three quintiles. Transfers include all transfers by all levels of government. Tax includes income tax by all levels of government.

Politicians who champion the "middle class" should take note, the middle incomes are in fact already benefitting at the expense of the lower incomes from the income tax and transfer system, which should challenge anyone's notion of fairness. These two charts show clearly that income inequality and the incidence of low income can move in opposite directions, both as a result of market forces and as a result of social policy.

Income inequality and the incidence of low income can move in opposite directions.

Poverty and Social Mobility

Ross, Scott, and Kelly (1996) observe: "Simply put, poor children have poor health, they have lower level of educational attainment, they live in riskier environments, and they partake in riskier behaviour. Over the longer term, child poverty significantly endangers a child's opportunity to grow and develop into a healthy self-reliant adult."

Ross and Roberts (1999) observe:[8]

> for 80 per cent of the different variables examined, the risks to child outcomes and the likelihood of poor living conditions are noticeably higher for children in families with incomes below $30,000. This is also true for 50 per cent of the variables for children in families with incomes below $40,000. Children in families with incomes between $40,000 and $80,000 show less significant differences in outcome risks, but those in families with incomes of $80,000 or more are at noticeably less risk of poor outcomes than children in any other family income group.

How do we reconcile this analysis with Roemer's (2004)? Roemer's observations relate to averages: those with high incomes transmit a positive advantage to their children, but further additions to income and wealth do not necessarily contribute much to this advantage. On the other hand, Scott and Roberts' observations are true both for averages and at the margin: lower incomes and declines in incomes at the lower end of the income scale have negative impacts on social mobility outcomes. For policy development, it is changes at the margin that matter, rather than averages.

The Welfare Wall

There are three objectives underlying a desirable benefit structure in a social assistance (SA) program:[9] adequacy, appropriate incentives to get back to work, and fairness. Adequacy refers to the level of benefits being reasonable enough to meet the basic needs of SA recipients. Incentives should be appropriate so that when a welfare recipient wants to work, the clawback rate for benefits should not be too high to discourage this outcome. Fairness is defined to mean that someone receiving benefits and working part time should not be better off than someone working full time without receiving welfare benefits.

When fairness is the objective, there is a trade-off between adequacy and work incentives.

While all of these are desirable objectives, it is mathematically impossible to establish the three objectives independently of each other. Only two of the three objectives could be independently established and the third would be algebraically pre-determined by the other two. Assume, for example, the benefit and the clawback rates were set to achieve the adequacy and incentive objectives. That would residually yield the income level where the benefits would run out. This income level could be higher than that given by someone working full time at low wage, thereby violating the fairness objective. The same would be true with any other combinations of independently established objectives.

Assuming that fairness was an overriding objective, this framework clearly identifies a trade-off between adequacy and work incentives. Raise the benefit levels, and the incentive to find work and get out of the welfare trap is adversely affected, as the clawback rate must necessarily rise in tandem. A policy that follows the GG model and raises benefit rates and the clawback rate could therefore have a perverse effect on mobility.

Assuming the clawback rate was set consistent with work incentives, and fairness was the second independent objective, there would be no flexibility to set the benefit rate independently. Again, that would suggest that increasing mobility (by relying on a reasonable clawback rate) would be inconsistent with increased income equality (by increasing the benefit level). A scheme with such parameters could generate benefit levels that the society in general may consider too low.

Ignoring the fairness objective for it to be residually determined does not get one off the binding constraint. In such a scenario, it could be financially beneficial for some to leave work and join social assistance, as Linda Chamberlain found that joining work was costly.

This theoretical model quite clearly highlights the complex nature of alleviating poverty and low incomes, as there are no simplistic solutions. In the context of this complexity, good public policy would try to find creative solutions around the trade-off challenge, neutral public policy would do the best it can to manage it, and bad public policy would make things worse than need be, given the trade-off.

In this context, the report of the Commission for the Review of Social Assistance in Ontario found that the Ontario SA program was an example of bad public policy, which in fact reduced mobility. The report goes on to highlight that there are many opportunities to improve social and economic outcomes for SA recipients – even in the context of the trade-off constraint – that would improve mobility.

The report identifies a number of features of the SA program that trap recipients behind the welfare wall. These include:

- There are more than 30 specialized benefits available to those on SA but not publicly available to those working and thus outside SA. Rather than letting individuals make choices based on a given level of transfers, the government examines individuals' many needs and determines the type of specialized benefit they should receive. The program is, as a result, administratively costly and complex and clearly creates the wrong work incentives;
- the particularly inappropriate design of some benefits, such as support for people with disabilities, where SA disability supplements completely disappear when a person works full time. These benefits, which should be related to disability and be made a function of income, are instead a function of being on SA. The problem does not end here. The tax system, with its disability tax credit, makes public support for people with disability outside SA a perversely positive function of their income to a certain income level;
- some benefits that should be available to all low-income people, as they deal with the failure of the market system, such as extended health benefits – drugs, dental, and vision – are available inside SA but not outside;
- an extremely low basic SA benefit rate that is not only socially unreasonable but also economically inefficient since it takes away opportunities from such low income families to allow their children and young adults to do better and move up the social ladder, without the efficiency-equity trade-off being binding at such low SA benefit rates; and
- inefficient and inadequate employment services that keep most recipients from finding meaningful jobs, particularly those with disabilities.

Indeed, one of the telling comments Commissioners heard was that the biggest barrier to welfare recipients moving out to find jobs and better their lives was the social assistance program itself.

To improve outcomes for recipients of social assistance by working around the equity-efficiency trade-off, and thus make it possible for them to move up the income scale, the Commission recommended transforming the SA program by eliminating specialized benefits for SA recipients, strengthening employment services, and raising the basic benefit rate. The Commission also recommended making certain benefits available to all low-income workers in a cost effective manner that would have the impact of encouraging mobility.

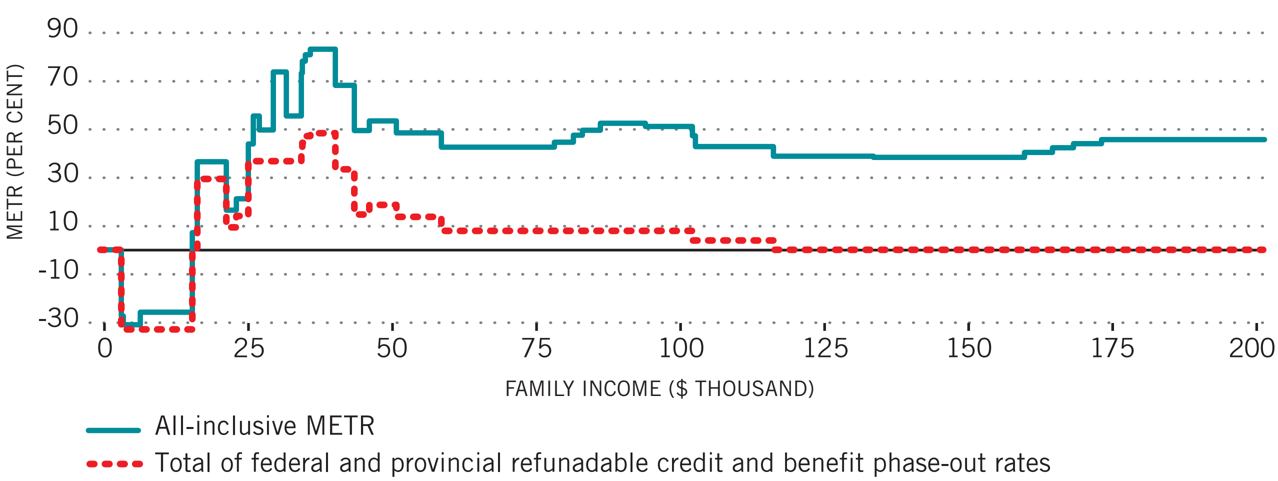
High METRs

The Commission's report dealt with one section of the population with the lowest incomes, but the social policy challenge we see here goes beyond that and is well captured in the paper by Laurin and Poschmann (2013) on the marginal effective tax rates (METRs).

A METR calculates the proportion of earned income lost at the margin, due to higher taxes and reduced benefits.

A METR calculates the proportion of earned income an individual would lose at the margin, both in the form of higher taxes and reduced benefits. The chart shows, for example, that at an income level of approximately $35,000, a worker would lose almost $85 of every $100 of new income earned. In such situations, there would be no strong incentive to earn a higher income. A chart from that report is reproduced as chart 4 below. While the chart is for Quebec, the same story generally applies to all Canadian provinces.

Chart 4: Marginal effective tax rates in Quebec, 2013



Source: Laurin and Poschmann (2013).

We note that METRs can be quite high, particularly in the lower-income range of $25,000 to $40,000, reaching as high as 85 percent. In calculating Quebec METRs, Laurin and Poschmann include, in addition to income tax, seven federal benefits and four Quebec benefits that are a negative function of income.[10] METRs are also quite high, above 50 percent, even in income ranges of $70,000 to $100,000. These METRs are higher than those for all income groups above $100,000.

There are many examples of METRs at 100 percent. For example in the description by Stapleton (2014) of the case of Linda Chamberlain, she did not apply for CPP retirement benefits as they would be clawed back dollar for dollar: 50 cents through a reduction in support in the Guaranteed Annual Income System for the Aged; and 50 cents through a reduction in the Guaranteed Income Supplement. These high METRs can certainly discourage those in these income ranges to seek to move up the income scale: this is indicative that the tax-transfer system can increase income equality while at the same time discouraging mobility if done badly.

> *The tax-transfer system can increase income equality while discouraging mobility if done badly.*

The reason for such a shape for the METRs is that there is a wide range of social benefits, managed by many ministries within a province and by the federal government, oblivious to what others may be doing, and clawed back at different thresholds and different rates. For example, the Canada Child Tax Benefit (CTB) begins to be clawed back at an income level of about $43,500, the CTB supplement is clawed back at an income level of about $25,000, the Quebec Solidarity Tax Credit is phased out at an income level of about $32,000, and the Quebec Child Assistance Credit clawback kicks in at an income of about $46,000.

4 Policy Implications

Policy implications flowing from the two hypotheses discussed in this paper are similar for some policies but diametrically opposite for others. The GG model might suggest that any support, financial or in-kind, provided to those with lower incomes, funded by taxation at higher incomes, would increase social mobility, as it would reduce income inequality. Under the ZDL model, any reduction in income inequality that also leads to a reduction in poverty (low incomes), but which does not raise policy-driven METRs to the extent as to trap workers in states of low income or poverty, would increase social mobility as well. While one may feel that income inequality and poverty (low incomes) would move together, that was not the case for Canada over more than three decades as we saw in charts 2 and 3.

An example where the two hypotheses may converge is the case of the Canada Child Tax Benefit (CCTB) and its provincial top-ups. The clawback rates for these benefits are moderate so as to not increase METRs by large amounts.[11] As a result, the positive social mobility benefits of CCTB, to direct more resources to lower income parents to help improve their children's opportunities and offset the cost of raising children, dominates and thus may have positive, rather than negative, social mobility effects.

There are many public policy examples whose social mobility effects may be positive or negative depending on which of the two hypotheses is correct. An example of public support at the low end that would increase social mobility, if the GG model is valid, are the 30 plus specialized benefits provided under Ontario's social assistance program. The existing Ontario social assistance program is, therefore, an example of good public policy under the GG model. However, in contrast to the conclusion that flows from the GG model, the report of the Commission for the Review of Social Assistance in Ontario (2012) concluded that the impact of these benefits on mobility is negative, as these benefits discourage those on social assistance to leave the program, particularly for people with disabilities. This lends support to the ZDL model. These specialized benefits include disability benefits, extended health care benefits (drugs, dental, and vision), the special diet allowance, the top-up to child benefits over and above the Canada and Ontario child tax benefits, and a host of many other benefits. Beyond social assistance, Ontario's Trillium benefit may have positive social mobility effects if the GG model is valid but negative effects if the ZDL model is valid. The findings of the Commission certainly add to the evidence that efforts to improve equality can have negative effects on mobility.

A federal policy example that is of interest is the Working Income Tax Benefit (WITB). Under GG, it is an economically helpful policy as it supports workers at lower incomes funded by general taxation that is paid for disproportionately by higher income groups. Again, under GG, WITB should reduce income inequality and thus be good for social mobility. However, if the ZDL model is valid, the impact of WITB depends on its design: a high clawback rate of WITB as incomes rise can increase METRs and trap workers in poverty and low-income jobs.[12]

Income inequality and poverty have not moved together for over 30 years in Canada.

There has always been an ongoing interest among some circles in introducing a guaranteed annual income (GAI).[13] Sidestepping the very substantial practical issue of how to migrate to a GAI from where we are today in social policy, with a multitude of federal-provincial programs that guarantee income in one form or another, the GG model would support such a move as it would be conducive to social mobility while the ZDL model would want to know its impact on METRs in various income ranges before determining whether it would increase or reduce social mobility. If a particular design of GAI streamlines the vast range of social programs today, with their own clawback rates, into a smaller number or one GAI that would smooth METRs (see chart 4 above) and reduce administrative cost, it could be a desirable policy under the ZDL model. But if these design conditions are not met, a GAI could also reduce social mobility.

In the context of Canadian trends provided in chart 3 above, the GG model would suggest that Canadian social policy over the period 2000 to 2010 did not have much impact on social mobility as overall income inequality did not change as a result of social policy actions. The ZDL model, on the other hand, would suggest social policy pursued over this period might have worsened social mobility by worsening the after-tax-transfer income of those with the lowest incomes.[14]

5 Conclusions

High social mobility is a desirable feature for a modern society that would allow all citizens to achieve their potential to the best of their ability. Understanding the factors that drive this is important so that appropriate public policies would help improve it, rather than harm it.

Recent literature has tried to understand this important issue and has suggested that income inequality may be a cause of reduced social mobility. The natural conclusion one would draw from this analysis is that a policy focus to reduce inequality, including such solutions as "tax the rich" (which Piketty recommends) and transfer funds to the poor, would improve both social and economic outcomes by improving income distribution, allowing individuals to better realize their potential.

There is other literature to suggest that, while reduced inequality and improved social mobility are both desirable objectives, the issue of poverty and low incomes and their impact on social mobility is much more complex. This literature suggests that we need to better understand this complexity before designing appropriate policy responses. Indeed, this literature suggests that reducing income inequality through the tax-transfer system may discourage social mobility, rather than encourage it, if the underlying programs are deficient. This complexity can be highlighted by many examples such as: specialized benefits for social assistance, that are not available to low income workers, reduce social mobility; and the use of the tax-transfer system over the past 30 years to support the middle class was not only at the expense of the rich, but also at the expense of those with low incomes.

Programs like the Canada Child Tax Benefit encourage equality and mobility.

As this paper has discussed, examples of programs that may reduce inequality but that under the Zero Dollar Linda model *also reduce* social mobility include: specialized benefits available to those in Ontario receiving social assistance but not to those who are working at low incomes; disability benefits which make public support a perversely positive function of income to a certain level; and, overlapping federal and provincial programs clawed back at different thresholds and different rates.

One example of a program that might encourage both equality and mobility is the Canada Child Tax Benefit and its provincial top ups. Clawback rates are moderate so as not to increase METRs by large amounts and directing more resources to lower income parents can help improve children's economic opportunities.

We should not conclude that income redistribution can never help in increasing social mobility. It can if policies are well designed. Indeed, there are many flaws in existing social policies, such as Ontario's social assistance program and policies driving up marginal effective tax rates to unacceptable levels, that, if corrected, can make a significant contribution in achieving the goal of enhanced social mobility.

Beyond simple income redistribution, certain policies may be helpful in improving economic performance by correcting market failures that particularly affect the bottom of the income scale such as skills development, availability of extended health care, disability benefits, children's benefits, affordable child care, effective employment services, and comprehensive unemployment insurance. Funding some of these needs, where policy effectiveness can be demonstrated, through a more progressive tax system[15] that would include not imposing unacceptably high marginal effective tax rates on the poorest people, would not only improve social mobility but also reduce income inequality. But this does raise the question: can one be hopeful that any new social policies along these lines would be better than the existing ones?

Author's Note

I would like to thank John Stapleton, Phillip Cross, Ronald Kneebone, David Watson, and two anonymous referees for their excellent comments that have considerably improved the quality of the paper. However, views expressed in this paper are mine and in no way reflect the views of the commentators, the Commission for the Review of Social Assistance in Ontario, its co-Commissioner Frances Lankin, or the Government of Ontario. Any remaining errors and omissions are my sole responsibility.

About the Author

Munir Ahmed Sheikh

Munir Sheikh is an Executive Fellow at the School of Public Policy at the University of Calgary. He recently served as a co-Commissioner of Ontario's Social Assistance Review, which submitted its Report to the Government of Ontario on transforming the program in October 2012.

He served the Government of Canada in many senior level positions including the Chief Statistician of Canada, Deputy Minister of Labour, Deputy Secretary to the Cabinet, Expenditure Review at the Privy Council Office, Associate Deputy Minister, first at Health Canada and then at Finance Canada, and Senior Assistant Deputy Minister, Tax Policy at Finance Canada.

Mr. Sheikh holds a Doctorate in Economics from the University of Western Ontario and a Masters in Economics from McMaster University. He has published extensively in academic journals in the areas of international economics, macroeconomics and public finance. His work has been widely quoted and reproduced in textbooks and included in books of collected readings. He also taught at Queen's University, Carleton University and the University of Ottawa for many years.

Appendix: Empirical Analysis

Economists often use regression analysis to study relationships among variables. In such exercises, we can test the hypothesis whether a variable has an effect on the other variable or not. In our context, we want to compare the relationships in two models: under the GG model, determine whether income inequality reduces social mobility; under the ZDL mobility, determine whether, instead, it is poverty and METRs. Two "statistics" help us determine the strengths of these tested relationships, R^2 and "t": the former reflects on the strength of the overall relationship between variables and the latter the significance of each variable on the right hand side in explaining the variable on the left hand side.

Below we test empirical support for the two models by undertaking regression analysis similar to Corak (2013) for estimating the GG model.

The countries included in our analysis, as in Corak (2013), are Australia, Canada, Denmark, Finland, France, Germany, Italy, Japan, New Zealand, Norway, Sweden, the UK, and the US.

The Great Gatsby Curve

$$\text{1)}\quad SM = -0.18 + 1.74{*}GI$$
$$(0.4)\quad (3.8)$$

$$R^2 = 0.57.$$

Where

SM = the social mobility indicator as estimated by Corak (2013); see chart 1 above;

GI = Gini coefficient for 1995, based on after-tax/transfer incomes from the OECD (2014a).

Closer R^2 is to 1, the stronger the relationship, the closer R^2 is to 0, the weaker the relationship.

Figures in the parentheses are t statistics. The higher the "t", the more important it is as an explanatory variable.

The Zero Dollar Linda Model

Equation 2 estimates social mobility as a function of the OECD-calculated child poverty rate[16] for the age group 0–17 and a METR variable as a comprehensive indicator of the impact of social policy in trapping citizens behind a low-income poverty wall, which captures both the welfare and lower income populations.

$$\text{2)}\quad SM = -0.03 + 0.39{*}METR + 1.67{*}CP$$
$$(0.3)\quad (2.5)\qquad\qquad (5.9)$$

$$R^2 = .78.$$

Where

CP = 1995 child after-tax-transfer child poverty rates from the OECD (2014a);

METR = the METR for a single employee at 67 percent of average wage in the 13 countries in the sample, obtained from OECD[17] (2014C, Table 1.6).

We find the following from this empirical evidence.

- There is support for the association between income inequality and social mobility; and
- there is support for the hypothesis underlying the ZDL model that child poverty and high marginal effective tax rates have a negative impact on social mobility. This evidence is somewhat stronger than that for the GG model.

We should emphasize, however, that data availability is a challenge in estimating these relationships. All these data limitations suggest that it is not advisable to draw strong conclusions from any such estimation. The social mobility construct in Corak (2013), reported above in chart 1, and replicated in these estimates, is based on his review of independent country studies "adjusted for methodological comparability" for "a cohort of children born, roughly speaking, during the early to mid 1960s and measuring their adult outcomes in the mid to late 1990s." The Gini coefficient is from the OECD for "about 1985" in his estimation. In a sense, he is relating the income of a 30 year old (born in 1960s) to the income status of his family (captured by income inequality) when he was already 20 years old (with the Gini for 1985). This leaves out all those formative years when the child was growing up, which is not ideal given his emphasis on child development. The reason for his use of the "about 1985" Gini is that consistent pre-1985 OECD data are not available.

My estimate of the alternative ZDL model suffers from a similar problem in that data for child poverty are not available consistently across the 13 countries even for "about 1985" (or indeed earlier): only six countries have these data for 1985. Assuming all these variables do not change significantly over time, an assumption that seems reasonable when comparing the available Gini and child poverty data for 1985 and 1995, this paper used the 1995 data, the first year these data for both Gini and child poverty are available for most (11) of the 13 countries. France's data are for 1996 and UK's for 1994. Furthermore, METRs data were not available going back some decades, so 2011 data were used.

We must also point out that both the available theoretical analysis and empirical evidence on the linkages among social mobility, income inequality, and the use of the tax-transfer system to affect them leaves a lot to be desired. This is unfortunate given the importance of these issues. This suggests two comments: first, it is important that further research be undertaken in this important area; and second, until better information becomes available, public policy should take into consideration the implications of existing alternative hypotheses to avoid making serious mistakes.

References

Andrews, Dan and Andrew Leigh. 2009. "More Inequality, Less Social mobility." *Applied Economic Letters* 16: 1489–1492.

Cassidy, John. 2014. "Forces of Divergence." *New Yorker*, March 31.

Commission for the Review of Social Assistance in Ontario. 2011. "Discussion Paper: Issues and Ideas." Ministry of Community and Social Services, Government of Ontario.

———. 2012a. "Discussion Paper 2: Approaches for Reform." Ministry of Community and Social Services, Government of Ontario, February.

———. 2012b. "Brighter Prospects: Transforming Social Assistance in Ontario." Ministry of Community and Social Services, Government of Ontario, October.

Corak, Miles. 2013. "Income Inequality, Equality of Opportunity, and Intergenerational Mobility." *Journal of Economic Perspectives* 27(3): 79–102.

Galbraith, James, K. 2014. "*Kapital* for the Twenty-First Century?" *Dissent*, Spring.

Krueger, Alan. 2012. "The Rise and Consequences of Inequality in the United States." Presentation made to the Center for American Progress, January 12th.

Kunkel, Benjamin. 2014. "Paupers and Richlings." *London Review of Books*, July 3.

Laurin, Alexandre and Finn Poschmann. 2013. *Treading Water: The Impact of High METRs on Working Families in Canada*. C.D. Howe Institute.

Manikw, N. Gregory. 2013. "Defending the One Percent." *Journal of Economic Perspectives* 27(3): 21–34.

Milligan, Kevin. 2010. "Should Canada Have a Guaranteed Annual Income?" *The Globe and Mail*, October 20.

———. 2014. *Tax Policy for a New Era: Promoting Economic Growth and Fairness*. C.D. Howe Institute.

Murphy, Brian, Xuelin Zhang, and Claude Dionne. 2012. "Low Income in Canada: A Multi-line and Multi-index Perspective." *Income Research Paper Series,* Statistics Canada.

Organisation for Economic Co-operation and Development [OECD]. 2010. "A Family Affair: Intergenerational Social Mobility across OECD Countries." Chapter 5 in *Economic Policy Reforms: Going for Growth,* Organisation for Economic Co-operation and Development.

———. 2011. *Divided We Stand: Why Inequality Keeps Rising*. Organisation for Economic Co-operation and Development.

———. 2014a. *Income Distribution and Poverty*. Organisation for Economic Co-operation and Development. Database accessible at: http://stats.oecd.org/Index.aspx?DataSetCode=IDD.

———. 2014b. *Social Expenditures*. Organisation for Economic Co-operation and Development. Database accessible at: http://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG.

———. 2014c. *Taxing Wages*. Organisation for Economic Co-operation and Development. Available at http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/taxing-wages-2011_tax_wages-2011-en#page1.

Piketty, Thomas. 2013. *Capital in the Twenty-First Century*. Translated by Arthur Goldhammer. Belknap Press.

Roemer, John E. 2004. "Equal Opportunity and Intergenerational Mobility: Going Beyond Intergenerational Income Transition Matrices." In *Generational Income Mobility in North America and Europe*, edited by Miles Corak. Cambridge: Cambridge University Press.

Ross, David. 1999. *Rethinking Child Poverty*. Canadian Council on Social Development.

Ross, David, Mark Kelly, and Katherine Scott. 1996. *Child Poverty: What are the Consequences?* Canadian Council on Social Development.

Ross, D. and P. Roberts. 1999. *Income and Child Well-being: A New Perspective on the Poverty Debate*. Canadian Council on Social Development.

Saez, Emmanuel. 2013. "Income Inequality: Evidence and Policy Implications." Arrow Lecture, Stanford University.

Senate of Canada. 2009. *In From the Margins: A Call to Action on Poverty, Housing and Homelessness.* The Standing Committee on Social Affairs, Science and Technology.

Stapleton, John. 2010. *"Zero Dollar Linda": A Meditation on Malcom Gladwell's "Million Dollar Murray," the Linda Chamberlain Rule, and the Auditor General of Ontario.* Metcalf Foundation.

———. 2014. "A Story of Two Poor Seniors: Linda and Doris are the Highest Taxed People in Ontario." *Open Policy Ontario.* Available at http://openpolicyontario.com/a-story-of-two-poor-seniors-linda-and-doris-are-the-highest-taxed-people-in-ontario/.

Statistics Canada. Market, total and after-tax income, by economic family type and after-tax income quintiles, 2011 constant dollars. CANSIM 202-0703.

———. Government transfers and income tax, by economic family type and after-tax income quintiles, 2011 constant dollars. CANSIM 202-0704.

Endnotes

1 See Saez (2013), Galbraith (2014), Kunkel (2014), and Cassidy (2014). Piketty (2014) recommends progressive wealth tax rates in the range of 0.5 to 10 percent and increased income tax progressivity, with a top rate of about 80 percent. Milligan (2014) discusses Canadian income inequality challenges and proposes a more progressive system of taxation of employment income.

2 See, as well, Andrews and Leigh (2009), OECD (2010), and Kruger (2012).

3 This construct defines low income in a relative sense. This is not the only way to define it. As an example, Murphy et al. (2012) have estimated counts of low income using Statistics Canada's two low-income estimates, the low-income measure (LIM, which is again based on a relative measure) and the low-income-cut-off (LICO, which is more in line with an absolute measure) as well as the market-based measure (MBM) from Employment and Social Development Canada. Our purpose in using income quintiles, a relative concept, is not to take a view on its superiority as an indicator of low income; rather it is an example used to demonstrate the point that the incidence of low income, so defined, can diverge from income inequality.

4 These data include economic families and unattached individuals. An economic family is defined as a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common law, or adoption. An unattached individual is a person living either alone or with others to whom he or she is unrelated, such as roommates or a lodger. The concept of income covers income received while a resident of Canada or as relevant for income tax purposes in Canada. Market income is the sum of earnings (from employment and net self-employment), net investment income, private retirement income, and the items under other income. It is also called income before taxes and transfers. Total income refers to income from all sources including government transfers and before deduction of federal and provincial income taxes. It may also be called income before tax (but after transfers). After-tax income is total income less income tax. It may also be called income after tax. All the units of the population, whether unattached individuals or families, are ranked from lowest to highest by the value of their family after tax income. Then, the ranked population is divided into five groups of equal numbers of units, called quintiles.

5 The OECD's Gini coefficient for market incomes for Canada rose from .403 in 1980, the first year for which these data are available, to .447 in 2010. This aggregate statistics show rising income inequality without a change in the share of low income in total income as shown in chart 2.

6 The OECD's post tax-transfers Gini for Canada rose from .299 in 1980 to .320 in 2010 at the same time that the tax-transfer system worsened the situation of the lowest income group as shown in chart 3. However, again indicating a divergence in inequality and low-income trends, income inequality did not change in the after-tax-transfer Gini from 2000 to 2010, staying at .320, while the after-tax-transfer income share at the low end fell again as indicated by chart 3.

7 Chart 3 is constructed as follows. We first calculate the percent share of income taxes raised from the three classes. We then do the same for government transfers. The difference between a class' tax contribution and receipts of the transfers is their net transfers. Thus, for example, the high-income group contributed 50 percent of the total income tax in 1980, received a transfer of 13 percent of the total, with a net transfer of 37 cents on the dollar. These shares changed to 62, 14, and 48 percent respectively in 2010.

8 This information was developed by the Canadian Council on Social Development using the National Longitudinal Survey of Children and Youth, 1994-95 and the Survey of Consumer Finances, 1996. See Ross (1999, 2). They find, as examples, that the percent of 16–19 year olds who were not working and not in school was 15.6 percent in families with incomes of less than $20,000, 5.6 percent for families in the $40,000 to $60,000 income range, and 3.6 percent for families with incomes above $80,000.

9 See the Commission for the Review of Social Assistance in Ontario (2012).

10 Federal income-tested benefits include spouse or common law partner amount, children's fitness and arts amounts, amounts for children born in 1995 or later, base child tax benefit, supplement child tax benefit, universal child care benefit, and working income tax benefit. Quebec income-tested benefits include spouse or common-law partner amount, Quebec child assistance credit, Quebec solidarity tax credit, and Quebec work premium.

11 See Laurin and Poschmann (2013) Appendix Table A-1.

12 See a useful discussion of WITB in Senate of Canada (2009), page 75.

13 See, for example, Milligan (2010).

14 See endnotes 4 and 5.

15 A more progressive tax structure implies that marginal tax rates are lower at the lower income end and higher at the higher income end. The issue of progressivity and total tax take are independent issues. The overall tax burden could be maintained under this proposal, as an example, through a reduction and elimination of tax expenditures.

16 The poverty rate is defined as income below the income cut-off that is 50 percent of median income.

17 We use 67 percent of average wage because of the potentially large impact on METRs at the lower end of the income scale as summarized above based on Laurin and Poschmann (2013).

CELEBRATING 5 YEARS

MLI

5 Years of True North in Canadian Public Policy

Critically Acclaimed, Award-Winning Institute

The Macdonald-Laurier Institute fills a gap in Canada's democratic infrastructure by focusing our work on the full range of issues that fall under Ottawa's jurisdiction.

- The Macdonald-Laurier Institute fills a gap in Canada's democratic infrastructure by focusing our work on the full range of issues that fall under Ottawa's jurisdiction.
- One of the top three new think tanks in the world according to the University of Pennsylvania.
- Cited by five present and former Canadian Prime Ministers, as well as by David Cameron, the British Prime Minister.
- First book, *The Canadian Century: Moving out of America's Shadow*, won the Sir Antony Fisher International Memorial Award in 2011.
- *Hill Times* says Brian Lee Crowley is one of the 100 most influential people in Ottawa.
- The *Wall Street Journal*, the *Economist*, the *Globe and Mail*, the *National Post* and many other leading national and international publications have quoted the Institute's work.

"The study by Brian Lee Crowley and Ken Coates is a 'home run'. The analysis by Douglas Bland will make many uncomfortable but it is a wake up call that must be read."

FORMER CANADIAN PRIME MINISTER PAUL MARTIN ON MLI'S PROJECT ON ABORIGINAL PEOPLE AND THE NATURAL RESOURCE ECONOMY.

Ideas Change the World

Independent and non-partisan, the Macdonald-Laurier Institute is increasingly recognized as the thought leader on national issues in Canada, prodding governments, opinion leaders and the general public to accept nothing but the very best public policy solutions for the challenges Canada faces.

Where You've Seen Us

About the Macdonald-Laurier Institute

What Do We Do?

When you change how people think, you change what they want and how they act. That is why thought leadership is essential in every field. At MLI, we strip away the complexity that makes policy issues unintelligible and present them in a way that leads to action, to better quality policy decisions, to more effective government, and to a more focused pursuit of the national interest of all Canadians. MLI is the only non-partisan, independent national public policy think tank based in Ottawa that focuses on the full range of issues that fall under the jurisdiction of the federal government.

What Is in a Name?

The Macdonald-Laurier Institute exists not merely to burnish the splendid legacy of two towering figures in Canadian history – Sir John A. Macdonald and Sir Wilfrid Laurier – but to renew that legacy. A Tory and a Grit, an English speaker and a French speaker – these two men represent the very best of Canada's fine political tradition. As prime minister, each championed the values that led to Canada assuming her place as one of the world's leading democracies.
We will continue to vigorously uphold these values, the cornerstones of our nation.


SIR JOHN A. MACDONALD


SIR WILFRID LAURIER

Working for a Better Canada

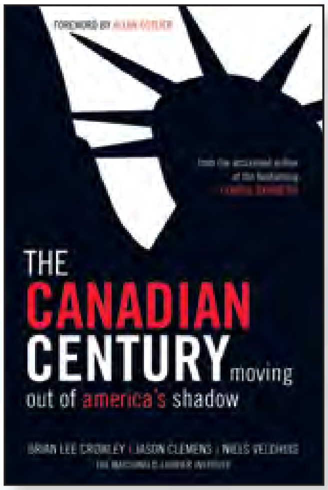
Good policy doesn't just happen; it requires good ideas, hard work, and being in the right place at the right time. In other words, it requires MLI. We pride ourselves on independence, and accept no funding from the government for our research. If you value our work and if you believe in the possibility of a better Canada, consider making a tax-deductible donation. The Macdonald-Laurier Institute is a registered charity.

Our Issues

The Institute undertakes an impressive programme of thought leadership on public policy. Some of the issues we have tackled recently include:

- Aboriginal people and the management of our natural resources;
- Getting the most out of our petroleum resources;
- Ensuring students have the skills employers need;
- Controlling government debt at all levels;
- The vulnerability of Canada's critical infrastructure;
- Ottawa's regulation of foreign investment; and
- How to fix Canadian health care.

Macdonald-Laurier Institute Publications



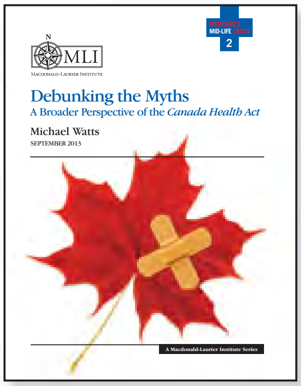
Winner of the Sir Antony Fisher International Memorial Award BEST THINK TANK BOOK IN 2011, as awarded by the Atlas Economic Research Foundation.

The Canadian Century
By Brian Lee Crowley,
Jason Clemens, and Niels Veldhuis

Do you want to be first to hear about new policy initiatives? Get the inside scoop on upcoming events?

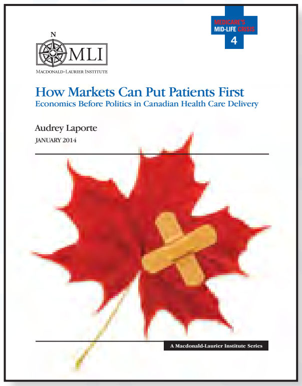
Visit our website www.MacdonaldLaurier.ca and sign up for our newsletter.

RESEARCH PAPERS

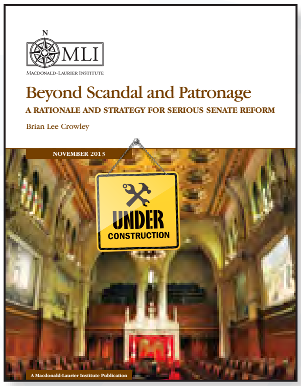


Debunking the Myths
Michael Watts

A European Flavour For Medicare
Mattias Lundbäck

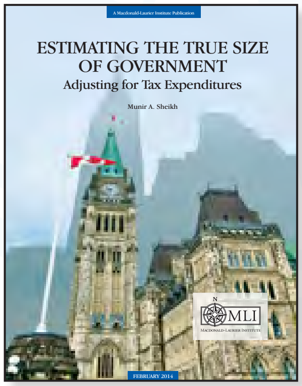


How Markets Can Put Patients First
Audrey Laporte



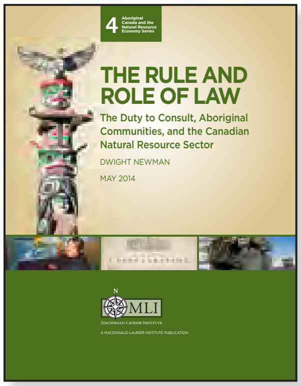
Beyond Scandal and Patronage
Brian Lee Crowley

Oldest Profession or Oldest Opression?
Benjamin Perrin



Estimating the True Size of Government
Munir A. Sheikh

A Defence of Mandatory Minimum Sentences
Lincoln Caylor and
Gannon G. Beaulne



The Rule and Role of Law
Dwight Newman

CELEBRATING 5 YEARS

MLI

5 years of True North in Canadian Public Policy

CONTACT US: Macdonald-Laurier Institute
8 York Street, Suite 200
Ottawa, Ontario, Canada K1N 5S6

TELEPHONE: (613) 482-8327

WEBSITE: www.MacdonaldLaurier.ca

CONNECT WITH US:

@MLInstitute

www.facebook.com/MacdonaldLaurierInstitute

www.youtube.com/MLInstitute

What people are saying about the Macdonald-Laurier Institute

In five short years, the institute has established itself as a steady source of high-quality research and thoughtful policy analysis here in our nation's capital. Inspired by Canada's deep-rooted intellectual tradition of ordered liberty – as exemplified by Macdonald and Laurier – the institute is making unique contributions to federal public policy and discourse. Please accept my best wishes for a memorable anniversary celebration and continued success.

THE RT. HON. STEPHEN HARPER,
PRIME MINISTER OF CANADA

The Macdonald-Laurier Institute is an important source of fact and opinion for so many, including me. Everything they tackle is accomplished in great depth and furthers the public policy debate in Canada. Happy Anniversary, this is but the beginning.

THE RIGHT HONOURABLE PAUL MARTIN

In its mere five years of existence, the Macdonald-Laurier Institute, under the erudite Brian Lee Crowley's vibrant leadership, has, through its various publications and public events, forged a reputation for brilliance and originality in areas of vital concern to Canadians: from all aspects of the economy to health care reform, aboriginal affairs, justice, and national security.

BARBARA KAY, NATIONAL POST COLUMNIST

Intelligent and informed debate contributes to a stronger, healthier and more competitive Canadian society. In five short years the Macdonald-Laurier Institute has emerged as a significant and respected voice in the shaping of public policy. On a wide range of issues important to our country's future, Brian Lee Crowley and his team are making a difference.

JOHN MANLEY, CEO COUNCIL