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DAVID PARKINSON

Economy Lab roundup: Ontario's tax-the-rich ineffectiveness

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With Ontario now headed for the polls over the minority government's new budget, the ruling Liberals may hold up their proposed tax hike on the rich as a carrot to left-leaning and middle-class voters. But this plan looks to be more style than substance – both in terms of its contribution to the province's strained finances and its effects on addressing income gaps.

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The proposed tax – an extra 1 per cent on every dollar earned between \$150,000 and \$220,000, and an extra 2 per cent on income between \$220,000 and \$514,090 – affects only the top 2 per cent of earners in the province. The vast bulk of the voting public is left alone, a key selling point for the plan.



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Kevin Milligan, a professor at the University of British Columbia's Vancouver School of Economics, estimated in a budget analysis for Maclean's magazine that the measures would add only about \$315-million annually to Ontario's coffers – roughly half of what the Ontario government projected. His research has shown that provinces suffer significant leakage in revenues when they raise tax rates on the highest earners, because wealthy taxpayers are adept at sheltering or moving income to minimize the impact of tax increases. This is equivalent to 0.3 per cent of the province's

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projected 2014-15 revenues; it's equal to just 2.5 per cent of the projected \$12.5-billion deficit.

A recent paper by Prof. Milligan and University of Toronto economist Michael Smart considered the effects of an even steeper tax – a 5-per-cent increase on the top 1 per cent of all income (in Ontario's case, that's all earnings above \$215,000). Even then, they said, the revenue take would be less than \$650-million. What's more, it probably only represents about 2 per cent additional tax on all taxable income of these top earners – whose median income is more than 10 times that of the rest of the population, and has risen at twice the pace of the national median over the past two decades. So, even a 5-per-cent increase on top earners would do little to address income inequities.

**GDP: The ultimate war weapon**

Gross domestic product today is all about measuring our economic prosperity. But the origins of the measure have more to do with warfare than well-being.

Diane Coyle, author of *GDP: A Brief But Affectionate History*, traces the birth of GDP statistics to 1665, and an English official named William Petty. He gathered data on income and expenditures, land and other assets of England and Wales, to estimate the value of the entire economy. His purpose? To establish England's capacity to finance war (primarily, at the time, against Holland and France) through taxation.

"The fact that England had consolidated national income statistics enabled the government to calculate the scope for increased output and tax revenues, a crucial contributory factor in the frequent wars with France," she wrote in a recent article on economic and policy website The Globalist. The French didn't adopt a similar measurement until 1781.

GDP as we (more or less) recognize it today, Ms. Coyle writes, came out of the early days of the Second World War. Legendary British economist John Maynard Keynes complained that the country lacked adequate statistics on how much each industry produced and consumed, what resources and capacity might be available for the war effort, and what would be left over for consumers. That led to the development of the first GDP figures, published with Britain's 1941 budget.

**Itchy, deadly and costly**

Bill Gates (yes, that Bill Gates) blogged an eye-opening chart this week on the most lethal animals in the world, in terms of their threat to human life. It's not lions or sharks or snakes. (And multi-gazillionaires hunting humans for sport wasn't even on the list.)

Mr. Gates quoted World Health Organization statistics that show that mosquitoes kill about 725,000 people each year – that's 250,000 more than the next-biggest killer, fellow humans. Snakes kill 50,000 and rabid dogs, 25,000. (Sharks? About 10 a year. Go back in the water already.)

Mosquitoes infect humans with numerous deadly diseases, most notably malaria, which kills 600,000 people a year and makes another 200,000 a year incapacitated with illness. When you're killing people on that scale, you're a bona fide economic problem, too.

"It threatens half of the world's population and causes billions of dollars in lost productivity annually," Mr. Gates wrote.



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