

1.7 Income Inequality, Poverty and Wealth

Canadians live in one of the most affluent nations in the world.

Our economy has doubled in size since 1981. In fact, the World Bank today ranks Canada as the eighth largest economy on the planet.

Storm clouds may hover on the horizon due to financial fiascos across the border, but consumers are still spending at record-breaking levels, defying economists' projections in every quarter. These are prosperous, heady days for many Canadians.

No other advanced industrial nation can boast a decade of back-to-back federal fiscal surpluses.

Although the United States is home to far more billionaires and millionaires, the rich in our nation are doing better than ever. Their incomes have soared over the past generation. Indeed, only the richest 20% of Canadian families raising children under the age 18 can say, without question, that they are financially better off than their predecessors 30 years ago. A shocking 80% of Canadian families are actually taking home a smaller share of income today than did families a generation ago.

The income gap between the rich and the rest of us has been growing faster in the past decade in than it has in the past 30 years. It is growing in good times and bad times. That growing disparity threatens the social and economic stability of our nation.

The test for every affluent nation is not how big it can grow its economy or how rich it can make its wealthy. Rather, the test is how well it treats its most vulnerable — and whether those who have less have a reasonable shot of doing better in their lifetime.

This year's Alternative Federal Budget examines the evidence and finds both our labour market and our governments are failing this test.

Our leading politicians rarely talk about the performance of Canada's labour market. Yes, some trumpet the 33-year record-low unemployment levels. There are jobs, and when Canadians have access to paying work, they take it. But work isn't paying off as much as it used to. Average real wages have been stagnant for 30 years while corporate profit shares have risen to a 40-year high.

Canadian families are working, on average, 200 hours more a year compared to just 10 years

ago. The richest 10% are enjoying the biggest income gains of us all — but they didn't have to increase their work time to get those fatter paycheques.

The story is most extreme for the highest paid among us, the 100 best-paid CEOs in Canada. They pocket 218 times more than Canadians who earn the national average income of \$39,000. Back in 1998, less than a decade ago, the best-paid 100 CEOs' average pay was 107 times more (when the average Canadian full-year income was \$32,400). Are our top CEOs really working twice as productively as they did eight years ago? And are their efforts really worth over 200 times more than the average worker?

Canadians are playing by all the rules: They are more educated than previous generations. They work more hours. Their productivity has improved. Many are running faster, but they are still falling behind.

A key aim of the AFB is to address the growing income gap in Canada which has been identified and analyzed in recent CCPA studies,¹ by Statistics Canada² and many others.³

Real incomes of the great majority of Canadian families have stagnated or fallen over the past two decades, while the incomes of the richest 10% — and, especially, the richest 1% of families and individuals — have ballooned, growing most rapidly in the last decade. Economic growth since the mid-1990s has delivered increased earnings and investment income; but these benefits have overwhelmingly flowed to the most affluent Canadians.

A decade of personal income tax cuts, such as reduced taxation of capital gains income and stock options, have favoured high-income earners, further exacerbating the growing gap in incomes.

Deep cuts to income support programs, such as social assistance and Employment Insurance, in the mid-1990s have further compounded this deepening economic injustice and exposed the

economy to a greater risk of prolonged and deepened downturn in the event of a recession.

On a happier note, improved child benefits and increases to the minimum wage in some provinces over the past few years have had some modestly positive impacts on the well-being of some working poor families.

While families in the middle have struggled, those at the bottom have made little ground, even though many have moved from social assistance into paid work. Canada has no official poverty line, but the Statistics Canada LICO after-tax line is the most commonly used indicator of low income. By this measure, the rate of poverty has fallen since the mid-1990s — as one would have expected, given strong growth in job opportunities.

The nation's child poverty rate — which is but one of several indicators of how well we are doing for our vulnerable — has improved over the past decade. But the poverty rate is now back at the level it was in 1989, the year Canada's Parliament declared child poverty a national disgrace and made a unanimous, all-party commitment to eliminate it by the year 2000.

In 2005, more than one in 10 (10.8%) of Canadians lived in poverty, including almost one in eight children (11.7%), and one in three (34.3%) single, non-elderly adults. Poverty rates are especially high among singles, including single parents, and among recent immigrants, Aboriginal Canadians, visible minorities, and persons with disabilities (*for a detailed description of the AFB's plan to reduce poverty among Aboriginal peoples, please refer to that chapter*). Poverty rates are generally no lower for the working-age population than was the case at the end of the 1980s.

This year's AFB shows that solutions are at hand.

The AFB endorses the recent call of the National Council of Welfare and Campaign 2000 to set clear poverty reduction goals in a National Anti-Poverty Act, building on similar initiatives in Quebec and Newfoundland and Labrador. As

part of the Act, our federal government should set a national poverty line and clear targets for reducing the rate of poverty as measured by that line over the next 10 years.

Because poverty is not just an income issue, but an issue of affordability of the basics in life, this year's AFB makes significant increases in public and social investments that will benefit most Canadians, but will disproportionately benefit families at the lower end of the income ladder. The AFB will invest in several programs that will use our collective prosperity to raise the quality of life of most Canadians and be of direct benefit to lower- and middle-income families: notably affordable and accessible child care and early learning, which is absolutely critical to participation in paid work by single parents; affordable housing; a national Pharmacare program; and the expansion of public transit.

Because poverty *is* an income issue, the AFB will (as proposed by the Caledon Institute and Campaign 2000) increase the refundable Canada Child Tax Benefit to a maximum of \$5,000. This initiative will be funded by folding the two new Conservative child income benefits into the CCTB and investing an additional \$4 billion by 2010–11.

Higher child benefits will go a long way to raising the incomes of low-income families with children, but do not address the central cause of poverty among the working age population: low wages and precarious work. The great majority of low-income families with children are now working poor families, and very few rely on social assistance benefits exclusively for extended periods of time. In 2001, there were three million non-elderly poor Canadians, two million of whom lived in families where at least one person worked.⁴

In round numbers, a single person has to work almost full-time for almost all of the year for about \$10 per hour to get above the poverty line — which means that work interruptions

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In 2004, one in seven⁵ (2.4 million⁶) Canadian women was living in poverty.

In 2003, 38% of all families headed by lone-parent mothers had income which fell below after-tax Low Income Cut-off's, compared to 13% of male lone parent families.⁷

According to Statistics Canada in 2005, women accounted for almost two-thirds of minimum wage workers. 1 in 17 women compared with 1 in 30 men were minimum wage workers. This overrepresentation held across all age groups, with rates for women being mostly double those for men.⁸

Women are much more likely than men to work part-time. In 2004, 27% (over two million) of the total female workforce were part-time employees, compared with just 11% of employed men. Women currently account for about seven in 10 of all part-time employees. Women are more likely than men to work part-time because of child care or other personal or family responsibilities.⁹

alone are enough to push many below the poverty line.

This year's AFB sets a federal minimum wage of \$10 and encourages all provinces to match this increase. It also makes significant improvement to Employment Insurance Benefits. The EI changes will increase the number of unemployed Canadians who will be eligible for benefits between jobs, and will raise the amount of income support they receive. This is particularly important for low-paid workers, including part-time workers (most of whom are women) and contract workers. Raising the income replacement rate of these benefits is crucial, particularly for workers who earn little to begin with, since the rates are currently between 50% and 55% of earnings prior to job loss. These reforms are important, but only part of the answer since many of the working poor combine paid employment and self employment (not covered by EI) and get such low wages when they are working that even an improved

EI benefit will fall far short of what is needed for temporary income support.

The recently introduced Working Income Tax Benefit (WITB) provides a miserly maximum of \$1,000 supplement to earned incomes, and applies to shockingly few workers. For example, it does not help those working full-time, full-year, at the minimum wage, because its support disappears at a very low income threshold (the credit is reduced by 15% of net family income over \$9,500 for individuals and \$12,500 for two-earner households). Some have proposed increasing the WITB as an alternative to raising minimum wages. This is an unacceptable approach which can and does result in governments subsidizing markets, particularly low-wage employers. There is no substitute for a minimum wage that will lift a full-time, full-year worker out of poverty — and no jurisdiction in Canada currently does so. Even the OECD argues that higher minimum wages and earned income tax credits must be part of a combined solution to the issue of working poverty if such perverse subsidies to low-wage employers are to be avoided.

Income security reform for working-age families must closely involve the provinces, which are currently responsible for social assistance benefits and supports and services for persons on social assistance and the working poor. For this reason, **this year's AFB establishes the National Fund for the Elimination of Poverty among Working Age Adults, to which funding will be allocated annually, reaching \$2 billion a year by 2010–11.** This amount is over and above the amounts allocated by the AFB for investments in programs that assist not just the poor, but the rest of us — like supports for housing, child care, and prescription drugs, and improved child benefits and EI benefits. This fund will be extended in support of provincial poverty reduction plans that meet national goals and objectives. In 2008, there are four such provincial plans underway — in Quebec, Newfoundland and Labrador, Ontario, and Nova Scotia — with

more provinces considering how they are going to tackle this issue. This AFB fund is a way for the federal government to support these initiatives, in addition to fulfilling its own unique role.

While reductions in poverty rates among the elderly were perhaps the greatest social policy success story for Canada in the 1960s, the elderly still remain one of the most economically vulnerable groups in our society. The poverty gap for seniors (the total amount by which their incomes fall short of the LICO line) is quite modest (about \$600 million) because the poverty rate among seniors is a well-below average of 6.1%), and because the GIS is already close to the poverty line. The AFB therefore increases the income-tested Guaranteed Income Supplement (GIS) of Old Age Security in such a way as to eliminate poverty among seniors (*see Retirement and Seniors' Benefits section*).

The AFB will narrow the gap between the rich and the rest of us by increasing personal income taxes for those at the very top and taxing capital gains at the same rate as earned income. It has been documented how Canadians in the very highest income categories are paying less tax in comparison to all other income groups today than in 1990, and that the overall tax system now bears as heavily on the poor as the rich. This is a perverse situation that should be redressed in the interests of economic fairness.

Parliament can and must act on its long-standing promise to eliminate child poverty — family poverty — in this affluent nation. The problem will not resolve itself. The time to act is now. Unlike many nations, Canada is in the fortunate position of having the resources to get the job done. This year's AFB shows us how.

Notes

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- 2 Heisz, Andrew. 2007. *Income inequality and Redistribution: 1976 to 2004*. Statistics Canada. www.statisticscanada.ca. Morissette, Rene and Zhang, Xuelin. 2007. *Inequality in Wealth: 1984 to 2005*. Statistics Canada. www.statisticscanada.ca. Murphy, Brian; Roberts, Paul; and Wolfson, Michael. 2007. *High-Income Canadians*. Statistics Canada. www.statisticscanada.ca.
- 3 See: Saez, Emmanuel and Veall, Mike. 2003. *The Evolution of High Incomes in Canada, 1920–2000*. National Bureau of Economic Research. <http://www.nber.org/papers/w9607>. Saez, Emmanuel and Veall, Mike. 2005, 2007. *The Distribution of Seniors' Income using the Statistics Canada*. Queen's University. <http://jdi.econ.queensu.ca/Files/Conferences/Retirementconferencepapers/Veall.pdf>. Green, David and Kesselman, Jonathan. 2006. *Dimensions of Inequality in Canada*. University of British Columbia Press.
- 4 Fleury, Dominique and Fortin, Myriam. 2006. *When Working is not enough to Escape Poverty: An Analysis of Canada's Working Poor*. Policy Research Group, Human Resources and Social Development Canada. SP-630-06-06E. <http://www.hrsdc.gc.ca/en/cs/sp/sdc/pkrf/publications/research/SP-630-06-06/page01.shtml>
- 5 FAFIA, A Decade of Going Backwards: Canada in the Post-Beijing Era (Ottawa, 2004) p. 4.
- 6 Womennet.ca, "Income and Poverty Gaps between Women and Men Persist Despite "Prudent" Budgets" (2004) Available online at <http://www.womennet.ca/news.php?show&1587>
- 7 <http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X>
- 8 http://www.statcan.ca/english/studies/75-001/comm/2005_09.pdf
- 9 <http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X>