Poverty and Inequality

Background

The Occupy Movement and a growing chorus of national and international reports have propelled the issue of income inequality onto the public stage—and with it renewed calls for governments to tackle the problem.

At the sub-national level, all the provinces and territories, with the exception of British Columbia and Saskatchewan, have poverty-reduction plans in place or in development. At the federal level, in 2009, all parties supported a House of Commons motion directing the federal government to “develop an immediate plan to eliminate poverty in Canada for all.” A Senate report the same year also urged the federal government to “adopt a poverty-eradication goal.” In November 2010, a House of Commons Committee released a report on the federal role in poverty reduction, recommending “That the federal government join with the provinces to introduce an action plan for reducing poverty in Canada.”

Thus far, all that has occurred federally is that a group of MPs has formed an all-party anti-poverty caucus. While most provincial governments are taking steps, the Government of Canada has the lead responsibility for poverty rates among Aboriginal people, seniors, children, recent immigrants, and people with disabilities. It must also ensure Canada abides by the relevant conventions to which we are signatory, such as the International Covenant on Economic, Social, and Cultural Rights.

For millions of Canadians, the economic crisis is far from over. Hundreds of thousands have exhausted their EI coverage and are discovering a provincial social assistance system that is a shadow of what it was during the recession of the early 1990s. Real welfare benefit rates are much lower, while new rules have made provincial assistance much less accessible, often forcing people to liquidate their savings before receiving help. Those in desperate need of income support—due to a job loss, the loss of a spouse, the loss of good health, old age, or any number of other life circumstances—find that the social safety net meant to catch them has been shredded.

Yet there is nothing inevitable about poverty in a society as wealthy as ours. Evidence from other countries demonstrates how governments that commit to bold action plans get results. Canada had a similar experience when we chose to tackle poverty among the elderly in the 1960s: as a result, the lowest rate of poverty for any demographic group in Canada has been, by far, that for seniors.

Inequality

Poverty and income inequality are distinct yet related phenomena. Without question, reducing poverty is a matter of urgency. But inequality shapes our view of that urgency. International research reveals an important link: the higher the rate of inequality among people, the higher the rate of poverty that is tolerated. That could explain why high poverty levels have continued to be politic-
ally abided in Canada, even when the economy was firing on all cylinders.

Between 1997 and 2007, the Canadian economy enjoyed the most sustained period of robust growth since the 1960s, resulting in a gradual decline in the prevalence of poverty. Simply put, when there are jobs, people work. But this period also witnessed unprecedented growth in income inequality. By 2010, the average after-tax income of the richest 10% of non-elderly households was 21 times that of the average incomes of the poorest 10%, and rising. That’s much higher than for much of the 20 years preceding the mid-1990s, when average incomes of the richest were between 13 and 15 times that of the poorest. The richest 1% enjoyed 32% of all income gains from economic growth in the decade before the crisis, and their share of total income rose to almost 14%, rivaling the levels of the Roaring Twenties. In the wake of the crisis, there are no signs that these trends are abating. And while inequality in Canada may be less extreme than in the U.S., according to a recent report by the Conference Board of Canada, it is growing at a faster rate here. Income inequality in Canada is also highly racialized. As a March 2011 CCPA report notes, “a colour code is still at work in Canada’s labour market.” The study found that racialized Canadian workers earned only 81.4 cents for every dollar paid to non-racialized Canadian workers. In very concrete terms, in more unequal societies the rich bid up the cost of basics, such as housing, causing affordability problems for lower-income households.

The squeeze-play on household incomes (downward pressure on wages, rising costs) is being managed by higher household debt or just spending less. And so it turns out that rising inequality is bad for business too.

**We All Pay for Poverty and Inequality**

Study after study links poverty with poorer health and higher health care costs, higher justice system costs, more demands on social and community services, more stress on family members, and diminished school success, not to mention huge costs associated with reduced productivity and foregone economic activity.

A study published by the Ontario Association of Food Banks calculated the cost of poverty in Canada to be between $72.5 billion and $86.1 billion (or about 6% of Canada’s GDP). A more recent report by the National Council of Welfare (shortly before the Harper government cut its funding) notes:

- “The poverty gap in Canada in 2007—the money it would have taken to bring everyone just over the poverty line—was $12.3 billion. The total cost of poverty that year was double or more using the most cautious estimates.”
- “There is a consistent pattern of studies from Canada and other countries showing that investing to eliminate poverty costs less than allowing it to persist.”

And just as we all pay for poverty, so too inequality itself is correlated with a host of higher societal costs. The groundbreaking work of epidemiologists Richard Wilkinson and Kate Pickett, for example, surveys industrialized countries and finds that income inequality is correlated with a great number of social ills, including more addiction and mental health problems, more teenage pregnancy, and more violence and crime. Critic-
ally, their evidence shows it is not just the poor who experience worse health in more unequal societies, but middle- and upper-income households as well.\textsuperscript{13}

Recent academic attention has turned to the fact that greater income inequality is linked to diminished generational income mobility.\textsuperscript{14} This speaks directly to the widely held Canadian value of equality of opportunity. And in concrete terms, when inequality means lower-income children are more likely to remain poor, we are all denied their future economic contributions. Given an aging population, the economy of the future can ill afford to discount the skills and contributions of a significant and growing share of the next generation.

\section*{Current Issues}

\subsection*{The Case for a Federal Plan}

Employers are looking to trim costs, and increasingly expect workers to accept wage and benefit cuts in return for the privilege of working. Job growth has been concentrated in temporary positions and self-employment in the private sector, while in the public sector, it has been due to health care and stimulus spending (now coming to an end). Thus far the private sector has shown no signs it will add enough jobs to fill the breach, let alone jobs offering similar incomes or benefits. Even without a further downturn, the number of working poor is increasing.

Indeed, a majority of poor people live in households with people employed in the paid labour force. While deep poverty is primarily a story of inadequate provincial social assistance, the breadth of poverty is primarily a low-wage story. This reality is only worsened by increasing inequality in earnings, and by the Harper government’s approval of increasing numbers of temporary foreign workers, whose acceptance into Canada now outpaces that of economic immigrants, for the first time in our history.\textsuperscript{15}

Historically low levels of income support and a growth in insecure, poor-paying jobs led an estimated 882,000 individuals to food banks across Canada in March 2012, an all-time high and a 31% increase over the same month in 2008 (before the recession hit).\textsuperscript{16}

Poverty rates in Canada moved upwards with the onset of the recession. According to Statistics Canada’s low-income cut-off after-tax (LICO-AT), in 2010, the overall poverty rate returned to its pre-recession level (a low of 9%).\textsuperscript{17} But other poverty measures tell a different story. According to Statistics Canada’s low-income measure (LIM), the poverty rate in 2010 remained at 13%, well above its pre-recession level.

As Figure 14, a chart of poverty rates for adults in Canada, shows, the choice of measure speaks to different trends.\textsuperscript{18}

Depending on the measure used, between three and four million Canadians — more than 600,000 of them children — live in poverty. In First Nations families, one in four children live in poverty. Poverty rates are also higher for recent immigrants, off-reserve Aboriginal people, and people with disabilities. Campaign 2000’s most recent report card notes that a greater proportion of Canadian families raising children are living in poverty today than in 1989, when parliamentarians of every political stripe committed to eliminating child poverty by the year 2000. The rate of child poverty was higher despite the fact that Canada’s inflation-adjusted GDP grew from roughly $800 billion in 1989 to $1.3 trillion in
2010. Of concern, a higher child poverty rate was accompanied by a greater proportion of poor families with children that had at least one parent working full-time, full-year (36% in 2010, compared to 33% in 1989). For these Canadians, the issue is not just making ends meet, but being able to plan for the future, develop skills, or participate in the social, cultural, and political life of their communities. Temporary bouts of poverty may be overcome, but evidence shows that the depth of poverty is deepening and its duration lengthening, leaving a scarring legacy on individual lives and communities across the country. Persistent poverty represents a violation of economic and social rights enshrined in international law, and a squandering of human potential.

**AFB Actions**

**Setting Clear Targets**

The AFB adopts the following indicators, targets, and timelines:

- Reduce Canada’s poverty rate by 25% within five years (by 2018), and by 75% within a decade.

- Ensure the poverty rate for children and youth under 18, lone-mother households, single senior women, Aboriginal people, people with disabilities, and recent immigrants also declines by 25% in five years, and by 75% in 10 years, in recognition that poverty is concentrated within these populations.
• In two years, ensure every person in Canada has an income that reaches at least 75% of the poverty line.
• In two years, ensure there is sufficient emergency shelter that no one has to sleep outside, and within 10 years ensure there is sufficient stock of quality, appropriate, and affordable housing for all Canadians.
• Reduce the number of Canadians who report both hunger and food insecurity by half within two years.
• Reduce, every year, the share of workers earning less than two-thirds the median wage.

To achieve these targets, the AFB will take action in the following key policy areas:

1. Establish a legal framework by which the federal government will provide leadership on poverty and inequality issues.
   • Work collaboratively with the provinces, territories and Aboriginal organizations to renew and extend the Canada Social Transfer.

2. The AFB introduces a new federal transfer payment to the provinces, tied to helping them achieve their poverty-reduction goals (as recommended in the 2010 HUMA report).
   This innovative transfer will be worth $2 billion in both the first and second year, over and above the costs associated with the federal measures outlined below. It is specifically designed to assist provinces and territories to meet clear poverty-reduction targets. In the first year, there are no strings attached to the transfer. In subsequent years, however, only provinces that demonstrate improvement in income supports and show progress on a number of other outcome indicators will continue to receive federal support. The intent of this transfer is to ensure that the lion’s share of these funds helps provinces improve social assistance and disability benefit rates and eligibility.

3. Provide adequate and accessible income supports.
   • Legislate an Act to reinstate minimum national standards for provincial income assistance (to ensure that welfare is accessible and adequate).
   • Immediately double the refundable GST credit and lengthen the phase out to include more families. (Cost: $4.3 billion/yr.)
   • Increase the Canada Child Tax Benefit to a maximum of $5,400 per child. (Cost: $1.5 billion/yr.)

4. Improve the earnings and working conditions of those in the low-wage workforce.
   • Re-establish a federal minimum wage (set at $12 and indexed to inflation).
   • Commit the federal government to becoming a Living Wage employer, and ensure that federal contracts go only to service providers who similarly pay the Living Wage.
   • Review and scale-back the Temporary Worker Programs, and extend to those who come to Canada for work landed immigrant status with full labour rights.

5. Prioritize the needs of those most likely to be living in poverty.
   • The plan focuses its efforts on those groups with higher poverty rates, such as Aboriginal people; people with disabilities, addictions and mental illness; recent im-
migrants and refugees; single-support mothers; and single senior women.

6. Address homelessness and the lack of affordable housing.

• Pass a National Housing Strategy (see the Housing chapter on page 96).

• Immediately start building new units of social housing (not counting conversions, rental subsidies, or shelter spaces), starting with at least 20,000 units per year.

7. Provide universal publicly funded child care.

• Within one year, develop a comprehensive plan and timeframe for the implementation of a high-quality, universal, publicly funded Early Learning and Child Care program. Initial phase-in should start immediately (see the Child Care chapter on page 58).

8. Provide support for training and education.

• Immediately increase the availability of post-secondary grants for low-income students, and increase overall transfers for post-secondary education (see the Post-Secondary Education chapter on page 116).

• As part of a Green infrastructure initiative, provide Green Jobs apprenticeship training to the unemployed and to economically marginalized groups (Aboriginal people, women, recent immigrants, etc.), so that they gain skills in the higher paid jobs that will be in high demand as we take action on climate change (see the Sectoral Development chapter on page 135).

Reducing Inequality

The AFB’s comprehensive strategy to tackle the growing gap in Canada will be based on a five-point plan:

1. Halt and reverse Canada’s drift towards an economy based primarily on resource extraction and a low-paid service sector by establishing an industrial policy that emphasizes the creation of value-added jobs in the primary sector of the economy, rebuilds manufacturing capacity with well-paid jobs, and invests in R&D to accelerate energy-efficient production and use of sustainable energy sources.

2. Enhance the infrastructure and public services upon which most Canadians rely (child care, housing, transit, etc.), thereby stretching paycheques and improving the purchasing power of the broad middle class.

3. Rebalance the bargaining relationship between capital and labour. A larger share of Canada’s income is going to corporate profits, at the expense of wages. This trend can be reversed by measures that support collective bargaining, enforce and enhance the employment standards of vulnerable workers, and rethink the use of temporary foreign workers. The federal government has a leadership role to play on all these fronts.

4. Prioritize improvements in the incomes of all low- and middle-income households (better public pensions, higher minimum wages, the widespread adoption of living wage policies, and improved supports for the ill, unemployed, young and old).
5. Increase the progressivity of Canada’s overall tax regime, and reduce tax exemptions for high income and highly profitable corporations. (See the Tax chapter.) These two sets of measures would better offset rapid growth in market income inequality and raise more public revenues required to provide better services for all Canadians and tackle poverty.

Notes

8 See: http://www.conferenceboard.ca/bcp/hot-topics/worldinequality.aspx#anchor6a
10 See http://www.canadianbusiness.com/article/39123--inequality-is-bad-for-business
18 The chart also includes the more recent market-basket measure (MBM), which shows little recovery since the recession. But some methodological concerns have been raised about the MBM. See: http://www.policyalternatives.ca/publications/commentary/how-destroy-good-poverty-line
20 Specifically the Federal Sales Tax for filer, for spouse and for dependents is doubled. The credit reduction rate has been changed from 0.05 to 0.037. The credit reduction level remains unchanged. This analysis is based on Statistics Canada’s Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by David MacDonald and responsibility for the use and interpretation of these data is entirely that of the authors.
21 The living wage is understood here to be the living family wage, as calculated by the CCPA for numerous Canadian cities. For more on this definition and methodology, see: http://www.policyalternatives.ca/livingwage2012