

Income Inequality, Poverty, and Wealth

Background

Over the past year, income inequality has become an unavoidable topic in the mainstream press, debated by analysts, politicians and voters alike.

The debate has triggered a renewed discussion about poverty across the country. All the provinces and territories, with the exception of British Columbia and Saskatchewan, now have poverty-reduction plans in place or in development.

At the federal level, all parties supported a House of Commons motion directing the federal government to “develop an immediate plan to eliminate poverty in Canada” in 2009. That same year a Senate report also urged the federal government to “adopt a poverty-eradication goal.”¹ 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.”²

The federal government, however, has not acted and has seemingly dismissed the need to act. In his November 2013 Economic and Fiscal Update, the Finance Minister said, “The share of Canadians living in low-income families is the lowest on rec-

ord”.³ That is a contestable statement, as this chapter will show.

In April 2013, Canada underwent its second review by the United Nations Human Rights Council as part of the Universal Periodic Review process. Canada’s human rights record was under the scrutiny of its peers, a number of whom recommended the adoption of national strategies for poverty, homelessness and food security. The federal government, however, rejected these calls, claiming instead that policies and programs at the provincial and regional level were sufficiently addressing poverty.⁴

Not so. As the Caledon Institute recently noted, “While the provinces and territories can and should make an important contribution to reducing poverty, the federal government must also be engaged and do its part. It has at its disposal the most potent instruments to fight poverty and inequality.”⁵ The Government of Canada has lead responsibility for poverty rates among Aboriginal people and seniors, and a core role to play in reducing poverty among children, recent immigrants, and people with disabilities. It is also responsible for ensuring Canada abides by the conventions to which we are signatory, such as the International Covenant on Economic, Social, and Cultural Rights.

Five years after the economic crisis displaced a record number of workers in nine short months, millions of Canadians continue to struggle with unemployment, underemployment and precarious work. Employment Insurance benefits now reach less than four in ten unemployed workers, a level not seen since 1944.⁶ The provincial social assistance system is a shadow of what it was during the previous recession in the early 1990s. The purchasing power of welfare benefit rates has plummeted, and new rules have made assistance harder to get, often requiring people to liquidate their savings before receiving help.⁷ Those facing job loss, the loss of a spouse, the loss of good health, or old age, find that the social safety net meant to catch them has been shredded.

But there is nothing inevitable about poverty in a society as wealthy as Canada's. Evidence from other countries demonstrates how governments that commit to bold action plans get results.⁸ Canada had a similar experience when it 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.⁹

In the past, inequality trends were driven by what happened to people at the bottom of the income spectrum. More recently, it has been shaped by what happens at the top. Inequality used to widen in the wake of recession. Now it widens during good times too.

While inequality in Canada may be less extreme than in the U.S., it is growing at a faster rate here.¹⁰ By 2011, 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%, higher than at any point on record since 1976.¹¹ The richest 1% received 32% of all income gains between 1997–2007. That is four times their share of total income gains during the 1960s, a similarly robust period of growth, and almost double their share of growth during the 1920s.¹²

Income inequality in Canada is also highly racialized and gendered. As a March 2011 CCPA report notes, “A colour code is still at work in Canada’s labour market”; for every dollar earned by white Canadians, racialized Canadian workers earned only 81.4 cents.¹³

In very concrete terms, in more unequal societies the rich bid up the cost of basic goods, 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, making it bad for business too.¹⁴

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).¹⁵ A more recent report by the National Council of Welfare (published shortly before the federal government cut its funding) finds: “[t]he 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.”¹⁶

Just as we all pay for poverty, so too do we pay for inequality. Groundbreaking work by epidemiologists Richard Wilkinson and Kate Pickett, for example, surveys industrialized countries and finds that income inequality is correlated with increased addiction levels and mental health problems, more teenage pregnancy, and more violence and crime.¹⁷ 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.¹⁸

Income inequality is also linked to diminished generational income mobility, undermining the cherished Canadian ideal of equality of opportunity.¹⁹ If 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.

Current Issues

The case for a federal plan

In the wake of the financial crisis, employers are increasingly maintaining and improving profits by trimming costs — particularly wages, benefits and pensions.

Since the recovery began in 2009, growth in temporary positions has outpaced growth in permanent jobs.²⁰ Public sector jobs, which fuelled employment growth in the early phase of recovery with expansion in the health and education sectors, are now the focus of deficit-cutting plans.

While the depth of poverty is primarily a story of inadequate provincial social assistance, the breadth of poverty is primarily a low-wage story. This reality has been exacerbated by the federal government's emphasis on accelerating the approval of the Temporary Foreign Workers Program, which allows employers to pay temporary foreign workers up to 15% below the prevailing wage. The influx of temporary foreign workers now outpaces that of economic immigrants for the first time in Canada's history.²¹ The expanding use of the Temporary Foreign Worker Program has served to suppress the wages of workers in markets where there has been no evidence of labour

or skill shortages, the ostensible reason for the program.

Historically low levels of income support and growth in insecure, poor-paying jobs led an estimated 833,000 individuals to food banks across Canada in March 2013, still 23% more people than before the recession hit in 2008.²² Food insecurity has risen dramatically since 2008 as well, with 3.9 million people in Canada now experiencing some level of food insecurity.²³

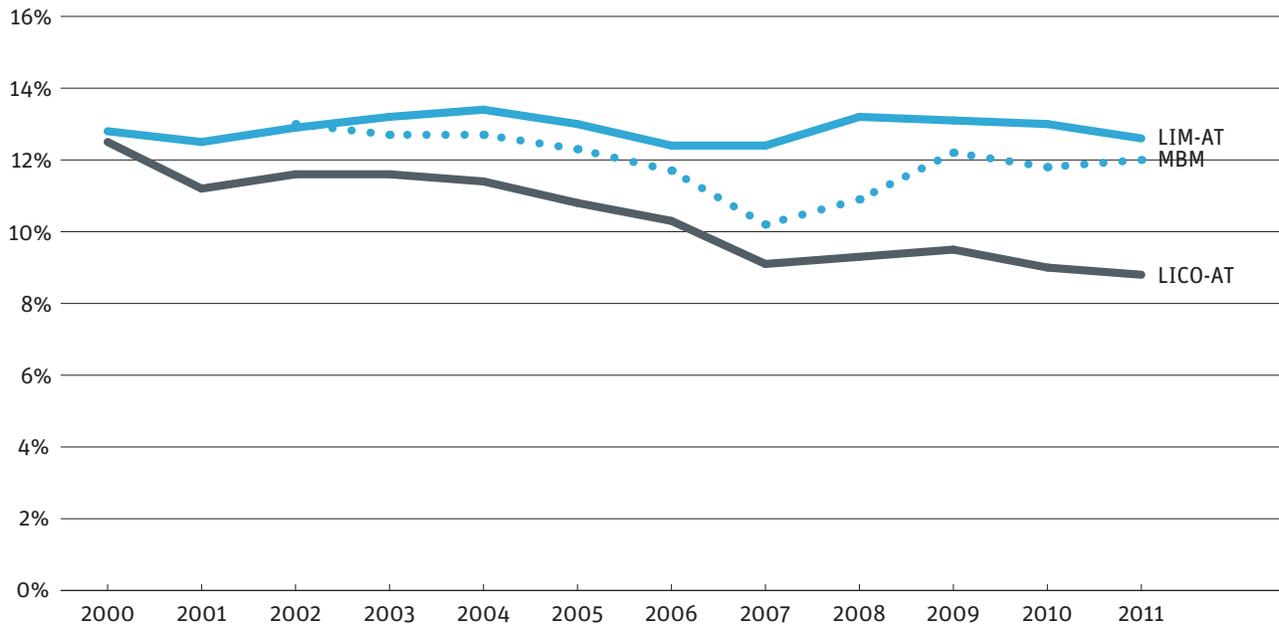
By any measure, there was a rise in poverty rates in Canada immediately following the onset of the 2008 recession. Whether they have since returned to pre-recession levels, however, depends on the measure used. According to Statistics Canada's low-income cut-off after-tax (LICO), the overall poverty rate fell to a new low of 8.8% in 2011. The federal government is keen to point to these LICO numbers.²⁴ But Statistics Canada notes that the low-income measure after-tax (LIM) is the preferred measure for international comparisons, and many provinces now use it for tracking progress on poverty reduction.²⁵

Poverty as measured by the LIM was 12.6% across Canada in 2011, slightly higher than before the recession. While poverty has modestly declined in recent years for children using the LIM (likely reflecting some success of provincial poverty reduction plans), this measure captures a disturbing re-emergence of poverty among seniors. The choice of measure also determines how many Canadians struggle with poverty: three to four million Canadians, and anywhere between 600,000 and 967,000 of them children.

Half of all First Nations children live in poverty.²⁶ Poverty rates are also higher for recent immigrants, off-reserve Aboriginal people, single senior women, single mothers, 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 (as measured by LIM) was higher despite the fact that Canada's inflation-adjusted GDP went up by 67%, from \$994 billion to \$1.661 trillion, between 1989 and 2012 (measured in constant dollars).²⁷ 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 (37% in 2011, compared to 33% in 1989).²⁸

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 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.

FIGURE 14 Poverty Rates in Canada, Three Measures



Source "CAN-SIM Table 202-0802: Persons in Low Income Families, Annual." Ottawa: Statistics Canada.

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 2019), 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, recent immigrants and racialized people 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.

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

- Establish a legal framework by which the federal government will provide leadership on poverty and inequality issues, and a plan to eradicate poverty.

- Work collaboratively with the provinces, territories and Aboriginal organizations to renew and extend the Canada Social Transfer.
- Introduce a new federal transfer payment to the provinces, tied to helping them achieve their poverty-reduction goals (as recommended in the 2010 report of the House Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities).
 - 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.
- 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: \$4.5 billion/year).²⁹
 - Double the National Child Benefit Supplement (NCBS) in order to reduce child poverty by 26% (Cost: \$3.1 billion/year).
 - Cancel the Universal Child Care Benefit (UCCB) (Savings: \$2.0 billion).
- Improve the earnings and working conditions of those in the low-wage workforce.
 - Re-establish a federal minimum wage covering all workers under federal jurisdiction (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.³⁰
 - Review and scale-back the Temporary Worker Programs, and extend landed immigrant status to those who come to Canada for work, with full labour rights (see the Immigration chapter).
- Address homelessness and the lack of affordable housing (see the Housing and Neighbourhoods chapter).
- Provide universal publicly funded child care (see the Early Childhood Education and Child Care chapter).

- Provide support for training and education (see the Post-Secondary Education and Sectoral Development chapters).

Reducing inequality

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

- 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 research and development to accelerate energy-efficient production and use of sustainable energy sources.
- Enhance the infrastructure and public services upon which most Canadians rely (child care, education, housing, transit, etc.), thereby stretching paycheques and improving the purchasing power of the broad middle class.
- Rebalance the bargaining relationship between capital and labour through measures that support collective bargaining, enforce and enhance the employment standards of vulnerable workers, and limit the use of temporary foreign workers.
- 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).

- Increase the progressivity of Canada's overall tax regime, and reduce tax exemptions for high income and highly profitable corporations (see the Fair and Progressive Taxation chapter).

Notes

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6 Yalnizyan, Armine. Unpublished Table: "Proportion of Unemployed Canadians in Receipt of Jobless Benefits, 1942 to 2013." Source: "CAN-SIM Table 282-0002: Labour force survey estimates (LFS), by sex and detailed age group, annual." Ottawa: Statistics Canada.

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- 21** Yalnizyan, Armine. “Changes to Immigration Policy Could Transform Society” *The Globe and Mail*, May 3, 2012.
- 22** *Hungercount 2013*. Toronto: Food Banks Canada. 2013.
- 23** Tarasuk, V, Mitchell, A, Dachner, N. (2013). *Household Food Insecurity in Canada 2011*. Toronto: Research to Identify Policy Options to Reduce Food Insecurity (PROOF).
- 24** See the latest federal ministry of finance Update on Economic and Fiscal Projections, p. 12: <http://www.fin.gc.ca/efp-pef/2013/pdf/efp-pef-13-eng.pdf>
- 25** *Low Income Lines, 2011–12*. Ottawa: Statistics Canada. 2013.
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