Income Inequality and Poverty

Background

Poverty and inequality represent social deficits that Canadians cannot afford to pass along to the next generation. The largest cohort of seniors in Canadian history will soon be relying on this generation of children as no working-age cohort has ever been relied upon before. We will need all hands on deck. The only way to sustain our standard of living is to ramp up meaningful investments in the next generation. This benefits the poor, the rich, and everyone in between.

There Is Nothing Inevitable About Poverty

Rising inequality, persistent poverty, and its associated symptoms of hunger and homelessness are deeply concerning to Canadians. Yet too often, we become resigned to the presence of these social deficits.

But there is nothing inevitable about poverty in a society as wealthy as Canada’s, nor is the inexorable increase in inequality a fact of life. Evidence from other countries demonstrates how governments that commit to bold action on poverty and inequality get results.1

Canada chose to tackle poverty among the elderly in the 1960s and the poverty rate for seniors plummeted from 33% to less than 5% in 20 years, though more recently the trend is again towards rising poverty.

Quebec was the first province to commit to a poverty reduction strategy in 2002. Since then, all the provinces and territories save British Columbia now have poverty-reduction plans in place or in development.2

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.”3 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.”4

The federal government, however, persistently refuses to adopt a national anti-poverty plan, even as it lavishes billions of dollars on tax cuts and benefits to those who need the least help.

Yet 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. With surplus finances on the horizon, there are no excuses that the cupboard is bare for the fight against poverty. Instead, this government is using the surplus to provide tax cuts that will exacerbate income inequality.

**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.5

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, partly due to the market and, sadly, partly due to public policies.

While the top 1% in North America has amassed a rising share of total income over time, the same is not true in some industrialized countries such as the Netherlands, France, Japan, and Sweden.6

Inequality in Canada may be less extreme than in the U.S., but it grew at a faster rate here between 1997 and the onset of the recession.7 By 2011, the average after-tax income of the richest 10% of non-elderly households was 16 times that of the average incomes of the poorest 10%, as high as it has been at any point on record since 1976.8 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.9

As worrisome as the increase in inequality has been over the past 30 years, more distressing still is what inequality might look like 30 years from now if present trends continue. In the absence of policy changes, there is no reason to expect they won’t. As economist Lars Osberg notes, “unbalanced growth has been the new normal for the past thirty years. If historic differentials in income growth rates continue, they will compound to a successively larger gap between the top 1% and everyone else.”10

Income inequality in Canada is also highly racialized and gendered. Levels of income and employment are consistently lower for women, Aboriginal peoples, racialized groups, persons with disabilities, and new immigrants. These differences cannot be attributed to differing educational levels alone. Women and men are equally likely to have post-secondary training, yet women still take home 20% less than do men, working full-time and full year.11 Aboriginal workers with university degrees actually experience an even larger pay gap than do less educated Aboriginal peoples, making 44% less than their peers when they work in the private sector. Women are also over-represented among low-wage earners — making up 59% of all minimum wage workers in Canada.

As inequality increases, 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.12

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.

One study estimates the cost of poverty in Canada to be between $72.5 billion and $86.1 billion (or about 6% of Canada’s GDP).13 A 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.”14

Just as we all pay for poverty, so too do we all pay for inequality. Ground-breaking work by epidemiologists Richard Wilkinson and Kate Pickett, for example, shows it is not just the poor who experience worse health in more unequal societies, but middle- and upper-income households as well.15

Income inequality is also linked to diminished generational income mobility, undermining the cherished Canadian ideal of equality of opportunity.16 If lower-income children are more likely to remain poor, we are all denied their future economic contributions.

Current Issues

Better and More Timely Data, Please!

Good policy development requires good data. Yet a key issue in preparing this year’s Alternative Federal Budget has been the absence of reliable and updated data. Normally, updated annual poverty stats would have been made available in June 2014 (with 2012 data). But this past year, data was greatly delayed. Statistics Canada only made public 2012 poverty data in December of 2014. And compounding the frustration, due to the use of a new survey (the Canada Income Survey now replaces the Survey of Labour and Income Dynamics), StatsCan warns that 2012 results cannot be compared to previous years (a situation that will only be rectified in December 2015, after the next federal election).

The Low-Income Cut-Off (LICO), for many years the most commonly used poverty line, has not been re-based since 1992, making it an increasingly unreliable and inaccurate metric for historic trends. The Low-Income Measure (LIM) and Market Basket Measure (MBM) have become the more reliable measures, yet these too are not being released in a timely manner. Analysts are turning to tax-filer data, a good source for studying recent trends in individual incomes, but problematic for estimating family poverty, and unable to shed light on racial and educational dimensions of poverty.
What follows comes with these limitations.

**The Case for a Federal Plan**

Child poverty is higher today than it was 25 years ago, when every present member of Canada’s House of Commons unanimously pledged to end child poverty in Canada by the year 2000. Other nations, like Norway and Denmark that pledged to eradicate child poverty have seen poverty rates fall below 5%. Child poverty in Canada is triple that. We know we can do better, and we know how to get there.

Average wage growth has fallen to a standstill, below inflation in many jurisdictions. The rate of growth of temporary and part-time jobs has outpaced the growth in permanent, full-time jobs since the recovery began in 2009.17

While the depth of poverty is primarily a story of inadequate provincial social assistance, the breadth of poverty is primarily a low-wage story. Market pressures are one reason. Another is the federal government’s massive expansion of the Temporary Foreign Workers Program, which serves to suppress wages in service sector industries where many low-income workers are employed, even in places and for occupations where there is little evidence of labour or skill shortages (the ostensible reason for the program). The influx of temporary foreign workers now outpaces that of economic immigrants for the first time in Canada’s history.18 This issue exploded into the public debate this past year, forcing the government to roll back some of the program’s most blatant examples of employer abuse. But it remains to be seen whether overall use of the program diminishes (see the Immigration chapter).

Millions of Canadians continue to struggle with unemployment, underemployment, and precarious work. Employment Insurance benefits now reach less than four in 10 unemployed workers, a level not seen since 1944.19 The provincial social assistance system is a shadow of what it was during 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.20 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.

**By the Numbers**

Historically low levels of income support, and the growth in insecure, poor-paying jobs led an estimated 841,000 individuals to food banks across Canada in March 2014, 25% more people than before the recession hit in 2008.21 Food insecurity has risen dramatically since 2008 as well, with 3.9 million people in Canada now experiencing some level of food insecurity.22 Homelessness remains a crisis across Canada. As the recent *State of Homelessness in Canada 2014* report notes, nearly one in five Canadian households experience severe housing affordability problems, about 35,000 Canadians are homeless on any given night, and over 235,000 experience some form of homelessness during the year: “The rise of
modern mass homelessness in Canada can be traced directly back to the withdrawal of the federal government’s investment in affordable housing and pan-Canadian cuts to welfare beginning in the 1980s.\textsuperscript{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 and some conservative commentators are keen to point to these LICO numbers. But 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.\textsuperscript{26} Poverty as measured by the LIM was 12.6% across Canada in 2011, slightly higher than before the recession.

According to the Market Basket Measure (MBM), yet another poverty measure produced by Statistics Canada, the 2011 poverty rate was 12% (compared to a pre-recession level of 10.2%).

As noted above, Statistics Canada recently released 2012 data for all these measures. The rates are all higher, but they are not comparable to previous years. For 2012, the poverty rates using the LICO-AT, the LIM-AT, and the MBM were 9.9%, 13.8% and 12.9% respectively.\textsuperscript{25}
The choice of measure determines how many Canadians struggle with poverty; anywhere between 3.4 and 4.7 million Canadians. According to the latest national Child Poverty Report Card, more than 1.3 million children — or 19.1% — lived in poverty in 2012, compared to 15.8% when the House of Commons passed its fateful resolution in 1989. This despite the fact that Canada’s inflation-adjusted GDP went up by 67%, from $994 billion to $1.7 trillion, between 1989 and 2012 (measured in constant dollars). 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).

The situation is much worse for Aboriginal children, for whom the poverty rate is a staggering 40%.

Poverty rates are higher for recent immigrants, Aboriginal people, senior women, single parents, and people with disabilities. As noted in a recent CCPA report, the last five years have seen little change in women’s poverty in Canada. Overall, 13.3% of women live in poverty (using the 2011 LIM-AT), however Aboriginal women and single mothers experience even higher rates, at 30% and 36% respectively.

For data for these groups, we must rely on the 2011 National Household Survey. Using the LIM-AT, the following poverty rates emerge:

- Immigrants: 18.3% vs Non-Immigrants: 13.6%
- Non-permanent residents: 38.1%
- Visible Minority: 21.5% vs Non-Visible Minority: 13.3%
- Aboriginal identity: 25.3% vs Non-Aboriginal Identity: 14.5%
- Men: 11.9% vs Women: 13.3%
- Men (65+): 9.1% vs Women (65+): 14.4%
- Lone-parent families: 34% vs Two-parent families with two earners: 5.1% and Two-parent families with one earner: 22.0%

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. Persistent poverty represents a violation of economic and social rights enshrined in international law, and a squandering of human potential.

**AFB Actions**

**Set Clear Targets**

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

- Reduce Canada’s poverty rate by 25% by 2020, and by 75% within a decade.
- Ensure the poverty rate for children and youth under 18, lone-parent 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, supported 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, with 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. 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. 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.

• 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).32

• Cancel pension income-splitting among seniors, and redirect this money to enhancement to the Guaranteed Income Supplement (GIS) (see the Seniors and Retirement Security chapter)

• Rather than directing $2.3 billion towards an Enhanced Universal Child Care Benefit, and $1.9 billion towards income-splitting for families with children under 18 (see Taxation chapter), and a further $65 million to
increase the child care deduction,33 the AFB would double the National Child Benefit Supplement (NCBS) in order to reduce child poverty by 26% (Cost: $3.1 billion/year).

• The AFB would also cancel the existing UCCB, saving $3.4 billion a year.

• 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 at $15/hour and index it to inflation.

• Commit that federal government contracts go only to Living Wage employers.34

• Revise Temporary Foreign Worker Programs so that migrant workers can seek and obtain landed immigrant status, without nomination by employers, and assure all those who come to Canada for work are granted full labour rights and protections upon arrival (see the Immigration chapter).

• Tackle homelessness and ensure the addition of affordable housing stock (see the Housing and Neighbourhoods chapter).

• Provide universal publicly funded child care, increasing the number of regulated spaces and capping fees (see the Early Childhood Education and Child Care chapter).

• Provide support for training and education, and initiate a Green Infrastructure and Green Jobs plan, with a special focus on apprenticeships for economically marginalized populations (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 (see the Sectoral Development chapter).

• 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 earners and highly profitable corporations (see the Fair and Progressive Taxation chapter).

Notes

1 For how Canada compares to other OECD countries on inequality, see the Conference Board of Canada’s comparison’s here: http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx or the OECD data here: http://www.oecd.org/els/soc/income-distribution-database.htm

2 In the fall of 2014, Saskatchewan became the latest province to announce that it will develop a plan, leaving BC alone in refusing to accept the need for a poverty reduction plan. Arguably, however, Alberta, Yukon, and PEI’s plans have stalled — they were announced, but little progress has been made.

3 The Standing Senate Committee on Social Affairs, Science and Technology (2009). In from the Margins: A Call to Action on Poverty, Housing and Homelessness. Ottawa: Senate of Canada.


6 See the World Top Incomes Database, developed by Facundo Alvaredo, Tony Atkinson, Thomas Piketty and Emmanuel Saez: http://topincomes.parisschoolofeconomics.eu/


8 Custom tabulated data from the Survey of Labour and Income Dynamics. Ottawa: Statistics Canada. The agency notes, “[B]y December 2015, Statistics Canada will release a revised series of income statistics which will allow for the comparison of 2012 and 2013 data to earlier years.” (From http://www.statcan.gc.ca/pub/75-513-x/75-513-x2014001-eng.htm)


10 Osberg, Lars. (2014). “Canadian Inequality, then and now: Can increasing inequality be a steady state?” See: http://myweb.dal.ca/osberg/classification/conference%20papers/May%2022%20Canadian%20Inequality%20Then%20and%20Now.pdf


19 Yalnizyan, Armine, “Proportion of Unemployed Canadians in Receipt of Jobless Benefits, 1942 to July 2014” https://twitter.com/ArmineYalnizyan/


Statistics Canada. Table 206-0004 - Canadian Income Survey (CIS), persons in low income, Canada


"CANSIM Table 380-0064: Gross Domestic Product, Expenditure-Based, Quarterly." Ottawa: Statistics Canada.


Meaning employers who have been officially certified as paying the living wage for families, as calculated by living wage campaigns across Canada. For background, see Richards, Tim et al (2008). *Working for a Living Wage*. Vancouver: Canadian Centre for Policy Alternatives. Or visit: http://livingwagecanada.ca/