

Study of Income Inequality in Canada – What Can Be Done

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THANK YOU FOR the opportunity to address your Committee on the issue of income inequality, and what can be done in Canada to offset its growth.

Income inequality used to widen in the wake of recessions, and shrink in times of solid job growth. But over the past generation, income inequality has risen in periods of robust economic growth too, in Canada and around the world.

Income inequality has become another inconvenient truth of our era, as challenging to our economy, our health, and our future as climate change. And, as with climate change, it attracts its share of deniers. But Canada would be wise to consider not only the message, but the messengers on the global scene who have issued strong warnings on what inaction could mean for both equity and efficiency.

The International Monetary Fund¹ has shown that higher income inequality is associated with greater market volatility and less economic growth over the longer term.



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Analysis from the World Bank² links the relationships between globalization, growing income inequality and democracy, and raises the provocative question whether inequality, unchecked, undermines democratic capitalism.

Internationally referenced Canadian academic Miles Corak has documented³ that the greater the income inequality of adults in a nation, the less the economic mobility of their children.

These are not trends only happening elsewhere, to other people. They are also occurring in Canada.

The Conference Board of Canada⁴ has warned that growing income inequality, left unchecked, will lead to lost potential, increased costs, squandered opportunity and potential social unrest.⁵

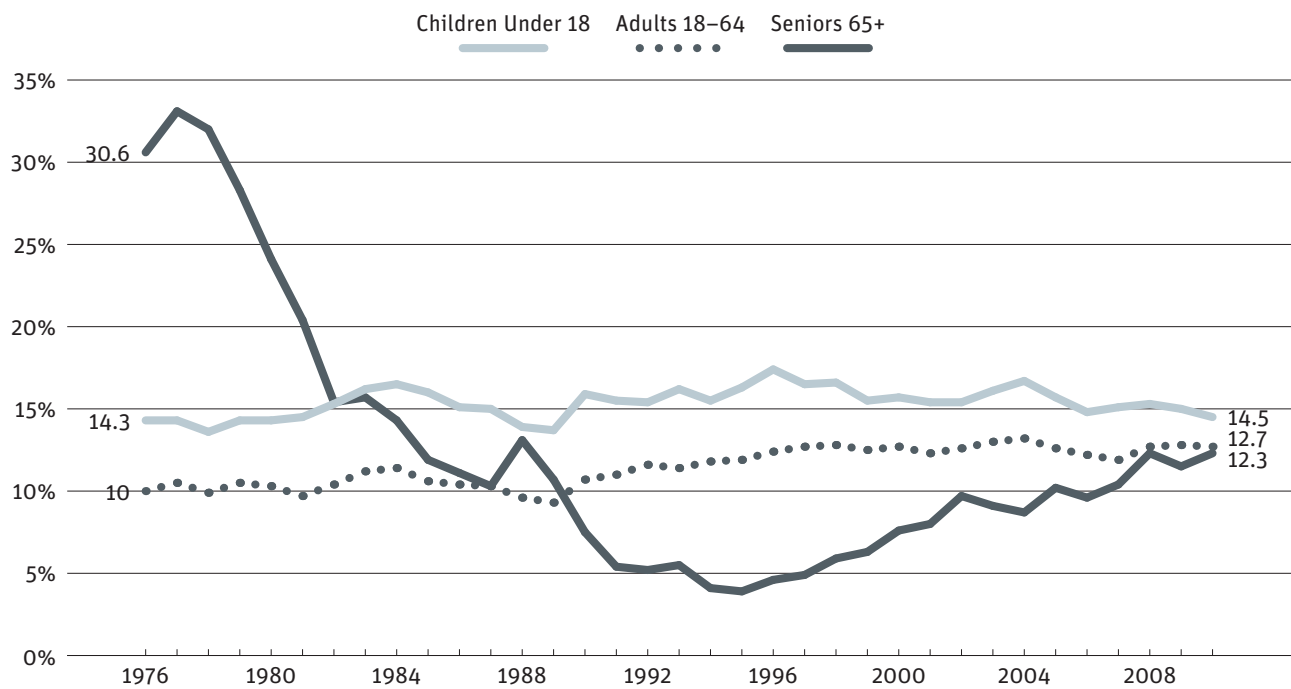
Data from the Organization for Economic Cooperation and Development⁶ shows that whereas Canada bucked the international trend towards rising income inequality between the mid 1980s and mid 1990s, since then Canada has been the country that slipped most rapidly down the international rankings, from 14th most equal to 22nd, from above-average to below-average equality. During this period, 15 of 34 OECD nations reduced inequality.

University of Toronto's Centre for Urban and Community Studies has launched path-breaking research⁷ on Canada's major cities, visualizing how income polarization has led to spatial polarization, through the evolution towards more rich and poor neighbourhoods and fewer middle class ones.

The promise of equality of opportunity rings hollow for children whose opportunity is increasingly hardwired into their environments, through the quality of their schools, recreational outlets, and access to jobs. Create cities where you can predict poverty by postal code, and you are asking for trouble.

Between 1981 and 2010, the economy more than doubled in inflation-adjusted terms, but poverty has grown for working age adults and seniors. For children under 18, poverty is approaching rates of the mid 1970s, but is higher than it was in 1989 when all Parliamentarians unanimously voted to eliminate child poverty by the year 2000. What may seem a utopian rhetorical flourish has been close to accomplished in other developed nations such as Denmark, Sweden, Norway, Finland.⁸

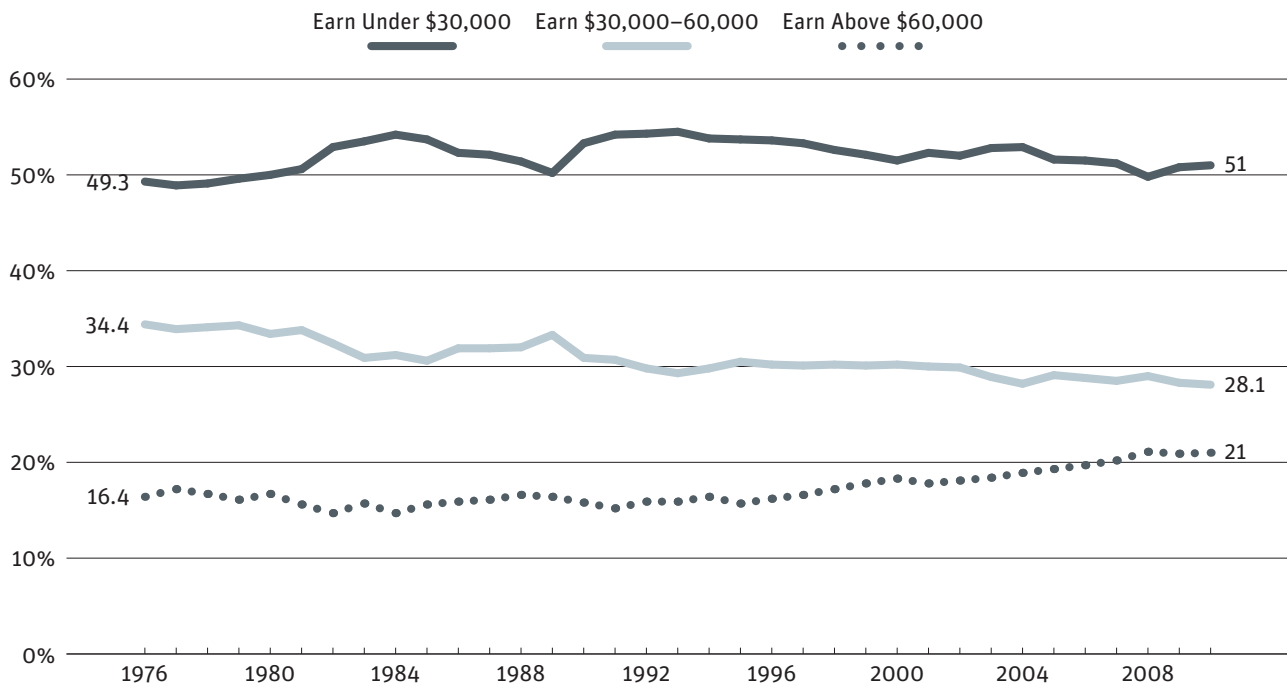
FIGURE 1 Percent of People With Incomes Below the Low Income Measure (After Tax), By Age, Canada, 1976–2010



Source: Statistics Canada, CANSIM Table 202-0802

The economic pie has more than doubled yet the share of Canadians with inflation-adjusted earnings between \$30,000 and \$60,000 – what could be termed the “middle class” – continues to decline. It needs to be noted that this class is above the middle. That is because, by 2010, over 50% of Canadians earned less than \$30,000, a slightly larger share of the working population than in the mid 1970s in inflation-adjusted terms.

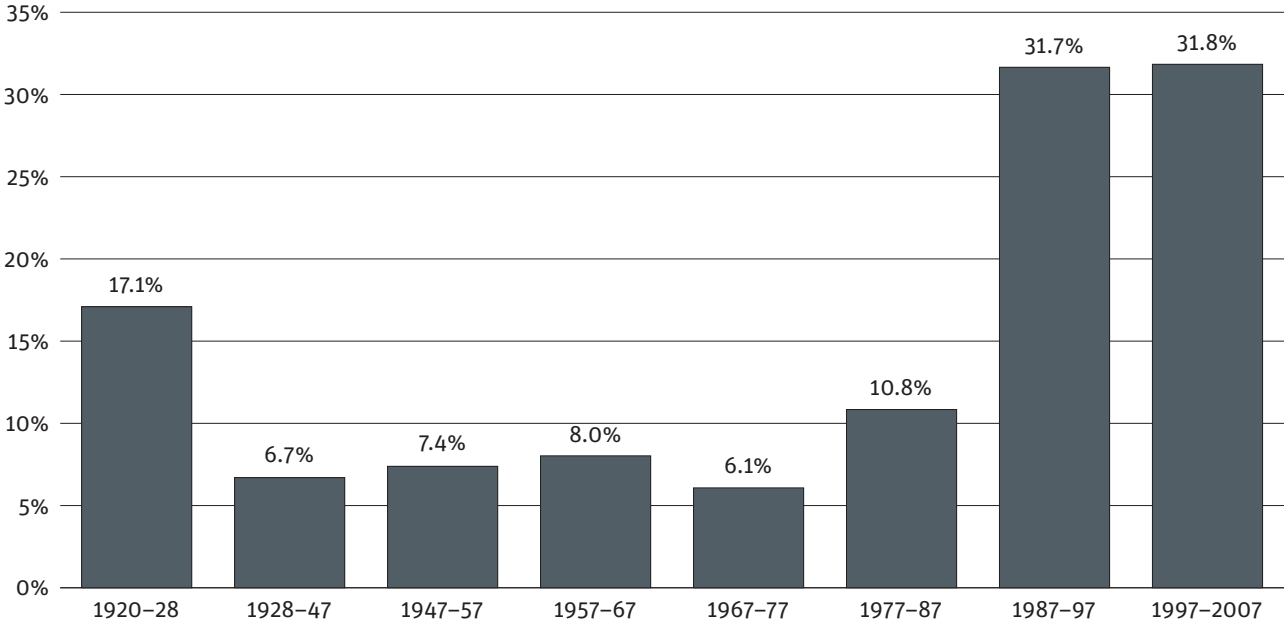
FIGURE 2 Percent of Canadians Earning In Low, Middle, and High Income Classes (in Constant \$2010), Canada, 1976–2010



Source: Statistics Canada, CANSIM Table 202-0101

More of the gains from growth are ending up in the pockets of higher-income individuals and households than in the past. Based on individual tax data, the top 1% in Canada accounted for 32% of all income growth in the decade 1997–2007. Think that is normal? It is four times the gain during a period of similar growth in the 1960s, and almost double the gains accruing to the top 1% during the Roaring Twenties. We are in uncharted territory economically.

FIGURE 3 Share of Income Gains Captured By Top 1%, Canada, 1920–2007



Source: Yalnizyan, Rise of Canada's Richest 1%⁹

Over the course of 35 years, half of Canada's working aged population would be living on much less income than their predecessors were it not for government actions. As it is, the poorest 40% of working-age Canadians are living on less after-tax income, in inflation-adjusted terms, than their counterparts in the mid 1970s.

Globalization and technological change are often cited as reasons for the widespread growth in income inequality. But the trends are not inevitable, as evidenced by variations across and within nations.

The federal government of Canada has a key role to play in offsetting growing income inequality, and has a broad suite of options for action:

1. Direct income measures: Enhance the Working Income Tax Benefit, refundable tax credits, Child Tax Benefit, Guaranteed Income Supplement or Old Age Security. Or introduce more sweeping reforms such as a Guaranteed Income. Improving EI would also increase incomes for jobless individuals, as well as help our macro-economy become more recession-proof.

2. Indirect support: The governments of eight provincial and territorial jurisdictions have committed to poverty reduction strategies. The federal government should support these initiatives, which would be distinctive in each region, and showcase best practices. The Alternative Federal Budget has outlined such a plan.¹⁰

3. Tax measures: If new taxes are ruled out, it is critical that the existing tax regime is not further compromised. Enforcing rules on the books will require enhancements, rather than staff cuts, at the Canada Revenue Agency; and follow-through on prosecutions of tax evasions. Avoid expanding tax shelters through the Tax Free Savings Account and do not introduce income splitting for families with young children. Both measures widen, rather than reduce, disparities, as identified by the Library of Parliament in 2007, and the Department of Finance in February 2013.¹¹

4. Improve supports and services: Target additional revenues raised or not foregone from proposals in 3) to invest in the things that can greatly alleviate the pressure on middle- and low-income households: child care, transit, housing, post-secondary education.

5. Improve labour market policies and regulations:

- Of most immediate concern is the Temporary Foreign Worker program. Some tighter rules were announced yesterday but far more needs to be done to ensure this is a program that views temporary foreign workers as complements to — rather than substitutes for — the Canadian labour force. The government needs to provide greater transparency on who is requesting Labour Market Opinions¹² and how prevailing wages are set and enforced. Such information needs to be updated on a monthly basis. A website should be dedicated to such information. Exemptions and waivers to minimum requirements for job

advertising and recruitment need to be reduced.¹³ Existing rules need to be enforced, and shown to be enforced.

- As much as possible, balance the playing field in the labour market: In an era of growing corporate consolidation and increased bargaining power of employers, the federal government should not make it more difficult for workers to form unions and bargain collectively. The correlation between greater equality, a bigger middle class and unionization is widely documented, as you will hear later this morning from Dr. Nicole Fortin¹⁴ from the University of British Columbia.

Any of these steps can reduce income inequality and improve opportunity. At the very least, public policy should not exacerbate market forces that have tended to increase income inequality in Canada.

Notes

- 1 <http://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf>
- 2 http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2002/09/24/000094946_02091005203146/Rendered/PDF/multi0page.pdf and <http://www.theglobalist.com/storyid.aspx?storyid=9934>
- 3 <http://milesorak.com/2012/01/12/here-is-the-source-for-the-great-gatsby-curve-in-the-alan-krueger-speech-at-the-center-for-american-progress/>
- 4 <http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx>
- 5 <http://www.conferenceboard.ca/insideedge/2011/nov2011/nov7-pres-message.aspx>
- 6 <http://stats.oecd.org/Index.aspx?DatasetCode=INEQUALITY>
- 7 <http://neighbourhoodchange.ca/>
- 8 <http://www.conferenceboard.ca/hcp/details/society/child-poverty.aspx>
- 9 <http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/12/Richest%201%20Percent.pdf>
- 10 http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/03/AFB2013_MainDocument.pdf p.125
- 11 <http://behindthenumbers.ca/2011/04/26/dispelling-middle-class-myths/> based on this Library of Parliament report <http://www.parl.gc.ca/content/LOP/ResearchPublications/prb0636-e.pdf> and this Finance Canada report associated with the Tax Expenditures for 2012 <http://www.fin.gc.ca/taxexp-depfisc/2012/taxexp1202-eng.asp#toc346014054>
- 12 33,000 companies applied between June 2010 and June 2012, according to documents obtained by the Globe and Mail. <http://www.theglobeandmail.com/report-on-business/economy/jobs/the-long-list-of-canadian-firms-that-have-sought-temporary-foreign-workers/article11113782/?page=all> The list is here <https://docs.google.com/a/cbc.ca/spreadsheet/ccc?key=0AjTvIDiapT5adFBVTlhxZzBEVNaZEZDUk1ibTh0a2c#gid=0>
- 13 http://www.hrsdc.gc.ca/eng/jobs/foreign_workers/variations.shtml
- 14 http://www.parl.gc.ca/Content/HOC/Committee/411/FINA/WebDoc/WD6079428/411_FINA_IIC_Briefs/FortinNicoleB8639622.pdf



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