



CANADA WITHOUT POVERTY
CANADA SANS PAUVRETÉ

@UNDERONEROOF
251 BANK STREET, 2ND FLOOR
OTTAWA, ON K2P 1X3
613-789-0096 (1-800-810-1076)
WWW.CWP-CSP.CA

Honorary Directors

**Right Hon. Joe Clark • Hon. Louise Arbour
Hon. Monique Bégin • Hon. Ed Broadbent • Mr. Ovide Mercredi**

2013 Inequality Submission to the Federal Finance Committee

April 5, 2013

Since the 1990s, increased income inequality has created a growing gap between those who “have” and those who do not. Greater concentration of wealth has accumulated in the top 20% of income earners, and even more sharply in the top 1%, while the middle and lower level earners have suffered and lost ground. The result of this dangerous phenomenon is deteriorating social cohesion, poorer health outcomes for society as a whole, and greater risks of financial instability for our economy.

Canada Without Poverty welcomes the efforts of the Finance Committee to examine and ultimately make recommendations for action on income inequality. Before offering insight on the issues, it is important to note the following key considerations:

- Poverty and inequality are interconnected and that these two concepts cannot be considered in isolation.
- Poverty and inequality are human rights issues and as such require a human rights framework to be adequately addressed.
- Tackling poverty and inequality requires long-term vision and a willingness to influence the current financial and taxation systems.
- Inequality is not merely an issue of income, but one of social well-being, health, and the ability to participate in society and community.

Income Inequality – Why it Matters

1. Growing concern for income inequality is not merely the result of media interest or protests, such as the Occupy movement. The concern stems from the reality on the ground: from individuals not able to provide for themselves or their families, youth who cannot save for the future, low-wage workers who push to move ahead financially but feel farther behind, and from a society that is disconnected and insular. This reality has sparked anger, analysis and calls for change.

2. Evidence on rising inequality has been mounting, and it is stark: According to economist Miles Corak reports that as it stands now the average income of those in the top 1% in Canada has about doubled since 1982, and for the top 0.1% it has increased by about two and a half to three-fold. For the bottom 90% of those in the biggest Cities in Canada (Toronto [-\$1,900 drops in income], Vancouver [-\$4,300] and Montreal [-\$224]) they are making less than they did in 1982.¹ The Conference Board of Canada agrees: Since 1990, the richest group of Canadians has increased its share of total national income, while the poorest and middle-income groups have lost ground.

3. In January of this year the Canadian Centre for Policy Alternatives reported that “No province has managed to become more equal since 1980,” “Instead, all provinces have become more unequal, although to varying degrees.” Alberta is the most unequal province. The ratio of the richest 1% of Albertans to the bottom 90% is the highest in the country at 18 times. The top 1% of Albertans have seen by far the biggest pay increase in the country, making \$320,000 more today—a doubling of their 1982 income compared to the bottom 90% of Albertans who have only seen a raise of \$3,900 over the same 30 year period.

4. But despite the fact that **incomes of the top 1% have doubled and even tripled, the fraction of their income paid in taxes, their average tax rate, has remained about the same, and even a little lower.** Governments have allowed this to happen, in particular, by making certain choices for example, about the tax rate in this country which has become increasingly regressive. The 2013 Alternative Federal Budget (AFB) states that “**Regressive and unfair tax cuts have done little to grow the economy. Instead they’ve reduced revenues, increased deficits, increased inequality and led to cuts in public services.**” The AFB points out that if the corporate tax rate as at 2007 levels (a time of great economic growth), and a new tax bracket was introduced for individuals making over \$250,000, there would be an extra \$10 billion in revenue annually for the federal government. Considering the corporate cash reserves of almost \$600 billion, and the level of wealth in the hands of the top 10%, this is not only feasible, it is just.²

5. What’s so pernicious is the belief that maximizing economic growth and keeping tax rates low are worthwhile goals AND of benefit to society. And yet, the statistics are clear – **low tax rates merely maximize the wealth of the top 1% and the top 1/10th of the 1%.** It does this in two ways: First, because it keeps their taxes disproportionately low, and second because so much of the monies governments claim we now have in our pockets actually gets recaptured by the wealthiest. **The net result being the erosion of the services and programs that are of significant and measureable benefit to us; the various aspects of our social welfare state.**

6. Conference Board of Canada notes as inequality rises, people on the bottom of the income scale tend to borrow more in order to keep up, which, in turn, increases the risk of a major crisis. Severe inequality increases social and, in turn, political instability, which reduces foreign investment. The global financial crisis demonstrated that dominant economic systems must be re-examined and now is an opportune time. Growing inequality has been identified as a leading culprit of the recent recession, as has “institutional forces”³ such as policies that have kept welfare levels below the poverty line, stagnant minimum wages, and a decline in unionization across the country.

7. In light of the unprecedented concentration of wealth in the hands of a very small percentage of our population, and deepening poverty at the other end, **our economy is one that is deeply unequal and one that is rooted in greed** – the more people can each accumulate, the better. This perpetuates a level of individualism that is both selfish and unsustainable. It also leads to a society that is less healthy both physically and mentally, is less trusting, more fractured, has poorer educational outcomes, higher rates of obesity and imprisonment, and less social mobility.⁴ The truth is that inequality is not in anyone’s self-interest.

8. What disintegrates as inequality rises is the chance for all individuals in Canada to achieve the same outcomes – attain greater levels of education, find gainful employment, improve their physical and mental health, or participate in society. It is not about “equality of opportunity”, which could mean that every child has the chance to go to primary school. It is about “equality of outcomes”,

which then changes the scenario so that every child who attends primary school arrives with a similar level of school readiness. Children from low-income households are often suffering from poor nutrition and hunger, and do not have the same ability to focus in school as a result. It is not enough to open the door to opportunity, you have to make sure people have access to that door.

9. Health is also a key issue when considering the affects of inequality. Consider that one in five dollars spent on health care in Canada are attributed to “health inequities.” This means that poor people, being at much higher risk of illness and injury than those who are not poor, place proportionately greater demands on health care systems.⁵ A 2010 McMaster University study found a 21-year difference in average life expectancy between people living in the poorest and those living in the wealthiest neighborhoods of Hamilton.⁶ Health and longevity truly are heavily dependent on such determinants as income and housing.⁷

10. Income inequality is in many ways a low-wage issue. In Canada approximately one quarter of working age adults are in low-wage positions earning less than what is needed to meet the poverty line.⁸ In Ontario, **one in three children living in poverty have at least one-parent working full-time,⁹ and in British Columbia the number is even higher at 43% of poor children.¹⁰** Wages are not increasing at the rate of the cost of living causing a greater gap in inequality. To put this in perspective, for a family of four in Vancouver just to meet basic needs (pay for rent, adequate food and shelter, transportation, clothing for the children, etc), both family members would need to earn \$19.14/hour.¹¹ This is a living wage, and it is almost \$9.00 above the minimum wage. In 2008, the living wage for the Greater Toronto Area would have been \$16.60/hr, equivalent to \$57,000 per year for two parents working full-time.¹² Living wage policies represent best practices that should be adopted and promoted by all levels of government.

How to Tackle Inequality

11. Human Rights are the starting point for transformation. Canada has ratified a number of international human rights conventions that oblige the government to fulfill the human right to housing, food, water, adequate housing, equality and non-discrimination. Not only does this remove the “us and them” rhetoric, but it also equalizes the playing field as every person is entitled to the same rights.

12. A human rights analysis requires us to take a step back and analyze the deeper, structural causes of economic inequality. This includes, for example, understanding the role of the international community's and international financial institutions' actions and failures to act that contributed to the economic crisis in 2008. Examples include the failure of states to regulate in the public interest and the failure of states to address unequal development, rising inequalities, stagnating wages, where these amount to failures to respect, protect and fulfill human rights.

13. Human rights must be recognized and protected by law, anchored in legal commitments for example international human rights law, that can be independently monitored and measured. Canada can use the example of the UN monitoring mechanism to establish their own review procedures regarding our economy, ensuring that decisions are based in a desire to see progress on human rights and inequality, be it access to adequate housing, adequate food and water, good health, freely chosen work, education, or an adequate standard of living.

14. Human rights demand **accountability and transparency**. They provide concrete measures against which decision-making regarding tax rates and expenditures could be gauged. For example,

in order to comply with international human rights obligations, a State must be able to show that it is acting reasonably. It must show that it is expending “**the maximum of its available resources**” to ensure the realization of human rights; it must not engage in retrogressive measures – that is taking away once it has given. And overall, it must show that its fiscal decisions are reasonable in light of its international human rights obligations. Recent government decisions to increase the age of eligibility of Old Age Security and the Guaranteed Income Program, as well as changes to Employment Insurance that will force some recipients to accept lower paying work farther from home are examples of retrogressive measures that will likely increase inequality and are steps away from fulfilling human rights.

15. **Human rights put the most disadvantaged at the centre.** Debates on inequality have primarily focused on the top 1% versus the bottom 90%. This discussion needs to be turned on its head. Human rights ask us to start with those most in need, experiencing the most disadvantage, to make sure their rights are being realized. The bottom 10% for example. **In a country as rich as Canada overall – it is unreasonable to have poverty, homelessness and hunger at our current rates. 20% of the population being poor, approximately 300,000 people homeless, and close to 900,000 people using foodbanks EACH MONTH across the country.** And it’s the disproportionate representation of particular groups – Aboriginal peoples, people with disabilities, single mothers, immigrants and newcomers – that we should be concerned about. It’s these groups that too often benefit last and least from economic growth and suffer first and most in economic downturns. These important particularities, social problems seem to get lost in the more general discussions about inequality.

16. Consider this: our social support system keeps people poor. Welfare rates are well below any measure of poverty in Canada. In Vancouver a single mother of 2 children receives just over \$1,000 each month and yet the average rent for a 2 bedroom apartment is over \$1200 a month. Overall, welfare rates would have to be 48% higher just to keep people out of poverty. A best practice that should be used when assessing welfare incomes is: reviewing the current cost of living including housing, food and transportation. Requirements to access welfare, such as allowable asset levels, should be reduced so that individuals do not have to completely deplete wealth in order to receive support. Recipients of social assistance should also be allowed to keep a minimum of \$500 of their employable earnings so that they can build a base of financial support before leaving the welfare system. Finally, medical care supports for adults and children should be extended for two-years following an individual’s transition off of welfare.

17. In light of the gross inequality created by markets when left to run freely, **it is generally agreed that governments have an important role to play in addressing and ensuring greater equality in society.** Human rights engage governments because under a human rights framework, an active State with positive and negative obligations is required in order to achieve equality. Adopting and promoting living wage and social assistance policies rooted in actual costs of living is a step in this direction.

18. To fully commit to a human rights framework and demonstrate commitment to reducing inequality, the federal government must make changes to the tax system. Current government contributions are limited by a shrinking revenue base that is grounded in the belief that low taxes fuel the economy. What is absent in this narrative is an understanding that the ‘economy’ is not merely about numbers – it is about people. People who work, consume, aspire to greater success, invest in their future and contribute to community. Taking the focus away from those who drive the economy and those who are not able to fully participate and placing power and wealth only in the hands of the

few is to ignore a holistic system. In order to fully participate in the economy and to contribute to society, people need adequate supports, social programs and income levels.

19. A progressive tax system and adequate transfers to provinces and territories that support social programs will reduce inequality and offer vulnerable populations the opportunity to move beyond poverty towards prosperity. Providing funding for programs such as child care, housing, transit and post-secondary education, is more beneficial than offering boutique tax credits that amount to a fraction of the actual cost of the service. These programs also fulfill human rights obligations and would ensure the needs of vulnerable groups are taken into account. The Organization for Economic Development (OECD) reported that, “Canada spends less on cash benefits such as unemployment benefits and family benefits than most OECD countries. After 20 years of continuous decline, inequality has increased in Canada in the past 10 years.”¹³

20. Furthermore, Canadians are open and willing to change the tax system in order to address inequality. In April 2012, an Environics poll found that more than **three-quarters consider the growing gap to be a serious problem** with long-term negative consequences for Canadian society. Almost two-thirds of Canadians are willing to pay slightly higher taxes in order to protect social programs, and the majority agree with increasing income tax on those who make between \$250,000 - \$500,000. The poll also revealed that raising corporate tax rates is widely accepted.¹⁴

Recommendations

21. **Acknowledging the connection between poverty and inequality, Canada must show leadership in addressing poverty, homelessness and food insecurity.** The Government of Canada should help coordinate inter-governmentally national strategies to reduce and eliminate poverty, address homelessness and inadequate housing, and promote food security. Such strategies must use a human rights framework, which involves: ensuring equality for disadvantaged groups; including measureable goals and timelines; providing effective consultation with affected constituencies; creating transparent accountability mechanisms and accessible complaints procedures.

22. **Canada should develop national wage standards, in consultation with provincial and territorial leaders, to ensure that no fully employed individual lives below the poverty line.**

23. Recognizing the cost of a basic basket of goods for families including shelter, food, clothing, transportation, health costs and childcare, **Canada should promote and encourage living wage policies that reflect actual costs of living in specific regions.**

24. **Canada should reform the tax system so that it is progressive and does not favour the wealthy.** This should include, but not be limited to and increase in corporate tax rates to the 2007 levels, and the addition of a new income tax bracket of 35% for those earning \$250,000 or more.

About Canada Without Poverty

Canada Without Poverty is a registered charity founded in 1971 as the National Anti-Poverty Organization. We seek to eradicate poverty in Canada for the benefit of all by educating Canadians about the human and financial cost of poverty, and by identifying public policy solutions. Canada Without Poverty is governed by a Board of Directors who individually have experienced poverty first-hand and our work is informed from a human rights perspective.

Endnotes

¹ Centre for Policy Alternatives, January 28, 2013 www.policyalternatives.ca

² Canadian Centre for Policy Alternatives “*Alternative Federal Budget 2013: Doing Better Together*”, see the Fair and Progressive Taxation chapter: www.policyalternatives.ca/afb2013

³ Conference Board of Canada, <http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx>

⁴ Equality Trust, <http://www.equalitytrust.org.uk>

⁵ Health Council of Canada (2010) *Stepping It Up: Moving the Focus from Health Care in Canada to a Healthier Canada*

⁶ www.hamiltonvitalsigns.ca/healthwellbeing.html

⁷ www.thecanadianfacts.org/

⁸ Canadian Labour Congress, <http://www.canadianlabour.ca/action-center/municipality-matters/fair-wages-working-conditions>

⁹ Canadian Centre for Policy Alternatives, <http://www.policyalternatives.ca/publications/commentary/what-if-minimum-wage-was-living-wage>

¹⁰ First Call BC Child and Youth Advocacy Coalition

<http://www.firstcallbc.org/pdfs/EconomicEquality/First%20Call%20BC%20Child%20Poverty%20Report%20Card%20012.pdf>

¹¹ <http://www.livingwageforfamilies.ca>

¹² Canadian Centre for Policy Alternatives, <http://www.policyalternatives.ca/publications/commentary/what-if-minimum-wage-was-living-wage>

¹³ Organization for Economic Co-operation and Development (2011), “*Country note: Canada*”, <http://www.oecd.org/canada/47876217.pdf>

¹⁴ <http://www.thestar.com/opinion/editorials/article/1158784--broadbent-poll-uncovers-public-desire-to-close-inequality-gap>