

Canada's Growing Socio-economic and Socio-spatial Divide: Three Modest Budget Proposals that will Make a Difference

J David Hulchanski, Professor
Factor-Inwentash Faculty of Social Work & Cities Centre, University of Toronto
www.NeighbourhoodChange.ca

Government budgets are statements of priorities based on ethical principles. In a democracy they reflect democratic compromise. This is true in most Western democracies, where voters are proportionally represented in Parliament based on election outcomes.

This is not, however, the case in Canada, where 40% of the vote is usually enough to capture a majority of seats in Parliament, leaving the 60% majority of voters underrepresented in final decision-making – the voting that takes place in Parliament itself.

Since the mid-1980s, Canadian minority governments with a majority of seats in Parliament have not simply allowed but have actually assisted in redistributing income from middle-income groups to high-income groups. This is *income polarization*, a situation in which higher and lower income groups expand while groups in the middle shrink. The media appropriately calls this the “decline of the middle class.” Most Canadians consider themselves middle class, but increasingly few are middle-income.

Economist Joseph Stiglitz recently pointed out in the *New York Times*, “Some countries will be successful in creating shared prosperity – the only kind of prosperity that I believe is truly sustainable. Others will let inequality run amok.” (Inequality is a Choice, *NYT*, Oct. 13, 2013)

Canada is letting inequality run amok. When we compare ourselves to 15 similar wealthy Western democracies, Canada ranks near the bottom in measures of *income inequality* (see Figure 1), and in measures of the role of government in assisting those in need (Figures 2 and 3). Canada is doing nothing to halt the upward redistribution of income and wealth. Government budgets and economic and labour market policies are responsible for much of this upward redistribution of income and wealth.

The result is an increasingly polarized society in which a minority of very high-income individuals, households, and neighbourhoods co-exists with an increasing majority of low-income individuals, households, and neighbourhoods. Figures 4 and 5 document the degree to which we are becoming polarized by socio-economic status and geography.

These trends – the growing gap between rich and poor, *income inequality*, and the decline of middle-income groups, *income polarization* – are, fortunately, reversible. They are not inevitable. They are the outcomes of choices we make annually in our federal, provincial, and municipal budgets.

The setting of the national budget is an opportunity to change course. There are many small but important ways in which our national wealth and prosperity can be more equitably shared, slowing down and eventually reversing the redistribution of income and wealth from the middle to a minority at the top.

Three Recommendations

1) Do not make income inequality and income polarization worse.

Specific actions this year: do not double contribution limits to Tax Free Savings Accounts (TFSA's); do not introduce income splitting; do not allow the Temporary Foreign Worker (TFW) program to expand in large urban centres (which is where most foreign workers go; Toronto has 19%, Montreal and Vancouver 10% each of the foreign worker population). About 40% of all temporary foreign workers are in cities with no labour shortage. The TFW program adds competition to the bottom of the wage spectrum, reducing the likelihood of wage gains at the bottom (while other parts of the wage spectrum increase modestly or spectacularly, thereby widening income polarization). See: <http://www.theglobeandmail.com/report-on-business/economy/economy-lab/changes-to-immigration-policy-could-transform-society/article4105208/> and <http://www.cic.gc.ca/english/resources/statistics/facts2012/temporary/10.asp>

2) Promote income equality by assisting with lower-income Canadians' major budget item, housing.

Spend the money already allocated for affordable housing. This is the \$253 million annually that the federal government committed to for the Investment in Affordable Housing program which is to be matched by provinces and territories for a total of \$506 million annually. There has been no allocation of this funding since the March 2013 budget. This is no more than one-quarter of what most housing experts believe is actually necessary on an annual basis. Additional federal funding should be added.

While occasional funding is helpful and makes a difference, proper planning for meeting housing needs must begin by developing and implementing a national housing strategy. This should be done within one year in co-operation with the provinces and territories, municipal representatives, Aboriginal peoples, and NGOs. All Canadians have the human right to adequate, affordable housing. We need our government to take action in view of the many households who are paying more than 50% of their modest incomes on housing.

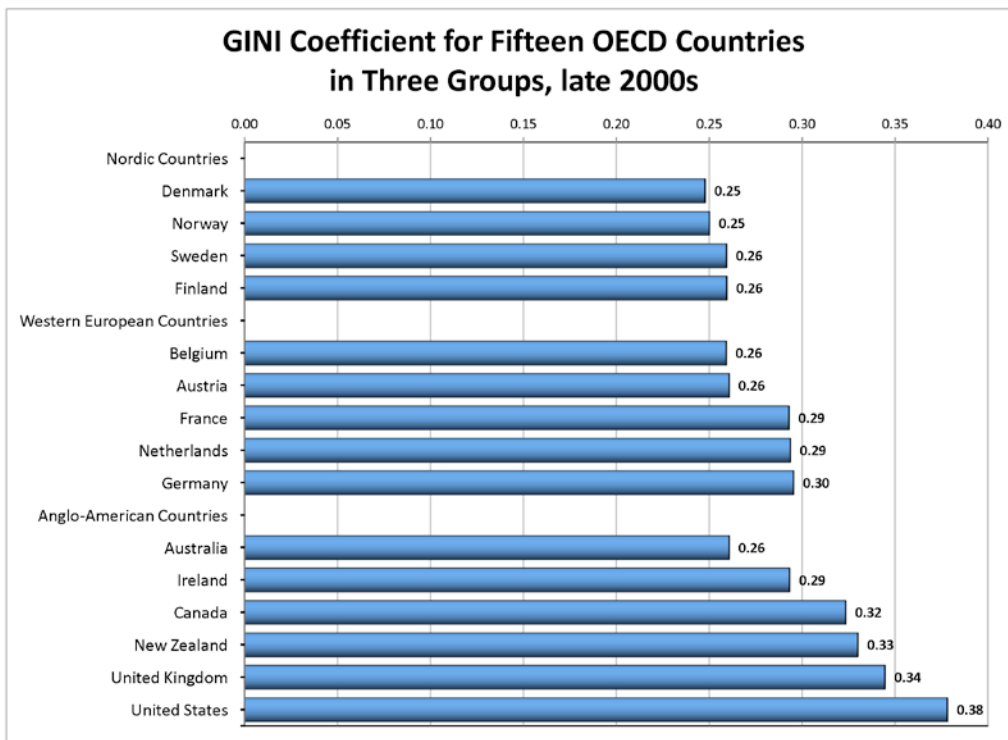
3) Reduce inequality by reducing poverty.

There are many small changes and enhancements that will make a difference in the lives of average Canadians. A few potential good ones to start with are: enhancing the Canada Pension Plan, as called for by Premiers; increasing Employment Insurance payments and introducing new rules to make it fairer for all Canadians; make major new investments in the Working Income Tax Benefit (e.g., provide support until a single person is making at least the minimum wage); introduce a national 'care' agenda including child care and elder care; and join with Provinces and Territories to create a national anti-poverty strategy with real goals and measurable objectives.

These three affordable categories of measures are important first steps that can be taken right now, this year and next.

These and similar measures each succeeding year will stop the redistribution of income from the majority at the bottom to the minority at the top, and eventually lead to a much fairer society, like the one we built in the postwar era, which we abandoned in the mid-1980s.

Figure 1

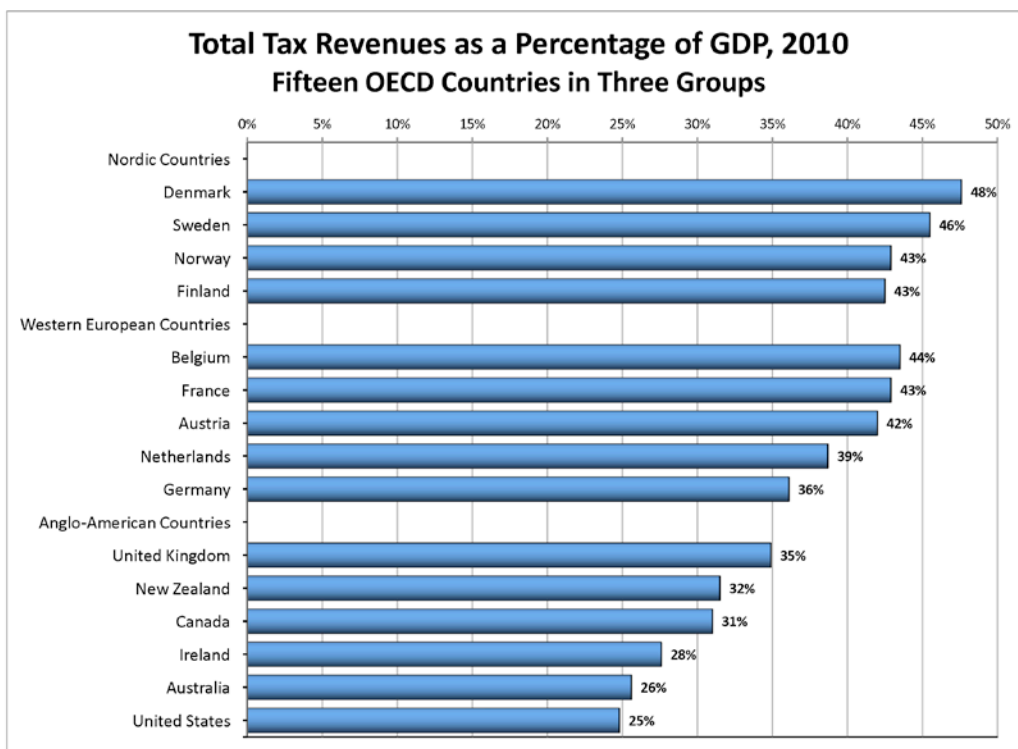


Source: OECD Factbook 2011: Economic, Environmental and Social Statistics

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Figure 2

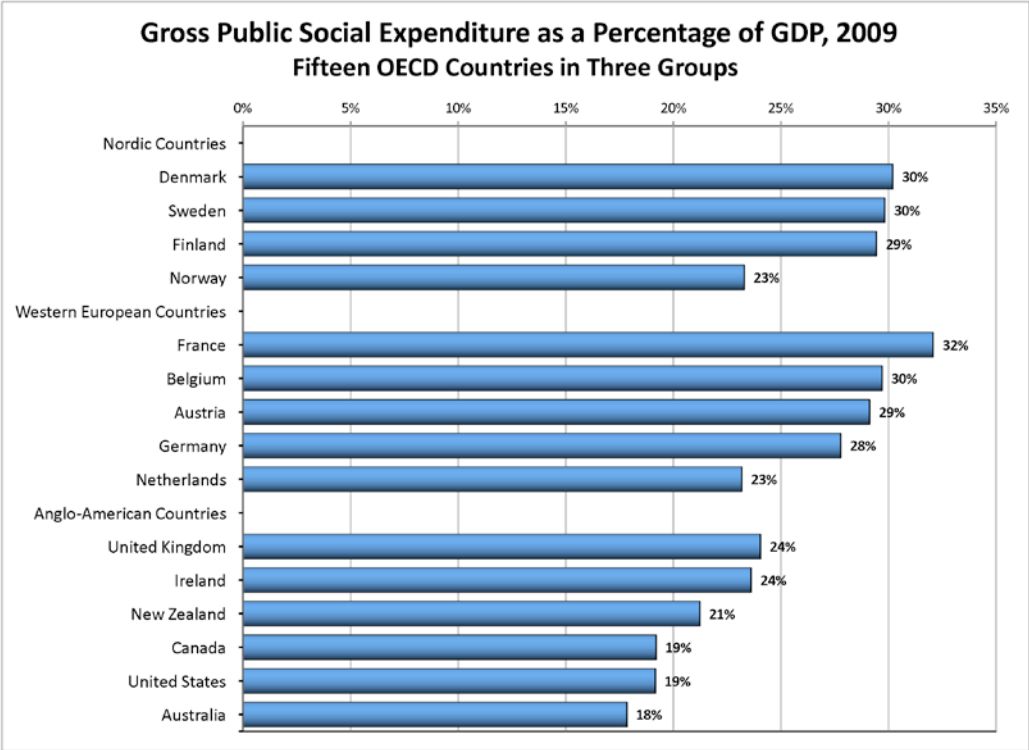


Source: OECD, Revenue Statistics 1965-2011, 2012 Edition.

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Figure 3



Source: OECD (2012), Social Expenditure (SOCX) via www.oecd.org/els/social/expenditure

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Figure 4

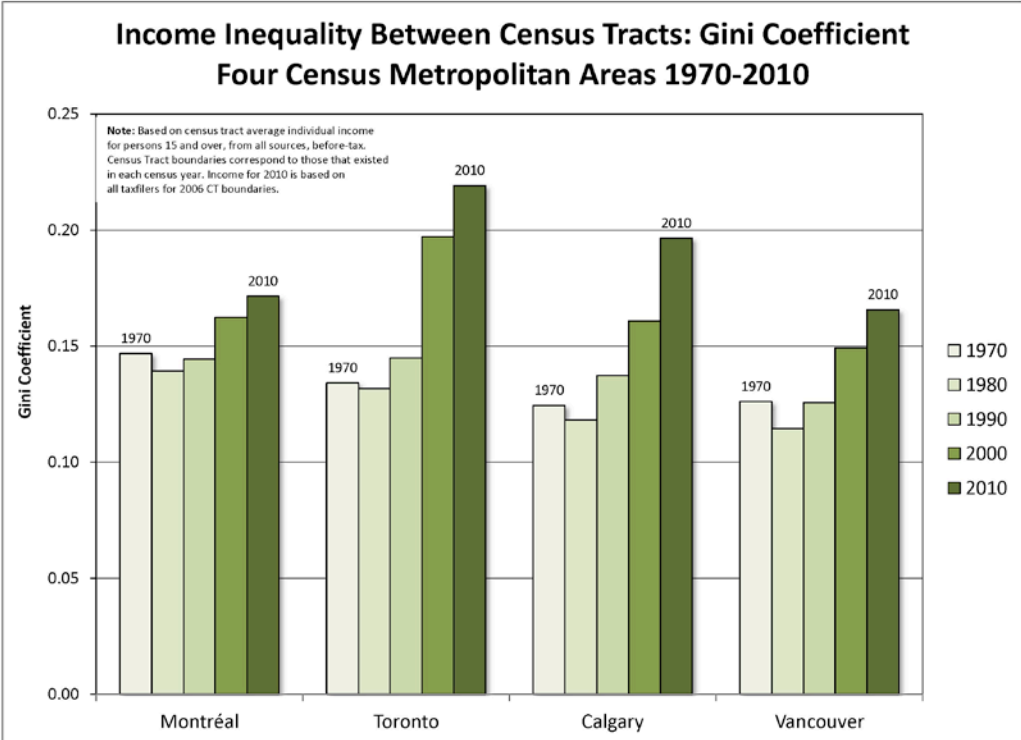


Figure 5. Decline of the Middle-Income Group of Census Tracts, 1970-2010

