Brief for the Standing Committee on Finance's Study of Inflation in the Current Canadian Economy

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INCOME SECURITY ADVOCACY CENTRE
Centre d'action pour la sécurité du revenu
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ISAC is a specialty legal clinic funded by Legal Aid Ontario. ISAC is the only legal clinic in Ontario wholly devoted to systemic advocacy on income security issues. ISAC's mandate is to advance the rights, interests, and systemic concerns of low-income people with respect to income security and employment. It has unique expertise in income security, including the effects of the law on low-income people, the impact that government benefits have on the livelihoods of low-income Ontarians, and the harms that arise when such benefits are denied.

Founded in 2001, ISAC is governed by a community Board of Directors representative of all regions of Ontario. Our Board includes legal clinic caseworkers and people who identify as low-income, with representation from Indigenous communities, racialized communities, people with disabilities, and recipients of income support benefit programs.

ISAC submits this brief with the following recommendations for the Standing Committee on Finance's study of Inflation in the Current Canadian Economy.

What's Causing Inflation?

Inflation in Canada in 2022 was at 6.8%, the highest level seen in 30 years. The rise in inflation is the product of a number of interlocking factors. However, what is not driving inflation is workers' wages. While some argued early on that "a wage-price spiral is underway", the opposite is true.[1] Most Canadian working wages have consistently lagged behind inflation. Average wages grew by 5.1% in 2022, well below the 6.8% rate of inflation.[2] The pay for Canada's top 100 CEOs, however, far outstripped inflation, increasing by 31%.[3]

The rise of inflation can be attributed to supply chain disruptions, rising commodity prices, excess corporate profits, and geopolitical crisis. The synchronized downturn in the global economy in Spring 2020 was followed by a sharp upturn in economic activity. The COVID-19 pandemic recession and recovery was unique in its speed and scope and it stressed global supply chains. Businesses could not get component parts when they needed them, commodity prices surged as companies competed for materials, shipping orders backlogged, and bottlenecks for goods drove up prices. The first notable signs of inflationary pressure were seen in commodity prices. Lumber, copper, and nickel, along with other commodities, were in high demand in the Summer and Fall of 2020, pushing prices higher.[4]

Global supply chains, which have historically been reorganized around a just-in-time production model, were unable to quickly adjust to the unique circumstances posed by the global pandemic.[5] The sharp downturn in economic activity, followed by rising demand for goods, strained global supply chains. By Summer 2021, global container shipping prices increased by nearly 500% from their March 2020 lows.[6] Bottlenecks for component parts for manufacturing and raw materials created upward pressure on prices. These price spikes in commodities eventually worked their way through to increased prices in the manufacturing sector. The Industrial Product Price Index in Canada, which measures the price changes for outputs in the Canadian manufacturing industry, increased 12.9% from 2021 to 2022, the fifth largest yearly gain in the Index since 1956.[7]

The external shock of the Russian invasion of Ukraine also caused global price surges in energy and wheat. Russia is a major oil and gas exporter and both Ukraine and Russia are among the ten highest wheat producing countries in the world. In response, energy prices in Canada spiked by 22.5% in 2022, while the price of bakery products increased by 11.5%.[8]

Another major factor in price increases is pandemic profiteering. Many firms use the excuse of inflation to raise prices. As D.T. Cochrane, an economist with Canadians for Tax Fairness noted, "some prices are rising because corporations are jacking up their markups to serve their bottom lines."[9] This has been most visible in the grocery sector, where three big grocery store chains, Loblaw, Metro, and Empire, have increased their profit margin well above pre-pandemic levels and well above the rate of price increases from their suppliers. As the Toronto Star noted, they have earned well over a billion dollars in the past year by increasing their profit margins.[10] In general, companies are earning profits at a dramatically increased rate, contributing to general price increases. As a share of Canada's gross domestic product, after-tax corporate profits have reached a 60-year high. After-tax corporate profits accounted for 20% of Canada's GDP. This is two percentage points higher than the pre-financial crisis high of 18% in 2005, and more than double the average between 1960 and 2000.[11]

After-tax corporate profits have reached a 60-year high, while average wage growth has been outpaced by inflation.

The current high inflation rate is the product of the unique pandemic-induced economic downturn that strained global supply chains, worsened further by the energy crisis resulting from Russia's invasion of Ukraine and by corporations engaging in pandemic profiteering. This inflation is temporary and will largely work itself out, however governments must ensure that low-wage workers and people on social assistance are able to weather the shock of price hikes. Raising interest rates to cause an economic downturn and telling workers to tighten their belts will only harm those already most impacted by high inflation.[12]

The Heavier Burden that Inflation Imposes on the Poor

Inflation imposes a heavier burden on low-income households because a higher fraction of their budget must be spent on essentials like food, housing, clothing, and transportation.[13] People in low-income households are disproportionately racialized, Indigenous, women, recent immigrants, seniors, singles, living with disabilities, and less formally educated.[14] They are hyper aware of the costs of items because when prices go up, they do not have savings to absorb the shock. In contrast, for higher-income households, a higher fraction of their income is spent on luxury goods and proportionally less is spent on essentials.[15] In 2019, the median after-tax income for Canadians in the top quintile was seven times that of the bottom quintile, with 69% of families in the bottom quintile living below the poverty line.[16] Accordingly, when prices rise, higher-income families have more of a buffer and can cut back on non-essential spending so that they can preserve spending on necessities.

Inflation also does not uniformly raise the price of all goods. In the current inflationary period, food and oil prices have increased substantially more than the prices of many other items.[17] In particular, food prices in Canada have outpaced general inflation for 14 months.[18] Since low-income families must spend a relatively higher fraction of their budget on food and gasoline, the larger increase in prices for these goods hurts low-income families more. In 2019, Canadian families in the bottom income quintile devoted 51% of their expenditures to basic necessities, more than any other quintile, with the highest income quintile only spending 42% on the same items.[19] This gap would be even larger if spending could be adjusted for quantity and quality of goods purchased since higher income quintile families buy more and better quality goods than those with lower incomes.[20]

> Low-income households cannot sustain ongoing price increases. In 2019, the poorest Canadian families spent nearly 10% more of their income on basic necessities than the wealthiest Canadian families.

Lower-income people are most in need of protection against inflation. Governments should direct more investment into programs that alleviate the burden that the poorest Canadians have had to shoulder. In 2019, 62% of the bottom income quintile cited government transfers as their major source of income; for all other quintiles government transfers were the major source of income for only 9% of families.[21] Therefore, in attempting to tame inflation, governments should not cut public sector programs and income assistance. If government supports are cut or fail to keep up with inflation, poverty, food insecurity, and healthcare system costs increase.[22] Instead, governments must invest in fiscal policy that tackles the affordability crisis.

ISAC's Recommendations

1. Raise the minimum wage to address the cost of living crisis.

The federal minimum wage needs to be raised to $20 an hour. Workers in the federally regulated private sector have been hit hard by inflation. The increase in the federal minimum wage to $16.65 an hour, up from $15.55, is a good step. Maintaining a federal minimum tied to the Consumer Price Index is key. However, to address the cost of living crisis for workers who make only slightly above the minimum wage there needs to be a higher wage floor. Wage increases for workers have consistently lagged behind inflation over the last year and raising the minimum wage floor is an important step to ensure workers can weather the cost of living crisis.

(i) Raise the federal minimum wage to $20 an hour.
(ii) Maintain the annualized cost of living indexation.

2. Reform Employment Insurance to protect vulnerable workers.

Canada is not ready for a recession, and that is in part due to the longstanding failures of the Employment Insurance (EI) system. The percentage of the unemployed who are eligible for EI has steadily decreased since the 1990s when eligibility requirements became much more restrictive. This has especially hurt workers in low-wage and precarious jobs – a sector of the labour market that has grown significantly in the past decades – including workers doing part-time, temporary, and/or contractual work. Under EI's current rules, only approximately 40% of the unemployed in Canada can access EI, and only 30% of those in urban centres.[23]

While the federal government introduced temporary measures to ease access to EI during the pandemic, in September 2022 it reverted to the original rules. This means that workers in Canada who find themselves without work will have no safety net to fall back upon. Vulnerable groups who have historically been most impacted by exclusion from EI will suffer the most, including women, Indigenous, racialized, disabled, and migrant workers.[24]

EI requires immediate and permanent reform into a system that can support working Canadians who lose their jobs, fall ill, go on parental leave, or are unable to work. We therefore make the following recommendations:

- **(i)** Set a new cross-Canada qualifying rule of 360 hours or 12 weeks for all EI benefits.
- **(ii)** Set a minimum benefit floor of $500 per week.
- **(iii)** Eliminate unfair disqualification rules that hurt vulnerable workers the most (including management-labelled "quit-fire").
- **(iv)** Expand access to migrant workers and those misclassified as independent contractors.

3. Amend the Canada Child Benefit to be accessible to those who need it most.

The Canada Child Benefit (CCB) was introduced by the federal government to help low and middle-income families with the cost of raising children, and to reduce child poverty. However, Indigenous and refugee claimant families either have barriers to accessing the CCB or are unable to access it at all. With inflation heightening the cost of living, access to the CCB is critical to ensuring all families in Canada can afford basic necessities to raise their children. No child deserves to live in poverty.

The CCB has helped to reduce child poverty significantly since its introduction in 2016, with the national child poverty rate falling from 9.4% in 2019 to 4.7% in 2020.[25] However, the reduction in 2020 was related to the temporary emergency pandemic benefits, and as a result, the child poverty rate is expected to increase again. Children whose families historically could not access the CCB will also continue to be impacted by the shortcomings of the program.

Two significant barriers to accessing the CCB have prevented it from reducing poverty for all children:

- **(i)** **Eligibility:** The CCB excludes some of the most vulnerable children in Canada – children of refugee claimants – from receiving this important benefit. As a result of the exclusion, in 2017, 24,000 children under 18 could not access the CCB.[26] This denial hurts women and racialized people in particular, and leaves children from marginalized groups[27] without a financial benefit to help meet their basic needs.

(ii) **Delivery:** Administration of the benefit through the income tax system poses barriers to Indigenous families living on reserve, only 79% of whom accessed the CCB in 2017 compared to 97% of the general population.[28]

We therefore recommend that the federal government extend eligibility for the CCB to all children who reside in Canada. The cost of doing so is minimal: an additional $160 million a year, well under 1% of the total CCB paid. We also ask the federal government to invest in targeted community outreach, education, and support strategies that will ensure Indigenous and other under-reached communities can access this critical benefit.[29]

4. Increase the Guaranteed Income Supplement to support low-income seniors.

The federal government should boost the Guaranteed Income Supplement (GIS) and peg it to inflation on the basket of goods that low-income seniors specifically buy, rather than general inflation. Seniors suffer disproportionately during inflation because, unlike workers, their incomes cannot adjust to inflation.[30] GIS is an additional amount provided to Old Age Security (OAS) recipients whose income is beneath a certain threshold, therefore the benefit is already designed to target the poorest seniors.[31] OAS and GIS are both indexed to inflation, however, these benefits should be pegged to inflation on goods that seniors specifically buy, like basic necessities such as food that are experiencing a higher rate of inflation than the average rate.[32] This past February, grocery prices rose 10.6% year over year, more than double the current overall inflation rate of 5.2%.[33] According to Food Bank Canada's 2022 Report, the percentage of seniors accessing food banks nationally increased from 6.8% in 2019 to 8.9% in 2022, signalling that poverty for seniors worsened during the COVID-19 pandemic.[34]

Moreover, since GIS is administered through the income tax system, and people living in poverty are far less likely to file taxes than the general population[35], the federal government should also create a targeted program for low-income seniors to file taxes or include them in the recently announced pilot for automatic tax filing.[36]

(i) Index GIS to inflation on the basket of goods that low-income seniors specifically buy, instead of general inflation.
(ii) Increase the amount that low-income seniors who get GIS receive.
(iii) Include hard-to-reach seniors in the automatic tax filing pilot or create a targeted tax filing program specifically for them.

Endnotes

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