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ASSOCIATION

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# **Income Inequality**

**Brief to the  
Standing Committee on Finance (FINA)**

**Canadian Nurses Association**

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## INTRODUCTION

Income inequality denotes the extent to which income is distributed unevenly in a given society.<sup>1</sup> Widely discussed by such key international organizations as the International Monetary Fund, the World Bank, the Organisation for Economic Co-operation and Development and the World Health Organization,<sup>2</sup> income inequality goes beyond moral questions about fairness. Not only can it be detrimental to a country's economy, by affecting key factors that influence productivity,<sup>3</sup> income inequality affects the health of Canadians, by weakening the social infrastructure and fraying social cohesion<sup>4</sup> — conditions which, in turn, increase demand for government intervention to resolve social tensions.

Income inequality has become more than a partisan issue. Governments at different levels and from various political parties have expressed concerns about the impact of this rising trend.<sup>5</sup> Thankfully, there are actions this government can take to reverse it and to ensure that all Canadians have the opportunity to be fully contributing members of society.

This paper provides a brief overview of income inequality in Canada. It will (1) outline the reasons why reducing income inequality must be a key priority for federal, provincial and territorial governments; (2) highlight some of the federal and provincial policy responses to the issue; and (3) provide recommendations for enhancing income equality.

## INCOME INEQUALITY IN CANADA

The income gap between the wealthiest and poorest Canadians continues to widen at a steady pace.<sup>6</sup> The Conference Board of Canada gave our country a “C” grade on income inequality between 2000 and 2006, ranking Canada 12th among 17 peer nations. Currently, the Canadian tax and benefit systems do less to reduce income inequality than most OECD countries.<sup>7</sup> Canada's Gini coefficient measure of income inequality, where zero indicates complete equality and 1.0 that a

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<sup>1</sup> (Organisation for Economic Co-operation and Development [OECD], 2011)

<sup>2</sup> (International Monetary Fund [IMF], 2011; World Bank, 2012; OECD, 2011; World Health Organization [WHO], 2012)

<sup>3</sup> (Economist, 2012)

<sup>4</sup> (Raphael, 2002)

<sup>5</sup> (House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities, 2010; Kabala, 2010)

<sup>6</sup> (Conference Board of Canada, 2011; OECD, 2011)

<sup>7</sup> (OECD, 2011)

single household has all the wealth, now sits at 0.317. This number gives Canada a higher inequality rating than most European countries,<sup>8</sup> and it is now much higher than in 1989, when it was just 0.281.

Today, the wealthiest 10 per cent of Canadians earn 10 times more than the poorest 10 per cent (up from a ratio of 8 to 1 in the early 1990s).<sup>9</sup> Even more concerning is the increasing income inequality reported by Statistics Canada,<sup>10</sup> which shows over the past 25 years that income rose by 16 per cent for the top fifth of full-time earners while falling by 20.6 per cent for the bottom income group. Some groups in Canada are subject to circumstances that make them particularly vulnerable to the disadvantages this inequality brings, including unattached individuals, persons with disabilities, Aboriginal Peoples, newcomers and single parents.<sup>11</sup> And there is no indication of these trends slowing any time soon.

Work is often seen as an effective way to reduce income inequality, yet work alone is not sufficient to avoid poverty. Although in the OECD nearly six times as many jobless families are below the poverty line than working families, in Canada more than half of low-income families live in households where one or more members are working full time.<sup>12</sup> In addition, 61 per cent of our own workless households are living in poverty — much more than the 25 per cent of workless households in the Netherlands, France and Sweden.

## **WHY INCOME INEQUALITY MATTERS FOR OUR ECONOMY**

A high level of inequality can be more inefficient than growth promoting, especially over time.<sup>13</sup> Recent studies show that both high and growing income inequality levels can translate into broad barriers to opportunity for the next generation, which leads to poor social mobility. Gaps in opportunity mean fewer people with job-ready skills, which then results in a less-skilled workforce and slower growth in the future. Aboriginal Canadians will comprise a larger percentage of the upcoming generation of the workforce. They are the youngest and fastest growing population in Canada and also the most socially and economically marginalized group, a situation which will have consequences in the future if not addressed.<sup>14</sup>

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<sup>8</sup> (Wilkinson & Pickett, 2009)

<sup>9</sup> (OECD, 2011)

<sup>10</sup> (Statistics Canada, 2008)

<sup>11</sup> (Standing Senate Committee on Social Affairs, Science and Technology, 2009)

<sup>12</sup> (Cantillon, Marx & Van den Bosch, 2002)

<sup>13</sup> (Economist, 2012)

<sup>14</sup> (Standing Senate Committee on Social Affairs, Science and Technology, 2009; Statistics Canada, 2005)

Research also suggests that, as growth becomes more fragile, high levels of income inequality can be harmful to a nation's economy. An International Monetary Fund report said reducing inequality and enhancing growth may be "two sides of the same coin" in the long run.<sup>15</sup> Other reports state that the current climate of inequality in the U.S. has reached the stage where there is now a detrimental effect on growth.<sup>16</sup> In this context, recent studies indicating that income inequality is growing faster in Canada than in the United States are of great concern.<sup>17</sup>

Without question, income inequality has negative repercussions for business and for society as a whole. We can see the rising public support for reduced inequality in the general stigma attached to top income earners and in such movements as Occupy Wall Street, both which would likely dissipate with reduced inequalities.<sup>18</sup>

## **INCOME INEQUALITY AS A KEY SOCIAL DETERMINANT OF HEALTH**

There is a strong, significant correlation between income and health.<sup>19</sup> Simply put, the lower the socioeconomic position, the worse a population's health.<sup>20</sup> Low-income individuals have significantly higher rates of mortality, morbidity and health-care usage, regardless how income is measured.<sup>21</sup> Both chronic diseases (e.g., diabetes) and infectious diseases (e.g., tuberculosis) are more prevalent in low-income populations and, in exacerbating other social determinants of health, such as housing, food security and social exclusion, poverty has a compounding effect on health.

There is also evidence of an association between income inequality and health at the community level: low-income individuals are less likely to visit a doctor, to be physically active or to receive dental care.<sup>22</sup> In turn, poor physical and mental health can lead to low income by creating access barriers to community services and supports, adequate education and participation in the labour market.

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<sup>15</sup> (IMF, 2011, p. 3)

<sup>16</sup> (Economist, 2012)

<sup>17</sup> (Conference Board of Canada, 2011)

<sup>18</sup> (Economist, 2012)

<sup>19</sup> (Bezruchka, 2009; Lynch, Smith, Kaplan & House, 2000)

<sup>20</sup> (WHO, 2008)

<sup>21</sup> (Muntaner, Ng & Chung, 2012)

<sup>22</sup> Ibid.

At a population level, there is evidence that health and other social problems, such as life expectancy, mental illness, addictions, teenage births, homicides, imprisonment and educational outcomes, are worse in more unequal countries.<sup>23</sup>

As the costs associated with health services rise, individuals at the lowest end of the spectrum are affected most.<sup>24</sup> Low-income earners, for example, may not be able to afford essential medications for their health conditions, a situation that increases existing income inequality. In addition, when no national drug and dental plans are in place, and there are few affordable options for home care, health services themselves add to the growing gap between rich and poor.<sup>25</sup>

To better understand the potential impact of service, program or policy changes on health, and more specifically, how these might affect disadvantaged populations, many countries (e.g., Norway and New Zealand) have been using equity-based, health-impact assessments. In Canada, the Senate Subcommittee on Population Health also recommended (in its final report) that this practice be applied to Canadian public policies.<sup>26</sup>

## **ACTIONS AND POLICIES TO REDUCE INCOME INEQUALITY**

By redressing income inequality we improve the health status of all Canadians, not only those in poverty. Initiatives that strive to do so generally follow either a systematic (across all populations) or a targeted (specific to low-income groups) approach. Of these, systematic measures, such as progressive taxation, are more effective in equalizing and reducing income inequality.<sup>27</sup> In this regard, the Canadian tax-benefit system in the 1990s was as effective as those in Nordic countries, offsetting more than 70 per cent of the rise in market income inequality. Since then the effect of redistribution has declined: taxes and benefits today offset less than 40 per cent of the rise in inequality.<sup>28</sup>

In seeking to remedy income inequality, it is important that initiatives consider both labour and non-labour sources of income.<sup>29</sup> Addressing sources of income from labour, such as employment regulation, training and wage-setting, has proven to be far more successful in reducing income

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<sup>23</sup> (Standing Senate Committee on Social Affairs, Science and Technology, 2009; Equality Trust, 2009)

<sup>24</sup> (Muntaner, Ng & Chung, 2012)

<sup>25</sup> (Silver, 2010)

<sup>26</sup> (Keon & Pépin, 2008)

<sup>27</sup> (Muntaner, Ng & Chung, 2012; Economist, 2012)

<sup>28</sup> (OECD, 2011)

<sup>29</sup> (Economist, 2012)

inequality.<sup>30</sup> Child poverty rates in Canada, for example, have been tied more positively to employment levels and the economy than to the implementation of social policy.<sup>31</sup> However, initiatives that address non-labour income, such as old age pensions, health and unemployment insurance, price subsidies, child allowances and in-kind benefits, are also essential to improving income inequality, especially where it is high.

In addition to income initiatives, both health care and other accessible, high-quality public services (e.g., education, childcare, supportive housing and transportation) have very important equalizing effects, helping to preserve social cohesion and social equality.

Poverty reduction strategies require a range of interventions, both from all levels of government and from employers, unions, educational and health institutions, voluntary organizations and communities. Initiatives to reduce income inequalities should also be complementary and supportive of relevant provincial, territorial and municipal initiatives; multiple sectors need to be engaged to ensure a comprehensive and coordinated approach.

To date, six provincial governments have developed poverty reduction strategies that address income inequality. Even though Canada still needs a national poverty reduction strategy, the federal government actions that have been taken demonstrate how fundamental national leadership on the issue can be. Reducing poverty among seniors, for example, largely by providing a guaranteed income supplement (GIS) to low-income seniors receiving old age security (OAS), is one of Canada's most noteworthy achievements in the last 30 years.<sup>32</sup> In addition, the national child benefit supplement (NCBS) has improved the economic well-being of some Canadian families with children, although it could still play a larger role.

Funding for poverty reduction programs could be further supported by an increase to the Canada Social Transfer (CST). About two-thirds of Canadians said they would either support or somewhat support more spending through the CST, according to a 2012 Nanos Research poll (sponsored by CNA)<sup>33</sup> By going beyond its current three per cent annual growth rate, to include a boost of \$2 billion

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<sup>30</sup> (World Bank, 2012)

<sup>31</sup> (Battle & Torjman, 2009)

<sup>32</sup> (House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities, 2010).

<sup>33</sup> (A recent Nanos Research poll indicates that 66.5 per cent of respondents support or somewhat support more federal spending through the Canada Social Transfer, Canadian Nurses Association, 2012)

to the provinces and territories, we could support poverty reduction efforts while ensuring that investments are tied to targets.

## **RECOMMENDATIONS TO REDUCE INCOME INEQUALITY AND ITS IMPACT:**

- 1) **Establish an equity-based, health impact assessment** process at the design stage of all federal policies, plans, programs and services. These assessments seek to identify which populations could face challenges from economic and social policies, such as income, employment, housing, among others.
  
- 2) **Invest in workers' education** by supporting training programs and work incentives, such as grants, loan forgiveness and tax credits for apprentice tools (that increase the number of individuals in the trades and skilled labour). Although the focus should primarily be on unskilled labour and those unemployed, more jobs are needed that offer good career prospects and a real chance for people to escape poverty.
  
- 3) **Create a national poverty reduction plan, funded by an increase to the Canada Social Transfer, which includes the following:**
  - a) Income security programs for children that deliver them from poverty by seeking a guaranteed living standard for every parent working full time, year-round.
  
  - b) Income security programs for working-age adults that turn minimum wages into "living wages" while ensuring that economic security, stable housing and food needs are met. Programs such as employment insurance and the working income tax benefit (WITB) remain essential and should be reviewed to support adequate living standards.
  
  - c) Income security programs for seniors that improve the Guaranteed Income Supplement and revisit the age change to old age security in the 2012 budget, since this will particularly affect vulnerable seniors.

- 4) **Develop a national housing strategy** that provides decent, affordable, safe and appropriate housing for all Canadians, including supportive housing for those with physical, cognitive and/or mental health challenges.
  
- 5) **Maintain Canada's publicly funded, not-for-profit health-care system**, expanding it to include a national prescription drug plan and a comprehensive, national approach to home, community-based and long-term care within in a primary health care framework.

## **CONCLUSION**

To stay competitive with emerging economies, everyone in society needs an opportunity to be a contributing member. Equality of opportunity requires reduced systemic barriers that contribute to income inequalities.

We recommend comprehensive and targeted policies as a means to narrow the gap between the affluent and poor. Reducing income inequalities will lead to improved health outcomes, which in turn will strengthen our economy — a healthy workforce is a productive workforce.

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