

## Income Inequality in Manitoba Subtle but Serious

Manitoba has a more equal distribution of income than many provinces in Canada especially when looking at market income (income earned in the market place, i.e. wages, capital gains, bonuses) only.

The Canadian Centre for Policy Alternatives report *Income Inequality in Canada: How does Manitoba compare?* (2012)<sup>i</sup> notes that “In 2010, Manitoba was the most equal province before taxes and third most equal after taxes. Greater income equality is in part due to minimum wage increases each year since 2000. But it is also likely due to the fact that high-income earners in Manitoba earn less on average than those in other provinces.”

Like other provinces in Canada, however, the distribution of income has become less equal since the 1980s. Though there has been strong economic growth since 1980, incomes for the middle 60 percent of the population rose, on average, by \$10,300 while incomes for the richest 20 percent of the population rose by \$23,800.

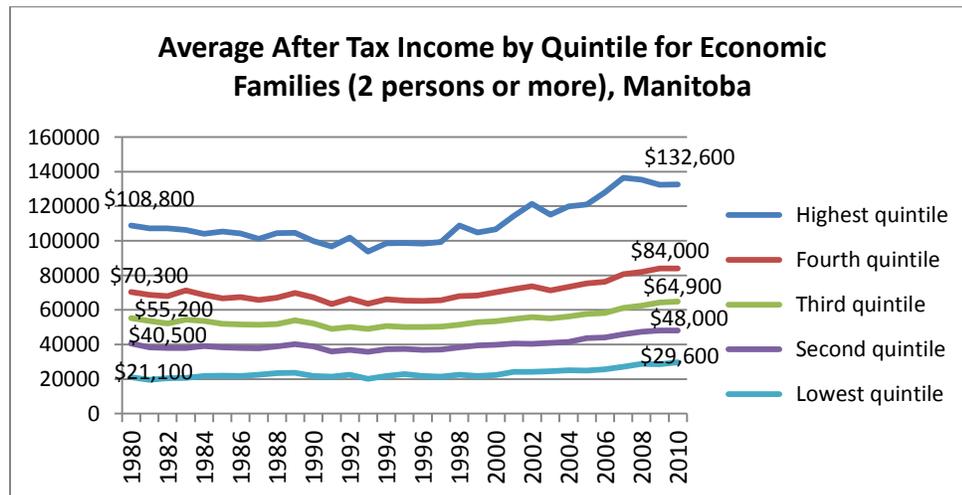


Figure 1. Average After-Tax Income for Economic Families in Manitoba, 1980-2010.

Source: Statistics Canada (2012). *Income in Canada 2010*. Table 202-0703

The charts below show that inequality, as measured by the Gini Co-Efficient, has increased before and after taxes over the past 30 years. This means that as market incomes have become increasingly disparate, our tax system has not kept up to addressing inequality the way it did in the past. Interestingly, in Manitoba a dramatic increase in market inequality from the 1980s to the 1990s preceded the noticeable increase in after-tax inequality from the 1990s to the 2000s in Manitoba.

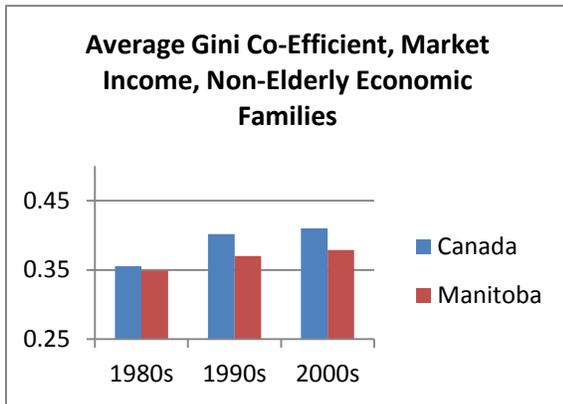
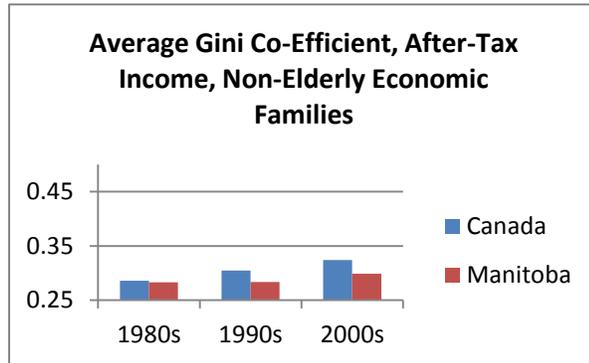


Figure 3. Average Gini Co-Efficient for After-Tax Income by Decade. Source: Statistics Canada (2012). Income in Canada 2010. Table 202-0705

Figure 2. Average Gini Co-Efficient for Market Income by Decade. Source: Statistics Canada (2012). Income in Canada 2010. Table 202-0705.



The chart below shows how this unequal share of income has become more pronounced over time, with the middle class losing their share of total income. In the past 30 years, the middle incomes groups (60% of the population) have reduced shares of overall income in Manitoba. At the same time, the 20% of Manitobans with the highest incomes saw their share of income rise, while those at the lowest 20% saw virtually no change.

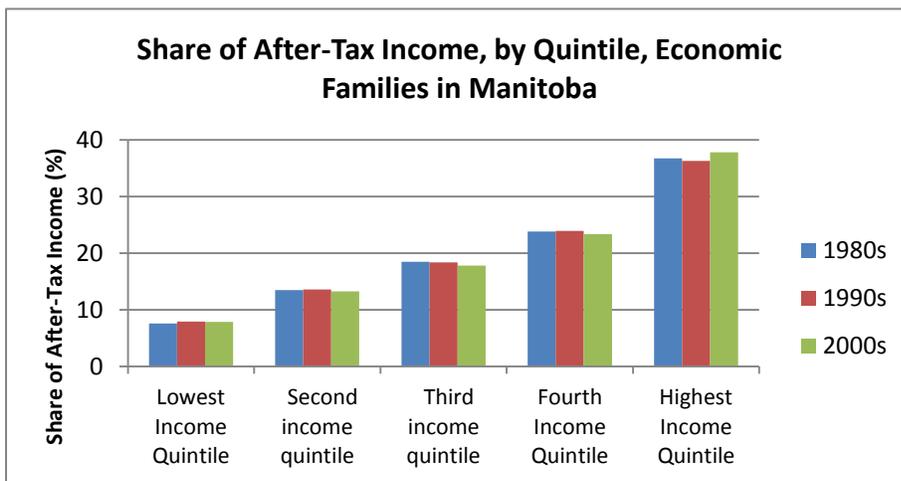


Figure 4. Average Share of After-Tax Income by Decade in Manitoba. Statistics Canada (2012). Income in Canada 2010. Table 202-0703

Currently, the 20 percent of families with the highest incomes in Manitoba possess 37.8% of all income in the province, while the 20 percent with the lowest incomes have only 7.8% of all income, calculated on after tax incomes (that is, income after transfers and taxes).

## Costs of Inequality

There are three main reasons we need to understand income inequality and therefore why income equality is important to strive for.

The first is that inequality negatively affects those with the lowest incomes the most. Health disparities caused by poverty and social exclusion have been extensively researched and provide the clearest evidence that poverty takes a very concrete toll on people. In the lowest income neighbourhoods in Winnipeg, average life expectancy is 10 years shorter than in the highest income neighbourhoods<sup>ii</sup>. In Manitoba, there is a significant gap between the highest income quintile and the lowest income quintile in rates of child mortality, diabetes, mental illnesses, and a variety of other illnesses. The Manitoba Centre for Health Policy calculated the cost of healthcare use for a number of chronic diseases, and it is clear that preventing chronic disease through poverty reduction can reduce provincial health care expenditures<sup>iii</sup>.

Second, inequality negatively affects those with high incomes too. In *The Spirit Level* (2009)<sup>iv</sup>, authors Richard Wilkinson and Kate Pickett summarized years of research showing how societies with large income disparities have more health and social problems. They demonstrate that key indicators in determining a healthy society - security, education, low rates of drug abuse, less obesity, social mobility, mental and physical health, manageable household debt, child well-being, fewer teenage pregnancies, and trust and community life - are affected by economic inequality.

The third reason we should all care about rising inequality is that inequality has negative consequences for a society as a whole. Generally when researchers have looked at the cost of inequality, they have considered three main measurable factors:

- lost productivity when people are excluded from employment and the economy;
- direct financial costs of providing social services, social housing, and support programs designed to help those living in poverty; and
- indirect financial costs such as in maintaining private security, paying for the criminal justice system, increased use of the healthcare system, dealing with vandalism and illegal drug use and a range of other costs to society due to people having significantly less than others.

## Benefits of Equality

According to University of Manitoba sociologist Gregg Olsen, in *Power and Inequality*,<sup>v</sup> inequality matters to the stability and well-being of society: “Fostering greater economic equality through some form of redistribution is justified because it is necessary to preserve democracy, ensure social stability, improve population health, and act as a spur on the economy” (p. 96).

Nations prosper when their political and economic institutions maintain ‘inclusive’ (democratic, popular, egalitarian) relations. According to the authors of *Why Nations Fail*, inclusive institutions and their work of redistributing income work in the interest of all in society because they:

- Create level playing field for commerce and individuals,
- Secure property rights and protections,
- Encourage technology development and investment,

- Reward investment in education, and
- Support cooperation and collaboration that leads to greater innovation/productivity (p. 429).

Joseph E. Stiglitz writes in *Freefall*, “Investing more in our society – in education, technology and infrastructure – and providing more security to ordinary citizens will lead to a more efficient and dynamic economy, one more consistent with what we claim to be and offering more opportunity to a wider segment of the society.”

The Nordic countries stand as evidence that reducing inequality through tax measures, labour practices, and social transfers to low income citizens can improve the health and well-being of everyone in a nation, and are actually a benefit to economic growth.

### **Potential Equalizers**

Research regarding income inequality often points to three policy areas to consider if we aim to reduce inequality: social programming, labour market interventions, and tax and transfer policies. These areas are linked and changes in one policy area greatly affects the others.

#### **a. Social Programming**

A great deal of inquiry has demonstrated that social programming, and in particular universal social programs like education, child care, and health care, is critical to improved income equity and equal opportunity. Social programming creates opportunities for more people to participate more fully in the labour market and therefore the economy. It also requires spending, which is paid for through taxes, which are generated inter alia, from the increases in personal incomes and commercial revenues.

#### **b. Labour Market Interventions**

While unemployment remains a cause of poverty and inequality across Canada, in Manitoba, two-thirds of low income (below the Low Income Measure-After Tax) working-age adults have employment income. Of those with employment income, the vast majority (75%) work 40 or more weeks per year and 60% work more than 1,440 hours per year. The average wage for low-income adults is quite low, with over half (57%) earning under \$9 per hour and another 24% earning between \$9 and \$13 per hour. Thus, their low level of earnings are due primarily to low wage rates and not the level of employment<sup>vi</sup>. Minimum wage and living wage procurement policies would therefore be most likely to have a positive effect on reducing income inequality in the province.

#### **c. Taxes and Income Transfers**

Utilizing Statistics Canada’s Social Policy Simulation Database to model tax changes, we can see that dramatic changes to Manitoba’s personal income taxes (assuming no increase in government revenues), may make very little difference to the degree of income inequality (measured on an after-tax, disposable income basis) (see attachment 1). Therefore, tax changes of this nature alone may not be an effective means of reducing income inequality. Targeted income transfers to low income persons would however, make a substantial difference. Throughout the 2000s, transfers have become less targeted to lower income families, which has played a role in the increasing income inequality.

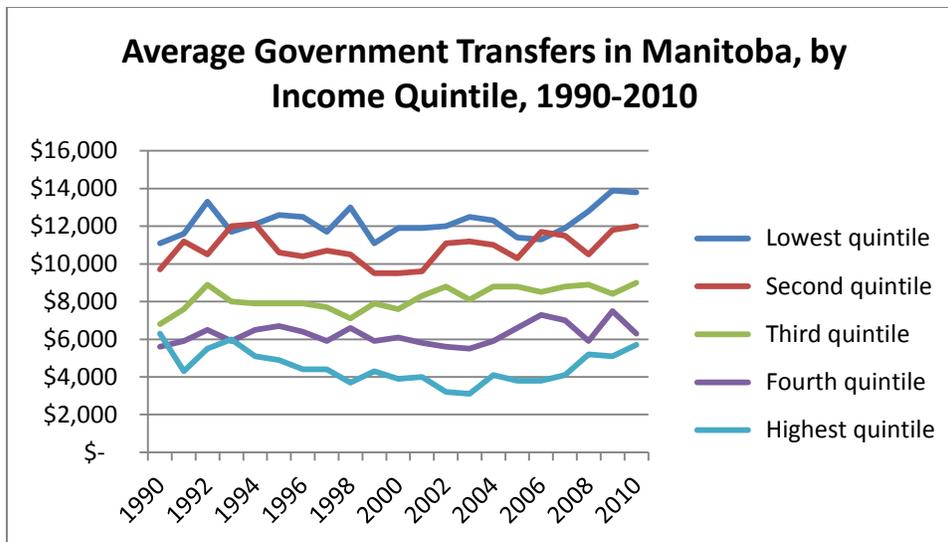


Figure 5. Average Government Transfers for Economic Families in Manitoba, by Income Quintile, 1990-2010. Source: Statistics Canada (2012). Income in Canada 2010. Table 202-0704

In conclusion, income inequality is recognized as a major problem for many countries. While the levels of inequality have different effects on social and economic relations, it is clear that rising income inequality is a liability to a country's capacity to meet the needs of its citizens. In Manitoba, specifically, income inequality reduces the ability of the government to address poverty. As many of Manitoba's residents are increasingly excluded from the benefits of economic growth, more of the costs of inequality will become apparent.

In Manitoba the most effective ways to address income inequality are increases in wages for the lowest income earners, and tax changes that redistribute income from high income earners to lower income earners. Increasing the tax on the highest income earners with targeted income supports or social programs for the lowest income earners will have an effect on reducing income inequality.

Winnipeg is an economically divided city and many of our social challenges can be linked to poverty and inequality. However, recognizing the impact of income inequality has not yet spurred governments to see the common benefits of increasing income equality. When governments recognize that creating greater income equality is in the interest of all citizens, then we can expect to see the policy and program initiatives that can reduce income inequality and increase prosperity for all citizens.

<sup>i</sup> Canadian Centre for Policy Alternatives – Manitoba. (2012). *Income inequality in Canada: How does Manitoba compare? Can we do better?* Retrieved from <http://www.policyalternatives.ca/publications/reports/income-inequality-canada-how-does-manitoba-compare-can-we-do-better>

<sup>ii</sup> Brownell, M., Fransoo, R. & Martens, P. (2010). Social determinants of health and the distribution of health outcomes in Manitoba. In L.Fernandez, S. MacKinnon & J. Silver (Eds.) *The social determinants of health in Manitoba*. Winnipeg: Hignell Press.

<sup>iii</sup> Manitoba Centre for Health Policy. (2010). *Health inequities in Manitoba: Is the socioeconomic gap in health widening or narrowing over time?* Winnipeg: Manitoba Centre for Health Policy.

<sup>iv</sup> Wilkinson, R. & Pickett, K. (2009). *The spirit level: Why more equal societies almost always do better*. London, UK: Allen Lane.

<sup>v</sup> Olsen, G. (2011). *Power and inequality*. Ontario: Oxford University Press.

<sup>vi</sup> Source: Statistics Canada, Social Policy Simulation Database and Model, version 19.0

**Attachment 1**
**Household Income – Possible Alternative Tax Comparisons**

Adjusted Household Income Group	% of Persons	Current Average Prov. Tax	Flat Tax (12.2925%)			Progressive Tax			Progressive – Flat Tax	
			Average Tax	\$ Change - Current	% Change <sup>1</sup>	Average Tax	\$ Change - Current	% Change <sup>1</sup>	\$ Change	% Change <sup>1</sup>
\$0-\$15K	6.7	\$38.1	\$55.7	+\$17.6	+0.16	\$30.2	-\$7.9	-0.07	-\$25.5	-0.23
\$15-\$25K	22.4	\$323.9	\$443.6	+\$119.6	+0.58	\$274.3	-\$49.6	-0.24	-\$169.2	-0.82
\$25-\$35K	21.5	\$1,234.7	\$1,449.6	+\$214.9	+0.71	\$1,140.0	-\$94.7	-0.31	-\$309.6	-1.02
\$35-\$45K	19.7	\$2,036.8	\$2,253.7	+\$216.8	+0.55	\$1,936.3	-\$100.6	-0.25	-\$317.4	-0.80
\$45-\$60K	15.7	\$3,366.3	\$3,486.0	+\$119.7	+0.23	\$3,315.2	-\$51.1	-0.10	-\$170.8	-0.33
\$60-80K	9.1	\$5,141.8	\$5,008.5	-\$133.4	-0.20	\$5,147.4	+\$5.6	+0.01	+\$139.0	+0.21
\$80-\$100K	2.4	\$7,484.3	\$6,731.0	-\$753.3	-0.85	\$7,728.9	+\$244.6	+0.28	+\$997.9	+1.13
\$100+ K	2.5	\$18,534.7	\$14,224.4	-4,310.4	-2.33	\$20,714.4	+\$2,179.7	+1.18	+\$6,490.1	+3.51
Total	100.0	\$2,372.4	\$2,372.4	0.00	0.00	2,372.3	-0.01	0.00	0.00	0.00
Glni Index		32.01	32.57			31.76			-0.81	
Polarization Index		24.83	25.16			24.80			-0.36	

Figure 6. Alternative Tax Comparisons for Manitoba.

Source: Statistics Canada, Social Policy Simulation Database and Model, version 19.0.

 Notes: <sup>1</sup> Per cent change is calculated as a per cent of adjusted household income.

April 2013