

Brief to the Standing Committee on Finance regarding study of Income Inequality in Canada
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Introduction

The Wellesley Institute is a non-partisan research and policy institute. Our focus is research and pragmatic policy solutions on issues of population health and health disparities. We appreciate the opportunity to provide this brief to the Standing Committee on Finance. Given the mounting evidence on the economic and social impacts of inequality, we believe that it is very timely that the Finance Committee is studying this issue. We hope that this study will be the first step in a comprehensive federal policy agenda to reduce income inequality.

Our work at the Wellesley Institute is largely focused on the social determinants of health, which are sometimes called “the causes of the causes” of ill health. It is well established that our health is dependent on factors such as housing, income security, the nature of our work, racism, gender, social inclusion and immigrant status.¹ People with lower socio-economic status have worse health, and the distribution of socio-economic status is not random. For example, single parent families headed by women and racialized Canadians, including Aboriginal peoples, are more likely to be poor and marginalized.²

A recent report from Statistics Canada provides a stark example of the impact of these factors on health. The difference in life expectancy at age 25 between the highest and lowest income groups was 7.1 years for men and 4.9 years for women.³ While these differences are striking, an equally important finding is that life expectancy increases with each and every step up in the income scale. Research found even greater gaps in health-related quality of life between the highest and lowest income groups. Once again there was an improvement in health at every step up in the income scale.

The evidence is clear that income inequality in Canada is growing⁴, and that income inequality is harmful to our economy⁵, to our society⁶ and to our health.⁷ International research demonstrates that inequality has an impact on our health and wellbeing.⁸ In more equal countries people are healthier, live longer, and commit fewer crimes. These relationships hold among all income groups. Even for the highest income segment of the population, people are safer, healthier and live longer when they live in a more equal society.

Income Inequality in Canada

Recently released data from Statistics Canada shows that income inequality in Canada has been rising. While the real incomes of the top 10 per cent of Canadians increased by 32 per cent between 1982 and 2010; the incomes of the bottom 90 per cent increased by only 6 per cent over that 28 year period.⁹ Recent analysis by the Conference Board of Canada¹⁰ and the Organization for Economic Co-operation and Development (OECD)¹¹ has confirmed this trend. Work from the Canadian Centre for Policy Alternatives has documented the concentration of income to those with the very highest incomes.¹²

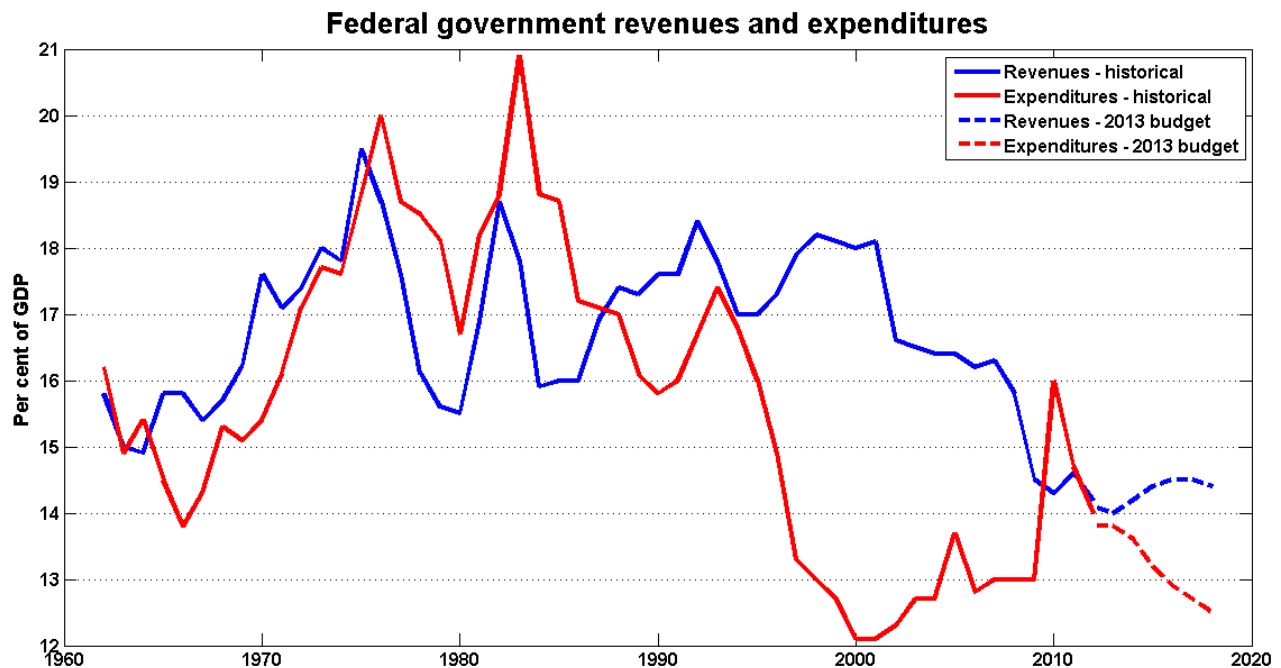
Role of Government Policy in Increased Inequality

Government policy choices have a profound impact on the level of income inequality. The tax and transfer system is the most direct and powerful tool policy makers can use. Progressive taxes and transfers redistribute income from those with more resources to those with less. Governments also have other powerful levers, including labour market regulation¹³ and the direct provision of services to Canadians.¹⁴

Recent OECD research shows that the Canadian governments' policies, taxes and benefits are less effective in reducing inequality than those of most other OECD governments; and that they are less effective than they have been in the past.¹⁵ The report points to the fact that at the same time that the richest 1% of Canadians saw their share of total income increase and that of the richest 0.1% more than doubled, the top federal marginal income tax rates saw a marked decline: dropping from 43% in 1981 to 29% in 2010. It goes on to report that prior to the mid-1990s, the Canadian tax-benefit system was as effective as those in the Nordic countries in stabilizing inequality, offsetting more than 70% of the rise in market income inequality. Currently, taxes and benefits offset less than 40% of the rise in inequality.¹⁶

Impact of Austerity Programs on Income Inequality and Economic Growth

The federal government has embarked on an austerity program that is reducing the fiscal capacity of the state and its role in the economy. The graph below illustrates the sharp reduction in the role of the federal government in the economy and society.



Source: Gordon, S. (2013). The Conservative Agenda in the Numbers. Macleans. <http://www2.macleans.ca/2013/03/21/the-conservative-agenda-in-the-numbers-of-budget-2013/>

A recent International Monetary Fund (IMF) study has confirmed such austerity programs slow economic growth, especially in low-growth environments.¹⁷ Additional IMF research, drawing on international evidence, explores the distributional impact of austerity programs, concluding that they increase unemployment, and long-term unemployment in particular.¹⁸ The report also shows that the burden of austerity is disproportionately borne by wage earners rather than those who rely on profits or rents for their incomes.

This evidence suggests that austerity programs like the one that the federal government has embarked upon decrease both gross domestic product (GDP) and increase inequality. This confirms what we know about the distributional impact of public services in Canada. Research shows that while all Canadians benefit from public services; lower income Canadians benefit more.¹⁹ The impact of the loss of public services will not be felt equally by all Canadians. They will have the largest impact on those who do not have the means to purchase services outside the public system.

Health Impacts of Inequality and Austerity

As the mortality data shows, the health impacts of inequality are not limited to low-income individuals and families. Worldwide, there are over 170 studies on income inequality and its relation to health. Data has demonstrated that in more unequal countries people live shorter lives, a higher proportion of children die in infancy, obesity is more common, as is mental illness and the use of illicit substances. Further, people in countries with high income inequality rate their health as worse than those in more equal nations.²⁰ Recent research confirmed this result for Canada, establishing that living in more unequal cities increased your chances of mortality, regardless of your income level.²¹

Austerity programs have an impact on health through multiple pathways. Increased unemployment, lower job quality, decreased access to or levels of social benefits, and less access to services that support social inclusion will all have a negative impact on Canadians' health. Research on the aggregate level has shown that high levels of unemployment in society and neighbourhoods are correlated with poor health and increased mortality.²² The impact of employment on health is not limited to whether you have a job. The nature of the work we do — whether it is full-time, part-time or contract — the income we draw, the physical or psychological strain, and the conditions of work has significant health implications. All of these impacts will fall disproportionately on Canadians with lower socio-economic status thereby reinforcing the adverse health impacts of being poor or marginalized.

Conclusion

The evidence is clear that inequality is increasing in Canada. Due to the negative impacts of increased inequality on our society and health, we urge the government of Canada to utilize the many policy tools, like the tax and transfer system, at its disposal to reduce inequality. We hope that this study will begin a process of policy evaluation that results in that change in direction.

- ¹ Commission on Social Determinants of Health. (2008). *Closing the gap in a generation: Health equity through action on the social determinants of health [Final report of the Commission on Social Determinants of Health]*. World Health Organization. http://whqlibdoc.who.int/publications/2008/9789241563703_eng.pdf
- ² Block, S. & Galabuzi, G. (2011). *Canada's colour coded labour market: The gap for racialized workers*. Wellesley Institute. http://www.wellesleyinstitute.com/wp-content/uploads/2011/03/Colour_Coded_Labour_MarketFINAL.pdf
- ³ Tjepkema, M. & Wilkins, R. (2011). Remaining life expectancy at age 25 and probability of survival to age 75, by socio-economic status and Aboriginal ancestry. *Health Reports*. Statistics Canada. Vol. 22, No. 4. <http://www.statcan.gc.ca/pub/82-003-x/82-003-x2011004-eng.pdf>
- ⁴ Statistics Canada. Table 204-0002 - High income trends of tax filers in Canada, provinces and census metropolitan areas (CMA), specific geographic area thresholds, annual (percent unless otherwise noted). *CANSIM* (database). <http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=2040002>
- ⁵ Berg, A. & Ostry, J. (2013). *Inequality and the sustainability of growth*. The Broker. <http://www.thebrokeronline.eu/Blogs/Inequality-debate/Inequality-and-the-sustainability-of-growth>
- ⁶ Wilkinson, R. & Pickett, K. (2009). *The Spirit Level: Why More Equal Societies Always Do Better*. London: Allen Lane. <http://www.wellesleyinstitute.com/publication/our-working-lives-affect-our-health/>
- ⁷ Ibid.
- ⁸ Wilkinson & Pickett.
- ⁹ Statistics Canada. (2013). High-income trends among Canadian tax-filers. *The Daily*. Statistics Canada. Catalogue no. 11-001-X. <http://www.statcan.gc.ca/daily-quotidien/130128/dq130128a-eng.pdf>
- ¹⁰ Conference Board of Canada. (2013). *Income Inequality*. <http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx>
- ¹¹ Organization for Economic Co-operation and Development. (2011). *Divided we stand: Why inequality keeps rising [Country notes – Canada]*. <http://www.oecd.org/els/soc/49177689.pdf>
- ¹² Yalnizyan, A. (2010). *The rise of Canada's richest 1%*. Canadian Centre for Policy Alternatives. <http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/12/Richest%20%20Percent.pdf>
- ¹³ Block, S. (2012). *Reducing labour market inequality in Canada: Three steps at a time*. The Broadbent Institute. <http://www.broadbentinstitute.ca/en/blog/sheila-block-reducing-labour-market-inequality-canada-three-steps-time>
- ¹⁴ Mackenzie, H. & Shillington, R. (2009). *Canada's quiet bargain: The benefits of public spending*. Canadian Centre for Policy Alternatives. http://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/2009/Benefits_From_Public_Spending.pdf
- ¹⁵ Organization for Economic Co-operation and Development.
- ¹⁶ Ibid.
- ¹⁷ Berg & Ostry.
- ¹⁸ Ball, L., Leigh, D., & Loungani, P. (2011). Painful medicine. *Finance and Development*. Vol. 48, No. 3. <http://www.imf.org/external/pubs/ft/fandd/2011/09/ball.htm>
- ¹⁹ Mackenzie & Shillington.



²⁰ Raza, D. (2013). *The gap between rich and poor is bad for our health*. Healthy Debate.

<http://healthydebate.ca/opinions/income-inequality-and-health>

²¹ Auger, N., Hamel, D., Martinez, J., Ross, A. (2011). Mitigating effect of immigration on the relation between income inequality and mortality: a prospective study of 2 million Canadians *J Epidemiol Community Health* doi:10.1136/jech.2010.12797.

²² Block, S. (2010). *Work and Health: Exploring the impact of employment on health disparities*. Wellesley Institute.

http://www.wellesleyinstitute.com/wp-content/uploads/2010/12/Work_and_Health.pdf