

On March 11th the Senate Liberal Open Caucus held a discussion on Income Inequality in Canada. Please find below a brief summary of that meeting. The notes below will touch on the main themes of our meeting. To hear full audio on this meeting, please follow the link below:

liberalsenateforum.ca/open-caucus/march-11-2015-income-inequality/

Our Panel

- **Miles Corak**, Professor of economics with the Graduate School of Public and International Affairs, University of Ottawa
- **Ronald Labonté**, Canada Research Chair in Globalization and Health Equity at the Institute of Population Health
- **David Macdonald**, Senior Economist at the Center for Policy Alternatives

Presentations

Miles Corak

- Corak noted that currently, the richest 10% of Canadians make 30% of the income, whereas the lower 40% of Canadians make only 12-13%. The remaining group, those with middle and upper middle incomes, have seen their income relatively unchanged in the last 50 years, bringing in 58% of total income; this represents a spreading out of income distribution at the extreme ends
- Among other factors, technology is beginning to drive down wages in some sectors. Assembly line for instance becoming more and more automated; it is now those who design the robots that are making money. Globalization is another factor driving down wages
- Families have had little time to adapt to these changes, and are “running hard just to stand still”
- As the bottom 40% of Canadian workers find it harder to make a suitable wage, there is a worry that they will begin to drop out, and give up working for work altogether
- To fix these problems, Corak suggests an introduction of a “social wage,” which would closely resemble the existing Working Income Tax Benefit
 - This social wage could supplement low incomes so that those stuck on the bottom do not give up working or looking for work altogether

David Macdonald

- Macdonald highlighted that there is a large disparity of income inequality between various cities. In Ottawa for instance, income inequality has remained relatively unchanged, whereas in Calgary the resource boom has benefitted many, but the lower

90% of earners have seen their gains go up far less than the top 1%. In Toronto, Vancouver and Montreal, the bottom 90% of earners make less today than they did in 1982 (adjusted for inflation).

- To solve these and other issues, Macdonald noted that increasing the top marginal tax rate, or introducing a new one all together, would do much to lessen the effects of income inequality, as would closing tax loopholes; the Income Splitting plan which will be introduced by the government this year will benefit almost exclusively the top earners in Canada while making income inequality worse
- Macdonald also noted the important relationship between unionization and wages. In industries where unionization is low, mainly new industries, wages have not kept pace with those in industries with a strong union presence
- Macdonald highlighted that family income has only gone up because now both spouses are in the workforce. Wages for men for instance have not increased since 1982 (adjusted for inflation). Women in the workforce has acted as an important stop gap measure for the Canadian family, and the government needs to encourage this through programs that keep women at work, such as ensuring families have access to affordable childcare

Dr. Ronald Labonte

- Dr. Labonte focuses on the health outcomes of income inequality in a society, and during his presentation highlighted the detrimental effects income inequality has on a society's health
- Countries with lower income inequality almost always have fewer health inequalities, often as an effects of more money spent on public goods such as healthcare, transportation and education
- He noted that in 1991, the bottom fifth of income earners in Canada could expect a shorter life expectancy than those at the top: 7.1 years for men and 4.9 years women. He went on to note that as of 2006, these numbers were still the same; "We have done nothing in that period of time in reducing the gradient effects of income on health," he said. What results from this is an endless cycle of high healthcare costs.
- Dr. Labonte noted that there has been a decline in effective tax rate and an increase in private wealth since 2002; in that year, there was \$32 trillion in untaxed wealth globally, by 2012, that figure had risen to \$62 trillion

Question and Answer

After the panel presents their findings to the audience, our meeting opens up to questions and comments from Senators, MP's and audience members who are in attendance. Below you will find summaries of some of these exchanges. To hear these questions and more, we encourage you to listen to the full audio of the meeting at:

<http://liberalsenateforum.ca/open-caucus/march-11-2015-income-inequality/>

Q: Senator Massicotte

- What is the most popular means of measurement when you are studying income inequality; a recent study by the Parliamentary Budget Office used after tax incomes, is the most relevant measurement?

Answers

- Macdonald answered that yes, measuring pretax wealth will undoubtedly lead to the most extreme outcomes, but what indicator you use in your studies all depends on what you are trying to measure
- Corak responded by stating that if you look at the trend after taxes and transfers, the gap is not as large as when you look at pretax income. At some point however tax transfers will only accomplish so much, and the variance in income will need to be addressed
- In a follow up question, Sen. Massicotte asked what would be the effects of raising the marginal tax rate, to which Dr. Labonte responded that with globalization, the fear is raising taxes on a populace would cause a flight of wealth out of the country. Canada could not do something like this on its own as it would hurt its international competitiveness.

Q: Senator Merchant

- Where do we stand on the debate of a guaranteed annual income (GIA); the welfare system does not give individuals an incentive to work. Would a GIA lift individuals up and keep them in the workforce?

Answers

- Corak suggested that he views a GIA as almost a right of citizenship, and that some programs that have tried to address these issues through programs such as the Working Income Tax Benefit can begin to penalize individuals as they begin to make more money, this despite the fact that they are continuing to make a very low income. If you were to tweak that program to take away this disincentive, the program could begin to work as hoped, and could provide a template for a GIA. Every Canadian has a right to a certain standard of living, and the debate on this should continue until a solution is found
- Dr. Labonte highlighted the issues with the Working Income Tax Benefit, pointing out that for a family the cut off for benefits is \$28,000 a year. This level of income is not acceptable for a family - they could not afford healthy food, participate in recreation and it produces stresses that create such ill health that it will lead to higher healthcare costs. A GIA would mitigate these costs while also lifting families out of dire circumstances
- Macdonald noted that a GIA already exists for seniors, but he doubts that the political will exists at the moment to make it universal. Poverty as it exists now is very concentrated in certain demographics, such as child poverty or in aboriginal communities. While the will for a GIA does not currently exist, this should not stop us from investing in services that can lift individuals out of poverty, such as education

Q: Senator Chaput

- Could you please share your comments on specific demographic groups such as aboriginals, young Canadians and recent immigrants; and do we need other solutions for these?

Answers

- Macdonald noted that there are tiers of poverty in Canada, and that aboriginals and immigrants and racialized groups make up the top tiers- these groups have a child poverty rate of %30, this stands in stark contrast to the 10% child poverty rate for other Canadians that don't fit into these groups. As a result, targeted poverty alleviation programs that focuses on these groups would absolutely make a difference
- Dr. Labonte pointed out that immigrants used to be healthier and wealthier than other Canadians, but this has changed in the last 5-10 years

Q (Audience): Michele Biss, Canada Without Poverty

- Outside of income taxation, what other factors do we need to take a look at to improve income inequality?

Answers

- Dr. Labonte stated that there are "two levers" to reduce income inequality; the first is pre-tax transfer inequalities, such as raising minimum wages through re-entrenching collective bargaining abilities or through legislating minimum wage raises. The other is post tax and transfers, but there is an inherent weakness in simply redistributing money as the market has a tendency to scoop up extra dollars. Some European countries have worked around this by using some income transfers, but also using the tax revenues to pay for a great deal of public programs such as recreation centers, transportation, education, etc.

Q: Senator Day

- As a country, should we pat ourselves on the back because of the success we have had in lifting seniors out of poverty?

Answers

- Macdonald noted that there was a great success in the implementation of the Canada Pension Plan, and that the guaranteed income supplement has had a dramatic effect on the poverty rate in seniors, which used to sit at 40%, and is now down to 10%
- Dr. Labonte noted that we have done a great job lifting seniors out of poverty, but have not done the same for children or youth. One reason seniors have done so well is that they are politically mobilized, "grey power," there is not a similar movement for youth and children