



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

# **INCOME INEQUALITY IN CANADA: AN OVERVIEW**

## **Report of the Standing Committee on Finance**

**James Rajotte  
Chair**

**DECEMBER 2013**

**41<sup>st</sup> PARLIAMENT, SECOND SESSION**

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# **THE STANDING COMMITTEE ON FINANCE**

has the honour to present its

## **THIRD REPORT**

Pursuant to the Order of Reference of Monday, October 21, 2013, the Committee proceeded to the study of Income Inequality in Canada and has agreed to report the following:



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# INCOME INEQUALITY IN CANADA: AN OVERVIEW

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## CHAPTER ONE: INTRODUCTION

On 13 June 2012, Private Members' Business [M-315](#) passed in the House of Commons by a vote of 161 to 138. The motion instructed the House of Commons Standing Committee on Finance to undertake a study on income inequality in Canada. In particular, it indicated that the study should include:

(i) a review of Canada's federal and provincial systems of personal income taxation and income supports, (ii) an examination of best practices that reduce income inequality and improve GDP per capita, (iii) the identification of any significant gaps in the federal system of taxation and income support that contribute to income inequality, as well as any significant disincentives to paid work in the formal economy that may exist as part of a "welfare trap," (iv) recommendations on how best to improve the equality of opportunity and prosperity for all Canadians; and that the Committee report its findings to the House within one year of the adoption of this motion.

To that end, over the course of three hearings and in written submissions, the Committee received the views of academics, think tanks, associations, individuals and others about a range of issues related to income inequality in Canada.

While views about such topics as poverty — which may, but need not necessarily, exist alongside income inequality, as it is possible to have a highly unequal distribution of income but no poverty as long as the person at the bottom of the income distribution has an adequate income — were also presented, the Committee decided to focus largely on the views related to the topics described in M-315 and to topics that have not recently been examined by other parliamentary committees. Consequently, issues related to poverty in Canada generally, and the standard of living for low-income seniors in particular, are not examined in this report, as they were recently reported on by the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities in [\*Federal Poverty Reduction Plan: Working in Partnership towards Reducing Poverty in Canada\*](#), by the Special Senate Committee on Aging in [\*Canada's Aging Population: Seizing the Opportunity\*](#), and by the Standing Senate Committee on Social Affairs, Science and Technology in [\*In From the Margins: A Call to Action on Poverty, Housing and Homelessness\*](#).

Chapter Two of this report focuses on the measurement of income inequality and economic disparity in Canada, while Chapter Three comments on potential explanations of income inequality in Canada. The focus of Chapter Four is possible implications of income inequality in Canada, while the witnesses' proposals designed to reduce income inequality and its impacts are presented in Chapter Five. The report concludes with the Committee's recommendations, which are contained in Chapter Six.

## CHAPTER TWO: MEASUREMENT OF INCOME INEQUALITY AND ECONOMIC DISPARITY IN CANADA

Income inequality can be measured in a variety of ways, ranging from relatively basic concepts — such as deciles, quintiles, and changes in the distribution of incomes — to more sophisticated techniques — such as through a Lorenz curve or a Gini coefficient. Of these measures, most of the Committee’s witnesses focused on the Gini coefficient. That said, economic disparity among individuals can be assessed on the basis of consumption and wealth inequality, the extent to which income mobility occurs, and the proportion of the population that has low income or lives in poverty; the witnesses also spoke about a number of these issues, as noted below.

### A. Background

According to [Statistics Canada](#) estimates, in 2010, the top 1% of income earners in Canada comprised about 254,700 individuals, and they reported a median income of \$283,400. According to the [Conference Board of Canada](#), income inequality has grown over time; the top 1% of income earners in Canada has accounted for almost 33% of all growth in median incomes since the late 1990s, an increase from 8% during the 1950s and 1960s.

The distribution of incomes ranked from lowest to highest can be grouped in various ways, such as by **quintile** — that is, each 20% share of incomes in the population — or by **decile** — that is, each 10% share of incomes in the population. Using 2010 constant dollars, Table 1 presents the level and change in average [market income](#) and average after-tax-and-transfer — or [disposable](#) — income in Canada over time, by income quintile. From 1976 to 2010, while the top 20% of Canadian income earners — the highest quintile — had their average market income rise by 28.9%, the bottom 20% of income earners — the lowest quintile — had their average market income fall by 22.5%. When disposable income is considered, the disparity between the lowest and highest income quintiles was reduced from 1976 to 2010. Disposable income grew for each income quintile from 1976 to 2010, but the growth was especially notable for those with the lowest and highest incomes, increasing by 15.9% and 27.1% respectively.

**Table 1 — Level and Change in Average Market Income  
and Average Disposable Income, All Family Units, Canada, 1976 and 2010  
(2010 constant dollars)**

Quintile	Market Income				Disposable Income (after government taxes and transfers)			
	Level (\$)		Change		Level (\$)		Change	
	1976	2010	\$	%	1976	2010	\$	%
Lowest	4,000	3,100	-900	-22.5	12,600	14,600	2,000	15.9
Second	27,000	22,500	-4,500	-16.7	30,000	32,700	2,700	9.0
Third	49,700	46,300	-3,400	-6.8	46,600	49,700	3,100	6.7
Fourth	72,800	78,500	5,700	7.8	64,300	73,500	9,200	14.3
Highest	129,400	166,800	37,400	28.9	106,600	135,500	28,900	27.1

Notes: “Market income” includes employment earnings, net investment income, retirement income and other forms of income. “After-tax-and-transfer income” — or disposable income — adds government transfers (e.g., government payments for income maintenance and social assistance) to, and subtracts federal and provincial income taxes from, market income.

“All family units” includes economic families and unattached individuals. An economic family is defined as a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common law or adoption. An unattached individual is a person living either alone or with others to whom he/she is unrelated, such as roommates or a lodger.

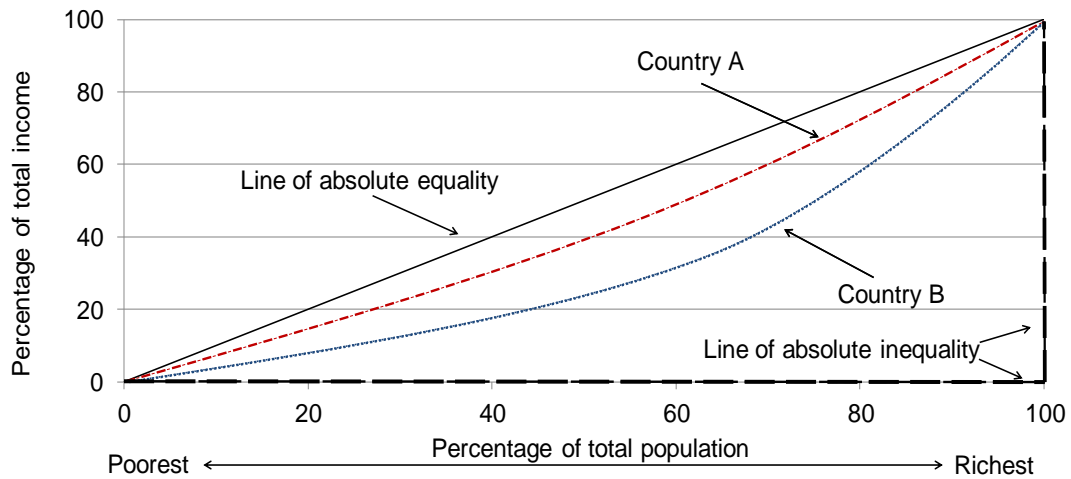
Source: Table prepared using data obtained from Statistics Canada, CANSIM, Table 202-0701, “Market, total and after-tax income, by economic family type and income quintiles, 2010 constant dollars,” accessed April 2013.

As can be calculated from Table 1, the difference between average disposable income in the lowest income quintile and that in the highest income quintile grew from \$94,000 in 1976 to \$120,900 in 2010.

According to the [Organisation for Economic Co-operation and Development](#) (OECD), Canada ranked 21<sup>st</sup> among 34 industrialized countries in terms of income inequality in the late 2000s, as measured by the gap between the top 10% of income earners and the rest of the population. Canada’s ratio of 4.2, which indicates that the income for the top 10% of income earners is about four times higher than the income for the remaining 90% of income earners, was about the same as the OECD average at that time.

A **Lorenz curve** is constructed by comparing cumulative shares of the population, ranked from the lowest to the highest income levels, to cumulative shares of income that this population receives. Figure 1 shows a theoretical representation of Lorenz curves for Country A, which shows relatively lower inequality, and Country B, which shows relatively greater inequality. As shown in Figure 1, income inequality is greater in one country than in another country when its Lorenz curve is closer to the line of absolute inequality.

**Figure 1 — Theoretical Lorenz Curves for Country A and Country B**

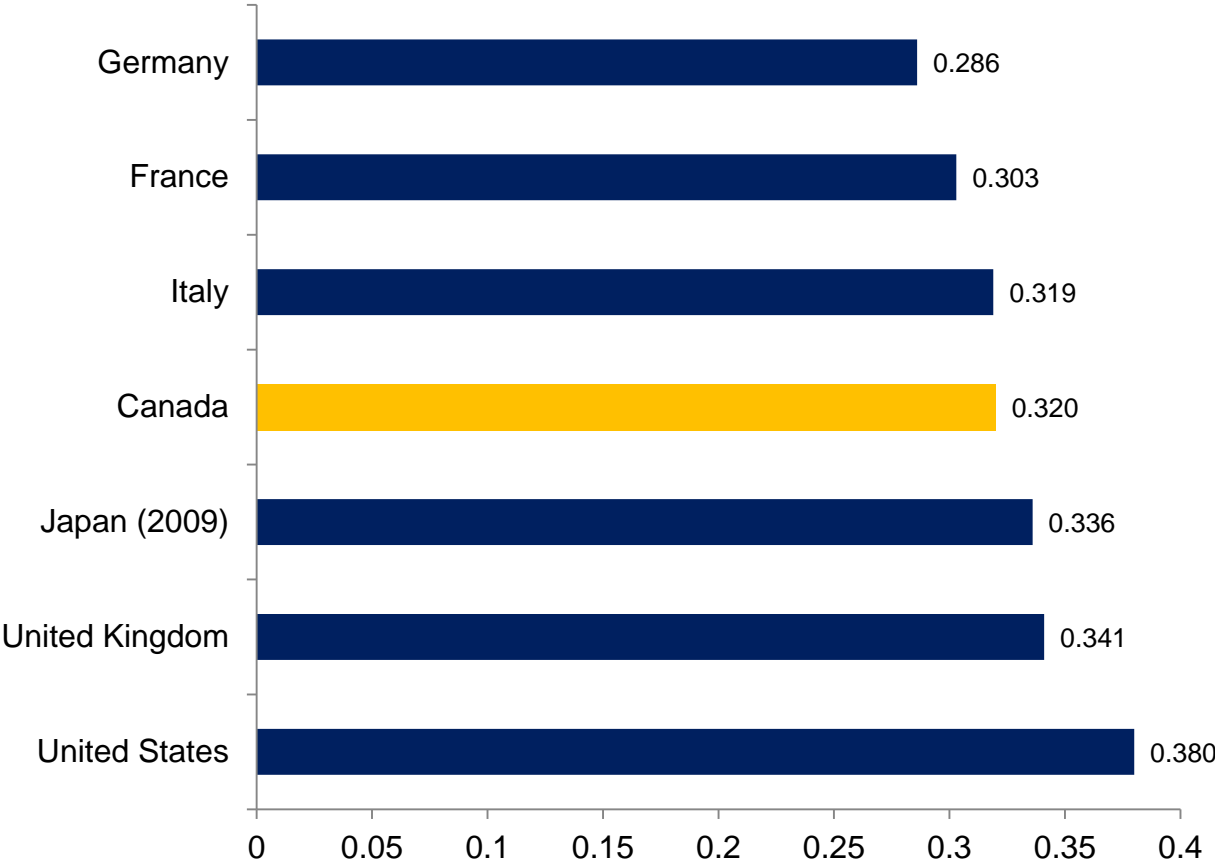


Source: Joseph L. Gastwirth, "A General Definition of the Lorenz Curve," *Econometrica*, Vol. 39, No. 6 (Nov., 1971).

A country's **Gini coefficient** can be calculated as the area between its Lorenz curve and the line of perfect equality. A Gini coefficient of 1 indicates maximum inequality, as a single person in a society has all of the income and the remainder of the population has none; a Gini coefficient of 0 indicates maximum equality, as everyone has exactly the same income. In reality, Gini coefficients range from 0 to 1. In 2010, using the Gini coefficient for disposable income to measure income inequality, Canada ranked fourth among the Group of Seven countries, after Japan, the United Kingdom and the United States, as shown in Figure 2.



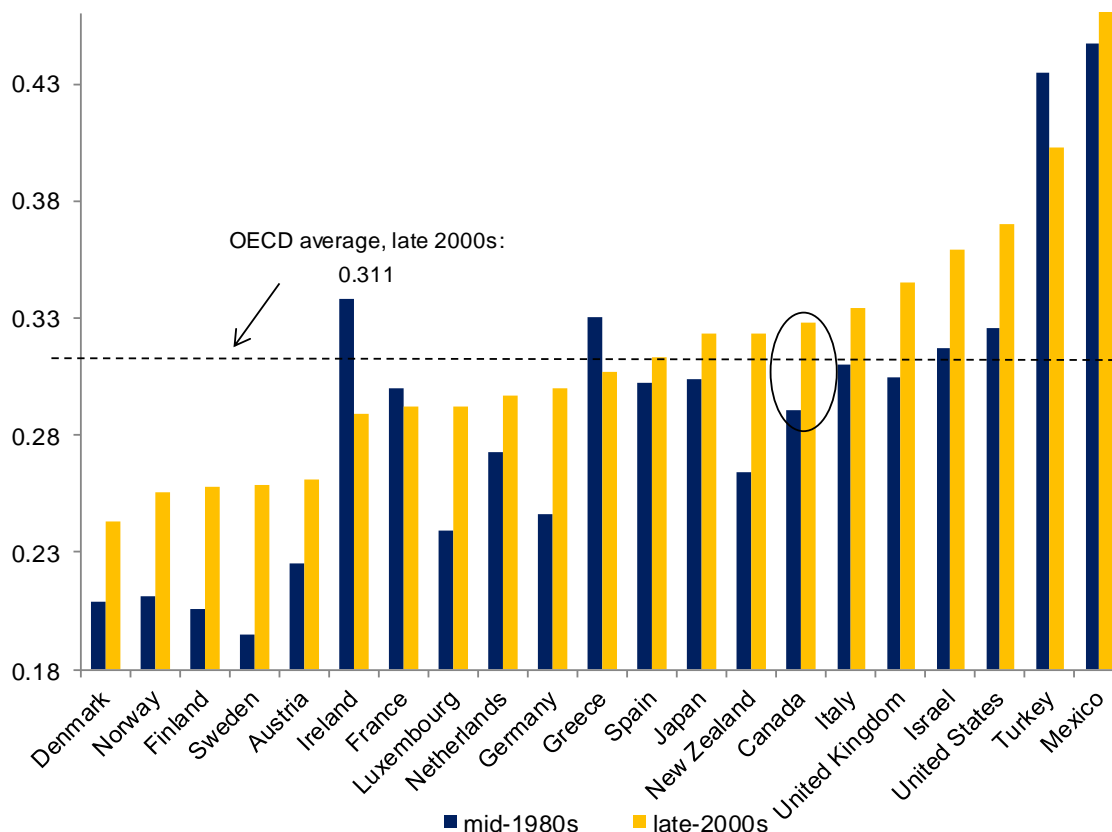
**Figure 2 — Income Inequality as Measured by the Gini Coefficient for Disposable Income, Total Population, Group of Seven Countries, 2010**



Source: Figure prepared using data obtained from Organisation for Economic Co-operation and Development, "[Income Distribution — Inequality](#)," *OECD Social and Welfare Statistics*.

Using disposable income for the population aged 18 to 65 years, Gini coefficients for Canada and selected OECD countries in the mid-1980s and the late-2000s are illustrated in Figure 3.

**Figure 3 — Income Inequality as Measured by the Gini Coefficient for Disposable Income, Population Aged 18—65 Years, Selected Organisation for Economic Co-operation and Development Countries, Mid-1980s and Late-2000s**



Source: Figure prepared using data obtained from Organisation for Economic Co-operation and Development, [“Income Distribution — Inequality,”](#) *OECD.StatExtracts*.

Figure 3 shows that — in the late 2000s — the Gini coefficient for Canada, at 0.324, was higher than the average for OECD countries, at 0.311. At that time, Mexico’s Gini coefficient of 0.476 indicated that income inequality was higher in that country than in Canada; on the other hand, the Nordic countries’ Gini coefficient of about 0.25 shows that income inequality was lower in those countries than in Canada. From the mid-1980s to the late 2000s, the Gini coefficient increased in Canada, as it did in a number of other countries.

While income inequality is one measure of economic disparity among individuals, studies by Jason Clemens at the [Macdonald-Laurier Institute](#), Yanick Labrie at the [Montreal Economic Institute](#) and Chris Sarlo at the [Fraser Institute](#) argue that inequality should be measured by instead considering the ability to purchase goods and services, or **“consumption” inequality**. From that perspective, “consumption” may be a relatively

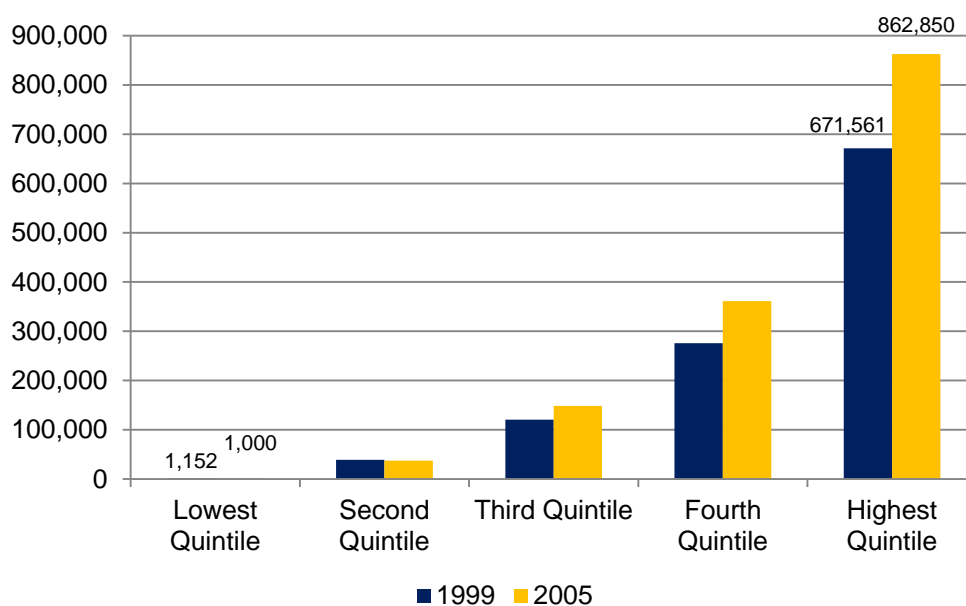
more accurate indicator of inequality, as it measures the ability to maintain an adequate standard of living.

According to the aforementioned studies, disparities in consumption spending are lower than are disparities in income, and have remained relatively constant over the last 35 years. Furthermore, these studies note that relatively low and stable disparities in consumption over the lifetime of an individual can be facilitated through loans and savings, as people tend to finance consumption by borrowing when young and by accessing savings when old.

As well, Mr. Clemens' study for the [Macdonald-Laurier Institute](#) questions the reliability of reported incomes, which in some cases may exclude revenues obtained through both legal (e.g., under-reporting of government assistance) and illegal (e.g., the underground economy) activities.

Another form of economic disparity among individuals is asset inequality. As shown in Figure 4, the median amount of assets — net of debt — held by the highest quintile increased by 28% from 1999 to 2005, while the median amount of assets — net of debt — held by the lowest quintile decreased by 13% over the period.

**Figure 4 — Median Net Worth, by Net Worth Quintile, Canada, 1999 and 2005 (constant 2005 dollars)**



Note: Net worth is equal to assets minus debt.

Source: Figure prepared using data obtained from Statistics Canada, "[Assets and debts held by family units, median amounts, by net worth quintile](#)", *Survey of Financial Security*.

Gini coefficients reflect a given point in time, and do not provide an indication of whether gaps in income between the highest and lowest income earners have changed

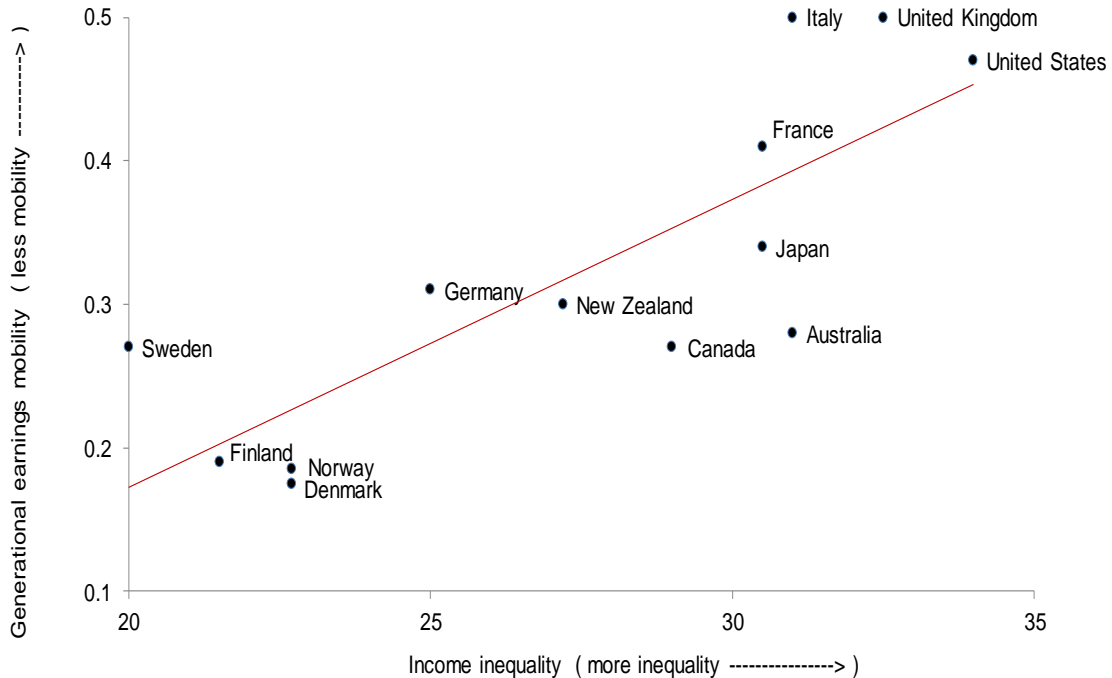
over time. Studies by Mr. Labrie for the [Montreal Economic Institute](#), by Zanny Minton Beddoes for [The Economist](#) and by Miles Corak, Lori Curtis and Shelley Phipps released by [Dalhousie University](#) have noted that income inequality can arise for positive reasons (e.g., reward for productive work) and for negative reasons (e.g., children from poorer families may be excluded from equal access to opportunity). Furthermore, these studies note that income inequality at a point in time is not necessarily an issue if there is a general trend towards reduced lifetime inequality as a person ages from childhood to adulthood — **intragenerational income mobility** — or if a child grows up and has an income that exceeds that of his/her parent(s) — **intergenerational income mobility**.

According to former Queen's University professor Charles Beach, writing in *Dimensions of Inequality in Canada*, “[i]f all workers systematically progress along a given age-earnings trajectory over their careers, there is less social concern about any degree of earnings inequality in the economy. But if workers are largely stratified within lower, middle, and upper regions of the distribution throughout their careers, the degree of earnings inequality carries a much greater degree of social concern.”

In a background paper prepared for [Canada 2020](#), Mr. Corak suggests that perceptions about the significance of inequality depend on the degree of income mobility, and particularly intergenerational income mobility. He notes that high income inequality that persists from one generation to the next “may lead to lower levels of efficiency and productivity and the society may well be considered less fair if access to jobs is determined more by inherited advantage than by individual talent and energy.”

Figure 5, which illustrates intergenerational income mobility for selected OECD countries, suggests that Canadian children raised during the period under study displayed a relatively high degree of intergenerational income mobility; the children in Nordic countries showed relatively greater intergenerational income mobility.

**Figure 5 — Intergenerational Income Mobility, Gini Coefficient of Disposable Household Income, Selected Organisation for Economic Co-operation and Development Countries**



Note: The figure considers the income mobility of individuals who were children in 1985 and who were adults in the late 2000s.

Source: Figure prepared using data obtained from Miles Corak, [Understanding inequality and what to do about it](#), University of Ottawa, Presentation to the All-Party Anti-Poverty Caucus, House of Commons, Ottawa, 12 February 2013.

The aforementioned study by Mr. Corak, Ms. Curtis and Ms. Phipps released by [Dalhousie University](#), and another study by Mr. Corak for [The Pew Charitable Trusts](#), compared intergenerational income mobility in Canada and the United States, and found that Canada's intergenerational income mobility was up to three times greater than in the United States. While residents of both countries are thought to place a high value on income mobility and individual effort, differences in the role of families, labour markets and public policies may explain the relatively greater degree of intergenerational income mobility in Canada. In particular, according to the former study, public policies in Canada compensate for inequalities in family background and the labour market to a greater extent than they do in the United States. In examining the relationship between family economic background and the income attainment of children from poorer families as they become adults, four major policy differences between Canada and the United States that facilitate income mobility were identified:

- **Health care:** Canada’s system of universal health care “plays a role in the preventative care of children, reducing the number and severity of health shocks that could potentially lead to more severe difficulties.”
- **flexibility in making child care choices and hours of work:** In Canada, parents “would appear to have more flexibility as a result of significant policy changes in the mid-1990s that extended paid leave during the year after a child’s birth as well as the legislative right to return to their jobs.”
- **labour market inequalities and the role of tax and transfer programs:** Without government intervention, labour markets in both Canada and the United States lead to “roughly the same level of income poverty.” However, in Canada, public income transfers “play a much more important role in reducing poverty among Canadian children.” In particular, the Canada Child Tax Benefit (CCTB) has “significantly reduced the severity of poverty” among parents of young children.
- **public schooling:** In the United States, public schools are funded through local property taxes; in Canada, funding is tied to provincial income taxes, which “permits a more equal allocation of resources across municipalities and neighbourhoods ... .” The study suggests that higher test scores of Canadian children may be facilitated through a more equal distribution of funds, which can contribute to a higher overall quality of education.

In addition to identifying low income earners by their income quintile, [Statistics Canada](#) also produces two **relative measures of low income** — the low income cut-off (LICO) and the low income measure (LIM), which compare household income to a standard level of income — and an **absolute measure of low income** — the market basket measure (MBM), which estimates the minimum level of income needed for survival:

- The LICO is the threshold, which varies by family and community size, at which a family spends a given percentage more of its income on food, clothing and shelter than the average family.
- The LIM measures incomes that are below half the median family income, with adjustments for family size.
- The MBM measures the disposable income a family would need to purchase a basket of goods that includes food, clothing, shelter, transportation and other basic needs, and varies by family size, family composition, community size and location.

The [Conference Board of Canada](#) has noted that developed countries, such as Canada, frequently refer to relative measures — such as the LICO and the LIM — that compare income for a household to some standard level of income. Absolute measures, such as the MBM, estimate the minimum income needed for survival.

As shown in Table 2, the share of the population in low income varies depending on the measure of low income, both in a given year and over time.

**Table 2 — Percentage of the Population Aged 18—64 Years in Low Income, by Measure of Low Income, Canada, various years (%)**

Measure of Low Income	Low Income Rate				
	1976	1986	1996	2000	2010
Low income cut-off, after tax	10.5	11.2	15.0	12.9	10.1
Low income measure, after tax	10.0	10.4	12.4	12.7	12.7
Market basket measure	n.a.	n.a.	n.a.	12.6	11.1

Notes: “n.a.” means not available.

Low income cut-off, after tax, is determined from an analysis of Statistics Canada’s 1992 Family Expenditure Survey data. The income limits used to derive estimates in this table are selected on the basis that families with incomes below these limits usually spent 63.6% or more of their income on food, shelter and clothing. Low income cut-offs are differentiated by community size of residence and family size. The low income rates shown in the table are overall averages.

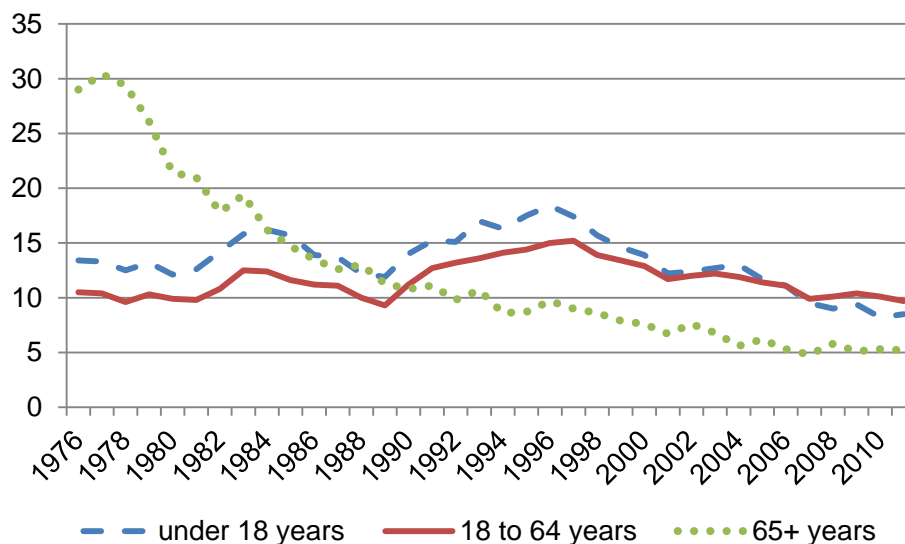
Low income measure, after tax, is a relative measure of low income, set at 50% of adjusted median household income. These measures are categorized according to the number of persons present in the household, reflecting the economies of scale inherent in household size. The low income rates shown in the table are overall averages.

Market basket measure represents the cost of a basket that includes: a nutritious diet, clothing and footwear, shelter, transportation, and other necessary goods and services (such as personal care items or household supplies). The cost of the basket is compared to disposable income for each family to determine low income rates. The low income rates shown in the table are overall averages.

Source: Table prepared using data from Statistics Canada, CANSIM Table 202-0802, “Persons in Low Income Families,” accessed April 2013.

Moreover, as shown in Figure 6, the proportion of the Canadian population in low income varies by age group and has generally been falling for each age group in recent years. A number of federal tax and transfer measures may have contributed to declines in the proportions of children, some households and seniors living in low income, including the [CCTB](#), the [National Child Benefit Supplement \(NCBS\)](#), the [Goods and Services Tax/Harmonized Sales Tax Credit](#), the [Working Income Tax Benefit \(WTIB\)](#), the [Guaranteed Income Supplement \(GIS\)](#) and the [Allowance for the Survivor](#).

**Figure 6 — Percentage of the Population in Low Income, by Age Group, Canada, 1976—2011 (%)**



Source: Figure prepared using data obtained from Statistics Canada, [Table 202-0802](#), “Persons in low income families,” accessed 18 October 2013.

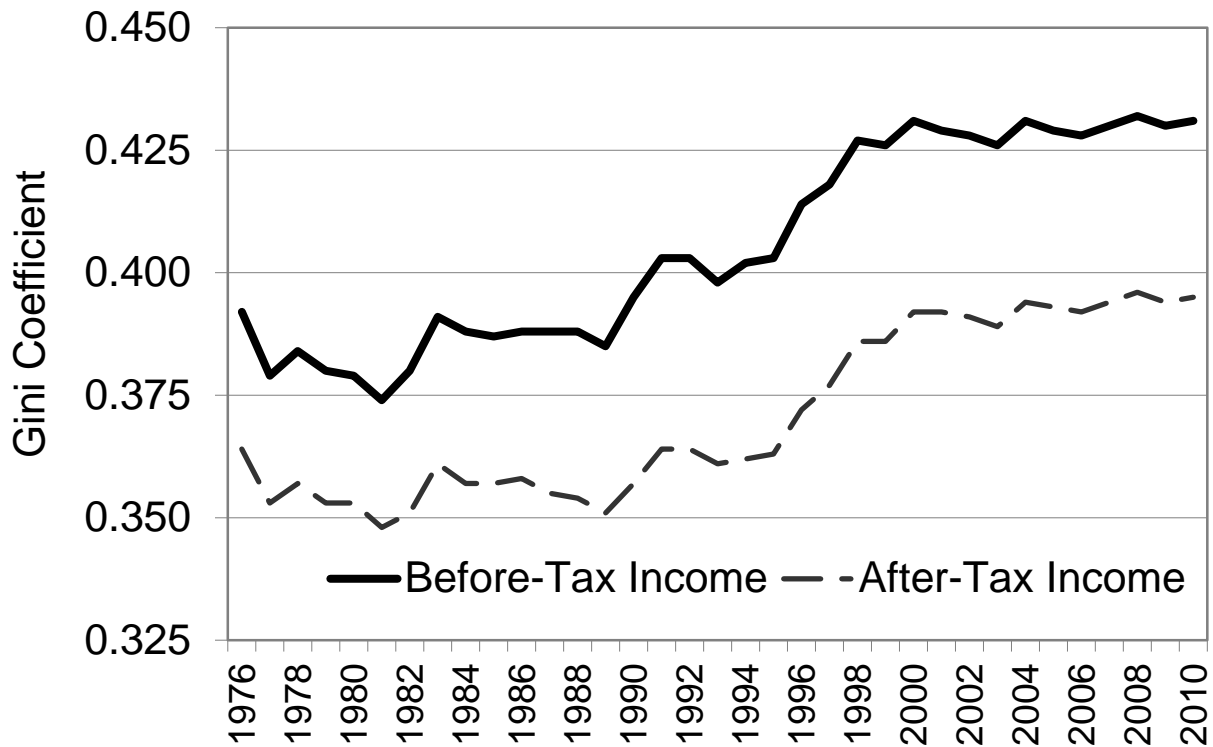
## B. Witness Views

[Stephen R. Richardson](#), an Executive Fellow at the University of Calgary who appeared as an individual, told the Committee that a Gini coefficient measures the extent to which the distribution of a variable — such as income — deviates from a perfectly equal distribution.

Figure 7 was submitted to the Committee by the University of Toronto’s Alan Walks, who provided his views as an individual. According to the figure, after-tax-and-transfer — or disposable — income inequality in Canada, as measured by the Gini coefficient, increased over time. In particular, it rose from about 0.36 in 1990 to almost 0.40 in 2010.



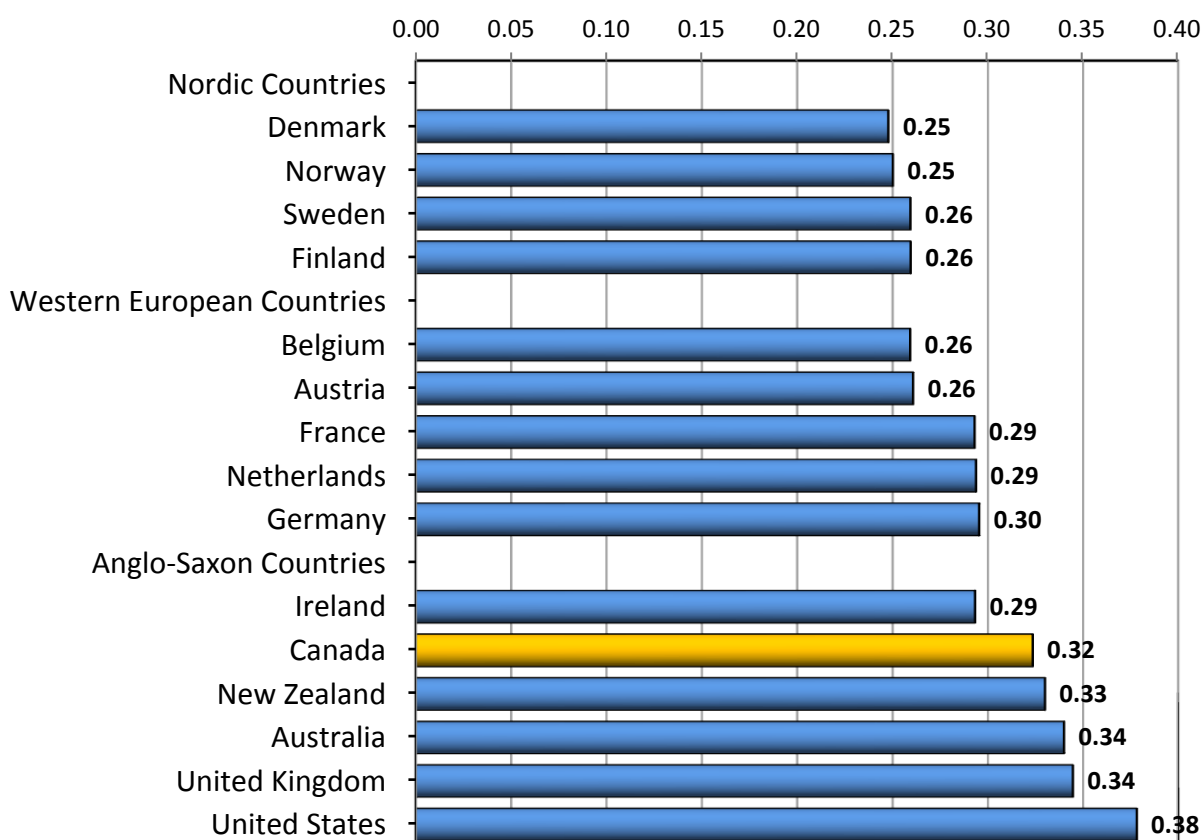
**Figure 7 — Level of Income Inequality as Measured by the Gini Coefficient, Before-Tax and After-Tax Family Income of all Family Types, Canada, 1976—2010**



Source: Figure provided to the House of Commons Standing Committee by [Alan Walks](#), University of Toronto, 5 April 2013.

In providing information about Canada’s Gini coefficient in an international context, [J. David Hulchanski and Robert A. Murdie](#) — professors at the University of Toronto and York University respectively who provided their views as individuals — compared the degree of income inequality in Canada to that in other developed countries. As shown in Figure 8, as of the late 2000s, Canada ranked 5<sup>th</sup> among 15 relatively wealthy western nations in terms of income inequality, after New Zealand, Australia, the United Kingdom and the United States. The [Canadian Centre for Policy Alternatives](#) and [Mr. Walks](#) told the Committee that — from the mid-1990s to the mid-2000s and using the Gini coefficient as an indicator — Canada had the second-largest increase in inequality over the period, behind Finland.

**Figure 8 — Gini Coefficient for Fifteen Organisation for Economic Co-operation and Development Countries, late 2000s**



Note: Gini coefficients are rounded to the nearest 0.01.

Source: Adapted from a figure provided to the House of Commons Standing Committee on Finance by J. David [Hulchanski, University of Toronto, and Robert A. Murdie](#), York University, 5 April 2013.

According to [Canada 2020](#), the [TD Bank Financial Group](#) and [Bradley A. Corbett](#), a professor at Western University who — along with several colleagues — provided his views as an individual, the Gini coefficient is limited in its ability to identify changes at the lower and upper ends of the income distribution. In particular, [Mr. Corbett](#) referenced an OECD study indicating that, for developed countries, the incomes of people at the upper end of the income distribution are growing faster than the incomes of those at the lower end.

[Michael R. Veall](#), a professor at McMaster University who appeared as an individual, spoke to the Committee about how economic gains have disproportionately gone to persons at the top end of the income distribution. According to [him](#), the disposable income of the top 1% of income earners increased by 77% from 1986 to 2012, the disposable income of the top 0.1% grew by 131%, and the disposable income of the top

0.01% rose by 160%. Over the 1986 to 2012 period, the disposable income of the bottom 90% of income earners grew by 19%.

The [Canadian Taxpayers Federation](#) suggested that the increase in income of the top 1% of income earners, representing about 254,000 people, had been occurring at the same time that these earners had been increasing their share of total income taxes paid by Canadians. Citing a report by Statistics Canada, it noted that — in 1982 — the top 1% of income earners paid 13.4% of all federal and provincial income taxes, a proportion that grew to 23.3% in 2007.

The [Montreal Economic Institute](#) and [Mr. Clemens](#), Executive Vice-President of the Fraser Institute who appeared as an individual, argued that “consumption” is a relatively more accurate indicator of inequality, as it measures the ability to maintain an adequate standard of living. As well, the [Montreal Economic Institute](#) stated that consumption inequality in Canada has been less than income inequality over the past 30 years, and has changed very little over that period. [It](#) also said that although seniors tend to have lower incomes than those in the working-age population, they have a relatively lower degree of consumption inequality, since they have had an opportunity to accumulate assets and may have limited debt, which allows them to maintain an adequate standard of living.

According to the [TD Bank Financial Group](#) and the [C.D. Howe Institute](#), wealth inequality — which results from differences in the ability to accumulate assets over time — is also an important part of economic disparity in Canada. According to [Social and Enterprise Development Innovations](#) and [Mr. Walks](#), asset inequality — which began growing in Canada in 1977 — now exceeds income inequality to a significant extent, and continues to grow as a result of changes in wealth at both ends of the income distribution. As explained by [Jennifer Robson](#), a lecturer at Carleton University who provided her views as an individual, those with higher incomes tend to have more assets, and they tend to hold their assets in a range of preferential tax instruments that increase those assets’ net value.

According to the [Fraser Institute](#), the [Montreal Economic Institute](#) and [Mr. Veall](#), income inequality at a particular point in time — as measured by the Gini coefficient — is not necessarily a problem if there is a general trend towards reduced lifetime inequality.

[Mr. Veall](#), [Campaign 2000](#) and the [Montreal Economic Institute](#) referenced various studies of intergenerational economic mobility. According to them, studies that compare economic mobility in Canada with economic mobility in the United States find that while residents of both countries are thought to place a high value on economic mobility and individual effort, differences in the role of families, labour markets and public policies related to health care, child care and schooling may explain the relatively greater degree of intergenerational economic mobility in Canada.

[Mr. Corak](#), a professor at the University of Ottawa who provided his views as an individual, highlighted that a significant portion of the Canadian population remains in low income across generations. In particular, [he](#) noted that while intergenerational economic mobility may be higher in Canada than in some other countries, about a third of low-

income Canadian children become low-income adults. As well, the [Conference Board of Canada](#) told the Committee that economic mobility does not remove all of the other negative impacts of higher inequality; including the negative impacts that inequality has on economic growth and the ability of individuals to use their skills.

Although the Committee's study was focused on income inequality rather than on poverty, a number of the Committee's witnesses — such as the [TD Bank Financial Group, Campaign 2000](#), the [Canadian Nurses Association](#), the [Canadian Union of Public Employees, Women's Centres Connect](#), the [Broadbent Institute, Ronald Labonté, Arne Ruckert and Sam Caldbick](#), researchers at the University of Ottawa who provided their views as individuals, and [Diana Gibson and Lori Sigurdson](#), researchers at the University of Alberta and Alberta College of Social Workers respectively who provided their views as individuals — suggested that the incidence of poverty is positively related to the degree of income inequality in a country. From another perspective, the [Montreal Economic Institute](#) noted that an increase in income inequality can occur at the same time as poverty rates decrease. [it](#) stated that — from 1995 to 2010, a period that it characterized as largely involving an increase in income inequality and a reduction in government measures designed to redistribute income — the average disposable incomes of the lowest income earners increased by 25% while the number of persons living below the “poverty line” decreased by more than 60%.

[Campaign 2000](#), [Citizens for Public Justice](#) and the [Hamilton Roundtable for Poverty Reduction](#) shared their view that there is no commonly agreed threshold for the level of income below which a Canadian is considered to be “in poverty.” That said, the Committee's witnesses cited a number of measures of low income. Some witnesses — such as the [Canadian Centre for Policy Alternatives](#) and the [Conference Board of Canada](#) — spoke about the general trend of increasing low-income rates as shown by the LIM, which measures incomes that are below half the median family income, with adjustments for family size.

The [Montreal Economic Institute](#) and the [TD Bank Financial Group](#) mentioned the declining low-income rates observed since the mid-1990s when measured by the LICO, which is the threshold at which a family of a given size living in a community with a certain population spends a specified percentage more of its income on food, clothing and shelter than does the average family.

[Beverley Smith](#), who provided her views as an individual, proposed that — regardless of the measure used — poverty, particularly among children, is continuing to exist; in her view, poverty limits the ability of every child to have enough financial support to “thrive” and be “financially secure.”

[Mr. Clemens](#) noted that three main groups tend to remain in low income over time: single parents, those who fail to complete high school, and those for whom drug and alcohol use are a problem.

The [Conference Board of Canada](#) stated that low-income rates for the elderly have fallen from the levels in the 1970s, and that Canada now has one of the lowest low-income

rates for seniors in the world; that said, low income among the elderly has increased somewhat in recent years.

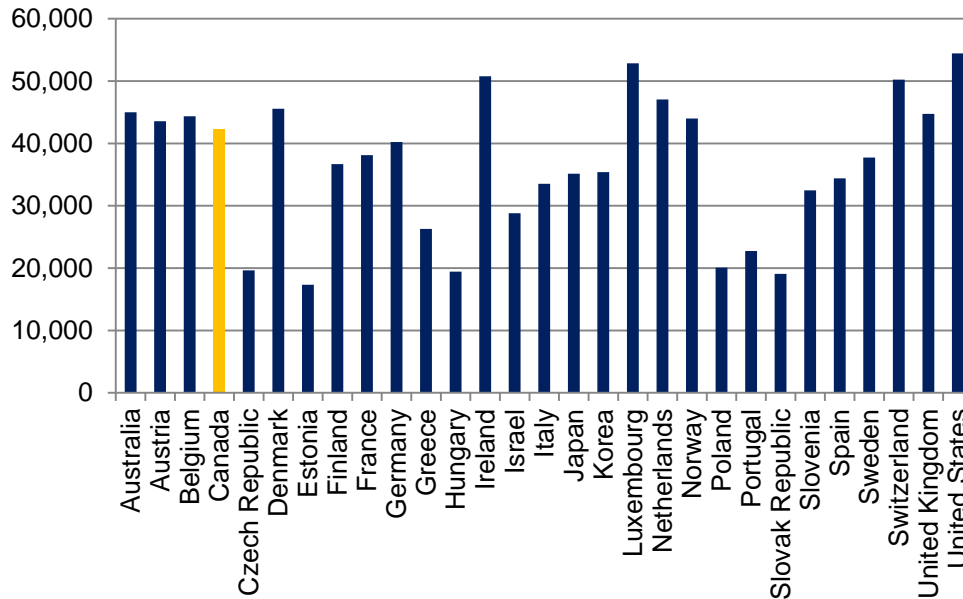
### **CHAPTER THREE: POSSIBLE REASONS FOR INCOME INEQUALITY IN CANADA**

The nature and extent of income inequality in Canada — and changes in them over time — can be explained in a variety of ways. For example, market and institutional forces may play a role, as may the demographic changes occurring in Canada. A variety of these forces and changes were described by the Committee's witnesses.

#### **A. Background**

Studies by [Dalhousie University](#)'s Lars Osberg and the [OECD](#) identify **market forces** as the main factor affecting income inequality in Canada and around the world. For example, globalization and technological progress are widening the disparity in employment earnings between those who earn very high incomes and those who earn very low incomes. With the globalization of production, manufacturing jobs in Canada have been outsourced to countries with relatively lower average wage rates. At the same time, wage rates and employment levels have increased in Canada for workers in highly skilled occupations, especially in the information technology sector. Figure 9 shows average annual wages in selected countries, while Figures 10 and 11 indicate unemployment rates in Canada — including for youth, which remains high despite the country's economic recovery from the global financial and economic crisis — and in selected countries respectively.

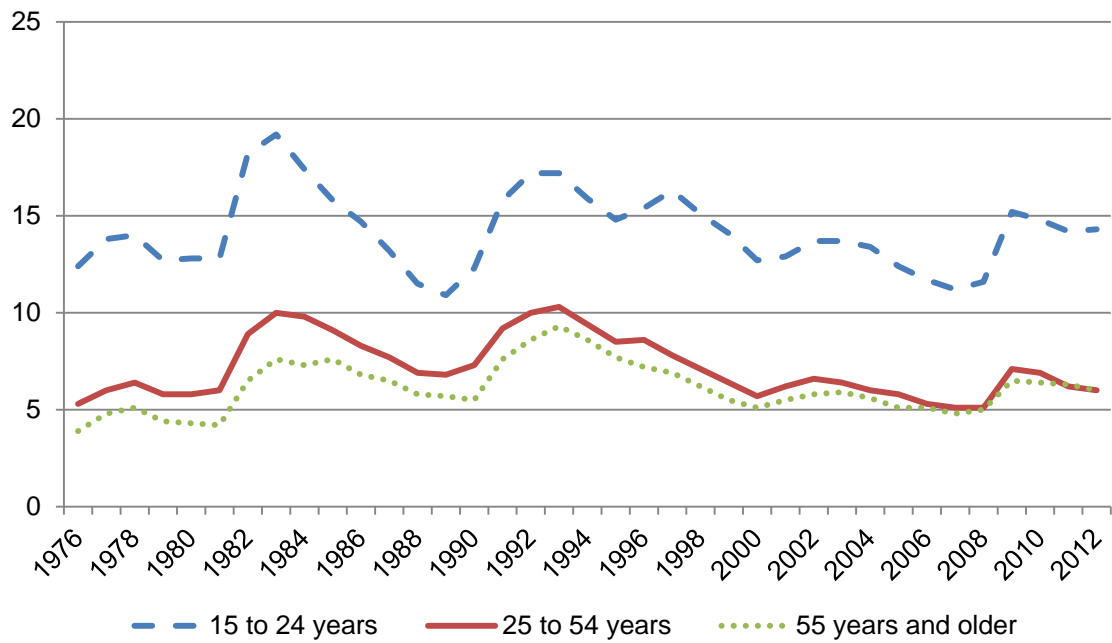
**Figure 9 – Average Annual Wages, Selected Organisation for Economic Co-operation and Development Countries, 2011 (US\$, 2011 Purchasing Power Parities and Constant Prices)**



Note: Purchasing Power Parities represent the rates of currency conversion that equalize the purchasing power of different currencies by eliminating differences in price levels between countries.

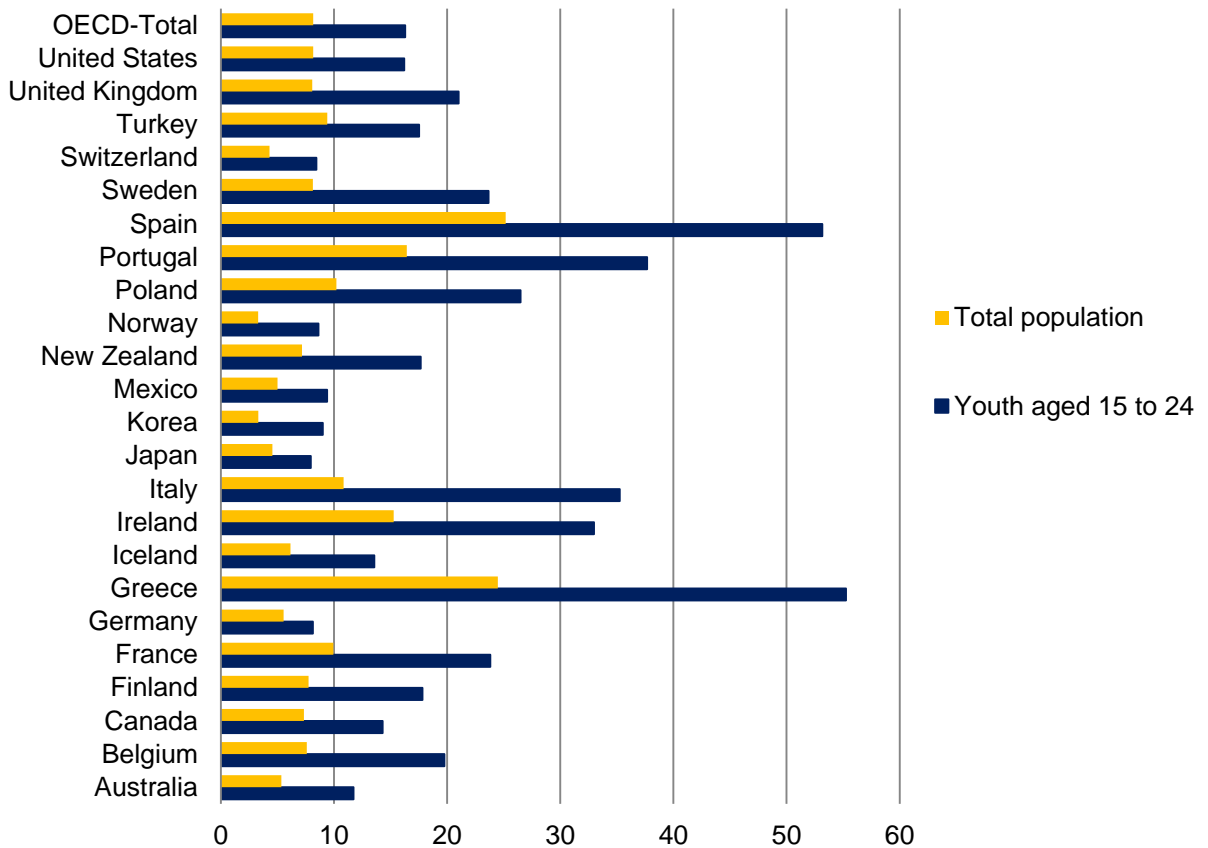
Source: Figure prepared using data obtained from the Organisation for Economic Co-operation and Development, [“Average annual wages”](#), *OECD Employment and Labour Market Statistics*.

**Figure 10 — Unemployment Rate, by Age Group, Canada, 1976–2012 (%)**



Source: Figure prepared using information obtained from: Statistics Canada, Table 282-0002, "[Labour force survey estimates \(LFS\), by sex and detailed age group](#)" accessed 8 November 2013.

**Figure 11 – Unemployment Rates for Youth and the Population, Selected Organisation for Economic Co-operation and Development Countries, 2012 (%)**



Source: Figure prepared using data obtained from the Organisation for Economic Co-operation and Development, [Unemployment rate % of labour force](#) and [Youth unemployment rate % of youth labour force](#).

According to studies by the [University of British Columbia](#)'s Nicole Fortin, David A. Green, Thomas Lemieux, Kevin Milligan and Craig Riddell, and Ajit Singh and Rahul Dhumale who — at that time — were with [United Nations University](#), as well as the [Broadbent Institute](#), **institutional forces** are potential factors affecting income inequality. According to these studies, declining unionization rates, stagnating minimum wage rates, deregulation, and federal and provincial tax policies that favour the wealthy occur at the same time that disparities in incomes between high income earners and low income earners are increasing.

Regarding tax and transfer systems in Canada, the aforementioned study by Ms. Fortin, Mr. Green, Mr. Lemieux, Mr. Milligan and Mr. Riddell, and that by the [OECD](#), suggest that the federal and provincial/territorial tax systems have become less progressive through changes that have benefitted mainly higher-income earners, such as reduced marginal income tax rates for those earning the highest incomes, through the introduction of federal non-refundable tax credits, and through reductions in capital gains



taxation. As well, [Action Canada](#), the [OECD](#) and the [Caledon Institute of Social Policy](#) suggest that the effectiveness of the transfer system has been reduced through reductions in social assistance benefits and the introduction of stricter eligibility requirements for federal and provincial income maintenance programs, such as the Employment Insurance (EI) program.

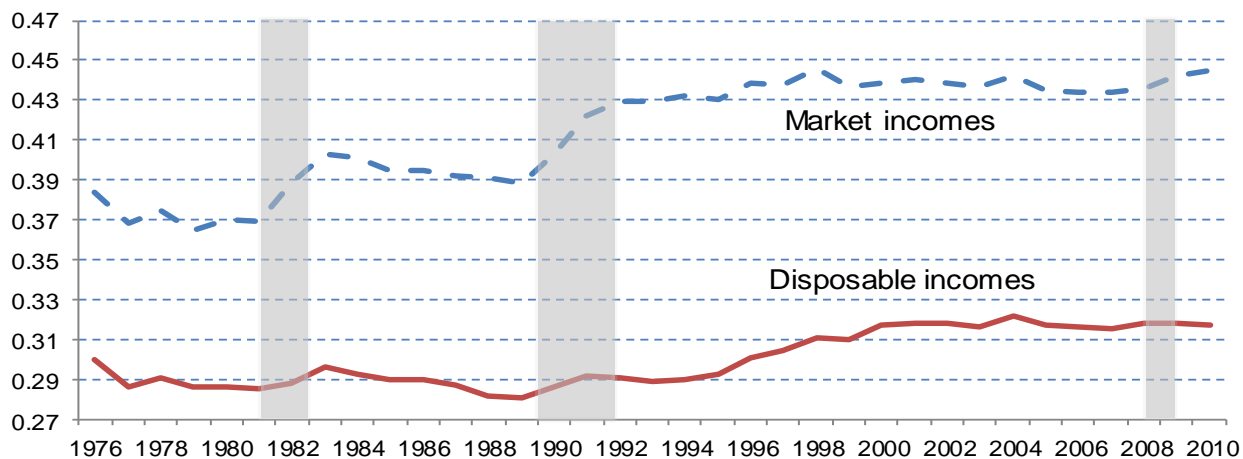
Regarding the impact of the tax system on those who earn lower incomes, although the federal government has introduced various tax policies to increase the disposable incomes of those with little or no labour market income, the [Broadbent Institute](#), the [National Council of Welfare](#), and the [House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities](#) identify the need to enhance government policies that lessen the negative impacts of transitioning from social assistance to paid employment. These studies suggest that a “welfare wall” exists for those receiving social assistance benefits, such as social assistance payments, child care support and housing subsidies, which are “clawed back” if recipients earn employment income.

More generally, the [Broadbent Institute](#), the [National Council of Welfare](#), and the [House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities](#) note that further enhancements to the tax and transfer system are required to provide those who are most economically disadvantaged with more adequate and stable income, and to provide support during periods of financial difficulty. Appendix A contains information about selected elements of Canada’s tax and transfer system.

The [OECD](#), the [Conference Board of Canada](#), and a study by Mr. Veall and the [University of California at Berkeley](#)’s Emmanuel Saez, indicate that — from 1976 to 1994 — Canada’s tax and transfer systems were relatively effective at reducing income inequality. However, these studies suggest that, since then, the redistributive impact of these systems has been relatively less effective at reducing income inequality in Canada; they also argue that there has been little change in this regard since the early 2000s.

According to the Gini coefficient for Canada, as shown in Figure 12, disposable income inequality decreased during the 1980s, with the coefficient reaching a low of 0.281 in 1989. According to this measure, income inequality rose in the 1990s, and has remained at around 0.32 since the early 2000s.

**Figure 12— Market Income and Disposable Income Inequality, as Measured by the Gini Coefficient, 1976—2010 (2010 constant dollars, adjusted for household size)**



Notes: To account for the economies of scale present in larger households, household incomes are expressed on a “per-adult-equivalent” basis.

The grey bars within the figure represent the duration of major recessions in Canada, based on information from the C.D. Howe Institute, [C.D. Howe Institute Business Cycle Council Issues Authoritative Dates for the 2008/2009 Recession](#).

Source: Figure prepared using data obtained from Statistics Canada, CANSIM Table 202-0709, “Gini coefficients of market, total and after-tax income of individuals,” accessed April 2013.

Some studies argue that, in an effort to reduce the extent to which Canadians who earn a high income may move to a jurisdiction with lower personal taxes, or may seek ways to reduce their taxable income within their existing jurisdiction, marginal tax rates for the top income earners have not increased in Canada. According to the [C.D. Howe Institute](#)’s Alexandre Laurin, for the 2010 taxation year, a 1% increase in the marginal “net-of-tax” rate for high income earners resulted in a 0.7% reduction in the taxable income reported by these taxpayers. Other studies, such as the aforementioned study by Mr. Saez and Mr. Veall, suggest that the declines in the top marginal tax rates may also explain the observed increase in the share of total income for the highest income earners relative to lower income earners.

In contrast to these views, which suggest that changes to the tax system are a main factor in increasing income inequality, other studies — including a study, authored by Simon Fraser University’s John Kesselman and then-University of British Columbia graduate student Ron Cheung, that appeared in *Dimensions of Inequality in Canada* — suggest that government transfers have a proportionately larger impact in raising the incomes of the lowest two income quintiles than do personal income taxes in reducing the

net incomes of the highest two income quintiles. According to the [Centre for the Study of Living Standards](#), over the last three decades, federal and provincial government transfers have accounted for about 70% of the reduction in income inequality as measured by the market income Gini coefficient, compared to about 30% for the tax system.

## B. Witness Views

In speaking about the **demographic reasons** for income inequality in Canada, a number of the Committee's witnesses said that population aging, gender-related issues and challenges related to the labour market integration of disadvantaged groups have the potential to increase income inequality in the coming years. The [Frontier Centre for Public Policy](#) and [Ms. Fortin](#), a professor at the University of British Columbia who appeared as an individual, said that although the young and poorly educated — who tend to be at the lower end of the income distribution — are more vulnerable to being excluded from full-time jobs with security and benefits, labour force attachment issues are arising for significant numbers of those in the middle of the occupational skill and wage distributions.

According to the [Frontier Centre for Public Policy](#), income inequality in Canada is expected to increase over time, and there is likely to be a growing gap between the labour force attachment of an aging workforce and younger workers. [It](#) expected that income inequality will increase as an aging population moves up the income distribution, since older workers tend to have more experience and skills, and thus relatively higher wages. Younger workers tend to be employed in more “**precarious jobs**,” which — as stated by [Poverty and Employment Precarity in Southern Ontario](#) — are jobs lacking the security or benefits that exist in more traditional employment relationships. As noted by the [Broadbent Institute](#), more than one third of working Canadians currently do not have permanent, full-time paid jobs.

According to a number of the Committee's witnesses — including the [Council of Canadians with Disabilities](#), [Women's Centres Connect](#), [Mr. Walks](#) and the [Assembly of First Nations](#) — the rise in the number of “precarious jobs” has the potential to have a large impact on disadvantaged demographic groups, such as women, immigrants, Aboriginal peoples and persons with disabilities. The [Council of Canadians with Disabilities](#) and [Women's Centres Connect](#) indicated that women are at greater risk of experiencing low income than are men, as women tend to be responsible for family care and are more likely to be lone parents with fewer opportunities for stable, high-paid employment. Regarding immigrants, [Mr. Walks](#) explained that the average incomes of recent immigrants have been declining over time, as recent immigrants tend to find lower-paid work and to work fewer hours. From the **Aboriginal** perspective, the [Assembly of First Nations](#) told the Committee that the incomes of Aboriginal peoples are generally 30% lower than the incomes of non-Aboriginal Canadians. [It](#) referenced a 2010 study by the Canadian Centre for Policy Alternatives that estimated that, at the current rate of change, it would take 63 years for the income gap between Aboriginal peoples and non-Aboriginal peoples to be closed.

[Ms. Fortin](#) noted that the “**polarization**” of male earnings in the United States in the 1990s, according to which median male earnings did not increase as much as male

earnings at the ends of the income distribution, resembled the experience in Canada in more recent years. Since the late 1990s, the real hourly wage of median male income earners in Canada increased by about 5%, while the wages of the highest male income earners increased by 12% and those of the lowest male income earners rose by 9%. [She](#) informed the Committee that, contrary to the polarization in male wages since the late 1990s, female wages at all earnings levels have been steadily approaching male wages, although female wages continue to lag those for males.

Other witnesses spoke about the role of **market forces** in increasing income inequality in Canada and around the world. According to some witnesses — including [Mr. Corak](#), the [TD Bank Financial Group](#), the [Frontier Centre for Public Policy](#), [Ms. Fortin](#) and [Edward J. Farkas](#), who provided his views as an individual — globalization and technological progress are widening the gap in employment earnings between very high income earners and very low income earners. According to them, with the globalization of production, manufacturing jobs in Canada have been outsourced to countries with relatively lower average wage rates. They noted that, at the same time, wage rates and employment levels have increased in Canada for workers in highly skilled occupations, especially in the information technology sector.

In terms of the impacts of globalization and technological change on Canada's labour force, [Mr. Corak](#) told the Committee that people who traditionally did routine tasks — whether they were physical or cognitive — experienced a reduction in the value of those skills, while the opposite was true for people who did non-routine tasks. Similarly, [Ms. Fortin](#) noted that globalization and technological change are resulting in the elimination of male-dominated jobs for those in the middle of the wage distribution, as lower-wage workers in other countries are replacing domestic workers; at the same time, women are being affected through reductions in the number of low-skill clerical jobs.

According to the [TD Bank Financial Group](#), the combination of more people with university degrees and high-skill jobs, and the decreasing number of low-skill jobs in Canada, is likely to lead to increased income inequality. As well, the [Frontier Centre for Public Policy](#) noted that the rise in demand for highly skilled labour as a result of global market forces is likely to continue, leading to significant gains in income for those who earn high incomes.

A number of the Committee's witnesses — including the [Canadian Union of Public Employees](#), [Ms. Fortin](#), the [Institut du Nouveau Monde](#) and [Mr. Walks](#) — identified **institutional forces**, such as declining unionization rates, stagnating minimum wage rates and deregulation of the workplace, as potential factors affecting income inequality. According to the [Canadian Union of Public Employees](#) and the [Broadbent Institute](#), equality and unionization rates are positively co-related; when unionization declines, income inequality is increased and the share of income going to the top 1% of income earners rises.

[Ms. Fortin](#) noted that the unionization rate among male workers declined from 47% in 1980 to 25% in 2012. [She](#) also explained that declining unionization rates contribute to the polarization of male earnings, as the wage premium associated with unionization is

highest at the lower end of the male wage distribution. [Ms. Fortin](#) also described the importance of minimum wages, especially for women and young workers, arguing that they alleviate rising wage inequality at the bottom of the income distribution.

The [Institut du Nouveau Monde](#) said that wage polarization has occurred at the same time as declines in rates of unionization and increases in competition as a result of freer trade. From the perspective of industrial sectors, [Mr. Walks](#) informed the Committee that polarization has occurred as globalization leads to the relocation of manufacturing jobs, and as declining rates of unionization reduce the pay of middle-income workers. [He](#) observed that adequately compensated middle-income jobs are disappearing, with growth in either high-income jobs in business services, finance, sales and management, or in low-income service jobs that have little protection or few benefits.

Some of the Committee's witnesses spoke about the role played by workplace deregulation in increasing income inequality. As explained by [Mr. Walks](#), deregulation and the reduction in the welfare state have removed a number of the protections for those who are unemployed, and have led low-income households to work longer hours for lower wages; at the same time, the incomes of senior executives have been rising. In relation to deregulation of the non-financial sector and executive compensation, [Richard Wilkinson](#), Emeritus Professor at the University of Nottingham who appeared as an individual, highlighted that — for the top 300 U.S. companies — executives earned about 25 or 30 times as much as the average production worker in 1980; by the early 2000s, executives earned about 300 to 400 times as much. Similar remarks were made by the [Institut du Nouveau Monde](#).

## CHAPTER FOUR: POTENTIAL IMPACTS OF INCOME INEQUALITY IN CANADA

Income inequality in a country can have a variety of impacts, including on economic growth, social integration, health, and cities, communities and neighbourhoods. The Committee's witnesses spoke about a number of these impacts.

### A. Background

According to the [Conference Board of Canada](#), "... high inequality can diminish **economic growth** if it means that the country is not fully using the skills and capabilities of all its citizens or if it undermines social cohesion, leading to increased social tensions. Second, high inequality raises a moral question about fairness and social justice." Mark Cameron, writing for [Canada 2020](#), has said that and "extreme income inequality, even where the least well-off are increasing their income levels, can undermine the sense of social cohesion needed for a democratic society"; similar comments have been made by [Action Canada](#).

As was shown in Table 1, and consistent with the conclusions reached by [Action Canada](#), the [Broadbent Institute](#), [TD Economics](#), and Ms. Fortin, Mr. Green, Mr. Lemieux, Mr. Milligan and Mr. Riddell in their aforementioned study, a polarization — or "hollowing out" — of middle-income earners has occurred in Canada. This phenomenon has been

found to exist in the United States as well, and is thought to be a threat to a sustainable economic recovery.

According to the [International Monetary Fund](#) (IMF) and the [OECD](#), the relationship between income inequality and economic growth is complex: although inequality can limit growth, some level of inequality is necessary to ensure that incentives exist for investment and growth.

The [IMF](#), the [OECD](#) and the [Canadian Centre for Policy Alternatives](#) note that rising income inequality may reduce people's borrowing opportunities and investments in human capital, both of which support the development of productive skills and entrepreneurial activity; the result of rising income inequality is reduced economic growth and potential, and a loss of long-run living standards.

According to some studies, continued growth in income inequality could have negative consequences for **social integration** that would affect all of society. In a [study](#) by Deloitte and the Human Resources Professionals Association, the worst-case scenario — a continuation of current trends in income inequality — would, by 2025, lead to a further widening of income inequality between lower and higher income quintiles; moreover, the number of disenfranchised individuals — those unemployed or with insecure and low-paying jobs — would have grown to become a group larger in size than those employed in secure and high-paying jobs. The study also suggests that unemployment and underemployment, and reduced labour force participation, would have given rise to an “us versus them” attitude, marginalized groups would have become organized and vocal, and — increasingly — Canadians might engage in protests and general strikes.

Similarly, in *The Spirit Level: Why Equality is Better for Everyone*, Richard Wilkinson and Kate Pickett — co-founders of the United Kingdom's The Equality Trust — suggest that income inequality is something about which all citizens and governments should be concerned. They argue that the quality of life is worse for everyone in societies in which there are wide disparities between those at the top of the income distribution and those at the bottom. As well, according to them, “[t]he evidence shows that reducing inequality [as measured by income disparities] is the best way of improving the quality of the social environment, and so the real quality of life, for all of us.”

Finally, in the view of Mr. Wilkinson and Ms. Pickett, income inequality is an indicator of the degree of “social hierarchy,” or the degree of connection among individuals within a society. They believe that social and health problems are more common at the bottom of the “social hierarchy” than at the top of the hierarchy, and are more common in more unequal societies.

## **B. Witness Views**

Some of the Committee's witnesses — such as the [Conference Board of Canada](#), the [Canadian Centre for Policy Alternatives](#) and the [Canadian Nurses Association](#) — shared their view that a high degree of income inequality can impede **economic growth**. The [Canadian Centre for Policy Alternatives](#) and the [Canadian Nurses Association](#)

referred to a 2011 IMF study, entitled *Inequality and Unsustainable Growth: Two Sides of the Same Coin?*. The study found that rising income inequality may reduce people's borrowing opportunities and investments in human capital, both of which support the development of productive skills and entrepreneurial activity; the result of rising income inequality is reduced economic growth and economic potential and a reduction in long-run living standards.

Similarly, [Mr. Wilkinson](#) indicated that most research on the link between income equality and economic growth suggests that greater equality leads to greater growth, partly because societies with a higher degree of income inequality have lower **social cohesion**. The [Institut du Nouveau Monde](#) argued that, when income inequality is too high, those who are rich lack the incentive to be more productive, to create jobs and to invest because the benefit of a marginal increase in income is not sufficient to encourage additional investment in the economy.

Other witnesses had a different point of view, with the [Conference Board of Canada](#), the [TD Bank Financial Group](#) and [Canada 2020](#) observing that moderate income inequality can have a positive impact on economic growth, as it leads to economic efficiency, innovation and entrepreneurship.

[Mr. Veall](#) mentioned research highlighting the low performance of Canada's corporate sector in relation to other countries, which he argued is the result of a weak commitment to shareholder accountability and a high rate of insider trading. According to [him](#), these factors might contribute to high executive compensation, and might make it hard for firms to raise capital or to replace ineffective corporate boards.

The [Canadian Medical Association](#), the [Canadian Nurses Association](#) and [United Way Toronto](#) informed the Committee about research showing that countries that report the highest population **health status** are those with the greatest income equality, not the greatest wealth. Similarly, the [Canadian Medical Association](#) stated that income inequality can result in health inequality, and said that individuals with incomes below the "poverty threshold" experience relatively higher rates of suicide, mental illness, disability, cancer, heart disease and chronic illnesses, such as diabetes; as well, these individuals are 1.9 times more likely to be hospitalized, are 60% less likely to get tested for a health condition, and are 3 times less likely to fill prescriptions because of the associated costs.

In terms of costs to the health care system, the [Canadian Medical Association](#) indicated that — according to one estimate — about 20% of total health care spending in Canada can be attributed to income disparities. [It](#) also referred to a 2011 study by the Saskatoon Poverty Reduction Partnership, which found that — over the course of a year — low-income residents had health care costs that were \$179 million higher than those of middle-income earners.

The [Canadian Council on Social Development](#) noted that if income inequality is not addressed, it will reduce social cohesion. According to [Patricia Rogerson](#), who provided her views as an individual, equality in a country benefits the government and the citizens.

[United Way Toronto](#) spoke about evidence from developed countries around the world, suggesting that higher rates of income inequality result in higher rates of social dysfunction at all income levels, not just in respect of those who are poor. According to [Robin Boadway](#), a professor at Queen's University who appeared as an individual, as Canada becomes more decentralized, groups of persons for whom the provinces are responsible have fallen behind and they obtain little support from the federal government. In [his](#) opinion, such imbalances threaten Canada's social fabric.

[Mr. Walks](#) said that Canadian **cities** are becoming more unequal and more polarized, with residents having either a high income or a low income. As well, [he](#) indicated that — over time — the incomes in each of the two groups will become more similar, while the differences between the groups will increase. A similar phenomenon was described by [Mr. Hulchanski and Mr. Murdie](#), who argued that — in their opinion — the polarization of incomes in Canada's large metropolitan areas over the 1970 to 2010 period was due to the decline of well-paid manufacturing jobs, the rising importance of highly paid managerial and professional employment, and the increased number of low-paid service jobs. According to [them](#), as a result of these changes, recent immigrants — especially those in “precarious jobs” at the lower end of the job spectrum — have difficulty establishing themselves in Canada. The [Canadian Centre for Policy Alternatives](#) mentioned research by the University of Toronto's Centre for Urban and Community Studies that showed that income inequality leads to people living in **neighbourhoods** that are either “rich” or “poor,” with fewer middle-class neighbourhoods. [It](#) also indicated that such neighbourhoods create problems for child development and the opportunities for children. According to [United Way Toronto](#), when the incomes earned by those at the bottom and in the middle of the income distribution are low, spending by these individuals is constrained, which affects the economic growth of local **communities**.

Regarding specific cities, the [Hamilton Roundtable for Poverty Reduction](#) highlighted a report that found that the poorest 20% of Hamiltonians received 5% of the total income earned by Hamilton residents, while the richest 20% received 41% of that income. According to [it](#), the report found that the richest 20% of Hamilton residents have approximately 8 times the amount of income of the poorest 20% of residents.

According to a number of the Committee's witnesses — such as [Atira Women's Resource Society](#), the [Canadian Association for Community Living](#), the [Face of Poverty Consultation](#) and [Canada Without Poverty](#) — high degrees of income inequality can have negative social consequences affecting all of society, although specific groups — such as women, youth, seniors, Aboriginal peoples, immigrants and persons with disabilities — tend to be more affected by social exclusion. According to the [C.D. Howe Institute](#), extreme inequality — including in terms of income, assets or wealth — leads to social unrest, as well as a lack of faith and trust in society.

As noted by the [Broadbent Institute](#), very unequal societies do much worse in terms of economic performance and social outcomes. Similarly, [Mr. Wilkinson](#) shared his view that, as income inequality in a society increases, social outcomes deteriorate rapidly when compared to those outcomes in societies with less income inequality.



[Poverty and Employment Precarity in Southern Ontario](#) told the Committee that a large gap between those who earn a high income and those who earn a low income can lead to an increased sense of social exclusion for those in “precarious” employment. As explained by [it](#), “precarious jobs” are becoming the “new normal” in the labour force. It referenced its recent study, which found that at least 20% of workers are employed in “precarious” forms of employment; this type of employment has increased by nearly 50% in the last 20 years.

[Ms. Rogerson](#) noted that families with lower incomes are living in neighbourhoods that have schools with lower academic success, which results in limited access to post-secondary educational opportunities, restricted economic mobility and equality, and limited inclusion in community growth and development.

## **CHAPTER FIVE: WITNESS VIEWS ON REDUCING INCOME INEQUALITY AND ITS IMPACTS IN CANADA**

The Committee’s witnesses presented a range of proposals designed to reduce income inequality and its impacts in Canada. In that regard, suggestions were made with respect to the federal tax and transfer systems, a variety of employment-related considerations, education, health and specific groups, including Aboriginal peoples, women, persons with a disability, seniors and people with housing challenges.

### **A. Federal Tax System**

In commenting on Canada’s federal tax system and income inequality, witnesses made proposals about tax rates, brackets, credits and deductions, taxation of various types of income, taxation in relation to those with low income, families, children and persons with a disability, and tax avoidance.

Regarding tax rates, brackets, credits and deductions, the [Wellesley Institute](#), the [Institut du Nouveau Monde](#), the [Broadbent Institute](#), [Campaign 2000](#), the [Canadian Association of Neighbourhood Services](#), [Canadians for Tax Fairness](#), [Economicinequality.ca](#), the [Face of Poverty Consultation](#) and [Mr. Corak](#) advocated higher marginal tax rates for individuals with high incomes as a means by which to increase the redistributive effects of Canada’s tax system. Moreover, in order to increase federal tax revenue, [Mr. Labonté](#), [Mr. Ruckert](#) and [Mr. Caldbick](#) called for additional tax brackets for the top 1%, 0.1% and 0.01% of income earners. [Canada Without Poverty](#) and the [Canadian Centre for Policy Alternatives](#) requested the creation of a new marginal tax rate of 35% for those earning \$250,000 or more.

Some witnesses were opposed to increases in marginal tax rates for individuals. The [Frontier Centre for Public Policy](#) speculated that an increase in personal income tax rates could have negative effects on economic growth, while the [Canada West Foundation](#) remarked that — as an alternative to higher taxes for the richest Canadians — measures to assist lower-income earners should be created.

[Mr. Veall](#) argued for the elimination of tax expenditures that are mainly used by the affluent and that have not been successful in meeting their objectives, while the [Institut du](#)

[Nouveau Monde](#) supported the elimination of tax credits that are used by high income earners. Similarly, the [Canadian Association of Neighbourhood Services](#) and [Economicinequality.ca](#) requested the elimination of — or limits on — tax expenditures that disproportionately benefit those who are wealthy, and [Mr. Boadway](#) advocated making all existing tax credits refundable for low-income individuals.

Some witnesses spoke about specific credits and deductions. [Mr. Veall](#) urged the elimination of the Children’s Arts Tax Credit and the Children’s Fitness Tax Credit, which he believed would result in an additional \$220 million in federal tax revenue. [Canadians for Tax Fairness](#) requested a reduction in tax deductions that it characterized as benefitting the rich, such as the limit on registered retirement savings plans (RRSP) contributions and the stock option deduction that is used by less than 1% of taxpayers. The [Face of Poverty Consultation](#) called for the transformation of certain tax deductions, such as those for contributions to pension plans and RRSPs, into tax credits.

Witnesses supported a range of changes to the taxation of various types of income. Regarding investment income, [Mr. Boadway](#) characterized the dividend tax credit as a subsidy for shareholder income, and suggested the elimination of this credit and — instead — the taxation of dividends, capital gains and interest at similar rates. [Mr. Corak](#) supported an examination of the elimination of the favourable tax treatment of capital gains; as well, [he](#) argued that all sources of income should be taxed in the same manner. The [Institut du Nouveau Monde](#) requested the elimination of favourable treatment of capital gains, and the [Canadian Association of Neighbourhood Services](#) and [Economicinequality.ca](#) advocated the taxation of capital, including capital gains, at the same rate as employment income.

In speaking about the taxation of corporate income, [Mr. Boadway](#) called for changes to the taxation of corporate income, and proposed a tax on “supernormal” profits. [He](#) also cited several international studies that advocate taxation of “above-normal” profits, and a deduction for equity and debt financing. [Mr. Corak](#) noted that corporate taxation of profits from the natural resources sector could be used to finance redistribution from higher income to lower income earners.

Regarding the taxation of savings, the [Canadian Centre for Policy Alternatives](#) requested that the Tax-Free Savings Account program not be expanded; the [Canadian Association of Neighbourhood Services](#) and [Economicinequality.ca](#) proposed elimination of — or limits on — the program. [Ms. Robson](#) suggested that savings programs should be made more progressive through refundable tax credits for savers, as well as through improved accessibility to the Canada Education Savings Grant and registered disability savings plans.

[Canadians for Tax Fairness](#) requested the creation of an inheritance tax, to be applied on amounts exceeding \$5 million. [It](#) argued that this measure, which should not be applied on family farms, could lead to an increase of \$1.5 billion per year in federal tax revenue. Similarly, [Mr. Corak](#) suggested the creation of an inheritance tax to be applied on amounts above a certain threshold. However, [he](#) also said that — in the absence of an inheritance tax — a capital gains tax should be created in relation to the sale of a principal

residence valued above a certain threshold. Other witnesses also advocated the creation of an inheritance or wealth tax, including [Economicinequality.ca](#), the [Face of Poverty Consultation](#), the [Canadian Association of Neighbourhood Services](#), the [Canadian Centre for Policy Alternatives](#) and [Mr. Boadway](#).

The Committee's witnesses made a variety of comments about taxation in relation to specific groups, including those with low income, families and children. A number of witnesses felt that the WITB should be changed. For example, the [Canadian Association of Neighbourhood Services](#) called for an increase in the WITB, and [Mr. Corak](#) suggested that the level of benefits under the WITB should be increased to an amount that results in eligible Canadians having one half of the nation's median income. [He](#) also suggested an increase in the income ceiling so that WITB eligibility would be extended to lower-middle income families, and an annual increase in the WITB based on growth in gross domestic product per capita or some other index.

Similarly, the [Frontier Centre for Public Policy](#) requested an increase in WITB benefits, and argued that the increase could be funded through the elimination of tax deductions that benefit the affluent.

[Citizens for Public Justice](#) advocated an increase in the WITB for unattached working-age individuals and an expansion in eligibility to include all households with earned income below the after-tax low income cut-off.

The [Broadbent Institute](#) proposed a significant increase in the WITB to support the working poor and individuals with "precarious" work, while [Canadians for Tax Fairness](#) suggested an increase in WITB benefits to assist working poor families who have never received social assistance.

[Ms. Rogerson](#) supported an exemption from income taxation for individuals with income below the "poverty line."

[Kathleen A. Lahey](#) requested a gender impact analysis of the *Income Tax Act* provisions that treat spouses and common-law couples as interdependent and integrated tax units, and that affect eligibility for federal and provincial/territorial support programs. Regarding income splitting for tax purposes, the [Canadian Centre for Policy Alternatives](#) argued that income splitting for families with young children should not be permitted, as it could increase income disparities between families.

The [Broadbent Institute](#) proposed an increase in the maximum level of support provided through the CCTB and the NCBS so that the combined amount would equal the full cost of raising a child; according to [it](#), the benefit increases could be funded through elimination of the Universal Child Care Benefit (UCCB). [Campaign 2000](#) and [Citizens for Public Justice](#) suggested an increase in the combined maximum annual level of the CCTB and the NCBS to \$5,400 per child, with revenue obtained through elimination of the UCCB and the Children's Fitness Tax Credit used to fund the increased benefits. The [Women's Action Alliance for Change Nova Scotia](#) and [Canadians for Tax Fairness](#) advocated an increase in the maximum annual CCTB benefit to \$5,400 per child; in the view of

[Canadians for Tax Fairness](#), the increase could be funded through the elimination of the UCCB. The [Frontier Centre for Public Policy](#) proposed that eligibility for the UCCB be limited through a means test, with resulting savings allocated to low-income parents.

## **B. Federal Transfers to the Provinces/Territories**

In speaking about transfers to the provinces/territories, witnesses focused on such issues as enforcement, accountability and standards for the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). The [Broadbent Institute](#) proposed that conditions in relation to the use of funds be imposed on additional federal funding, while the [Canadian Association of Social Workers](#) commented on the lack of provincial accountability for the delivery of services, and made a variety of requests: the creation of an accountability framework that includes a process for reporting and enforcing conditions; specific objectives and standards for the flexible delivery of services; and an overall vision or national strategies to ensure that social programs meet the needs of Canadians. The [Canadian Federation of University Women and YWCA Canada](#) advocated the reinstatement of legally enforceable standards for social assistance, such as those that existed under the Canada Assistance Plan.

Regarding the calculation of federal transfer payments, [Mr. Boadway](#) proposed that the Equalization system return to a formula-based approach, that the CST grow at the average rate of growth of provincial program spending, and that the CHT and CST cash contributions be adjusted based on provincial revenue capacities. The [Atira Women's Resource Society](#), the [Women's Action Alliance for Change Nova Scotia](#), and [Mr. Labonté, Mr. Ruckert and Mr. Caldbick](#) advocated an increase in the CST to address economic inequality through social assistance.

According to [Mr. Veall](#), equal access to high-quality schooling and prenatal health has resulted in high intergenerational mobility in Canada. [He](#) noted that provincial budget reductions may hamper such mobility, and urged the federal government to work with the provinces, perhaps through the new Equalization formula, to ensure that the provinces continue to deliver high-quality education to individuals, regardless of socioeconomic status.

Regarding a new transfer specifically for education, [Mr. Boadway](#) suggested the creation of a post-secondary transfer that would be similar to the CHT and the CST. [Campaign 2000](#) requested \$1.3 billion for a new transfer to assist the provinces in providing publicly managed, owned and funded early childhood education and child care.

The [Broadbent Institute](#) called for the replacement of provincial/territorial social assistance programs with a federal income support program for working-age adults, delivered as a negative income tax.

## C. Employment Factors

In speaking about employment-related proposals that they believe would reduce income inequality and its impacts in Canada, witnesses focused on early learning and child care, EI benefits, active labour market measures, labour mobility and labour standards.

A number of witnesses supported the development of a national, publicly funded child care program, which is thought to facilitate labour market participation. In particular, the [Women's Action Alliance for Change Nova Scotia](#), [Generation Squeeze](#), the [Social Planning Council of Winnipeg](#), the [Canadian Federation of University Women and YWCA Canada](#), the [Child Care Advocacy Association of Canada](#), and [Mr. Labonté, Mr. Ruckert and Mr. Caldbick](#) supported the creation of such a program.

In commenting on improvements to the EI system, [Mr. Boadway](#) highlighted the need to coordinate the functioning of the EI program with provincial social assistance programs to eliminate gaps in coverage and facilitate a smoother transition between the two programs. In particular, [he](#) advocated the establishment of a two-tiered system to eliminate the tendency to move from EI to social assistance, as EI eligibility can change based on such factors as thresholds for hours worked, payment of EI premiums, disability status and transition to retirement. According to [him](#), one tier would be available based on the current system for those who are unemployed on a short-term basis, while benefits would be provided on the basis of need for those unemployed over a longer period. To fund this initiative in an “effective” and “fair” manner, [he](#) argued that the EI program should be financed from general federal revenue rather than through a payroll tax, which he characterized as more regressive.

Regarding the effects of globalization, automation and the transition from low- to high-skill jobs, [Mr. Corak](#) proposed that part of the EI program be modified to become a form of wage insurance to meet the needs of longer-tenured workers affected by permanent layoffs in their sector or industry. As well, [he](#) argued for tax reforms that would permit individuals to average their earnings over a period of several years so that earnings and the accompanying taxes owing would fluctuate less over time. Moreover, [he](#) suggested that the EI system should be modified to include a lifetime “bank” of leave credits that parents could access for family reasons.

In relation to active labour market measures, [Ms. Rogerson](#), the [Institut du Nouveau Monde](#), and [Mr. Labonté, Mr. Ruckert and Mr. Caldbick](#) called for better coordination between worker training and the EI program through increased federal support allocated to EI Labour Market Development Agreements with the provinces, and to non-EI-related programs that support training and skills development.

The [Canada West Foundation](#) commented on labour mobility, indicating that federal efforts to address income inequality should not interfere with interprovincial labour mobility. [It](#) argued that, in addition to removing barriers to labour mobility, the government should focus on meeting the needs of employers where the excess demand for skilled workers is greatest, most notably in resource extraction industries in Canada’s western

provinces. According to [it](#), the federal tax credit for moving expenses for workers making a significant work-related move to other parts of the country should be maintained.

Some witnesses — including [Ms. Fortin](#), the [Broadbent Institute](#), the [Canadian Union of Public Employees](#), [Generation Squeeze](#) and [Mr. Hulchanski and Mr. Murdie](#) — highlighted the issue of labour standards, and suggested that — as a means of reducing the gap between the wages of the highest and the lowest income earners — the government should adopt policies that improve these standards and that are more supportive of the collective bargaining and union certification processes.

A number of the Committee's witnesses — including [Ms. Fortin](#), the [Women's Action Alliance for Change Nova Scotia](#), the [Canadian Association of Neighbourhood Services](#), the [Broadbent Institute](#), [Canada Without Poverty](#), and [Mr. Labonté, Mr. Ruckert and Mr. Caldbick](#) — commented on the need for adequate wages for low-income earners, arguing that the federal government should work with provincial/territorial governments in re-establishing an adequate federal minimum wage that reflects the cost of living by region and that increases over time to compensate for inflation.

In terms of improving non-wage labour standards, [Generation Squeeze](#) supported extending EI parental leave from 12 months to 18 months, and reducing the work hours of dual-earner families from 80 hours to 70 hours per week through adaptations to both overtime and employer-paid EI and Canada Pension Plan (CPP) premiums to make it less costly for businesses to employ workers up to 35 hours per week and more costly for them to do so for hours in excess of this amount. [Ms. Robson](#) requested that the federal government, in cooperation with provincial governments, explore avenues for ensuring the portability of non-wage benefits — such as pensions, disability insurance, and health and dental benefits — for Canadians who transition from secure jobs that provide such benefits to less secure jobs that do not.

As well, [Mr. Labonté, Mr. Ruckert and Mr. Caldbick](#) proposed that the federal government review its current austerity measures, arguing that expanding public-sector employment during an economic recession would have a much greater effect on growth than does attempting to increase economic growth through the tax system.

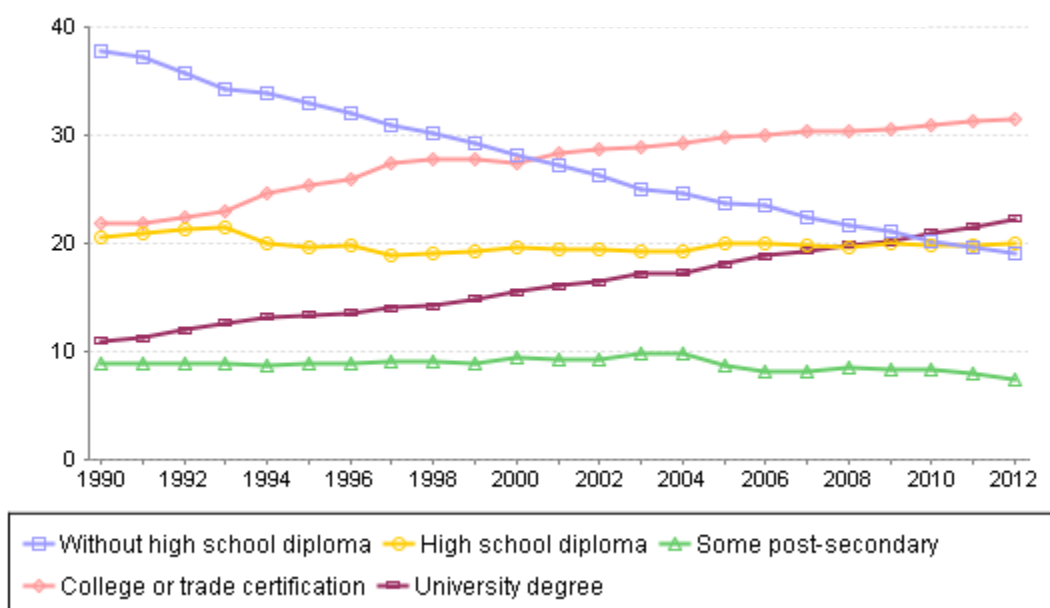
#### **D. Education**

Witnesses proposed a variety of measures related to education that, in their view, would reduce income inequality and its impacts in this country. In particular, they commented on post-secondary education, financial literacy and early childhood education.

According to [Ian Lee](#), a professor at Carleton University who appeared as an individual, the government should focus its efforts on encouraging the 45% of Canadians without a post-secondary education to return to school. He provided the Committee with a figure showing, for the 1990–2012 period, the highest level of educational attainment for individuals 15 years of age and older; an updated version of this figure appears as Figure 13.

The [Women's Action Alliance for Change Nova Scotia](#) called for the creation of a new federal transfer that would enable reduced tuition fees, while the [Frontier Centre for Public Policy](#) supported an increase in funding for student loan and grants programs, but with a focus on low-income individuals. Similarly, [Mr. Boadway](#) advocated an increase in the amount of the Canada Learning Bond, and argued that education-related tax credits should be conditional on low parental income. The [Hamilton Roundtable for Poverty Reduction](#) also spoke about the Canada Learning Bond, proposing that it be provided automatically to eligible families when tax returns are filed.

**Figure 13 — Highest Level of Educational Attainment of Individuals, 15 Years of Age and Older, Canada, 1990—2012 (%)**



Source: Updated version of a figure provided to the House of Commons Standing Committee on Finance by Ian Lee, Carleton University, 25 April 2013.

A number of groups spoke about the role that financial literacy could play in reducing income inequality, with the [Social and Enterprise Development Innovations](#) proposing the creation of on-line tools that would promote federal savings and grants programs, and that would provide low-income Canadians with sufficient information to facilitate the selection of the savings or investment products most suited to their needs. In addition, [it](#) said that the government should work with stakeholders to improve the promotion, delivery and design of federal savings programs and to explore ways to make basic financial services available in remote communities. According to [it](#), the government should also work with financial institutions to ensure that their staff is sufficiently trained and consequently able to provide low-income Canadians with accurate and beneficial information and advice.

[Ms. Robson](#) supported increased investments in financial literacy, as well as the provision of personalized information and guidance when federal programs, such as Canada Student Loans and the EI program, are delivered. [She](#) also advocated, in partnership with the private and voluntary sectors, the development of a cross-country network of not-for-profit service centres that would provide accessible, unbiased and relevant financial information and guidance.

The [TD Bank Financial Group](#) and [Canada 2020](#) pointed out that high-quality early childhood education can be very beneficial for the development of children, as well as for society and the economy in general; they indicated the need for additional investments in this area.

## **E. Health**

In discussing health-related issues in the context of income inequality, the Committee's witnesses commented on health impact assessments, access to medication and care, and support for informal caregivers.

The [Canadian Medical Association](#) and the [Canadian Nurses Association](#) proposed that, in making decisions, the federal Cabinet undertake a health impact assessment to ensure that proper consideration is given to the potential economic and social impacts of new federal policies and programs on health outcomes. The [latter](#) noted that such an assessment was recommended by the Subcommittee on Population Health of the Standing Senate Committee on Social Affairs, Science and Technology in its June 2009 report, entitled [\*A Healthy, Productive Canada: A Determinant of Health Approach\*](#).

Regarding access to medication and care, the [Canadian Medical Association](#), the [Canadian Nurses Association](#) and the [Women's Action Alliance for Change Nova Scotia](#) supported the creation of a national, comprehensive program of prescription drug coverage to ensure access to medically necessary drug therapies for all Canadians, while the [Canadian Medical Association](#) and the [Canadian Nurses Association](#) urged governments to explore ways to increase access to rehabilitation, mental health, home care, long-term care and end-of-life care services for low-income Canadians.

Finally, the [Canadian Medical Association](#) proposed that the government expand programs for informal caregivers dealing with emergency situations, and increase the Family Caregiver Tax Credit to reflect better — through consideration of accurate labour market rates — the annual cost of a family caregiver's time.

## **F. Specific Groups**

The Committee's witnesses commented on how income inequality affects specific groups, such as Aboriginal peoples, women, persons with a disability, seniors, and people with housing challenges.

In the context of **Aboriginal peoples** and income inequality, witnesses made proposals in relation to increasing financial autonomy for First Nations peoples, creating a



better educational system on First Nations reserves, and violence against women in First Nations and other communities.

Regarding increased financial autonomy for First Nations peoples, the [First Nations Tax Commission](#) suggested the enactment of a First Nations property ownership act that would establish First Nation ownership and jurisdiction over reserve lands, and that would reduce income inequality for First Nations by facilitating economic development on those lands. As well, the [First Nations Tax Commission](#) and the [Assembly of First Nations](#) proposed measures to ensure greater financial autonomy for First Nations, such as through a more structured First Nations tax system, the development of infrastructure, investment and entrepreneurial opportunities — especially in relation to natural resources — and greater involvement in negotiations on fiscal arrangements and resource revenue-sharing agreements with federal and provincial/territorial governments.

To provide a better educational system on First Nations reserves, the [Assembly of First Nations](#) and [Ms. Fortin](#) argued that the government should more actively pursue the development of a First Nations on-reserve educational system that would be similar in quality and effectiveness to educational systems in non-First Nation communities across Canada.

The [Women's Action Alliance for Change Nova Scotia](#) informed the Committee about the need to implement national strategies to address the issue of violence against women in First Nations communities and across Canada, and proposed the establishment of a national public inquiry into missing and murdered Aboriginal women.

In commenting about gender aspects of income inequality, witnesses commented on the experiences of **women**, and made suggestions in relation to gender-based analysis in policy-making, and pay and employment equity.

The [Canadian Federation of University Women and YWCA Canada](#) called for greater consideration of gender issues in federal policy-making through implementation of the recommendations in the February 2009 report of the House of Commons Standing Committee on the Status of Women, entitled [\*Towards Gender Responsive Budgeting: Rising to the Challenge of Achieving Gender Equality\*](#). Similarly, in order to assist in the identification of the impacts of new federal policies and programs on women, the [Women's Action Alliance for Change Nova Scotia](#) supported implementation of the recommendations in the 2009 Report of the Auditor General of Canada on gender-based analysis, including the provision of additional resources to conduct gender-based analysis in all federal departments and agencies.

Regarding the gender gap in pay, the [Women's Action Alliance for Change Nova Scotia](#), and the [Canadian Federation of University Women and YWCA Canada](#), advocated the implementation of the recommendations of the Pay Equity Task Force, including the adoption of proactive pay equity legislation, and the establishment of a system to achieve and maintain equal pay for work of equal value. The [Canadian Federation of University Women and YWCA Canada](#) argued for the adoption of a national pay equity policy, and an

employment equity policy to promote the entry and advancement of women in male-dominated fields, such as science and engineering.

Witnesses made a variety of proposals that would increase federal assistance to **persons with a disability**, including in relation to the federal role in providing assistance, employment, tax measures and CPP disability benefits.

The [Canadian Association for Community Living](#) suggested the creation of a national plan to improve community inclusion and accessibility for persons with disabilities that would enhance disability supports to enable independent living. As well, [it](#) proposed a federal/provincial/territorial ministers conference to explore an expanded federal role in income support for Canadians with disabilities.

Regarding the employment of persons with a disability, the [Council of Canadians with Disabilities](#) requested the development of a five-year strategic plan to address the employment needs of such persons, and made particular mention of the creation of a technical advisory committee to provide community input. [It](#) also advocated the establishment of performance indicators within federal-provincial/territorial Labour Market Agreements to highlight the employment initiatives in relation to persons with a disability.

In commenting on tax measures to assist persons with a disability, [Mr. Boadway](#) proposed expanding eligibility for the federal disability tax credit to include individuals receiving provincial disability benefits, while the [Canadian Association for Community Living](#) suggested that the disability tax credit should be refundable. [Citizens for Public Justice](#) advocated a basic income program for persons with a disability, in an amount at or above the relevant LICO, that would be administered through the federal tax system.

The [Parent Support Services Society of British Columbia](#) argued for an examination of the termination of CPP disability benefits for dependent children when either of two situations arises: upon reassessment, or when the recipient attains the age of 65; the examination should include a study of the effects on caregivers for young children. [Womens Centres Connect](#) requested an increase in CPP disability benefits to at least the amount of the appropriate pre-tax LICO, determined according to the beneficiary's family size and area of residence.

The Committee's witnesses also spoke about income inequality and Canada's **seniors**, and made proposals about Old Age Security (OAS) and GIS payments, and CPP benefits; more general pension-related comments were also made.

In relation to the OAS program, [Womens Centres Connect](#) and [Canadians for Tax Fairness](#) advocated an increase in OAS benefit levels and/or support provided through the Allowance; according to the [latter](#), higher OAS and GIS benefits could be funded through reallocation of the federal fiscal cost associated with RRSPs and occupational pension plans, and benefits should be available at age 65; the age of eligibility for benefits was also identified by the [Canadian Nurses Association](#), which suggested that the change announced in the 2012 federal budget in this regard should be revisited. Moreover, [Womens Centres Connect](#) urged the elimination of residency requirements in

relation to the OAS program, and [Mr. Richardson](#) shared his view that consideration could be given to reducing the phase-out threshold; the federal fiscal savings that result could be used to assist those with low income.

A number of witnesses advocated an increase in the amount of GIS benefits, including the [Broadbent Institute](#), [Canadians for Tax Fairness](#) and the [Women's Action Alliance for Change Nova Scotia](#). [Womens Centres Connect](#) made a variety of proposals in relation to the GIS program, and argued for improved outreach to encourage timely renewal of benefits, an end to the suspension of benefits when tax returns are filed late, automatic receipt of benefits when OAS benefits becomes payable, an increase in allowable earnings before benefits begin to be reduced, the elimination of residency requirements and changes in the definitions of “income.”

Regarding the CPP, the [Women's Action Alliance for Change Nova Scotia](#), [Canadians for Tax Fairness](#) and [Womens Centres Connect](#) suggested an increase in the replacement rate, with [Canadians for Tax Fairness](#) proposing that the increase be funded through increased employee and employer contributions.

[Womens Centres Connect](#) supported changes in relation to the year’s basic exemption, the introduction of a tax credit to compensate for higher contributions, the provision of information about credit splitting and child drop-out provisions, the creation of drop-out provisions in relation to caregiving and to recognize unpaid work, and measures related to credit splitting, including following marital breakdown.

Finally, [Womens Centres Connect](#) was opposed to privatization of the public pension system, supported strengthened public pensions, argued for pensions that are fully indexed to changes in wages rather than to changes in prices, and proposed an analysis of the benefits of alternative methods by which to accumulate savings for retirement, including tax pre-paid savings plans, with measures to encourage the use of the most efficient and equitable methods for saving.

In commenting on income inequality and **people with housing challenges**, witnesses made proposals in relation to housing for selected groups and housing co-operatives.

The [Atira Women’s Resource Society](#), [YWCA Hamilton](#) and the [Women's Action Alliance for Change Nova Scotia](#) called for a national housing strategy with a gender component. The [Women's Action Alliance for Change Nova Scotia](#) requested that the national strategy include a gender analysis to address the particular needs of women most at risk for homelessness, and increased funding to address the needs of economically insecure women — including single mothers, women leaving abusive relationship, those at risk of homelessness, and Aboriginal and immigrant women — for affordable housing.

The [Canadian Nurses Association](#) advocated the creation of affordable housing for individuals with physical, cognitive and/or mental health challenges, while the [Women's Action Alliance for Change Nova Scotia](#) requested \$2 billion in federal funding for

affordable housing and a substantial federal investment to address First Nations housing on and off reserve.

The [Canadian Association of Neighbourhood Services](#) and [Economicinequality.ca](#) supported the creation of a national housing benefit.

Finally, the [Canadian Co-operative Association](#) proposed that the federal government support the use of co-operatives for the delivery of not-for-profit low-income housing in a manner that would provide a stronger “voice” and more control to residents.

## **CHAPTER SIX: COMMITTEE RECOMMENDATIONS**

**The Committee recommends:**

### **Youth/Equality of opportunity**

- 1) That the federal government continue to create strong conditions for economic growth and job creation to reduce poverty among youth and young adults, and continue to enact measures that support Canadian families.**
- 2) That the federal government continue to ensure equality of opportunity for all Canadians, especially youth graduating from high school.**
- 3) That the federal government continue to examine ways to remove barriers to opportunity and employment for low-income Canadians.**

### **First Nations**

- 4) That the federal government move forward with a First Nations property ownership act in order to provide Aboriginal Canadians with the same property rights as other Canadians.**
- 5) That the federal government continue to help First Nations to build infrastructure, facilitate local investment and encourage entrepreneurship.**
- 6) That the federal government continue to ensure that First Nations participate and share in the economic successes of resource development projects throughout Canada.**
- 7) That the federal government continue to work with First Nations to address our shared priority of improving First Nations educational outcomes, and to fulfill the federal commitment to having in place, for September 2014, a First**

**Nations education act while also exploring mechanisms to ensure stable, predictable and sustainable funding for First Nations education.**

### **Education**

- 8) That the federal government continue to bring greater awareness to post-secondary support available to Canadians, especially skills training in colleges, trade schools, polytechnics and institutes of technology.**
- 9) That the federal government continue to promote the benefits of working in the skilled trades as high-paying and economically important professions.**
- 10) That the federal government continue to encourage youth to complete their high school education, and continue to support programs and organizations that help youth finish school and gain important skills, such as Pathways to Education and the Canadian Youth Business Foundation.**
- 11) That the federal government take steps, in consultation with the provincial and territorial governments, to make early childhood education and child care more accessible and affordable in all areas of the country, including through increased support for affordable early childhood education and care programs.**

### **Newcomers**

- 12) That the federal government, working with the provinces and territories, continue to improve the successful economic integration of immigrants, and continue to eliminate professional barriers for newcomers through continued work on improved foreign credential recognition.**

### **Tax system**

- 13) That the federal government reaffirm its already strong commitment to keeping taxes low and to not impose punishing, higher personal or business tax rates that would harm economic growth for all Canadians.**
- 14) That the federal government continue to aggressively close tax loopholes and develop tax legislation to curb egregious forms of tax avoidance.**

- 15) That the federal government formally review the Working Income Tax Benefit to determine how it could be expanded or modified to further benefit Canadians and further incent workforce attachment, subject to the government's stated intention to balance the budget in the medium term.

#### **Financial regulations**

- 16) That the federal government, within the parameters set by the Supreme Court of Canada, continue to work collaboratively with the provinces and territories to establish a cooperative capital markets regulatory system to promote economic growth and better protect small investors.

#### **Trade/manufacturing/labour markets**

- 17) That the federal government work with the provinces and territories to remove barriers to interprovincial and interterritorial trade in order to encourage labour mobility.
- 18) That the federal government continue to work with the provinces and territories, and employers, to develop and implement the Canada Job Grant.
- 19) That the federal government continue to encourage measures to create a sustainable and robust resource sector, to support the manufacturing sector, and to implement active pro-growth measures that will boost employment and create high-wage jobs.
- 20) That the federal government continue to ensure that Canada maintains its reputation as an attractive investment environment, and continue to work toward eliminating barriers to international trade through the signing of trade agreements.
- 21) That the federal government take measures to ensure a sustainable resource sector, to support the manufacturing sector and to boost employment and create high-quality, high-wage jobs across the country.

## **Government supports**

- 22) That the federal government reaffirm its commitment, as it seeks to return to budgetary balance, not to reduce transfers to persons, including those for seniors and children, or transfers to other levels of government in support of health care and social services, the Equalization Program and the gas tax transfer to municipalities.**
- 23) That the federal government continue to work to remove disincentives for all Canadians to work.**
- 24) That the federal government, working with the provinces and territories, ensure continued support for those for whom substance abuse may be a barrier to employment.**





# APPENDIX A — PERSONAL INCOME TAXATION AND SUPPORT IN CANADA

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## Taxable Income and Tax Rates

Personal income taxes are imposed by both the federal and provincial/territorial governments. The federal government defines taxable income in the *Income Tax Act* (ITA), and the tax rates in the ITA are applied on personal income. All provinces/territories calculate provincial/territorial tax as percentage of taxable income as it is defined federally.

Under section 3 of the ITA, individuals who are resident in Canada are liable for tax on their income from all domestic and foreign sources. For example, income from employment, business and property is subject to tax, including interest and dividends. Certain benefits are tax-exempt but are reported for income tax purposes, such as the federal Child Tax Benefit, the Goods and Services Tax/Harmonized Sales Tax Credit and provincial/territorial social assistance payments.

Federal and provincial/territorial<sup>1</sup> tax rates are progressive: tax rates increase with higher income earned, and income is taxed at different rates in accordance with various income thresholds, or tax brackets; the tax brackets vary across federal and provincial/territorial jurisdictions. Total tax payable is calculated by multiplying the tax rates by the income earned in the corresponding bracket.

For illustrative purposes, Table A.1 lists the rates of tax and the amount of tax payable that would apply on \$130,000 of employment income earned by a taxpayer living in Nunavut for 2011 (no deductions or credits are applied).

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1 Alberta levies a single rate of 10%.

**Table A.1 — Applicable Tax Rates and Tax Payable on \$130,000 of Employment Income Earned by an Individual Resident in Nunavut, 2011 Taxation Year**

<b>Federal</b>		
<b>Income Bracket (\$)</b>	<b>Tax Rate (%)</b>	<b>Tax Payable (\$)</b>
0–41,544	15.00	6,231.60
41,545–83,088	22.00	9,139.46
83,089–128,800	26.00	11,884.86
128,801 and above	29.00	347.71
<b>Territorial</b>		
<b>Income Bracket (\$)</b>	<b>Tax Rate (%)</b>	<b>Tax Payable (\$)</b>
0–39,612	4.00	1,584.48
39,613–79,224	7.00	2,772.77
79,225–128,800	9.00	4,461.75
128,801 and above	11.50	137.89
		<b>Total Tax Payable \$36,560.52</b>

Source: Table prepared using information found in Richard Pound, *Stikeman Income Tax Act Annotated 2011*, 50<sup>th</sup> ed., Carswell, Toronto, 2011.

In comparing tax rates and income, the level of taxation applied on each additional amount of income — or the marginal tax rate — is sometimes used. In the Nunavut example in Table A.1, above, if the person earned \$128,800 instead and received additional income of \$1,200, the additional federal and territorial tax payable on that income is \$485.60 resulting in a marginal tax rate of 40.5% (\$485.60 divided by \$1,200).

## **Income Support**

### **A. Federal Benefits in the *Income Tax Act***

Income support may be provided to individuals indirectly through the tax system, specifically through deductions and two types of credits: refundable or non-refundable. Most federal tax credits are non-refundable and reduce the taxpayer's tax payable in that taxation year.<sup>2</sup> For example, the ITA contains non-refundable personal credits that provide tax relief for families and for certain personal circumstances.<sup>3</sup>

For the July 2013 to June 2014 period, the refundable Goods and Services Tax/Harmonized Sales tax credit<sup>4</sup> provides \$265 per adult and \$139 per dependant under

2 A refundable tax credit results in a payment to a taxpayer regardless of the level of tax payable for a given taxation year.

3 S. 118 of the *Income Tax Act*. A credit is provided for dependents and for individuals with a disability.

4 S. 122.5 of the *Income Tax Act*.

age 19, with a supplementary credit for single adults that is phased in at a rate of 2% of net income exceeding \$8,608, to a maximum of \$139. For the 2012 taxation year, the total credit is reduced by 5% of net family income exceeding \$34,561.<sup>5</sup>

For the July 2013 to June 2014 period, the refundable Canada Child Tax Benefit (CCTB)<sup>6</sup> provides a basic benefit is \$1,433 for each child in a family under the age of 18, and a supplement of \$100 for the third and each additional child. The total CCTB payable is reduced by a fixed percentage of net family exceeding \$43,561. For one-child families, the reduction is 2% of income; for families with two or more children, the reduction is 4% of income exceeding this threshold.<sup>7</sup>

The refundable National Child Benefit Supplement (NCBS) is available to CCTB recipients that have low income. For the July 2012 to June 2013 period, the monthly NCBS is \$181.41 for the first child, \$160.50 for the second child and \$152.66 for each additional child. The NCBS is reduced by a specified percentage<sup>8</sup> of net family income exceeding \$24,863.<sup>9</sup>

The refundable Working Income Tax Benefit (WITB),<sup>10</sup> which is designed to assist families and individuals when they leave social assistance by replacing the reduction in social assistance benefit as a result of employment income, is available when “working income”<sup>11</sup> exceeds \$3,000.<sup>12</sup> In the 2011 taxation year, the maximum benefit for an individual was \$944<sup>13</sup>; the maximum benefit for a family was \$1,714.<sup>14</sup>

## **B. Federal Benefits Not Provided Through the Tax System**

The basic Old Age Security (OAS) is a flat-rate, monthly, taxable<sup>15</sup> benefit payable to individuals 65 years of age or older who meet the residency requirements.<sup>16</sup> In 1989,

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5 Canada Revenue Agency, [Goods and services tax/harmonized sales tax \(GST/HST\) credit payment amounts tax years 2010 to 2012](#).

6 S. 122.6 of the *Income Tax Act*.

7 Canada Revenue Agency, [Canada child tax benefit \(CCTB\) payment amounts tax years 2012](#).

8 For families with one child, the reduction is 12.2% of the amount of the adjusted family net income that exceeds \$24,863; for families with two children, the reduction is 23%. For families with three or more children, the reduction is 33.3% of the amount of the adjusted family net income that exceeds \$24,863.

9 Canada Revenue Agency, [Canada Child Benefits](#).

10 S. 122.7 of the *Income Tax Act*. Also see: Canada Revenue Agency, [Working income tax benefit \(WITB\)](#).

11 “Working income” is income from employment or a business.

12 \$2,760 in Alberta, \$4,750 in British Columbia and \$6,000 in Nunavut.

13 \$1,030 in Alberta, \$1,173 in British Columbia and \$592 in Nunavut.

14 \$1,545 in Alberta, \$1,714 in British Columbia and \$1,183 in Nunavut.

15 *Income Tax Act*, R.S.C. 1985 c. 1 (5<sup>th</sup> Supp.), subparagraph 56(1)(a)(i)(A).

16 OASA, Part I.

the OAS Recovery Tax was introduced into the ITA, with the result that higher-income OAS pensioners must repay 15 cents of their OAS benefit for every dollar of their “adjusted income” that exceeds a certain threshold.<sup>17</sup>

The Guaranteed Income Supplement (GIS) is a monthly, non-taxable<sup>18</sup> benefit paid to OAS beneficiaries living in Canada who have little or no other income; in particular, the OAS beneficiary’s income, or the combined income of the beneficiary and his/her spouse or common-law partner, must be below the net income cut-off level.<sup>19</sup> The amount of an OAS beneficiary’s GIS benefit, which is reduced by 50%<sup>20</sup> when annual earnings exemption<sup>21</sup> is exceeded, may rise or fall over time with changes in yearly net income as reported on the beneficiary’s tax return and that of his/her spouse or common-law partner.

With a few exceptions, “income” is defined in the same manner for both GIS and federal income tax purposes. While there is an annual earnings exemption of \$3,500<sup>22</sup> and the OAS benefit is not included in income, income — for GIS purposes — includes any other money received by an OAS beneficiary and his/her spouse or common-law partner. In particular, it can include an earnings-related retirement pension, annuity amounts,

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17 *Income Tax Act*, R.S.C 1985, c. 1 (5th Supp.), Part I.2, subsection 180.2(1) “adjusted income.” For 2013, the Recovery Tax applies at a net income level of \$70,954, including the OAS pension, and the OAS pension is entirely recovered when net income exceeds \$114,640. Also see: Service Canada, *The Old Age Security Pension*, [http://www.servicecanada.gc.ca/eng/isp/pub/oas/oas\\_pension/index.shtml#oas-pension-taxable](http://www.servicecanada.gc.ca/eng/isp/pub/oas/oas_pension/index.shtml#oas-pension-taxable).

18 Although GIS benefits are included in income pursuant to subparagraph 56(1)(a)(i)(A) of the ITA, a corresponding deduction is permitted under paragraph 110(1)(f) of the ITA.

19 OASA, s. 12. For the July–September 2013 period, the income cut-off level, not including the OAS pension and the first \$3,500 of net income from an office or employment, is \$16,680 for single pensioners and ranges from \$22,032 to \$39,984 for pensioners in a married or common-law relationship; in the latter case, the cut-off level depends on whether the pensioner’s spouse or common-law partner receives an OAS pension or the Allowance. Also see: Service Canada, *Income Security Programs Information Card*, <http://www.servicecanada.gc.ca/eng/isp/statistics/rates/julsep13.shtml>.

20 OASA, Part II.

21 OASA, s. 2 “income” states:

““income” of a person for a calendar year means the person’s income for the year, computed in accordance with the *Income Tax Act*, except that

(a) there shall be deducted from the person’s income from office or employment for the year

(i) a single amount in respect of all offices and employments of that person equal to

(A) for the purpose of determining benefits payable in respect of any month before July 2008, the lesser of \$500 and one fifth of the person’s income from office or employment for the year, or

(B) for the purpose of determining benefits payable in respect of any month after June 2008, the lesser of \$3,500 and the person’s income from office or employment for the year, ... .”

22 OASA, s. 2 “income.” The exemption is in relation to net income from an office or employment. According to Employment and Social Development Canada, in 2011, most GIS recipients who were employed had less than \$3,500 in employment earnings; see: Employment and Social Development Canada, *Summative Evaluation: Old Age Security Program*, April 2012, <http://www.hrsdc.gc.ca/eng/publications/evaluations/income/2012/april.shtml#fnb16>; see: *Income Tax Amendments Act, 1998*, S.C. 1999, c. 22, subsection 87(1).

foreign pension amounts, interest, dividends, rents, wages and workers' compensation payments.<sup>23</sup>

### **C. Federal Transfers to the Provinces/Territories<sup>24</sup>**

The federal government provides funding to the provinces/territories through the Canada Health Transfer (CHT) and the Canada Social Transfer (CST); the former supports health care, while the latter supports post-secondary education, social assistance and social services, and early childhood development and early learning and childcare. CHT funding is provided on an equal per capita basis of cash and tax point transfers, while CST funding is provided on an equal per capita cash basis. Federal CHT and CST transfers to the provinces/territories for 2013–2014 are provided in Table A.2.

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23 In general, other taxable income – as defined by section 56 of the ITA – is included in the calculation of income for purposes of the GIS.

24 In addition to specific federal transfers for health care, post-secondary education and social programs, the federal government assists less prosperous provinces with Equalization payments. The [Equalization Program](#) helps to ensure that all Canadians have access to a reasonably similar level of provincial services at reasonably similar levels of taxation, regardless of where in the country they live. Equalization payments are determined on the basis of a formula that compares the fiscal capacity of the provinces to a representative standard. If a province's revenue-raising ability falls short of this standard, the federal government brings that province's per capita fiscal capacity up to the level of the standard through an Equalization payment. The territories receive federal financial assistance through Territorial Formula Financing (TFF), which considers the difference between the expenditure needs and the revenue-raising ability of the territorial governments.

**Table A.2 — Federal Transfers in Relation to the Canada Health Transfer and the Canada Social Transfer, by Province/Territory, 2013–2014 (\$ millions)**

Province/Territory	Canada Health Transfer	Canada Social Transfer
Newfoundland and Labrador	476	177
Prince Edward Island	129	51
Nova Scotia	833	329
New Brunswick	664	282
Quebec	7,114	2,810
Ontario	11,981	4,733
Manitoba	1,121	443
Saskatchewan	978	378
Alberta	2,633	1,365
British Columbia	4,261	1,627
Yukon	32	13
Northwest Territories	30	15
Nunavut	30	12

Source: Table prepared using data obtained from Finance Canada, [Transfer Tables](#), accessed 18 October 2013.

The provinces/territories are responsible for providing social assistance to needy citizens, and each does so in accordance with its own rules that regulate eligibility for assistance, the rates of assistance and the amounts of other income recipients are allowed to keep before social assistance is reduced.

Table A.3 summarizes total income support resulting from provincial/territorial social assistance, the federal CCTB, the federal GST/HST tax credit, and provincial/territorial child benefits and tax credits.

**Table A.3 — Total Annual Provincial/Territorial  
and Federal Income Supports, by Type of Household, 2011 (\$)**

<b>Province/Territory</b>	<b>Single Employable Person</b>	<b>Single Disabled Person</b>	<b>Single Parent with one Child</b>	<b>Couple with two Children</b>
Newfoundland and Labrador	9,821	11,651	19,673	22,822
Prince Edward Island	7,152	9,411	17,674	25,892
Nova Scotia	6,954	9,791	15,588	21,919
New Brunswick	6,696	8,685	16,274	20,062
Quebec	7,560	11,191	18,041	23,271
Ontario	7,595	13,227	18,069	24,010
Manitoba	6,922	9,528	14,932	21,662
Saskatchewan	8,735	10,904	17,889	24,809
Alberta	7,248	14,624	15,849	22,292
British Columbia	7,947	11,559	17,402	22,005
Northwest Territories	17,326	21,528	26,502	33,614
Nunavut	41,818	45,534	49,507	55,207
Yukon	15,697	18,697	25,953	36,647

Source: Table prepared using data obtained from National Council of Welfare, *Total Welfare Incomes*, 2011.

All provinces/territories reduce the amount of social assistance based on the amount of other income earned by the recipient. Certain provinces/territories, however, allow social assistance recipients to earn a specified amount of income without a reduction in their benefits, and such income is known as an “earnings exemption.” Table A.4 summarizes the monthly earnings exemptions in the provinces/territories for 2012.

**Table A.4 — Monthly Earnings Exemption Levels  
for Individual Recipients of Social Assistance, 2012**

<b>Province/Territory</b>	<b>Single Employable Person</b>
Newfoundland and Labrador	100% of income up to \$75 plus 20% of income exceeding \$75
Prince Edward Island	\$75 of net earned income plus 10% of income exceeding \$75
Nova Scotia	\$150 plus 30% of income exceeding \$150
New Brunswick	\$150
Quebec	\$200
Ontario	50% of net earnings after 3 months of continuous assistance
Manitoba	\$200 of net earnings plus 30% of net earnings exceeding \$200
Saskatchewan	\$50 plus 25% of amounts exceeding \$50 to a maximum of \$200
Alberta	\$230 of net income plus 25% of net income exceeding \$230
British Columbia	No earnings exemption
Northwest Territories	\$200 plus 15% of earned income exceeding \$200
Nunavut	\$200
Yukon	50% of gross income for first the 36 months of assistance and 25% following this period

Sources: Table prepared using data obtained from *Income and Employment Support Regulations*, Newfoundland and Labrador Regulations 144/04; *General Regulations*, Prince Edward Island Regulations EC396/03; *Employment Support and Income Assistance Regulations*, Nova Scotia Regulations 25/2001; *General Regulation*, New Brunswick Regulation 95-61; *Individual and Family Assistance Regulation*, Revised Regulations of Quebec chapter A-13.1.1, r 1; *General*, Ontario Regulations 134/98; *Employment and Income Assistance Regulation*, Manitoba Regulations 404/88 R; *The Saskatchewan Assistance Regulations*, Saskatchewan Regulations 78/66; *Income Support, Training and Health Benefits Regulation*, Alberta Regulations 122/2011; *Employment and Assistance Regulation*, British Columbia Regulations 263/2002; *Income Assistance Regulations*, Revised Regulations of the Northwest Territories 1990, chapter S-16; *Social Assistance Regulations*, Revised Regulations of the Northwest Territories (Nunavut) 1990 chapter S-16; and *Social Assistance Regulation*, Yukon Orders in Council 2012/83.



## APPENDIX B LIST OF WITNESSES

<b>41<sup>st</sup> Parliament – First Session</b>		
<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<p><b>As an individual</b> Jason Clemens, Executive Vice-President, Fraser Institute</p> <p><b>C.D. Howe Institute</b> Finn Poschmann, Vice-President, Research</p> <p><b>Canada 2020</b> Diana Carney, Vice-President, Research</p> <p><b>Canadian Taxpayers Federation</b> Gregory Thomas, Federal Director</p> <p><b>First Nations Tax Commission</b> Manny Jules, Chief Commissioner</p> <p><b>Fraser Institute</b> Charles Lammam, Associate Director, Centre for Tax and Budget Policy and Studies in Economic Prosperity</p> <p><b>Montreal Economic Institute</b> Yanick Labrie, Economist</p> <p><b>TD Bank Financial Group</b> Craig Alexander, Senior Vice-President and Chief Economist</p>	2013/04/16	113
<p><b>As individuals</b> Robin Boadway, Professor, Department of Economics, Queen's University</p> <p>Miles Corak, Professor, Graduate School of Public and International Affairs, University of Ottawa</p> <p>Ian Lee, Professor, Carleton University</p> <p>Richard Wilkinson, Emeritus Professor, Social Epidemiology, University of Nottingham</p> <p><b>Canada West Foundation</b> Michael Holden, Senior Economist</p> <p><b>Canadian Medical Association</b> Anna Reid, President</p>	2013/04/25	116

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## 41<sup>st</sup> Parliament – First Session

Organizations and Individuals	Date	Meeting
<b>Conference Board of Canada</b> Brenda Lafleur, Program Director Daniel Muzyka, President and Chief Executive Officer	2013/04/25	116
<b>Frontier Centre for Public Policy</b> Benjamin Eisen, Assistant Research Director and Senior Policy Analyst		
<b>As individuals</b> Nicole Fortin, Professor, Vancouver School of Economics, University of British Columbia, Senior Fellow, Canadian Institute for Advanced Research Stephen Richardson, Executive Fellow, University of Calgary Michael R. Veall, Professor, Department of Economics, McMaster University	2013/04/30	117
<b>Assembly of First Nations</b> Peter Dinsdale, Chief Executive Officer		
<b>Broadbent Institute</b> Hon. Ed Broadbent, Chair and Founder		
<b>Canadian Centre for Policy Alternatives</b> Armine Yalnizyan, Senior Economist		
<b>Canadian Council on Social Development</b> Peggy Taillon, President and Chief Executive Officer		
<b>Institut du Nouveau Monde</b> Michel Venne, Director General Nicolas Zorn, Project Officer, Rendez-vous stratégiques, Inégalités sociales		

**\*No witness appeared before the Committee during the  
41<sup>st</sup> Parliament – Second Session**

## **APPENDIX C LIST OF BRIEFS**

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**41<sup>st</sup> Parliament – First Session**

**Organizations and Individuals**

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**Atira Women's Resource Society**

**Boadway, Robin**

**Broadbent Institute**

**Caldbick, Sam**

**Campaign 2000**

**Canada Without Poverty**

**Canadian Association for Community Living**

**Canadian Association of Neighbourhood Services**

**Canadian Association of Social Workers**

**Canadian Centre for Policy Alternatives**

**Canadian Co-operative Association**

**Canadian Federation of University Women**

**Canadian Medical Association**

**Canadian Nurses Association**

**Canadian Union of Public Employees**

**Canadians for Tax Fairness**

**Child Care Advocacy Association of Canada**

**Citizens for Public Justice**

**Corak, Miles**

**Corbett, Bradley A.**

**Council of Canadians with Disabilities**

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**41<sup>st</sup> Parliament – First Session**

**Organizations and Individuals**

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**EconomicInequality.ca**

**Face of Poverty Consultation**

**Farkas, Edward J.**

**Fortin, Nicole**

**Frontier Centre for Public Policy**

**Generation Squeeze**

**Gibson, Diana**

**Greselin, Francesca**

**Hamilton Roundtable for Poverty Reduction**

**Hulchanski, David**

**Institut du Nouveau Monde**

**Labonté, Ronald**

**Lahey, Kathleen A.**

**Murdie, Robert A.**

**Parent Support Services Society of British Columbia**

**Pasquazzi, Leo**

**Poverty and Employment Precarity in Southern Ontario**

**Robson, Jennifer**

**Rogerson, Patricia**

**Ruckert, Arne**

**Sigurdson, Lori**

**Smith, Beverley**

**Social and Enterprise Development Innovations (SEDI)**

**Social Planning Council of Winnipeg**

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**41<sup>st</sup> Parliament – First Session**

**Organizations and Individuals**

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**United Way Toronto**

**Veall, Michael R.**

**Walks, Alan**

**Wellesley Institute**

**Williams, Rebecca**

**Women's Action Alliance for Change Nova Scotia**

**Women's Centres Connect**

**YWCA Canada**

**YWCA Hamilton**

**Zitikis, Ricardas**

**\*No brief was received during the 41<sup>st</sup> Parliament – Second Session**



## REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 113, 116, 117 and 127](#)) from the 41<sup>st</sup> Parliament, First Session and ([Meetings Nos. 13, 15 and 16](#)) from the 41<sup>st</sup> Parliament, Second Session is tabled.

Respectfully submitted,

James Rajotte

Chair





## SUPPLEMENTARY OPINION OF THE NEW DEMOCRATIC PARTY OF CANADA

The report: *Income Inequality in Canada*, provides an all too brief summary of the disturbing growth of income inequality in Canada over recent decades and the social and economic ills associated with its escalation. Unfortunately, this study was limited to a mere three public hearings. It was also limited in scope: the Committee only sought recommendations on how to improve equality of opportunity. New Democrats believe that both the limited hearings and the limited scope of the study were grossly inadequate to address such a fundamental problem facing Canadians. And although the report successfully details many of the key elements of the income inequality problem, we believe that the recommendations of the report fail to truly confront the problem. For this reason, the New Democrat members of the Finance Committee have been compelled to submit this supplementary opinion.

It is clear to all Canadians, as it should be to all Parliamentarians, that income inequality in our country is spiraling out of control. The incomes of the top 1% are surging, while the typical Canadian family has seen their income fall over the last 35 years. And it matters. As was made clear in the witnesses' testimony, high levels of income inequality slow growth, destroy communities, and prevent millions of Canadians from achieving their full potential. It hurts our economic prospects, our health, and the opportunities available to our children.

It is not enough to simply acknowledge that this problem exists. In order to find solutions, we need to look to the historical and ongoing causes of escalating income inequality. Both Liberal and Conservative governments have made decisions that enabled this dire situation to escalate. According to Professor Robin Boadway, the David Chadwick Chair in Economics at Queen's University:

"There have been secular changes in the tax system, such as changes in the tax treatment of capital income, changes in the structure of labour markets and unemployment, and the effect of changes in federal-provincial transfers on provincial social protection programs. All of these have reduced the automatic responsiveness of the tax-transfer system to income shocks, and this has been particularly noticeable at the top and bottom of the income distribution."

Professor Boadway's analysis concludes that government is fundamentally responsible for the surge in income inequality. This is consistent with work by Drs. David Green, Kevin Milligan, and Marc Frenette who have determined that changes to the tax and transfer regime in the 1990s and early 2000s led to a drastic increase in after-tax income inequality. As the gap between the ultra-rich and the vast majority of Canadians began to escalate in the 1990s and early 2000s, Liberal and Conservative governments did nothing to solve the problem. It's no surprise, sadly, that when the data is examined, 94% of the increase in inequality over the last 35 years occurred under federal Liberal governments.

The tax and transfer regime is only part of the problem. There are also important institutional features at play that have allowed inequality to escalate. Collective bargaining is perhaps the most effective method to impact pre-distribution income inequality. Successive Conservative and Liberal attacks on free and fair collective bargaining, have made it more difficult for Canadians to take advantage of this fundamental right, and this basic tool. In addition, many witnesses made it clear that a stagnant minimum wage and deregulation have further increased inequality.

New Democrats believe that we can build an economy that brings shared prosperity to all Canadians. We need a tax system that is fairer, simpler and more progressive. Instead of boutique tax credits used disproportionately by the wealthiest Canadians, we should be looking to boost the wages of the working

poor with the Working Income Tax Benefit. Rather than clawing back health transfers, we need to fund health care properly and to expand coverage for prescription drugs in an effort ensure that all Canadians can live happy and productive lives. And instead of driving seniors into poverty as the Conservatives have done with their totally unnecessary cuts to Old Age Security, The government should ensure that no senior lives in poverty.

New Democrats strongly believe that we need concrete solutions to contain and reduce escalating income inequality to benefit all Canadians. A failure to do so will lead to a less prosperous Canada for us all. To that end, New Democrats are proposing a series of recommendations to reduce income inequality in Canada:

### ***Taxation and Transfers***

- We recommend that the government implement a thorough review of Canada's tax and transfer system to determine, which changes to the regime have resulted in the greatest increases in income inequality.
- In addition, we recommend that government review all tax expenditures to assess their cost-effectiveness and fairness.
- We believe that we should take immediate action to limit tax evasion and close unfair tax loopholes. To this end, we recommend that the government enact the recommendations from the NDP's supplementary report on tax evasion.
- We believe that the Conservative government's announced "income splitting" plan should not move forward. This is a giveaway designed for political purposes that will almost entirely benefit the highest income earners while excluding most Canadians entirely, thus, exacerbating the income inequality problem.

### ***Retirement Security***

- We recommend that the Conservative cuts to OAS-GIS, which will throw tens of thousands of seniors into poverty, be immediately reversed.
- We recommend that the GIS be further expanded to help eliminate seniors' poverty and to reduce income inequality.
- We recommend that the government move forward on proposals from provincial and territorial finance ministers to increase basic public pension benefits under the Canada and Quebec Pension Plans, and implement a plan to begin phasing in increases without delay.

### ***Poverty and the Working Poor***

- We recommend that the government consider proposals to expand the Working Income Tax Benefit to help reduce income inequality and encourage labour force participation.
- We recommend that the government move forward on the NDP's call to implement a national strategy to eliminate poverty.
- We recommend that the government reinstate the federal minimum wage.

### ***Collective Bargaining***

- We recommend that the government immediately halt its attack on collective bargaining rights for Canadians, as exemplified by bills C-377, C-525, C-60, and C-4. Restricting access to collective bargaining will only further exacerbate the increase in income inequality.

- Rather than attacking collective bargaining rights, we recommend that the government consider measures to protect free access to collective bargaining, by: increasing penalties for unfair labour practices and by strengthening first contract arbitration

### ***Child Care and Early Childhood Education***

- We recommend that the federal government work with the provinces and territories to increase the number of good quality, accessible and affordable early-learning and child care spaces in Canada.

### ***Youth***

- We recommend that the government develop a comprehensive strategy to deal with persistent structural youth unemployment and underemployment.
- Furthermore, we recommend that the government work with the provinces to limit the illegal use of unpaid internships and ensure that young Canadians are paid for the work they perform.

### ***Gender***

- We recommend that the federal government rescind the Public Sector Equitable Compensation Act and implement the recommendations from the 2004 Pay Equity Taskforce.
- We recommend that the federal government take a leadership role and work with relevant partners to end the gender income inequality gap

### ***Aboriginal Canadians***

- We recommend supporting aboriginal communities by lifting the 2% cap on social funding for aboriginal communities and ensuring that funding for on reserve schools is on par with funding for other schools.

### ***Employment Insurance***

- New Democrats recommend that protections be put in place to prevent governments from using the EI fund for general revenue, as was done previously by both Liberal and Conservative governments.
- Furthermore, we recommend that the government reverse changes to the Employment Insurance system including damaging new rules requiring Canadian workers to accept as much as a 70% reduction or risk losing benefits.

### ***Housing***

- We call on the federal government to develop a national housing strategy and commit to investing in social and affordable housing.



## SUPPLEMENTARY OPINION OF THE LIBERAL PARTY OF CANADA

### Introduction

The Liberal Party would like to thank the witnesses who came forward to share their expert testimony with the Finance Committee. Members heard from stakeholders representing a wide range of political backgrounds and an even wider range of professional fields. It is clear from their testimony that income inequality and equality of opportunity should not be seen as partisan issues, but as complex and pressing policy questions.

According to the [OECD](#), income inequality in Canada was above the OECD average before the 2008 recession and remains so today. [Miles Corak](#) noted that while our intergenerational economic mobility remains high, there is a strong correlation between income inequality and inequality of opportunity. If Canada does not address its growing levels of inequality, it faces costly economic and social consequences, from decreased productivity to poor health outcomes. The Liberal Party urges the federal government to work with other levels of government on early childhood education, the tax-transfer system, and the Crown relationship with Aboriginal Peoples, with a view to strengthening equality of opportunity for all Canadians.

### Accessible, High-Quality Early Childhood Education

Early childhood education and care (ECEC) must have a key role in any strategy for addressing both income inequality and equality of opportunity. ECE is a high-yield investment: it empowers children to reach their full potential; gives parents greater freedom to return to work; and supports economic growth.

While estimates vary, there is consensus that every dollar spent on affordable ECE produces significant returns. The Ypsilanti/High Scope Study, referenced in the Mustard-McCain [Reversing the Real Brain Drain](#) report on ECE, estimated that every dollar invested in ECE for high-risk children paid off sevenfold. Similarly, the [Canadian Medical Association](#) puts the rate of return at between 1:6 and 1:8. [TD Chief Economist Craig Alexander](#) cited more varied but equally dramatic estimates:

*“The rate of return on the investment in early childhood education is enormously high. In terms of the rate of return, for every dollar you invest, most academic studies show anything from \$1.50 to \$2.50 of economic and social return, and if you focus on people from disadvantaged backgrounds, it’s quite possible to have a double-digit return. Within the OECD, Canada ranks dead last in terms of investment in this area at a mere quarter point of GDP.”*

Given the potential returns, it is troubling that Canada is falling short in this area. [TD Economics](#) estimates that Canada has a \$3 to \$4 billion shortfall in ECE investment relative to the average of industrialized nations.

In addition to the nationwide funding shortfall, there is tremendous regional variation in the provision of ECE, with serious disparities in funding, access, and quality. The most recent Mustard-McCain [Early Years Study](#) highlights several of these disparities between provinces. In 2011-2012, the percentage of provincial budgets allocated to ECE ranged from a high of 4.67% in Québec to a low of 0.86% in Newfoundland and Labrador; the percentage of 2-4 year-olds regularly attending an ECE centre ranged from 31% in Alberta and Newfoundland and Labrador to 69% in Québec; the number of early childhood educators required per group of three-year olds was 1:12 in Québec, Ontario, and Manitoba but 1:28 in New Brunswick and 1:32 in Alberta.

It is clear that Canada needs to take a more strategic approach to ECE. Some witnesses commented on international best practices: for instance, [Diana Carney of Canada 2020](#) pointed to the Nordic countries as potential models for early childhood policy. It is also worth considering the OECD's *Starting Strong III* report, which highlights five policy levers: setting out quality goals and regulations; designing and implementing curriculum and standards; improving workforce conditions, qualifications and training; engaging families and communities; and advancing data collection, research and monitoring. As [Peggy Taillon of the Canadian Council on Social Development](#) noted, jurisdictional complexities should not dissuade policy-makers from confronting this challenge.

## **Personal Income Taxation and Income Supports**

According to the [OECD](#), Canada's tax-transfer system, once among the most effective at reducing inequality, has become markedly less so over the past twenty years. There are practical, achievable policy steps that the federal government can take to reverse this trend.

The Liberal Party believes that the government should work towards making personal income tax credits refundable and should not introduce any new credits until existing credits are fully refundable. Poorly-targeted, non-refundable tax credits offer weak value for money, doing little to change behavior but imposing a significant cost on the treasury. As [Benjamin Eisen](#) noted, "[b]enefits wind up going to people whose behaviour is exactly the same as it was before". Moreover, the current tax regime renders low-income Canadians ineligible for many tax benefits, including the Disability Tax Credit and the Family Caregiver Tax Credit. This regressive approach to tax policy is a true missed opportunity when it comes to addressing inequality.

Furthermore, the Liberal Party believes that the federal government must take action to address the phenomenon of the "welfare wall". In his testimony to the

Committee, [Craig Alexander](#) highlighted the difficulties Canadians face when trying to move out of poverty. When Canadians begin to earn enough to become ineligible for government income support, they face an “enormously high marginal effective tax rate” as “for every dollar of additional income [they] generate, [they] might lose 50¢ on the dollar of government income support”. In Mr. Alexander’s view, “[t]he transition is so steep that it actually works as a disincentive and a barrier for people getting out of poverty”. He also stressed that limits on asset accumulation for Canadians on government support are too low: “Ultimately, I think if you give people a bit more of an opportunity to build assets, it actually will be self-reinforcing.” The federal government must take action to ensure that Canadians can make the transition from welfare to work without incurring punitive financial penalties.

Many witnesses highlighted the Working Income Tax Benefit (WITB), introduced by the previous Liberal government in Fall 2005 and implemented by the current government in 2007, as an important means of reducing income inequality while strengthening economic growth. In his contribution to Canada 2020’s [Reducing Income Disparities and Polarization](#) report, Mark Cameron wrote that the WITB “supplements the incomes of low earners and helps remove disincentives to seeking paid work instead of remaining on social assistance programs”, making it easier for Canadians to return to work and contribute to the national economy. The government should build on the success of the WITB which is, as [Miles Corak](#) noted, “a best practice in the provision of income support”.

## **First Nations, Métis, and Inuit Peoples**

In the modern economy, access to jobs requires both high school and a post-secondary credentials, be it a college diploma, trade certification or university degree.

Yet only one in three First Nations students on-reserve are graduating high school. In her [2011 report](#), the Auditor General of Canada found that the government, in terms of the education gap, “has not maintained a consistent approach and cannot demonstrate improvements to date”. Appallingly, students attending school on reserve are funded on average at two thirds that of provincial systems. The current government’s denial of this funding gap and refusal to close it is depriving the economy of a desperately needed pool of talent and depriving Aboriginal People of a prosperous future. The government must immediately commit to working in full partnership with First Nations communities to close the current funding gaps for K-12, based on the real cost of delivering First Nations-led, high-quality, culturally-relevant education for every First Nation student.

First Nations, Inuit and Métis youth are also significantly under-represented in postsecondary education. For example, whereas 23% of the non-Aboriginal population had successfully completed a university degree, only 8% of the Aboriginal population reported completing a university education. The government must work with Aboriginal communities to enhance Aboriginal access to and completion of post-secondary

education programs, beginning with increasing of funding provided through the Post-Secondary Student Support Program. Each year, this program receives applications from more qualified students than the program can fund. For those students who do receive funding, this money often does not cover the costs of a student's education.

## **Conclusion**

Income inequality is not a partisan issue. Rising inequality affects us all, regardless of age, income level, or political affiliation. The consequences of excessive inequality are both serious and wide-ranging: a weakened economy, poorer health outcomes, more vulnerable communities, and a diminished quality of life. The government has a responsibility to meet this challenge with concrete policy solutions and with real determination to strengthen equality of opportunity for all Canadians.

## **Recommendations**

**The Liberal Party of Canada recommends:**

- 1. That the government provide significant new investments in affordable early childhood education and care (ECEC) programs.**
- 2. That the government increase the value of the Working Income Tax Benefit (WITB) and move toward widening eligibility for the WITB to include all households with earned income below the after-tax low income cut-off (LICO).**
- 3. That the government work towards making the Disability Tax Credit and the Family Caregiver Tax Credit fully refundable so that low-income Canadians are not excluded from these programs.**
- 4. That the government refrain from introducing new personal income tax credits until existing personal income tax credits – in particular, the Disability Tax Credit, Family Caregiver Tax Credit, Volunteer Firefighters Tax Credit, Children's Arts Tax Credit, Children's Fitness Tax Credit, Public Transit Tax Credit, and the education tax credits – are made fully refundable so that low-income Canadians can also benefit from them.**
- 5. That the government reduce high marginal effective tax rates for low-income workers by reducing income claw-backs in federal income support programs.**
- 6. That the government increase allowable asset thresholds in federal income support programs.**
- 7. That the government design and implement a federal poverty reduction plan.**



- 8. That the government reverse its decision to increase the age of eligibility for Old Age Security (OAS) benefits.**
- 9. That the Government of Canada recognize the urgent need to work in partnership with Aboriginal communities to improve socioeconomic outcomes of Aboriginal Peoples in Canada by eliminating the funding gap for First Nations-led K-12 education, increasing financial support for Indigenous languages and culture education, and fully funding the Post-Secondary Student Support Program so that every Aboriginal student is able to access a high-quality post-secondary education**

