



END CHILD & FAMILY POVERTY IN CANADA

## **Income Inequality through the Lens of Families with Children in Canada**

Submission to  
Standing Committee on Finance  
Re: M-315 Study on Income Inequality

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Campaign 2000 is a non-partisan, cross-Canada network of more than 120 national, provincial and community organizations committed to working together to end child and family poverty in Canada

# Income Inequality through the Lens of Families with Children in Canada

## Executive Summary

Campaign 2000, a non-partisan, cross-Canada network of over 120 national, provincial, territorial and community organizations, urges that federal taxation, transfer and program expenditure measures focus on those individuals, families and communities who are vulnerable and feel the greatest impact of on-going economic disruption. This is a bottom-up approach to decreasing inequality through lessening economic hardship. **More than two decades after the unanimous 1989 House of Commons resolution to end child poverty in Canada and more than three years after the 2009 unanimous November 24<sup>th</sup> resolution of the House “... be it resolved that the Government of Canada, taking into consideration the Committee’s work in this regard, and respecting provincial and territorial jurisdiction, develop an immediate plan to eliminate poverty in Canada for all.”, 979,000 children and their families – almost 1 child out of every 7<sup>1</sup> – still live in poverty.** It is important to note that these statistics do not fully reflect the shameful situation in Inuit communities and in First Nations’ communities where 1 in every 4 children is growing up in poverty.<sup>2</sup> Governments ignore this issue at their peril, given evidence that childhood poverty is too often reproduced in adulthood, largely through impairing the labour market participation of adults who were poor as children.

## Campaign 2000 recommends the following to address income inequality and poverty eradication:

- An enhanced child benefit for low-income families to a maximum of \$5,400 per child (2012 dollars, indexed to inflation). The government should streamline the way it supports families through the taxation and transfer systems, and use Canadians’ valuable taxation revenues in a targeted efficient manner to yield the greatest poverty reduction impact possible. This can be achieved by creating a combined child benefit through increasing the National Child Benefit (in combination with the Canadian Child Tax Benefit) to \$5,400 per child. The mis-named Universal Child Care Benefit, the regressive Child Tax Credit and Child Fitness Tax Credit should be eliminated and the resources should be re-directed to finance the increased the National Children’s Benefit. This would bring the child poverty rate down by 15% and lift 174,000 children out of poverty at a modest additional cost of \$174 Million.
- Building a public system of high quality early childhood education and child care (ECEC) services that are affordable and available to all children (0–12 years). Federal spending on ECEC should reach at least 1% of GDP by the end of ten years, starting with \$1.3 billion in new, earmarked transfer payments to the provinces for publicly managed, non-profit and publicly owned and publicly funded ECEC services.
- Addressing growing income inequality by restoring fairness to the personal taxation system. Restoring a series of progressive marginal tax brackets can increase funds available to support public services used by all Canadians, while re-introducing the principle of taxation based on ability to pay

## Income inequality through the lens of families with children in Canada

Poverty and inequality are different yet clearly related trends in society that have significant implications for all Canadians and for the well-being of families in particular. The poverty rate is the number of people who live on limited resources below an established income threshold. Income inequality, in contrast, refers to the way in which income is distributed across the socio-economic spectrum from low to high income. In recent years there is growing awareness among many groups in society that income inequality is growing in Canada as it is in many countries and that high poverty rates usually co-exist with high income inequality. Richard Wilkinson, noted UK social epidemiologist emphasizes that “The effects of large income inequality show up in poorer economic performance, more social divisions, increased environmental damage, weaker democracy, lower life expectancy, higher infant mortality, more cases of mental illness and addiction and lower math and literacy scores.” The negative impact of income inequality spreads across the income spectrum and is not confined to low-income people. Wilkinson summarizes, “Income inequality is a general social pollutant that affects everyone in the society. On the flip-side, everyone in society benefits from greater equality.”<sup>3</sup>

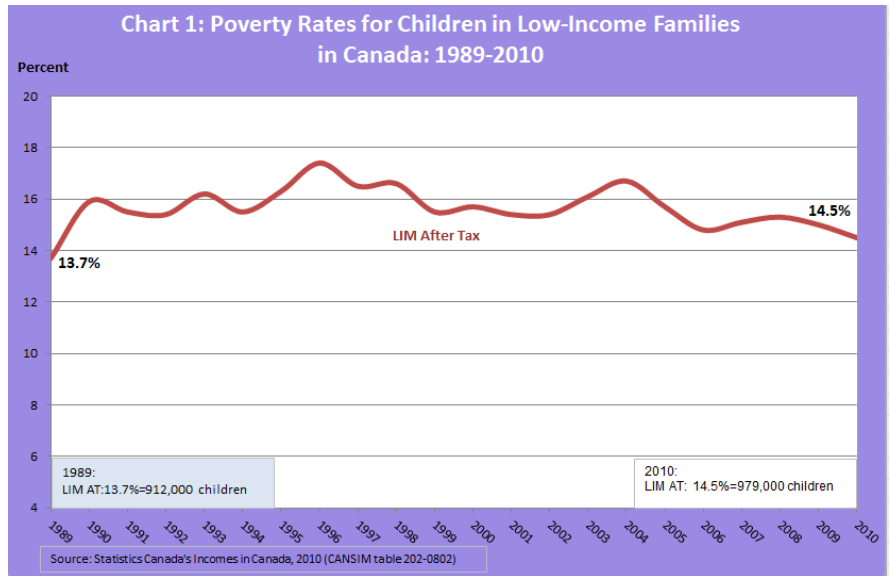
The impact of income inequality on children over generations is also an important consideration. Canadian researcher Miles Corak has studied cross country comparisons and found that while Canada may fare better than some other countries in

terms of intergenerational mobility based on earnings, about one in three low-income Canadian children become low-income adults.<sup>4</sup> Similarly, about one-third of children in wealthy families become wealthy adults. Corak stresses that both income policies and support services for families such as universally accessible early childhood education and care services (ECEC) are important tools in facilitating intergenerational.

- **Important contextual factors in the consideration of child and family poverty and income inequality**

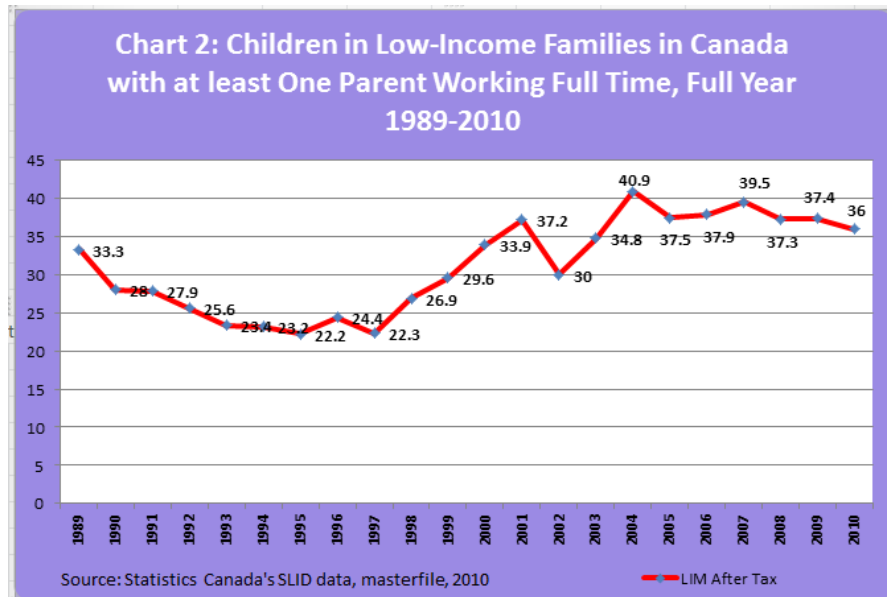
**Child poverty has persisted over time**

Most recent statistics indicate that 979,000 or 14.5% of children in Canada live in poverty as of 2010, compared to 912,000 or 13.7% in 1989.<sup>5</sup> Modest decreases in the child poverty rate since the 2008 recession do not change the fact that far too many families are struggling to meet their basic needs. Families in the midst of the slow recovery are facing chronic instability, with four out of five jobs created since the crisis classified as temporary<sup>6</sup> and children now representing 38% of food bank users in Canada.<sup>7</sup> These figures do not include child poverty among Canada's First Nations communities which is catastrophic with one in four First Nations children living in poverty. Children can't afford to wait; particularly when labour markets fail, public policies have to intervene to support their healthy growth and development now. Otherwise, the damage can cause life-long trajectories of disadvantage. Annual poverty rates fluctuate with business cycles, but these slight increases and decreases should not be mistaken for long-term improvement.



- **Neither labour markets nor public policies have been robust enough to sufficiently prevent or reduce poverty among children and their families.**

More than one in three children in poverty lives in a family with at least one full-time earner. The severe lack of affordable housing and limited availability of childcare services contribute to the economic insecurity that modern families face. It is noteworthy that more than 1 in 4 part-time workers want full-time work but cannot find it.<sup>8</sup>



**High levels of household debt among all families deepen economic insecurity**

Average household debt has been increasing for about three decades. In 2012 the average debt per household reached its peak, resulting in a debt-to-income ratio of 166%.<sup>9</sup> Not surprisingly, families relying on low and modest incomes are

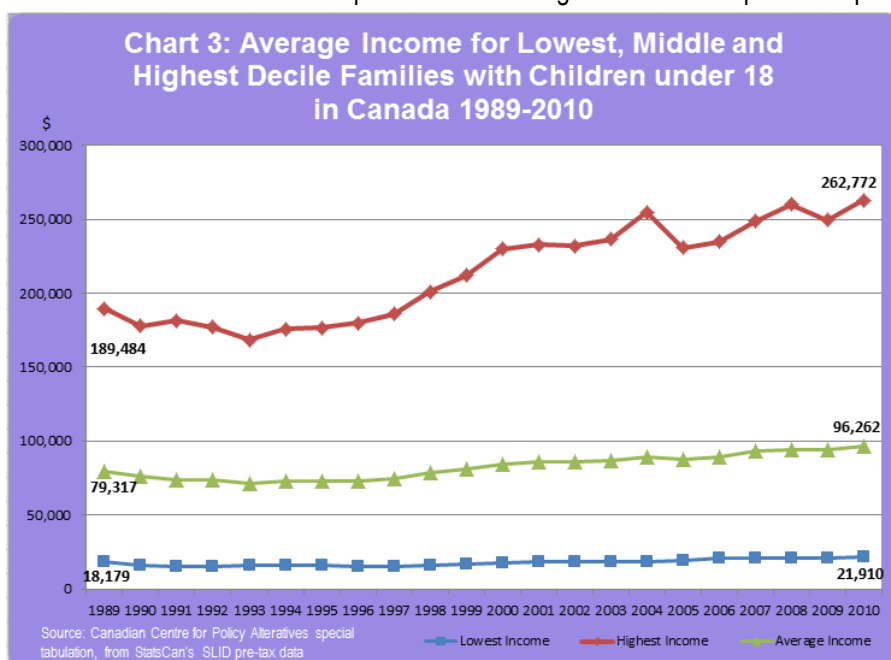
especially at risk. They usually have limited, if any, resources to deal with unexpected shocks such as job loss, illness or a rise in interest rates.

- **The large income gap between high-income and low-income families with children continues its relentless growth**

The average income of the wealthiest families with children soared to \$240,862 higher than the average income of the poorest families with children.<sup>10</sup> Middle class incomes remained virtually stagnant; as did the incomes of the poorest decile of families with children. Income inequality has worsened significantly over the last decade, and in 2009 the total share of pre-tax income held by the rich was the highest it's been in the last 66 years.<sup>11</sup> Between the mid-1990s and the late 2000s, Canada had the fourth largest increase in income inequality among advanced industrialized countries.<sup>12</sup> This is of concern for many reasons. Deep inequality has been correlated with shorter life expectancies, educational and behavioural challenges, hunger and limited access to physical activity among children<sup>13</sup>. It leads to social tensions and begs moral questions about fairness in Canada<sup>14</sup> as the odds of escaping poverty are stacked against low income children and families who gain much less from economic growth than their wealthier counterparts. Economic growth is also impaired as poor children are at higher risk of poor educational attainment. Inaction robs the future economy of required skills, and imposes significant economic costs in responding to poverty and its consequences.

A major reason for growing income inequality is that since the early 1990s, tax changes at all levels of government have altered a somewhat progressive tax system into a less progressive one in which high-income Canadians gained the most and inequality was exacerbated.<sup>15</sup> Such tax cuts have squeezed existing services and made it difficult to talk

about expanding social programs even though overwhelming evidence shows this could be cost effective and that greater equality often “underpin[s] better economic performance.”<sup>16</sup>



Recently, there has been a subtle shift in this conversation: a shift towards broader acceptance of tax fairness. There is more room to talk about fair taxation as a way to mediate the effects of income inequality and to pay for the vital public services on which low-income children and families rely. High income earners are now being taxed at higher rates by provincial governments in Nova Scotia, Quebec and Ontario.

Notably, 2012 polling has found that 77% of Canadians think that a widening income gap is a big problem for Canada and 83% of Canadians support higher taxes for the top income earners.<sup>17</sup>

## Using Existing Public Policies: the Case for Raising the National Child Benefit to \$5,400

To prevent families from falling into poverty and also to support other families in their efforts to lift themselves out of poverty, Canada needs a two-track approach: strengthen the public policies that have a direct impact on family incomes and improve the labour market opportunities for parents. Together these strategies build on the Government of Canada's central role in managing the economy and its historic leadership in creating and supporting a resilient social safety net. Parents with dual

roles as breadwinners and caregivers require the necessary supports to achieve a situation of decency and dignity for their families. Labour markets do not distinguish between workers who are parents and those who are not, but public policies that recognize the value of child-rearing and help to reduce poverty can make a significant difference.

A full child benefit of \$5,400 (2012 dollars, indexed to inflation) coupled with fair minimum wages is needed to achieve a substantial reduction of child and family poverty. The Canada Child Tax Benefit (CCTB) and National Child Benefit Supplement (NCBS) for low and modest income families, a joint federal, provincial and territorial initiative launched in 1998, has played an important role in preventing, reducing and lowering the depth of child and family poverty.<sup>18</sup> Currently, eligible families can receive up to the maximum combined CCTB/NCB annual payment of \$3,485. The child benefit (CCTB/NCB) is paid monthly to eligible families and is non-taxable, non-refundable, and is based on the previous year's family net income according to one's tax return.

It is important to note that the child benefit is progressive; those with lower incomes receive a larger benefit while those with higher incomes receive a lower benefit. In a sense, the CCTB/NCB begins to address the inequality that many families face. In 2012 eligible families with net incomes of up to \$24,863 received the maximum CCTB/NCB while families in the net income range of \$24,865 to \$42,707 may receive the full CCTB and part of the NCB. At higher net incomes families may receive some portion of the CCTB. It is estimated that 90% of Canada's families with children receive some level of child benefit.

The CCTB/NCB has a good track record of contributing to lower child poverty rates. Research on the impact of the CCTB/NCB shows that in 2005 alone, the NCB was responsible for preventing 70,300 families with 154,500 children from living in poverty.<sup>19</sup> The benefit level, while indexed annually, however, has not been increased since 2007. To retain its important preventive and poverty reduction goals, the NCB needs to be increased to a maximum of \$5,400. This enhanced benefit, when coupled with full-time work at \$11 per hour, would enable a lone parent with one child to lift her family out of poverty.

### **Raising the National Child Benefit to \$5,400 Will Reduce Child Poverty**

In 2012 Campaign 2000 commissioned a simulation to model the impact of a maximum child benefit of \$5,400 paid to low- and modest-income families with children across Canada currently receiving the NCB.<sup>20</sup>

### **Achieving the \$5,400 Child Benefit and Progress in ECEC through Smart Spending**

Currently the government of Canada provides a range of measures in the personal income tax system that recognizes and supports different groups of families in various child-rearing responsibilities. The CCTB/NCB is the largest measure, assisting an estimated 90% of children in Canada. The Universal Child Benefit, a monthly allowance of \$100 for each child under 6 years, is taxable on the lowest income earners. This benefit is a cash transfer and has no direct link to childcare services nor does it begin to meet the cost of childcare service. Families may also access the non-refundable child tax credit which provides an annual federal income tax reduction worth \$300 to most families with children excepting those with low incomes and the Child Fitness Tax Credit (2007) available for eligible expenses up to \$500 per year for children under 16. Many low-income families do not pay taxes and are therefore not eligible for these programs. Higher income families are more likely to be able to afford the up-front expenditures required to trigger the fitness credit. In addition, these various programs can be confusing for families to access.

#### **The simulation estimated the following impacts:**

- ✚ An enhanced child benefit of a maximum \$5,400 would bring the child poverty rate down by 15% and lift 174,000 children out of poverty
- ✚ The decline in family poverty is greatest in families with incomes between \$20,000 and \$35,000.
- ✚ The data suggest the importance of building solid family incomes through access to full-time work throughout the year at decent wages.

Campaign 2000 is proposing that the Government of Canada streamline the way it supports families through the tax system and use its valuable resources in an efficient and effective way to achieve one larger child benefit that would be paid to all

eligible families and would assist in poverty reduction and closing the inequality gap. Specifically we propose that the UCCB be absorbed into the NCB and be eliminated as a separate payment and that the resources now directed to the Child Tax Credit and the Child Fitness Tax Credit be included in the new, larger NCB. This would significantly enhance the efficiency of the system. The simulation model estimates that with these adjustments, the additional cost of raising the maximum CCTB/NCB to \$5,400 would be \$174 million. This would decrease the child poverty rate by 15% and lift 174,000 children out of poverty.

To address the critical needs of families, federal spending on affordable early childhood education and care services (ECEC) should reach at least 1% of GDP by the end of ten years, starting with \$1.3 billion in new, earmarked transfer payments to the provinces and territories for publicly managed, non-profit and publicly owned and publicly funded ECEC services. This measure will begin to assist young families and will improve Canada's poor track record. In 2008 UNICEF ranked Canada lowest among 25 OECD countries on ECEC quality and access indicators including spending.<sup>21</sup>

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<sup>1</sup> Statistics Canada's *Income Trends in Canada* released June 2012. These data exclude those on First Nations reserves, in the Yukon, Northwest Territories and Nunavut and children living in institutions. A child is defined as a person under 18 years living with parent(s) or guardian(s). Children in poverty are those living below the Low Income Measure (LIM after tax) as defined by Statistics Canada.

<sup>2</sup> Assembly of First Nations. (2011). Fact Sheet – Quality of Life of First Nations, p. 1.

<sup>3</sup> Richard Wilkinson. Keynote speech to the conference "Labour Rights and their Impact on Democracy, Economic Equality and Social Justice." March 27/2013 in Toronto. Accessed on April 4, 2013 at <http://www.nupge.ca/content/5702/international-conference-labour-rights-underway-toronto>

<sup>4</sup>Corak, Miles (2006) : Do poor children become poor adults? Lessons from a cross country comparison of generational earnings mobility, IZA Discussion Papers, No. 1993, <http://hdl.handle.net/10419/>

<sup>5</sup>Statistics Canada's *Incomes in Canada, 2010* (CANSIM table 202-0802). Statistics reported are 2010 Low Income Measure After Tax.

<sup>6</sup> Yalnizyan, A. (2012). Happy Crashiversary! Are you better off now than you were three years ago? *Globe and Mail*.

<sup>7</sup> Food Banks Canada. (2012). *Hunger Count 2012*.

<sup>8</sup> Statistics Canada (2012), Retrieved at <http://www.statcan.gc.ca/daily-quotidien/121102/t121102a001-eng.htm> and <http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=2820085>

<sup>9</sup> Statistics Canada, Table 378-0123: National Balance Sheet Accounts, financial indicators, households and non-profit institutions serving households, quarterly (percent), CANSIM (database).

<sup>10</sup>Canadian Centre for Policy Alternatives special tabulation, from StatsCan's SLID data

<sup>11</sup> Yalnizyan, A., (2010). The Rise of Canada's Richest 1%. *Growing Gap.ca, Canadian Centre for Policy Alternatives*. Ottawa.

<sup>12</sup> Conference Board of Canada (2011). *Income Inequality: Is Canada becoming more unequal?* Retrieved from <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>13</sup> Canadian Council on Learning. (2006). *The Social Consequences of Economic Inequality for Canadian Children: A Review of the Canadian Literature: Executive Summary*. [http://www.edu.gov.on.ca/eng/research/social\\_consequences2.pdf](http://www.edu.gov.on.ca/eng/research/social_consequences2.pdf)

<sup>14</sup> Conference Board of Canada (2011). *Income Inequality: Is Canada becoming more unequal?* Retrieved from <http://www.conferenceboard.ca/hcp/hot-topics/canInequality.aspx>

<sup>15</sup> Lee, M., (2007). *Eroding Tax Fairness: Tax Incidence in Canada, 1990-2005*. *Canadian Centre for Policy Alternatives*. Vancouver, BC. Retrieved from <http://www.policyalternatives.ca>

<sup>16</sup> Broadbent Institute. (2012 October). *Towards a More Equal Canada: A Report on Canada's Economic and Social Inequality*. [http://www.broadbentinstitute.ca/sites/default/files/documents/towards\\_a\\_more\\_equal\\_canada.pdf](http://www.broadbentinstitute.ca/sites/default/files/documents/towards_a_more_equal_canada.pdf)

<sup>17</sup> Broadbent Institute. (2012 October). *Towards a More Equal Canada: A Report on Canada's Economic and Social Inequality*. [http://www.broadbentinstitute.ca/sites/default/files/documents/towards\\_a\\_more\\_equal\\_canada.pdf](http://www.broadbentinstitute.ca/sites/default/files/documents/towards_a_more_equal_canada.pdf)

<sup>18</sup> The government of Québec has stated that it agrees with the basic principles of the NCB. Québec chose not to participate in the NCB because it wanted to assume control over income support for children in the province; however, it has adopted a similar approach to the NCB.

<sup>19</sup> The National Child Benefit. (2010). *The National Child Benefit Progress Report: 2007*. Retrieved from <http://www.nationalchildbenefit.ca/eng/07/page12.shtml>

<sup>20</sup> This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Sid Frankel, Phd., University of Manitoba School of Social Work, Laurel Rothman and Andrew Mitchell and the responsibility for the use and interpretation of these data is entirely that of the authors.

<sup>21</sup> UNICEF (2008). *The child care transition: A league table of early childhood education and care in economically advanced countries*. Report card #8. Florence:UNICEF Innocenti Research Centre.