CANADA'S GREAT DIVIDE:

The politics of the growing gap between rich and poor in the 1990s

By Armine Yalnizyan

January 2000

CENTRE FOR SOCIAL JUSTICE

Canada's Great Divide: The politics of the growing gap between rich and poor in the 1990s

Published By:

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ISBN 0-9684032-3-9

Printed and bound in Canada.

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Acknowledgements

For the privilege of doing this work, the author thanks the Centre for Social Justice.

For comments on early drafts, the author thanks the following staff and board members of the Centre for Social Justice: Ann Curry-Stevens, David Langille, John Anderson, Dennis Howlett, Brigitte Kitchen, Maria Wallis.

The author would also like to thank the following people for their technical assistance:

Kevin Bishop, Statistics Canada
Stephen Ford, Merrill Lynch Canada Inc.
Kevin Hayes, Canadian Labour Congress
Sunniya Durrani Jamal
Hugh Mackenzie, United Steelworkers of America
Mike McCracken, Informetrica Ltd.
Brian Murphy, Statistics Canada
Joanne Rolston, National Council on Welfare
David Perry, Canadian Tax Foundation
Paul Roberts, Canadian Council on Social Development
Jim Stanford, Canadian Auto Workers

This work would not have been possible without the contributions of the Atkinson Foundation. The author is indebted to their continuing support and their understanding of the importance of this kind of research.

For their patient assistance, clarity and friendship, the author would especially like to thank Trish Hennessy and Andrea Imada.

Finally, the author thanks the thousands of people she met and spoke with during the Growing Gap "tour" of 1999, for their stories, insights and humanity. ◆

Summary

A slippery slope: Over the course of the 1990s, Canada's growing gap has become a slippery slope for a growing number of middle income families sliding towards the bottom of the income ladder.

Instead of pulling us in two opposite directions — towards greater affluence or towards greater poverty — developments of this decade took us in one direction only: the proportion of families at the richest end of the spectrum barely held their ground, while a growing proportion of middle income families lost ground.

Between 1989 and 1997, the proportion of families raising children who earn less than $35,388 grew from 30 to 35 per cent. The very bottom of the income scale grew the fastest. The poorest 10 per cent of families earned less than $11,567 in 1989. By 1997, that number swelled to 14 per cent.

Not only are there more families in the lowest income category but they have also become poorer over time: to belong to the poorest 10 per cent of the population meant earning less than $11,567 in 1989. By 1997, it meant earning less than $6,591.

By any definition of poverty, the poor are getting poorer and there are more poor families among us.

This slide to the bottom is creating a great divide in this country — a divide made more intractable over the 1990s, as the odds of crossing over to greater affluence or making it to the middle becomes a longer shot.

Economic growth not enough: Since more families found themselves at the bottom end of the income distribution, in both market and after-tax terms, the proportion of families in all other earnings categories shrunk over the 1990s. Even through years of heightened prosperity in this decade, the number of families inside the circle of affluence has shrunk.

By any measure, more families had falling incomes in the 1990s, despite a booming economy and despite a growing trend that shows Canadians are working longer hours. At the same time, income supports, community supports and public services are being cut back.

As we moved through the 1990s, from a period of economic recession to one of economic growth, the great divide between rich and poor was exacerbated by another divide — in political philosophy: governments are no longer there to build but, rather, to stay out of the way of the market.

Where once Canadian governments took on the role of building an entire nation province by province, the prevailing wisdom of today questions the need of governments to intervene in the very things that define a nation: employment, poverty, inequality.

Meanwhile, there is increasing evidence that Canadians have been *over*estimating the role "the market" can play in ensuring a greater degree of prosperity for everyone. The ability of government to ensure such prosperity, on the other hand, has been vastly *under*es-

timated in the 1990s.

The evidence? During a period of economic recession and a growing gap in market terms, the after-tax gap between rich and poor decreased in Canada until 1993. Conversely, a stronger labour market in the recovery period of the 1990s (1994-1997) was not enough to narrow the market gap in a steady, consistent manner. In fact, the gap has shot up and down on a wild, volatile ride which demonstrates the unpredictability of market forces on Canadians' lives.

The most disturbing piece of evidence? What governments have done, or chosen not to do, in the 1990s had a tremendous impact on the growing gap between rich and poor: the after-tax gap grew more rapidly between 1994 and 1997 — a period of economic recovery — than at any time since the early 1970s.

The mid-1990s has been a period of government cutbacks to both transfers and taxes. The net effect of these cuts benefited the richest 10 per cent of families and no one else. The richest 10 per cent was the only group of families with a lower effective rate of income tax in 1997 than in 1994.

The poorest 10 per cent of families paid more taxes and received fewer income supports: their net loss of 12 per cent in average after-tax incomes was by far the biggest loss of any income group in this period — a drop primarily due to cuts in Unemployment Insurance and welfare benefits.

Varied provincial results: The growing gap is not a one-size-fits-all proposition in this country, however. Some provinces narrowed the after-tax income gap during tough economic times but let it blow wide open when market conditions improved.

These include, surprisingly, the economic powerhouses of the nation. Equally surprising, some of the poorest provinces have done the most to narrow the after-tax gap in the face of market-driven disparities.

Some provinces — both rich and poor, and regardless of which political party is in power — have a track record of keeping the gap between rich and poor small despite recession or recovery.

The provincial story shows economic growth does not necessarily lead to reduced inequality. Sluggish or even declining economies do not inevitably result in growing income inequality. There is simply no rule that explains the relationship between market performance and the distribution of incomes.

Meanwhile tax cuts, the latest "solution" to increase economic prosperity, fail to address the problem on two fronts: they do nothing for the poorest families who have no income to register a tax cut and they erode the public services and supports people rely on in their communities.

Tax cuts are not the solution because taxes are not the problem: good jobs and reliable public goods are the key variables for the vast majority who want to improve their standard of living.

The solution to closing the gap lies in four things: even distribution of job growth; better wages; services to help families meet their basic needs; and supports for the poorest families. This is how to ensure everyone is better off — not just a privileged few. ◆

Introduction

The extraordinary response to last year's Growing Gap report resulted in a speaking tour of half the country, from Ontario to the west coast. The tour eastward continues in 2000. Over the course of 1999 I spoke with literally thousands of people on the subject of growing inequality in Canada. I was continually inspired by what I saw and heard.

This report is my response to those innumerable conversations. Across the country, people wanted to know what has been happening, especially where *they* live. They also wanted to know what was happening *now*, in the context of the great social experiment of the 1990s: less government, more market. As a result, this report focuses on what happened in Canada between 1989 and 1997, the most recent available year of data to examine the distribution of incomes in Canada.

I had originally intended this report to respond to the repeated requests for a province-by-province replica of last year's national report on the growing gap in incomes. However, the sheer volume of information (13 years, three ways of looking at incomes and 10 deciles for each province) and the enormous variation in trends meant the analysis would have been superficial and unsatisfactory in the time available to do it.

What the data helped me see was that the trends of the 1990s, at both the national and provincial level, underscore the degree to which the slippery slope of market values can be reinforced or offset by governments. I decided to use a comparative approach in this report, taking key themes at the national level and examining how they play themselves out in different provinces. This helps clarify the respective role of such variables as market-induced change and policy change in shaping income inequality across the country. It also helps clarify discussions about legitimate political choice and the role of government.

To explore the central elements of the market experiment of the 1990s, this report looks at trends in earnings (market incomes), transfers, taxes, and after-tax incomes for families raising children. (All figures are reported in constant 1997 dollars to control for the effects of inflation.)

Why choose to look at families raising children? The vast majority of people do not live alone. About 85 per cent of the population lives in a household of two or more people. About half of these — almost four million households — are non-elderly families raising at least one child under the age of 18. This definition of family excludes the unique situation of senior households with respect to government transfer programs, permitting a focus on the interface between the market and households, between public and private, for that group of citizens who form the building blocks for the next generation of citizens.

Families who have no earned income at all are included in the analysis, as this is a growing long-term trend of the past few decades, through good times and bad — especially in hard-hit provinces such as Newfoundland. But families with negative incomes are left out, since negative incomes can reflect both genuine destitution and "creative accounting" for bankruptcies and unusual cash-flows of the self-employed.

This report concentrates on the net effects of government actions on Canadians' *incomes*, not the net effect of everything that governments do, such as provide health care or education. If anything, this analysis understates the big picture, which includes the public supports that frame our daily lives.

What is the quality and level of services accessible to us all, regardless of our income? As important as it is to understand the growing gap from a money point of view, it is clear that improving the lot of those at the bottom by increasing market incomes is only half of the equation. Even with more money in their pockets, people can be worse off if they pay more for the basics than they did in the past.

What are those basics? The availability of decent, affordable housing; clean water and air; a safe food supply; child care, home care, elder care; preventive and emergency health care; education at the primary, secondary, and post-secondary levels; security (including police, fire, shelters, youth and childrens' services); facilities for recreation and community; and transportation (roads and public transit). Governments have a critical role to play in each of these areas. They shape our material well-being and our individual and collective quality of life — in our families and in our communities.

A more thorough analysis of the provincial picture would prove worthwhile, as there is still so much of the story that has yet to be told. The Canadian public is being fed a daily diet of simplistic answers about why their standard of living is declining. This report in no way fully unfolds the big picture, but it starts the process by raising some vital questions and observations. Many of these observations quantify what is happening around us, across the country.

Throughout the *Growing Gap* tour, I was repeatedly reminded and encouraged by the fact that we all share, in our own ways, the desire and commitment to create a better, more humane place to live. Understanding what we have and what we share is an indispensable first step towards creating something better. It is in this spirit that I offer the analysis of *Canada's Great Divide*. ◆

— CHAPTER ONE —

THE SLIPPERY SLOPE OF MARKET VALUES

Canada's growing gap has become a slippery slope over the course of the 1990s.

A growing number of families are sliding towards the bottom of the earnings ladder in this decade. That marks a fundamental shift away from the trend of the past generation: the erosion of a "middle class" of earners and a growing number of both poor *and* rich families, which increased economic and social distances between Canadians.

Instead of pulling us in two opposite directions — towards greater affluence or greater poverty — the 1990s has taken us in one direction only: with the proportion of families barely holding ground at the richest end of the spectrum, a growing proportion of "middle class" families have been losing ground and slipping to the bottom 30 per cent of the income scale.

Any way you slice it, more families raising children in the 1990s have found their earned incomes are falling, despite working longer hours and despite a booming economy. At the same time, community supports and public services are being cut back too.

The proportion of families raising children at the bottom third of the income scale — families earning less than $35,388 — grew from 30 to 35 per cent of the population between 1989 and 1997. *(All data in this publication are reported in constant 1997 dollars, to control for the effects of inflation.)*

The very bottom grew the fastest: the poorest 10 per cent of young families earned less than $11,567 in 1989 — but by 1997, that number swelled to 14 per cent of the population of households raising children. Not only are there more families in the lowest income category but they have also become poorer over time: to belong to the poorest 10 per cent of the population meant earning less than $11,567 in 1989. By 1997, this group earned less than $6,591. By any definition of poverty, the poor are getting poorer and there are more poor families among us.

Since more families found themselves at the bottom end of the income distribution, the number of families in all other earnings categories shrunk over the 1990s. Even through years of heightened prosperity in this decade, the number of families inside the circle of affluence has shrunk. But the most startling changes are happening at the bottom, which is all the more troubling because the bottom is becoming reality for too many Canadian families.

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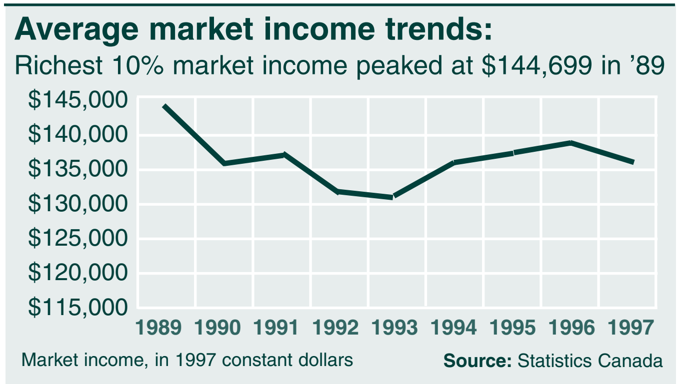
Market income is the totality of what a family makes through wages, salaries and self-employment, as well as income flows and returns from investments, including realized capital gains. Lottery winnings, informal payments, and unrealized capital gains are not included in a family's market income. No families are included whose head of family is older than 65, and there has to be at least one child under the age of 18 present to be included in the analysis. This keeps the focus on working-age families, and the situation of those who are trying to raise children. Households headed by people over the age of 65 have different considerations such as incomes from pensions, and higher income flows from RRSPs and other assets. This confuses rather than clarifies what is happening to one's ability to earn a living. "Negative" earnings has also been excluded, referring to families who have declared personal bankruptcy, and families whose self-employed earners paid out more than they took in. All data have been produced by Statistics Canada, from its Survey of Consumer Finances, the source for examining changes in income distribution in Canada since 1966.

1997 is the most recent year of data available for the study of income distribution. ◆

Meanwhile, public opinion in the 1990s is lining up along a great divide in Canada. During a time that is being hailed as a "golden era", despite greater insecurity and stress for everyone along the income spectrum, Canadians' attitudes towards the vulnerable are shaking down into two propositions: Are we doing too much to help the poor in Canadian society, or not enough?



The debate, to date, has been largely emotional — framed by fears of growing debt, lagging productivity, brain drain, and promises of tax cuts to set everything right. All of which divert us from looking at the growing problem of poverty and the failure of the market to "correct" the problem.

Disparities in incomes have been growing since 1994, despite an economic recovery. It is no coincidence that, since 1994, Canadian governments have consistently put budgetary concerns above social realities, in an attempt to "get the fundamentals right".

This report attempts to test the grand experiment of the 1990s — the experiment of less government and more market — on its own merit.

Federal and provincial governments have downsized what they offer citizens, emboldened by the wisdom of their retreat as the country moves further away from recessionary times. Has that translated into a better way of living, even in strict material terms? The full effects of the 1990s experiment becomes clearer in the chapter on after-tax incomes, which follows. This chapter looks at how families have been able to earn their own way over the 1990s.

A Decade of Volatile Market Forces

It is true that the rich are richer in Canada today than they were a generation ago, or even a few years ago, in both absolute and relative terms.

Total financial assets in Canada increased by almost $3 trillion between 1990 and 1998, a growth of 55 per cent in just eight years (Statistics Canada, Catalogue 13-214, National Balance Sheet Accounts). At least a few people have to be better off with that much more money sloshing about.

But there are also more poor Canadians. Their reality is not about keeping up with the Joneses, buying designer labels or the latest electronic gadgets. More of our fellow citizens, in both absolute and relative terms, find themselves without adequate shelter or enough to eat. These numbers have risen most dramatically among the young.

When you take inflation into account, few families in this country are doing as well as they were in 1989. This is as true for families in the richest 10 per cent of the income distribution as it is for the other 90 per cent of families.

The richest 10 per cent of families had an average market income of $144,699 in 1989. By 1997 they were earning about $8,300 less. But gains in market earnings have been largest among this group for most of the recovery — the middle to late 1990s. The richest 10 per cent saw their incomes grow by about $5,000 between 1993 and 1997. Conversely, the poorest Canadian families suffered far greater losses than those who had more money to spare in the first place.

Caution: Falling Wages Overhead

The poorest 10 per cent of families experienced a precipitous decline in market income over the decade, dropping from an average $3,741 in 1989 to $1,255 in 1997.

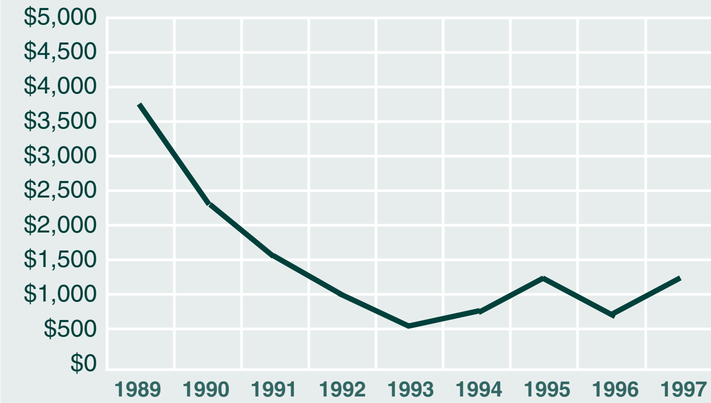
This does not represent the full extent of the damage incurred by the vicissitudes of the market. By the time the recession fully hit the labour market, average earned incomes for the poorest 10 per cent fell as low as $511.

There is a long-term trend of seriously declining market incomes, not just for the absolute poorest families but for those clustered at the bottom of the income distribution. What is appalling is that the poorest 30 per cent of Canadian families are worse off in 1997 — during the height of the business cycle — than those families raising children in 1984, during the aftermath of the deepest recession in Canada's post-war economy.

It begs the question: is this the market salvation Canada has been waiting for? If so, who is getting saved? In relative terms, the richest families lose less when the bad times hit and they are the first group of families to benefit from economic recovery.

Why? They are less likely to become unemployed in economic downturns and they are more likely to increase their pay and/or their paid hours in market upswings. This resilience is further cushioned by their "reserves" of cash, or savings and investments. *(See "Wealth versus Incomes" box at the end of this chapter*

Average market income trends:
Market income plummeted for poorest 10% over the '90s



Market income, in 1997 constant dollars **Source:** Statistics Canada *for a fuller explanation.)*

For the majority of Canadian families, earnings fluctuate wildly according to the fortunes — or misfortunes — of the market. For many, the ability to build this financial cushion is slight and diminishing over time.

Some have described these last 10 years as a period of asset-stripping of the poorest Canadians. *(See volatility chart on page 9.)* For the growing number of Canadians who are not fortunate enough to have a family or friends help "tide them over", income stabilization and assistance from government programs have become an increasingly important lifeline for stability.

This is not just a phenomenon that affects the most vulnerable among us. It has now reached into the treasured "middle class" Canadian household.

Over the course of this decade the Canadian economy has been host to recession, recovery, and major restructuring of job opportunities. Over a relatively short period of time, the Canadian distribution of income for families with young children has been fundamentally reshaped.

Last year's *Growing Gap* report noted there are fewer families earning a "middle class" income than there were in 1973. The data showed how the middle of the earnings distribution had hollowed out, despite the fact that more families relied on two earners to keep the family afloat. Instead of a growing "middle class", both ends of the income distribution — the very richest and the very poorest by 1973 standards — had swollen dramatically.

How much of this change has happened recently? We know that on average families are worse off than in 1989, but does that mean no one is better off? Where have the greatest changes occurred in the income distribution?

Quick Terms:

Deciles: In economic terms, the population of families raising dependent children is sliced up into 10 equally sized groups called deciles. The bottom decile (Decile 1) represents the poorest slice of families raising children. The top decile (Decile 10), represents the richest slice of families raising children They are often referred to as the richest 10% or the poorest 10%.

Thresholds: The earnings limit that separates one decile from another. For instance, the threshold for the poorest 10% was $6,591 in 1997. That means any family earning less than the threshold — less than $6,591 in 1997 — was counted among the poorest 10%. Every decile has a different threshold. The threshold for the richest 10% was $100,485 in 1997. That means any family earning more than $100,485 in 1997 was counted among the richest 10%.

Lowering the Bar on Earnings Thresholds

First, let us examine how we are going to define the poorest, richest and "middle class" families.

In any given year, the definition of who are the richest and poorest among us changes, because being rich or poor is relative to how other families are doing. Every year the population of families raising dependent children is sliced up into 10 equally sized groups.

These groups are called deciles — the 10 per cent clubs — and they are ranked from bottom to top in terms of earnings. The decile at the bottom of this stack of equivalently sized groups is the poorest one, representing the poorest 10 per cent of the population.

Every year the population of families raising children in Canada has been growing. In 1989 there were about 3,613,000 families raising dependent children. By 1997, there were about 3,913,000 such families. So by 1997, each of these 10 per cent slices represented about 391,300 households with children.

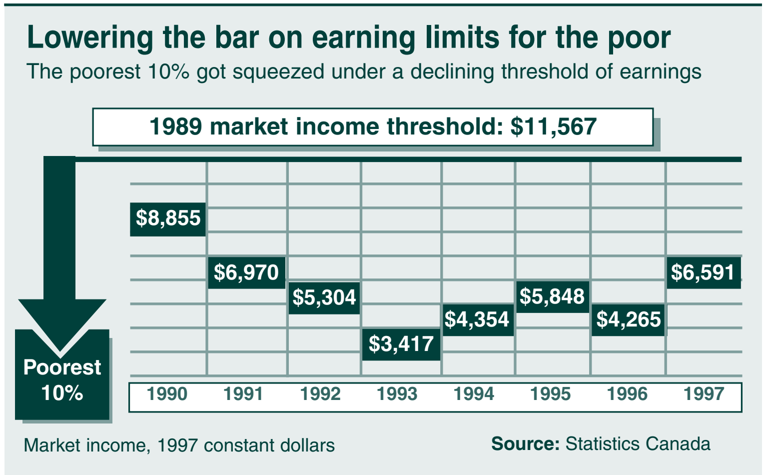
The defining feature of each of these 10 per cent slices is the "threshold" — the earnings limit, or cut-off point — that separates one decile of income earners from the next. In 1989, the threshold, or cut-off point, for the poorest 10 per cent of the population was $11,567 (measured in 1997 dollars).

Growing Economy Did Little for the Poor

By 1997 the threshold point dropped to about $6,591 — which is $4,976 less than the threshold point in 1989. This is about $7,400 less than the threshold set a generation ago in 1973. That is shocking because the size of the economy (as measured by GDP) doubled in that time yet the poverty bar fell twice as low, which means more of Canada's poorest families are earning a fraction of what the poorest families used to be able to earn (accounting for inflation).

Between 1989 and 1997, the proportion of Canadian families earning less than $11,567 grew from 10 per cent to 13.7 per cent of the population, a faster growth than any other income category. By 1997 more than 535,000 families raising dependent children earned less than $11,567.

"Middle class" families earned between $25,005 and $81,114 in 1989, which accounted for 60 per cent of families raising children. By 1997, the "middle" shrunk to 56 per cent of the population.

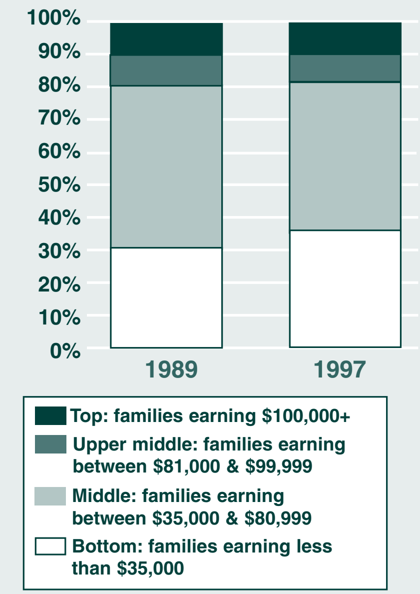


Most of that loss occurred in the dead centre of the income distribution: families that earned $35,389 to $68,732 accounted for the middle 40 per cent of the population in 1989, but only 36 per cent by 1997. Of the six earnings categories that constitute the "middle", only the poorest category grew in its share of the population relative to 1989 (all in 1997 dollars).

Surprisingly, the bottom end of the "middle class" range is still stuck where it was a generation ago. Despite all the economic growth that occurred since then, 20 per cent of the population still fell below the "Club Mid" cutoff that was established in 1973. But the upper

The ’90s slippery slope

More families slid into the bottom group



Source: Statistics Canada

reaches of the middle class now include families that would have been classified among the top 10 per cent of earners a generation ago.

By 1989, the new elite of earners — Canada’s richest 10 per cent of families raising children — made more than $100,500 a year (using 1997 dollars). This is up considerably from 1973, when it only took $80,000 to get into this club.

By 1997, the proportion of families earning more than $100,500 remained exactly the same as it was in 1989, at 10 per cent of the population. The rich have managed to hold ground during the ups and downs of the 1990s. This, despite the fact that a larger share of the population found themselves further down the earnings scale by 1997 than in 1989.

The most rapid expansion of any of the 10 individual earnings deciles occurred in the three lowest levels. In 1989, 30 per cent of families earned less than $35,388.

Eight years later, 35 per cent of families fell below this bar, accounting for 1,388,300 Canadian households raising children.

The result? More families slid to the bottom of the income distribution than those who moved up. By any definition, the poor are getting poorer, and there are more of them. So much for getting the economic fundamentals right.

Litmus Test: The Market Experiment, 1996-1997

We know that the 1990s have been tumultuous years for the majority of Canadian families, but is it something time and economic prosperity can fix? Let’s look at two years — 1996 and 1997 — to examine what a jump from economic doldrums to economic prosperity did for Canadian families.

Market income disparities between rich and poor declined sharply between 1996 and 1997. Amazingly, the gap grew in after-tax terms, which is the subject of the next chapter, but market growth itself tells a remarkable story.

The changes between 1996 and 1997 reflect strong labour market growth, but the changes were not all in the direction you might think.

The poorest 10 per cent of families indeed gained from these developments, with more families finding paid work. But the rising tide of the economy did not create enough improved earnings opportunities — in strict dollar amounts or as a percentage of their incomes — for families to survive on their own paid work. Surprisingly, the richest 10 per cent of families registered a drop in their average earned income. Let’s examine both ends of this story.

In 1996, the threshold point for the richest

10 per cent was earnings of more than $99,787. This includes earnings from employment as well as incomes from investments. By 1997 the threshold for the richest 10 per cent of families was more than $100,485. This may look like families are becoming more affluent, but average earned incomes fell for this group, dipping from $139,053 to $136,394. This was the only income group to post an average market income decline in 1997.

Erratic Developments for the Richest

Not only did the richest 10 per cent report less income, they reported that, as a group, they were putting a lot more time in the labour market. Their average weeks of work soared from 115.9 to 121.7 weeks of paid work per household over the course of the year.

There is a range of possible factors that could explain these erratic developments. But this one-year dip cannot be explained by average income figures alone.

The gradual shift in compensation practices of the 1990s means more executives get a larger part of their pay in the form of long-term investments, such as stock options. These things don't get reported as income if they are not "realized" gains or "exercised" options — that is, they are growing in value on the books, but not in people's bank accounts. But it doesn't mean these families are worse off, as the numbers would indicate.

This simply underscores how growing disparities between rich and poor cannot be measured by incomes alone. Wealth also plays a role. As the *Growing Gap* report documented last year, a Statistics Canada survey from 1984 is the most up-to-date authoritative information we have on the distribution of wealth in this country.

That survey showed that the richest 10 per cent of Canadian households owned 51.3 per cent of the country's net wealth and the bottom 50 per cent of the population held less than six per cent. Things have changed a lot since 1984.

When Statistics Canada releases its next study, due some time in the year 2000, Canadians will be able to see just how big those changes have been.

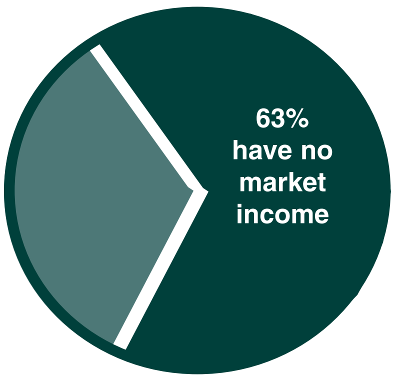
For the moment, let us return to what happened between 1996 and 1997, knowing that — excluding this aberration at the top — Canadian families in all income groups generally registered improvements in market income during this two-year period. So how much did the poorest families among us benefit?

In 1996, a family was a member of the poor-

The top decile in any year represents the widest range in incomes of any income category, because there is virtually no upper limit to its range. All other deciles have a fairly tight definition, with incomes typically falling in a range of about $10,000 between upper and lower limits. Starting at just over $100,000, the "top 10" group of families includes households with two earners bringing home $50,000 each, right up to multi-millionaires. More than any other income category, this is a highly diverse group of families.

Nonetheless, there has been remarkable stability in the long-term upward trend of these families' average incomes. The fact that this trend reversed direction during a year of growth and improved incomes for everyone else raises important questions. Though some probable causes are discussed here, other factors include regional variation and variation within the top 10 per cent itself. A fuller examination of the top 10 per cent of families is a logical next step for research. ◆

Who's not earning?
Poorest 10%: families with no market income, 1997



est 10 per cent of the population if their year's earnings from the market were less than $4,265. In 1997, the bar was raised. To get into the poorest 10 per cent club, the threshold in 1997 was $6,591.

For families in "Club Poor", average market income grew from $701 in 1996 to $1,255 in 1997. These miserable gains are the fruits of years of trickle-down economics, which appears to finally be dripping on even the poorest families.

Has pain finally translated to gain for those at the bottom? Unfortunately not. This number is simply a reflection of more people working, not that people who are working are necessarily getting more for their efforts.

In 1996, 73 per cent of these families had no form of market income. By 1997, 63 per cent were still outside the labour market. But approximately 40,000 families across the country had joined the work force, for at least a brief period, so that 145,000 families out of the poorest 391,300 had some amount of paid work.

This is consistent with the longer term trends that show how, over time and year-to-year, changes in the rates of unemployment are magnified at the bottom end.

Not only were more people working, those who were working were putting in a lot more time. In 1996, the families in the poorest 10 per cent of the population that had paid work registered an average of 23.7 weeks of work throughout the year.

By 1997, the average working poor family had a full month's more worth of work, up to 27.4 weeks throughout the year. But the average earned income of this group of 145,000 families only rose to $2,448 in 1997 from $2,204 in 1996. In fact, if you were to calculate this amount as their pay per week, the average weekly take dropped from $93 a week to $89 a week over the course of the year. Or, if you consider it as marginal extra weeks worked, they were worth an extra $66 a week.

Notwithstanding these slender gains, 63 per cent of this group still had no earnings. Each group of 10 per cent represents about 391,300 families, and each of these families has at least one adult and one child under 18. That's a huge number of people who would be completely destitute were it not for some form of income support from government sources.

The Big Picture

Examining the trends in Canadian market income, one can see three broad-brush strokes for the 1990s:

- For a growing number of families, the

market is a declining and less reliable source of income for the paid work they do. Despite economic growth, people are losing hours of work and/or rates of pay and more communities are finding their job-creating potential seriously eroded.

- The market provides wildly volatile results for those at the bottom and remarkably stable results for those at the top. The result is greater inequality.

- More Canadian families are moving down the income spectrum and fewer are moving up towards greater affluence — which leads to greater economic and social insecurity. These changes are affecting the poorest families and reaching well up into the middle of the income spectrum.

Given these facts, the proposition that the market will eventually "correct" things if only governments move out of its way looks unconvincing.

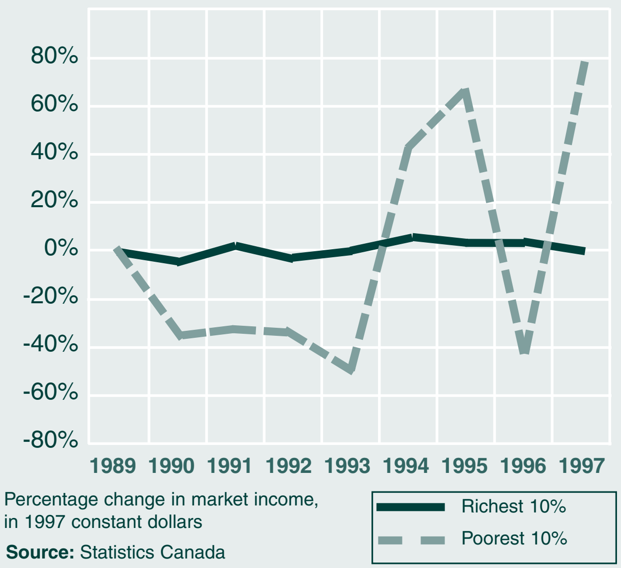
Why, then, have the stabilizing effects of income supports, and the taxation required to support them, become so vilified? Income inequalities are driven by how people make a living. If things didn't get worse in the market distribution of opportunities, societies and governments wouldn't have to make tough political decisions about how much attention to pay to maintaining the status quo and social stability.

It is not the economic fortunes of the most affluent among us that is driving income inequalities, although the attitudes of those at the top of the heap disproportionately affect what the rest of society can expect.

Rather, trends in inequality are driven by the fortunes of those at the bottom of the spectrum: foremost, the access families have to sustaining jobs and, secondarily, to income supports. That access — paid work and income stability — has been increasingly jeopardized for those at the bottom. This is not just for the poorest among us, but for a growing proportion of the working population.

Volatility vs. stability: Market results

Comparing the rich vs. the poor in the 1990s



Percentage change in market income, in 1997 constant dollars

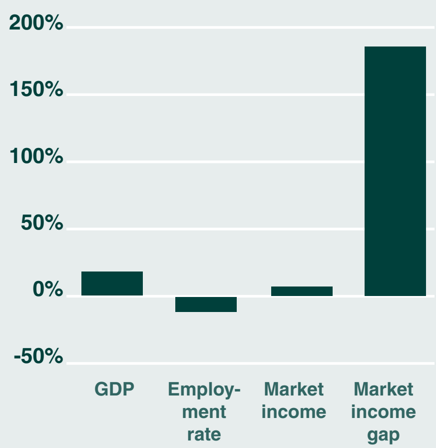
Source: Statistics Canada

Economic Growth = Better Living?

In the past, economic growth translated into improvement both in terms of individual and

A growing market gap: 1989-97

Economic growth ≠ equitable distribution



Source: Statistics Canada

community quality of life. Families could earn more in good times and also support better facilities for their communities. Sometimes it is hard to remember that the arrival of flush toilets, electricity, paved roads, community centres and playgrounds, libraries, arenas and pools came within the last generation or two for many communities across this nation.

The uncomfortable reality of the past two decades is that economic growth may not translate into individual improvements in standards of living: you don't need bad times to be worse off. You can earn less any time, even in good times, and even when the organization you work for is wildly successful. A quick glance at the headlines is testimony to the fact that in major corporations — such as the banks and transportation giants like CN — record profit levels are often accompanied, and sometimes accomplished, by laying people off.

Looking at the trends of the 1990s, one can see that economic growth has not resulted in a higher employment rate, nor higher earnings, nor a more equitable distribution of income. It has resulted in more people being left out of the action.

- As measured by inflation-adjusted GDP figures, the Canadian economy was 13 per cent bigger in 1997 than in 1989. (Not adjusting for inflation, this meant more than $140 billion was added to the pot.)

- In 1989, 62.4 per cent of the working age population were employed. By 1997, despite economic recovery from the recession of the early 1990s, that rate had fallen to 58.9 per cent. Simply put, a smaller share of the working age population had any paid work by 1997, despite a larger economy.

- The total earnings of all households raising children barely budged, exceeding the 1989 level by 1.3 per cent by 1997.

- Stability of market incomes masked a stark fact: the distribution of those earnings had become much more unequal during this time. In 1989 the richest 10 per cent of families earned an average income that was 39 times greater than the average incomes of the poorest 10 per cent. By 1997 — a year of strong labour market performance — it was 109 times more. This was primarily due to dramatic losses in market income among the poorest households over the 1990s.

The evidence shows that despite strong economic growth a growing number of individual households are being denied its benefits. Just as importantly, the economic growth we are experiencing is unlikely to translate into resources to improve the qualities we enjoy in our communities.

After years of funding cuts, budget surpluses are seen, at best, as opportunities for restoring — not improving — the most basic services: health and education services.

Other basics — vital necessities such as financing meaningful strategies for dealing with affordable housing, child care, poverty, home and community care and environmental protection — are practically off the political radar screen.

Even restoring funding levels for the most basic services is a best case scenario. Increasingly, budget surpluses are viewed as potential fiscal dividends, to be paid out to individual taxpayers in the form of tax cuts.

The voice of collective resistance is far from absent, but in the absence of a bumper sticker slogan on what to do with the surplus, it is being drowned out by the din of those insistent on improved individual well-being, defined in the late 1990s as cutting taxes.

Fiscal restraints of this decade, and the gradual withdrawal of government supports, has meant community assets are being stripped down through closure of services, reduced hours of access, increased waiting lists, as well as an introduction or an increase in user fees.

But proposals to restore and improve communities are decried as a return to the old "tax and spend" days of governing, which we are told should by now have been completely abandoned.

This is leading to all kinds of tensions, most notably the tension between livelihood and accumulation. Some people are making far beyond even the most exaggerated needs, and others are not making enough to ensure their survival. That is one of the harshest realities of the growing gap's slippery slope. ◆

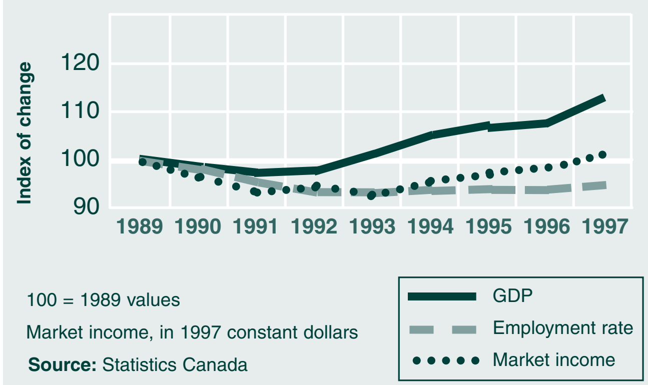
Quick Terms:

Employment rate: Describes the portion of the working age population that is holding a job. It does not include the unemployed, students, discouraged workers, homemakers, and those over the age of 65.

Index: An index tracks how things change over time, relative to a particular point in time. The base year is set at 100, and the index either goes up (the variable is gaining in importance/getting bigger) or it goes down (the variable is losing value). In this case we set the base year in 1989 (1989=100) to see how developments of the 1990s have affected economic output, the proportion of the population that holds a job, and the lump sum of earnings generated by those jobs.

Economic growth leaving people behind

Jobs & market income didn't keep pace in the '90s



100 = 1989 values

Market income, in 1997 constant dollars

Source: Statistics Canada

Wealth versus incomes

Since 1981, investment income has been falling steadily for all categories of families with children under 18, even the richest families.

Two reinforcing tendencies explain this decline: lower interest rates on fixed investments (such as bonds, GICs and treasury bills); and a shift of investments towards equities in the stock market, primarily through mutual funds.

Interest rates have been falling from about 18 per cent in 1981 to as low as 3.5 per cent in June of 1997, a rate that Canadians have not seen since 1963. These rates, set by the Bank of Canada, govern the costs of borrowing money for governments, businesses, and individual households.

On the other side of the ledger, these rates dictate how much money lenders can earn. This includes people who buy bonds *(see www.bank-banque-canada.ca)*. Most Canadians have historically preferred the safety of fixed incomes from their savings, in the form of GICs and bonds. These financial instruments have life cycles as short as a few months and as long as 15 years, sometimes more.

As these financial instruments have matured and been repurchased, their yields have dropped, due to declining interest rates. Since the lion's share of investments is in this low-risk form, the collective annual income from investments has been getting smaller.

More recently, there has been a push towards the purchase of mutual funds, spurred by the growth in the stock market and by aggressive marketing campaigns that have warned of a "crisis" in public pension plans.

Attempts to safeguard the CPP/QPP were cumbersome and delayed. RRSP limits were frozen, then improved, at a time when other types of social spending were cut. Such developments in public policies have emphasized the role of private savings over public pensions.

Consequently, among the population that is able to save money, billions of dollars gradually shifted from fixed income investments to equity investments.

Despite the record increases in value reported by many mutual funds in the run-up to RRSP season, however, more equity does not necessarily translate into increased annual incomes.

Not all returns on equities are reported as income. If a stock pays no dividend, but still increases in value, it is only reported as income (in the form of capital gains) when sold. In this case, investment income has fallen to zero but the stock's worth could have tripled.

In other words, some of the wealthiest investors have low incomes from their investments. The key is not income (the flow of money) but worth (the accumulated stock of money).

The emphasis on creating one's own wealth in the 1990s overlooks the fact that significant levels of investments are not in the cards for most people.

Few Canadians can afford to put aside some money for their future needs in any given year, even with the added incentive of a tax break. In 1996 almost 21 million personal tax returns were filed in Canada. Only 6 million (or 29 percent of tax filers) included deductions for RRSP contributions, the largest and most commonly used tax shelter in the system. ◆

Dateline: Halifax, 1998

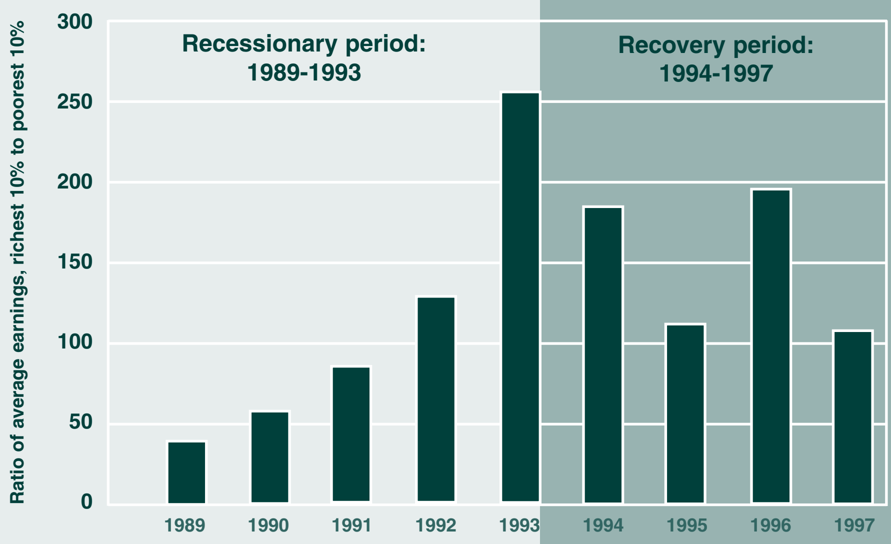
He stood there, with his eyes shut. A long pause, electrifying in the power of its tension, engulfed all of us in the room, more than 150 people. He was a distinguished-looking man, a retired professor from the University of Prince Edward Island. He had been telling us about his daughter, in

the human cost of the slippery slope

her late 20s. Hesitating a number of times as he reconstructed the sequence of events, he was struggling for balance between words and poise. She was a highly intelligent young woman, with an honours degree in Science. After graduating, she worked steadily in a biology lab close to where she grew up, dissecting rats. One day she thought that maybe she could do something more useful, make a greater contribution. Her idea took her to a Third World country, working for room and board. She wrote many letters home, constantly amazed that she was getting so much from people who had, virtually, nothing. When she returned to Canada and her family home, she immediately started looking for paid work. Confident of her skills, armed with a stellar resume, she looked for months without success. Eventually each passing day robbed a little more of her spirit.

He stopped again, afraid to speak another word for fear of crying in public. Then he went on to his poignant conclusion: "You know, I can invite my daughter to take part in a middle class life. But, with all her skills and willingness to work, she can't get there by herself. I will never forget the night she threw herself into my arms, sobbing. She asked: 'What do the poor people do in this country?'" ◆

The Growing Gap in market incomes, Canada 1989 to 1997



Source: Statistics Canada

The Growing Gap in after-tax incomes, Canada 1989 to 1997

Source: Statistics Canada

The growing gap and economic growth

In bad economic times, such as the recession of the early 1990s, the gap in market incomes grows. Why? Job losses and loss of hours of paid work are disproportionately high among the poorest families. As a result, market incomes decline far more dramatically at the bottom of the income spectrum than for any other income group, which means market inequalities grow.

But in the 1990s, even prosperous economic times have failed to produce consistently better earnings opportunities for the poorest families. Record profits can coincide with — even be driven by — using less or cheaper labour. More austerity at the bottom of the organization drives the profit machine, which pays for bigger bonuses at the top and results in higher values for shareholders. The new market reality: economic growth does not necessarily translate into more prosperity for everyone.

Clearly we can't rely only on the market to reduce the gap and create social stability. Government actions — and inactions — make the critical difference.

The after-tax chart shows governments have done an about-face in their social priorities over the course of the 1990s. From a long-standing role of stabilizing or even improving the distribution of incomes among families raising children, governments have systematically withdrawn vital income (and other) supports.

Ironically, governments were more helpful to Canada's poorest during the most difficult economic times of the 1990s and least helpful when it could afford to do the most. ◆

— Chapter Two —

The Slippery Slope of Political Choice

The 1990s presented Canada's various levels of government with an unprecedented political choice:

(1) Continue government's long tradition of providing economic and social stability — a job complicated by increasingly volatile market forces; or

(2) Bow to emerging pressures to back off from government's role as the "great equalizer" — the effect of which is to gradually write government out of a job description.

Throughout the 1990s, and especially after 1994, the federal government repeatedly opted for political choice #2. It adopted a "less is more" approach to social supports and it took the lead in changing the role governments play in Canadians' lives.

The federal government cut back on transfer payments to individuals and the provinces, and it also privatized or downloaded other functions. This put pressure on provincial and municipal governments to make new political choices of their own.

The growing cry for tax cuts is just one by-product of these changing political choices. Shrinking disposable incomes and growing income inequality are two others. All three are inextricably linked, as we shall see.

In an era where expectations for help and constructive government interventions are on the wane, it is worth examining the impact a "less is more" style of governance had on Canadian's lives. As we'll see in this chapter, changes in the tax and transfer system in the 1990s reveal political choice as a greater determinant of income inequalities than economic circumstance.

Despite economic recession and rising market inequalities, after-tax income inequality in Canada decreased until 1993. Since 1994, however, the after-tax gap between rich and poor has grown more rapidly than at any time since the early 1970s.

Overall, most Canadian families raising young children were worse off in after-tax terms over the past decade.

The average earned incomes for every decile increased between 1994 and 1997, but this was also a period during which governments cut both transfers and taxes. The net effect of this retrenchment only benefited the richest 10 per cent of families. They were the only group of families that had a lower effective rate of income tax in 1997 than in 1994.

Meanwhile the poorest 10 per cent of families slipped further down the slippery slope of

Quick Term:

Effective rate of income tax (or effective tax rate): Describes the proportion of total income paid in income tax. This includes exemptions, deductions, credits and surtaxes as well as the rate at which your income is taxed.

after-tax incomes. Though they saw some tax relief, those gains were outweighed by cuts to income supports and by the reality that tax cuts don't help if you can't earn enough in the paid labour market to even file for a tax cut. A tax cut on nothing still leaves you with nothing.

The previous chapter showed that finally economic growth appeared to be trickling all the way down to the poorest 10 per cent of Canadian families — but it wasn't enough to live on.

Between 1996 and 1997, the poorest 10 per cent of families' average market incomes grew from $701 a year to a meagre $1,255. This raised the earned incomes of the poorest Canadian households raising children from a level roughly comparable to the GDP per capita in the Democratic Republic of the Congo up to the average standard of living in Bangladesh (calculated from figures in the United Nations Human Development Report, 1999). Hardly a victory.

When you look at after-tax incomes, which are actually after-transfer and after-tax incomes *(see footnote)*, the gap between rich and poor grew fastest during the economic recovery. The gap measures the economic distance between average incomes of the richest 10 per cent of families raising children to those of the poorest 10 per cent.

The growing gap can be measured by comparing incomes based on strict market outcomes — what people can earn for themselves — or by comparing after-tax incomes, combining market outcomes with the redistributive role of governments.

Political Choice#1: Federal Retreat

As the charts comparing the gap in market and after-tax terms show (page 14), market performance is not enough to close the gap in the final count. The previous chapter underscored how the role of economic growth in reducing disparities has been *over*estimated. This chapter seeks to show how the role of political choice has been *under*estimated.

Improvements in earning power between 1996 and 1997 were offset by continued reductions to income support programs that had been significantly eroded earlier in the decade.

The welfare state was built on the assumption that the primary source of economic security came from a job. There is neither enough paid work, nor is all work paid at rates that can sustain households. Yet income supports are increasingly viewed as dispensable by the decision-makers of this country.

Over the course of this century, government

Footnote:

Readers are reminded that there are two important ways of looking at incomes. First, income is what we earn for ourselves through our wages, salaries, self-employment and returns on investments. This is termed market income and was the subject of the previous chapter. Changes in the distribution of market income are the primary force driving trends in income inequality. Second, after-tax incomes refer to our real purchasing power, what we have in our pockets at the end of the day. This measure of income includes the effects of income transfers from government programs (such as unemployment insurance benefits, social assistance benefits, and family/child assistance benefits) as well as provincial and federal income taxation.

This chapter puts the focus on the after-transfers/after-taxes story, which is reflective of both the market and political choices. The analysis is based on constant 1997 dollars to eliminate the effects of inflation. 1997 is the most recent year of data available for decile by decile analysis.

interventions have narrowed income disparities among Canadian families. These policies and programs have traditionally helped stabilize society, as can be seen by the astonishing contrasts between after-tax and market outcomes — a contrast that still holds true today.

Compare market and after-tax incomes for the poorest 10 per cent of families in 1997. They earned $1,255 in paid labour — not enough to live on. But the tax and transfer system boosted their after-tax income to $13,806 — still not enough to raise a family with, but $12,551 more than what the market gave them.

Recent changes in the tax and transfer system, however, have moved us in a new direction, where the gap between rich and poor can widen even in the midst of growing prosperity.

Political choice is underlying this anomaly. Between 1996 and 1997, the poorest 10 per cent of families saw their after-tax incomes decline by $130 dollars. For these 391,300 families, average disposable household incomes slipped to $13,806.

The richest families, who reported a $2,660 loss of earned income between 1996 and 1997, saw that loss flattened out to less than a $200 difference in after-tax terms. Families in the top 10 per cent of the income spectrum had average disposable incomes of $98,746 per household.

Both groups lost out, but the poor lost a greater proportion of their income than the rich. The result: a growing gap in after-tax incomes. And still more evidence that, even when the poor are doing more for themselves, they are getting harder hit by the changes of the 1990s than any one else.

To understand the peculiar events of the last year, one has to go back to the bigger picture of this decade. When you measure incomes in inflation-adjusted dollars, you see after-tax incomes of all economic classes in this country were significantly lower in 1997 than they were in 1989. Generally speaking, that means developments of the 1990s made everybody worse off in terms of their purchasing power.

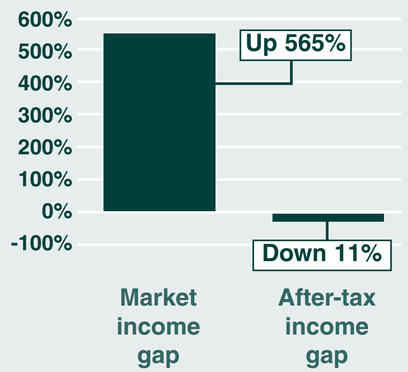
But within that context, the relationship between the disposable incomes of the richest and poorest families deteriorated.

In 1989, the richest 10 per cent of families raising children had average after-tax incomes of $106,963. This meant they had 6.95 times as much spending power as the poorest 10 per cent (or, on average, $91,600 more). By 1997, the disparities had grown to a multiple of 7.15 in spending power (or an average difference of $85,000 in after-tax incomes — a smaller distance because everybody lost income in the 1990s).

> “The sharpest indictment of the Finance Minister is not what he has done, but what he has failed to do.”
>
> — Tom Kent, senior architect of the Canadian welfare state, *The Globe and Mail*, February 25, 1999.

The growing gap: 1989-93

The market income gap grew

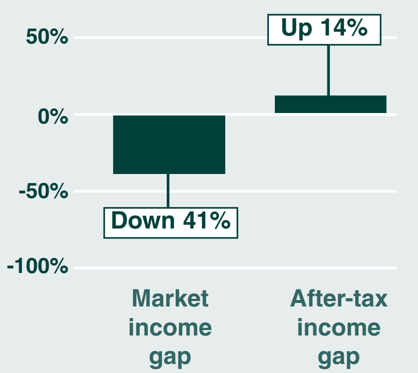


Source: Statistics Canada

Note:
The larger the number, the greater the change in the gap between rich and poor. A positive number means the gap grew larger, a negative number means the gap was getting smaller.

The growing gap: 1994-97

The after-tax income gap grew



Source: Statistics Canada

Some readers may interpret these changes as incremental and unimportant. Indeed, students of trends in income inequality often complain it is rather like watching the grass grow. The importance of these numbers is in the direction of the trends: is inequality increasing or decreasing? Does economic improvement track closely with less inequality? Are the rates of change speeding up or slowing down, relative to their own track record over time?

On all counts, data from the 1990s reflect political choices served to widen the gap between rich and poor rather than bridge it, and the after-tax gap has grown an alarmingly rapid rate.

It's disappointing to see something get worse at a time when economic circumstances make it easier to improve. The gap has not, however, grown in a steady fashion. Over the course of the 1990s, the relationship between the richest and poorest families in Canada has gone through two discrete periods.

The first covers the recessionary period, from 1989 to 1993. The second is the recovery period, from 1994 to 1997 (the latest available year for data on income distribution). Both periods offer insights about governments' options to maintain or abandon the project of ensuring social stability.

Recessionary period: The distribution of market incomes deteriorated most rapidly during the recessionary period of 1989 to 1993, as could be expected. Average market incomes fell for every decile in this period, but the poorest families lost the most.

In 1989, average market incomes of the richest 10 per cent were 39 times greater than that of the poorest. By 1993, the gap had exploded to a rich/poor ratio of 257.

Recovery period: Economic recovery between 1994 and 1997 resulted in more people working, with some people working longer. This did not mean the gap shrank steadily during this period, but by 1997 the rich/poor ratio had fallen to 109.

Ironically, when things were at their worst economically, the after-tax gap — which reflects the role of government through transfers and taxes — was getting smaller:

- Average after-tax incomes of the richest 10 per cent of families raising children were 6.95 times that of the poorest 10 per cent in 1989. By 1993, at the height of the effects of the recession, the gap was 6.22.

- As the economy picked up, the gap between rich and poor grew, from 6.22

to 7.15 in four years. That's the quickest rate of change since the early 1970s, when we first starting tracking the size of the gap.

This suggests the political choices of the mid-1990s, not economic circumstance, shaped the scope and depth of the growing gap in this decade.

The result of these political choices is most evident in the provinces, especially among those provincial governments that made very conscious political decisions to reduce inequalities, even in the face of economic hardship. The next chapter explores provincial political decision-making at a deeper level. In this chapter, the focus is on a few provincial examples to show how provincial governments of all shapes and political stripes used the tax and transfer system to narrow the gap during the recessionary period of the 1990s.

Political Choice #2: Provincial Action

Recessions in Canada are not felt everywhere to the same degree of hardship. The same can be said of recoveries: just because the economy is in recovery doesn't mean all provinces rebound at the same rate. Also, labour markets — where people earn their living — tend to be slow to respond to the decline and revival phase of regional output, as measured by the Gross Domestic Product (GDP).

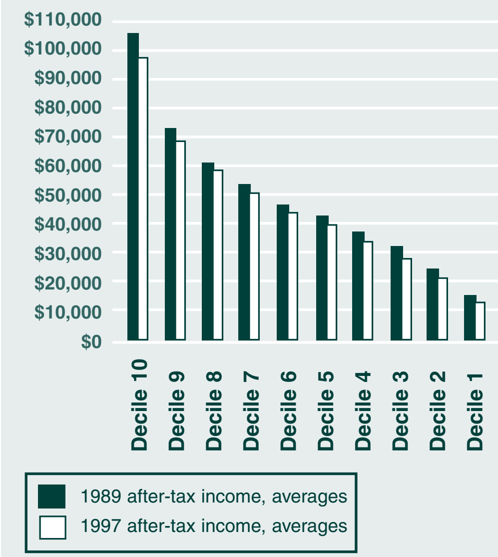
The full effects of an economic downturn can ripple through the system for two or three years. The "recovery" of labour market opportunities took six to seven years in the 1980s and longer in the 1990s, causing some to say we have entered an era of "jobless" recoveries.

The 1990-91 recession was focused in central Canada — in Manitoba, Ontario, and Quebec — but the most spectacular effects were felt in Ontario, where the poorest 10 per cent of the population saw a 95 per cent decline in market incomes between 1989 and 1993, from an average earned annual income of $7,238 to an average of $362 a year. So the decision to support the poorest families in the province came with a huge price tag and a huge pay-off in terms of holding society together in the face of an unravelling market.

After the recession of 1990-91, the poorest 10 per cent of Canadian families was the first group to post an improvement in after-tax incomes — due, in large part, to improvements in social assistance programs in some key provinces. The response by the federal government of the day was to introduce a unilateral cap on these cost-shared programs.

Income after tax: 1989-97

Every decile has less after-tax income



1997 constant dollars

Source: Statistics Canada

Between 1990 and 1993, the after-tax income gap closed in British Columbia, Quebec, and Ontario, rising or fluctuating everywhere else.

- Quebec made sweeping changes in its welfare system in 1989 and 1990, improving the rates of assistance, expanding eligibility to the system and introducing a wage assistance program for the working poor with children. By 1993, welfare rates were being cut. *(See footnote #1.)*

- British Columbia increased basic welfare assistance in 1992, 1993 and 1994, though maximum shelter rates were frozen at 1992 levels. But already by 1993 the stage was being set for tightening up the costs of the system.

- Ontario was the only province that continued to close the gap until 1994, when the effects of the recession were still pounding the poorest families of the province. In 1989, Ontario standardized and improved rates of assistance. It also extended and improved supplemental health benefits for those leaving welfare for work.

  Early in 1991, basic welfare allowances went up by seven per cent while shelter allowances went up by 10 per cent, with further improvements by the end of the year.

  Despite increased scrutiny of social assistance recipients and tightened rules for exemptions and eligibility, basic welfare rates went up in 1992 by one per cent. Still, the cost containment initiatives were firmly in place by 1994.

The choices made by these provinces during that critical period strongly influenced the national trends in income inequality. The scale of changes in Ontario arguably had the greatest impact on the nation, given the size of Ontario's population and the degree of hardship experienced during the recession by the people of that province.

The result: studies comparing the track record of industrialized countries in the mid-1990s placed Canada on the international short-list of nations that had closed the gap in the face of the increasing market pressures unleashed by ubiquitous deregulation, privatization and globalization *(see footnote #2)*.

Since 1994 the story has reversed direction. Though after-tax incomes have dipped up and down over this period, most income groups have been able to maintain or slightly improve their average after-tax incomes. All except the poorest 10 per cent of Canadian families, who

Footnotes:

#1 The synopsis of changes in these provinces comes from "Another Look at Welfare Reform", a report by the National Council of Welfare, Ottawa: Autumn 1997. Newfoundland was the only other province that made some modest improvements to its rates of assistance in the 1990 to 1993 period. Some forms of special assistance coverage were increased in 1991 (for winter fuel supplements, a $55 monthly supplement for single parents, and modest improvements to allowances for medical diets and funeral expenses) and basic welfare rates were raised a little in 1992. The repeated gutting of the Unemployment Insurance system in 1990 vastly overshadowed these changes, however.

#2 See, especially, Gottshalk and Smeeding, "Cross-National Income Inequality", Journal of Economic Literature, Vol. XXXV, June 1997.

have seen the steady erosion of their disposable incomes due to continuous cutbacks in the entire system of federal and provincial transfers.

A privileged few are making headway on improving their fortunes, but for those at the bottom of the heap, the floor of poverty is falling lower and lower. This causes a growing gap in disposable incomes — one that has grown steadily since the start of Canada's economic recovery.

The growing gap compares the two ends of the income distribution. The next section looks at Canadians across the whole income spectrum over the course of this decade.

Political Choice #3: Abandon the Poorest

One of the most disturbing stories of the decade is that the vast majority of families raising children have found themselves sucked into a slide to the bottom of the income scale. This is true whether measured strictly in terms of what the market has to offer or in terms of the after-tax distribution of incomes, the outcomes that reflect social priorities.

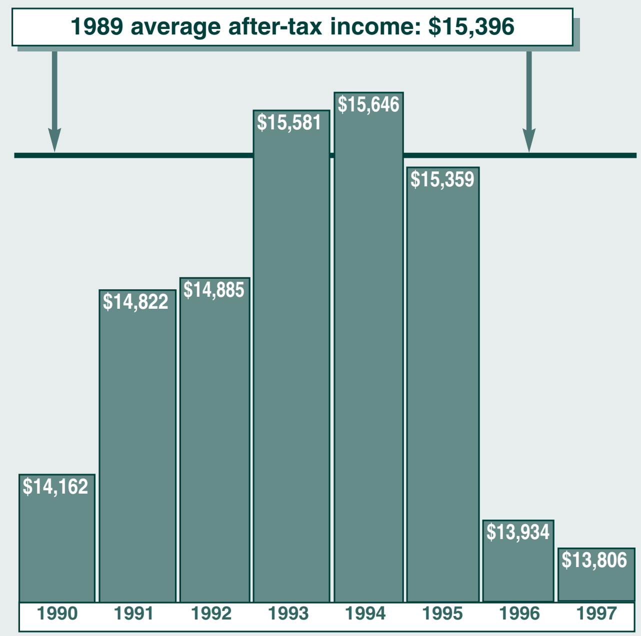
Things are developing differently in the 1990s than in earlier periods. The last *Growing Gap* report showed the degree to which economic changes since 1973 had polarized the population of families away from the middle and towards each end of the income spectrum.

Though there is growing income inequality in the 1990s, it is not being driven by polarization. Polarization means there are more poor families and more rich families. Throughout the 1990s — a decade of restructuring — more families have ended up at the bottom end of the after-tax income distribution and fewer families are at the top.

This can best be seen by using the same income definitions over time and examining how the income distribution has changed. In this exercise we hold constant the 1989 definitions of the 10 after-tax income deciles. We simply retain the upper and lower limits of each decile (measured in 1997 dollars) and see how much of the population fits into these categories by 1997. These categories could regis-

Lowering the bar on incomes for the poor

Average after-tax incomes of the poorest 10% declined sharply in 1990s

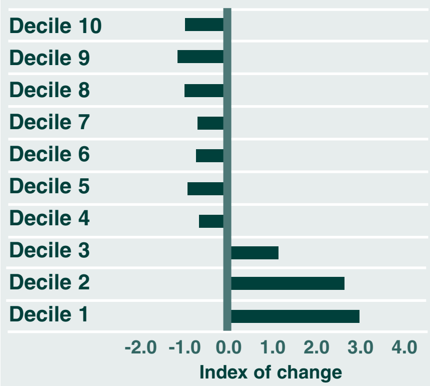


After-tax income, 1997 constant dollars

Source: Statistics Canada

The slippery slope: by decile

More families fell into the bottom 3 deciles (In after-tax income)



- No change since 1989 registers as 0.0
- Poorest income category grew from 10% to 13% of families raising children
- Richest income category fell from 10% to 9%

Source: Statistics Canada

ter no change (still clocking in at 10 per cent of the population). They could also reveal a smaller share of the population (less than 10 per cent) or a greater share (more than 10 per cent).

In 1989, any family with less than $19,320 in after-tax income fell into the bottom 10 per cent of the income distribution. By 1997, 13 per cent of the population — over half a million families raising children — had less than $19,320 to spend.

The poorest after-tax income category expanded most rapidly. Most of these families fell well below that cut-off, with incomes averaging $12,805 a year by 1997.

Not only is the share of families stuffed into the bottom income category growing, their average disposable income is shrinking rapidly. In 1989 their average after-tax incomes was $15,396. (Both figures in 1997 constant dollars).

The next two income categories (deciles two and three as defined in 1989) also grew in their importance in the income distribution. Only the poorest three after-tax income categories accounted for a larger share of the population by 1997.

In 1989, 30 per cent of families raising children had after-tax incomes of less than $35,038 (in 1997 dollars). By 1997, 37 per cent of the population fell under this income threshold.

Most families had after-tax incomes far below this cut-off, and average incomes for each of these categories had fallen as well: between 1989 and 1997, losses ranged between $2,600 and $4,000 (adjusted for inflation) for average after-tax incomes of families in the bottom three deciles.

The middle of the income distribution is not just shrinking, it is starting to melt into the bottom.

In 1989, 60 per cent of the population of families raising children had after-tax incomes ranging between $28,736 and $65,593 (deciles three to eight in 1989). By 1997 that range accounted for only 56.5 per cent of this population. More families had shifted down to the bottom of this "middle class" range by 1997; fewer families were at the upper reaches of this income range.

The greatest erosion was among the families that used to be in the upper end of the distribution. The proportion of households represented by an after-tax income range between $57,000 and $79,557 (deciles eight and nine using 1989 definitions) fell from 20 per cent to 17.6 per cent by 1997.

After-tax incomes above $79,557 used to be the mark of the richest 10 per cent of the population in 1989. By 1997 only nine per cent of the population crossed that threshold.

In what way has Canadian society benefited from a period of "tough love" in public policy, from getting "our" house in order, from pounding home the idea of "no gain without pain" in all things economic? Where's the gain?

Political Choice #4: Transfer Cuts

As this year's data continue to emphasize, the role of strong economic growth in building a strong and cohesive society is being over-emphasized, while the role of governments is being under-played.

By 1997 the continued changes in the tax and transfer system more than outweighed the benefits of improved market incomes for those at the bottom of the income spectrum. This means that our governments have failed that minimal test — not to make things worse — even in the context of generalized material improvement for the majority.

How has that happened? The most commonly heard response is that we are paying more taxes, so our standard of living is declining. That places blame for declining fortunes at the feet of governments. In an era that has demanded governments get out of the way of the engine of prosperity — ostensibly the market — this conclusion curiously overlooks the real reason for declining standards of living: declining market incomes from the labour market.

This is not to say governments are blameless. Governments play a critical role in improving or eroding the standard of living — a role that can be direct or indirect. Governments affect labour market outcomes indirectly through policies governing interest rates, money and trade flows, and labour market regulations.

Governments also directly affect people's disposal incomes in two ways. Taxes, of course, are only half of this equation. The other half is transfers of income — the part of the equation no one seems to talk about. And yet transfers best describe the positive role governments can play in all of our lives during times of need because this is not just about incomes; it is about social stability.

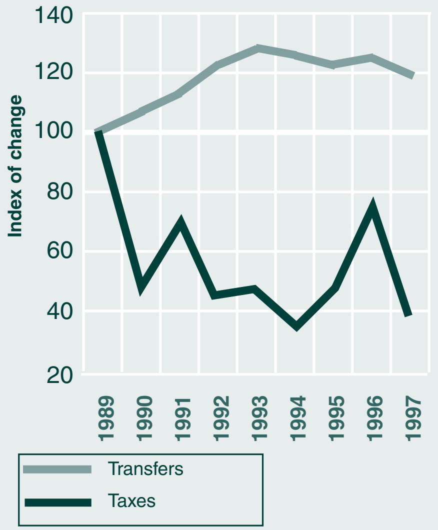
Since the mid-1990s, government programs such as unemployment insurance and social assistance have been declining for the poorest Canadians.

The federal government has eroded the provision of income supports for the unemployed throughout the decade. Unemployment insurance benefits covered 74 per cent of the unemployed in 1989, but only 36 per cent by 1997, turning the fund into a deep pocket for

> Governments directly affect people's incomes in two ways. Taxes leap to mind but are only half of the equation. Transfers are the other half — the half no one seems to talk about.

Snapshot: Decile 1 (poor)

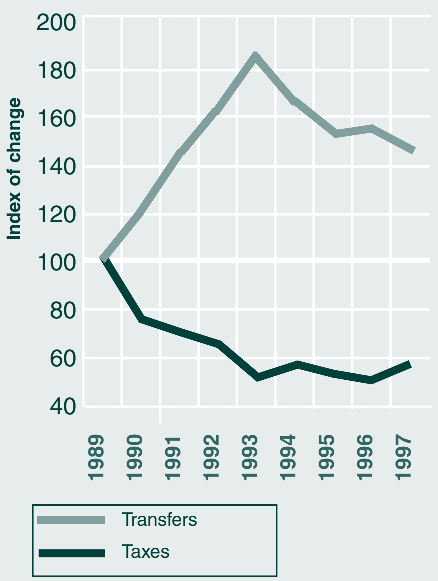
The tax and transfer picture



Source: Statistics Canada

Snapshot: Decile 2

The tax and transfer picture



Source: Statistics Canada

financing deficit reduction at the federal level.

Governments have also eroded the income assistance of last recourse — welfare — through rate cuts, tightened eligibility, loss of supplementary and special allowances, and restricted exemptions.

Only the federal income support for families raising dependent children, through the Canada Child Tax Benefit, increased during this period. But because it is targeted to the working poor, it did nothing to improve the finances of the poorest Canadian families — those without work.

The charts in the margins show how things have changed over the 1990s in the proportion of total incomes that come from transfers and the proportion of total income paid in taxes. Each of these two elements is critical to the eventual outcome in people's purchasing power, or disposable incomes.

The charts hold 1989 as the base year for comparison. They track how the relative importance of transfers and taxes has changed over the 1990s for each decile of the Canadian population of families raising children (1997 is the most recent year of data available for multi-income-class analysis).

Despite the fact that some of the cuts described above were already implemented, transfers paid out to individuals reached their post-war high in 1993, as more and more people found themselves without paid work for longer periods of time. With each new recession we start from a higher plateau of people who have needed some kind of income stabilization or assistance. The charts in the margins show virtually all income classes in this country benefited from the supports that existed during the difficult economic times of the early 1990s.

The poorest families, already receiving a high proportion of their total incomes from income supports, saw that share rise by 25 per cent through the worst of the recession.

Families in decile two, often described as the working poor, saw their share of income from transfers almost double as many lost their jobs or hours of work.

Deciles three to five also saw the part of their total income which flows from income supports increase dramatically, by 60 per cent over the worst period of the recession.

Decile eight and nine saw the part of their incomes flowing from income support programs increase by 25 per cent.

Even those in the richest two deciles saw their reliance on income supports grow by seven per cent.

Since 1993, a period which marked the combination of economic recovery and retrenchment of government supports, there has been a rapid descent in the proportion of family incomes that comes from transfers.

Whether markets or public policies play the dominant role in the lives of the poorest Canadians is not in question, however. With 63 per cent of the bottom decile reporting no weeks of earned income in 1997, what governments choose to do or not do is critical.

The effect of cutbacks to transfers is felt most acutely among the poorest 10 per cent of families raising children. Between 1994 and 1997 these families lost an average of $2,541 in transfers, representing about a sixth of their total incomes in 1994, the greatest absolute and relative loss felt by any income group.

The value of average transfers to families in the poorest 10 per cent fell from $14,975 to $12,609 in this period (all figures in 1997 dollars).

While the drop in transfers to the richest families looks most dramatic in the charts, the dollar figures are quite minimal: the richest 10 per cent saw their transfers from income supports drop from $1,637 in 1994 to $1,548 in 1997, a loss of not even $100. In fact, while every other decile saw a continuous decline in dollar amounts and share of total income flowing from transfers, the richest 10 per cent was the only group to show about a $100 increase between 1996 and 1997 (they lost more than $200 over the four years).

The charts show the most rapid changes since 1989 for the poorest families have been with respect to their effective tax rates. Their market incomes dropped precipitously in this decade, dramatically affecting the proportion of their income paid in taxes.

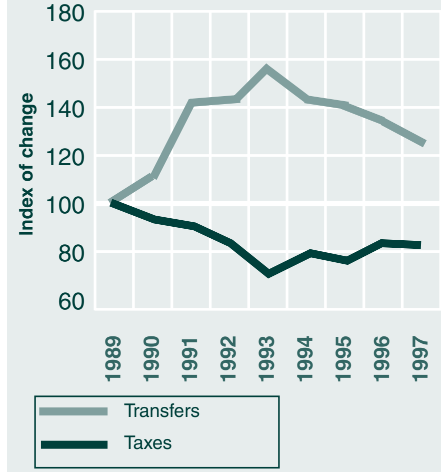
Interestingly, the dollar amounts show income tax cuts are not going to help Canada's poorest families since most of them are paying no taxes and therefore have nothing to gain from tax cuts. In 1989, this group of 391,300 families paid an average $167 in income taxes (federal and provincial). This amount fell to $73 the following year as the amount of earned income fell. By 1997 the average amount paid in taxes among the poorest 10 per cent of families raising children was $58.

This leads us to a discussion of the second element that shapes after-transfer, after-tax outcomes: the tax system.

This section focuses on the concept of effective rates of taxation — the proportion of total income (money coming from both market incomes and government transfers) that is paid in federal and provincial income taxes. This puts a yardstick up to the popular term "tax burden". The effective tax rate measures how much of "what is yours" Canadians have

Snapshot: Decile 3

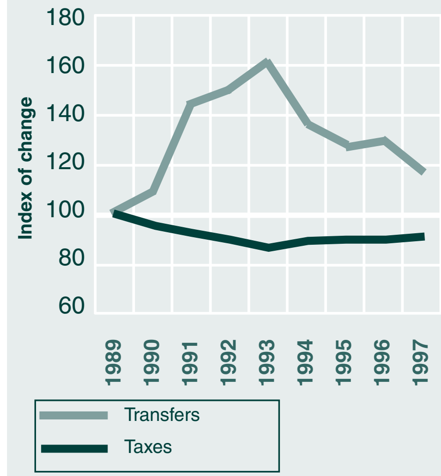
The tax and transfer picture



Source: Statistics Canada

Snapshot: Decile 4

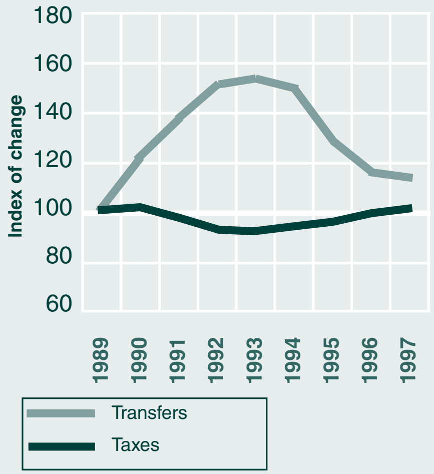
The tax and transfer picture



Source: Statistics Canada

Snapshot: Decile 5

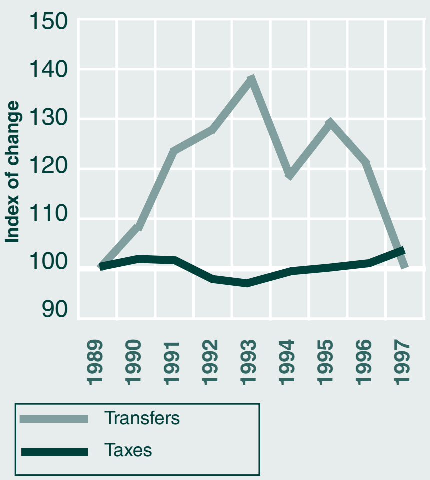
The tax and transfer picture



Source: Statistics Canada

Snapshot: Decile 6

The tax and transfer picture



Source: Statistics Canada

to "give up" to pay for quality of life and to support a healthy, productive society.

POLITICAL CHOICE #5: TAX CUTS

It may be of some interest to note, at the very start, that the average "tax burden" is about a fifth of total income. That is, average total incomes of families raising children was $57,904 in 1997, $11,981 of which was paid in income taxes. In 1997, the effective rate of taxation ranged between 0.4 per cent for the poorest 10 per cent of families and 28.4 per cent for the richest 10 per cent families (these figures are averages of rates in each decile).

As mentioned earlier, the poorest 10 per cent of Canadian families have been paying less tax since 1989, both in the actual dollar amounts and in the share these amounts represent of their total incomes. This is primarily driven by the fact that, thus far in the 1990s, the economy recovery has not reached significantly into the wallets of these families. They simply aren't earning very much money.

Add to this the impact of converting the Family Allowance — a no-strings-attached cheque paid out to all families raising young children — into the Child Tax Credit, a refundable tax credit targeted to the poorest families and administered through the tax system. The refundable GST tax credit is another example from the 1990s of delivering help through the tax system.

In this decade, the only positive federal reforms for the economically "disadvantaged" have come through the tax system. The federal government has shifted its emphasis on how it supports the poorest families, from social spending to "negative" taxation. It is not too much of a stretch to say tax policy has replaced social policy at the federal level. *(See the box on tax cuts at the end of this chapter to see how the federal government has set the stage for provincial action).*

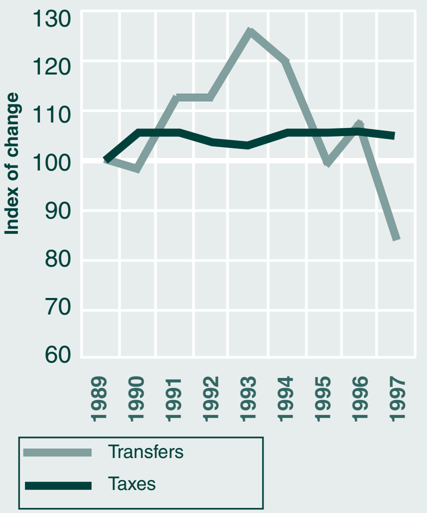
This shift explains, at least in part, why these families' effective rates of taxation have been falling. The poorest Canadian families have effectively seen a "tax cut" in the 1990s, but they haven't felt it because their market incomes and various forms of income assistance have been eroded.

By 1997, the average after-tax income of the poorest 10 per cent of families raising children was $13,806, bringing them roughly back to what they had in 1981 and well below their 1989 levels of $15,396. At the end of the day — tax cut or no tax cut — they are worse off.

This same trend holds for the bottom 40 per cent of families raising children. Their effective tax rate, or the proportion of their

Snapshot: Decile 7

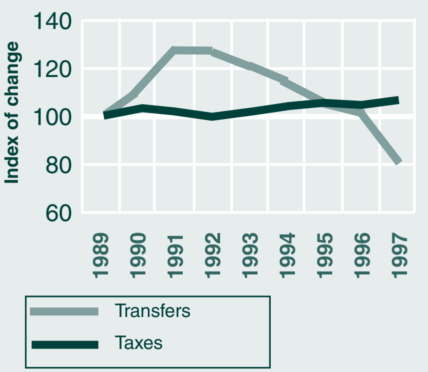
The tax and transfer picture



Source: Statistics Canada

Snapshot: Decile 8

The tax and transfer picture



Source: Statistics Canada

total incomes they paid in taxes, was lower in 1997 than in 1989. But their incomes from the market had fallen and their transfers were cut back in this period. Despite tax "relief", therefore, they have less disposable income than they did in 1989, in 1981 or — scandalously — in 1984, the height of the recession.

Alternatively, the very middle of the income distribution has seen very little change in their effective tax rate, beyond that which comes from changes in the business cycle.

Decile five saw a downward dip during the recession and an upswing since the recovery, resulting in virtually identical effective rates of taxation in 1989 and 1997.

Decile six showed the same pattern: both deciles were paying lower taxes in dollar amounts in 1997 than in 1989.

The middle of the spectrum was also worse off after the course of the intervening eight years, largely due to declines in their earning capacity.

Deciles seven and eight saw their effective rates of taxation increase between 1989 and 1990, then remain parked between 21 and 22 per cent of total income during the 1990s.

Because their market incomes increased consistently between 1994 and 1997, decile eight is the first group of families in the income spectrum better off in terms of disposable incomes.

The largest increases in effective tax rates occurred for the two most affluent deciles since 1989. Both of these groups saw an increase of almost nine per cent in their tax "burden", compared to the rates in 1989.

Families in decile nine saw an early spike in their rates between 1989 and 1990, but the increase has held throughout the 1990s.

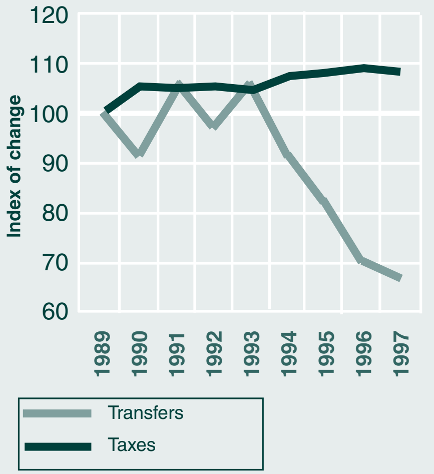
For the richest group of families, however, effective rates of taxation did not really spike up until 1994. By 1996 the richest families were paying about 30 per cent of their total incomes in income taxes. After 1996 there was an about-face in these developments.

Apart from the poorest 10 per cent of families, the top two deciles were the only ones that experienced significant reductions in their effective rates of taxation between 1996-97.

By 1997 decile nine was paying less than 23.7 per cent in income taxes, and decile 10 was paying 28.4 per cent. For the most affluent 10 per cent of families, this decline in effective rates resulted in paying an average of $2,370 less in taxes between 1996 and 1997. Average after-tax income for the top ten families was $98,746. The richest decile is the only group in the entire income distribution that paid less tax as a percentage of their income in 1997 than in 1994.

Snapshot: Decile 9

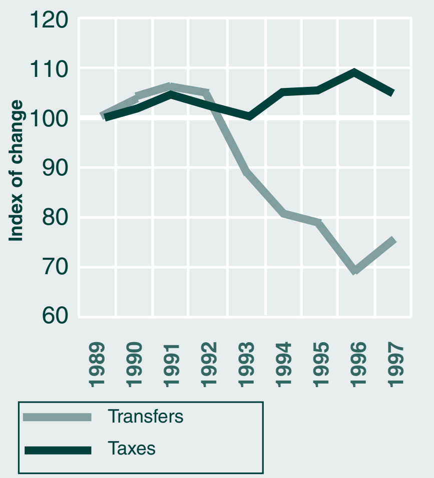
The tax and transfer picture



Source: Statistics Canada

Snapshot: Decile 10 (rich)

The tax and transfer picture



Source: Statistics Canada

While the mid-1990s ushered in increased taxes, it is hard to disentangle whether this is due to people earning more or changing tax policies. It is clear, however, that few public policy decisions affect the most affluent families in society as much as reforms in tax policy.

Since 1989, upheaval in the labour market resulted in the top 60 per cent paying more while the bottom 40 per cent pay less. But we have entered a new era, where "fair shares" seems a peculiarly quaint expectation from the system.

The most affluent among us are indisputably paying more in taxes than they were in the 1980s, both in dollar amounts and in their effective rates. *(See "How we got here" box at the end of this chapter to understand why).*

Despite their loud concern about the deficit/debt, they still haven't gotten over the injustice of having to pay more to deal with the very fiscal crisis they deplore.

Their complaints notwithstanding, the richest families have been the first to benefit from any net relief in the system since the war on the deficit was launched. Even though there have been, effectively, tax cuts at both ends of the income spectrum, the poorest families are still waging the war on the deficit and the rich aren't.

The poorest families' conscription into service was by way of cuts to their unemployment insurance benefits and welfare cheques, and their tour of duty is not yet over. Meanwhile, those who were best off were not called to serve until 1994, and they were sent home with honourable discharges by 1996.

Despite economic recovery, the poorest families raising children are still materially worse off, while the richest families are doing better. In the final analysis, it appears the real trickle down effect has been a slippery slide to the bottom of the income distribution.

Of the two ways governments intervene in market outcomes — transfers and taxes — downsizing both redistributive roles is the only "legitimate" option currently presented in the political discourse. This objective of "getting governments out of the way of the market" is purportedly about improving individual prosperity more rapidly. It's a message that sells, because it touches the very Achilles' heel of so many Canadians who feel greater economic insecurity and stress despite the prosperity of the times.

But it creates a false dichotomy between individual and public well-being. That relationship has been portrayed very differently over the 1990s than in the past — and the changes are most revealing when you examine the differences between market and after-tax outcomes at the provincial level, which is the subject of the next chapter. ◆

How we got here

The tax cut debate

How tax reforms affected the current tax cut debate: Since the 1980s, three sets of tax reforms have shaped Canada's trends in personal income taxation. Their objectives are as different as night from day and their major thrusts shed light on the shifting political landscape of the day.

1981 TAX REFORMS: The first tax reform was in the 1981 federal budget of Finance Minister MacEachan. Alarmed at the growing deficit and the effects of consecutive budgets in the 1970s that reduced, rather than raised revenues, the 1981 budget was an attempt to plug the leaky fiscal ship of government.

The successful reforms (as much of the budget did not get implemented) dropped the top marginal tax rate on the richest but eliminated categories of deductions from taxable income. This increased tax revenues by broadening the base of taxation, especially from categories of previously-exempt investment income.

Incomes from these types of investments are more likely to be reported by people in higher income groups. Consequently, the higher income groups — and especially the top 10 per cent of families — showed the greatest increases in their effective tax rates.

These reforms were not aimed at providing progressive tax relief for those at the bottom, but the effects of the recession meant lost market income effectively reduced taxes for the bottom half of the income distribution throughout the early 1980s.

1987 TAX REFORMS: The series of reforms introduced by federal Finance Minister Wilson, culminating in his 1987 overhaul, triggered another round of increased taxation. These changes were also an attempt to deal with the budgetary deficit.

Like MacEachen, Wilson dropped the top marginal tax rate but made them apply to broader range of investment income by tightening the rules on capital gains, limited partnerships and tax credits for investments in films, and some dubious types of research in science and technology.

This increased the effective rates of taxation for people with higher incomes more frequently than those with low incomes. At the bottom end of the distribution, Wilson's reforms were double-edged. Tax "relief" was provided to 850,000 people by removing them from the tax roles entirely (accomplished by raising the threshold at which incomes became taxable).

But once the tax system kicked in, the rate at which this income was taxed increased. This meant there was another drop in the effective tax rate for those at the very bottom of the distribution (since most of these families had been taken off the tax rolls) — this time despite the fact that they were earning more by the late 1980s.

The biggest increases in the effective tax

The tax cut debate (continued)

rates were for those at the very top and the second decile (the working poor) in the income distribution, clearly a combined effect of both higher wages and salaries during the upswing in the business cycle and changes to tax policy.

Provincial tax reforms: Unlike the 1980s, where the federal government commandeered tax reforms, the key tax changes of the 1990s have been provincially led, and there have been two distinct phases: first, provinces had to deal with reduced financing from the federal government during a period of economic contraction. Second, there was the political promise to reduce taxation, or the tax "burden" as it has become known.

Financing the federal deficit reduction strategy came, painfully, from cutting spending for public supports, which hit people with no work and no financial support as well as people who had work but not enough to cover their housing and child care. It also came by reducing transfers to the provinces for essential human services like health care, post-secondary education and social assistance, thereby squeezing provincial coffers at a time that they were being hammered by the market.

By downloading and offloading their problems, the federal government set the stage for provincial governments to take the lead. Provinces began making political choices on what to cut and what to save. Surtaxes were used to make up some of the difference. Surtaxes had been used in the 1980s, but they were the kinder, gentler variety, kicking in at higher levels of income and with relatively low rates.

In 1992, when a federal surtax was removed, the provinces rushed in to pick up the slack. Taxpayers never saw the difference in their pockets. By the mid 1990s, the continued federal squeeze-play of the provinces led to a more elaborate range of surtaxes, reaching lower down into the income distribution.

Provincial governments now had years of experience of trying to manage the excruciating combination of less resources and more pressures, due in large part to the made-in-Canada recession engineered by the Bank of Canada in 1990 by hiking up interest rates and thereby slowing down the whole economic system.

After years of paying more and getting less, the stage was set for a new generation of political choices, with a new battle cry: tax cuts. The devolution of pressure assured that it would emerge at the provincial level.

The trick was to persuade the voting public that a tax cut could deliver a better quality of life and more security in their lives, only possible if the quality of public life was not yet completely in ruins.

And that is indeed the tension: tax cuts put more money in your pocket and that is deeply attractive when your sources of earned income are neither increasing nor secure. But tax cuts means less public resources for the other things you want, and expect, out of the good life in Canada.◆

It could have been a moment plucked out of war-torn Belgrade. There was no electricity in half the room. Early March, it was freezing, maybe because the heat didn't work, maybe because it was turned off, maybe because of all the drafts. The ceiling was so bowed that it looked like an inverted thundercloud, threatening to release itself at any moment. The numerous pails and bowls set out to catch the far more numerous leaks made the space a huge obstacle course.

the human cost of the slippery slope

It could have been a scene written by Charles Dickens. I had just left a tony lunch at one of the city's finest hotels, mingling with the business men and women who had broken up their busy work-day to consider what the growing gap between rich and poor meant for them. They spoke about their Urban Hope campaign, and I related the findings from my research on growing income inequalities in Canada. Much of the analysis was remarkably similar, and I pointed that out. I was genuinely moved by their effort to see beyond their own lives and do something about the world in which they live, and I pointed that out as well. Scarcely an hour later I was picking my way around the leak-catchers, my goal to reach the smattering of beat-up chairs before the ceiling let go. From 200 Rotarians to 25 anti-poverty "activists", we were considering the same narrative: it is the best of times and the worst of times. The constant dripping in the bowls mockingly echoed the polite applause from the luncheon as an activist told me about how she couldn't get support from her ex, she couldn't get a job, and welfare kept refusing her any assistance. Her voice taut with desperation, she revealed her teenage daughter had tried committing suicide for the second time this school year. Drip, drip, drip. We were waiting for the last people to arrive and my mouth was dry but there was no drinking water. I offered to buy her something to eat or drink. She was clearly uncomfortable about this so I didn't push her to come with me. By the time I hit the pizza joint in the adjacent strip mall, I decided we had to get out of that space. It could have been a subplot of conspiracy in a tale of power and intrigue. When I returned with some drinks, I suggested that we should move our small group someplace warmer, lighter and I'd buy pizza for everyone. Instead of looking pleased, people fidgeted. Finally someone blurted: "We can't talk about this stuff in public." Somehow visceral senses overrode intellect and we ended up "public", the only patrons in a seedy restaurant. Whether poor themselves or advocating for the poor, these people had a hard time speaking freely and frankly about the eroding quality of life in their communities, their strategies for resistance, even their sense of isolation from the predominant views that surround them. ◆

The Provinces: Markets vs. Political Choice

The growing gap* in market incomes, by provinces*: 1989-97**

	B.C.	ALTA.	SASK.	MB.	ONT.	QUE.	N.B.	N.S.	NFLD.
1989	32.19	37.64	67.02	63.55	24.16	45.24	125.48	52.08	62.67
1990	56.73	34.93	65.84	70.68	41.78	88.35	98.38	54.96	78.16
1991	32.14	37.92	56.68	172.84	86.88	175.45	126.19	205.31	163.36
1992	51.50	68.37	215.25	57.68	125.21	291.63	156.92	181.92	606.01
1993	119.64	46.94	160.09	80.60	399.45	961.47	137.20	433.82	447.34
1994	177.83	24.64	155.42	53.89	267.30	276.47	272.31	275.27	1140.22
1995	74.85	21.37	90.57	36.74	119.85	243.23	811.69	234.71	**
1996	201.83	26.32	291.94	60.20	138.28	4220.06	255.14	355.25	**
1997	149.63	22.01	106.14	48.65	75.65	370.07	144.31	421.97	16136.00

Source: Statistics Canada

* Ratio of average after-tax incomes, comparing the top 10 per cent to the bottom 10 per cent of families raising children under 18.
** No ratio possible because the bottom 10 per cent of the population had no earnings whatsoever.
*** Data for Prince Edward Island are not included due to unacceptable margins of error, stemming from sample size. The three territories are not sampled in the Survey of Consumer Finances, and so they, too, are excluded.

The growing gap* in after-tax incomes, by provinces*: 1989-97**

	B.C.	ALTA.	SASK.	MB.	ONT.	QUE.	N.B.	N.S.	NFLD.
1989	6.76	6.68	6.57	6.03	7.25	6.03	6.14	5.75	6.75
1990	8.68	6.67	6.95	6.43	7.28	5.99	6.39	6.58	5.76
1991	6.97	7.13	7.20	6.12	6.81	6.03	6.69	5.83	6.29
1992	6.67	6.88	7.66	6.82	6.60	5.67	6.93	6.32	6.40
1993	7.70	6.53	5.91	6.14	6.20	5.32	5.78	6.41	5.05
1994	6.83	6.72	6.28	6.14	6.15	5.66	6.09	6.79	5.62
1995	6.64	6.92	6.78	5.31	6.45	6.13	6.86	6.52	5.59
1996	8.48	8.19	6.37	6.20	7.22	6.30	6.44	5.67	4.94
1997	7.59	6.96	6.04	6.20	7.61	6.20	6.35	6.41	4.65

Source: Statistics Canada

The growing gap is not a one-size-fits-all proposition in this country.

Some provinces narrowed the after-tax income gap during tough economic times but let it blow wide open when market conditions improved. These include, surprisingly, the economic powerhouses of the nation.

Equally surprising, some of the poorest provinces have done the most to narrow the after-tax gap in the face of market-driven disparities.

Some provinces — both rich and poor, and regardless of which political party is in power — have a track record of keeping the gap between rich and poor small despite recession or recovery.

Others show strong variation over time: provinces with governments of similar ideological persuasion have different priorities. Even the same governing party in an individual province sets different priorities over time.

The only constant theme among the provinces appears to be the impact of political choice. Different governments have made dramatically different choices over the 1990s.

Some have sought market solutions for every problem, putting the emphasis on faster economic growth, tax cuts and cuts to welfare. Others have been less quick to dismiss the importance of social supports and transfers in maintaining social stability.

The result? Wildly varying degrees of income disparity across the provinces that cannot be explained by economic circumstance or partisan politics.

Provincial Results Vary

Canada's varying political climate is, in turn, reflected in the debate about growing inequality, a debate that has shifted in the last few years. The question is no longer: do we have a problem of inequality in Canada? Rather, the question is what we do about it: something or nothing? The most common rationales for doing nothing are: 1) inequality is inevitable and 2) a good dose of economic growth will right the wrongs of the market, and thus should be our common project.

We beg to differ on both counts.

In the thumbnail sketches of the provinces that follow, you will see great variety in the developments of market and after-tax income gaps over the course of the 1990s.

These sketches do not attempt to explain why these outcomes occurred, they simply show there is no convergence of experience.

These sketches lay to rest the notion of inevitability — that what happened in any of these provinces was the only thing that could have happened. The structure of inequality — whether it increases or decreases — is clearly a result of political choice.

As for those who cling to the notion that the rate of economic growth is the only key variable driving provincial inequalities, look at the evidence in the *Amazing Facts* box which follows on the next page.

Centre for Social Justice

There have been wildly varying degrees of income disparity across the provinces in the 1990s — disparities which underlie political choices to do something about the problem of inequality, or not.

Amazing Facts

- Which province had the poorest growth in GDP since the recession (between 1994 and 1997)? Newfoundland.

- Which province had the most rapid growth in GDP? Saskatchewan.

- Where was the gap between rich and poor smallest (in after-tax incomes) in 1997? Newfoundland, followed by Saskatchewan.

- Where did the market income gap close most rapidly since 1994? Ontario.

- Where did the after-tax gap widen most rapidly since 1994? Ontario.

- Where was the after-tax gap biggest in 1997? Ontario, followed by B.C. and Alberta.

- Where did the market gap widen most rapidly since 1994? Newfoundland.

- Where did the after-tax gap close most rapidly since 1994? Newfoundland.

Choosing Our Society's Future

These facts are amazing because they are counter-intuitive to what we tend to think about the relationship between economic growth and inequality. The trends over the course of the decade provide an even more interesting look at the intersection of effects between the market and political choice. The following table examines how disparities in market incomes (earnings) and after-tax incomes (which also include transfers) have changed over the course of the 1990s in each of the provinces. The disparities measure the "gap" between rich and poor.

Governments have, at best, indirect levers for controlling the distribution of market incomes. Their primary role is redistributive, shaping the distribution of incomes through the levers of income supports and taxation systems.

The charts mapping trends in both market and after-tax income disparities show how much variation there is in the choices made to shape the distribution of incomes.

Ontario: Ontario begins the period with the highest degree of inequality in disposable, or after-tax, incomes.

This is remarkable given that market disparities in that province were the smallest in the country in 1989 — and by a wide margin — driven by a super-heated economy. Still, huge numbers of people throughout Ontario never caught up with the economic boom, and income supports for this group were very poor.

By 1997, the economy was again strongly expanding, reducing disparities in market incomes, at least relative to the other provinces. Despite these advantages, Ontario again fell to the bottom of the pack with the widest inequalities in after-tax incomes between rich and poor.

The fascinating thing about Ontario's story is that the after-tax gap shrunk during the most unlikely time: during the height of a recession. What can account for it? A political commitment made by a newly elected provincial government in 1990 to improve the lot of the poorest people in Ontario by increasing welfare rates.

It was a difficult political choice to sustain during a recession that would subsequently bleed provincial coffers, but this policy change (and the surtaxes introduced to maintain it and other provincial expenditures) made a huge difference during those difficult economic times.

Once out of the recessionary woods, a new government pledged exactly the opposite commitment, a vow to cut taxes and to reduce expenditures on welfare. The result: an increase in after-tax income disparities despite a strong upswing in the business cycle.

Ontario was not alone in reducing disparities during the recession, but in other provinces the growing gap was more market driven.

Alberta: In Alberta, income disparities spiked up in 1991, when the labour market was most affected by the recession, then started to respond to the economy's growth as more people were employed or increased their hours of work at the bottom of the income spectrum.

By 1993, policy changes started to exclude some people's eligibility for financial help from government programs, significantly reducing outlays for social assistance. In less than three years, welfare caseloads were cut in half. (This does not include assistance for the severely disabled, which maintained its caseload).

After 1993, market incomes of the poorest 10 per cent of families raising children rose more rapidly in Alberta than anywhere else in the country. Yet after-tax incomes of this group, which includes families without market incomes and receiving social assistance, eroded throughout the period.

Between 1993 and 1996, Alberta saw the sharpest sustained rise in income disparities in this country. But in 1997, an election year, the

PARADE OF THE PROVINCES

The 1997 market income gap:
From smallest gap (#1) to biggest gap (#9)

1. Alberta:	22.01
2. Manitoba:	48.65
3. Ontario:	75.65
4. Saskatchewan:	106.14
5. New Brunswick:	144.31
6. British Columbia:	149.63
7. Quebec:	370.07
8. Nova Scotia:	421.97
9. Newfoundland:	16136.00

Data for Prince Edward Island are not included due to unacceptable margins of error, stemming from sample size. The three territories are not sampled in the Survey of Consumer Finances, and so they, too, are excluded.

Source: Statistics Canada

government introduced a tax credit for working poor families which increased disposable incomes by up to $1,000 per family (though these improvements did not affect those without work).

NEWFOUNDLAND: Newfoundland is a remarkable case, since the long-term trend here is dominated by the economic contractions that marked this province so frequently between 1989 and 1997. In this province, there have been years where there was not enough paid work to provide any earned incomes for the bottom 10 per cent of families raising children. Consequently, market inequalities have exploded.

The average incomes of those in the top 10 per cent have fluctuated slightly above $100,000 for most of this decade, but a sharp downturn in market incomes between 1996 and 1997 affected the top 60 per cent of Newfoundland's working population, including the richest families.

Despite the constant economic pressures that have widened market disparities, the tax and transfer system has steadily closed the gap between rich and poor since 1992. By 1997, the net effect of government was to improve the disposable incomes of the bottom 40 per cent of the income distribution for families raising children, while significantly smoothing out the changes at the top.

SASKATCHEWAN: Saskatchewan is notable in that, after years of being pummeled by economic hardship leading to record farm closures and bankruptcies, it posted the highest rate of after-tax inequality in the country by 1992.

Just when the need for income assistance was greatest, provincial coffers were being emptied and federal transfers were being cut. Remarkably, a mere five years later and propelled by the most rapidly expanding economy in the country, the after-tax gap between rich and poor had shrunk to the second smallest in the country.

(It should be noted, however, that Aboriginal peoples on reserve are not counted in these data. As the proportion of native people to overall population is the highest in Saskatchewan and Manitoba, and since unemployment rates are traditionally very high in this group, these figures likely underestimate income disparities in these provinces.)

QUEBEC: Between 1989 and 1994, Quebec consistently had the second smallest after-tax gap between rich and poor in this country.

Between 1990 and 1993 the recession exacted a heavy toll on market incomes of the province, widening market incomes at a more rapid rate than in any other province in the

PARADE OF THE PROVINCES

The 1997 after-tax income gap:
From smallest gap (#1) to biggest gap (#9)

1. Newfoundland:	4.65
2. Saskatchewan:	6.04
3. Quebec:	6.20
4. Manitoba:	6.20
5. New Brunswick:	6.35
6. Nova Scotia:	6.41
7. Alberta:	6.96
8. British Columbia:	7.59
9. Ontario:	7.61

Data for Prince Edward Island are not included due to unacceptable margins of error, stemming from sample size. The three territories are not sampled in the Survey of Consumer Finances, and so they, too, are excluded.

Source: Statistics Canada

country. Yet, remarkably, after-tax disparities shrank in this same period.

For Quebec, the lowest after-tax gap of the 1990s was in 1993. Since the recovery began, however, market disparities have remained stubbornly high, as throughout the eastern regions of Canada.

The market gap was largest in 1996. Despite market-driven pressures to widen disparities, Quebec's ranking in after-tax disparities slipped only slightly to third place after 1995.

Throughout the entire period, from 1989 to 1997, Quebec was the only province consistently found in the group of provinces with the lowest gap in after-tax incomes among families raising children.

In addition, the province recently introduced what is indisputably the most ambitious support program for families raising children in the country. A universal, publicly provided system of child care was introduced in 1998, heralded for its affordability for all families at $5 a day.

Making the Links

In the first section of this chapter, we saw proof that a given level of inequality in after-tax incomes is neither inevitable nor inalterable.

Political choices can either increase or decrease the gap between rich and poor, regardless of economic growth or decline.

This section examines provincial trends in income inequality during the "recovery" period of 1994 to 1997 (the most recent year for which we have data on the distribution of incomes). The starting place for each province is different, depending on how hard the recession hit them.

Recession: The recession of 1990-91 meant different things to different parts of the country.

Some provinces, like B.C. and Alberta, registered no downturn at all in terms of GDP growth in the period 1989 to 1997. All the other provinces show a hit to their economy in 1991, with some, like Ontario, Saskatchewan and New Brunswick, showing a two-year decine. Newfoundland experienced three consecutive years of decline, from 1990 to 1992, then again in 1996, so that its economy was actually smaller in 1997 than it was in 1989.

Recovery: By 1994, however, most regions of the national economy were in a phase of recovery, and most income categories of the population started registering some degree of improvement, rather than decline.

The table on page 39 shows how economic recovery does not necessarily translate into more economic equality in society. It seems to

> Political choices can either increase or decrease the gap between rich and poor, regardless of economic growth or decline.

FOOTNOTE:

Changes in economic activity are measured by changes in the Gross Domestic Product, or GDP. Total market incomes are measured by the total amount of earned income received through paid work. The proportion of people aged 15 and over that has a job measures the employment rate. Higher market income can occur through higher rates of pay and/or through more hours of paid work. Growth in the employment rate does not have to result in growth of total market income. It depends on whether the actual amount of work has increased and/or if the wages have at least stayed constant. It is possible that there are more jobs, but if they are shorter term or consist of shorter working hours, then the population as a whole is not necessarily working more. Conversely, higher market incomes are possible even with a shrinking proportion of the population holding jobs. It's just that those who still have paid work are getting paid more.

depend on how far down the income spectrum the benefits of growth spread, and how those who are being left out of the economy are treated.

As these numbers show, the growth of the economy since 1994 has not necessarily led to a reduction in income inequality across the country. It depends on how economic growth links up with jobs, wages, and the distribution of opportunities. Then it depends on what governments do with those results.

LINKS — A SUMMARY:

(1) The first link in the chain is whether more economic activity results in a higher employment rate. The employment rate reflects the proportion of the working age population that actually holds a job.

(2) The second link is whether more economic activity results in higher total earnings (total market income). This link is forged by two factors: based on link number one, that a greater proportion of the population is holding a job; and/or that paid workers have higher market incomes *(see footnote)*.

(3) The third link is between total market income and its distribution throughout the working population. Increased total market income may or may not translate into a smaller market income gap. It depends on who gets the increased employment and who gets the increased pay.

(4) The final link in the chain is how the distribution of market incomes connects with the distribution of after-tax incomes. Reductions in the market income gap may or may not translate to reductions in after-tax income disparities. It depends on changes to transfers for those who have no paid work, and changes to taxes for those who have paid work.

How do these links play out across the country?

LINK #1: Does economic growth mean a higher rate of employment?

For most of the provinces there is a positive relationship here between economic growth and a growing proportion of the working age population finding a job. But this is not a strict causal relationship.

The GDP of British Columbia grew, but the employment rate of its working age population declined.

In Newfoundland, though GDP only declined marginally, the employment rate registered the largest drop in the country.

Alberta had the strongest growth in GDP during this period, but the strongest growth in the employment rate did not occur in this province.

The employment rate grew most strongly in Quebec where the growth rate was only average.

LINK #2: Does more GDP mean more market income?

The link between GDP and market income is weaker than that between GDP and employment.

In two of the Atlantic provinces, growth in GDP resulted in a higher share of the working age population holding jobs, yet total market income declined.

In British Columbia, GDP went up, fewer people held jobs, but total market income were up.

The greatest increase in total market income during the period between 1994 and 1997 was in Alberta, yet its economy did not grow the most quickly, and there was only a small change in the proportion of the population that had a job.

The same relationship held in Ontario and Manitoba: strong GDP growth barely budged the employment rate, but total market income shot up.

In Newfoundland, a slightly smaller economy resulted in a smaller proportion of people without a job, and led to a very significant erosion in total market income.

LINK #3: Does more total market income result in a smaller market gap?

In Ontario, despite one of the smallest increases in the employment rate, total market income grew strongly. But Ontario saw the greatest decline in market disparities in the country. This is because a relatively large share of the net new jobs and/or market income growth occurred at the bottom of the income spectrum.

Alberta, the province with the largest growth in total market income, had only a modest decrease in the market gap.

Nova Scotia and Quebec had the strongest increases in the proportion of the working age population holding a job. In Quebec, however, total market income growth was very weak and in Nova Scotia total market income actually declined even though more people were working. As a result, market inequalities grew quickly in both those provinces despite the fact that more people had a job.

New Brunswick managed to reduce the market gap, even though its employment rate grew more slowly than in Nova Scotia and Quebec, and even though its total market

WHAT'S RECOVERY GOT TO DO WITH IT?

Changes from 1994 to 1997

	GDP growth	Employment rate	Total market income	Market income gap*	After-tax income gap*
BC	4.2%	-0.2%	3.9%	-15.9%	11.1%
AB	10.9%	0.8%	11.2%	-10.7%	3.6%
SK	11.7%	1.2%	2.2%	-31.7%	-3.8%
MB	9.5%	0.2%	6.7%	-9.7%	1.0%
ON	8.7%	0.3%	7.7%	-71.7%	23.7%
PQ	4.5%	3.3%	1.7%	33.9%	9.5%
NB	4.4%	1.8%	-4.4%	-47.0%	4.3%
NS	3.3%	2.9%	-7.7%	53.3%	-5.6%
NFLD	-0.2%	-1.8%	-14.8%	1315.2%	-17.3%

Sources: GDP figures, Informetrica, based on GDP at factor prices produced by Statistics Canada; employment rates from Statistics Canada Labour Force Historical Review; income figures are from Statistics Canada, unpublished data from the Survey of Consumer Finances

* Change in the relationship between the richest and poorest deciles (10 per cent of the population of families raising children).
A negative sign in front of the number means that the gap between rich and poor shrank. A positive sign means that the gap grew.

Ontario enjoyed the most dramatic decline in market inequalities, but its after-tax income gap was the biggest in the country.

income declined.

In Newfoundland, which had the largest drop in total market income, the market gap grew most dramatically.

Link #4: Does a smaller gap in market incomes result in a smaller after-tax income gap?

In Newfoundland, deteriorating economic conditions squeezed a growing proportion of the working population out of the employment lottery altogether. Market income inequalities exploded. Yet this province did the most to close the gap between rich and poor in after-tax incomes.

Ironically, the province that saw the most dramatic decline in market income inequalities — Ontario — experienced the biggest increase in after-tax income disparities.

Only Saskatchewan displays the pattern that one might expect "in theory": economic growth leads to a higher proportion of people working, which leads to higher market income, which leads to improved market income for those at the bottom (and shrinking inequality in earned incomes), which leads to a better distribution of after-tax incomes.

What's Growth Got To Do With It?

The rate of growth doesn't seem to be the key variable in predicting the rate of reduction of market income inequalities. It isn't about how hot the economy is, it's about where the jobs are opening up, and whose economic opportunities are expanding.

The fastest rates of growth took place in Saskatchewan, followed by Alberta and Manitoba. All of these provinces saw improvements, if somewhat marginal, in their employment rate. They all posted higher total market income in this period. They all saw the market gap shrink.

Yet only Saskatchewan saw these changes translate to a smaller gap in after-tax incomes. Manitoba's after-tax gap scarcely budged, and Alberta's gap between rich and poor grew larger between 1994 and 1997.

Ontario grew more slowly than these provinces between 1994 and 1997. But because it accounts for about 40 per cent of the national economy, its sheer size means that the growth it generates vastly outweighs the more rapid expansions of the three other economies. It is, quite literally, the engine of the nation's economy.

After being decimated by the recession, average market income of Ontario's families in the bottom 10 per cent almost quadrupled from 1994 to 1997, rising from $570 a year to $1,962. As a result, market income disparities dropped most sharply in Ontario, by 72 per cent.

Yet of all the provinces, the after-tax income gap grew most rapidly in Ontario between 1994 and 1997.

Quebec is the second giant in the Canadian economic system, accounting for just over a fifth of Canadian GDP. Throughout the 1990s it consistently remained a province with one of the lowest levels of income inequality, though it too experienced an increase in the after-tax gap between 1994 and 1997.

This mirrored substantial increases in market inequalities during the period, even though Quebec was far from the weakest economic performer in the country.

The slowest growing economies between 1994 and 1997 were the Atlantic provinces and B.C.

Despite a slower rate of growth, British Columbia played out the same scenario as Ontario: market income inequalities declined between 1994 and 1997, but after-tax outcomes became significantly worse.

Nova Scotia posted the second worst economic performance in the country. Though market income disparities grew sharply in this province, the after-tax gap was reduced between 1994 and 1997.

Newfoundland's economy shrunk marginally, resulting in the worst problems of market inequality facing any province. Yet this is where the greatest reduction in after-tax income disparities occurred between 1994 and 1997.

The bottom 10 per cent of families actually registered a marginal improvement in their after-tax incomes during the period, though virtually no family in the bottom 10 per cent of the income distribution had any market income.

While the federal government slashed UI benefits in the early 1990s, welfare reforms by the provincial government in Newfoundland during this period were less severe than in most other provinces.

In addition, the federal government provided billions of dollars in emergency income assistance programs when the fisheries industry collapsed. At the same time, the average earned incomes of those at the top declined significantly. As a result, after-tax income disparities actually fell throughout this period.

Only three provinces managed to reduce the gap in after-tax incomes during a period of economic recovery: Newfoundland, Nova Scotia, and Saskatchewan. Newfoundland was home to a teetering economy, Nova Scotia had one of the most stagnant economies in the country, and Saskatchewan posted the fastest

Only Newfoundland, Nova Scotia, and Saskatchewan managed to close the gap in after-tax incomes during the economic recovery of the mid-1990s.

Economic growth does not necessarily lead to reduced inequality.

rate of economic growth of any province in Canada during this period.

The after-tax gap grew by far the fastest in Ontario, which experienced the largest increase in the size of its economy measured in dollars and belonged to the group of provinces with the fastest rates of growth in the country.

There is simply no rule of thumb that explains the relationship between market performance and the distribution of incomes. Economic growth does not necessarily lead to reduced inequality. Sluggish or even declining economies do not inevitably result in growing income inequality.

In summary, economic growth is not the only — and perhaps not even the key — lever to reducing inequality.

Completing the Story

This brief parade of the provinces is both complex and surprising, but it is also incomplete. It is incomplete because it does not explore what lies behind these changes: the respective roles of federal, provincial and municipal levels of government and the policy changes they introduced; the idiosyncrasies of each regional economy; demographic shifts; and the trends in the migration flows in and out of provinces.

Unfortunately, such depth of analysis cannot be undertaken in the limitations of this report. This chapter simply attempts to take the first steps in exploring the intersection of choice and circumstance. Providing more detail in both the context of what has been happening in each province, as well as more detail in the economic evidence presented above, should inform the next research steps.

This report attempts to explain, in broad brush-strokes, what is happening to the distribution of incomes among families raising children in Canada.

Some of the additional questions that are raised by this work include:

- What is the underlying relationship between wealth and income? This has not been integrated into this report due to lack of pertinent information. When Statistics Canada releases its long-anticipated wealth survey, this will be an invaluable addition to our social intelligence about what types of forces are shaping our societies.

- Is inequality a strictly economic phenomenon? What do the realities of the equity-seeking groups — people of colour, the disabled, aboriginal peoples and women — add to our understanding of inequality? The Centre for Social Justice is currently undertaking this project, to be released in the coming months.

■ Is the experience of the growing gap largely a function of age? Inter-generational differences were signalled in last year's report as begging further examination, since there is such a clear distinction between the labour market experiences of those over and under the age of 35. This, of course, could significantly affect the story of how inequalities among young families raising children are changing over the course of a generation.

What is the full impact of government interventions? This report has concentrated on the net effects of government actions on Canadians' incomes, not the net effect of everything that governments do, such as provide health care or education. If anything, this analysis understates the big picture, which includes the public supports that frame our daily lives.

What is the quality and level of services accessible to us all, regardless of our income? As important as it is to understand the growing gap from a money point of view, it is clear that improving the lot of those at the bottom by increasing incomes is only half of the equation. Even with more money in their pockets, people can be worse off if they have to pay more for the basics than they did in the past.

What are those basics? The availability of decent, affordable housing; clean water and air; a safe food supply; child care, home care, elder care; preventive and emergency health care; education at the primary, secondary, and post-secondary levels; security (including police, fire, shelters, youth and childrens' services); facilities for recreation and community; and transportation (roads and public transit).

Governments have a critical role in each of these areas. They shape not just our material well-being, but our individual and collective quality of life, in our families and in our communities.

In recent years, it has been suggested that governments should place less emphasis on the economic prosperity of individual regions and should focus more on the promotion of a work ethic that is divorced from a sense of place, history or community. "People prosperity over place prosperity" argues that one should seek one's fortune wherever the opportunity may be, rather than spend effort on trying to create opportunities "at home".

The theory questions the very principles of economic development and how nations are

Governments have a critical role to play in shape our material well-being as well as our collective quality of life.

built. Should governments be involved in trying to create jobs, or should markets have the exclusive prerogative to shape our nation, both geographically and economically? What should guide decisions about which communities should be supported and which should be allowed to languish? What should guide decisions about where people can make — and keep — their homes in this vast land?

In a country that so values the present and the dream of the future, is our history of keeping close ties to family and cultural roots now irrelevant?

The "parade of the provinces" shows that the national growing gap is a story of overlapping experiences. Each province brings its own distinctive voice into the composition.

Some provinces show a consistent ability to reduce disparities, despite what is going on in the market. In those provinces, it is almost as if there were a collectively agreed upon project — the project to keep their communities balanced and whole — as in Quebec and Newfoundland.

Other provinces have favoured a go-it-alone approach, tempered by periodic changes of heart, as in Ontario and Alberta.

What is the relationship between individual livelihood and the stability of communities and regions? Does it depend on what proportion of your population feels vulnerable, or the extent to which people feel they have something in common? Is it possible to marshall economic forces for the common good, not just to increase the lottery mentality that so permeates the financial and labour markets of today?

The next section reflects on some of these questions and the current wisdom about how to deal with a growing gap in Canada. ◆

Dateline: Regina, 1999

It was one of those crisp Saskatchewan winter afternoons. The frost clung to the windshield as I drove through low-lying snowdrifts to reach the Regina Leader-Post newsroom for a bull session with the newspaper's editorial writers. In the warmth of the indoors, we weaved through a two-hour conversation that began somewhere with what they termed the "necessary evil" of hospital closures in rural Saskatchewan and ended in an overarching discussion of how much is too much when it

the human cost of the slippery slope

comes to helping Canada's ailing provinces. The editorial writers — one once from Ontario, the other from the Maritimes — drew a very clear line in the snow when it came to "bailing" out the Maritimes. In Saskatchewan, they observed, people go where the jobs are. If the jobs are in Alberta, that's where they go — which explains why Saskatchewan has the distinction of some of the highest emigration rates in the country. And if the people of Saskatchewan are willing to do whatever it takes to find work, then why can't Maritimers do the same, the editorial writer asked. Why should our taxes pay to support them, he wondered. On the drive back through Regina, passing expansive fields of wheat laid barren with a blanket of snow, I thought about the pragmatic Prairies, a place where people have always done what they needed to do to survive, but also a place where they looked out for one another. This is the birthplace of national medicare, the fertile breeding ground for the cooperative movement of the 20th century. It is home to the belief that we're in this together, for the good times and the bad times — a sentiment confirmed later that night when an angry farmer stood up in a public meeting to decry years of cutbacks to social supports and told his audience, "As long as we think we're powerless, we are going to be powerless." But it was also in Regina that a university student explained his plans to enter a life of crime after obtaining his degree — because the jobs weren't out there for youth and the system didn't work for him anyway. There is something within the contradiction of all of these thoughts that should make us all stand up and take note. The proposition that if a province can't carry its own weight, we might as well board it up and move on leads to a more disturbing realization. If whole regions can be declared surplus, why should we be surprised that a growing number of people also find themselves deemed expendable? As a nation, the line has never been drawn that coldly, that clearly before. Hard attitudes, the hallmark of the 1990s, are bringing us to the brink of a great divide in how we see one another. ◆

Four factors are critical to closing the gap between rich and poor:

- Evenly distributed job growth;
- Better wages;
- Services to help families meet their basic needs;
- Supports for the poorest families.

— CHAPTER FOUR —

WHAT WE HAVE LEARNED

What do the preceding chapters teach us?

That economic growth and tax cuts are not the primary keys to reducing income disparities.

Most Canadian families slid down a slippery slope towards the bottom of the income spectrum over the last decade, and the gap between rich and poor is on the rise in some of the richest and fastest-growing parts of the country. Economic growth is not the primary variable that defines whether the gap grows or shrinks in the 1990s.

Tax cuts, the latest "solution" to increase economic prosperity, fail to address the problem on two fronts: they do nothing for the poorest families who have no income to register a tax cut and they erode the public services and supports people rely on in their communities. What is less frequently mentioned is that tax cuts have a price, and that price will be hardest to bear when the economy comes off the peak of the business cycle, which it inevitably will.

Four factors are critical if economic prosperity is to reach everyone:

(1) Job growth that is more evenly distributed throughout the income spectrum;

(2) Improved wages and benefits for workers, especially those at the bottom;

(3) Service levels that meet basic needs, accessible to all regardless of income;

(4) Supports for families who have little or no paid work.

That's how you improve everyone's prosperity in a meaningful way.

Incomes are lower today than they were in 1989, in both market terms and after-tax terms, but everyone is not experiencing the same degree of hardship. The net effect of changes in the market, in income supports, and in tax policies has left those at the very bottom of the income distribution worse off while those at the very top are better off.

The richest 20 per cent of earners are paying more in taxes than at the beginning of the decade, but their taxes are going up more slowly than their incomes. In fact, the top 10 per cent is the only group of families to register *cuts* to their effective taxes between 1994 and 1997.

Families at the top are better off due to changes in both market and tax policies. Even though these groups most wanted action on the deficit, and now the debt, they are the first groups to pay less for this action.

At the other end, the bottom 10 per cent experienced significant tax "relief" since 1989. Many poor families have been removed from the tax rolls and they have also benefited from new "negative" taxes such as the GST Credit and Child Tax Benefit, both refundable tax credits.

But over that period the poorest 10 per cent also lost a significant degree of earning power. By the mid-1990s reductions in income supports outweighed benefits from modest market income growth and cuts to effective tax rates.

The families at the bottom are worse off, and by a wide margin: between 1994 and 1997 their average after-tax incomes dropped by 12 per cent.

In the middle, the story is mixed. Between 1994 and 1997 market incomes for families raising children went up marginally. The proportion of their total incomes paid in income taxes went up, but not by the same amount for every income decile, as the war on the deficit kicked into top gear. As a whole, after-tax incomes were slightly lower in 1997 than in 1994, but the upper middle income groups had more purchasing power than the lower income groups.

It is unclear if changes in tax policies or changes in earned income opportunities were more important determinants of after-tax incomes for the middle income groups.

The Politics of Tax Cuts

These facts reflect the importance of both market-induced changes and changes in policies. For the middle, one set of changes does not clearly trump the other — though the big picture hangs on what the market delivers: the amount of paid work available and the rates at which that work is paid.

If, over time, a shrinking proportion of the population has a job,

"Tax cuts for the poor — really?"

The Fraser Institute, among others, has repeatedly asserted that poverty is not a significant problem in Canada.

Yet one of their spokesmen was recently urged to respond to the issue of child poverty while he was on a television news program.

He begrudgingly offered a solution: stating that 42% of taxfilers fall under the $15,000 threshold (wrong, but close). He suggested everyone below that threshold should be removed from the tax rolls.

Did he hear what he said? Though he was making a point about taxes, his comment about what people make was more startling.

The latest "Tax Statistics on Individuals" from Revenue Canada reveals that:

- 32% of almost 21 million tax-filers pay no taxes;
- 38% of all tax-filers make less than $15,000;
- 23% of tax-filers report less than $10,000 of income;
- 83% of those in the tax bracket up to $10,000 pay no taxes.

Of those who do pay taxes, the average income tax paid (net federal and net provincial) is $288 a year.

Is it true that the best thing we can offer the poor is to cut their taxes? Most of the poor don't pay any taxes anyway. Isn't the real problem that almost a quarter of tax-filers are making less than $10,000? ◆

“Through three different survey tests . . . Canadians demonstrate a clear preference for social and human investment areas over fiscal issues.”

—Ekos Research Associates Inc., August 1999

and if the dominant trend is towards less pay, the prospect of supporting those without work will become more politically contentious.

For both extremities of the distribution, however, government policies make the critical difference. Policies on transfers are most important for those at the bottom. Policies on taxation are most important for those at the top. They are, of course, two sides of the same coin: the redistributive role of government.

While this is a fairly obvious analysis, these facts are rarely acknowledged in the public discourse about what government should or should not do for its people. Rather, the most common analysis to be heard today is that tax cuts are the best thing governments can do to improve the standard of living of the average family. Not so. The most crucial variables for the material well-being of all Canadian families, along the length of the income spectrum, are as follows:

- The amount of paid work in your household. Is it enough?

- How that paid work is valued. Are you seeing an increase in pay rates over time, are pay rates frozen, are they declining?

- What that income, and your taxes, buy. This is partly a function of the market: having decent housing and child care depends on their availability and price. It is also a function of what kind and level of public services are "free", or what kinds of public services are raising their "prices" through the introduction or increase of user fees.

- What kind and level of income supports are available if your household has no, or not enough, paid work.

- The effective rates of taxation on your income. This includes exemptions, deductions, credits and surtaxes as well as the rate at which your income is taxed.

Tax cuts are not a substitute for social or economic policies. Nor can they, by themselves, generate justice in economic outcomes. Why?

Simply put, tax cuts are not the best single public policy objective that we can pursue. For the poorest families raising children, those who are already not paying taxes, they are meaningless. These families need better opportunities to earn a living; they need improved income supports; they need lower costs for the basics such as housing and child care.

Though we are in an era of budgetary surpluses, governments are remarkably silent on improving the well-being of the most economically disadvantaged among us. There is currently no policy emphasis on job creation, job retention, and the redistribution of work. There is also no emphasis on improvements in the form of better income supports or in the form of lowering the costs of housing and child care, making these necessities available and affordable to all.

Neither the market nor charity has filled these burgeoning social deficits. Governments have only dealt with getting the fiscal part of our house in order.

In the process, only the richest families have been the net beneficiaries of changes in the tax and transfer system. Yet they want more.

It begs the question: is this the best public policy? Should public policy reinforce market outcomes that are producing increasing inequality?

For middle income Canadians, market outcomes are critical for their household bottom line. But so, too, are the public services and supports they access "for free". The question for these families is: are they getting value for their tax dollars?

Those promoting tax cuts highlight polling results that say Canadians want tax cuts. This is a no-brainer. Ask someone "do you want to pay less taxes?" and what do you think the answer is going to be? It's like asking someone if they'd like more money in their bank account.

But ask them how they feel about taxes in the context of a range of concerns and tax cuts consistently appear at the bottom of the pack. Poll after poll shows that most Canadians want better public services and, if asked, most Canadians are willing to pay more through taxes to have improved health or education services, an improvment in the environment, or even improvement in more abstract notions such as less child poverty.

The political "Right" argues tax cuts for the rich are needed to avoid brain drain, to improve the economy, and to promote attractiveness (at least to investors, but maybe they think tax cuts are sexy in general).

Even the political "Left" is beginning to jump on the tax cut bandwagon, with the twist that they are arguing for progressive tax cuts targetted to the poor and middle.

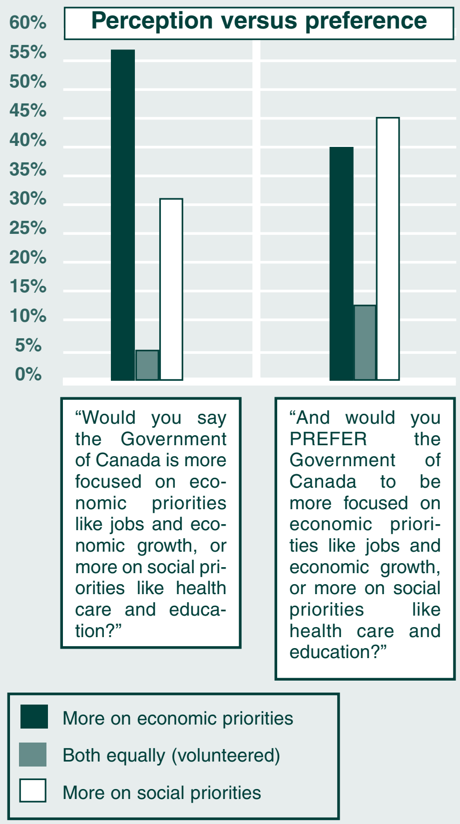
The evidence presented in this report puts into question the effectiveness of either proposal.

It's about time governments started to listen to ordinary Canadians. Tax cuts are not the solution — even for low and middle income

> "It is significant to note that only among the highest income earners (top 7%) in the country do more people think that tax cuts are the best thing government could do for the middle class."
>
> —Earnscliffe Research & Communications, June 1999

Preferred government focus

Canadians prefer social priorities



Source: Ekos Research
May 20 to June 10, 1999

Canadians — because taxes are not the problem. For the vast majority of individual Canadian families, the problem lies in greater economic insecurity, compounded by the stress of cutbacks in social programs and community services.

Longer waiting lists for care and quicker release of the frail mean Canadians are spending more time caring for people at home.

Cutbacks in subsidized child care, coupled with longer waiting-lists, have jeopardized work opportunities for many families raising young children, both among single- and two-parent families.

Cutbacks in the school system means more student fundraising, more parental volunteering, and more forced saving to pay tuition fees.

Poorly maintained roads and eroding public transit services create extra travel time, extra stress, and decreased hours of leisure.

The abandonment of housing policies has created an environment in which a growing proportion of tenant households pay more than half their after-tax incomes on shelter.

The list of hardships caused by cutbacks goes on.

We are in an era of surplus in a budgetary sense only — and for senior levels of governments only. The real costs of living in a society have been offloaded to others. Municipalities, hospitals, and families face unwieldy debt loads. Canada is nowhere near a genuine surplus situation in affordable housing, accessible child care, health care or home care.

Let's get back to the basics. In 1984, Mulroney's Progressive Conservatives were swept into power on his "jobs, jobs, jobs" campaign. By 1993, Chretien's Liberals rode in on a red tidal wave, pledging to bring down the deficit by putting Canadians back to work. For the last 15 years, people have been endorsing every federal government that has promised to do something about the jobs question: enough meaningful work, paid at living wages.

Government efforts to lower unemployment, through macro levers and through policies such as the redistribution of work time and the expansion (rather than contraction) of public services, are more important to the "average" Canadian and the Canadian "standard of living" than tax cuts.

People along the entire income spectrum recognize that expansion of public goods is an obvious way of improving their quality of life, with or without an improvement in their pocketbooks.

It is simply cheaper to buy improvements to health-, child-, or elder-care services if we pool the costs across the country and across the tax base rather than try to do it ourselves, one family at a time. Further, some improvements — those relating to a cleaner environment provide one example — cannot be purchased by individuals, they have to be purchased collectively. These are not political statements, they are statements of economic fact.

This principle also extends to Canadians' working lives. Improvements, such as sustained changes to wages, benefits, and work-time issues, occur most often through collective action, not through individual negotiation.

The gap between rich and poor, and Canadians' slippery slope towards the bottom, is driven primarily by market-induced changes. But to see economic change as the primary variable blinds us to the power of collective action, within and beyond politics.

The previous chapters have shown that political choice plays a big role in closing or growing the gap. When a society has a problem, what kind of action does it take?

The variation in political choices across the country reflects deep cultural differences. Different communities have different expectations of what their community will provide them and of what their political representation will do for them. Where the values exist to narrow the gap, it happens. Where they don't, inequality surges.

After a decade of eroding outcomes within and between households, dare we expect some kind of movement towards economic and social justice from our political systems? Dare we not?

Reflections On The Growing Gap

"I'd always assumed I was the central character in my own story, but now it occurred to me I might in fact be only a minor character in someone else's."

— Russell Hoban from Turtle Diary

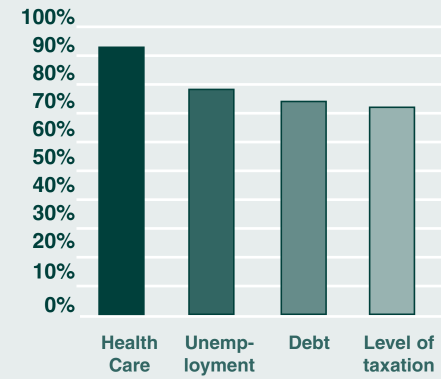
The federal government's declaration to eliminate child poverty by the year 2000 just marked its tenth anniversary with 50 per cent more of Canada's children living in poverty than in 1989. Late in 1999, the federal finance minister announced the next budget will be a children's budget that deals with the discomforting issue of "child" poverty, which is really the poverty of families, including adults.

After 10 years of intense lobbying a parliament that unanimously and thunderously proclaimed child poverty a national disgrace 10 years ago, this is what we got: a promise that something will appear in the next budget to begin to address the issue.

We don't know how much will actually be

Public priority: health care

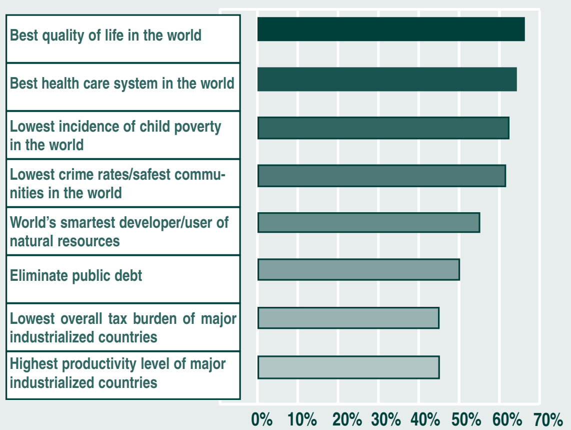
"Thinking not just of today but over the next five years, what priority should the federal government place on each of the following areas?"



Source: Ekos Research, Dec. 22, 1999

Public priority: Quality of life

"If you were Prime Minister for a day, and you had to pick an overall national goal for Canada to achieve by the year 2010, which of the following would you choose?"



Source: Ekos Research, Dec. 22, 1999

done to eradicate poverty, and we don't how parliamentarians will respond. But we know these concerns have been sidetracked by a proliferation of opinion columns, politicians, and business leaders who proclaim tax cuts are the only thing that Canadians of all income categories really need.

Still, in the face of this mounting political campaign, the vast majority of Canadians have repeatedly indicated tax cuts are not their top priority.

The fact remains that, as a society, we have been unable to reduce poverty in a period of economic growth. Far from reducing it, as poverty grew, many of those who could do something about it averted their eyes.

Many of the people with the power to influence some action in this country have ignored the issue of poverty because they dismiss the measure of poverty that is used. They insist poverty should be redefined, that what is lacking is a proper measure of the scale of genuine despair in this nation.

This report shows that if you hold constant the income threshold of the poorest 10 per cent of the population over time, more than 10 per cent of families find themselves shoehorned into the bottom of the heap, with less income. This is true if you compare today's experience with the last generation of families raising children, in 1973. It is also true if you compare what has happened to these families between 1989 and 1997.

It comes as something of a shock that, while the size of the economic pie doubled in size over the last generation, the bar for measuring poverty *dropped*. During the late 1990s, record bonuses for executives and record stock market performance have graced the bank accounts of many households.

Another type of record growth is occurring too. Use of food banks and shelters hit all-new highs in the major cities of our nation. Food bank shelves are empty when people come for help, and homeless people are turned away from overcrowded church basements even on the warmest nights of November.

Choose a measure, any measure: the number of people that are poor has grown, and the depth of their poverty has increased. Not only do they have less income, that income buys them less. Basics like housing cost much more today than they did five years ago and the costs of other basics, such as public transportation and prescriptions have gone up.

More families are struggling with cutbacks in health and education by doing more fundraising and spending more time caring for people at home. And the things that add to the lives of families with children — things like libraries, skating rinks, drop-in centres and pools — are constantly exposed to cutbacks in access or increases in fees.

Still, poverty is all too often seen as something that doesn't really affect the vast majority of Canadians and can thus be largely ignored. But a focus on poverty alone overshadows the larger trend that is affecting us all: growing inequality.

The promise of getting ahead is coming true for fewer and fewer of us. With more Canadians sliding down the income ladder rather than climbing up, there is greater social distance between those at the top and the growing number of people at the bottom. As the elite is further removed from the daily reality of most of the population, and especially the poorest among us, growing inequality creates all sorts of social and political dilemmas.

Picture this: two people stand in a room together. One represents the richest 10 per cent of families raising dependent children. The other represents the poorest 10 per cent. They live in the same community, called Canada. In 1989, the richest families earned 39 times as much as the poorest *(see footnote)*. Let us imagine this as a physical — not just social — distance that is created by this income gap. This puts the two people 39 steps away from each other. They're not close together but within the average house or apartment, they're still within sight of one another.

The economic and social distance between these two, however, has gradually grown over time. By 1993, at the peak of the recession, these two people stood 257 steps apart. Where physically they occupied space in the same dwelling, one of them is now outside, out of the picture. Not only are these two people not talking, they virtually have no shared reality on a day-to-day basis. They would have had to shout to be heard — very un-Canadian.

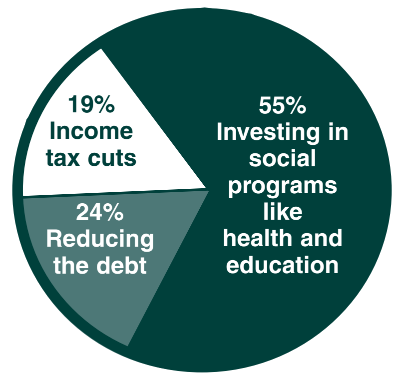
They gradually became invisible to one another. Now only the decisions that count are those made by the person who remains inside the household.

After the peak of the recession, the distance shrank or grew depending on the year. By 1997, the strongest year of economic recovery this decade, these two families stood 109 steps apart.

It is no coincidence that government approaches to poverty have hardened during a period when poverty has become worse. This is because, as the gap grows larger, people

Federal budget priorities

"In planning its budget for the next year, where should the Government of Canada put the most emphasis?"



Source: Ekos Research, April to May 1999

FOOTNOTE:

Average income from the market in 1989, for the top 10 per cent, was $144,700 (in 1997 dollars). Market income comes primarily from earnings from employment and returns on investment. The average market income of the poorest 10 per cent in 1989 was not quite $3,750.

who find themselves with little or no market income are falling further and further out of the line of sight of the people who make decisions. They are not only invisible, they are treated as irrelevant.

In today's world, if you're not working you don't count. And the majority of those at the bottom are not working. When a group of people becomes invisible to the decision-makers, is it because they can be ignored? Or is it because the decision-makers have forgotten they are leaving something important out of the calculus of what matters? Inequalities are driven by what happens to people who find themselves outside the mainstream. It is an age-old truism that how a community treats its most vulnerable members speaks volumes about that society. For thousands of years, spiritual leaders of all religious beliefs have invoked us to remember "There, but for the grace of God, go I" and to create a society that recognizes the essential humanity in each of us, regardless of our material standing.

> "People under 40K household income tend strongly to put more emphasis on government services."
>
> —Earnscliffe Research & Communications, June 1999

This way of thinking is not much of a stretch for those who lived through the Depression years, when relying on community made all the difference in the world. But after decades of promoting "rugged individualism", compassion is losing ground to the notion of deservedness: "I am where I am because I worked hard. I was smart. I earned my place in the world. Others are where they are because of choices they have made."

Luck and chance have no place in this philosophy, nor do larger social and economic forces. Only personal virtue counts in today's lottery of life. Public conversation of the day is focussed on economic growth, productivity and tax cuts.

We are fed a daily diet of crises: fears of what a spike in interest rates will do to the economy; fears that high taxes are threatening future growth; fears of a potential stock market "correction"; fears the Americans are getting too far ahead of us and will consequently drain our lifeblood.

Every day a new crisis is invented that turns our eyes away from the real crisis that is looming in too many households across this nation every day: will I have a home by the end of the month? Can I feed my family and myself every day this week? This crisis is not seen nor acknowledged by the decision-makers who live outside these households, outside of these very neighbourhood.

The fact is that most people do not believe they ever will have to confront these issues and they don't want to dwell on them. Such denial and avoidance shrinks the circle of what gets defined as important.

How madly are we dashing to make sure we do not fall out of the circle of affluence? (Membership has its privileges.) More to the point: do the recipes for economic growth, productivity enhancement, and tax cuts make more of our sister Canadians increasingly peripheral to our own lives?

There is a great divide in our thinking, one which disconnects the notion that what makes me better off as an individual also makes me better off as a member of society. At this moment in public discourse, the dominant concept of well-being is based on how much money you have in your pocket.

If it's a toss up between tax cuts and improving our collective lives, the main message is: take the money and run. You can run, but where are you going to live? How are you going to live?

What is being eroded in our communities, what is being lost, is what ties my well-being to yours. What happens to our neighbour can happen to us. If people and communities can be considered "surplus", expendible to the concerns of the bottom line, then so, too, could we.

This is the story of inequality. What happens when those who have been pushed outside the circle of well-being press to get our attention again? We pepper spray them or make it illegal for them to talk to us on the street. There are moral undertones to what has been a largely cast as a fiscal debate, and these are now surfacing in unexpected ways.

The federal government claims it will be leading the country with its "balanced" approach between spending, tax cuts, and debt reduction. Who says this is a balanced approach? Who says these choices have the same moral and human weight? In whose eyes are tax cuts and debt reduction more important than making sure no one goes to bed hungry for want of a meal, more important than ensuring people stop dying on the streets and hospital corridors of Canada, this country of plenty?

Ask anyone on Main Street if their vision for Canada is defined by a swift and sure movement toward the "correct" amount of debt or toward a rate of taxation acceptable to the "market" (which is what rate exactly?).

Neither economic growth nor tax cuts have reversed the phenomenon that there are more poor among us, nor the fact that the poor are getting poorer. If it's about getting the fundamentals right, whose fundamentals are being addressed? Different definitions of the fundamentals will lead us to different decisions. We can make homelessness or child poverty the number one priority, or we can make sure governments never carry a deficit from year to year.

These are the kind of stark realities current political choices inspire.

The overriding message presented by both

> Neither economic growth nor tax cuts have reversed the phenomenon that there are more poor among us, nor the fact that the poor are getting poorer.

federal and provincial governments today is that the best they can do is reduce what they do for you and give you back your money. This completely disconnects individual material well-being from the larger context — from quality of life, which includes the well-being of others, not just ourselves. As a chosen course of political leadership, it is profoundly myopic.

For the poorest 10 per cent of families raising children, tax cuts completely miss the point: they have no taxable income.

Conclusion

For Canadian society, growing inequalities and divisions cannot be redressed by reducing taxes, since inequality is driven by who is cut out of the action more than it is driven by who is playing the game.

For the poorest 10 per cent of families raising children, tax cuts completely miss the point: they have no taxable income. For the next 10 per cent, they have negligible taxes on minimal incomes. How ironic that those families who most heavily paid the price of the war on the deficit now don't get a cut of the peace dividend.

For the richest 10 per cent of families raising kids, tax cuts reward those who paid the least price of this decade's social restructuring. It is an even greater irony that this reward fails to guarantee our best, brightest, and highest paid won't leave the country to work in sunnier and "more profitable" climes south of the border.

The infamous "brain drain" is being driven by people who want to apply their brains fully and meaningfully somewhere. It has been miscast as a problem of salaries and tax rates. For anyone who wants to work, the greatest possible lure is the lure of full employment in a creative and secure working climate.

It's time governments start listening to what most Canadians are saying: if given a choice, they want public services they can rely on — they want it more than they want a tax cut and they are even willing to pay more to have more supports when needed.

With large budget surpluses, Canadians should be able to have more of what they want without paying more for it — if only governments will deliver. On the cusp of a new millenium, with money in our pockets, we have the opportunity to build a country that works for everyone and a country that does us proud. ◆

— Tables —

TABLE ONE: SLIDING DOWN THE INCOME SCALE:
PERCENTAGE OF FAMILIES FITTING INTO 1989 DEFINITIONS OF MARKET AND AFTER-TAX INCOME DECILES, CANADA, 1989 and 1997

Families with Children under 18 Years of Age, Head under 65, Canada

MARKET INCOMES (Threshold ranges are 1989 values stated in constant 1997 dollars)	Income Category 1 (up to $11,567)	Income Category 2 ($11,568 to $25,005)	Income Category 3 ($25,006 to $35,388)	Income Category 4 ($35,389 to $43,887)	Income Category 5 ($43,888 to $51,449)	Income Category 6 ($51,450 to $59,448)	Income Category 7 ($59,459 to $68,732)	Income Category 8 ($68,733 to $81,114)	Income Category 9 ($81,115 to $100,501)	Income Category 10 (more than $100,501)
Estimated Number of Families										
1989	361,331	361,331	361,331	361,331	361,331	361,331	361,331	361,331	361,331	361,331
1997	535,796	448,443	404,038	361,354	345,304	357,034	344,055	380,907	350,648	389,995
Percentage of Families (%)										
1989	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
1997	13.7	11.4	10.3	9.2	8.8	9.1	8.8	9.7	9.0	10.0
Average Value (1997 $)										
1989	$3,741	$19,000	$30,614	$39,879	$47,813	$55,508	$63,945	$74,681	$89,707	$144,699
1997	$3,219	$18,692	$30,492	$39,624	$47,703	$55,359	$63,737	$75,100	$89,935	$136,505

AFTER-TAX INCOMES (Threshold ranges are 1989 values stated in constant 1997 dollars)	Income Category 1 (up to $19,320)	Income Category 2 ($19,321 to $28,735)	Income Category 3 ($28,736 to $35,038)	Income Category 4 ($35,039 to $40,261)	Income Category 5 ($40,262 to $45,158)	Income Category 6 ($45,159 to ($50,569)	Income Category 7 ($50,570 to $56,999)	Income Category 8 ($57,000 to $65,593)	Income Category 9 ($65,594 to $79,557)	Income Category 10 (more than $79,557)
Estimated Number of Families										
1989	361,331	361,331	361,331	361,331	361,331	361,331	361,331	361,331	361,331	361,331
1997	508,486	498,344	435,174	362,225	351,990	357,601	360,722	349,916	342,322	350,794
Percentage of Families (%)										
1989	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
1997	13.0	12.7	11.1	9.2	9.0	9.1	9.2	8.9	8.7	9.0
Average Value (1997 $)										
1989	$15,396	$24,440	$32,302	$37,848	$42,623	$47,701	$53,758	$60.603	$72,017	$106,963
1997	$12,805	$24,472	$31,843	$37,594	$42,686	$47,798	$53,699	$61,075	$71,830	$102,718

All income values measured in 1997 constant dollars.
Source: Statistics Canada, Survey of Consumer Finances, unpublished data

TABLE TWO: INCOME DISPARITIES AMONG CANADIAN FAMILIES WITH CHILDREN UNDER 18
Canada, Non-Negative Income, Average Values, Constant 1997 Dollars

MARKET INCOMES

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Decile 1	$4,866	$1,938	$2,631	$3,741	$2,387	$1,561	$1,014	$511	$733	$1,222	$701	$1,255
Decile 2	$21,296	$14,853	$17,040	$19,000	$16,118	$13,617	$12,732	$10,392	$11,874	$12,483	$11,868	$13,355
Decile 3	$31,747	$26,250	$28,440	$30,614	$28,182	$25,243	$25,035	$22,306	$24,715	$24,605	$24,132	$25,135
Decile 4	$39,395	$35,117	$37,379	$39,879	$37,835	$34,925	$34,711	$32,314	$34,761	$34,458	$34,454	$35,167
Decile 5	$46,498	$42,811	$45,492	$47,813	$46,609	$43,638	$43,659	$40,946	$43,510	$43,348	$43,581	$44,186
Decile 6	$53,187	$50,073	$53,058	$55,508	$54,881	$51,950	$52,140	$49,611	$52,117	$51,894	$52,370	$52,876
Decile 7	$60,886	$57,708	$61,095	$63,945	$63,638	$61,114	$61,167	$59,216	$61,091	$61,056	$61,458	$61,796
Decile 8	$69,739	$66,739	$70,751	$74,681	$74,165	$71,401	$71,550	$70,012	$71,615	$71,860	$72,589	$73,632
Decile 9	$83,169	$80,433	$84,296	$89,707	$88,990	$85,758	$86,751	$84,782	$87,225	$86,518	$87,965	$88,992
Decile 10	$122,964	$125,056	$129,723	$144,699	$135,199	$136,683	$132,087	$131,412	$135,509	$137,411	$139,053	$136,394
RATIO	**25.27**	**64.53**	**49.31**	**38.68**	**56.64**	**87.56**	**130.26**	**257.17**	**184.87**	**112.45**	**198.36**	**108.68**

AFTER TAX INCOMES

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Decile 1	$13,779	$13,294	$14,156	$15,396	$14,162	$14,822	$14,885	$15,581	$15,646	$15,359	$13,934	$13,806
Decile 2	$24,954	$21,249	$22,979	$24,440	$22,833	$21,700	$22,007	$20,640	$21,051	$20,946	$20,156	$21,172
Decile 3	$32,079	$29,240	$30,206	$32,302	$30,806	$29,247	$29,348	$27,429	$29,060	$28,841	$28,016	$28,275
Decile 4	$37,749	$34,999	$36,150	$37,848	$36,469	$35,204	$35,408	$33,828	$34,974	$34,125	$34,310	$34,338
Decile 5	$42,715	$40,707	$41,440	$42,623	$42,179	$40,151	$40,994	$38,748	$40,567	$39,589	$39,397	$39,693
Decile 6	$47,605	$45,477	$46,413	$47,701	$47,071	$45,099	$45,717	$43,954	$45,251	$45,326	$45,442	$44,995
Decile 7	$53,203	$50,770	$52,306	$53,758	$52,730	$51,012	$51,285	$50,083	$51,123	$50,652	$51,122	$50,850
Decile 8	$59,472	$57,216	$59,272	$60,603	$60,002	$58,260	$58,627	$57,089	$58,088	$57,811	$58,373	$58,415
Decile 9	$69,390	$66,828	$68,397	$72,017	$69,997	$67,957	$68,507	$67,199	$68,370	$67,558	$68,166	$69,178
Decile 10	$99,179	$98,164	$100,703	$106,963	$99,326	$99,459	$96,874	$96,867	$97,999	$99,040	$98,933	$98,746
RATIO	**7.20**	**7.38**	**7.11**	**6.95**	**7.01**	**6.71**	**6.51**	**6.22**	**6.26**	**6.45**	**7.10**	**7.15**

Source: Statistics Canada, Survey of Consumer Finances, unpublished data

TABLE THREE: MARKET INCOME THRESHOLDS FOR "POOR", "RICH" and "MIDDLE" INCOMES

Canada, Families with Children Under 18, 1981 to 1997, Constant 1997 Dollars

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Poorest 10%												
up to.....	$14,118	$7,517	$9,640	$11,567	$8,855	$6,970	$5,304	$3,417	$4,354	$5,848	$4,265	$6,591
Middle 60%												
Bottom	$27,167	$21,297	$23,497	$25,006	$22,873	$19,799	$19,551	$16,814	$18,760	$19,210	$18,394	$19,653
Top	$75,315	$72,545	$76,301	$81,114	$80,685	$77,212	$77,895	$76,562	$78,021	$78,267	$79,399	$80,000
Spread – Top to Bottom	$48,148	$51,248	$52,804	$56,108	$57,812	$57,413	$58,344	$59,748	$59,261	$59,057	$61,005	$60,347
Middle 40%												
Bottom	$35,933	$31,268	$32,968	$35,389	$33,215	$30,261	$30,026	$27,302	$30,113	$29,900	$29,570	$30,101
Top	$65,013	$61,825	$65,568	$68,732	$68,873	$66,279	$66,034	$63,898	$65,694	$66,027	$66,599	$67,000
Spread – Top to Bottom	$29,080	$30,557	$32,600	$33,343	$35,658	$36,018	$36,008	$36,596	$35,581	$36,127	$37,029	$36,899
Richest 10%												
more than....	$92,690	$90,857	$94,573	$100,501	$99,732	$96,149	$97,168	$95,094	$98,568	$96,461	$99,787	$100,485

Source: Statistics Canada, Survey of Consumer Finances, unpublished data

TABLE FOUR: WHO'S WORKING AND WHO'S NOT

Canada, Families With Children Under 18, Head of Family Under 65, Selected Years

DECILE ONE	No weeks of Paid Work	1 or more weeks of Paid Work
1986	43.1%	56.9%
1989	38.5%	61.5%
1990	43.1%	56.9%
1991	53.5%	46.5%
1992	61.3%	38.7%
1993	73.4%	26.6%
1994	73.4%	26.6%
1995	64.6%	35.4%
1996	73.3%	26.7%
1997	63.2%	36.8%

ALL FAMILIES RAISING CHILDREN	No weeks of Paid Work	1 or more weeks of Paid Work
1986	4.8%	95.2%
1989	4.1%	95.9%
1990	4.5%	95.5%
1991	5.8%	94.2%
1992	6.7%	93.3%
1993	8.2%	91.8%
1994	8.2%	91.8%
1995	7.4%	92.6%
1996	8.2%	91.8%
1997	7.1%	92.9%

AMONG FAMILIES WITH ONE OR MORE WEEKS PAID WORK

Decile	1986 Average Weeks Worked	1986 Average Market Incomes*	1996 Average Weeks Worked	1996 Average Market Income	1997 Average Weeks Worked	1997 Average Market Incomes
1	33.5	$3,203	23.7	$2,204	27.4	$2,448
2	61.7	$12,189	48.5	$10,940	51.9	$12,403
3	71.9	$20,116	66.9	$22,416	66.3	$23,934
4	76.8	$26,676	75.9	$32,585	78.3	$33,909
5	83.8	$32,548	83.5	$41,200	84.3	$42,868
6	86.6	$37,822	90.6	$49,622	89.4	$51,724
7	92.5	$43,052	96.8	$58,771	96.4	$60,387
8	102.7	$49,743	103.1	$69,344	99.7	$71,571
9	112.0	$59,205	110.6	$83,883	111.1	$86,488
10	119.4	$87,289	115.9	$129,945	121.7	$130,778
Total	86.5	$38,816	86.4	$54,249	86.6	$55,244

* Excludes Non-Negative Incomes. All values in 1996 Constant Dollars.
Source: Prepared by the Canadian Council on Social Development using Statistics Canada's Survey of Consumer Finances, microdata.

TABLE FIVE: MAKING THE LINKS BETWEEN GROWTH AND INEQUALITY, CANADA, 1989 TO 1997

	VALUES					INDEX OF VALUES, 1989=100				
	GDP (Gross Domestic Product)	Employment Rate	Total Earnings	Market Income Gap	After-Tax Income Gap	GDP	Employment Rate	Total Earnings	Market Income Gap	After-Tax Gap
1989	$504,799	62.4	$205,771	38.68	6.95	100.00	100.00	100.00	100.00	100.00
1990	$503,661	61.9	$200,941	56.64	7.01	99.77	99.20	97.65	146.43	100.86
1991	$494,544	59.8	$192,848	87.56	6.71	97.97	95.83	93.72	226.37	96.55
1992	$497,604	58.4	$195,433	130.26	6.51	98.57	93.59	94.98	336.76	93.67
1993	$510,689	58.2	$191,350	257.17	6.22	101.17	93.27	92.99	664.87	89.50
1994	$531,597	58.5	$198,573	184.87	6.26	105.31	93.75	96.50	477.95	90.07
1995	$542,005	58.6	$201,341	112.45	6.45	107.37	93.91	97.85	290.72	92.81
1996	$548,749	58.6	$205,229	198.36	7.10	108.71	93.91	99.74	512.82	102.16
1997	$570,350	58.9	$208,323	108.68	7.15	112.99	94.39	101.24	280.97	102.88

GDP (at market prices) is measured in millions of constant $1986 dollars. (Currently this is the only historical series that conform with historical data series on GDP for the provinces.)

Source: Informetrica Canada Ltd's forecasting model, based on Statistics Canada data.

When measured in current dollars the difference in output between 1989 and 1997 was worth $140 billion.

Employment rate measures the percentage of the population aged 15+ that has a job in Canada, averaged over the year.

Source: Statistics Canada, Labour Force Historical Review, Catalogue 71F0004XCB.

Total earnings are measured in millions of constant 1997 dollars. Total earnings are also referred to as "total market income".

Total earnings are calculated by multiplying average (non-negative) market incomes by total number of families raising children under 18.

Values are in constant 1997 dollars.

Source: Statistics Canada, Survey of Consumer Finances, unpublished data.

Market income gap divides average market incomes of the richest 10% of families raising children by average market incomes of the poorest 10%.

After-tax gap divides average after-tax incomes of the richest 10% of families raising children by average after-tax incomes of the poorest 10%.

Source: based on Statistics Canada, Survey of Consumer Finances, unpublished data.

All data from the provincial analysis on page 39 are from the same sources and are available on request.

TABLE SIX: THE CHANGING ROLE OF TRANSFERS

Canadian Families Raising Children Under 18, 1981 to 1997, Non-Negative Incomes in Constant 1997 Dollars

AVERAGE INCOME FROM TRANSFERS, BY DECILE

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Decile 1	$9,065	$11,415	$11,698	$11,822	$11,848	$13,370	$13,944	$15,150	$14,975	$14,216	$13,346	$12,609
Decile 2	$5,163	$7,171	$7,317	$7,252	$8,006	$9,226	$10,343	$11,026	$10,066	$9,315	$9,032	$8,711
Decile 3	$3,812	$5,554	$5,385	$5,792	$6,342	$7,370	$7,327	$7,578	$7,258	$7,073	$6,788	$6,063
Decile 4	$3,507	$4,388	$4,349	$4,480	$4,802	$5,949	$6,159	$6,278	$5,670	$5,034	$5,359	$4,759
Decile 5	$3,232	$4,268	$3,592	$3,570	$4,330	$4,688	$5,217	$5,015	$4,980	$4,186	$3,923	$3,837
Decile 6	$2,788	$3,689	$3,025	$3,180	$3,428	$3,760	$3,874	$4,043	$3,590	$3,897	$3,681	$3,048
Decile 7	$2,607	$3,217	$2,986	$2,982	$2,940	$3,225	$3,227	$3,527	$3,451	$2,821	$3,099	$2,405
Decile 8	$2,192	$2,841	$2,746	$2,420	$2,626	$2,970	$2,973	$2,751	$2,726	$2,420	$2,379	$1,908
Decile 9	$2,187	$2,490	$2,252	$2,593	$2,335	$2,647	$2,447	$2,612	$2,308	$2,047	$1,765	$1,710
Decile 10	$2,075	$2,181	$2,178	$2,189	$2,143	$2,208	$2,111	$1,775	$1,637	$1,646	$1,446	$1,548

TRANSFERS AS A % OF TOTAL INCOME BY DECILE

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Decile 1	65.07%	85.49%	81.64%	75.96%	83.23%	89.55%	93.22%	96.74%	95.33%	92.08%	95.01%	90.95%
Decile 2	19.51%	32.56%	30.04%	27.62%	33.19%	40.39%	44.82%	51.48%	45.88%	42.73%	43.22%	39.48%
Decile 3	10.72%	17.46%	15.92%	15.91%	18.37%	22.60%	22.64%	25.36%	22.70%	22.33%	21.95%	19.43%
Decile 4	8.17%	11.11%	10.42%	10.10%	11.26%	14.55%	15.07%	16.27%	14.02%	12.75%	13.46%	11.92%
Decile 5	6.50%	9.07%	7.32%	6.95%	8.50%	9.70%	10.67%	10.91%	10.27%	8.81%	8.26%	7.99%
Decile 6	4.98%	6.86%	5.39%	5.42%	5.88%	6.75%	6.92%	7.54%	6.44%	6.98%	6.57%	5.45%
Decile 7	4.11%	5.28%	4.66%	4.46%	4.42%	5.01%	5.01%	5.62%	5.35%	4.42%	4.80%	3.75%
Decile 8	3.05%	4.08%	3.74%	3.14%	3.42%	3.99%	3.99%	3.78%	3.67%	3.26%	3.17%	2.53%
Decile 9	2.56%	3.00%	2.60%	2.81%	2.56%	2.99%	2.74%	2.99%	2.58%	2.31%	1.97%	1.89%
Decile 10	1.66%	1.71%	1.65%	1.49%	1.56%	1.59%	1.57%	1.33%	1.19%	1.18%	1.03%	1.12%

Source: Calculated from Statistics Canada, Survey of Consumer Finances, unpublished data

TABLE SEVEN: THE CHANGING ROLE OF TAXES

Canadian Families Raising Children Under 18, 1981 to 1997, Non-Negative Incomes in Constant 1997 Dollars

AVERAGE TAX PAID BY DECILE

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Decile 1	$152	$59	$173	$167	$73	$109	$73	$80	$62	$79	$113	$58
Decile 2	$1,505	$775	$1,378	$1,812	$1,291	$1,143	$1,068	$778	$889	$852	$744	$894
Decile 3	$3,480	$2,564	$3,619	$4,104	$3,718	$3,366	$3,014	$2,455	$2,913	$2,837	$2,904	$2,923
Decile 4	$5,153	$4,506	$5,578	$6,511	$6,168	$5,670	$5,462	$4,764	$5,457	$5,367	$5,503	$5,588
Decile 5	$7,015	$6,372	$7,644	$8,760	$8,760	$8,175	$7,882	$7,213	$7,923	$7,945	$8,107	$8,330
Decile 6	$8,370	$8,285	$9,670	$10,987	$11,238	$10,611	$10,297	$9,700	$10,456	$10,465	$10,609	$10,929
Decile 7	$10,290	$10,155	$11,775	$13,169	$13,848	$13,327	$13,109	$12,660	$13,419	$13,225	$13,435	$13,351
Decile 8	$12,459	$12,364	$14,225	$16,498	$16,789	$16,111	$15,896	$15,674	$16,253	$16,469	$16,595	$17,125
Decile 9	$15,966	$16,095	$18,151	$20,283	$21,328	$20,448	$20,691	$20,195	$21,163	$21,007	$21,564	$21,524
Decile 10	$25,860	$29,073	$31,198	$39,925	$38,016	$39,432	$37,324	$36,320	$39,147	$40,017	$41,566	$39,196

TAX AS A % OF TOTAL INCOME BY DECILE (Effective Rate of Taxation)

	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996	1997
Decile 1	1.09%	0.44%	1.21%	1.07%	0.51%	0.73%	0.49%	0.51%	0.39%	0.51%	0.80%	0.42%
Decile 2	5.69%	3.52%	5.66%	6.90%	5.35%	5.00%	4.63%	3.63%	4.05%	3.91%	3.56%	4.05%
Decile 3	9.79%	8.06%	10.70%	11.27%	10.77%	10.32%	9.31%	8.22%	9.11%	8.96%	9.39%	9.37%
Decile 4	12.01%	11.41%	13.37%	14.68%	14.47%	13.87%	13.36%	12.34%	13.50%	13.59%	13.82%	14.00%
Decile 5	14.11%	13.53%	15.57%	17.05%	17.20%	16.92%	16.13%	15.69%	16.34%	16.71%	17.07%	17.35%
Decile 6	14.95%	15.41%	17.24%	18.72%	19.27%	19.05%	18.38%	18.08%	18.77%	18.76%	18.93%	19.54%
Decile 7	16.21%	16.67%	18.38%	19.68%	20.80%	20.71%	20.36%	20.18%	20.79%	20.70%	20.81%	20.80%
Decile 8	17.32%	17.77%	19.35%	21.40%	21.86%	21.66%	21.33%	21.54%	21.86%	22.17%	22.14%	22.67%
Decile 9	18.71%	19.41%	20.97%	21.98%	23.35%	23.13%	23.20%	23.11%	23.64%	23.72%	24.03%	23.73%
Decile 10	20.68%	22.85%	23.65%	27.18%	27.68%	28.39%	27.81%	27.27%	28.54%	28.78%	29.58%	28.41%

Source: Calculated from Statistics Canada Survey of Consumer Finances, unpublished data

The Centre for Social Justice is a progressive think-tank engaged in research and educational activities designed to strengthen the movement for social justice. The Centre brings together people from the universities and unions, faith communities, and other community organizations. It was founded in 1997 in order to carry on much of the work of the former Jesuit Centre for Social Faith and Justice.

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