



Fact Sheet #5

Income inequality: Canada doing less to offset inequality than in the past

Income inequality has been rising in most countries in recent decades. The forces driving inequality are varied, ranging from technological change to the decline in the rate of unionization and loss of well-paid manufacturing jobs. CEOs are now paid exorbitant salaries, hundreds of times the salaries of average workers.¹ While Canada's system of income transfer programs and income taxes has helped to offset the growing gap in income and opportunity, it is not as effective as it once was.²

The growth in inequality since the mid-1990s is particularly disturbing given the very positive economic conditions Canada enjoyed up until 2008. Armine Yalnizyan, senior economist with the Canadian Centre for Policy Alternatives, notes: "Instead of harnessing our extraordinary track record of job creation and economic growth, Canada tumbled further down the inequality rankings than any other nation, slumping from above-average inequality to below-average."³

As a consequence, inequality is taking a high toll – on the well-being of Canadians and their families and on the country as a whole. A majority believe that it is time for governments to take action to halt the runaway growth of incomes at the very top and to rebuild a thriving middle class.

In Canada, the income security system is doing less to protect the poor

- In Canada, the tax-benefit system is considerably weaker than it was prior to the mid-1990s, when it offset more than 70% of the rise in market income inequality. Taxes and benefits now offset less than 40% of the rise in inequality.^{4,5}
- This downward trend in redistribution has been largely driven by the reduced role of means-tested transfers such as social assistance⁶ and through cuts to benefit levels and tighter eligibility rules (e.g., a new definition of "suitable employment" under Employment Insurance regulations).
- Changes in income tax rates have played a role as well. Total tax revenues have fallen from 36% to 31% of GDP since the mid-1990s, matched by an equivalent decline in spending on social programs.⁷ Tax cuts in Canada have been among the largest in the Organization for Economic Cooperation and Development (OECD).
- By the late 2000s, Canada ranked 24th out of 34 OECD members in terms of after-tax income inequality.⁸ Canada's income security system is also one of the weakest among developed countries, ranking at 25 out of 30 countries studied.⁹

Rising inequality hurts us all

- Large gaps in income and wealth have a number of negative implications for society. Not only do they affect the well-being of those who are marginalized, but inequalities can also affect the well-being of the entire population.
- Cross-national research conclusively shows that more equal societies do better on a range of measures, including life expectancy, mental health, learning, levels of trust, and social mobility.^{10,11}
- The psychological damage resulting from being at the bottom of the income ladder can be devastating. People are more likely to suffer prolonged stress which can set the course for poor health and well-being over a lifetime.
- Societies marked by inequality pay the price sooner or later. The billions spent on treating preventable, inequality-related illnesses are paid by all of us. "It is not just that we pay a big bill for health and social problems caused by inequality," write Jordan Brennan and Jim Stanford. "We also forego important positive opportunities and benefits generated by a more inclusive and productive social structure. ...Economies with less inequality... demonstrate considerably superior outcomes in health, education, life expectancy and productivity growth – reaping the resulting economic and fiscal benefits."¹²

Canadians agree that rising inequality demands action

- Canadians agree that the widening income gap is a big problem for the future – across all provinces and political parties. In a 2012 poll for the Broadbent Institute, 77% stated that income inequality represents a significant problem for Canada over the long term.¹³
- More than three-quarters of respondents (79%) said that the gap will eventually lead to declining living standards, followed by increased crime

(75%), the erosion of public health care and other public services (72%), as well as fewer opportunities for young Canadians to do as well or better than their parents (71%).

- Almost nine out of ten Canadians (89%) think that it's time for governments to tackle the problem of income inequality. Two-thirds (64%) would be “very” or “somewhat” willing to pay slightly higher taxes to protect social programs like health care, pensions and access to post-secondary education.

Income inequality on the rise among western countries

