

The background features large, stylized, grey letters 'PTU' on a dark red background. The letters are bold and have rounded corners. The 'P' and 'T' are connected at the top, and the 'U' is positioned to the right. The 'T' has a horizontal bar that extends to the right, overlapping the 'P'.

Poverty Trends Scorecard

Fact Sheet Series

Income, Wealth, and Inequality

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“Income, Wealth, and Inequality” is the second report in the *Poverty Trends Scorecard* series. Visit www.cpj.ca to learn more about the *Scorecard* and about Citizens for Public Justice, an organization inspired by faith to work for justice in Canadian public policy.



Introduction

Income, Wealth, and Inequality

In 2008, the collapse of financial markets around the world tipped country after country into recession. Canada was no exception. In a short eight-month period, hundreds of thousands of Canadians lost their jobs and the Employment Insurance and social assistance rolls started to climb. The proportion of part-time and temporary jobs increased as full-time employment disappeared. Canadians had to stretch their dollars further to pay for rising food costs and shelter, many turning to food banks – and credit cards – to make ends meet.

Before the recession hit, some economists were arguing that the days of boom and bust were over, that we had learned how to manage the business cycle as evidenced by over a decade of positive economic growth and rising average incomes. But the warning signs were there. Average incomes were rising, yes, but the very large increases of the top 1% of earners were driving the trend. Income inequality was increasing steadily in Canada as the gap between those at the top and those down the income ladder widened.

In 2009, Citizens for Public Justice (CPJ) launched the *Bearing the Brunt* project to try to capture and track the impact of the recession on Canadians and their families. Evidence from previous recessions demonstrated that economic downturns can have a long-term detrimental impact as good jobs are lost and governments cut back community supports and services. Economic and social divisions become entrenched. The bonds that tie communities together weaken. The most vulnerable are left behind.¹

As part of the *Bearing the Brunt* project, CPJ released a *Poverty Trends Scorecard* in 2010 that highlighted poverty trends and several key factors related to family economic security. The *Scorecard*, entitled *Recovery: Not for Many Canadian Families*, was based on a detailed research study: *Bearing the Brunt: How the 2008–2009 Recession Created Poverty for Canadian Families*.²

This new *Poverty Trends Scorecard* consisting of four reports now presents an update of the information on income, wealth, and inequality. Over three years later, the recovery has yet to fully take hold. The individuals and families who bore the brunt of the 2008–09 recession face continuing economic uncertainty, high levels of unemployment, and rising costs of living.

Updating the *Poverty Trends Scorecard* affords an opportunity to not only assess how well Canadian families have done since the onset of the recession, but to turn our attention to the pressing problems of today.

The project is organized around an expanded set of themes and indicators, based on the framework developed in 2010. The new *Scorecard* speaks to current trends influencing family economic security, highlighting the impact of growing income and wealth inequality and the high cost of poverty. The key themes are: “Poverty Trends”; “Income, Wealth, and Inequality”; “Labour Market Inclusion”; and “Making Ends Meet.” A set of fact sheets accompanies each theme area, summarizing key trends through tables, charts, and text.

While the primary focus of the *Scorecard* project is the 2007 to 2011 period – in order to track the progress of families since the 2008–09 recession – the fact sheets will describe the longer term trends in order to set the context for the current period. In this regard, 2007 is an important benchmark, marking a 30-year low in the Canadian poverty rate and a high in median family incomes.

The goal of this initiative is to create an accessible set of materials that will support national and community-level anti-poverty work across the country, including CPJ’s own outreach and engagement activities, and those of *Dignity for All: the campaign for a poverty-free Canada*.

As the Standing Committee on Finance gets ready to study income inequality in Canada this spring, access to timely and relevant information on income trends and inequality will be key to identifying and developing effective strategies and programs to assist all children, youth, and families to thrive and prosper.

Poverty Trends Scorecard Project (Fact Sheet Series)

- *Poverty Trends Scorecard – Canada 2012* (October 2012)
- *Income, Wealth and Inequality* (February 2013)
- *Community Profile Series* (Montreal, Toronto, Hamilton, Winnipeg, Vancouver) *Labour Market Inclusion*, forthcoming
- *Making Ends Meet*, forthcoming

Income, Wealth, and Inequality

Summary

Canadian families on average enjoy a higher standard of living today than they did thirty years ago. Senior families, in particular, have made important gains in their after-tax incomes, even as the number of seniors has grown.

The progress among working-age families, however, has been uneven. It took 10 years for families to recoup their income losses experienced during the recession of the early 1990s. Between 1993 and 2008, a strong labour market helped to lift the incomes and economic fortunes of all Canadians.

But, the gains were not shared equally. Families at the top of the income ladder experienced much larger income gains compared to modest- and middle-income families. As a result, the gap in income – and wealth – has grown considerably.

Overall, the after-tax incomes of families in the top 20% increased at nearly twice the rate of incomes of families in the bottom four quintiles. Trends in the distribution of market income from both earnings and investments were even more skewed towards the top group. Average market incomes of the top quintile families grew by over 40%, while families in the bottom 40% lost significant economic ground. (Please see Fact Sheet #1 for a list of definitions.)

Canada's richest 20% of families now account for 47.5% of the country's total market income and 40.0% of after-tax income, an increase of 6.9 and 3.5 percentage points, respectively, between 1981 and 2010 – all at the expense of the bottom four income groups. Thus, while poor and middle income families are minimally better off in an absolute sense, they are worse off in a relative sense.

Household debt has surged, as individuals and families have turned in greater numbers to credit in order to finance spending – up to and through the recession. Canada's total

household debt is now three times the size of the national debt – more than 1.6 trillion dollars.

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. At the same time, low-wage sectors of the economy such as personal services and retail have expanded, pushing wages lower. One in four workers is now employed in a low-paid job, defined by the OECD as paying less than two-thirds of the median wage – approximately \$13.33/hour in 2012.

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. The tax-benefit system offsets less than 40% of market inequality, compared to more than 70% prior to the mid-1990s.

As a consequence, inequality is taking a high toll – on the well-being of Canadians and their families and the country as a whole. A majority now believe that it is time for governments to take action to halt the runaway growth of incomes at the very top and to provide opportunities for all to live with dignity.

Summary: Income, Wealth, and Inequality Trends from 1981 to 2010

Income, Wealth, and Inequality Indicators								
	1981	1989	1996	2008	2009	2010	Trend: 2008 – 2010	Trend: 2009 – 2010
Income Trends								
Median After-tax Income (constant \$2010)								
All Households	46,800	45,700	40,400	49,700	49,500	49,300	↓	↓
Families	56,800	57,300	52,100	65,500	65,400	65,500	↔	↔
Under 65 years*	59,300	59,500	54,900	69,800	69,900	70,700	↑	↑
65 and older**	34,400	40,000	39,100	47,400	47,800	46,800	↓	↓
Unattached Individuals	22,700	22,800	19,900	25,500	25,900	26,000	↑	↔
Median Market Income (constant \$2010)								
All Households	49,600	48,300	39,100	47,900	46,100	45,900	↓	↓
Families	62,000	63,200	54,700	66,500	64,500	64,900	↓	↑
Under 65 years*	66,300	68,500	61,500	74,400	73,300	74,000	↓	↑
65 and older**	18,700	22,400	19,100	25,900	25,700	23,700	↓	↓
Unattached Individuals	21,200	21,100	13,800	21,700	20,900	20,800	↓	↔
Median Earnings (constant \$2010)								
All Earners (15+)	29,400	29,800	27,000	30,100	29,300	29,100	↓	↓
Men (15+)	40,000	38,900	34,300	37,000	35,100	35,000	↓	↔
Women (15+)	19,400	21,800	20,200	23,200	23,700	23,900	↑	↑
Inequality Trends								
Income Ratio (Top quintile to bottom quintile)								
After-tax Family Income	4.9	4.8	5.2	5.6	5.6	5.6	↔	↔
Market Family Income	11.8	13.9	24.4	17.0	18.7	18.9	↑	↑
Gini Coefficient								
After-tax Family Income	0.290	0.290	0.310	0.330	0.329	0.328	↓	↔
Market Family Income	0.370	0.393	0.443	0.445	0.450	0.452	↑	↑
Income Share of Top 1% (after-tax income)	6.3*	9.5	7.9	10.6	9.6	9.9	↓	↑
Wealth and Debt Trends								
Household Debt (Q4)								
Ratio of Household Debt to After-tax Income	n/a	89.2**	100.6	148.2	157.1	161.0	↑	↑
Wealth								
	1984		1999		2005			1999 – 2005
Median Wealth (constant \$2005)								
Bottom Decile	-2,100		-6,570		-9,600			↓
Fifth Decile	52,260		57,120		63,250			↑
Top Decile	534,980		723,590		1,194,000			↑
Share of Wealth (%)								
Bottom Decile	-0.5		-0.6		-0.6			↔
Fifth Decile	3.5		2.8		2.5			↓
Top Decile	51.8		55.7		58.2			↑
Trends: ↑ = Increase equal to or greater than \$100; ↔ = Little or no change (change less \$100); ↓ = Decline equal to or greater than \$100. *1982; **1990								

Fact Sheet #1

After-tax incomes in Canada: Running hard to stand still

Canadians are running hard to stand still. There has been very little progress in real income growth over the past 30 years. The gains recorded in the late 1990s and early 2000s ground to a halt in 2008 with the onset of the recession. In 2010, after-tax incomes were still below pre-recession levels. Overall, family incomes are higher in Alberta, Ontario, and Saskatchewan, and lower in Quebec and eastern Canada.

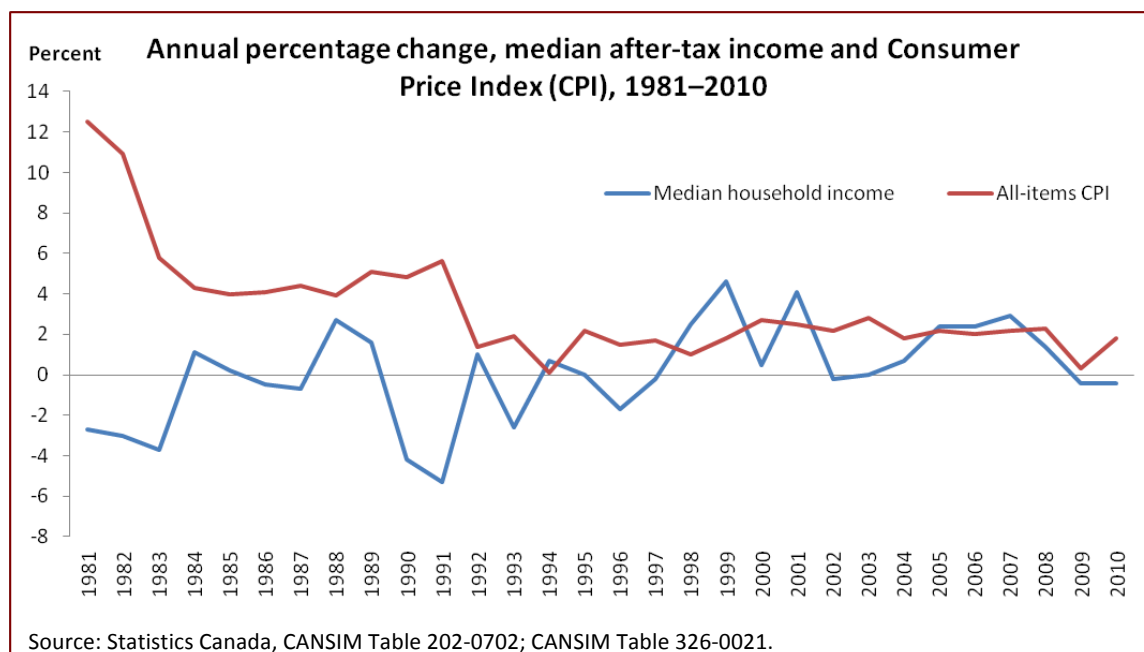
After-tax incomes have lost ground since the recession

- The median after-tax income of all Canadians was \$49,300 in 2010, down from \$49,500 in 2009. This was the third consecutive year of decline in income, after a period of growth which began in 2004.
- The after-tax income of families of two or more people was \$65,500 in 2010. There was virtually no change in family income between 2008 and 2010. Lone-parent families experienced a decline of 1.5% between 2009 and 2010.
- And the after-tax income among individuals living on their own was less than half of the income of families, at \$26,000. Working-age individuals received \$27,500 while seniors received \$23,400 in 2010.

After-tax incomes are highest in Alberta, and lowest in eastern Canada

- Noticeable differences among the provinces are apparent in median after-tax income of families. Median income is significantly higher in Ontario and westward than in Quebec and Atlantic Canada – a pattern that has been evident for many years.
- Since 2004, Alberta has had the highest family incomes, at \$78,100 in 2010, over \$10,000 higher than the Canadian benchmark. The commodities boom and tight labour markets have led to higher incomes in the west.
- Alberta also has the highest after-tax income among unattached individuals, followed by Ontario, Saskatchewan, and Prince Edward Island.

Cost of living continues to outpace income growth



Canadians have made modest gains over past over 30 years

- After-tax incomes have stagnated for the better part of the last three decades; they did not surpass 1981 levels until 2006. Two recessions in the early 1980s and the 1990s hit low- and modest-income households very hard. Real incomes, for instance, fell by 12% between 1989 and 1997.
- Since the mid-1990s, household incomes have risen by over 20%, buoyed by a strong labour market – up until the 2008–09 recession. The median income of families rose by 26.7% between 1993 and 2008, while the incomes of unattached individuals grew by 26.2%.
- The ups and downs of the economy have left a significant mark on the financial security of Canadians. Even taking years of strong economic growth into account, after-tax incomes edged forward at only 0.2% per year over the 1981–2010 period, lagging significantly behind the average annual rate of inflation for the period (at 3.4%).

After-tax income trends in the provinces

- Prince Edward Island, Saskatchewan, and Alberta experienced the highest gains of over 15% over the 1981–2010 period. All of these income gains were posted after 1993.
- After-tax incomes in British Columbia, by contrast, fell by 3.2% between 1981 and 2010, while the incomes of Quebecers and Newfoundlanders experienced virtually no change. These provinces experienced significant losses through the 1980s and early 1990s and have taken many years to recover (see page 19).

Change in Median After-tax Income, by Household Type, Constant \$2010, Various Periods, 1981 – 2010

	1981 – 2010		1989 – 1993		1993 – 2008		2008 – 2010	
			Recessionary Period		Expansionary Period		Recessionary Period	
	\$	%	\$	%	\$	%	\$	%
All households	2,500	5.3	-4,900	-10.7	8,900	21.8	-400	-0.8
Families	8,700	15.3	-5,600	-9.8	13,800	26.7	0	0.0
Unattached individuals	3,300	14.5	-2,500	-11.0	5,300	26.2	500	2.0

Statistics Canada, CANSIM Table 202-0702 - Market income, government transfers, total income, income tax and after-tax income, by economic family type, 2010 constant dollars, annual

Fact Sheet #2

After-tax incomes by household type: Singles being left behind

Canadian families on average enjoy a higher standard of living today than they did 30 years ago. Senior families, in particular, have made important gains in their after-tax incomes, even as the number of seniors has grown. The progress among working-age families, however, has been uneven. It wasn't until the last decade that these families started to make economic headway. By contrast, working-age individuals living on their own continue to struggle, having made little or no progress. The sluggish recovery in recent years has resulted in flat incomes and continuing uncertainty for families and individuals alike.

Seniors have made steady progress

- The median after-tax incomes of senior families (65 years and over) has been trending upward for the past three decades. Median incomes grew by 36% over the entire period, rising from \$34,400 in 1981 to \$46,800 in 2010.
- The after-tax incomes of seniors living on their own have improved steadily as well – up by 62% among men, and by 48% among women – over the 1981–2010 period, to \$27,800 and \$22,500 respectively.
- These improvements reflect gains from “market” sources (private pensions, investment income, and earnings), as well as significant increases in transfer payments received through government programs such as Guaranteed Income Supplement, Old Age Security, and the Canadian/Quebec Pension Plan.

Working-age families have been on an economic roller coaster

- Working-age families (18 to 64 years), on the other hand, have experienced much greater income volatility. Median after-tax incomes stagnated through the 1981–1997 period – increasing through expansionary periods, and then rolling back with each recession.
- Buoyant labour markets since 1997 helped to turn their financial situation around. After-tax incomes increased from \$55,300 in 1997 to \$70,700 in 2010, the result of strong growth in average hourly wages and weekly hours worked through the early part of the decade.
- The general increase in the number of income earners per family has been an important factor in sustaining family incomes. While two incomes are not a guarantee against low income, reliance on a single income carries a higher risk of economic insecurity, particularly as increases in household

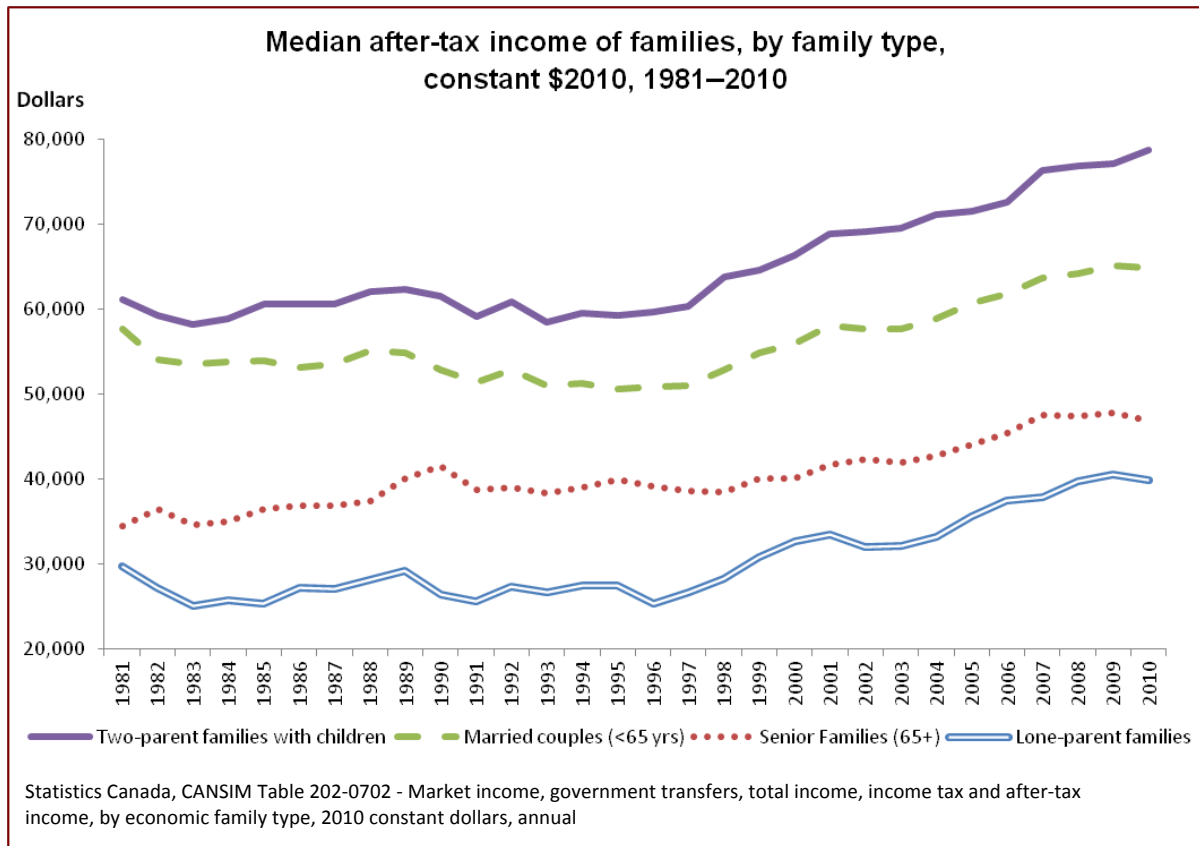
spending and growing debt loads continue to outpace income gains.³

- Lone-parent families have made important strides in recent years as the income gap between them and two-parent families has begun to narrow. Their after-tax incomes increased by 34.3% between 1981 and 2010. The improvement was due to the growing rate of labour force participation among lone-parent mothers, increased hours and weeks of employment, and greater earning power related to higher levels of education.
- Since the 2008–09 recession, income growth has slowed, reflecting sluggish growth in market incomes from earnings and investments.

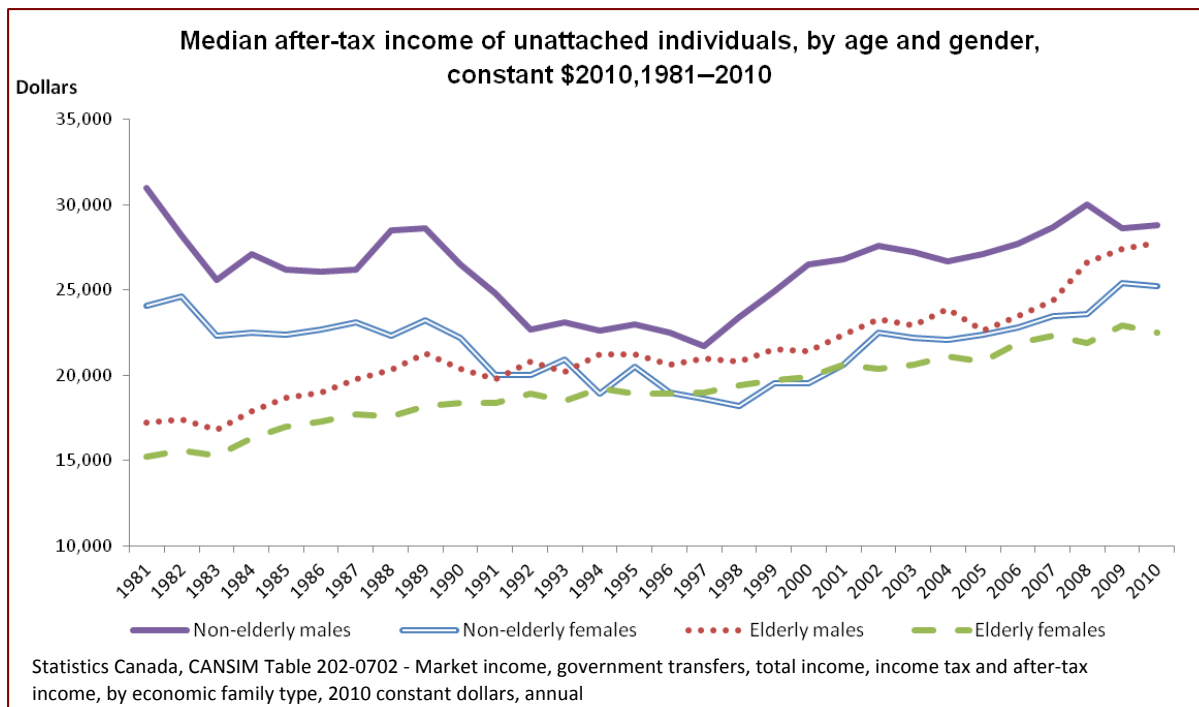
Individuals under age 65 living on their own falling behind

- The experience of working-age individuals living on their own has been much more difficult over the last 30 years, as the low-wage labour market has expanded and income supports such as social assistance and employment insurance have been systematically eroded.
- The median after-tax incomes of women living alone were slightly higher in 2010 than in 1981 at \$25,200, having taken years to recoup the economic losses experienced in the 1980s and 1990s.
- But the incomes of working-age single men have yet to recover. Their 2010 after-tax incomes were 7% lower in 2010 than in 1981 (\$28,800 compared to \$31,000).
- Those facing the greatest risk of persistent low income include members of visible minority groups, individuals with less than a high school education, people reporting disabilities, and adults aged 45 to 64. There is also a large economic gap between Aboriginal peoples and non-Aboriginal Canadians across all indicators of economic security.⁴

1998–2008 was a positive decade of income growth for families



Working-age individuals living on their own have lost ground since 1981



Fact Sheet #3

Market income trends: Still waiting for the recovery to take hold

After the recessions of the early 1980s and early 1990s, it took many years for market incomes from employment and investments to rebound – especially among low-wage workers.⁵ Early evidence suggests that the 2008–09 recession was not as deep as the one that hammered the economy in the early 1990s, but it hit fast and hard. There was a sharp drop in market incomes, especially among lower- and middle-income families, as wages and hours were scaled back and unemployment rose. Earnings are only now coming back – a positive sign moving forward in an uncertain economy.

Market incomes drop as a result of 2008–09 recession

- After more than a decade of growth, median market incomes – earnings, private pensions, income from investments, and other sources – fell by 4.2% after the recession, from \$47,900 in 2008 to \$45,900 in 2010.
- Individuals living on their own experienced greater losses than those in families (4.1% compared to 2.4%). In 2010, the median market income among singles was \$20,800: \$7,700 among unattached seniors and \$27,400 among singles under the age of 65.
- Small market income gains among working-age families (1.3%) did not offset the losses in income experienced by families whose main income recipient was over age 65. The median market incomes for elderly families fell from \$27,000 in 2007 to \$23,700 in 2010, driven by losses in investment and pension incomes.
- Over time, the earnings gap between men and women has been narrowing. Among full-time, full-year workers, women earned 63.8% of male earnings in 1981 (\$50,300 vs. \$32,100). By 2010, the distance had narrowed to 77.6% (\$52,700 vs. \$40,900). Most of the improvement was recorded during the 1980s and early 1990s, and again between 2008 and 2010.

Market losses during the recession have been greatest among lower- and middle-income households

- Declines in incomes are never shared equally across a population. Lower- and middle-income households tend to experience much larger percentage losses of income than higher-income households. This was true during the 1990–92 recession and again, more recently, in the aftermath of the 2008–09 recession.
- During the 1990–92 recession, the average market income losses of families in the lowest 20% of the income distribution were over three times greater than the losses experienced by families in the middle 20% (68.4% vs. 18.8%), and over eight times greater than the losses experienced by families in the top 20% (68.4% vs. 8.1%).
- The market income losses were not as severe between 2008 and 2010, but the same pattern was evident. The losses were 18.4%, 4.3%, and 0.8% among households in the bottom, middle, and top income groups, respectively.

Change in Median Market Income, by Household Type, Constant \$2010, Various Periods, 1981–2010

	1981–2010		1989–1993		1993–2008		2008–2010	
			Recessionary Period		Expansionary Period		Recessionary Period	
	\$	%	\$	%	\$	%	\$	%
All households	-3,700	-7.5	-9,100	-18.8	8,700	18.2	-2,000	-4.2
Families	2,900	4.7	-9,200	-14.6	12,500	23.1	-1,600	-2.4
Unattached individuals	-400	-1.9	-7,600	-36.0	8,100	59.6	-900	-4.1

Statistics Canada, CANSIM Table 202-0702 - Market income, government transfers, total income, income tax and after-tax income, by economic family type, 2010 constant dollars, annual

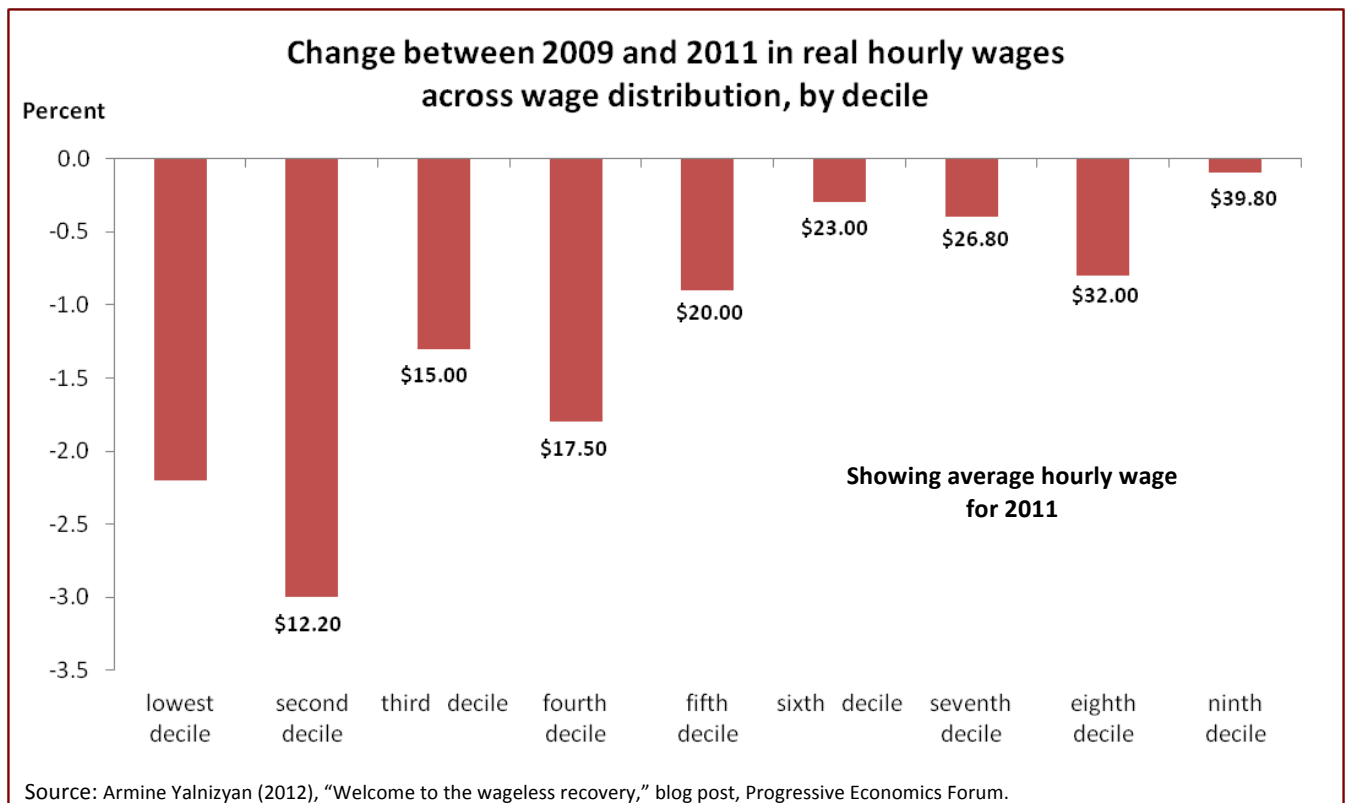
Loss of well-paid employment driving growth in income inequality

- The loss of middle-income jobs has been a key factor behind growing inequality. Manufacturing and the public sector, two traditional sources of middle class employment, now account for the work of less than a third of Canadians, down from roughly half several decades ago.⁶
- At the same time, low-wage sectors of the economy such as personal services have expanded, pushing wages lower. One in four workers is employed in a low-paid job, defined by the Organization for Economic Co-operation and Development as paying less than two-thirds of the median wage – approximately \$13.33/hour in 2012.⁷
- Workers with low levels of education are at a particular disadvantage as the wage gap has widened.

Average wages picking up since 2010

- In the aftermath of the recession, median earnings declined by 3.3% from \$30,100 in 2008 to \$29,100 in 2010.
- As the chart shows, workers at the bottom of the ladder experienced the greatest losses in average hourly wages in the aftermath of the recession, compared to workers in the highest income groups.
- 2012 was a more positive year with median hourly wage rates increasing among both full-time and part-time workers, recouping some of the losses experienced since 2009.

Hourly wages on decline since recession among low-wage workers



Fact Sheet #4

Income Inequality: The growing gap

It took ten years for families to recoup their income losses experienced during the recession of the early 1990s. Between 1993 and 2008, a strong labour market helped to lift the incomes and economic fortunes of all Canadians. At the same time, the gains were not shared equally. Families at the top of the income ladder experienced much larger income gains compared to modest- and middle-income families. As a result, the income gap in Canada has grown. British Columbia, Newfoundland and Labrador, Ontario, and Alberta, have all experienced substantial increases in income inequality.

Largest income gains are at the top

- The top 20% (quintile) of families experienced the largest after-tax income gains over the 1981–2010 period compared to families in the bottom four income groups.⁸ The incomes of the top group rose by an average of 36.9%, from \$111,800 to \$153,100.⁹
- By contrast, the average after-tax incomes of the lowest 20% rose by 20.3%, from \$22,700 to \$27,300 over this period, while the incomes of families in the second lowest quintile rose by 12.6%, from \$42,100 to \$47,400. The incomes of families in the top 20% increased at nearly twice the rate of incomes of families in the bottom four quintiles.
- Trends in the distribution of market incomes from earnings and investments were even more skewed towards the top group. Average market incomes of the top quintile families grew by over 40%, while families in the bottom two quintiles lost significant economic ground.¹⁰ The average market incomes in the lowest 20% fell by 12.2%, and by 8.3% in the second lowest income group between 1981 and 2010.

The income gap between those at the top and the bottom is growing

- Another way to measure the gap between families at the top and bottom of the income scale is to look at the ratio of their incomes. In 2010, the 20% of families with the highest after-tax income had, on average, 5.6 times the income of those in the bottom 20%. In other words, for every dollar of income received by the lowest quintile, the highest quintile received \$5.60. In 1981, the ratio was \$4.90 to \$1.

- The gap in market incomes between families in the top 20% versus families in the bottom 20% is even greater, rising from \$11.80 to \$1 in 1981, to \$18.9 to \$1 in 2010.
- Canada's richest families now account for 47.5% of market income and 40.0% of after-tax income, an increase of 6.9 and 3.5 percentage points, respectively – all at the expense of the four lower groups. Thus, while poor and middle income families are minimally better off in an absolute sense, they are worse off in a relative sense.

And within the top income group, the rich are pulling away

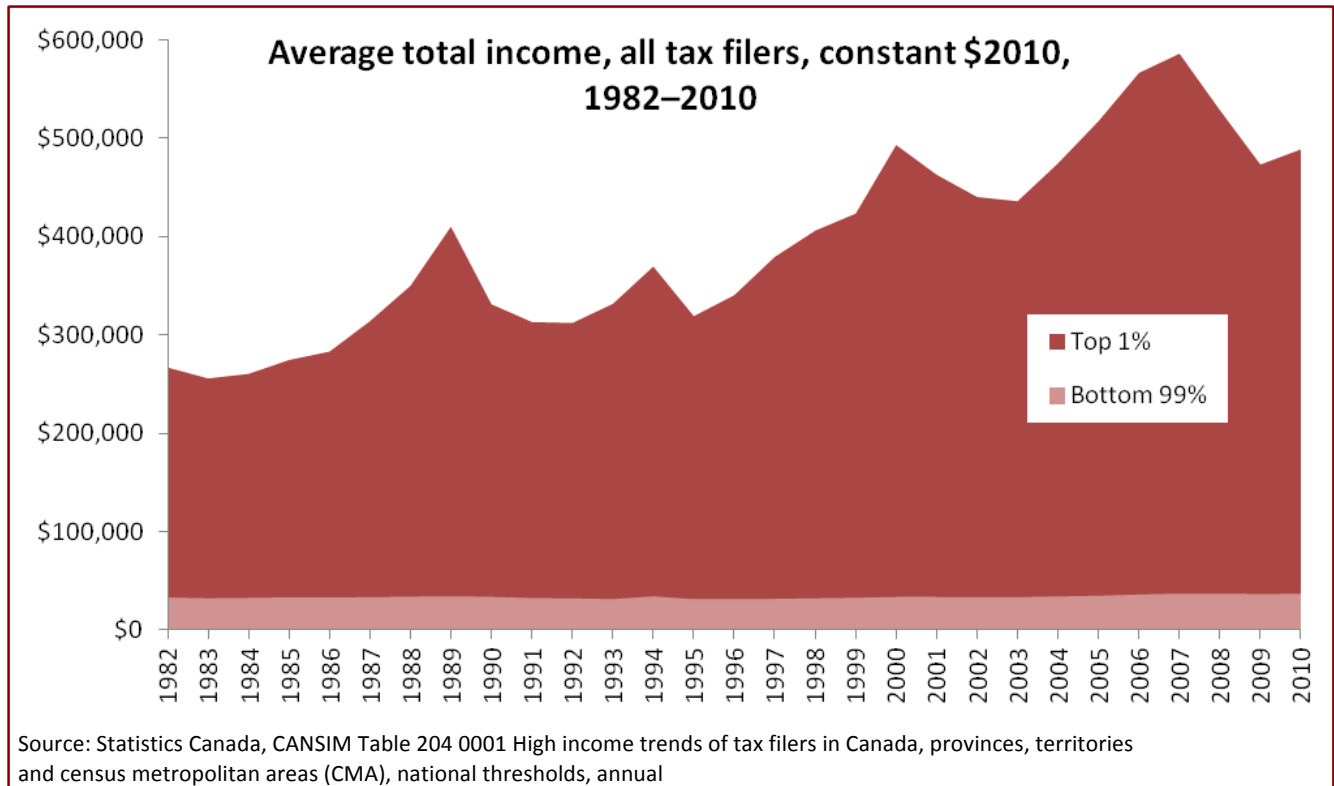
- Growth in incomes at the very top in particular has been driving inequality since the mid-1990s. The richest 1% of Canadians saw their share of market income almost double from 8.0% in the early 1980s to 15.3% in 2007. Likewise, their share of after-tax income increased from 6.3% to 11.7% over the same period.¹¹
- The average total income¹² of the top 1% of tax filers, including capital gains, is now about 13 times higher than the average income of the other 99%, up from 30 years ago, when it was eight times higher.¹³
- Top incomes more than doubled between 1982 and 2010, reaching a peak of \$585,800 in 2007. With the recession, average incomes declined between 2007 and 2009, and started to climb again in 2010.
- The degree of income inequality also varies greatly across Canada. In 2010, the distribution of after-tax income was most unequal in British Columbia and least unequal in Prince Edward Island, as measured by the Gini coefficient.¹⁴

Percentage Income Share, All Tax Filers, 1982 and 2010

	Market income (including capital gains)			After-tax income (including capital gains)		
	1982	2010	% change	1982	2010	% change
Top 0.1%	2.3	4.9	113.0%	1.8	3.6	100.0%
Top 1%	8.0	13.3	66.3%	6.3	9.9	57.1%
Top 5%	20.8	28.3	36.1%	17.3	22.1	27.7%
Top 10%	32.6	40.8	25.2%	27.8	32.7	17.6%
Bottom 90%	67.4	59.2	-12.2%	72.2	67.3	-6.8%
Bottom 95%	79.2	71.7	-9.5%	82.7	77.9	-5.8%
Bottom 99%	92.0	86.7	-5.8%	93.7	90.1	-3.8%

Source: Statistics Canada. Table 204-0001- High income trends of tax filers in Canada, provinces, territories, and census metropolitan areas (CMA), national thresholds, annual

The top 1% is pulling away from the rest 1982–2010.



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.¹⁵ 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.¹⁶

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."¹⁷

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.^{18,19}
- This downward trend in redistribution has been largely driven by the reduced role of means-tested transfers such as social assistance²⁰ 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.²¹ 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.²² Canada's income security system is also one of the weakest among developed countries, ranking at 25 out of 30 countries studied.²³

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.^{24,25}
- 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."²⁶

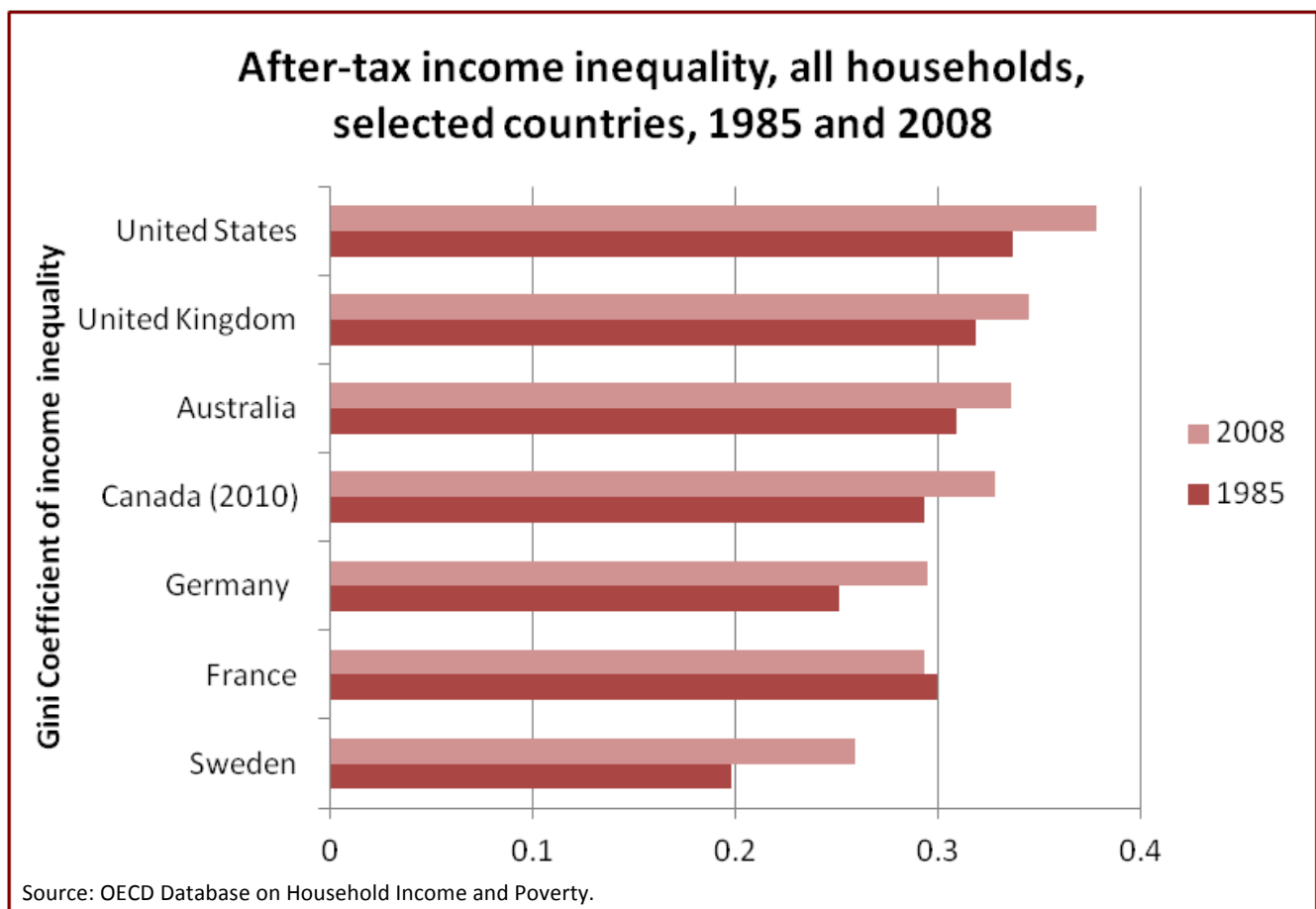
Canadians agree that rising inequality demands action

- 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.²⁷
- 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



Fact Sheet #6

Wealth in Canada: Concentrated in the hands of a few

There is a clear relationship between income and wealth. Quite simply, the lower the level of family income, the lower a family's capacity to accumulate assets. Buying a house, saving for school, investing in a car to get to a job, saving for retirement, putting away the cash needed to weather unexpected expenses – savings and wealth provide the financial security and, as importantly, the opportunity to plan for the future with confidence.

But increasingly, the control of wealth in Canada is being concentrated in the hands of a few. The inequitable distribution of wealth has proceeded in lockstep with the growing gap in incomes. Even as levels of wealth have increased over the last three decades, the poorest families in Canada have fallen further into debt.

The level of wealth in Canada has risen since the 1970s

- Median wealth has increased in Canada since the 1970s, notably in the last decade. Between 1999 and 2005, for example, the median level of wealth among all households (including families and unattached individuals) increased by 23.2% to \$148,400.²⁸
- More recent data based on the National Accounts show that average household wealth has continued to grow, driven largely by rising real estate values. Real estate now comprises more than 50% of the net worth of all Canadian households, up from just over a third in 2000.²⁹ This growth is consistent with census data that show a rise in home ownership, from 62.1% of all households in 1981 to 68.4% in 2006.³⁰

Like income, however, the largest gains have been at the top of the income ladder

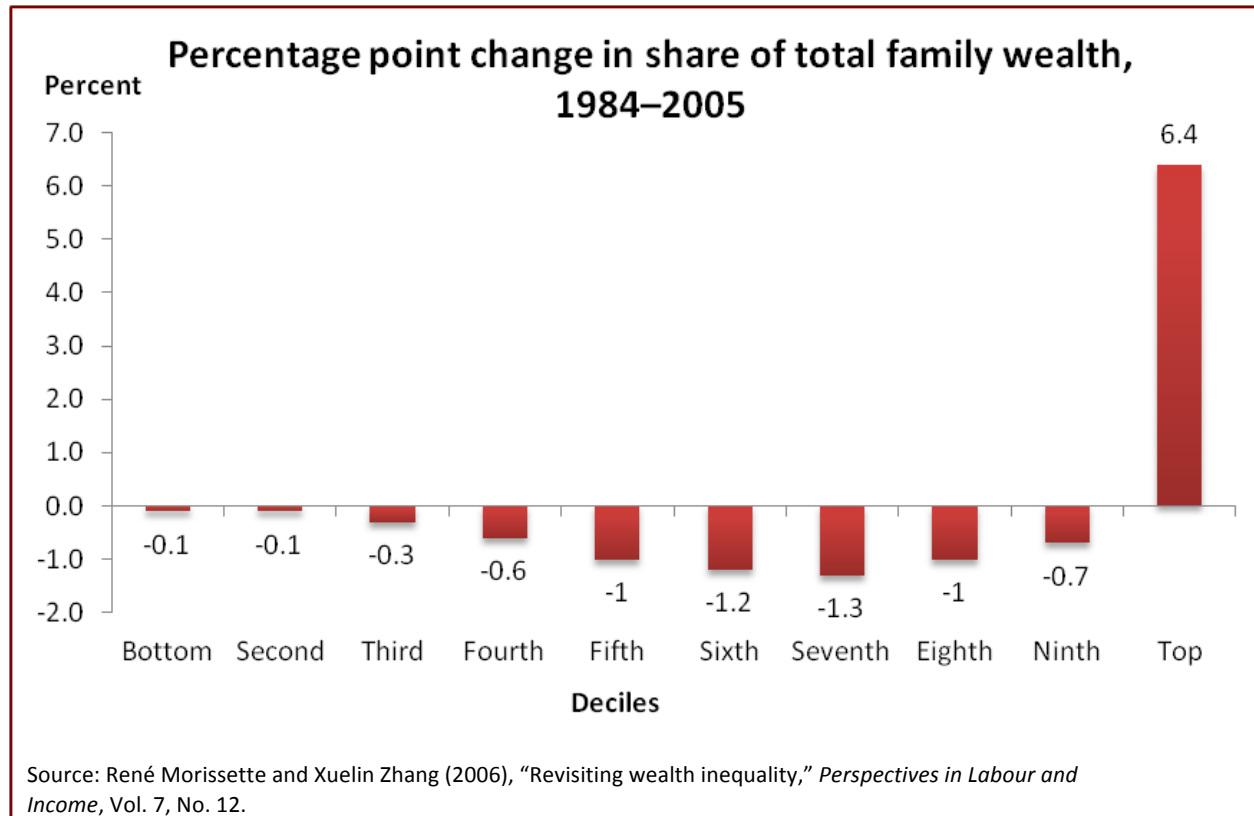
- Over the 1984 to 2005 period, the richest 10% of families saw their wealth increase by \$659,020, or 123%.³¹ The dollar gain in wealth of the richest 10% was more than two times larger than the sum of the gains for the other 90% combined.
- Meanwhile, the net worth stagnated or declined for households in the bottom 40%. The poorest 10% of families actually fell further into debt between 1984 and 2005. Median net worth decreased by roughly \$7,500, from -\$2,100 to -\$9,600.
- Overall, there was an increase in the proportion of families with zero or "negative net worth" – a situation when a family's debts exceed the value

of their assets. In 2005, almost one in six families (14.1%) had greater debts than assets, up from just over one in ten (10.8%) in 1984. There was also an increase in the proportion of families with no financial wealth or assets at all, from 17.7% in 1984 to 24.0% in 2005.

Top 10% increase their share of total wealth

- Families at the top of the wealth ladder increased their share of total household wealth between 1984 and 2005 by 6.4 percentage points, from 51.8% to 58.2%, at the expense of families in the bottom nine deciles. The wealth share of each of these income groups declined over this period.
- But carving the population into quintiles or deciles masks the true nature of what is going on. Over the past few decades, virtually all of the increase in wealth has gone to a relatively small handful of individuals in the top 1% of the income distribution.
- In the United States, that 1% of the population wields about 35% of the nation's wealth. In Canada, the situation is similar if slightly less compressed: the top 1% of the population possesses 14% of total wealth.³²
- Looking at a different measure, the number of billionaires in Canada increased from 23 to 69 between 1999 and 2012, according to *Canadian Business*. The total wealth of the 100 richest Canadians surged past \$200 billion in 2012 – up over 75% since 1999.³³

Gains in wealth concentrated at the top



Median Family Wealth, Constant \$2005, 1984–2005					
All families	1984	1999	2005	1984–2005	
				\$ change	% change
Bottom decile	-2,100	-6,570	-9,600	-7,500	-357.1
Second	780	120	10	-770	-98.7
Third	7,770	6,820	6,000	-1,770	-22.8
Fourth	24,630	26,150	25,500	870	3.5
Fifth	52,260	57,120	63,250	10,990	21.0
Sixth	83,130	93,850	109,050	25,920	31.2
Seventh	120,690	148,610	173,590	52,900	43.8
Eighth	170,210	221,770	263,000	92,790	54.5
Ninth	256,740	344,890	413,750	157,010	61.2
Top decile	534,980	723,590	1,194,000	659,020	123.2

Sources: Statistics Canada, Assets and Debts Survey, 1984; Survey of Financial Security, 1999 and 2005.

René Morissette and Xuelin Zhang (2006), "Revisiting wealth inequality," *Perspectives in Labour and Income*, Vol. 7, No. 12.

Fact Sheet #7

Household debt: At all-time high

Many Canadians struggle with debt. Over the past decade, through a long period of low interest rates, families turned to credit to finance spending – up to and through the recession. As a result, the Canadian debt-to-income ratio has surpassed American levels for the first time since the late 1990s, exceeding 1.6 dollars of debt for every dollar of income. Canada's total household debt is now three times the size of the national debt – more than 1.6 trillion dollars.

Low- and modest-income families are especially vulnerable, with fewer resources to draw upon to deal with economic shocks (such as a rise in interest rates) and high debt servicing costs. The Bank of Canada Governor, Mark Carney, continues to warn that very high levels of household debt are the most pressing medium-term threat to economic stability in Canada.³⁴

Household debt has been on an upward climb for 30 years

- The debt-to-income ratio of Canadian households has been trending upward over the past 30 years, reflecting steady growth in mortgage debt, and more recently, a significant increase in consumer credit card debt as well.
- The average debt per household reached a record high in 2012, bringing the debt-to-income ratio to 166%.³⁵ The debt-to-income ratio has increased by over 90% since 1990 and by 13% since the third quarter of 2008. Canada's debt-to-asset ratio is also one of the highest among Organization of Economic Cooperation and Development (OECD) countries.
- Since the recession, the low interest rate climate in Canada has continued to spur consumer spending, even as wages and incomes have stagnated. This has helped to offset sluggish economic growth but many households are very vulnerable to future economic shocks.

Individuals nearing retirement taking on more debt

- The incidence and amount of debt was higher in certain groups: younger homeowners, young families with children, the better-educated, and those with high household incomes. Over 60% of household debt was held by those under 45 years of age, and nearly one-half was held by couples with children.³⁶
- That said, those nearing retirement have been taking on more debt in recent years. According

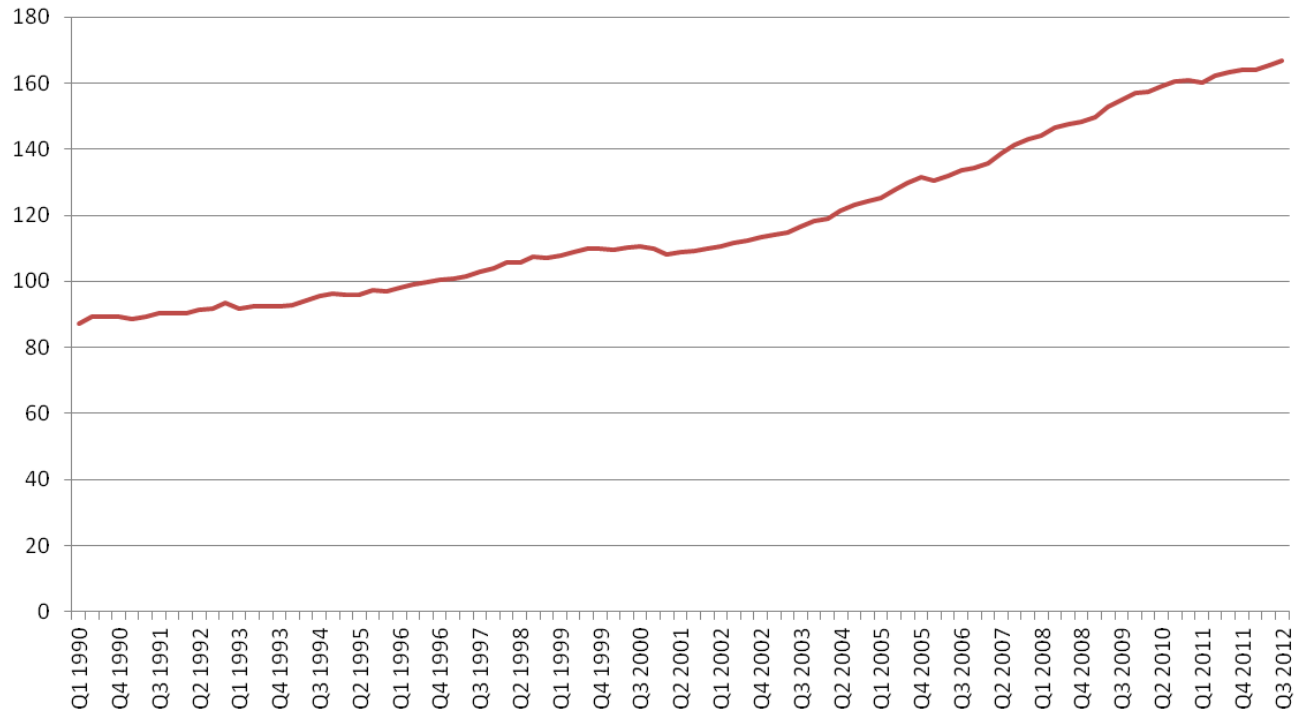
to a CIBC study, people over the age of 45 have been driving the increase in household debt loads – especially those who are already heavily indebted.³⁷ This group is turning to credit to keep up with bills and other financial commitments.

Low-income families carry highest debt servicing loads

- Households with incomes of less than \$50,000 are six times more likely to have a high debt service ratio and 1.6 times more likely to have a high debt-to-income ratio, compared to middle-income households (\$50,000 to \$79,999).³⁸
- The Bank of Canada estimates that as many as 10% of households with very high debt service ratios could be put into a financially difficult position when interest rates rise.³⁹
- Low-income Canadians are especially vulnerable. In 2010, 59% of Toronto-area food bank users reported that they needed to borrow money from family or friends in order to pay their bills, while 28% had to use a credit card or line of credit.⁴⁰

Household debt as a percentage of disposable income, 1990–2012 Q3

Percent



Source: Statistics Canada, Table 378-0123 - National Balance Sheet Accounts, financial indicators, households and non-profit institutions serving households, quarterly (percent)

Median Market and Median After-tax Income, All Households, by Province, Constant \$2010, 2007 – 2010									
		Median Market Income				Median After-tax Income			
Province	Household Type	2007	2008	2009	2010	2007	2008	2009	2010
NL	All households	34,100	34,000	34,300	35,300	43,200	43,400	45,600	44,800
	Families	46,000	47,500	46,200	47,500	53,400	54,800	55,500	56,300
	Unattached Individuals	6,400	7,900	12,000	8,000	17,900	18,800	20,300	19,300
PEI	All households	37,600	40,700	37,600	38,400	43,800	44,900	45,800	44,700
	Families	48,100	50,300	52,000	50,100	55,400	56,800	57,400	56,400
	Unattached Individuals	15,700	16,300	18,500	19,300	21,900	22,800	23,900	25,800
NS	All households	39,300	38,700	37,700	37,900	42,500	42,200	43,000	43,800
	Families	55,900	53,000	54,000	55,300	56,600	54,400	56,400	56,800
	Unattached Individuals	17,900	15,400	15,300	15,000	22,100	21,100	21,300	21,900
NB	All households	35,800	37,400	36,500	36,700	41,900	42,700	43,500	43,600
	Families	49,500	53,200	52,600	54,800	53,400	54,800	57,100	58,900
	Unattached Individuals	14,900	13,800	16,400	16,800	20,600	20,700	22,500	22,100
QC	All households	39,100	38,700	39,000	39,400	42,500	41,900	44,100	43,200
	Families	54,800	55,900	57,000	56,500	57,400	57,900	59,000	58,100
	Unattached Individuals	19,100	18,500	18,900	19,200	23,100	22,600	23,900	23,900
ON	All households	53,200	52,700	50,600	50,800	54,300	54,200	53,500	53,700
	Families	70,500	70,500	68,400	68,500	68,900	68,800	67,600	69,300
	Unattached Individuals	22,000	21,500	20,200	20,600	26,400	26,300	27,200	27,800
MB	All households	43,500	46,700	45,400	44,300	46,100	48,400	48,100	47,600
	Families	61,600	63,800	65,800	68,400	61,000	62,700	64,000	64,500
	Unattached Individuals	19,000	22,600	20,200	19,800	23,500	26,700	26,500	25,100
SK	All households	43,300	48,500	50,000	50,000	45,300	48,100	50,000	50,200
	Families	66,000	70,100	73,200	72,400	62,500	66,500	71,400	70,100
	Unattached Individuals	19,000	19,500	19,800	21,600	24,100	24,300	25,500	27,000
AB	All households	62,200	65,400	62,100	61,100	59,100	60,900	60,400	59,800
	Families	84,300	85,600	83,600	82,000	78,500	78,300	79,100	78,100
	Unattached Individuals	30,900	36,500	33,100	32,500	30,300	34,300	32,300	32,600
BC	All households	47,900	48,500	45,300	43,800	49,500	51,400	49,300	48,300
	Families	66,500	69,000	64,200	63,700	66,400	69,900	68,500	67,000
	Unattached Individuals	22,200	24,500	23,300	19,200	25,300	26,500	26,700	24,400
CAN	All households	47,500	47,900	46,100	45,900	49,000	49,700	49,500	49,300
	Families	65,700	66,500	64,500	64,900	64,800	65,500	65,400	65,500
	Unattached Individuals	21,300	21,700	20,900	20,800	25,100	25,500	25,900	26,000

Source: Statistics Canada, CANSIM Table 202-0702 - Market income, government transfers, total income, income tax and after-tax income, by economic family type, 2010 constant dollars, annual

Glossary

After-tax income

After-tax income is total income, which includes government transfers, minus income tax. In this report series, it is used interchangeably with the term “disposable income.”

Constant dollars

Constant dollars are adjusted (by inflation or deflation) to show changes in the purchasing power of the dollar over time. Constant dollars are always expressed in a chosen base year: in this report, 2010.

Debt, debt-to-income, debt service ratio

Total household debt includes mortgage debt on principal residence, vacation home and other real estate, and consumer debt. Consumer debt includes debt outstanding on credit cards, personal and home equity lines of credit, secured and unsecured loans from banks and other institutions, and unpaid bills (including taxes, rent, etc.). A **debt-to-income ratio** measures how much a household owes compared to how much it earns or receives in income. **Debt service ratio** compares a household’s total debt load to total pre-tax income. A “high” debt service payment (including principal and interest repayment of one or more loans) is defined by the Bank of Canada to be 40% or more of pre-tax household income.

Earnings, market income, median income

Earnings come from both paid employment (including wages and salaries, commission income, occasional earnings, and overtime) and self-employment. **Market income** is the sum of earnings (from employment and net self-employment), net investment income, (private) retirement income, and other income such as support payments or severance pay. It is also called “income before taxes and transfers.” The **median income** is the value for which half of the units in the population (individuals, families, or households) have lower incomes and half have higher incomes.

Gini coefficient

The Gini coefficient expresses the degree of inequality with a value ranging from 0 to 1. A value of zero indicates income is equally divided among the population: Gini coefficient of 1 denotes a perfectly unequal distribution where one unit possesses all of the income. A decrease in value represents a decrease in inequality, and vice versa.

Household, Family, Individual

A household is a person or group residing in a dwelling. This includes individuals in economic families and unattached individuals. An **economic family** is a group of two or more who live in the same dwelling and are related to each other by blood, marriage, common law, or adoption. An **unattached individual** is a person living alone or with others to whom he or she is unrelated. **Family income** is the sum of income of each adult in the family as defined above. **Household income** is the sum of incomes of all adults in the household.

Percentiles

Income percentiles are a convenient way of categorizing units of a given population from lowest income to highest income: a ranked population is divided into groups such as **quintiles** (five groups of 20%) or **deciles** (ten groups of 10%).

Wealth, net worth

The wealth (sometimes referred to as net worth) of a family is defined as the difference between the value of its total assets (e.g., financial assets such as investments, non-financial such as real estate, pension assets and equity in business) and the amount of total indebtedness (e.g., mortgage, line of credit, credit cards, other loans). **Median wealth/net worth** is determined by ranking all family units from highest to lowest net worth. The net worth of the family unit in the middle of the range is the median net worth.



Endnotes

¹ Recessions create poverty. In the 1981–1983 recession, Canada’s poverty rate rose by 2.4 percentage points, reaching 14%. In the 1990–1993 recession, the poverty rate rose by 4.1 percentage points, reaching 14.1%. It then continued to rise, peaking in 1996 and only declining to its pre-recession rate 14 years after the recession ended. See Jean-François Arsenault and Andrew Sharpe (2009), *The Economic Crisis through the Lens of Economic Wellbeing*. A special report for the Canadian Index of Wellbeing. ciw.ca/reports/en/History/TheEconomic+Crisis_ReportHighlights.pdf

² See Chandra Pasma (2010), *Bearing the Brunt: How the 2008–2009 Recession Created Poverty for Canadian Families*, Citizens for Public Justice. www.cpj.ca/en/content/bearing-brunt

³ Roger Sauvé (2012), *The Current State of Canadian Family Finances – 2011–12 Report*. Ottawa: Vanier Institute of the Family. www.vanierinstitute.ca/include/get.php?nodeid=1779

⁴ Dan Wilson and David Macdonald (2010), *The Income Gap between Aboriginal Peoples and the Rest of Canada*, Canadian Centre for Policy Alternatives. www.policyalternatives.ca/sites/default/files/uploads/publications/reports/docs/Aboriginal%20Income%20Gap.pdf

⁵ Jean-François Arsenault and Andrew Sharpe (2009), *The Economic Crisis through the Lens of Economic Well-Being*, Centre for the Study of Living Standards, p. 8. www.csls.ca/reports/csls2009-6.pdf

⁶ Armine Yalnizyan (2011), “Middle Class in Decline is the Electoral Elephant in the Room,” blog post, *Behind the Numbers*, Canadian Centre for Policy Alternatives. behindthenumbers.ca/2011/04/07/middle-class-in-decline-is-the-electoral-elephant-in-the-room/

⁷ *Ibid.*

⁸ The income quintiles are based on the after-tax income of economic families of two or more.

⁹ Statistics Canada, Table 202-0701 – Market, total, and after-tax income, by economic family type and income quintiles, 2010 constant dollars, annual.

¹⁰ The income quintiles are based on the market income of economic families of two or more.

¹¹ Statistics Canada, Table 204-0001– High income trends of tax filers in Canada, provinces, territories, and census metropolitan areas (CMA), national thresholds, annual.

¹² Total income includes market income from earnings, investments, and other sources as well as government transfers, but before income taxes.

¹³ The time series data presented here were prepared by Miles Corak, based on Statistics Canada’s CANSIM Table 204-0001. See Miles Corak (2013), “Why the rich don’t want to talk about inequality, and why the 99% do,” blog post, *Economics for Public Policy*. milesorak.com/2013/02/01/why-the-rich-dont-want-to-talk-about-inequality-and-why-the-99-do

¹⁴ Andrew Sharpe and Evan Capeluck (2012), *The Impact of Redistribution on Income Inequality in Canada and the Provinces, 1981–2010*. Centre for the Study of Living Standards. www.csls.ca/reports/csls2012-08.pdf

¹⁵ Hugh MacKenzie (2013), *Over-compensating: Executive Pay in Canada*, Canadian Centre for Policy Alternatives. www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/01/Overcompensating_CEOFactsheet.pdf

¹⁶ OECD (2011), “Main Findings,” *Divided We Stand: Why Inequality Keeps Rising*. www.oecd.org/els/socialpoliciesanddata/49499779.pdf

¹⁷ Armine Yalnizyan (2012), “Why the Income Inequality Deniers Are Wrong,” blog post, *Progressive Economics Forum*. www.progressive-economics.ca/2012/12/21/why-the-income-inequality-deniers-are-wrong

¹⁸ OECD (2011), “Country Note: Canada.” *Divided We Stand: Why Inequality Keeps Rising*. www.oecd.org/canada/49177689.pdf

¹⁹ Subtracting the market income Gini coefficient from the after-tax income Gini coefficient provides the impact of transfers and taxes on income inequality. For example, if the market income Gini coefficient were 0.50 and the after-tax income Gini coefficient were 0.40 the impact of government transfers and taxes would be 0.10 percentage points, or 20%.

²⁰ A means test is an examination of an individual’s or family’s income and assets in order to determine eligibility for public assistance.

²¹ Broadbent Institute (2012), *Towards a More Equal Canada*, p. 14. www.broadbentinstitute.ca/sites/default/files/documents/towards_a_more_equal_canada.pdf

²² See OECD (2011); also Sharpe and Capeluck (2012), p. 18-19.

²³ Sharpe and Capeluck (2012).

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- ²⁴ Richard Wilkinson and Kate Pickett (2009). *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane.
- ²⁵ Juha Mikkonen and Denis Raphael (2010), *Social Determinants of Health: The Canadian Facts*. Toronto: York University School of Health Policy and Management. www.thecanadianfacts.org/The_Canadian_Facts.pdf
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- ²⁹ Roger Sauvé (2012), *The Current State of Canadian Family Finances 2010 Report*, The Vanier Institute of the Family, p 25. vanierinstitute.ca/include/get.php?nodeid=1779
- ³⁰ Canada Mortgage and Housing Corporation (CMHC) (2012), "Appendix A: Key Housing and Finance Statistics." *Canadian Housing Observer – 2012*.
- ³¹ These figures track changes in the net worth of families of two or more. See René Morissette and Xuelin Zhang (2006), "Revisiting wealth inequality," *Perspectives in Labour and Income*, Vol. 7, No. 12. www.statcan.gc.ca/pub/75-001-x/11206/9543-eng.htm
- ³² Andrew Potter (2011), "Why the growing wealth inequality matters," blog post, *Canadian Business*, January 11, 2011. www.canadianbusiness.com/blogs-and-comment/why-the-growing-wealth-inequality-matters
- ³³ *Canadian Business*, "Rich 100: The richest Canadians in 2012," December 10, 2012. www.canadianbusiness.com/list-and-rankings/rich-100-the-richest-canadians-in-2012/
- ³⁴ Alex Ballingall, "Carney points to rising household debt as main domestic threat to Canadian economy," *Macleans*, April 19, 2012. www2.macleans.ca/tag/household-debt/
- ³⁵ Statistics Canada, Table 378-0123: National Balance Sheet Accounts, financial indicators, households and non-profit institutions serving households, quarterly (percent), CANSIM (database).
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- ³⁷ Avery Shenfeld and Benjamin Tal (2012), "Beyond Debt-to-Income: New Light on How Canadians are Really Doing," *Economic Insights*, CIBC, January 26, 2012. research.cibcwm.com/economic_public/download/eijan12.pdf
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- ³⁹ Craig Alexander (2012), "What rising personal debt-to-income tells us," *Perspective*, TD Economics, January 18, 2012. www.td.com/document/PDF/economics/special/ca0112_personal_debt.pdf
- ⁴⁰ Daily Bread Food Bank, *Fighting Hunger: Who's Hungry, 2010 Profile of Hunger in the GTA*, p. 26. www.dailybread.ca/wp-content/uploads/2010/12/DBFB-0015-10WhosHungryReportFinalweb.pdf

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Public justice is the political dimension of loving one's neighbor, caring for creation, and achieving the common good, and is particularly the responsibility of government and citizens.