

Canada is reducing poverty and increasing equality, says StatsCan ^[1]

In a progressive society, 'this is what we should be caring about,' says one observer.

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Source: The Tyee

Format: Article

Publication Date: 29 Mar 2021

AVAILABILITY

Access online ^[2]

EXCERPTS

Newly released figures from Statistics Canada show that for several years ahead of the COVID-19 pandemic, the rates of both poverty and income inequality had been trending downwards.

And while the pandemic led to major economic disruption, government interventions so far appear to have been enough to continue the downward trend.

"My prediction would be that these inequality numbers are probably going to go down even more," said Mikal Skuterud, a professor in the economics department at the University of Waterloo in Ontario. "I can't see them going up a lot, just because of the amount of support that went out."

Statistics Canada released its Canadian Income Survey last week, covering up to the end of 2019.

While there had been little increase in the median after-tax income of Canadian families and unattached individuals from a year earlier — at \$62,900, it was up just half of one per cent — the official poverty rate dropped to 10.1 per cent, down from 11 per cent in 2018.

Since June 2019, Canada has used the market basket measure as its poverty line, based on the family income required to buy a specific basket of goods and services in their community.

"The decline in the national poverty rate from 2018 to 2019 represents a continuation of a general downward trend in the poverty rate observed in recent years," according to Statistics Canada. "Except for an increase in 2015 associated with the oil price shock in that year, the poverty rate has fallen by a statistically significant margin in each year since 2012."

People who are unattached, living in single-parent families, Indigenous, recent immigrants or living with a disability were all more likely to live below the poverty line, the report noted.

But there were also improvements for those groups. "As with the national poverty rate, the poverty rate among many of these groups has also declined in recent years."

"The news is actually good," said Ehsan Latif, the interim associate dean in the school of business and economics at Thompson Rivers University in Kamloops. "The trend is a significant trend."

Canada has a target of reducing poverty from 2015 levels by 20 per cent by 2020 and by 50 per cent by 2030.

Latif said the recent numbers show the country is on track to meet those goals.

In the case of child poverty, which is closely related to a long list of negative outcomes for both the individual and society, there were 680,000 children living below the poverty line in 2019, down significantly from 1.1 million in 2015.

Given a choice, Skuterud said, it would be better to be born into today's Canada than the one that existed in 2005.

"This is what, in a progressive society, we should be caring about," he said. "Ensuring that to some extent there's some equal opportunity at birth, and you don't have huge advantages and disadvantages in childhood that have long-term implications."

The progress should be celebrated, he said. "This has been a policy achievement for sure."

Income inequality differs from poverty in that it is about the spread between people with the highest incomes and those with the lowest.

One way Statistics Canada measures it is to compare the incomes of the top 10 per cent of earners to those of the bottom 40 per cent of the population, using after-tax income adjusted for family size.

"The share for the lowest four deciles has been slightly increasing since the beginning of the decade, while the share of the highest decile

has been edging down, suggesting a decrease in inequality,” it found.

Another inequality measurement is based on the Gini coefficient. In a society where everyone earned the same, the index would be zero; if a single person claimed all the income, it would be one. The lower the figure, the more equal the income distribution.

For decades the story in Canada, like much of the world, had been rising inequality.

As Statistics Canada described it, “Historically, the Gini coefficient was below 0.296 in most years from 1976 to 1995, then rose from 1996 to 2000, reaching levels above 0.315 in most years from 2000 to 2013, before starting to trend downwards.”

In 2019, the Gini coefficient was back down to 0.299, the lowest it had been in Canada since 1995.

Skuterud, who previously worked for Statistics Canada and made recommendations to the agency on how to measure poverty and inequality, says there was a turning point around 2012.

“The people who follow these data know this is happening, that there’s a fundamental trend and it’s going in the right direction,” he said. “On either measure since about 2012 we’re seeing improvements.”

There’s been some research dedicated to figuring out what’s happening, but it can be difficult to say how much is due to economic trends and how much is thanks to government policy.

“Part of it is a broader economic change, but a big part of it is policy,” Skuterud said. “For sure policy has played a part.”

The biggest change was the introduction of the Canada Child Benefit in 2016, which increased tax-free payments targeted at people with lower incomes raising children. As of 2020 it provided up to \$6,765 a year per child under the age of six and up to \$5,708 for older children.

“Overwhelmingly, it’s that,” Skuterud said, adding the program provides support to families without creating disincentives to employment by quickly clawing back benefits the way some welfare programs in the past did.

He said overall tax policies also made a difference, particularly the government adding higher marginal tax rates for top earners.

“For the inequality measures, how much you tax income at the top end matters a lot.”

Starting in the 2016 tax year, the federal government raised the tax on income above \$200,000 from 29 per cent to 33 per cent. Various provincial governments have also increased taxes on top incomes.

Iglika Ivanova, senior economist and public interest researcher in the B.C. office of the Canadian Centre for Policy Alternatives, said indexing the Canada Child Benefit to inflation starting in 2019 helped, as did improvements the government made when it replaced the Working Income Tax Benefit with the Canada Workers Benefit.

With the 2018 change to the program for low-income workers, the government increased the benefit and raised the amount people can earn before it is phased out.

At the provincial level in B.C., she said, there have also been increases to the minimum wage, raises to income and disability assistance rates, support for youth aging out of foster care, and efforts to make child care more affordable.

“I’m sure economists will try to disentangle exactly how much of the lift was driven by a stronger economy and how much was policy related, but it’s too early to say that now,” Ivanova said in an email.

Latif at Thompson Rivers University said that benefits for seniors, government housing strategies, funding for child care and support for transportation have also all had direct and indirect impacts on the poverty and inequality rates. While the strength of the economy plays a role, he said, “it’s the government policy” making a difference.

The power of public policy may become even more evident as data becomes available for 2020, a year when large parts of the economy were reduced or closed as part of the public health response to the COVID-19 pandemic and the federal and provincial governments made relief packages available.

According to Statistics Canada, “emerging evidence for 2020 suggests that COVID-related pandemic benefits may have offset income losses for many Canadian families.”

Without government intervention, Skuterud said, poverty and inequality would no doubt have risen during the pandemic.

“We know that just from who was impacted the most by these shutdowns that happened because of the public health measures,” he said. “That fell on low-income workers, low-wage workers, in a disproportional way that recessions don’t normally. It was hugely concentrated on the bottom end of the labour market and there are lots of parents of kids.”

That impact was offset, however, by the Canada Emergency Response Benefit and other measures targeted to people needing income support. “They certainly didn’t lack in generosity in the money that went out,” he said.

Already preliminary data are showing that people with lower incomes may have had more disposable income in 2020 than they otherwise would have, he said.

Looking further ahead, there may be a reckoning to come, Skuterud added. “There is some worry because that income support, those taps are going to have to be turned off at some point.”

There's also worry that the longer people are out of work, the harder it will be to return to employment, he said. "I think there is some risk going forward that the folks who have been impacted most by these layoffs during the pandemic, those are the lower end of the labour market, the concern is they're going to have trouble getting back."

That may spell a reversal of the gains Canada has had in recent years on poverty and inequality, he said, but the result remains to be seen. "That's just guesswork at this point."

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