

# How to fix income inequality<sup>[1]</sup>

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## EXCERPTS:

Several polls released this spring reveal the extent of concern among Canadians about worsening income inequality.

Most Canadians say that deep income inequality undermines Canadian values. The majority of Canadians tell pollsters they would support political leadership to reverse the trend.

But what, some ask, can be done about income inequality?

I turned to leading thinkers on this issue – starting with our own stable of experts from the CCPA, but broadening out to experts in housing, employment, taxes, child care, and poverty reduction – and asked them to submit an idea they think would contribute to reducing inequality.

As you'll read below, they offer a wide range of solutions to reduce income inequality but, also, their responses show there is widespread agreement that resolving the problem involves improvements to incomes in the labour market, employment protections, income supports, public services and changes to restore fairness to our tax system.

Solutions to reduce income inequality in Canada: The experts weigh in.

Shift the balance of power:

*Growing inequality is driven by the polarization of market incomes. So tackling inequality requires shifting the balance of power between workers and employers within our society (so that more income goes to wages and less to profits). A few things that would help with that shift: reform labour laws to make unionization easier; strengthen and enforce employment standards so that vulnerable workers are paid that they are owed; stem the use of temporary foreign workers and ensure workers coming from other countries have full workplace rights, equal pay, and gain landed immigrant status; and ensure workers have access to employment insurance and welfare when in need, so that they are free to push for better pay and working conditions.*

– Submitted by Seth Klein, director, CCPA BC.

Improve earnings of low-wage workers:

*The research evidence is clear: the labour market is at the root of Canada's growing income inequality. The earnings of Canadians have become increasingly polarized, with mind-boggling CEO compensation packages at the top, stagnating wages in the middle and persistently low wages combined with increasingly precarious work arrangements at the bottom. If we are serious about reducing inequality, we must take the bull by the horns and directly intervene in the labour market to ensure that it produces a more equal distribution of earnings. This means improving the earnings and working conditions of low-wage workers. A number of policies come to mind, but as a start, minimum wages should be indexed to inflation and set at a level such that no full-time, full-year worker lives in poverty. Despite recent minimum wage increases across the country, we're not there yet. It is equally important to proactively enforce labour standards and implement a broad agenda of education and advocacy on workplace rights, including the rights of workers to collectively bargain. We also need to take a tougher look at the use of temporary foreign workers as a substitute for paying adequate wages to Canadians. In tight labour markets, the shortage of workers willing to take jobs at the prevailing wages should push wages up, but this cannot happen if we continue to allow employers to import and exploit cheap labour under the temporary foreign workers program. At a minimum, temporary foreign workers should enjoy the same labour rights as all Canadian workers, including being paid the same wages and not up to 15% less than average.*

– Submitted by Iglia Ivanova, economist, CCPA BC.

An Aboriginal strategy:

*The Aboriginal population is young and growing at a faster rate than the non-Aboriginal population in Canada. They fall disproportionately among the poor, a symptom of the bigger problems caused by a colonial era which Prime Minister Stephen Harper, in his 2008 apology to Aboriginal people, characterized as 'aggressive assimilation' by Canada's government and churches. While most Aboriginal people excel in spite of obstacles they face, they are extremely vulnerable by virtue of being so disadvantaged. Reducing income inequality means redressing these historical wrongs. What's needed is a commitment to a new policy direction aimed at supporting Aboriginal people in raising themselves out of poverty. This includes investing in literacy, education and training, housing and job creation. And that's just for starters.*

– Submitted by Shauna MacKinnon, director, CCPA Manitoba.

#### Child care:

My vote would be for universal, affordable, accessible, developmentally appropriate public child care. It is not just that there is income inequality but that income has been eroded while prices have gone up. We can redistribute income but what will that income get us? Child care, for the sake of the young minds and young families and society as a whole.

– Submitted by Christine Saulnier, director, CCPA Nova Scotia.

#### Affordable education:

*Two programs would go a long way to mitigating inequality: 1) Fully-funded higher education (university and college) would allow students to graduate without carrying crippling debt, ensuring that society would realize full and immediate economic and social returns of a highly educated society. 2) Universal Child Care (a program, not a \$100/month payout) would also provide substantial gains. It would allow more parents (predominantly women) to go back to work if they choose, ensuring they continue to earn income at a adequate level while increasing their employment prospects; it would provide employment opportunities as child care centres would need to be staffed by well-trained, well-paid professionals, representing a massive cash injection into the economy of communities; and it would pay for itself in the social and economic returns on investment that Quebec has already seen with its provincial program.*

– Submitted by Erika Shaker, director, CCPA Education Project.

#### Solidarity:

*Stronger union representation. Inequality is as much about good middle class jobs as it is about how little wealthy Canadians pay in tax or how big the cuts are to social programs. Regular working Canadians deserve a chance to work hard and get ahead because of it, instead of working harder just to stand still. One of the ways to do that is to demand their fair share of profits when their company does well. It's hard to do that if you aren't organized.*

– Submitted by David Macdonald, senior economist, CCPA.

#### Walk a mile in their shoes:

*One sentence: All elected representatives have to live for at least one month in the first year of their term in the poorest neighbourhood in their riding/ward. That way they see how "the other half lives" – what transit is like for that community; how easy it is to find fresh, nutritious food; whether housing is in good repair and is affordable, within peoples' incomes; if good quality child care is available and how much it costs; whether there are recreational or green space opportunities nearby. Nothing would focus the mind more, clarifying the problems with income inequality and its solutions.*

– Submitted by Armine Yalnizyan, senior economist, CCPA.

#### Better working conditions:

*Update and strengthen enforcement of employments standards. Improving employment standards, like minimum wage and overtime pay, decreases inequality in a number of ways. It puts money in the pockets of marginalized workers. By improving their working conditions, it also raises the bar for the rest of us. And it shifts income from shareholders to wage earners.*

– Submitted by Sheila Block, director of Economic Analysis, Wellesley Institute.

#### A stronger middle class:

*Rising inequality is rooted in the loss of good, middle-class jobs. We need a mechanism that will raise the wages of the lower-paid, and also narrow the large and growing income gap between ordinary workers and the top 1% made up of the corporate and financial elites. That mechanism is called stronger unions ... especially if the labour movement fights for greater equality, not just in the workplace, but in the wider society by advancing a progressive political agenda of fair taxes, income security, and quality public services for all citizens.*

– Submitted by Andrew Jackson, chief economist, Canadian Labour Congress.

#### Paying it forward:

*Canada is one of the very few developed countries that does not have an inheritance tax. The concentration of financial wealth in Canada is great, and increasing. An inheritance tax with an exemption for principal residence and perhaps \$500,000 of other assets would not affect the vast majority of families but, if levied even at U.S. rates, it would enable Canada Student Loans to be transformed into grants, so that the current generation of students could at least start their working lives debt-free. One item – of many – that we could do.*

– Submitted by Lars Osberg, economist, Dalhousie University.

#### Affordable housing:

*The high cost of housing is the single biggest monthly expense for low, moderate and middle-income households, and crowds out spending on other necessities, like medicine, transportation, child care, food, and clothing. Governmental affordable housing investments have, as a matter of policy, been allowed to erode over the past two decades, with the federal government planning even more housing cuts in 2014 and beyond. One efficient way to reduce income inequality and boost jobs and other economic benefits is to first stop the housing cuts and restore governmental affordable*

housing investments to their 2009 levels, and then gradually boost spending in future years to meet the national needs. These investments can be financed through a combination of measures including dedicating a portion of Canada Mortgage and Housing Corporation's billion-dollar annual surplus to housing investments, innovative financing options like government-backed housing bonds, and tax revenues (including measures used in other countries such as a "mansion tax" on the sale of luxury properties).

– Submitted by Michael Shapcott, director, Housing and Innovation, Wellesley Institute.

Ask those who have more to contribute more:

*As a physician who earns a substantial income drawn from the public purse, I think an important means to ending income inequality is to tax high income earners like myself. I say this both as an individual committed to a fair Canada, and as a physician interested in seeing the health benefits of strong social programs and less inequality. I would hope that my colleagues in medicine see a more progressive and fair tax system as a necessary and important step to a healthier Canada.*

– Submitted by Gary Bloch, Doctors for Fair Taxation.

An end to the tax cut agenda:

*First, no further general tax cuts; they benefit upper-income people primarily. And, to reduce inequality among families with children, increase the Canada Child Tax Benefit/National Child Benefit Supplement for low- and modest-income families to \$5,400 (indexed) from the current maximum of \$3,485. This progressive, non-stigmatizing, non-taxable monthly payment would help to increase the incomes of low- and modest-income families, whose incomes have been virtually flat for the past two decades.*

– Submitted by Laurel Rothman, Campaign 2000.

Supports for families:

***A universal high quality child care system is integral to reducing income inequality and to a fairer, more equal, more inclusive Canada. How? With access to high quality child care: Mothers/fathers could go to work without enduring years-long wait lists or breaking the family budget. Young parents could get the education/training needed to access good jobs. Women who are low income or sole support parents could gain opportunities for advancement. Parents of all ages could better balance work and family stress, confident about their child's day.***

– Submitted by Martha Friendly, executive director, Childcare Resource and Research Unit.

A new basic income:

*Income inequality in Canada can be reduced if we have the public fortitude to support a phasing out of 19th and 20th century approaches to social security, and replace them with a more modernized alternative. Specifically, phase out welfare as the program of last resort and replace it with a new basic income scheme, thus guaranteeing for all a floor of income sufficiency and stability with which opportunity can be better pursued and human creativity better unleashed. It's working in Brazil, it can work in Canada.*

– Submitted by Rob Rainer, executive director, Canada Without Poverty.

A more progressive tax system:

*Closing the gap between rich and poor requires government to take action at both ends of the income scale. To reduce incomes of the top 10% we need progressive tax policies, many of which were described in the Alternative Federal Budget 2012 tax chapter. In brief they include:*

- Increasing tax rates on top incomes;
- Reversing the race to the bottom with corporate tax cuts;
- Eliminating unfair tax preferences, closing tax loopholes and access to tax havens;
- Applying financial activities or transactions taxes;
- Introducing an inheritance tax on large estates.
- It is important to point out that simply raising the income tax rate on the top income brackets will not do the job as the wealthiest get most of their income from investments, not salary, and because they will use loopholes and tax havens to avoid paying taxes. That is why we put forward a package of tax measures that would together do the job. More progressive taxes are probably the most effective way governments can fix the damage done by the market, which is accelerating income inequality. But there are several other ways government can try to rein in the inequality-creating market. These would include:
- Enacting laws that would support unions, their ability to organize and to bargain collectively;
- Ensuring that immigration policies and temporary worker programs do not under-cut wages of Canadian workers;
- Investing in training and higher education to ensure that there is a highly skilled work force and making sure that higher education is fully accessible to all;
- Adopting an industrial strategy that supports job creation and full employment by diversifying the economy away from over-reliance on resource extraction, lowering the dollar, investing in public infrastructure, and promoting the green economy.
- To raise the incomes of those on the lower end of the scale we need a national poverty reduction plan that would include the following:
- Implement a national housing strategy that would involve building a minimum of 25,000 social housing units per year (this will likely require expenditures of \$1.5 billion annually);
- Implement a national child care and early childhood education program, which will especially help low-income single parents in their ability to get jobs;

- *Improve the Employment Insurance program so that more of those who become unemployed can qualify for benefits and are prevented from falling into poverty, from which it can be difficult to escape;*
- *Reinstate a federal minimum wage and setting it at \$10.25 an hour and indexing it to inflation to ensure that someone working full-time will be able to escape poverty;*
- *Create a national pharmacare plan that would provide first-dollar coverage for prescription drugs, removing a major barrier to employment for those on welfare;*
- *Implement a plan to reduce First Nations and Aboriginal poverty.*

– Submitted by Dennis Howlett, director, Canadians for Tax Fairness.

- reprinted from *Behind the Numbers*

**Region:** Canada <sup>[2]</sup>

**Tags:** economics <sup>[3]</sup>

affordability <sup>[4]</sup>

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