RESEARCH - ANALYSIS - SOLUTIONS

CCPA REVIEW

Economic & Social Trends

September 2012

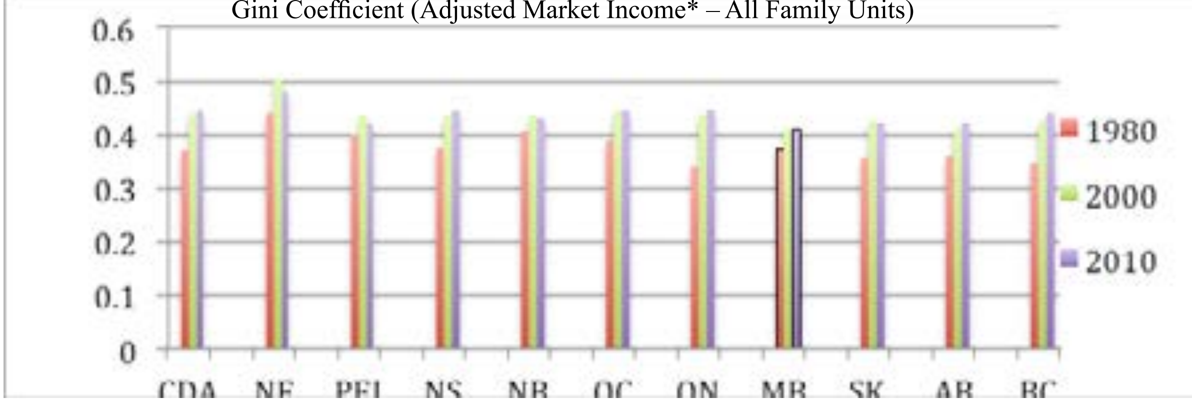
Income Inequality in Canada: How does Manitoba compare? Can we do better?

The Canadian Centre for Policy Alternatives has been documenting the rise in inequality in Canada since 2006. More recently, the Conference Board of Canada and the OECD have confirmed this trend. These organizations also report that inequality in Canada is now increasing faster than is the case in many other countries. In their highly acclaimed 2009 book The Spirit Level: Why More Equal Societies Almost Always Do Better, Wilkinson and Pickett showed the impact of inequality on a variety of measures such as levels of crime, teenage pregnancies, life expectancy and educational achievement (to name a few). The study concluded that countries that are most equal do best. If Canada wants to measure up to more equal countries, the growing gap between rich and poor will need to be addressed.

The federal government has the most important role to play in redressing the imbalance. CCPA and others have suggested how poverty and inequality can be tackled through improved policies and programs, and better redistribution of wealth through taxes and transfers at the federal level. But provincial governments also have a responsibility.

A recent study in Ontario shows that province to be the most unequal. Our analysis looks at the trend in inequality across Canada with a focus on measuring progress in Manitoba for individuals earning market incomes. As do the authors of the Ontario study, we conclude that tax policy must be used to increase public revenue if our province is to do what is necessary to significantly reduce inequality and ensure all Manitobans have the tools that they need to move out of poverty.

Figure 1
Gini Coefficient (Adjusted Market Income* – All Family Units)



*In order to take into account the economies of scale present in larger households, Statistics Canada adjusts household incomes to show incomes on a “per adult” equivalent basis.

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Measuring income inequality

The Gini coefficient, also referred to as the Gini ratio, is commonly used as a measure of overall inequality in the distribution of incomes. This ratio ranges from 0 complete equality) to 1 (complete inequality). Figure 1 compares market incomes showing an increase in inequality nation-wide since 1980. After-tax Gini ratios over the same period paint a somewhat different picture. They show an increase in inequality in Canada and in all provinces with the exception of Manitoba (Figure 2).

In 2010, Manitoba was the most equal province before taxes (Figure 3) and third most equal after taxes (Figure 4). Greater income equality is in part due to minimum wage increases each year since 2000. But it is also likely due to the fact that high-income earners in Manitoba earn less on average than those in other provinces (Hudson and Pickles, 2008). With taxes factored in, Manitoba is more equal than Canada as a whole with an after tax Gini of .29 compared with .32 for Canada.

It is also useful to know the before- and after-tax income share of the highest and lowest income earners. This comparison shows the impact of tax redistribution on earners at different income levels. Figure 5 shows that the lowest income earners in Manitoba benefit less from tax redistribution than those in several other jurisdictions. For example, the lowest quintile in PEI saw an increase in share of after tax income of 4.7 percent. On the other end of the spectrum, Saskatchewan earners in this quintile saw an increase of a mere 0.5 followed by Manitoba and Alberta first quintile earners who saw an increase of 0.7. Manitobans in the second quintile did marginally better with a 1 percent increase.

As shown in Figure 6, earners across Canada in the 3rd quintile saw an increase in income share ranging from 0.7 to 1.8 percentage points.

Figure 7 shows what has happened for the top 20 percent of income earners in Canada after-tax. Only Newfoundland/Labrador, Prince Edward Island, Ontario and British Columbia saw decreases in income share for the second highest

Figure 2
Gini Coefficient
After tax income, 1980, 2000, 2010

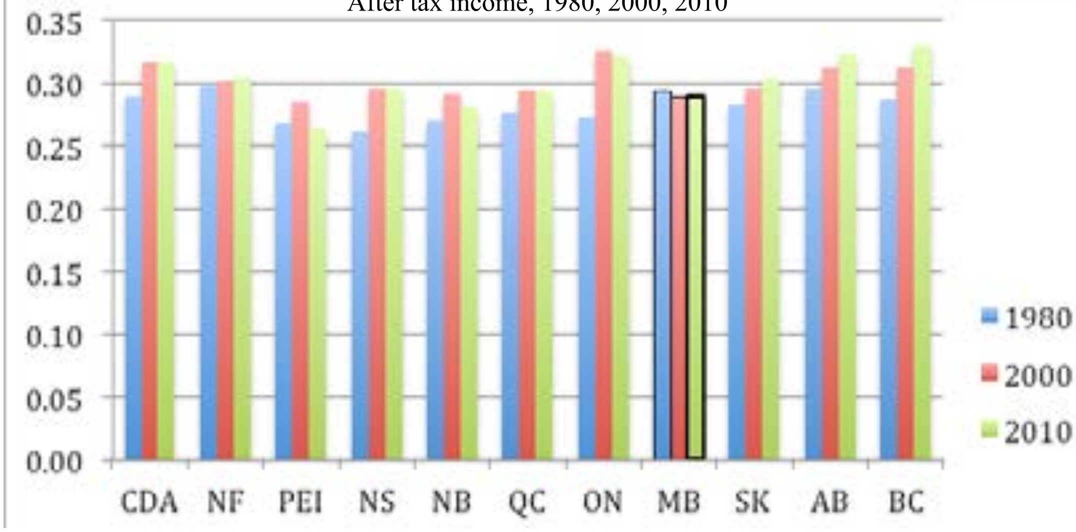
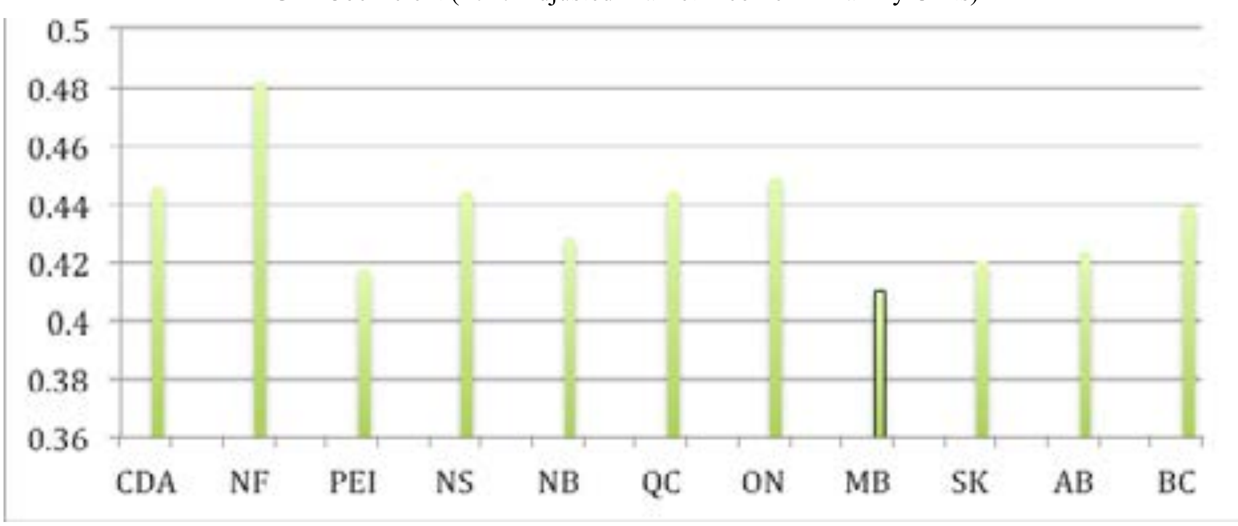


Figure 3
Gini Coefficient (2010 Adjusted Market Income All Family Units)



quintile earners. The highest income earners (5th quintile) in Prince Edward Island saw the largest decrease in income share at 9.9 percent. This quintile of earners in New Brunswick saw the lowest share decrease, down by 2.7 percent, closely followed by Alberta and Saskatchewan (2.8 percent) and Manitoba (2.8 percent).

How does Manitoba compare?

Manitoba has consistently done a fairly good job compared with other provinces. But Manitoba has not done as much as it might to redistribute income through taxation. Prince Edward Island is more equal after tax than all other provinces and they have accomplished this by transferring income share from the top quintile (by 9.9 percent) to the bottom two quintiles (by 4.4 and 4.5 respectively). This suggests room for Manitoba to set the bar higher.

What this data does not tell us?

The Gini is a useful measure to compare inequality across jurisdictions and over time. However it does not tell the inequality story for specific demographics. For example in Canada, and in Manitoba more specifically, Aboriginal people are over represented among those with the lowest share of income. Women, newcomers and persons with disabilities are also over represented at the bottom.

The data shown in this analysis captures only those in receipt of market income. This means that those individuals solely reliant on social assistance are not included. These individuals and families – the poorest of the poor – have seen very little if any improvement in incomes (Social Planning Council – Winnipeg). Calls on the Manitoba government to increase income assistance rates are steadfastly ignored.

Why should we be concerned about inequality?

When the gains from economic growth are concentrated at the top as they have been in recent decades, most Canadians have diminished capacity to purchase the output of goods and services. The result is that new investment and economic growth stagnate. This in turn means that unemployment

Figure 4
Gini Ratios for All Families (After tax – 2010)

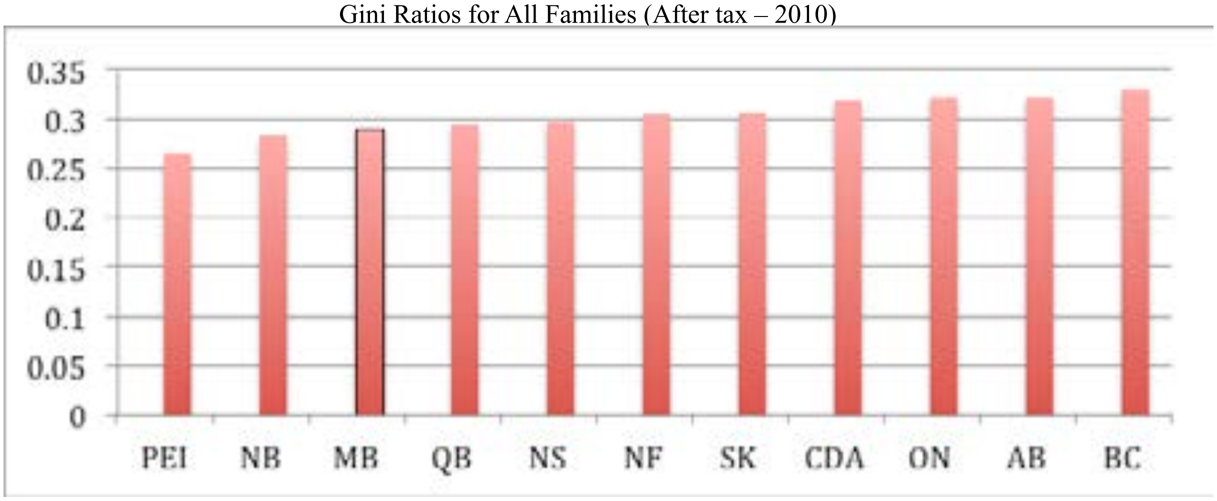


Figure 5

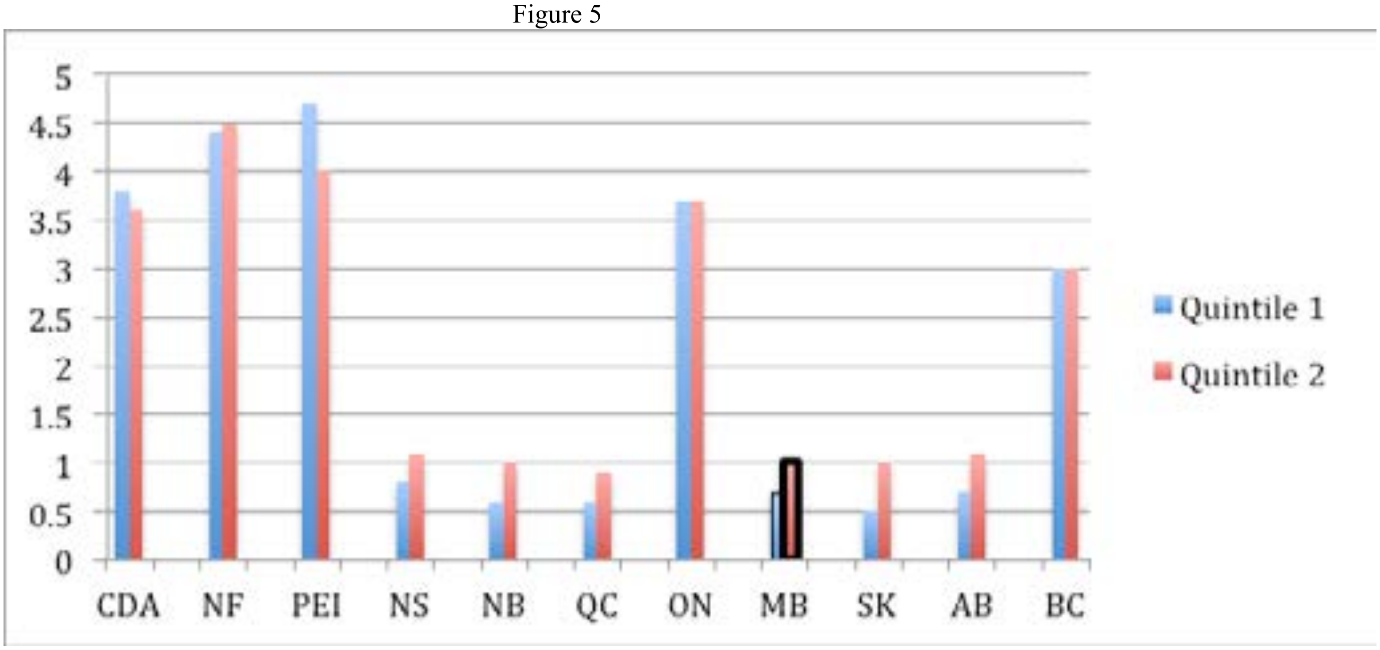


Figure 6
Percentage change in Gini after tax – 3rd Quintile

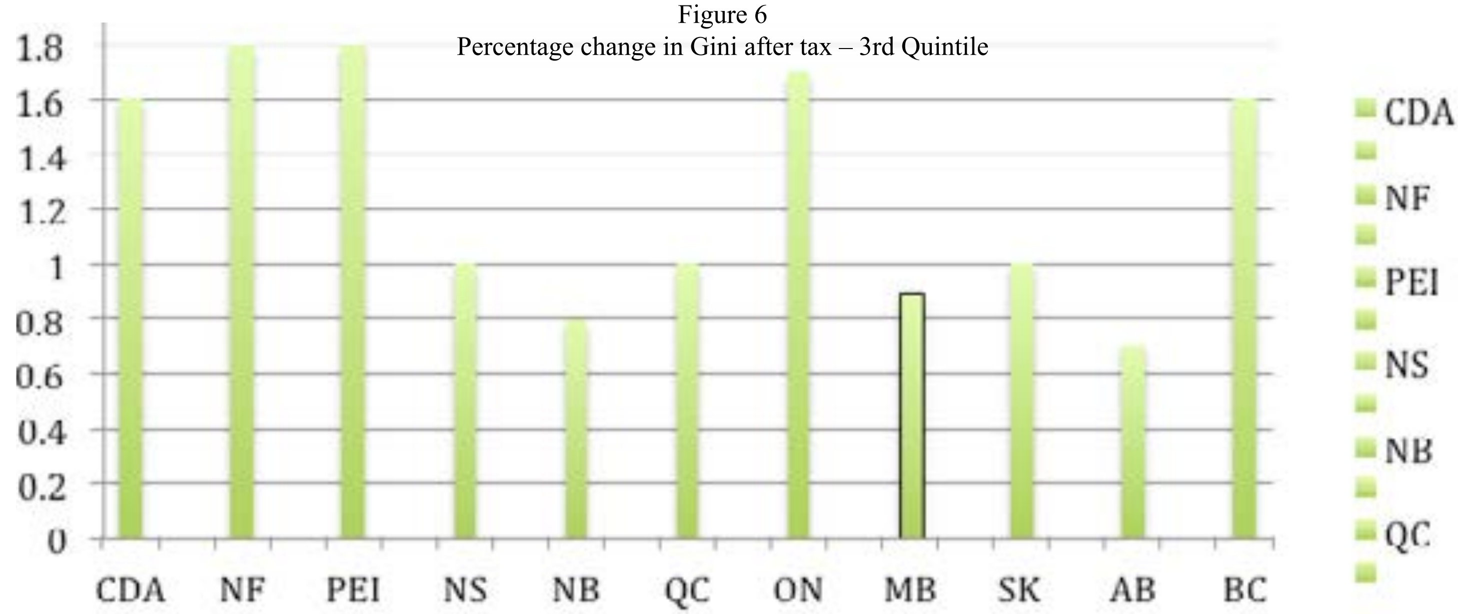
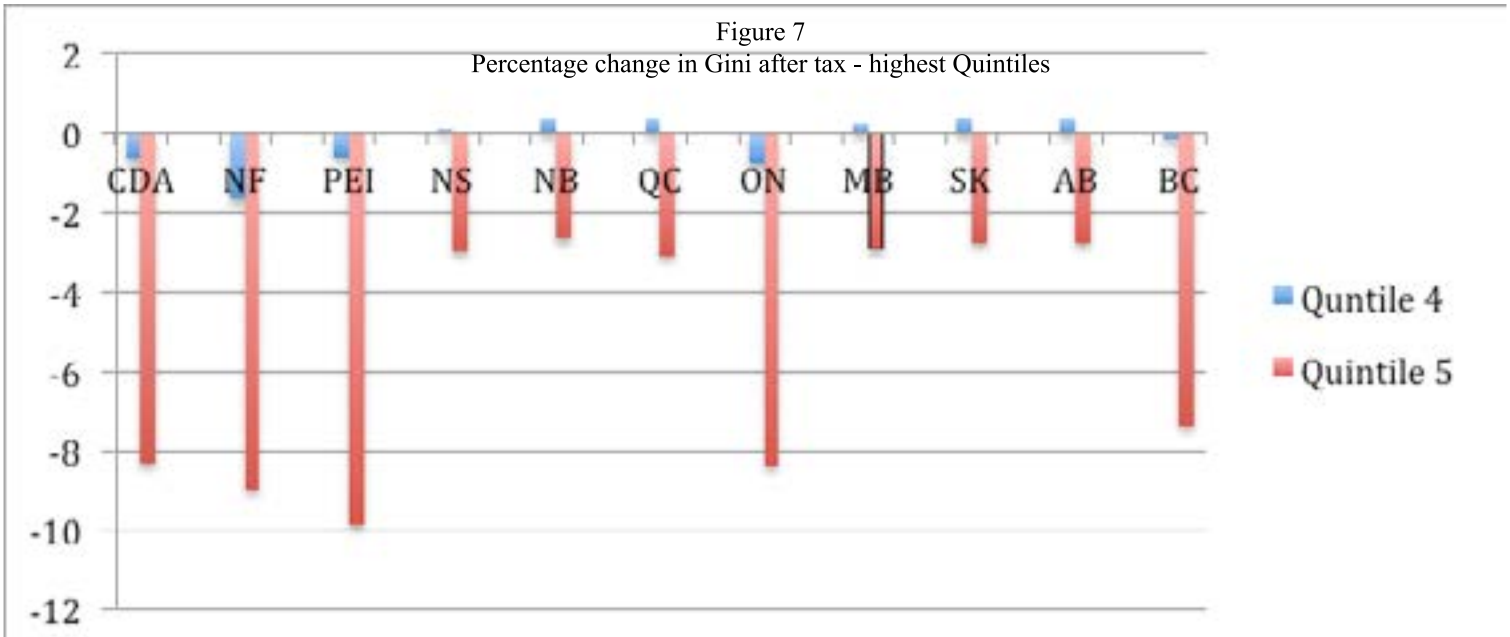


Figure 7
Percentage change in Gini after tax - highest Quintiles



and underemployment remain at very high levels. Another consequence of stagnation is that growth in government revenues is also stalled, and it becomes more and more difficult to maintain existing programs let alone introduce much needed new programs (national child care program, mental health strategy etc.). These conditions create a situation where it becomes difficult to sustain the important physical and social infrastructure of society and this leads to instability. Even the OECD (www.OECDinsights.org) recognizes “history shows a clear association between inequality and instability”. In light of the danger of growing instability, it makes great sense for governments to pursue measures to reduce income inequality.

A second aspect to the case for reducing income inequality is that the current structure of income is determined by government policies that favour the wealthy at the expense of working people and the poor. Indeed, one of the unfortunate features of Canada and other so-called “advanced economies” is that since about 1980, our economic and social priorities have been dictated by the people who own and manage the activities of giant corporations. All policy domains reflect these influences with most recent examples including changes to Old Age Security (OAS) and Employment Insurance (EI).

The list of problems could be extended. However, these two considerations are central to the justification for greater income equality. Nonetheless, in spite of vast evidence, there continues to be fierce resistance to efforts to implement needed public policy reforms that will serve to reduce inequality. Not surprising, those who have benefitted from the current model are leading this resistance.

What would we include in an equality agenda?

At the national level many steps must be taken including a

Table 1
IMPACT OF TRANSFERS ON THE GINI– CANADA 2010

Province	Gini Coefficients			Impact on Gini
	Market Income	Total Income	After-tax Income	Transfers (MI – TI)
MB	**0.41**	**0.331**	**0.289**	**-0.079**
CANADA	0.445	0.360	0.317	-0.085

Source: Statistics Canada CANSIM Table 202-0709.

more progressive income tax structure in addition to re-introducing an inheritance tax on large estates (a wealth tax), and ensuring that corporations contribute more fairly by raising their taxes.

Income transfers have the greatest impact on inequality. As shown in Table 1 (above), income transfers have reduced inequality in Canada by 8.5 percent and by 7.9 percent in Manitoba. Increasing taxes of high-income earners and corporations would increase governments ability to target transfers and further reduce inequality.

There is compelling evidence from other countries that a robust trade union movement is essential to defend the wages and rights of working people. The federal government must comply with the ILO Conventions that it is a signatory of, existing programs and policies such as the Canada Pension Plan and EI must be expanded to improve incomes of retiring workers, and a federal minimum wage must be re-established. Finally, we need a national program to expand opportunities for Aboriginal people to ensure they have access to adequate education, training and jobs.

At the provincial level governments must also improve upon existing social programs. This of course requires an increase in revenue. Ontario has taken a first step by increasing taxes on high-income earners. The newly elected PQ government in Quebec has pledged to add two new income tax brackets for people earning more than $130,000.00 and $250,000.00 per year. Manitoba should do the same.

Unfortunately, the ability to take action on these matters is more complicated in Manitoba than most other provinces.

Balanced budget legislation: blocking the road to equality

When the NDP was elected in 1999, it was encumbered with legislation enacted by the Filmon government in 1995 that was intended as a template for reducing the size of the provincial public sector. Bill 2: The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act obliged the Province to: (i) balance the budget every year, except in extraordinary situations; (ii) contribute an annual payment of $75 million into a debt retirement fund; and (iii) hold referenda to obtain approval for increases in personal income, corporate income, payroll and sales taxes.

When in opposition, the NDP condemned Bill 2 because it would limit the ability for government to deal with changing social and economic conditions. However, the NDP government was content to abide by the legislation until October 2008 when it made amendments to address the growing economic crisis. The most important amendments changed the required budgeting from an annual to a four- year basis. Also, “the new law mandated summary (as opposed to core) budgeting” and imposed stricter requirements on reporting. The requirement for public hearings prior to amendment or repeal of the legislation was retained as was the requirement to hold a referendum to get approval for increases in major taxes.

The government was left with some ability to alter tax structures, so long as the total tax take remains unchanged. In the case of income tax, for example, the government could add brackets at the top end of the income distribution and reduce the rate of lower income earners. This would result in more equal tax distribution.

Manitoba currently has three tax brackets. Earnings under $31,000 are taxed at a rate of 10.8%. Earnings between $31,000 to $67,000 are taxed at a rate of 12.75 percent; and those greater than $67,000 are taxed at 17.4 percent. The Manitoba government could add additional tax brackets to increase the marginal tax rate of those who can afford it most. For example, a fourth bracket increasing the marginal tax rate of 18.4 percent for taxable income between $94,000 and $128,000, and a fifth that increases the marginal tax rate to 19.4 percent for taxable earnings over $128,800, would see an additional $48.18 million in revenue annually.[1] However, to be in compliance with balanced budget legislation, the Province would have to offset the increase to a net of 0. They could do this by decreasing the rate for those in the lowest bracket. This would result in greater equality while also being more closely in line with the tax rate for low-income earners in other provinces.

This however does not solve the larger issue – that additional revenue is required to move us toward greater equality. This brings us back to the dilemma that balanced budget legislation has created.

The options: repeal or referendum

The Manitoba government has a revenue problem. This is, at least in part, a problem of its own making. The Manitoba government boasts of saving tax payers $1.2 billion annually as a result of cuts to individual and business taxes. Ironically, this is almost exactly the amount of the current fiscal shortfall. The Selinger government is left with two choices in order to increase the revenue required to proceed with a progressive policy plan. They can repeal balanced budget legislation, or, they can comply and call a referendum.

Our preference would be to repeal the Act. Policy making through referendum is wrought with problems. Governments are elected through a democratic process and they should be empowered to do what they believe to be necessary and in the best interest of their constituents. Nonetheless, if Manitoba is to reach greater equality within the existing legislative framework, it will need to call on the support of the electorate through a referendum.

Garry Filmon enacted balanced budget legislation to ensure that future governments' hands would be tied. Manitoba is now starting to feel the effects as we struggle to pay for the unforeseen costs of the 2011 flood, the costs associated a struggling national economy and the financial impact of federal government policies such as the new crime legislation that is costing provincial governments billions of dollars

The NDP government must decide whether it wants to continue to be bound by the Filmon template or whether to trust Manitoba voters - the people who pay taxes, but also the people who benefit from government expenditures – to do the right thing. We believe that Manitoba voters, if given the information they need to make informed choice, will vote in favour of progressive tax policy changes that will close the inequality gap, add to the province's capacity to intervene to radically reduce poverty, and deliver high quality services to the people of Manitoba.

Does the Manitoba government have the political will to lead the way?

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[1]This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Harvey Stevens and the responsibility for the use and interpretation of these data is entirely that of the author.