A Canadian View of Income Inequality and its International Implications

Alan Broadbent *(www.maytree.com)*

I recently wrote that the problem with poor people is they don't have enough money. That sounds like a quip but in fact it is true.

As attention is being focused on inequality, the wealth gap between the top and bottom has been exposed to a wide audience, beyond the normal poverty analysts and policy wonks. The now famous One Percent at the top has been in the spotlight. Various remedies have been offered to moderate extreme CEO pay packages, tax high incomes, or urge the rich to robust philanthropy. In all likelihood though the impact of such measures to remediate the wealth gap would be modest.

But attention is beginning to shift to what is the basis of the problem, and that is too many have too little money, even many fully employed people. Many of them are victims of decades of driving down wage rates as a way of finding efficiency in the production of goods and services. Often the price of a 99 cent burger or a $5 tee shirt is the 99 cent or five dollar wage. Perversely, this is the low-end analog to the observation of Henry Ford a century ago that he wanted to pay his workers well enough that they could afford to buy one of his automobiles. Now we pay them little enough that they can only afford the bargain burger or shirt.

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In Canada a number of people have pointed out the folly of wage practices that result in two-thirds of the population being unable to participate in the economy, essentially living paycheque to paycheque or always on the edge of financial insecurity. There is a very real risk of falling into poverty, as a result of a failed employer, an injury or illness, a marriage break up, or another piece of bad luck. This results in a tremendous dead weight on the economy that hurts everyone.

Another factor depressing wages is the decline of collective bargaining. The aggressive assault on labour unions by the corporate sector and conservative governments in recent decades has achieved their goals of reducing the number of workers covered by union contracts, and depressing wage rates resulting from collective bargaining.

A significant proportion of the poor population in any country are people living with disabilities, including physical and mental health issues as well as diseases, including addictions. These disabilities prevent people from getting and holding jobs, and often exclude or push them to the margins of the labour market. They appear in high numbers on welfare rolls.

As do single parents, mostly women, who must place the care of children over working in the paid labour market.

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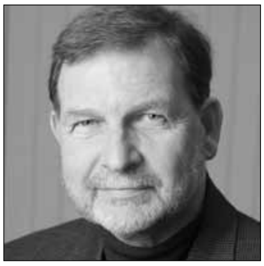
These conditions have led to low levels of family income. For Canadian families, dreams of an iPad, a warm winter vacation, or a new car become reality for only about a third of the population. Ambitions to own a home within a reasonable distance of work become attainable at later and later ages for most in our biggest cities because it is taking longer to accumulate the needed savings.

Many countries have income support programs to boost low incomes. In Canada we have benefits aimed at children, seniors, people with disabilities, and other specific populations. When these programs



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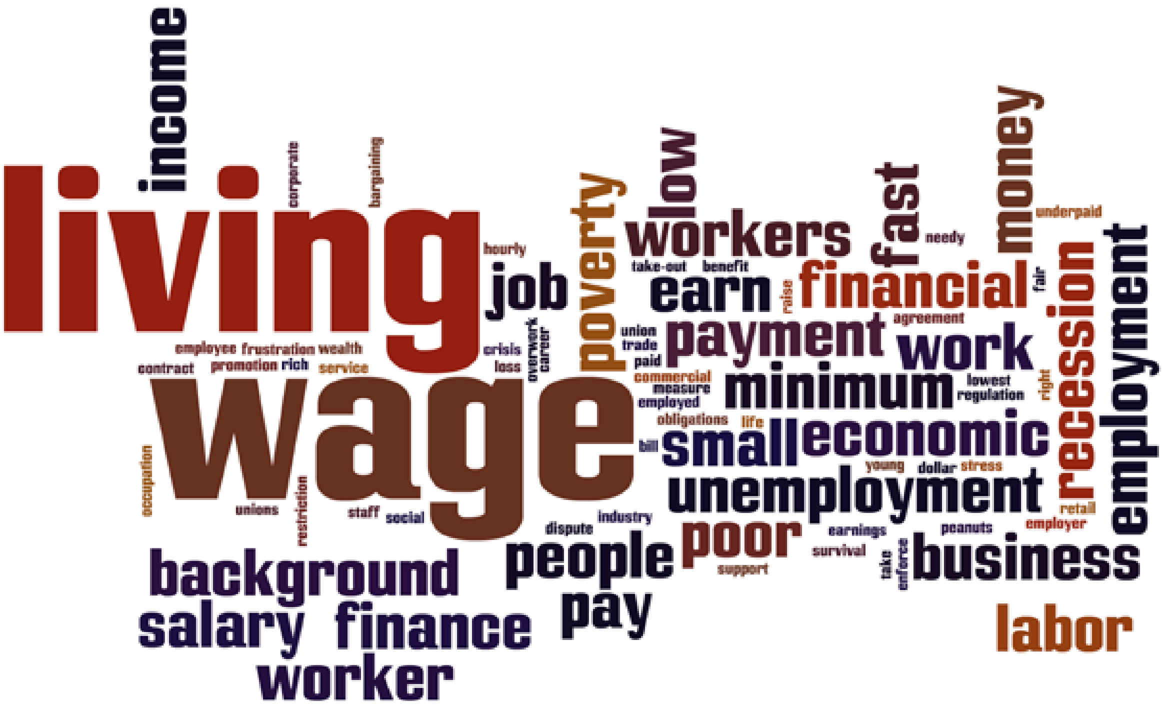

are designed a target is identified, either explicitly or not, which would remediate the low income problem in question. What would it take for a family to raise a child successfully; how much does a senior need to live out life in dignity? But in most countries, those targets are unmet. For example, in Canada the Canada Child Tax Benefit is funded at only 65% of its target, even 20 years after its inception; the Working Income Tax Benefit, aimed at the 'working poor', is funded at only 25% of its target.

Despite being underfunded, we know that most of these benefits work. The CCTB has reduced child poverty by 40%; the Guaranteed Income Supplement component of the Canada Pension Plan, aimed at low income seniors, reduced senior women's poverty from 68% to 16%, and senior men's poverty from 56% to 12%. The Ontario Child Benefit, a provincial component of the CCTB, has reduced the percentage of single women on welfare rolls from 50% to 15%.

Good public benefits work best when they are income tested. 'Refundable' tax credits work as tax deductions for those with taxable income, gradually disappearing as incomes rise, and as income supplements for people without taxable income. A fully funded refundable tax credit is a powerful instrument to raise people out of poverty and enable them to participate in the economy. And they provide resilience to someone who has tumbled into poverty through one of life's vagaries (bankrupt employer, accident, etc.), preventing them from having to strip their assets as they get back on their feet. As such, they are effective contributors to a dynamic economy. Leveraging the large fiscal capacity of governments for prosperity is good public policy.

Other measures can also be effective.

Around the world, the *'Living Wage'* movement is addressing incomes at the lower end. In the UK, the non-profit *Citizens UK* has led the charge to get employers to set their wage rates well above minimum wage rates. They get employers to sign up to participate, and make a commitment to "rolling out the *Living Wage* in the supply chain." One prominent champion is London Mayor Boris Johnson who has said that "paying the London Living Wage ensures hard-working Londoners are helped to make ends meet."

In Canada, community groups are leading the push for a living wage. In Vancouver, Hamilton, Guelph, and Toronto, campaigns are underway, with more and more cities coming on board. Living wage will be one of the topics at May's poverty reduction summit in Ottawa where Canada's provinces and territories, and over 100 cities will be working together on their poverty reduction strategies.

In the US there are 'living wage ordinances' where cities mandate that businesses under contract with the city or, in some cases, receiving assistance from the city, must pay their workers a wage sufficient to support a family financially. Cities include San Francisco, Sante Fe, Albuquerque, Boston and Baltimore.

New Zealand also has a living wage campaign.

Also critical to raising the lower end of the wage scale is the protection of workers vulnerable to unscrupulous employers. *The Workers Action Centre* in Toronto is an effective agency which urges governments to improve their monitoring of workplace abuses such as withholding pay or firing workers just before the end of a pay period and refusing to pay them knowing the worker is unlikely to pursue them in court. Such abuses are disappointingly common, and governments under fiscal constraints have often cut back monitoring and enforcement of labour laws.

With so much attention turned to income inequality, it is important to focus on solutions. Many of them will require that governments and employers do more to boost incomes either through wages or through income supports like benefits and pensions. Some will cost relatively little such as improving labour law enforcement.

What has become crystal clear in recent years is the costs of doing nothing. We now have massive piles of evidence on the bad social outcomes of poverty which only increases the costs across society in health care, the criminal justice system, education, and labour market absenteeism and turnover.

While some are keen to discipline excessive salaries at the top of the range, the real problem is the low incomes at the bottom, and that is where the solutions must begin. The good news is that we have many promising ideas that are ready to be implemented.

What is the role of the philanthropist? One thing is certain: philanthropy itself is not the answer. All of the assets held in charitable and foundation funds combined in any country would only narrow the inequality gap marginally, even if the holders of those assets were inclined to act. It is doubtful many would be so inclined, in that much of the assembled capital likely came from the same paradigm which produced the inequality.

But some would be inclined to act, and they would be best to aim their funds at system change. First target might be to have government income support programs fully funded to help people and stimulate the economy. (Low income people spend money in the economy on the necessities of life like housing, food and clothing, so a dollar in is a dollar recirculated.) Or they might encourage local governments to adopt living wage policies to govern their arrangements with suppliers and contractors.

A second target might be the employer community, encouraging them both to pay their lowest earners a living wage, and to lower the ratio between their lowest and highest salaries. In this regard, large philanthropic capital pools might align their social purpose and their investment portfolio to make sure they are investing in companies who are 'walking the talk' on inequality.

Someone once remarked that the problem charitable donors have with 'mission based investing' is that few of them have missions. It would be wonderful to think that there is a growing number of donors willing to make the remediation of inequality their mission. I am keeping my eye peeled for them here in Canada.

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