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May 1, 2008

Why A Growing Income Gap Affects Us All

Canada's income gap between the rich and the rest of us is at a 30-year high.

Usually the gap grows during recessions, when Canadians lose jobs, but a different and troubling new trend is unfolding in Canada.

The income gap appears to be growing in good times and in bad. What's more: rising inequality is no longer just about the rich and the poor. The majority of Canadians – 80% of families raising children under 18 – are taking home a smaller share of the economic pie they helped grow.

Only the richest 10% of Canadian families raising children saw their incomes improve compared to the previous generation. In fact, their incomes have been soaring.

The rest of us, meanwhile, are working harder just to keep what we have. Our struggle is based on income, but it's not just about how much money we make. The growing gap is also a story about affordability – it's about how we live.

The ability to afford the basics -- housing, post-secondary education, saving for retirement – is a serious challenge for many Canadians. Nothing could be more basic than where we live, and the budget line that soaks up most of our household income is housing.

A recent Royal Bank study says the cost of owning a home in Canada today is higher than it's been for 18 years. This phenomenon is directly linked to Canada's growing income gap. What happens when the fortunes of the richest 10% soar? The price of housing soars…for everyone.

The rich are the price setters in housing markets. When their incomes rise quickly, housing prices follow in lock-step. The rich choose the neighbourhoods they want to live in, paying premiums for choice location. Extra cash in their pockets can result in bidding wars and a dramatic ratcheting up of prices in an area. And that has a ripple effect on surrounding neighbourhoods, gradually making the cost of housing – even rental apartments -- out of reach for many Canadians.

What's left over for modest- or low-income households is totally predictable. Some move out of town in search of cheaper housing – which comes with fewer services and more travel time. Those who stay in the city get stuck in low-rent neighbourhoods.

Low-rent neighbourhoods in bigger cities are low-rent because they don't have green

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spaces for children to play in, public services are lousy (poor public transit, not enough health care or child care, under-resourced schools, few community, recreational or long-term care facilities) and shopping is not a draw (few alternatives for cheap or nutritious groceries, banking services, etc.).

This has been dubbed "deprivation amplification" – you don't have much in the way of income, so you have to live someplace where supports are slender. The effects of poverty – of deprivation -- keep compounding.

Kids growing up in this environment are truly beating the odds if they can thrive and develop their human potential. Yet despite the best economic conditions Canada has enjoyed in a generation, the proportion of kids living in poor families, who live in poor neighbourhoods, has been stubbornly high in Canada.

Canada's child poverty rate is the same as it was in 1989 (11.7%), the year Parliamentarians of every political stripe pledged to eliminate child poverty by the year 2000.

That didn't happen. Instead, Canadian families raising children are working harder than ever just to keep what they have. Many are slipping behind. Canadian households with children under 18 put in an average of 200 more hours a year in 2005 than in 1996. Most of that increase in work time happened at the bottom end of the income spectrum. Yet they still can't afford the basics in life. Nor can they save. Stagnant incomes and rising costs have squeezed savings out of many Canadians' budgets. Average savings of Canadians have plummeted from $7,500 in 1990 to $1,000 today. At least 60% of Canadians under 45 are mired in debt.

If Canadians are having so much trouble getting by in these, the most robust economic times since the 1960s, what are we going to do if the financial storm clouds from south of the border blow into Canada?

There are several welcome measures our governments could implement right now.

They could raise the minimum wage so that a person working full-time all year-round isn't working poor. They could improve eligibility and benefit levels for Employment Insurance, since the majority of Canadian workers paying into EI aren't eligible to receive benefits when they fall on hard times. They could boost basic income support for those who can't work. And they could invest in more public programs to improve access to affordable and quality housing, child care, post-secondary education, and public transit. If these things were done, the quality of life would be incontestably better not only for low-income Canadian families, but for the majority of Canadians .

But as long as the current trends continue, with the rich taking home a greater share of income gains in the labour market and using those gains to drive up the cost of living (especially housing), income inequality will continue to cause problems for the majority of Canadians. .

Economic growth is supposed to deliver greater prosperity and a better quality of life for Canadians. It's turned out to be an empty promise for too many.

But it doesn't have to be that way. We could harness the power of economic growth to act collectively in our best interest and deal with issues of affordability now. Or we can continue waiting, assuming economic growth, and markets, will eventually deliver the goods. The evidence is clear. You'd think our choice would be too.

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