CCPA

CANADIAN CENTRE FOR POLICY ALTERNATIVES

MANITOBA

Manitoba Inequality Update:

Low Income Families Left Behind

By Ian Hudson and Benita Cohen

JUNE 2018

Manitoba Inequality Update:
Low Income Families Left Behind

ISBN 978-1-77125-394-9

JUNE 2018

This report is available free of charge from the CCPA website at **www.policyalternatives.ca**. Printed copies may be ordered through the Manitoba Office for a $10 fee.

Help us continue to offer our publications free online.

We make most of our publications available free on our website. Making a donation or taking out a membership will help us continue to provide people with access to our ideas and research free of charge. You can make a donation or become a supporter on-line at www.policyalternatives.ca. Or you can contact the Manitoba office at 204-927-3200 for more information. Suggested donation for this publication: $10 or what you can afford.

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
MANITOBA OFFICE
Unit 205 – 765 Main St., Winnipeg, MB R2W 3N5
TEL 204-927-3200 FAX 204-927-3201
EMAIL ccpamb@policyalternatives.ca

UNIFOR

About the Authors:

Ian Hudson is Professor of Economics at the University of Manitoba and a CCPA Manitoba Research Associate.

Benita Cohen is Associate Professor of Nursing, College of Nursing, University of Manitoba.

Acknowledgements

This report was prepared relying on Statistics Canada data runs designed by Richard Shillington, principal, Tristat Resources (www.shillington.ca)

Cover

Ildiko Nova, West End Back Lane

Introduction

A decade ago the CCPA-MB released the *Stuck in Neutral* report on inequality in Manitoba (Hudson & Pickles, 2008). It was a bit of a glass half full kind of report. The half full optimists could claim that the trend towards greater inequality was less pronounced in Manitoba than it was in other provinces. The half empty pessimists could correctly claim that earnings for the poorest 40% of families were either no higher or actually lower in the early 2000s than they were in the late 1970s despite working longer hours. Since that report was released the global economy suffered through a massive economic crisis in 2008, oil prices spiked and collapsed, and provincial governments have come and gone. It would seem a reasonable time to update the study to see if the trends uncovered in the early years of the new millennium still hold.

This study examines the changes in income for families with children in Manitoba from the late 1970s to 2014. The data in this report are drawn from Statistics Canada's *Survey of Labour and Income Dynamics* and the *Canadian Income Survey.* These data exclude the institutionalized population and those living on reserves. The population that is excluded in these data is greater in Manitoba than the national average. Nationally, the total excluded population makes up less than three percent of the population but, in Manitoba the on-reserve population alone is greater than three percent. The on-reserve population in Manitoba was about 5 percent of the total Manitoba population (61,500 out of 1.2 million) in 2011 (Statistics Canada, 2015). A recent study found that the child poverty rate of the on-reserve Indigenous population in Manitoba was at an unacceptably high rate of 76 percent. This is greater than the 69 percent national average of the on-reserve Indigenous population. It is also far worse than both the child poverty rate of Indigenous off-reserve (39 percent) and non-Indigenous (18 percent) populations in Manitoba (Macdonald & Wilson, 2016, p. 16). Since the income of the on-reserve population is at the lower end of the income spectrum this study will understate the degree of inequality in Manitoba.

First, we should point out that this report focuses on income rather than wealth. Income is the amount that families bring in every period, like a yearly salary. Wealth is a family's accumulation of assets or debts over time, like the total amount that a family has stashed away for retirement, or the value of their home. Income is generally more equally distributed than wealth.

When conducting a study on income trends the author is presented with a series of choices about the particular measures that are going to be used. What should be the unit of analysis: individuals, households, families with children? What sort of income should be selected: wage income, total income, after tax income? What should the time period be? Selecting between these measures will create studies that answer different questions and arrive at different conclusions.

Turning first to the size of the household, a wide variety of family types could have been chosen, including, families under 65, families with no children, all families, singles, or everyone. Choosing any one of these has costs and benefits. This study has chosen to analyze economic families (which Statistics Canada defines as, "a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common-law, adoption or a foster relationship" (Statistics Canada, 2011). Further we have chosen to focus on economic families with children under 18, not all families. We do this because it focuses on how the Manitoba economy was faring for families busy raising the next generation. It is also an important indicator of future developments, given the long shadow that social determinants such as income cast on children's lives. It should be noted, however, that this category tends to have less income dispersion than other sub-groups, so the results of this study should be taken as a conservative measure of inequality.

The study will focus on two measures of income: market income and after tax income. Market income is a broad measure of income from all sources except the government. It includes employment income (wages and salaries, net farm income and net income from non-farm unincorporated business and/or professional practice), investment income, private retirement pensions, and other money income. In general, market income can be thought of as income from all sources before the government gets involved in taxes and transfers. It is a more comprehensive measure of inequality than examining earnings, which focuses more narrowly on wage and employment income. For example, a 2017 CCPA report examined the changes in earnings in Ontario between 2000 and 2015 because the author was specifically interested in the changes to the labour market in that province (Block, 2017). It should be noted that the income statistics in this report are not directly comparable to those in other reports with different income measures. In order to analyze the impact of government on income distribution in Manitoba, this study will compare market income to after tax total income, which is market income plus all government transfers (like Old Age Security, Employment Insurance Benefits, child benefits, and Canada Pension Plan) less income taxes. This is not quite the same as personal disposable income because it does not include government deductions for payroll taxes such as EI and CPP, sales taxes, or property taxes.

Some of the data have been grouped into four year blocs in order to smooth out the data. The logic behind this is to avoid drawing any false conclusions from single years, which may be outliers rather than genuine trends. This is especially important when examining low income families, for whom incomes can be quite variable from year to year. All of the income numbers have also been converted into "real" or inflation adjusted values, so that it measures the purchasing power of incomes.

This study uses two different measures of "average" incomes: the median and average. The average takes the entire income from the group in question and divides it by the number of people in the group. The median is the middle of the group being measured. Half of Manitoba families have incomes higher than the median and half of the families have incomes lower than the median. The average is a better measure of how much income is generated. The median is a better measure of the income of the "average" or middle family. When the two measures are similar income is equally distributed in the group. The higher the average compared to the median the more income is distributed toward those with higher incomes in the group, which indicates a higher degree of inequality.

Finally, much of the data presented in this study will divide the population into deciles. A decile represents ten percent of the population and, in this study, the deciles will be presented from poorest to richest. So, the first decile would represent the poorest ten percent of families out of all the families. The average income of one decile of the population would add up all the income of the families in that 10 percent of the population and divide it by the number of people in that decile. The median would take the middle family in that decile. So, the median family in the first decile of the population would represent the middle family income in the lowest 10 percent of the population, or the family in the 5th percentile of the population.

Why Income Inequality Matters

When *Stuck in Neutral* was first released, income inequality was not an issue with much traction in either the economic or political policy realm. In the early 2000s, U.S. Republican politicians like Mitt Romney were dismissingly describing discussions about the degree of inequality in the US as, "class warfare." (quoted in Luhby, 2012) Economic policy in the early 2000s, in both Canada and the U.S., followed the advice of free market economists who, in the footsteps of Milton Friedman, argued that income differences are required to create effort and innovation. Market income, according to Friedman, is the best measure of what an individual contributes to society.

However, there is a growing recognition that income inequality has been increasing to undesirable levels in many countries, including Canada. Part of this is because of international research, most famously by Thomas Piketty's (2013) book, *Capital in the 21st Century*, which demonstrated remarkable increases in inequality since the 1980s, driven by stagnant incomes for the majority of the population and fantastic income gains by those at the very top end of the income distribution. There has also been a growing recognition that high levels of income inequality create a wide variety of economic and social problems. Rather than acting as a crucial incentive for economic growth, recent research has drawn attention to how inequality can slow growth because those at the lower ends of the economic spectrum are often left behind, and don't get to realize their full economic potential because of shortcomings in education and other opportunities. Studies by the International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) have found that countries with higher levels of inequality have lower rates of economic growth. According to a 2014 OECD working paper, "income inequality has a negative and statistically significant impact" on economic growth. What is particularly problematic for economic growth is "the gap between low income households and the rest of the population" (Cingano, 2014); see also (Arjona, Ladaique, & Pearson, 2002) (De Serres & Ruiz, 2014) (Ostry, Berg, & Tsangarides, 2014).

While the economic benefits of inequality are increasingly being called into question, it is clear that inequality creates a wide variety of social problems, most of which are felt most keenly by those at the lower end of the income spectrum. In their book *The Spirit Level*, British epidemiologists Richard Wilkinson and Kate Pickett found that countries with higher levels of inequality scored worse on measures of violence, education, health, and social mobility (Wilkinson & Pickett, 2010). In Manitoba, for example, a Manitoba Centre for Health Policy study on the link between income and educational results found that the factors that were once thought to drive success in school (like smoking during pregnancy and health during pre-school) play a fairly small role in educational achievement compared to the impact of low family income (Brownell & Nickel, 2014).

Unequal educational achievement is one manner in which higher inequality in any one generation can act to limit social mobility between generations, ossifying income inequality over time. This stems from the very natural inclination of parents to use their income to improve the opportunities of their children, not just directly through inheritance, but also through spending on things like education. However, in the context of high inequality, this will create an unequal playing field for children from rich and poor families, making it increasingly unlikely that low income children will be able to move up the income ladder (Osberg, 2016). Studies have repeatedly shown that countries with lower levels of inequality have higher levels of social mobility (Corak, 2013). As Richard Wilkinson commented on PBS Newshour, "if you want to live the American dream, you should move to Finland or Denmark, which have much higher social mobility." (PBS Newhour, 2011)

The impact of income inequality on human health was powerfully illustrated by the World Health Organization [WHO] Commission on the Social Determinants of Health, which spent four years gathering the best available evidence about the role of societal factors in influencing global health outcomes. In its final report (WHO, 2008) the Commission concluded that, in every country, people at relative social disadvantage due to poverty, racism, sexism, homophobia, or other forms of social exclusion or oppression, suffer greater health disadvantage and shorter lives. The report concluded that "social injustice is killing people on a grand scale."

Unfortunately, Canada and Manitoba are no exception to this global phenomenon. A report funded by the Public Health Agency of Canada estimated that, from 1991 to 2006, at least 40,000 premature deaths in Canada each year were due to income inequality (Tjepkema, Wilkins, & Long, 2013). As Raphael and Bryant (2014) remarked at the time, this was the equivalent of 110 Canadians dying prematurely each day: "To put that in context, imagine a Bombardier CS-100 jet airplane full of passengers falling out of the sky every day for a year!" Part of the impact of poverty and inequality on health outcomes can be seen by the increased use of the health system by those with lower incomes. The Public Health Agency of Canada estimated that the cost to the healthcare system of the "excess burden of disease attributable to health inequality" was at least $6.2 billion annually in 2007–08 (Public Health Agency of Canada, 2016).

Canada's Indigenous populations bear an excessive burden of illness related to continued effects of colonization, which include high levels of poverty, suicide and TB rates are at least 5 times higher than non-Indigenous rates; the prevalence of major chronic diseases such as hypertension, asthma and diabetes are higher among Indigenous populations compared to the total Canadian population; and Indigenous peoples are over-represented in the HIV epidemic (National Collaborating Centre for Aboriginal Health, 2013; Park, Tjepkema, Goedhuis, & Pennock, 2015). And in the most recent *Health Status of Manitobans Report* (Routledge, 2015), the Chief Provincial Public Health Officer concluded that differences in socio-economic factors (especially income, education, and employment) significantly impact health in Manitoba, and contribute to the gaps seen between the least healthy and healthiest populations in the province. For example, people living in the poorest areas of Winnipeg have between 15 and 17 years lower life expectancy than people living in the richest neighborhoods. (Routledge, 2015)

A key point to make here is that individual lifestyle choices and behaviours account for only a small part of these inequitable health and social outcomes. Neither, according to the WHO Commission, is this unequal distribution of health-damaging experiences in any sense a 'natural' phenomenon. Rather, "it is the result of a toxic combination of poor social policies and programmes, unfair economic arrangements and bad politics" (WHO, 2008, p. 1). As Michael Marmot, the lead WHO Commissioner and one of the world's leading authorities on the health gap related to income and other social inequalities suggests: "…the scale of health inequalities in society and the world tells us a good deal about the quality of our society and the way we organize our affairs" (Marmot, 2015, p.20).

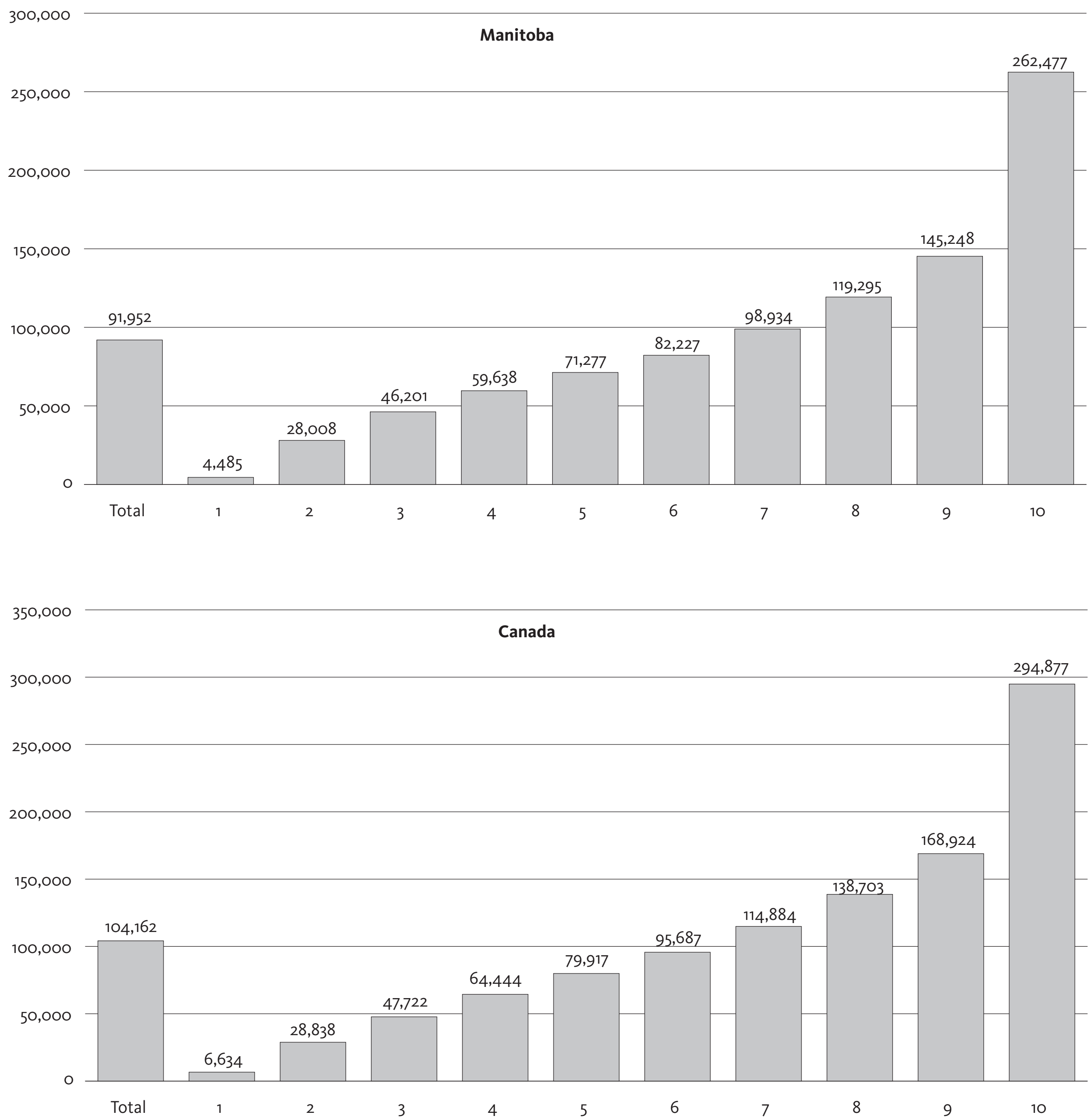
More generally, high degrees of inequality compromise what Amartya Sen (Sen, 1999) and Marta Nussbaum (Nussbaum, 2011) described as the capability of people to live a full and flourishing life. The capability approach stresses the importance of people being able to achieve the things in life that they have reason to value. These goals would include obvious things such as the ability to enjoy income, employment, food, and housing security, but may also include others, such as: the "ability to be treated as a dignified being whose worth is equal to that of others"; "being able to imagine, to think, and to reason — and to do these things in… a way informed and cultivated by an adequate education"; "being able to laugh, to play, to enjoy recreational activities." Income inequality compromises these goals because it results in decreased opportunities to develop the capabilities that people need to live a good or satisfactory life.

The consensus on the growing dangers of rising inequality has become sufficiently widespread that even financial institutions are starting to take notice. TD issued a policy paper that concluded, "Policymakers at all levels of government should think about how to lean against the incipient inequality pressures." (TD Economics, 2014, p. 12)

Where Do You Fit?

Figure 1 shows the average market income for economic families with children in Manitoba and Canada. In both Manitoba and Canada the market income is distributed very unequally. The average market income of the lowest decile of the population was only $4,500 in Manitoba and $6,600 in Canada in 2014. For this 10 percent of the population, market income is not close to sufficient to afford even the most basic of necessities. At the other end of the spectrum, the average market income for a family in the top decile in Manitoba was over $262,000. The average market income of a Manitoba family was $92,000. Although we can see that this is not really the income of the "average" Manitoban. If we define the average Manitoban as someone in the middle 5th and 6th deciles then their average income is a more modest $71,000 and $82,000 respectively. Generally speaking Manitoba has a lower income than the rest of the country. The average family market income in Manitoba is about $12,000 lower than in Canada ($92,000 to $104,000). However, a close look at the breakdown of incomes by decile shows that a considerable amount of the difference in the average income between Manitoba and the rest of the country is driven by differences at higher income levels. The income differences between Manitoba and the Canadian average for the 2nd and 3rd deciles is only 2 and 3 percent respectively. However, in the 6th through 9th decile the difference rises to around 15 percent. Given the low levels of market income in Canada and Manitoba for those at the bottom end of the income spectrum, governments at the provincial and federal level should pursue policies that improve this group's participation in the labour market and improve their income from labour market participation.

FIGURE 1 **Average Family Market Income By Decile, Economic Families with Children, 2014 (2014$)**



How Has Income Changed Over Time?

Figure 2 shows the change in average and median market income for Manitoba and Canada between 1976 and 2014. The period between 1976 and 1993 were very bad years for Canadian market incomes. After 1993, average market incomes started to increase but it was only after 1998 that they had risen above their 1976 level. Manitoba followed the same general trend, although incomes did not really start to improve in this province until 1996. The average income in Manitoba in 1996 was $64,000, considerably lower than the $71,000 average income in 1976. The late 1990s and 2000s were years of steady growth so that in Manitoba average market income had increased to $92,000 by 2014, an increase of 43 percent. Canadian average market income grew by a slightly more rapidly 46 percent over this same period.

Median income follows the same overall time trend, but at lower levels of growth. Median family market income was lower in Manitoba and Canada in 1996 than it was in 1976. Between 1996 and 2014 median income grew by 29 percent in Manitoba and 36 percent in Canada. For much of the 2000s the gap in median incomes between Manitoba and Canada was both much narrower than for average incomes and growing smaller as the decade progressed. The fact that median income grew considerably slower than average income in both Manitoba and Canada shows that there was greater growth at the higher end of the income distribution. This is significant because it indicates growing inequality.

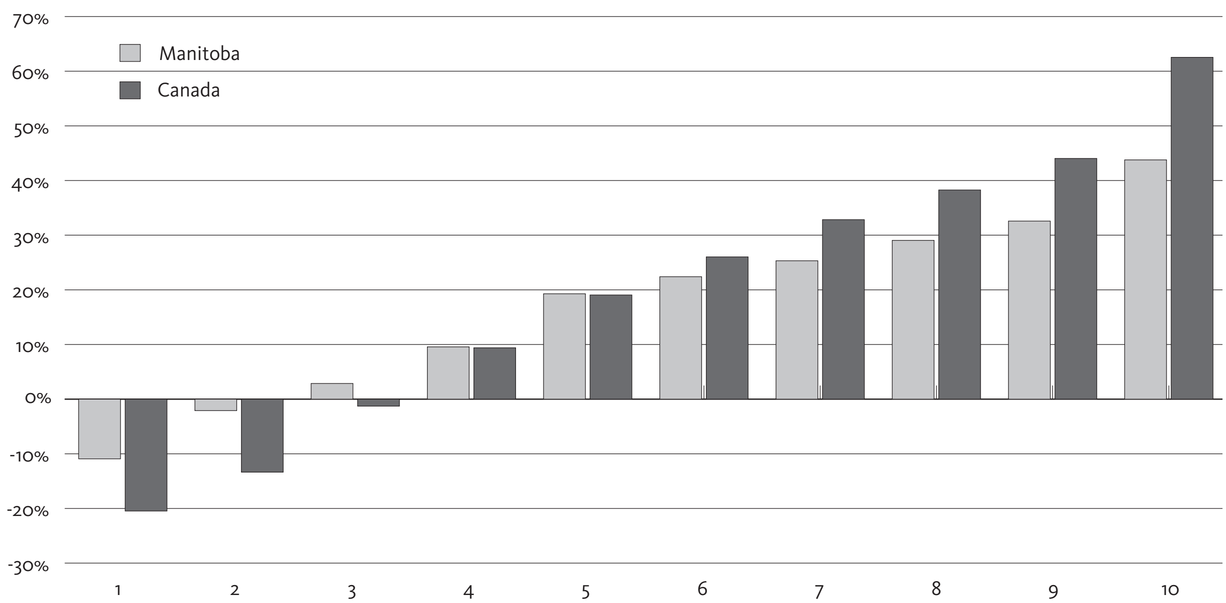
Figure 3 shows that over the almost four decades of this data, the market income trends have resulted in greater inequality in both Canada and Manitoba. Even more sobering is the income trends for those at the lower ends of the income distribution. In Canada, the average market income of the bottom three deciles was higher in 1976—79 than it was in 2011–14. For the lowest decile of the population, the decline in average family market income was 20 percent. At the upper end of the income distribution, the trend was much more favourable. In fact, the higher up the income spectrum you go, the larger the income gains. The average market income of the top 10 percent of families in Canada increased by 63 percent during this period. Manitoba followed similar trends in market income gains although the losses at the bottom and gains at the top are less than was the case for the nation as a whole. In Manitoba incomes fell for the bottom two deciles as opposed to the

FIGURE 2 **Average and Median Market Incomes Manitoba and Canada, Economic Families with Children ($2014)**

bottom three deciles in Canada. The average market income of the bottom decile of families fell by 11 percent between 1976–79 and 2011–14, while the average market family income of the top decile in Manitoba increased by a relatively modest 44 percent.

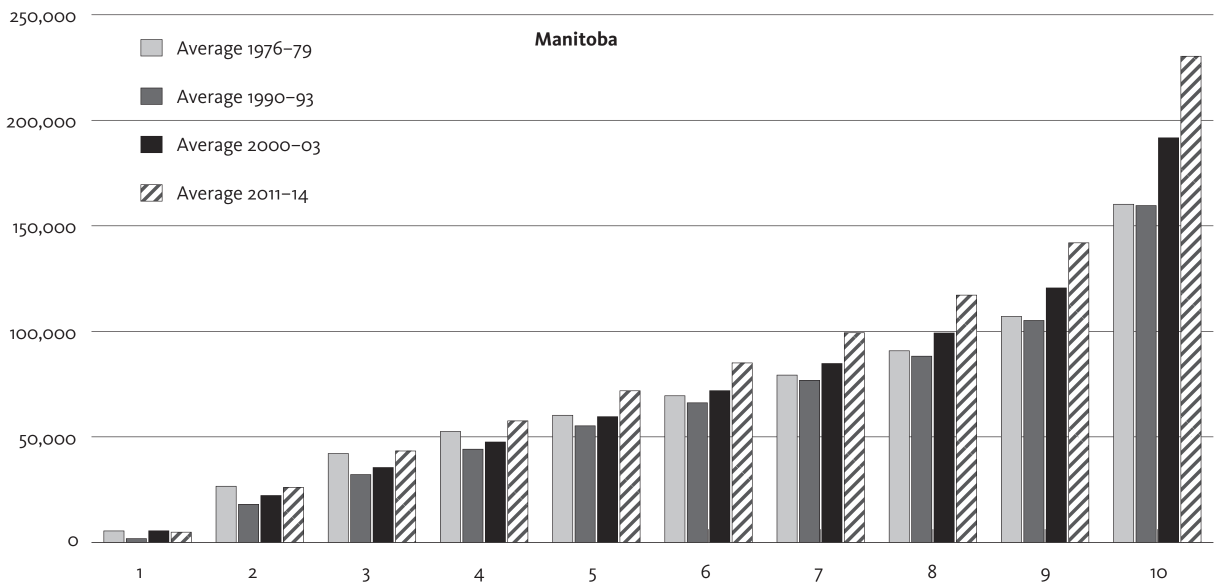
Breaking down the entire period roughly into decades reveals that there are considerable short term differences in these long term trends. Figure 4 shows how the average family market income for each decile of the population has changed in Manitoba and Canada between

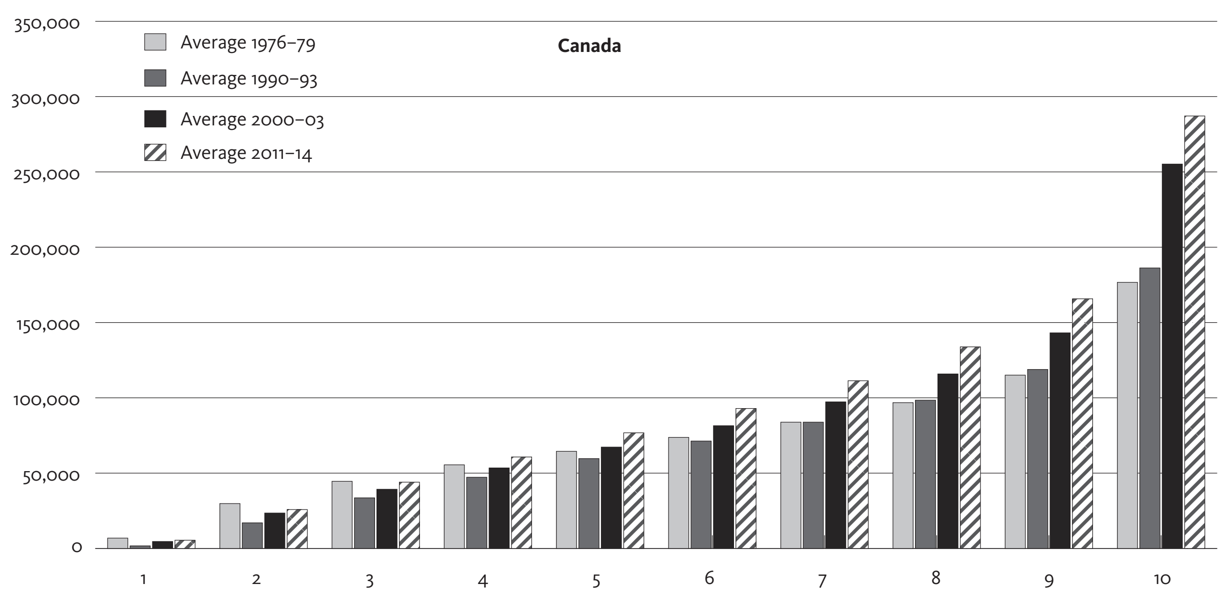
FIGURE 3 **Percent Change in Real Average Market Family Income by Decile 1976–79 to 2011–14**



1976–79, 1990–93, 2000–03 and 2011–2014. As the trends in average and median incomes from Figure 2 suggested, the period between the late 1970s and early 1990s was not a good one for Canadian or Manitoban incomes. In fact, 1993 marked the end of a difficult recessionary period in Canada. In Canada, the average market family income of the lower six deciles was lower in 1990–93 than it was in 1976–79. The average market family income increased for only the top three deciles. In Manitoba, the market income losses during this period were spread over the entire population, although the losses were much more pronounced in the lower deciles. The decades of the 1990s and 2000s were much more favorable in both Manitoba and Canada, featuring income gains for all deciles both nationally and provincially (with the exception of the bottom decile in Manitoba between the 2000–03 and 2011–14 period). However, while these income gains were broadly distributed, the gains for those in lower deciles did not make up for their losses before 1993, while those at the upper ends of the income distribution did see their incomes grow.

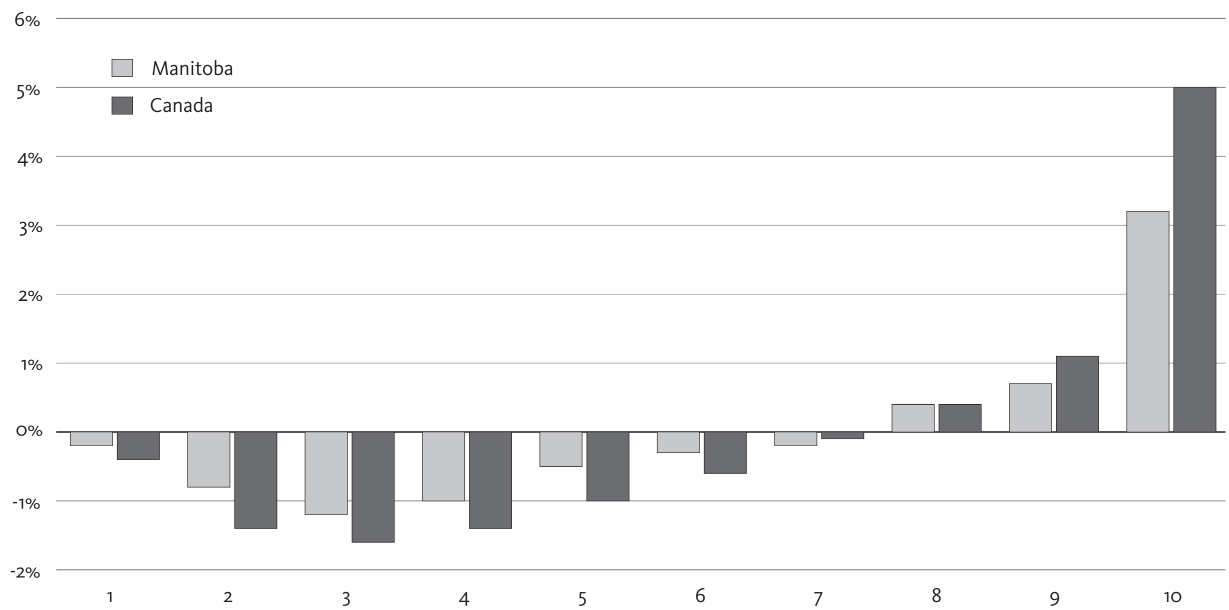
FIGURE 4 Changes in Real Average Family Market Income by Decile, Economic Families with Children (2014$)





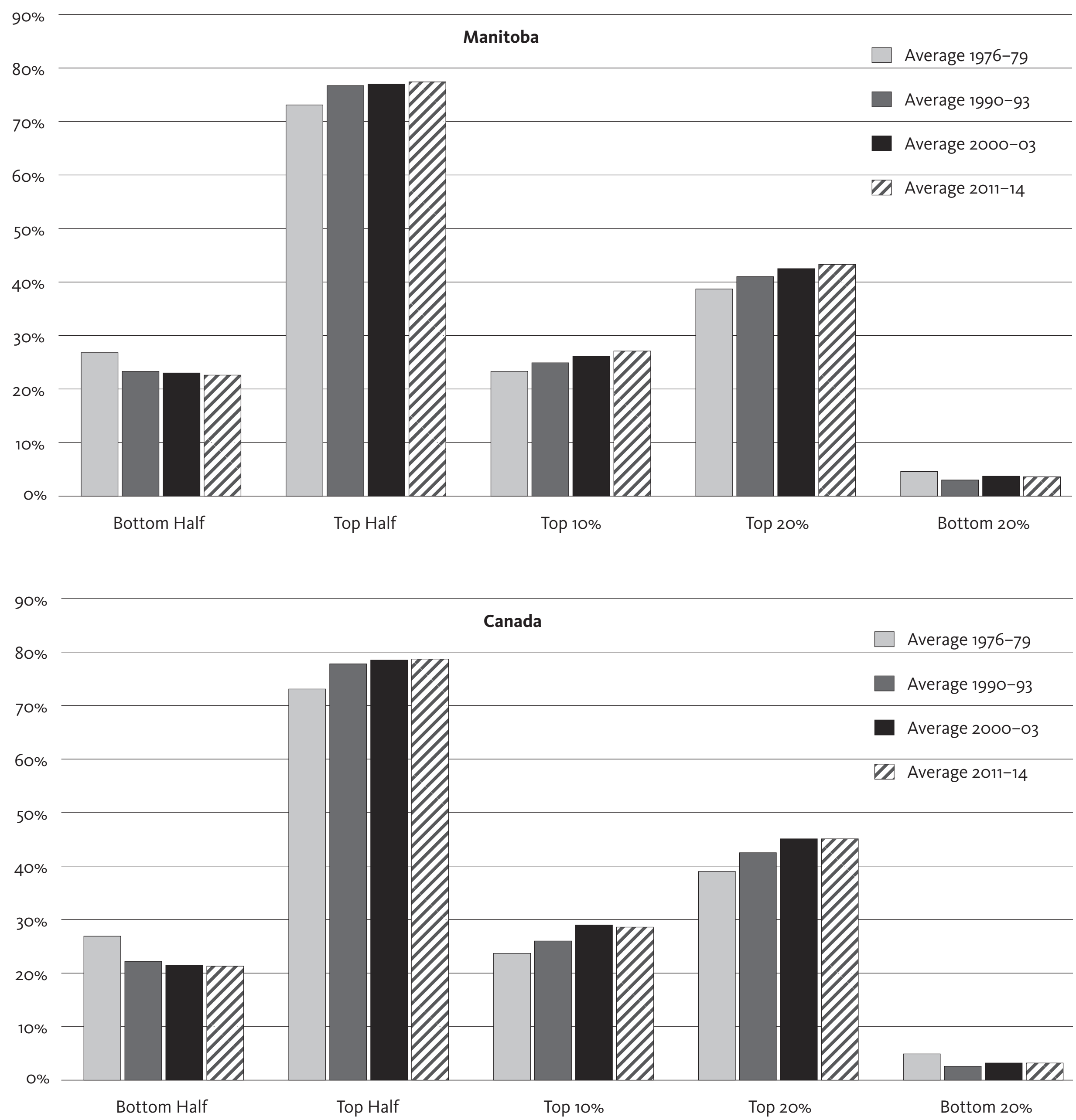
Inequality: Income Shares

FIGURE 5 **Changes in Income Shares by Decile, Economic Families with Children 1976–79 to 2011–14**



Income shares show how the total amount of income in a region is divided up among the population. When we divide the population by deciles, it shows the percent of the total income that is earned by each ten percent of the population. So the share of income that goes to the first decile represents the amount of total income that goes to the poorest 10 percent of the population. The share of income that goes to the tenth decile shows the amount of income that goes to the richest ten percent. If income were perfectly equally distributed, every decile of the population would receive ten percent of the income. Income shares do not

FIGURE 6 **Income Shares, Market Income, Economic Families with Children**



reveal whether people are rich or poor because it says nothing about their absolute income level. A decile of the population could have a very large share, but if the total income is very low, that might still be a small absolute amount. Income shares show the degree of equality in the income distribution.

The previous section demonstrated that income changes since the 1976–79 years have favoured those at upper income levels, although this is slightly less true in Manitoba than Canada. In the context of declining incomes for those at the bottom of the income spectrum and gains for those at the top, income inequality should increase. Figure 5 shows how income shares have changed in Manitoba and Canada between the years of 1976–79 and 2011–14. The trends show growing income inequality in both Manitoba and Canada between these years. The share of income going to the bottom 60 percent of the population declined during this period and the largest gains were made in the top decile. The best that could be claimed for Manitoba is that the increases in inequality were less severe in this province than they were in the rest of the country. The decline in income shares at the bottom end of the income spectrum are especially worrying because they started from a very low levels in the 1976–79 period. In Canada and Manitoba the bottom decile received less than 1 percent of the income (0.9 percent in Canada and 0.8 percent in Manitoba). By 2011–14, that very meagre share had fallen to 0.5% in both. The top decile, on the other hand, saw its income share increase from over 23 percent in Manitoba and Canada to 28.6 percent in Canada and 26.4 percent in Manitoba.

If we divide up the changes into smaller time periods, it is apparent when these changes occurred. Figure 6 shows the changes in income shares for four periods in Manitoba and Canada. The income shares between the top half and bottom half of the population changed most dramatically between 1976–79 and 1990–93, falling for the bottom half and increasing for the top half. The trend for the bottom 20 percent of the population looks a little more positive, increasing in recent decades, but not sufficiently to compensate for the decline in income share between 1976–79 and 1990–93. The income shares of the top decile in Canada grew steadily between 1976–79 and 2003, but declined slightly by 2011–14. In Manitoba, the top decile of income earners has taken home an increased share of the province's income in every period, including the years from 2000–03 and 2011–14, when the top decile in Canada suffered a slight decline in income share. As a result the gap between the income shares earned by the top 10 percent in Manitoba and Canada has decreased.

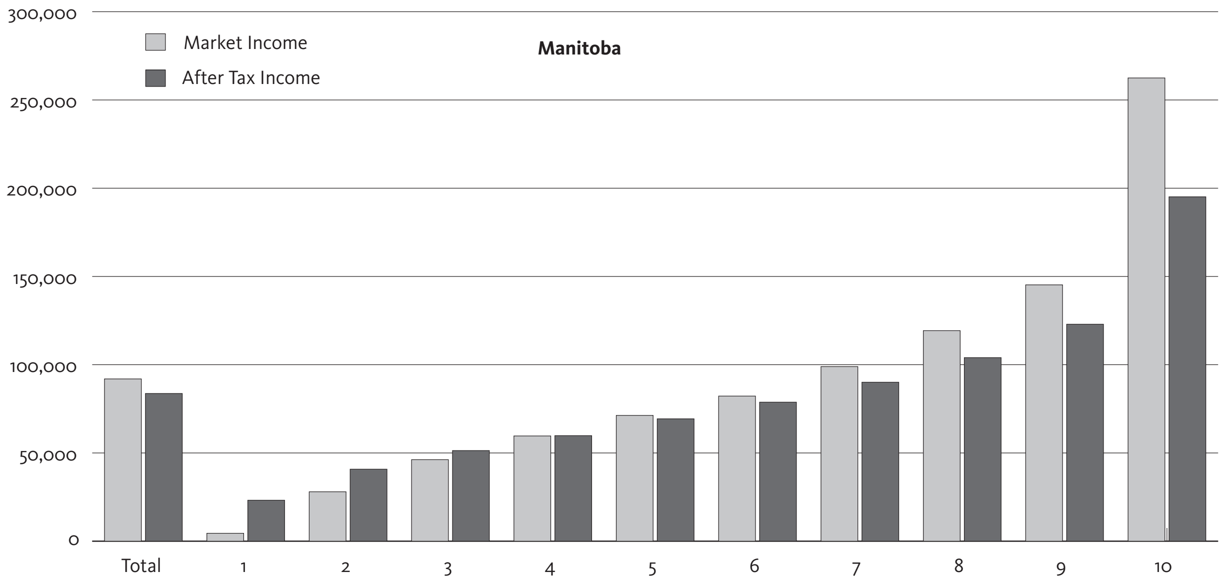
After Tax Income: The Role of the Government

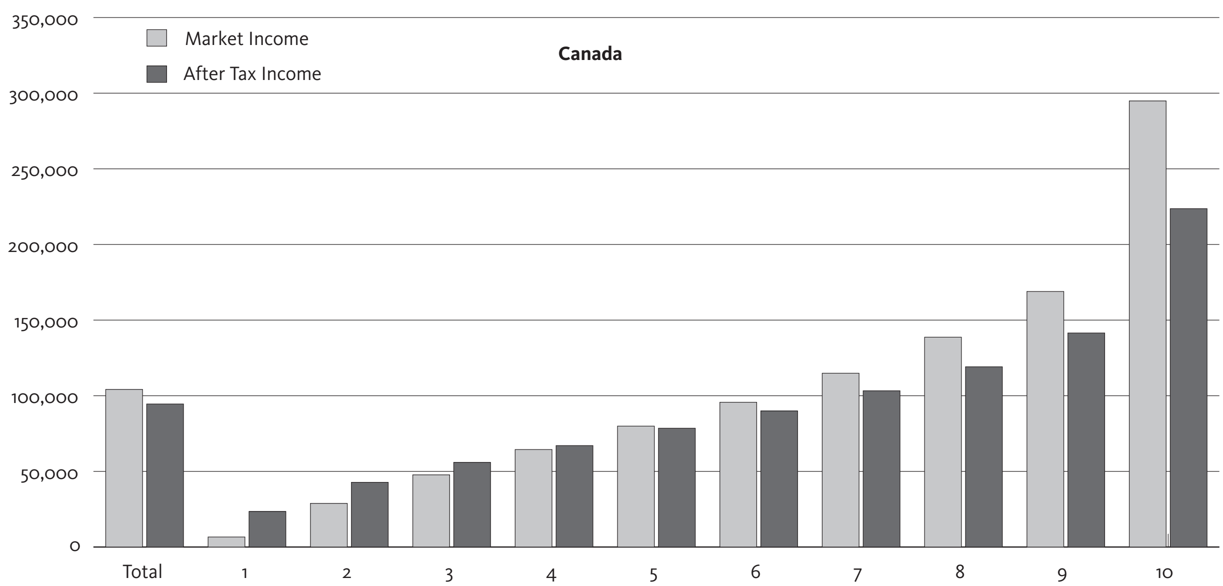
This report has so far focused on market income. Of course, this does not really represent a family's disposable income. Government intervenes in a number of ways to influence the income of families and the goods and services that they consume. The most obvious of these interventions are taxes. The after tax income measure in this report calculates the changes from income taxes, but not other forms of tax, like the GST. It also calculates the amount that government returns to families in terms of transfers, but it does not include the benefits that families get from the provision of publically provided goods and services. So, if after tax income is lower than market income it overlooks the fact that families are receiving a whole host of goods, from education to health to police, that they do not have to pay for on the private market. Strong public services provided free at the point of delivery, as is the case with education and health care, reduces the degree of inequality in society because income is less important to families' access to crucial services.

It is worth noting in this regard that reducing taxes has been an ineffective method of improving the disposable income of the low income population. To take just one recent example from Manitoba, the provincial government has recently committed to indexing the basic personal exemption and tax brackets, which means that they will increase by the rate of inflation every year. As a result the amount of income that was not subject to tax increased from $9271 in 2017 to $9382 in 2018. Obviously, this fails to provide any benefit for those already with an income low enough not to pay any taxes. Even for those with taxable income, rich families benefit considerably more than poor ones. A single person earning $35,000 would save a grand total of $67 in 2017 and 2018 combined. A slightly more affluent family earning $75,000 would save a more substantial $199 over the two years. And the benefits increase as families move up the income spectrum. Against this very meagre, or nonexistent, benefit to low income families, the loss in provincial services must be weighed. Indexing the basic personal exemption and tax brackets will cost the province $59 million over two years (Province of Manitoba, 2017).

Figure 7 shows the difference between after tax and market income for families in Manitoba and Canada by decile in 2014. The most obvious change is that both Canada and Manitoba are considerably more equal once taxes and transfers are analyzed.

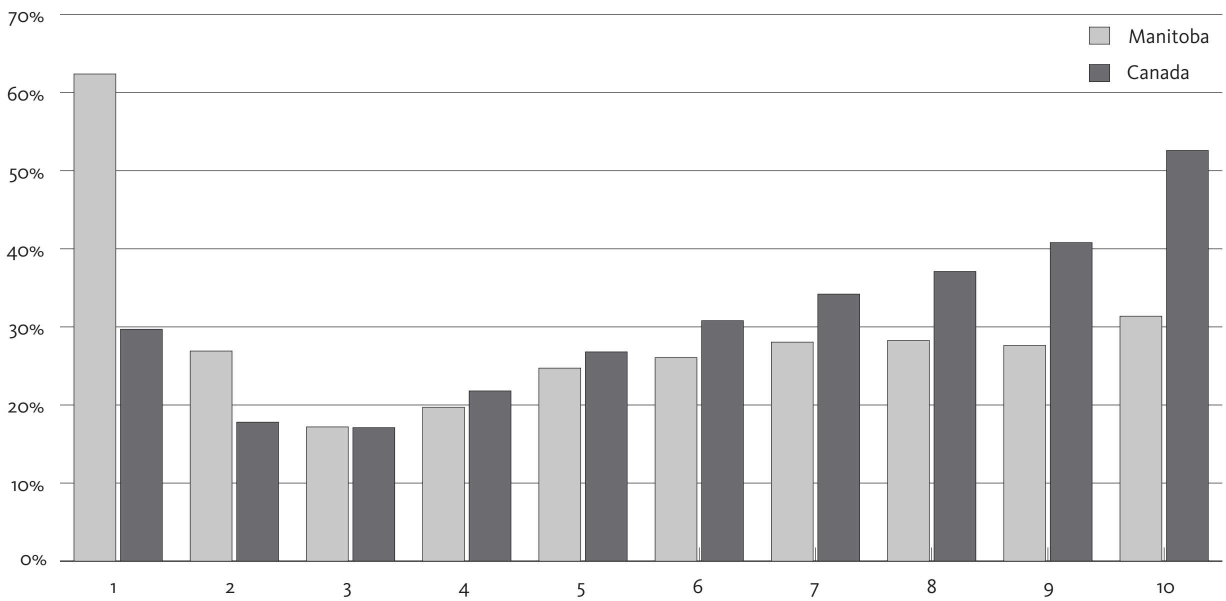
FIGURE 7 **Average Market and Income After Tax, Economic Families with Children by Decile 2014**





This is true, in part, because incomes at the bottom are higher after taxes and transfers. In 2014, the average family income of the bottom decile increased from $6,600 in Canada and $4,500 in Manitoba to over $23,000 in both places. While this is obviously a considerable improvement on the market income, it might be worth pointing out that this is a very low level of income by almost any measure. It lies below Statistics Canada's Low Income Cut Off after tax (LICO AT) in a city of over 500,000 in 2014. For a couple with two children the LICO AT was $38,000 in 2014. For a single parent with one child it was $24,500 (Statistics Canada 2015, July 8. p. 16). It is also well

FIGURE 8 **Percentage Change in Real Average After Tax Incomes 1976–79 and 2011–2014**



below the calculation of the living wage in Winnipeg. In 2016, the CCPA estimated that a family of four could scrape by on a bare bones budget if each parent earned $26,460 a year, or a total two income family total of $52,900 (Fernandez, 2017). A recent example of how government transfers can make a crucial difference is the non-taxable Canada Child Benefit (CCB), introduced in 2016. The CCB pays families with children $6,400 a year for each child under six years old and $5,400 for children between six and 17. Families with an income of under $30,000[1] receive the full amount of the benefit, while families with incomes over this amount have the CCB reduced as their income increases (Government of Canada, 2018). The CCB is considerably more generous than the network of old federal child benefit payments that it replaced (the Canada Child Tax Benefit, the National Child Benefit and the Universal Child Care Benefit for example), especially for families below $100,000. In Winnipeg, the CCB has been an important factor allowing low income families to meet the increasing costs of living expenses (Fernandez, 2017, p. 4).

Equality is not only increased by increasing incomes at the bottom but also decreasing them at the top. In Canada, the average after tax family income of the top decile was $224,000, down from a market income of $295,000. In Manitoba, the average after tax income of the top ten percent of families was $195,000, while the market income was $262,000. The difference between market and after tax incomes in the top Manitoba decile was very similar to the national average. In Manitoba, the average after tax income of the top decile was 74 percent of the market income, while in Canada that percentage was 76 percent in 2014.

Figure 8 shows the changes in average family after tax income by decile for Manitoba and Canada between the 1976–79 and 2011–2014 periods. It illustrates a very different story than that shown by market income in Figure 4 in which average market income fell for families in the bottom deciles and grew more rapidly as

1 Technically, this is adjusted net family income, which is the income listed on line 236 of the families' tax return minus their CCB and Registered Disability Saving Plan income.

we moved up the income spectrum. In Manitoba, the average market income of families in the top decile increased by 40 percent while it decreased by almost 11 percent among families in the bottom decile. The changes in after tax average family income are much different, especially in Manitoba. The average after tax family income of the bottom decile increased by 62 percent in Manitoba and 30 percent in Canada. The income gains are more modest for the higher income deciles. Two trends are important to highlight. First, the actions of the income tax and transfer system greatly increase the equality of the income gains during this period. Second, the gains in after tax income are much more evenly distributed in Manitoba than they are in the country as a whole. The average after tax family income of the lowest two deciles grew more in this period in Manitoba than in Canada. Further in Manitoba, the gains are more evenly distributed even at the upper decile levels than they are in the rest of the country.

Conclusion

This report does contain some positive news for those who are concerned about income inequality. Generally, market incomes for all families, even for those at the lower end of the income distribution, have improved after a miserable period prior to the late 1990s. In that sense, this report is more positive than the previous "Stuck in Neutral" report of a decade ago. The inequality of market income in Manitoba is also lower than inequality in the nation as a whole. The top 10 percent takes home a slightly lower percentage of income in Manitoba than Canada. The bottom 20 percent earns a slightly higher share of total market income in Manitoba than Canada. Finally, the government continues to act as an important mechanism to increase after tax income equality. The gains in after tax income since the late 1970s in Manitoba are much more evenly distributed between income deciles than is the case for market income.

Yet, simply because inequality in Manitoba could conceivably be worse does not mean that it is not a cause for concern. Inequality, especially of market income, is alarmingly high in Manitoba and the incomes of those in the bottom deciles are shockingly low. Since the late 1970s, this problem has grown considerably worse. The bottom two deciles of the population actually earn a lower market income in 2011–14 than they did in the late 1970s. In fact, market income gains grow steadily larger as we move up the income spectrum, with the richest 10 percent enjoying the highest increases. As a result, market income is far less equal than it was in the late 1970s. The share of market income for the bottom seven deciles has fallen since the late 1970s, while it has grown for those in the top three deciles.

These are all very worrying trends. If rising inequality is a problem that needs to be reversed, it is not sufficient to have income gains for all if the gains to the rich are larger than the gains to the poor. It is not even sufficient to have the gains to the poor equal the gains to the rich. As Dalhousie economist Lars Osberg pointed out, inequality will only decrease if the income gains to the poor are greater than the income gains to the rich (Osberg, 2016). The trends in Manitoba market income are moving in the opposite direction.

Growing inequality is not an inevitable trend, driven by forces beyond our control. Other places, in other times have successfully reduced inequality. Between 1940 and 1980 market and after tax inequality in many nations, including the U.S.

and Canada decreased steadily. This decrease was driven not only by the government's redistributive role of progressive income taxation and transfers to the poor. It was also driven by policies surrounding the labour market that increased the incomes of working people. This was a period of higher unionization rates and higher real minimum wages compared to the post 1980 period - to provide a few examples. Further policies such as unemployment insurance benefits and social assistance not only improve the income of the unemployed, they also increase the income of the working population by giving workers more bargaining power in the labour market.

Manitoba currently has three tax brackets with the third and final bracket taxing earnings $68,821 and up at a rate of 17.4 percent. The Manitoba government could add additional tax brackets to increase the marginal tax rate of those who can afford it most. MacKinnon and Black found in 2012 that a fourth bracket increasing the marginal tax rate of 18.5% for taxable income between $94,000 and $128,000 and a fifth that increases the marginal tax rate to 19.4% for earnings above $128,000 would see an additional $48.18 in revenue annually. To be in compliance with balanced budget legislation this change would be accompanied by a reduction in the tax rate of the lowest bracket so that the changes would be revenue neutral.

If these are the kind of policies that support the incomes of working people, then recent provincial policy changes are moving in the wrong direction. Bill 7 makes it more difficult for workers to certify a union in Manitoba. Despite the fact that the minimum wage is well below anything that could be reasonably described as a living income, the current government has limited future increases to the rate of inflation, and only when economic conditions are deemed favourable enough. While cuts to health care and education do not directly impact income inequality, they do exacerbate the negative social consequences of that inequality. In a time when the social damage caused by income inequality is becomingly increasingly recognized, recent policy choices in Manitoba look set to increase inequality rather than alleviate it.

References

Arjona, R., Ladaique, M., & Pearson, M. (2002). *Social Protection and Growth, OECD Economic Studies, No. 35*. OECD.

Block, S. (2017). Losing Ground. Toronto: CCPA.

Brownell, M., & Nickel, N. (2014, October). *Why did Manitoba students perform so poorly on the latest national school report?* Retrieved November 5, 2017, from Making Evidence Matter: http://evidencenetwork.ca/archives/20803

Cingano, F. (2014). *Trends in Income Inequality and its Impact on Economic Growth, OECD Social, Employment and Migration Working Papers.* Paris: OECD.

Corak, M. (2013). Income Inequality, Equality of Opportunity,and Intergenerational Mobility. *Journal of Economic Perspectives, 27*(3), 79–102.

De Serres, A., & Ruiz, N. (2014). *Growth and inequality: A close relationship?* OECD Forum.

Fernandez, L. (2017). *A Family Living Wage for Manitoba*. Winnipeg, MB: CCPA.

Government of Canada. (2018). *Canada child benefit – How we calculate your CCB*. https://www.canada.ca/en/revenue-agency/services/child-family-benefits/canada-child-benefit-overview/canada-child-benefit-we-calculate-your-ccb.html.

Hudson, I. & Pickles, A. (2008) *Stuck in Neutral.* Winnipeg, MB: CCPA.

Luhby, T. (2012) Romney: Income inequality is just 'envy'. CNN, January 12: http://money.cnn.com/2012/01/12/news/economy/romney_envy/index.htm.

Macdonald, D. & Wilson, D. (2016) *Shameful Neglect: Indigenous Child Poverty in Canada*. Ottawa: CCPA.

MacKinnon, Shauna and Errol Black (2012). "Income Inequality in Canada: How does Manitoba Compare? Can we do better?" Retrieved May 31st, 2018 from Canadian Centre for Policy Alternatives Manitoba. https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba%20Office/2012/09/Inequality%20Sept%2014%202012.pdf

Marmot, M. (2015). *The Health Gap: The Challenge of an Unequal World*. London: Bloomsbury Publishing.

National Collaborating Centre for Aboriginal Health [NCCAH]. (2013). *An Overview of Aboriginal Health in Canada*. Retrieved November 21, 2017 from NCCAH: https://www.ccnsa-nccah.ca/495/An_Overview_of_Aboriginal_Health_in_Canada.nccah?id=101

Nussbaum, M. (2011). *Creating Capabilities*. New York: Belknap Press.

Osberg, L. (2016). What's So Bad about Increasing Inequality in Canada? In D. Green, W. Riddell, & F. St-Hilaire, *Income Inequality : The Canadian Story*. Montreal: Institute for Research on Public Policy.

Ostry, J., Berg, A., & Tsangarides, C. (2014). *Redistribution, Inequality and Growth*. IMF Discussion Paper.

Park, J., Tjepkema, M., Goedhuis, N., & Pennock, J. (2015). Avoidable Mortality among First Nations Adults in Canada: A Cohort Analysis. *Health Reports, 26*(8), pp.10–16. Retrieved November 21, 2017, from Statistics Canada: http://www.statcan.gc.ca.uml.idm.oclc.org/pub/82-003-x/2015008/article/14216-eng.pdf

PBS Newhour. (2011, September 28). *Inequality Hurts: The Unhealthy Side Effects of Economic Disparity*. Retrieved November 5, 2017, from PBS Newshour: https://www.pbs.org/newshour/show/inequality-hurts-the-unhealthy-side-effects-of-economic-disparity

Piketty, T. (2013). *Capital in the 21st Century*. Cambridge, MA: Belknap Press.

Province of Manitoba. (2017). Estimated Individual Savings from Indexing Personal Income Taxes. http://news.gov.mb.ca/asset_library/en/newslinks/2017/12/BG-Savings_from_Indexing_Personal_Income_Taxes_7.pdf.

Public Health Agency of Canada. *The direct economic burden of socio-economic health inequalities in Canada: an analysis of health care costs by income level*. Ottawa (ON): Public Health Agency of Canada; 2016.

Raphael, D. & Bryant, T. (2014). *The Health Effects of Income Inequality: A Jet with 110 Canadians Falling Out of the Sky Each Day, Every Day, 365 Days a Year.* Retrieved November 21, 2017, from Upstream: http://www.thinkupstream.net/health_effects_of_income_inequality

Routledge, M. (2015). *Healthy Environments, Healthy People: 2015 Health Status of Manitobans Report*. Winnipeg: Manitoba Health, Healthy Living & Seniors. Retrieved November 21, 2017, from Government of Manitoba, Chief Provincial Public Health Officer: http://www.gov.mb.ca/health/cppho/docs/hehp.pdf

Sen, A. (1999). *Development as Freedom*. Oxford: Oxford University Press.

Statistics Canada. (2011). Economic Family. *Census Dictionary*: http://www12.statcan.gc.ca/census-recensement/2011/ref/dict/fam011-eng.cfm.

Statistics Canada. (2015, July 8). Low Income Lines, 2013-2014. Catalogue no. 75F0002M — No. 001.

Statistics Canada. (2015, December 23). *Distribution of First Nations people, First Nations people with and without registered Indian status, and First Nations people with registered Indian status living on or off reserve, Canada, provinces and territories, 2011*. Retrieved November 5, 2017, from Aboriginal People's in Canada: http://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-011-x/2011001/tbl/tbl03-eng.cfm

TD Economics. (2014). *The Case for Leaning Against Income Inequality in Canada*. TD.

Tjepkema, M., Wilkins, R., & Long, A. (2013). Cause-specific mortality by income adequacy in Canada: A 16-year follow-up study. *Health Reports, 24*(7), pp.14–22. Retrieved November 21, 2017, from Statistics Canada: http://www.statcan.gc.ca/pub/82-003-x/2013007/article/11852-eng.htm

World Health Organization [WHO]. (2008). *Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health*. WHO: Geneva. Retrieved November 21, 2017, from WHO: www.who.Int/social_ determinants/final_report/csdh_finalreport_2008_ execsumm.pdf

Wilkinson, R., & Pickett, K. (2010). *The Spirit Level*. New York: Bloomsbury Press.

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
MANITOBA OFFICE

Unit 205 – 765 Main St., Winnipeg, MB R2W 3N5
TEL 204-927-3200 FAX 204-927-3201
EMAIL ccpamb@policyalternatives.ca
WEBSITE www.policyalternatives.ca