THE GROWING GAP

A report on growing inequality between the rich and poor in Canada

ARMINE YALNIZYAN

CENTRE FOR SOCIAL JUSTICE

October 1998

THE CENTRE FOR SOCIAL JUSTICE

The **Centre for Social Justice** is a progressive think-tank engaged in research and educational activities designed to strengthen the movement for social justice. The Centre brings together people from the universities and unions, faith communities and other community organizations. It was founded in 1997 in order to carry on much of the work of the former Jesuit Centre for Social Faith and Justice.

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The **Growing Gap Project** is the first major project of the Centre for Social Justice. The initial phase documents the increasing disparities of income and wealth, investigates the role of government in moderating these inequities, and offers a set of policy alternatives. Following the publication of this report, the Centre will launch a public education campaign in an effort to "close the gap" between rich and poor.

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CENTRE FOR SOCIAL JUSTICE

PREFACE

The report you are about to read is the first one produced by the Centre for Social Justice. The Centre is a new organisation which has risen out of the closing of the Jesuit Centre for Social Faith and Justice in 1997. The Centre intends to continue the work of the Jesuit Centre in the fields of social justice and the battle against inequality. It is thus very appropriate that the first report published by the Centre focuses on the increasing disparities between rich and poor and the decline of the middle income sector in Canada.

We hope that this report will spark a wider debate in our country over these crucial issues and particularly on the necessary solutions. It may be difficult to reach a consensus on the particular mix of solutions required to 'close the gap.' However, there is no doubt in our minds that the main reason inequality in our country continues to grow is the inaction and negative policies of federal and those provincial governments who have decided to worship at the shrine of the unfettered free market and bow to the wishes of the large corporations who put profit above the needs of people.

The fact of growing inequalities within Canada belies our international reputation. No longer can we take pride in having the UN Human Development Index designate Canada as the "number one country to live in" when, as our report, shows that large parts of the population do not share in this affluence.

We would particularly like to thank Armine Yalnizyan, the author of the report, for all her hard work in producing this document. We would also like to thank Centre staff Andrea Imada and David Langille for all their efforts in making this report a reality.

Acknowledgement must also be given to the very many friends of the Centre and those we consulted in the universities, unions, anti-poverty organisations, community and faith groups who invested their time and energy in helping to shape this report.

We would like to thank the Atkinson Foundation for its generous funding for the report. We also thank the Centre's thousands of donors, and the unions and other organisations who have helped fund the Centre's activities over the last year.

John Anderson Brigitte Kitchen

Co-chairs

CENTRE FOR SOCIAL JUSTICE

SUMMARY

Look around the world, and you will see example after example of nations conducting a risky social experiment of "letting the market rule." However, not all societies have succumbed to these pressures – some resist having market principles determine their quality of life.

This document examines the way "letting the market rule" is destabilizing Canadian society.

IT'S ABOUT VALUE

The starkest inequalities arise between corporate executives, who are granting themselves exorbitant pay increases, and their workers, who face the threat of wage rollbacks and job insecurity.

- The top 10 CEOs in Canada each brought home more than $10 million last year.
- On average, the top 100 CEOs saw a 56% increase in compensation last year.
- Wages are not keeping up with inflation. Many people have had their pay frozen during the 1990s, even unionized workers. Federal public servants have had one pay increase in the 1990s (3% in 1993)
- People who work in unionized environments (such as those packing meat and making socks) are being pressured to take wage roll backs and lose hours of work. In the unorganized environment, workers are less able to resist making such concessions.
- Welfare rates, welfare eligibility and/or shelter allowances have been reduced in almost every province since 1995.

Among executives in Canada, Robert Gratton (of Power Financial Corporation) received the highest compensation (salary, bonuses, other compensation, and realized stock options), bringing home $27.4 million in 1997. His stock options, the "long-term incentive" his company provided him so he could do the best possible job, were cashed in at $23.5 million. His salary alone was pegged at $1,758,000. It would take 47 years for the average person to make that much, based on the current average annual earnings of a full-time, full-year worker.

We are super-valuing a few, devaluing the many.

WHAT THE MARKETS GAVE US: INDIVIDUAL OUTCOMES

Polarization of earnings among Canadians is on the rise, especially among men. Men under the age of 35 have seen a remarkable, perhaps unprecedented, erosion in what their work is worth compared to older age groups, and compared to what "under 35ers" were worth in 1980. Male workers under the age of 25 have seen the greatest decline.

While about two-thirds of the employed labour force worked a full-time 35-40 hour a week job a generation ago, now only half the workers have such jobs. About one in five jobs are part-time (double the number from twenty years ago) and, in any given week of the year, about one in five people are working overtime, paid and unpaid. The fastest growing segments of the labour market are "casualized" jobs – temporary, contract, irregular – which account for about 15% of the stock of jobs. Self-employment accounted for half of all the new jobs created so far this decade.

Time and money have both reinforced the trend towards a growing gap among men in what they can earn. That trend is much softer among women, because they are putting more time into the labour market than in the past, because they have increased their rate of higher learning, and because of the implementation of pay equity and employment equity statutes since 1980. Still the generalized phenomenon holds: "prime-age" female workers doing better than their younger counterparts.

There is an emerging fault line between those under and those over the age of 35.

WHAT THE MARKETS GAVE US: FAMILY OUTCOMES

85% of Canadians live in some form of family, half of these are raising the next generation. This section looks at what has been happening to the basic building blocks of society, families with children under the age of 18.

The Rich Are Richer: In 1973, the richest 10% of families with children under 18 made 21 times more than the poorest 10% of Canadian families. In 1996, the richest 10% of families made 314 times more than the poorest 10% of Canadian families.

Shrinking Middle Class: In 1973, 60% of families with children under 18 earned between $24,500 and $65,000 (in 1996 dollars). By 1996, that middle class shrunk: only 44% of families with dependent children made between $24,500 and $65,000.

Most of that change happened in the very middle. Those earning the equivalent of between $37,600 and $56,000 in 1973 accounted for 40% of the population. A generation later, only 27% of the population found themselves in the middle.

Women And Work: Families are increasingly having to rely on more than one income to get by. Two-thirds of mothers with children under three are in the labour force, compared to one third a generation ago. This reflects the overall trend among families: the dual earner family is now the norm in Canadian society. This trend is also happening in other countries too, but here most families are juggling two full-time jobs, while in other countries they are more likely to have a mix of full- and part-time work.

Stable family incomes? The chief way Canadians have stabilized their family incomes has been to increase the hours of paid work provided by the family unit. But we may be approaching a "saturation point", where – among those who are getting the jobs – there simply aren't more hours to be worked. This household strategy for offsetting market forces may have run its course.

Increasingly, even a second income isn't enough. Real (inflation-adjusted) average family market incomes are lower today than they were in 1981. Sixty percent of families with children were earning less than in 1981.

WHAT OUR GOVERNMENTS GAVE US

Given the kind of disparities the market has generated, Canadian society has experienced a remarkable stability in the distribution of income until only two or three years ago. The reason? Government programs of income support and government provisions of public, or common, goods.

In 1989, the average market income of families in the bottom 10% of society was around $4,000. By 1996, the average had fallen to less than $500 a year. That is because the number of families without any earners has grown dramatically over the last generation. In 1973 about two-thirds of the poorest families had at least some earnings. Today three-quarters of the poorest families have no earner. Without government programs, those at the bottom would have experienced a free-fall into destitution.

Between 1981 and 1996 the earned incomes of the poorest 20% of households with dependent children was cut in half, from $12,000 to $6,000. Government help (unemployment insurance, social assistance and other programs) brought the poor family's after tax income up to $16,600. This is lower than it was in 1980 ($17,700 in 1996 dollars).

The role of the transfer system (income supports from government) and tax system has provided remarkable stability in the distribution of incomes over the last generation. This stability is deteriorating dramatically and rapidly: since 1994, the ratio of after-tax income between richest and poorest families has escalated to the highest point since 1973. The fastest change has been in the last year for which we have data, between 1995 and 1996.

Recent government decisions to cut back transfer payments and scale back the provision of public goods have hit the poorest families – and our country's youth – hardest.

Governments have told us we can "grow our way to equity," that the market will produce results that make everyone better off, but it's becoming evident that inequality is growing in Canada despite economic growth. However, this is not happening everywhere in the world. Growing inequality is not a "natural" by-product of the forces of globalization. It is a by-product of choices that are made: what will be produced in an economy, through what means; how will this influence the distribution of resources (including money incomes); how much will these outcomes be mediated?

Governments clearly have a role to play in society, by both setting the rules by which the market plays and by mediating the fall-outs from the market. Though there will always be a gap between rich and poor, we can choose how large we let it get, and how fast we let it grow. We can choose what kind of a world we create.

INTRODUCTION

The report in your hands tells the story of how income disparities among Canadians, as individuals and as families, have grown over the last generation. To do this it relies primarily on the things that can be measured, making it a report about the evolution of material well-being, the economics of households and the economics of society.

This introduction provides a critical framework for understanding the issues that will be discussed, linking them to more fundamental human questions. It offers a perspective that is all too often divorced from discussions of economics.

The report tells the story of what kind of an economy we are making. The introduction helps set the stage: the transformation our society is undergoing is not just about economics, it is about value – *who* we value, and *what* we value. This offers the reader a way of assessing the story as it unfolds. What is wrong with the world we are creating?

We are told that there is not enough employment with adequate pay because of the sluggish performance of the economy. We are told that we do not have enough resources to alleviate poverty because the economy is not growing fast enough. The solution that has successfully captured the imagination of our elected leaders around the world for the past twenty-five years has been to place capital accumulation at the top of the agenda in order to speed up economic growth.

According to the logic of the "trickle-down" policies which have been so widely adopted, if you remove restrictions on the already-wealthy so that they can accumulate more wealth and make more investments, the wealth will "trickle-down" to those at the bottom. This is supposed to mean more people will be working, and so everybody will be better off.

Clearly all investments do not create jobs. Some investments cause people to lose jobs, other investments mean jobs get moved from one country to another. Nor can we simply assume just because people are working that they are better off. Jesse Jackson has reminded us that there was full employment under slavery. In the U.S. today, more people are working and more people are in poverty. As someone once put it, the reason trickle-down policies do not work is because of the sponges at the top.

What is the relationship between equity and economic growth? If your society chooses to close the gap between the rich and the poor, will your economy grow more slowly?

The answer is, no. Some nations decide to invest in reducing income disparities and some nations permit those disparities to grow. Economies operating in completely different types of society can grow at the same rate. Clearly, rising inequities cannot be sold as the unfortunate price that must be paid for economic growth.
Does growth necessarily lead to more equity? The answer again seems to be: no. Countries with high rates of economic growth can still permit the distribution of incomes

to get worse. But the evidence shows this is a temporary hit, a short-term political strategy. Using international data that stretch over generations, it becomes clear that societies that enjoy higher income equality accumulate more capital (both in terms of know-how and money), pass that on to the next generation and therefore have higher and more prolonged rates of economic growth.

So, the most likely causal relationship between equity and efficiency (read growth) seems to be the one least likely to be flagged. Equity appears to be a precondition to sustained economic growth.[1]

But even if this emerges as the new conventional wisdom, what will our elites do about it? That part of the story is about politics, not economics. The nature of class politics in a given nation and the political will of its leaders are what define the steps that will be taken. That part of the story is about the distribution, not the level, of economic growth.

There is an obvious connection between economic prosperity and society's well-being. But growth in the Gross Domestic Product (GDP) is not the only relevant indicator. Other benchmarks, for example indicators of health, also reinforce the message that it is not so much the level of prosperity that is important as how that prosperity is spread among members of society.

Conventional wisdom would have it that the greater a nation's wealth, the better the health of its citizens. Indeed, there are increases in life expectancies, birth weights, and immunity to disease and illness as the material standard of living increases. But there is an upper threshold, reached long ago by all developed nations. After that point, evidence shows that the degree of economic equality is a critical factor in the health of a society.[2]

The distribution of income is the best indicator of the health of *everyone,* not just the poor, in society. Citizens of countries with lower per capita income than, say, the United States, but better distribution of that income have longer, more healthy lives, no matter in what part of their nation's income spectrum they find themselves. You do not have to be a wealthy nation to improve the lives of your citizens. You have to be fair with the resources you have.

It may seem that it is easier to reduce inequalities if the whole system is growing. But the whole system *has* been growing, and inequalities are getting worse. Talk about providing day-care or health-care for everyone who needs it, or assuring adequate shelter, nutrition and income for the economically vulnerable, and the response is "maybe, when we have balanced our budget, when GDP has grown by 2%, 3%, 5%, when world trade grows

[1] It is not enough that the economists and, more slowly, the decision-makers in society are assimilating this understanding of how the world works. Even if this emerges as the new conventional wisdom, what will our elites do about it? That part of the story is about politics, not economics. The nature of class politics in a given nation and the political will of its leaders are what define that part of the story.

[2] "Among the developed countries it is not the richest societies which have the best health, but those that have the smallest income differences between rich and poor." Introduction to "Unhealthy Societies: The Afflictions of Inequality" by Richard Wilkinson, London: Routledge, 1996. This study presents exhaustive international evidence on the subject.

more quickly." More, quicker, faster. The goal-posts of the game keep getting moved further away.

Can we grow our way to equity? The answer seems to be no.

The "required" rate of economic growth is constantly escalating. In today's world we cannot afford or sustain such rates of growth, both for economic and ecological reasons. The depletion of natural resources and the declining integrity of the environment are not trivial concerns. The east-coast cod collapse is a vivid illustration of how both ecosystems and communities suffer when calls for sustainability are repeatedly ignored in favour of (short-term) economic gain.

Given the current fragility of the global system of capitalism, there has never been a more difficult time to raise these issues. Yet the distribution, and redistribution, of the world's economic resources is precisely what we need to address, not just economic growth. Economic instability is gripping the lives of more and more people over time. The heart of the problem is how we allocate incomes, capital and debt, within nations and between nations.

What are the chances that the political arena will seize this issue? Maybe more importantly, how will the issue of growing inequality be framed?

Throughout much of the post-war period the general orientation of the developed world was that the role of government was to guide the development and distribution of economic growth, thereby helping translate profit to investment. On the way to this goal, governments acted as brokers between citizens and corporations to keep the machine humming. Today, a new orthodoxy is emerging, one which says the best that governments can offer business and citizens alike is to get out of the way and let the market rule.

These profoundly different approaches to the role of government have one very important assumption in common. They assume that economic growth is both the objective and the solution for the project of living together, in a nation or in the world. We are bombarded daily with the notion that making more is the goal, that having more is the answer.

In the rush to produce more and consume more it is easy to overlook the basics. What is the meaning of our lives, as individuals and as the human species? Ask these questions and you are most likely to set off a philosophical discussion, not a discussion about economics. So why, then, do we unconsciously accept that our world should be primarily defined as an economic enterprise?

Clearly there are other principles by which we govern our lives. Values such as freedom of choice (to be who I want to be) and equality of opportunity (to get a chance to be who I want to be) fundamentally underlie our way of thinking in this society. But the way we have come to define these values has separated the individual from the collective.

Consequently, when we ask ourselves questions like – what are we doing with our lives? what are we here for? – they get posed as personal, not social dilemmas.

Consider this. The Old English root of the word "free" is "freo", a word that brings out the communal basis of liberty very clearly. It means to be dear, to be loved. No man or woman or child is really free in a society that does not care whether he or she lives or dies, is underpaid or underemployed, ill housed or poorly nourished. In such a world the notion of equality of opportunity is a joke.

Our world is rife with insecurity. As competition gets more intense, more people are economically insecure. The ground becomes fertile for racist, sexist and other forms of discrimination. This erodes people's recognition of each other as essentially equal in the eyes of creation. It dehumanizes people. The legacy of growing inequality is the crumbling of social solidarity, the sense that we share something in common.

The more that a society is unequal, the greater is the number of people who are prevented from developing themselves as full human beings. This dwarfs the potential of society as a whole. As long as inequalities are growing, we are getting away from, not closer to, being the best we can be. How do we reverse gears?

We tend to gravitate towards the option of increasing economic growth – even though it does not necessarily guarantee more equity – because in the minds of most people it is synonymous with the ability to consume more things. This, in and of itself, is considered desirable and valued. The term economic growth is also used to conjure up notions of greater freedom and greater equality of opportunity. This report documents how this generation has not seen much evidence of these more lofty goals.

Alternatives to economic growth are less frequently discussed, making them harder to communicate. It is like learning a new skill or a new language. This is because alternative approaches are based on valuing things that are not necessarily money-based. These are values such as basic human rights, human dignity, the stewardship of our natural resources (including our children), the importance of time, rest and restoration. These approaches, which are unlikely to even refer to economic growth, threaten the status quo. And the status quo says: "Don't worry, be happy. Inequality is not yet a real problem in this land of plenty."

Make no mistake, inequality promotes itself. Those at the top – most of whom feel they don't have enough yet – have control over the ideas. Their ideas for change will hasten, not reverse, the downward spiral of more poverty for more people so that a few may gain. Their solutions focus on exporting the problem somewhere else. Get the poor off social assistance rolls, encourage unemployed youth to go back to school, take the jobs to where people ask for less to do the work.

The truly sustainable solutions beg for an economics of sufficiency, not just for some but for all on this planet. Such an approach itself begs for a rhythm of life that finds more balance. More balance between creation and rest, between paid work and unpaid work, between our lives as individuals and our lives with others. Such an approach has to put the premium on redistribution of time and money, admittedly a difficult and painful political choice in a time of slow or no growth.

We are at the end of an era of rising expectations for most Canadians. Our governments have abandoned the post-war social contract and embarked on a risky experiment that leaves our destiny in the hands of the market. However, all too few benefit from this choice.

Canadians were promised that less government and greater reliance on market forces would unleash unparalleled economic expansion where all would benefit – a rising tide raises all boats. Some are riding high, but many more see at best only a gentle swell, at worst nothing but a stranded boat on a muddy beach.

That this growing gap between the rich and poor does not generate widespread concern is a concern in itself. Are we prepared to accept growing child poverty, a generation of young people who believe they have no stake in either the economic or social fabric of our nation, and increasing numbers of workers whose labour is devalued? If we are to remain the "best country in the world" by the criteria of the United Nations, we should not be rolling the dice with our own destiny.

This report documents how the growing gap between rich and poor has emerged in Canada, why so many people have accepted it as inevitable, and what options we have to help close the gap.

CENTRE FOR SOCIAL JUSTICE

THE GROWING GAP

PART ONE

MEASURING WORTH

The Wealth of the Nation

CEOs and the Typical Worker –
Who's the Best Value for the Money?

CENTRE FOR SOCIAL JUSTICE

Though this report concentrates on growing disparities in income, there is also a serious issue regarding the growing gap in the accumulation of wealth. Looking at wealth, in addition to income, is important for two reasons.

To begin with, wealth can provide economic security, and this is all the more important in an era whose hallmark is economic insecurity. Whether in the form of savings, home ownership or other assets than can be converted to cash, wealth provides a store of value, the proverbial cushion that separates all of us from economic misfortune should we lose our income from work. The second reason is that, in a democracy, the distribution of power is tied to the distribution of wealth.

This is what we know about wealth in Canada today.

THE WEALTH OF THE NATION

We used to be interested in publicly examining issues of wealth in this country. Statistics Canada conducted a survey on assets and indebtedness of Canadian households in 1955, 1959, 1964, 1970, 1977, and 1984. Unfortunately, there has been no survey since 1984, though Statistics Canada has announced it will conduct another wealth survey in 1999, with the results available in the year 2000. As a point of comparison, the United States has conducted its own wealth survey through the Federal Reserve Board every three years, beginning in 1983. Other nations, such as the U.K., France, Sweden and Japan compile information from annual tax data (from wealth or estate taxes), though in the case of Japan it doesn't cover the entire population.

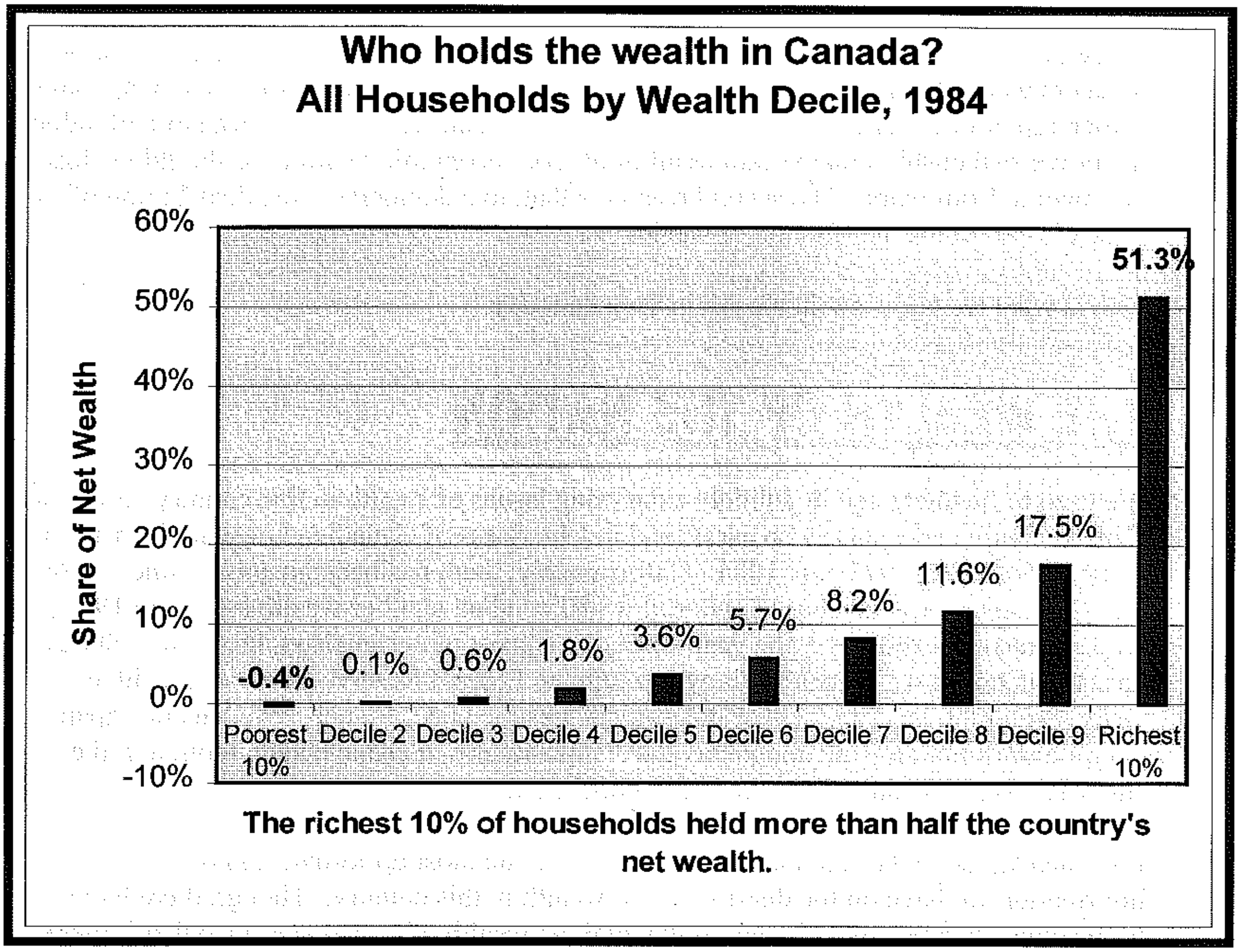
For Canada, the 1984 Statistics Canada survey is the most up-to-date authoritative information we have on the distribution of wealth in this country. Though there have been some educated guesstimates at the total net wealth of Canadians since then[1], there has been no way to assess how the distribution of wealth has changed. But the evidence we do have suggests the growing disparity in incomes is a mirror of growing disparity in the distribution of wealth.

For example, one recent study showed that the number of millionaires had tripled between 1989 and 1996, and that number is expected to triple again by 2005.[2] At the other end of the spectrum, income supports for those without work are less generous and go to fewer people than in the recent past. Many families are having to strip their assets

[1] Using figures from the last Statistics Canada survey, the total net wealth of all Canadian households was about $778 billion in 1984. In a report prepared for the Fair Tax Commission , Ernst and Young updated this figure to about $2.4 trillion in 1989. (See Fair Taxation in a Changing World: Report of the Ontario Fair Tax Commission, December 1993) Given the fluctuations in the value of real estate and the growth of stock markets since 1989, estimates put us at around the $3 trillion mark now.

[2] "Millionaires' club triples to 220,000," The Globe and Mail, November 11, 1997, based on a report funded by a syndicate of Ernst and Young clients, including banks and mutual funds, entitled "Trends in the Canadian High Net Worth Market."

to survive periods of joblessness. So we are likely to see quite a large change in this distribution of wealth at both ends of the spectrum the next time we look.



Source: Statistics Canada, Catalogue 13-580, 1984.

As the above chart shows, most people have some net wealth (assets minus debts). The most common form of asset in Canadian households is the value of people's homes. But the chart also shows that, notwithstanding our high incidence of homeownership, the bottom half of the population of Canada holds less than 6% of the country's net wealth. Contrast that with the 51.3% held by the wealthiest 10% of our citizens.

Much has been made of the "democratization" of stock ownership. Yet, in 1984 only 13% of Canadians held stocks, and less than a third (30%) had registered savings plans. Among those holding stocks, the greatest incidence of ownership was among the wealthiest groups.[3] In a study done for the Toronto Stock Exchange, Price Waterhouse found that, by 1996, 37% of adult Canadians owned shares directly or indirectly through

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3 Tables 29, 25 and 23 in "The Distribution of Wealth in Canada," Statistics Canada, Catalogue 13-580 Occasional, 1984.

mutual funds or private pension plans.[4] Although this is a considerable increase, the fact remains that almost two-thirds of Canadians have not been part of the market bonanza, even in an indirect way.

Wealth accumulates by the logic of compound arithmetic. If one was lucky enough to have owned $100 worth of shares in each of the TSE 300 companies in April 1992, and neither bought nor sold new stocks, they would have been worth over $400 each by April 1998, quadrupling one's investment in 5 years. For those that have the money, the bull keeps getting bigger.

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Almost every day we hear stories of how people at the top are rewarded with record-breaking compensation packages. At the same time there is evidence all around us of people doing the same work for less, or worrying about how much more work they have to do to hang on to their jobs. Workers at factories are told to accept wage roll backs or watch their jobs go to another country. Pieceworkers, assembly line workers, cashiers and caseworkers are all pressured to do more in less time. Low-level public employees are laid off, all too often finding themselves doing the same job in the private sector for less, while senior civil servants are generously rewarded for abandoning the public sector.

SOME PEOPLE ARE WORTH MORE THAN OTHERS

Many people are shocked that one person – Bill Gates of Microsoft – owns as much as 40% of the entire population of the U.S. Still, the tale tends to be dismissed as irrelevant to our way of life, a typical story of American excess that couldn't happen here.

In Canada, the economic titan is Ken Thomson – owner of 68 North American newspapers, including the Globe and Mail, Winnipeg Free Press and Victoria Times-Colonist. In 1997, according to Forbes magazine, he had a personal net worth of $14.4 billion.

The 1984 distribution of wealth is the most recent evidence we have on how wealth is spread out among Canadians. The net worth of all Canadians was estimated to be $3 trillion in 1997.

Using these two measures, we find that **Mr. Thomson's personal wealth is more than the collective wealth of a third of Canadian households.**

Add the Irving family fortune (made from Irving Oil) at $4 billion and Charles Bronfman's (Seagram Co.) $3.3 billion and these **three families own more than what 15 million Canadians combined possess – half our entire population.**

When Statistics Canada conducts its next wealth survey in 1999, will we see the rest of us catching up? Or will these families weigh in at even more of us?

4 "Bull has run straight for the rich," Vancouver Sun, August 30, 1997, E1. Note that most workers have no say in how their pension plans are invested.

The most jarring stories concern how generously corporate executives are rewarding themselves. Though the United States has the most staggering examples of excess, Canada's corporate community is playing catch-up with the American model – super-valuing the few and devaluing the rest.

CEOS AND THE TYPICAL WORKER – WHO'S THE BEST VALUE FOR MONEY?

The best paid CEO in Canada last year (Robert Gratton of Power Financial Corporation) made a salary of $1,758,000. It would take 47 years of full-time full-year work for the average person to earn that much.[5] But Mr. Gratton took home much more than just his salary. He also received a $2 million bonus and more than $150,000 in other compensation.

A generation ago, corporate executives were rewarded primarily with a salary, some perks and an annual bonus. Today, stock options are the biggest single element in top executive pay packages in this country and in the U.S. The theory behind stock options is that they provide incentives for executives to increase the value of a company's share price by allowing them to personally profit from this growing value. Though these and other long-term incentives can have different terms and conditions, executives add to their annual cash compensation when they "exercise" this option and "realize" the gains in the stock's value.

For example, in 1997 Mr. Gratton exercised his stock options to the tune of $23.5 million, bringing his total compensation for that year to $27.4 million. If he had chosen to cash in the rest of his exercisable options, he could have brought home $78,320,336. That is more than the $71,659,856 that the poorest 10% of families with children – almost 390,000 families – earned together in 1996.[6]

Mr. Gratton is not alone at the top of the corporate heap. The top 10 CEOs in Canada each brought home more than $10 million last year.[7] The CEOs of the six chartered banks made more than $18 million between them.

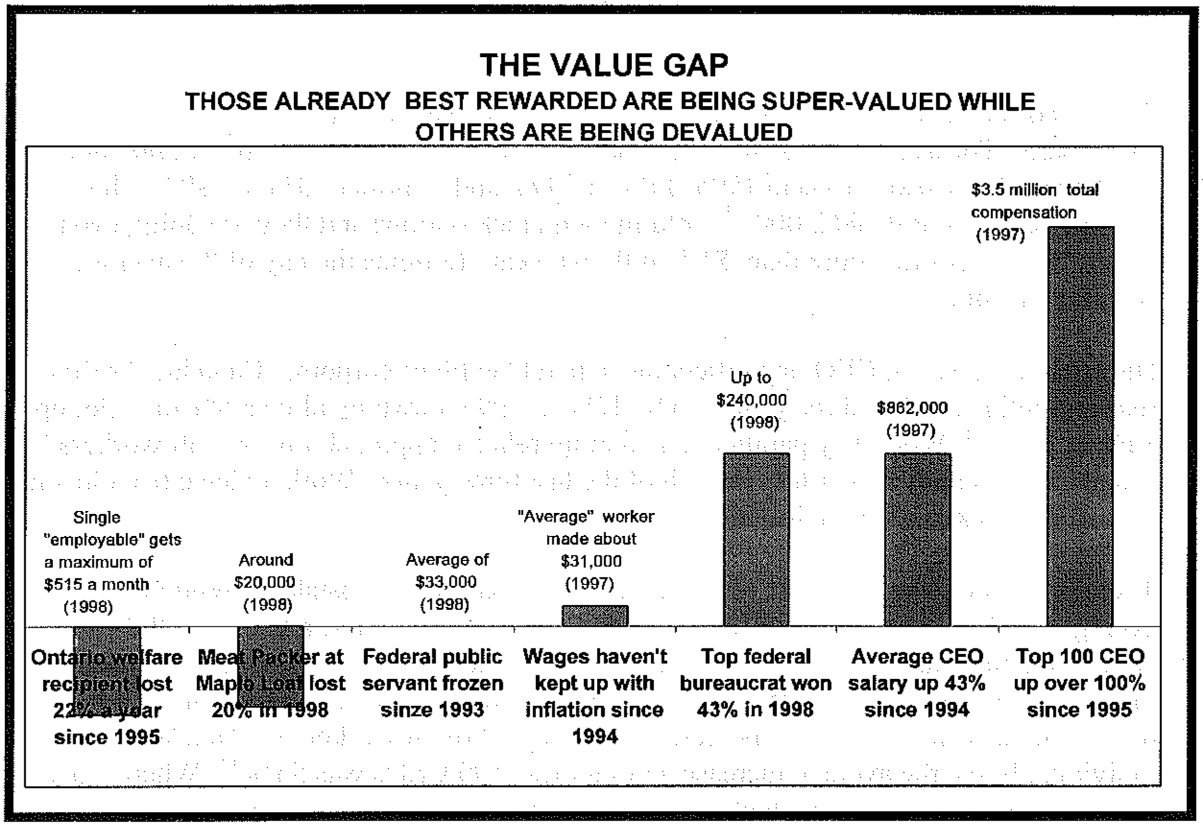
Statistics Canada's low-income cut-off, also known as the poverty line, for a family of two in Toronto is $21,092. The average pay package for a full-time bank teller is $21,000. After twenty years at the Royal Bank, tellers still make only $11 an hour.[8]

5 The average full-time full-year worker earned $37,465 in 1996 up 1.8% from 1995. The average annual earnings of everybody that worked was $27,089 up 2.2% from 1995. Source: Statistics Canada, Catalogue 13-217-XPB.

6 Almost three-quarters of the bottom 10% of families with children under 18 had no earned income in 1996, according to unpublished data from the 1996 Survey of Consumer Finances. Among those families who had some paid work, average annual earnings were around $1,800. See page 26.

7 Globe and Mail, April 18, 1998, p.B6. Includes CEOs in publicly traded and privately held companies.

8 "Bank riches fail to fatten wallets of lowly tellers," The Toronto Star, December 10, 1996.



Stagnant, poverty-level wages for most workers in the banking industry are certainly not the worst example of supervaluing the few and devaluing the many. A.D. McLean came in to run Maple Leaf Foods in 1995. By the time he left, in early 1998, he was making over $1 million a year and held another $1 million in stock options. During his brief tenure at the helm he presided over an acrimonious strike, and threatened to close down plants unless his workers took a pay cut. In Edmonton, 750 workers saw their meat-processing plant closed 10 days after they began their strike over wage concessions. In Burlington, 900 workers finally accepted a contract that cut their wages by up to 40%.[9] The combination of wage cuts and increased use of part-timers meant the workers' incomes dropped from about $35,000 a year to $20,000 or less.[10]

There are growing pressures for the public sector to follow this private sector model of compensation. After wage freezes in every year in the 1990s (except 1992, when they saw a 3% increase), members of the Public Service Alliance of Canada (PSAC) now make, on average, $33,000 a year. The federal government has recently approved a plan by the Treasury Board that will increase the compensation of those at the top – who can

[9] "Maple Leaf won battle with union, analysts say," The Toronto Star, March 21, 1998.
[10] "Maple Leaf vote 'won on fear'," The Toronto Star, March 9, 1998.

already make up to $170,000 – by 43%.[11] PSAC members are being offered a 2% increase.

This trend seems to reward those at the top at the expense of workers lower down in the food chain. The average Canadian CEO has seen their salary increase by double digits for the last three years: 15% in 1995, 11% in 1996, and a further 13% in 1997. The average salary is now $862,000.[12] Fold in their stock options and they are doing even better, bringing home more than $1.5 million a year, 48 times the pay of the average working person.[13]

Did such increases in CEO pay reflect the general health of corporate Canada? Profits rose and fell in the last three years: up by 16% in 1995, down by almost 5% in 1996, up 14% in 1997.[14] Were they paralleled by a more relaxed approach towards all workers? Wages increased by 2% or less in each of the last three years. Workers have been losing a game of chicken with the inflation rate.

There is another, stratospheric, level in the compensation sweepstakes. While the average CEO is certainly not suffering financially in this country, a listing of the 100 top-paid CEOs in Canada's publicly traded companies showed that the total cost of retaining this pool of talent grew by 125% compared to the previous year. (Again, compare this to the 2% increase it took to pay the new, enlarged pool of all workers in Canada.) On an individual basis, the average increase among these 100 CEOs was 56%.[15] When is the last time you got a raise like that?

It's not as if these folks bring the Midas touch with them. Galen Weston, chair of George Weston Ltd., earned a 300% raise in return for 2% growth in corporate profit. CEOs at 23 of the top 100 corporations in Canada received more pay even though their companies made less profit or even lost money.[16] CEO pay went up at MacMillan Bloedel and Molsons while profits tumbled. CEO pay went up as jobs got chopped at Imperial Oil and Shell. Some managed to combine the two: the CEOs of Inco and Hudson's Bay gave themselves a raise while their companies' profits went down *and* thousands of jobs were lost.[17]

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11 Unpublished table obtained from the Office of the President of the Treasury Board, April 1998. The published document was Advisory Committee on Senior Level Retention and Compensation, First Report: January 1998 prepared for the President of the Treasury Board, The Honourable Marcel Masse. This report does not include tables for the bonus, or "variable pay," structure but refers to this component as "an integral part of total compensation." See pp. 22 and 23.

12 KPMG, "Executive Compensation Practices in the TSE 300 Companies, 1997," p.7, and KPMG, "Executive Compensation Practices in the TSE 300 Companies," 1998, pp. 4-5.

13 Ernst and Young, Compensation in Canada: Current Perspectives, October 7, 1997.

14 Wage data and data for corporate profits before taxes from Table 1 of National Income and Financial Accounts, Statistics Canada Catalogue 11-201-PXB.

15 Calculated from the Globe and Mail Top 100 listings, April 18, 1998 and April 12, 1997.

16 See the Globe and Mail Top 100 listings, as noted above.

17 Employment figures are from the Globe and Mail's Report on Business. Profit figures are from annual reports of companies, also available in the Financial Post. CEO pay is from companies' proxy circulars. Figures are based on 1997 to 1993 comparisons.

At the top, then, compensation is not necessarily linked to performance. Apparently the "need" to maintain and even enhance an already enviable lifestyle takes priority over everything, including the corporate bottom line. But at the bottom, "need" is now a four letter word.

For example, the Government of Ontario cut welfare by 22% in 1995, affecting more than 750,000 people.[18] In the spring of 1998 pregnant mothers on welfare lost a further $37 monthly nutritional supplement allowance, which the Premier referred to as "beer money". A single "employable" person on welfare can get a maximum of $515 a month now for all allowances and shelter costs. At the bottom; the issue is not lifestyle enhancement, but trying to escape abject poverty.

The appropriate incentives for the elite are richer and richer bonus and stock-option packages. For the rest, the appropriate incentives are high unemployment rates and restricted benefits from unemployment insurance benefits and lower social assistance. The explanation we are given for both phenomena is "market forces." This type of reasoning leaves a lot to be desired.

Are the elite really worth that much more than the rest of the nation's citizens? If so, is there such a thing as too much? This question is being raised everywhere, from the business press and daily newspapers and magazines to academic circles. A prominent right-wing think tank recently devoted an entire book to examine the topic of whether executive compensation in the 1990s was becoming a problem.[19] The answer, ultimately, was that it could not be a problem if the market was producing these results. Instead, the problem was "to convince shareholders – and the public in general – that top executives are worth their pay."

Convincing the general public that top executives are becoming ever more valuable and scarce may just be a big marketing problem. But who is going to convince this generation of young workers that most of them will never be as valuable – at work or out of work – as the generation that came before them? That is the crisis that is unfolding, as the next sections show.

[18] The Government of Ontario has no [public] estimates of how many people were affected by the welfare rate reductions, which did not affect everybody. The Ontario Municipal Social Services Association shows that, in 1995 there were about 1.35 million beneficiaries of the welfare and family benefit system in Ontario. In Toronto, about 70% of the caseload was affected by the cuts. The estimate above assumes that the Toronto rate was high.

[19] Edward Iacobucci, *Value for Money: Executive Compensation in the 1990s*, Toronto: C.D. Howe Institute, 1996. See conclusions.

CENTRE FOR SOCIAL JUSTICE

THE GROWING GAP

PART TWO

WHAT OUR MARKETS GAVE US — INDIVIDUAL OUTCOMES

Annual Earnings of Individuals — It's About Time . . . and Money

How Low Can We Go?

Wages — The New Generation Gap

Working Hours — The Growing Divide

Who's Got Work?

Where are the New Jobs?

CENTRE FOR SOCIAL JUSTICE

ANNUAL EARNINGS OF INDIVIDUALS– IT'S ABOUT TIME . . . AND MONEY

The distribution of wages tells the story of how different people's labour is valued. But earning power flows from both the value of one's work and the amount of work that one does, both in terms of weekly hours and how much work one has over the course of the year. The longer or more frequently a person is unemployed, the lower their earnings. The fewer the hours of work – even if working year-round – the lower the earnings.

Is there a growing gap in earning power in Canada? It depends on your age and your gender.

The case that the rich are getting richer and the poor are getting poorer is most striking among men. Over the 1980s, the annual amount earned by the poorest 30% of employed men fell by 13%. That decline continued between 1986 and 1995 for the poorest 10% of men who were working. They lost a further 9% in their real annual earnings. The best paid 10%, meanwhile, saw steady improvement: an increase of 4.3% in their annual earnings over the 1980s, and another 4.6% in the first half of the 1990's).[1]

The loss of annual earnings among lower-paid men was driven by drops in the number of hours and weeks they worked as well as by falling real wage rates. At the top the improvements were driven both by better salaries and enhanced rates of pay. Young men (i.e. under 35) have suffered the most, while middle-aged men have been more likely to increase their earning power.

The changes for those at the bottom far outweighed the improvements at the top. Consequently, men's earnings are, on average, 5% lower in real purchasing power today than they were in 1980.[2] A significant part of that change has occurred in the five years between 1990 and 1995.

Working women actually earned more money, but did it by working longer hours than in the past. The amount of time put into the paid work force has increased both in terms of weekly hours and the number of weeks over the year. Consequently, among women who had work, earnings inequalities lessened during the 1980s.

Women in the bottom half of the earnings distribution experienced real gains of between 10 and 20% over the 1980s but the rate of increase slowed by the early 90s, so that younger earners saw no increase. The big winners were prime-aged and older women. Younger women did not experience the same gains as these groups, but their earnings did

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1 The figures in this section are taken from Garnett Picot "What is Happening to Earnings Inequality in Canada in the 1990s?" *Canadian Business Economics*, Fall 1997, pp.65 – 83.

2 Based on Census 1996 findings, as reported in Statistics Canada, The Daily , May 12, 1998, p.4. Page 6 shows that men's average earnings dropped by 1.6% in the first part of the 1990s.

not plummet like their male counterparts. Again, this is because they worked longer hours than even a decade ago, not because their rates of pay increased.

Working harder isn't the only reason the earnings gap grew smaller among all working women. This was also the period of implementation of pay and employment equity legislation, both of which have had an impact on earnings. (See final section of report) Women now constitute almost half the unionized workforce, where they make 90% of their male counterparts.[3] Lastly, this has been a period during which more women attained post-secondary education than ever before. By 1994 60%, of young women had some post-secondary education compared to 45% of young men.

Partly due to higher education, young women are now more likely than their predecessors to pursue jobs outside the traditional low-paying female job ghettoes. It does not mean that those who end up in low-paid jobs, even if they are well-educated, are being paid more. In fact, the list of the 25 most frequently cited occupations for women as reported by the census is becoming more dominated by low-paid jobs. Between 1990 and 1995, the average annual earnings of women in these occupations declined 5% to $16,564.[4]

While all age groups saw some loss in earnings between 1990 and 1995, the youngest group – aged 15 to 24 – experienced a 20% drop. In both 1970 and 1980 young people, on average, earned about half the overall national average. By 1995, they made less than a third of the national average (31%).[5]

Again, time plays a factor. In 1970 three out of ten young earners worked full-time, full-year. A generation later fewer than one in six found such work. While this is related to the fact that more are staying in school longer, only 39% of this age group had some post-secondary education in 1996. Even among the population of college and university graduates, the proportion of those finding full-time work is falling, to just over two-thirds in 1996.[6] While there is a clear financial benefit to getting a degree, the pay-off is getting harder to collect.

Finally, it is important to acknowledge that the developments described in this section are not happening in the same way everywhere in this country. Inequality in earnings has always varied across Canada. The Atlantic provinces have historically been the region of the greatest disparities, and this is still the case today. But – in what is perhaps a more significant development – Alberta and Ontario saw the most rapid increases in earnings inequality in the country between 1989 and 1994 (the year the study ends). That means the fastest deterioration of the status quo has taken place in the nation's two engines of growth.[7]

[3] Statistics Canada, The Daily, September 3, 1998.

[4] Statistics Canada, The Daily, May 12, 1998, p. 19.

[5] Statistics Canada, The Daily, May 12, 1998, pp. 5 and 7.

[6] Elaine Carey, "More grads finding part-time work, StatsCan finds," The Toronto Star, March 14, 1998.

[7] Ross Finnie, "Differences in Earnings Inequality by Province, 1982 – 1994," Canadian Economic Observer, Statistics Canada Catalogue 11-010-PXB, pp.3.1 to 3.12, February 1998. See especially Table 2, p.3.11.

HOW BIG IS THE WAGE GAP* BETWEEN MEN AND WOMEN?

In 1996, women typically made about two-thirds of men's earnings, a modest increase from a decade before. The average woman made about $21,000 while the average man made about $32,250. This differential is partly due to the fact that more women more frequently work short hours.

Among people working full-time full-year jobs in 1996, the average annual earnings for women was $30,700 and for men $41,850. Women earned 73.4 cents for every dollar earned by a man, a new high for women. The wage gap has been steadily closing over the past two decades. Increasing numbers of women joining unions, pay equity and employment equity have all played a role. There are three other major factors that don't get much airplay.

The gap is closing because men's wages are declining. Men under 45 years of age continue to see their real (inflation-adjusted) earnings decline, with the steepest drop for the youngest workers. This trend has been occurring since 1980. Younger women, especially those aged 15-24, have also seen a decline in their real earnings, but women aged 35 to 54 saw some increase. The combination means that the differences between men's and women's earnings is shrinking.

The younger the group of workers, the smaller is the gender gap. The female to male earnings ratio was 90.3% for 15 to 24 year olds; that is young men and women get paid almost the same amount. The gap widened with older age groups. Among those aged 45 to 54, women earned just 70 cents for every dollar earned by a man.

Women with university education are closing the gap most quickly. As more women get more credentials, the earnings gap gets smaller. The female-to-male earnings ratio for those with a university degree was 76.3% in 1996. For those with incomplete high school, women earned less than two-thirds of men's earnings. This is partly related to age, as there is a higher proportion of older workers who have not completed high school.

* The "wage gap" is the term we all use, but it is something of a misnomer. It usually describes the differences between men and women's annual earnings, not their rate of pay.

HOW LOW CAN WE GO?

Changes in both hours of work and rates of pay have resulted in a lot more jobs at the low end of the spectrum. In the years following the recession of 1982, the labour market restructured dramatically. Most of the new job growth until 1986 was in the two worst-paying wage levels.[8] Between 1988 and 1995 there has also been a marked growth in low-wage jobs, especially at or near the bottom of the wage spectrum. Among men, the shifting down of the distribution of wages was most acute in Quebec and Alberta, with a sharp spike in Alberta just above the minimum wage. For women, Alberta and British Columbia saw the most dramatic shift downward. Far more women than men report earnings at or near the minimum wage.[9]

Consequently, nearly 12% of Canadians working full-time full-year in 1996 earned less than $15,000. For women, the situation was even more discouraging: almost 16% working full-time full-year earned less than $15,000.[10]

Canada has a high proportion of low paying jobs, second only to the U.S. among the OECD group of nations. More than a third of Canadian women (34.3%) working full time are in low-paid employment.[11]

This story is not likely to change substantially in the near future, despite the bright promises made by those who point to the brave new high tech world. When the 1991 census was conducted more women were working as secretaries than in any other occupation. By 1996, retail sales was the most frequently listed occupation for women and, for the first time, babysitting made the top 10 list. Retail managers fell right off the list for women by 1996.

What are the chances of leaving low-paid employment? A recent study in Canada tracked people from 1993 to 1995. It found that only 1 in 5 had climbed out of a low-

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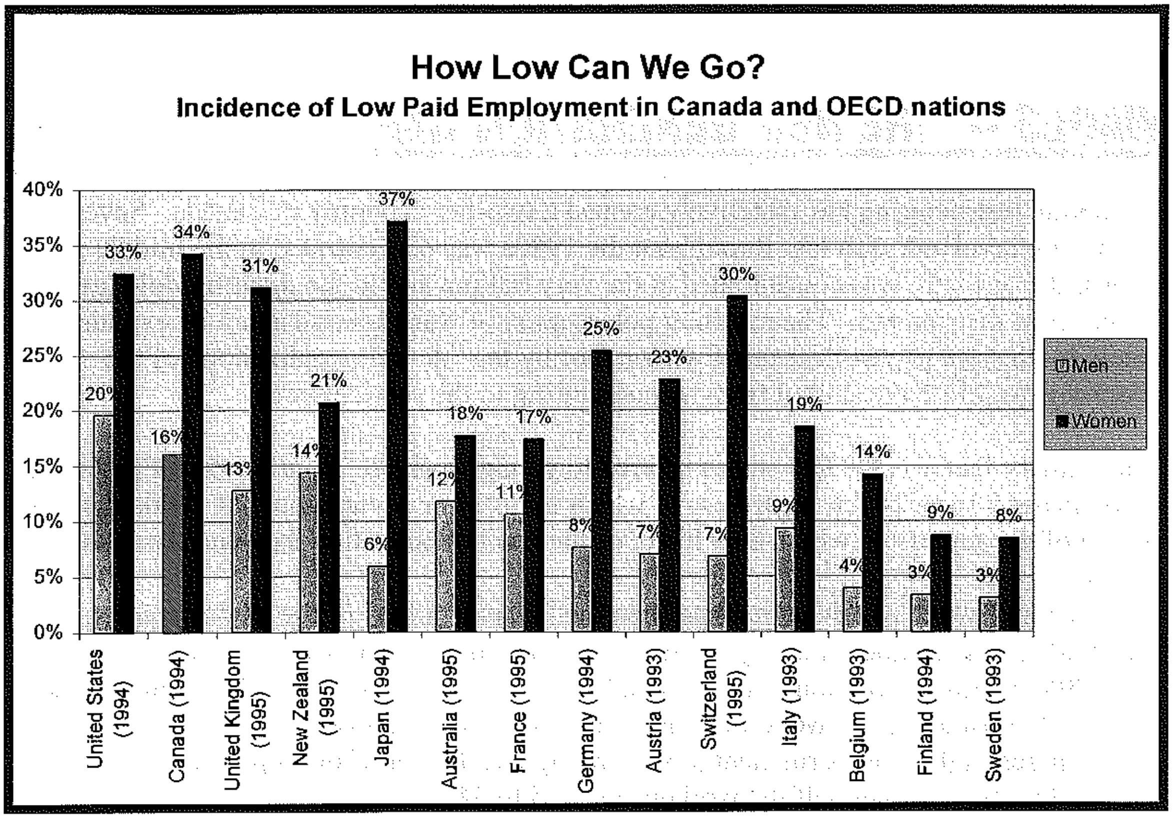
[8] In Ontario, almost all (92%) of the 195,000 net new jobs added to the economy over this period (measured in full-time equivalents), were created in the two worst-paying wage levels. The bottom wage level – the source of 50% of the net new jobs - paid less than $5.25 an hour in 1986. The next wage level - providing 42% of the net new jobs – paid between $5.25 and $6.76 an hour in 1986. See the feature article in Statistics Canada Catalogue 71-001, October 1988 by J. Myles, G. Picot and T. Wannell, "The Changing Wage Distribution of Jobs, 1981-1986."
It should be noted that between 1981 and 1988, minimum wages fell between 6% and 20% after accounting for inflation, depending on the province. Though this is somewhat dated evidence, no similar research has been conducted since The next footnote is an article about minimum wage, but it provides a series of wage distribution charts by province, which permits a rough analysis of what is happening overall.

[9] Nicole Fortin and Thomas Lemieux, "Income Redistribution in Canada: Minimum Wages versus Other Policy Instruments," paper presented at the Institute for Research on Public Policy (IRPP) Conference on Adapting Public Policy to a Labour Market in Transition, April 18-19, 1997 Montreal, Quebec. See especially Figures 2 and 3.

[10] Statistics Canada, "Earnings of Men and Women," Catalogue 13-217-XPB, 1996, Table 2.

[11] OECD Employment Outlook, 1996, Table 3.2. The data refer only to full-time employees. Low pay is defined as less than two-thirds of median earnings among full-time employees.

paid job.[12] The two key reasons given for doing better was increasing one's hours with the same employer, or quitting a non-union job and getting a union job. Even so, only 1 in 3 people experiencing these changes got out of the low-pay ghetto.



Note: Only refers to full-time workers. Low pay is defined as two-thirds of median earnings for all full-time workers.
Source: OECD Employment Outlook, 1996, Table 3.2.

Those with the greatest chances of "moving up" were men with university education. Lone mothers are the least likely to escape low weekly earnings (only 8% did). This is a significant finding given policies like workfare in Ontario which require sole support parents receiving welfare to "participate in employment programs" as a condition of receiving assistance.

The 1997 OECD Employment Outlook looked at the issue of earnings mobility across six countries. The main finding was that people's prospects of getting out of a low-paid job worsen the longer they have been there. In the best case scenario, about a third of low-paid workers moved up in Denmark, Germany and the U.S. after the first year of hitting low pay. After five years working in that kind of job, only one in six or one in seven low-paid workers are likely to move up. To make matters worse, over the five years in question (1986 to 1991) five of the six nations showed a slight but real increase in the probability of falling into the lowest paid group. In the U.S., about one in ten workers

[12] Marie Drolet and Rene Morissette, "The Upward Mobility of Low Paid Canadians: 1993 – 1995," Survey of Labour Income Dynamics (SLID) Research Paper, Statistics Canada. Catalogue No. 98-07. pp.9, 12, 25, 27.

were likely to fall into the lowest pay category at both the beginning and the end of the period.[13]

WAGES – THE NEW GENERATION GAP

Economic restructuring has effectively created a two-tier economy in Canada. Several factors are involved. Job loss throughout the 1980s was concentrated in the middle pay scales. Job growth was concentrated at the very bottom and in the upper-middle levels of the wage distribution. The resulting polarization of wage levels cannot be explained solely by the rise in part-time employment, nor by the "de-industrialization" of the economy, as jobs have shifted from manufacturing to the service sector. [14]

The primary factor is the low wages offered to young workers. Hourly rates of pay for workers aged 16 to 24 fell regardless of which industry or occupation they worked at, the region of the country in which they lived, or the level of education they had completed.

The striking feature of this period has been the "casualization" of the labour market. In the 1980s it was characterized by the rapid increase in part-time work. Between 1991 and 1995, contract, temporary and seasonal work shot up from 5% to 12% of the labour market. Almost a third of workers in these jobs work on an on-call or irregular basis. More interestingly, non-permanent jobs were, by far, the norm for all paid workers under 25, and for slightly over half the workers aged 25 to 34.[15]

However, recent studies show that the rapid growth of non-permanent types of employment does not significantly contribute to wage polarization.[16] The best explanation of continuing wage inequality is the segmentation of the labour market between generations of workers.

By "young" we are not referring to "youth," those under 24. People under 35 years of age are evidently worth less than workers of the same age before the recession of 1981-82. But it is the young men whose hourly rates of pay have been most sharply and consistently eroded over the last fifteen years. Virtually every data source, from Census to special surveys, documents this same trend. Study after study shows we are devaluing our young.

[13] "Earnings mobility: taking a longer run view," OECD Employment Outlook, 1997, pp. 27-61, especially pp.42, 43.

[14] J. Myles, G. Picot and T. Wannell, "The Changing Wage Distribution of Jobs, 1981-1986," feature article in Statistics Canada Catalogue 71-001, October 1988.

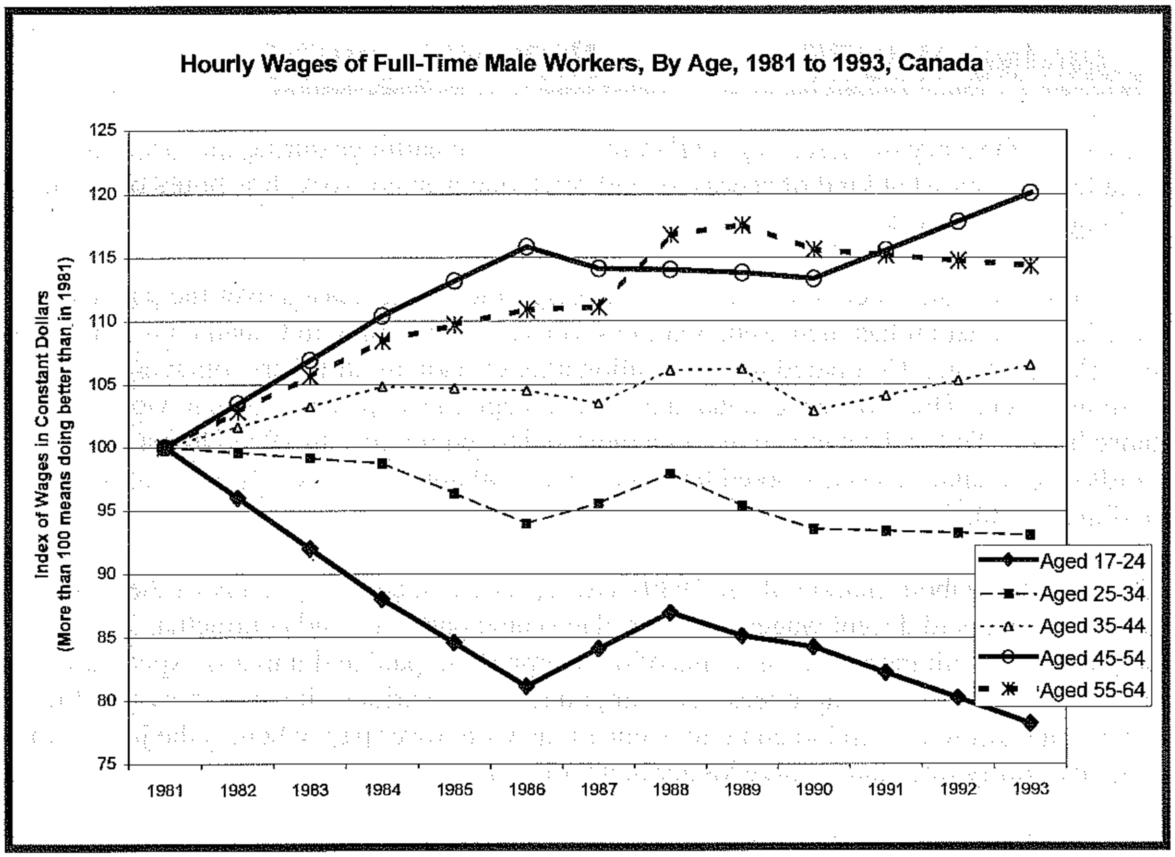
[15] Statistics Canada, "Survey of Work Arrangments," 1995.

[16] Though higher rates of pay and more hours of work were generally offered with permanent jobs, the differences were not statistically significant. The older the worker, the less likely that they held a non-permanent job. Lee Grenon and Barbara Chun, "Non-permanent paid work," *Perspectives*, Statistics Canada, Catalogue 75-001-XPE Autumn 1997, pp. 25 and 26.

As the following chart shows, this trend is not reflective of an increase in the number of young people with part-time jobs. These rates of pay are for people who work full-time.

More troublesome, the chart shows that this is not "just a phase" that young people go through. Because we are talking about indexed real wages, this is not about pay rates but rather the relative values of different types of workers. For some reason, young workers are worth less in the labour market of today than they were in 1981, while middle-aged men are worth more.

In short, the recovery from the 1981-82 recession kicked off a profound restructuring of the labour market in which the paid labour of younger workers has been devalued in both absolute and relative terms.[17] The 1990s have done little to reverse these trends, despite an upswing in the business cycle. Statistical evidence on earnings, not wage rates, show that those at the bottom continued to lose ground. Will we find that this polarization continued in 1997 and 1998, both years of strong labour market growth?



***Source:* Rene Morrissette, "The Growth of Earnings Inequality in Canada". (See footnote)**

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[17] See Rene Morissette, "The Growth of Earnings Inequality in Canada," Statistics Canada, Survey of Labour and Income Dynamics (SLID) Research Paper Series Catalogue No.96-08, September 1996, p.38.

There is plenty of anecdotal evidence to the effect that some people are handsomely rewarded for their education and effort, while others – with similar education – cannot seem to keep their financial footing regardless of their effort. With more of the population well-educated, there is a sense that the economy has become less a neutral arbiter of human activity and more a giant lottery. One's destiny seems captive to forces beyond one's control. A solid education and the proper work ethic give one a leg up, but no guarantees.

There is a growing fault line between the life experiences of people under and people over 35. Young workers are bearing the brunt of the new economic realities. If economic growth is not enough to reverse these trends, it will be difficult to escape the social consequences. A sense of unfairness and demoralization grows alongside the growing gap.

WORKING HOURS – THE GROWING DIVIDE

Generally, the story of increasing market inequalities in earnings during the last two decades is about what kind of access to paid work one has: no work, few hours of work or long hours of work.

In some industrialized countries average working time has decreased over the past two decades; in others it has increased. On the surface, working time in Canada has remained remarkably stable. Compared to a generation ago, Canadians still work, on average, a 37-hour week. The difference is that a generation ago *the majority* of people worked those hours. Today the average masks a more polarized reality. In 1976 almost two-thirds of Canadians (65%) worked between 35 and 40 hours a week. By 1997 only about half did (54%).[18]

The Canadian labour market of the 1980s saw a process of shedding many of the full-time jobs that paid decent wages. In their place came part-time and contractual employment, with increasing amounts of over-time (both paid and unpaid) expected from its remaining full-time employees. To compound the disparities, the data show that the jobs with short hours tend to come in occupations with lower pay, whereas the jobs with a higher hourly rate also involve longer hours of work.

Part-time jobs make up almost one in five opportunities now, compared to one in ten in the mid-1970s. Almost a third of those working part-time (31.5%) would prefer a full-time job, triple the rate from the mid-1970s. Half of those part-timers are young people. Almost a quarter of all the paid jobs that women do is part time.

[18] This section is based on data from "Hours of Work," Labour Force Update, Summer 1997, Vol. 1 No. 2, Statistics Canada, Catalogue 71-005-XPB.

While more and more individuals are finding themselves involuntary participants in the part-time labour market, paradoxically, more and more individuals are finding themselves pressed in to regular "voluntary" overtime, as a regular feature of a job.

A remarkable symmetry is emerging. One in five jobs are now part time. Similarly, almost one in five employees worked overtime in any given week in 1997. (Overtime can be worked by part-time workers too, as it is defined as time worked in excess of scheduled hours.) On average, these workers put in almost 9 additional hours, the equivalent of more than an extra day per week.

More overtime is now unpaid than paid. Among women who work overtime, 62% don't get paid for the extra hours, compared to 38% of men. (Slightly more men work overtime than women.) Unpaid overtime is increasingly the price one is expected to pay for maintaining a position in the full-time labour market.

Because of these changes in the distribution of hours or work and rates of pay, even the spurt of job creation during good economic times has translated into more, not less, polarization. It is simply getting harder to get and keep a middle income job.

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WHO'S GOT WORK?

The shortage of paid employment is perhaps the most fundamental feature of the gap between the haves and have-nots in this country. Over time, an ever-growing part of the population is unable to provide itself with even a modest livelihood through employment. This has been dubbed "creeping" unemployment, as consecutive waves of recession, technological innovation and the globalization of production methods contribute to ever higher "natural" rates of joblessness. Not only has the unemployment rate gone up, so has the duration of unemployment. Each passing decade in the post-war period has seen a larger fraction of the population watching the job market from the outside:

- 2.7 per cent in the late 1940s;
- 4.2 per cent throughout the 1950s;
- 5.1 per cent in the 1960s;
- 6.7 per cent in the 1970s;
- 9.3 per cent in the 1980s; and
- 10 per cent until 1997.

For certain groups, these odds get even worse. According to the latest Census, visible minorities made up over 15% of Canada's population in 1996. In 1993, when the general unemployment rate was just over 11%, their unemployment rate was 16%.

In Toronto, people who are members of visible minority groups have grown from 3% of the population in 1961 to 30% in 1991. By the year 2000, 54% of the city's entire population will be people of colour.[19] Reports from the Toronto District School Board shows that already in 1997 53% of the high school population in Toronto were students of colour.[20] The term "visible minority" is fast becoming an oxymoron in the largest city in Canada.

Over a million people immigrated to Canada between 1991 and 1996 and about three-quarters of them were people of colour. Recent immigrants tend to earn much less than immigrants did in earlier periods in Canada's history, not only because of difficult economic times in the 1990s. A third of them work in sales and service jobs, despite the fact that many are trained in technical or professional occupations whose credentials are not recognized here. Those coming to Canada after 1990 earned 36% less than the annual earnings of non-immigrants.[21]

Equally shocking is the fact that Canadian-born members of visible minority groups have only a slightly better earnings profile than people who have just arrived in the country. Their average employment income of $18,565 was almost 30% below all other Canadian-born earners.[22] Only one-third of this group of earners had full-time full-year work, compared to half of the rest of Canadian-born earners. More than one in three of the visible minority population live in poverty compared to 20% of the general population.

The Aboriginal population, who represent just under 3% of Canadians, has an even more depressing record. Less than one-third (31%) of employed Aboriginals worked full-time full-year in 1995. Only one in four found employment on a reserve. Among those living off-reserve, 44% live in poverty. Overall, their earnings are more than a third below the national average.[23]

It has been estimated that by the year 2000, 85% of the new workforce entrants will be women, visible minorities, people with disabilities and aboriginal people.[24] It remains to be seen how much change occurs by sheer force of numbers. The competition for the good jobs is not going to get any easier.

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19 Toronto Access and Equity Centre report cited in "Diversity study to guide Toronto," The Toronto Star, September 21, 1998, p. B1.

20 "The 1997 Every Secondary Student Survey: Preliminary Findings," No. 227, Toronto: Toronto District School Board, p. 7.

21 In comparison, the average earnings of all immigrants were more than 30% above the average earnings of non-immigrants, indicating a significant proportion of those who arrived in Canada earlier were able to experience Canada as "a land of opportunity" compared to today's immigrants. Statistics Canada, The Daily, May 12, 1998, pp.7 and 8.

22 Statistics Canada, The Daily, May 12, 1998, p. 9.

23 Statistics Canada, The Daily, May 12, 1998, p. 11. Note: over a quarter of the Aboriginal population lives in Ontario.

24 Edward Harvey and John Blakely, "Employment Equity in Canada," Policy Options, March 1993, p.7.

WHERE ARE THE NEW JOBS?

It is true that when the economy reaches a certain pace of growth it provides more opportunities, in the form of more jobs. That threshold of growth has had to get bigger over time for it to generate new jobs, raising concerns about economic sustainability. But even when the jobs start rolling in, the sheer growth in numbers tells us nothing of their hours, their pay, their overall quality.

The unwillingness of employers to hire new employees has created a new way of responding to surges in demand. Overtime and just-in-time labour (contract, temps, peak-hour part-time) are the new fixes, even when the "surge" goes on for months. Whereas the strongest area of job creation in the 1980s was part-time work, the most significant source of new jobs in the 1990s has been the rapid growth of self-employment. This trend has gone hand-in-hand with the downsizing of institutions and the outsourcing of work.

Of the million plus jobs added to the labour market this decade, over half have come from self-employment – accounting for 76% of the job growth in 1996 and 83% in 1997.[25]

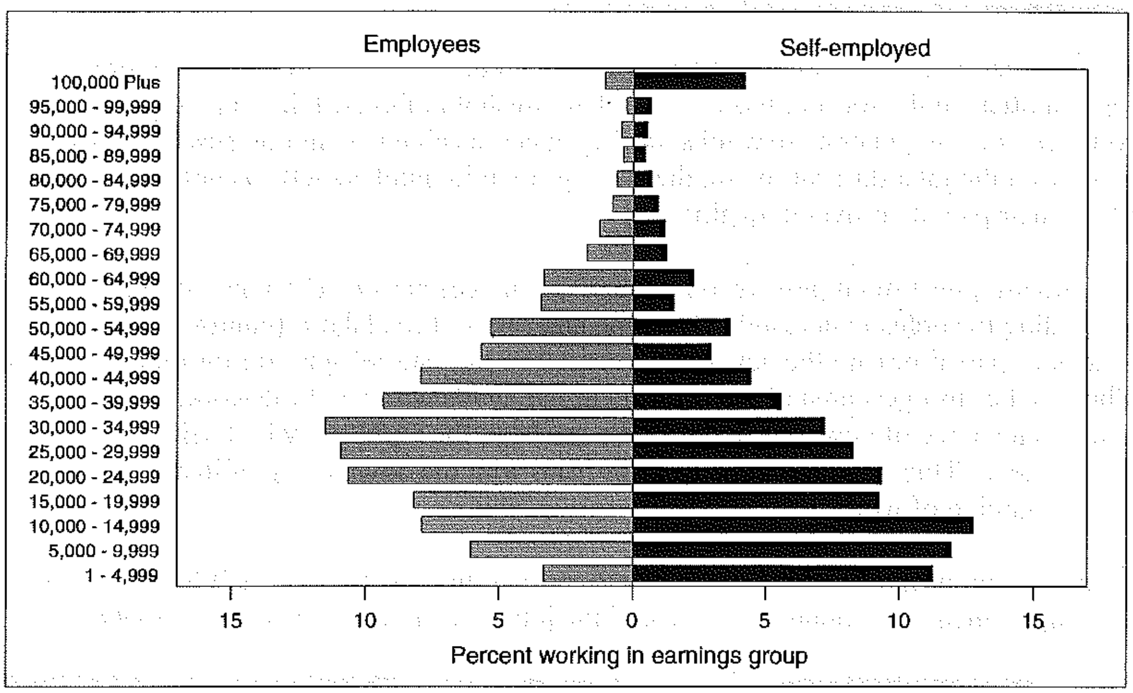
SELF-EMPLOYMENT AS A SOURCE OF NEW JOBS, CANADA, 1992-1997

	Total employment (in '000s)	*Self-Employment (in '000s)*	*Total net new employment (in '000s)*	*New Self-employed (in '000s)*	*% of new jobs from self-employment*
1990	13,165	1,889			
1991	12,916	1,920	-249	31	
Post-recession					
1992	12,842	1,936	99	16	
1993	13,015	2,056	173	120	69.7%
1994	13,292	2,111	277	55	19.9%
1995	13,506	2,136	214	24	11.3%
1996	13,676	2,267	171	131	76.7%
1997	13,940	2,488	264	221	83.7%
Total Change, 1992-1997			**1,099**	**552**	**50.2%**

Source: Statistics Canada, Catalogue 71F0004XCB, Table 12AN.IVT.

[25] These figures are based on annual average data from Statistics Canada Catalogue 71-001, the Labour Force Survey. Earlier in 1998 there was much celebration that the economy was [finally] creating full-time jobs again. Comparing December 1997 to December 1996, the proportion of net new jobs in the economy arising from self-employment fell to 23%. After July 1997 the number of self-employed was at a virtual standstill for about eight months. This means the 83% cited above comes from averaging zero growth for five months with remarkable growth for the beginning of the year. Since April 1998, however, people creating their own jobs, not being hired, has dominated the footrace in where the "new" jobs are coming from. Despite the fact that self-employment is, by definition, voluntary, at least some fraction of what was previously counted as unemployment now gets counted as self-employment.

Self-employed earnings more polarized



Source: Survey of Consumer Finances

Excerpted from "Labour Force Update," Statistics Canada, Catalogue No. 71-005-XPB, Autumn 1997, p. 29

Financial gains from self-employment are dramatically uneven, indicating there are large disparities in people's ability to generate their own livelihood. In 1995, over 16% of those working for themselves made less than $5,000 a year, while only 3% of paid employees fell into that income bracket. At the other end of the income spectrum, 2.3% of the self-employed made over $100,000 a year, compared to 1% of the waged and salaried population.

As in the employed workforce, women and men have very different experiences being self-employed, but the differences are more acute. Women earn about half what men do. The average annual income of women working for themselves was $14,800, about half what men in the same type of situation made. The gap was similarly wide between self-employed men ($44,900) and women ($28,800) who hire others.[26] Women are now outpacing men in becoming self-employed.

Governments and large corporations alike seem to responding as if the only solution to the problems they are creating is… someone else. That someone else looks like you. Self-employment is a metaphor for what is happening not only to the employment contract, but to the social contract. Are we really all on our own?

[26] Table 8, "Labour Force Update," Statistics Canada, Catalogue No. 71-005-XPB, Autumn 1997, p.25.

Today, compensation at the top of the income spectrum is heavily based on the stock market. Wage growth for the rest largely depends on lowering unemployment. This, in turn, depends on the general state of the economy. So the prospects for further narrowing the income gap are clearly tied to the business cycle. Or are they? The next part of this report, "What Our Markets Gave Us – Families" chronicles the ways families have adapted to, and been shaped by, the economy over the last generation.

CENTRE FOR SOCIAL JUSTICE

THE GROWING GAP

PART THREE

WHAT OUR MARKETS GAVE US — FAMILY OUTCOMES

A Woman's Place is in the . . .

Market Incomes, The Family Way

How We Grew

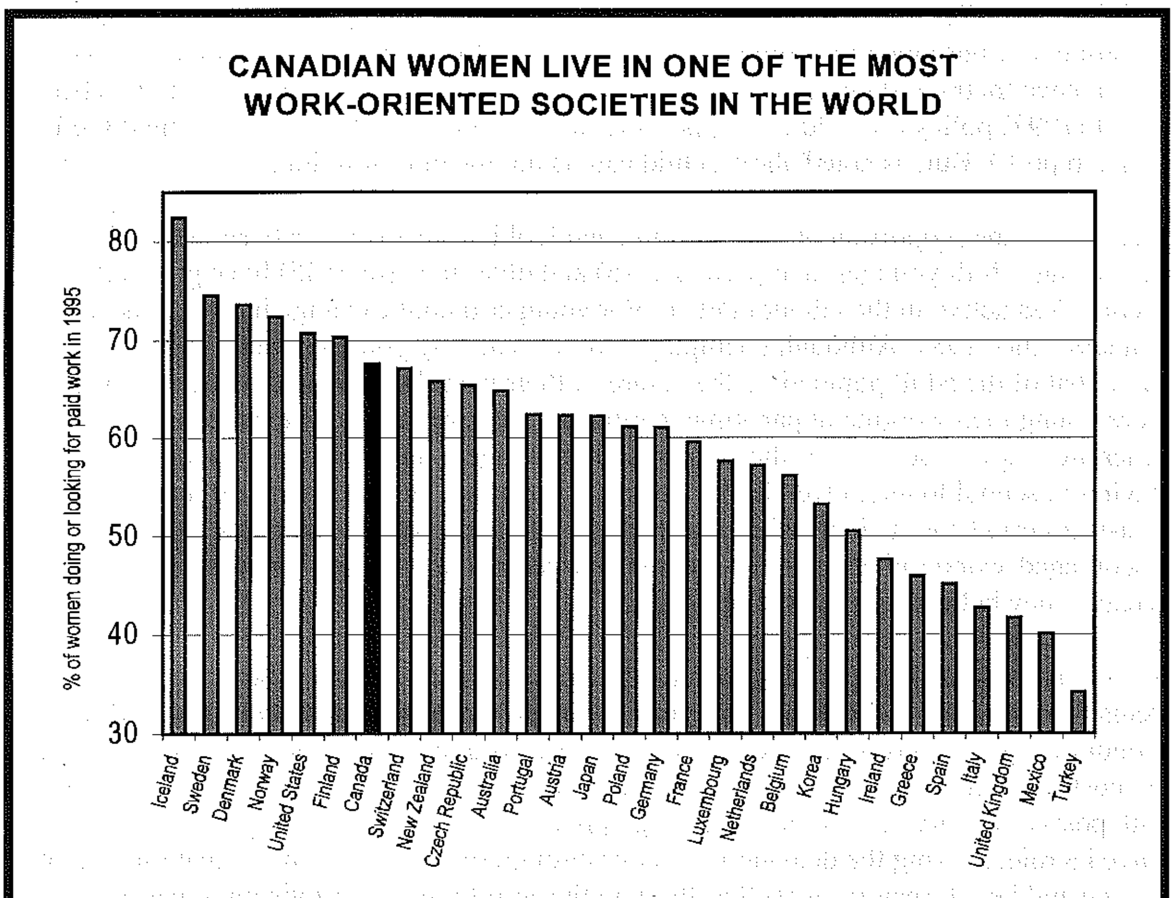
How We Grew Apart

CENTRE FOR SOCIAL JUSTICE

A WOMAN'S PLACE IS IN THE . . .

One of the most radical changes in Canadian society in the past 20 years is the growth of the two-earner family. Canadian families have maintained their incomes over the past twenty years largely because the "wives" have taken up paid work. Since the end of the Second World War, women have become more and more involved in the labour market, even those with very young children. This increased effort for paid work has not generally been accompanied by doing any less of the unpaid work that is ignored by the market economy – raising the children, tending to those ill or disabled, caring for aging parents and housework.

This balance has not been struck in the same way everywhere. Canadian women have one of the highest rates of labour market participation in the world. They ranked 7th among the 29 OECD nations in 1995, with 68% of women working, or looking for work. Statistics Canada *Labour Force Survey* shows that, among women aged 25 to 54, four out of five are working, or looking for work.



Note: Of the 29 OECD nations, Canada's female participation rate ranks 7th.
Source: OECD Historical Statistics, 1997, Table D.

What makes this notable, however, is that all the other top-ranking nations (except the United States), and many of those with significantly lower participation rates, have explicit policies for families with children. These range from allowances for parents of infants and toddlers, generous family leave policies at work, better pay for women doing work in the caring sector, and state-run, quality-controlled child care arrangements starting from the age of 3.

Canada appears to be emulating America's schizophrenic cultural attitude towards women and paid work. A ground-breaking study published by Statistics Canada in the fall of 1997 shows how deeply torn we are about where the place of a woman should be. On the one hand, 75% of Canadians felt it was important for women to take a paying job. A commanding majority (70%) believe both men and women have a duty to contribute to the household's income. On the other hand, a majority (56%) believe that pre-school children suffer if both parents are employed. Finally, the majority (53%) do not agree that "a job is all right, but most women really want is a home and children".[1]

Our society and governments seem to place a high value on work outside the home, but are silent on the standards of care that children (and parents) should expect, leaving it to individual families to patch together their own strategy according to their means and constraints. Consequently, women have neither support to raise their children at home, nor to leave their children in the care of others so as to be able to do paid work. Quebec's recent (1997) policy on child care appears to be a notable exception. (See the final section of this report.) But, as noted above, child care is not the only solution.

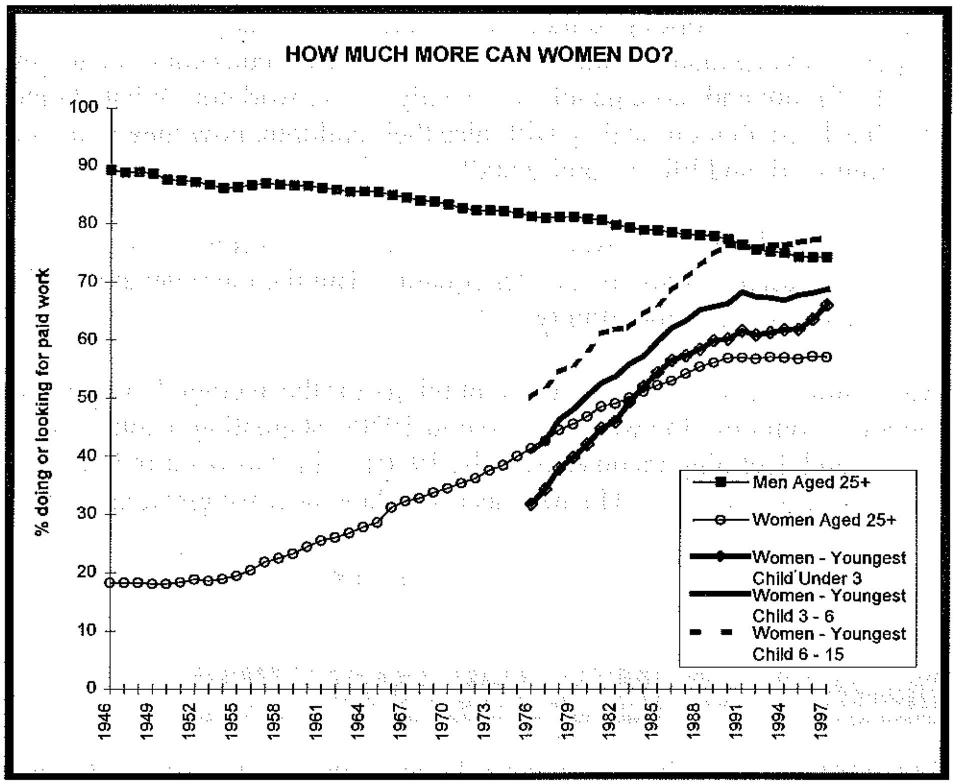
Meanwhile, the proportion of men working and looking for work has been gradually decreasing. Both younger men (less than 25) and older men (over 45) have gradually become less active in the labour market. For younger men the change has been most dramatic since 1989. Although unemployment rates among youth continue to be about twice that of the adult population, the nature of their work has changed, with significantly more young men working at part-time, temporary and irregular hour jobs than a generation ago. Not only has the labour market changed, but more young people are staying in school longer. Overall, the two most important developments for men in the post-war period are the increasing availability of early retirement packages and the discouraged-worker phenomenon – people who have simply stopped looking for work because they believe no one will hire them.

In contrast, women have steadily increased their participation in the labour market. This stems from a variety of reasons. The shift in women's consciousness and a demand for economic equality has been fundamental, and has strongly shaped the supply of labour in the post-war period. Related to these changes has been the rising proportion of women with post-secondary education. Changing opportunities in the labour market have also played a role, altering the demand for labour through the growth of the education, public service and health sectors, as well as through the shift to market provision of caring services that used to be provided in the home (childcare, daycare for the disabled,

[1] Nancy Zukewich Ghalam, "Attitudes toward Women, Work and Family," in Statistics Canada, *Canadian Social Trends*, Catalogue 11-008-XPE, Autumn 1997.

eldercare, housekeeping). The passage of pay equity and employment equity statutes has offered further financial incentives for women to move into, or increase their time in, the labour force. Not least of these reasons is cultural: one's sense of self, one's "value" in North America is inextricably entwined with what one does by way of paid work.

The most rapid development is the participation of women with pre-school-aged children.[2] In fact this group has seen a complete reversal in the way their lives are structured: in less than a generation, the number of women with children under the age of three have gone from a majority staying at home (just under a third were in the labour market in 1976) to a majority undertaking paid work (two-thirds in 1997).[3]



Source: Statistics Canada, Labour Force Survey, published and unpublished data

In short, this generation of women are just as reliant on and attached to the labour market as men, regardless of the presence or absence of children. Now, more women with school aged kids are working or trying to find work than men (78% compared to 74%). Even women with babies and toddlers are joining the paid economy at unprecedented rates.

Perhaps the most stressful feature of these changes is that most Canadian families with children have two earners in the household, and most of these families are juggling two full-time jobs as well as raising a family. Only 27.8% of women in dual-earner

[2] Because there are increasing numbers of single mothers in society over this 20 year period, it has been argued that women's participation rates are being driven by social, not economic, phenomena. But the story is not dominated by the proliferation of single mothers. In fact, as the table in the preceding section showed, there is a slightly declining proportion of single mothers in the labour market. Growing labour market participation of women is less a sole-parent "survival" strategy than a dual-earner "stabilize the family income" strategy.

[3] "Labour Force Historical Review," Statistics Canada Catalogue 71F0004XCB, Table 08AN.IVT.

households worked part-time.[4] In other countries where dual-earner families have also become the norm, the mix is more likely to be full- and part-time work.[5]

The inevitable question is raised: How much more can women do? Though the numbers seeking work are still increasing, there seems to be a natural saturation point – somewhere around 80% – based on international comparisons and based on men's traditional rates of participation in the labour market.

Once people are working to their maximum, what strategies will families have at their disposal to keep their ground financially? Current trends continue to devalue the market worth of more and more people, especially young workers. What choices do our young families have about how they will raise their children, how they will structure their lives between work and life-beyond-work?

At one time, the surge of women into the labour market held the promise of higher incomes, enriched lives and gender equality. But the more general decline in incomes has squandered this opportunity.

Economic growth has meant different things for the average family over time: increased incomes from after the war until the mid 1970s; stagnating incomes for most of the 1980s; and declining incomes over the 1990s. This has occurred despite the growth in two-earner households. The next sections show how we grew, and how we grew apart.

MARKET INCOMES, THE FAMILY WAY

When we talk about how people are doing economically, we tend to think of the individual, and whether personal economic fortunes are getting better or worse. But everyone's formative years start off in some form of a family and the vast majority of Canadians live with at least one other person.[6] About half of all Canadians live in households raising children under the age of 18.[7]

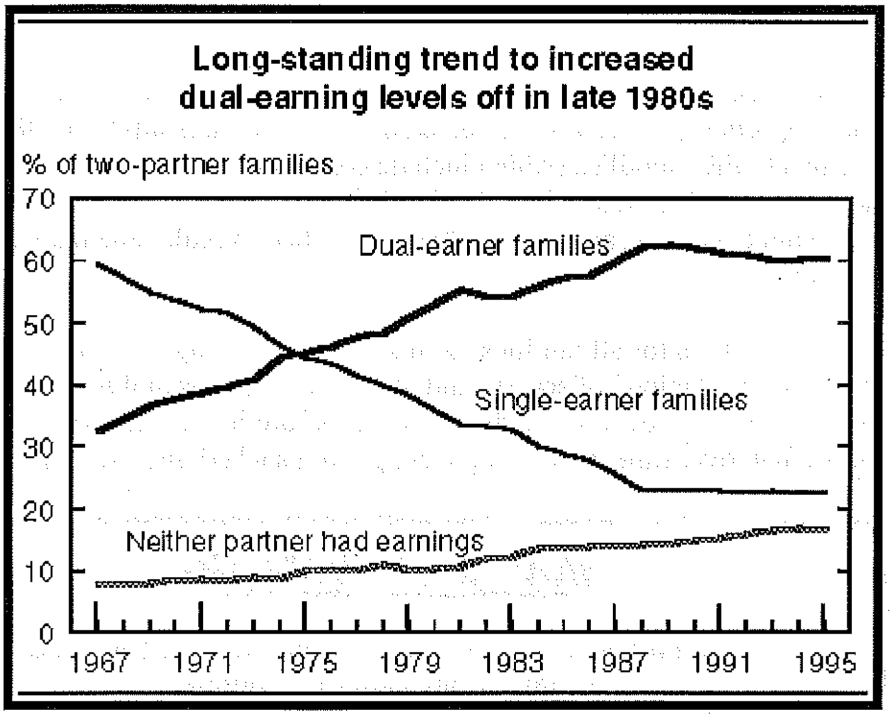
This section looks at how dramatically economic fortunes have changed over the last generation for that building block of society – the place where people learn how to be people – families with young children.

4 "Labour Force Historical Review," Statistics Canada, Catalogue 71F0004XCB, Table 08AN.IVT.

5 Kathy O'Hara, "Comparative Family Policy: Eight Countries' Stories," paper prepared for Canadian Policy Research Networks, May 1988, p.6.

6 About 85% of Canadians live in a family, defined as more than one person. (Calculated from Statistics Canada Catalogue 13-207, Tables 1 and 21.)

7 There are about 4 million households that include children under 18 (Table 15, Catalogue 13-207) Unpublished data show that the average size of these families is 3.72 people, bringing the population in these homes up to almost 15 million, half the current population of Canada. The following discussion is based on a definition of family that includes at least one adult and at least one child under the age of 18. It includes husband-wife families (including common-law), lone-parent families, and extended families.



Source: Statistics Canada, The Daily, August 26, 1997.

Three key themes have emerged over the last generation among families with young children. First, a growing number of families have no earners. Second, most two-earner households have seen declining incomes over the last decade. Third, two-earner households at the upper end of the family income spectrum are commanding more through the market, but not by putting in more hours of paid work. The result: market forces are redefining how much one's personal work ethic and effort matters, and this is being absorbed by the youngest members of society every day in their families.

The Vanier Institute of the Family showed that the average family had to come up with 77 weeks of work a year just to pay the bills in 1992.[8] For those with the lowest incomes, families had to find almost 86 weeks of work to cover their expenses, 46 weeks just to cover the year's basics – food, shelter and clothing. Clearly, simple survival for a family has become a job for more than one earner, creating a family "culture" that is profoundly different from families up to the 1960s. The chart below is a graphic depiction of this changed reality. The study goes on to show that families would have had to work even longer if it weren't for other sources of income, like government transfers. Simply put, families are working harder to stay in the same place. More families are losing ground.

In 1995, more than 70% of children living in two-partner families had both adults working. "Traditional" families, where the father was the sole earner, only accounted for the experience of 23% of all children in two-partner families.[9]

Women's role in keeping their families afloat has become more and more critical over time. Without the female partner's earnings, almost one in five families would fall below the low-income threshold in 1995 instead of one in 20 (or 748,000 families would have

[8] Vanier Institute of the Family, "From the Kitchen Table to the Boardroom Table," Ottawa: February 1998.

[9] Statistics Canada, The Daily, August 26, 1997.

found themselves struggling with low income instead of 202,000 families). This is up from 1989, when the comparable figures were 14% and 4%, respectively.[10]

But over the last fifteen years, the labour market has become more of a lottery for jobs. The proportion of families with no earners rose dramatically. In 1980, one in ten "husband-wife" families (which include common-law couples) had no earner. By 1995, the number had risen to 1 in 6. In families with only one parent, almost one in 7 male lone parents had no earnings in 1995, and 29% of female lone parents had no earnings (up from 26%).[11]

Census numbers for all families include people of all ages, so these figures are, in part, capturing the "aging" of society and the growth of households with retirees. The following table shows where the "no-earners" are in families with young children. It shows that, over time, more people are getting sucked into this situation.

WHO'S NOT WORKING

% of Families with No Weeks of Employment Worked by any Family Member, Canada. Families with Children Under 18 Years of Age. Selected Years

	1973	1986	1996
1st decile	34.0%	44.6%	73.4%
2nd decile	Na	na	7.1%
3rd decile	Na	na	Na
4th decile	Na	na	Na
5th decile	Na	na	Na
6th decile	Na	na	Na
7th decile	Na	na	Na
8th decile	Na	na	Na
9th decile	Na	na	Na
10th decile	Na	na	Na
Total	**3.7%**	**5.0%**	**8.4%**

Notes: Deciles are created by dividing the population up into 10 equally sized groups, ranked by income from lowest to highest. The first decile has the lowest income; the 10th is the richest group of families with young children.
Na – Sample size too small to provide reliable estimate.
Source: unpublished data from the Survey of Consumer Finances

Among those that did work, the families with the lowest incomes saw their incomes decline since 1973, due to fewer weeks of work in the year. Those in the middle saw two patterns. The families in the "lower" middle (Deciles 3 to 5) worked more, as measured by increased weeks of work, between 1973 and 1986. During that period there was a

10 Statistics Canada, The Daily, August 26, 1997.

11 Statistics Canada, The Daily, May 12, 1998, based on Census results.

HOW MUCH MONEY FOR HOW MUCH TIME?

Families with Children Under 18 Years of Age, Canada, Selected Years.

Average Market Income ($1996) of Families with One or More Weeks of Employment

	1973 Average Market Income	Standard Deviation	1986 Average Market Income	Standard Deviation	1996 Average Market Income	Standard Deviation
Decile 1	$7,220	1178	$4,755	2318	$1,823	1311
Decile 2	$19,572	763	$17,232	2818	$11,554	4013
Decile 3	$28,181	559	$28,305	1929	$23,464	3174
Decile 4	$34,588	450	$37,095	1903	$33,708	2714
Decile 5	$40,310	441	$45,047	1622	$42,720	2571
Decile 6	$46,055	432	$52,500	1578	$51,409	2397
Decile 7	$52,314	537	$60,392	1805	$60,345	2820
Decile 8	$60,333	697	$69,842	2244	$71,204	3620
Decile 9	$71,551	1124	$83,183	3759	$86,287	5547
Decile 10	$107,153	8463	$127,842	44368	$136,378	78755
Average Income	$48,208	7563	$55,055	28297	$56,346	44676

Average Weeks Worked among Families with One or More Weeks of Employment

	1973 Average Weeks Worked	Standard Deviation	1986 Average Weeks Worked	Standard Deviation	1996 Average Weeks Worked	Standard Deviation
Decile 1	43.3	34	33.3	27	23.5	21
Decile 2	59.2	28	60.4	32	48.2	27
Decile 3	65.3	29	72.0	31	66.4	28
Decile 4	67.0	27	76.7	31	75.7	29
Decile 5	69.8	28	83.4	33	83.4	31
Decile 6	74.8	30	86.4	32	90.7	32
Decile 7	80.0	32	92.4	33	96.7	32
Decile 8	89.5	35	102.3	37	102.9	33
Decile 9	97.5	41	112.2	37	110.7	33
Decile 10	107.9	51	119.3	45	115.9	39
Average Weeks Worked	76.6	38	86.3	41	86.4	39

Source: Unpublished data from Survey of Consumer Finances

payoff in more income. But between 1986 and 1996 they saw both their hours of work and incomes decline. Families in the "upper middle" (Deciles 6 to 8) kept putting more time into the labour market. It paid off between 1973 and 1986. But by 1996, despite increasing their weeks of paid work, most of them saw declines in income. At the top end, it is a completely different story. Though these families have had two earners working almost full year throughout the period under examination, the average weeks of work fell between 1986 and 1996, presumably a discretionary choice. But their incomes kept growing.[12]

[12] The standard deviations in the table show that the greatest variation in incomes in any given group is at the very top. Except for the poorest 10% of families, variability of incomes in every earning bracket, as well as for society as a whole, has been growing over the last 23 years.

HOW WE GREW

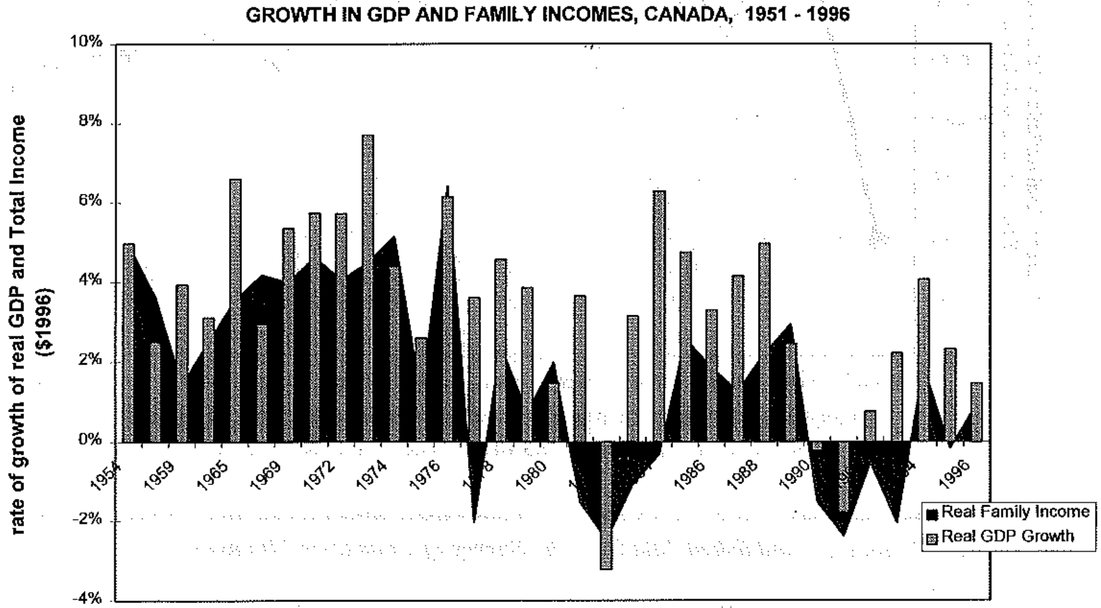
Economic growth has meant different things for the average family over time: increased incomes until the mid 1970s, stagnating incomes for most of the 1980s, and declining incomes over the 1990s. This has occurred despite the growth in two-earner households.

Canadians have experienced two different cultures – two radically different ways of living in a family – in the years since the Second World War. The generation born and raised in the years following the Second World War benefited from a steady rise in average family incomes, which sometimes outstripped the growth of the economy and virtually never fell back. The dream of endless economic growth – both personal and economic – seemed an achievable reality. One's destiny appeared to be in one's own control.

During those years the country generated more and more wealth every year. Initially, what was good for the economy was apparently good for the people that created the wealth – a growing GDP virtually always meant growth in family incomes. Between 1951 and 1976 the average Canadian family's total income more than doubled, from $23,000 to over $54,000 (measured in 1996 dollars).

HOW WE GREW

GROWTH IN GDP AND FAMILY INCOMES, CANADA, 1951 - 1996

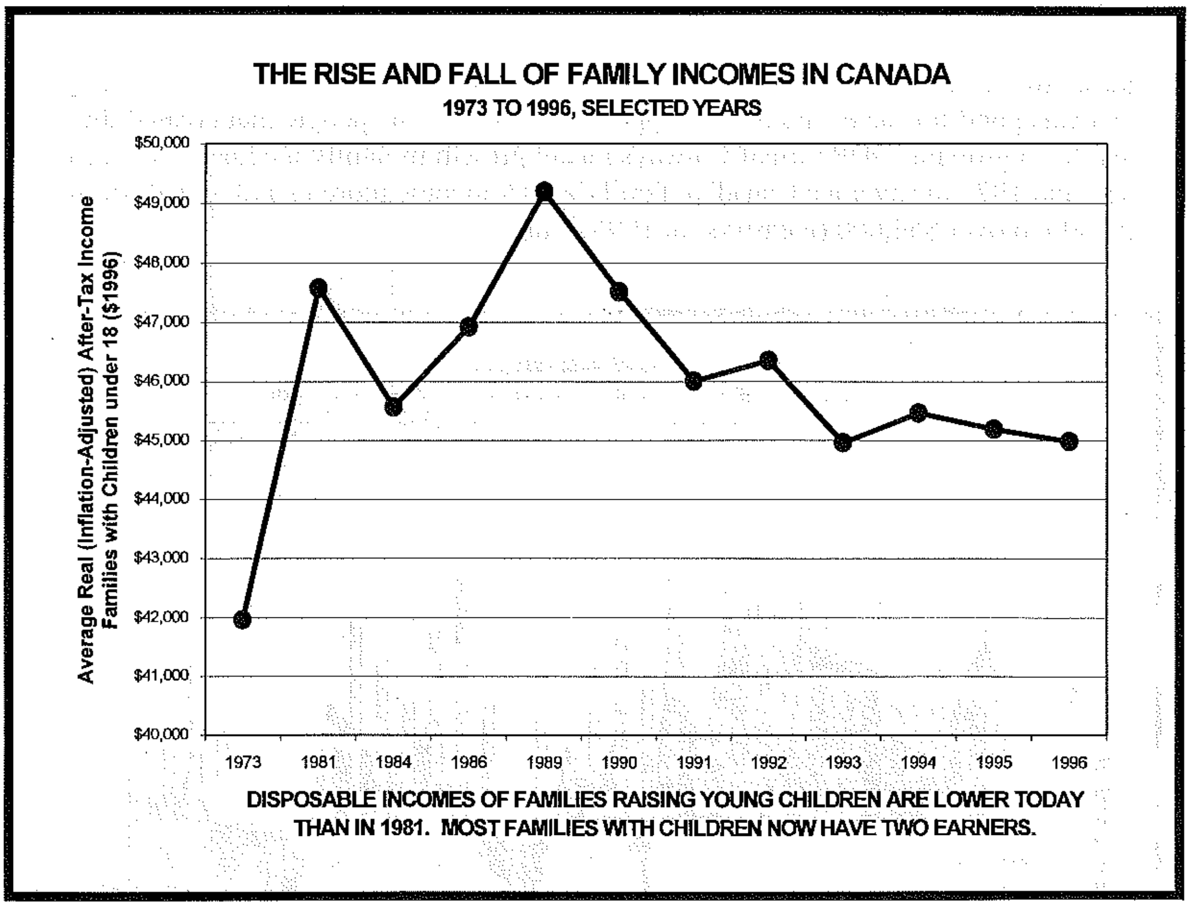


AFTER THE MID 1970S FAMILY INCOMES DIDN'T KEEP UP WITH THE GROWTH IN THE ECONOMY, EVEN THOUGH MORE FAMILIES HAD TWO EARNERS

Source: Statistics Canada, Catalogue 13-207 and Catalogue 11-210-XPB.

But the world started to changed by the mid-1970s just as the boomers started entering the labour force and forming their own families. Even when the economy was growing, the purchasing power of Canadians was as likely to shrink as it was to increase. Average family income fell in 1977, 1981, 1982, 1983, 1984, 1990, 1991, 1992, 1993 and 1995 – in 10 of the last 20 years. These reductions in real family incomes was in contrast to the growth the economy was generally experiencing throughout this same period.[13] Though there were several mild recessions along the way, in the post-war period there were only two years in which the size of the economy shrank. Those contractions were in 1981 and again in 1990-91.

Since the 1970s, fewer people have seen the fruits of economic growth. In fact, the costs of economic growth have grown.



Source: Statistics Canada, unpublished data from the Survey of Consumer Finances

This era's emphasis on trade liberalization and labour market "flexibility" in order to boost faltering growth rates has exacted a price: more competition, more downward

13 The graph entitled *How We Grew* compares total family income with growth in GDP. This is the only published historical series we have going back to the 1950s, and uses the measure of "total" income: what families earned and what help they received from government when out of work. It also refers to all families, not just families with children under 18.

pressure on earnings, more joblessness.[14] Disposable family incomes tell the real story about the benefits of economic growth for families with children.

More individual effort – and less collective support – has been sold as the answer to greater prosperity. So people have just tried harder. Working harder, worker longer, working outside the home than ever before. The result? At the end of the day, the average family with children under 18 had $4,000 less in their pockets in 1996 than they did in 1989. This includes the effects of inflation, changes in earnings, government assistance and government taxes (See Table 3.2 in the Appendix).

Many of us feel that our lives and our families are being de-valued as the world becomes more monetized and commodified. New trade-offs, increasingly difficult ones, are being made in our families, and the pay-off is not clear. Mounting frustration is inevitable when families are working harder than ever and still losing ground.

HOW WE GREW APART

A startling gap in market income is emerging between our families today.[15] In 1973, the top 10% of families with children under 18 earned an average income 21 times higher than those at the bottom ($107,000 compared to $5,200 in 1996 dollars).[16] That ratio goes up and down over the course of each business cycle. But the last two decades have ushered in creeping unemployment, the increasing casualization of work, and real declines in wages paid to young men (under 35).

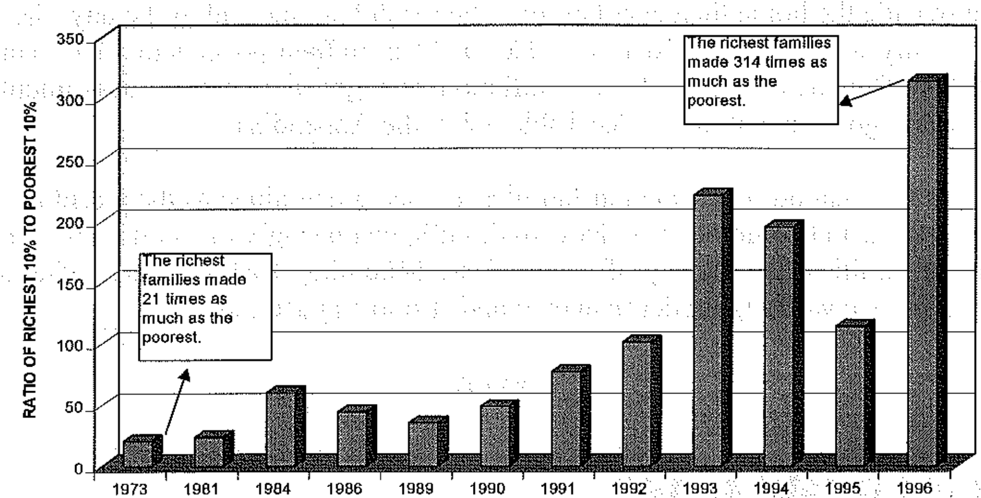
These changes meant the ratio of market incomes for the upper and lower strata ballooned over the 1990s. By 1996 – still near the peak of the business cycle in this decade, and so presumably a "good" time for reducing disparities – the top 10% made 314 times as much as the families in the bottom 10% (an average $137,000 compared to an average annual market income of less than $500).

14 It is beyond the scope of this report to address the environmental costs of economic growth. It is enough to note that increasing numbers of people and more aspects of creation are paying a price from this emphasis on economic growth at any cost.

15 Market income is defined as earnings from wages, salaries, self-employment and returns on investments.

16 1973 was the first year in the data series at our disposal. Michael Wolfson's work shows that incomes were more equally distributed in Canada in 1965. See "Stasis amid Change – Income Inequality in Canada 1965 to 1983" published in the Canadian Statistical Review, Statistics Canada Catalogue 11-003, February 1986. This is not to indicate that there were no problems then. In the early 1960s the U.S. launched its "war on poverty" campaign. Things were not so different in Canada at the time.

THE GROWING GAP,
CANADA, 1973 TO 1996, SELECTED YEARS



MARKET INCOMES OF FAMILIES WITH YOUNG CHILDREN HAVE BECOME SPREAD MORE UNEVENLY OVER THE LAST GENERATION.

Source: Statistics Canada, unpublished data from the Survey of Consumer Finances.

If these numbers seem shocking, it is because so many families at the bottom of the income spectrum have no market earnings today. In 1973 almost two-thirds of low-income families had some work. Today almost three-quarters do not have any work.

As the table on page 41 shows, even among the minority that do have work, the number of weeks of work, on average, over the course of the year has been cut almost in half, from 43.3 to 23.5 weeks worked on average for the poorest 10% of families. Average earnings of the poorest 10% of families fell from $7,220 in 1973 (in 1996 dollars) to $1,823 in 1996.

This is considerably more than the average annual income of the poorest 10% of all families, whether working or not. But it certainly is not a living.

Clearly, growing disparities in market outcomes are largely driven by the lack of access to sustaining employment for those families at the bottom of the distribution. The process is creating an ever-larger pool of "outsiders" who are looking in on the economic game. As more and more and more supports get stripped from the jobless, there is more and more volatility at the bottom. What is striking about the table on the following page is the degree to which the most affluent families experience little downward variance, despite two significant recessions. But the poorest 10% of families saw their economic fortunes vary more and more wildly over time.

INCOME DISPARITIES AMONG CANADIAN FAMILIES
PARENTS OF CHILDREN UNDER 18, CONSTANT 1996$

Average Market Income (Earnings from all sources and Returns on Investments)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Poorest 10%	$5,204	$5,036	$2,062	$2,890	$4,049	$2,760	$1,757	$1,291	$589	$684	$1,181	$435
Richest 10%	$107,253	$119,461	$123,752	$127,984	$143,012	$134,539	$135,821	$130,896	$130,235	$133,253	$134,978	$136,737
Ratio	20.61	23.72	60.02	44.28	35.32	48.74	77.29	101.39	220.96	194.93	114.32	314.34

Average Total Income (Includes transfers from government income support programs)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Poorest 10%	$12,913	$14,250	$13,626	$14,862	$15,973	$14,575	$15,272	$15,125	$15,819	$15,592	$15,294	$13,522
Richest 10%	$109,260	$121,537	$125,982	$130,289	$145,356	$136,833	$138,121	$133,070	$132,107	$134,923	$136,618	$138,157
Ratio	8.46	8.53	9.25	8.77	9.10	9.39	9.04	8.80	8.35	8.65	8.93	10.22

Average After-Tax Income (includes federal and provincial tax systems)

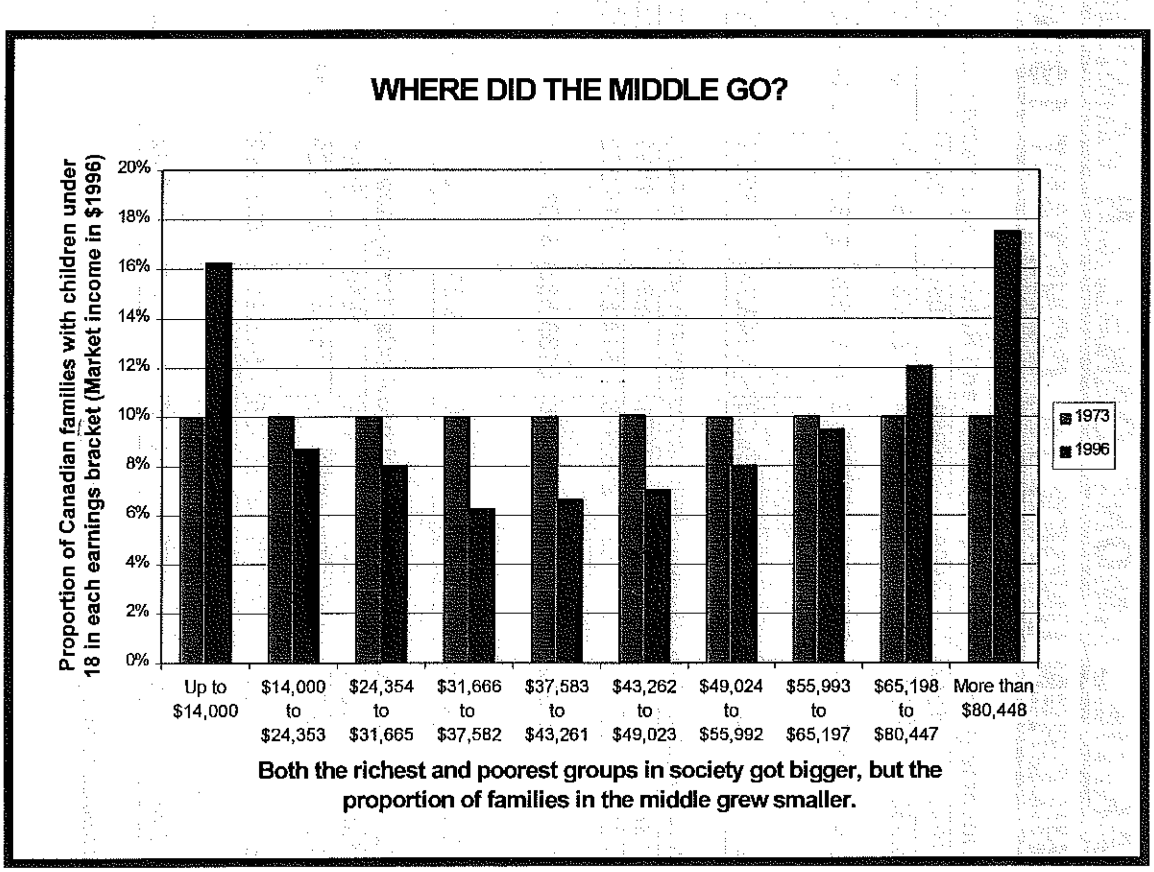
	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Poorest 10%	$12,732	$14,090	$13,561	$14,672	$15,779	$14,471	$15,129	$15,036	$15,727	$15,523	$15,208	$13,453
Richest 10%	$86,196	$96,894	$97,349	$99,570	$106,005	$98,917	$98,592	$96,048	$96,221	$96,433	$97,364	$97,372
Ratio	**6.77**	**6.88**	**7.18**	**6.79**	**6.72**	**6.84**	**6.52**	**6.39**	**6.12**	**6.21**	**6.40**	**7.24**

Source: Statistics Canada, unpublished data from the Survey of Consumer Finances

Growing disparities are marked not just by the extent to which the rich are richer than the poor. There is also the important question of how people are distributed into classes in society. Are there more or fewer poor people over time? Have the ranks of the middle class grown or declined?

To answer this question we looked at how income was distributed among young families a generation ago and compared that distribution to today. This exercise took the upper limits of the 1973 deciles[17] and converted them to 1996 dollar values. If the distribution of income from the market had remained the same, we would find that 10% of the now considerably larger population fit into each earnings bracket.

Instead, we found that a larger proportion of the population of families with children under 18 was "poor" by 1973 standards, and a larger proportion of the population was "rich". That left fewer families in the middle.



Source: Statistics Canada, unpublished data from the Survey of Consumer Finances.

[17] Deciles divide the population into ten equal-sized groups and ranks them by their income. The first decile is the poorest 10% slice of the population.

What used to be the earnings cut-off for the poorest 10% of the population (families earning less than $14,000 a year) now accounted for almost 17% of the population. Similarly the size of the "elite" (families earning more than $80,500) grew from 10% of the population to 18%.

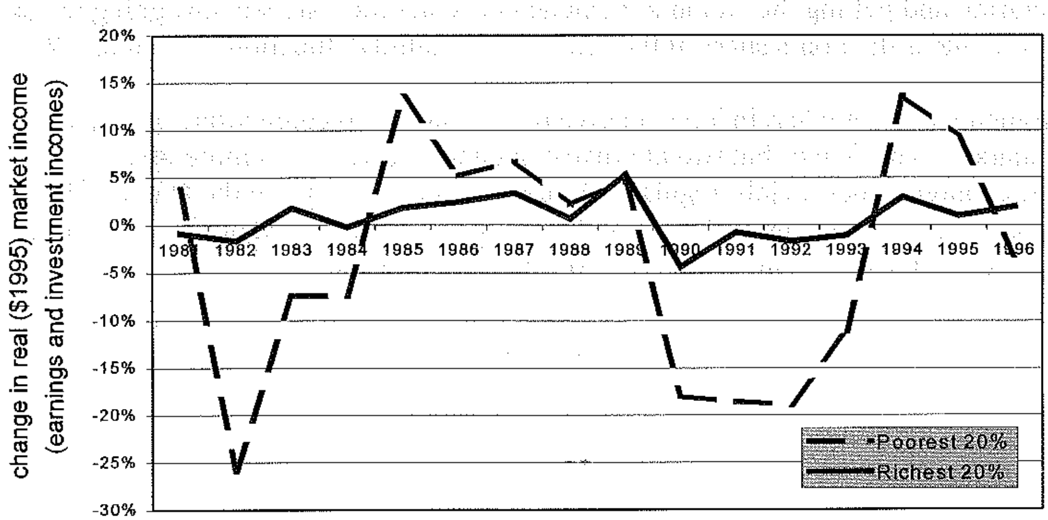
By 1996, the earnings bracket that used to account for 60% of the population held only 44% of Canadian families with dependent children. The change was most accentuated in the very middle, those earning between $31,666 and $55,992 (in 1996 dollars). In 1973 40% of families earned in this range. A generation later just over a quarter (27%) found themselves in this comfort zone.

Why does the size of the middle class matter? There is an argument to be made that the more a society is clustered, perhaps at any point along the income spectrum, the more common is their material experience. This is a powerful unifying force, providing perhaps the key factor leading to greater social cohesion and mutual understanding that can lead to the desire to build together. Growth in the "tails" of the distribution may lead to exactly the opposite result – lack of common experience, and emphasis on "going it alone."

Going it alone is a very different depending on what class you are in. The graph below shows the changing fortunes of the richest and poorest families, and what we might

CHANGING FORTUNES

Market Incomes for Families with Children under 18



POOR FAMILIES HAD GREATER VARIABILITY IN THEIR INCOME THAN RICH ONES AS THEY MOVED IN AND OUT OF WORK, BUT THE DIRECTION OF CHANGE WAS THE SAME...UNTIL 1996.

Source: based on Statistics Canada, Catalogue 13-207, unpublished data

expect if we come to rely more heavily on the market. Those at the top, who enjoy incomes many times larger than those at the bottom, experienced quite small changes in the household incomes even during the worst post-war recessions. Those at the bottom, already living close to the edge, have careened from bad to worse.

As the middle class erodes, so does the glue of day-to-day experiences we share in common. But this is not a problem about life-styles. It is a problem because the decision-makers in society uniformly are located at the top of the income spectrum, be they corporate bosses, political kingpins, upper-level bureaucrats, union leaders or media pundits. And the decisions they make significantly affect the lives of those whom they never meet. They are insulated from the effects of their decisions – more and more divorced from the everyday realities of the people they govern. This may help explain why, in these times, it has been possible to give so abundantly to those already blessed with plenty and take so rapaciously from those who have so little. We have so little to reinforce what we have in common.

As the previous sections have documented, Canadians have adopted two key survival strategies to offset the market-driven changes in their incomes: working longer hours, and women working more and more outside the home. Both these strategies are reaching their limits. Even with the extra work effort, an increasing proportion of families is falling behind, despite the growing wealth this nation produces.

After having asked those at the bottom to shoulder the lion's share of economic restructuring and getting the nation's financial house in order, are we now going to ask them to shoulder the lion's share of the costs of a "healthily" functioning economy?

Governments today are less inclined to give people money to compensate for the failures of the market. This leaves but two alternatives: either the state gets more involved in how the economy does its job (regulation); or we will have to watch the "logic" of unleashed market forces unravel more and more of our families and our society. The role of the state, past and present, is the issue to which we now turn.

THE GROWING GAP

PART FOUR

WHAT OUR GOVERNMENTS GAVE US

What Our Governments Gave Us

What Our Governments Took Away

Taking the Income Out of Income Supports

The Housing Story

The Education Story

Taxing the System

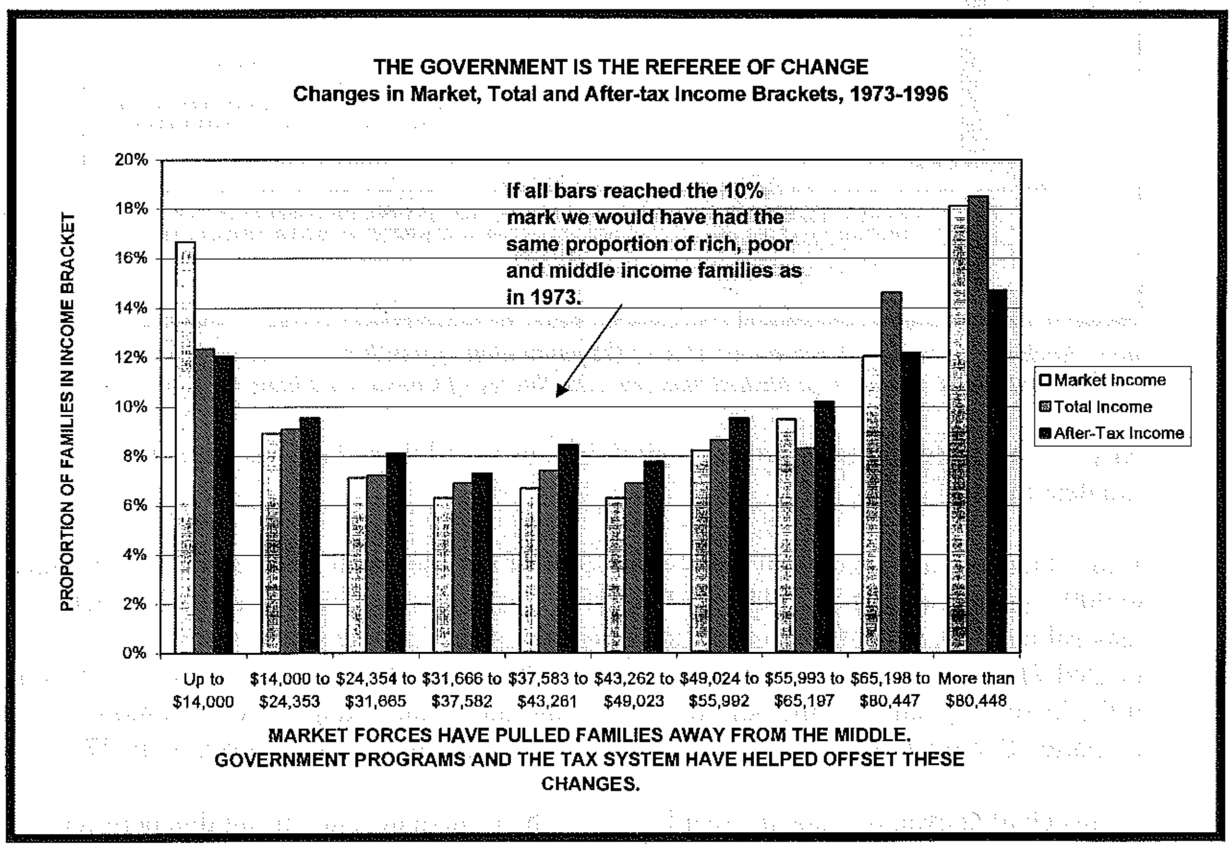
Is the Income Gap Between Canadians Growing?

CENTRE FOR SOCIAL JUSTICE

WHAT OUR GOVERNMENTS GAVE US

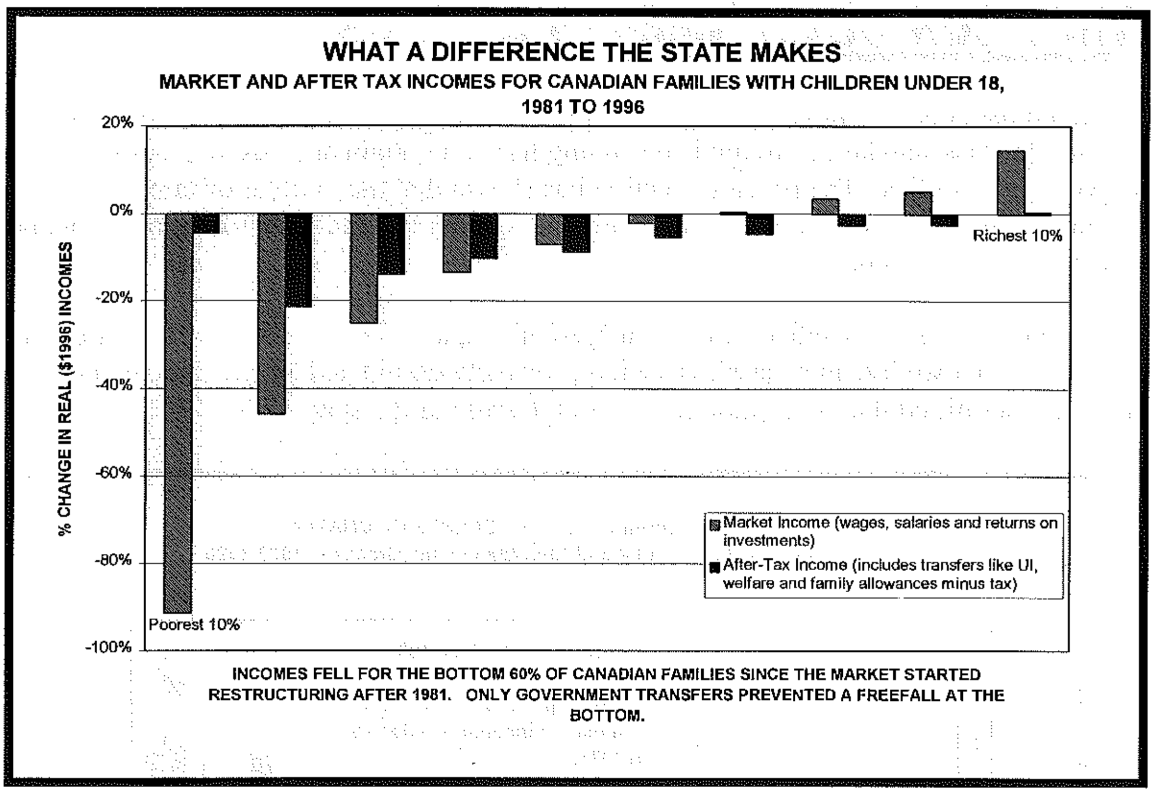
Though most people believe, and are encouraged to believe, that they are middle class, the middle class standard of living is becoming harder to attain and sustain, especially for our younger families. The previous section has shown that the number of families attaining a middle income is shrinking while the number of families who are affluent and who are poor has risen.

Where once we grew together, now we are growing apart. This challenges the common conception that we live in a classless society, a society dominated by the middle class. What has permitted this perception to linger is the role of the state.



Source: Statistics Canada, unpublished data from the Survey of Consumer Finances.

Between 1981 and 1996, 60% of Canadian families with dependent children experienced a real (inflation-adjusted) decline in their average earnings from the market. The real earnings of the bottom 20% of families were cut in half over this period. In 1980 the poorest 20% of the population made the equivalent of about $12,000 a year from work on average (expressed in 1996 dollars). By 1996 the average income from earnings (and returns on investment) for this group had fallen to just under $6,000.



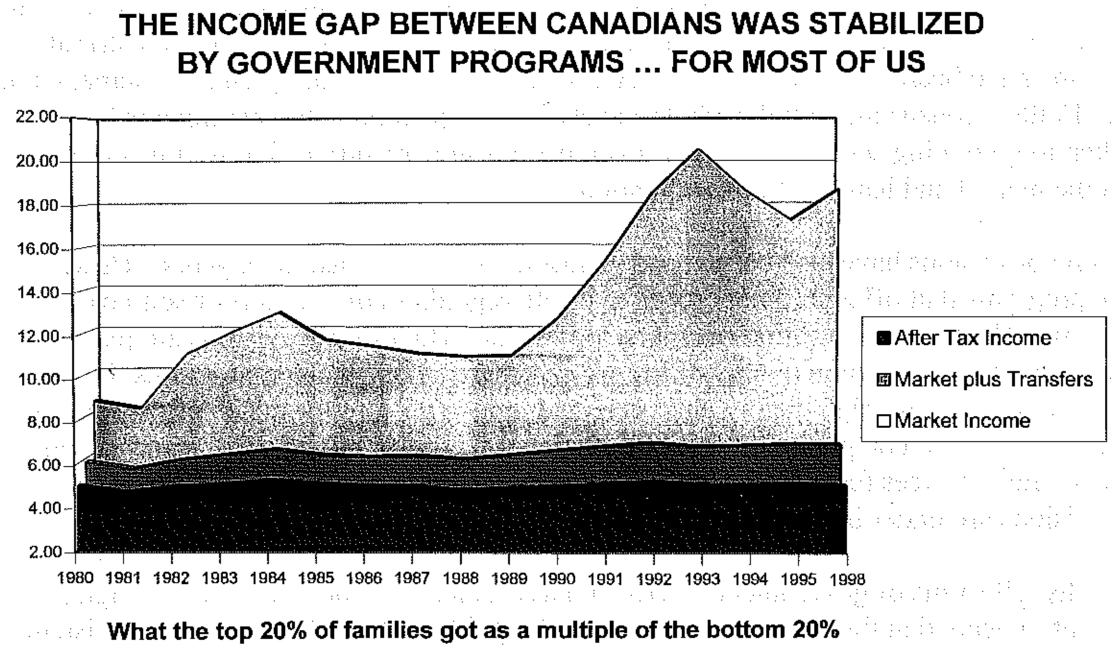
***Note:* Each bar in the graph represents 10% of the population of families.**
***Source:* Statistics Canada, unpublished data from the Survey of Consumer Finances**

Only income transfers from government programs saved these families from a free-fall into destitution.[1]

It raised the average income of the poorest 20% of families with children from just under $6,000 a year to almost $17,000 in 1996. Still, this is less than what they had at their disposal in 1980, when the combination of earnings and income support programs totalled $18,500. (All values are expressed in 1996 dollars). For those at the very bottom of the income spectrum – the bottom 10 % of families – the changes are even more dramatic. See the table *Income Disparities Among Families with Children* on p. 47.

As this chart shows, perhaps the real legacy of the Canadian state during this period of tremendous change has not so much been the eradication of poverty (closing the gap) as providing stability in the distribution of incomes. This has permitted a sense that the "equality of opportunity" among Canadians, such as it was distributed in the past, has not dramatically changed. A quick review of just how much things have changed follows.

[1] The most important income supports for families raising children are unemployment insurance benefits, social assistance and what used to be family allowances but were transformed to child tax credits since 1993. The full list of transfer payments would include income supports for the elderly (Old Age Security and the Guaranteed Income Supplement), but this analysis concentrates on families with children under 18. It is of note that programs for the elderly are the last to come under scrutiny during the era of reinventing social security. These have been the success story of the post-war Canadian welfare state, dramatically reducing the rate of poverty among the elderly.



NOTE: Government interventions have offset the huge increases in market disparities for most Canadians. However, there has been dramatic growth in the after-tax income gap between the richest 10% and poorest 10% of Canadian families. *See page 64 to see how important these changes are.*
Source: Caledon Institute and Statistics Canada, unpublished data from Survey on Consumer Finances

WHAT OUR GOVERNMENTS TOOK AWAY

Over the last twenty years, growth of the economy has been translating more and more poorly to benefits for the average family. Where once economic growth virtually assured greater economic well-being for the majority of families, now growth coincides with declining fortunes for the majority. For those at the bottom of the heap, the forces at play in these developments have jeopardized the ability to be "self-reliant" – the very prescription that is most commonly prescribed for the poor by the elite.

Growing disparities in what people can make for themselves – a process that is driven by the market, not by individual virtue – would have made social conflict a virtual certainty had it not been for the mitigating impact of government through programs of income redistribution and public provisions. But as time has progressed, more people have fallen out of the game of economic musical chairs. The costs of maintaining social stability have grown, and so has an environment of growing intolerance.

It is in this sense that the growing "strain" on the system has translated into rewriting the recipe for social cohesion. It isn't quite as good any more. Programs that redistribute income have been continually scaled back with regards to eligibility and entitlement since the 1980s – consistent with the wholesale change in the approach governments have taken to governing society. At every level, the repeated mantra is that we must rely more on the market and less on state intervention.

Public provisions have also been eroded, most rapidly in the last three years. These are the programs that offer common goods to us all, regardless of amounts or source of income. Health and education of course top the list. But other provisions are just as important in the common quality of life we can share. They include programs that make affordable housing, high quality child care and long-term care for the elderly accessible for all. They include public libraries, recreational facilities, public transportation and emergency services (concerning issues of health, violence, shelter). All these public provisions are under increasing strain today.

Finally, all forms of government service and assistance must be financed. Though polls do not indicate that the broad electorate is pushing for tax "relief," there is a consistent and high-profile campaign that is increasing the political pressure to come up with cuts in the tax system. This, too, constructs – and constrains – the political context of what governments can and should be doing for their citizens.

TAKING THE INCOME OUT OF INCOME SUPPORTS

The pressure of sustaining an increasing number of people outside the labour market has exacted a price. The two main programs of income support that have provided some degree of stability in household incomes – UI and welfare – have been significantly eroded. After consecutive years of cutting back eligibility and entitlement, two more serious changes took place in 1995-96.

The Trojan horse of the Canadian Health and Social Transfer (CHST) was announced in the Federal budget of 1995 and took effect in April of 1996, reducing federal contributions to post-secondary education, public health and social assistance by $7 billion.[2]

[2] Medicare is now in a state of transition across the country, with the development of a two-tiered Americanized system a real possibility in the near future. A university or college education is becoming a major financial investment and thus a privilege, not an accessible right for any Canadian citizen with the desire to improve themselves.

Perhaps coincidentally, since 1995 the provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, Nova Scotia, P.E.I. and Newfoundland have cut back their benefit rates, eligibility to programs of assistance and/or shelter allowances.[3] Only Saskatchewan and New Brunswick have not introduced change (beyond not indexing rates to inflation). New Brunswick's rates for all categories of recipients has historically been the lowest or among the lowest rates of assistance (depending on the category).[4]

Between 700,000 and 800,000 people saw their incomes slashed when Ontario cut welfare cheques by 21.6% in 1995. Alberta, British Columbia and Quebec have defined new rules for who is eligible for social assistance.

The biggest attack has been waged on the Unemployment Insurance program, which is in the process of being utterly transformed from a form of social insurance to a fund for dealing with the deficit. In classic Brave New World doublespeak, the Unemployment Insurance program became the Employment Insurance program in 1996. This surgery was most effective in reducing payments to unemployed workers from the "casual" or "precarious" segment of the labour market – people working in temporary, contract and seasonal jobs.[5] Now when these people lose their jobs, many no longer qualify for any benefit and most get a lower rate of benefit. Thousands of others who work a few hours of work were required to start paying premiums, although they would not qualify for benefits if they lost that employment.

As a result of these changes, the proportion of unemployed people that received unemployment insurance benefits is in a free-fall. In 1990 almost all unemployed Canadians received UI benefits (87% of the jobless). This proportion had dropped to 42% by 1997 and is still falling in 1998. In Ontario less than 30% of the unemployed receive benefits today, down from over two-thirds at the beginning of the decade. That means the number of people temporarily without work but with no form of income has more than doubled in Ontario, from 162,000 people in 1991 to 356,000 in 1997. The desperation and frustration that both the jobless and their families endure is being multiplied.

This program is the subject of much negotiation between the federal and provincial governments. The provinces want to see it "devolved" to their jurisdiction so they can get a share of one of the biggest single sources of funding. Agreement has been reached with most provinces to devolve one aspect of the fund, the money for training and

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[3] Welfare for a single employable person in Ontario could reach a maximum of $663 a month before October 1995. After the rate cuts, maximum shelter allowances were set at $320 a month and the basic allowance dropped to $195 a month, for a total of $515. Up to 20,000 women could be affected by the most recent cuts of a further $37 in nutritional supplement allowances for pregnant women on welfare in Ontario. This allowance was characterized by the Premier as "beer money". Both the number of pregnant women on welfare and the number of those impacted by the welfare rate cut are conservative estimates extrapolated from available provincial and Metro Toronto figures. The government itself claims no estimates are available regarding the numbers of people affected by these changes.

[4] National Council of Welfare, "Another Look at Welfare Reform," Autumn 1997, p.26.

[5] The most rapidly growing part of the labour market in this decade has been in non-permanent work (increasing from 5% to 12% of all employment between 1991 and 1995). By 1997 non-permanent work had dropped only slightly to 11.3% despite strong economic growth. Only time will show if the trend towards a more "just-in-time" labour market has reversed.

"developmental uses." By giving the provinces flexibility in determining how those funds should be used, the program is likely to be more fundamentally transformed: there is widespread support among bureaucrats for programs that provide wage subsidies or workfare type programs in an effort to get employers to "employ" people. By the time this new vision of help for the jobless is fully devolved to the provinces, an increasing number of claimants could be "working" as a condition of receiving their unemployment "benefits."

As the state withdraws from its role of stabilizing Canadians' incomes, what will fill that breech? Given how it has performed, greater reliance on the market will only exacerbate inequality and insecurity: a solidly growing economy in 1996 not only did nothing for the people at the bottom – they actually continued to lose ground.

But it is not simply a matter of withdrawing support from the "losers" in the economic game. Governments are adopting new rules and regulations to favour the "winners." Unleashing market forces requires active government intervention. Government authority, regulations and resources continue to be deployed but to different ends – with a different outcome in who most benefits from public sector resources.

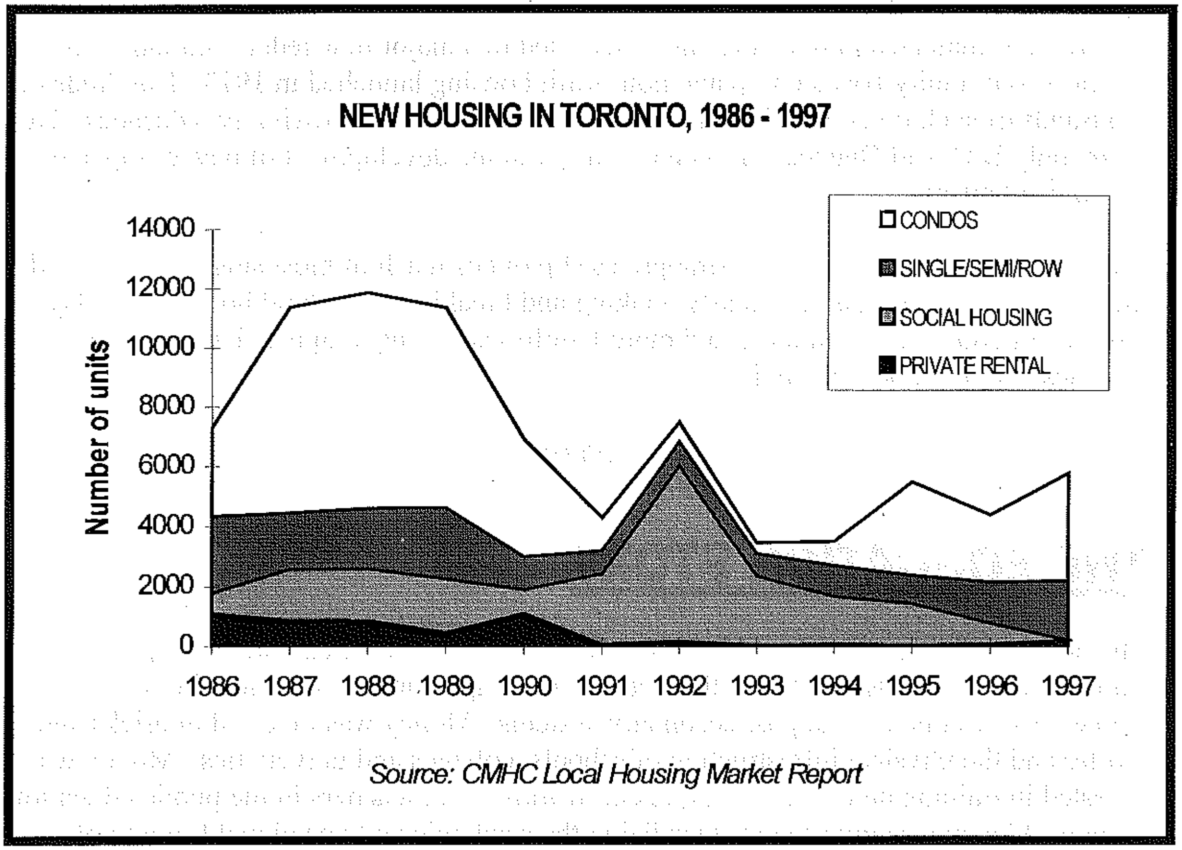
THE HOUSING STORY

Governments at all levels are no longer keen on helping to provide social housing. Permitting market dynamics to meet all our housing needs makes landlords, developers and mortgage lenders happy. Why? When there are fewer apartments available, rents on existing units go up and tenants with enough money are forced into the condominium market.

To help this process along, all provinces have abolished or weakened rent regulation. In Ontario, for example, the government amended the Landlord and Tenant Act so that, for the first time since 1975, rent controls are gone when tenants move out of their apartments. Landlords can charge whatever they want. The government also introduced new legislation that amends Ontario's Human Rights Code so that landlords can continue to impose arbitrary household income criteria when they fill vacancies. The loophole that was created in the discrimination protection provided to many vulnerable groups now permits landlords to reject any tenant who has a lower than average income.

Landlords have increasingly refused to rent to people who would spend more than 30% of their incomes on rent. Although the Human Rights Tribunal is examining how these practices systematically discriminate against those on social assistance, the law has been rewritten to explicitly stand on the side of the landlords. In 1991, over half the tenant households in Toronto with incomes of less than $41,000 a year spent more than 30% of their income on rent.[6] Where will they go?

Withdrawal from social housing programs is taking place at a time when virtually no rental housing, affordable or not, is being built. In 1997, only 460 units of rental housing were built across the whole province. In the country's largest city, the story was worse.



These changes characterize the squeeze-play that is going on. Deregulation of rent controls reduces the stock of existing affordable rental housing. New regulations freeze out lower income tenants who can now be denied access to apartments because they have low incomes. None of these housing initiatives by government help those with low incomes. Overcrowding and homelessness are the results. Meanwhile, for those with enough cash, the market for condos is soaring.

The discrepancies in what kind of housing high and low income families could afford was not always so accentuated. Concerns about affordable housing used to be a priority not just of families but of government. In the period just after the Second World War, interest rates were generally low and stable, through explicit government policy. The federal government offered mortgage money and other programs to the returning veterans, helping to house a generation of young people and their families. The rule of

[6] Based on Census data from 1991.

thumb at the time was that families budget no more than 25% of their (single-earner) income for housing expenses.

Help was not only offered to potential homeowners. By the late 1940s, governments at every level were also directly investing in social housing projects, resulting in the building of tens of thousands of government-owned and government-managed housing throughout the 1950s and 1960s. By the late 1960s, concerns about huge, single-income government-managed public housing projects led to a major new federal initiative to develop community-based co-op and non-profit housing launched in 1973. Hundreds of thousands of such units were built throughout Canada in the following two decades. By 1998, only B.C. and Quebec continued to invest in the development of new co-op and non-profit housing.

This generation has watched housing prices slip out of reach of most single-earners and interest rates rise and fall irregularly, making and breaking household budgets. Today, changes in policy have led more and more families spending a higher share of their incomes simply to be sheltered.

THE EDUCATION STORY

The housing story is reproduced in other sectors such as education and training. Throughout the 1950s and 1960s the state made a huge public investment in the elementary, secondary and post-secondary systems. Money was invested in bricks and mortar and the physical infrastructure of schools, colleges and universities. Money was invested in training and hiring an expanded workforce of teachers in the public education system. Money was invested in subsidizing the academic and vocational training of adults. Initially money was even invested in generous training allowances for returning veterans from the Second World War. There was a wide consensus that the payoffs from investment in this type of public good would be of benefit to everyone in society.

The attitude today is in stark contrast. The importance of an education has never been more critical to one's chances in the job market lottery. But, as any young hopeful can tell you, the environment of support to achieve this goal has shifted dramatically. Higher learning is seen less as a public investment with returns to society, than a private investment with returns to one's individual earning potential. The public good and development of society is all but removed from the picture. In combination with this attitude, changes to public financing of these programs are ensuring that only the most affluent among us will be in a position to improve their future prospects.

With the implementation of the CHST two years ago – combining huge budgetary cutbacks and devolution of authority over these programs to provinces – the floodgates that regulate tuition fees were opened. Since 1995, average tuition fees at universities are 60% higher in Ontario. This year, tuitions ranged from $3,200 for an Arts and Science degree to $4,500 a year for a degree in medicine. That's a 200% increase from 16 years ago. Next year, education in medical programs will cost $10,000 a year at Western and $11,000 at University of Toronto by the following year. Recent provincial sanctions permit all undergraduate programs can hike up their fees by 20% a year over the next two years.

The recent deregulation of graduate programs and most professional programs means tuition fees are only a question of what the market will bear.[7] Having well-educated citizens is no longer an expression of our common wealth. It has become another consumer item.

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TAXING THE SYSTEM

The tax system is critical in financing the programs that close the gap, and in providing another form of progressivity – making those than can afford to pay a larger share of supporting and maintaining society. That simple principle has been undermined by some efforts and enhanced by others over the last generation.

First the improvements, and they are very modest. Programs that target low-income elderly have been in place since the 1960s, providing income supplements so that there is, in effect, a minimum income if you are over 65 years of age. Recent reforms have targeted low-income families with young children, providing monthly benefits based on the family income from the previous year, but these have a long way to go to provide relief from poverty.

For example, the tax system has been the chosen vehicle for the redistributive "innovations" of the federal government, such as they are, in the 1990s. There have been some improvements that extend these programs from the working to the non-working poor, though the greatest "rewards" are for those who work. The central tension that impedes progress in the fight against poverty for low-income families with children is based on the fact that they are of working age. The value-laden intersection between "how much assistance" and "how much work" doesn't enter the picture when devising anti-poverty policies for the elderly.

Clearly improvements in the tax system are limited. What are some of the ways in which the system has deteriorated?

[7] Statistics published in May 1998 by *Der Spiegel* show that our nation is speeding down the wrong ramp. Tuition fees remain low in Austria ($0), Belgium ($122 to $730), Denmark ($0), Finland ($0), France ($162 to $405), Germany ($0), Greece ($0), Ireland ($292), Italy ($486 to $813), Netherlands ($1,976), Spain ($405 to $1,175), Sweden ($0), Switzerland ($486 to $1,215) and U.K. ($2,381). Figures for Ontario come from the Ontario Confederation of University Faculty Associations.

There has been a marked shift in who pays the bills in Canada, from the corporate to the personal income tax system, and from shifting the profile of tax revenues towards more regressive forms of taxation. For example, corporate contributions to paying for Canada represented 25% of all federal revenue in 1955. In 1973 they were at 17%. In 1996 they accounted for only 12% of federal revenues.

Who's picking up the slack? Personal income taxes rose from about 40% in the mid-1970s to 45% in 1996. This is down from 50% in 1991. Since the 1970s Unemployment Insurance premiums have gone from about 5% of the system to 14%.[8]

Tax reform in the 1980s concentrated on a regressive agenda of broadening the revenue base at the bottom and reducing rates at the top. Between 1987 and 1989, the ten brackets of personal income tax rates were collapsed into three. The tax rate at the top was dropped, the tax rate at the bottom was increased.

De-indexation[9] of the tax system started in 1985 but built momentum through various additional measures. These changes consistently hurt the poor the most. Between 1984 and 1991 the various changes made to the personal income tax system resulted in a 386% increase in the income tax burden for a low-income couple with two children (earnings of $20,000); a 15% increase for a middle-income family ($50,000); and a 4% increase for an affluent family ($100,000). Introduced in 1991, The Goods and Services Tax (GST) subjects, by design, only the lowest-income Canadians to automatic sales tax increases over time. This is because sales tax credits available to low-income households shrink in value through de-indexation.[10]

Cutting taxes has been on the agenda of the corporate sector for a long time. They have been remarkably successful for themselves. Now they have extended their campaign to cutting payroll taxes and cutting income taxes. This isn't just about increasing people's disposable income. The notion has been embraced by those who believe governments should be smaller.

One government, elected in 1995 on the platform that government is too big and that too many people depend on the state, implemented the biggest income tax cut likely to be seen in this country. The Progressive Conservative Party of Ontario pledged to, and cut, income taxes by 30%.

The tax cut put $4.8 billion back in taxpayers' pockets. Since there was a budgetary deficit to start off with, the whole initiative was financed by borrowing even more money. How "good for us all" was it? Figures provided from the Ministry of Finance show that over half of the $4.8 billion ended up in the pockets of the richest 20% of taxpayers. It only took 3.9% of that pot of borrowed money to keep the poorest 20% of taxpayers happy in the knowledge that the promise had been kept. The top 1% got back

[8] Department of Finance, Canada, Fiscal Reference Tables, October 1997, Table 5.

[9] Indexation refers to linking increases in benefits, pensions and tax credits to the rise in inflation. De-indexation means that the purchasing power of these amounts decline as prices rise.

[10] Gratton Gray, a.k.a. Ken Battle, "Social Policy by Stealth", Policy Options Politique, March 1990.

an average of $15,600. The bottom 10% of taxpayers saw an average $150 come back to them. By 2001-02 it is projected that Ontario will be paying nearly $6 million a day to pay for it, money that could have gone to any number of other programs that provide people with the public goods or income assistance they need.

How should governments help people and build a country? The agenda is being overwhelmed by some very loud voices calling for more tax cuts, under the guise that this will give us greater economic growth. The whole idea of building a society, not just an economy, is glossed over.

Given their current penchant for writing themselves out of their job description, governments will only resist this call if there is a clear counter-offensive demanding that the state use our collective financial clout to help build society. The government's expenditures for any policy objective come from us, from our money. If all that can be heard is that we, individually, should have more money in our pockets, who is going to pay for Canada?

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As changes in the transfer and tax systems continue to percolate through the economy, it seems certain that the relative stability experienced by Canadian society until recently is on the brink of profound change. The middle class is not just being eroded, it is being destabilized. In the space of a few short years, our governments have become complicit with market forces in creating a society of winners and losers.

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IS THE INCOME GAP BETWEEN CANADIANS GROWING?

Have all these changes meant that there is a growing gap among Canadians? Some people argue *no*. They cite the increasing incidence of dual-earner families and the role of government income supports as the factors that have created stability, not polarization.[11] Others blame it on demographics, not economics.[12]

But there are signs that we are nearing, or have arrived, at the limits of women doing more paid work. Furthermore, the very institutions and interest groups that are trumpeting this stability are the ones that have called for the erosion and dismantling of the system that has provided it. After more than twenty years of calling for these reductions, we can all watch what happens when their chickens come home to roost.

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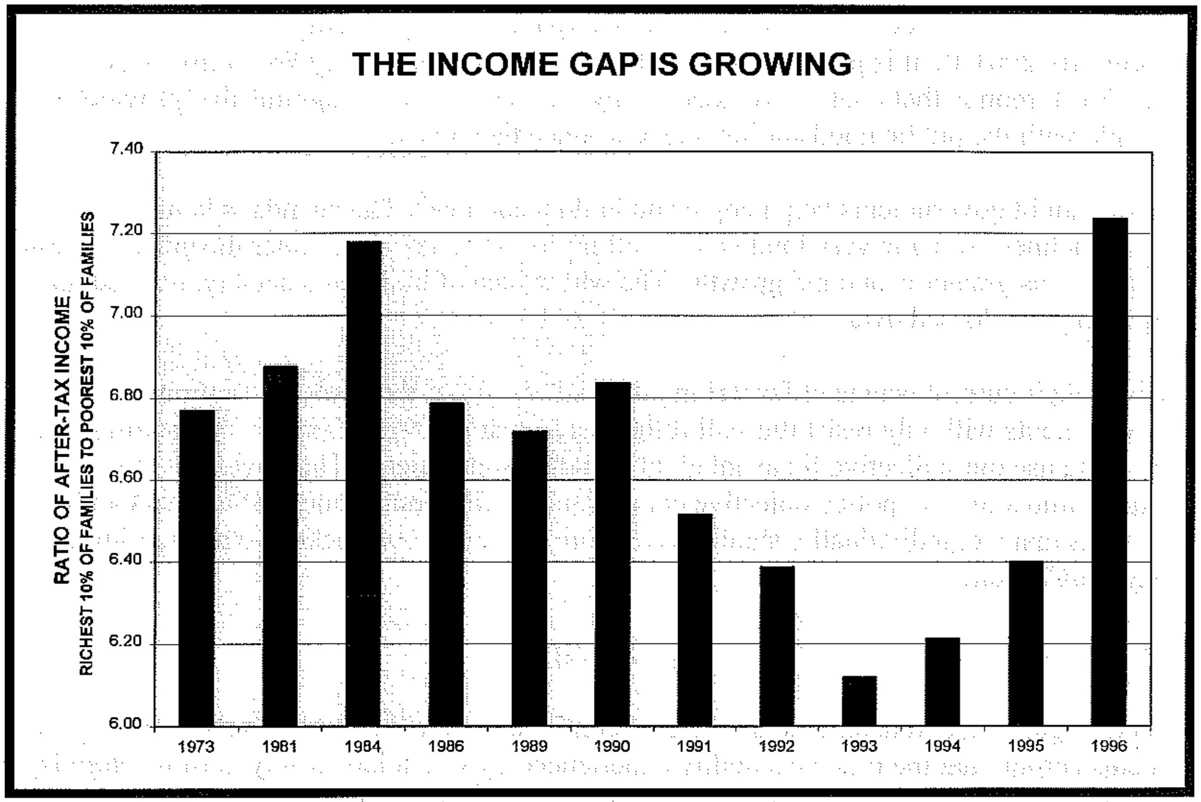
[11] See Charles Beach and George Slotsve, Are We Becoming Two Societies? Income Polarization and the Myth of the Declining Middle Class in Canada, Toronto: C.D. Howe Institute, 1996.

[12] See Jeffrey Simpson's column in the Globe and Mail, January 29, 1998. Having anchored his analysis in research that documents the link between the growth in single parent families and the growth in income inequality (especially that flowing from market wages and salaries) he concludes that states have a limited role in redistributing incomes.



Source: Statistics Canada, Catalogue 13-207 and unpublished data from the Survey of Consumer Finances

Statistics Canada notes that government transfer payments to families continued to decline in 1996, primarily due to reduced unemployment insurance benefits and social assistance payments. As a result, 1996 was the third straight year that the proportion of family income from transfers decreased.[13]

The federal government's spending on all programs (including national defence and transfers to other governments) fell to 13% of the economy in the 1996-97 fiscal year. That level of state presence in our lives has not existed since 1950-51, a fact that was celebrated in the Federal Finance Minister's budget speech of 1995. The federal budget papers that year described the changes that were about to be implemented as "by far the largest set of actions in any Canadian budget since post-war demobilization."[14] But post-war demobilization was about investing in a healthy, productive future for all Canadians. This exercise is about taking things apart.

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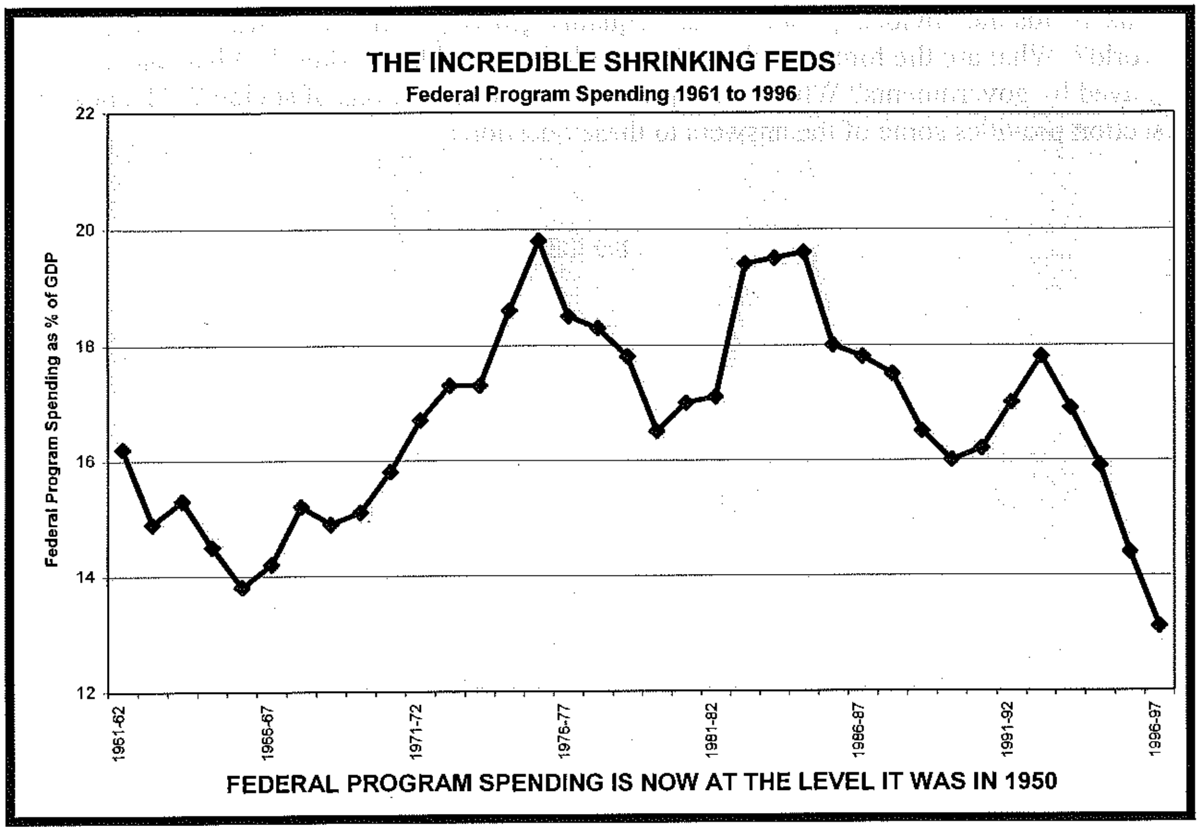
[13] In 1996, transfers represented 11.7% of the income of Canadian families, down from the peak of 12.9% in 1993.

[14] Budget Plan, Feb. 27, 1995, p. 9. Federal program spending just after the 1981-82 recession grew to almost 20% of the economy. It was 17% in 1993-94. See the Department of Finance's Fiscal Reference Tables, October 1997, Table 8 for a historical review since the 1961-62 fiscal year.



Source: Department of Finance, Canada. Fiscal Reference Tables, October 1997, Table 8.

What is left in the wake of this tremendous disengagement of government? For the first time the effect of the tax and transfer system failed to offset the declines in market income for not just the poorest among us, but for the bottom 30% of Canadian families with young children. Meanwhile, the top 30% of such families continued to see their incomes improve. These changes raise the challenge of defining what is the "public good" in all this.

A shrinking government means a growing gap. In Canada today there is no real debate that the gap is widening between those with privilege and power and those who don't have the essentials of life. We can measure it with statistics. We can see it all around us every day. Even the elite are starting to see that a growing gap will ultimately affect us all.

Federal Finance Minister Paul Martin, the same man that trumpetted the virtues of creating the smallest Canadian government in post-war history, has now put himself on the record as saying that the gap between the rich and the poor will be his government's next priority. He puts the blame of this travesty in the lap of inhuman forces, globalization.[15] "The very nature of globalization has an inherent bias toward inequality."

[15] "Rich-poor gap next issue for Martin," The Toronto Star, June 3, 1998, p. A6.

This avoids the obvious questions: Is inequality growing in the same way all around the world? What are the forces at play? What role is played by markets? What role is played by governments? What role is played by the expectations of society? The next section provides some of the answers to these questions.

THE GROWING GAP

PART FIVE

WHAT KIND OF WORLD ARE WE MAKING?

Is the Gap Between the Rich and the Poor Growing Everywhere?

What Explains Differences Among Nations?

Can We Grow Our Way to Equity?

CENTRE FOR SOCIAL JUSTICE

Our society is in the process of undoing the ties that bind, with changes in the market being supported, reinforced, even exacerbated by changes in policy. We are not so far "undone" that we cannot pull ourselves together again.

But the sense of urgency to undertake this project is not there. There is a notion that things will somehow continue the way they always have for Canadians, that this will somehow occur just because of our nature – not flamboyantly successful, but quietly, modestly good.

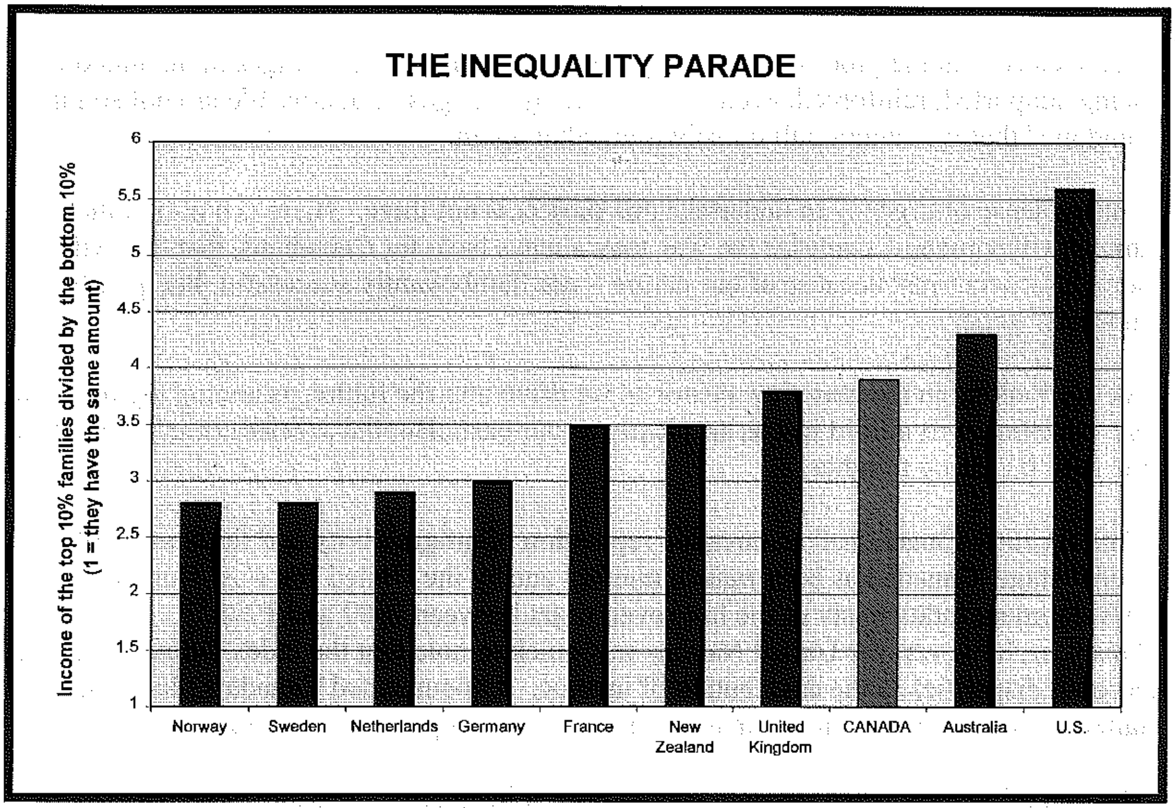
We are looking in the rear view mirror as we drive into the future, assuming the route we are travelling will unfold just as scenically as our past. But the accelerator is jammed and the road is getting rougher.

Until recently Canada had an enviable reputation of progressivity and fairness on the global stage. Canada has been ranked number one by the United Nations' Human Development Index in six of the last seven years between 1992 and 1998.[1]
This year, however, the United Nations was quick to note that the index did not take into account disparities in the distribution of income. It documented Canada's place had fallen to number 10 on the list that tracks the degree of poverty in nations.

The rate of poverty is not the only way to look at inequality. The rate of increase in the number of affluent households also affects the distribution of income, and the way we feel about one another in society. How do we rank in this picture?

The graph on the following page shows how things stood in the early 1990s. Even the most casual observer knows how much has changed in our communities since then. This report has shown how quickly the situation has deteriorated in Canada in just the last 3 years for which we have statistics. That only takes us up to 1996. In trying to fairly assess what is happening here to what is happening around the world, the most recent hard evidence (in the form of comparable international statistics) is even more out-of-date. Still, these numbers tell a clear story – that political will is what makes the difference from one society to the next. This story that will only get more dramatic and obvious by the time you read this.

[1] Having first stated that the concept of human development is much deeper and richer than what can be captured in any set of numbers, the UN goes on to assess achievements in basic human capabilities in three fundamental dimensions – a long and healthy life, knowledge and a decent standard of living. The three variables used for this composite index are: life expectancy, educational attainment (measured by the adult literacy rate and enrolments in primary, secondary and post-secondary) and income (measured by per capita income of the nation and of its relation to the world average GDP per capita, both of which are expressed in currency units called PPP$, which account for parity in purchasing power around the world).



Source: Luxembourg Income Study

IS THE GAP BETWEEN THE RICH AND THE POOR GROWING EVERYWHERE?

Since the early 1980s, the overwhelming trend among nations all around the world has been to deregulate domestic markets and open them up to international competition. This same period has been marked by the rapid expansion of public and private debt, slow economic growth and rising inequality.

As the United Nation's Conference on Trade and Development (UNCTAD) notes, the gap between the rich and the poor is vast. Recent developments have caused it to grow, both between and within most nations. This analysis is based on data from 108 countries, showing a pronounced increase in inequality in most of them.

The richest nations of the world now have an average per capita income some 50 times that of the poorest nations.[2] For decades, the advice from the advanced industrial nations to the developing nations has been to achieve prosperity through industrial progress.

[2] United Nations Conference on Trade and Development, *Trade and Development Report*, 1997, p.69.

Despite more and more nations becoming industrialized, the gap between the people of the world has doubled over the last 25 years. Today those people who find themselves in the richest 20% of the world's population have incomes that are, on average, 60 times as large as those at the bottom.[3]

"The main difference in the pattern of inequality between developing countries and the developed countries is that the richest 20 per cent of the population receives a much higher proportion of total income in the developing countries than in the developed, whilst the middle 40 per cent receives a much lower proportion. Differences between developing countries and richer countries in shares of the bottom 40 per cent are less marked."[4]

In other words, the poor are getting poorer everywhere. The greatest variance among nations is how much richer the rich are getting, and what is happening to the middle.

While growing inequality is the general pattern in the North and the South, not all developed nations have shown signs of increased inequality in their borders, according to the most recent available evidence.

Of estimates taken from 12 developed market economies, 9 showed a growth of inequality. Australia, Japan, Sweden, United States and the United Kingdom noted the most growth in inequality between 1970 and 1994. But in Belgium, the Netherlands and Germany there was a modest decline in inequality during this period. Denmark has shown the same pattern, at least until 1992.[5] The international record also places Canada in that group, and this report supports that finding, until recently.

Distinguished by its low unemployment rate relative to other countries in the North, the United States economy has been an engine for both jobs and poverty over the 1980s. Real wages fell in almost every year since the recovery from the 1981-82 recession. Only this year did the earnings of those at the bottom post a marginal increase. Gains from advances in productivity achieved during this period flowed to the holders of capital, resulting in profits which have reached levels unseen since the 1960s.

The share of the economy going to profits, rather than wages, has risen in developed and developing countries alike. In the developed countries the track record shows that financial enterprises are "producing" more than industries, when output is measured in dollars. Trading in existing assets has become a more lucrative business than creating wealth through new investment, through making things. This gives many the false impression that money, not work, is what creates value.

[3] *ibid.*, Press release September 15, 1997.
[4] *ibid.*, p.108, average GNP per capita is 60 times larger in the top 20% than in the bottom 20%.
[5] *Ibid.*, p.109. Most international studies on inequality, including the UNCTAD report, rely on the Luxembourg Income Survey. The most recent updating of their data base (August 1998) shows that inequality declined in Belgium (up to 1992), Denmark (up to 1992), France (up to 1989), Luxembourg (up to 1994) and Spain (up to 1990). The German data for 1989 and 1994 is being reviewed, but in a previous listing showed a decline as well. We know nothing about what these "champions" have done to stabilize inequality since the early 1990s.

But this does not characterize the dynamic in the most rapidly industrializing parts of the world, where there has also been a surge in the share of the economic pie that goes to profits. Has the remarkable economic growth of East Asia, based on its remarkable rate of industrialization, created a zone of low or decreasing inequality among the people living there? The answer is clearly "no".

Whereas the late 1970s and early 1980s was a period of modest improvement, Hong Kong, Singapore, Taiwan Province of China, and the Republic of Korea have all experienced increased inequality over the late 1980s and early 1990s.[6] (It should be noted, however, that Taiwan and the Republic of Korea both have historically had more equality in income distributions than many developed nations.)

Following the shift towards a more export-oriented strategy, Thailand saw a sharp upward trend in inequality. Sri Lanka's inequality continues to rise. Moderate declines in Malaysia and the Philippines up to 1989 were in reference to very high levels of inequality.[7] This trend has clearly done an about-face with the destabilization of the monetary system in South East Asia.

During the debt crisis of the 1980s there was a pronounced tendency for income inequality to increase in Latin America. The subsequent recovery has not reversed this tendency in Argentina, Brazil, Chile, Panama and Venezuela, Costa Rica, Mexico and Panama. Only Uruguay and Bolivia show some improvement in the distribution of income from 1980 to 1994.

In Africa there has been a process of "equalizing downwards". The "formal" or monetary economy has become smaller relative to the "informal" or subsistence sectors. Consequently real wages have fallen and consumer demands for activities performed in the informal sector has declined. It is in this sense that the traditional rural-urban gap in earnings has disappeared in many African countries. Nonetheless, rising rural inequality is evident in Kenya, United Republic of Tanzania and Ethiopia.

So far in the 1990s income inequality has increased sharply from relatively low levels in the former socialist countries of Eastern Europe. The rapid shrinking of overall income has resulted in sharp increases in inequality in Bulgaria, Romania, Poland, Hungary and the Czech Republic.

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6 Trend lines provided for these countries in the UNCTAD report's Annex to Chapter three show, however, that the distribution of income in these countries is considerably better than in many OECD nations, notably the U.S. See p.131.

7 This section is taken from UNCTAD Trade and Development Report, *ibid.*, p.107-110.

WHAT EXPLAINS DIFFERENCES AMONG NATIONS?

While it is overwhelmingly true that the gap is widening around the world, the pace of growth is clearly different from country to country, and, at least until the early1990s, some countries were able to stabilize or reduce income inequities. Since rising earnings inequality is not a universal phenomenon why is it happening here?

Important differences among nations flow from two key factors. First, what the market delivers. The rules of the economic game are themselves defined by government regulations, which vary from nation to nation. This is the primary way resources are distributes in society. Second, how governments intervene after the fact. Governments provide programs and services that deal with a range of social and public goods issues that markets do not and cannot address, for example income inadequacy or education. This is the primary way society redistributes its resources.

How markets and governments function in turn is dependent on two social factors: the degree of consensus which exists about the kind of society that citizens want; and the degree to which the public will accept variances from these demands and expectations. Why a society will tolerate rising inequality, or resist it, is based on its culture and its politics.

Job insecurity and income insecurity are becoming more pressing global realities as the divisions between skilled and unskilled workers become more accentuated. Devaluing the work of the many and super-valuing the work of a few is a dynamic that underlies much of the transactions in the labour market around the world today. In this sense, globalization does influence the growing gap. But the degree to which this tendency of the market is permitted to become the dominant trend depends on the institutions that society creates and upholds.

The evidence supports that equality is greater in nations where:

- the minimum wage has been relatively high and not allowed to be eroded by inflation,
- there are practices of central bargaining for wages and high rates of unionization,
- unemployment insurance and other forms of income support for those out of work or in low wage work have not been severely cut back.

By the 1990s, governments of the "Anglo" nations (United Kingdom, United States, New Zealand, Australia and Canada) had converged in their approach to the problems of a global economy. The solution was to make the labour market more "flexible" so that people could move out of and into jobs more easily. The Organization for Economic

Cooperation and Development (the OECD) had also embraced and promoted this philosophy in the European Union.

In the Anglo nations, pursuit of labour market flexibility has been very one-sided. The emphasis has been on scaling back the three provisions listed above.[8] In many European nations, attempts to move in this direction have been vehemently opposed. Rightly so. In the context of global developments, this agenda is simply about accommodating, not challenging, the rapid rise of low-wage work.

For more than two decades the prescriptions for getting the "growth machine" going again have relied on trade liberalization, deregulation and weakening institutions that provide stability of incomes and working conditions. The medicine has not cured the patient. Today most developed nations have higher unemployment, higher earnings inequality or a mix of the two.

As the new economic realities in Asia, North America and around the world unfold, they are revealing a terrible irony to the powerful: inequalities can grow hand in hand with economic growth for a time, but ultimately they will slow down the whole game. Calls for greater equality are met with the same old saw: we need more economic growth.

CAN WE GROW OUR WAY TO EQUITY?

What is the relationship between equity and economic growth? If your society chooses to close the gap between the rich and the poor, will your economy grow more slowly?

The answer is, no. Some nations decide to invest in reducing income disparities and some nations permit those disparities to grow. Economies in completely different types of society can grow at the same rate.[9] Clearly growing inequity cannot be sold as the unfortunate price that must be paid for economic growth.

Does growth necessarily lead to more equity? The answer again seems to be: no. Countries with high rates of economic growth can still permit the distribution of incomes to get worse. In fact, the evidence points in the opposite direction. Using international data that stretch over generations, one can see that societies which enjoy higher income equality accumulate more capital (both human and money capital), pass that on to the next

8 This agenda does not just take things away. New policy developments have expanded wage subsidy programs and other income supplements for young workers, single mothers and working-poor families. Improving labour market flexibility could also entail, in principle, increased investment in training and upgrading programs to move people into the "new" jobs. In essence the policy orientation that has been adopted reveals an acknowledgment that the vast majority of new jobs are less skilled and more poorly paid than those which people have lost.

9 Gottshalk and Smeeding, "Cross-National Income Inequality," *Journal of Economic Literature*, Vol. XXXV, (June 1997).

generation and therefore have higher and more prolonged rates of economic growth.[10]

This "discovery," after all, is a statement about investing in our future, investing in our young. The larger the segment of the population that is underhoused, underfed, undereducated, understimulated and underdeveloped in their economic political and recreational opportunities, the smaller the harvest of innovation, leadership or productivity. Conversely, invest in this group and you magnify your society's capacity to grow.

There is a growing body of research showing that the most likely causal relationship between equity and efficiency (read growth) seems to be the one least often acknowledged.[11] More equity may be the precondition to sustained economic growth.

The emphasis of the past twenty years has *not* been on continued, gradual economic expansion. Every year the economy is bigger than the year before, and it has been thus for almost every year in the last two decades. The complaint is that is not enough. The objective seems to be a return to the rates of growth experienced in the immediate post-war period, arguably an anomaly in human history. This period saw the rapid expansion of both public goods and private enterprise. But we have taken the "public" out of the equation. So, for the economy to reach these targets for growth, the private sector has to boom at even more rapid rates than in the 1950s and 1960s, but starting from a much higher volume of production. The logic that we are being asked to buy into is truly unsustainable, for both economic and ecological reasons. What is "required" for the system to function for the majority of people is an ever-accelerating rate of busyness – ever more production and ever more consumption.

Even if we were to achieve this frenzied "optimal" state for a brief time, the promise of a better life for most may not be kept. In an era when a nation's Gross Domestic Product can increase due to the use of labour-replacing technological change, corporate mergers or environmental disasters, economic growth will not automatically mean everybody is better off, even in strictly economic terms. For that to occur, there has to be a political expectation that it is *supposed* to occur; that it will translate into more paid work; that these jobs will pay living wages; that those at the top will not siphon off the gains. Globalization doesn't mean that nations cannot choose to emphasize some things over others. And the fundamental choice is whether society is shaped by the market, or shaped by social objectives, in the form of government.

Given the current fragility of the global system of capitalism, there has never been a more difficult time to raise these issues. Yet the distribution, and redistribution, of the world's economic resources is precisely what we need to address, not just economic growth.

[10] Persson and Tabellini, "Is Inequality Harmful for Growth?" *American Economic Review*, 84, No.3-5, 1994. This innovative study examines a sample of 9 countries using data that goes back as far as 1830. The authors construct 20-year intervals of economic growth performance and offer an analysis of the key variables that affected this performance. Human capital refers to literacy rates, rates of higher education and other ways of measuring "know-how", like labour productivity.

[11] The Canadian economist Lars Osberg has prepared a bibliography and literature review of this work in "The Equity/Efficiency Trade-Off in Retrospect," Canadian Business Economics, Vol. 3, No. 3, Spring 1995.

Economic instability is gripping the lives of more and more people over time. The heart of the problem is how we allocate incomes, capital and debt, within nations and between nations.

We are rapidly creating a new Canada. The next part of the report throws open for discussion the ways we can soften the effects, or fundamentally challenge, the world we are making.

THE GROWING GAP

PART SIX

WHAT KIND OF WORLD WILL WE CREATE?

Ways to Close the Gap (Summary)

The Five Faces of the Gap

What Can We Do to Close the Gap?

The Employment Gap
The Value Gap
The Income Gap
The Common Goods Gap
The Wealth Gap

CENTRE FOR SOCIAL JUSTICE

WAYS TO CLOSE THE GAP*

The Employment Gap

Create a better distribution of working time
Provide publicly needed goods and services
Adopt procurement policies
Improve access to capital
Ensure high quality, low cost education and child care
Enfore employment equity legislation
Undo the bias in the tax system
Enact a review investment mechanism with teeth

The Value Gap

Join a union, support a union, form a union
Raise minimum wages to a living wage
Call for "maximum" wages
Improve pay equity
Demand better corporate behaviour

The Income Gap

Supplement low wages
Restore and improve income supports
A guaranteed annual income?

The Common Goods Gap

Make housing more affordable
Create a system of universally accessible, high quality child care
Restore the health of the health system
Expand universal health provisions
Improve public education and access to higher education
Enhance parks, libraries and community services

The Wealth Gap

Reinstate the inheritance tax
Review family trust provisions
Prevent increased concentration of ownership

*Note: We are not endorsing all these ideas. For example, supplementing low wages only reinforces market trends that push more people into low wage jobs.

THINGS WE CAN DO TOGETHER TO CLOSE THE GAP

While there is a widespread trend to greater inequality. both the size of the income gap caused by the market, and the steps taken to reduce these inequities are different across nations and over time. Clearly there are many ways of creating the world in which we live.

Our challenge is not to come up with alternatives. As this section will show, there is no lack of imaginative ways to offset the "logic" of the market. Taken individually, no single idea will fundamentally change the dynamics present in our world. Taken together they could start closing a gap that is threatening all too many individual Canadians and Canada's well-being as a society.

Our challenge is to achieve a "critical mass" of change, whether that is through the sheer number of initiatives that buck the system or through a "policy" emphasis that will make the difference. Should the focus be on the growing numbers of the poor? On the shrinking middle class? On the disconnected arrogance of the rich? Will the emerging fault-line between those under and those over 35 provide the spark that lights this fire? Will we define the problem as primarily about employment or income? Will senior levels of government lead these efforts or absent themselves, under the guise of "devolved decision-making"? Where will the energy come from? Workplace struggles? Families? Communities? Elected leaders? Who will champion the cause?

THE FIVE FACES OF THE GAP

This report has clarified five distinct aspects of growing inequities.

> **The employment gap**: Access to paid work – any work or enough work – is key to understanding what has been happening to the poorest families over the last generation. The casualization of work has hit young people and families the hardest, but has become a permanent feature of the labour market.
>
> **The value gap**: Erosion of pay rates for young men and record-setting payouts for the CEOS of the most powerful companies is the legacy of the last 15 years. The way the top and the rest of the work force is valued and paid has become increasingly imbalanced.
>
> **The income gap**: Governments have made radical changes in the way they provide income for people without a job, and how much income support people can expect. The erosion of this help has been most rapid since 1995. The social stability enjoyed by Canadians for much of the past twenty-five years is starting to give way to increased inequities in the distribution of incomes.

The common goods gap: Cutbacks in government expenditures and devolution of responsibilities are now catching up with us. Difficult choices are just starting to face us, resulting in a growing gap in the level and quality of services people enjoy, the common good that is available to us all

The wealth gap: We won't have an updated measure of how this gap has grown until the year 2000. The last time we looked (in 1984) the top 10% of families held almost 50% of the wealth. The bottom 10% were in the hole. The events of the last few years means that those that had , have a lot more. Conversely, those at the bottom are likely to be digging themselves deeper into debt, owing even more to those who have it all.

WHAT CAN WE DO TO CLOSE THE GAP?

We don't have all the answers, but there already exist many different ways to close the gap. This section of the report hopes to make a small contribution in energizing public debate about our options for the future.

The ideas that shape our world come from communities and workplaces. When enough people agree that something is wrong, or something can be better, change takes place. When these ideas gain enough momentum and public support, governments are pressured to respond in a way that assimilates or embodies those interests. Small numbers of people can cause big change. Still, the more people involved, the more fundamental the change. So while we do not need to rely exclusively on government policy, it affects the most people and is the single most important lever for mediating the impacts of raw market forces in the lives of all citizens.

Some of the options presented below are things that individuals can do, some are collective, and some require government intervention – simply a larger scale of collectivity. Policy options that flow from the federal level have the most potential to effect everybody in Canada.

None of the options presented below are original. Choices made in the past constrain the choices that are open for the immediate future. The next step follows out of the one that preceded it. Consequently some of the ideas that are presented here may seem to support a position of accommodating, not challenging, the twin scourges of high unemployment and low-wage work. It is not our intent to condone these measures.

We are all trying to live and build our lives in an economic dynamic that is both unsustainable and immoral. This dynamic makes it increasingly difficult for people to support themselves with the efforts of their own work, then provides them with "work incentives" like shrinking income supports. It devalues the work of the many and super-values the work of a few. It lowers the expectations of a growing number of people about what they can do, how much their work is worth, who they can be. But the only way to transform, not manage, this dynamic is to begin a cultural shift, a shift in awareness and attitude. That comes from the cumulative effect of many individual and collective responses – from the grassroots up, not from the top down.

What are some of the things we can do together to close the gap?

THE EMPLOYMENT GAP

The leading cause of the poor getting poorer in this country is lack of access to enough work.

1. Create a better distribution of working time

More and more full-time workers in Canada are working very long hours, involuntary part-time employment is growing almost as fast as the part-time workforce, and well over a million people remain unemployed even during economic good times. Recognizing the political tensions in these developments, the federal government appointed an advisory group that issued a report in December, 1994. The "Donner" report came up with suggestions on how to redistribute working time in individual workplaces and through government regulations and legislation.[1]

Recommendations for change in the workplace include:

- placing annual limits on paid overtime, so that when more than 100 hours of overtime are worked, workers are "paid" with time off;
- negotiating job sharing, compressed (four day) work weeks and flexi-time provisions;
- and creating self-funded leaves (for example, working full time at 80% pay for four years and taking the fifth year off at 80% pay).

All of these can lead to temporary and/or permanent job creation.

At the legislative level, changes to employment standards in "maximum" hour provisions and statutory leaves could have significant job-creation effects. For example, long hours could be reduced by lowering the maximum hours threshold after which people have the legal right to refuse overtime. (In Ontario a worker can only legally refuse overtime after 48 hours worked in a week. The provincial government has proposed extending this to 50 hours. Many employers are already exempt from this provision or can apply for a permit to exceed this limit.) Allowing all workers the legislated right to refuse overtime would also be a milestone (workers in British Columbia, Quebec, New Brunswick, Nova Scotia, PEI and the Yukon have no such right).

Extending statutory rights for longer maternity and parental leaves, or the introduction of educational leaves also have the potential to create jobs, not to mention the difference they could make in the lives of workers. The Quebec standard for new parents is 18 weeks paid maternity leave, and unpaid family leave up to 34 weeks. While the amount

[1] See "Report of the Advisory Group on Working Time and the Distribution of Work," Human Resources Development Canada, December 1994.

of paid maternity leave is supported by the statutory provisions of the Unemployment Insurance Act (now called Employment Insurance), Quebec is ahead of the pack in terms of recognizing that the strains of combining work and family are not over once an infant has reached four months. Of course, leaves without pay are most relevant only to higher-income employees.

In Europe, most nations have tried a variety of programs which provide legislative pressures, fiscal incentives or "solidarity contracts" to redistribute work, with modest success in Germany and the Netherlands. Both countries have experimented with extensive phased-in or early retirement programs that result in the hiring of the unemployed or of young people. The most frequent mechanisms are through payroll tax "holidays" on new employees or providing full pensions to workers who retire early if their employers hire people to replace them.

The reduced work- week is sometimes framed as a way of capturing a larger share of productivity gains or economic growth, sometimes as a tool for creating work by redistributing hours. It can take many forms, but the four-day work-week has come to symbolize the practice in Canada. In the cases where workers still enjoy full pay, it is usually because it is still essentially a five-day, 36-40 hour week compressed into four days. In most cases the four-day, 32-hour proposition comes with a four-day pay packet. The voluntary or bargained reduction of work hours is not widespread and has no cachet for low-wage workers who have regular or long hours of work. Another approach is reducing the maximum number of hours through statute. France has legislated a 35 hour work week and Italy is moving in that direction.

2. Provide publicly needed goods and services

Federal spending on public programs has dropped by over $9 billion since the spring of 1993.[2] This has resulted in the loss of both services and jobs. Restoring the investment of public funds in essential public goods such as health, education and social supports (Children's Aid, home care, day care for the disabled) is key to restoring some degree of general well-being. The budgetary surplus was largely won by stripping down social programs. The reinfusion of capital into these sectors can both create decent jobs and a better quality of life for all citizens.

These can be provided by community-based collectives, public sector programs or private enterprises. But evidence shows that as we privatize these services the quality deteriorates, while the price ultimately increases. Think of child-care or eldercare, health services and counselling, housing needs, environmental clean-ups and retrofitting older buildings as a few examples of work that needs to be done and for which there is an abundant supply of labour. Community-based responses are often the most ingenious for responding to emerging needs and specific groups – such as AIDs prevention, English

[2] This figure does not include program spending on defence – which fell by almost $3 billion – or transfers to individuals such as spending on unemployment insurance, family allowance benefits, public pensions or old age security – which also fell by more than $3.5 billion since the spring of 1993. See Table 7, Department of Finance, Fiscal Reference Tables, Ottawa: October 1997.

and literacy training - but cannot always be self-financing through user fees. The public sector can offer high quality, low cost provision of services that we all need, but such broad-based programs require substantial funding. Both the public and "third" sector are appropriate sites for development through a commitment of public revenues and/or financing from special funds, such as the community reinvestment funds (see above).

3. Adopt procurement policies

Our largest public institutions could create purchasing programs for supplies and services which favour local or regional producers where possible. Municipalities, universities, schools and hospitals (the MUSH sector) are the most obvious sites to promote such practices. Businesses, both manufacturers and retailers, may also find some benefits in supporting and publicizing a policy of "producing Canadian". Think of the work that would be created if hospitals in every province had a standing order to purchase their linens from Canadian manufacturers. Though there are no "inventories" available to verify the scale, it has been estimated by various bureaucrats in different sectors that the vast majority of goods and services are already puchased on a price-competitive basis from local producers. By shaving a few cents to purchase something made a few miles further south, what message are governments sending us? That they, like Zellers, believe "the lowest price is the law".

With government as with individuals, the same principle applies. When a choice exists, choose a product or service that is made locally as often as possible.

The government of British Columbia has adopted local procurement as an official policy position. Most interpretations of the North American Free Trade Agreement (NAFTA) hold that it is not binding at subnational levels of government (provincial, municipal). This permits some latitude on the parts of government that see political and economic benefits in supporting domestic production. The Agreement on Internal Trade was signed in 1994 by the provinces as a companion piece to the NAFTA, extending its principles of corporate rights to sub-national governments. British Columbia did not sign the provisions that would have bound purchases in the MUSH sector to international law on this subject. Under article 18.11 subsection 2 of the AIT, any province can withdraw from the agreement after 12 months written notice.

Living in a global economy means extending those same principles to others around the world. As individual and institutional consumers, we can demand that the producers of what we consume meet certain minimum requirements regarding human rights and fair treatment of workers. For example, in May 1998 after an extended public campaign against its production practices, Nike held a press conference stating it would not allow people under 18 to work in the shoe factories to which it contracts. It further promised to ensure that U.S. health and safety standards will be the norm in those production facilities. They agreed to involve NGOs in monitoring these worksites overseas. The giant U.S. retailer, The Gap, was the first to make a move in this direction in 1995. See the website of the Labour Behind the Label Coalition, http://www.web.net/~msn.

Similarly here, university students in Canada and the U.S. are demanding that their administrations develop ethical practices for bulk purchasing. For example, new in the 1998-99 year, all products bearing the university's name or logo at York University and the University of Toronto will be produced in compliance with ILO (International Labour Organization) standards.

Canadians, as well as people in other nations, should demand the basic right of being able to produce a significant proportion of what they need to consume, under conditions that are humane and fair. The global marketplace, as undeniably important as it has become to us all, tends to undercut this simple premise. Only when people of different nations demand that export-oriented global-economy strategies take a back seat to domestic needs will the current orientation of governments shift. Only then will it be possible to break the vicious cycle of global competition that pits us, as consumers, against ourselves as producers, as neighbours, as citizens of the world.

4. Improve access to capital

The problem in Canada today is not lack of capital but its control and use. Who decides where the money should go? What kind of enterprises merit investment?

The value of the Schedule I banks (eight banks including the big six) is now some 86% of the $776 billion in total banking assets in Canada[3] Employer-sponsored trusteed pension plans run at half a trillion dollars ($506 billion), covering 3.8 million workers.[4] Most of these funds, have no mechanism for the beneficiaries to have a voice in the criteria that are used to make investments. Up to 20% of these funds can, and do, go to offshore investments.

The Canada Pension Plan is worth about $40 billion and is scheduled to grow five-fold over the next twenty years, due to increased rates of contribution and returns on investment, in order to meet the needs of a retiring baby boom. It is about to be transformed from a pool of capital which provincial governments use to borrow at below market rates, to a huge mutual fund that will ride the waves of the stock market to get the "best possible returns".[5] (Faith is required here since provinces are guaranteed to pay back their loans, albeit at stodgy rates of return, while the hopes of reaping higher rewards in the private sector may be dashed if the stock market keeps flirting with a global crash.)

Who will sit on the new CPP investment board? Will these public funds now be allowed to leak abroad, like private pensions and Registered Retirement Savings Plans? Or will

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[3] Figures are for 1997 from " The Changing Landscape for Canadian Financial Services", page 25, Exhibit 2-11 Background paper prepared by McKinsey and Company for the Task Force on the Future of the Canadian Financial Services Sector (The Mackay Report), September 1998.

[4] As at the first quarter of 1998. Statistics Canada, The Daily, September 15, 1998. In 1996 they stood at $341.3 billion. Statistics Canada, National Balance Sheet. Matrix 771, D161462.

[5] In 1996 the Canada Pension Plan held $38.874 billion. Statistics Canada, National Balance Sheet, Matrix 788 D162652. The Quebec Pension Plan was worth $13.010 billion.

they respond to domestic needs, in both the private and public sectors, thereby creating more jobs, equity and economic development right here at home?

Banks, with their record-breaking profits, have been slow in responding to the most rapidly growing sector of the economy, citing higher risk as the cause. Over the 1990s self-employment has been the largest source of net new jobs in the labour market, but the majority of these "entrepreneurs" have such precarious and inconsistent income flows that it restricts their access to borrowed money. Consequently many investments that could improve their productivity or working conditions are ruled out. For these workers, there is no clear way out of the insecurity trap. Community-based ventures and cooperatives that can be self-financing, but need access to start-up capital and lines of credit, are even further out of the loop.

For several years, the Alternative Federal Budget in Canada has called for a National Capital Investment Fund, to be created with small deposits (starting at 0.1%, rising to 0.3% of assets over three years) from regulated financial institutions and tax-subsidized pension funds. The fund would be financed through a deposit, not a tax, because these institutions would get back a modest return on their deposit, at the Bank of Canada interest rate. This public investment bank would allocate money through national and regional democratic structures and finance non-profit community economic development initiatives throughout the country, especially in hard-pressed regions and industries (see below). When fully established the fund would disburse $4.5 billion to local communities.

A second proposal in the Alternative Federal Budget was to implement a Community Reinvestment Act, whereby private financial institutions are required to reinvest a share of their assets in the communities in which they do their business. The impetus for this proposal comes from observation of how these institutions intersect with our lives. They heavily influence the way we create our personal and business economic futures, yet they are increasingly inclined to "better serve us" by closing branches in low-income or rural locations, restricting or refusing credit to the self-employed and small businesses, or investing in companies which increasingly produce off-shore in low-wage economies. Regardless of the level and quality of service they provide, they benefit from the publicly-provided local infrastructure.

But we need not rely only on the big institutions. In the United States the Community Reinvestment Fund has existed since 1988 as a secondary market providing loans for social development purposes which are deemed too high-risk for the banks. See http://www.crfusa.com.

The Canadian Community Reinvestment Coalition has called for legislation similar to the U.S. Community Reinvestment Act. Banks and other financial institutions would be required to disclose detailed information (on a branch-by-branch basis) about their lending, investment and service records; establish an annual government review and grading of each institution's performance in these areas; and set out incentives and sanctions to encourage institutions to improve their performance if they received poor or failing grades in any area. Check their website at www.cancrc.org

Lastly there is the credit union and co-operative banking movement which is the only form of investment group which is owned by its members. Even the mutual insurance companies are converting to share ownership. In Quebec the credit unions control some 40% of the value of individual accounts.

5. Ensure high quality, low cost education and child care

It is getting more costly for people to educate themselves in this country, whether they are preparing to start their working lives or looking to upgrade or develop their skills. It frequently has been noted that wage inequality has not been growing in Germany and Sweden because high levels of education and training have prevented the decline of real wages among the relatively "unskilled." International statistics show that tuition fees for post-secondary and apprenticeship programs are either free or a small administrative fee to register in most European nations, with the exception of the United Kingdom. (See page 61 in this report) Here, in Canada, we are moving in the opposite direction, and fast, despite the oft-repeated mantra that a solid education is a person's best chance for improving her life and economic status.

Affordable, high quality child care is what stands in the way of many women finding a job they can take on. Quebec introduced its $5-a-day plan for daycare in 1998. This means that parents pay $100 a month for full-time child care in Quebec. It costs between $700 and $800 a month to put a three or four year old in similar facilities with regulated quality care in the Greater Toronto Area. The Quebec example is worth emulating but other possibilities exist. Two university professors estimate a national program for the 1.6 million Canadian children who are aged two to five would cost just over $5 billion, with parents covering about 20 per cent of the cost according to a sliding scale. They show that such a program would yield $2 in social and economic benefits for every $1 in expenditure, due to lower school dropout rates, higher current earnings among women, higher future incomes and larger tax revenues.[6]

6. Enforce employment equity policies

As the process of global migration continues, populations of nation states become less and less ethnically homogenous. Women are now responsible for an increasing share of family incomes. Aboriginal people are desperate to move out of poverty. Persons with disabilities are demanding that their abilities not be disregarded.

The issue of "who gets the work" has a sense of urgency in the context of persistent unemployment. These are the groups that face systematic bias in employment and promotion practices all around the world. Agitation and public education has resulted in the search for mechanisms that can deliver better representation in the paid work force,

[6] "Public day care pays off for all, study says," The Globe and Mail, March 3, 1998.

not just here but in a number of countries. Though employment equity does not create work, it can redistribute employment (and unemployment).

Experience from the American model of affirmative action, and in a more limited way from the Canadian model, shows that employment equity legislation can make a difference for people. Depending on how the legislation is framed and enforced, more people from the equity-seeking groups can find employment. Legislation can also facilitate people breaking out of low-paid job ghettos, and breaking into the promotion circuit. Consequently, more people from these groups can improve their earnings.[7] The Netherlands has just adopted a law setting out objectives and regulations for employment equity. The European Union is currently developing its position and policies on the issue. South Africa has legislation in front of its parliament.

Canada's population of visible minorities has more than doubled since the last census, from just over 6% of the working age population in 1986 to about 15% today. In 1993, their unemployment rate was more than 5 percentage points higher than the 11.2% suffered by the overall population. If we add the 1 million Native people who are sharing this country with us, almost one in 5 Canadians can count on confronting some form of discrimination in their lives because of the colour of their skin.

We have had employment equity legislation at the federal level since 1986. In the ten years since enactment, women have made the most gains. The sector of most change was banking. Over the same period members of visible minority groups also grew from 5% to over 9% of the overall workforce under federal jurisdiction. Again the banking sector led the pack in terms of changes in their hiring practices. (Aboriginal peoples and people with disabilities have seen little change in their opportunities.)

Given that the growth in employment opportunities lags the general growth in the size of the population of visible minorities, this is clearly no success story. Equity legislation has not delivered as it should because the legislation does enforce compliance with the plans it requires employers to provide, plans which document how they will improve the representation of equity-seeking groups in the workplace. Also, inexplicably, the federal law before 1997 did not include the federal public service or the Armed Forces, both of which have a poor track record on the representation of visible minorities, Aboriginal population and people with disabilities in its workforce.

Since 1997 the Employment Equity Act has been extended to federal public service workplaces. In addition, now all contracts with the federal government that are worth

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7 In the United States, the best empirical evidence on the effects of affirmative action comes from Jonathan Leonard. See "Affirmative Action as Earnings Redistribution: The Targeting of Compliance Reviews," *Journal of Labor Economics*, 3 (July 1985) 363-84; or "Employment and Occupational Advance Under Affirmative Action," *Review of Economics and Statistics*, No. 66 (August 1984b) 377-85; or "The Impact of Affirmative Action on Employment," *Journal of Labour Economics*, 2 (Oct. 1984c) 439-63.
In Canada, there is less research, but see Leck, Onge and Lalancette "Wage Gap Changes amongst Organizations Subject to the Employment Equity Act," Canadian Public Policy, Vol. 21, No. 4, 1995 and Morley Gunderson, "Pay and Employment Equity Legislation in the United States and Canada," *International Journal of Manpower*, 15 (Number 7, 1994) 26-43.

$200,000 or more must ensure that the place of work meets with the provisions of the Act. These two sectors join the employers who have with 100 or more employees in the banking, transportation and communications sectors, as well as Crown corporations. This cluster of employers must keep track of who works for them - overall and by job class - and document how they plan to make progress towards a more equitable distribution of employment opportunities. This will cover about 9% of people working across Canada.

The new legislation now also authorizes the Canadian Human Rights Commission to audit Crown corporations and private sector employers under federal jurisdiction to make sure they collect the required data, make plans to effectuate change, and carry these plans through. Audits cannot enforce compliance, but they may improve compliance, making it easier to meet the twin goals of identifying who gets the work and of creating an environment of equal opportunity.

Hiring and promotion practices is what determines who gets what work and how high they can hope to rise within an organization. That affects people's earnings. Research shows that biases in the labour market mean certain groups are less likely to get hired into upper level jobs. Their earnings capacity is systematically reduced by virtue of recruiting and promotion practices. Years of research show these practices do not change voluntarily, especially for women, members of visible minority groups, Aboriginal peoples and people with disabilities. Legislation to prod such behavioural change is simply a way of enshrining the notion that fairness demands equal treatment.

Employment equity legislation requires annual reports, recording the proportion of equity-seeking groups that are employed overall, and in the different job classes. Who has the best paid work in the organization? These procedures first reveal that systemic discrimination exists. By requiring steps to be taken to achieve change, legislation sets up a cultural pressure and expectation for removing those biases.

Affirmative action policies and laws can be key to achieving social and economic justice by providing tools to "expose, oppose and propose".

7. Undo the bias in the tax system

After delivering the 1996 federal budget, Finance Minister Martin underlined how the tax system favours investments in capital over investments in labour. He promised to review the tax system and eliminate such systematic bias in order to improve job creation and economic growth. What happened?

The Technical Committee on Business Taxation, as it came to be called, reported in December 1997 that business taxes were too high by international standards, too insensitive to fluctuations in profit, and biased against important service-sector industries (banks and public utilities lead the pack). As regards job creation, the primary recommendation – in a section entitled "moving towards the user-pay principle"– was to adopt a system of "experience rating" for unemployment insurance premiums whereby the employers who have the worst track record of laying people off pay the highest premiums.

The report did not address ways in which the tax system could support investments in human beings as favourably as it does investment in non-human assets: machinery, buildings, technology. Some of these investments, without question, serve the public good by improving long term interest of Canada's productive capacity and thus Canada's economic development and well-being. But some of these are simply used by corporations to save taxes, serving only the profit margin of the companies concerned.

The tax system does this in two ways. First it offers credits on certain types of research and investment, thus not collecting federal corporate taxes at all. The amount of this benefit has increased substantially every year throughout the 1990s. In 1992 non-regional investment tax credits for scientific research and experimental development yielded a $600 million corporate tax break. It is estimated to be around a billion dollars a year now.[8]

Second, it permits companies to put off paying their corporate taxes through the mechanism of capital cost allowances. Tax regulations allow a faster write-off (greater annual amount of depreciation) on capital purchases than the rates used by general accounting purposes. By 1994 the total bundle of deferred federal corporate tax was about $40 billion, about the same as we have been paying every year during this decade to service the debt. In 1972 total deferred corporate tax was $3 billion. The total refers to a "stock" of deferred taxes, the accumulated amount that we are not getting from corporations that year, which in principle they eventually pay .... interest-free. The annual amounts come from different fast write-off provisions, and represent what we choose not to collect in any given year. In the 1994 edition of the Government of Canada's Tax Expenditures, these provisions provided a hefty break to Canadian corporate taxpayers. The accelerated write-offs were worth $645 million in 1990, and the excess of tax depreciation over depreciation for financial statement purposes was worth $874 million. In the 1998 release of the Tax Expenditures publication, the Department of Finance posts *no* figure for this amount. Instead it provides a 13 page footnote to explain why it is not providing data.

If the debt is going to be as much of a fiscal imperative as the deficit, it is reasonable to expect a review and reduction of such tax holidays, just as social programs were reviewed and scaled back earlier this decade.

8. Enact an investment review mechanism with teeth

The proposed bank mergers have renewed discussions about what kinds of investment decisions are is in the best public interest. The Foreign Investment Review Agency (FIRA) was established in the 1970s to examine whether proposed foreign direct

[8] Government of Canada, Tax Expenditures, 1997, p.35.

investments actually benefited the Canadian public. We have a much watered-down Investment Review Agency today, which could be re-energized with new legislation.

In a similar vein, it may be time to review the impacts of mergers and closures of profitable corporations, especially among corporations that have received state support (in the form of contracts, seed money, deferred taxes, tax credits for investments, or other forms of financial assistance from government programs). The guilt factor has already pushed a highly visible example of this onto centre stage. Responding to political pressures, the Royal Bank and Bank of Montreal will file a Public Interest Impact Assessment with the federal government and offer a statement guaranteeing the preservation of jobs and all current bank branches jobs.[9]

THE VALUE GAP

Even if you have a job, how is your work valued? Some countries tolerate a wide range in rates of pay, while others do not. Here are some ideas for closing the earnings gap.

9. Join a union, support a union, form a union

Unions, and other worker associations, make a big difference for most working people because it means you don't have to rely only on your personal negotiating skills to establish the value of your work , or to ensure your rights.

According to the Labour Force Survey, about one in three paid workers belonged to a union in 1998. It is estimated that about 50% of all employees are covered by the terms of a collective agreement. Over the last three decades membership for women has grown five-fold, so that today half the unionized workforce is female. While the number of men who are in a union has also increased, the proportion of the male workforce that is unionized fell slightly to 36%.

It literally pays to be in a union, especially if the type of work you do or the industry in which you work is largely represented or organized by unions. Unionized rates of pay translate into substantial differential in yearly earnings. Overall, the differences between unionized and non-unionized workers amount to almost $10,000 a year, with longer vacations, better pension coverage and improved health and dental plans for unionized workers. However, that's a little misleading because the overall workforce includes young workers and part-timers. Both these groups are rarely covered by unions. Only 15% of those aged 15 to 24 are, while only 25% of part-time workers enjoy the benefits of unionization.

A better way of illustrating the benefits that can flow from belonging to a union is comparing unionized and non-unionized adult women, working full-time in clerical and service jobs in private sector firms of more than 20 people. Here unionization means

[9] "Banks to guarantee jobs", The Toronto Star, September 28, 1998, p. D1.

earning over $5,000 a year more, not to mention the improved pension, health, sick leave and vacation packages.

How easy is it to form a union? To reach a first, or new, collective agreement? The answer to these questions depends on the types of law that operate to regulate labour relations, and the laws themselves change over time and across countries. For example, France has sector bargaining so, though only 8% of the workforce belongs to a union, legislation mandates that the deals reached through collective bargaining by unionized workers get extended to the non-unionized workforce. That means the wages of 90% of the working population are determined through the efforts of unions. Other examples of the same principle of extending the benefits of collectively negotiated agreements include Germany's model of sectoral bargaining, the United Kingdom's wage councils, and "decree" legislation in Quebec.

In Ontario, recent legislative changes have made it more difficult to organize workers, more easy to decertify unions. With the rise in contracting out of services and self-employment, the distinctions between who is an employee and who is an independent contractor are also becoming blurred in the eyes of the law. This affects who can pursue their rights as workers under employment standards legislation and who can legally join a union.

Even in the face of these changes, the tiny Homeworkers Association in Toronto's garment trade is a modest success of collective, not individual, effort. Women who sew piece work at home are technically viewed as independent contractors in the eyes of the law and as such have no right to form unions. The Homeworkers Association offers them a forum to support each other and learn how to assert their rights under the law. Violations of provincial minimum standards regarding hours, rates of pay and health and safety issues have all been challenged by members of this group. There have been recent reports of people making better wages and fewer violations of the law, though it is not clear how widespread this is. The most important development for these women would be the ability to transform their association into a legal union and fight for binding agreements that would improve the lot of all homeworkers.

10. Raise minimum wages to a living wage

Minimum wages were initially introduced as a way of protecting workers from gross exploitation in periods of high unemployment when people would accept jobs at any rate in order to eat. While the issue of gross exploitation may rear its head again, until recently there have been two approaches to what a minimum wage should accomplish in a modern industrialized society. One approach recommends that the minimum wage be a certain proportion of the average industrial wage, typically about 60%. The other approach centres on the cost of living. This approach uses the low-income cut-off, popularly known as the "poverty" line, as its benchmark.

Between 1988 and 1995, for both men and women and in virtually every region of the country, the share of jobs at the bottom of the wage totem grew.[10] A growing proportion of minimum wage workers were adults (25 years of age or older). In 1995 about a quarter of the minimum wage workforce had a college or university degree, compared to about 10% in 1988. Among women working at the minimum wage, more than half are adults.[11] One in ten is a single mother. Men with children provided 35% of the hours worked at the minimum wage. Given current trends in welfare reform in Canada and the U.S., the minimum wage is likely to become an increasingly important "back-stop" for wages if, over time, more people skirting around the bottom end of the labour market are pressured to find more hours of paid work.

Ontario's average hourly wage rate in 1997 was $16.32, for all workers across all industries and occupations. The province's minimum wage is $6.85, where it has been since 1995. That rate of pay is 42% of the industrial wage, and Ontario is among the highest rates. Manitoba, for example, places the floor at $5.40 an hour.

A study of minimum wages in Ontario showed that, in 1975, a single parent of one child working full-time full year at the minimum wage would be at 80% of the poverty line in a big city like Toronto.[12]

More than twenty years later, a full-time full-year job at the minimum wage ($6.85 and frozen since 1995) would generate $14,250 before taxes. That's not quite two-thirds of the poverty line for a single parent and one child in Toronto in 1997.[13]

Living wage campaigns are now starting in many localities throughout the U.S, the country with the highest proportion of low wage workers in the industrialized world. The living wage campaign rejects the notion of minimum wage as the basis for improving working wages. The focus is on companies that take financial assistance or contract for services with local government, arguing that if taxpayers are providing financial benefit to companies, they in turn should at least pay their workers more than poverty wages. The Living Wage Resolution aims to raise the base pay for employees in these firms to 110% of the federal poverty level for a family of four, and to provide health care benefits.

Madison Democrat Senator Chuck Chvala went further, introducing a law in March 1997 that would require a living wage of at least $16,000 a year for employees of companies that get state financial help. Health insurance also would be required for workers at companies that receive $25,000 or more by way of state loans, grants or tax breaks. State-aided companies would be forbidden to eliminate any jobs if they move part of their

10 See the excellent article by Nicole Fortin and Thomas Lemieux, "Income Redistribution in Canada: Minimum Wages versus Other Policy Instruments" paper delivered at the IRPP (Insitute for Research on Public Policy) Conference on Adapting Public Policy to a Labour Market in Transition, April 18-19, 1997 Montreal Quebec.

11 The figures for these comments are based on 1993 data found in the technical tables at the end of the Fortin and Lemieux paper.

12 Social Planning Council of Metropolitan Toronto, Social Infopac, Vol. 6 No.1, Toronto: 1987 Vol. 6 No. 1 . Note that this is a useful publication at for looking at changes in minimum wage rates from 1975 to 1985 iu all provinces.

13 See Statistics Canada, Catalogue 13-551 for poverty lines, called low income cut-offs, of different family sizes in different sizes of cities.

operations to another state. Penalties will hit companies that don't comply. See http://www.solidarity.com/LivingWage

11. Call for "maximum" wages?

Raising the floor of earnings is at one end of the equation. In an era that is paranoid about inflation and cost increases of all sorts, putting a limit on the ceiling of earnings is logically at the other end of the same equation. People in other countries call this wage solidarity or wage compression.

Three approaches to lowering the ceiling are possible: restrict compensation, restrict corporate tax reductions when paying elevated executive compensation, or increase the taxation of personal income. All three are practised to different degrees around the world today.

Management consultants like Towers Perrin have documented that, over the years differences in executive compensation are largely driven by differences in the availability and amounts of long-term "incentive" compensation stock options. Why? Until recently stock options have been rare, often not allowed due to legislation and regulations. The most recent Towers Perrin "World Wide Survey" shows that CEOs in Argentina, Belgium, Germany, Japan, New Zealand, South Korea, Spain , Sweden and Venezuela do not receive long term incentives as part of their compensation packages.

Perhaps the most interesting and important examples are Japan and Germany. Both countries have seen efforts in the last year to get rid of the rules that restrict forms of payment to executives.

In Japan, stock options are restricted through law and through tax disadvantages. Japan legalized them as a form of payment in May 1997 after almost a year in the legislative process. However, since then, only 40 of the more than 3,000 registered companies have registered stock options, reflecting both a cultural lag and tighter fiscal treatment.[14]

Germany had similar legislation to permit stock options before its legislature in January 1998 but early reports indicate it was rejected. German corporations can get around the stock option restrictions by granting convertible bonds, rather than stock options. The same Forbes article notes that, in 1997, 10% of German companies listed on the DAX (Germany's equivalent of the Dow Jones Industrials) offered these type of packages to executives, but that a year later the number was closer to 30%. Still, the majority of companies in Germany are less likely to super-reward those at the top.

Instead of bucking restrictions, Norway's parliament introduced some. It recently passed a law that effectively eliminates any incentive to issue options. It does this by taxing options as current income, even though the option might turn out to be worthless if the

[14] Luisa Kroll, "Warning: capitalism is contagious", *Forbes*, May 18, 1998.

share value drops in the market. Says Forbes "Who wants to pay taxes on profits that may never materialize?"

The American approach to challenge over-the-top compensation trends for the elite has also focussed on the tax system. In 1991, and again in 1997, legislation was brought forward seeking to limit the deductability of executive compensation from corporate taxation.

The U.S. tax code allows businesses to deduct "a reasonable allowance" for salaries and compensation. Reasonable is not defined, so most companies routinely deduct the entire executive pay package. The most recent version of the bill was introduced in Congress by Martin Sabo (Republican, Minnesota). Called the Income Disparities Act, it seeks to limit the reduction of federal corporate taxes only to companies that pay their top executives salaries and bonuses which amount to no more than twenty-five times the salary of the lowest-paid employee. This is the ratio between the U.S. president's salary and the federal minimum wage. Any excess above that amount would be subject to the highest federal corporate tax rate (34 per cent).

Then there is income tax. If a welfare recipient has a 100% tax-back rate on every dollar earned above a certain threshold, then what's wrong with putting the brakes on the earnings of the super-rich through income taxes? In their 1997 Worldwide Total Remuneration survey, Towers Perrin shows that about one-third of their sample of nations (Belgium, France, Germany, Italy, the Netherlands, South Africa, Spain, and Sweden) took back over 50% of the total cash compensation of chief executive officers through taxes and other deductions. The American rate was about 40% while Canada clocked in around 48%.

12. Improve pay equity

Manitoba was the first jurisdiction in Canada to enact Pay Equity legislation in 1985. Eight provinces now provide pro-active – rather than complaints based - pay equity, and the remaining two (Newfoundland and British Columbia) are providing comparable worth adjustments in the public sector. Only Quebec (since 1996) and Ontario (since 1987) have tried to extend coverage to the private sector.

It is precisely because pay equity legislation is so effective that the federal government is trying to appeal and renegotiate the deal. In a 14 year old case rising out of the federal public service, the Human Rights Tribunal accepted a methodology for calculating the wage gap that reflected neither the government's nor the union's position. Those recommendations would put, for example, about another $5,000 a year into the pocket of the lowest level of clerical worker in the federal public service, and about $2,500 for the highest level of clerical worker. In all there are about 200,000 workers who are affected by the implementation (or denial) of pay equity at the federal level, and 80% of those are women. (These are Treasury Board figures, which include both those currently working and those who have left the federal public service since 1985, the year pay equity was supposed to begin.)

In Ontario, about 40% of the female job classes in the public sector received a wage adjustment by 1995.[15] The Pay Equity Office studies showed that pay equity settlements varied from $400 to $13,450. The average adjustment was about $4,000. About a third of female-dominated job classes in the public sector had no male comparator group. The "proxy" method which was devised to establish the "value" of this work covers about 100,000 workers, most of whom are women, working in over 4,000 workplaces providing day care and home care, working in community agencies and libraries. In 1998 the total budget devoted to pay equity for this group was $590 million, resulting in an average award of almost $6,000 a year.

Ontario is one of the few jurisdictions that covers the private sector. Wage adjustments only took place for roughly one in five female job classes in private sector workplaces with more than 500 employees. It appears the payouts are smaller in the private sector too, with adjustment averaging about 5% of female employees' base wage rates. About half the female job classes in large private sector establishments were found to not have a wage gap, and more than a quarter received no adjustment because there was no male comparator group.

While more modest in its success, it is clear that efforts to change the culture of valuation in the private sector had a real pay-off for some women. This is an area of obvious promise. The provincial government has been trying to scrap the program recently.

13. Demand better corporate behaviour

Recent legal developments in Canada and the U.S. have paved the way for shareholders to raise important questions about the way decisions are taken by boards of directors of publicly traded corporations. This is an avenue for challenging decisions corporations take regarding employment practices, executive compensation, hiring policies, and may even open the way to raising questions about down-sizing and layoff policies in profitable operations.

The British Columbia Federation of Labour led a coalition this year threatening shareholder action in four retail companies – Hudson's Bay, Mark's Work Wearhouse, Dylex and Sears – because of unfair and illegal labour practices they indirectly support in the garment industry through their use of contractors. In order to avoid these questions reaching the floor, the four retailers have supported a proposal to establish a federal task force whose objective could be create a forum for negotiations to establish monitored and enforced mechanisms regulating contract practices.

In May 1998, U.S. stock regulators finally adopted changes requiring companies to consider a range of proposals. They were responding to protests by a coalition of 340

[15] See Review of the Pay Equity Act, a report by Jean M. Read, presented to the Minister of Labour July 5, 1996, pp. 19-21. This section cites the work of Morley Gunderson "Gender Discrimination and Pay Equity Legislation" in Grant Christofides Aspects of Labour Market Behaviours, Toronto: University of Toronto Press, 1995, as well as other studies.

social activist, religious and labour groups – named the Social Investment Forum - who called for removing the federal legal restriction on voting on issues of employment practices dropping the automatic bar on questions of "social policy" at stockholder votes.

This spring, the National Bank agreed to break up the slate of proposed directors of its Board, instead presenting the shareholders with the opportunity to elect each director of the board separately. This move was spurred by Quebec lawyer-"activist" Yves Michaud's multi-year battle, in the courts and at shareholder meetings, to introduce more democratic practices in corporate decision-making. With the possibility of dissent emerging on boards of directors, a broader range of issues can be brought to the table. His proposal to raise the question of executive compensation has only narrowly lost the vote at a number of annual meetings of the banks this year, suggesting that it is a question of when, not if, these issues will be brought to broader scrutiny.

This is not about "democratizing" the corporate world. Inside this world, only money buys you voice. The more shares, the more votes. However, these developments are worth noting because they offer possible avenues for widening the public discussion of what people are worth, and how we value each other. This in turn may lead to enough public pressure to raise social expectations that the value gap needs to be reduced.

THE INCOME GAP

Social behaviour cannot be measured in market principles. The market requires a relationship based on reciprocal exchange. Social behaviours often entail unilateral exchanges.

Social programs benefit people in different types of need – health needs, education needs, income needs. They are not about reciprocity. They are about giving to people what they need, and redistributing resources to accomplish this.

Universal programs like public health and education enjoy wide support because people see that they help tackle the issues of inequity, but they also feel they have a personal stake in how these programs deliver. Income supports, too, can be designed to support the whole population at various times in its life. Family allowances and public pensions are just two examples in Canada.

We have shifted away from universal income supports for the most part. For those who are of working age, we have shifted towards policies that emphasize that people should "deserve" help and should prove that they are trying to help themselves. The optics have become clouded by notions of reciprocity.

Public policy has become obsessed by work incentives. At the same time it has not focussed on making sure there are enough jobs for people, or that they pay people enough to earn a living, not just a wage.

Some of the policy options that we have included here have gained such relevance that it would be a gross oversight to exclude them. This does not mean they are solutions to the underlying dilemmas posed by labour market developments, namely not enough paid work for all who need it, and all too much work at poverty rates of pay.

Many of the programs are apologies for these developments, accommodating the new dynamics of the market by supplementing the incomes of the working poor and encouraging employers to hire by subsidizing their wage bills. But we include them here because they are ways of providing immediate, short-term relief for people who are desperate for more money *now*, not when we figure out how to create more jobs at decent wages. Their very logic may reinforce the problems they hope to overcome. All these ideas need to be examined to determine their role and their potential for closing the gap.

14. Supplement Low Wages

These mechanisms are a public policy acknowledgement that there is a failure in the market. They can provide short-term, not long-term solutions for low wages, and as such are often sought vigorously both by the corporate sector (for cost relief) and by those fighting for economic justice.

While we do not endorse them, we acknowledge some programs can provide immediate economic relief for the working poor. However they generally act to reinforce market trends, not genuinely offset them.

They can take the form of <u>supplements for training and education</u> on the job. These range from public funds that offset the costs of in-depth apprenticeship, to subsidizing workers' wages, providing all or some of the costs of hiring a new worker for a limited period in order to offset the costs of on-the-job training in non-professional and non-trade occupations.

These "upgrading" subsidies which may be paid to the employer, or offset the costs of education for the apprentice, may or may not be conditional on some kind of pay-back. In the case of the apprentice, or professional, the "contract" may be that the person who is trained has an obligation to remain with the employer where the training was received for a set period of time. This is done to avoid "free-loading" in the corporate sector, and is the practice in Germany. In the case of shorter-term on-the-job training that is provided through wage subsidies, the "contract" may be that the government offsets the costs of recruiting a new person but the employer must guarantee a certain period of work for them after the subsidized period is over. Sometimes these subsidies come with no conditions.

Another form of subsidy is through <u>reducing payroll taxes</u>. A variety of schemes can have employers who recruit new workers pay reduced, or no, contributions for public pensions, social security, unemployment insurance and health insurance or some combination of these. The period of the tax "holiday" can vary and some programs have proposed to extend this waiver to the recruit's contributions as well.

Perhaps the most wide-spread form of wage supplementation is a form of tax-based earned-income supplement, pioneered in the U.S. and now gaining wide acceptance here in Canada. These are targeted at the working poor, usually those with dependent children. The critical element is a tax credit, which can either reduce the workers' payable tax, thereby increasing their annual disposable income, or actually send the worker a cheque after the end of the year. This effectively means that there is a guaranteed annual minimum income for those who work. It does not apply to the non-working poor.

A less widely used system actually supplements the income of the working poor up to, and in some cases beyond, the level of welfare. In Ontario, Supports to Employment Program (STEP) was designed to provide financial incentives for those receiving social assistance so that taking a job, even a poorly paid one, would always leave them financially better off than if they chose not to work. The design also gave supplements to the incomes of the working poor by filling the gap between what a household earned and what that household could have received if it were on welfare. [16] That objective was meant to prevent people from falling all the way into the public purse. Originally, the program did even better, improving workers' incomes to beyond welfare rates, in the same way former recipients were "rewarded" to leave welfare. Though it was not advertised and was only communicated through word of mouth, the number of recipients on this program grew so large that the government placed substantial restrictions on it. It still exists today but is more focussed on shifting people off assistance and providing incentives to keep them in jobs, than providing support to the working poor.

15. Restore and improve income supports

People who have no paid job are unlikely to survive for long without some form of support. The line between the two key income supports – unemployment insurance for the temporarily unemployed and social assistance – is becoming increasingly blurred. Access to both programs has become more difficult in this decade.

There is still a need for an unemployment insurance program that provides benefits related to prior earnings when people are between jobs. Anyone can lose a job or become ill. Because individual employers and employees have little control over these circumstances, they pay premiums as a hedge against bad luck. The notion of social insurance is based on the idea of pooling risk, across age groups, across regions, across industries, so that different groups can draw benefits as needed. There is, built into the system, a certain notion of cross-subsidization, so that those workers, areas and industries which are more prone to joblessness have the support of those who, through no personal virtue, have ended up in more stable regions and sectors of production.

[16] Note that this doesn't mean any household with a lull in earnings can apply for welfare. To be eligible to receive welfare, the household's liquid assets, and even most non-liquid assets, must be stripped. This means no financial back-up or cushions are available; there are no family safety nets.

UI is not a relief program, designed to prevent people from falling into destitution. It was a program designed to keep incomes as stable as possible over periods of temporary loss of earnings. This is as important to individuals and families as it is to the overall economy. Stabilizing purchasing power means that a small downturn in a sector or region doesn't ripple into a larger downturn in the entire economy.

Today only a minority of unemployed workers (around 40%) have access to benefits even though they all pay into the system. This is in stark contrast to the situation at the beginning of the decade, when the vast majority of the unemployed could rely on maintaining 60% of their previous income, usually until they found their next job. With benefit rates as low as 50% of prior earnings, the lowest-paid levels of worker, who most desperately need these supports, are ill-served under our "modernized" system. Upcoming changes that have been proposed may shift the system even further away from the notion of income support and stabilization. More unemployed workers may end up receiving benefits on condition that they ... find work! (See page 57-58.)

There still is also a need for income support in times of absolute economic crisis in one's household, when personal financial resources through work, savings and family have evaporated. This can be a short-term emergency or a longer-term problem if issues of family break-up, psychological or physical disability play a role. Social assistance programs offer this financial aid of last resort.

Since introduction of the Canadian Health and Social Transfer in 1996, social assistance programs in every province have had to compete with programs for health and post-secondary to get their share of a shrinking pot of money. It comes as no surprise that spending on social assistance receives the least public support in this environment, precisely at a time when a growing number cannot sustain themselves through their own employment efforts. In the last three years every province but New Brunswick has reduced welfare rates, shelter allowances and/or tightened eligibility. New Brunswick has historically provided the lowest or among the lowest benefits, depending on the criteria used.[17]

Income supports also go to families who are raising dependent children. Adequate levels of paid maternity and parental leaves can facilitate parents' choice to stay with their new-born infants or young children. In Canada this is most widely achieved through unemployment insurance, though paradoxically the poorest working parents can rarely afford to enjoy their full statutory entitlements of time "off" due to the low rate of income replacement (55%) during the period. (Legislation allows 15 weeks maternity and a further 10 weeks parental leave. Though amendments to unemployment insurance in the early 1990s provided for more time off, they also reduced the income-replacement rate.)

The creation of the Child Tax Benefit program in 1993 replaced a universal program (the Family Allowance) and child tax exemptions with a targeted program for low-income families with young children. It is administered by an income-test in the tax system, and

[17] See especially National Council of Welfare Another Look at Welfare Reform, Autumn 1997, p.26.

supports go to both working and non-working families with low income. But the system is designed to best assist the working poor, rewarding their work effort by supplementing their incomes. Benefits peak for families with net incomes up to $20,921 a year. Changes which kicked into place in July 1998 now provide maximum benefits for children under the age of 7 to $1,838 for the first child and $1,638 for the second and each additional child. Though far more generous than the original model - which offered the working poor a handsome $500 a year more than the system in place before and left the non-working poor no better off – it falls far short of a program that tackles the issue of poverty in young families.[18]

Most European nations provide longer periods of maternity benefits at much higher rates of income replacement than we do here. Furthermore there is widespread use of universal family allowances. Some nations have specific goals for these allowances. France has a single parent allowance which acts as a minimum income for parents under the age of three. Germany provides tax exemptions for the "subsistence minimum" children (which is the same as adult personal exemptions), a non-taxable universal family allowance (the equivalent of more than $200 Canadian per child per month) and an education allowance. The combination covers about 50% the costs of raising a child. Netherlands has a universal allowance that covers 33% of the cost of raising a child.[19] Australia pays a public benefit for low-income mothers to care for both their preschool and school-aged children at home (in the absence of any support for day care in that country). [20]

16. A guaranteed annual income?

There is renewed interest in discussing the merits of a guaranteed annual income here and in Europe. It is an idea that just will not go away, but never quite arrives. Though there have been repeated attempts to articulate a version that has "legs", no practical initiative has provided a viable and sustainable solution.

In 1785, a Justice of the Peace in Speenhamland, England came up with a remarkably modern concept of a guaranteed income that combined both a wage supplement element (tied to the price of bread, the basic staple of life) and a family benefit element (also tied to bread, by varying the amount needed according to family size.) It was the first time in modern economic history that the working class was not sentenced to starvation when wages were depressed, or when their families grew too large.

[18] Just to place this story in context, at the time of its demise, the monthly Family Allowance cheque was not enough to cover the costs of milk for a family of four. In contrast, when it was first introduced in 1946, the average family received more than $14 a month, at a time when average weekly earnings were about $100 a week. This would have been enough to cover most of the groceries for a week. All families with the same number of dependent children got the same amount.

[19] See Kathy O'Hara, "Comparative Family Policy: Eight Countries' Stories" for a full treatment of income supports and other programs supporting families, prepared for Ottawa: Canadian Policy Research Networks, May 1998.

[20] Maureen Baker, "Poverty, Social Assistance and the Employability of Low-Income Mothers: Cross-national comparisons", paper prepared for the Employability and Social Partnerships Division of Human Resources Development Canada, January 1998, p.14.

Since the Second World War, the idea has been primarily promoted by those who see the possibilities of such a mechanism being used to scale back the welfare state. The neoconservative economist Milton Friedman outlined a negative income tax scheme as the primary way governments should redistribute income in society. The beauty was that governments could be perceived as helping people, but the assistance could be set at such a low rate that it would guarantee a high "work incentive", i.e. self-reliance.[21] The need for government would scarcely arise.

Interest in the idea of a guaranteed minimum today is largely sparked by pessimism that there will never again be enough work for all employable people to achieve economic security through the fruits of their own labour. That theme is by far more prevalent than the view, held in the late 1960s and early 1970s, that material circumstances now allow us to wage war on poverty by raising the social minimum among citizens.

The first argument for a guaranteed annual income – there will not be enough paid work for everyone – rallies a remarkable coalition of support. Anti-poverty advocates, corporate elites and government bureaucrats themselves can find common turf here, if for different reasons. The anti-poverty folks see it as a step towards immediate economic relief, a concrete solution for the very real problem of not having enough work or money in their communities right now. The poor cannot wait for deliberations. The rest see the possibilities for containment and retrenchment. In its current formulations, guaranteed incomes are indeed a way of imposing austerity.

Every time another crack is taken at the notion of a guaranteed annual income, we behave as if one does not already exist in Canada. It does, though it comes into the pockets of different groups of people through different programs. The real minimum of the system is social assistance. The exercise of the "McDonald" Commission in the mid-1980s is illustrative of this blind spot in our thinking.

The report of the Royal Commission on the Economic Union and Development Prospects for Canada resurfaced the notion of the guaranteed annual income in 1985.[22] Their recommendations described how to conduct radical surgery of the social security system, replacing existing programs with a Universal Income Security Program (UISP). Financing for this program would come from eliminating Family Allowances, Child Tax credits, Married Exemptions, Child Exemptions, the Guaranteed Income Supplement for the Elderly, Federal Social Housing Programs, and federal contributions to the Canada Assistance Plan. The Commission also called for "less emphasis" on minimum wage laws and "trimming" the unemployment insurance system. Sound familiar? With the exception of income supplements for the elderly (a political no-sell), this shopping list of constraint has been ticked off over the last decade. What was the supposed prize for this exercise in belt-tightening? The favoured option in the report was a <u>guaranteed annual income of $2,750 per adult and $750 per child.</u>

[21] This idea is most fully developed in Milton Friedman's Capitalism and Freedom (1962), aimed at simplifying and de-bureaucratizing the welfare state, some say in preparation for phasing it out.

[22] See <u>Report of the Royal Commission on the Economic Union and Development Prospects for Canada</u>. Vol. Two, Part Five, pp. 619-622.

The provincial government of Newfoundland proposed a similar desperate measure in 1993. Aiming to stabilize transfers from the federal government as unemployment insurance came under attack, these proposals called for a basic income of $3,000 per adult and $1,500 per child.[23] (Note that this is less than the MacDonald Commission's recommendation when inflation is taken into account.) It was widely acknowledged to be a loss-leader, too generous and therefore fiscally impossible to extend to other economically depressed regions. Thus it was not a program that could have national application and the federal government didn't bite.

The fact that $3,000 per adult was too expensive a proposition in 1994 should alert us all, proponents and detractors alike. The lower the floor of a basic income, the greater the competition among and between workers and the unemployed. The unleashed market is quite able to produce crowding at the bottom end of the income spectrum all by itself. Rather than alleviating poverty, proposals flowing from corporate and government elites reinforce and exacerbate poverty.

The paradox is that guaranteed incomes – at least the kind that permit an economics of sufficiency and choice for everyone – would work best when there is less pressure on the system to find enough paid work. Of course, this is when the issue usually falls off the policy menu.

For over two centuries different designs for a guaranteed income scheme have see-sawed between highly targeted, high levels of basic support and more widely available but lower levels of entitlement. Setting a low basic guarantee permits a long range of tax-back rates, which means that a broader swath of the population receives some kind of benefit. (Note that these programs are quintessentially targeted, not universal, mechanisms.) The problem is, for those unable to work it simply isn't enough money to survive. Setting a floor that comes closer to covering the basics for a modest, not a deprived, life means a higher rate of tax-back, which undermines the work incentive. That's why most people have given up on the guaranteed income.

There appears to be a new driving force that is calling for a guaranteed annual income, not clearly "left" or "right" in its political orientation. (For a fascinating discussion, check out the newsletter of the Basic Income European Network at http://www.econ.ucl.ac.be/etes/bien/bien.html) It is based on the principle that we have long since arrived at a point in human history where it is technologically possible to loosen the tight connection between people's basic economic security and their paid labour effort. They view this now as a challenge for social, not mechanical, engineering.

[23] Economic Recovery Commission, Government of Newfoundland and Labrador, "Proposal for a New Income Supplementation Program and Other Reforms to the Income Security System", December 1993, p. 17. This design would permit a 20% earned income supplementation rate for those who are working, ranging from $500 to $10,500. Benefit reductions begin at a total family income of $15,000 per year, with benefits paid back at a 40% rate per earned dollar above $15,000. A family of 2 adults and 2 children and no work would sit back on $9,000 a year.

Will they succeed in capturing a broader public consensus that this is the way to go? Will they succeed in finding a formulation that can be implemented and not get caught on the prickly intersection between work incentives and economic relief?

Maybe. But the fundamental challenge is not only finding the right way to distribute income. It is also finding the right distribution of paid and unpaid work that needs to be done, and compress wage scales along the way. If we can figure out how to achieve this, we have found a sustainable foundation for providing adequate livelihoods for those that cannot work and real choice in how we construct our lives as individuals, as families and as the body politic.

THE COMMON GOODS GAP

This report has focussed on the growing gap predominantly from an economic point of view. We have listed many steps than can be taken to close the money gap between people, and much of it has focused on bringing the bottom up. But this is always relative to how much you need to spend in the first place. Basics like housing, education, health and other daily needs are becoming more market driven over time, leaving many with a constrained set of choices that they can afford.

Economic growth, by itself, is not likely to solve these problems. The issues are too complex. Closing the economic gap will not necessarily address important human issues like the quality of life. These include physical and mental health, environmental health, and safety, all of which are dimensions felt at the individual level but determined not so much by money as by the state of the commons.

That can be best weighed by looking at how basic needs are addressed publicly in society. Think about the range of services you use in your community, and think how much you could use them if you had to pay for them, or pay more for them.

- housing (including water, heat, electricity, sewage and garbage removal)
- affordable housing (through cooperatives, non-profits, and other rent-geared-to-income schemes)
- health services (physical and mental health, emergency, long-term and preventive)
- education (primary, secondary, post-secondary, skills upgrading, literacy)
- child care (for infants, for pre-schoolers, for school-aged children)
- eldercare and adult day care
- roads and public transit
- parks and recreational facilities
- libraries
- security (police, shelters, youth and children's services)

The twin demons of the 1990s, devolution of responsibilities and public austerity, are taking their toll on the common good. Critical decisions are being made at a very decentralized level. Not just municipalities but school boards, transit authorities, community centres, individual households are making tough choices about what they can afford. Who will do without what in this world we are creating? Who will spend more – the few who will pay the new price of access? or the whole community, through higher taxes? What services will get the vote for essential public provision? What will happen to the quality of publicly provided services? By how much will the range of publicly provided service shrink?

To the extent that we can maintain or improve the level of public provisions, we are not only closing a gap in the common good, we are creating a commons. Quebec has done just that by recently introducing its universal $5 a day program of public child care, available to all parents, working or not. That initiative creates jobs, provides safe and stimulating quality-controlled environments for our children, and provides relief for the tight budgets of parents of young families.

Taxes provide "free" and subsidized access to a wide range of publicly needed goods, things everyone needs to live their lives. These common goods "decommodify" our world, enabling people to enjoy a decent life not as a privilege or an accident of time and place but as a human right in a world of plenty.

THE WEALTH GAP

Just as the poor don't *deserve* to be poor, the rich don't *deserve* to be rich.

Working hard does not guarantee you get rich. There are plenty of people who work very hard and are very poor, or have lots of training and experience but no job. And being rich is not just about how much you can make, it's about wealth. Wealth is as likely as not to come about due to factors that have nothing to do with personal virtue: inheritance, increases in the values of stocks and bonds, lucky investments.

If we need to redistribute resources, this might be a good place to start.

In 1972 Canada abandoned it inheritance tax. Today, among the 24 OECD countries, Canada stands with Australia and New Zealand at its side as the only countries without an inheritance tax. We have no wealth tax of any kind at all, making us a unique example of polite deference to wealth in the block of OECD nations.

Using the 1972 inheritance tax formula as a guide, adjusted to the current standard of living, the federal government could raise more than $2.5 billion. The Ontario Fair Tax Commission suggested that a federal tax on wealth transfers at death *exempting the first $1 million from taxation* would raise a minimum of $2 billion. Using the American model of the tax, which raises $15 billion annually, and adjusting for population, the federal government could raise about $1.5 billion. If we used the OECD average for inheritance taxes (equivalent to 0.3% of GDP) it would produce an amount over $2 billion. Around $2 billion is ripe for the picking when we are ready to grasp the notion that it is time for everyone to pay their fair share.

The family trust provisions, which shield the assets of large estates indefinitely from taxation at the time of inheritance, also need to be reviewed. Though no figures are "available" from the Finance department, tax experts estimate these assets would yield a one-time source of revenue between $400 million and $1 billion.

Concentration of ownership is again emerging as an issue in Canada. Conrad Black controls more than 50% of the English-language daily news circulation in this country, and that's *before* he launches the National Post. The Irving family practically rules the Atlantic economy. The banks are so hot to merge that they are promising to guarantee jobs if they get the green light… and threatening to *cut* jobs if they are *not* allowed to go ahead. Anti-combines legislation exists, but it is weak and it is not enforced. As the taste for consolidation sweeps the boardrooms of the world, we are likely to be held hostage if we do not prepare ourselves with optional ways of re-regulating corporate behaviour.

If you want to close the gap between the rich and the poor in Canada, there are lots of things you can do to help the poor. But there are also things you can do to limit the accumulation of wealth and power in the hands of a few. One cannot change without the other. They are two sides of the same coin.

CONCLUSION

Growing inequality should provoke strong emotional reactions: frustration, anger, rage. But the prevailing wisdom admires the success of the economic winners, and views the rich getting richer and the poor getting poorer as a "natural" phenomenon, perhaps unfortunate but necessary.

Most of us do not accept this ruthless social Darwinism. Though we are often dismissed for wanting to change the world, for labouring under old-fashioned and sentimental idealism, feelings of social compassion and community reside in all of us in one form of another. The desire to be accepted as equals is as fundamental a human longing as the desire for success. The trick is to balance the two.

When we fail to find that balance in our personal lives, the result is described as a dysfunctional family. When we fail to find that balance between equality, fairness and liberty at the collective level, there is no such easy term. But the result is equally devastating. There will be a terrible cost to pay if more and more people are having to share our small planet without a shared commitment to our social well-being.

CENTRE FOR SOCIAL JUSTICE

THE GROWING GAP

APPENDIX

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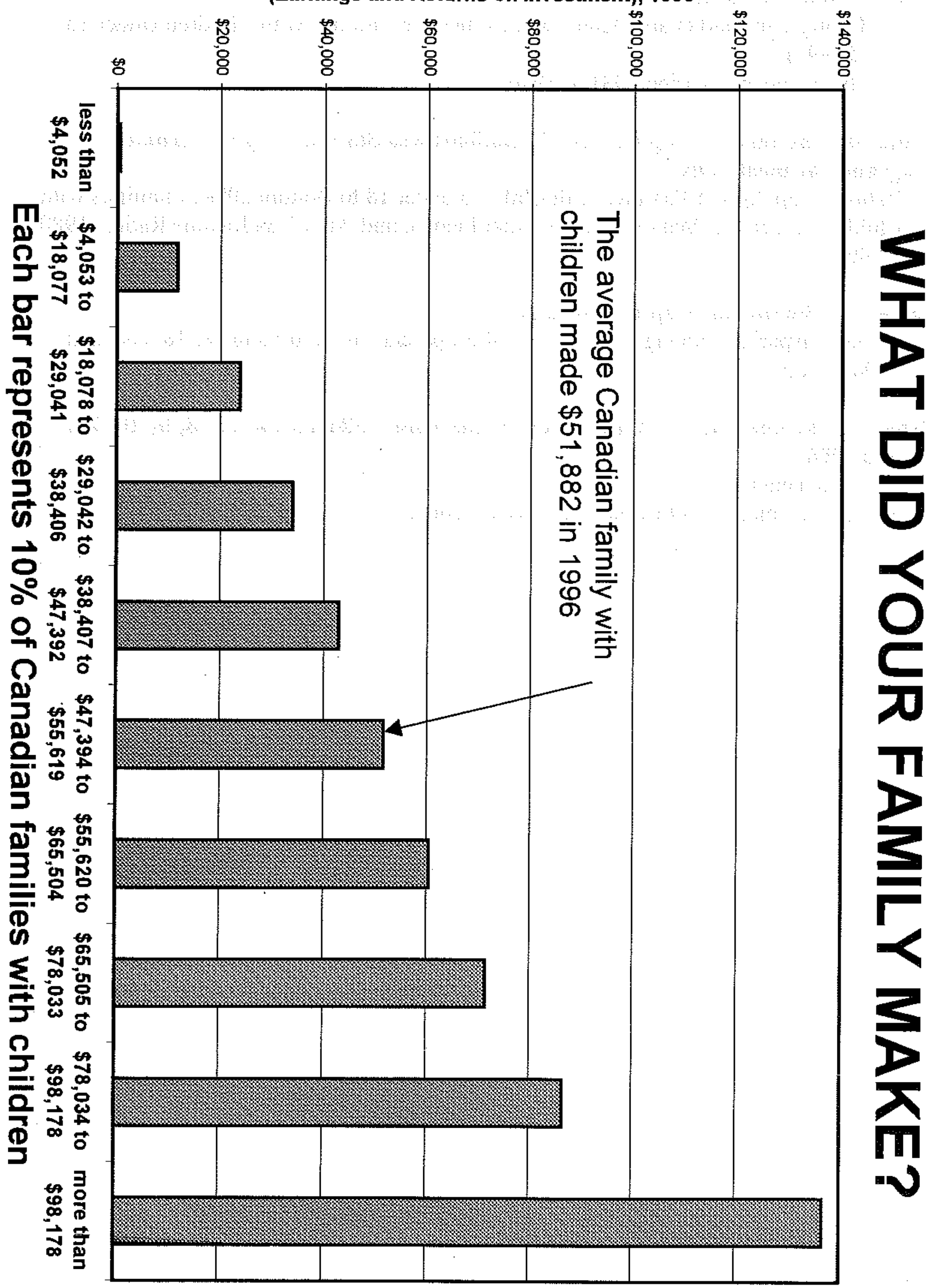

Average After Tax Income

(Earnings, Returns on Investment and Income from Government Programs minus Taxes), 1996

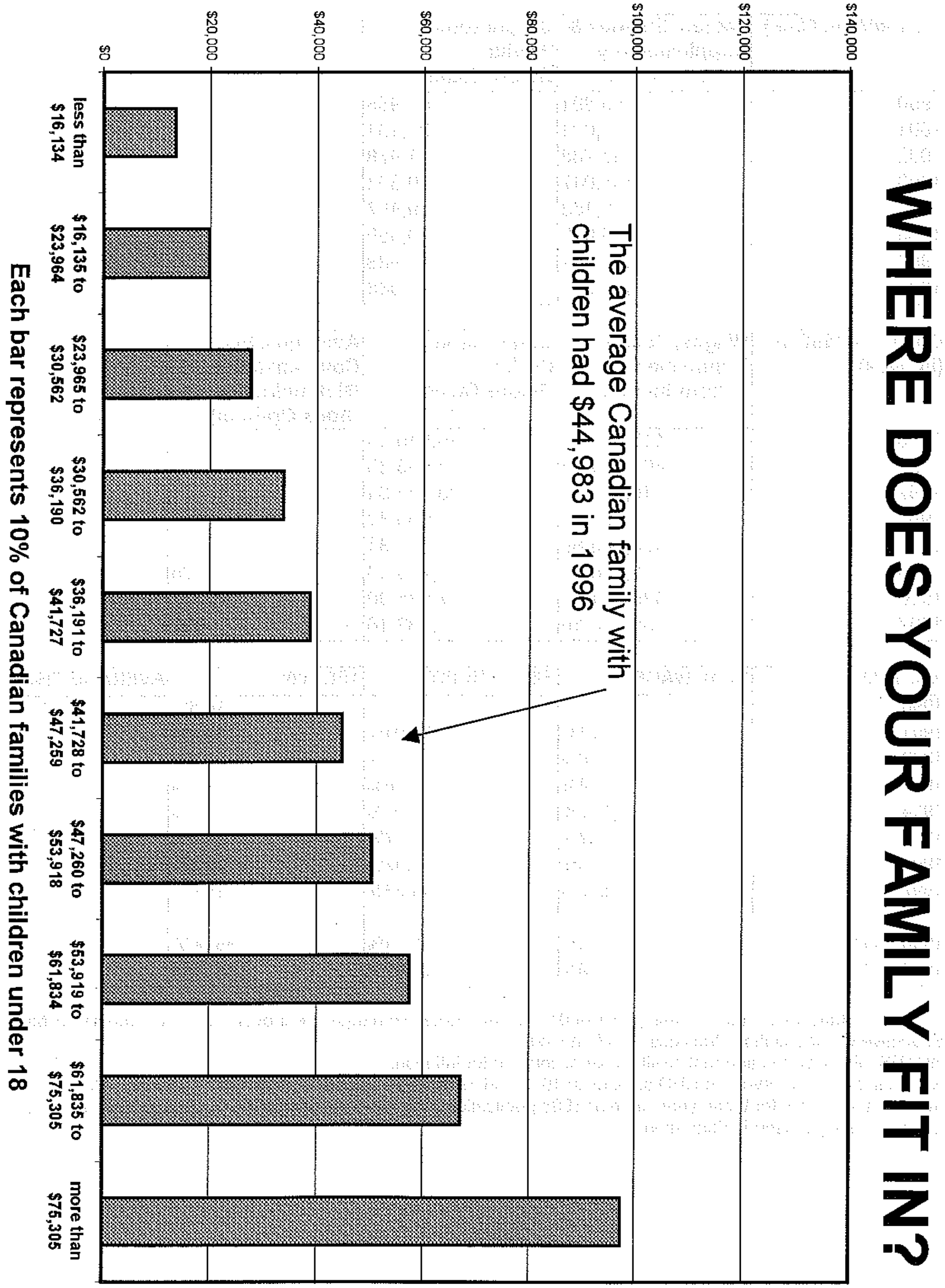

TABLE 1. WAGES, PROFITS, STOCKS AND CEO PAY, CANADA, 1990-1997

Current$ (in 000s)	Wages, Salaries & Supplementary Labour Income	Corporation Profits Before Taxes
1990	368,891	43,988
1991	379,091	32,101
1992	387,788	31,978
1993	395,047	40,364
1994	405,163	59,467
1995	419,096	70,355
1996	429,601	67,988
1997	445,804	78,988

Constant 1996 $ (in 000s)	Wages, Salaries & Supplementary Labour Income	Corporation Profits Before Taxes	Average CEO Compensation (Not Including Stock Options)
1990	418,558.39	49,910.53	
1991	407,225.39	34,483.39	
1992	410,424.21	33,844.64	
1993	410,601.83	41,953.32	
1994	420,385.89	61,701.31	557
1995	425,496.23	71,429.43	605
1996	429,601.00	67,988.00	731
1997	438,716.10	77,732.16	862

% CHANGE	REAL WAGES	REAL PROFITS	TSE 300*	AVERAGE CEO
1990			-14.8%	
1991	-2.71%	-30.91%	12.0%	
1992	0.79%	-1.85%	-1.4%	
1993	0.04%	23.96%	32.5%	
1994	2.38%	47.07%	-0.2%	
1995	1.22%	15.77%	14.5%	8.6%
1996	0.96%	-4.82%	28.3%	20.8%
1997	2.12%	14.33%	15.0%	17.9%
1990-1997	4.82%	55.74%	85.90%	
1992-1997	6.89%	129.67%	88.70%	

Sources: Statistics Canada, Catalogue 13-001; Toronto Stock Exchange (Year over Year, December); KPMG Executive Compensation Practices, 1997 and 1998.
NOTES: Real wages and real profits have accounted for inflation.
KPMG's figures for average CEO salaries in 1995 and 1996 which appear in their 1997 publication do not match their figures for those years in their 1998 publication. We have calculated the % change based on the most recently published information.

TABLE 2. CANADIAN WOMEN LIVE IN ONE OF THE MOST WORK-ORIENTED SOCIETIES IN THE WORLD:

Women's Participation Rates Around the World, OECD Nations, 1995

Country	%
Iceland	82
Sweden	75
Denmark	74
Norway	72
United States	71
Finland	70
Canada	**68**
Switzerland	67
New Zealand	66
Czech Republic	65
Australia	65
Japan	62
Poland	61
Germany	61
France	60
Netherlands	57
Belgium	56
Korea	53
Ireland	48
Greece	46
Spain	45
Italy	43
United Kingdom	42
Mexico	40

Note: Of the 29 OECD nations, Canada's female participation rate ranks 7th.
Source: OECD Historical Statistics, 1997, Table D

TABLE 3. HOW MUCH MORE CAN WOMEN DO?
Labour force participation rates in Canada, 1946-1997

	MEN Aged 25+	WOMEN Aged 25+	WOMEN Youngest Child Under 3	WOMEN Youngest Child Under 6	WOMEN Youngest Child 6-15
	Participation Rates (in %)				
1946	89.27	18.22			
1947	88.83	18.23			
1948	88.90	18.24			
1949	88.62	18.03			
1950	87.57	18.00			
1951	87.37	18.31			
1952	87.14	18.77			
1953	86.67	18.48			
1954	86.11	18.88			
1955	86.30	19.42			
1956	86.63	20.41			
1957	86.96	21.84			
1958	86.73	22.49			
1959	86.55	23.20			
1960	86.50	24.44			
1961	86.13	25.48			
1962	85.82	26.03			
1963	85.54	26.80			
1964	85.58	27.84			
1965	85.48	28.64			
1966	84.90	31.20			
1967	84.50	32.30			
1968	84.00	32.80			
1969	83.80	33.80			
1970	83.30	34.50			
1971	82.70	35.40			
1972	82.30	36.20			
1973	82.30	37.60			
1974	82.20	38.50			
1975	81.90	40.00			

Note:
Data on participation rates of women with the presence of children were not published before 1976 and were not collected before 1971.

TABLE 3. HOW MUCH MORE CAN WOMEN DO?

Labour force participation rates in Canada, 1946-1997 (cont'd)

	MEN Aged 25+	WOMEN Aged 25+	WOMEN Youngest Child Under 3	WOMEN Youngest Child Under 6	WOMEN Youngest Child 6-15
1976	81.30	41.30	31.80	41.00	50.10
1977	81.00	42.60	34.30	42.60	52.10
1978	81.20	44.50	37.90	46.30	54.50
1979	81.20	45.50	39.80	48.00	55.80
1980	80.90	46.80	42.00	50.40	58.30
1981	80.70	48.50	44.80	52.60	61.20
1982	79.80	49.00	45.90	53.70	61.80
1983	79.40	50.00	49.30	55.90	62.20
1984	79.00	51.10	52.00	57.20	64.50
1985	78.90	52.20	54.40	59.80	66.20
1986	78.60	53.00	56.50	62.10	68.60
1987	78.30	54.20	57.30	63.40	70.70
1988	78.10	55.40	58.40	65.20	72.90
1989	78.00	56.10	59.90	65.80	74.90
1990	77.40	56.90	60.20	66.30	76.40
1991	76.50	57.00	61.60	68.30	76.20
1992	75.60	56.80	60.90	67.50	75.90
1993	75.30	57.10	61.30	67.30	76.40
1994	75.10	57.00	61.80	66.90	76.40
1995	74.40	56.80	61.90	67.80	76.90
1996	74.30	57.20	63.60	68.20	77.30
1997	74.40	57.10	66.10	68.80	77.70

Source: Statistics Canada, Labour Force Survey, published and unpublished data.

TABLE 4. HOW WE GREW: THE HOUSEHOLD'S ECONOMY
Average Family Income, Canada, 1951 - 1996

	Average family income in current $	Average family income in constant dollars ($1995)	% real change per annum
1951	$3,535	$22,743	
1954	$4,143	$26,094	4.91%
1957	$4,644	$27,973	2.40%
1959	$4,968	$28,766	1.42%
1961	$5,317	$30,203	2.50%
1965	$6,536	$34,506	3.56%
1967	$7,602	$37,385	4.17%
1969	$8,927	$40,363	3.98%
1971	$10,368	$44,101	4.63%
1972	$11,300	$45,890	4.06%
1973	$12,716	$47,952	4.49%
1974	$14,833	$50,427	5.16%
1975	$16,613	$50,975	1.09%
1976	$19,010	$54,250	6.42%
1977	$20,101	$53,139	-2.05%
1978	$22,397	$54,401	2.37%
1979	$24,643	$54,813	0.76%
1980	$27,686	$55,901	1.98%
1981	$30,664	$55,042	-1.54%
1982	$33,133	$53,677	-2.48%
1983	$34,672	$53,103	-1.07%
1984	$36,064	$52,931	-0.32%
1985	$38,471	$54,289	2.57%
1986	$40,816	$55,294	1.85%
1987	$43,114	$55,998	1.27%
1988	$45,845	$57,227	2.19%
1989	$49,557	$58,910	2.94%
1990	$51,122	$58,005	-1.54%
1991	$52,711	$56,623	-2.38%
1992	$53,206	$56,312	-0.55%
1993	$53,065	$55,154	-2.06%
1994	$54,153	$56,188	1.87%
1995	$55,247	$56,091	-0.17%
1996	$56,629	$56,629	0.96%

Notes: Per annum changes until 1971 are averages of 2-3 year actual changes.
Data for 1963 was not published.
Source: Statistics Canada, Catalogue 13-207-XPB, 1997.

TABLE 4. HOW WE GREW: THE NATION'S ECONOMY
Growth Rates of GDP and Average Family Income, 1951 - 1996

	GDP in current $ ($ millions)	GDP in constant dollars ($ 1986 millions)	% Change in real GDP per annum
1951	$22,280	$109,492	
1952	$25,170	$118,627	8.34%
1953	$26,395	$124,526	4.97%
1954	$26,531	$123,163	-1.09%
1955	$29,250	$134,889	9.52%
1956	$32,902	$146,523	8.62%
1957	$34,467	$150,179	2.50%
1958	$35,689	$153,439	2.17%
1959	$37,877	$159,484	3.94%
1960	$39,448	$164,126	2.91%
1961	$40,886	$169,217	3.10%
1962	$44,408	$181,264	7.12%
1963	$47,678	$190,672	5.19%
1964	$52,191	$203,382	6.67%
1965	$57,523	$216,802	6.60%
1966	$64,388	$231,519	6.79%
1967	$69,064	$238,306	2.93%
1968	$75,418	$251,064	5.35%
1969	$83,026	$264,508	5.35%
1970	$89,116	$271,372	2.60%
1971	$97,290	$286,998	5.76%
1972	$108,629	$303,447	5.73%
1973	$127,372	$326,848	7.71%
1974	$151,111	$341,235	4.40%
1975	$171,540	$350,113	2.60%
1976	$197,924	$371,688	6.16%
1977	$217,879	$385,122	3.61%
1978	$241,604	$402,737	4.57%
1979	$276,096	$418,328	3.87%
1980	$309,891	$424,537	1.48%
1981	$355,994	$440,127	3.67%
1982	$374,442	$425,970	-3.22%
1983	$405,717	$439,448	3.16%
1984	$444,735	$467,167	6.31%
1985	$477,988	$489,437	4.77%
1986	$505,666	$505,666	3.32%
1987	$551,597	$526,730	4.17%

(cont'd on next page)

TABLE 4. HOW WE GREW: THE NATION'S ECONOMY
Growth Rates of GDP and Average Family Income, 1951 - 1996 (cont'd)

	GDP in current $ ($ millions)	GDP in constant dollars ($ 1986 millions)	% Change in real GDP per annum
1988	$605,906	$552,958	4.98%
1989	$650,748	$566,486	2.45%
1990	$669,467	$565,155	-0.23%
1991	$676,477	$555,052	-1.79%
1992	$690,122	$559,305	0.77%
1993	$712,855	$571,722	2.22%
1994	$747,260	$594,990	4.07%
1995	$776,299	$608,835	2.33%
1996	$797,789	$617,795	1.47%

Source: Statistics Canada, Catalogue 11-210-XPB

TABLE 5. AVERAGE FAMILY INCOME FOR FAMILIES WITH CHILDREN UNDER 18

Canada, 1973 - 1996, Selected Years, in Constant (1996) Dollars

	Average Market Income (Earnings from Wages, Salaries and Self-Employment Plus Investment Income)	**Average Total Income** (Market Income Plus Transfers from Government such as Unemployment Insurance Benefits, Social Assistance Payments, Family Allowances/ Child Tax Benefits)	**Average After Tax Income** (includes the federal and provincial tax systems)
1973	$46,574	$49,366	$41,962
1981	$52,677	$56,409	$47,571
1984	$49,695	$54,499	$45,570
1986	$52,476	$57,144	$46,919
1989	$56,591	$61,332	$49,196
1990	$54,665	$59,614	$47,514
1991	$52,135	$57,810	$46,004
1992	$51,945	$57,817	$46,350
1993	$49,755	$55,826	$44,958
1994	$51,294	$57,002	$45,469
1995	$51,503	$56,785	$45,192
1996	$51,882	$56,886	$44,983

Source: Statistics Canada, Survey of Consumer Finances, unpublished data

TABLE 6. WHERE DID THE MIDDLE GO?

In this analysis, we took the distribution of market income in 1973 and divided the population of Canadian families with children under 18 into 10 equal groups. This provides the ranges of earnings for each decile. Converting these values to their current equivalent in 1996 ("constant" dollars), we then calculated what proportion of the population fell into each income bracket in 1996. If we were just as "middle class" a society as a generation ago, the middle 4 income brackets (each representing 10% of the population in 1973) would still represent 40% of the population today. The table below shows that there are far fewer in the middle income brackets, and far more at both ends of the income spectrum.

Annual Income Brackets	Population*, 1973	Share of Population, 1973	Population*, 1996	Share of Population, 1996	% Change in Share of Population (relative to 1973 decile)
Poorest 10% (up to $14,009)	316,280	10.0%	653,638	16.7%	67%
2nd Level ($14,010 to $24,353)	316,270	10.0%	350,165	8.9%	-11%
3rd Level ($24,354 to $31,665)	316,340	10.0%	279,174	7.1%	-29%
4th Level ($31,666 to $37,582)	316,340	10.0%	247,002	6.3%	-37%
5th Level ($37,583 to $43,261)	316,310	10.0%	262,761	6.7%	-33%
6th Level ($43,262 to $49,023)	317,760	10.0%	247,486	6.3%	-37%
7th Level ($49,024 to $55,992)	314,660	9.9%	323,103	8.2%	-19%
8th Level ($55,993 to $65,197)	316,290	10.0%	371,804	9.5%	-5%
9th Level ($65,198 to $80,447)	316,520	10.0%	472,617	12.1%	21%
Richest 10% ($80,448 +)	316,320	10.0%	710,638	18.1%	81%

Source: Survey of Consumer Finances, unpublished data
* NOTE: Population refers to the number of families with children under 18

TABLE 7. CHANGING FORTUNES - ANNUAL CHANGES IN MARKET INCOMES ($1996)

Top and Bottom Quintiles, Families with Children under 18, 1980-1996

	Market income $ 1995 Poorest 20%	Market income $ 1995 Richest 20%	% Annual Change in Real ($1995) Market Income Poorest 20%	% Annual Change in Real ($1995) Market Income Richest 20%
1980	$11,776	$100,362		
1981	$12,223	$99,469	4%	-1%
1982	$9,048	$97,744	-26%	-2%
1983	$8,378	$99,435	-7%	2%
1984	$7,757	$99,157	-7%	0%
1985	$8,811	$100,925	14%	2%
1986	$9,263	$103,328	5%	2%
1987	$9,883	$106,777	7%	3%
1988	$10,091	$107,436	2%	1%
1989	$10,565	$113,088	5%	5%
1990	$8,657	$108,152	-18%	-4%
1991	$7,049	$107,323	-19%	-1%
1992	$5,715	$105,501	-19%	-2%
1993	$5,079	$104,377	-11%	-1%
1994	$5,769	$107,445	14%	3%
1995	$6,306	$108,446	9%	1%
1996	$6,100	$110,500	-3%	2%

Real change 1980/96	Poorest 20%	Richest 20%
$	-5676	10138
%	-48.20	10.10

NOTES: "Quintile" refers to the ranking of the population into 5 groups, each with the same number of families, by their income. The bottom quintile represents the poorest 20% of the population of families with children under 18. The top 20% are the most affluent 10%.
Market income includes wages, salaries, earnings from self-employment and returns from investment
Source: Caledon Institute and Statistics Canada, unpublished data from the Survey of Consumer Finances

TABLE 8. THE GOVERNMENT IS THE REFEREE OF CHANGE

Comparing the Distribution of Income in the 1996 Population of Families with Children Under 18 to the 1973 Population, using 1973 Upper Threshold Cut-Offs for Market, Total and After-Tax Income Deciles.

	Market Income (Earnings from Wages, Salaries and Self-Employment Plus Investment Income)	**Total Income** (Market Income Plus Transfers from Government)	**After-Tax Income** (Federal and provincial income tax system)
Income Bracket 1 (Incomes Up to ...)	($14,009) **16.7%**	($18,444) **12.4%**	($17,848) **12.1%**
Income Bracket 2 (Incomes Up to ...)	($24,535) **8.9%**	($27,374) **9.1%**	($25,330) **9.6%**
Income Bracket 3 (Incomes Up to ...)	($31,665) **7.1%**	($34,026) **7.2%**	($30,436) **8.1%**
Income Bracket 4 (Incomes Up to ...)	($37,582) **6.3%**	($39,558) **6.9%**	($34,652) **7.3%**
Income Bracket 5 (Incomes Up to ...)	($43,261) **6.7%**	($45,324) **7.4%**	($39,117) **8.5%**
Income Bracket 6 (Incomes Up to ...)	($49,023) **6.3%**	($51,112) **6.9%**	($43,495) **7.8%**
Income Bracket 7 (Incomes Up to ...)	($55,992) **8.2%**	($58,040) **8.7%**	($48,970) **9.5%**
Income Bracket 8 (Incomes Up to ...)	($65,197) **9.5%**	($67,158) **8.3%**	($56,214) **10.2%**
Income Bracket 9 (Incomes Up to ...)	($80,447) **12.1%**	($82,272) **14.6%**	($67,690) **12.2%**
Income Bracket 10 (Incomes Up to ...)	No upper limit **18.1%**	No upper limit **18.5%**	No upper limit **14.7%**

Note: These income brackets represented the decile distribution of incomes among Canadian families with children under 18 in 1973. That is, in 1973, each of these income brackets, which measure incomes in different ways, held 10% of the population. Different income concepts have different thresholds. For example, the limit that defines what the poorest 10% of families obtained from the market in 1973 was around $14,000 but government programs brought the cut-off for those in the bottom 10% to almost $18,500.

To see how society has changed relative to 1973, we took the thresholds for deciles in each of those income concepts and calculated what proportion of today's young families fit into the distribution from a generation ago.

Despite two decades of economic growth, there are now fewer families in the "middle", though government interventions have mitigated that erosion. Still, market forces in the 1990s are outpacing governments' ability or willingness to offset the processes that are polarizing Canadian society.

Source: Statistics Canada, based on Survey of Consumer Finances, unpublished data

TABLE 9. WHAT A DIFFERENCE THE STATE MAKES,

Changes in Market and After Tax Incomes for Families with Children Under 18 ($1996), By Decile, comparing 1981 to 1996.

	Market Income (Earnings from Wages, Salaries and Self-employment and Returns on Investment) Percent Change 1981 to 1996	**After-Tax Income** (Market Income Plus Government Transfers minus Provincial and Federal income taxes) Percent Change 1981 to 1996
Decile 1	-91%	-5%
Decile 2	-46%	-21%
Decile 3	-25%	-14%
Decile 4	-14%	-10%
Decile 5	-7%	-9%
Decile 6	-2%	-5%
Decile 7	0%	-5%
Decile 8	4%	-3%
Decile 9	5%	-2%
Decile 10	14%	0%

Note: "Decile" refers to the ranking of the population into 10 groups, each with the same number of families, by their income. Decile 1 represents the poorest 10% of the population of families with children under 18. Decile 10 represents the most affluent 10%.

Source: Survey of Consumer Finances, unpublished data

TABLE 10. THE INCOME GAP BETWEEN CANADIANS WAS STABILIZED BY GOVERNMENT PROGRAMS ... FOR MOST OF US

Ratio of Top 20% of Families with Children under 18 to Bottom 20% of Families with Children under 18,
Market Income, Total Income and After-Tax Income Ratios, 1980- 1996

	After Tax Income	Market plus Transfers	Market Income
1980	4.95	5.82	8.52
1981	4.66	5.48	8.14
1982	4.92	5.91	10.80
1983	5.01	6.14	11.87
1984	5.21	6.39	12.78
1985	5.05	6.12	11.45
1986	4.93	6.02	11.16
1987	4.94	6.09	10.80
1988	4.72	5.92	10.65
1989	4.86	6.12	10.70
1990	4.92	6.34	12.49
1991	5.04	6.54	15.23
1992	5.17	6.70	18.46
1993	5.02	6.53	20.55
1994	5.01	6.58	18.62
1995	5.07	6.67	17.20
1996	5.00	6.66	18.65

Source: Caledon Institute and Statistics Canada, Survey of Consumer Finances, unpublished data.

TABLE 11. THE INCOME GAP IS GROWING

INCOME DISPARITIES AMONG CANADIAN FAMILIES, Parents of Children Under 18, Constant 1996$

Average Market Income (Earnings from all sources and Returns on Investments)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Poorest 10%	$5,204	$5,036	$2,062	$2,890	$4,049	$2,760	$1,757	$1,291	$589	$684	$1,181	$435
Richest 10%	$107,253	$119,461	$123,752	$127,984	$143,012	$134,539	$135,821	$130,896	$130,235	$133,253	$134,978	$136,737
Ratio	20.61	23.72	60.02	44.28	35.32	48.74	77.29	101.39	220.96	194.93	114.32	314.34

Average Total Income (Includes transfers from government income support programs)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Poorest 10%	$12,913	$14,250	$13,626	$14,862	$15,973	$14,575	$15,272	$15,125	$15,819	$15,592	$15,294	$13,522
Richest 10%	$109,260	$121,537	$125,982	$130,289	$145,356	$136,833	$138,121	$133,070	$132,107	$134,923	$136,618	$138,157
Ratio	8.46	8.53	9.25	8.77	9.10	9.39	9.04	8.80	8.35	8.65	8.93	10.22

Average After-Tax Income (includes federal and provincial tax systems)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Poorest 10%	$12,732	$14,090	$13,561	$14,672	$15,779	$14,471	$15,129	$15,036	$15,727	$15,523	$15,208	$13,453
Richest 10%	$86,196	$96,894	$97,349	$99,570	$106,005	$98,917	$98,592	$96,048	$96,221	$96,433	$97,364	$97,372
Ratio	**6.77**	**6.88**	**7.18**	**6.79**	**6.72**	**6.84**	**6.52**	**6.39**	**6.12**	**6.21**	**6.40**	**7.24**

Source: Statistics Canada, unpublished data from the Survey of Consumer Finances

TABLE 12. INCOME DATA FOR CANADIAN FAMILIES WITH CHILDREN UNDER 18, BY DECILE, 1973 TO1996,

Selected years, Constant (1996) Dollars

Average Market Income (Earnings from Wages, Salaries and Self-Employment Plus Investment Income)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Decile 1	$5,204	$5,036	$2,062	$2,890	$4,049	$2,760	$1,757	$1,291	$589	$684	$1,181	$435
Decile 2	$19,562	$21,280	$14,930	$17,205	$19,293	$16,599	$13,749	$13,615	$10,867	$11,440	$12,177	$11,535
Decile 3	$28,204	$31,560	$26,194	$28,317	$30,703	$28,364	$25,114	$25,498	$22,583	$24,039	$24,080	$23,644
Decile 4	$34,615	$39,126	$34,922	$37,119	$39,768	$37,882	$34,749	$35,085	$32,286	$33,949	$33,748	$33,831
Decile 5	$40,343	$46,086	$42,495	$45,098	$47,485	$46,477	$43,277	$43,759	$40,611	$42,603	$42,497	$42,829
Decile 6	$46,136	$52,643	$49,664	$52,546	$55,120	$54,561	$51,365	$52,010	$49,139	$51,104	$50,901	$51,494
Decile 7	$52,408	$60,224	$57,185	$60,405	$63,474	$63,250	$60,372	$60,626	$58,520	$59,945	$59,855	$60,439
Decile 8	$60,385	$68,968	$66,090	$69,852	$74,042	$73,732	$70,464	$70,794	$69,102	$70,265	$70,487	$71,382
Decile 9	$71,611	$82,284	$79,628	$83,213	$88,874	$88,426	$84,532	$85,636	$83,540	$85,609	$84,962	$86,497
Decile 10	$107,253	$119,461	$123,752	$127,984	$143,012	$134,539	$135,821	$130,896	$130,235	$133,253	$134,978	$136,737

Average Total Income (Market Income Plus Transfers from Government such as Unemployment Insurance Benefits, Social Assistance Payments, Family Allowances/Child Tax Credits, Pensions)

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Decile 1	$12,913	$14,250	$13,626	$14,862	$15,973	$14,575	$15,272	$15,125	$15,819	$15,592	$15,294	$13,552
Decile 2	$23,189	$26,585	$22,229	$24,718	$26,839	$24,822	$23,375	$24,098	$21,993	$21,611	$21,543	$20,442
Decile 3	$30,777	$35,479	$31,856	$33,866	$36,551	$34,656	$32,631	$32,862	$30,076	$31,365	$31,196	$30,323
Decile 4	$36,925	$42,700	$39,461	$41,585	$44,319	$42,738	$40,743	$41,526	$38,554	$39,685	$38,876	$39,119
Decile 5	$42,426	$49,336	$46,858	$48,766	$51,113	$50,875	$48,052	$48,862	$45,922	$47,594	$46,699	$46,631
Decile 6	$47,958	$55,497	$53,298	$55,665	$58,395	$58,005	$55,279	$56,285	$53,376	$54,801	$54,838	$55,145
Decile 7	$54,540	$62,862	$60,496	$63,401	$66,474	$66,111	$63,708	$63,889	$62,047	$63,389	$62,757	$63,533
Decile 8	$62,332	$71,237	$69,032	$72,650	$76,699	$76,519	$73,535	$73,843	$72,045	$73,087	$72,864	$73,726
Decile 9	$73,325	$84,506	$82,128	$85,527	$91,508	$90,946	$87,237	$88,374	$86,265	$87,932	$87,008	$88,232
Decile 10	$109,260	$121,537	$125,982	$130,289	$145,356	$136,833	$138,121	$133,070	$132,107	$134,923	$136,618	$138,157

Average After-Tax Income

	1973	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1996
Decile 1	$12,732	$14,090	$13,561	$14,672	$15,779	$14,471	$15,129	$15,036	$15,727	$15,523	$15,208	$13,453
Decile 2	$22,087	$25,059	$21,429	$23,279	$24,963	$23,414	$22,157	$22,888	$21,146	$20,754	$20,717	$19,711
Decile 3	$28,192	$31,996	$29,258	$30,278	$32,417	$30,893	$29,233	$29,683	$27,540	$28,555	$28,417	$27,498
Decile 4	$32,966	$37,558	$34,990	$36,049	$37,735	$36,540	$34,939	$35,935	$33,729	$34,393	$33,638	$33,713
Decile 5	$37,034	$42,386	$40,540	$41,163	$42,373	$42,108	$39,911	$40,852	$38,799	$39,845	$38,936	$38,682
Decile 6	$41,219	$47,251	$45,109	$46,136	$47,596	$46,771	$44,788	$45,985	$43,798	$44,578	$44,590	$44,715
Decile 7	$46,162	$52,725	$50,446	$51,760	$53,227	$52,319	$50,569	$50,804	$49,585	$50,246	$49,802	$50,309
Decile 8	$52,317	$58,934	$56,761	$58,648	$60,442	$59,841	$57,597	$58,128	$56,607	$57,162	$56,766	$57,418
Decile 9	$60,709	$68,745	$66,225	$67,560	$71,359	$69,831	$67,033	$67,993	$66,386	$67,173	$66,382	$67,061
Decile 10	$86,196	$96,894	$97,349	$99,570	$106,005	$98,917	$98,592	$96,048	$96,221	$96,433	$97,364	$97,372

Note: "Deciles" refer to the ranking of 10 groups, each with the same number of families with children, by their incomes. Decile 1 represents the poorest 10% of this population and Decile 10 represents the most affluent 10%.

Source: Survey of Consumer Finances, unpublished data

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