

# POVERTY PROFILE 2007

## INCOME INEQUALITY

### Highlights

- Income inequality is increasing in Canada.
- Canada's income inequality is now higher than the average for similarly developed countries.

All dollar figures presented in this bulletin have been converted to 2007 constant dollars. This factors out the effects of inflation and allows meaningful comparisons of data over time.

## HOW DOES CANADA COMPARE TO OTHER COUNTRIES?

We often hear that the gap between the rich and the poor is getting wider in Canada. But that's just a fact of life, isn't it? The rich get richer and the poor get poorer?

Well, not exactly. Between the mid-1980s and the mid-1990s, Canada was one of the few developed countries that saw the gap between the rich and the poor get smaller, as measured by income inequality.<sup>1</sup>

Between the mid-1990s and the mid-2000s, however, Canada had the second largest increase in income inequality among similarly developed countries. Canada's income inequality is now greater than the average of its peers.

<sup>1</sup> Data for this section is from *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD, 2008.

Income inequality also increased in other countries, such as the United States and Finland, between the mid-1990s and mid-2000s. But at the same time, it fell in a number of countries, including Great Britain and the Netherlands. Rising income inequality is not inevitable.

### Why is inequality important?

Poverty indicators concentrate on the situation of those at the bottom of the income scale. Inequality, on the other hand, shows how resources are distributed across the whole society. The distribution of resources in a country can affect the extent and depth of poverty.

Inequality is linked to health and social problems. For example, the infant mortality rate is 448% higher in Saskatoon's low-income neighbourhoods than in the rest of the city.<sup>2</sup> In Hamilton, the average age at death ranges from 65.5 years in a low-income neighbourhood to 86.3 years in a high-income neighbourhood.<sup>3</sup>

More unequal societies are bad for pretty well everyone, not just the poor. Problems such as ill-health, lack of community life, violence, drugs, obesity, imprisonment, long working hours and mental illness are more likely to occur in a less equal society.<sup>4</sup>

<sup>2</sup> Lemstra M, Neudorf C. Health disparity in Saskatoon: analysis to intervention. Saskatoon: Saskatoon Health Region; 2008.

<sup>3</sup> The Hamilton Spectator. Code Red: Where you live affects your health. "Spec report finds health, wealth worlds apart in Hamilton", April 10, 2010.

<sup>4</sup> Wilkinson R, Pickett K. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Penguin Group, 2009.

## INEQUALITY TRENDS FOR FAMILIES

### *The share of income held by the richest 20% of families has increased*

Let's start by looking at all the income in Canada and how it is distributed across families. Whether we look at market income, total income or after-tax income, we see the same thing: the richest 20% of families hold the biggest piece of the pie and that piece is getting bigger.

Between 1976 and 2007, the share of income held by the richest 20% of families increased across the board.

#### Share of income held by the richest 20% of families

	1976	2007
Market income	45.3%	51.2%
Total income	42.8%	46.9%
After-tax income	41.0%	44.2%

The shares for all other groups with lower incomes fell or remained the same. For the poorest 20% of families, their share of after-tax income was 4.9% in 1976 and 4.8% in 2007. In other words, the poorest 20% of the population holds less than 5% of income in Canada.

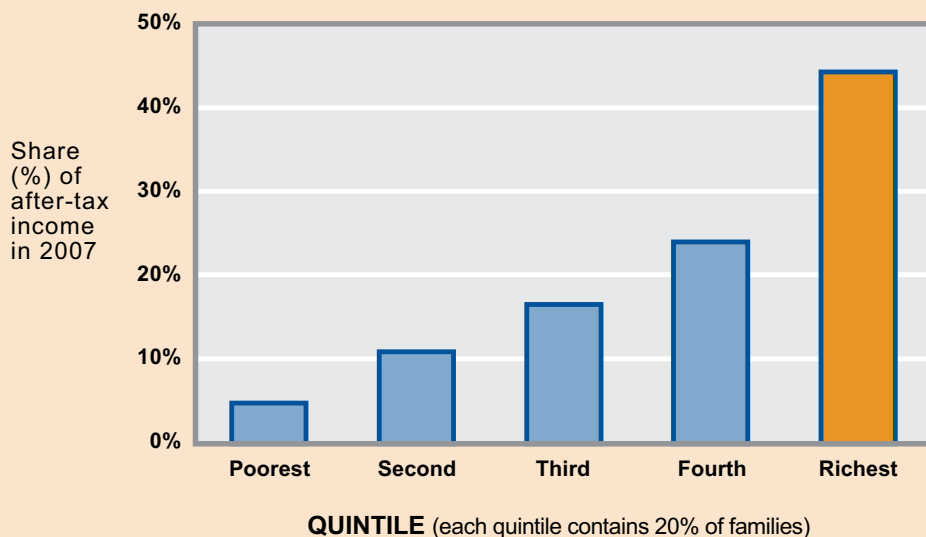
### *The share of after-tax income held by the richest 20% of families started increasing in the mid-1990s*

Looking at after-tax income, the share of the richest 20% of families held steady at around 40% from the mid-1970s to the mid-1990s. At that point, the share started to creep upwards and the gap between rich and poor got bigger.

### *Gap in average incomes between the rich and poor is increasing*

We can also look at the distribution of income in dollars. In 2007, the average after-tax income was \$13,900 for the poorest 20% of families and \$126,700 for the richest 20% – a difference of \$112,800.

### The richest 20% of families hold a much larger share of income than other families



## What do we mean by the richest 20% of families?



Families were ranked from lowest to highest by the value of their total after-tax income.

These ranked families were then divided into five equal groups called **quintiles**.

Each quintile contains 20% of families. It is

sometimes helpful to think of quintiles in terms of a ladder with five rungs. Sitting on the top rung of the ladder are the richest 20% of families, or the top quintile. At the bottom rung of the ladder are the poorest families, or the lowest quintile.

In this bulletin, we use data that includes both multi-person families and one-person families (unattached individuals).

With the latest release of income data, Statistics Canada now provides “**adult equivalent adjusted family income**”.<sup>5</sup> More simply put, this adjusted income allows us to make comparisons on a per-person basis instead of on a family basis. Adjusted income data is presented in the last section of the bulletin.

In other words, for every \$1 of after-tax income held by the poorest families, the richest have \$9.12.

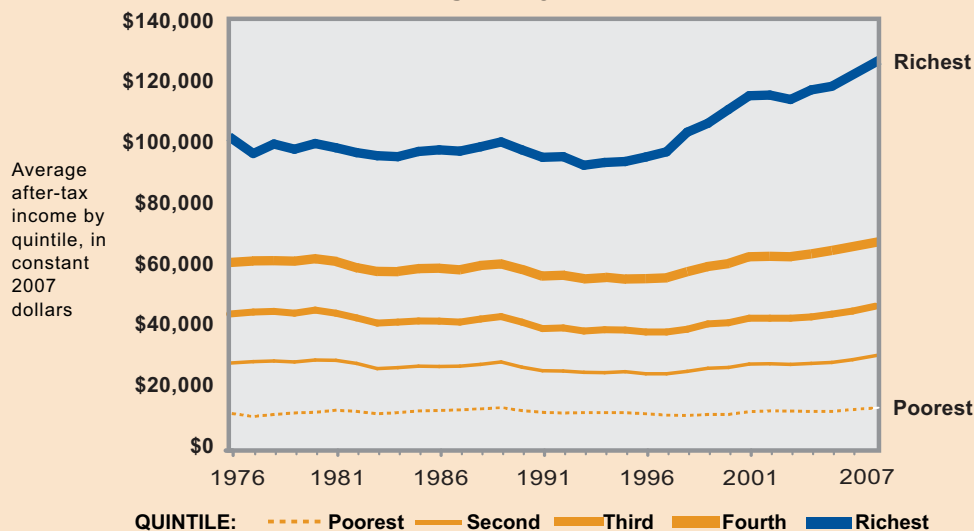
low of \$80,900 in 1993. Since then the gap has quickly, and steadily, increased. In 2007, it was \$112,800, a record high.

This rising gap was caused by the incomes of the richest families pulling away from other families over the past 15 years.

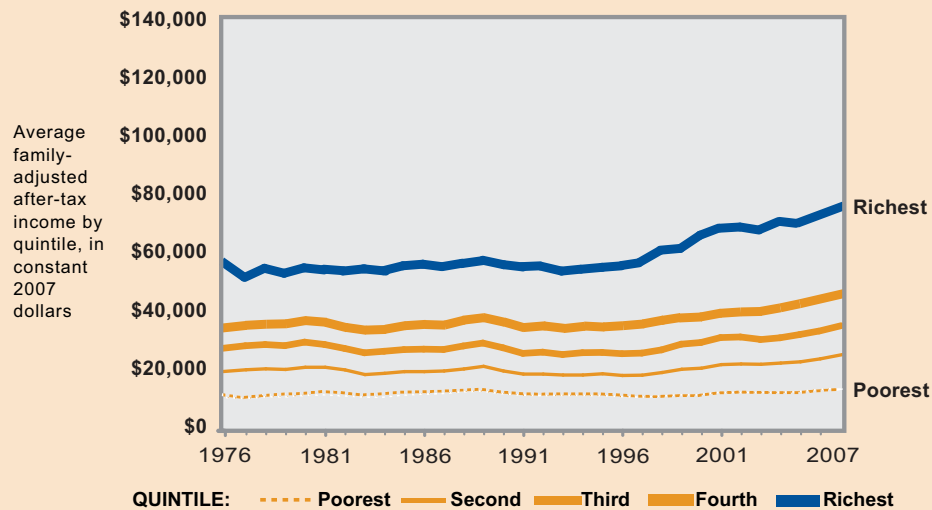
The difference – also called income disparity or the inequality gap – was fairly stable from the late 1970s to 1989. It began falling in 1990 to a

<sup>5</sup> For more information, see Statistics Canada, Income in Canada 2007, Catalogue no. 75-202-X, p. 13.

## The income of the richest 20% of families is pulling away from the rest



### The inequality gap is smaller when income is adjusted for family size, but the trends are the same



## INCOME ADJUSTED FOR FAMILY SIZE

The previous section compared family incomes, regardless of the number of people in the family or their ages. In this section we present family-adjusted income. This allows us to make comparisons free of differences in family size and composition.

### *Similar trends, but the gap is smaller*

When taking family size and composition into account, the income gap between the rich and the poor is smaller. However, the overall trends are the same. The income gap has been increasing since the mid-1990s. The incomes of the richest 20% of families are still pulling away from the others.

#### Average family-adjusted after-tax income of the richest and poorest 20% of families

	1976	2007
Richest 20%	\$55,900	\$76,700
Poorest 20%	\$10,800	\$14,100
Inequality gap	\$45,100	\$62,600

### Other ways to look at inequality<sup>6</sup>

Income inequality is just one dimension of inequality in Canada. Inequality can also be measured by:

- consumption
- wealth
- political participation
- social exclusion
- income mobility
- earnings
- work hours
- health

Inequality in Canada varies with gender, ethnicity, skill and education level, employment status and family status.

<sup>6</sup> Green D, Kesselman J (eds.). Dimensions of Inequality in Canada. UBC Press, 2006.

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