



# A Social Policy Framework for **ALBERTA:** FAIRNESS AND JUSTICE FOR ALL

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Social Workers



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## ABOUT THE ASCW

The Alberta College of Social Workers regulates social work practice in Alberta. Its primary focus is to serve and protect the public interest by promoting skilled and ethical social work. Social Workers work with people across the lifespan from infants to seniors. The fields of practice of the profession range from direct service delivery and community development to advocacy and policy development. To compliment its legislated obligations, ACSW advocates for policies, programs, and services that serve the public interest. Across the province, much of the work Registered Social Workers do is with those who are vulnerable and marginalized.



## ABOUT PARKLAND INSTITUTE

Parkland Institute is an Alberta research network that examines public policy issues. We are based in the Faculty of Arts at the University of Alberta and our research network includes members from most of Alberta's academic institutions as well as other organizations involved in public policy research. Parkland Institute was founded in 1996 and its mandate is to:

- Conduct research on economic, social, cultural, and political issues facing Albertans and Canadians.
- Publish research and provide informed comment on current policy issues to the media and the public.
- Sponsor conferences and public forums on issues facing Albertans; and
- Bring together academic and non-academic communities.

All Parkland Institute reports are academically peer reviewed to ensure the integrity and accuracy of the research. For more information visit [www.parklandinstitute.ca](http://www.parklandinstitute.ca)

# Executive Summary

Alberta is enormously prosperous – but the province’s prosperity is distributed in a drastically uneven manner. Economic growth has occurred in the context of widening inequality, intensified poverty and an erosion of social well-being. Not only have the rich benefited far more than the average Albertan household, but also many Albertans are becoming worse off. Alberta’s growth has been characterized by both high concentration of wealth at the top of the economic spectrum and intense poverty at the bottom. The recent recession has only exacerbated this pattern. Alberta’s social and economic disparity is more pronounced for women and Aboriginal people.

Disparity erodes social and economic well-being for everyone across the income spectrum. Prominent national and international institutions such as the International Monetary Fund, the World Bank and the Conference Board of Canada agree that pronounced inequality has a negative impact on the economy. Recent research has made clear that reduced income inequality may improve the efficiency and duration of economic growth. Other research clearly shows that inequality is correlated with numerous social challenges and negatively affects the quality of life of all

Albertans.

This report uses a disparity approach that encompasses both poverty and inequality and that makes clear how all Albertans are affected. All Albertans stand to gain from reduced inequality. The report reveals that Alberta’s social programs and income transfer systems have not kept up with growing disparity and have failed to address the structural causes of Alberta’s social and economic disparity.

This report is an update of an Alberta College of Social Workers (ACSW) discussion paper, *Social Policy Framework 2010: Visioning a More Equitable and Just Alberta*, which mapped the disparity gap and its effects on low-income and middle-income Albertans. As a component of ACSW’s Closing the Disparity Gap Project, it analyzed the causes of Alberta’s social and economic disparities and offered concrete recommendations for policy choices geared to reducing social and economic disparities in Alberta.

The 2012 update builds on this earlier work by examining new research on the causes, consequences and impacts of inequality, exploring how the recession and recent recovery have affected disparity, and illustrating the need for change in Alberta's system of taxes and transfers.

This study finds that Alberta's top 1 per cent are by far the wealthiest in the nation, while at the bottom Alberta has the most intense poverty; Alberta's wealthy are by far the wealthiest, and the poor the poorest, in the nation.

Disparity in Alberta is characterized by factors including:

- A boom and bust economy;
- An inequality of income, with the vast majority of earnings end up in the hands of the top half of earners;
- A deteriorating situation, with inequality in Alberta worsening since the mid-1990s; and
- A rapid growth in incomes at the very top of the income spectrum. Alberta's top one percent are both much wealthier than the rest of Canada and hold the highest share of income in the nation.

Poverty is one of the drivers of inequality in Alberta. The poverty gap is a measure of the distance between the average income of a person in low income to the poverty line. By 2010 Alberta had the highest poverty gap in the country. The situation was exacerbated during the recent recession: the poorer the Albertan, the more severe the reduction in income. Other factors implicated in the intensification of poverty in Alberta include: limited protection for unemployed workers, high poverty rates for single-parent households, low social assistance rates, and a meagre minimum wage.

Inequality has had a negative effect on the well-being of many Alberta families. As indicated by debt to income ratios, many families are economically vulnerable. Due to the low educational attainment and self-employment of many Albertans, working offers little protection from vulnerability. Given the province's low

minimum wage, working also does not guard against poverty.

For Alberta families, economic disparity is paralleled by broader inequality of well-being. Low and middle income families endure longer working hours without adequate compensation in the form of increased incomes. As a result, many families lack both time and money.

Recent research indicates Canadians work longer hours and get less paid vacation than their European counterparts. Alberta is one of the hardest working provinces in one of the hardest working nations. Albertans average five hours of leisure compared to a national average of 5.5 hours per day. Working harder comes at significant cost to the province, as Albertans struggle to find time to invest in individual, family, and community well-being.

The system of federal and provincial income transfers has failed to effectively address inequality. Canada compares poorly with Nordic nations in terms of the successful stabilization of inequality through income transfer programs. The situation is particularly bad in Alberta, where the flat tax limits the province's ability to respond to inequality through income redistribution. Indeed, the flat tax means that lower income Albertans pay higher income tax rates than other Canadians, while those at the top of the income spectrum pay by far the lowest rates in the nation.

Along with the wealthy, corporations are given a big tax advantage in Alberta. Alberta's general corporate tax rate is tied for lowest in the nation at 10 per cent – and Canada has some of the lowest tax rates in the developed world. Because of low corporate taxes, the meteoric rise in profits experienced by Alberta corporations has brought relatively few benefits for most Albertans.

Low royalty rates have meant that Albertans have been deprived of significant oil and gas revenues. In 1971 Premier Lougheed established that 35 per cent of revenues were to be captured through royalties. The government has failed to meet this target, which

has deprived Albertans of the benefits of billions of dollars in provincial revenue. These foregone royalties might have been used to support key programs such as health care, education, and social supports, all of which may have reduced poverty and inequality while increasing social well-being.

Alberta is blessed with abundant lucrative natural resources. The province is uniquely positioned to lead the nation in quality of life and well-being. It is time for the government of Alberta to recognize the broader consequences of concentrating its efforts at benefiting its wealthiest citizens, and to take concerted steps to ensure that all Albertans share in the province's wealth. Albertans from across the income spectrum will benefit from efforts to reduce disparity.

In its 2010 Social Policy Framework, the ACSW aimed to narrow the gap between wealthy and other Albertans in terms of both income and quality of life by developing a new policy paradigm that emphasized collective benefit over individual gain. The framework provides an excellent basis for future provincial government efforts to develop new social policies to address poverty and inequality in Alberta. As the 2012 update demonstrates, provincial government action to reduce disparity and improve the lives of all Albertans is needed now more than ever.

The key elements of the ACSW social policy framework are:

- 1: Strengthen community services;
- 2: Improve quality of life;
- 3: Invest in housing affordability;
- 4: Ensure dignity and an adequate income for the most vulnerable;
5. Protect workers;

6. Strengthen democracy and good governance; and

7. Implement progressive revenue reform.





# 1.0 Introduction

The level of equality within a society is a key driver of wellbeing for the whole society. Though poverty is part of the wellbeing puzzle, relative income plays a critical role.<sup>1</sup> In fact, studies have shown that as income inequality increases, so too does poverty.<sup>2</sup> The two are faces of the same coin. Equality of opportunity or, on the flip side, social and economic disparity matters for the quality of life of all, from the less fortunate to the wealthiest.

This report was initiated to explore that dynamic, how Alberta's growth is being distributed and how it is impacting on economic and social wellbeing. It updates the March 2010 report by the Alberta College of Social Workers and Parkland Institute *ACSW Social*

*Policy Framework 2010: Visioning a more equitable and just Alberta.*<sup>3</sup> These reports are part of the *Closing the Disparity Gap Project* launched by the Alberta College of Social Workers (ACSW). That project includes a multi-sector stakeholder process to generate ideas and develop practical solutions to the problem of economic and social disparity in Alberta. The research process for both reports included numerous symposia to engage community leaders as well as academics in discussions on the key causes of disparity and to workshop policy recommendations.

The 2010 report proposed a broad policy agenda for reducing disparity in Alberta, premised on six core principles: dignity and respect; equality; equity; comprehensiveness; quality services; and social dialogue.<sup>4</sup>

1 Wellbeing is used as defined by the Canadian Index of Wellbeing. See Canadian Index of Wellbeing. 2011. "How are Canadians Really Doing? Highlights: Canadian Index of Wellbeing" Waterloo, Ontario: Canadian Index of Wellbeing and University of Waterloo.

2 Raphael, Dennis. 2002. "Poverty, Income Inequality, and Health in Canada." Toronto, Ontario: School of Health Policy and Management, York University and The CSJ Foundation for Research and Education. June.

3 Alberta College of Social Work. 2010. "ACSW Social Policy Framework 2010: Visioning a more equitable and just Alberta." ACSW. March.

4 The principles are drawn from the Canadian Association of Social Workers. 2005. "Social Policy Principles and CASW Code of Ethics."

This report uses the disparity approach because it encompasses both poverty and inequality. A poverty reduction approach alone is too narrow in that it does not address the social costs and consequences of inequality, which range from poorer health outcomes to higher rates of violent crime. Additionally, the disparity approach makes sense because the structural drivers of inequality are also the drivers of poverty. The disparity gap refers to the economic and social distance between the richest and poorest households. Social disparities include quality of life measures such as leisure time and freedom from violence. Income inequality is the biggest driver of social exclusion.

The disparity approach describes how all Albertans are impacted by inequality. As this report shows, disparity erodes social and economic wellbeing for everyone across the income spectrum. All Albertans, including the wealthiest, have both a social and an economic stake in reducing inequality. The disparity approach identifies the structural problems driving both poverty and inequality in a manner that truly engages all Albertans.

Despite the recession dip, Alberta's economy has shown tremendous growth over the past two decades. Alberta has the highest average incomes, low unemployment rates and relatively low rates of poverty. However, this report will show that Alberta had both the least improvement in economic wellbeing in the nation between 1981 and 2010 and the steepest decline in economic wellbeing over the course of the recession.

Alberta middle and lower income families have benefited from the province's economic growth in that fewer are unemployed, fewer live in poverty, and incomes have risen. However, this report explores how the province's meteoric rise in economic growth has happened against a backdrop of widening inequality, intensified poverty and an erosion of social wellbeing.

Not only have the rich benefited far more than the average Alberta household, but many Albertans are worse off, as witnessed by data in this report on poverty, work hours, and economic vulnerability.

The Government of Alberta has taken some steps forward, such as protecting health care and K-12 education spending, increasing incomes for some social assistance recipients (those on disability (AISH)), and slightly increasing the minimum wage. While some of these initiatives have been helpful, others have excluded citizens based on definitions of deserving and undeserving poor. Additionally, for some of these measures, there have been unintended negative consequences. For example, increasing AISH payments can encourage landlords to increase rent, or mean a loss of eligibility to other means-tested programs such as subsidized bus passes. As this report sets out, Alberta's social programs and the broader transfer system has failed to keep up with rising inequality and have not addressed the broader structural causes of Alberta's ever-widening inequality and poverty intensity.

The first Disparity Gap Project report illustrated two decades of trends that included reduced investments in the public sector, changing tax structures that privilege corporations and the wealthiest among us, and the weakening of labour rights. The report also documented how this led to an unprecedented increase in income inequality and social exclusion, with people of colour, newcomers, people with disabilities, women, and especially Alberta's indigenous peoples suffering the highest levels of economic and social exclusion.

This report is an update of key aspects of the March 2010 report, exploring new research and analysis on the causes, consequences and impacts of inequality, how the recession and recent recovery have impacted on disparity, and the need for change in Alberta's system of taxes and transfers. The report focuses on both economic and social disparity and how Albertans' wellbeing is jeopardized.

Much has changed in public discourse around inequality since the Occupy Wall Street movement took the international stage by storm. Inequality has become a household word and the concentration of wealth at the top has been put under a microscope. This report documents and expands on that analysis.

# 2.0 Inequality Hurts Us All

## 2.1 INEQUALITY IS BAD FOR THE ECONOMY -----

There is a growing convergence in international economic opinion that high levels of inequality can have a negative impact on the economy. This represents a departure for many mainstream institutions, such as the International Monetary Fund (IMF), the World Bank and the Conference Board of Canada.

Previously, mainstream economic institutions such as the IMF had assumed that inequality of income distribution was a necessary part of economic growth, enabling a surplus of income at the top for investment and efficiency. This new research has turned that on its head, instead indicating that reduced income inequality may in fact improve efficiency and duration of growth.

Recent work by researchers at the IMF examining factors in the duration of growth identified that the factor most significantly correlated with longer-term economic growth is equality of income distribution. Levels of income equality showed a higher correlation with economic growth than stability of political institutions, trade openness, exchange rate competitiveness, external debt, or foreign direct investment.

The IMF's conclusion was that: "...income distribution survives as one of the most robust and important factors associated with growth duration." The researchers added, "To borrow a marine analogy: a rising tide lifts all boats, and our analysis indicates that helping raise the smallest boats may help keep the tide rising for all craft, big and small."<sup>5</sup>

According to the Conference Board of Canada, when asking the question what is the impact of inequality on the economic wellbeing of a country, "The answer is that high inequality can diminish economic growth if it means that the country is not fully using the skills and capabilities of all its citizens or if it undermines social cohesion, leading to increased social tensions."<sup>6</sup>

Nobel Prize winner Joseph Stiglitz, author of *The Price of Inequality* and a former chief economist at the World

5 Berg, Andrew G. and Jonathan D. Ostry. 2011. "Inequality and Efficiency: Is there a trade-off between the two or do they go hand in hand?" International Monetary Fund, *Finance & Development*, September 2011, Vol. 48, No. 3 <http://www.imf.org/external/pubs/ft/fandd/2011/09/Berg.htm>

6 Conference Board of Canada. 2011. Canadian Income Inequality, Is Canada Becoming More Unequal? July.

# SOCIAL IMPACTS OF INEQUALITY

**Physical Health** The life expectancy in less equal societies is more children die in infancy and self-rated health is lower.<sup>1</sup>

**Mental Health** The rate of mental illness is higher in less equal societies.

**Drug Abuse** A higher proportion of people in less equal societies use illegal drugs and have addiction problems.

**Education** Less equal societies have poor outcomes for education.

**Imprisonment** Unequal societies imprison a greater proportion of citizens.

**Obesity** Rates of obesity are higher in less equal societies.

**Social Mobility** There is less social mobility in less equal societies.

**Trust and Community Life** Communities are less cohesive and people trust each other less in less equal societies.

**Violence** The rates of violent crimes and homicide are higher and children experience more violence in less equal societies.

**Teenage Births** Teenage motherhood is more common in less equal societies.

**Child Wellbeing** Less equal societies rank lower on unicef measures of child well-being.

**Rich and Poor Countries** More equal societies spend a higher proportion of their income on overseas aid and perform better on the Global Peace Index.

**Equality and Global Warming** Inequality fuels status competition, individualism and consumerism. It makes it harder to gain public support for policies to reduce global warming.

<sup>1</sup> There is a large field of research in inequality as a key social determinant of health. Public Health Agency of Canada. 2002. "The Social Determinants of Health: Income Inequality as a Determinant of Health." [http://www.phac-aspc.gc.ca/ph-sp/oi-ar/02\\_income-eng.php](http://www.phac-aspc.gc.ca/ph-sp/oi-ar/02_income-eng.php). Wilkinson, R.G. 2005. "The Impact of Inequality: How to make sick societies healthier." London: Routledge.

Bank, has also reported on the risks to the economy of high levels of inequality. According to Stiglitz, inequality results in more instability, lower economic growth, less efficiency, and less productivity; it is bad for the economy. Further, he reports that the structures that have increased inequality have been part of the system becoming increasingly unfair – the cards are perceived as stacked against some people. It has thus undermined democracy, moving from ‘one person one vote’ to ‘one dollar one vote’ and has undermined a well functioning democracy. There is a myth that the wealth accumulation at the top is merit-based. However, it is the society we have created that enable people’s hard work to be translated into wealth. Stiglitz writes: “Paying attention to everyone else’s self-interest – in other words to the common welfare – is in fact a precondition for one’s own ultimate wellbeing... it isn’t just good for the soul; it’s good for business.”<sup>7</sup>

The Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System also reported that the origins of the financial crisis included the growing levels of inequality.<sup>8</sup>

In summary, as Joseph Stiglitz said: “The top 1 per cent have the best houses, the best educations, the best doctors, and the best lifestyles, but there is one thing that money doesn’t seem to have bought: an understanding that their fate is bound up with how the other 99 per cent live.”<sup>9</sup>

## 2.2 INEQUALITY IS BAD FOR WELLBEING

There is a broad and robust body of research on the impacts of inequality on social and economic wellbeing. At the forefront of this work are Richard Wilkinson and Kate Pickett with *The Spirit Level*.<sup>10</sup> Based on data from scores of countries and studies, this research looked at inequality both between and within countries, rich and poor. What has emerged is a convergence of opinion that disparity is strongly correlated with a broad range of social ills and that it is harmful not only to social wellbeing, but to the very foundation of the economy. Key findings on the social impacts of inequality, outlined in the summary of Wilkinson and Pickett’s work, are set out in *Social impacts of inequality* on page 13.

Disparity jeopardizes the fabric of social relationships that make our communities good places to live, work, raise children and grow old. The social impacts identified by Wilkinson and Pickett are critical elements in the quality of life for all Albertans. Some measures – violence rates, trust, community life, and addictions incidence – impact on all individuals directly, in their homes and communities. Others – obesity, incarceration rates and poor education and health outcomes – are expensive and result in higher costs across society. Some of these costs are quantified in the recent study *Poverty Costs, An Economic Case for a Preventative Poverty Reduction Strategy in Alberta*.<sup>11</sup> According to that study, poverty alone costs Alberta between \$7.1 and \$9.5 billion per year.

7 Stiglitz, J.E. 2012. “The Price of Inequality: How Today’s Divided Society Endangers Our Future.” W.W. Norton & Company.

8 Commission of Experts of the President of the United Nations General Assembly. 2009. “Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.” September.

9 Stiglitz. 2012. Op. cit.

10 Wilkinson, Richard and Kate Pickett. 2010. “The Spirit Level: Why Inequality Makes Societies Stronger.” New York: Bloomsbury Press.

11 Briggs, A. and C.R. Lee. 2012. “Poverty Costs, An Economic Case for a Preventative Poverty Reduction Strategy in Alberta.” Calgary: Vibrant Communities Calgary and Action to End Poverty in Alberta.

Inequality also has a racist face. Disparity is most extreme for indigenous peoples:

- Income disparities are severe, with indigenous incomes at two thirds the average income for men and one half for women;
- Levels of unemployment are double and even triple the average;
- Indigenous children are significantly over-represented in children in care;
- There is disproportionate representation of indigenous people at all stages of the justice system, both as victims and offenders;
- Levels of educational attainment are much lower;
- Health outcomes are much poorer;
- Housing quality is lower; and
- There is less food security amongst indigenous Canadians.<sup>12</sup>

Inequality also has a sexist side. Gender inequalities can be seen in the persistent gap between women and men's wages. Women also face greater barriers to employment than men due to the lack of quality child-care, poorer access to training and skills-development programs, and discriminatory wage ceilings.<sup>13</sup>

12 Data sources: Statistics Canada, Aboriginal Population Profile, 2006 Census, Aboriginal Children's Survey (ACS): Tables 5.1-5.3. Charlotte Loppie Reading and Fred Wien, Health Inequalities and Social Determinants of Aboriginal People's Health (National Collaborating Centre for Aboriginal Health, 2009).

13 For more information on Alberta's gender gap, see: Parkland Institute. 2012 "Alberta's wage gap still highest in Canada." March.

# 3.0 Inequality in Alberta

The backdrop for any conversation about income distribution in Alberta is the boom and bust rollercoaster the economy continues to ride. Alberta's economy has recovered from the brief recessionary dip and tipped back into growth. Table 1 shows real growth in the size of Alberta's economy as measured by Gross Domestic Product (GDP). Table 1 also shows that despite the booms and busts historically, and the recent recession, Alberta has experienced a general trend of extraordinary economic growth since the 1990s. Indications from investment levels in the oil and gas sector are that the province is on the cusp of another boom, if not already in it. The provincial government estimates real growth levels of GDP in the 3 to 3.8 per cent range between 2011 and 2015.<sup>14</sup>

TABLE 1 | GDP in Millions  
adjusted for inflation:  
1985 to 2010

1995	117,518
2000	144,886
2005	170,872
2010	183,251

Source: CANSIM, Table 3840013, Alberta; Gross domestic product, chained (2002) dollars, V3839827, Statistics Canada.

14 Government of Alberta. 2012. "Budget 2012: Investing in People." Economic Outlook. p. 66. <http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-economic-outlook.pdf>

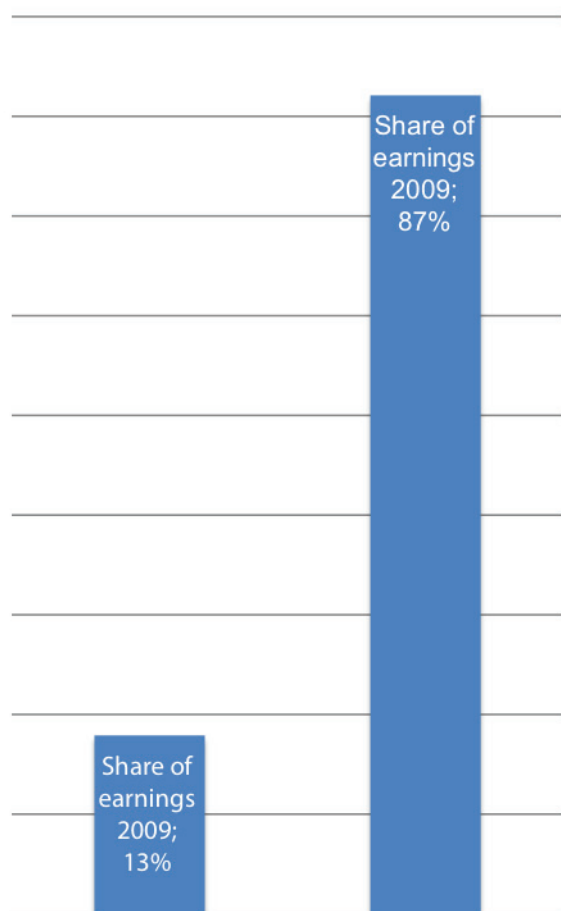


## 3.1 SHARES OF EARNINGS IN ALBERTA

In the context of how Alberta's boom and busts are being shared across incomes, this section explores earnings to see how equally effort is rewarded through work. Earning equality is a large factor in self-esteem and perception of fairness. It also looks at how the pie is divided after tax to illustrate how well the tax system is redistributing income.

A glance at the distribution of earnings in Alberta reveals that the vast majority of earnings end up in the hands of the top half of earners. Figure 1 illustrates the shares of earnings going to the top half and bottom half of households. A full 87 per cent of earnings goes to the top half of households, leaving the other half with just under 13 per cent.

**FIGURE 1** | Share of earnings, top and bottom half of households, Alberta 2009

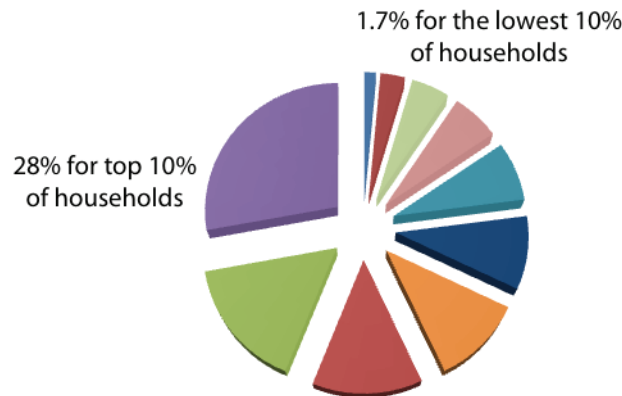


Source: Statistics Canada, Survey of Labour and Income Dynamics (SLID) data, household earning, all family type based on custom tabulations from the Canadian Centre for Policy Alternatives, unpublished.

## 3.2 SHARE OF INCOME AFTER TAXES

Taking a look at how income is shared, after taxes redistribute some of that income, shows a similar though less dramatic picture of inequality to that of earnings. Figure 2 looks at what income is left after tax and how that income pie is divided. With Albertans divided into 10 income groups (deciles), one can see that the top 10 per cent of households has almost one third of the pie while the bottom group has 1.5 per cent. The figure shows that the only groups with even close to a proportionate amount of income are the fourth and fifth from the top which actually have close to 10 per cent of the pie to match their 10 per cent of the population. Whether before or after tax, a large share of Alberta's income is going to a relatively small number of Albertans.

FIGURE 2 | Share of after tax incomes, Alberta 2009



Source: Statistics Canada, Survey of Labour and Income Dynamics (SLID) data, shares of after tax income, (2009 \$) by decile 1976–2009; economic households; Alberta. Based on custom tabulations from the Canadian Centre for Policy Alternatives, unpublished.

### 3.3 INCOME INEQUALITY ON THE RISE

Income inequality is rising across Canada. Like most developed economies, Canada was on a path of continuous decline in both inequality and poverty rates for 20 years, but these have turned around dramatically and increased rapidly in the past 10 years. By 2011, Canada had reached levels above the average of other countries in the Organization for Economic Cooperation and Development (OECD), ranking 12th out of 17 peer countries for poverty and inequality.

Alberta is also one of the nation's leaders in inequality. A number of measures can be used to reflect changes in economic inequality – this section uses three: the Gini coefficient; the ratio of those with incomes over \$100,000 to those with incomes under \$40,000; and the gap between median and mean income. All three measures reflect increased inequality in Alberta since

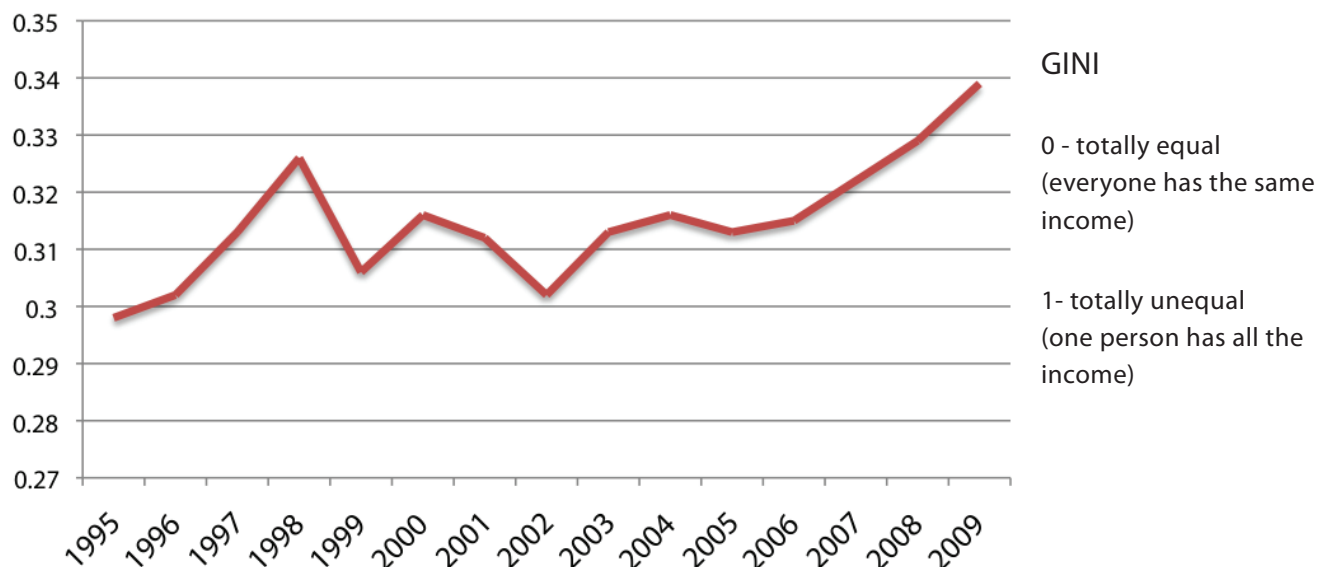
the mid-1990s and place Alberta above the Canadian average for economic disparity.

#### *Gini coefficient*

The Gini coefficient is the standard measure of income inequality internationally. The index measures how much income distribution deviates from equal within a defined region on a scale of 0 to 1. A Gini coefficient of zero illustrates perfect equality (everyone's income in a society is the same), while a Gini coefficient of one corresponds to a situation in which all income in a society is held in the hands of one individual.

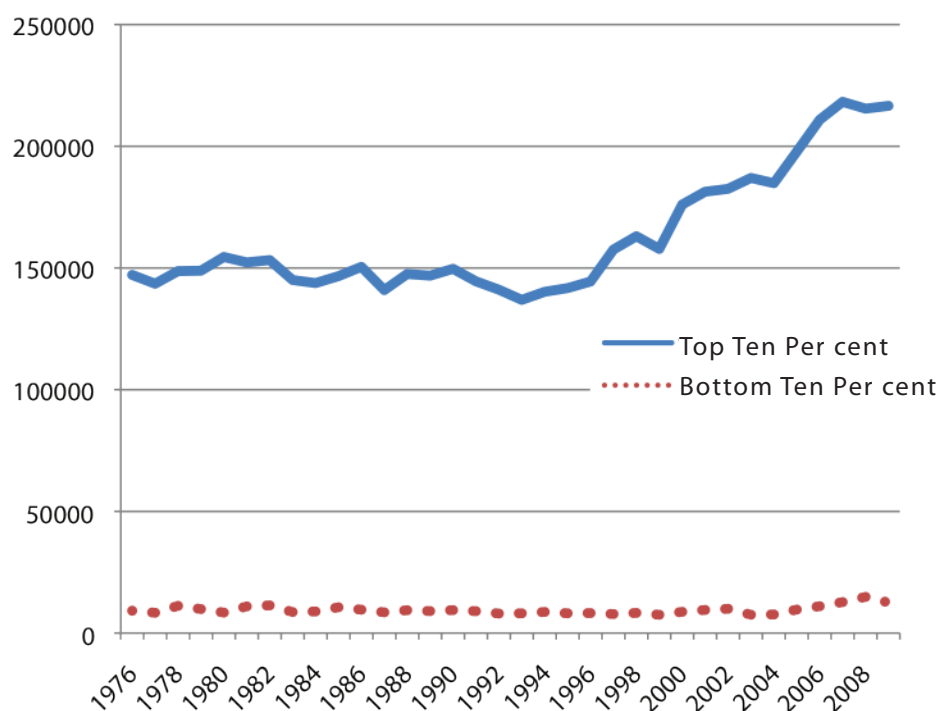
The trend line in Figure 3 shows that the distribution of income in Alberta has been growing less equal. Alberta's Gini coefficient increased from .291 in 1995 to .339 in 2009; this is above the Canadian average. By comparison, Scandinavian countries and much of Central Europe had a Gini coefficient of less than .30 in 2009. Alberta's trend line shows significant volatility,

**FIGURE 3 |** Alberta Gini coefficient, 1995 to 2009



Source: Statistics Canada, CANSIM Table v21152846 Alberta; Gini coefficient, After-tax income; Economic families, two persons or more.

**FIGURE 4 |** Median income top and bottom 10 per cent of Alberta Households (2009 constant dollars)



Source: Statistics Canada, Survey of Labour and Income Dynamics (SLID) data, shares of after tax income, (2009 \$) by decile 1976–2009; economic households – non-senior; Alberta. Based on custom tabulations from the Canadian Centre for Policy Alternatives, unpublished.

likely due to the resource revenues and the boom and bust path it has been on.

## Alberta’s widening gap in median income

Figure 4 shows the changes in median after tax income for the highest and lowest income ten percent of households (non-senior) between 1976 and 2009. The image shows a steep increase in income at the top end, which is not mirrored at all at the lowest income level. The median income of the lowest ten percent of Albertans actually fell from \$9200 to \$7500 in 1976 after which it slowly rose to \$12600 in 2009. The income of the top 10 per cent, on the other hand, rose from \$147,100 to \$216,600, with a small dip in the mid 1990s. The trend lines in Figure 4 reveal the dramatic divergence in the fortunes of the highest and lowest deciles of Alberta households and the widening gap in the province.

## Gap between mean and median income

The gap between mean and median income also is an indicator of changes in inequality. Average income can be distorted by a small number of high earners that pull the average up. Median income – the middle line at which half the households earn more and half earn less – controls for some of that distortion, providing a more accurate figure of average income. The gap between the two indicates incomes are unequally distributed, and a growing gap means disparity is on the rise.

Driven by excessive wealth at the top end, the average income in Alberta has risen much faster than the median and the gap between the and median has been growing. In 1995 the median income for Alberta was \$49,500 while the mean average was \$59,100 with a difference of 16 per cent. In 2009 the average had grown to \$85,900 while the median had only increased to \$68,100 with a difference of 21 per cent. The gap between the average and the mean has grown, showing that disparity has grown.

TABLE 2 | Alberta mean and median income (after tax): 1995 – 2009 (\$2009 constant dollars)

Year	Median Income	Mean Income	Difference
1995	\$49,500	\$59,100	16%
2000	\$54,900	\$67,800	19%
2005	\$59,900	\$75,500	21%
2009	\$68,100	\$85,900	21%

Source: Statistics Canada, CANSIM Table 202-0401 Distribution of total income, by economic family type, all family types, V1552607 and V1552608.

### 3.4 THE RISE OF THE TOP 1 PER CENT

The widening gap in income distribution, both in Alberta and across Canada, is being driven predominantly by rapid growth in incomes at the top. According to OECD figures, the richest 1 per cent of Canadians saw their share of total income increase from 8.1 per cent in 1980 to 13.3 per cent in 2007. Moreover, the income share of the richest 0.1 per cent more than doubled, from 2 per cent to 5.3 per cent.<sup>15</sup> The decade from 1997 to 2007 was Canada's fastest growing, with the richest 1 per cent taking 32 per cent of all income growth.<sup>16</sup>

Alberta followed suit, but the trend has been more extreme. Recent data on the top 1 per cent reveals that Alberta remains significantly above the Canadian figures.

The recession has moderated the top 1 per cent share of wealth slightly both at the national and the provincial levels. However, indications are that the share of income will increase as Alberta's economy continues to heat up again.

Figure 5 shows that in 2009 the top 1 per cent had 14.4 per cent of the income share compared to 12.3 per cent across Canada. Figure 5 also illustrates the growth in inequality with the top 1 per cent increasing their share of income from 8.1 per cent in 1982 to 14.4 per cent in 2009.

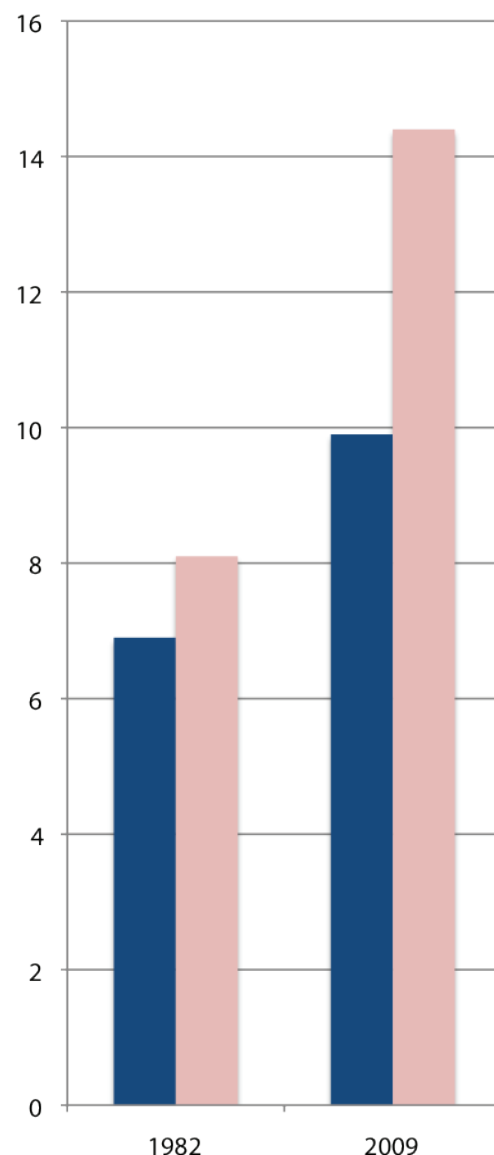
To get a more detailed picture of the top 1 per cent in Alberta, one can look at the threshold an individual needs to earn to get into the top 1 per cent bracket and the average income for earners in that bracket.

15 OECD (2008), *Growing Unequal?: Income Distribution and Poverty in OECD Countries*. Country Note: Canada.

16 Yalnizyan, Armine. 2010. "The rise of Canada's richest 1 per cent." Canadian Center for Policy Alternatives. December. p.3. [www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/12/Richest%201%20Per%20cent.pdf](http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/12/Richest%201%20Per%20cent.pdf)

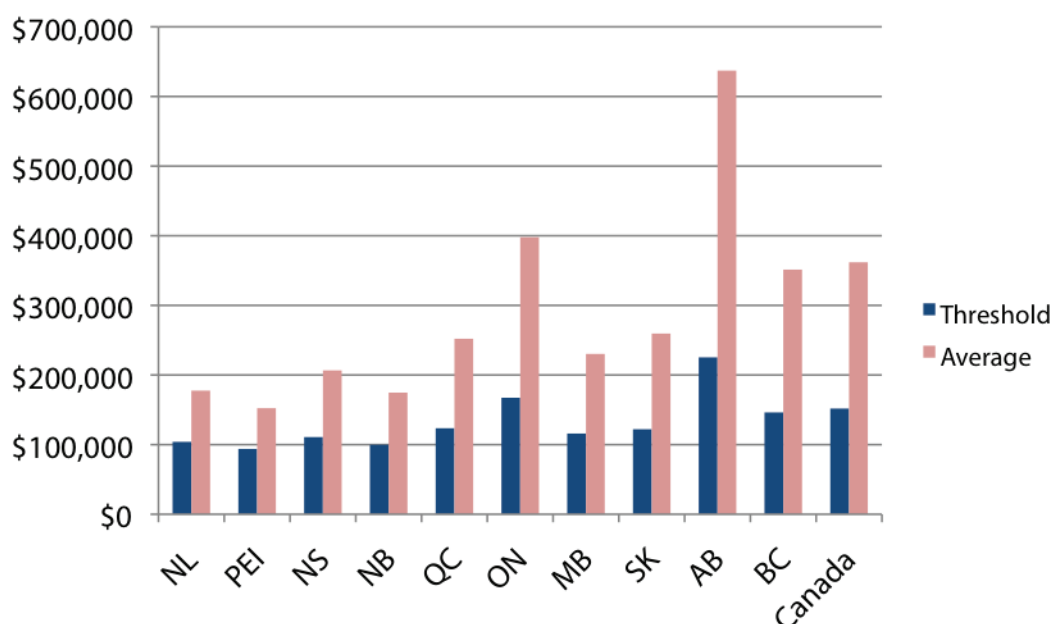
Figure 6 shows that to enter the top 1 per cent in 2009 an Albertan needed to earn over \$274,700, while the average income for the top 1 per cent is \$675,200. Alberta's top 1 per cent stand out as having by far the highest average salary in the nation. For comparison, according to Veall's data, in 2009, the national average income for the top 1 per cent was \$353,100 and the

**FIGURE 5 | Top 1 per cent share of pre-tax income**



Source: Statistics Canada Longitudinal Administrative Data (LAD) database, based on a 20 per cent sample of tax files. Based on custom tabulations by Mike Veall, McMaster University. (Veall. *Op. cit.* With data updated to 2009, provided in May 2012, unpublished.)

**FIGURE 6 |** Threshold for entering and average income of the top 1%, Alberta and Canada, 2009

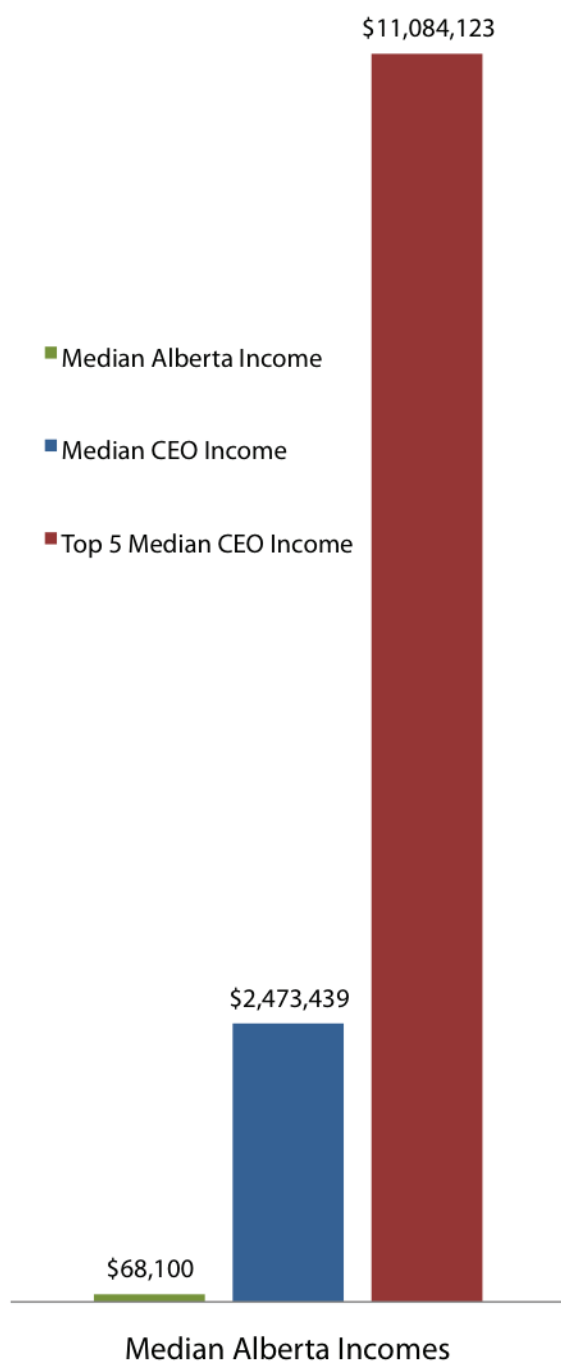


Source: Top fractile income level excluding capital gains, Statistics Canada Longitudinal Administrative Data (LAD) database, based on a 20 per cent sample of tax files. Based on custom tabulations by Mike Veall, McMaster University.

threshold to enter for top one percent across Canada was \$232,000.

Alberta's wealthy are both much wealthier than the rest of Canada and hold amongst the highest share of income in the nation.

**FIGURE 7 |** Alberta CEO and average incomes, 2009



Source: Data extracted from the disclosures contained in the proxy circulars prepared by corporations obtained either from the Canadian corporate information databank, SEDAR, or the corporate websites. Based on custom data. (Based on research conducted by Mackenzie, Hugh. 2011. "Recession-Proof: Canada's 100 best paid CEOs." Canadian Centre for Policy Alternatives. January)

## 3.5 CEO SALARIES ARE A BIG DRIVER

High CEO salaries play a role in pulling average income up for the top 1 per cent. Figure 7 shows the contrast between the incomes of Alberta's CEOs and the income of the average Albertan. Even within the top Alberta CEOs, there is a large gap between the average and the earnings of the top five CEOs.

## 3.6 GENDER GAP DRIVES INEQUALITY

The rising wealth of the top 1 per cent is key to the story of rising inequality in Alberta. But it is also important to look at who that 1 per cent is. A staggering 83 per cent of individuals in this top income group are men.<sup>17</sup> According to the OECD analysis, the rising gap between women and men's earnings is a significant driver of increased inequality in Canada, explaining more than 40 per cent of the rise in inequality.<sup>18</sup>

In Alberta, this wage gap ranks among the highest in the country. Women with good, stable jobs earn considerably less in Alberta, as in most Canadian jurisdictions, than their male counterparts. In 2009, wages for Albertan women working full-time, full-year were 68 per cent of what men earned, a ratio that ties with Newfoundland and Labrador for lowest in Canada.<sup>19</sup>

17 Fortin, Nicole M., David A. Green, Thomas Lemieux, Kevin Milligan and W. Craig Riddell. 2012. "Canadian Inequality: Recent Developments and Policy Options." Department of Economics, University of British Columbia. May. (Forthcoming, Canadian Public Policy/Analyse de politiques.)

18 OECD. 2011. Op. cit.

19 Parkland Institute. 2012. Women's Equality a Long Way off for Alberta. March. [http://parklandinstitute.ca/research/summary/womens\\_equality\\_a\\_long\\_way\\_off\\_in\\_alberta1/](http://parklandinstitute.ca/research/summary/womens_equality_a_long_way_off_in_alberta1/)

# 4.0 Poverty intensity also drives inequality -----

Inequality in Alberta has largely been driven by wealth at the top; however, the gap has also been driven by downward pressure at the bottom.

Alberta's dramatic economic growth has resulted in both the highest median and mean income in Canada, and absolute poverty has been reduced. However, poverty intensity increased in Alberta between 1981 and 2010. By 2010, Alberta had the highest poverty gap in the country.

The poverty gap is a measure of the distance between the average income of a person in low income to the poverty line. In 2010, Alberta's poverty rate was 9.1 per cent, the lowest in the nation, but the poverty gap was 22.7 per cent – the highest.<sup>20</sup> Those who remained poor in Alberta were further below the poverty line than in any other province. According to the Canadian Index of Wellbeing, inequality and the increase in poverty intensity in Alberta has undermined the

province's economic wellbeing.<sup>21</sup> As mentioned earlier in this report, studies by the International Monetary Fund reveal that these trends undermine the economy and weaken economic growth, impacting everyone.

## 4.1 2008 RECESSION: UNEQUAL IMPACT

Poverty intensity in Alberta was impacted by the recession. The poorer an Albertan was, the worse the recession impacted their income. Data shows a clear inverse relationship between income level and recession impact by income decile (see Table 3). Though the wealthy were not immune to recession impacts, their incomes were only slightly affected; impacts increase significantly as one moves down the income scale. The top four income brackets were negligibly affected, if at all, while the bottom three income brackets saw losses of between 10 and 19 per cent of income.

20 Osberg, Lars and Andrew Sharpe. 2011. "Beyond GDP: Measuring Economic Wellbeing in Canada and the Provinces." Centre for the Study of Living Standards. *CSLS Research Report 2011-11*. September. <http://www.csls.ca/reports/csls2011-11.pdf>

21 Osberg and Sharpe. 2011. Op cit.



**TABLE 3 |** Alberta recession impacts on average after tax income, by decile

Decile	2008	2009	Difference
1	\$13,131	\$11,029	-19.1
2	\$27,415	\$23,901	-14.7
3	\$38,244	\$34,752	-10.0
4	\$47,261	\$45,640	-3.6
5	\$58,274	\$57,025	-2.2
6	\$69,118	\$68,248	-1.3
7	\$82,184	\$81,688	-0.6
8	\$97,017	\$97,826	0.8
9	\$120,865	\$120,346	-0.4
10	\$210,601	\$208,829	-0.8

*Source: Statistics Canada, Survey of Labour and Income Dynamics (SLID) data, after tax household earnings, non-senior, based on custom tabulations from the Canadian Centre for Policy Alternatives.*

As shown in Table 3, lower-income Albertans were significantly challenged by the last recession. As a result, there was a dramatic increase in income support and social assistance caseloads. Though these numbers have begun to decline, food bank usage remained high in 2010. According to the Alberta Hunger Count 2011:

- Food bank use was 75 per cent higher in 2010 than in 2008, before the start of the recent recession; and
- The province experienced the second highest level of food bank use on record in 2011.<sup>22</sup>

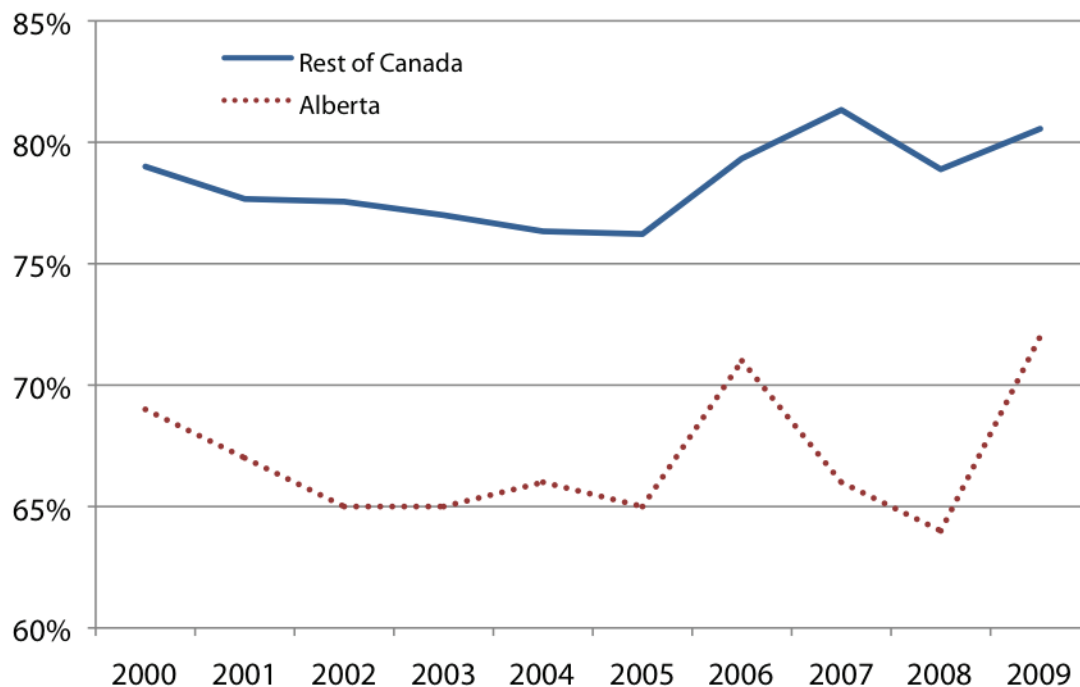
22 Alberta Food Bank Network Association. 2011. "HungerCount 2011 – Alberta Provincial Report." Alberta Food Bank Network Association. <http://www.foodbankscanada.ca/getmedia/02f0677c-2edf-4124-aa19-76d5edb7183e/HungerCount-2011-Alberta-provincial-report-final.pdf.aspx?ext=.pdf>

## 4.2 WHY IS POVERTY INTENSIFYING?

Alberta's poverty intensity is explained by a variety of factors. Disproportionate recession losses described above are part of the story. Other factors include low protection for unemployed workers, high poverty rates for single-parent households, low social assistance rates, and a meagre minimum wage. As the economy continues to heat up, inflation rates will increasingly erode wages and fixed incomes, and exacerbate the shortage of affordable housing.<sup>23</sup>

23 For a discussion of the impacts of the boom on incomes and affordability, see: Gibson, Diana. 2007. "Spoils of the Boom." Parkland Institute, University of Alberta.

**FIGURE 8 | Welfare incomes as a percentage of Market Basket Measure, lone parent with one child, Alberta and Canada, 2000 to 2009**



Source: National Council on Welfare, *Welfare incomes 2009, update as of March 2011*. <http://www.ncw.gc.ca/l3bd.2t.1ilshtml@-eng.jsp?lid=386&fid=1#Part per cent202>

Alberta has both the highest divorce rate and the highest poverty gap for single-parent households, the majority headed by women. As mentioned earlier, Alberta also has the largest gap between women and men's earnings.<sup>24</sup>

Though employment is high, making the risk of unemployment lower than in other provinces, employment security is marred by the poor Employment Insurance (EI) coverage for those who do lose their jobs. Between 1981 and 2010, Alberta had the lowest average proportion of earnings replaced by EI in the nation.<sup>25</sup> Alberta's workers have the least access and the lowest benefits in the nation and are thus, more vulnerable if employment is lost.

Low social assistance rates are another factor in Alberta's poverty intensity. The province's rates consistently sit the furthest from the poverty line in Canada (see Figure 8).

Unlike many places in North America, Alberta's economic growth has benefited middle-income families in that overall income levels have risen, fewer are unemployed, and fewer live in poverty. However, 40 per cent of Alberta households still get by on an income of \$45,000 or less, and lower and middle-income families have been hit hardest by the recession.

24 Parkland Institute and Alberta College of Social Workers. 2012. "Alberta's Wage Gap Still Highest in Canada." Parkland Institute, University of Alberta. March.

25 Osberg and Sharpe. 2011. Op. cit.

# 5.0 Families on the Treadmill

This section looks at economic vulnerability and recession impacts, as well as measures of wellbeing such as leisure time, work hours and other supports for families. These measures draw a picture of negative trends in social wellbeing that occur with rising economic inequality.

## 5.1 ALBERTA FAMILIES VULNERABLE

The economic vulnerability of households is a function of many factors. Toronto Dominion economists have constructed an index of financial vulnerability that takes into account six key metrics of household financial position.<sup>26</sup> Their study found growing vulnerability across regions in Canada, but especially in Alberta and BC. The Canadian General Accountants Association of

Canada (CGAA) also studied economic vulnerability in Alberta.

These studies identified the following:

- *Can't make the mortgage payment* – Higher and more sharply rising 90-day mortgage delinquency rates. Rates actually jumped at the height of the boom (2007). This indicates that as the new boom heats up, this vulnerability will get worse – not better. Alberta is one of three provinces in which mortgage arrears continued to rise in 2010, when Alberta registered the highest proportion of mortgage arrears since 1990.<sup>27</sup>
- *Bankruptcy rates* – The rate of Albertans declaring bankruptcy is more than twice that of the average Canadian.

26 TD Economics. 2011. "Assessing the Financial Vulnerability of Households Across Canadian Regions." *Special Report*. February 9.

27 Certified General Accountants Association of Canada (CGAA). 2011. "A Driving Force No More: Have Canadian Consumers Reached Their Limits?" Certified General Accountants Association of Canada. June. [http://www.cga-canada.org/en-ca/ResearchReports/ca\\_rep\\_2011-06\\_debt-consumption.pdf](http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_2011-06_debt-consumption.pdf)

- *Household debt* – A total of 43 per cent of Albertans reported their debt increased, compared to a Canadian average of 35 per cent. The biggest reported reason for debt increases given was day-to-day living expenses. This marks a departure from past surveys, where more diversity was seen in reasons for debt.

This vulnerability is not distributed evenly across income levels. One of the key measures of vulnerability – debt to income ratios – shows significant disparity across income levels. The CGAA study revealed that increasing debt was not associated with an increase in income or wealth, but in fact, the opposite.<sup>28</sup> In 2011, those whose income increased over the past three years and those who felt wealthier today were more likely to say their debt decreased rather than increased. The opposite was also true: individuals who reported decreased income and/or did not feel wealthier today were also more likely to report their debt increased.

## 5.2 WORKING IS NOT A TICKET

In Alberta working is not necessarily a ticket out of poverty or vulnerability. Alberta exceeds the Canadian average for factors that make workers vulnerable, for example low educational attainment and self-employment.<sup>29</sup>

When they do go to school, Albertans perform well and the province ranked third for educational attainment. However, Alberta ranks tenth out of 13 provinces and territories for expected years of schooling.<sup>30</sup> Workers with lower educational levels have elevated risk of being in lower-income households for which

the reliance on employment income is much higher than for other income groups, while the likelihood of experiencing longer-term unemployment is elevated. Alberta has the lowest rates of post-secondary enrollment in Canada. According to Statistics Canada data, in 2009/2010 Alberta's enrollment was 4.95 per cent compared to a national average of 5.56 per cent.<sup>31</sup>

Alberta's workers are also vulnerable due to low wages at the bottom. Alberta's minimum wage has languished at the lowest or close to the lowest in the nation for the better part of the past decade. As of March 31, 2012, Alberta had the lowest minimum wage in the country at \$9.40. Alberta's minimum wage is also two-tiered. Liquor servers are paid a lower minimum wage, \$9.05 as of March 2012. It is intended that the server minimum will be pegged to a dollar less than the general minimum, meaning it will not increase until the general minimum wage reaches \$10.05.

The proportion of working Albertans relying on food banks shows that employment is not a ticket out of poverty. In 2009, 47 per cent of children living in poverty resided in a household where one or more persons were working full-time, full-year.<sup>32</sup> The province leads the nation for the percentage of households with employment income served by a food bank. According to the Alberta Hunger Count 2011, one in three households helped had income from current or recent employment.<sup>33</sup>

28 CGAA. 2011. Op. cit.

29 CGAA. 2011. Op. cit.

30 Elspeth Hazell, Kar-Fai Gee and Andrew Sharpe. 2012 "The Human Development Index in Canada." Ottawa: Ontario: Centre for the Study of Living Standards: Research Report 2012-02.

31 Statistics Canada. The Daily. March 19 2012.

32 Kolkman, John and Joseph Ahorro. 2011. "In this together: ending poverty in Alberta." Edmonton Social Planning Council, Public Interest Alberta and Alberta College of Social Workers. November.

33 Alberta Food Bank Network Association. 2011. Op. cit.

## 5.3 SOCIAL DISPARITY AND INEQUALITY OF WELLBEING

The economic disparity experienced by Alberta families is paralleled by social disparity and broader inequality of wellbeing. Some key indicators where Alberta compares poorly nationally and internationally on family wellbeing include work hours and leisure time. There is disparity across income brackets for these indicators as well.

### *Work hours and stress not equal*

Research indicates there is inequality in work hours and intensity. National research by economists from Dalhousie University found increases in family incomes at the top of the distribution since the mid-1990s have taken place without any significant increases in total family hours of paid work, whereas stagnation in the middle of the income distribution has occurred despite significantly higher paid hours of work.<sup>34</sup> Data for Alberta on work hours bears this out. Work hours increased across most income brackets, but less at the top than in the middle. The top income bracket had a smaller increase in work hours but the highest increase in income, whereas the middle had a larger increase in work hours for a much smaller increase in income.<sup>35</sup>

34 Burton, Peter and Shelley Phipps. 2011. "Families, Time, and Wellbeing in Canada." *Canadian Public Policy*. Vol. XXXVII, No. 3. pp. 395-423.

35 Statistics Canada, Survey of Labour and Income Dynamics (SLID) data, household earning, non-senior, based on custom tabulations from the Canadian Centre for Policy Alternatives, unpublished.

The Dalhousie study also finds gender inequality in hours of work. Increases in real incomes have not been enough to compensate for the increased participation of mothers, and that the wellbeing of low-middle and middle-income Canadian mothers has fallen relative to the wellbeing of high-income mothers.

According to the same study, low and middle-income parents have less time and not much more money than they had in the past and, not surprisingly, there is some evidence that they are relatively worse off. The authors conclude that, "To the extent that both time and money are valuable resources for the production of wellbeing for family members, these findings suggest that inequality in wellbeing has increased even more than inequality of income since the mid-1990s."<sup>36</sup>

Not surprisingly, the study also found increasing disparity in family stress. In 1992 there was no significant difference between high and low income families for time stress, but by 2005 low income families were significantly more time-stressed than high income families.

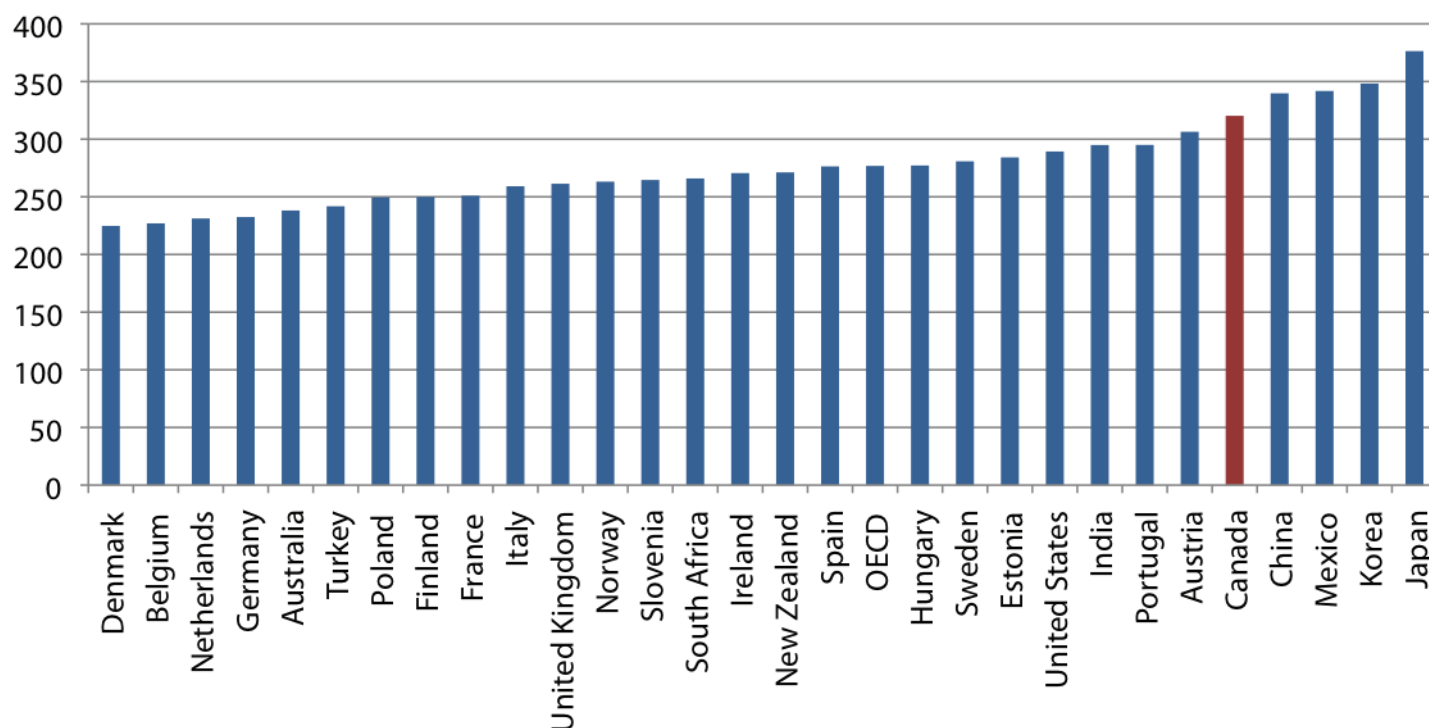
## ALBERTANS WORK LONGER HOURS

Alberta is one of the hardest working provinces in one of the hardest working nations. An April 2011 report by the Organization for Economic Cooperation and Development (OECD) places Canada fifth out of 29 developed countries for work hours (see Figure 9). This figure shows the number of minutes worked per day. Though the differences may look slight in the figure, a difference of 90 minutes per day amounts to 450 minutes or 7.5 hours per week and 390 minutes or almost 10 weeks per year. According to OECD data, Albertans worked 7.5 weeks more in 2010 than the average worker in the top 15 developed countries (OECD 15).

Across Canada there has been a growing tendency of parents to work more than 80 paid hours per week.

36 Burton and Phipps. 2011. Op cit.

FIGURE 9 | Minutes per day of paid work or study, OECD, 2011



Source: OECD (2011), *Society at a Glance 2011*, Social Indicators ([www.oecd.org/els/social/indicators/SAG](http://www.oecd.org/els/social/indicators/SAG))

Overall, this grew from just 7 per cent of all two-parent families with children in 1971 to 19 per cent by 2006.<sup>37</sup> According to the same study, one in 10 Canadians worked 50 or more hours per week in 1991, and one in four did so in 2010.

Albertans and the rest of the provinces and territories in Canada get significantly less paid time off than their European counterparts. This is partially due to a combination of the shorter work week and higher number of paid holidays and vacations in other countries. Alberta's vacation minimum is two weeks or 10 days, and there are nine paid holidays per year. This vacation minimum increases to three weeks after five years of employment. By contrast, the average vacation in Europe is six weeks. The European Union's Working Time Directive (1993) sets the minimum paid leave for all EU member countries at four weeks or 20 days per year. Several EU member countries require substantially more: for example, France mandates 30 days of paid annual leave, and Finland and Sweden, 25 days. Developed countries outside the EU also have generous minimum requirements for paid leave: Norway requires employers to provide 25 days of paid annual leave, while workers in Australia and New Zealand have four weeks of paid leave and seven paid public holidays.<sup>38</sup>

37 Burton and Phipps. 2011. Op. cit.

38 OECD. 2011. "Society at a Glance 2011 – OECD Social Indicators." [www.oecd.org/els/social/indicators/SAG](http://www.oecd.org/els/social/indicators/SAG)

The 2010 Vacation Deprivation Survey found that 47 per cent of Canadian workers surveyed say they need a vacation more than they've needed one in the past four years.<sup>39</sup>

## LESS LEISURE TIME

Working this hard comes at a cost. Working harder means less time for family and community as well as personal health and activity. It means less time for young workers to spend on social and community

activities or studying. It means more stress and poorer health.

Given the high work hours, it is not surprising that

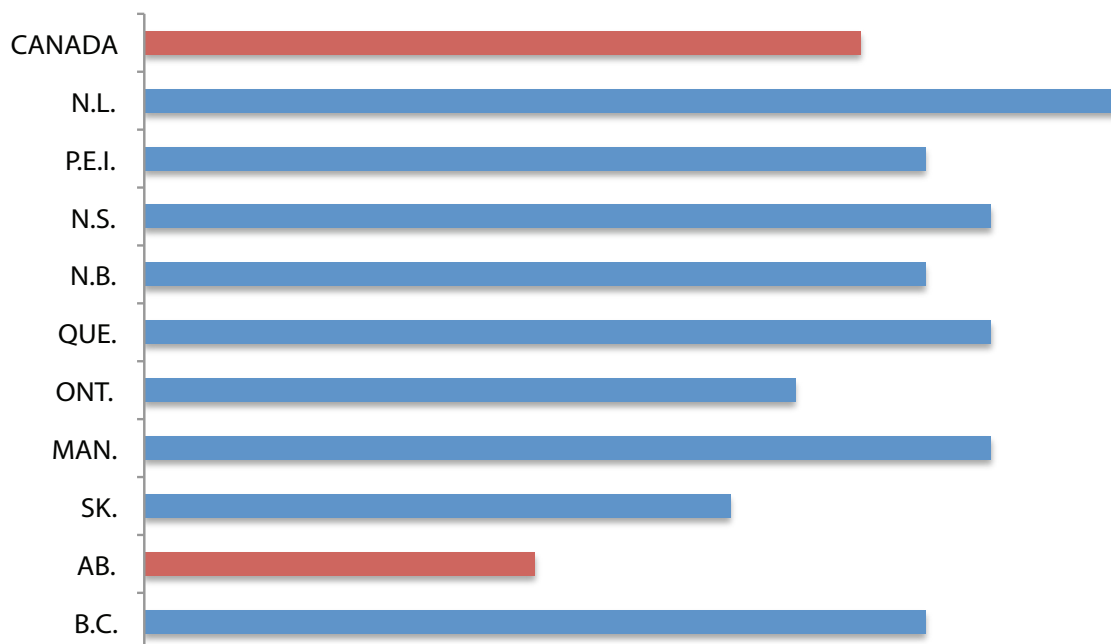
Albertans have the lowest leisure time in the nation. Albertans average five hours of leisure per day compared to a national average of 5.5 hours. Other provinces range up to 5.9 hours. This means that an Albertan has 182 fewer hours of leisure in a year than the average Canadian (see Figure 10).

## WORKING HARD AT WHAT COST?

Studies have linked longer work hours to health risks such as depression, unhealthy weight gain, increases in smoking and drinking, and higher risks of injury at

39 Canadian News Wire, 2011. Vacation Deprivation Continues Despite Economic Rebound, Expedia.ca. Toronto, June 14.

FIGURE 10 | Average total leisure time, by region



Source: Human Resources and Skills Development Canada, Indicators of Well-Being Canada, <http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=52>, accessed February 16, 2012.



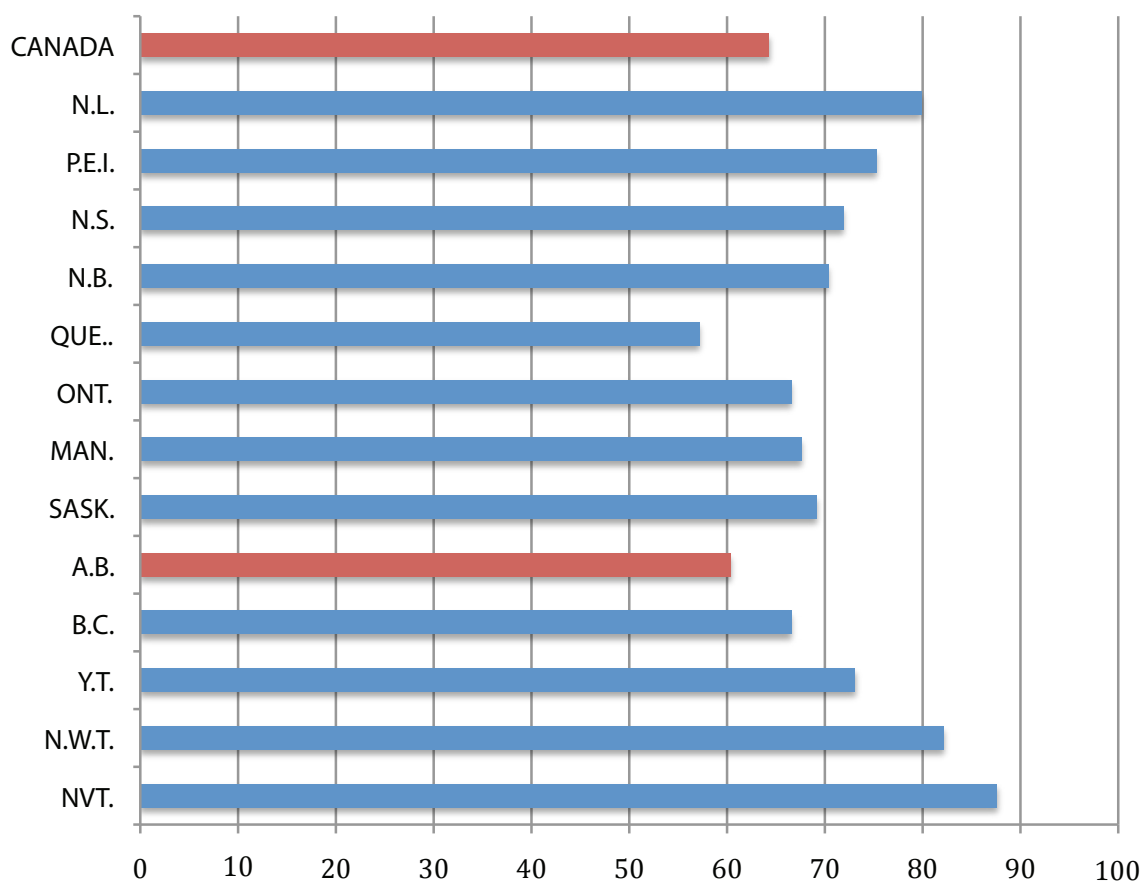
work.<sup>40</sup> Studies have also found that longer work hours can reduce time needed to unwind when away from work, nurture family relationships, parent effectively, provide non-financial support to extended family members, and engage in voluntary community activities. Long work hours can also be detrimental for communities, by limiting the time and energy people have

for community engagement. This undermines and weakens neighbourhood social networks and trust.<sup>41</sup> It is therefore understandable that Albertans rank among the lowest in the nation for sense of belonging to their communities.

40 For a good overview of the research on the health and broader social implications of excessive work hours, see: "Working Conditions as a Determinant of Health," Public Health Agency of Canada, based on papers and presentations by Andrew Jackson, Senior Economist, Canadian Labour Congress, and Michael Polanyi Assistant Professor, Saskatchewan Population Health Research and Evaluation Unit, and Faculty of Kinesiology and Health Studies, University of Regina. The presentations were prepared for The Social Determinants of Health Across the Life-Span Conference, held in Toronto in November 2002.

41 Milkie, Melissa A., Sarah M. Kendig, Kei M. Nomaguchi, Kathleen E. Denny. 2010. "Time With Children, Children's Wellbeing, and Work-Family Balance Among Employed Parent." *Journal of Marriage and Family*. Volume 72, Issue 5, pp. 1329–1343. October. DOI: 10.1111/j.1741-3737.2010.00768.x

FIGURE 11 | Sense of belonging to community



Source: Canada Community Health Survey, 2008 <http://www.statcan.gc.ca/pub/82-229-x/2009001/envir/cob-eng.htm>

# 6.0 Alberta's tax and transfers minimally reduce inequality

In Alberta, the effectiveness of federal and provincial government income transfers in lifting children above the poverty line has increased over the years. In 1989, only about 25 per cent of children were lifted above the poverty line. By 2009, this had increased to 44 per cent.<sup>42</sup>

However, the tax and transfer system is less effective at addressing inequality. Recent data show that taxes and social program transfers reduce inequality less in Canada than in most OECD countries.<sup>43</sup> According to the OECD, Canada spends less on cash benefits such as unemployment and family benefits than most OECD countries. OECD researchers conclude that, partly as a result, taxes and transfers do not reduce inequality by as much as in many other countries. Furthermore, their effect on inequality has been declining over time.

Generally, the Gini coefficient for market income is similar in Canada to Europe. The key difference lies in the tax and transfer system, which reduces the Gini coefficient for disposable incomes in Europe to 0.278, whereas it is left at an average of 0.343 in non-European developed economies, including Canada.<sup>44</sup>

Prior to the mid-1990s, the Canadian tax-benefit system was as effective as those in the Nordic countries in stabilising inequality, offsetting more than 70 per cent of the rise in market income inequality. The effect of redistribution has since declined,<sup>45</sup> driven by a combination of the reduced role of means-tested transfers and changes in taxation rates.

Alberta's tax and transfer system is significantly less effective than Canada's overall at redistributing wealth. Canada's tax and transfer system reduced the income of the top 1 per cent by almost 20 per cent in 2009, while Alberta's reduced the income of the top 1 per

42 Kolkman and Ahorro. 2011. Op. cit.

43 Luebker, Malte. 2012. "A Tide of Inequality: What can Taxes and Transfers Achieve?" *Social Europe*. February 16, 2012. [www.social-europe.eu/2012/02/a-tide-of-inequality-what-can-taxes-and-transfers-achieve/](http://www.social-europe.eu/2012/02/a-tide-of-inequality-what-can-taxes-and-transfers-achieve/)

44 Luebker. 2012. Op. cit.

45 OECD. 2011 Op. cit.

cent by only 13 per cent.<sup>46</sup>

One of society's most important tools for economic equality is a progressive income tax. With tax rates increasing as income increases, a higher proportion of revenues is raised from those at the top, while a higher proportion of the proceeds is directed to, or at least shared by, those in the lower income levels.

Alberta has the flat tax, one of the only jurisdictions in the world to have abandoned progressive income taxes. This flat tax, introduced in 2001, is a big factor in the minimal redistribution of wealth in Alberta. Figure 12 shows that while Alberta has the highest personal exemption rate, the flat tax means that lower income

Albertans pay higher income tax rates than most other Canadians, while those at the top pay by far the lowest rates in the nation.

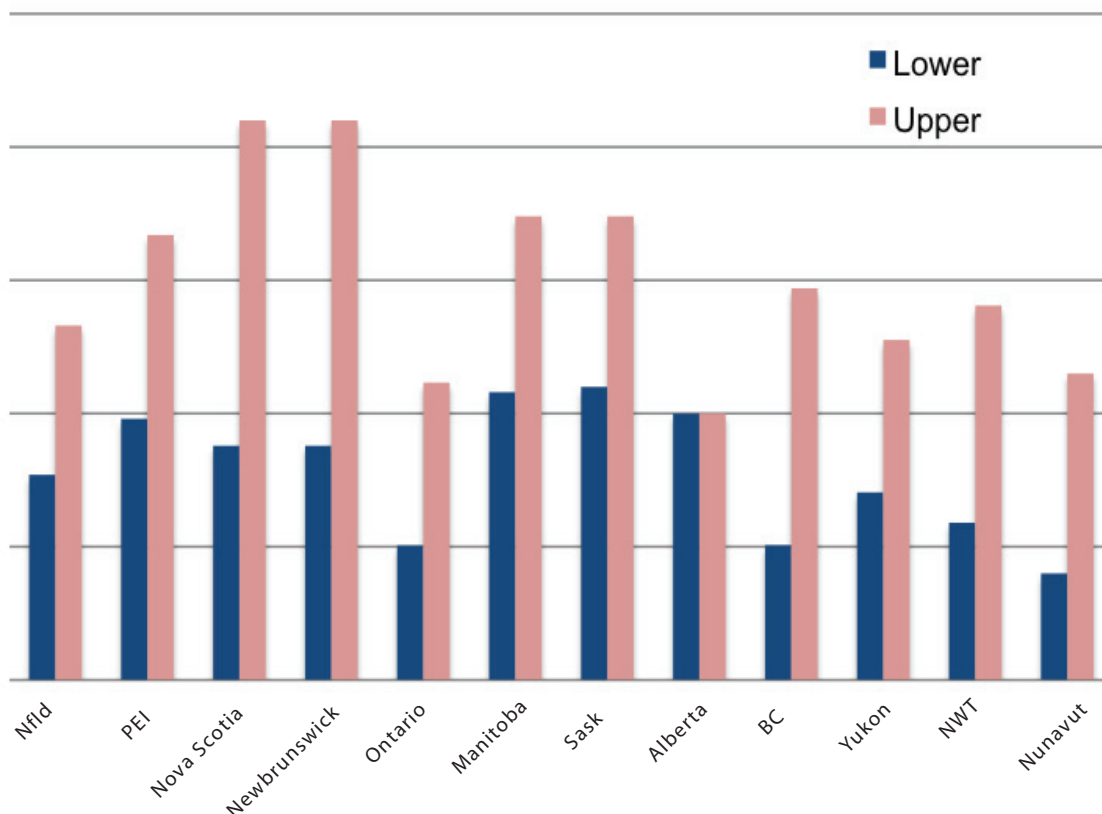
Reinstating progressive income taxes could bring in about \$1 billion in additional revenue each year while retaining the current (high) personal exemptions, and reducing current taxes to lower income groups.<sup>47</sup>

According to researchers on inequality at Yale University, this should be taken a step further; the income tax system could be structured with the key goal of addressing inequality. This could be done by indexing

47 Flanagan, Greg. 2011. "Fixing What's Broken: Fair and Sustainable Solutions to Alberta's Revenue Problems." Parkland Institute, University of Alberta. May.

46 Veall. 2010. Op. cit.

FIGURE 12 | Provincial/territorial tax bracket comparison



Source: Government of Canada, Provincial/territorial tax rates for 2012, <http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html#provincial>.

the tax system to inequality. Under such a system, the government would not legislate fixed income tax rates for each tax bracket, but would instead prescribe a formula that tied tax rates to statistical measures of pre-tax inequality. If income inequality were to increase, tax rates would automatically become more progressive. Inequality indexation could be considered a kind of insurance against worsening inequality.<sup>48</sup>

## 6.1 ALBERTA CONTINUES WITH LOW TAXES

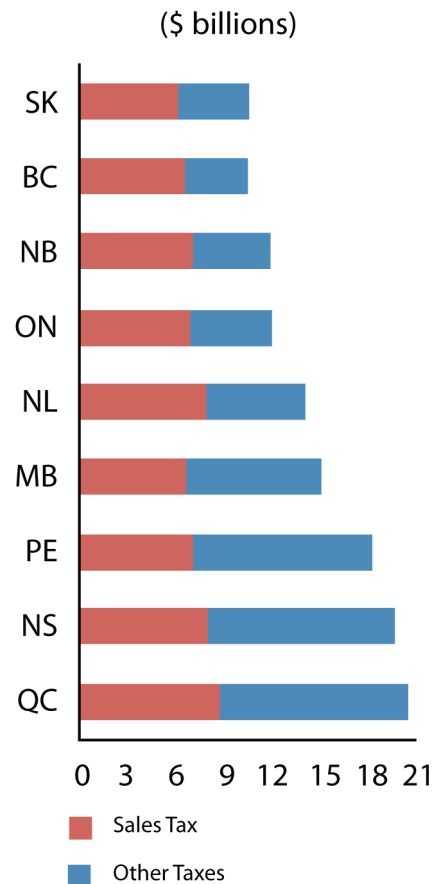
The flat tax is not the only area where Alberta compares poorly on taxes. Across Canada and within Alberta, governments have been reducing tax rates across the board. Federally, the top marginal income tax rate dropped from 43 per cent in 1981 to 29 per cent in 2010.<sup>49</sup> Albertans have one of the most spare tax systems in North America: low personal and corporate income taxes, the lowest fuel taxes among provinces, no capital tax, no payroll tax, and no sales tax.

Alberta's total taxes constitute just over 6 per cent of provincial GDP, compared to a range of 8 to over 14 per cent for other provinces.<sup>50</sup> According to the Alberta government, "If Alberta had any other provincial tax system, Albertans and Alberta businesses would pay at least \$10.7 billion more in taxes each year."<sup>51</sup>

Figure 13 illustrates this difference. The left edge is where Alberta sits and each bar indicates how much additional revenue Alberta would collect in taxes if it had the same tax structure as that province. It reveals that Alberta could collect this \$10 billion and still be the lowest tax jurisdiction in Canada, and one of the lowest in the developed world. It also shows that Al-

berta could charge between \$7 and \$9 billion more in taxes even without introducing a sales tax, by moving to the tax structures other provinces have.

FIGURE 13 | Alberta's tax gap



Source: Government of Alberta. 2012. "Budget 2012 - Tax Plan." p. 97.

48 Shiller, Robert. 2012. "Don't Resent the Rich; Fix the Tax Code." *Bloomberg Businessweek*. March 06. Excerpted from *Finance and the Good Society*, to be published April 4 by Princeton University Press.

49 OECD. 2011. Op cit.

50 Flanagan. 2011. Op. cit.

51 Government of Alberta. 2012. "Budget 2012 - Tax Plan." p. 97.

## 6.2 CORPORATE TAXES

While wealthy Albertans pay by far the least income tax in the nation, corporations are also being given a big tax advantage in Alberta. Alberta's general corporate tax rate is tied for lowest in the nation at 10 per cent, and Canada has some of the lowest corporate tax rates in the developed world.

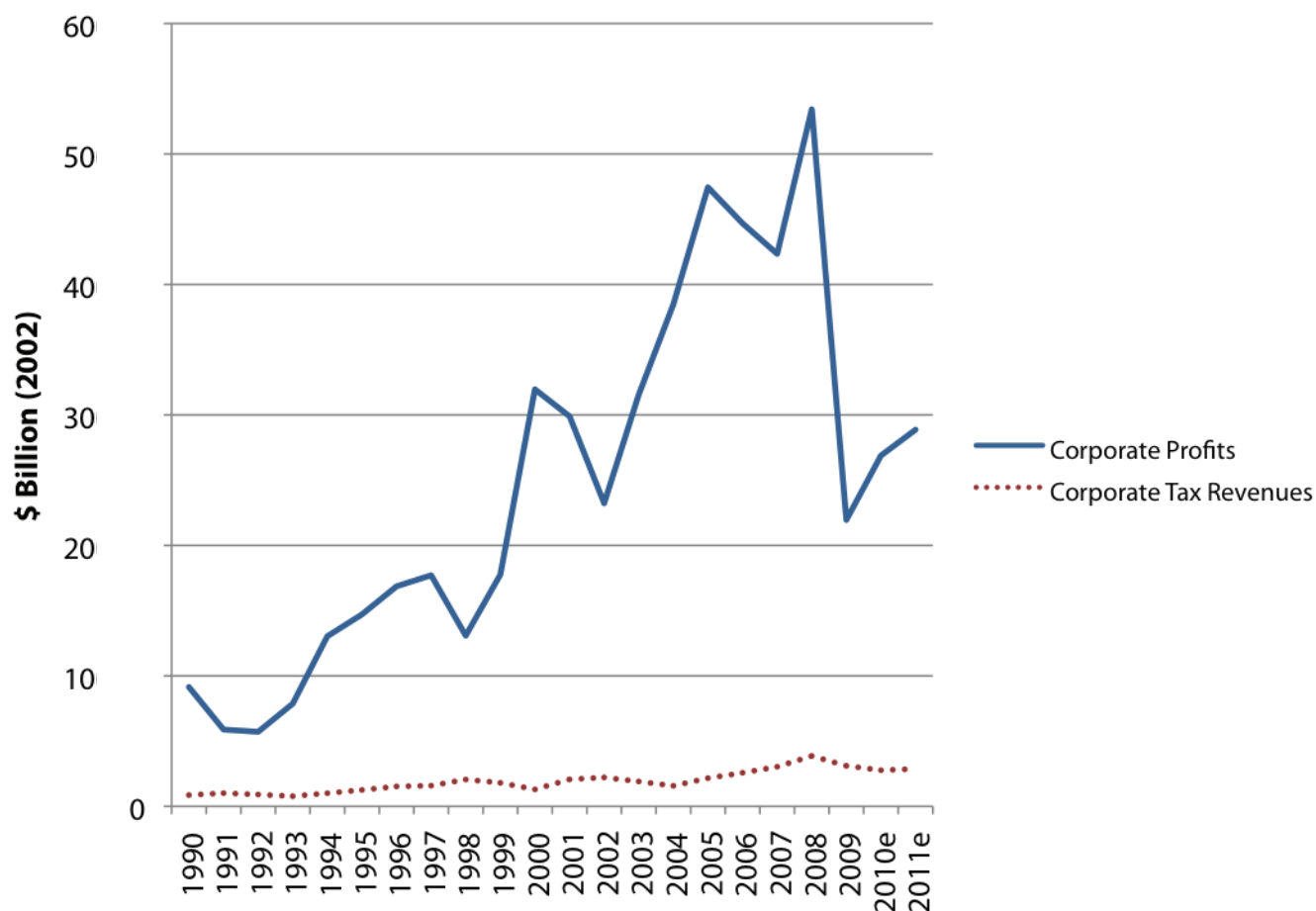
Across Canada, corporate tax rates have been on the chopping block. The combined federal/provincial general corporate income tax rate fell from 33.6 per cent in 2005 to 28 per cent in 2010, and is set to decline

further to 25 per cent. For comparison, the US combined rate in 2011 was 39.2 per cent.<sup>52</sup>

These tax cuts have meant that relatively little of the meteoric rise in profits that were seen by Alberta corporations were captured by corporate taxes, illustrated in Figure 14. Before the recession hit, corporate pre-tax profits had reached an all time high of 28.7 per cent of GDP. Despite the recession dip, these are again on the rise.

52 Flanagan. 2011. Op. cit.

FIGURE 14 | Corporate taxes and profits in Alberta



Sources: CANSIM Table 3850001 - Consolidated federal, provincial, territorial and local government revenue and expenditures, annually (Dollars) - \*Terminated\* v645751 Alberta; Provincial and territorial governments; Corporation income taxes \*Terminated\* 2010 and 2011 based on <http://www.finance.alberta.ca/publications/budget/budget2011/fiscal-plan-revenue.pdf>.

## 6.3 ROYALTIES GIVEAWAY

Alberta has been foregoing large revenues in the form of artificially low royalty rates. In 1971 Premier Lougheed set a target of 35 per cent of revenues to be captured by royalty rates for the public. The government consistently failed to meet those targets and finally the Stelmach government removed the targets altogether. In the 2012 pre-election budget, the provincial government announced its intention to have royalties capture only 9 to 12 per cent of all oil and gas revenues over the next three fiscal years.<sup>53</sup>

Failing to meet that 35 per cent target between 1971 and 2010, for oil, natural gas and bitumen cost Alberta \$195 billion in revenue. For the tarsands/oilsands, a more conservative target might be used to address the higher cost profile. Applying a 25 per cent target starting in 2000, Alberta missed out on \$33 billion in potential revenue from the tarsands/oilsands.

Using a 35 per cent target in the conventional sector and a 25 per cent target in the tarsands/oilsands royalties as set will fall short in the 2012–2015 period by:

- \$17 billion in 2012/13, and
- \$19 billion in both 2013/14 and 2014/15.

Essentially, this means reforming Alberta's royalties is a \$55 billion question. Also, given that the majority of the tarsands/oilsands industry is foreign owned, this is a transfer of wealth not only from the public to the corporate owners, but out of the province and out of the country.<sup>54</sup>

Alberta has been running deficits for a number of years and cutting social programs such as health care,

education and social supports that impact on poverty and inequality. Royalty revenues would have gone a long way toward supporting those programs and wiping out deficits. However, the foregone revenues also raise the larger question of intergenerational equity and the sustainability of Alberta's future. Alberta has had a woefully poor record in terms of saving its resource revenues, and pays little heed to the issue of equity when extracting natural resource wealth and liquidating it.

## 6.4 SOCIAL SPENDING HAS ALSO FALLEN

Alberta compares poorly on the transfer side as well as taxation in terms of minimizing inequality. Alberta's social spending may look high relative to other provinces in current dollars, but high inflation and population growth mean those numbers are misleading. On an inflation controlled, per capita basis, social spending is comparable to other provinces. Alberta's social spending has actually been falling relative to the size of the economy.

Alberta has high population growth and inflation as well as an urgent need for infrastructure to support both the growing population and the massive industrial boom. Social spending relative to the size of the economy indicates both affordability of spending and the need for spending.

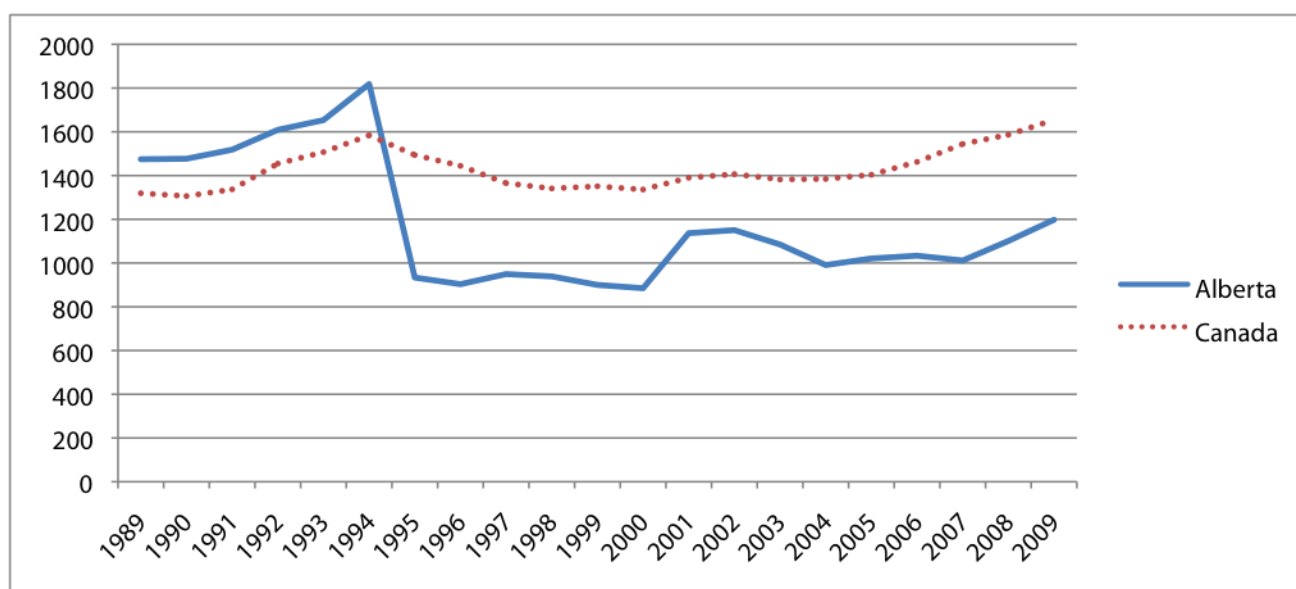
Alberta's social spending specifically took a big hit when the Alberta government cut social transfer payments dramatically in the 1990s.<sup>55</sup> Figure 15 shows how spending has never recovered.

53 Campanella, David. 2012. "Misplaced Generosity." Parkland Institute. March. Update of report with the same title authored by Regan Boychuck for the Parkland Institute in 2011.

54 Forest Ethics. 2012. Who Benefits? An Investigation of Foreign Investments in the tar sands. May.

55 For a detailed description of the impacts of the cuts from the Klein period to 2008, see: Taft, Kevin, Junaid Jahangir, and Mel McMillan. 2012. *Follow the Money: Where is Alberta's wealth actually going? A profile of key public and private sector economic trends in Alberta from 1989 to 2008*. Edmonton: Detselig Enterprises Ltd. January.

FIGURE 15 | Alberta social spending per capita



Source: Statistics Canada, CANSIM tables: Table 510001 - Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annually (Persons unless specified), V466668 Canada; Both sexes; All ages (1971 to 2011, Data: 41); V469503 Alberta; Both sexes; All ages (1971 to 2011, Data: 41)

Social assistance support is one of the areas where these low levels of investment are most obvious. As mentioned in an earlier section of this report, Alberta has the most intense poverty in the nation as a result of this under-investment.

Another area where Alberta has been cutting is in post-secondary education. Tuition rates have been on the rise as a consequence, exacerbating inequality in access to education.

Because of ideology and the drive to keep funding of public services low, a culture of privatization and contracting out has developed in Alberta. As a result, many of those service functions have been offloaded to the business, voluntary or community sectors. This created both an insecure and competitive environment as the sector was transformed into a "contract culture." Community service providers were expected to do more with less. This has also led to workplace

stress challenges for front line social service delivery staff such as social workers.<sup>56</sup>

It is time to recognize the broader consequences of concentrating efforts at supporting the wealthiest citizens, and take concerted steps to ensure that all Albertans benefit from the province's wealth. Alberta has both the wealthiest and the poorest citizens in the nation. We have growing inequality. Political decisions taken in the early 1990s to shift to a more market approach to public services exposed Albertans to economic insecurity and social vulnerability. Even more, as this report has shown, inequality costs, not only in terms of its impact on economic growth, but more broadly in terms of its impact on all citizens through higher violence rates, addictions problems, poorer health, and lower social cohesion. Both economic and

56 Kinjerski, Val. 2012. "Flourishing in Child Protection Creating Environments that Helps Social Workers Thrive." Report by Kaizen Solution for the Alberta College of Social Workers. January. [www.kaizensolutions.org](http://www.kaizensolutions.org)

# 7.0. Conclusions and Recommendations

social disparity have been increasing and the wellbeing of Albertans has been jeopardized. The new boom will only exacerbate these trends unless concerted steps are taken to reverse them.

Alberta must follow other advanced industrial countries and many provinces within Canada and move ahead with dedicated policy actions that address inequality and poverty.

Alberta is at a crossroads. We need a new vision of society, one that promotes quality of life, wellbeing and community over individualism. Alberta needs to rebuild the foundation of collective commitment and caring for each other that this province was built on and was known for across the country. An aging population, decreasing birth rates, increasing population diversity, and dwindling resources require greater understanding of what it will take to ensure economic growth and social cohesion in the future. Reducing economic and social disparity in Alberta requires a multifaceted set of solutions.

In the first report in this series, the Parkland Institute

and Alberta College of Social Workers developed an extensive framework for social policy reform aimed at reducing disparity. That framework was developed in conjunction with front line workers, policy analysts and academics. This report updates the inequality data and emphasizes the role of the tax and transfer systems. Broader study also identifies labour market policies and the social service delivery models as other factors in Alberta's disparity gap. The broad framework provides an excellent basis for the provincial government to use in developing a social policy framework for Alberta.

The key elements of this social policy framework follow.

## IMPROVE QUALITY OF LIFE

Improve access to quality social programs, increase leisure time, and reduce stress on families through: increased spending on culture and leisure, childcare and early learning, education, and healthcare; reduced working hours; increased vacations; and expanded community based



public health and other services for indigenous communities.

## **ENSURE DIGNITY AND AN ADEQUATE INCOME FOR THE MOST VULNERABLE**

Strengthen the province's social safety net through the development of programs that provide a liveable income, are universal, accessible and delivered in a non-stigmatizing manner.

## **IMPLEMENT PROGRESSIVE REVENUE REFORM**

Return to progressive taxes and raise corporate and other taxes to levels that allow continued support for public goods like healthcare, education and social programs that Albertans feel are citizenship rights.

## **PROTECT WORKERS**

Improve income security, equality and quality of life, through expanded worker protections such as labour policy and regulatory change that better support unionization as well as minimum wage and unemployment insurance improvements.

## **STRENGTHEN DEMOCRACY AND GOOD GOVERNANCE**

Reform the democratic process to ensure it accurately represents Alberta's diversity, especially Alberta's indigenous peoples.

## **INVEST IN HOUSING AFFORDABILITY**

Fulfill promise to eradicate homelessness by 2019, including \$3.3 billion in spending.

## **STRENGTHEN COMMUNITY SERVICES**

Shift away from a business model to one based on core service delivery and away from the reliance on charity to a model based on rights. Provide more stable and long-term funding, salaries equal to the public sector and appropriate accountability measures.

Alberta has significant resource riches and is in a unique position to be a leader in the nation in quality of life and wellbeing. There are examples to look to in Europe where resource development has not been accompanied by rampant inequality and where governments have used tax and transfer systems to ensure redistribution of that wealth for current and future generations.

Few provinces or territories are as wealthy as Alberta. We have a golden opportunity to develop an inclusive society where all benefit from our riches. Let's make this happen in Alberta.





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