

A Canadian View of Income Inequality and its International Implications

Alan Broadbent (www.maytree.com)

I recently wrote that the problem with poor people is they don't have enough money. That sounds like a quip but in fact it is true.

As attention is being focused on inequality, the wealth gap between the top and bottom has been exposed to a wide audience, beyond the normal poverty analysts and policy wonks. The now famous One Percent at the top has been in the spotlight. Various remedies have been offered to moderate extreme CEO pay packages, tax high incomes, or urge the rich to robust philanthropy. In all likelihood though the impact of such measures to remediate the wealth gap would be modest.

But attention is beginning to shift to what is the basis of the problem, and that is too many have too little money, even many fully employed people. Many of them are victims of decades of driving down wage rates as a way of finding efficiency in the production of goods and services. Often the price of a 99 cent burger or a \$5 tee shirt is the 99 cent or five dollar wage. Perversely, this is the low-end analog to the observation of Henry Ford a century ago that he wanted to pay his workers well enough that they could afford to buy one of his automobiles. Now we pay them little enough that they can only afford the bargain burger or shirt.

Many... are victims of decades of driving down wage rates as a way of finding efficiency in the production of goods and services. Often the price of a 99 cent burger or a \$5 tee shirt is the 99 cent or five dollar wage.

In Canada a number of people have pointed out the folly of wage practices that result in two-thirds of the population being unable to participate in the economy, essentially living paycheque to paycheque or always on the edge of financial insecurity. There is a very real risk

of falling into poverty, as a result of a failed employer, an injury or illness, a marriage break up, or another piece of bad luck. This results in a tremendous dead weight on the economy that hurts everyone.

Another factor depressing wages is the decline of collective bargaining. The aggressive assault on labour unions by the corporate sector and conservative governments in recent decades has achieved their goals of reducing the number of workers covered by union contracts, and depressing wage rates resulting from collective bargaining.

A significant proportion of the poor population in any country are people living with disabilities, including physical and mental health issues as well as diseases, including addictions. These disabilities prevent people from getting and holding jobs, and often exclude or push them to the margins of the labour market. They appear in high numbers on welfare rolls.

As do single parents, mostly women, who must place the care of children over working in the paid labour market.

A significant proportion of the poor population in any country are people living with disabilities, including physical and mental health issues as well as diseases, including addictions.

These conditions have led to low levels of family income. For Canadian families, dreams of an iPad, a warm winter vacation, or a new car become reality for only about a third of the population. Ambitions to own a home within a reasonable distance of work become attainable at later and later ages for most in our biggest cities because it is taking longer to accumulate the needed savings.

Many countries have income support programs to boost low incomes. In Canada we have benefits aimed at children, seniors, people with disabilities, and other specific populations. When these programs



Alan Broadbent

of a pay period and refusing to pay them knowing the worker is unlikely to pursue them in court. Such abuses are disappointingly common, and governments under fiscal constraints have often cut back monitoring and enforcement of labour laws.

With so much attention turned to income inequality, it is important to focus on solutions. Many of them will require that governments and employers do more to boost incomes either through wages or through income supports like benefits and pensions. Some will cost relatively little such as improving labour law enforcement.

What has become crystal clear in recent years is the costs of doing nothing. We now have massive piles of evidence on the bad social outcomes of poverty which only increases the costs across society in health care, the criminal justice system, education, and labour market absenteeism and turnover.

While some are keen to discipline excessive salaries at the top of the range, the real problem is the low incomes at the bottom, and that is where the solutions must begin. The good news is that we have many promising ideas that are ready to be implemented.

What is the role of the philanthropist? One thing is certain: philanthropy itself is not the answer. All of the assets held in charitable and foundation funds combined in any country would only narrow the inequality gap marginally, even if the holders of those

assets were inclined to act. It is doubtful many would be so inclined, in that much of the assembled capital likely came from the same paradigm which produced the inequality.

But some would be inclined to act, and they would be best to aim their funds at system change. First target might be to have government income support programs fully funded to help people and stimulate the economy. (Low income people spend money in the economy on the necessities of life like housing, food and clothing, so a dollar in is a dollar recirculated.) Or they might encourage local governments to adopt living wage policies to govern their arrangements with suppliers and contractors.

A second target might be the employer community, encouraging them both to pay their lowest earners a living wage, and to lower the ratio between their lowest and highest salaries. In this regard, large philanthropic capital pools might align their social purpose and their investment portfolio to make sure they are investing in companies who are 'walking the talk' on inequality.

Someone once remarked that the problem charitable donors have with 'mission based investing' is that few of them have missions. It would be wonderful to think that there is a growing number of donors willing to make the remediation of inequality their mission. I am keeping my eye peeled for them here in Canada.

*Alan Broadbent is Chairman and Founder of Maytree, and Chairman and CEO of Avana Capital Corporation. He co-founded and chairs the Caledon Institute of Social Policy, Tamarack – An Institute for Community Engagement, Diaspora Dialogues, and the Institute for Municipal Finance and Governance at the Munk Centre, University of Toronto. In addition, Alan is a Director of Sustainalytics Holdings B.V., Senior Fellow and Governing Board member of Massey College, Member of the Governors' Council of the Toronto Public Library Foundation, and Member of the Order of Canada and recipient of the Queen's Diamond Jubilee Medal. Alan is the author of *Urban Nation: Why We Need to Give Power Back to the Cities to Make Canada Strong*, and co-editor of *Five Good Ideas: Practical Strategies for Non-Profit Success*, and was awarded an honorary Doctor of Laws degree from Ryerson University in 2009.*