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ALBERTA FACTS

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Poverty in our Province - *Income Distribution*

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Poverty is a serious issue in Alberta today. In 1984, one out of every six Alberta families lived below the poverty line (see Alberta Facts Number 1).

Poverty is a relative term. To better understand the situation in Alberta it is important to look at the distribution of income and wealth. Income distribution compares the shares of income earned by Albertans in different income groups. The amount of income going to the richest one fifth of the population, for example, can be compared to the amount going to the poorest one fifth.

Two features of the way income is distributed stand out. The gap between the rich and the poor is substantial. Taxes and public spending do little to redistribute income.

In 1983, the poorest one fifth of Albertans received 4.9% of total personal income compared to the richest one fifth of Albertans who received 46.6% of total personal income. As the graph opposite shows the gap in Alberta is wider than for Canada as a whole.

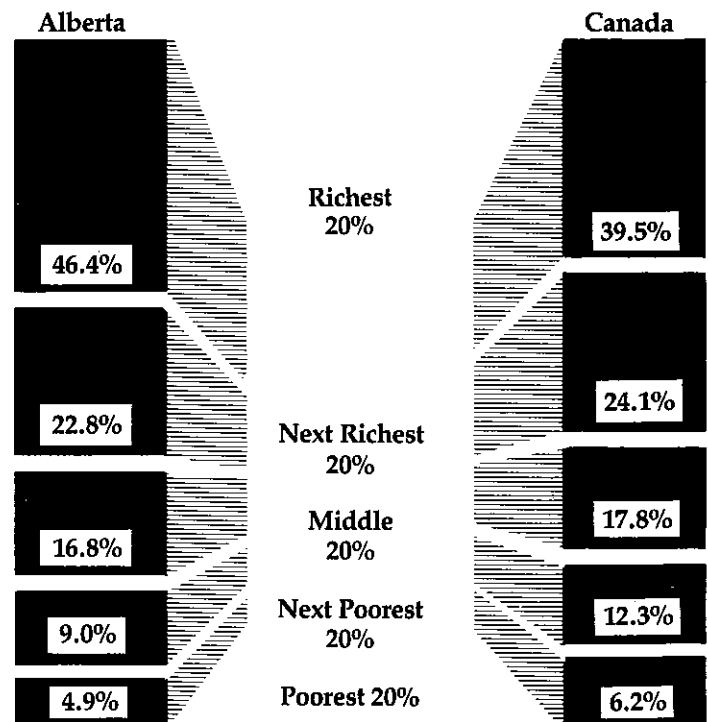
Income and Wealth

When you look at the distribution of wealth in Canada, the gap between rich and poor is even more startling. (Wealth is defined as material possessions or resources that have a money value or can be used to produce things which have a money value. Real estate and investments are examples of wealth.)

If you think of the wealth of Canada as one dollar, and its population as 100 people, the richest 20 people owned 73.3 cents and the poorest 20 people owned 0.8 cents in 1983. (*Poverty in B.C.*, Sandy Cameron, January 1986, p.7)

With economic power comes political power to influence attempts to change the way income and wealth are distributed.

In Alberta, Rich Families are Richer and Poor Families are Poorer (Share of Income, 1983)



Data Source: *Poverty Profile 1985* a report by the National Council of Welfare.

Income Disparities Equal Unequal Opportunity

Canadians like to believe that ours is a society in which all children are born with equal chance to rise as far as their abilities will carry them. Though they begin their lives in very disparate circumstances, we comfort ourselves with the belief that success is as attainable for the child of humblest origins as the most affluent. The facts, however, are otherwise. To be born poor in Canada does not make it a certainty that you will live poor and die poor - but it makes it very likely.

(Poor Kids a report by the National Council of Welfare, March 1975, p.1)

Income Disparities Not Improving

The social programs and income tax changes that have been introduced over the last 35 years have not significantly affected the distribution of income in Canada.

The poorest one fifth of families in 1984 still shared only 5.9% of total income (after taxes), virtually the same share (6.1%) they had in 1951. Over the same period, the richest one fifth maintained roughly the same share, 40.1% in 1984, down only 1% from 1951.

Why have the income disparities not narrowed? Some of the reasons are due to employment trends, demographics, social trends, and political decisions.

Currently, the unemployment rate in Alberta stands at 10.5%. This represents 133,000 people in the Province out of work.

More people are earning lower wages. Almost 60% of Alberta's poor hold full-time jobs. The \$3.80 per hour minimum wage leaves people in poverty.

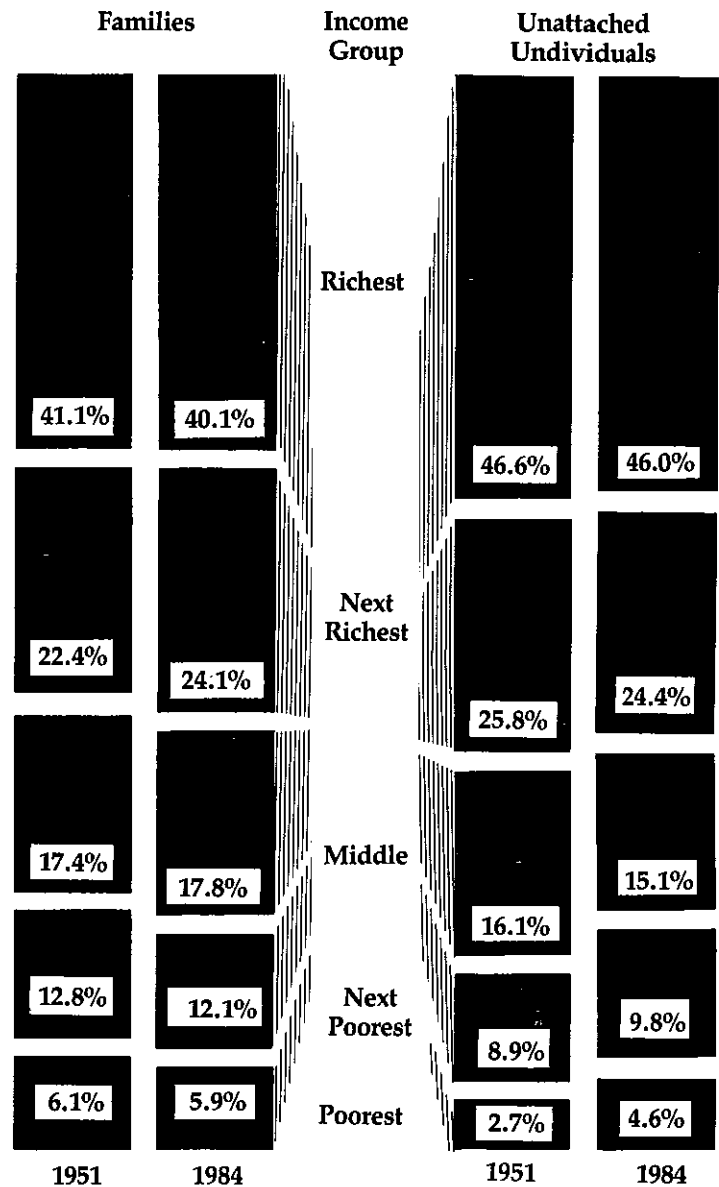
More women are working. The average income for an Alberta female in 1984 was \$12 871, more than \$10 000 below the average male income. Many of these women are supporting families on this income.

The population aged 65 years and older has increased; there is also a larger proportion of young adults. The elderly (2 in 5) and the young (1 in 6) stand a higher chance of being poor.

The number of single parent families headed by women has grown. Almost 3 in 5 of such families are poor.

Government spending on social programs has helped the poor. Indeed, if not for this spending the income disparities would be worse. But while spending on social programs has increased, so have tax deductions and exemptions which mostly benefit the well-to-do.

Little Change in Income Disparities Over the Years



Data Source: Poverty Profile 1985 a report by the National Council of Welfare.

Tax System Doesn't Redistribute Income

Wealthy Canadians are not only able to take advantage of the same standard tax deductions low income people have, they also have many other deductions and exemptions that keep their tax bills low. The capital gains exemption is one example. A capital gain is profit earned from the resale of property and other goods. For example, a house you buy for \$90 000 and sell one month later for \$100 000 gives you a capital gain of \$10 000.

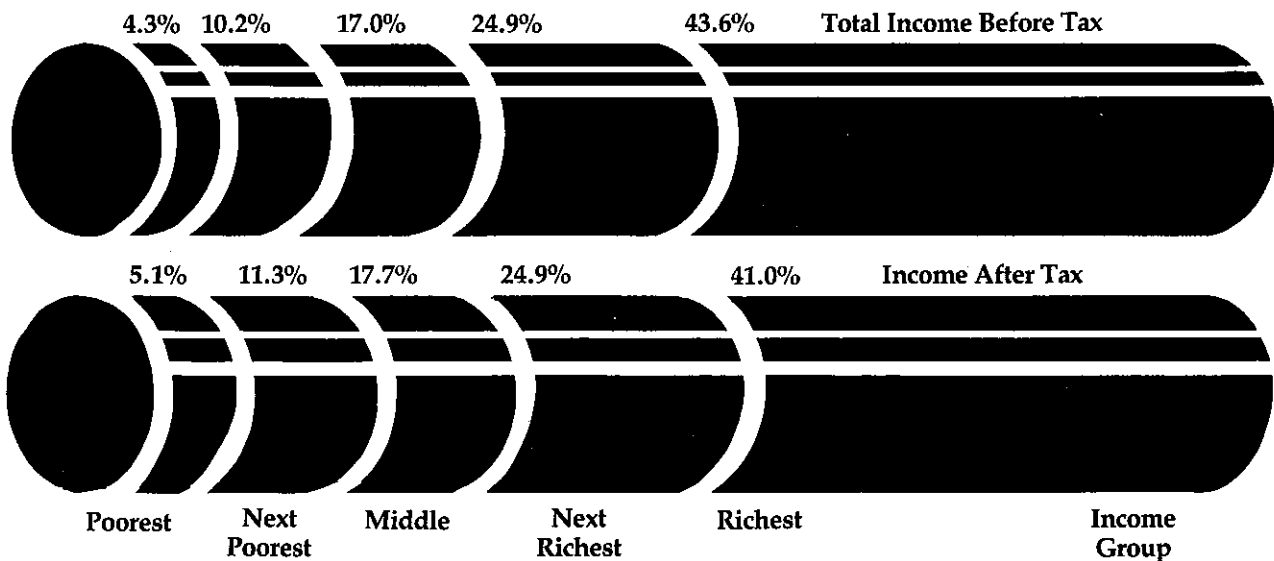
The capital gains exemption allows Canadians to exempt from personal income tax, \$500 000 in capital gains income in their lifetime. It would take someone, earning the Alberta minimum wage of \$3.80 per hour, over 70 years to earn this amount!

Tax deductions and exemptions are implemented for many purposes. Taken together, however, the effect of them is that people with high incomes pay less income tax. A substantial amount of tax revenue is lost which could fund programs that benefit the poor.



1,511 Albertans with incomes \$50 000 and over paid no personal income taxes in 1983. In the \$40 000 to \$50 000 bracket 807 Albertans paid no taxes

Share of Income Before and After Income Taxes (Canada, 1984)



Data Source: Statistics Canada, Catalogues No. 13-206 and 13-201.

A Question of Priorities

We can afford measures for programs which assist lower income people. It is a matter, not of increasing spending, but reallocating spending.

Some actions that could be taken to redistribute income without increasing government spending are:

- Eliminate tax deductions and exemptions which have little or no social or economic value. As a result government revenue would increase without raising tax rates.

- Reallocate money to programs which help low income groups. Increasing their purchasing power would be a means of achieving economic activity.
- Increase the minimum wage which is currently \$3.80 per hour. This would help reduce the number of working poor.

For Discussion

1. Is the present gap between the rich and the poor acceptable? Why or why not?
2. What should be the government's role in narrowing income disparities? What role can business and community groups have in reducing income disparities?

Recommended Reading

The Canadian Fact Book on Income Distribution by David Ross. Canadian Council on Social Development, 1980.

Canada's Tax System and the Poor prepared by Ernie S. Lightman for The National Anti-Poverty Organization, Jan. 1984.

This is one of a series of factsheets on social issues produced by the Edmonton Social Planning Council. They are available for bulk distribution at \$15.00 per 100 plus a small mailing and handling charge. The contents may not be commercially reproduced; reproduction for other uses is encouraged.

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