New data reveals drop in income inequality across Canada

Income inequality has fallen across all provinces and territories, according to recently released data from the 2021 Census.

There are several ways to calculate income inequality. Each of the methods provides different insights. Statistics Canada tracked income inequality in the census data using two of the most common measures: the P90/P10 ratio and the Gini index.

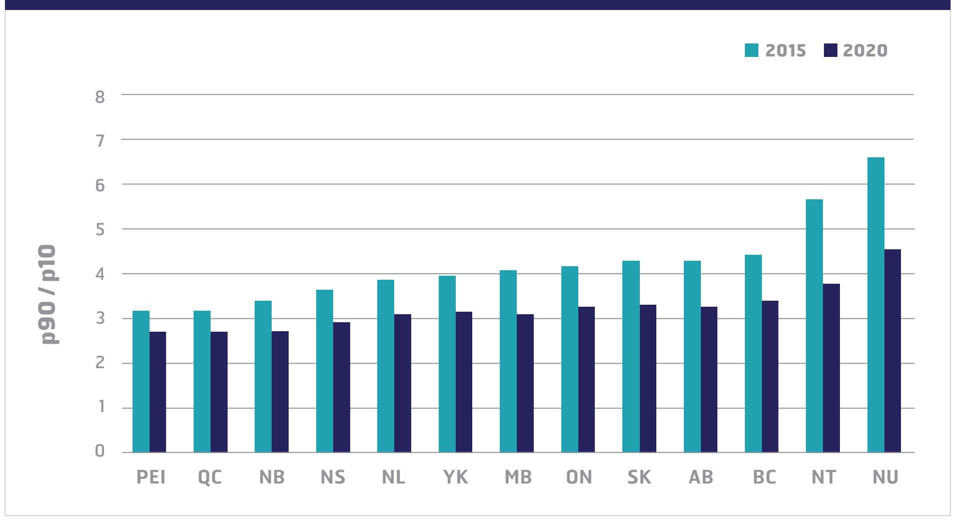
The P90/P10 ratio compares the top 10% of household income earners to the bottom 10%. According to this method of calculation, income inequality between households fell in all provinces and territories compared to the 2016 Census. While the Northwest Territories and Nunavut saw the highest drop in levels of income inequality over the past five years, data indicates that these regions still have the highest levels of economic inequality in Canada.

Statistics Canada also measured income inequality using the Gini index. The Gini index measures distribution of income across a population, with zero representing perfect equality and one representing perfect inequality.

The Gini index helps us see how taxes, tax credits, and government transfers affect income inequality. Between 2015 and 2020, there was very little change in the Gini index for before-tax income. This indicates that there is still significant income inequality in the amount of income households receive from the labour

continued on page 2

Inequality fell in all provinces and territories



Source: Statistics Canada. Table 98-10-0096-01

Note. The y-axis shows how many times larger the 90th percentile income (top 10% of earners) is compared to the 10th percentile (lowest 10% of earners).

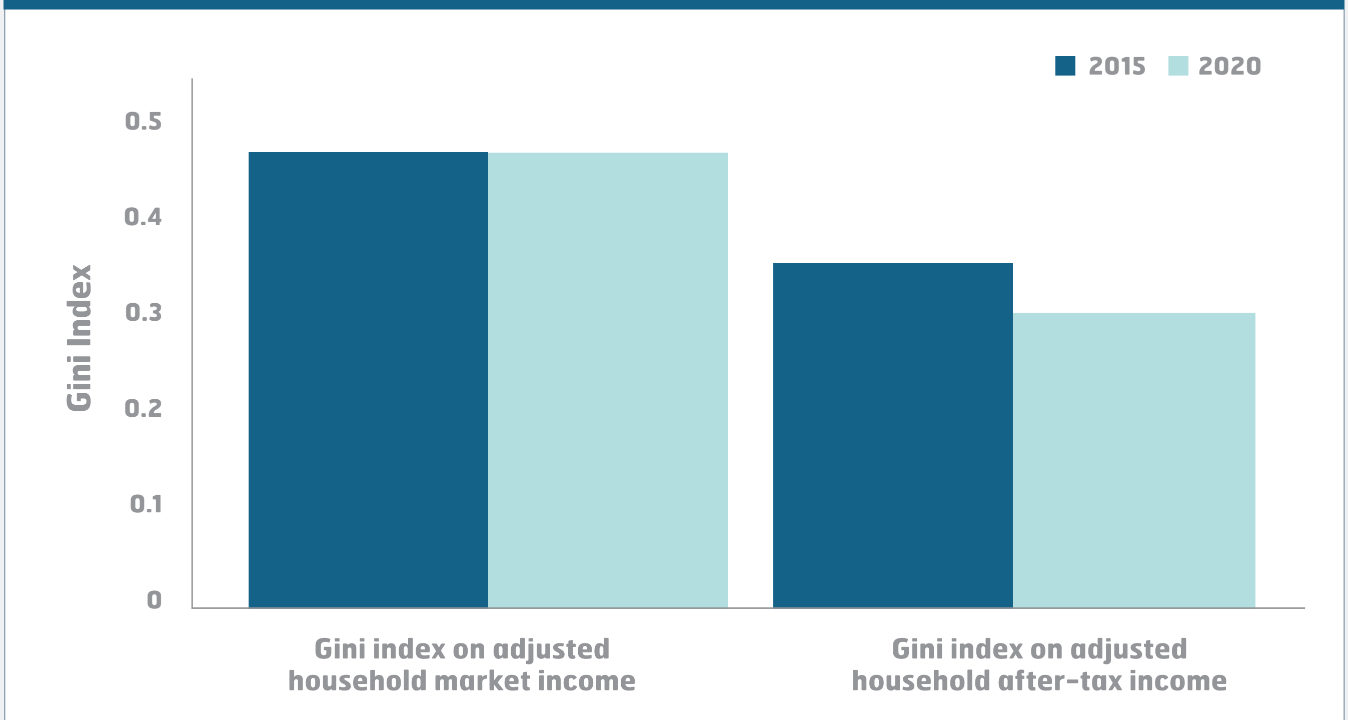
continued from page 1

market and investments. However, the Gini index for after-tax income between 2015 and 2020 dropped significantly. This suggests that the biggest factor behind the improvement in income inequality in Canada has come from government measures like tax credits and government transfers.

Many government benefits were introduced between the 2016 and 2021 censuses. Some of these benefits, like the Canada Child Benefit, are permanent. Others, including the emergency benefits provided during COVID, were temporary. As such, at least some of the reduction in income inequality indicated by the census data may be short-term.

While the drop in income inequality is good news, there is more to be done. The promised federal disability benefit would make a big difference in income inequality and reach a group of people that have been left out of other measures. Governments can also reduce inequality in before-tax income through labour reforms that increase wages and protections for precarious workers. And because unions help workers secure higher wages, governments can tackle income inequality by implementing pro-labour measures like anti-scab legislation and single-step certification.

Taxes and Transfers Reduce Household Inequality



Source: Statistics Canada. Table 98-10-0096-01
Note: (0 is most equal, 1 is least equal)

CUPE publishes *Economy at Work* four times a year to provide members and staff with news and analysis on economic issues, and to support our members at the bargaining table.

Find *Economy at Work* online at **cupe.ca/economyatwork** with links to relevant materials. Subscribe to the email edition at **cupe.ca/subscribe**.

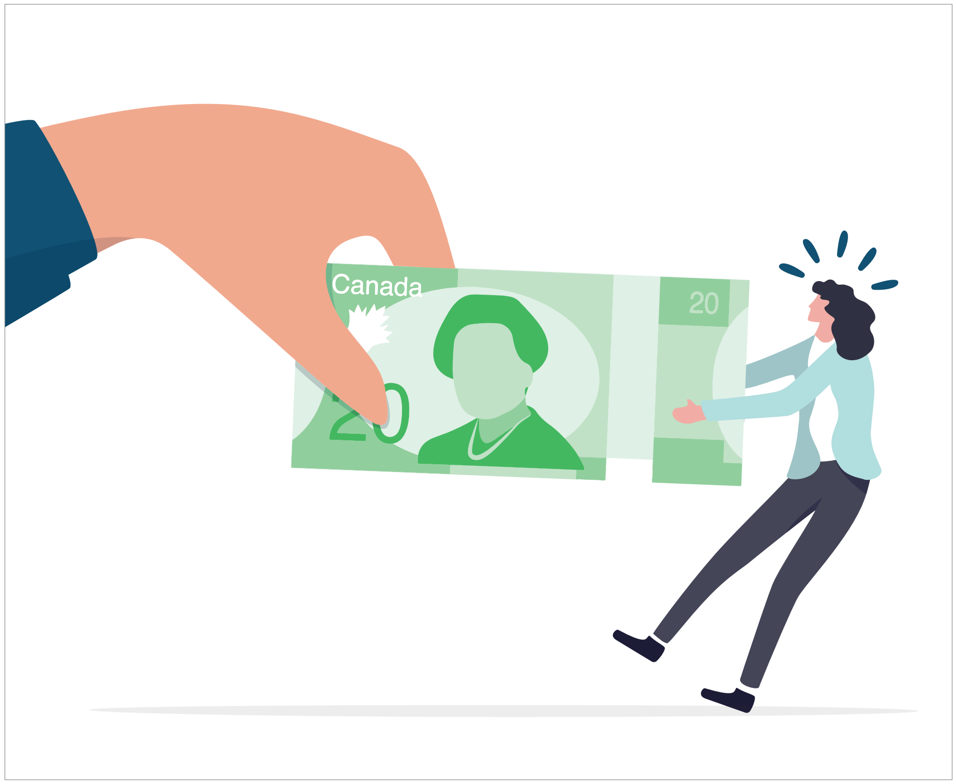
All content written by Angella MacEwen unless otherwise indicated. Edited by Colleen Butler.

Proofing by Manon Lajoie, Valérie Ménard and Sami Slaouti. Layout by Sarah Walker.

Please email **amacewen@cupe.ca** with corrections, questions, suggestions, or contributions.

CUPE Canadian Union of Public Employees

It's time to tax excess corporate profits



We've heard it throughout the COVID-19 pandemic: while we're all in the same storm, we're not all in the same boat. Nothing has made that clearer than skyrocketing corporate profits.

Some companies, like Zoom, did better in the pandemic because they were well placed to respond to changing needs. But other corporations have taken advantage of the pandemic to sneak in higher prices.

Corporate profiteering is one of the main drivers of inflation today. Among the worst offenders are grocery chains and oil and gas conglomerates. In Canada, our three largest grocery chains have seen record profits over the past year. And they've done it by charging much more than they need to cover increased costs. For example, Loblaw (the parent company of Loblaws, Superstore, and Shoppers) saw their costs increase by 13% over the past year. However, their sales increased by 15% and their gross profits by 21% during the same period. This means the company profited by price-gouging.

Our government can take action to curb corporate profiteering. In World War II, the federal government implemented an excess profits tax, both out of a sense of fairness and to help fund war spending. The public was being asked to sacrifice a considerable amount for the war effort. The excess profits tax helped build the sense that we really were "all in this together".

When considering an excess profits tax, it's important to note that corporate taxes work differently than personal taxes. Corporations only pay tax on profit, not revenue. In other words, companies that are struggling or just breaking even would not be affected by an excess profits tax. Economists argue that this type of taxation is economically healthy because it discourages price-gouging and it taxes windfall gains (large, unexpected profits due to exceptional circumstances).

To establish an excess profits tax, you need to determine a "normal" level of profit. This is usually done using historical data. In World War II, the level of profit in 1939 was used as a baseline. Policy makers must also decide what tax rate to apply to excess profits. This is usually anywhere from 15% to 100%. During World War II, the federal government taxed excess profits at 75%.

In 2021, the Parliamentary Budget Officer costed an excess profits tax proposal from the NDP. They found that a one-time excess profits tax could generate up to $8 billion in new revenue for the federal government. The NDP proposal used a company's average rate of profit from 2014–2019 to determine normal profit rates, and applied an additional 15% corporate tax to that profit on top of the pre-existing 15% federal corporate tax rate.

Another common feature of recent proposals is applying the excess profits tax only to select industries. For example, in May, the United Kingdom implemented a windfall profits tax on oil and gas companies, and directed the revenues to help households deal with the rising cost of living. Canada's federal government has proposed a higher tax for financial institutions, and the federal NDP has suggested that this be extended to oil and gas companies as well as other large corporations engaged in profiteering.

Putting in an excess profits tax, like we did in World War II, would help curb corporate profits, generate revenue for important investments, and save workers money by preventing profiteering. The time to tax excess corporate profits is now!

ECONOMIC DIRECTIONS

Economic growth – Canada's economic growth remains strong, with the Bank of Canada forecasting economic growth at 3.5% for 2022. This is partly because our economy is benefiting from higher international prices for fossil fuels and other commodities. In contrast, economic growth in the United States slowed in the first two quarters of 2022. Slowing growth is a common indicator of a recession. Ordinarily, this might cause concern about US economic weakness spreading to Canada. However, other indicators, like employment and consumer spending numbers, suggest that the American economy remains in a good position.

Jobs – Unemployment reached an historic low of 4.9% in June. In July, the unemployment rate for students returning to school in the fall was the lowest since 1989, at 11%. But the picture is not all rosy. The number of people working in the health care and social assistance sector fell by 22,000 in July, despite the ongoing health care crisis and the sector's desperate need for workers. When it comes to working conditions, data indicates that, despite waning pandemic restrictions, nearly 25% of workers are still working most of their hours from home.

Wage trends – This summer, the average hourly wage increased by 5.2%. This is far less than the average Consumer Price Index increase of 8.1%. Wage growth is varying significantly by sector. Average weekly wages for workers in professional, scientific, and technical services grew by 8% in May 2022 compared to a year earlier. In contrast, the average weekly wage for workers in educational services increased by only 1%. Non-union wages are rising faster than union wages, as unionized workers must wait for bargaining to address unexpected inflation.

Uneven impacts of inflation – Inflation impacts lower-income households more severely than higher-income households. While middle- and higher-income workers are also affected by higher costs, research shows that these households tend to be able to reduce their spending by cutting discretionary expenses, buying no-name brands, or using coupons. Workers with lower incomes are more likely to be economizing already and so are unable to reduce their budgets without cutting out necessities. This means that wage growth for lower-income workers needs to increase faster than the Consumer Price Index to protect their purchasing power.

Interest rates – The Bank of Canada increased interest rates to 2.5% in mid-July. They also announced that they will likely increase interest rates several more times by the end of 2022. How much interest rates increase will depend on whether inflation continues to be higher than expected, or if it starts to slow down. Other indicators that the Bank of Canada will be watching include employment and wage growth. Increasing interest rates is supposed to reduce prices by reducing consumer demand. If employment and wage growth are strong, the Bank of Canada will be concerned that consumer demand will be strong as well – and they will respond by increasing rates even higher.