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# The Opportunity Equation

Building opportunity in the face of growing income inequality



**United Way**  
Toronto





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Building opportunity in the face of growing income inequality

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## Foreword

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Toronto is facing a big problem. As access to opportunity is increasingly out of reach for too many that live here, the reputation of “Toronto the Good” is being compromised. Because of the concentration of poverty, declining job quality and rising income inequality, we are seeing that Toronto can be a city of opportunity, but only for some. This is cause for concern.

As an evidence-based organization committed to raising awareness and promoting understanding of issues affecting our city, United Way Toronto decided to do something about it. For over a decade we’ve looked at issues affecting people, families and communities in Toronto. Our research has called attention to areas of increasing concern like the widening gap between low- and high-income neighborhoods; the growing concentration of poverty; and the significant rise in precarious employment and income inequality. This research has also informed our own strategies in response to these issues.

In *The Opportunity Equation*, we present new findings that focus specifically on income inequality in Toronto and its effect on our access to opportunity, and argue that the opportunity equation—hard work plus access to opportunity leads to success—is under threat.

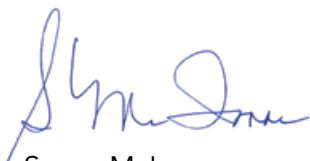
*The Opportunity Equation* is the first in a series of United Way Toronto research that examines income inequality in Canada’s largest city. We know that no individual or group is untouched by this issue. And in order to mitigate its far-reaching effects we need to focus our efforts on creating well-being for all of us.

That's why we present the findings of *The Opportunity Equation* in the spirit of sparking debate around what needs to be done. We've also included a Blueprint for Action to encourage all sectors to step up, work together and contribute to developing policies and initiatives that can limit and mitigate the impact of income inequality.

United Way is committed to doing our part to address this challenge. In the spring, we will be launching a new Youth Success Strategy focused on ensuring that young people have opportunities to build a good future. We will also be working with Metrolinx, labour, community groups, the Ministry of Training, Colleges and Universities, the City of Toronto and other foundations on a Community Benefits Framework that creates local jobs for residents—helping to promote jobs as a pathway to stability and security. We are also renewing our Building Strong Neighbourhoods Strategy to ensure that residents in every neighbourhood have the opportunity to succeed, no matter where they live.

With a new Mayor and Council in place and commitments to reduce poverty at the municipal and provincial levels, the timing is right—there is positive momentum for change. It is our hope that this new research will guide our collective actions and help develop new policies by promoting shared goals.

It is up to each of us to help ensure that a future of opportunity is available to everyone—the time to act is now.



Susan McIsaac  
President and CEO  
United Way Toronto



## Executive summary

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One of Toronto's greatest strengths is that it is a world-class city known for its access to opportunity. But this reputation is in jeopardy. The very structure of opportunity is changing in our city. Factors like the concentration of poverty, deteriorating job quality and income inequality are driving a fundamental shift in how our city works. Income inequality, in particular, is creating a divide in Toronto and among Torontonians—not everyone is benefiting from the same opportunities. Our city's economic progress, health and social fabric are being undermined. The gap between the rich and the poor is widening.

While income inequality as a topic is not new—in fact it has emerged as a central challenge of our times—what we haven't talked much about is how it is impacting cities. Although there have been studies that look at income inequality on a global, national and provincial scale, there hasn't been as much of an empirical base to better understand income inequality at a city-level. That's why United Way Toronto decided to take a closer look at how this growing issue is impacting people and the neighbourhoods where they live, right here in Toronto.

*The Opportunity Equation* is the first in a series of reports that are part of United Way's Building Opportunity research. It leverages new and existing data to provide a new perspective on income inequality by focusing on cities. The goal is to establish an understanding of the challenges income inequality poses to access to opportunity; what impact it is having on Torontonians; and what can be done to mitigate its effects. It is our hope that *The Opportunity Equation* drives a city-wide conversation about how this issue affects us all and what we need to do to address this together.

At a high-level, this type of work is not new to United Way Toronto. In fact, a key part of our mission is to examine wide-ranging challenges, provide a Toronto lens and develop local solutions. Back in 2002, we released *Decade of Decline* which called attention to the increasing income gaps between Toronto families and neighbourhoods.

This was followed by *Poverty by Postal Code* which revealed a divide between neighbourhoods doing well and those that were falling behind. Most recently we published *It's More than Poverty*

that looked at the social consequences of precarious employment on people's lives and the link to growing income inequality. All of these cases revealed Toronto-specific dimensions to wider problems—they also allowed us to develop tailored solutions that target action where it is needed most.

*The Opportunity Equation* builds on this existing work and provides a clearer picture of how income inequality is taking shape in the city. We draw data from two main sources. The first is new analysis of Statistics Canada data on how income inequality is affecting Toronto—done in collaboration with the University of Toronto. The second is a specially commissioned, in-depth survey developed in partnership with EKOS Research Associates that includes 2,684 participants. The survey examines individual perceptions about how the income gap is affecting people, and the city as a whole.

Overall, we find that fairness is being undermined in our city—growing income inequality is creating an uneven playing field for opportunity. Hard work and determination are not a guarantee for success—a person's background and circumstances have a far greater influence on their future. As a result, income inequality is creating barriers for people to access the opportunities they need to build a good life—quality jobs, affordable housing or meaningful social networks. In effect, the opportunity equation—hard work plus access to opportunity leads to success—is breaking down.

We also find that the problem is getting worse, as income inequality increases in Toronto it is growing at a faster rate than our provincial or national averages. Left unaddressed, Toronto is at risk of becoming the income inequality capital of Canada.

We know this is a serious issue with far-reaching consequences—affecting not only those who are living in poverty, but impacting us all: our productivity and economic prosperity, downstream costs to health care and other remedial services, as well as the liveability of our city—a distinct advantage that makes Toronto a destination of choice. It is clear that we need to do something about it.

Our Blueprint for Action lays out three goals and eight priority areas to rally all sectors to drive an opportunity agenda for Toronto and Torontonians. Working together we can restore hope, fairness and opportunity in our city.

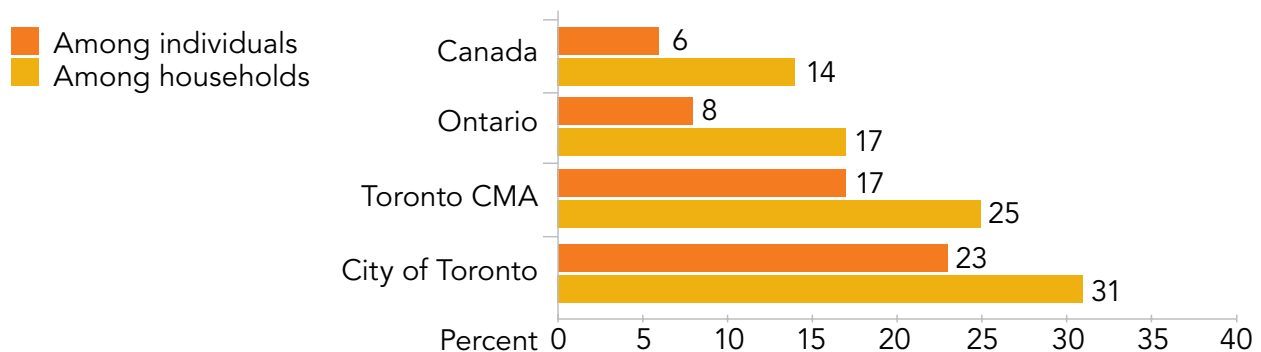
In the following pages, we explore these findings in more detail.

## Key Findings

### 1. Income inequality is growing faster in Toronto than in other major Canadian cities—and outpacing provincial and national averages.

Before diving directly into how income inequality is affecting Toronto, we wanted to take a step back and get a better sense of what is happening in other parts of Canada. We looked at how fast income inequality is growing in other major Canadian cities, in Ontario and in Canada overall. We find that income inequality is widespread across the country, but in Toronto it is growing at a rate that significantly outpaces many others—double the national rate of 14%.

**Over the last 25 years, income inequality in Toronto has grown by 31%.**



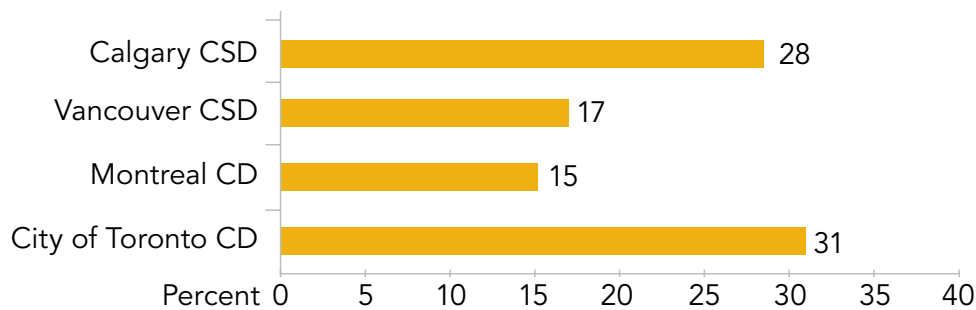
Percentage change in income inequality among households and among individuals between 1980-2005. Inequality measured by Gini coefficients (based on total income—before tax and after transfers); Data source: Statistics Canada, Research Data Centre Toronto, Census 1980-2005.



## *“Toronto is at risk of becoming the income inequality capital of Canada.”*

In addition, when we compare Toronto to other major Canadian cities we rank number one in income inequality growth—not a distinction to be proud of. Toronto also continues to have the highest level of inequality overall.

### Toronto fares worse than other major Canadian cities.



Percentage change in income inequality among households between 1980-2005. Inequality measured by Gini coefficients (based on total income—before tax and after transfers); Data source: Statistics Canada, Research Data Centre Toronto, Census 1980-2005.

## How we measure income inequality

We use the Gini coefficient to measure income inequality in this report. The Gini coefficient measures how much the distribution of income—among individuals, families, households, or neighbourhoods within a region or country—deviates from an equal distribution. At a Gini of 0, every individual, family, household, or neighbourhood receives the same amount of income. At a Gini of 1, one individual, family, household, or neighbourhood receives all the income and everyone else receives no income at all. Therefore, the higher the Gini is, the more unequal the region or country. An intuitive way of understanding the Gini coefficient is that it represents the share of total income that would need to be redistributed to achieve perfect equality. For example, in 2010, the after-tax Gini

coefficient for all families was 0.32, which means that 32 percent of Canada’s after-tax income would need to be redistributed among families to have each family end up with the same income (OECD Income Distribution Database). The Gini coefficient is more sensitive to changes in the middle range of the income distribution. The Gini coefficient in our report is calculated based on total income, also called before-tax (but after transfers) income, which includes market income (employment-related income, plus investment and private pension income) plus government transfers. We used this income measure because it is the only measure available in the census that allows for comparisons over time. Prior to 2006, the census did not collect information on taxes paid.

## *“Inequality is undermining fairness in Toronto.”*

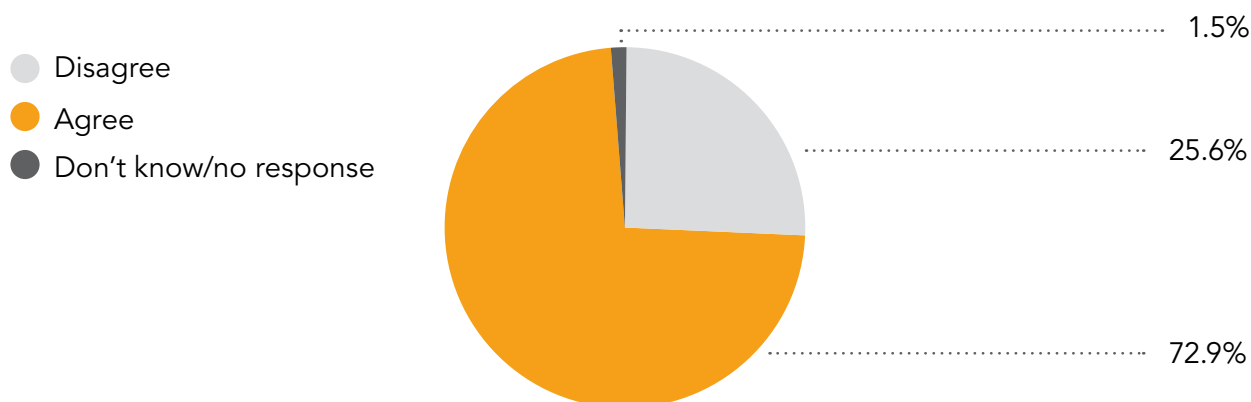
### **2. Hard work is not seen as a guarantee for success.**

Income inequality is having a negative effect on people’s confidence in our city’s reputation as “Toronto the Good”—a place where you can get ahead through your own effort. People see a very clear gap in opportunity—individuals who work hard are not always successful.

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**73% of people say that hard work is not enough to get ahead.**

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Data source: EKOS-UWT Survey 2014. Survey question: In Toronto, hard work and determination are no guarantee that a person will be successful. N=2684

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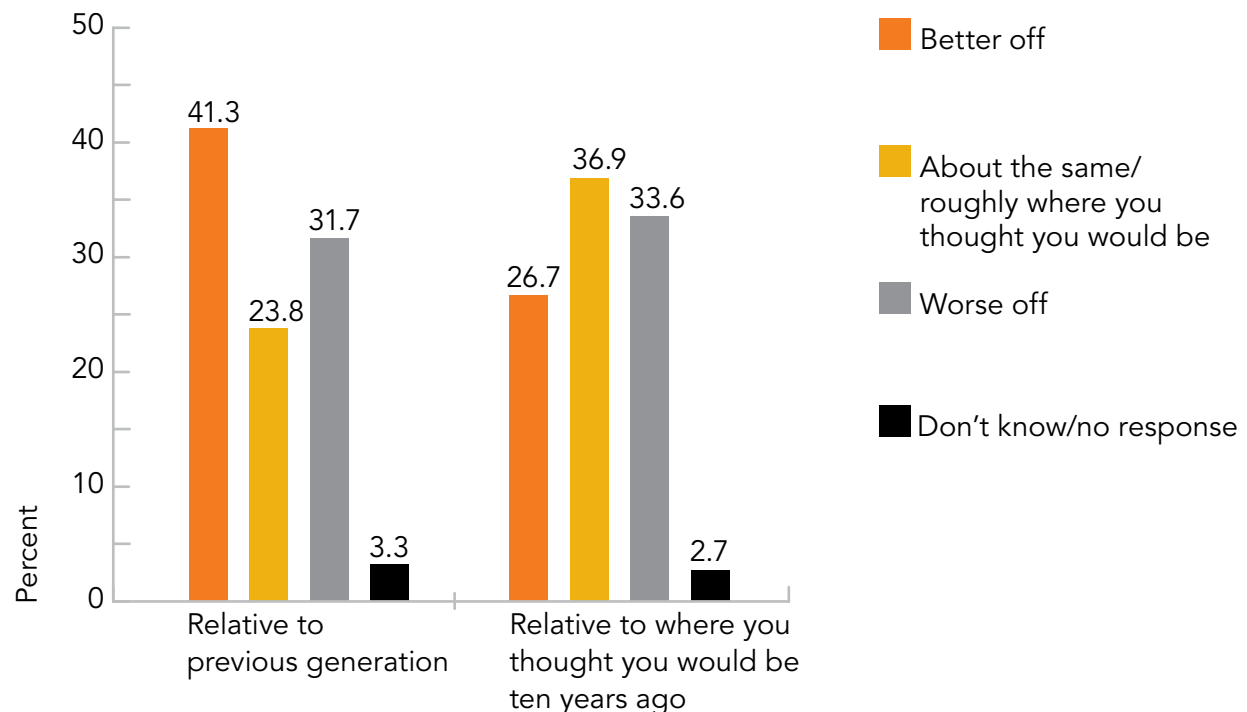
### **3. Background and circumstances are barriers to a good future.**

This rising pessimism is further reinforced by the fact that not everyone in the city has the same access to opportunities to build a good life—there is a divide between Torontonians. Background and life circumstances, things we cannot control like race, gender, and household income growing up, have a real impact on our life chances. Where you come from and who your family is has a strong influence on what opportunities are available to you and what you can access.

*“There are Torontonians that are being shut out of our region’s prosperity”*

Although some people are getting the tools they need to succeed, many are not. In fact, 38% of people believe that good opportunities are not available to everyone. The reality is that Toronto’s labour market is separated by high-income jobs and low-income service jobs. In addition, we’ve seen that only half of the people employed in the Greater Toronto and Hamilton Area are in permanent, full-time jobs—jobs with benefits and security. This is troubling.

### One-third of people feel worse off.



Data source: EKOS-UWT Survey 2014. Survey questions: Thinking about your overall quality of life, would you say that you are better off, worse off, or about the same as the previous generation was 25 years ago? Thinking about your overall quality of life today and how you imagined things would turn out for you ten years ago, would you say you are better off, worse off, or roughly where you thought you would be? N = 2684 (NB: Values may not add up to 100 due to rounding.)

*“Inequality is deflating our hope for today, and for the future.”*

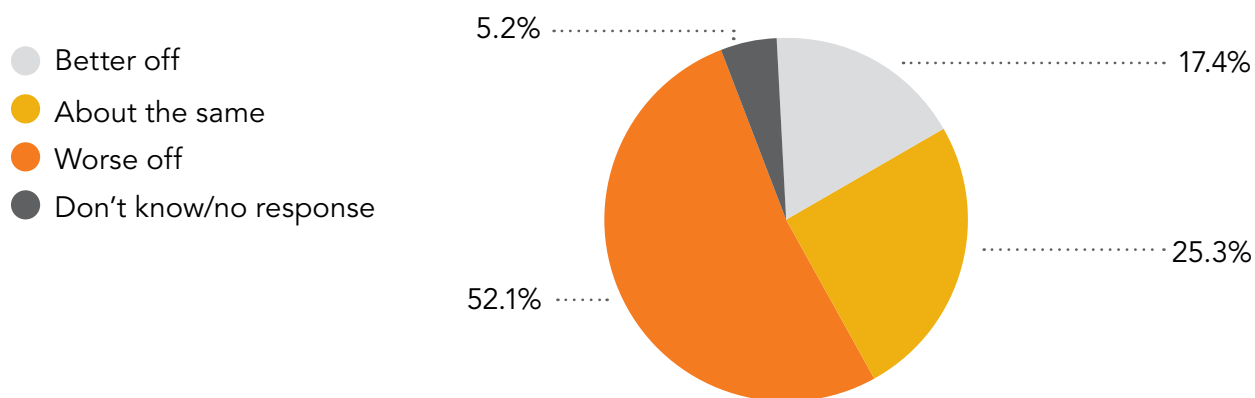
#### 4. The outlook for the next generation is bleak.

This divide is generating doubt about our current situation and also creating uncertainty about our future. One-third of people report that they are worse off than their parents—this despite the fact that they have higher education levels. And although we tend to believe that things get better with time, this does not seem to be the case. In fact, over 50% of people are not optimistic about what lies ahead.

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**Only 17% of people say the next generation will be better off.**

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Data source: EKOS-UWT Survey 2014. Survey question: Thinking about your overall quality of life, do you think the next generation will be better off, worse off, or about the same as you are, 25 years from now? N=2684

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This pessimism for tomorrow is particularly troubling for young people today with youth unemployment in Toronto sitting at 22%—significantly higher than the national rate.

The reality is that young people in Toronto are graduating but they are doing so with high levels of student debt. These young graduates are also struggling to find jobs—often ending up in short-term, contract positions that are not a pathway to success. They don't seem to be able to access the opportunities they need to build a better life for themselves.

*“Income inequality among neighbourhoods doubled.”*

## 5. Where you live matters—inequality is dividing neighbourhoods.

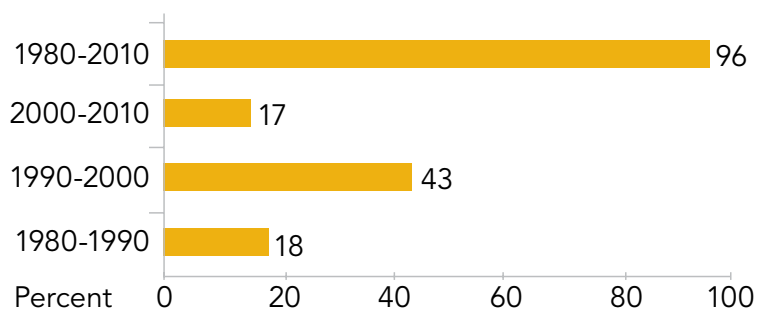
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While the trends we are seeing hurt our entire city, the income divide between neighbourhoods is even more acute. As rich neighbourhoods have become richer, poor neighbourhoods have either stagnated or become poorer. From 1980–2005, average household income in the poorest 10% of neighbourhoods increased by only 2%—compared to incomes in the richest 10% of neighbourhoods that rose by 80%.

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**The income divide between neighbourhoods has grown by 96%.**

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Percentage change in income inequality between neighbourhoods in Toronto between 1980-2010. Inequality measured by Gini coefficients (based on neighbourhood total income—before tax and after transfers—with individuals as the income reporting unit); Data source: Statistics Canada, Custom Tabulations, Neighbourhood Change Research Partnership.

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This geographical divide is alarming. Low-income neighbourhoods face lower educational attainment, higher unemployment rates and greater poverty. They also lack access to community services and programs—supports people need to thrive.

Toronto is becoming a city where it does matter where you live—your postal code can define the opportunities that are available to you and the services and programs you can access.

## 6. A growing gap is putting our long-term health and prosperity at risk. The social fabric that ties the city together is being undermined.

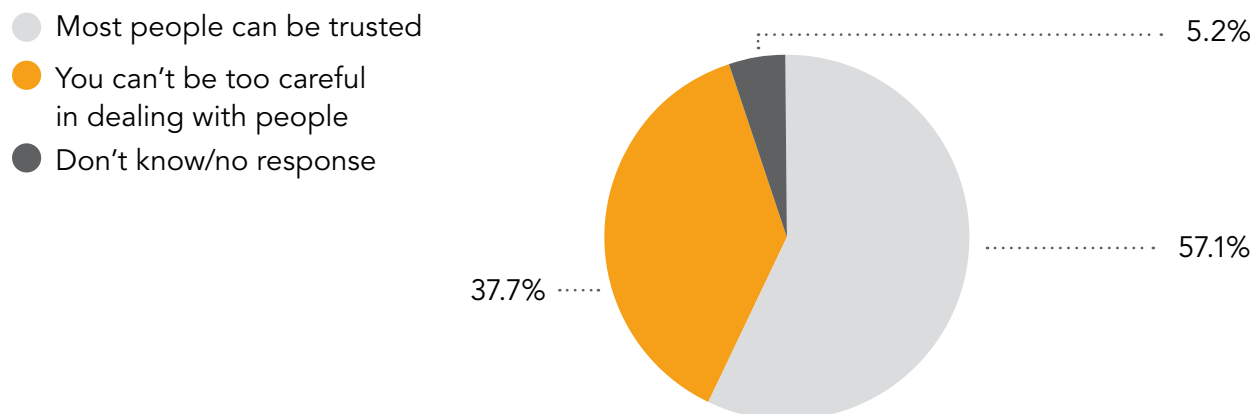
Trends like the ones we are seeing in Toronto reflect what is happening in the United States—large cities growing increasingly unequal at a faster rate than the national average. We’ve also seen that this growth is having a very real and negative impact—resulting in lower levels of trust, social mobility, education outcomes, life expectancy, as well as higher rates of teen pregnancy, violence, mental illness, addiction and obesity.

It begs to reason that if we continue on this path Torontonians could face the cruel realities of cities across the United States—marginalized neighbourhoods, growing rates of unemployment and high-levels of crime.

## 7. Working together we can restore hope, fairness and opportunity for everyone in the city.

Although we’ve seen some troubling trends there is still good news. In a city as diverse and multicultural as Toronto, with over 140 languages and dialects spoken, levels of trust remain high.

**Despite high levels of income inequality, trust among Torontonians remains strong.**



Data source: EKOS-UWT Survey 2014. Survey question: Generally speaking, would you say that most people in this city can be trusted, or that you cannot be too careful in dealing with people? N=2684

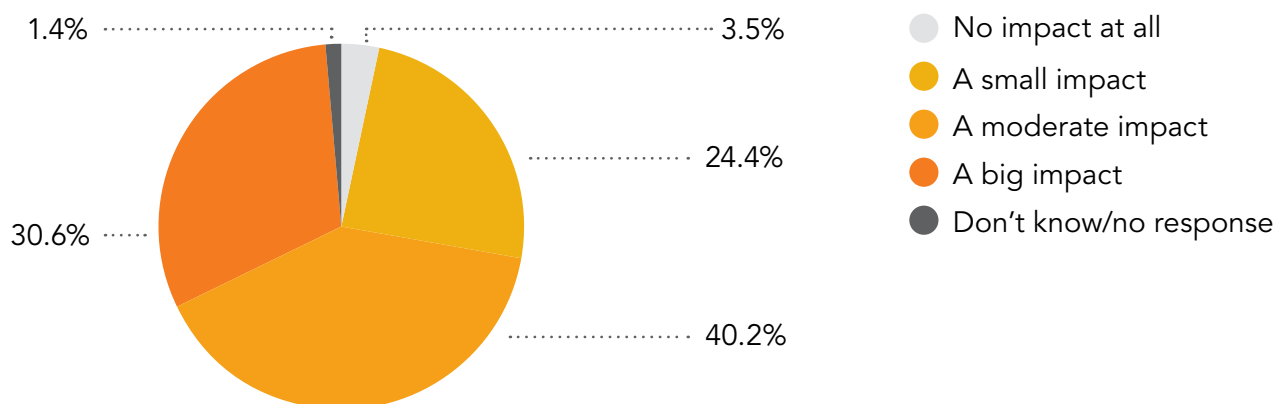
*“Income inequality has far-reaching consequences—  
affecting not only those who are living in poverty,  
but impacting us all.”*

In fact, 57% of people still trust one another. This gives us some hope, particularly because levels of trust are generally lower in larger cities like Toronto.

We also see that there is a widespread belief that people can have a positive impact in their communities. In fact, 95% believe that they can make a small, moderate or big difference where they live—showing that self-efficacy is still alive and well.

These findings give us something to be optimistic about. However, we cannot stand idle. While levels of trust are high, there is no guarantee that they will remain this way. We must remember that these findings are based on a snapshot in time and that the onus is on us to leverage this good will. We must motivate one another to take action now in order for us to move forward.

#### 95% of people believe they can make a difference where they live.



Data source: EKOS-UWT Survey 2014. Survey question: Overall, how much impact do you think people like you can have in making your community a better place to live? N=2684 (NB: Values may not add up to 100 due to rounding.)

## A Blueprint for Action

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*“Every sector has a role to play in promoting pathways to long-term security and stability.”*

The growth of income inequality is a concern because it affects access to opportunities for residents in our city. Our research reveals that Torontonians are anxious about the future and fear the next generation will be worse off. While opportunities to succeed do exist in Toronto, most people think a person's background—like their gender, race and family income growing up—influence who can access these opportunities.

But a grim future where opportunity is out of reach for many is not inevitable. With *The Opportunity Equation* United Way Toronto is issuing a call to action. We want to mobilize every sector to work together in contributing to policies and initiatives that can reduce and mitigate the impact of income inequality. We all have a stake in this issue.

As a starting point, United Way Toronto is introducing a Blueprint for Action to help shape partnerships and build momentum to address this issue. It is a way to make progress on access to opportunity in our city. The blueprint outlines three goals along with eight priorities for action that will help motivate changes. In all priority areas, success will depend on the willingness of all sectors to play a role, outline a case for action, and rally support.

United Way Toronto is committed to doing its part and will work with key stakeholders on each goal to help implement this blueprint. Working together we can build a city of hope, opportunity, and fairness for everyone.



## **Goal 1: Ensuring young people have the opportunities they need to build a good future.**

Almost 80% of people in Toronto believe the next generation will not be better off than the current generation. That may be due in part to the fact that the youth unemployment rate in our city is currently at a very troubling 22%. Many young people who do find work become stuck in a cycle of short-term jobs with no future. The labour market must be rebalanced so that opportunities pay off—especially for young people.

### **a) Mobilize partnerships for youth success:**

Rebalancing the labour market requires partnerships between sectors to enable youth success in education and employment, especially youth facing multiple barriers. There are a growing number of examples of these partnerships occurring across the city, province and the community sector. United Way Toronto will be doing its part by launching a Youth Success Strategy this spring focused on achieving four outcomes that can mobilize our partners for concrete action: increasing applications to post secondary education among under-represented youth; developing access to work-relevant networks for these youth; increasing access to experiences that build employer-recognized soft skills; and, increasing access to meaningful career opportunities for high school graduates.

### **b) Open doors to opportunity through education and training throughout the life cycle:**

A fast changing economy requires a highly educated labour force that has all the necessary soft skills, including leadership, team work and resilience. However, many people don't have access to high quality education and training throughout life due to cost and eligibility, among other factors. A natural place to begin improving access is during the early stages of life by providing quality, accessible, affordable, and flexible early learning and child care that give children a head start. Schools and post-secondary institutions need to build on this foundation by ensuring that all people can get an education that sets them up for success. Finally, employers and policymakers need to reinvest in training through a more coordinated and responsive workforce development strategy.

## **Goal 2: Promoting jobs as a pathway to stability and security.**

Nearly 75% of people in Toronto believe hard work and determination do not guarantee success. Perhaps that's not surprising at a time when the labour market is separating into high-income jobs and low-income service jobs—while middle-income jobs are declining. And today's reality is that having a job—even a well-paying one— isn't sufficient to build a pathway to success and stability. This has to change. To address the negative effects of income inequality, we need to ensure that a person's effort and determination can help them build a better life.

### **a) Leverage economic development for community benefit:**

Infrastructure is being built in Toronto that cuts across some of our most disadvantaged neighbourhoods. Leveraging these major investments to deliver not only significant financial and economic gains, but also community benefits should be top of mind among all partners. One example of leveraging this kind of public investment is United Way Toronto's recently established partnership with Metrolinx, labour, community groups, the Ministry of Training, Colleges and Universities, the City of Toronto and other foundations, which has led to Canada's first-ever Community Benefits Framework. This project is working to connect residents from Toronto's priority neighbourhoods to good job opportunities emerging out of the Eglinton Crosstown construction and maintenance. This framework is a key example of how multiple sectors can scale up and expand effective policies.

### **b) Ensure fairness for all workers:**

The number of precarious jobs is growing in our economy and impacting people's lives in and out of work. The Province has made a welcome commitment to review Ontario's system of employment and labour standards, including the impact of a changing economy on the growing number of precarious workers. Moving forward on this commitment early in 2015 would represent a major opportunity to engage workers, labour, employers, experts and policy makers to bring workplace regulations and policies in line with the rapidly changing realities of today's labour market.

**c) Build new tools to help promote quality jobs:**

There is a lack of available data that can tell us about the health of our labour market on an ongoing basis. This compromises the ability of governments, employers, educational institutions and community agencies to make good evidence-based policy decisions. The Federal and Provincial governments need to collaborate to build an effective Labour Market Information system. And municipal governments can play a constructive role as well. The development of a new Job Quality Index at the city level, which could help identify changes and inform policy and program decisions, would add a new dimension for actionable knowledge. Another step would be to continue the process of engaging employers, as United Way Toronto has done through partnerships with KPMG and the Toronto Region Board of Trade. This could help employers understand the impacts of their employment decisions and practices on both their bottom lines and their workforces.



### **Goal 3: Removing barriers to opportunity based on background and circumstances.**

Toronto is a prosperous place, but too many people are shut out of this prosperity because of circumstances beyond their control—like family income, their neighbourhood, or their background. Hard work alone isn't enough to overcome these barriers. To ensure everyone has a fair chance to build a good future we need to create a truly level playing field. Effort and merit should matter more than circumstances. A person's background and postal code should not limit their ability to realize their full potential.

#### **a) Ensure that every neighbourhood is strong and vibrant:**

Working with the City, Province, donors and communities, United Way Toronto has made great progress on the Building Strong Neighbourhoods Strategy (BSNS) launched in 2006. United Way Toronto is currently renewing this strategy using new data, lessons learned, and emerging needs to chart the course to ensure every resident in every neighbourhood has the opportunity to succeed, no matter where they live. In addition, the City of Toronto has already made a commitment to keep investment and action in the inner suburbs through 2020. A cross-sectoral commitment to finding ways to ensure that transit is affordable and accessible for all neighbourhoods would strengthen these strategies even more.

#### **b) Make poverty reduction a priority at all levels:**

Poverty reduction strategies are critical in framing action on good jobs and investment in income security initiatives and community programs that build economic stability and security. The Province has just released its second five-year poverty reduction strategy with a comprehensive focus on reducing child and family poverty, promoting job opportunities and eliminating homelessness. The City of Toronto is currently developing its first-ever poverty reduction strategy. One of the strongest statements about our commitment to opportunity would be to ensure that every level of government—municipal, provincial, and federal—for the first time ever, jointly make poverty reduction their priority starting in 2015.

**c) Make housing affordability a foundation for opportunity:**

Securing a stable, safe place to live is a crucial springboard for building a better life. But it is widely acknowledged that the Toronto region suffers from a lack of affordable rental units and home-ownership options. The high cost of housing can be a significant financial strain for low- and middle-income families—it can mean that households have less money to spend on necessities such as food—and it exacerbates the effects of income inequality. Governments, working in tandem with the private sector, non profits and community organizations, must make affordable housing and neighbourhood revitalization a priority. A national housing strategy remains an urgent need.

In the weeks and months following the release of this report, we will be engaging every sector to take concrete actions. We believe that a commitment to these goals is shared across all sectors and therefore offers a solid foundation for joint action.

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**Conclusion: The need to move forward together.**

The findings of *The Opportunity Equation* call for immediate action to address the growing issue of income inequality in Toronto. It is clear that if we do nothing we not only risk the long-term health and prosperity of the city, but also jeopardize the social fabric that ties Torontonians together.

Addressing income inequality is critical to our shared well-being. Equity, inclusion and access are basic building blocks for a strong, vibrant city. Working together we must ensure that everyone is at their best and can access the opportunities they need to have a successful life—for the sake of our city, and for all Torontonians.

Ensuring that this issue is a top priority and working together to fix the opportunity equation will ensure we have a united Toronto for today, and for the future.



## Introduction

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## Introduction

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The Opportunity Equation is the first in a series of reports that make up a United Way research project titled Building Opportunity. Building Opportunity is an effort to create understanding, foster dialogue, and consider action on the issue of growing income inequality—and its impact on access to opportunity. By creating original research and leveraging the research of our partners, United Way Toronto seeks to create a common understanding of the issues. This knowledge will be used to generate a city-wide conversation about why income inequality matters to Torontonians—and how we can all work together to mitigate its impacts.

The growth of income inequality has become a defining issue of our time. While the facts about growing income inequality across Canada are well recognized, agreement about its dimensions, sources, and implications at the city level are relatively less known. When it comes to potential responses at a local level, there are many different perspectives.

This report builds on the pioneering work of researchers in Toronto who have warned of increasing income inequality.<sup>1</sup> In recent years, they have alerted us to the growing gap between Toronto neighbourhoods and income inequality in census metropolitan areas (CMAs) across Canada. Their research underlines the importance of studying the trends and effects of income inequality at a local level—not only provincially and nationally. The Opportunity Equation extends this work by exploring income inequality and its influence on access to opportunity in Toronto specifically.

This report introduces new research that provides us with a vital profile of income inequality in Toronto at a level of detail we have not seen before. Our analysis utilizes data not publicly available that was accessed through the Statistics Canada's Research Data Centre. In addition to this new level of analysis, we introduce findings from a specially commissioned survey, developed in partnership with EKOS Research Associates, of 2,684 Torontonians on their perceptions of income inequality and its impact on access to opportunity. This combination of methods provides new insight on the issues that will drive future change.



Income inequality—and access to opportunity—are important to United Way because we believe our city is strongest when everyone is able to reach their full potential. Our research on this issue will support better understanding of how it is impacting life in Toronto. Our aim is to use the evidence and insight gained to create greater opportunities for a better life for everyone.

## The impact of income inequality on cities

Throughout the 20th and 21st centuries, cities have been recognized as places of opportunity. Canadians and people from around the world come to Toronto in the hope of a better life. They go to university or college, find a job, and are close to important health, employment, and newcomer support services. According to Statistics Canada, four out of five people in Canada now live in urban environments<sup>2</sup> and almost 60% live in large urban centres.<sup>3\*</sup> Cities have always possessed many features that enable people to create a better life for themselves and their families. Cities are also where most economic activity takes place in Canada. In fact, Toronto produces one-fifth of Canada's GDP.<sup>4</sup> Its economy is larger than any province, except Ontario and Quebec.<sup>5</sup>

But the fact that opportunities exist in cities does not guarantee that everyone has the same access to them. For example, in Toronto we know that the neighbourhood where a person lives can influence the opportunities available to them. Some areas in the inner suburbs experience higher concentrations of poverty, lower educational attainment levels, higher unemployment rates, higher social assistance usage, and higher overall marginalization rates.<sup>6</sup> Segregation based on income can be particularly stark in cities. Unequal cities may not be able to maintain mixed-income schools that bolster the outcomes of lower-income children, and they may not be able to ensure affordable housing and affordable neighbourhoods.<sup>7</sup>

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\* Large urban centres have populations of 100,000 or more.

We also know that opportunities available in cities vary in quality. Job polarization between high-income jobs and service sector jobs can contribute to income inequality in cities.<sup>8</sup> A recent report by the Toronto Region Board of Trade and United Way Toronto points to a growing trend of job polarization in the immediate future. This research shows that job growth in the Toronto region will occur at opposite ends of the market—in the service sectors at the lower end and in skilled jobs in professional business services, health care, and education at the higher end.<sup>9</sup>

With all of these elements in mind, United Way set out to fill a gap in knowledge—to describe how income inequality has played out in Toronto relative to the rest of Ontario and throughout Canada, and to explore access to opportunity through the eyes of Torontonians. Research of this kind has never been done before. This report is the foundation for a city-wide conversation about what these trends mean to Toronto and how we need to work together to make sure our city continues to be a beacon of opportunity for everyone.

## Structure of this report

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**Chapter 1** introduces the important concepts that explain why growing income inequality is a source of concern and how it is thought to impact access to opportunity.

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**Chapter 2** reviews the evidence and finds that Toronto is at risk of becoming the income inequality capital of Canada. Inequality is growing faster here than in other major Canadian cities—and outpacing provincial and national averages. It also finds that the divide between neighbourhoods is dramatic. Income inequality between neighbourhoods in Toronto doubled in just 30 years.

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**Chapter 3** dives into the survey data and shows that many people are not feeling very positive about their current situation, despite achieving higher education levels and high household incomes.

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**Chapter 4** looks at how people are feeling about the future and finds that people are more pessimistic about the future in general than their own current situation. An alarming number think the next generation will be worse off in terms of overall quality of life.

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**Chapter 5** explores perceptions of opportunity. It highlights that many people think not everyone has the same access to the opportunities they need to build a good life—like quality jobs, affordable housing, or meaningful social networks. It also shows that inequality is undermining fairness. Hard work and determination do not guarantee success—a person’s background and circumstances are seen to have a far greater influence on their future. Torontonians don’t believe that everyone is getting a fair shot—there is not a level playing field in our city.

But there is good news in all of this, too.

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**Chapter 6** reveals that we are not as divided as we might expect given the storyline so far. Despite growing pessimism, trust is still high and most believe they can make their communities better places to live. There is something we can do.

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**Chapter 7** presents a blueprint for opportunity. These shared actions can help governments, the private sector, labour groups, and community organizations all work together to restore hope, fairness, and opportunity for everyone in our city.

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# 1 Understanding the links between income inequality and access to opportunity



## 1.1 The impact of income inequality

Income inequality describes how unevenly or evenly income is distributed. Inequality exists when one group receives income that is disproportionate to the group's size. In other words, income inequality is a snapshot at any given time of who gets how much compared to other people.

Public awareness and concern about income inequality and its impacts have grown. International institutions like the World Bank, the OECD, and the World Economic Forum are discussing income inequality. Similarly, Canadian institutions from across the political spectrum are weighing in on this issue, including the C.D. Howe Institute, the Conference Board of Canada, TD Bank Group, the Wellesley Institute, the Broadbent Institute, and the Canadian Centre for Policy Alternatives. People around the world are expressing their interest and concern, most notably through demonstrations for increased economic equality, like those organized by the Occupy Movement.

This increased focus on income inequality is happening for good reason. We now know more than ever about the likely social and economic consequences of income inequality. Economic institutions are particularly concerned about the negative influence that growing income inequality may be having on economic growth and GDP.<sup>10</sup> Nobel Prize-winning economist Joseph Stiglitz wrote: "Widely unequal societies do not function efficiently, and their economies are neither stable nor sustainable in the long term."<sup>11</sup> Amongst these inefficiencies, widely unequal societies experience a reduction in the supply of skilled workers, higher tax burdens associated with poverty, and more social disorder, all of which combine to make jurisdictions less attractive for businesses to locate, invest, and expand in. University of Chicago economists found that communities with higher income inequality see higher spending, bankruptcy and self-reported financial distress for individuals, all of which act as building blocks for broader economic instability.<sup>12</sup>

Alongside the effects on economic prosperity, research has revealed a number of social and health implications for more unequal societies. Reports suggest that income inequality is associated with deterioration in a community's social fabric by decreasing trust and increasing pessimism.<sup>13</sup> It implies that a wide income gap divides society by decreasing concern for people of different backgrounds and reducing the feeling of a common stake with others.<sup>14</sup> In unequal societies, it appears more likely that neither end of the income distribution believes that they have a shared fate.<sup>15</sup>

There is some evidence that the social and economic consequences of income inequality have a far reaching effect, leading to poorer outcomes for everyone in an unequal society, compared to those in a more equal society.<sup>16</sup> Even in wealthy countries, higher income inequality is associated with lower levels of trust, social mobility, educational performance and life expectancy, as well as higher rates of teenage pregnancy, violence, imprisonment, mental illness and addiction, and obesity.<sup>17</sup>

## 1.2 The access to opportunity equation

One of the ways that income inequality influences individual and societal well-being is through its relationship with access to opportunity. Opportunity can be understood as the things, over a lifetime, that help to build material, social, and psychological well-being. For example, quality jobs, good education, access to health services, good housing, and meaningful social networks.

Access to opportunities is about having the right tools and resources in place to build a full and successful life. There are critical junctures in life where the opportunities a person has can have an influence on their access to other opportunities in the future. For example, we know that investments in early childhood are critical to future development.<sup>18</sup> We also know that access to opportunity is influenced both by individual traits which are subject to personal choice—defined as effort—and things that are beyond individual control—defined as circumstances.<sup>19</sup>

Circumstances are influenced by a number of factors, such as public policy, the labour market, family resources, and neighbourhoods. Circumstances include:

- Characteristics that may subject an individual to discriminatory treatment by other people, institutions and systems. Characteristics include things such as gender, race, ethnicity, or other aspects that often result in unequal treatment of equally deserving individuals; and,<sup>20</sup>
- Access to resources, both public and private, such as housing, education, health services, social capital, etc.

There is increasing research from across the world that demonstrates a strong connection between growing income inequality and declining access to opportunity.<sup>21</sup> This research suggests that income inequality creates different access to opportunity in society, and researchers infer that this fuels further growth in income inequality. This reinforcing cycle has an impact on social mobility.

One way to explore the relationship between income inequality and access to opportunity is by comparing rates of income inequality against rates of social mobility. Social mobility measures access to opportunity by assessing how dependent a person's socio-economic position is, either relative to their position in the past or relative to their parents' socio-economic position.<sup>22</sup> Upward social mobility across generations occurs when a person attains a better socio-economic position than that of their parents.<sup>23</sup> Downward social mobility across generations occurs when children fall to a lower socio-economic position than that of their parents.<sup>24</sup> Social mobility can be measured using income, social class, occupation, or educational attainment.<sup>25</sup>

In 2013, the World Bank found that countries with a higher degree of income inequality also have greater inequality of opportunity and lower levels of social mobility.<sup>26</sup> Rather than differences in effort, circumstances, such as race, gender, place of birth, as well as access to resources, and how these circumstances resulted in different treatment of individuals, were found to drive a significant portion of income inequality.<sup>27</sup> These findings



validate concerns expressed by the OECD that growing income inequality may undermine the ability of individuals to get ahead on their own talent and hard work, and that its growth may dampen social mobility across generations.<sup>28</sup>

We gain a deeper understanding of this phenomenon through a theory called “The Great Gatsby Curve.” Dr. Miles Corak has used this theory to show that circumstances of birth, such as gender, race, or the income of parents, and how these different circumstances result in differential treatment, can have more influence on children’s outcomes in countries with higher income inequality than in those with lower income inequality.<sup>29</sup> Circumstances are particularly powerful at the top and bottom end of the income distribution in less equal countries, with advantages passing more readily to children at the very top and disadvantages passing more readily to children at the very bottom.<sup>30</sup> However, this relationship varies around the world, since families, labour markets and public policy in each country can influence the impact of income inequality on social mobility in different ways.<sup>31</sup>

Access to opportunity is about both the availability of good opportunities as well as equitable access to them. In order to enable people to build better lives, society needs to provide everyone with access to good opportunities. More importantly, the number and quality of opportunities matter.

There are many different kinds of opportunities throughout life. One essential area of opportunity is job quality. We know from our own research on precarious employment that this influences well-being. This should be a red flag for Toronto because our labour market is polarizing. We see that the number of middle-income jobs is declining, and the labour market is increasingly divided between high-income jobs and low-income service jobs. This also means that there are fewer secure jobs available.<sup>32</sup>

While income is an important measure of a good job, United Way’s research in the past has exposed an alarming trend towards precarious employment that threatens other key aspects of job quality. Precarious jobs—temporary jobs that may not have benefits or consistent hours or income—have increased by over 50% over the last two decades.<sup>33</sup> In the Greater Toronto and

Hamilton region, only half of employed people aged 25 to 64 are in a standard employment relationship, that is, a permanent, full-time job with benefits.<sup>34</sup>

A divide in the labour market means that we cannot all count on a good job that provides an adequate wage, benefits, and stability. This scarcity of good jobs has resulted in greater competition for fewer opportunities and not everyone has the same shot. We know that children's outcomes are driven by their parents' monetary and non-monetary investments in them, and that family connections and family income influence access to essential opportunities such as education and jobs.<sup>35</sup> Equitable access to opportunity gets worse as income inequality rises, since those at the top of the income distribution are able to invest their growing share of private resources in opportunities for their children—including high quality childcare, housing, health care, and education—while those in the middle and bottom are less likely and less able to do the same. There is evidence of this occurring in Toronto where low-income households are more likely to say they are rarely or never able to buy supplies or clothing for their kids, pay for school trips, or pay for activities outside of school. Higher income households are more likely to enroll their kids in clubs and attend school activities.\* In this way, growing income inequality can strengthen the effect of circumstances in determining a child's outcomes and decrease the power of effort.

A growing awareness of income inequality and its effects, particularly on access to opportunity, requires us to better understand trends and experiences in Canada so that we can ensure opportunities for all Canadians. Most Canadians agree that it is important to reduce the impact of disadvantageous circumstances.<sup>36</sup> Like many countries, Canada has public policies and programs intended to ensure that everyone has access to critical resources and supports. These include things like single-payer universal health care, prenatal services for low-income mothers, full-day kindergarten, student loan and bursary

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\* Unpublished data supplied by the Poverty and Employment Precarity in Southern Ontario Research Group.

programs, as well as many other supports. Historically, Canada has had higher rates of social mobility than countries such as the United States, and research suggests that our public policies have helped ensure that one's family background does not as strongly determine one's future.<sup>37</sup> In the past, the opportunity equation seemed to work better. But this is no reason to celebrate. We know that access to opportunity is not equal for everyone in Canada;\* research shows that income inequality is growing;<sup>38</sup> and public policies have changed over the last few decades.<sup>39</sup> \*\* These changes threaten the effectiveness of the opportunity equation.

### 1.3 Income inequality is different from poverty

People often use poverty and income inequality interchangeably—but they are distinct concepts. Poverty focuses on a particular standard of living. A state of poverty is one in which income is too low to provide for an adequate standard of living. Those who live in poverty are more likely to have poor health outcomes, lower educational attainment, housing instability, and poor mental health compared to those who do not live in poverty.<sup>40</sup>

Figure 1: The Opportunity Equation.

$$\text{Effort} + \text{Opportunity} = \text{Success}$$

\* The experiences of First Nations populations in Canada highlight how unequal opportunity leads to unequal outcomes in Canada. For example, the high school graduation rate for First Nations students was 36% compared to 72% for Canadian students between 2004 and 2009 (Chiefs Assembly on Education, 2012). Other groups that experience unequal opportunity include but are not limited to women (Canadian Centre for Policy Alternatives, 2013), and visible minorities (Breton et al., 2004; 127).

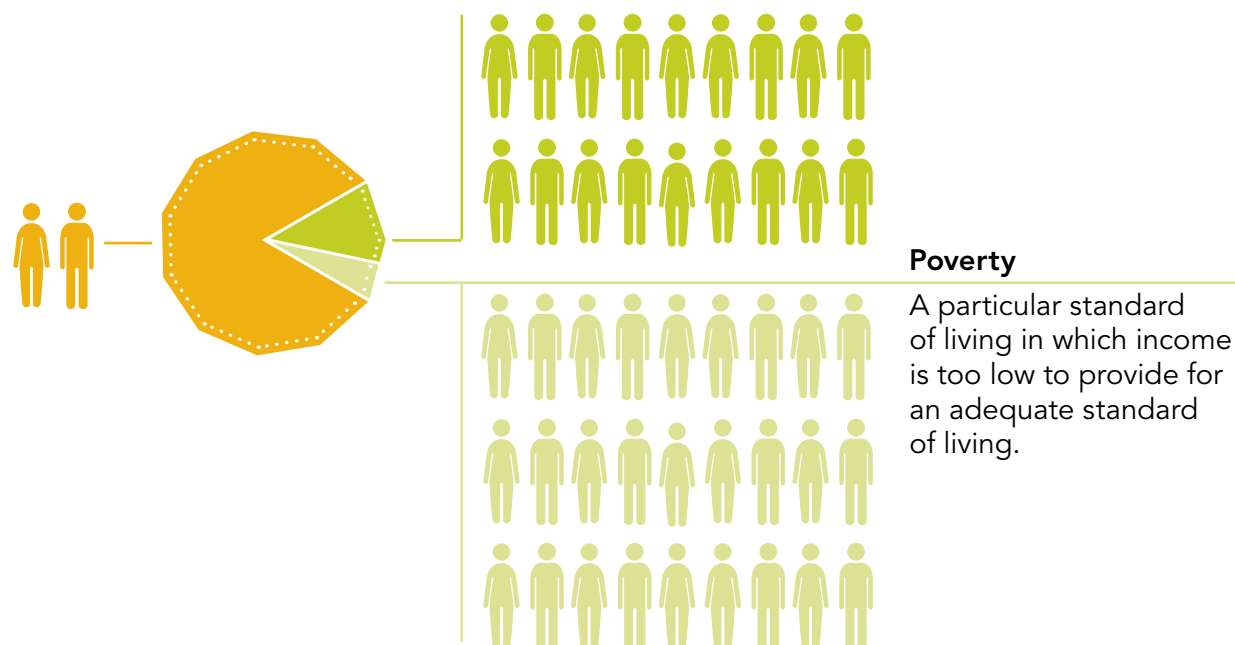
\*\* For example, costs are being increasingly downloaded to individuals, while government transfers to individuals have declined over time (Lewchuk, Clarke, and de Wolff, 2011).

The level of poverty is usually measured as the proportion of individuals, families, or households with incomes below a defined poverty line, or as the proportion of spatial units (e.g. neighbourhoods) where average income or a large proportion of residents are below a poverty line.\* For example, in United Way Toronto's *Poverty by Postal Code* report, high-poverty neighbourhoods were defined as those where 40% or more of a neighbourhood's families were living in poverty.<sup>41</sup>

**Figure 2: The difference between income inequality and poverty.**

### Income inequality

Disparities in living standards across a whole population.



\* Absolute measures of poverty set the poverty line at some minimum income required to maintain a particular standard of living. Relative measures of poverty set the poverty line in relation to some measure of 'average' income of the population.

Poverty research focuses on those individuals, families, households or neighbourhoods that are below the poverty line. While this research is important, it describes only a portion of society. In an effort to reduce or mitigate poverty, policy solutions tend to focus on changing conditions for that group identified as living in poverty. Specifically, they tend to emphasize increasing income for those at the bottom of the income distribution, through things like increasing the minimum wage and/or raising social assistance rates.

In contrast, income inequality focuses on disparities in living standards across a whole population, not only on those whose income falls below the poverty line.<sup>42</sup> As we discussed in Section 1.1, research suggests that income inequality contributes to poorer outcomes for all of society, not just those living in poverty. As a result, focusing on income inequality advances a broader and a more inclusive dialogue about all of society while also expanding the conversation and analysis around poverty.



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## 2 Income inequality in Toronto



Income inequality has become a national issue of concern for Canadians.<sup>43</sup> In 2011, 62% of Canadians believed that growing income inequality should be given the most attention when it comes to national conversations on the problems facing Canada.\* This concern is well-placed. Recent OECD research shows that income inequality is growing in Canada at a considerable rate. Since 1995, disposable income inequality\*\* grew 11% in Canada, compared to an average of 2% across other OECD countries, making Canada the 12th most unequal country among the 35 OECD members, with inequality growing at a faster pace than the OECD average.<sup>44</sup>

But what does this mean for Toronto?\*\*\* How can we determine if this is something that we should be concerned about? The first step to answering this question is to understand the trends in income inequality in Toronto. How much income inequality exists? How have levels changed over time? How do these trends compare with what we are seeing nationally, provincially and in other Canadian cities? While recent research has begun to explore these questions,<sup>45</sup> in-depth Toronto-specific questions remain unanswered. This section presents new and compelling evidence on income inequality in Toronto and provides us with the necessary foundation to reflect on the implications for access to opportunity in our city.

We provide a comprehensive portrait of income inequality in Toronto. Urban inequality research is scarce and usually focused on larger metropolitan areas because of a lack of accessible data for smaller geographies. We are able to provide unique evidence on income inequality in the city using micro data from the census accessed through Statistics Canada's Research Data Centre.

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\* Data Provided by EKOS Research Associates.

\*\* Disposable income inequality, or after-tax income inequality, is inequality of all forms of income, plus transfers and minus taxes.

\*\*\* Toronto and City of Toronto are used interchangeably throughout the report. These terms refer to the former Municipality of Metropolitan Toronto, which consisted of the former municipalities of Toronto, Etobicoke, North York, Scarborough, York and the Borough of East York.



We examined income inequality in two different ways. First, we looked at measures of inequality that speak to the general distribution of income in the city among households and individuals over time. Second, we looked at the extent to which households are concentrated by income in neighbourhoods throughout the city. This second way of looking at income inequality is particularly relevant to Toronto given its reputation as a city of neighbourhoods and previous research demonstrating that the city's neighbourhoods are growing apart economically.<sup>46</sup>

What we found by using these two different ways of looking at income inequality was that Toronto is growing increasingly unequal among neighbourhoods, as well as among households and individuals. This section discusses what we found and considers the factors that have brought about these trends.

## **2.1 Growing income inequality among households and individuals in Toronto**

From 1980 to 2005, income inequality among households in Toronto increased steadily. Figure 3 shows this trend among households, as well as a similar trend for individuals using the Gini coefficient—the most widely used standard for measuring income inequality. It produces values from 0 to 1, where numbers closer to 1 represent higher inequality and numbers closer to 0 represent lower inequality. Figure 3 shows that in 1980, Toronto's level of income inequality was similar to the levels seen in the wider metropolitan region (CMA),\* province, and country. However, beginning in 1990 and extending to 2005, Toronto began to distinguish itself by reaching notably higher levels of inequality compared to the wider metropolitan region, Ontario, and Canada.

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\* Toronto CMA (Census Metropolitan Area) is comprised of the City of Toronto plus 23 other municipalities: Ajax, Aurora, Bradford-West Gwillimbury, Brampton, Caledon, East Gwillimbury, Georgina, Georgina Island, Halton Hills, King Township, Markham, Milton, Mississauga, Mono Township, Newmarket, Tecumseth, Oakville, Orangeville, Pickering, Richmond Hill, Uxbridge, Whitchurch-Stouffville and Vaughan. Almost half the population of the Toronto CMA resides in the City of Toronto.

## The Gini Coefficient

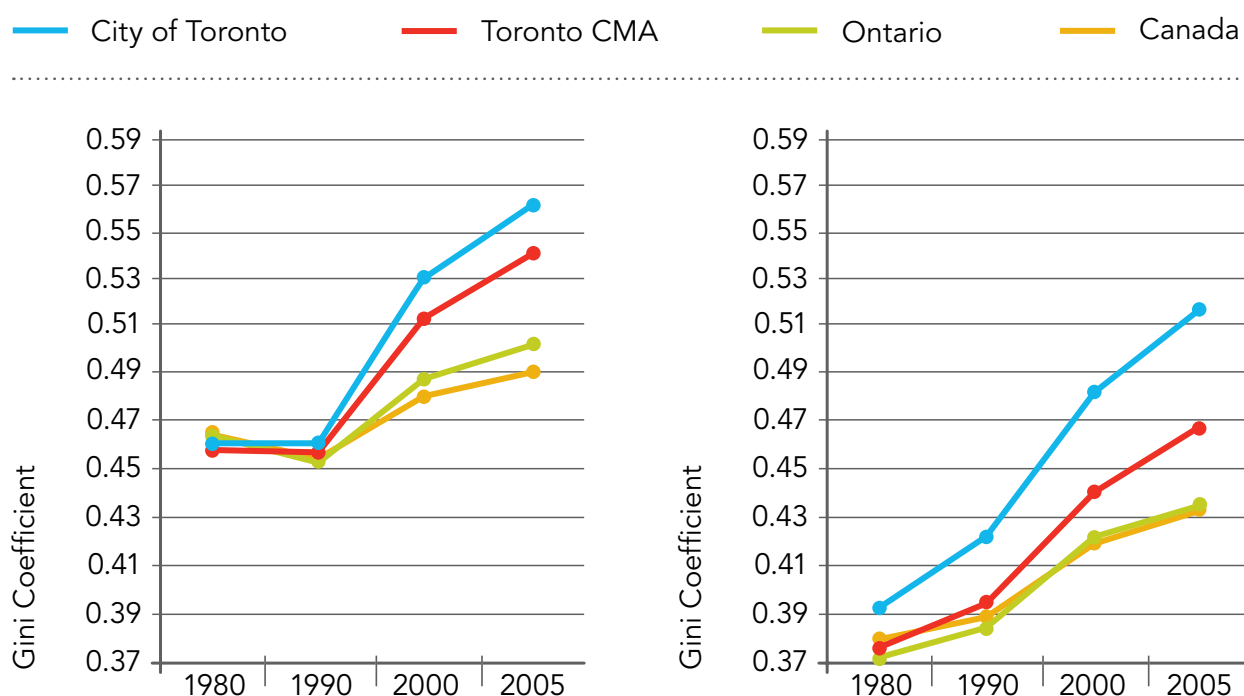
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The Gini coefficient measures how much the distribution of income—among individuals, families, households, or neighbourhoods within a region or country—deviates from an equal distribution. At a Gini of 0, every individual, family, household, or neighbourhood receives the same amount of income. At a Gini of 1, one individual, family, household, or neighbourhood receives all the income and everyone else receives no income at all. Therefore, the higher the Gini is, the more unequal the region or country. An intuitive way of understanding the Gini coefficient is that it represents the share of total income that would need to be redistributed to achieve perfect equality. For example, in 2010, the after-tax Gini coefficient for all families was 0.32, which means that 32% of Canada's after-tax income would need to be redistributed among families to have each family end up with the same income (OECD Income Distribution Database). The Gini coefficient is more sensitive to changes in the middle range of income distribution.

The Gini coefficient in our report is calculated based on total income, also called before-tax (but after transfers) income, which includes market income (employment-related income, plus investment and private pension income) plus government transfers. We used this income measure because it is the

only measure available in the census that allows for comparisons over time. Prior to 2006, the census did not collect information on taxes paid. There is no ideal measure of income for the purposes of measuring inequality. While the after-tax measure is preferable, the choice of income definition is somewhat dependant on the availability of data. The main focus of this study is trends over time, which are not affected by the income type. Absolute values of inequality change but the overall trend lines do not change very much. This income measure shows how the system tempers inequality at the lower end of the income distribution but not how it tempers it at the higher end of distribution. In spite of this drawback, census micro files provide the most reliable data for analyzing income inequality in Canadian cities. The almost complete population coverage and very large sample sizes allow for more detailed and robust analyses at smaller geographic scales, which is the focus of this study. In contrast, the data source most widely used to characterize inequality in Canada and also used in international comparisons—the combination of the Survey of Consumer Finances (SCF) up to 1996 and the Survey of Labour and Income Dynamics (SLID) since 1996—has far smaller samples and raises issues of non-response specific to voluntary surveys (Frenette, Green, and Picot, 2004; Frenette, Green, Milligan, 2006).

**Figure 3: Rising income inequality among individuals (left) and among households (right).**



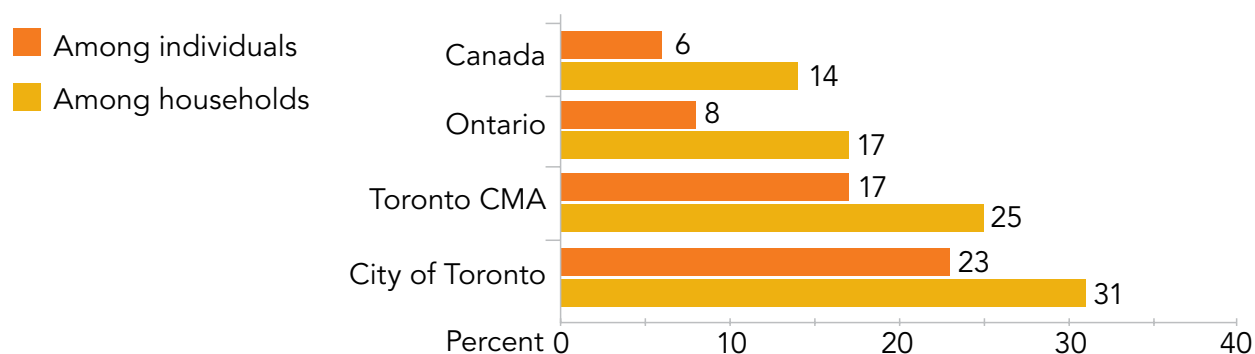
Inequality measured by Gini coefficients (based on total income—before tax and after transfers);

Data source: Statistics Canada, Research Data Centre Toronto, Census 1980-2005.

In addition to reaching the highest levels of income inequality, Toronto also experienced the greatest increase in inequality from 1980 to 2005, as compared with increases in the metropolitan region, province, and country.

Figure 4 shows the percentage change in income inequality among households and among individuals from 1980 to 2005. It shows that where the Gini coefficient among households for Canada rose by 14%, for Toronto it rose by 31%. At the same time, income inequality among individuals in Toronto increased by 23% over the same period, which is about four times the percentage increase experienced by the country (6%).

**Figure 4: Over the last 25 years, income inequality in Toronto has grown by 31%.**



Percentage change in income inequality among households and among individuals between 1980-2005. Inequality measured by Gini coefficients (based on total income—before tax and after transfers); Data source: Statistics Canada, Research Data Centre Toronto, Census 1980-2005.

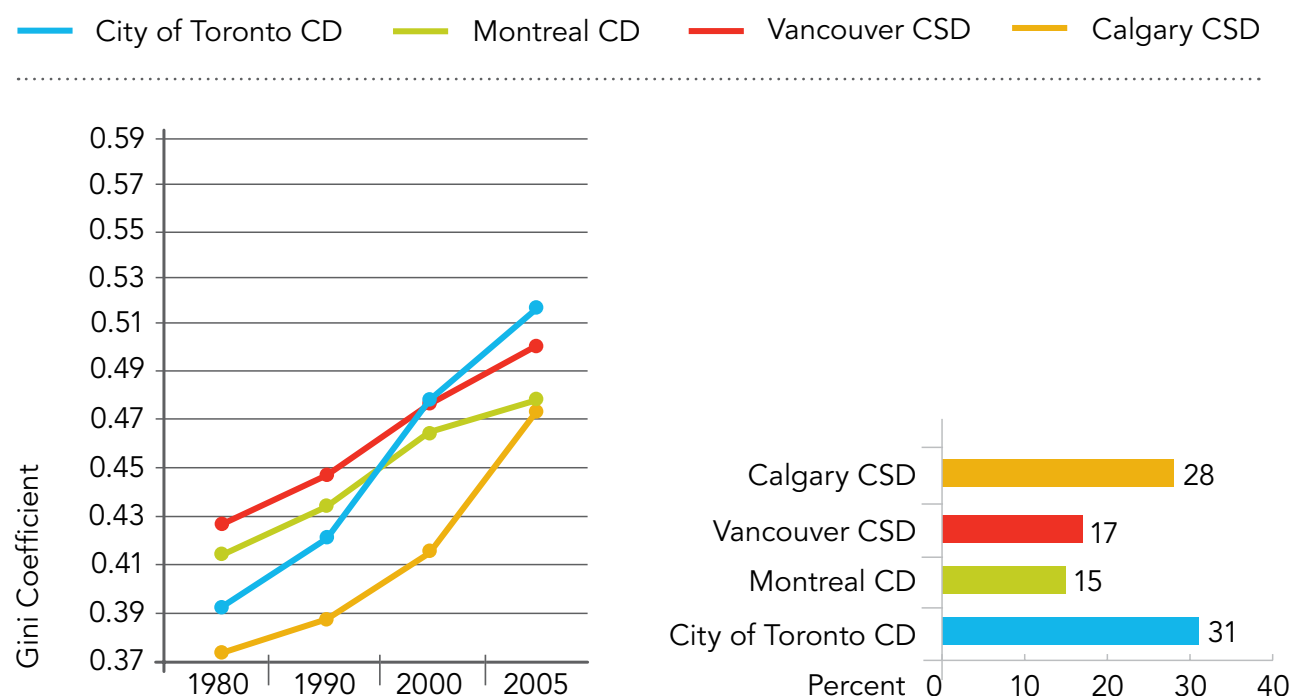
More recent data from the 2010 National Household Survey (NHS) shows that Toronto has maintained its unenviable top position—and continues to have a higher level of income inequality than is found in the metropolitan region, across Ontario, or throughout Canada. For example, in 2010 Toronto's income inequality among households was 0.501,\* 16% greater than nationally at 0.433. Similarly, Toronto's income inequality among individuals was 0.553,\*\* 14% higher than the national level at 0.484.

**A special note:** we are reporting the 2010 NHS data separately because it cannot be included in trend analysis that utilizes previous census cycles. Data from the 2010 NHS is not comparable to that from previous releases using the long-form census because a different methodology was used, which resulted in the survey reaching a different population.

\* Gini coefficient based on total household income.

\*\* Gini coefficient based on total individual income.

**Figure 5: Toronto fares worse than other major Canadian cities.**



Income inequality among households for the largest Canadian cities—trends (left) and percentage change between 1980-2005 (right). Inequality measured by Gini coefficients (based on total income—before tax and after transfers); Data source: Statistics Canada, Research Data Centre Toronto, Census 1980-2005.

Toronto has also grown more unequal relative to other large Canadian cities. Figure 5 shows the trends over time in income inequality among households (left) and the percentage change over time (right) for Toronto, Montreal, Vancouver, and Calgary.\*

Over the period 1980 to 1990, Toronto had the second lowest level of inequality after Calgary. Beginning in 2000, Toronto took the lead, becoming the city with the highest level of inequality

\* Different scales have been used for these cities as follows: the census district (CD) for Toronto and Montreal, and the census subdivision (CSD) for Vancouver and Calgary. These represent the city cores, and provides the most stable boundaries for those cities over time.

relative to the other three cities. Toronto also showed the sharpest increase in inequality over the period 1980 to 2005. During this time, income inequality among households in Toronto increased by 31%, followed closely by Calgary, where inequality increased by 28%.

## 2.2 Growing income inequality among neighbourhoods in Toronto

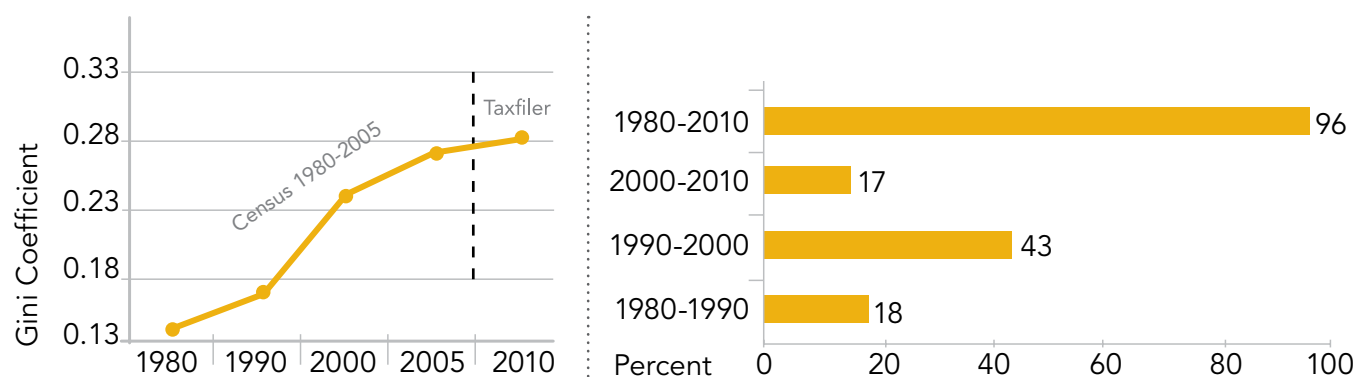
At the same time that income inequality has grown among Toronto's households and individual residents, income inequality has also manifested geographically. Neighbourhoods across the city have grown further apart economically over the 1980 to 2010 period, such that high-income neighbourhoods have become more affluent, and low-income neighbourhoods have become poorer, in relative terms. Figure 6 shows these trends over time (left) and the percentage change (right) in income inequality among neighbourhoods.\* Over the period from 1980 to 2010, income inequality among neighbourhoods increased by a staggering 96%. Neighbourhoods in Toronto started growing apart in the 1980s, with the greatest increase occurring over the ten years from 1990 to 2000. During this decade, inequality among neighbourhoods increased by 43%, from a Gini coefficient of 0.167 to 0.239.

Toronto has become increasingly divided by income as high-income neighbourhoods have become increasingly affluent and low-income neighbourhoods have either stagnated or become poorer. For the most part, the rise in neighbourhood income inequality in Toronto is characterized by stagnation in average household income in lower-income neighbourhoods, while higher-income neighbourhoods have seen significant gains in average incomes. For example, from 1980 to 2005, average household income in the poorest 10% of neighbourhoods increased only 2% while incomes in the richest 10% of neighbourhoods rose by more than 80% over this time.

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\* Figure 6 uses census and taxfiler data. The taxfiler data derives from the Canada Revenue Agency (CRA), and was calculated from all of those who submitted a tax return. Although they are different data sources, the census and taxfiler data are comparable in terms of income as most census income data come from taxfiler data (respondents to the census are able to check a box that allows their income as reported on their tax return to be used for the census).

**Figure 6: The income divide between neighbourhoods has grown by 96%.**

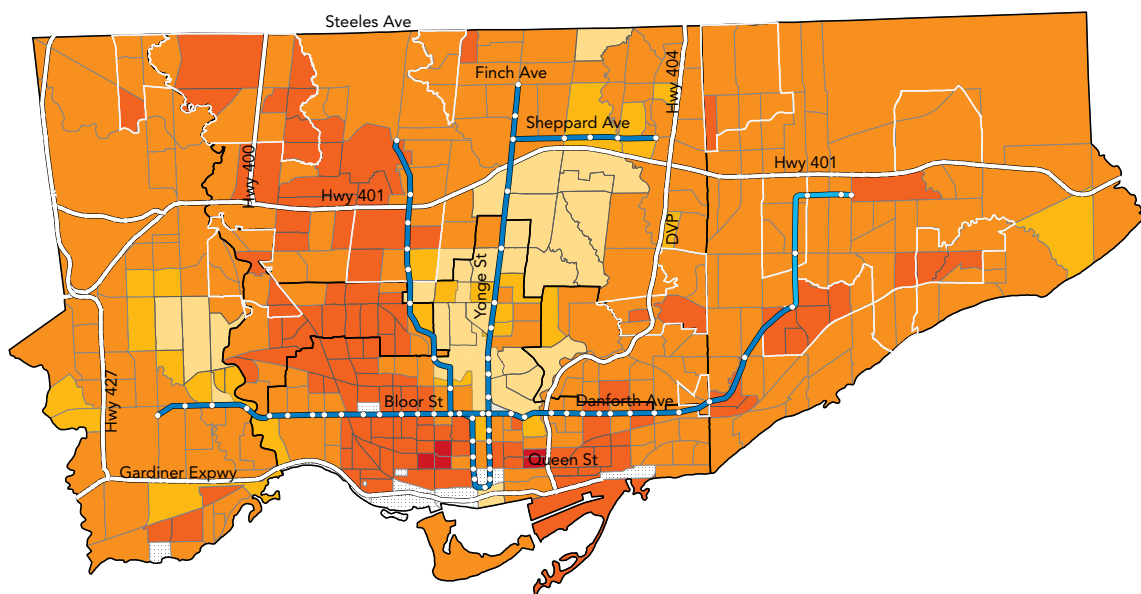


Income inequality between neighbourhoods in Toronto—trends (left) and percentage change (right) between 1980–2010. Inequality measured by Gini coefficients (based on neighbourhood total income—before tax and after transfers - with individuals as the income reporting unit); Data source: Statistics Canada, Custom Tabulations, Neighbourhood Change Research Partnership.

The change in income inequality from 1980 to 2010 can also be illustrated using maps. Maps 1 and 2 show the increase in the number of low- and high-income neighbourhoods and the decrease in the number of middle-income neighbourhoods. While low- and very low-income neighbourhoods together made up about one-third (28%) of the city's neighbourhoods in 1980, by 2010 they made up half. At the same time, the proportion of middle-income neighbourhoods declined from 56% in 1980 to only 29% in 2010, and high-income neighbourhoods increased from 16% to 22%.

The increasing gap between neighbourhoods could threaten Toronto's mixed residential fabric and its reputation as a tolerant and welcoming city. In the long-term, divergence in the quality of life between high-income and low-income neighbourhoods can lead to divergence in life chances and opportunities among residents of Toronto's neighbourhoods.

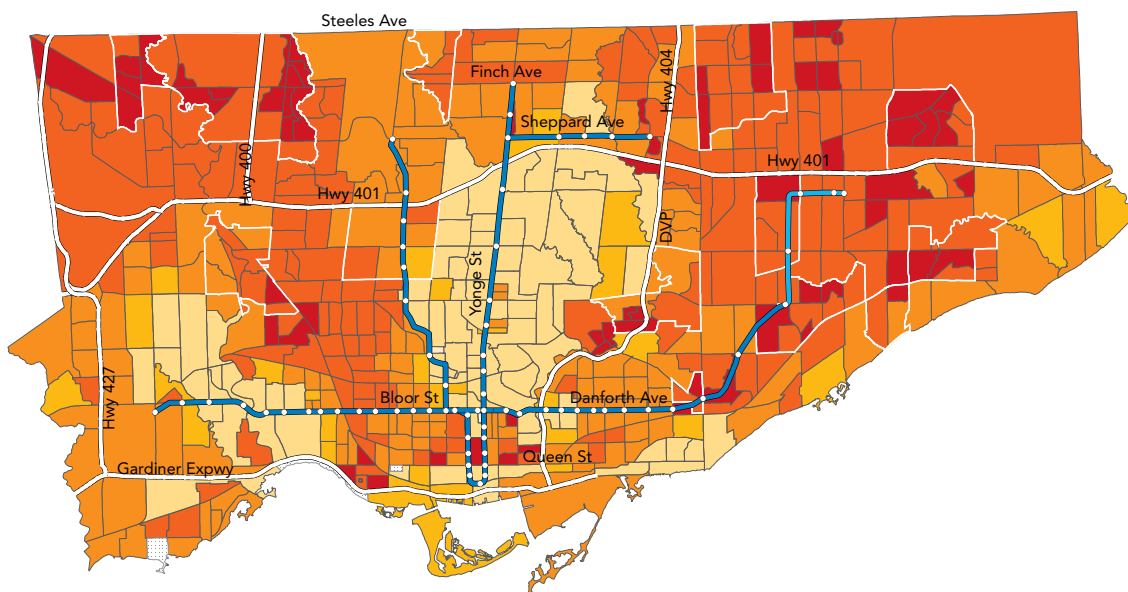
**Map 1: Census Tract Average Individual Income compared to the Toronto Census Metropolitan Area Average of \$14,384; 1980**



Data source: Statistics Canada, Census 1980, Neighbourhood Change Research Partnership.



**Map 2: Census Tract Average Individual Income compared to the Toronto Census Metropolitan Area Average of \$44,271; 2010**



Data source: Canada Revenue Agency, Tax-filer Data 2010, Neighbourhood Change Research Partnership.



*“ There’s a lot of people [at] the bottom. We all know about the 2% at the top, a small number of people with the majority of the wealth and we’re all struggling at various levels at the bottom. It is a big gap and these are things that in our country, we should worry about.”*

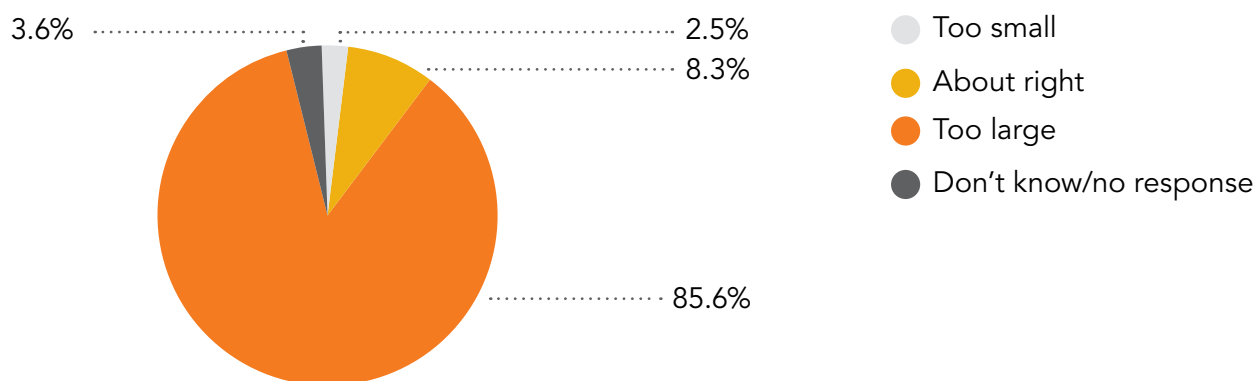
— Interview respondent.

## 2.3 Perceptions about the gap: Respondents know that income inequality has grown

The growth in income inequality among individuals, households, and neighbourhoods in Toronto is stark. And while this research is new, it seems that respondents to our survey are already aware of—and personally experiencing—the growth of income inequality. A significant majority—86%—of respondents to our survey feel the gap between those with high incomes and those with low incomes is too large. This is the first time that Torontonians have been asked about the value they assign to the income gap, and our survey shows an overwhelming agreement among respondents that the current income gap is problematic.

It’s not just a particular category of respondent that feels this way. The majority of respondents—regardless of age, income, education, or ethnicity—feel that the gap between those with high incomes and those with low incomes is too large.

**Figure 7: A majority agree that the gap is too large.**



Data source: EKOS-UWT Survey 2014. Survey question: Thinking about Toronto today, would you say the gap between those with high incomes and those with low incomes is too small, about right, too large?  
N = 2684

## 2.4 Why income inequality has grown

There are a wide range of factors that have influenced income inequality since 1980. Some have limited the growth of income inequality while others have contributed to it. And while some of these factors have had a stronger effect than others, they have worked in concert with one another to produce the present levels of income inequality. The following section gives a high-level overview of what these factors are and, where possible, how they have affected income inequality in Toronto specifically. A fuller and more detailed discussion of how these factors operate is included in Appendix B of this report.

Two of these factors are indicative of trends that have occurred around the world beginning in the late 1980s: economic globalization and technological advances. Globalization and technological advances changed the types of jobs available in Canada.<sup>47</sup> This resulted in a decline in higher quality manufacturing jobs and growth in lower paid, often precarious service jobs—a trend that has contributed to the growth of income inequality and that is evident in Toronto.<sup>48</sup>

Economic trends such as recessions and institutional choices surrounding the tax and transfer system also had an impact on income inequality. The recessions of the early 1980s and early 1990s both contributed to the rise in income inequality. Before the 1980s, it was common for income inequality to grow during recessions, but economic growth and the tax and transfer system would offset this rise after the recessions ended.<sup>49</sup> However, beginning in the 1980s, this ceased being the case. Tax reforms and rate cuts beginning in the late 1980s—as well as reductions in government transfers beginning in the mid-1990s to programs like Employment Insurance and social assistance—greatly reduced the tax and transfer system's ability to compensate for the growth in income inequality that occurred during recessions.<sup>50</sup>

As discussed earlier, there have been profound shifts in the types of employment opportunities available in the past three decades. Compensation practices have changed, with high-income earners receiving increasingly higher wages and taking increasing advantage of new forms of compensation such as stock options.<sup>51</sup> Low-wage earners have not seen growth in their wages in the past three

decades, due in part to the minimum wage in Ontario being devalued over time because it has not kept pace with inflation. The growth in self-employment and precarious employment and the loss of union coverage also affected income inequality, especially for those in the low and middle parts of the income distribution.<sup>52</sup> Toronto has experienced all of these trends.

As opportunities in the labour market changed, the demographic composition of the people who work in the labour market also changed. The rise in lone-parent families and singles,<sup>53</sup> an increased tendency for higher-income earners to partner with one another,<sup>54</sup> the growth of women participating in the labour market,<sup>55</sup> the depressed wages of immigrants and racialized groups in the labour market,<sup>56</sup> and the stagnating value of a university education<sup>57</sup> have all affected income inequality in different ways. In Toronto, some of these factors, such as the wages of immigrants and racialized groups, have had a marked impact since Toronto is home to many newcomers and racialized groups.<sup>58</sup>

There have also been some factors that have affected income inequality indirectly by limiting economic mobility. In part, this includes the rising costs of food and housing.<sup>59</sup> This also includes other rising costs which have emerged from people increasingly having to pay for goods and services that were previously provided by the government and employers, such as the costs of attending post-secondary education and extended health benefits.<sup>60</sup> At the same time, wealth inequality has been growing.<sup>61</sup> People at the high end of the income distribution have benefitted from trends such as high interest rates until the year 2000, the housing boom of the 2000s, and the stock market boom of the 1990s.<sup>62</sup> Those with few assets have experienced high interest rates differently: they have had to pay more on their loans and debts until interest rates were reduced and have experienced increased debt loads overall.<sup>63</sup>

In sum, there are many factors that affect income inequality. Some of these, such as technological advances, have been difficult to control. But other factors, such as policy changes, have been a result of public policy choices. These choices are captured in Figure 8, which depicts the various policy changes that have contributed to or limited the growth of income inequality.

Figure 8

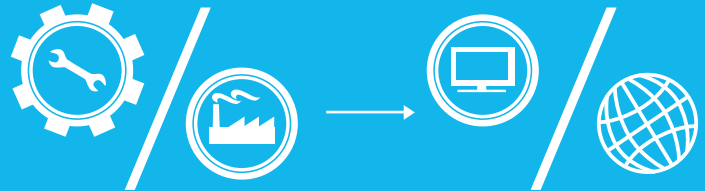


# Why has income inequality grown?

48

## GLOBAL ENVIRONMENT

Globalization and technological advances changed the types of jobs available. These processes led to declines in high quality and better paid manufacturing jobs in Canada.



## THE TAX AND TRANSFER SYSTEM

Tax reforms and rate cuts as well as reductions in government transfers have reduced the system's ability to provide income and other social supports to those who need it the most.



## JOB OPPORTUNITIES

The labour-market has polarized with low- and middle-income earnings stagnating and high-income earnings growing.



## THE WORKFORCE

How people's characteristics are treated in the labour market impacts their wages and earnings.



Since 1980, a combination of policy choices and other factors have contributed to the growth of income inequality.

What has limited the growth of income inequality?

#### POLICY CHOICES

#### OTHER FACTORS

#### POLICY CHOICES

- Introduced Free Trade Agreements
- Introduced Foreign Investment Promotion and Protection Agreements

- Technological advances

- Cut Ontario social assistance
- Reformed and cut Employment Insurance (EI)
- Reformed and cut taxes

- Recessions
- Weak economic growth

- Devalued minimum wage
- Reduced stock option tax to 50%
- Introduced policies leading to deunionization

- Many low paid jobs
- Increased wage gaps between high and low earners
- Increased self-employment and precarious work

- Repealed Employment Equity

- Changes in family composition
- Lower wages for racialized and newcomer workers
- Stagnant value of university education

- Raised social assistance rates
- Introduced and raised child benefits
- Introduced the Working Income Tax Benefit (WITB)

- Raised minimum wage multiple times
- Introduced annual increases for inflation for minimum wage

- Introduced gender Pay Equity
- Introduced Employment Equity



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# 3 Quality of life relative to past generations and own ambitions



In the previous chapter, we saw that income inequality in Toronto has grown over time. It is higher in our city today than it is elsewhere in the province or country, and our survey respondents feel that its proportions have reached the point of being problematic. In this section of the report, we take our second step toward understanding the problem and present more findings from our survey that provide insight about the possible impacts of these trends.

We start by asking survey respondents to compare their lives with those of past generations. This question is important because many of us share a strong belief in upward social mobility—that our children should be better off than we are now.<sup>64</sup> This demonstrates an ethic of progress, a conviction that opportunities for a better quality of life should continue to improve as our society develops and grows. One way to estimate whether people feel as though this has been achieved is to simply ask them whether they feel better off or worse off compared to the previous generation. These measures help us understand whether people feel as though they have been able to get ahead, whether or not they are in fact better off than generations that came before.

### **3.1 Many are doing better, but one-third feel worse off**

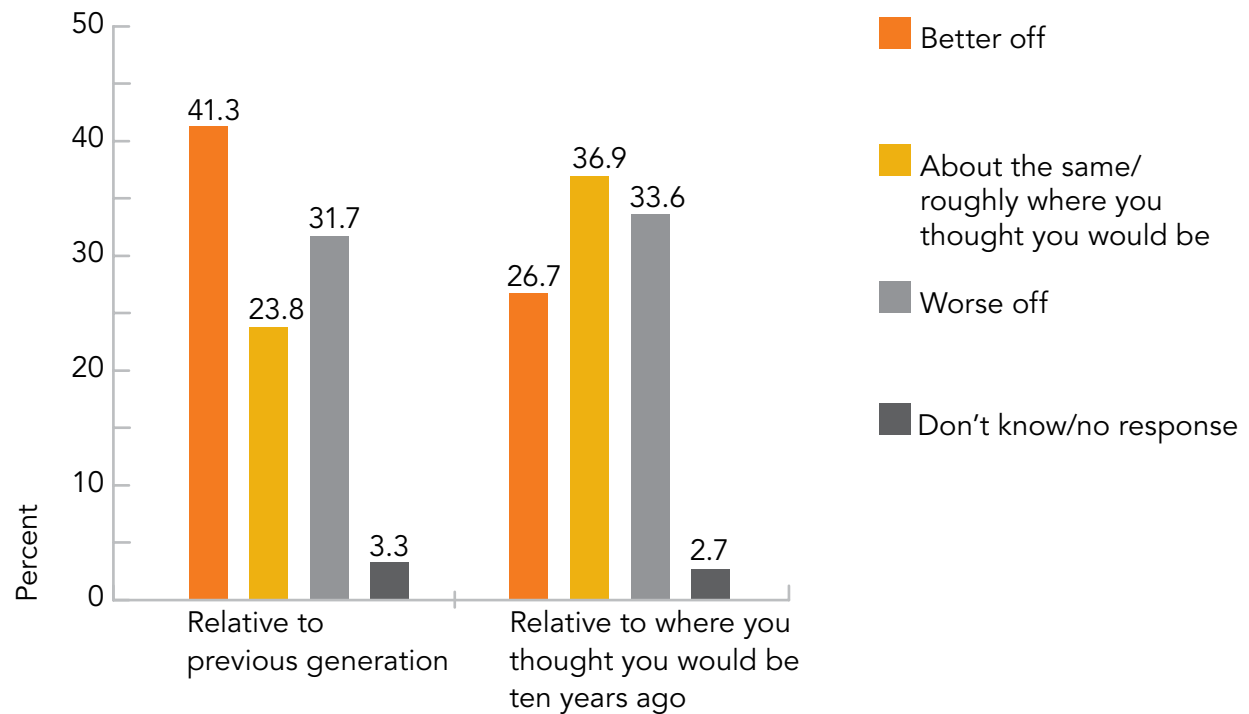
In our survey, we asked respondents to reflect on whether they were better off, about the same or worse off than the previous generation was 25 years ago. Forty-one percent of respondents said they are better off than the previous generation and 24% of respondents said they are about the same. Almost one-third of respondents said they are worse off. These results are roughly on par with the feelings of Canadians more broadly. In July 2014, 34% of Canadians felt they were better off, 27% felt they were about the same, and 36% felt they were worse off than the previous generation.\*

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\* Unpublished data supplied by EKOS Research Associates.



**Figure 9: One-third of people feel worse off.**



Data source: EKOS-UWT Survey 2014. Survey questions: Thinking about your overall quality of life, would you say that you are better off, worse off, or about the same as the previous generation was 25 years ago? Thinking about your overall quality of life today and how you imagined things would turn out for you ten years ago, would you say you are better off, worse off, or roughly where you thought you would be? N = 2684 (NB: Values may not add up to 100 due to rounding.)

Using a different reference point, we asked respondents how they are doing relative to how they imagined things would turn out for them ten years ago. The proportion of respondents who feel better off is lower than when they compare themselves with the previous generation, 27% vs. 41%. And again, we see that one-third of respondents feel they are worse off today than they thought they would have been ten years ago.

*“Compared to my expected trajectory—settling into a career, getting career experience and moving up—no, [I’m] definitely not better off.”*

— Interview respondent.

These findings are complex. On the one hand, they indicate that many respondents are doing as well—even better than they thought they would be. On the other hand, there is a sizable portion of respondents who feel worse off than the previous generation, and a similar-sized portion who feel worse off relative to where they thought they would be. One-third is a significant amount of people. To better understand this, we dug a little deeper to see if these feelings varied for people in different income groups or with different education levels.

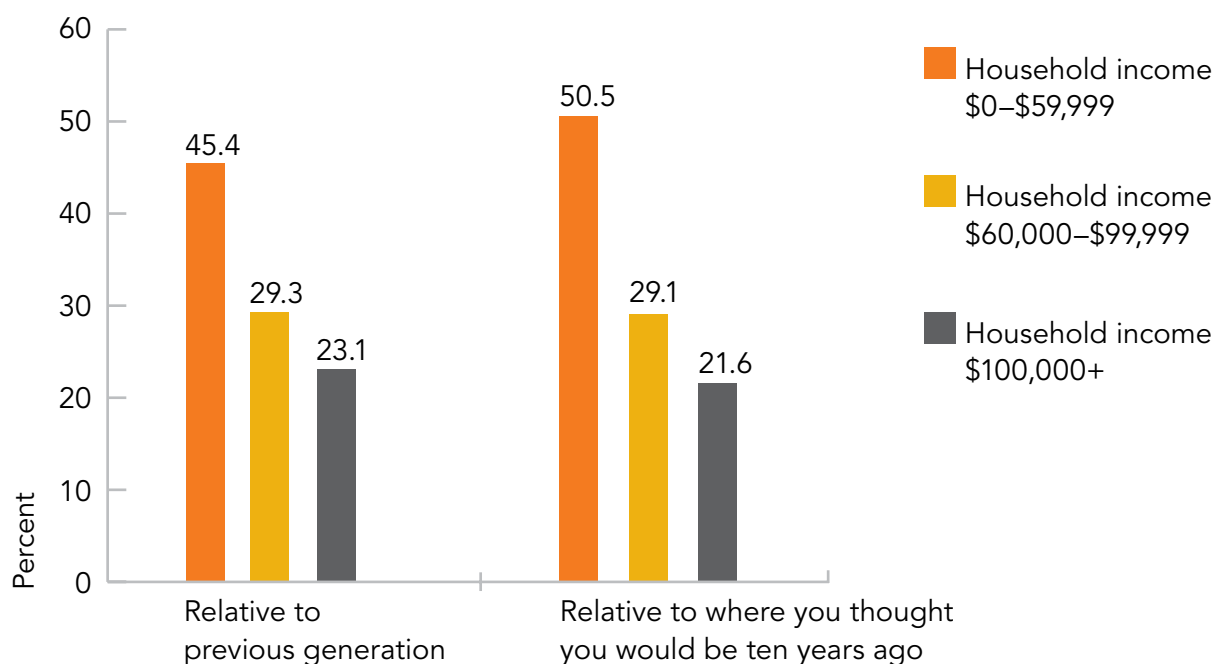
### **3.2 Higher-income people are more likely to say they are better off, but 1 in 5 still feel worse off**

Income has an impact on every facet of life.<sup>65</sup> Income is widely recognized for influencing access to basic resources and is strongly correlated with a variety of outcomes for individuals and across populations.<sup>66</sup>

For this reason, we were not surprised to find that lower-income respondents are less likely to report being better off and more likely to report being worse off relative to past generations than those with higher incomes. Similarly, lower- and middle-income respondents are more likely to report being worse off than they imagined they would be 10 years ago, while higher-income respondents are more likely to report being better off or roughly where they thought they would be.

What did surprise us is that there is still a substantial portion of respondents with household incomes of \$100,000/year or more who feel they are worse off than previous generations. Twenty-three percent of higher-income respondents report feeling they are worse off than the previous generation, while 22% of respondents with household incomes over \$100,000/year feel they are worse off than they thought they would be 10 years ago.

**Figure 10: Close to one-quarter of higher income households also feel worse off.**



Percent of respondents believing they are worse off by household income. Data source: EKOS-UWT Survey 2014. Survey questions: Thinking about your overall quality of life, would you say that you are better off, worse off, or about the same as the previous generation was 25 years ago? Thinking about your overall quality of life today and how you imagined things would turn out for you ten years ago, would you say you are better off, worse off, or roughly where you thought you would be? N = 2684 (NB: Values may not add up to 100 due to rounding.)

### 3.3 One-third of those with better education than their parents say they are worse off

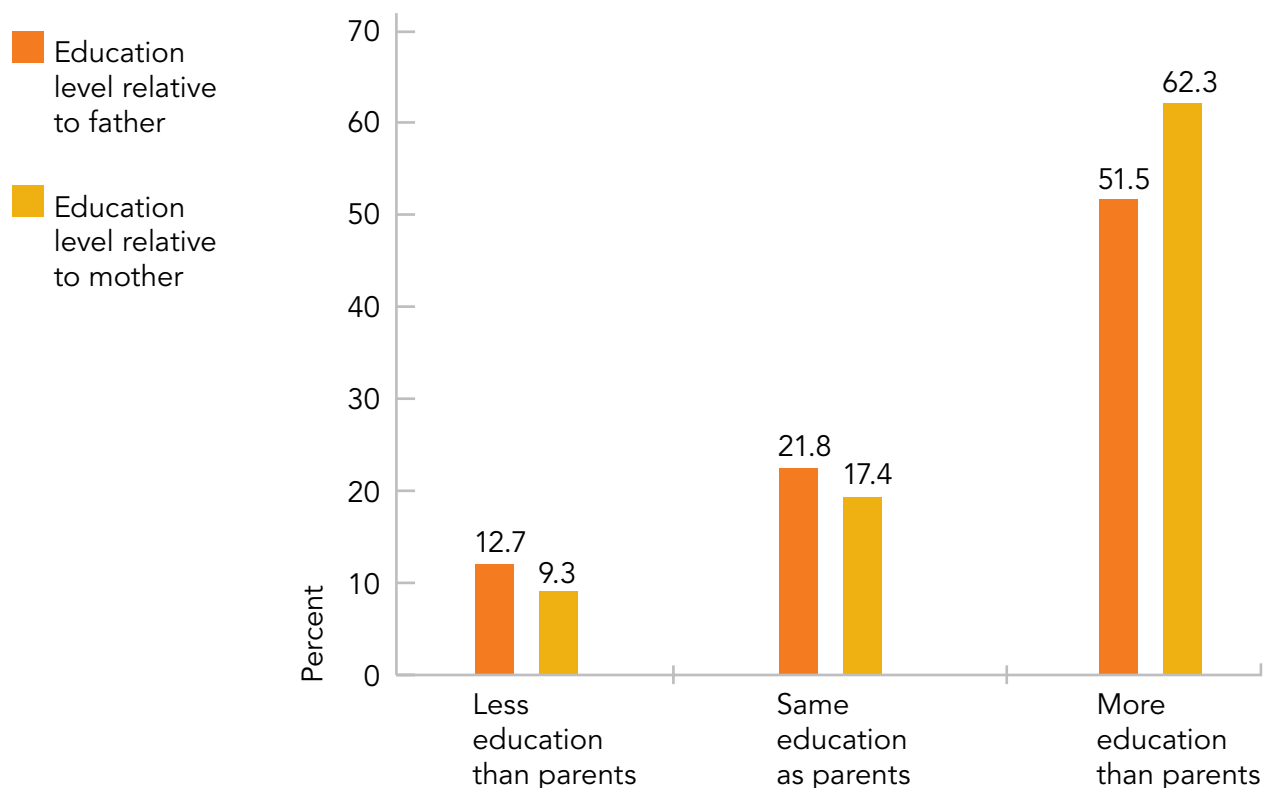
Overall, Canadians have increased their educational attainment relative to past generations. In 1981, 44% of Canadians aged 25-54 had some form of post-secondary education.<sup>67</sup> By 2006 this had grown to 61%.<sup>68</sup> According to the National Household Survey, in 2011 64% of Canadians aged 25-64 had obtained some kind of post-secondary qualification.<sup>69</sup> This is not unexpected given that

*“Just having a degree is no guarantee to a job, whereas 25 years ago it was pretty much a ticket to getting a job.”*  
— Interview respondent.

Canada’s provincial and territorial public policies have encouraged post-secondary education in various forms since the 1960s,<sup>70</sup> and more and more jobs require higher levels of education. Indeed, 70% of jobs in Ontario by 2020 will require some form of post-secondary education.<sup>71</sup>

In Canada, increased educational attainment has been achieved alongside high rates of social mobility.<sup>72</sup> Around the world, obtaining

**Figure 11: More than half have higher education than their parents.**



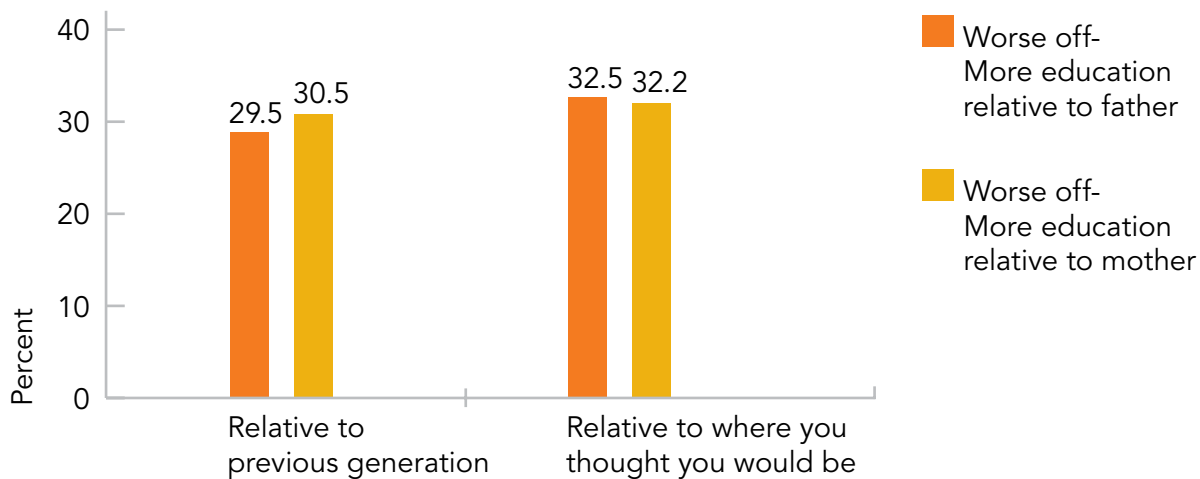
Respondent educational attainment relative to their father and mother. Data source: EKOS-UWT Survey 2014. Survey questions: What is the highest level of degrees, certifications or diplomas (or equivalent) that you have obtained to date? If applicable, what is the highest level of degrees, certifications or diplomas (or equivalent) that your father has obtained? If applicable, what is the highest level of degrees, certifications or diplomas (or equivalent) that your mother has obtained? N = 2684 (NB: Missing values are not shown in figure.)

*“Job opportunities are a big problem. People are getting less of a return on education. I have no problem with higher education but I think people should be able to move into challenging positions.”*

— Interview respondent.

a higher level of education than your parents is perceived to be the most certain route to upward social mobility.<sup>73</sup> Canadians affirm this belief, with 78% feeling that a quality education was required to improve personal economic standing.<sup>74</sup> And evidence supports this belief: in Canada, men with bachelor degrees earn 1.75 times as much as men with only a high school diploma, while women with bachelor degrees earn 1.85 times as much as women with only a high school diploma.<sup>75</sup> An individual who obtains a higher level of education than their parents would reasonably expect their earnings to be higher as well, indicating they have achieved upward social mobility. Because of this, educational attainment relative to one's parents is often used as a reliable proxy to measure social mobility.<sup>76</sup>

**Figure 12: One-third of those with higher education feel worse off.**



Data source: EKOS-UWT Survey 2014. Survey questions: What is the highest level of degrees, certifications or diplomas (or equivalent) that you have obtained to date? If applicable, what is the highest level of degrees, certifications or diplomas (or equivalent) that your father has obtained? If applicable, what is the highest level of degrees, certifications or diplomas (or equivalent) that your mother has obtained? Thinking about your overall quality of life, would you say that you are better off, worse off, or about the same as the previous generation was 25 years ago? Thinking about your overall quality of life today and how you imagined things would turn out for you ten years ago, would you say you are better off, worse off, or roughly where you thought you would be? N = 2684 (NB: Missing values are not shown in figure.)

*“Both of my parents went to school and then got jobs for life as teachers. That was the usual way to do things. Things just worked out that way but now it seems there is no career waiting.”*

— Interview respondent.

In our sample, 59% of respondents had obtained a bachelor's degree or higher, while only 36% of respondents' fathers and 24% of respondents' mothers had obtained this level of education. Approximately half of respondents had obtained a higher level of education than their father, and over 60% of respondents had obtained a higher level of education than their mother.

Research indicates a higher degree of life satisfaction among those who have achieved a higher social status than their parents achieved.<sup>77</sup> With that in mind, it is worrying that roughly one-third of respondents who achieved a higher level of education than their father still report being worse off than their parents' generation was 25 years ago. The results were similar for educational attainment relative to one's mother.

### 3.4 Reflecting on our findings

Looking at the distribution of responses by income and education does not provide the insights needed to fully understand why almost one-third of respondents report being worse off than the previous generation, or why one-third report being worse off than they thought they would be ten years ago. When we break down responses in this way, we see that roughly one in five higher-income respondents report that they are worse off, and roughly one in three respondents who obtained a higher level of education than their parents say the same thing.

One explanation is that these findings indicate that although this expectation for success as a result of education has been realized by many people, there is a substantial portion of our respondents for whom it has not. This may be the result of the increasing complexity of the pathways to success. Even a higher education and higher income are no guarantee of well-being, suggesting that there are other important factors influencing quality of life. These trends have potentially negative implications for future generations.

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# 4

Feelings about prospects  
for the next generation



Alongside concerns about growing income inequality around the world, there is a growing and unprecedented sense of concern about prospects for the next generation. In a Pew poll in 2013, a shocking 64% of respondents from countries with advanced economies thought that their children would be worse off when they grow up than their parents are today.<sup>78</sup> \* There is evidence of this trend in Canada as well. In 2007, just prior to the recession of 2008, 36% of Canadians felt the next generation would be worse off financially than the one that came before.<sup>79</sup> Six years later in 2013, Canada emerged from the recession in a position of relative strength—yet pessimism for the next generation had grown. In 2013, 53% of Canadians felt the next generation would be worse off than the one that came before.\*\*

To increase our understanding of the influence of income inequality on access to opportunity, we wanted to know how respondents felt about the next generation. Are they optimistic, feeling they would be better off, or pessimistic with a concern they would be worse off?

#### **4.1 More than half of respondents are worried about the next generation**

Fifty-two percent of our survey respondents feel that in 25 years the next generation will be worse off than their counterparts are today. Only 17% of respondents feel the next generation will be better off.

This finding echoes similar concerns from other countries around the world. But in a city as diverse as Toronto, the commonality of this belief among respondents with different backgrounds seems to give the finding even more weight. Regardless of the respondent's age, income, ethnicity, immigration status, education level, or gender, the most common response was that the next generation will be worse off.

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\* Advanced economies include: South Korea, Israel, Australia, the United States, Czech Republic, Germany, Spain, Canada, Poland, Greece, Britain, Japan, Italy and France.

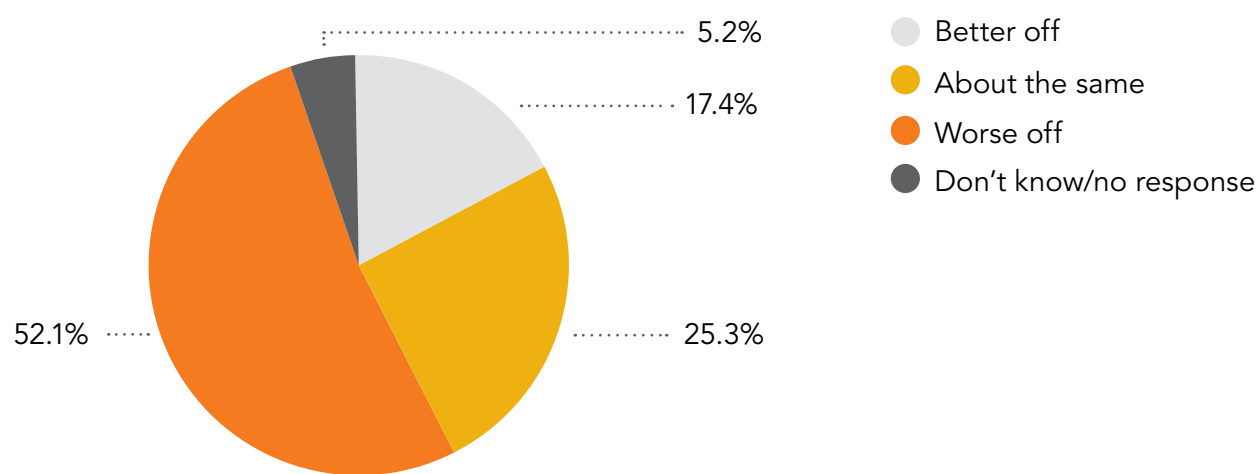
\*\* Unpublished data supplied by EKOS Research Associates.



*“Youth will be coming out of school into a world where the temporary nature of employment is the norm.”*

— Interview respondent.

Figure 13: Only 17% of people say the next generation will be better off.



Data source: EKOS-UWT Survey 2014. Survey question: Thinking about your overall quality of life do you think the next generation will be better off, worse off, or about the same? N=2684

This finding speaks to a troubling level of pessimism about prospects for the next generation—one which reflects the reality of what's happening in our city. At an average of nearly 22% for the first six months of 2014, Toronto's youth unemployment rate is significant, and far exceeds the national rate.<sup>80</sup> This high unemployment rate suggests that the city is not capitalizing on the potential of many of its young people,<sup>81</sup> despite the fact that youth today have higher enrollment rates in post-secondary education than in the past.<sup>82</sup> Upon graduation from university and college, young people, carrying high student debt,<sup>83</sup> are faced with an increasingly precarious labour market where a job is no guarantee of economic security.<sup>84</sup> Additionally, youth face an unaffordable housing market where housing prices have risen well above incomes.<sup>85</sup> As described recently by Member of Parliament Matthew Kellway, "...too many young people are struggling to get a foothold."<sup>86</sup> These trends present young people with a more challenging environment through which to navigate, and the stakes of not succeeding are now much higher than they were in the past.

*“Honestly, I have to hope they will be better but don’t think they will. I really don’t think we’re at the point where they are ready to do something yet... We will continue on the path we are on until things really change.”*

— Interview respondent.

## 4.2 Reflecting on our findings

Many have argued that Canada’s high rates of social mobility are an indication that, at least in the past, we were relatively successful at providing equitable access to opportunity.<sup>87</sup> People were able to take advantage of opportunities to improve their lot in life, and it was believed that the next generation would face a brighter future than those who came before. In 2006, 67% of Canadians agreed that “it was possible to go from rags to riches in Canada.”<sup>88</sup> Canadians believed their country to be one where improving your lot in life is possible.<sup>89</sup> However, our findings suggest that for youth in Toronto, this may prove more challenging in the future than it was in the past.

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# 5

Availability of and  
access to opportunity  
in Toronto today

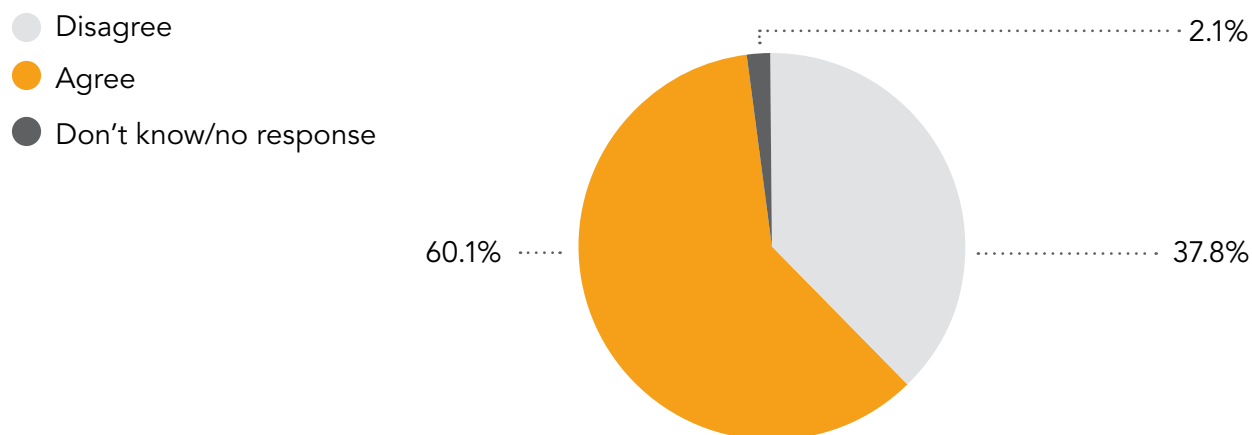


With one-third of respondents feeling that they are worse off today than past generations—and worse off than they expected to be—and the majority feeling worried about the next generation, we wanted to understand how respondents feel about the opportunities that are available in Toronto. We know that to ensure people can build better lives, opportunities need to be available—and everyone needs to have the right tools and supports to access them. What aspect of the opportunity equation today might be contributing to the growing pessimism we are seeing about the future? What about the opportunity equation is not adding up?

### 5.1 Respondents are divided about the availability of opportunity in Toronto today

The first question that we asked gave us a broad sense of how people feel about the availability of opportunity in the city. Our findings show that respondents are divided. While 60% of respondents agree that there are generally good opportunities in Toronto today for people from all social groups and backgrounds, 38% disagree with this statement.

**Figure 14: Divided views about opportunities in Toronto.**

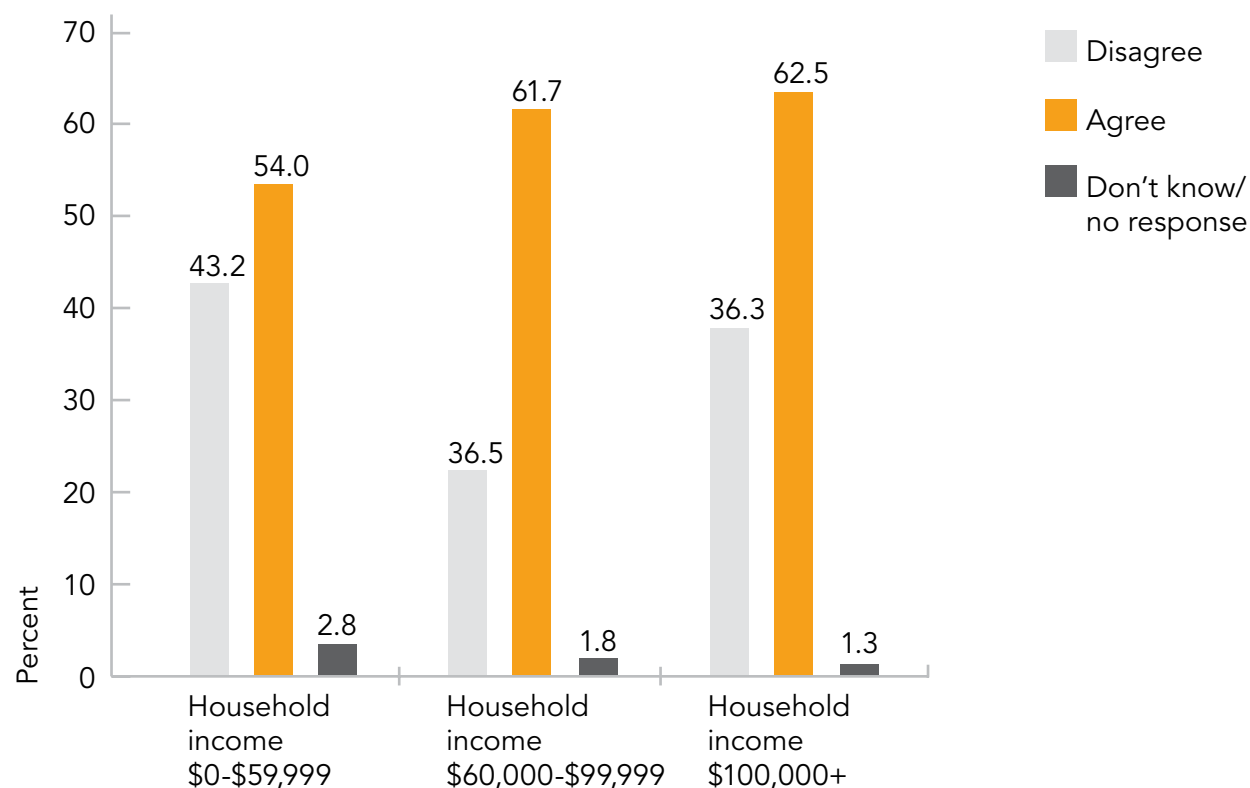


Data source: EKOS-UWT Survey 2014. Survey question: There are generally good opportunities in Toronto today for people from all social groups and all backgrounds. N=2684

We saw similar divisions in opinion when we looked at how the respondents broke down by ethnicity, age, education, gender, and immigration status, with the majority in each of these demographic groups agreeing that there were good opportunities today in Toronto for people from all social groups and backgrounds, but a sizeable portion disagreeing.

We did find more significant differences in opinion by income. Respondents with higher incomes are more likely to feel that opportunities in Toronto are good than are those respondents with lower incomes.

**Figure 15: Lower-income households more likely to believe there are not good opportunities.**



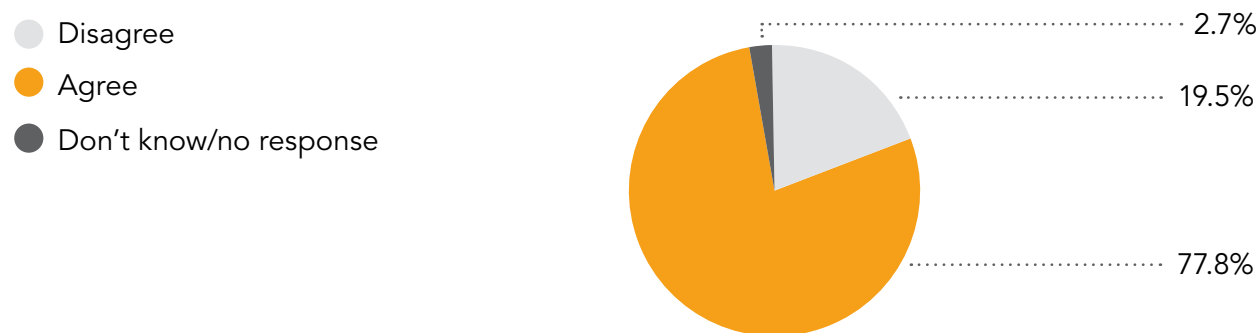
Data source: EKOS-UWT Survey 2014. Survey question: There are generally good opportunities in Toronto today for people from all social groups and all backgrounds. N=2684 (NB: Values may not add up to 100 due to rounding.)

Once more we see that respondents are clearly connected to the current reality in Toronto. For some, there are good opportunities. But this is not the case for everyone. Research from the Toronto Region Board of Trade and United Way Toronto projects that Toronto will see increased demand for workers to fill both high-paying and low-paying jobs over the next five years.<sup>90</sup> The city will need workers to fill the demand for jobs like financial auditors, accountants and lawyers.<sup>91</sup> But there will be an even greater demand for workers to fill low-paying jobs that generally lack security and benefits, like service jobs in retail, cleaning, and food service.<sup>92</sup>

## 5.2 Respondents know that circumstances impact access to the opportunities that are available

Respondents are divided about the availability of opportunities in our city, a view that reflects our polarized labour market. But most of us know that some people in our city have to work harder than others to access the good opportunities that are there. More than three-quarters of respondents agree that many people are disadvantaged because of their background and have to work much harder than others of equal basic talent to overcome the obstacles they face. The majority of respondents, regardless of income, age, gender, visible minority status, or educational attainment, feel similarly.

**Figure 16: Background has a real impact on life chances.**



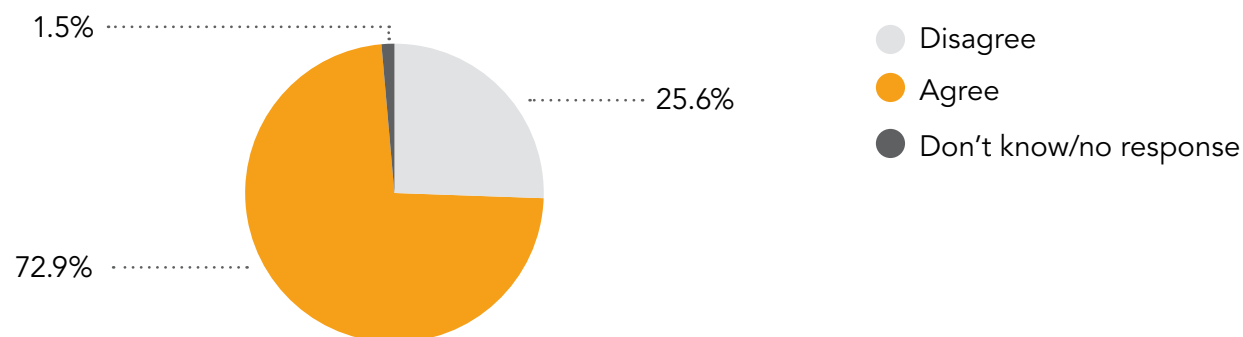
Data source: EKOS-UWT Survey 2014. Survey question: Many people are disadvantaged because of their background, and have to work much harder than others of equal basic talent to overcome the obstacles they face. N=2684

We feel this reflects an understanding that the circumstances in life over which one has no control, things like race, gender, and household income growing up, have a real impact on a person's life chances. Consistent with findings from other research,<sup>93</sup> survey respondents seem to know that some people are getting the tools they need to access the good opportunities that exist, while others are not.

### 5.3 Respondents know it takes more than effort to access the opportunities that are available

Our next question explored the role of hard work and determination in achieving success.<sup>94</sup> Canadians feel strongly that hard work is one of the most important factors in achieving success. In our survey, 55% of respondents credit hard work and ambition as one of the top three reasons for where they are today. At the same time, almost three-quarters of our survey respondents agree that hard work and determination are no guarantee that a person will be successful. This suggests that although respondents know hard work is a necessary part of the opportunity equation, it is not always enough on its own.

**Figure 17: 73% of people say that hard work is not enough to get ahead.**



Data source: EKOS-UWT Survey 2014. Survey question: In Toronto, hard work and determination are no guarantee that a person will be successful. N=2684

## 5.4 Reflecting on our findings

The picture of opportunity in Toronto presents some challenges. Survey respondents are divided about the availability of good opportunities in Toronto today, broadly reflecting the reality of an increasingly divided labour market. Despite this difference of opinion, respondents agree that access to those opportunities is influenced by a person's background, and that hard work and determination are not a guarantee that a person will be successful in overcoming those circumstances that are beyond a person's control and how those circumstances are treated by society.

Given what we know about the growth of income inequality in Toronto over the last three decades, and paired with the strong sense that the next generation will be worse off, these findings on perception of opportunity are good reason to be concerned about our future.



---

# 6

## Tools to build a city of opportunity



## 6.1 The impacts of pessimism

The kind of widespread pessimism about the future identified in this report can have serious impacts on society. Perceptions are important because they shape behavior. When people are pessimistic, they lose hope and confidence in the future, and they are more likely to believe that hard work and determination are not enough to make a difference in their quality of life.<sup>95</sup> Optimists, on the other hand, believe hard work and determination will pay off, and so they tend to work longer hours, expect longer careers, and invest and save more.<sup>96</sup> At a broader level, widespread pessimism can hinder economic growth through a lack of consumer confidence, demonstrated in decreased spending and consumption.

In the US, research suggests that over the last fifty years, growing income inequality has fueled growing pessimism, and as a consequence, a fracturing in social cohesion has occurred.<sup>97</sup> This research points to declining trust in others and institutions and a decreasing belief that people from different backgrounds have a shared fate.<sup>98</sup>

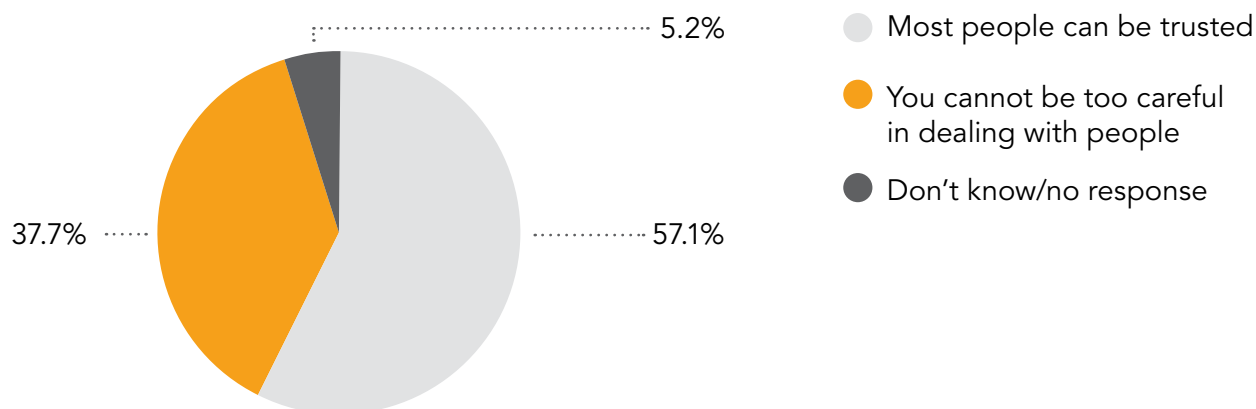
If Toronto is to be a city where people can use hard work and determination to overcome the circumstances that are beyond their control, people need to believe that the system will work for them. We therefore need to address the underlying causes of this pessimism or risk it tainting the outlook of an entire generation and decreasing the willingness of residents to work together for our shared prosperity.

Growing income inequality presents challenges for our city, but the news is not all bad. There are reasons to be hopeful that our city has the tools it needs to change course and ensure a bright future for the next generation. In this section, we present encouraging findings that mean change is possible.

## 6.2 Despite growing pessimism, trust is still high among respondents

Despite growing pessimism, trust is still strong in our city. More than half (57%) of respondents believe that most people can be trusted. Canadians are generally trusting, more so than people in other countries. In 2012, 55% of Canadians believed that, generally speaking, people could be trusted.<sup>99</sup> This was virtually unchanged from results in 2003, when 56% of Canadians felt that most people could be trusted.<sup>100</sup> Trust levels are often found to be lower in cities.<sup>101</sup> Therefore, it is very encouraging to see that even in the largest city in Canada, where income inequality has grown the most over the last three decades, levels of trust are high and on par with levels seen nationally.

**Figure 18: Despite high levels of income inequality, trust among Torontonians remains strong.**

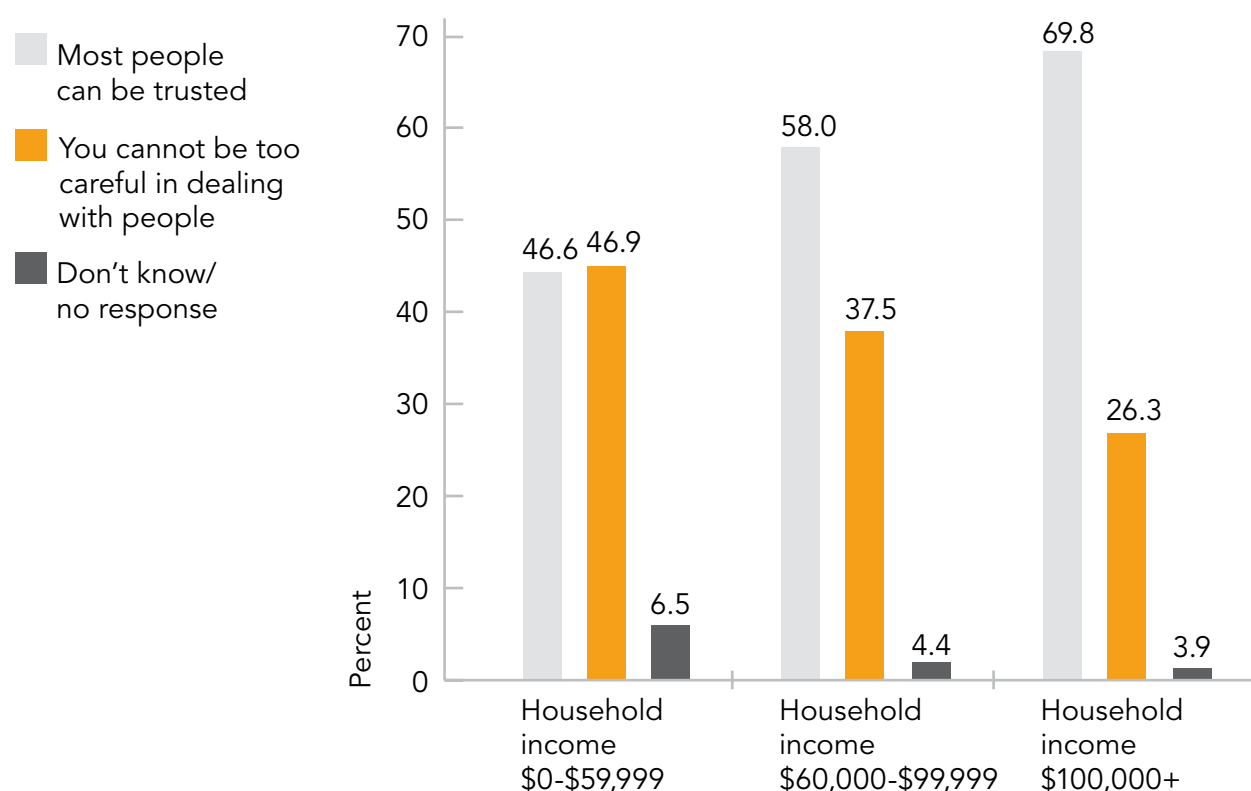


Data source: EKOS-UWT Survey 2014. Survey question: Generally speaking, would you say that most people in this city can be trusted, or that you cannot be too careful in dealing with people? N=2684

Higher-income respondents are more likely to say that most people can be trusted than are lower-income respondents. Trust levels are correlated with income in countries around the world.<sup>102</sup> Researchers believe this reflects a rational aversion to risk—those with less income are less trusting because they have fewer resources to help them recover should their trust be misplaced.<sup>103</sup>

However, it is a positive sign for Toronto that even among lower-income respondents, trust levels are relatively high, with close to half feeling that most people can be trusted.

**Figure 19: Among lower-income households, trust remains high.**



Data source: EKOS-UWT Survey 2014. Survey question: Generally speaking, would you say that most people in this city can be trusted, or that you cannot be too careful in dealing with people? N=2684 (NB: Values may not add up to 100 due to rounding.)

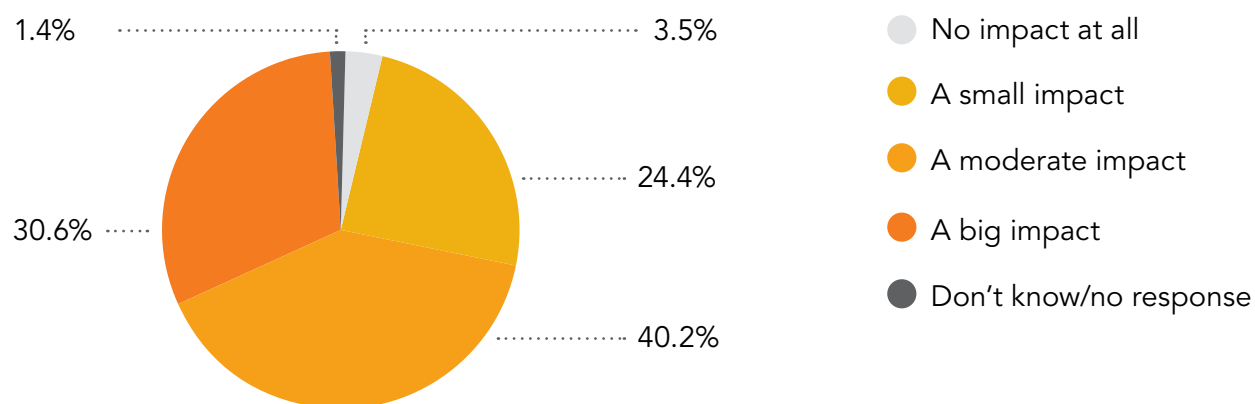
In situations of economic uncertainty and in societies that are made up of diverse communities facing complex challenges, optimism and trust help build relationships of cooperation that are essential for building effective solutions to complex problems.<sup>104</sup> Trusting relationships between neighbours, businesses, service agencies, and governments can help improve social and economic

circumstances by leveraging resources toward common goals. Finding high levels of trust indicates that the level of pessimism in Toronto about future generations and opportunity has not had an adverse impact on trust as of yet. While this is not a reason to be complacent, it is a reason to be hopeful.

### 6.3 Most people feel they can make their communities better places to live

In addition to high levels of social trust amongst respondents, we are encouraged by the widespread belief that people feel they can make a positive impact on their communities. Seventy-one percent believe they can have a moderate or big impact on making their community a better place to live. These findings are an important indicator of self-efficacy, the belief that actions can lead to a desired outcome.<sup>105</sup> If a person believes their actions will have the desired result, they are more likely to pursue that action.<sup>106</sup>

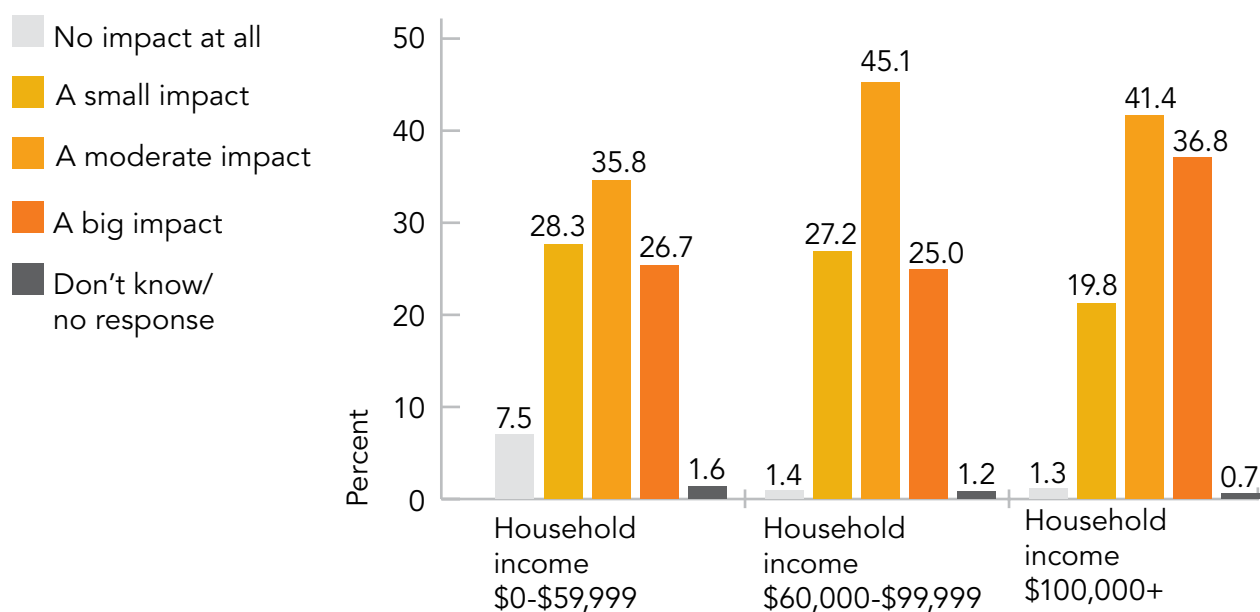
**Figure 20: 95% of people believe they can make a difference where they live.**



Data source: EKOS-UWT Survey 2014. Survey questions: Overall, how much impact do you think people like you can have in making your community a better place to live? N=2684 (NB: Values may not add up to 100 due to rounding.)

When we looked at how this belief that people can make a positive impact on their communities broke down by respondents' household income, we see that higher-income respondents are more likely to think they can have a moderate or big impact—while lower-income respondents are more likely to feel as though they have a small impact or no impact at all. But even among lower-income households, more than half believe they can have a moderate or big impact on making their communities a better place to live.

**Figure 21: More than half of lower-income households believe they can have an impact.**



Data source: EKOS-UWT Survey 2014. Survey question: Overall, how much impact do you think people like you can have in making your community a better place to live? N=2684 (NB: Values may not add up to 100 due to rounding.)

*“I would say I am optimistic that things will be better if we make the right choices now—if we invest in people now, make the right political [and] economic decisions.”*

— Interview respondent.

Feelings of self-efficacy are an important precursor to taking positive action. In order for people to come together to take action on the challenges identified in this report, they need to believe that their actions will result in the outcomes they desire. Similar to its impact on trust, the level of pessimism for the next generation and for access to opportunities does not appear to have had an adverse effect on feelings of self-efficacy as of yet.

High levels of trust and self-efficacy are key tools that demonstrate a willingness to work on issues that challenge our city. Through United Way's work with the Building Strong Neighbourhoods Strategy, we know that trust between residents and the belief that one can make a difference are key ingredients to developing local solutions to shared challenges. United Way initiatives like Action for Neighbourhood Change and Tower Neighbourhood Renewal have demonstrated the impact that people can have when they come together with a common goal.

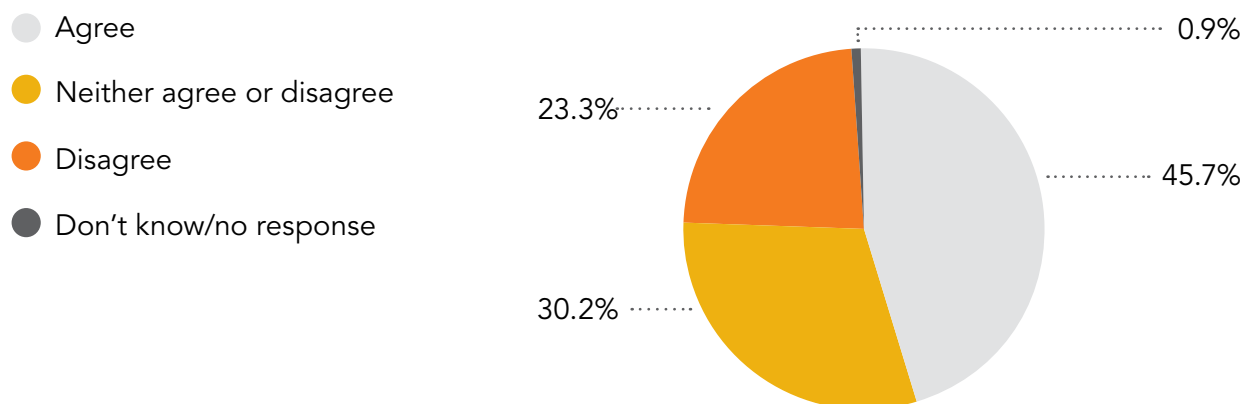
The trends highlighted in this section indicate that Toronto has some of the important tools it needs to take positive action on the challenges highlighted earlier in the report. This is good news. But trust and self-efficacy are just drivers of action, they do not indicate in which direction we should go or how we should get there. Opportunity is a complex picture with many possible directions for improvement and many different ways to travel. Where should we concentrate our improvement efforts and who needs to be at the table? We know that the availability of opportunities is changing, but we also know that there are many structural barriers that impact a person's ability to benefit from those opportunities. Respondents confirmed that effort is only one part of the equation—pointing us toward a need for thoughtful consideration of the structural components of opportunity that need to be addressed and who should be at the table for this conversation.

## 6.4 Respondents are likely to think government is a positive force in their lives

Through their management of public resources and establishment of public policy, all levels of government in Canada have an influence on our day-to-day lives. For example, the federal government is responsible for certain taxes and regulating immigration, while provincial governments oversee health care and education, and municipal governments are responsible for things like waste collection and public transit. No one in Canada is completely untouched by the role of government.

But opinion varies on whether this influence is largely positive or negative. Replicating a question EKOS has tracked over time, we asked to what degree respondents felt government was a positive force in their life. This question attempts to approximate trust in government and the belief that government has a role to play in making people's lives better.

**Figure 22: 46% believe that government has a positive role in their lives.**



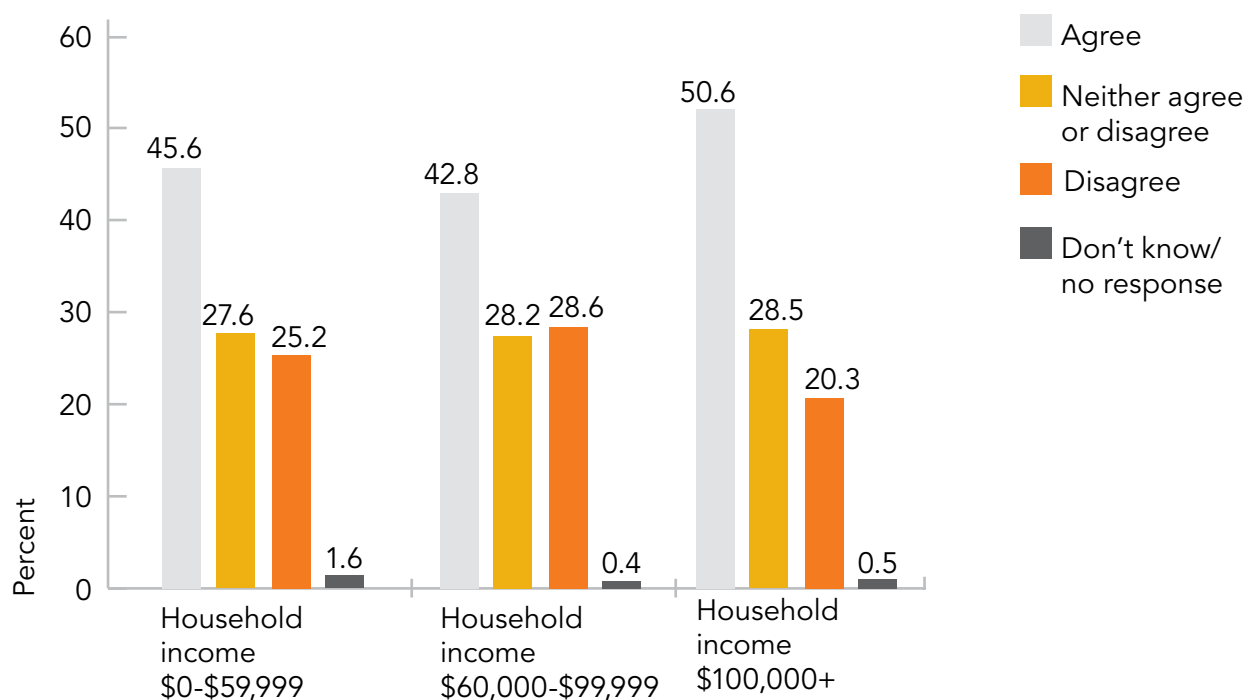
Data source: EKOS-UWT Survey 2014. Survey question: All in all, government is a positive force in my life. N=2684 (NB: Values may not add up to 100 due to rounding.)



Survey respondents in Toronto are more positive about the role of government in their lives than are Canadians generally. Forty-six percent of respondents feel government is a positive force in their lives while 23% disagree. Thirty percent of respondents neither agree nor disagree with this statement. This is in contrast to only 29% of Canadians agreeing that government was a positive force in their lives in 2005<sup>107</sup> and 33% agreeing ten years earlier, when EKOS first began to ask this question.<sup>108</sup>

There were only small differences between respondents from lower-income households and higher-income households on this question. Fifty-one percent of respondents from higher-income households feel government is a positive force in their life, while 46% of lower-income households feel this way.

**Figure 23: Across income levels most believe government has a positive role to play.**



Data source: EKOS-UWT Survey 2014. Survey question: All in all, government is a positive force in my life. N=2684 (NB: Values may not add up to 100 due to rounding.)

*“Right now things have to change. Everything is there to make it possible if only it gets acted on.”*

— Interview respondent.

## 6.5 Reflecting on our findings

In addition to trust in each other and the belief that we can make a difference in our communities, the number of us who feel government is a positive influence in our lives is an important asset that can be leveraged to make change. It is another signal that our shared beliefs are stronger than our differences. This confidence indicates a belief that people look to government as an important stakeholder with a role to play in their lives and that any efforts to improve access to opportunity need to have government at the table.

However, government is not the only one with a role to play. Survey respondents identified factors that contributed to them being where they are today, which showed that there are a diversity of influences on where we get to in life and a variety of players that should be involved in any efforts to improve opportunity. As noted at the beginning of this report, we know there are many different kinds of opportunities that are important to material, social, and psychological well-being. Respondents cited the importance of education, with 57% of respondents identifying it as one of the top three factors in where they are today. Other popular responses included health (35%), job quality (33%), and social networks and connections (26%). In addition to government, these areas of focus would require the involvement of a number of players, such as the private sector, labour, community organizations, and educational institutions, just to name a few. Although government is a key partner, this highlights the need for everyone to come together to build opportunity.

# 7 Building Opportunity: A Blueprint for Action



## A Blueprint for Action

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The growth of income inequality is a concern because it is affecting access to opportunities for residents in our city. Our research reveals that Torontonians are anxious about the future and fear the next generation will be worse off. While opportunities to succeed do exist in Toronto, most people think a person's background—like their gender, race and family income growing up—influence who can access these opportunities.

But a grim future where opportunity is out of reach for many is not inevitable. We can harness the assets we possess to choose a better path for ourselves and for future generations. To interrupt the reinforcing cycle of income inequality and unequal access to opportunity described in this report, we need to be conscious of and act on a diversity of actions that can build well-being for all.

The opportunity challenges facing Toronto are the result of global and local changes in policy, the economy, the labour market, and societal attitudes. These changes have evolved over decades. Addressing their impacts to build more positive outcomes will require a long-term agenda, based on shared goals, that has the support of every sector. We need to start by taking specific actions now that address current challenges, identify specific areas where we can make commitments for the longer-term, and start to build momentum for change.

### Priorities for action

With *The Opportunity Equation* we are issuing a call to action to mobilize every sector to work together in contributing to policies and initiatives that can reduce, slow the growth of, and mitigate the impact of income inequality. The following blueprint for making progress on access to opportunity outlines three goals along with eight priorities for action that will help us achieve these goals. These goals are:

- Ensuring that young people have the opportunities they need to build a good future,
- Promoting jobs as a pathway to stability and security, and
- Removing barriers to opportunity based on background and circumstances.

Growing inequality of opportunity is based on issues that are complex, and cut across all sectors of our society. That's why taking action will require everyone to step up and do their part. Governments and community groups, labour and the private sector—we all have a stake in this issue and a role to play in building a future of hope, opportunity, and fairness. In all priority areas, success will depend on the willingness of sectors to play a role, outline a case for action, and rally support. United Way Toronto is committed to doing its part to work with key stakeholders on each goal to help implement this blueprint.

**Goal 1: Ensuring young people have the opportunities they need to build a good future.**

Almost 80% of people in Toronto believe the next generation will not be better off than the current generation. That may be due in part to the fact that the youth unemployment rate in our city is currently at a very troubling 22%. Many young people who do find work become stuck in a cycle of short-term jobs with no future. The labour market must be rebalanced so that opportunities pay off—especially for young people.

**a) Mobilize partnerships for youth success:**

Rebalancing the labour market requires partnerships between sectors to enable youth success in education and employment, especially youth facing multiple barriers. There are a growing number of examples of these partnerships occurring across the city, Province and the community sector. United Way Toronto will be doing its part by launching a Youth Success Strategy this spring focused on achieving four outcomes that can mobilize our partners for concrete action: increasing applications to post secondary education among under-represented youth; developing access to work-relevant networks for these youth; increasing access to experiences that build employer-recognized soft skills; and, increasing access to meaningful career opportunities for high school graduates.

**b) Open doors to opportunity through education and training throughout the life cycle:**

A fast changing economy requires a highly educated labour force that has all the necessary soft skills, including leadership,

team work and resilience. However, many people do not have access to high quality education and training throughout life due to cost and eligibility, among other factors. A natural place to begin improving access is during the early stages of life by providing quality, accessible, affordable, and flexible early learning and child care that give children a head start. Schools and post-secondary institutions need to build on this foundation by ensuring that all people can get an education that sets them up for success. Finally, employers and policymakers need to reinvest in training through a more coordinated and responsive workforce development strategy.

## **Goal 2: Promoting jobs as a pathway to stability and security.**

Nearly 75% of people in Toronto believe hard work and determination do not guarantee success. Perhaps that is not surprising at a time when the labour market is separating into high-income jobs and low-income service jobs—while middle-income jobs are declining. And today's reality is that having a job—even a well-paying one—is not sufficient to build a pathway to success and stability. This has to change. To address the negative effects of income inequality, we need to ensure that a person's effort and determination can help them build a better life.

- a) **Leverage economic development for community benefit:**  
Infrastructure is being built in Toronto that cuts across some of our most disadvantaged neighbourhoods. Leveraging these major investments to deliver not only significant financial and economic gains, but also community benefits should be top of mind among all partners. One example of leveraging this kind of public investment is United Way Toronto's recently established partnership with Metrolinx, labour, community groups, the Ministry of Training, Colleges and Universities, the City of Toronto and other foundations, which has led to Canada's first-ever Community Benefits Framework. This project is working to connect residents from Toronto's priority neighbourhoods to good job opportunities emerging out of the Eglinton Crosstown construction and maintenance. This framework is a key example of how multiple sectors can scale up and expand effective policies.

**b) Ensure fairness for all workers:**

The number of precarious jobs is growing in our economy and impacting people's lives in and out of work. The Province has made a welcome commitment to review Ontario's system of employment and labour standards, including the impact of a changing economy on the growing number of precarious workers. Moving forward on this commitment early in 2015 would represent a major opportunity to engage workers, labour, employers, experts and policy makers to bring workplace regulations and policies in line with the rapidly changing realities of today's labour market.

**c) Build new tools to help promote quality jobs:**

There is a lack of available data that can tell us about the health of our labour market on an ongoing basis. This compromises the ability of governments, employers, educational institutions and community agencies to make good evidence-based policy decisions. The Federal and Provincial governments need to collaborate to build an effective Labour Market Information system. And municipal governments can play a constructive role as well. The development of a new Job Quality Index at the city level, which could help identify changes and inform policy and program decisions, would add a new dimension for actionable knowledge. Another step would be to continue the process of engaging employers, as United Way Toronto has done through partnerships with KPMG and the Toronto Region Board of Trade. This could help employers understand the impacts of their employment decisions and practices on both their bottom lines and their workforces.

**Goal 3: Removing barriers to opportunity based on background and circumstances.**

Toronto is a prosperous place, but too many people are shut out of this prosperity because of circumstances beyond their control—like family income, their neighbourhood, or their background. Hard work alone is not enough to overcome these barriers. To ensure everyone has a fair chance to build a good future we need to create a truly level playing field. Effort and merit should matter more than circumstances. A person's background and postal code should not limit their ability to realize their full potential.

**a) Ensure that every neighbourhood is strong and vibrant:**

Working with the City, Province, donors and communities, United Way Toronto has made great progress on the Building Strong Neighbourhoods Strategy (BSNS) launched in 2006. United Way Toronto is currently renewing this strategy using new data, lessons learned, and emerging needs to chart the course to ensure every resident in every neighbourhood has the opportunity to succeed, no matter where they live. In addition, the City of Toronto has already made a commitment to keep investment and action in the inner suburbs through 2020. A cross-sectoral commitment to finding ways to ensure that transit is affordable and accessible for all neighbourhoods would strengthen these strategies even more.

**b) Make poverty reduction a priority at all levels:**

Poverty reduction strategies are critical in framing action on good jobs and investment in income security initiatives and community programs that build economic stability and security. The Province has just released its second five-year poverty reduction strategy with a comprehensive focus on reducing child and family poverty, promoting job opportunities and eliminating homelessness. The City of Toronto is currently developing its first-ever poverty reduction strategy. One of the strongest statements about our commitment to opportunity would be to ensure that every level of government—municipal, provincial, and federal—for the first time ever, jointly make poverty reduction their priority starting in 2015.

**c) Make housing affordability a foundation for opportunity:**

Securing a stable, safe place to live is a crucial springboard for building a better life. But it is widely acknowledged that the Toronto region suffers from a lack of affordable rental units and home-ownership options. The high cost of housing can be a significant financial strain for low- and middle-income families—it can mean that households have less money to spend on necessities such as food—and it exacerbates the effects of income inequality. Governments, working in tandem with the private sector, non profits and community organizations, must make affordable housing and neighbourhood revitalization a priority. A national housing strategy remains an urgent need.



In the weeks and months following the release of this report, we will be engaging every sector to take concrete actions. As a starting point, United Way Toronto has introduced this blueprint for progress on access to opportunity to help shape partnerships and build momentum on this issue. We believe that a commitment to these goals is shared across all sectors and therefore offers a solid foundation for joint action.

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### **Conclusion: The need to move forward together**

The findings of *The Opportunity Equation* call for immediate action to address the growing issue of income inequality in Toronto. It is clear that if we do nothing we not only risk the long-term health and prosperity of the city, but also jeopardize the social fabric that ties Torontonians together.

Addressing income inequality is critical to our shared well-being. Equity, inclusion and access are basic building blocks for a strong, vibrant city. Working together we must ensure that everyone is at their best and can access the opportunities they need to have a successful life—for the sake of our city, and for all Torontonians.

Ensuring that this issue is a top priority and working together to fix the opportunity equation will ensure we have a united Toronto for today, and for the future.

## Appendix A: Methods

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This project used several different methods to examine the complex issue of growing income inequality and its impact on access to opportunity.

1. Analysis of income inequality profile: this analysis included the development of a profile of income inequality in the city of Toronto using quantitative data. The purpose of this analysis was to assess levels and trends of income inequality over time.
2. Analysis of public and private policy environment: this analysis included environmental scans of the public and private policy environment using literature from research institutes, universities, think tanks, government, media, and the private sector. The purpose of this analysis was to understand the main factors that have contributed to the current portrait of income inequality.
3. Analysis of public opinion survey and follow-up telephone interviews: this included the development and analysis of a public opinion survey focusing on the city of Toronto. The purpose of this survey was to get a detailed exploration of Torontonians' perceptions and experiences about income inequality and access to opportunity in their city. The survey was followed up with a series of telephone interviews with a sample of the survey respondents.

Each method is described in more detail below.

### A.1 Analysis of income inequality profile

This component of the project focused on documenting, for the first time, levels and trends in income inequality in the city of Toronto using reliable data which is not publicly available. The work in this area was conducted in collaboration with the Neighbourhood Change Research Partnership (NCRP) at the University of Toronto. Access to micro data was obtained through the Research Data Center (RDC) Program of Research, a joint initiative for large projects between Statistics Canada, the Social Sciences and Humanities Research Council (SSHRC) and the Canadian Institutes of Health Research. Non-geographic (among households and individuals) analyses were conducted at the Toronto Region RDC and followed the Statistics Canada vetting rules.

## Data sources

This study used 1980–2005 Census and 2010 NHS micro data for calculating inequality among households and individuals. Census microfiles provide the most reliable data for analyzing income inequality in Canadian cities in spite of its lack of information on taxes prior to 2006. The almost complete population coverage and very large sample sizes allow for more detailed and robust analyses at smaller geographic scales which is the focus of this study. In contrast, the data source most widely used to characterize inequality in Canada and also used in international comparisons—the combination of the Survey of Consumer Finances (SCF) up to 1996 and the Survey of Labour and Income Dynamics (SLID) since 1996—has far smaller samples and raises issues of non-response specific to voluntary surveys.<sup>109</sup>

2010 NHS data were not included in trend analysis but reported separately. This is because NHS data is not comparable to previous releases using the long-form census because a different methodology was used and a different target population reached.

2010 CRA data and 1980–2005 Census data aggregated at census tract level were used for calculating neighbourhood inequality. Custom tabulations were provided by the NCRP.

## Inequality measure

The Gini coefficient was used to measure income inequality. It is the most accurate measure as it meets all the criteria for valid measures of inequality. Income inequality at the city scale was measured at two levels:

- Non-geographic income inequality: income difference among individuals, families, or households within the city boundary, in other words, respondents as a whole. Where individuals, families, or households live is not taken into account, except as a general identifier.
- Geographic income inequality: income difference among neighbourhoods where individuals, families, or households live. The specific neighbourhoods where individuals, families, or households live are being compared.

Non-geographic measures of inequality capture the general social distribution of income in the city, without saying anything about how income is distributed across space. Geographic measures, on the other hand, combine two types of information. First, they provide information on the extent to which households are geographically concentrated and segregated by income in the city. Second, they also reflect the rising income gap among households in the city as a whole. In other words, they partially reflect those changes captured by non-geographic measures. For this reason, it is appropriate to speak of socio-spatial inequality when assessing the geographic income change.

Trends of income inequality at both geographic and non-geographic levels were also compared to trends across Ontario, Canada and three other similar cities: Calgary, Montreal, and Vancouver.

By considering both levels of analysis, this project accomplishes two things. First, it provides a comprehensive picture of the city's income inequality. Second, it fills a gap in the research on urban income inequality. This gap often occurs because there is a lack of access to microdata at small geographies.

### **Income measure and income units**

This study uses total income for Gini calculations. Total income, also called before-tax (but after transfer) income, includes market income plus government transfers. It is the only measure available in the Census that allows for comparisons over time. Prior to 2006, the Census did not collect information on taxes paid. There is no ideal measure of income for the purposes of measuring inequality. While the after-tax measure is preferable, the choice of income definition is somewhat dependant on the availability of data. The main focus of this study is trends over time, which are not affected by the income type. Absolute values of inequality change but the overall trend lines do not change very much.

Households and individuals have been used as income reporting units. They are key variables for understanding inequality, since they link one's position within the productive system to the ability to consume.

## **Neighbourhoods**

We define neighborhoods by census tracts (CTs) as in most small area research. Census tracts are small geographic units created by Statistics Canada whose boundaries follow main transportation routes, waterways, and other environmental features such as parks. They typically contain between 2,000 and 8,000 people.

Over the time period studied, we used the CT boundaries as they existed in each year. We recognize that the number of CTs in a city can change over time, mainly through the addition of new tracts which might affect neighbourhood inequality slightly. However, most of the CTs remained longitudinally consistent. Furthermore, using the CT boundaries as they existed each year reflected the actual situation in that given year. Also, the alternative of using a set of fixed CT boundaries would mean applying assumptions of average income to those CTs that split over time or excluding those CTs, which reduces the amount of information in the system of the city's CTs.

## **A.2 Analysis of public and private policy environment**

A comprehensive literature review was conducted to lay out the complex web of factors that contributed to rising income inequality in Toronto on the national and provincial levels. The review used information from think tanks, research institutes, universities, the media, governments and the private sector. Over 450 articles were used for this review, and every effort was made to incorporate a wide variety of perspectives and affiliations.

## **A.3 Analysis of public opinion survey and follow-up phone interviews**

This component of the project was developed in collaboration with EKOS Research Associates. A survey was designed by a team of EKOS and United Way Toronto researchers, with additional methodological oversight from a technical advisory committee made up of experts in the field. The purpose of the survey was to ascertain Torontonians' views on a variety of issues related to income inequality and access to opportunity.

The survey instrument was randomly pretested with 15 respondents and employed three coordinated methods of contacting respondents.

First, once pretesting was complete, an email invitation was sent to all Toronto members of the EKOS probability panel to complete the survey online. EKOS maintains a large probability panel (Probit) which is unique in Canada by virtue of having complete coverage of both off and online respondents and using random selection to the panel with known probabilities by telephone methods. The EKOS probability panel was assembled via a random digit dialing (RDD) process from a dual landline and cell phone frame and, unlike convenience or opt-in panels, it supports margin of error estimates.

Second, interactive voice response (IVR) was used to solicit participation online or via live operator, computer assisted telephone interviewing (CATI). These additional samples also used RDD methods and were designed to augment the sample in order to ensure a larger sample size, particularly from some difficult to reach respondent groups such as youth. Additional pretesting was conducted for the CATI version of the survey and minor wording modifications were made.

In total, 2,684 surveys were completed, with 1,234 surveys completed online and 1,450 completed through CATI. The margin of error for a sample of this size is +/- 1.89, 19 times out of 20. Online surveys were completed between April and May 2014 with additional live operator interviews conducted between June and July, 2014. Average survey length was 19.16 minutes.

The combined sample for this survey has been weighted by age, gender, and education using advanced statistical software. The sample is representative of the City of Toronto population but the reader should note that groups with low proportions of members who speak English or French and some hard to reach ethnic populations are less well represented.

Third, a series of follow-up phone interviews were conducted with those respondents who indicated a desire to take part in more in-depth interviews when they completed the survey. These interviews were semi-structured and open-ended in nature, with questions exploring feelings of well-being relative to past generations, expectations about future generations, opinions about income inequality, and the role of hard work and determination in determining success. There were 23 interviews conducted between July and August, 2014.

## Appendix B: Detailed analysis of why income inequality has grown

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Section 2.4 included a high-level discussion of the factors that have impacted income inequality. This appendix will explain how these factors have affected income inequality in greater depth.\* Many of these factors occur at the global, national, and provincial level. However, their impacts are often felt more intensely in cities such as Toronto. Under the Canadian constitution, municipal governments fall under the jurisdiction of the provinces in which they are located,<sup>110</sup> and are therefore subject to decisions made at the provincial level. In addition, some processes that occur at the global, national, and provincial level can have more acute impacts at the city level. For example, immigrants are much more concentrated in cities such as Toronto, and the impact of immigration on income inequality therefore has a more pronounced effect in Toronto than on the national level.<sup>111</sup> This literature review synthesizes the key factors that have affected income inequality in Canada and Ontario. Where possible, information about impacts in Toronto specifically have been highlighted, and when information is not directly available regarding Toronto, we have hypothesized how these factors may have impacted Toronto.

### B.1 The new global environment

One set of factors that has affected income inequality are changes that have impacted many countries at once. These include economic globalization and technological change, which have vastly changed the way businesses are run and the types of jobs that are created, available, and lost.

**Economic globalization** is a term used to describe the process that has rapidly linked economic activities on a global scale, across countries. While economic globalization began to impact the global economy more intensely, the Canadian government took steps to increase trade and investment between Canada and other countries through free trade agreements and foreign investment protection agreements.<sup>112</sup> One of the most well known examples is the 1994 North American Free Trade Agreement (NAFTA) which more closely linked the economies of Canada, the United States, and Mexico.<sup>113</sup>

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\* For a comprehensive discussion of this material, see Procyk, S. (2014) Understanding income inequality in Canada, 1980-2014. Research Paper 232. Toronto, ON: United Way Toronto and Neighbourhood Change Research Partnership, Factor-Inwentash Faculty of Social Work, University of Toronto.



At the same time, new computer, communications, and transportation technologies emerged, enabling trade and investment to occur rapidly, more easily, and more cheaply between countries.<sup>114</sup> This had a significant impact on jobs in Canada. Many goods and services production jobs such as those in manufacturing were transferred to the United States and developing countries where businesses could pay lower wages.<sup>115</sup> This process, called 'offshoring,'\* meant that many Canadians lost manufacturing jobs.<sup>116</sup> The jobs that became available tended to be in the service industry. While it's certainly a positive sign that more jobs became available, the problem is that many of these jobs tended to be of poorer quality. Whereas manufacturing jobs were likely to be higher paying, unionized and full-time, service jobs are lower paying and more precarious (short-term, contract, part-time).<sup>117</sup> This has been particularly evident in Toronto. While the GDP (a measure of economic growth) of all industries in Toronto grew by 80% between 1997 and 2012, the GDP of manufacturing fell by 16% during the same time period.<sup>118</sup> In addition, a recent jobs forecast report predicts that manufacturing is the sector that will see the most job losses from 2014–2019.<sup>119</sup> The combination of economic globalization and technological change led to important changes that affected the types of jobs available, which then impacted people's ability to earn middle incomes through manufacturing jobs.<sup>120</sup>

**Skill-biased technological change (SBTC)** is a term used to describe the shift to higher skill requirements for jobs, which has often not been accompanied by higher wages. An example of SBTC in action is the case of auto mechanics. Thirty years ago, auto mechanics did not need to understand computers to be able to fix a car, whereas now, this higher skill level is a requirement of the job. In the past, many people believed that SBTC was a key reason why income inequality was growing.<sup>121</sup> However, the evidence does not seem to support this in Canada.<sup>122</sup> If SBTC were having a strong effect on income inequality, then income gains would have been spread more evenly among those with higher skills<sup>123</sup> or those with university educations.\*\* This would also mean that income gains were coming to those with the most skills. Instead, wage growth is most prominent among the top 10% of earners, while the middle and bottom have

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\* Offshoring refers to moving production to another country, while outsourcing refers to moving production outside of the firm (Baldwin and Gu, 2008).

\*\* This is because university education could be a proxy for higher skills.

not experienced this wage growth.<sup>124</sup> Those with university educations have the same economic gain from their investment today as a person in the 1980s.<sup>125</sup> We see that it is very hard to disentangle the effects of globalization and technological change on income inequality.<sup>126</sup> For all of these reasons, the most we can say about how SBTC is affecting income inequality is that the effect is unclear.

## B.2 Macroeconomic and institutional changes

**Macroeconomic changes** are changes that impact the entire Canadian—and therefore Toronto—economy, such as recessions and economic growth. In the 1960s and 1970s, income inequality would grow during recessions and subside during periods of economic growth after recessions.<sup>127</sup> However, during and after the recession of 1981-82, market income inequality\* grew, but after-tax and transfer income inequality did not. This is because economic growth slowed in the 1980s and was not strong enough to bring market income inequality back down after the recession. However, the tax and transfer system was strong enough to compensate for this growth.<sup>128</sup> Again, during the recession of 1990-92, income inequality grew, but this time neither economic growth nor the tax and transfer system were strong enough to bring it back down again.<sup>129</sup> \*\* As a result, after-tax and transfer income inequality grew after the 1990s recession as well. In this case, the factors that used to effectively limit the growth of income inequality after recessions, such as economic growth and the tax and transfer system, became weaker.

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\* Market income inequality is inequality of employment-related income, plus investment income, and private pension income.

\*\* There are several reasons why the growth was different in the 1990s: economic growth slowed in the 1980s and 1990s, the economy grew in the context of globalization and technological change (Beach, Finnie, and Gray, 2006), globalization and technological change led to the reorganization of companies and a web of changes that impacted the type and quality of jobs available (Beach, Finnie, and Gray, 2006), the amount of money redistributed through the tax system fell in the 1990s, and low earners tend to experience more job losses (and therefore earnings losses) than other groups during recessions (Green and Milligan, 2007).

**Institutional changes** are changes made by federal and provincial governments in Canada, including government transfer payments to individuals (transfers) and taxes. The three transfers that have the most impact on income inequality are social assistance, Employment Insurance, and child benefits.<sup>130</sup> Two of these transfers—social assistance and Employment Insurance—have been reduced in the past two decades, which has limited their ability to mitigate income inequality. For example, in the Toronto area, an average of only 23% of unemployed workers were eligible for Employment Insurance in 2008.<sup>131</sup> This was due to the reform of the Employment Insurance system, which resulted in a 59% decline in eligibility for those in Toronto.<sup>132</sup> Child benefits, on the other hand, have grown. There was a 67% growth in the Canada Child Tax Benefit from 1997–2007,<sup>133</sup> the Ontario Child Tax Benefit was introduced in 2007<sup>134</sup> and the federal Universal Child Care Credit was introduced in 2006.<sup>135</sup> \*

However, taxes, which are used to fund government transfers, such as social assistance and social services,<sup>136</sup> \*\* have been reduced in the past three decades.<sup>137</sup> Canadians now pay \$38 billion less in individual income tax and \$19 billion less in sales tax, while corporations pay \$18 billion less in annual taxes, compared with what they paid in 2000.<sup>138</sup>

Transfers and taxes used to offset 70% of the growth in income inequality before the mid-1990s.<sup>139</sup> This means that when income inequality that was generated by the market grew, taxes and transfers reduced this income inequality, and as a result, after-tax and transfer income inequality was 70% lower than market income inequality. This also means that our public policy system was able to have a large impact on income inequality. After the mid-1990s, taxes and transfers only offset 40% of this growth.<sup>140</sup> Since taxes are used to fund transfers that are highly in demand in Toronto, these tax cuts have affected the amount of money available to fund transfers that can be accessed by residents of the city, such as government supports and programs.

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\* Although child benefits have grown, their rates are far from offsetting the full cost of childcare.

\*\* Employment Insurance is funded separately by workers and employers through the payroll system.

### B.3 Labour markets and employment opportunities

**Wages and earnings.** Changes in compensation practices over the past 30 years have led to stagnating incomes at the bottom and middle and rising incomes at the top of the income distribution. This is partly because the wages that are paid to different occupations have been growing further apart.<sup>141</sup> For example, in the Toronto CMA, managers have seen their pay rise while the average income of people in services and construction has fallen.<sup>142</sup> In addition, Canada has the fourth highest incidence of low-paid work among developed countries.<sup>143</sup> \* In Ontario, the minimum wage was frozen between 1995 and 2003, and there were no increases for the cost of living. This also kept wages at the bottom end of the income distribution low. On the other end of the income distribution, the gap between the highest-income Canadians and average Canadians is bigger than before.<sup>144</sup> This is in part because the North American Free Trade Agreement (NAFTA) allows high skilled Canadians to work in the US more easily, and Canadian companies have therefore had to compete with American wages for high-skilled workers.<sup>145</sup> This trend has impacted Toronto in particular, as Toronto is considered the financial centre of Canada and therefore has a high concentration of high earners. This is also in part because stock options are being increasingly offered to Canadians, which give workers the option of purchasing shares in their company. This trend has benefitted high-income earners the most since they are able to afford to purchase more stock options,<sup>146</sup> and only 50% of the income from stock options is taxed.

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\* The OECD defines low-paid work as “share of workers earning less than two-thirds of median earning” and found that about 1 in 5 Canadians were low-paid in 2010 (OECD, 2012).

**Self-employment and precarious work.** In Canada, self-employment has been a key contributor to the growth of income inequality. According to the OECD, it can explain more than one-quarter of the increase in earnings inequality in Canada\* between 1975 and 2010.<sup>147</sup> The reasons for this are unclear. However, this may be the way that self-employment is taxed<sup>148</sup> or it may be that a portion of the self-employed are really those in precarious employment. If the latter is the case, we know that precarious employment has grown by over 50% in the past 20 years<sup>149</sup> and that those in precarious employment in the Greater Toronto and Hamilton Area earn 46% less than their secure counterparts.<sup>150</sup> We also know that self-employment has grown by 50% in the Toronto region between 1998 and 2013.<sup>151</sup> Overall, we know that self-employment is contributing to income inequality, but we are not clear as to why.

**Unions** have played a key role in limiting the growth of income inequality. Unions compress wage structures for their members and can drive up wages for non-unionized businesses in their sectors by raising the competitive wage.<sup>152</sup> Unions have also been able to negotiate pay raises that have been larger than the increases in the cost of living.<sup>153</sup> Beginning in the 1980s and extending through the 2000s, de-unionization, or the loss of unions, has contributed to the growth of income inequality.<sup>154</sup> In Ontario as of 2012, the unionization rate was 28% for the province.<sup>155</sup> This de-unionization has an impact on Toronto as it limited the middle-income jobs available.

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\* Earnings inequality is inequality of wages, salaries, and self-employment income.

## B.4 The demographic composition of the labour force

The type of people who make up the workforce can affect income inequality. It is not the characteristics of the individuals in and of themselves that make a difference, but how these characteristics are treated within the labour market. For example, there is nothing inherent about being an immigrant that increases income inequality. Instead, how immigrants are treated in the labour market will impact income inequality.

**Family composition.** There has been an increase in the number of lone-parent families and single people,<sup>156</sup> which has contributed to the growth in income inequality.<sup>157</sup> In Toronto in 2011, one in five families was a lone-parent family and almost half of individuals were single.<sup>158</sup> Another element of family composition is assortative mating. This term refers to an increased tendency of educated people with higher earnings' potential to partner with one another. It has been found to be a small contributor to the increase in income inequality.<sup>159</sup>

**Gender.** A major change to the labour market in the past 30 years has been the increase in female labour force participation. This is important because it can mean a two-earner household instead of a single-earner household and more income for households that are only female-led. In Canada, female labour force participation has tended to limit the growth of earnings inequality.<sup>160</sup> One reason for this may be that the gap between men and women's earnings has begun to close. In 1980, women in Ontario and Canada earned on average 49 cents to the dollar that men earned, which has closed to 67 cents for women in Canada and 68 cents for women in Ontario.<sup>161</sup> However, racialized women in Canada still only earn 56 cents to the dollar a non-racialized\* man earns.<sup>162</sup>

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\* White.

**Visible minority status.\*** It has also been found that the proportion of people in a Canadian metropolitan area with visible minority status (including Aboriginal people) increases earnings inequality, though this effect has decreased over time.<sup>163</sup> This may be due to racialized people having higher unemployment rates,<sup>164</sup> being disproportionately represented in low-wage jobs,<sup>165</sup> or being over-represented in sectors that have experienced job losses.<sup>166</sup> This suggests that direct or indirect discrimination has contributed to increased earnings inequality by impacting the experience of those from racialized groups in the labour market.<sup>167</sup> This is important in a city like Toronto, in which 43% of Toronto's population identified as a visible minority in 2006<sup>168</sup> and 49% identified as visible minorities on the 2011 NHS.

**Immigration.** Approximately half of Toronto's population was born outside of Canada.<sup>169</sup> It does not appear that immigration has affected income inequality in Canada on the national level in the 1980s and 1990s,<sup>170</sup> but the opposite seems to be true for cities such as Toronto, where immigration increases income inequality, especially in the case of newcomers.<sup>171</sup> This is likely because newcomers generally receive lower wages,<sup>172</sup> despite their foreign labour experience<sup>173</sup> and higher credentials compared to the Canadian-born.<sup>174</sup>

**Education.** The economic gain of attaining a university degree has not changed very much over the past three decades, in that relative to someone without a degree, the additional wages that a person earns having a university education has remained mostly unchanged since the early 1980s.<sup>175</sup> The economic gain of attaining a high school diploma, however, has changed. Since the early 1980s, the additional wages that a person could earn with a high school diploma relative to someone without a diploma declined.<sup>176</sup> Only recently has there been economic gain for those with high school diplomas.<sup>177</sup> Thus, despite the

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\* "Racialization" describes the process through which certain groups are designated as different and on that basis subjected to differential and unequal treatment. Some authors use the term 'racialized,' while others use the term 'visible minorities,' which is a term used in most data sources. For purposes of consistency with the literature, we are using both the terms 'visible minorities' and 'racialized' to refer to the same groups of people.

more recent narrowing of the wage gap between high school graduates and university graduates, university graduates still earn more than high school graduates, a trend that has contributed to the growth in income inequality.<sup>178</sup>

## B.5 Factors affecting income inequality indirectly

There is an additional set of factors that indirectly affect income inequality by either limiting or enabling economic mobility. These factors are related to how individuals spend or invest the income they receive. Generally, what we see is that rising costs have put downward pressure on the income of people in the middle and lower end of the income distribution—hampering their economic mobility.

**Rising costs of living.** Currently, many goods and services that were previously paid for by the government or by employers must now be paid for by individuals. For example, over the past 20 years, there has been a decline in pension plan coverage<sup>179</sup>—less than 10% of workers in precarious employment in the Greater Toronto and Hamilton Area were receiving health and pension benefits in 2011.<sup>180</sup> In addition, the costs of post-secondary education are also being increasingly downloaded. In 1976, government revenue was used to fund 80% of operations, compared to 58% in 2004.<sup>181</sup> At the same time, the costs for necessities such as food and housing, have been rising. The cost of food in Ontario has been rising faster than the cost of living, especially since 2005.<sup>182</sup> In Toronto, the cost of rental housing has been exceeding the median income of renters, most notably since 1990.<sup>183</sup> Home owners have also seen housing costs rise faster than their incomes.<sup>184</sup>

Another set of costs that individuals now have to bear more often than in the past relate to programs and services that enable people to participate in the labour force or get a better job. For example, as female labour force participation has increased,



the demand for childcare has risen as well. In 2012 in Ontario, childcare fees ranged from a median of \$835 for pre-school aged children to a median of \$1,152 a month for infants.<sup>185</sup> Childcare funding through the province has increased, but is insufficient as regulated childcare services in Canada only covers 20% of children five years and under.<sup>186</sup>

**Changes in wealth.** Another area of spending is money that is put aside for savings, investments, and liabilities. Wealth\* contributes to economic mobility and its effects can aggravate or reinforce income inequality. In 1984, the top 10% of families and unattached individuals owned 52% of the wealth in Canada, and by 2005 this grew to 58%.<sup>187</sup> There are several factors that have contributed to the growth in wealth inequality:

- **Aging of the population:** As people age, they tend to accumulate more assets. We also know that the number of seniors is rising.<sup>188</sup>
- **Interest rates:** Before 2000, interest rates were high, which allowed families with existing sources of wealth to benefit from compound growth on their assets, while families with debt experienced more difficulty.<sup>189</sup>
- **Registered savings instruments:** As of 1999, the top 20% of the income distribution owned 72% of all RRSPs and other registered savings instruments, 95% of stocks outside of RRSPs, and 81% of mutual and investment funds.<sup>190</sup>
- **Stock market and housing booms:** These booms contributed to wealth inequality in the 1990s and 2000s as those with more money to invest benefit more from stock market and housing booms.<sup>191</sup>

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\* Wealth, or net worth, is defined as: (1) Financial assets, such as pensions, stocks, and savings accounts; plus (2) non-financial assets, such as homes, and vehicles; minus (3) liabilities, such as mortgages, credit card debts, and educational loans (Jantti, Sierminska, and Smeeding, 2008).

- **Liabilities and debts:** The top 80% of the income distribution tend to incur debts with lower interest rates such as mortgages, while the bottom 20% tends to incur more debts with higher interest rates such as credit card debt.<sup>192</sup>
- **Student debt from post-secondary loans:** Increased debt loads in the 1980s and 1990s likely led to decreases in the real median wealth of these students as they grew older.<sup>193</sup>

## B.6 Summary

There are many factors that have contributed to the growth of income inequality, which fall broadly into two categories. The first is a weakening of the levers that in the past have helped limit or compensate for the growth of income inequality: a reduction in the effectiveness of minimum wages, loss of unions, declining number of manufacturing jobs, and reduced taxes and transfers. The second are factors that have directly contributed to the growth of income inequality: economic globalization, technological change, changes in compensation practices, growth of self-employment and precarious work, and changes in the demographic composition of the labour force. There have also been indirect factors, such as rising costs and wealth inequality that have affected income inequality. Together, these factors changes have contributed to stagnating income for those at the bottom and middle of the income distribution and fostered a rise in income for those at the top.

## Appendix C: Glossary of Terms

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### **Gini coefficient**

This is the most accurate measure of income inequality as it meets all the criteria for valid measures of inequality. It measures the extent to which the distribution of income among individuals, families, households, or neighbourhoods within a region or country, deviates from an absolutely equal distribution. It varies between 0 – where every individual, family, household, or neighbourhood receives the same amount of income, and 1 – where one individual, family, household, or neighbourhood receives all the income and everyone else receives no income at all. The Gini coefficient is more sensitive to changes in the middle part of the income distribution.

An intuitive way of understanding the Gini coefficient is that it represents the share of total income that would need to be redistributed to achieve perfect equality. For example, in 2013, the after-tax Gini coefficient for all families was 0.32, which means that 32 percent of Canada's after-tax income would need to be redistributed among families to have each family ending up with the same income.

### **Income polarization**

Income inequality is often confused with income polarization. Polarization, not inequality, refers to the gap between the lowest and highest income groups in a given location and whether this gap is increasing or decreasing. In contrast, income inequality looks at how income is distributed across the entire population.

### **Types of income inequality**

- Employment-related inequality: inequality of wages only or earnings inequality (inequality of wages, plus salaries and self-employment income)
- Market income inequality: inequality of employment-related income, plus investment and private pension income
- Before-tax (but after transfer) income inequality: inequality of market income plus government transfers, also referred to as total income inequality
- After-tax income inequality: inequality of all forms of income, plus transfers and minus taxes, also referred to as disposable income inequality

Each measure shows us a different facet of the full picture of income inequality. Measures of employment-related inequality tell us whether changes in income inequality\* are coming from the labour market. Market inequality measures tell us whether changes in income inequality are being generated from the economy as a whole. After-tax measures tell us whether our policy system is keeping pace with the income inequality generated from the economy.

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\* More information on income inequality measures and other considerations to understand research on income inequality are addressed by the working paper “Income Inequality, Income Polarization, and Poverty: How are they different? How are they measured?” (Dinca-Panaiteanu and Walks, 2015)

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