

## **SECTION E: POLICY IMPLICATIONS AND FORECAST FOR THE FUTURE**

One of the defining features of the 1990s was the trend towards widening inequality in Canadian society. It is already well-established by numerous credible studies, that in the affluent countries of the world, individuals and households with lower income and/or lower educational attainment are likely to have poorer health, at every point in the social ladder.

More recently, research has investigated the relationship between income distribution and population health, and shown preliminary evidence that above a certain level of affluence, populations with a more unequal distribution of income have poorer average health status. This pattern is particularly evident and strong in the United States. American states and metropolitan areas with a more unequal distribution of income have higher death rates, even after adjusting for average income. Using some of the same data as American studies, a Canada-U.S. comparison published in the *British Medical Journal* suggested that at least until 1991, Canada enjoyed some protection from the ill effects of income inequality – there was no relationship between income inequality and mortality amongst Canadian provinces or Canadian cities. This report has argued that the Canada's system of income redistribution and endowment of public goods available to all Canadians has likely played a contributory role in protecting us from the health consequences of inequality.

But there is no justification for complacency about Canada's better inequality – health performance. Since 1991, the most recent data we have on income distribution (the U.S. only conducts a census every 10 years), both countries have witnessed widening inequalities in income and wealth. The pattern of widening inequalities seems to be continuing unabated. Moreover, even though aggregate measures of income inequality have not shown an association with average population health, within Canada there still exists an underlying individual socio-economic gradient in health, with individuals of lower socio-economic status experiencing poorer health, at all levels of the social ladder. It follows that while aggregate inequality measures may not show an association with average population health, the health of low-income Canadians is clearly undermined by their poor socio-economic status. It has been argued in this report that widening inequalities in Canadian

society may have already produced adverse health consequences for Canadians, as well as substantial economic costs. Moreover, failure to reverse current trends may impose further health and economic costs. These health and economic costs affect not only marginal groups in society - they have implications for us all.

If current trends are projected into the future, without corrective action, it is likely that the following dimensions of inequality will persist or worsen in the coming years:

- inequalities in income and wealth will widen
- residential segregation by income will worsen
- there will be an under-investment in public goods and human capital, and existing public goods will diminish in quality or become less accessible to the least well-off in society
- the efficiencies created by universal health care and education will be undermined
- in the name of cutting personal income taxes, regressive sources of revenue, such as user fees, premiums, and consumption taxes (e.g., sales taxes) will form a greater proportion of government revenues
- municipal downloading and amalgamation, coupled with Provincial government spending cutbacks will undermine public goods and increase inequalities

Some of these predictions have already been set in motion. The implementation of federal tax cuts and cuts in several provinces will likely mean that the distribution of income will become more unequal. These effects are layered upon reductions in welfare and unemployment insurance benefits (not to mention restricted eligibility) that were implemented in the 1990s in most jurisdictions. The virtual elimination of government-funded housing construction will put more pressure on the already tight housing market. Rental vacancy rates are dangerously low in major Canadian cities<sup>75</sup> and rental price and

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<sup>75</sup> Hulchanski, D. 2001. *A Tale of Two Canadas: Howowners Getting Richer, Renters Getting Poorer*. <http://www.newsandevents.utoronto.ca/misc/Hulchanski.doc>

starter-home purchase prices are very high relative to entry-level and unskilled wages. This means that low-income households will be out-bid for all but the most marginal housing, which is likely lead to increased segregation and homelessness. The downloading of a very large proportion of responsibility for public goods provision to the municipalities in Ontario has created considerable instability in, and uncertainty about, the province's endowment of public goods, which are believed to have attendant health benefits.

### ***Taxes, Transfers, Inequality and Public Goods***

This report has pointed to a fundamental difference between Canadian and U.S. societies, which may account for some of the difference between the two countries in the relationship between income inequality and population health. In the U.S., not only is the basket of public services available smaller, a larger proportion of public services are funded and delivered by municipal governments, relying on property taxes for revenues. The reliance on property taxes exacerbates inequalities in income between individual households, by helping to sort low-income households into municipal jurisdictions with a poor tax – service ratio, and higher-income households into municipalities with a much better tax – service ratio. The higher income households, after all, are the ones with the wider set of choices about where to live. This process of segregation by income is suspected to have consequences for health, well-being and competency, especially in terms of the development of children into adults.

While inequalities have widened at an alarming rate in the U.S., a similar but somewhat attenuated pattern has been observed in Canada. The reaction of many Canadians to this trend is that widening inequality is an unfortunate but inevitable consequence of our efforts to maintain our competitiveness in the world market. But in health terms, we need to be asking what we will do to stay ahead. What will ethos will guide us? Unlimited growth no matter what the cost, or a balanced approach to growth that includes investments in human capital? This report has shown that economic growth does not *necessarily* come at the

expense of equality of income. There is evidence, in fact, that severe inequality may undermine growth.

What approach do Canadians support? Many would have us believe, in this era of reduced government spending and tax cuts, that Canadians are relinquishing their values and embracing American myths of social mobility. This is simply false. Michael Adams, founder of The Environics Group, and author of two books on Canadian social values, reports that:

“...in spite of the general retreat of governments, most Canadians continue to cling, however tenuously, to the principle of a kinder, gentler society. This stands in stark contrast to the social darwinistic ideology that is dominant in the United States. There is a world where the fittest flourish while others languish.”

“Despite these fundamental differences, there are indications that Canadian politics are replicating some American – or rather, some international trends.”<sup>76</sup>

While Canadians still believe that the quality of our social programs distinguishes us from the United States, a significant proportion of the population has come to question the price we pay for this benefit.

This report has argued that the value of those benefits has been grossly underestimated, allowing tax cuts and spending rollbacks to win favour. Tax cuts will deliver only a very small improvement in disposable incomes for most Canadians, at the expense of continuing crisis in public goods and services. It has been estimated that each Canadian household received, on average, over \$16,000 worth of non-cash public services in 1998.<sup>77</sup> This is more than the total average household disposable income of the poorest fifth of society. Even for middle-class Canadians, these programs make up 25% or more of total consumption. And even the best-off Canadians benefit from knowing that their lifelong

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<sup>76</sup> Adams, M. 1997. *Sex in the Snow: Canadian Social Values at the End of the Millennium*. Viking: Toronto.

<sup>77</sup> Canadian Auto Workers. 2000. *Tax cuts: Why not? A Discussion Paper*.  
<http://www.caw.ca/whatwedo/research/taxcuts.cfm>.

quality of living is depends on more than simply the cash they have in their pockets. This security seems even more valuable given the recent collapse of the high tech market in North America that now sees layoffs instead of the unlimited prosperity that had been predicted. It is already well established in the health sciences literature that unemployment has severe health costs for both individuals and populations.<sup>78</sup> In an analysis of the health costs of the last recession, Trent (1992) estimates that for “every 1% rise in the jobless rate, there is a 2% increase in the number of cardiac deaths, a 3% to 4% growth in infant mortality, a 4% to 5% rise in suicides and homicides, and a 5% to 6% jump in admission to psychiatric hospitals”. McMurtry and Brown (1997) note the association between the low inflation policy of the Bank of Canada in the 1990s and the jobless rate, showing how economic policies may have indirect health impacts.

This report has argued that governments must reinvest in public programs. Failure to do so will come at the expense of Canada’s stock of human capital and its health. By tolerating high levels of chronic poverty, especially child poverty, as well as unemployment and homelessness (all the consequences of widening inequalities), we are unwittingly eroding our stock of human capital, and our advantages in quality of life and health. Reinforcing the effects on human capital, Krahn and others note that in debate over anti-inflationary policy there is a casual attitude towards unemployment – a common casualty of low-inflation policies. The attitude towards unemployment underlying such policies, Krahn argues, usually takes “for granted that the worker will re-enter the labour market in the same state of physical and mental health as when he or she was laid off”.<sup>79</sup> In current economic circumstances, it is widely agreed that human capital is a crucial asset, without which we will be less competitive in the world marketplace.

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<sup>78</sup> D’Arcy, C and Siddique, C. 1985. Health and Unemployment: Findings from a National Survey. *International Journal of Health Services Research*. 15(4):609-635.

Trent, B. 1992. Recession has taken more than an economic toll, physicians report. *CMAJ*. 147(5):741-744, 747-751.

McMurtry, R.Y. and Brown, A.D. 1997. The Bank of Canada as a determinant of health. *Social Indicators Research*. 40:179-187

<sup>79</sup> Krahn, H et al. 1985. The socio-psychological impact of unemployment in Edmonton. *Canadian Journal of Public Health*. 76(2):88-92.

### ***What Government Policies Make a Difference?***

One of the more challenging aspects of taking an approach to the study of health that focuses on questions like ‘What makes some people healthy and others not?’ or ‘What makes some communities healthy and others not?’ is that the policy implications are not confined to government ministries or departments of health. Rather, the analysis in this report, and others like it, have policy implications for numerous policy sectors, at all levels of government. This report has touched upon numerous policies that span all levels of government and a number of policy sectors, arguing in most cases that such policies can be adjusted to pay a health dividend and an economic dividend at the same time. In general, to preserve Canada’s health advantage, it is important that public services work to improve the everyday living conditions of Canadians, especially people who are vulnerable.

But the multi-level, multi-sector nature of the relationship between economic inequality and population health makes it extremely difficult to develop an exhaustive list of the policy implications of this report. Instead, the following policy recommendations take the form of five ‘public policy principles’ that can and should be applied to a wide variety of more specific policies. Some specific policy options are offered as examples under each of the principles.

#### **Recommendation #1: Invest in human capital**

One of the consequences of large disparities in income in the United States, where the public sector offers much less to its citizens, is a systematic under-investment in human capital. This is particularly evident when one considers the elementary and secondary school system. The quality of education available to a given child depends very strongly on the income of that child’s family. On the upper end of the spectrum, a given child’s family may be able to afford private schools, giving them a clear advantage on top of the advantage they already have from living in a high socio-economic status family. But even within the public school system, there is a great deal of variation in the quality of the

schools from school district to school district, mainly due to the fact that a large majority of public school funding comes from local property taxes: wealthy school districts have a high tax base and good schools, poorer school districts have a low tax base and poor schools. Wealthier families are able to buy housing in neighbourhoods with good schools. Indeed, the quality of the schools is a central part of the residential decision-making process in the U.S. Of course it is a factor in Canadians' decision-making too, but the variability in school quality is much smaller in Canada. This means that irrespective of their family income, every child has a relatively equal chance at getting a good elementary and secondary education. Canada is known in the global economy for having a well-educated workforce,<sup>80</sup> and the equity built into the elementary and secondary school system is unquestionably a factor in this.

The strength of Canada's university system is also a competitive advantage on economic and health grounds. An undergraduate education has been relatively accessible to young adults from families across the socio-economic spectrum for a long time, but in recent years that access has been eroded by disinvestment in universities by provincial governments, resulting in unprecedented increases in tuition fees. A greater burden of the cost, therefore, is borne by students themselves, and this has resulted in stifling levels of student debt for many. Not only does this have an impact on those individuals carrying the debt, it also has an impact on the economy, as young people who are starting up their own households are more likely to delay the purchase of consumer durables like automobiles, appliances, etc.

It follows from this point that as inequalities in income widen, and tuition fees rise at a pace that far outstrips inflation, a growing number of individuals have a disincentive to invest in their own human capital. In other words, there are a growing number of people in, for example, the bottom 30% of the income distribution, who are unable to afford the cost of a university education. It is well established by previous research that wide disparities in

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<sup>80</sup> KPMG Consulting. 2002. *Competitive Alternatives: Comparing Business Costs in North American, Europe and Japan*. G-7 2002 Edition. [www.competitivealternatives.com](http://www.competitivealternatives.com)

income provides a disincentive (and larger obstacle) for individuals to invest in their own human capital.

Finally, maybe the wisest investment that could be made in human capital is in children under the age of 5. It is now well established<sup>81</sup> that the period between birth and age 5 is a 'sensitive' period of brain development. The effects of positive stimuli in this period have lifelong developmental, social and health consequences. In other words, this is an opportune time for stimulating children in ways that help them optimize their emotional, social, cognitive, and behavioural development. Yet a vast number of children do not receive adequate or appropriate stimulation in early life. Some examples of policies that would address this issue, include starting elementary school at least one year earlier than the current standard, or the implementation of a national child care plan, accompanied by a massive effort to attract top-notch people to the *profession* of early child care and train them in the most advanced approaches to early child development. Additionally, policies that eased the financial burden on households with young children would be extremely valuable. Research has shown that parental stress is strongly associated with poor parent-child attachment, which is a very strong predictor of a child's future economic, social, emotional and health success.<sup>82</sup>

Investments in human capital are crucially important to the future economic success of this country. It is commonly predicted that there will be a severe shortage of skilled labour in the coming years. This, coupled with the need for as many labour force participants as possible to support pension and health care benefits for the aging baby boomers, underscores the need for investments in human capital in Canada. It is crucial that public policies be developed to deal with these issues immediately, because, for instance, the dividend from investments in early child development, although large, take 20-25 years to fully pay off.

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<sup>81</sup> Keating, D. and Hertzman, C. (eds.) 1999. *Developmental Health and the Wealth of Nations*. New York: Guilford.

## **Recommendation #2: Improve working conditions and reduce unemployment**

It is well-established by research that unemployment, under-employment, job insecurity and workplace stress are major risk factors for poor health. Canada's anti-inflation monetary policy of the 1990s contributed to a high rate of unemployment and over the same period there was an overall decline in real wages, job security and availability of full-time work. Much of this was branded as the need for a more 'flexible' labour force, but this flexibility served to substantially increase job instability and insecurity.<sup>83</sup>

It is common for governments to plead that they are powerless to do much about unemployment (despite celebrating their influence on job creation), yet policies like monetary policy are well-established as influential on unemployment.<sup>84</sup> A number of other policies could go a long way to increasing job security and blunting the effects of labour market instability. The EI (employment insurance) program, for example, has been running a substantial surplus for many years since the tightening of eligibility. It would be perfectly logical to restore benefits to their previous levels and actually pay out benefits to the people who are paying into the system.

A popular public policy platform in recent years has been to 'make work pay'. This principle, however, has been used as the justification for making welfare and social assistance less attractive and liveable, and only indirectly making work pay. Benefits on these programs have been cut by upwards of 20% in some provinces. It's true, therefore, that welfare has become less attractive, but at the same time, so has work. Recent legislation concerning overtime pay in Ontario allows hours to be aggregated over as long as a *four-week* period in the calculation of overtime. In other words, under the previous legislation, once a person exceeded 44 hours in *one* week, any extra hours they worked

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<sup>82</sup> *ibid.*

<sup>83</sup> Wallulis, J. 1998. *The New Insecurity: The End of the Standard Job and Family*. Albany: State University of New York Press.

<sup>84</sup> McMurtry, R.Y. and Brown, A.D. 1997. The Bank of Canada as a determinant of health. *Social Indicators Research*. 40:179-187.

were paid at overtime rate (time-and-a-half), but now it is possible for an averaging agreement of up to 4 weeks to be struck between an employer and its employees. Under a 4-week agreement, only after someone exceeds an *average* of 44 hours per week in a given 4-week period would they be eligible for overtime. This means that someone would only get paid time-and-a-half on the 177<sup>th</sup> hour they work in a 4-week period.<sup>85</sup> Clearly this policy undermines the principle of making work pay.

But there are policies that can be adopted which would make work pay. Minimum wage legislation is an obvious one. Another option is to re-structure the way that employment insurance (EI) and Canada Pension Plan (CPP) premiums are paid. Currently, there is an annual cap on the amount of CPP and EI premiums an individual pays. For CPP, the employee and the employer each contribute 4.7% of earnings to a maximum of \$1,673.20 and the first \$3,500 of income is exempt from premiums. Similarly for EI, employees pay 2.2% of earnings, to a maximum of \$858.00. The maximum ‘insurable’ income for CPP is \$39,100.00 per year and \$39,000.00 for EI. The premiums, therefore, have a proportionately larger impact on the incomes of people earning less than \$39,000 per year, because all earnings in excess of that amount are ‘premium-free’ (people who earn less than \$3,500 annually also go ‘premium-free’). If the exemption was raised (say, by double), this would make the first \$7,000 of work pay more, and the lost revenue could be made up by raising the cap on contributions at the other end of the pay scale.

These are but some examples of how policy could be used to make work pay, reduce unemployment, increase job security, and reduce workplace stress. The report of the Business and Economic Roundtable on Mental Health described in Section D also makes clear the costs of inaction on such issues. Lost productivity due to undiagnosed and untreated mental illness from workplace stress is estimated at \$80 billion (US), more than 8 times the value of the Canadian softwood lumber industry in the U.S. It seems that we may

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<sup>85</sup> The *Employment Standards Act, 2000* (ESA) and its regulations came into force September 4, 2001. See: [http://www.gov.on.ca/lab/esa/esa\\_e/gu\\_e\\_9.htm](http://www.gov.on.ca/lab/esa/esa_e/gu_e_9.htm)

not be able to afford *not* to do something about unemployment, work stress, job insecurity and job instability.

**Recommendation #3: Enhance ‘public goods’ and invest in infrastructure to support a high quality of life for all Canadians**

Investments in public goods and infrastructure are exactly that: investments. The strong Canadian economy and the high quality of life Canadians enjoy depend on investments in public goods and infrastructure. Roads, public transportation, communications networks and other components of the national infrastructure are crucial to the success of our economy. Community centres, schools, hospitals, and public recreation facilities are crucial components of the quality of life Canadians enjoy. Moreover, the availability of infrastructure and public goods, irrespective of an individual’s income, is fundamental to good health and prosperity for all Canadians. When we invest, as a society, in public goods and fundamental infrastructure we create important ties that bind us to our neighbours and fellow citizens coast-to-coast.

Most importantly, however, public goods are fundamental to narrowing inequalities in the capacity to acquire resources for good health. Because Canada has such a strong system of public services and public goods, the negative effects of income inequality are somewhat blunted compared to that of the United States. In other words, it is because of our endowment of public goods, which are available to everyone, income is a somewhat weaker determinant of an individual’s life chances in Canada compared to the U.S.,. So although while an individual’s income is an incredibly important predictor of their health status, without the widespread availability of public goods, income-related differences in health status could be worse.

Many argue that our society cannot afford investments in infrastructure and public goods. Of course, without much of the infrastructure built in Canada over the last 150 years, our economy and our society would not be as strong it is now.

**Recommendation #4: Prioritize ‘progressive’ sources of public finance and reduce dependence on ‘regressive’ sources of revenue**

The income tax system in Canada is a 'progressive' system. The greater an individual's income, the more they pay in tax. The tax burden on the rich, therefore is disproportionately heavy. The pressure for tax cuts over the past several years, coupled with overall budgetary pressures, has meant that the relative proportion of total government revenues raised by progressive taxes has shrunk. User fees, consumption taxes, flat taxes, health care premiums, property taxes, co-payments and other 'regressive' tax instruments have increased in importance. These sources of revenue put a disproportionate tax burden on the poor. When the revenue mix shifts away from progressive sources to regressive sources, this amounts to a tax cut for the rich and a tax hike for the poor, relative to income.

For some government services, particularly those with some indirect public good for those people not directly receiving the service, it is sensible to charge user fees. Land development or building permits, for example, are services that confer a large individual benefit, but little public good. There is some public good to prudent land use management, of course, but the private good exceeds the public good in such an example (it is also unlikely that building permits are priced to reflect the full cost of providing the service). For other government services, the public good may exceed the private good, and it may also be desirable to have people of all income levels use the service. An example might be admission fees for the use of a public swimming pool. It is desirable to have people from all income levels use the service, because it will help to improve health and fitness for all and may, for example, keep youth productively occupied and out of trouble. These serve a public good as well as a private good for the individual receiving the service. Using regressive sources of revenue for such purposes does not serve the public good. It follows that instead of increasing user fees for public services, as governments are increasingly doing, they should be reducing or eliminating such fees, especially for services that promote health.

Health care premiums are another regressive source of revenue currently used in Alberta and B.C. and receiving attention on a national scale. In both provinces, very poor households are eligible for premium subsidies, which introduces a very small element of progressivity, but this only has a modest overall effect. Economist Jon Kesselman of the

University of British Columbia suggests more widespread use of provincial ‘employer payroll taxes’ as an efficient way of raise revenues for public services without compromising investment and employment.<sup>86</sup> Four provinces currently impose such taxes at a modest rate (under 4%) on very large firms and raise considerable revenue with little or no overall effect on job creation. Limiting the application of the tax to very large firms protects small business from undue tax hardship and means that a large proportion (upwards of 90%) of workers would be exempt. Provincial payroll taxes also have the added benefit of raising revenue from employees of the Federal government.

**Recommendation #5: Strengthen programs and services which redistribute cash and non-cash benefits from wealthier households to poorer ones**

These final three public policy principles are strongly inter-linked. One of the health advantages Canadians have is access to a wide variety of high-quality, health-enhancing services, facilities and programs, irrespective of our personal income. Universal health insurance and universal elementary and secondary education, funded by a progressive income tax system, have the indirect effect of transferring ‘non-cash’ benefits from wealthier households to poorer ones. The redistributive impact of these services is justified by the fact that they serve the public interest. A healthy and well-educated populous has benefits for all Canadians.

Another service which should be strengthened because of its redistributive impact is public transportation. A fast, efficient and practical public transportation system serves the public interest by making it possible for people across the social spectrum to travel widely and easily. This serves to increase employability, the capacity to donate volunteer labour, engage in health-promoting recreation, maintain social relationships, and so on. These are all important factors in the production of public health and should be encouraged. A public transportation system, it follows, serves the public good. It especially benefits low-income

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<sup>86</sup> Kesselman, J. 2001. Payroll tax could take B.C. off fiscal collision course. *The Vancouver Sun*. October 21, 2001, p. A13.

households and youth, and appreciates the fact that to acquire private transportation (an automobile) requires a significant up-front investment that is not practical for many households.

### **Final comments**

Canada enjoys a quality of life and a standard of health that is the envy of the world. We have on the whole, by world standards, safe streets free of violence, high standards of health and well-being, excellent employment standards, very good housing standards, and a rich endowment of recreational, cultural and social facilities and opportunities. These are the products of substantial investments in human, social and physical capital over a long period of time. As of 1991, our stock of public goods may have insulated us from possibly corrosive health effects of widening income inequalities. Those inequalities have continued to widen unabated, eroding investments in public goods, and undermining individuals' ability to invest in their own human capital, especially for individuals of lower socio-economic status. As a matter of prudence, it is important that Canadians support policies that protect and enhance the substantial stock of public goods we enjoy. Our very health and quality of life likely depends upon it.

*Are Widening Inequalities Making Canadians Less Healthy?*

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