Is Inequality a Problem in Canada?

The authors examine empirical data as they set out to determine whether inequality is a societal problem that merits interventionist responses designed by Canada's policy makers.

Ian Lee and Vijay Jog

The debate concerning the alleged rapidly escalating inequality between the top and the bottom members of society, popularized as the 1 percent and the 99 percent continues with no end in sight.

The origins of the campaign can be traced to an anti-consumerist Canadian NGO called Ad Busters that promoted the now infamous Occupy Wall Street campaign with the slogan, "we are the 99 percent".

The recent focus on the inequality debate was driven by a belated reaction to the financial crisis of 2009 and the U.S. bailout of some very large banks and the subsequent large bonuses paid to banking executives (as well as some S&P 500 CEOs) in the U.S. in the following years. It must be noted this is not a new phenomenon for the U.S. has been a comparative outlier with significantly greater levels of inequality than other OECD countries for a long time. (The standard measure of inequality between the top and bottom in any society is the GINI coefficient).

Ironically, a debate started by a Canadian NGO in the U.S. – relying on American data – was imported to Canada. The proponents argued that not only was inequality between top and bottom increasing but the middle class was hollowing out and experiencing income decline. To critics, the policy solution appeared obvious – governments must intervene and redistribute income from the 'haves' to the 'have-nots', from the top to the middle and bottom. Given that the 99 percent dwarf the 1 percent arithmetically, it is odd that the critics advocate policy responses which focus on redistribution of existing income rather than growth policies to expand the economy and incomes overall.

However, this debate – as with every public policy debate – requires careful empirical examination of reliable, authoritative data from national statistical agencies before we can come to any conclusions and propose tax policy-based solutions.

First, we must address the very complex question concerning the definition of income. Should we include income before or after taxes and transfers provided through the tax act (e.g. HST rebate, child tax credit)? Should we include social assistance or employment insurance or any social benefits received in the definition of income? Should we include wealth gains such as capital gains on investments or increases in the value of one's home or cottage? Should we be measuring the income of individuals or households?

These are very important questions for the answer affects the outcome of the measurement of income distribution in Canada (and the U.S., for that matter).

We believe that the most representative measure of income should be defined as "post-tax, post-transfer, size-adjusted household income", for it takes into account actual income that can be spent including government transfers via the income tax and/or by government programs such as unemployment insurance income. Moreover, we must also account for the accumulated wealth including equity in a home, notwithstanding that 69 percent of Canadians own their home. We will return to this later.

Now let us look at the evidence.

Let us start with what should be the most obvious issue in this debate. Canada is not the U.S. and thus we cannot rely upon or use American distribution of income to discuss the distribution of income in Canada.

Over the past 40 years, the number of people below the poverty line in Canada decreased from 25 percent in the mid-1960s to 8.8 percent in 2012, representing an unprecedented reduction in poverty in Canada or any country. A significant contribution to the overall reduction in poverty was achieved through the introduction of old age security and the guaranteed income supplement in the late 1960s that reduced elder poverty to the third lowest in the OECD at 7.2 percent of elders in 2013.

However, when we examine total medium family income over the past 30 years, we see a disturbing trend. Expressed in 2009 dollars with inflation removed, Statistics Canada reports the median total family income for all family units increased over 30 years from $52,600 in 1976 to $54,000 in 2009. This data clearly shows that incomes have barely increased at all. Yet, when the data is analyzed more carefully, as Professor Stephen Gordon has done, two trends are revealed during the past 30 years. During the 1980s and 1990s, incomes actually declined dramatically and then slowly but steadily recovered during the succeeding years, evidencing a U-shaped pattern of decline followed by recovery.

Very recently, the New York Times and the Luxembourg Income Study Group (LIS), corroborated Professor Gordon, for they found that median income, after taxes and inflation, rose 20 percent in Canada in the decade to 2010. Moreover, they found that middle class incomes on average were highest in Canada of all the countries studied – including two Nordic countries.

The review of the data empirically demonstrates Canadians are, on average, better off than ever before. However, since averages can be deceiving, we need to analyze how Canadians are doing within the different "income classes".

According to the Statistics Canada National Household survey 2011, 10 percent of Canadians had total income of more than $80,400 in 2010 — approximately 3 times the national median income of $27,800. Canadians with total income of $102,300 and above were in the top 5 percent while those with incomes of $191,100 were in the top 1 percent, or approximately seven times the national median income. In contrast, to be classified in the top 1 percent in the U.S. requires income above $383,000.

When we further examine those Canadians who are in the 1 percent, Statistics Canada data reveal they are highly educated with 67.1 percent of the top 1 percent having completed a university degree relative to only 20.9 percent of all Canadians aged 15 and over. The data reveal the overwhelming majority (87.7 percent) in the top 1 percent belong to a small number of occupations: management (38.8 percent); health (14.3 percent); business, finance and administration (13.7 percent); education, law and social, community and government services (11.0 percent); and natural and applied sciences (9.9 percent). Yet, these five groups accounted for only 51.9 percent of all Canadian workers.

This evidence deconstructs the mythical narrative of a cabal of wealthy capitalists -- the one percenters -- growing ever wealthier while counting their dividend cheques and capital gains. Rather, it reveals that, increasingly, the top 1 percent are highly educated wage earners – not capitalists – and come from health care, education, social services and public sector. Ironically, those elites who criticize inequality are increasingly from these groups -- e.g., professors and NGO leaders. Or, as Pogo said, "we have met the enemy and it is us".

We now turn to the wealth measure. While there exists a serious debate within national statistical agencies and the scholarly community concerning whether assets should be included or excluded in measures of income, there is no doubt that assets are real and can be converted into cash to be spent on consumption or for retirement.

When we examine the most recent Statistics Canada Survey of Financial Security, we learn that the median net worth of Canadian households increased from the 1999 median of $137,000 to $243,800 in 2012, up 44.5 percent from 2005 and almost 80 percent more than 1999, stripped of inflation.

Finally, the analysis of both income and wealth does not attempt to measure automatic increases in our standard of living caused by technological advancements such as Internet, mobile communications, far safer automobiles, better drugs that reflect in metrics such as reduced infant mortality, reduced number of automobile deaths, increased life expectancy, et cetera.

The summary review provided herein reveals that any public debate that does not critically and clinically analyze empirical evidence may lead us astray and, even worse, lead us to design policies and intervention that may be completely inappropriate. In this particular debate on income inequality, the review of the Canadian data reveal a country with the highest average middle class income in the world with one of the highest standards of living in the world and where the 1 percent are not just capitalists but those who belong to the professional classes where education and long hours leads to higher income.

Dr. Lee *has taught the Strategic Management capstone course since 1988 in the Sprott School of Business at Carleton University and over 100 times in EMBA programs in developing countries including China, Iran, Ukraine, Poland and Cuba. He was previously employed in the financial services sector.*

Dr. Jog *is the Chancellor Professor at the Sprott School of Business at Carleton University. Dr. Jog has been published extensively in national and international journals, and has over one hundred articles, monographs, and books to his credit. He also consults globally for both public and public sector organizations.*