New study documents increasing income inequality in Canada

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A study released last March and titled “The rich and the rest of us—The changing face of Canada’s growing gap” reveals that Canadian society is becoming dramatically more unequal, with the gap between the earnings of the richest Canadians and the rest, both those considered middle-income and the poor, widening.

The study, which analyses the income earnings of Canadian families with children, shows a steady increase in the gap between rich and poor from 1976 to 2004, with the gap widening at an accelerated rate since the 1990s. The study was conducted by the Canadian Centre for Policy Alternatives (CCPA), an independent, nonpartisan research institute with close ties to the labor bureaucracy.

The CCPA study found that in 2004, the average earnings of the richest 10 percent of Canadian families raising children were 82 times greater than those earned by the poorest 10 percent. Earnings are defined as what is earned from the labor market and investments and does not include income from social-welfare and tax-credits programs. While such assistance is insufficient and has been severely curtailed over the last two decades, the report underscores that without it a considerable section of Canada’s population would be reduced to absolute poverty.

In considering the report’s findings, it is important not to confuse annual income with wealth. The wealth gap between Canada’s rich and poor is as great, or even greater, than the income gap. According to a Statistics Canada study released late last year, 50 percent of Canadians in 2005 owned just 3.2 percent of the country’s wealth, while the richest 10 percent of Canadians owned 58.2 percent of the wealth.

The CCPA report demonstrates that the gap between the earned incomes of the wealthiest 10 percent of Canadian families and the poorest 10 percent has almost tripled in the three decades since 1976, the ratio rising from 31 to 1 in 1976 to 82 to 1 in 2004.

If further shows that only the richest 10 percent of Canadian families saw a significant increase in their share of both earnings and after-tax income between the late 1970s and the first years of the 21st century. In the 1976-79 period, the wealthiest 10 percent of Canadian families accounted for 23.2 percent of all family earnings. By 2001-04, they accounted for 29.5 percent. During the same period, their share of after-tax income increased by over 15 percent, rising from 21.2 percent to 24.5 percent.

In the late 1970s the poorest 20 percent of all Canadian families earned 4.5 percent of total family earnings. By the first years of the 21st century their share had shrunk to just 2.6 percent.

Whereas the poorer half of Canadians families accounted for 27 percent of total earnings between 1976 and 1979, they accounted for just 20.5 percent in 2001-04. The share of after-tax income going to the bottom half of Canadians declined during the same period by 3 percentage points, or some 10 percent, falling from 31 percent to 28.1 percent.

The report demonstrates that while Canada’s economy has experienced significant growth over the past quarter century—real economic output almost doubled between 1981 and 2005—the poorer half of Canadian families “either earned less” in inflation-adjusted terms “or just the same as their predecessors almost 30 years ago.”

Gains in real income have gone only to the top half of Canadian families and since the late 1990s, exclusively to the wealthiest 20 percent of Canadians, especially the top 10 percent.

The average Canadian worker made just over $38,000 in 2005, a 15 percent increase over average earnings in 1998 of just over $33,000. But during the same period, the Consumer Price Index (CPI) rose 17.85 percent, meaning that, after adjusting for inflation, the average worker actually lost purchasing power. During the same period the earnings of the wealthiest 10 percent of families with children rose by some $25,000 after taking inflation into account.

One of the disadvantages of the CCPA report is that the data it used enabled it only to measure income in 10 percent increments. This obscures the more extreme concentrations of wealth and income among the very rich, that is among the top 1 and even .1 percent of wage earners.

Nonetheless the report does note that there has been a spectacular increase in the financial compensation paid the managerial elite. Between 1998 and 2005, Canada’s top 100 CEOs saw a 262 percent increase in their compensation, pocketing an average of $9.1 million in 2005 compared to $3.5

million in 1998. In 1998, the country's top executives earned, on average, 106 times an average worker. By 2005, only seven years later, they earned 240 times as much.

A recent study by University of California economist Emmanuel Saez and Michael Veall of McMaster University does shed light on the surge in the incomes of the extremely wealthy in Canada. The Saez-Veall study shows that the share of pre-tax income going to the top 5 percent of income earners rose from about 25 percent to 29 percent, between 1995 and 2000. During this same period, the share accruing to the top 1 percent of income earners rose from 10 to 13.5 percent and the income share of the top .1 percent (the 20,527 Canadians with average incomes in excess of $920.000) increased from around 3 to more than 4 percent.

In summarizing their findings, Saez and Veall note that incomes trends in Canada are almost identical to those in the US: "Over the last 20 years, top income shares in Canada have increased dramatically, almost as much as in the United States. This change has largely remained unnoticed because it is concentrated within the top percentile of the Canadian income distribution and thus can be detected only with tax return data covering very high incomes."

Returning to the CCPA study, it also found that there is increasing inequality in the hours worked by individuals with different earning capacities. While the real wages of most Canadians have stagnated or even fallen in recent years, they are actually working longer hours.

The average Canadian household with children is working nearly 200 more hours per year compared to just nine years ago. The one group that did not increase their work hours between 1996 and 2004 was the group that monopolized real income gains, the richest 10 percent of families.

In this regard, it is important to take note of a recent Statistics Canada finding, which was given some publicity after a Canadian Imperial Bank of Commerce (CIBC) employee filed a class action lawsuit against her employer for unpaid overtime. According to Statistics Canada, 1.6 million Canadian preformed unpaid overtime in the month of April.

Two other points made in the CCPA report bear comment.

It notes that federal and provincial governments have curtailed the state's role in redistributing income through income support programs and progressive taxation. Income support programs that primarily benefit the less well-off have been slashed, while governments have cut taxes and reduced the differential between the rates at which low and high incomes are taxed. Nevertheless, asserts the CCPA report, what remains of "the tax and transfer system" stopped "a freefall of incomes for almost half of the population raising children."

Based on this finding, the report's authors make a "clarion call" to Canada's elite to valorize the "role of the federal government in binding the destinies of our many diverse parts together." They warn that growing social inequality threatens to produce social turbulence that will make Canadian capitalism unsustainable: "We ignore these trends at our collective peril."

The reality is that all sections of Canada's political elite, including the trade union-supported New Democratic Party, have participated during the past quarter century in the dismantling of the welfare state and sought to maintain the "international competitiveness" of Canadian capital by ever-more aggressively attacking workers' rights, cutting corporate taxes, and otherwise pursuing policies aimed at maximizing corporate profits and redistributing wealth to the benefit of the most privileged sections of society.

Also of significance is the CCPA report's reference to a previous study it published in 2006. That study found 76 percent of Canadians believe the gap between the rich and poor is growing and that 67 percent of the population do not believe that the majority is benefiting from the country's economic growth.

A May 7 editorial in the *Globe and Mail*, Canada's "paper of record," points to both the nervousness of the Canadian elite over popular resentment at increased social inequality and economic insecurity and its firm intention to continue on the same course.

Titled "Prosperity has lifted almost all our boats," the editorial celebrated a Statistics Canada report that showed the median after-tax income for Canadian families rose by 1.6 percent between 2004 and 2005. While conceding that there are persons whose income has "stalled" and "the gap between the highest-income families and the lowest-income families widened," the *Globe* urged its readers to "take heart from the fact that there is no seething underclass, slipping further behind.... The system is working."

Working for whom? Not for the vast majority of Canadians whose real incomes, as the CCPA has documented, have stagnated or fallen even as they work longer hours. But certainly for the *Globe*'s proprietors, the Thomson family. In 1998, the Thomson fortune was estimated at US$14.4 billion, a total that surpassed the collective wealth of the poorest third of all Canadian households. Today, Ken Thomson is said to be worth a staggering $US24.4 billion, making him, according to *Forbes* magazine, one of the 10 richest people in the world.

The CCPA report can be accessed here http://www.growinggap.ca/