

What is happening to Canadian Income Disparity?

In recent years, there seems to have been a rather widespread and increasing sense among the Canadian public that the middle class, long the mainstay of Canadian society, is at least in decline and perhaps facing extinction.

Sociologists find it difficult to either confirm or deny such a trend, in part because the term "middle class" is notoriously slippery. "In practice, definitions of the 'middle class' are, in economist Herbert Stein's words, 'so flexible, data so limited, the possibilities of statistical manipulation so great... that almost any argument... can be said to have empirical support.'"

Nevertheless, we can identify two broad categories of factors -- economic and demographic -- that may help us to address this issue.

In terms of income, there is no question that Canada is presently experiencing some real difficulties. In the time period following WWII (real) GDP production rose relatively constantly and rapidly until the recession in the early 80s. GDP recovered in the late 80s but then slumped again in the early nineties and only showed signs of recovering towards the late 90s (Statistics Canada 1999).

Change in real incomes during this time period followed the same patterns with rapid and constant change until the early 80s, recovery in the late 80s and then a slump again in the early 90s. Again, there are signs that incomes started to grow again in the late 90s.

The income declines that Canadians experienced during the 80s and 90s are not unusual in the Post-World War II period, although they were unusually large and they were unusually long. However, there are at least three factors that we must account for when attempting to understand the impact of these trends on the perception of Canadians:

1. During the post-war period, Canadians grew accustomed to relatively steady income growth for all age groups. Those participating in the labour force looked forward to a steady income growth during their careers but also to earning more income than their parents did when they were the same age. For example, somebody starting to work at 20 years of age whose parents were 40 years old, could look forward to both income increases for the next twenty years, and earning more than their parents did when they were 40 (Myles, 1996).

2. There has been a marked increase in the labour force participation of females as documented in the textbook. We would think that this would be associated with a great increase in family income since both parents are now more likely to be working than before 1980. However, the participation of women has not had this effect but rather the labour force participation of both parents has merely resulted in a reduced probability of income decline. In other words, both parents are now required to work in order to maintain a desired standard of living.

3. Income disparity has increased in Canada for two reasons. First, recessions tend to have a greater negative affect on the average income of the low-income earners than they have on high-income earners. The opposite is also true, that economic expansions tend to have a greater positive effect on the

average income of low-income earners. This pattern was followed during the economic recovery in the 80s. The recovery in the late 90s appears to have broken this general pattern because it has had an unusually small impact on the income of low-income earners.

Second, the affect of the economy on the income of families is mediated by Canadian society through various social institutions such as unemployment insurance and other social assistance plan. The economic swings during the 80s had relatively little impact on the total income (including non-wage income and taxes) discrepancies between Canadian families. The social support programs, including the unemployment program, were significantly revised in the 90s in a successful attempt to deal with the government deficit and public debt. The impact of this restructuring, however, meant that there were less assistance available to those whose income did not improve in the economic recovery during the late 90s (Statistics Canada, 1998).

As opinion polls show, these dramatic changes have had an impact on Canadians perception of their standard of living. When asked how their overall financial circumstances are compared to their parents at the same age, there has been a steady decline in the percentage of people who say they are better off from 74 percent in 1989 to 44 percent in 1998. Interestingly, the decline over this time period was much greater for those under the age of 34 (65% to 24%) than for older Canadians (those over 54 declined from 84% to 67%).

These same polls also show that Canadians are pessimistic about the future. Only 28 percent of respondents in 1989 thought that the younger generation would be financially better off than they were, and this pessimism had grown deeper by 1998 when only 19 percent of respondents expressed this sentiment (Angus Reid Group Inc. 1998).

Sources

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