

## **Income inequality**

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### **Summary**

During a near 50-year process of sending manufacturing activity away to overseas locations, **a process that is continuing**, one group of people in Canada has maintained and improved its position of wealth. But another group, consisting of the working- or employee-class people of Canada, has lost ground due to pressure on wages and salaries, and increasing unemployment.

So there is no mystery as to why income inequality is increasing.

The only solution to the problems of jobs, income inequality, and the economy is to change course completely, increase domestic manufacturing, and reduce imports. If we don't take these steps, our economy will never recover.

### **Income inequality**

The phrase "income inequality" (or income disparity) implies comparison between incomes of one group of Canadians and incomes of another group of Canadians.

I have great difficulty in understanding the objective of this comparison, and what benefit it offers to anyone.

I believe it is much more important to focus on the ordinary men and women of Canada, to determine the real unemployment situation. I believe the official unemployment figures published by the government greatly underestimate the problem and are not of use in assessing economic conditions.

Although I question the value of investigating income inequality, I emphasize that a valid comparison requires inclusion of all persons in each group, both employed and unemployed. Furthermore, all income, including investment income as well as employment income, must be included.

For example, consider a hypothetical group consisting of five people. Here are the incomes:

Person 1 \$35,000 per year  
Person 2 \$28,500 per year  
Person 3 \$42,000 per year  
Person 4 Not employed, zero income  
Person 5 Not employed, zero income

The average income for this hypothetical group is \$21,100. It is not valid to look only at the employed people in the group, where the average income is \$35,167.

Only by including all people in the average, and all income, do we get a valid comparison between ordinary people and wealthy people.

The average income of ordinary people is going down simply because more and more people are unemployed. There are other factors also in this trend, to be mentioned below.

## **Income levels and cut-off points**

I submit that a person with income over \$200,000 per year is on another planet in the consciousness of the ordinary people of Canada. There is no need to emphasize the people with multi-million incomes to make the point of income inequality. There is already inequality enough starting at the \$200,000 level.

The words "earning" and "receiving" are often used incorrectly. Nurses in hospitals truly **earn** their incomes. In the case of bank presidents and other people with multi-million incomes, it is improbable that they earn these incomes, in the sense of providing such unique and important services that the millions are warranted. These people simply **receive** their incomes.

## **Is the roof leaking?**

If a man repairs interior walls and ceilings of his house, without first fixing the leaking roof, he is demonstrating failure to properly set priorities and failure to determine cause and effect. .

Everyone agrees that we are in a difficult situation with respect to jobs and the economy. I say our situation is made worse by exactly the same failed reasoning as above, namely failure in setting priorities and in determining cause and effect.

Income inequality is caused by much deeper and more fundamental problems. Similarly to the man with the leaking roof, if we don't understand and solve those fundamental problems, we will never be able to reduce income inequality.

## **History of our jobs and economic situation**

Our current difficult jobs and economic situation is the direct and predictable result of actions begun in the 1960s.

Canadians, many not even born yet in the 1960s, can be forgiven for not knowing this ancient history.

I graduated from university in 1961, with a degree in engineering and having taken several economics courses. Shortly afterward, I heard a news report that Singer Sewing Machine Company was transferring manufacturing jobs overseas. I knew immediately that this action would lead to economic disaster. Unfortunately, 50 years later, I have been proven correct.

There is a value-added effect (also referred to as wealth-creation) associated with manufacturing. Probably not one person in ten thousand understands this critically important issue. We start with inputs (raw materials, sub-components, and labour), and we manufacture a final product that can be sold to consumers at a price higher than the cost of the inputs. We have created something of higher value that was not there before. This is the value-added effect.

Even if robotic equipment is used and there are no workers in the factory, the value-added effect is still there.

The value-added effect very subtly but strongly enriches the economy. Send the manufacturing activity out of the country, and you lose the economic enrichment effect of manufacturing. You also lose the tax revenue from the workers. Instead of enrichment of the economy, there is impoverishment of the economy.

Sending manufacturing activity away has been going on in Canada for nearly 50 years and we see the results all around us. The most important result is unemployment. Especially disturbing is the fact that significant numbers of young adults at all levels and fields of education cannot find jobs. Therefore these people cannot marry, buy houses and cars, and have children. The economy is shutting down.

Manufacturing is the only employment area that provides the value-added effect. Crude oil, raw logs, potash, and other commodities are not manufactured items and do not create a value-added effect. Very important and highly valued occupations such as doctor, fire department staff member, police officer, hotel staff member, do not provide the value-added effect.

Manufacturing also creates a ripple effect, in terms of jobs with suppliers to manufacturing facilities. In addition, the value-added effect and the employment create a more positive outlook throughout the economy, leading to more hiring in many other occupations not related to manufacturing. Basically, manufacturing leads to a more complex economy with many little niches where people can find employment.

### **A further disastrous effect of sending jobs away**

In 2011, latest year for full-year reporting, Canadian exports of manufactured goods totaled \$280.2 billion. Imports of manufactured goods from all foreign countries totaled \$372.6 billion. The net result for 2011 was a trade deficit of \$92.4 billion, also referred to as "negative balance of trade of \$92.4 billion."

In my studies of the economic situation I have found very little mention of these critically important numbers. Again, maybe few people understand these numbers and the issues they reveal. Maybe other people want to hide these numbers.

Two facts: First, a foreign expenditure is a much heavier burden on an economy, than even an inefficient domestic expenditure. Secondly, that \$92.4 billion is real wealth hemorrhaging out of our country. It is the net amount that we send to foreign countries to pay them to do manufacturing for us, while our own manufacturing workers stand in line at unemployment and welfare offices.

\$92.4 billion amounts to \$2760 in 2011, for each and every Canadian man, woman, and child. A trade deficit of \$92.4 billion is NOT a theoretical construct used only by economists. It is all too real. Proof of this statement is that China has a lot of cash and is using that cash to buy up major chunks of the Canadian and American economies.

\$92.4 billion kept in our country every year could provide wages and equipment for one million Canadians employed in manufacturing.

If we run our eyes over the above discussion, don't we get some hint about why there is so much unemployment, why the poor are getting poorer, and why there is increasing income inequality?

We are pouring out our wealth to foreign countries, causing deficits at home. To fight the deficits, governments are cutting, putting more people out of work, putting more chill on the economy. Instead, governments should be working to reduce imports. If we reduce imports, we keep our money here in Canada, and we put people back to work.

This is what I refer to earlier. We are measuring, studying, and worrying about income inequality, rather than getting at the fundamental cause of income inequality.

A manufacturer with head office in Canada can send his manufacturing activity out of Canada to anywhere he pleases. The manufacturer makes profits regardless and Canadian shareholders get their dividends. But Canadian workers have no employment. So here is a further mechanism that increases income inequality.

## **Fundamental change in the nature of our economy**

In 1964, Canada did not show a trade deficit. Instead there was a small positive balance of trade of \$42 per capita. In 2011, Canada had a trade deficit of \$2760 per capita. Surely these two figures show that our economy now is drastically different from our economy in 1964.

Every day I can read in newspapers and magazines commentaries on the economy and related issues, such as poverty, unemployment, and income inequality. Most of these commentaries cite data from past decades and compare with present data to support their theories.

But these commentaries never acknowledge or include in their analysis the fundamental change in the nature of the Canadian economy that has occurred since the 1960s. Therefore their conclusions are not valid.

In my opinion, the reason why these commentaries invariably demonstrate this defect is that everyone is afraid to face up to the real situation. Everyone is afraid to acknowledge that we are inundated by uncontrolled imports of manufactured goods from China predominantly, and from other countries as well.

To eliminate our trade deficit, we have to reduce imports from each country down to approximate balance with our exports to that country. Our imports from China are **five times** our exports to China. Therefore we would have to reduce imports from China by 80% to balance with exports to China.

Unless we take resolute and forthright action to reduce imports to eliminate the present ruinous trade deficit, our economy will never recover.