

Canada Growing Unequal: The Evidence & the Need for Labour Market & Tax Reform

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Canada, and Canadian cities, are becoming more unequal, and more polarized. These problems – and the related issues of poverty, and regional and occupational polarization – are becoming ever more difficult to ignore.

As a co-investigator in a major study of the impact of growing economic inequality on our cities - a national study funded by a grant from the Social Sciences and Humanities Research Council of Canada - I outline below the solid evidence we now have about the problem. Importantly, as noted by many other scholars and demonstrated in Figure 1, while the tax and transfer system worked to largely counteract the rise in inequality over the 1980s and early 1990s, ***since the mid-1990s the tax system has been much less efficient in tempering the increase in inequality***, most of which has originated in the labour market.

It is within Canada's cities that the vast majority of Canadians live (approximately 82 percent in the 2011 census), and ***it is those processes occurring in cities that have largely produced rising inequality and polarization in Canada***. It is therefore important to understand how income inequality and polarization are articulated within the Canadian city, and to pursue policy options that deal with how inequality and polarization are produced in the city and thus might be reduced.

The Evidence

An important report published by the Standing Senate Committee on Social Affairs, Science and Technology, Subcommittee on Cities (Eggleton and Segal, 2009), not only highlights growing problems of poverty and homelessness but calls for a number of policy reforms for dealing with poverty, including reforms to employment insurance that increase eligibility, a federal minimum wage, and the extension of funding for social and affordable housing programs. Even the Conference Board of Canada has taken to criticizing Canada's record on inequality, and called on increases to social assistance and more redistributive taxes (Conference Board of Canada, 2011).

On the extent and rise of inequality in Canada as a whole, the evidence is clear and telling. In its report titled "Growing Unequal", the Organization for Economic Cooperation and Development (OECD) shows that Canada experienced the second-largest increase in inequality (as detected by the most common measure of inequality, the gini coefficient, discussed in detail below) among all the countries under its umbrella between the mid 1990s and the mid 2000s (OECD, 2008). Only Finland saw a (slightly)

greater increase in inequality over this time, and yet Finland still finished the period with much lower inequality (gini=0.27) than Canada (gini=0.32).

A similar finding is borne out by the work of Heisz (2007), who calculates both the gini coefficient of income inequality, and the Wolfson index of income polarization, using income data for Canadian families between 1977 and 2004 (while the terms inequality and polarization are often used interchangeably in mainstream discourse, they have distinct meanings, properties, and ways of measurement¹). Heisz found that the distribution of family income originally trended toward greater equality in the majority of years between 1977 and 1989, with both the gini and Wolfson coefficients for family income reaching their lowest levels nationally in 1989 (the gini went below 0.28, indicating a moderately low level of income inequality, while the Wolfson index of polarization reached a low of 0.235). However, after 1990 both inequality and polarization began to rise persistently. By 2004, the level of inequality in family income as measured by the gini coefficient had grown by over 15 percent (to 0.32) while the Wolfson index of polarization rose by almost 13 percent (to 0.265). To be sure, Canada's level of inequality is not yet as high as that in either the United Kingdom (UK) (gini=0.34) or the United States (US) (gini=0.38) (OECD, 2008). Nonetheless, the rapid growth in inequality in Canada is troubling, as it has occurred while inequality remained stable or fell in many other nations (including the UK). One aspect of Canada's rising inequality concerns the growth in income of the top 1 percent (as well as the top 0.1, 0.05, and 0.01 percent) of income earners, just as has been occurring in the US (Yalnizyan, 2010).

Wealth Inequality

Of course, inequality (or polarization) in income is not the same as inequality (or polarization) in wealth, although the former would typically be expected to result in the latter. Yet, both income inequality and wealth inequality are indicators of class inequality. ***The research conducted in Canada demonstrates that wealth inequality is much higher than income inequality.*** Using the same measure of inequality – the gini coefficient - Morrissette, Zhang and Drolet (2002) found that among all family units wealth inequality rose from gini=0.691 in 1984, to gini=0.727 in 1999. The latter, it might be noted, represents an extreme level of inequality, far higher than any recorded measures of income inequality, even in the most unequal countries. The highest level that the gini can go is to 1.00.

The trend toward rising income inequality has continued up to the present, with the gini coefficient reaching its highest point ever (in terms of the incomes of all family types) in 2010, the most recent year for which data is available (Figure 1). The same basic pattern is true whether one looks at before-tax income or after-tax income (both income measures are post-government transfers).

¹ Inequality and polarization are very distinct concepts with distinct properties. The income distribution under polarization takes an hour-glass shape as the middle of the income distribution becomes hollowed out, and the population redistributed and massed around two distinct poles. As the process of polarization continues, the degree of within-group heterogeneity declines, while between-group differentiation rises. Inequality, on the other hand, refers to increasing dispersion of incomes. As inequality rises and the spread in incomes among individuals widens, income becomes increasingly skewed to the right (toward high-income earners). There also happen to be very distinct properties associated with inequality and polarization, and in turn, with the indices used to measure them. It is thus possible for inequality and polarization indices to indicate quite different, even opposing, trajectories (see Esteban and Ray 1994).

FIGURE 1: Level of Income Inequality (Gini Coefficient), Before-Tax and After-Tax Family Income of All Family Types, Canada, 1976 – 2010



Source: Calculated by the author from Statistics Canada, CANSIM II database, Table 2020705. Gini coefficients are for all family types (economic families and unattached individuals). However, as Heisz (2007) and Fortin et al. (2012) have shown, a virtually identical pattern is evident if only economic families are examined.

Clearly, the tax system reduces considerably the level of inequality (compare the two lines in Figure 1). However, Frenette, Green, and Milligan (2009) demonstrate that while the tax and transfer system worked to largely counteract the rise in inequality over the 1980s and early 1990s, since the mid 1990s it has been much less efficient in tempering the increase in inequality, most of which has originated in the labour market. An important recent study by Fortin et al. (2012) likewise found that family income inequality (among economic families) has risen substantially over time, and suggests that “policy developments since the mid 1990s have likely reinforced rather than countered this trend” (p. 29). They discuss some of the policy options for mitigating the rise in inequality.

Factors Driving Inequality and Polarization: Labour Market the Most Significant

A number of factors are said to be driving inequality and polarization in the economies of developed-world nations such as Canada. Most salient are labour market shifts originating in globalization (more intensive and extensive trade, and immigration), deindustrialization, and declining rates of unionization (Bolton and Breau, 2012; Walks, 2001, 2011). Polarization in particular has occurred as manufacturing jobs relocate under globalization, declining unionization reduces the pay of the remaining blue collar workforce, and decent-paying middle-income jobs disappear, only to be replaced either by high-income jobs in business services, finance, sales and management, or by low-income

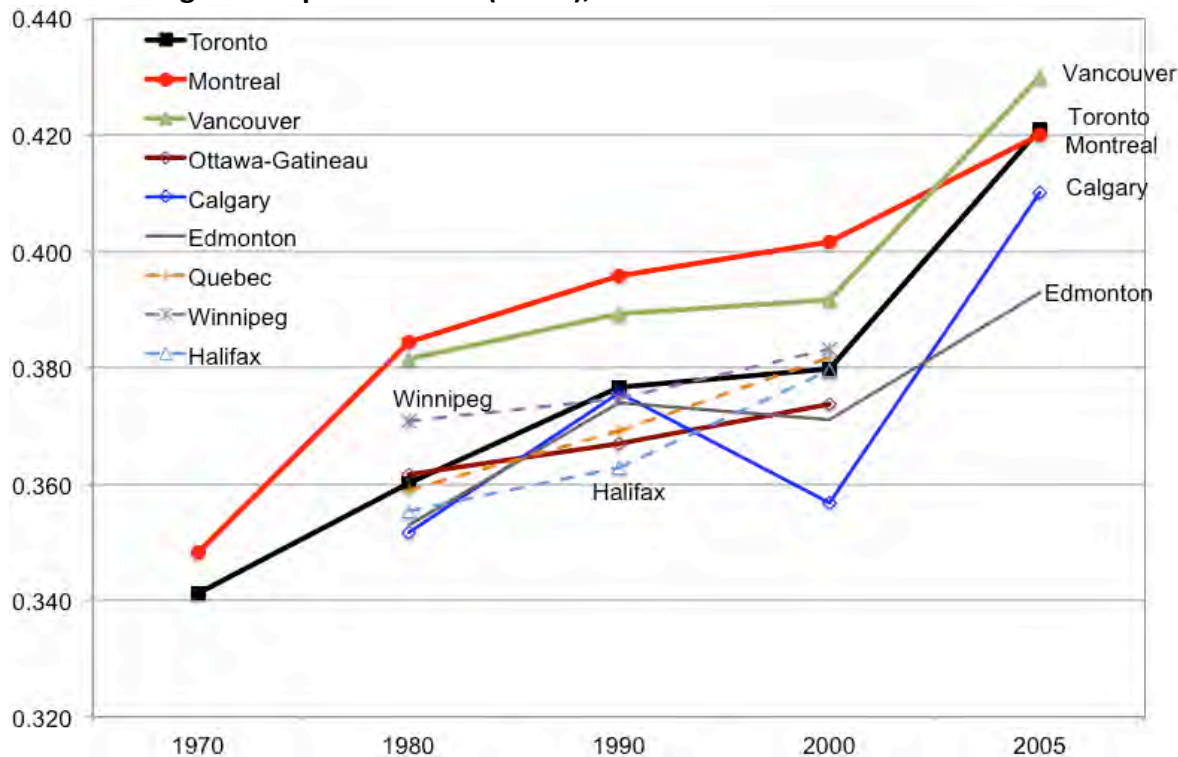
service jobs with little protection (driving taxis, retail sales, etc.). Occupational polarization, and hence income polarization, operates most strongly in the larger, global cities characterized by disproportionate flows of domestic and international migrants, who are themselves particularly vulnerable labour market vagaries (Sassen, 2001). Meanwhile, there is a noted increase in the tendency for men and women of a similar class/income to marry, facilitating the transfer of labour market inequality (and polarization) among income earners, into the realm of inequality between families, and over time to generational inequalities (Myles, 2010). Finally, deregulation and the rolling back of the welfare state under neoliberalism have removed many of the protections of those suffering from unemployment, and have forced low-income households to work more for lower wages, while also stimulating the financialization of the economy and hence the increasing incomes of a financial-managerial elite (Walks, 2011). Of course, the exact processes driving expressions of inequality or polarization in any given place and time could be expected to differ. Regardless of the factors driving them, it has been argued that polarization is particularly likely to produce social conflict, tension, and political distrust, and thus that it is important to examine not only inequality but also polarization (Esteban and Ray, 1994; see section 3 below).

It is within Canada's cities that the vast majority of Canadians live (approximately 82 percent in the 2011 census), and it is those processes occurring in the cities that have largely produced rising inequality and polarization in Canada. It is therefore important to understand how income inequality and polarization are articulated within the Canadian city. The University of Toronto's Cities Centre will soon publish a major report of mine that fills some of these gaps, updates previous work using the most recent data available, and introduces a new measure of polarization and examines its properties. The key take-away from this research is that income inequality and polarization have increased dramatically in Canada's cities, both among households, and among neighbourhoods (census tracts). I have attached one of the charts from this research showing the level of income inequality as measured by the gini coefficient in Canada's largest census metropolitan areas (CMAs). This chart shows changes in the level of inequality in before-tax income (because after-tax income is not available before the year 2000), but given the inability of the tax system to ameliorate inequality as shown in Figure 1 above, the pattern would remain little changed if after-tax income were used. A similar pattern is evident when it is neighbourhoods that are the unit of analysis, rather than households. Canadian cities are becoming more unequal.

Both my own research and the research of others in the past (MacLachlin and Sawada, 1997), have found that inequality has increased the most in places that were experiencing the decline of manufacturing jobs. De-industrialization hollows out the income structure through elimination of middle-income occupations, and removes an important basic economic function from which many different suppliers and customers flourish and create jobs. De-industrialization also encourages more investment into the financial sector, which is linked to greater inequality. Thus, a strategy for supporting industrial jobs will be key to limiting the growth of inequality.

At the same time, the average incomes of recent immigrants have been declining over time, as many recent immigrants find lower-paid work and work fewer hours. Immigration policy is thus also key to dealing with income inequality.

Figure 2: Level of Income Inequality (Gini Coefficient) among all Households, Large Metropolitan Areas (CMAs), 1970 - 2005



Source: Census of Canada, Public Use Microsample Files (20% sample), various years, and 2006 hierarchical file. After-tax income is not available for census data prior to 2000, so this uses before-tax income.

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