

Canadian income inequality on ‘very worrying trajectory’ to match U.S. ‘hollowing out’ of middle class

‘It’s an issue, and that’s why we see politicians and political parties clamouring for the middle ground and the middle class voters,’ says Public Policy Forum’s David Mitchell.



Photographs by Jake Wright, The Hill Times

Income inequality: Prime Minister Stephen Harper, NDP Leader Thomas Mulcair and Liberal Leader Justin Trudeau are ‘clamouring’ to be champions for the middle class.

By [LAURA RYCKEWAERT](#) |

Canada hasn't experienced the same level of growth in income inequality or the same "hollowing out" of the middle class as has the United States, say economic experts, but the country is on a "very worrying trajectory" to catch-up with the U.S. and political parties need to be "proactive" now to stop that from happening.

"When it comes to income inequality, the U.S. walks away with the prize of growth in inequality. The only other nations in the advanced economic world that have more inequality are Turkey and Mexico, and both of those nations have been reducing inequality since the 1980s. The U.S. just keeps growing it," said Armine Yalnizyan, a senior economist at the Canadian Centre for Policy Alternatives. "If anything, rather we [Canada] should be worried that in a nation that between 1997 and 2007 created more jobs than anywhere in the G-7, we weren't able to reduce inequality. If better employment is the way you reduce inequality, why did we see our inequality grow?"

Politicians of late have increasingly been focused on the middle class, talking about how to sustain one in light of growing income inequality.

Since becoming Liberal Leader, Justin Trudeau (Papineau, Que.) has posited himself as a champion for the middle class. Chrystia Freeland, a former managing editor for Thomson Reuters in New York and author of *Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else*, has thrown her hat into the political ring, vying to be the Liberal Party's candidate in the Toronto Centre, Ont., riding Bob Rae recently vacated.

When launching her nomination campaign, Ms. Freeland said, "Solving the challenges facing the middle class requires a new vision of politics and what it must accomplish. ... I believe strongly in Justin Trudeau's vision for a thriving middle class."

Globe and Mail columnist Konrad Yakabuski recently noted, however, that Ms. Freeland may be trying to launch a political career in the wrong country. "Her career has given her an invaluable perspective on income inequality in the United States and beyond. But it's hard not to get the impression that she's hankering to get her hands on Canadian policy levers to apply solutions to problems that don't exist here—or at least not to the extent that they require a dramatic overhaul of our education, welfare or tax systems," he wrote.

Linda McQuaig, another candidate vying to be the NDP's candidate for the Toronto Centre byelection, is also focused on the middle class. Ms. McQuaig, a *Toronto Star* columnist and author of *The Trouble with Billionaires: How the Super-Rich Hijacked the World and How We Can Take It Back*, is also using messaging surround the middle class, as has NDP Leader Thomas Mulcair (Outremont, Que.), who's positioned his party as the one to support middle class families.

Prime Minister Stephen Harper (Calgary Southwest, Alta.) has also put a focus on wooing middle class voters.

A report made to Finance Minister Jim Flaherty (Whitby-Oshawa, Ont.) in October 2012, and attained by Postmedia News through an access to information request, found that between 1976

and 2010 the real after-tax income of middle class families in Canada grew by just seven per cent, compared with the 38 per cent growth in the after-tax income of the top one-fifth of adult earners. Median wage fell by six per cent over the same period.

A Statistics Canada report from January 2013 on high-income trends between 1982 to 2010, found that in 1982 the median income of the top one per cent was seven times higher than the median income of the rest of the population and by 2010 the top one per cent's median income was 10 times higher.

The third and final Statistics Canada report from the 2011 National Household Survey focused on income, earnings, housing and shelter costs was anticipated to be published last week, but instead was delayed until Sept. 11, 2013, because of "issues in data processing," according to a news release from the agency.

Ms. Yalnizyan said while "less extreme" than in the U.S., Canada's top one per cent has seen a doubling of their share of income over the last generation.

"[Canada is] not all that different. We're worse than the U.S., France, Germany, Australia, all the comparators. So we've got nothing to crow about being a kinder, gentler version of this," said Ms. Yalnizyan. "There's a long list of what we can be doing, a very long list, but that is precisely what I think is going to turn the next 18 months or so into a political discussion of 'Is inequality a problem in Canada and how should we fix it?' That's a totally appropriate conversation for this point in our history."

Mike Moffatt, an assistant professor of economics and public policy at the Ivey business school at the University of Western Ontario, said the fact that median male income has fallen over the last 35 years is "a large concern," and it's concerning for everyone that it now takes "more education to make the same amount of money as you did 35 years ago."

Prof. Moffatt noted that other than the top one per cent of earners, Canadians are not making more money than they did in 1976 even though the Canadian economy is stronger. He noted that Canada is where the United States was 10 to 15 years ago in terms of income inequality. "We don't want to go on that sort of polarized trajectory," said Prof. Moffatt. "We don't want to get to where the United States is so we should probably be dealing with these issues now."

Ms. Yalnizyan said the "big story" driving concerns over income inequality and a weakening middle class in both Canada and the United States is "de-industrialization." She pointed to continued outsourcing of manufacturing jobs, the erosion of unions' bargaining power and governments that are concerned with austerity. "This is a trajectory where the middle is under pressure to give something up, the bottom is not moving up and the top is seeing wage increases," said Ms. Yalnizyan.

David Mitchell, president and CEO of the Public Policy Forum, said while there are fewer manufacturing jobs in Canada, "it's not so extreme" that it should be called a "hollowing out," but he said the transition has been "difficult" for many individuals and families, "especially

younger families,” who are still new to the workforce and who have been hurt the “most” by the recession and de-industrialization.

Mr. Mitchell said the U.S. housing crisis is an indicator “that would give credence to the thesis of a hollowing out of the middle class in the U.S.,” and it’s a crisis that Canada has so far managed to avoid.

“Americans had so much debt that they lost their houses, that their houses were mortgaged to default and whole communities were decimated with the real estate crash as were values of the major investment that most middle class Americans had, which was their home,” Mr. Mitchell said. “In Canada by comparison we never had that real estate crash and crisis partly because our system of regulation, financial regulation and banking regulation, prevented Canadians from becoming over-extended and there was less speculation in the financial markets and fewer people got hurt.”

For years since the recession, the Bank of Canada has kept interest rates low to encourage Canadians to spend money to stimulate the economy, but it’s led to high levels of personal debt and concerns over a debt bubble, and there has been debate among financial institutions and experts as to the right time to raise interest rates in Canada. Correspondingly, lower interests rates and have led to concerns over a housing bubble. The federal government has taken measures to curb increasing debt, including changes to government-backed mortgage insurance, making it more difficult for Canadians to access mortgages and increase their debt.

Ms. Yalnizyan said a strong middle class is important to sustain “purchasing power,” and said income inequality is just as “unsustainable as climate change.”

Mr. Mitchell said the challenge facing Canada is “more demographic” than anything else as the economic situation has been “particularly hard on younger Canadians” who are just finishing university and who aspire to the middle class and espouse middle class values, but are having difficulty finding “satisfying” employment outside of the service sector and poor-paying jobs. “The transition to that [middle class] status is not as easy as it maybe was for their parents and for their grandparents. That is a challenge and it is a demographic challenge of great significance,” he said.

Mr. Mitchell said most Canadians see themselves as middle class and “in terms of public policy, the bread and butter issues of our day are largely middle class issues,” such as healthcare and public education. Mr. Mitchell said Canada’s identity as a “middle class society” has been “challenged” by the 2008 recession as the middle class had “been squeezed” and polarization between the rich and poor has grown.

“It’s an issue, and that’s why we see politicians and political parties, I believe, clamouring for the middle ground and the middle class voters,” said Mr. Mitchell.

Prof. Moffatt said he hopes concerns over the state of the middle class and income polarization are front and centre come the 2015 election campaign. He said he hopes political parties don’t just get caught up in an economic blame-game and “bring something to the table.”

“Diagnosing the problem is fairly easy but fixing the problem is far more difficult and nobody has really found a silver bullet. But it could really be anything from changing tax policies to making the taxes more progressive, ... looking at things like daycare subsidies, the idea being that we might be able to reverse this trend if we have more two-parent families working,” said Prof. Moffatt.

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