

**Public Forum on Income Inequality:
Causes and Consequences**

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by

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Plan of Comments:

- Identify what I see as the key major changes in income inequality in Canada
- Suggest explanations/causes of these changes.

Motivations:

- Great deal of attention devoted to “the Great Divergence”, “Occupy Wall Street”, and the “bleak new reality of the middle class” (Globe and Mail’s Wealth Paradox series)
- Yet it is less recognized what the key features of distributional change are in Canada and the U.S. (and their differences).

Key Major Changes in Income Inequality

1. Dramatically rising share of top income recipients and hence a widening gap between top incomes and the rest.
 - this has gotten the most media attention
 - income share of top 20% of families rose from 38% of total family income in 1980 to over 43% by 2008, while income share of top 1% of all tax filers rose from 7.6% of income to 12.4% in 2010
 - over the same period, median income of the top 1% of tax filers rose from 7 to 10 times that of the lower 99% of filers
 - this has occurred since the late 1970s, and moreso in the U.S. and U.K. than in Canada
 - this change is largely driven by rising inequality of workers’ earnings in the labour market.
2. Widening differences in earnings between low- and high-skilled workers in the labour market.
 - the raw wage gap between high school and bachelor degree workers has risen from 32% in 1980 to 40% in 2005 despite more university graduates and skilled immigrants
 - similar widening gap between youths and older workers in the labour market.

3. Increased polarization of earnings in North American labour markets and the hollowing out of formerly middle class-type jobs.
 - while the share of income of the poorest 20% of families has remained roughly similar since the late 1970s, between 1977 and 2010 the share of income of the middle 60% of families fell from 56.1% to 50.7% or by about the same amount that the share of the 20% has gone up
→ so rising top incomes have come at the expense of a falling middle class share
 - more marked are results in terms of workers' earnings: between 1970 and 2005, the share of earnings of higher earners went up from 26.3% to 47.7% for males and from 35.5% to 45.3% for females, while the share of earnings of middle class earners fell from 49.2% to 30.2% for males and from 36.1% to 32.0% for females.
→ so declining middle class income and earnings shares are likely the most politically potent concern
 - results are much stronger or more marked for men than for women.

4. There has been a slight decline of economic mobility in Canada, resulting in a receding economic opportunity to get ahead, and again the result is more marked for men than for women.
 - in the U.S., this decline in economic mobility is much more marked and has been enhanced by a recent period of stagnant or declining real wages and incomes
→ so greater sense of economic anxiety and economic insecurity.

Together these four changes amount to a New Distributional Paradigm

- this “Great Divergence” since the late 1970s contrasts with the “Great Compression” (“a rising tide raises all boats”) from World War II to the mid 1970s.

Alternative Explanations / Causes of this New Distributional Paradigm

1. Globalization and International Trade:

- reduced demand for less skilled labour (as work moves off shore)
- increased demand for high-skilled labour (and hence wider skill differentials in wages)
- loss of (previously well-paying) manufacturing jobs and shift of employment to the service sector
- weakened power of unions to push for wage increases
- BUT: increases in earnings inequality not just in tradeables sector, and big changes in Canadian trade have been with the U.S. (a developed country).

2. Technical Change, particularly in the IT Sector:

- chip-based information-processing advances
- such tech change is “skill-biased”: it displaces low-skilled and repetitive routine tasks, and augments the range of tasks and productivity of high-skilled workers
- flattens organizational structures and changes HR practices that weaken the role/control of unions
- characterized by “innovation” whose returns are captured and protected by strengthened patent system.

3. Institutional and Policy Changes:

- Changing norms governing executive compensation, deregulation (particularly in transportation and finance), reduced UI/EI coverage and weakened employment/income protection
- In the U.S., there are also falling real minimum wages and welfare-work requirement laws, governments listened less to unions and made unionization harder to sustain, and reduced tax rates favouring the rich.

Leading explanation/cause appears to be tech change.