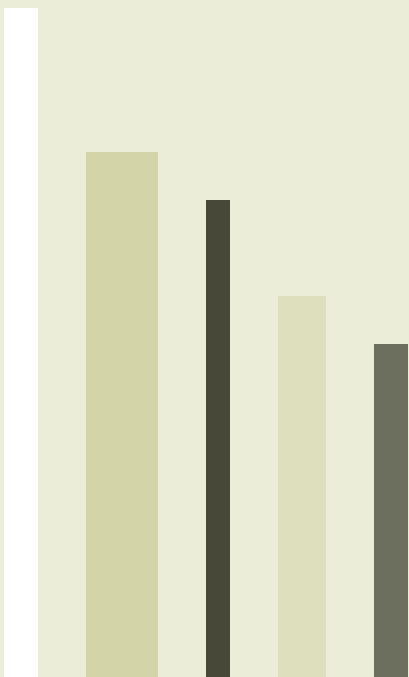


BC's Growing Gap

Family Income Inequality 1976–2006

by IGLIKA IVANOVA

March 2009



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office



BC'S GROWING GAP: FAMILY INCOME INEQUALITY 1976–2006

By Igluka Ivanova

March 2009

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The opinions in this report, and any errors, are those of the author, and do not necessarily reflect the views of the CCPA.

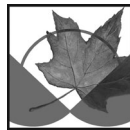
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Summary

CANADA CURRENTLY FACES A RECESSION—possibly a long one. But over the last 10 years, we’ve had one of the strongest economies of all developed nations. Inflation, unemployment and interest rates have been low, and GDP growth strong.

BC is one of the wealthiest provinces in Canada and has just come out of an unprecedented economic boom. Accepted wisdom has been that our province is in a strong position to weather the recession.

Unfortunately, many people are not nearly as prepared as we’d like.

This CCPA study tracks earnings and after-tax income for BC families with children to examine how their financial situations have changed over the past 30 years—about a generation.

Our findings reveal that the vast majority of BC families are already in a vulnerable position as we head into a major economic downturn.

This report finds that:

- The gap between the wealthiest and the majority of BC families has grown dramatically over the past 30 years. The share of income going to the richest 10 per cent of families has grown fast, while the share going to the bottom half of families has declined substantially. This is true for both earnings and after-tax incomes.
- Not only has inequality grown, but most BC families with children have also fallen behind in absolute terms. The bottom 70 per cent of families have lower real (inflation-adjusted) earnings than their counterparts in the late 1970s, and the bottom 60 per cent saw a decline in their after-tax incomes as well.
- Middle-class families in BC have been squeezed to an extent not seen in other provinces.

We focus on families with children under 18 not only because a large proportion of the population lives in such families but also because this group tends to have more stable and less polarized incomes than unattached individuals. As a result, our findings likely understate the degree to which inequality has grown.

We examine both earnings and after-tax income in order to capture the impact of government transfers and taxes on labour market inequality.

- *Earnings* include income from employment and self-employment, and are the main source of income for the majority of families.
- *Total after-tax income* includes earnings, investment income, government transfers and all other income, minus income tax paid.

INCOME INEQUALITY IN BC GREW FASTER THAN THE NATIONAL AVERAGE

Inequality in BC has grown since the late 1970s, with income increasingly concentrated among the richest families. While the bottom half of families earned over one quarter (29 per cent) of total earnings in 1976, their share dropped to less than one fifth (19 per cent) by 2006. Gains for the upper half of earners went almost *entirely* to the top 10 per cent, whose share of total earnings increased from 22 to 29 per cent.

In other words, the gap between the rich and the rest of British Columbians has widened to the point that the top 10 per cent of BC families now earn considerably more than the entire bottom half of families.

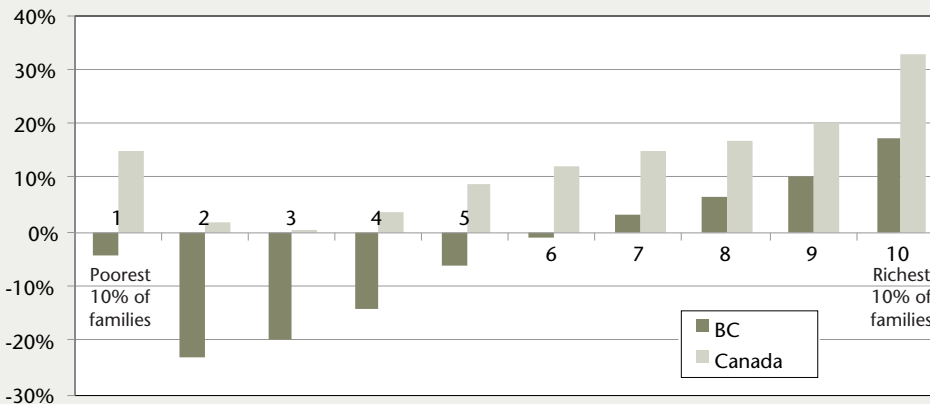
Compared to other provinces, British Columbia saw a particularly rapid growth in the share of earnings going to the top 10 per cent of families with children and a particularly steep decline in the share of earnings for the entire bottom half of families.

While taxes and transfers offset some of the growing inequality in market earnings, they only do so only to a limited extent, and less so in BC than in most other provinces.

The gap between the rich and the rest of British Columbians has widened to the point that the top 10 per cent of BC families now earn considerably more than the entire bottom half of families.

Percentage Change in Average Incomes After Tax by Decile, Families With Children 1976–79 Compared to 2003–06

Since the late 1970s, the poorest families have become poorer and the rich richer, but the middle has also been squeezed: the bottom 60 per cent of families have seen an absolute drop in incomes even after accounting for taxes and transfers. These trends were much worse in BC than in most other provinces. (Data by province is provided in Appendix 2.)



BC DOES THE WORST JOB OF REDUCING MARKET INEQUALITY

Government taxes and transfers reduce labour market inequality somewhat, but not nearly as well as they used to.

When we examine after-tax income instead of earnings, the benefit of the tax and transfer system becomes clear for the poorest 10 per cent of families with children: they are no longer the ones who experienced the largest drop in income. While their earnings fell by a staggering 74 per cent over the 30-year period, their after-tax incomes declined by only 4 per cent.

However, the tax and transfer system in BC fails to adequately help the rest of the bottom half of families whose after-tax incomes declined considerably.

The drop in average earnings for most British Columbians is similar to the overall trend in Canada over the past 30 years, though BC saw some of the steepest declines at the low end of the income distribution compared to other provinces.

What is particularly concerning is that drops in real *after-tax incomes* are substantially larger in BC than in any other province. That is, whereas other provinces have managed to offset declines in earnings through the system of government transfers and taxes, BC has been much less successful.

Drops in real after-tax incomes are substantially larger in BC than in any other province. Other provinces have managed to reduce some of the inequalities arising in the labour market through government transfers and taxes, but BC has been much less successful.

BC'S MIDDLE CLASS HAS BEEN SQUEEZED

It has been well established that the poor in Canada and BC are worse off than ever before, but this study presents evidence that the middle-class is struggling too. The bottom 70 per cent of families saw their real earnings fall behind not only relative to the earnings of families at the top, but in absolute terms as well—they earned less (after inflation) than they would have in the late 1970s.

Families in the lower tiers of the income spectrum saw the worst declines in their real (inflation-adjusted) earnings. Earnings fell by 74 per cent for the bottom 10 per cent of families, from \$5,140 in the late 1970s to only \$1,336 today. The second, third and fourth deciles saw their earnings drop by a staggering 57, 42 and 29 per cent respectively, despite working more hours than their counterparts a generation ago. Even the seventh decile did not see an increase over the 30-year period, with earnings staying flat at \$78,000.

Only the top 30 per cent of families earned more than their counterparts in the late 1970s and the gains were higher for those who were better off to begin with. The top 10 per cent benefited the most as their average earnings rose by 29 per cent from \$152,374 to \$196,457 between the late 1970s and the mid-2000s.

These findings may help to explain why so many families have been feeling that they couldn't get ahead, even when the economy was healthy. Now that we find ourselves in a recession, the situation is even more concerning.

BC HAS ONE OF THE LARGEST INCOME GAPS IN CANADA

Another way to measure changes in income inequality over time is to track the ratio of the average after-tax incomes in the top and bottom 10 per cent of families. This ratio, often referred to as the income gap, increases when incomes decline more rapidly at the bottom than those at the top, or when incomes at the top grow faster than those at the bottom. Both signal a rise in income inequality.

The income gap in BC reached its highest levels in the early 2000s, when the after-tax incomes of the top 10 per cent of families were over 11 times higher, on average, than those of the poorest 10 per cent, compared to only 8.5 times on average between 1976 and 1990.

The income gap in BC is larger than the national average for all but a few years on record. As income inequality in Canada grew, income inequality in BC grew even faster.

While we have not consistently been the most unequal province in the country, BC has ranked among the top three most unequal provinces in 26 out of 31 years for which data is available. BC is becoming increasingly more unequal in the new millennium—we had the highest income gap in 2001, 2002, 2003 and 2005 and the second highest in 2004 and 2006 (second to Ontario and Saskatchewan respectively).

The income gap in BC is larger than the national average for all but a few years on record. As income inequality in Canada grew, income inequality in BC grew even faster.

Change in Average After-tax Income by Decile, Families With Children in BC, 1976–79 to 2003–06

Decile	Average After-tax Income			
	1976–79	2003–06	Difference	% Change
1	\$15,924	\$15,303	-\$621	-4%
2	\$34,566	\$26,644	-\$7,923	-23%
3	\$45,260	\$36,395	-\$8,865	-20%
4	\$51,883	\$44,725	-\$7,159	-14%
5	\$57,089	\$53,708	-\$3,381	-6%
6	\$63,184	\$62,738	-\$446	-1%
7	\$70,191	\$72,622	\$2,431	3%
8	\$78,858	\$84,185	\$5,327	7%
9	\$91,608	\$101,034	\$9,425	10%
10	\$134,217	\$157,882	\$23,665	18%

RECOMMENDATIONS

When we combine these findings with the fact that BC has the highest levels of child poverty in Canada (16 per cent) and the highest overall poverty rates in the country (13 per cent), there is a clear need for decisive government action to protect poor and middle-class British Columbians from the impact of the recession.

1. Make the provincial tax and transfer system more fair

Since 2001, the BC government has implemented tax cuts that benefit mainly the top earners. A government that is serious about reducing income inequality would also have to consider higher taxes for the most wealthy.

Income redistribution through taxes and transfers benefits not only the poor, but also middle-income earners. However, since 2001, the BC government has implemented tax cuts that benefit mainly the top earners—who didn't need any assistance to begin with. The BC government should increase its modest wage supplement program for low-income earners and discontinue its current practice of clawing back parts of federal child benefits from those receiving social assistance (welfare). A government that is serious about reducing income inequality would also have to consider higher taxes for the most wealthy.

2. Expand and improve public services and social programs that benefit everyone

The BC government can do a lot to enhance the economic well-being of families with children by improving and expanding public services and social programs that enhance quality of life for everyone. This includes better access to opportunities for parents to upgrade their education or retrain, universal publicly-funded child care, and subsidized social housing.

3. Set out a clear poverty reduction plan

The recent CCPA report *A Poverty Reduction Plan for BC* calls on the provincial government to develop a clear plan with legislated, concrete targets and timelines to reduce poverty and protect the most vulnerable families. The report outlines the core features of such a plan and puts forward a large package of recommendations that policy-makers can draw on. Many of these recommendations would boost the earnings and after-tax incomes of those at the bottom of the income spectrum, thus also reducing the growing income inequality among families in BC.

4. Improve the earnings and working conditions of low-wage workers

The minimum wage should be increased to a level that ensures that no full-time worker lives in poverty (currently \$10.60 per hour or \$21,666 per year) and it should be indexed to inflation. The BC government should also make it easier to unionize, proactively enforce employment standards, and implement education and advocacy on workplace rights.

5. Increase access to social assistance

The province should reform welfare to ensure that income assistance is accessible to those in need. Benefit rates should be substantially increased and then indexed to inflation so that those who are not able to work can meet their basic needs.

6. Increase support for the most vulnerable

Some groups face persistent barriers to full participation in the labour market, which leads to consistently lower incomes than the rest of the population. Among working-age people in BC, these groups include Aboriginal people, people with disabilities, single mothers and recent immigrants and refugees. The BC government should address the specific structural barriers faced by each of these groups to ensure that the benefits of economic growth are shared more equitably in our province.

When we combine these findings with the fact that BC has the highest levels of child poverty and highest overall poverty rates in the country, there is a clear need for decisive government action to protect poor and middle-class British Columbians from the impact of the recession.

Introduction

It is a well-established fact that income inequality in Canada has grown since the 1980s, but over the past couple of years concerns have been expressed about increasing income inequality even during times of economic expansion, which would normally be expected to reduce the income gap.

WHEN STATISTICS CANADA RELEASED the 2006 Census data on earnings and incomes of Canadians in the summer of 2008, the findings that attracted most media attention were the growing gap between the rich and the poor, and the stagnating incomes of people in the middle of the distribution. To the extent that income reflects the economic well being of Canadians, the interest in how income is distributed among the population is hardly surprising.

It is a well-established fact that income inequality in Canada has grown since the 1980s, but over the past couple of years concerns have been expressed about increasing income inequality even during times of economic expansion, which would normally be expected to reduce the income gap. A 2007 report by the Canadian Centre for Policy Alternatives, *The Rich and the Rest of Us*, shows that Canada's strong economic performance since the mid-1990s has been accompanied by growing income inequality and a lack of improvement in the economic fortunes of families at the bottom.

Increasing income inequality and the growing polarization between the top and the bottom ends of the income spectrum are serious reasons for concern. Rising income disparities could signal increased poverty and/or growing inequality in the opportunities available to Canadians, as higher family income is closely linked to better health outcomes for adults and to better cognitive and behavioural outcomes for children.¹

Public opinion surveys reveal that most people in developed countries not only care about poverty and social exclusion, but also about income inequality in and of itself. When asked to choose among different shapes of income distributions, the majority of people express a preference for more equal distributions relative to more unequal ones.² Low income inequality, therefore, can be viewed as a fundamental social value reflecting a basic sense of fairness.

In addition, researchers have documented a number of adverse social and economic consequences of high levels of income inequality. U.S. economists Jason Furman and Joseph Stiglitz, for example, show that higher income inequality can magnify the negative consequences of business cycle fluctuations and result in higher levels of unemployment in

an economy.³ Higher income inequality has also been linked to a number of social ills, including reduced social cohesion, disproportionate political power wielded by top earners, increased disaffection, higher crime rates, and lower levels of educational attainment.⁴

These problems are made worse when growing income inequality is accompanied by declining economic mobility, as has been the case in Canada. Work by Queen's University economics professor Charles Beach shows that since the 1980s, Canadians at the bottom of the income spectrum have been less likely to move upward and those at the top have been less likely to move downwards.⁵ Given all these reasons for concern about increasing inequality in Canada, it is important to investigate how the income distribution has changed over time.

While the growth in inequality at the national level has been well documented,⁶ relatively little is known about what has happened to inequality within Canadian provinces. The few studies that address this question agree that the degree of income inequality varies substantially among provinces.⁷ This is not surprising, given that Canadian provinces have different industrial structures and thus face different economic pressures. In addition, provincial governments control important elements of the tax-and-transfers system, such as the provision of social assistance, which allows provincial policies to make considerable impact on the redistribution of income.

This paper examines the evolution of earnings and after-tax incomes for families that include children under 18 in BC over a 30-year period between 1976 and 2006. We look closely at the distribution of income among families in BC, track how economic fortunes have changed for families in different parts of the income spectrum over time, and compare the degree of income inequality in BC with Canada as a whole.

In Section 2, we provide a brief overview of the data and our approaches to analyzing income inequality. In Section 3, we characterize the distribution of earnings and after-tax incomes in BC. In Section 4, we examine several measures of income inequality in BC and at the national level and investigate what has happened to family incomes over time. In Section 5, we situate our earlier findings in the context of BC's economic performance over the 30-year period and explore whether increasing disparities in work effort can explain the observed rise in earnings inequality in BC. Section 6 considers some of the explanations for rising income inequality and provides recommendations on what the provincial government can do to mitigate the problem. Section 7 concludes.

Higher income inequality has been linked to a number of social ills, including reduced social cohesion, disproportionate political power wielded by top earners, increased disaffection, higher crime rates, and lower levels of educational attainment.

Data and Methodology

The economic fortunes of families with children are important to consider because they closely reflect the economic well being of children. Many studies have linked parental incomes with a variety of outcomes for children, including cognitive and behavioural outcomes, educational attainment and future labour market earnings.

IN THIS REPORT we examine the changes in earnings and total after-tax incomes of families with children under 18 in BC. Data for this analysis are custom-tabulated by Statistics Canada based on the Survey of Labour and Income Dynamics (SLID) and the Survey of Consumer Finances (SCF).⁸ The SLID is the most commonly used source of income data in Canada because it provides annual data and includes a sample that is large enough to allow for provincial trends to be examined separately from national trends, especially for the bigger provinces.

The SLID collects information on family type and allows us to isolate families with children under 18 for our analysis. It is generally considered that family income provides a more accurate picture of the economic well being of the population than individual income because resources and costs are shared within families, often between people with very different individual incomes.⁹

Some studies on income dynamics include individuals living alone in the same group as families, making adjustments for family size to account for the economies of scale of living with others. In this paper we focus on families with children and do not adjust for family size.

There are several reasons for our interest in families with children. First, almost half of the population both in BC and nationally lived in such families in 2006.¹⁰ More importantly, there are significant differences in income trends over the past 30 years among different family types. For example, families with children tend to have more stable and less polarized incomes than unattached individuals.

The economic fortunes of families with children are also important to consider because they closely reflect the economic well being of children. Many studies have linked parental incomes with a variety of outcomes for children, including cognitive and behavioural outcomes, educational attainment and future labour market earnings. Thus, the evolution of family income over the past 30 years can also be seen as an indicator of the opportunities

available for a generation of children and provides us with insights into the economic well being of households in the future as these children mature and start families of their own.

In our study of income dynamics, we focus on two measures of family income: earnings and after-tax income. Earnings, which include income derived from employment and self-employment, are the main source of income for the majority families in BC and Canada. However, there are other sources of family income, the two most important of which, for this group, are investment income and government transfers.¹¹ After-tax income includes earnings as well as income from all other sources minus federal and provincial income taxes paid.

Examining the changes in earnings inequality over time provides important information about how the labour market functions and allows us to track changes in the market over time. On the other hand, after-tax income is a better measure of economic well being because it is closer to the disposable income available to a family for consumption. Finally, comparing earnings with after-tax income shows how successful government taxes and transfers are in offsetting market-driven increases in income inequality.

Both earnings and after-tax income are measured in constant 2006 dollars throughout this report. By using the Consumer Price Index to adjust for inflation, we arrive at measures of real earnings and after-tax income that reflect the ability of families to purchase goods and services in the economy. This allows us to track the absolute changes in earnings and after-tax income as well as relative measures of inequality over the period of interest.

Because income distributions are complex and there is no single indicator that easily summarizes all their characteristics, we use several measures of inequality to capture different features of the earnings and after-tax income distributions of families with children and track how they have changed over the past 30 years.¹²

For our analysis, we rank the population of families with children in BC in ascending order of their incomes and divide them into 10 equally sized groups, or deciles. This ranking is done separately for earnings and after-tax income for each year in inflation-adjusted dollars. We then track how earnings and after-tax income have changed for each decile between 1976 and 2006.¹³ The period of analysis is chosen not only because it is the longest continuous span for which annual income data is available for BC, but also because the late 1970s and the mid-2000s are roughly comparable periods of strong economic growth in BC.¹⁴

It is important to clarify that our analysis does not track how individual households fared over time because the dataset we use is not longitudinal. Rather, these annual snapshots reveal structural change in the distribution of earnings and after-tax income, showing how changing job opportunities, pay rates and public policy shifted the odds of how well a family would be doing if it belonged at the top, middle or bottom of the distribution of families with children at any point in the last 30 years.

Our first measure of inequality calculates the share of income for each decile of families with children, which essentially quantifies how total earnings and after-tax income are divided among all BC families.¹⁵ We then examine the ratio of average after-tax income between the highest and the lowest decile of families to capture the income gap between the two tails of the distribution and track how it has changed over time. We also consider how average earnings and after-tax incomes have changed over time for each decile of families.¹⁶

Examining the changes in earnings inequality over time provides important information about how the labour market functions and allows us to track changes in the market over time. On the other hand, after-tax income is a better measure of economic well being because it is closer to the disposable income available to a family for consumption.

The Distribution of Earnings and After-Tax Income in BC

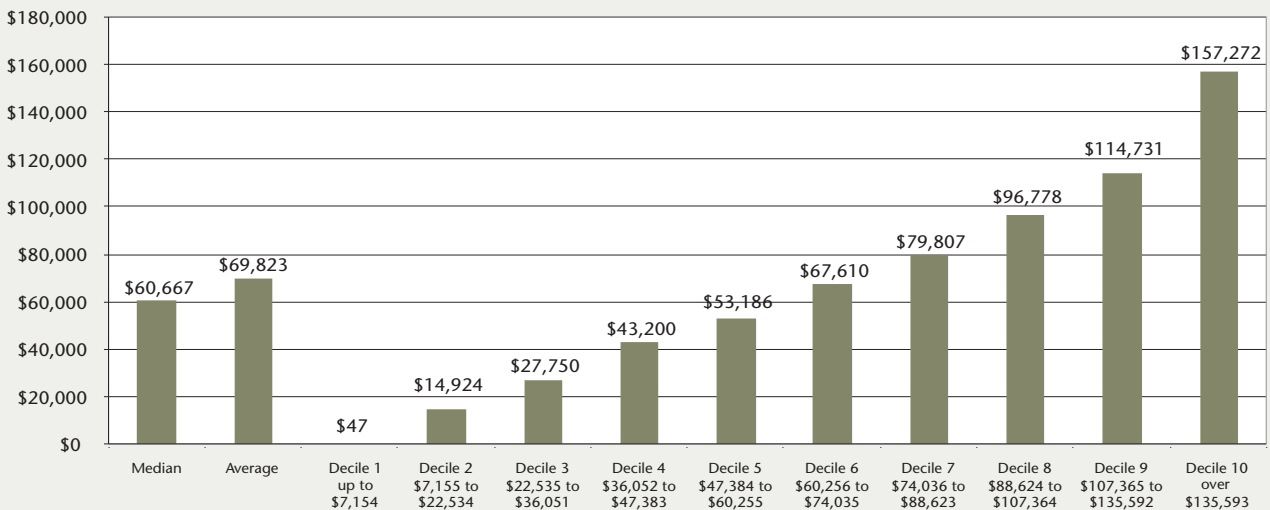
Average family earnings were just under \$70,000 in 2006; close to 60 per cent of families in BC earned less than the average.

BEFORE WE LOOK AT CHANGES in income inequality over time, it is important to examine what the income distribution looks like for families with children in BC and establish just how much money the richest and the poorest families have at their disposal. There are considerable differences in the exact dollar values, depending on whether earnings or after-tax income are considered.

Figure 1 shows the distribution of labour market earnings of families with children under 18 in BC (data for Figure 1 and all subsequent figures in this report, unless otherwise indicated,

Figure 1: Distribution of Earnings for Families With Children in BC, 2006

MEDIAN EARNINGS BY DECILE SHOWN ALONG WITH THE EARNINGS THRESHOLDS FOR EACH DECILE



are from unpublished custom tabulations prepared for the CCPA by Statistics Canada, based on the SCF/SLID surveys). The average family earnings were just under \$70,000 in 2006, but this does not provide much information about the experience of the “typical” family, as close to 60 per cent of families in BC earned less than the average in 2006. The median family earnings were considerably lower at \$60,667.

Both median and average earnings for families with children in BC were lower than the national norms in 2006: families with children in Canada earned \$73,341 on average and \$61,738 at the median. This is a relatively new phenomenon, as family earnings in BC were consistently higher than those at the national level until the late 1990s.¹⁷ It appears that both on average and at the median, BC families with children have lost ground relative to the rest of the country.

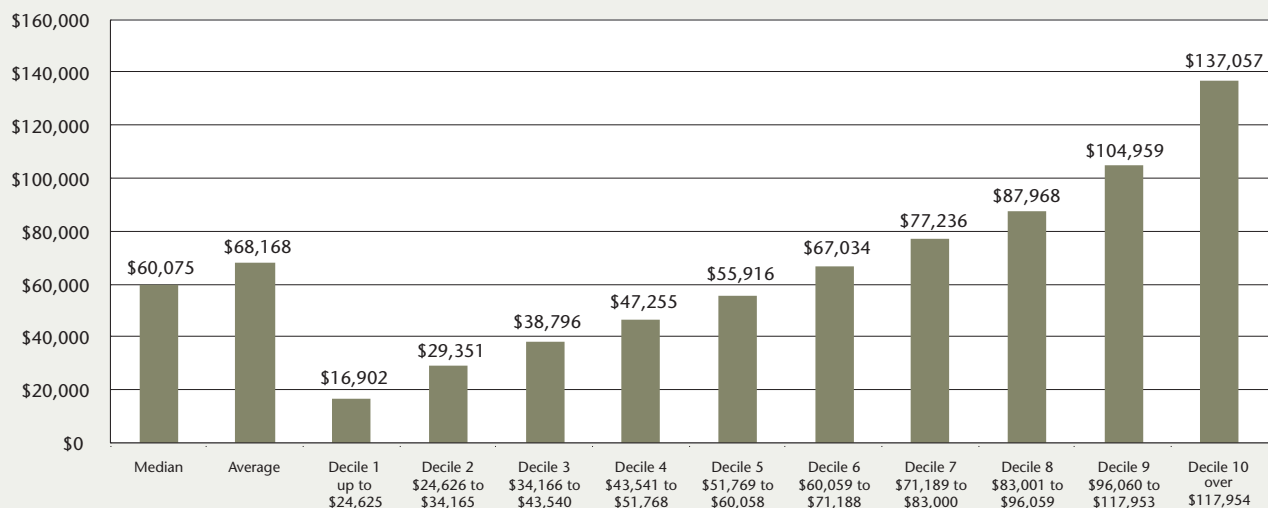
A family that earned \$135,600 or more in 2006 belonged among the highest-earning 10 per cent of families with children in BC. This may come as a surprise since \$135,600 does not seem outrageously high for two earners, especially if they have post-secondary education. Yet, 90 per cent of BC families with children earned less in 2006. In contrast, the lowest-earning 10 per cent of BC families earned less than \$7,200 per year. The median earnings in the bottom decile were only \$47, which indicates that a majority of families in the bottom decile were not able to support themselves on their earnings and must have relied on welfare, employment insurance or some other income support.

Figure 2 shows the after-tax income distribution for families with children in BC. In 2006, the average after-tax income of BC families was \$68,168 or about \$1,650 less than their average earnings, while the median after-tax income was \$60,075. The top 10 per cent of families with children had after-tax income of \$118,000 or more in 2006, while the bottom 10 per cent had after-tax income of less than \$24,700. Breaking down the distribution even more finely, we find that the richest 5 per cent of families with children enjoyed after-tax income higher than \$137,100, while the poorest 5 per cent of families with children—more than 40,000 households—lived on less than \$16,900 in 2006.

A family that earned \$135,600 or more in 2006 belonged among the highest-earning 10 per cent of families with children in BC. In contrast, the lowest-earning 10 per cent of BC families earned less than \$7,200 per year.

Figure 2: Distribution of After-Tax Incomes for Families With Children in BC, 2006

MEDIAN AFTER-TAX INCOMES BY DECILE SHOWN ALONG WITH THE INCOME THRESHOLDS FOR EACH DECILE



There is clearly a substantial gap between families at the top of the income distribution and the rest of BC families, regardless of the definition of income used.

As expected, the difference between the after-tax incomes of the top and the bottom deciles is smaller than the differences in their earnings, which points to the important role that taxes and transfers play for reducing the inequality produced by the labour market. Note also that median after-tax income is much higher than median earnings for the lowest two deciles of families, which shows that government transfers play an important role in boosting the economic fortunes of families at the bottom of the distribution.¹⁸

However, the large difference between average and median family incomes reveals that the income distribution for families in BC is highly asymmetric, with both earnings and after-tax income concentrated at the top half of the distribution. Note, in particular, that the difference between the median incomes of the ninth and tenth deciles is considerably larger than the income differences between other consecutive deciles, and this is true for both earnings and after-tax income. There is clearly a substantial gap between families at the top of the income distribution and the rest of BC families, regardless of the definition of income used.

Changes in Family Incomes and Income Inequality Over the Past 30 Years

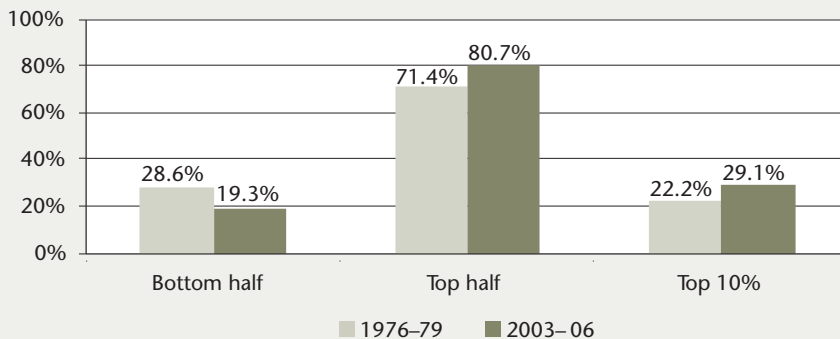
SHARES OF THE INCOME PIE

One commonly used measure of inequality compares the share of income going to the bottom half of the distribution to the income share of the top half or the top 10 per cent. A perfectly equal distribution would split the income pie into shares proportional to the size of each group so each decile would earn exactly 10 per cent of the total income in BC. The further away the split is from the population shares, the more unequal the income distribution.

Figure 3 reveals that inequality increased among families with children in BC between the late 1970s and the early years of the new millennium. While the bottom half of families earned 28.6 per cent of total earnings in the period 1976–79, their share of total earnings dropped by one third to only 19.3 per cent by 2003–06.¹⁹

Inequality increased among families with children in BC between the late 1970s and the early years of the new millennium. While the bottom half of families earned 28.6 per cent of total earnings in the period 1976–79, their share of total earnings dropped by one third to only 19.3 per cent by 2003–06.

Figure 3: Share of Earnings for Families With Children in BC, 1976–79 Compared to 2003–06, Averages



However, this is not a case of half of BC families with children doing better while the other half is losing ground. A closer look at the distribution reveals that almost the entire gain in the top half has gone to the highest-earning 10 per cent of families, whose share of total earnings has grown rapidly over the past 30 years from 22.2 per cent to 29.1 per cent (an increase of close to one third).

As a result, in the early years of the new millennium, the share of earned income going to the top 10 per cent of families with children actually exceeded the share of the earnings going to the bottom half of families. This trend, which was true not just in BC but across Canada,²⁰ represents a new development in family income dynamics over the past 30 years (see Appendix 2 for more detailed provincial comparisons). The data show that the share of earnings going to the bottom half of the distribution in the late 1970s was larger than what was earned by the top 10 per cent in all provinces except for Newfoundland and New Brunswick, where the top 10 per cent of families earned slightly more than the bottom half of the distribution. The striking declines in the share of income going to the bottom half of families with children across Canadian provinces, combined with the large increases in the income shares of the top 10 per cent of families, point to a massive redistribution of income over 30 years.

In the early years of the new millennium, the share of earned income going to the top 10 per cent of families with children actually exceeded the share of the earnings going to the bottom half of families.

The data clearly point to a faster growth of earnings inequality in BC's labour market than at the national level. In comparison with the national average, families in the bottom half of BC's earnings distribution saw a larger drop in their share of earnings as they slid from having a slightly larger share than the bottom half of the national distribution (who earned 26.7 per cent) in the late 1970s, to a slightly smaller share than their counterparts at the national level (who earned 20.6 per cent) between 2003 and 2006. Conversely, the gains for BC's top earning decile were slightly larger than the national average as the share of the highest-earning 10 per cent of Canadian families grew from 23.2 per cent to 29.1 per cent over the period.

We now examine how the shares of earnings of the bottom half and top 10 per cent of families have changed every year between 1976 and 2006. This allows us to check whether the increase in inequality documented in Figure 3 is driven by the choice of the particular years we compare or whether it truly reflects trends over the 30-year period.

Figure 4: Share of Earnings for Families With Children in BC, 1976–2006

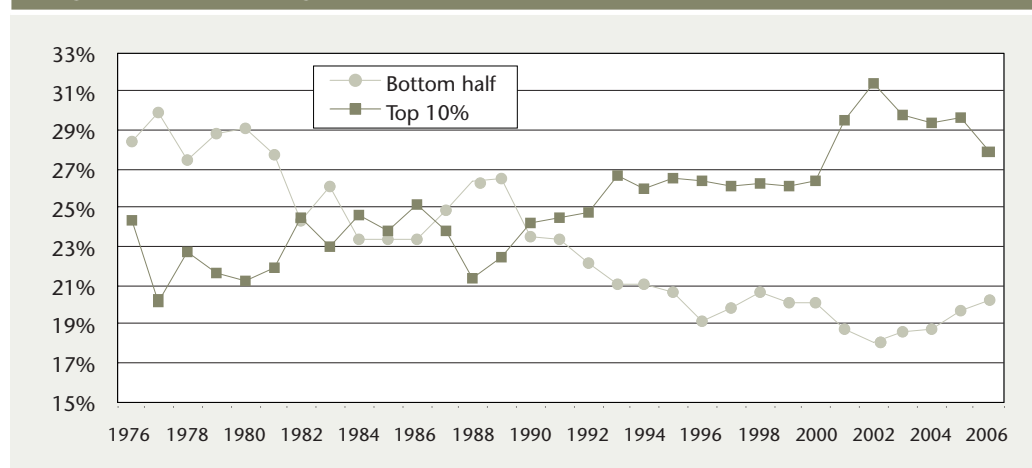


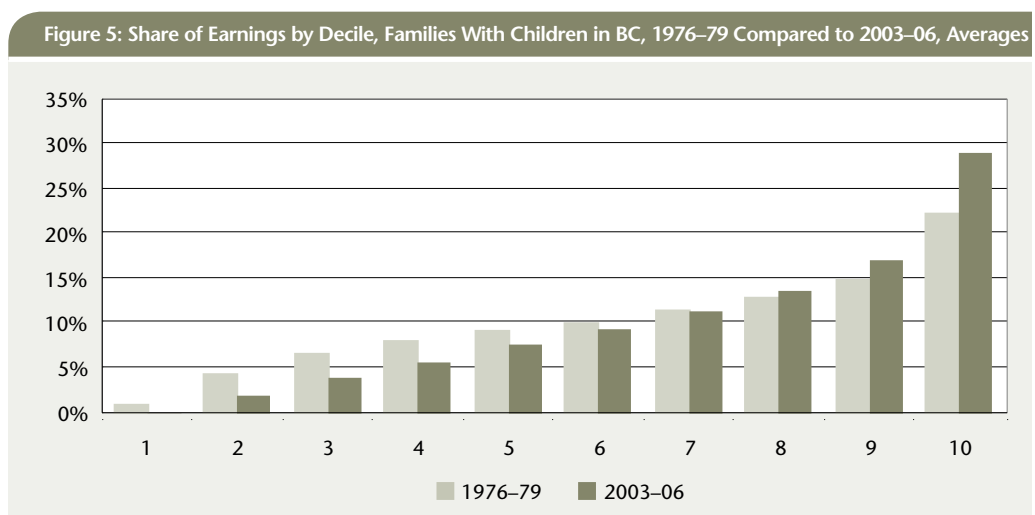
Figure 4 reveals that the share of earnings going to the bottom half of the distribution has fallen steadily over the past 30 years. The only exception was a brief period in the late 1980s when the share of earnings of the bottom half of BC families partially recovered from its earlier fall, but it declined again after 1990. The effects of the business cycle on the share of earnings going to the bottom half of families with children are clear: recessions (in the early 1980s, 1990s and a near-recession in 2001) were accompanied by rapidly declining earnings for the bottom half of families, while periods of economic recovery and boom led to increases in the share of earnings of the bottom 50 per cent—but usually not high enough to compensate for the entire decline of the previous recession. As a result, the share of earnings for the bottom half of the distribution has fallen considerably over time.

As expected, the share of earnings of the bottom 50 per cent of families has been on the rise since 2002 as the BC economy entered a period of economic boom. Yet it has taken four years for their earnings share just to reach its 2000 level and it still remains at one of its lowest levels on record.

In contrast, the share of earnings going to the top 10 per cent of families grew substantially over the same period. It grew slowly until the start of the 1990s, when it rose sharply in 1993 and settled at a new higher level where it remained until 2000. The years 2001 and 2002 represented another strong period of growth for the share of earnings going to the top 10 per cent, which has since declined slightly but is still at one of its highest levels on record.

It is clear that the top 10 per cent of families are taking a bigger share of the earnings pie while the bottom half of the distribution takes home a smaller share than they did in the late 1970s. Figure 4 also demonstrates that a comparison of the earnings shares in 1976–79 and 2003–06 accurately reflects what has happened over the entire 30-year period covered by the available data. Therefore, for the sake of brevity, we focus on the comparison between 1976–79 and 2003–06 in the analysis below.

We now break down the distribution more finely and examine the share of earnings going to each decile of families with children in BC. Figure 5 illustrates even more clearly the fact that the only real income gains have gone to the top 10 per cent of families, whose share of earnings grew dramatically over the 30-year period. In contrast, the shares of the pie going to each of the lowest six deciles declined, more significantly at the bottom of the distribution



than at the higher deciles. There was virtually no change in the share of incomes going to the seventh decile, while the eight and ninth deciles saw slight growth in their shares of earnings.

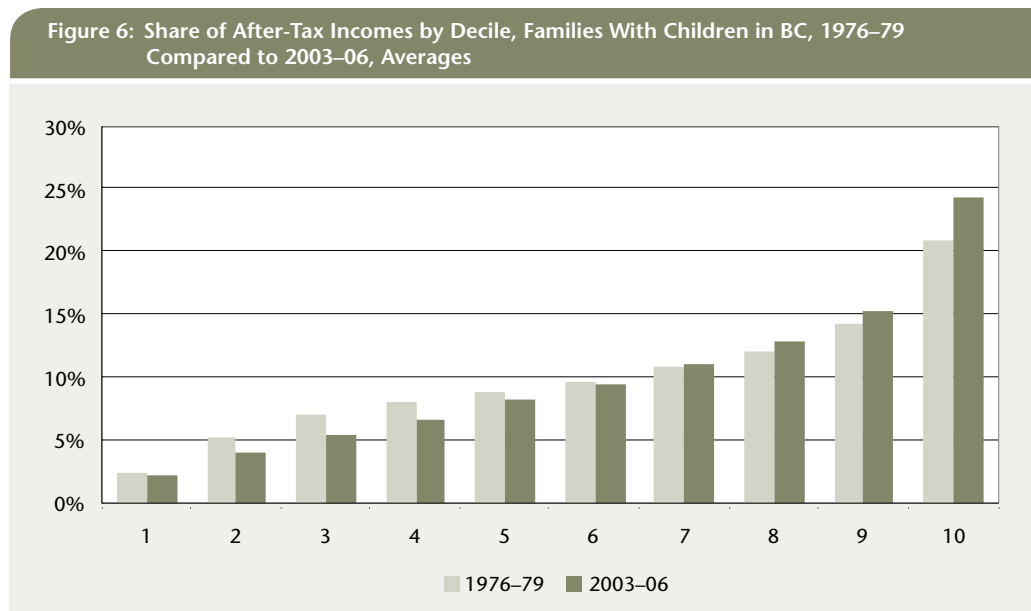
Compared to Canada as a whole, British Columbia saw a particularly rapid growth in the share of earnings going to the top 10 per cent of families with children and a particularly steep decline in the shares of earnings for the lowest three deciles in the distribution.

Compared to Canada as a whole, BC saw a particularly rapid growth in the share of earnings going to the top 10 per cent of families with children and a particularly steep decline in the shares of earnings for the lowest three deciles in the distribution.

It is reasonable to expect that our system of taxes and transfers would offset some of the growing inequality in market earnings. And it does, but only to a limited extent. Looking at after-tax income shows broadly similar trends to what we find with earnings. The share of after-tax income going to the bottom half of families fell,²¹ while the share of income going to the top 10 per cent of families increased substantially since the late 1970s. Figure 6 also reveals that income shares did not change much in deciles six to nine, while the top decile saw a sharp increase in its share of after-tax income, which is similar to what we observed with the distribution of earnings.

It is important to note that while the share of after-tax income going to the poorest decile fell from 2.5 per cent to 2.3 per cent, the declines were much larger for deciles two, three and four. This suggests that the tax and transfer system was fairly successful at compensating the very poorest among families with children for the market-driven decline in their earnings that we saw in Figure 5 (likely due to the federal child tax benefit). However, taxes and transfers do not seem to have done much to moderate the growing earnings inequality for the remaining lower to middle income deciles.

Other recent studies of income inequality in Canada also find that those at the top of the distribution have seen the largest gains in both earnings and after-tax incomes, particularly after the mid-1990s. In addition, researchers who have examined the higher end of the income distribution in more detail, such as economists Emmanuel Saez and Michael Vaell, show that the gains are highly concentrated at the very top even within the top 10 per cent of the income spectrum, with the richest 1 per cent and even 0.01 per cent benefiting the most from the latest decade of economic growth.²²



RATIO OF INCOMES AT THE TOP AND BOTTOM DECILES

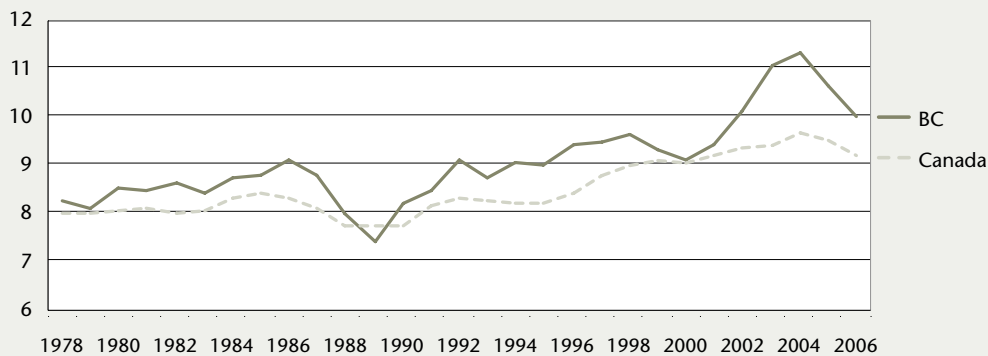
Another way to measure changes in income inequality over time is to track the ratio of the average incomes in the top and bottom deciles of the income distribution. This ratio, often referred to as the income gap, would increase when incomes decline more rapidly at the bottom than at the top, or when incomes at the top grow faster than those at the bottom. Both signal a rise in income inequality.

We focus on the after-tax income gap between the top and the bottom deciles of families with children because after-tax income tends to be much more stable than earnings at the bottom of the distribution. During recessions, earnings for those at the bottom of the income spectrum fall, or even disappear for a time, as some workers lose their jobs. However, government programs such as employment insurance and welfare mitigate the reductions in income, aided by government transfers disbursed through the tax system, such as GST rebates and child benefits.

Figure 7 clearly shows that the after-tax income gap has increased both in BC and Canada over the past 30 years, and that the increase has been much larger for BC. The higher year-to-year variability in the BC income gap is a reflection of the smaller sample size of families with children in BC compared to Canada. Smaller sample sizes tend to produce estimates

The tax and transfer system was fairly successful at compensating the very poorest among families with children for the market-driven decline in their earnings, but it does not seem to have done much to moderate the growing earnings inequality for the remaining lower to middle income deciles.

Figure 7: Ratio of the Average After-tax Income of the Richest and Poorest Deciles, Families With Children, 1976–2006 (3-year moving average)



Note: Each year on the horizontal axis represents the last year of a three year moving average (i.e. the 2006 ratio is the average of the ratios in years 2004 to 2006).

Moving Average

A moving average refers to a statistical technique often used to smooth out short-term fluctuations in a dataset so that it becomes easier to identify and focus on longer-term trends. In a three-period moving average, the first value is simply the average of the first three data points (years 1976 to 1978 in this case), while the next value is the average of data points two to four (years 1977 to 1979) and so forth, until the final value, which is the average of the last three data points (years 2004 to 2006).

In this report, we are interested in examining the longer-term trends in income inequality in BC and Canada, which is why it is appropriate to use moving averages in order to reduce statistical noise created by year-to-year variations in the after-tax income gaps.²³

that are less precise, which makes it particularly important to focus not on the exact values of the income gap in any given year, but on the overall trend over time. This is why we use moving averages when examining the evolution of the income gap in BC.

The longer-term trend for BC is clear: the income gap remained fairly stable until the early 1990s, and since then there has been an unmistakable rise in the income gap. A similar trend is present at the national level, suggesting that inequality in after-tax incomes increased since the early 1990s not just in BC but in other provinces as well.

The gap in after-tax incomes between the richest and poorest families in BC has been consistently higher than the national income gap throughout the whole period. As income inequality in Canada grew, income inequality in BC grew even faster.

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The income gap in BC reached its highest levels in the early 2000s, when the after-tax incomes of the top 10 per cent of families with children were over 11 times higher, on average, than those of the poorest 10 per cent of families, compared to only 8.5 times on average between 1976 and 1990. The sharp rise in the income gap in the early years of the new millennium was driven by two consecutive large increases in average after-tax income of families at the top decile at a time when the average incomes at the bottom decile declined (see Figure 9 on page 23). The subsequent decline in the income gap was the result of a small decline in the incomes of families in the top decile since 2003, accompanied by an increase in incomes at the bottom, which was modest in absolute terms (\$2,571) but large in relative terms (19 per cent).

At the national level, the income gap peaked in 2004 and then declined in the last two years for which data is available. This recent decline was driven by a drop in the after-tax income of families in the top decile, while incomes at the bottom were increasing. At this stage, however, it is difficult to say whether this decline represents a reversal of the previous trend of growing income inequality or is just a temporary fluctuation. Given that other studies of income inequality in Canada find that after-tax income inequality was increasing, not decreasing, between 2000 and 2005, it is very important to continue to monitor the income gap over the next few years.²⁴

Despite the recent declines, both the BC and the national after-tax income gaps remain larger in the mid-2000s than they had ever been before the new millennium.

BC's after-tax income gap ranked among the three highest in Canada for 26 out of the 31 years for which data is available (see Appendix 2).²⁵ While BC has not consistently been the most unequal province in the country, it is becoming increasingly unequal. BC had the highest income gap of all provinces in 2001, 2002, 2003 and 2005²⁶, and the second highest in 2004 and 2006 (second to Ontario and Saskatchewan respectively).

CHANGES IN AVERAGE EARNINGS AND AFTER-TAX INCOME BY DECILE

So far we have examined two indicators of inequality: the change in the share of incomes going to different deciles and the income gap between the top and the bottom deciles of families with children. Both show evidence of increasing inequality in BC since the late 1970s regardless of whether market earnings or after-tax income are considered.

Figure 8 shows the evolution of average family earnings by decile between 1976 and 2006. The low average earnings of the bottom decile of families—less than \$1,000 in 15 of the 31 years for which we have data—suggest that many families did not participate in the labour market.²⁷ The figure also shows that average earnings for the poorest tenth of families were particularly low between 1993 and 2004, and only began to increase in 2005 and 2006. Average annual earnings of the bottom decile of families were just over \$2,000 in 2006, considerably lower than the \$5,000 that the poorest decile of families earned in the late 1970s.

The average earnings of families with children fell uniformly for all deciles from the mid-1970s to the mid-1980s as the BC economy was hit by a recession in the early 1980s, and

The income gap in BC reached its highest levels in the early 2000s, when the after-tax incomes of the top 10 per cent of families with children were over 11 times higher, on average, than those of the poorest 10 per cent of families, compared to only 8.5 times on average between 1976 and 1990.

Figure 8: Average Earnings by Decile, Families With Children in BC, 1976–2006

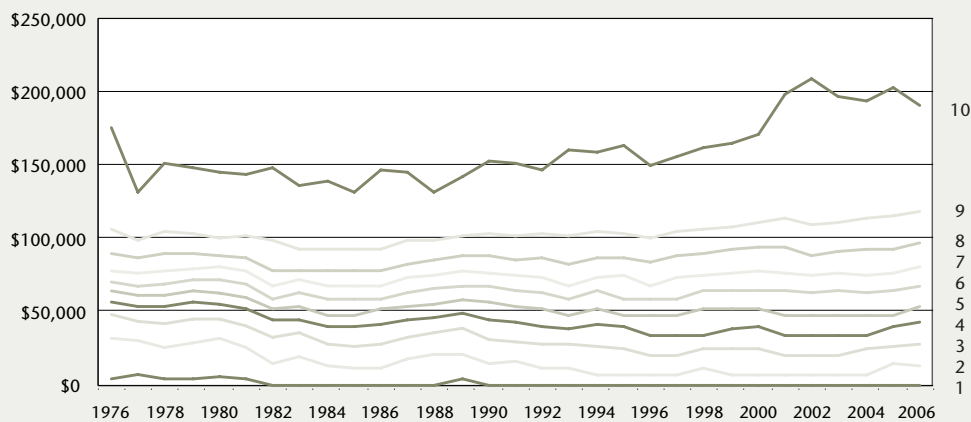
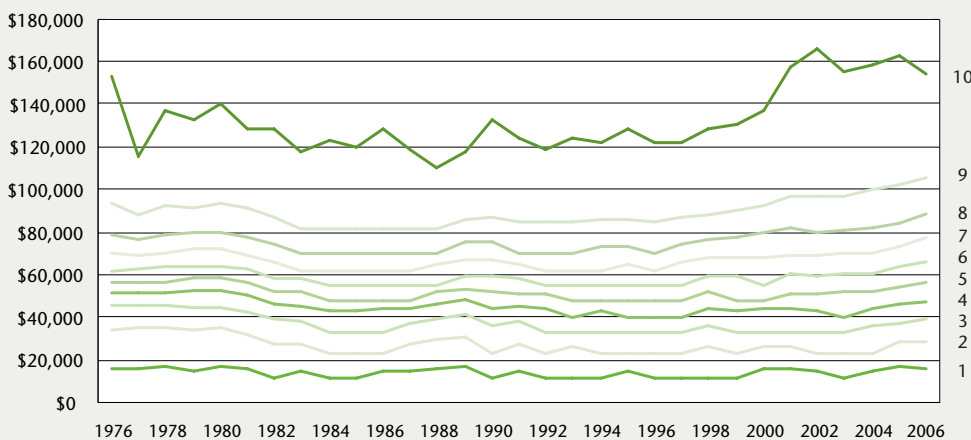


Figure 9: Average After-Tax Incomes by Decile, Families With Children in BC, 1976–2006



all deciles saw a partial recovery in their earnings until 1989. While the recession of the early 1980s and the subsequent recovery and boom affected the earnings of all families with children similarly, this has not been the case since the early 1990s. From that point on, the earning paths of families with children began to diverge as the swings of the economy had different effects on family earnings, depending on the family's position in the income spectrum.

The data show that the recession of the 1990s resulted in earnings falling considerably across the bottom half of the distribution until 1996, but declining only slightly for families in deciles six, seven and eight. Meanwhile, the top two earnings deciles saw an increase in their average earnings, with the highest-earning families making the biggest gains by far.

During the next decade, characterized by an economic boom in BC (with the exception of a brief slowdown in 2000/2001), there were some modest improvements for the bottom four deciles, while earnings for families in deciles five to eight grew by about 4 per cent over the period.²⁸ Earnings grew more significantly for the top two deciles (by 6 per cent and 12 per cent, respectively). The higher up the income scale, the faster the growth in earnings.

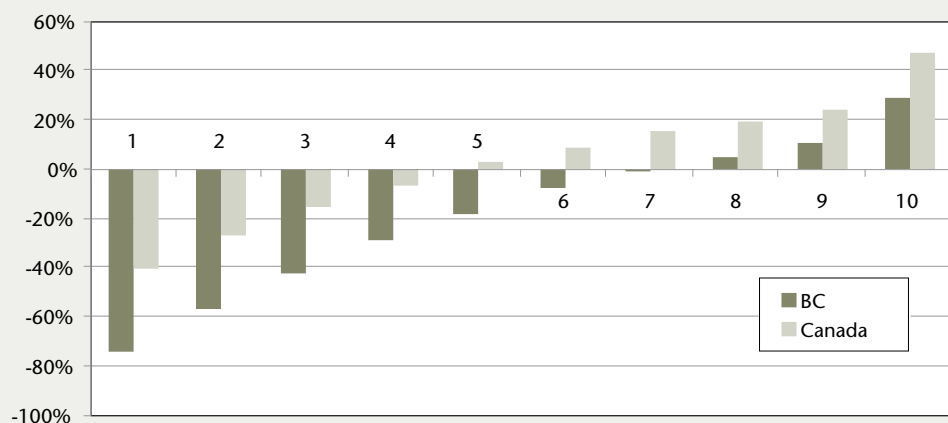
More importantly, families in the bottom half of the distribution in BC saw their real earnings fall behind not only relative to the earnings of families at the top, but in absolute terms as well. The poorer the decile, the larger the absolute decline in their average earnings since the late 1970s. The data show that the economic expansion that BC has experienced since the late 1990s has disproportionately benefited the top 10 per cent of families with children, whose earnings have been pulling away from the rest over the last decade.

In after-tax terms, we see very similar trends of declining incomes for families at the bottom of the distribution and rising incomes for those at the top. Although the magnitude of the changes is smaller than what it was for earnings, changes in after-tax incomes over the past 30 years closely follow the changes in earnings in BC.

Despite strong economic growth in BC since the late 1990s, families in the bottom half of the income distribution in BC are poorer today than their counterparts were in the late 1970s in both relative and absolute terms, regardless of whether earnings or after-tax income are considered. In contrast, families in the top income decile saw their incomes grow dramatically since the late 1990s.

The data show that the economic expansion that BC has experienced since the late 1990s has disproportionately benefited the top 10 per cent of families with children, whose earnings have been pulling away from the rest over the last decade.

Figure 10: Percentage Change in Average Earnings by Decile, Families With Children, 1976–79 Compared to 2003–06



The next two figures summarize the trends in the distribution of earnings and after-tax income illustrated in Figures 8 and 9, and compare them to income changes at the national level (see Appendix 2 for more detailed provincial comparisons). Figure 10 shows the percentage change in average earnings for each decile between 1976–79 and 2003–06 in BC and in Canada. Essentially, this represents the difference in economic fortunes of two generations of families with children. We find that market earnings in BC have declined for the majority of families with children, with the poorest deciles experiencing the largest percentage declines.

Fully 70 per cent of families with children in BC are earning less than their counterparts did a generation ago, and substantially less so for those at the lower tiers of the labour market. Only the highest-earning 30 per cent of BC families have seen increases in their earnings compared to their predecessors, and the gains have been most pronounced for the higher deciles. The average real earnings of the top 10 per cent of families with children were about 30 per cent greater in the mid-2000s than a generation ago, growing from an average of \$152,374 to \$196,457.

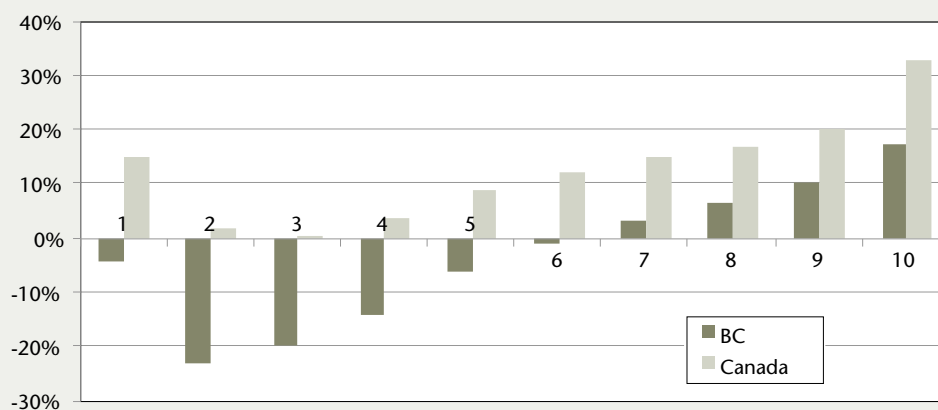
Note that when calculated at the national level, the declines in average earnings are smaller for the poorest deciles, but the rise at the top of the distribution is much larger, with Canadian families in the highest-earning decile seeing an increase of 48 per cent in their average earnings.

As expected, after-tax incomes show more stability over time than earnings: both the gains at the top and the losses at the bottom are smaller than what we find in Figure 10. Nevertheless, the data point to increasing inequality in the distribution of after-tax income since the late 1970s, when the incomes of families at the top and the bottom of the distribution were much closer together (incomes at the bottom were higher, while incomes at the top were lower than in 2006).

One important difference to note between the trends in after-tax income and earnings in BC is that when after-tax income is considered, the poorest 10 per cent of families with children were no longer the ones who experienced the largest drop in their average income since the late 1970s. Instead, the second, third, fourth and fifth deciles all saw bigger declines in their after-tax income than the very bottom decile of the distribution in BC. This suggests that the

Between the late 1970s and the early years of the new millennium, market earnings in BC declined for the majority of families with children, with the poorest deciles experiencing the largest percentage declines.

Figure 11: Percentage Change in Average After-Tax Incomes by Decile, Families With Children, 1976–79 Compared to 2003–06



system of taxes and transfers has been able to partially offset the impact of falling earnings for the poorest 10 per cent of families with children. However, the tax and transfer system has not been able to offset to the same extent the substantial declines in earnings for the remaining deciles at the bottom half of the distribution.

The success of the tax and transfer system at the bottom decile is due largely to the federal Canada Child Tax Benefit, a targeted income support program for families with children, which replaced the smaller but universal family allowance that existed (in various forms) from the mid-1940s to 1993.²⁹ At the national level, the Canada Child Tax Benefit also explains the much larger gains in after-tax income of families in the poorest decile compared to families in deciles two to six.³⁰

Note, however, that the change in average after-tax income for families with children in BC is considerably different from what families experienced in the rest of Canada (see Appendix 2 for detailed provincial comparisons). Nationally, all deciles saw their average after-tax incomes grow since the mid-1970s, although the increases were very small for families in the second and third deciles, whose incomes remained virtually unchanged. The vast majority of Canadian families with children benefited from the economic growth that Canada experienced over the 30-year period and enjoyed higher after-tax income on average. The gains were by no means equally distributed, but at least they were widely spread.

In contrast, BC families in the lowest six deciles saw substantial declines in their after-tax incomes.³¹ That is, while families at the bottom of the income distribution in other provinces fell behind in relative terms, they enjoyed higher real after-tax incomes than they would have in the late 1970s. Families in the bottom 60 per cent of the income distribution in BC, however, are poorer today than their counterparts were in the late 1970s in both relative and absolute terms, regardless of whether earnings or after-tax incomes are considered.

In summary, it is not just poor families in BC who are worse off than ever before, but the middle class is struggling too, and much more so than in the rest of Canada. BC families in the lower tiers of the income spectrum saw larger declines in their real after-tax incomes than those higher up, but even families in the middle of the distribution—deciles four to six—saw their average after tax incomes drop over the last 30 years.

It is not just poor families in BC who are worse off than ever before, but the middle class is struggling too, and much more so than in the rest of Canada. BC families in the lower tiers of the income spectrum saw larger declines in their real after-tax incomes than those higher up, but even families in the middle of the distribution saw their average after tax incomes drop over the last 30 years.

The Growing Gap in Context

OUR FINDINGS SO FAR paint a bleak picture of increasing income inequality among families with children in BC. Between 1976 and 2006, real incomes declined for a large number of families with children, while the only substantial gains were made by families at the very top. These findings are even more alarming when they are situated in the context of the strong economic growth that BC has experienced over the same period.

BC's economy almost doubled in real terms between 1981 and 2006, growing from \$84.5 billion to \$159.7 billion (in 2002 dollars), while the labour force grew by 63 per cent, largely due to the increased labour force participation of women. The BC economy grew faster than the provincial population and we saw real GDP per capita increase by one quarter from \$29,916 to \$36,352 (in 2002 dollars). However, economic growth did not translate to higher earnings for a substantial majority of families with children. Despite record-low unemployment rates in the mid-2000s, 70 per cent of families with children earned less than what their counterparts had in the late 1970s (as Figure 8 shows). In addition, we find

Economic growth in BC did not translate to higher earnings for a substantial majority of families with children. Despite record-low unemployment rates in the mid-2000s, 70 per cent of families with children earned less than what their counterparts had in the late 1970s.

Table 1: The Growth of British Columbia's Economy

	GDP (in chained 2002 \$ millions) ^a	GDP per capita (in chained 2002 \$) ^a	Labour force (in 000s) ^b	Unemployment rate ^b
1981	\$84,482	\$29,916	1,416	6.8
1991	\$101,593	\$30,115	1,751	9.9
2001	\$134,403	\$32,709	2,083	7.7
2006	\$159,733	\$36,352	2,305	4.8
% Change				
1981 to 2006	89%	24%	63%	-29%
1991 to 2006	57%	23%	32%	-52%
2001 to 2006	19%	13%	11%	-38%

Sources: ^a Statistics Canada, CANSIM Table 384-0013.

^b BC Stats, *Labour Force Activity for British Columbia and Canada – Annual Averages*.
www.bcstats.gov.bc.ca/data/dd/handout/bccanlfs.pdf.

evidence that income inequality grew particularly fast after the mid-1990s, a period that saw the fastest growth in GDP per capita. The main concern that arises from these findings is not just that families did not benefit equally from the growth of BC's economy, but that a large number of families did not benefit at all.

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Previous CCPA studies of family incomes in Ontario, Manitoba and at the national level found that the increased earnings inequality among families with children in these jurisdictions cannot be explained by increased disparities in families' work effort.³² On the contrary, these studies document that families in virtually all earnings deciles worked more weeks per year in the mid-2000s than their counterparts did in the late 1970s, and yet their real earnings fell, stagnated or increased only slowly, depending on the family's position in the earnings distribution. The top decile was the only exception: the highest-earning families worked fewer weeks per year than their predecessors but earned considerably more.

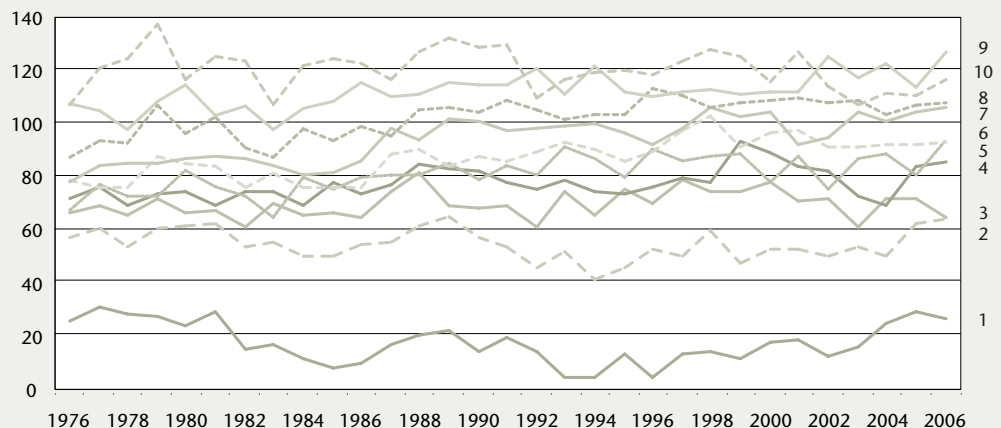
The BC data reveals a similar trend: the majority of families are working more without earning more. Figure 12 shows the average weeks worked annually by families in each earnings decile between 1976 and 2006.

Over the past 30 years we have seen a dramatic increase in the labour force participation of women, which has led to a rise in the proportion of two-earner families. Every decile except the bottom two reported well over 52 weeks of employment per year on average. While in the late 1970s only the top two deciles averaged over 100 weeks worked—the equivalent of two full-year earners in the family—by 2006 40 per cent of families worked over 100 weeks annually, and those in the next two deciles came very close, averaging more than 90 weeks per year.

Generally, average weeks worked are higher for each consecutive earnings decile, although weeks worked were very similar in the middle of the distribution (deciles four, five and six). Figure 12 also reveals that average weeks of work fluctuated as the economy entered periods of recessions and booms, but generally stayed the same for deciles two and three, and increased over time for families in all other deciles except the top and bottom 10 per cent.

The bottom decile is a special case because it by definition includes the families that did not participate in the labour market in any given year. As a result, the average weeks worked

Figure 12: Average Weeks of Employment by Earnings Decile, Families With Children in BC, 1976–2006



in this decile do not fully reflect the work effort of the lowest-earning families who were employed and are thus not directly comparable to the work effort of families in the top nine earnings deciles.

Table 2 compares average earnings and average weeks worked for families in each earnings decile in two periods of relatively strong economic conditions, 1976–79 and 2003–2006. It reveals that for many families with children in BC, working more weeks per year has not led to higher earnings compared to their counterparts 30 years ago.

The decline in the average weeks worked for the bottom decile of families is likely the result of more families being unable to participate in the labour market in the early years of the new millennium. Families in the bottom earnings decile who worked at least one week during the year reported an annual average of 41 weeks worked in the period 1976–79 and 45 weeks worked in the 2000s.³³ In any case, the enormous drop in average earnings in the bottom decile (74 per cent) was grossly disproportionate to the 14 per cent decline in average weeks worked per year.

Table 2 also shows that average weeks worked remained essentially unchanged for families in deciles two and three, while their average annual earnings declined substantially over the period. Similarly, even though weeks of work increased in the middle of the distribution (deciles four to seven), there was no corresponding increase in average annual earnings. The opposite is true at the very top of the distribution: the highest-earning 10 per cent of families worked fewer weeks on average in the mid-2000s and yet saw a dramatic increase in their average earnings compared to their counterparts in the late 1970s.

When we compare the change of average work effort with the change of average earnings over the past 30 years, we find no evidence of increased disparities in work effort by earnings decile that could explain the increased earnings inequality among families with children in BC.

Even though weeks of work increased in the middle of the distribution, there was no corresponding increase in average annual earnings. The opposite is true at the very top of the distribution: the highest-earning 10 per cent of families worked fewer weeks on average in the mid-2000s and yet saw a dramatic increase in their average earnings compared to their counterparts in the late 1970s.

Table 2: Percentage Change in Average Annual Weeks Worked and Earnings by Earnings Decile, Families With Children in BC, 1976–79 to 2003–06

Earnings Decile	Average Annual Weeks Worked				Average Annual Earnings		
	1976–79	2003–06	Average Difference	% Change	% Change	1976–79	2003–06
1	28	24	-4	-14%	-74%	\$5,140	\$1,336
2	58	58	0	-1%	-57%	\$29,225	\$12,666
3	68	68	-1	-1%	-42%	\$45,277	\$26,212
4	72	78	5	7%	-29%	\$55,204	\$39,370
5	73	88	15	21%	-18%	\$62,841	\$51,492
6	81	92	11	14%	-7%	\$69,801	\$64,890
7	83	104	21	25%	-1%	\$78,069	\$77,208
8	95	107	11	12%	5%	\$88,888	\$93,612
9	105	120	16	15%	11%	\$103,746	\$114,753
10	123	111	-12	-10%	29%	\$152,374	\$196,457

What Can BC Do About Rising Inequality?

As BC begins to feel the consequences of the global economic downturn more acutely, income inequality among families with children is likely to grow.

OUR STUDY DOCUMENTS a significant erosion in the earning power for the majority of BC families with children, and a considerable increase in family income inequality between 1976 and 2006. The rise in income inequality is not something unique to BC or even Canada. Inequality has grown in the entire developed world since the 1980s, which suggests that at least some of the causes of this phenomenon must be global. That being said, our analysis shows that income inequality in BC is higher than inequality at the national level, so there must be some BC-specific factors that compound the effects of the global forces at play.

Technological change, the industrial restructuring of the economy in response to international trade and the decline in unionization are among the most frequently cited explanations for the nationwide trends of rising inequality and stagnant real earnings for those in the middle of the distribution since the 1980s. These are often regarded as impersonal forces that governments have no control over, and thus bear no responsibility for. This is simply not correct. Public policy plays a crucial role in how we adapt to structural change and in regulating the rate of change itself: well-designed policies successfully lessen the negative effects of changes, while misguided policies compound the problems.

This is clearly illustrated by the fact that while inequality rose internationally, it did not increase at the same rate everywhere. Countries such as the US, UK and Canada have experienced particularly rapid increases in the gap between their richest and poorest citizens, while many European countries have managed to maintain a much more equitable income distribution. A recent OECD report documents that incomes are more equally distributed in countries with higher social spending, suggesting that governments have been able to reduce the gap between the rich and the poor with effective social policies.³⁴

There are a number of possible policy interventions that can help reduce earnings and income inequalities in BC. More important than the mix of policy tools selected, however, is to ensure that the goals of reducing the income gap are clearly formulated and explicitly

included in the range of goals the BC government pursues. The objectives need to be set out clearly, with concrete targets and timelines that governments can then be held accountable for.

As BC begins to feel the consequences of the global economic downturn more acutely, income inequality among families with children is likely to grow. When the economy slows down or enters a recession, earnings for families at the bottom of the income spectrum tend to fall or even disappear for a time as some workers lose their jobs. Government programs such as employment insurance and welfare are designed to provide replacement income for those who qualify, but eligibility criteria have tightened for both types of programs since the early 2000s. Since much fewer people qualify for coverage, a recession in BC is likely to leave many families struggling to make ends meet. BC already has the highest levels of child poverty in Canada, with 16 per cent of children living in families whose after-tax income falls below Statistics Canada's low income cut-off in 2006. BC also has the highest overall poverty rates in the country at 13 per cent.³⁵ Poverty is likely to become an even bigger problem during a recession if the government fails to take action.

There are two approaches that a government can take to reduce income inequality among families. The first approach recognizes that the labour market has become increasingly unequal and aims to remedy the earnings inequalities that have already occurred through the system of taxes and transfers. The second approach entails direct labour market intervention and aims to make the earnings distribution more equal in the first place. A comprehensive plan would focus on both.

RECOMMENDATIONS

1. Make the provincial tax and transfer system fairer

Strengthening the redistributive role of the tax and transfer system will go a long way towards ensuring that there is less inequality. Redistribution benefits not only the poor, but also middle income earners. Much of the income redistribution in Canada happens at the federal level and there is strong evidence that Canada achieved less redistribution in the mid-2000s than it did in the mid-1990s.³⁷ To prevent federal policies from derailing provincial efforts to close the inequality gap in BC, the provincial government should lead other provinces in lobbying the federal government to increase federal supports for families and make the federal tax and transfer system more progressive.

Canada already has progressive income supplementation programs like the Canada Child Tax Benefit, the GST credit and the Working Income Tax Benefit that mitigate some of the increased earnings inequality among families. However, more can be done to prevent those at the lower tiers of the labour market from falling behind, as they have done over the past 30 years. These income supplementation programs should be increased in value and the income thresholds at which benefits are reduced should be raised so that more families benefit.³⁸ The federal government should also reform employment insurance (EI) so that more workers are eligible, increase EI benefit rates, and extend the duration of EI coverage.

The BC government should increase its own modest wage supplementation program for low-income earners and discontinue its current practice of clawing back parts of federal child benefits from provincial social assistance benefits.

The above measures focus on increasing the incomes for those at the bottom end of the earnings distribution, which would at least partially reverse the real income declines that these families experienced both in absolute terms and relative to the top of the distribution. However, to the extent that rapidly rising incomes at the top are what has driven the growing income inequality since the 1990s, measures concentrated on low earning families would not close the growing gap between those at the top and the rest of families.

There are two approaches that a government can take to reduce income inequality among families. The first approach recognizes that the labour market has become increasingly unequal and aims to remedy the earnings inequalities that have already occurred through the system of taxes and transfers. The second approach entails direct labour market intervention and aims to make the earnings distribution more equal in the first place. A comprehensive plan would focus on both.

Consequently, a government that is serious about reducing income inequality would have to consider compressing the distribution of after-tax income by taxing the most affluent more than is currently the case. This is particularly important in light of the fact that both federal and BC tax cuts implemented over the past decade have disproportionately benefited higher earners, thus compounding rather than offsetting market driven income inequality.³⁹ This imbalance needs to be reversed. The provincial government should increase its top personal income tax rate and consider creating a new tax bracket for the very rich, for example those earning over \$250,000.⁴⁰

A progressive personal income tax system is an essential redistributive tool. Another policy that would make the provincial tax system more progressive is abolishing individual Medical Service Plan premiums and collecting money for the BC health system solely from progressive income taxes.

2. Expand and improve public services and social programs that benefit everyone

In addition to ensuring that families have access to sufficient cash income, the BC government can do a lot to enhance the economic well-being of families with children by improving and expanding public services and social programs that contribute to greater equality of opportunity even among families with very different incomes. Access to high quality education for all children, and opportunities for parents to upgrade their education or retrain later in life, affordable child care, and subsidized social housing would promote social inclusion and offset some of the negative impacts of low income on families' well-being.

Such programs will have enormous pay-offs in the long run, but they will likely require a substantial public investment in the near term. Tax increases for income earners in the upper decile or two can play an important role in financing these programs while simultaneously addressing growing inequality at the top end.

3. Set out a clear poverty reduction plan

The recent CCPA report *A Poverty Reduction Plan for BC* calls on the provincial government to develop a clear plan with legislated, concrete targets and timelines to reduce income inequality and protect the most vulnerable families. The report outlines the core features of such a plan and puts forward a large package of recommendations that policy makers can draw on. Many of these recommendations would boost the earnings and after-tax incomes

of British Columbians at the bottom of the income spectrum, thus also reducing the growing income inequality among families with children in BC.

With the next provincial election scheduled for May 2009, all political parties need to commit to such a plan. This is the only way to ensure that the government's stated goals, such as "helping BC realize its full potential as the best the best place on Earth to raise a family," move beyond inspirational rhetoric and become a reality for BC families.

4. Improve the earnings and working conditions of low-wage workers

The BC government should use policy tools to ensure that the labour market benefits workers at the lower end of the earnings distribution. Increasing the minimum wage to a level that ensures that no full-time worker lives in poverty (currently \$10.60 per hour) and indexing it to inflation would be a good start on addressing the problems of the working poor. Enhancing labour legislation around collective bargaining, proactively enforcing labour standards, and implementing a broad agenda of education and advocacy on workplace rights are just a few of the policies that would improve the earnings and working conditions of those at the lower tiers of the labour market and thus mitigate rising earnings inequalities.

Both federal and BC tax cuts implemented over the past decade have disproportionately benefited higher earners, thus compounding rather than offsetting market driven income inequality. This imbalance needs to be reversed.

5. Increase access to social assistance

The BC government controls the provision of social assistance, which is an important lever for boosting incomes at the bottom of the distribution. The government needs to reform welfare to ensure that income assistance is accessible to those in need. In addition, benefit rates should be substantially increased and then indexed to inflation so they can provide adequate levels of income supports for those who are not able to work.

6. Increase support for disadvantaged groups

Researchers who study poverty recognize that some groups face persistent barriers to their full participation in the labour market, which leads them to earn consistently lower incomes than the rest of the population. Our analysis does not allow us to identify or study marginalized groups in particular, but data from Statistics Canada shows that among working-age people in BC, the disadvantaged groups include Aboriginal people, people with disabilities, single mothers, and recent immigrants and refugees.⁴¹ The BC government should address the specific structural barriers faced by each of these groups to ensure that the benefits of economic growth are shared more equitably in our province.

Conclusion

Income inequality among families with children has increased, and this increase is driven both by substantial declines in incomes at the bottom and by increasing concentration of income at the very top of the distribution, a new phenomenon that began in the mid-1990s.

BC IS ONE OF THE WEALTHIEST provinces in Canada and has experienced particularly strong economic growth in the past decade. Record low unemployment levels in the mid-2000s should mean that more, rather than fewer, people share the prosperity brought about by economic growth. However, this report presents evidence that this has not been the case.

Our analysis of earnings and after-tax income of BC families over the past 30 years documents some disturbing trends. Income inequality among families with children has increased, and this increase is driven both by substantial declines in incomes at the bottom and by increasing concentration of income at the very top of the distribution, a new phenomenon that began in the mid-1990s. BC has seen a massive redistribution of income from families at the lower tiers of the income distribution to those in the very top decile, whose share of both earnings and after-tax total income has grown rapidly over the past 30 years.

We also find that income inequality among families with children in BC is higher than the national average, and has been so throughout the period studied (i.e. BC has a higher ratio of average after-tax income of the top 10 per cent of families to the average after-tax income of the bottom 10 per cent).

While we have not consistently been the most unequal province in the country, BC has ranked among the top three most unequal provinces in 26 out of 31 years for which data is available. What is particularly concerning is that our province is becoming increasingly unequal—we had the highest income gap in 2001, 2002, 2003 and 2005 and the second highest in 2004 and 2006 (second to Ontario and Saskatchewan respectively).

Not only is the economic pie more unevenly distributed now than it was in the late 1970s, but the majority of the current generation of BC families with children have seen their real incomes fall over the last 30 years. Despite working more weeks per year and being better educated, the bottom 70 per cent of BC families with children are earning considerably less in real (inflation-adjusted) terms than their counterparts earned in the late 1970s. Clearly, it is not just the poor families who are worse off, but the middle class is struggling too. This is particularly problematic when we consider the fact that income mobility has declined over the past decade.

The after-tax incomes of BC families fare somewhat better, as government taxes and transfers mitigate labour market inequality, but not nearly as well as they used to. As a result, average after-tax incomes remain lower for the bottom 60 per cent of families in 2006 than they were a generation ago. This stands in sharp contrast to what we observe in other provinces, where average after-tax incomes have increased for families in virtually all deciles since the late 1970s. In light of these findings, it is hardly surprising that BC is the province with the highest levels of both adult and child poverty in Canada.⁴²

Increasing income inequality in BC and the growing polarization between the top and the bottom ends of the income spectrum are serious reasons for concern—particularly when we consider that our findings are quite likely understatements of the actual levels of income inequality in BC. Economists Marc Frenette, David Green and Kevin Milligan argue that the numbers in the top and bottom deciles of the income distribution in our dataset are less extreme than what is truly taking place, and consequently, measures of income inequality based on the SCF/SLID data underestimate the true increases in inequality in our society.⁴³

Our province is becoming more unequal in the 21st century than ever before and middle-class families have been squeezed to an extent not seen elsewhere in Canada—but there is nothing inevitable about these trends. Appropriate public policies can reverse the growing income inequality and improve the quality of life of both poor and middle-class families. The provincial government can and should take immediate action to address the growing problem of income inequality and protect the most vulnerable families as we head into a recession.

Our province is becoming more unequal than ever before and middle-class families have been squeezed to an extent not seen elsewhere in Canada—but there is nothing inevitable about these trends. Public policies can reverse the growing income inequality and improve the quality of life of both poor and middle-class families.

NOTES

- 1 See, for example, CIHI (2004) for a discussion of income as a determinant of health and Phipps and Lethbridge (2006) for a discussion of the links between family income and children's outcomes.
- 2 The source of these finding is a survey conducted in 1999 by the International Social Survey Program, which is considered to be the best international survey data on attitudes towards income inequality. It found that the majority of respondents in every country said the difference in incomes between rich and poor in their country was "too large," including 71 per cent of Canadians (Kenworthy, 2008, pp. 28-29).
- 3 Furman and Stiglitz, 1998.
- 4 See, for example, Chapter 2 in Kenworthy (2008) and the collection of essays *Why Inequality Matters in 1,000 Words or Less* (Canadian Centre for Policy Alternatives, 2008).
- 5 See, for example, Beach and Finnie (2004).
- 6 Yanizyan (2007a), Osberg (2008), Heisz (2007), Frenette, Green and Milligan (2007), among others.
- 7 For example, Sanga (2000) and Yalnizyan (2000).
- 8 The SCF provided data from 1976 until 1996 when it was replaced by the SLID. The SLID includes slightly different questions and allows some linkage with tax data for a more accurate measure of income.
- 9 Analyzing individual earnings, on the other hand, provides a better idea of how the labour market works since employment decisions are made at the individual level (although even here family considerations can play an important role, e.g. a spouse taking a higher-paying job or switching from part-time to full-time work to compensate for the main earner's loss of earnings).
- 10 In 2006, 41.3 per cent per cent of people in BC and 44.6 per cent per cent of people in Canada lived in families with children. These proportions were much higher in the late 1970s (59.1 per cent and 64 per cent per cent respectively), when fertility rates were higher and fewer people lived on their own as unattached individuals. (Author's calculations based on Statistics Canada, 2008, *Income Trends in Canada 1976 to 2006*, Table 202-0903).
- 11 Other sources of income include scholarships and bursaries, disability pensions and old age pensions (over the last three decades a small number of families with children under 18 were headed by adults over the age of 65).
- 12 For an excellent introduction to the challenges of describing the distribution of income and guidelines for analysis, see Skuterud, Frenette and Poon (2004).
- 13 There is a lag of approximately two years in the income information available from the SLID (or any other source of income data, such as the Census or tax files data). At the time of publication, the latest available income data was for 2006.

- 14 For a more detailed explanation on why the two periods are comparable, see Appendix 1.
- 15 This is the same idea as the Lorenz curve (one of the standard measures of income inequality), but instead of plotting the shares of income over the continuous income distribution we have calculated income shares by deciles.
- 16 Averages are the standard metric used for comparing deciles of the income distribution in the economic literature, although the use of medians is becoming increasingly common, as medians tend to be more stable than averages when sample sizes fluctuate. However, medians refer to a very precise location in the distribution (the exact mid-point) and thus do not capture changes in other parts of the distribution. We have chosen to use decile averages to describe the distribution of income within deciles because the average takes into account all observations in the decile. The main drawback of using averages is that they tend to be sensitive to outliers. However, dividing the distribution into deciles minimizes this problem in all but the top and the bottom deciles.
- 17 Median earnings of BC families consistently exceeded the Canadian median until 1998, while average family earnings in BC were higher than the Canadian average until 1997 (with the exception of a short period in the late 1980s, when the Canadian average was slightly higher). Median and average after-tax incomes in BC also generally exceeded the Canadian median/average until 1998 (with the exception of a few years in the late 1980s), and have been consistently lower than the national levels since.
- 18 Note that deciles were created independently for each of earnings and after-tax incomes, so it is not necessarily the same families in the bottom decile for earnings that are in the bottom decile for after-tax incomes.
- 19 We average the income shares earned over four years in the beginning and the end of the period in order to minimize the effects of yearly fluctuations on the results. See Appendix 1 for a discussion on why the two periods are comparable.
- 20 It is not clear whether this is the case for PEI, as the number of families with children in the SLID sample is too small for decile calculations to be made for this province.
- 21 Adding up the shares of after-tax income going to each of the bottom five deciles of the distribution shows that in 1976–79 the bottom half of families had 31.8 per cent of the total income after tax, while by 2003–06 their share had fallen to 26.9 per cent.
- 22 Saez and Vaell (2005).
- 23 There is considerable year-to-year variability in the BC income gap in particular, which is likely the result of statistical noise created by the variations in the sample size of the SLID and the relatively small sample of families with children in BC. Between 1976 and 1984, the SCF had alternating large and small sample sizes. For families with children in BC, this meant that a sample of about 600 families was followed by a sample of about 1,600 families. After 1985, the SCF sample size stabilized to about 1,400 families per year in BC, and has since decreased gradually over time to about 760 in 2006. The small sample sizes of families with children reflect declining total sample sizes in the SCF and SLID as well as the declines in birth rates and the increase in the numbers of people living alone (in families of one person), both of which result in a reduction in the proportion of families with children in the general population. However, the SLID sample is carefully drawn to be representative of the population and each observation is weighted differently, depending on the number of people/

- families in the general population that the observation represents. As a result, the relatively small number of families surveyed in BC can produce data representative of the over 463,000 families with children in BC in 2006.
- 24 A recent OECD study documents increasing after-tax income inequality in Canada between the mid 1990s and 2005, as well as between 2000 and 2005, which they attribute in part to the decreased redistribution effects of the Canadian tax and transfer system over the past decade (OECD, 2008).
 - 25 Note that PEI is excluded from the comparison as the number of families with children in the SLID sample is too small for decile calculations to be made separately for this province.
 - 26 In 2005, Ontario, Saskatchewan and BC tied for the highest income gap in Canada (9.6).
 - 27 It is likely that many of the families in the bottom earning decile were single-parent families, as we know that about 19 per cent of non-senior families with children in BC were headed by a single parent in 2006 and that employment rates are much lower among these families than among two-parent families. However, our dataset does not allow us to check what proportion of families in the bottom decile were headed by a lone parent.
 - 28 Earnings in the bottom decile grew by almost 90 per cent between 2000 and 2006, which sounds impressive but translates to only \$960 over the six-year period. Growth was stronger for the second decile—about \$3,000 over the period. The income growth for deciles three to seven amounted to about \$2,800 over the period.
 - 29 In 1993, the income-tested Child Tax Benefit (CTB) was introduced to replace the family allowance and the existing child tax credits. In 1998, the CTB was replaced by the Canada Child Tax Benefit (CCTB).
 - 30 The gains in average after-tax income of the bottom decile in Canada are much less impressive than it appears from the percentage change: the 15 per cent increase in after-tax incomes amounts to just over \$2,340 or \$195 more a month than their counterparts had in the late 1970s.
 - 31 Families in the second and third decile in Saskatchewan and Ontario also had lower after-tax incomes in the mid-2000s than in the late 1970s, but the declines were much smaller than BC's.
 - 32 See Yalnizyan (2007a), Yalnizyan (2007b), and Hudson and Pickles (2008).
 - 33 The latter is calculated as the average weeks worked in the four years when data was available: 2000, 2001, 2005 and 2006. Data on weeks worked for families in the bottom decile was not available for 2002, 2003 and 2004 because of the small proportion of families in this decile who reported actually working during these years.
 - 34 OECD (2008).
 - 35 As measured using Statistics Canada's low income cut-off after tax. In comparison, the overall poverty rate for Canada was 10.5 per cent, while the child poverty rate was 11.3 per cent in 2006 (Statistics Canada, CANSIM Table 202-0802).
 - 36 Ibid.
 - 37 OECD, 2008.
 - 38 The Caledon Institute has argued that increasing the Canada Child Tax Benefit and extending benefits to a majority of non-poor families would substantially reduce poverty among families with children (Battle, 2008). It is also important to increase

the Working Income Tax Benefit to provide incentives for individuals to enter the labour force and ensure that work pays even for the lowest earners. This should be accompanied by an increase in the minimum wage to prevent wage supplements from being used to subsidize low-wage employers.

- 39 A number of CCPA studies on tax incidence have documented that recent tax cuts have made the tax system less progressive, rather than more progressive. Lee (2007) reviews of the distributional impacts study of federal tax cuts between 1990 and 2005, while Murray (2005 and 2007) shows that recent BC tax cuts have largely benefited high income earners.
- 40 Only 0.57 per cent of British Columbian tax-filers had individual total incomes in excess of \$250,000 in 2005 tax year (Canadian Revenue Agency, Income Statistics, Final Statistics 2007 edition (2005 tax year), Summary of Basic Tables 2: All Returns by total income class, British Columbia, www.cra-arc.gc.ca/gncy/stts/gb05/pst/fnl/st2bc-eng.html).
- 41 See Klein et al. (2008) for a detailed discussion of marginalized groups in BC for whom poverty is most acute.
- 42 As measured using Statistics Canada's low income cut-offs after tax (Statistics Canada, CANSIM Table 202-0802).
- 43 Frenette et al. (2007) document that measures of income inequality based on the SCF/SLID dataset tend to underestimate the true levels of income inequality in Canada, as calculated using Census data. They hypothesize that the difference is caused by the under-coverage of the very low-income and the very high-income people by telephone surveys such as the SLID (because much of the action takes place in the tails of the distribution). The SLID has a coverage rate of 80 to 85 per cent of the Canadian population, compared to 96 to 98 per cent for the Census.

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Are the Late 1970s Comparable to the Mid-2000s?

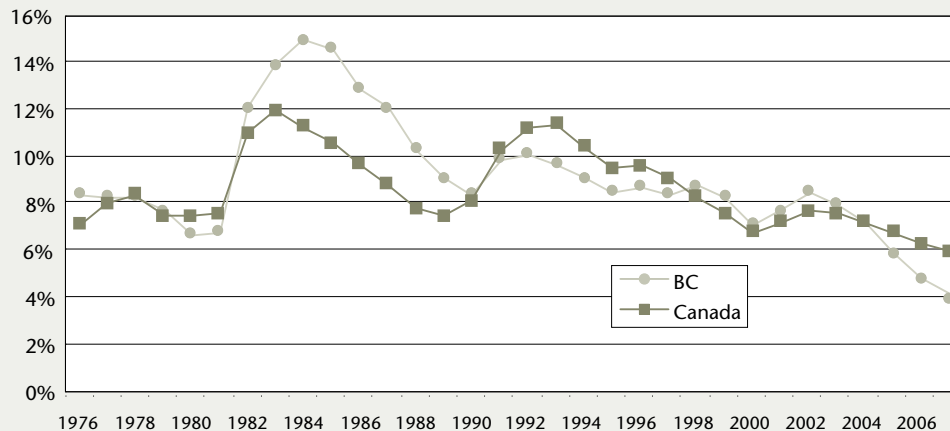
Income inequality has been shown to vary with the expansions and contractions of the economy, so it is reasonable to ask whether the late 1970s and the early years of the new millennium are comparable periods in terms of their position in the business cycle.

When comparing the distribution of family earnings over time, it is particularly important to situate the results in the context of the business cycle because periods of unemployment are likely to be more frequent and longer in recessions and would therefore result in increased earnings inequality during times of economic downturn. After-tax income is a lot less variable over the business cycle because the progressive tax system and the government transfers available to those with lower incomes smooth out some of the inequality produced by the labour market.

Unemployment rates are often used as an indicator of the business cycle and the figure below shows that the BC economy went through three full business cycles between 1976 and 2006. The economy was at a business cycle peak in 1980 or 1981 (with unemployment rate around 6.7 per cent), in 1990 (8.4 per cent), 2000 (7.1 per cent) and 2007 (4.2 per cent).

Clearly, both 1976–79 and 2003–06 fall in periods leading up to business cycle peaks and are characterized by strong economic growth and low unemployment rates and, if anything, the economy was stronger in the 2000s than it was in the late 1970s, both nationally and in BC. Therefore, any changes in incomes or income inequality between the two periods are likely the result of changes in the labour market and government policy, rather than an artifact of different business cycle effects in 1976–79 and 2003–06.

Unemployment Rates in BC and Canada, 1976 to 2006



Source: BC Stats, Labour Force Activity for British Columbia and Canada – Annual Averages. www.bcstats.gov.bc.ca/data/dd/handout/bccanlfs.pdf.

Data Tables

Share of Earnings for Families With Children in the Bottom Half of the Distribution, 1976–79 Compared to 2003–06			Share of After-tax Income for Families With Children in the Bottom Half of the Distribution, 1976–79 Compared to 2003–06		
Bottom Half of Families	1976–79	2003–06	Bottom Half of Families	1976–79	2003–06
BC	28.6%	19.3%	BC	31.8%	26.9%
AB	27.8%	23.6%	AB	30.6%	29.4%
SK	26.5%	19.6%	SK	30.3%	27.7%
MB	26.3%	22.8%	MB	30.5%	29.7%
ON	28.1%	21.1%	ON	31.6%	27.5%
QC	25.7%	20.6%	QC	31.0%	29.8%
NB	23.5%	19.0%	NB	30.6%	28.6%
NS	25.7%	21.1%	NS	31.7%	29.1%
NL	21.7%	15.3%	NL	30.2%	28.2%
Canada	26.7%	20.6%	Canada	31.0%	28.0%
Top 10% of Families	1976–79	2003–06	Top 10% of Families	1976–79	2003–06
BC	22.2%	29.1%	BC	21.0%	24.4%
AB	22.7%	26.6%	AB	21.6%	22.8%
SK	23.1%	27.8%	SK	21.6%	23.6%
MB	23.1%	27.4%	MB	21.3%	22.8%
ON	22.8%	29.8%	ON	21.0%	24.9%
QC	23.9%	29.0%	QC	21.1%	22.7%
NB	24.6%	28.9%	NB	21.3%	23.0%
NS	23.0%	26.2%	NS	20.0%	22.1%
NL	24.6%	31.2%	NL	20.5%	23.0%
Canada	23.2%	29.1%	Canada	21.2%	24.2%

Note: Data on average earnings for the bottom decile in Manitoba in 1978 is suppressed. As a result, the average 1976–79 calculation for Manitoba is based on the average for the years for which data is available (1976, 1977 and 1979).

PEI is excluded from comparisons as the number of families with children in the SLID sample is too small for decile calculations to be made separately for this province.

**Ratio of Average After-tax Income of the Richest and Poorest Deciles (Income Gap)
by Province, Families With Children, 1976–2006**

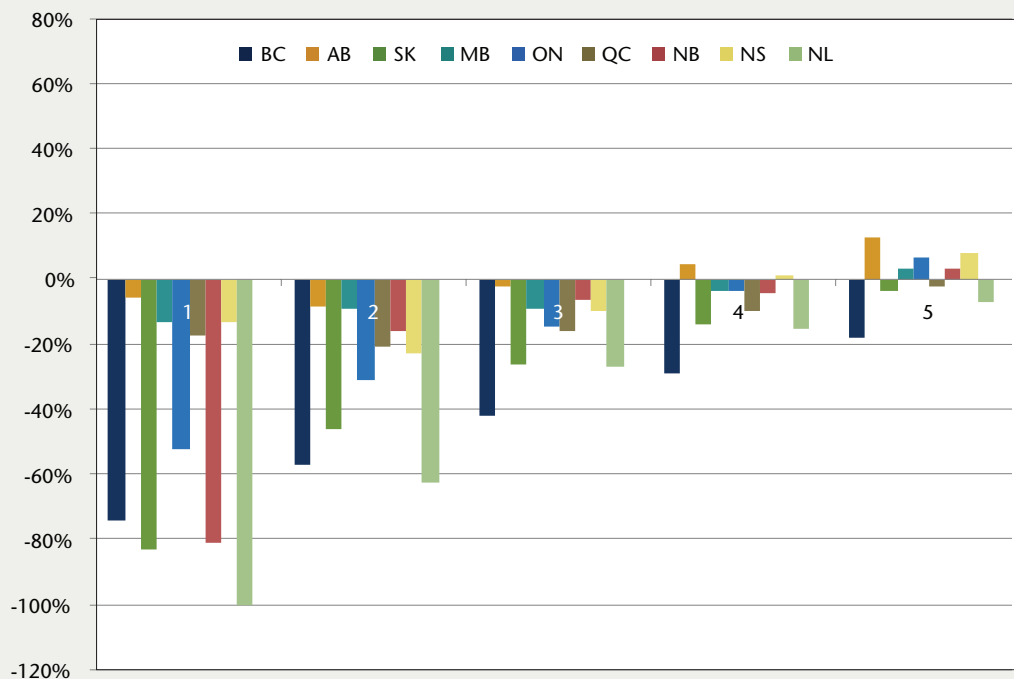
	BC	AB	SK	MB	ON	QC	NB	NS	NL	Canada
1976	9.4	9.1	8.2	8.7	8.3	7.3	6.5	6.2	7.5	8.2
1977	7.2	8.2	8.2	9.3	7.6	8.0	8.4	6.6	6.6	7.9
1978	8.3	7.8	7.2	12.7	7.5	7.1	7.7	7.0	7.1	7.8
1979	8.9	10.2	9.3	8.6	8.1	7.5	7.8	6.9	6.8	8.3
1980	8.5	9.4	7.4	8.9	7.8	7.2	7.2	7.0	7.6	8.1
1981	8.1	7.6	11.2	9.0	7.4	7.2	8.0	7.6	7.5	7.9
1982	9.4	8.0	8.3	8.4	7.6	7.3	7.7	7.1	7.0	8.0
1983	7.9	9.3	7.6	8.3	8.8	6.9	8.2	6.8	7.5	8.2
1984	9.0	10.4	9.2	7.8	8.8	7.4	8.6	8.3	7.4	8.7
1985	9.6	8.1	10.3	9.4	7.9	7.4	7.5	8.4	8.2	8.3
1986	8.9	7.9	9.3	7.7	7.8	7.1	7.2	7.7	6.6	8.0
1987	8.0	7.9	7.7	7.9	7.4	8.1	7.1	7.3	7.4	8.0
1988	7.2	7.2	7.6	6.8	7.7	6.8	6.9	6.8	6.7	7.5
1989	7.1	8.2	8.4	6.5	7.8	6.9	7.0	6.5	7.7	7.7
1990	10.3	7.9	8.7	7.6	8.3	7.0	7.0	7.7	7.7	8.2
1991	8.1	8.3	8.9	7.4	8.9	7.5	8.1	7.3	8.1	8.4
1992	8.8	8.8	9.9	8.1	8.2	7.0	7.7	7.5	8.9	8.2
1993	9.3	8.2	8.1	7.6	8.2	7.1	7.1	7.4	7.9	8.2
1994	9.0	7.8	7.7	7.6	8.4	7.0	7.3	8.3	7.6	8.2
1995	8.7	8.0	9.3	6.3	8.4	7.3	8.0	8.0	8.1	8.3
1996	10.6	8.9	10.1	7.5	9.0	7.3	7.8	7.7	7.1	8.8
1997	9.3	12.3	8.2	8.2	9.5	7.8	7.9	9.2	7.3	9.3
1998	9.1	10.4	8.1	7.8	9.5	7.0	8.1	8.3	7.5	8.9
1999	9.6	7.5	6.9	7.7	10.3	7.4	7.1	7.1	6.9	9.0
2000	8.6	9.0	9.3	7.4	10.0	8.0	7.9	7.1	7.1	9.3
2001	10.2	8.6	8.0	7.5	10.1	7.3	8.2	7.1	7.0	9.2
2002	11.7	7.3	7.6	9.0	10.2	7.8	7.2	9.2	7.1	9.5
2003	11.5	8.8	8.5	7.7	10.2	7.2	8.1	8.8	7.5	9.5
2004	10.9	8.5	9.0	7.9	11.6	7.4	8.7	8.4	7.2	10.0
2005	9.6	8.5	9.6	8.2	9.6	7.7	8.5	6.6	7.8	9.0
2006	9.6	8.3	11.3	7.5	9.3	6.8	7.9	7.4	8.0	8.7

Change in Average Earnings, 1976–79 to 2003–06, BC Compared to Other Provinces

Data in the table and figure show that the drop in average earnings for families in the bottom half of the earnings distribution in BC is similar to what happened in other provinces, although BC families saw some of the steepest declines in deciles 2 to 5.

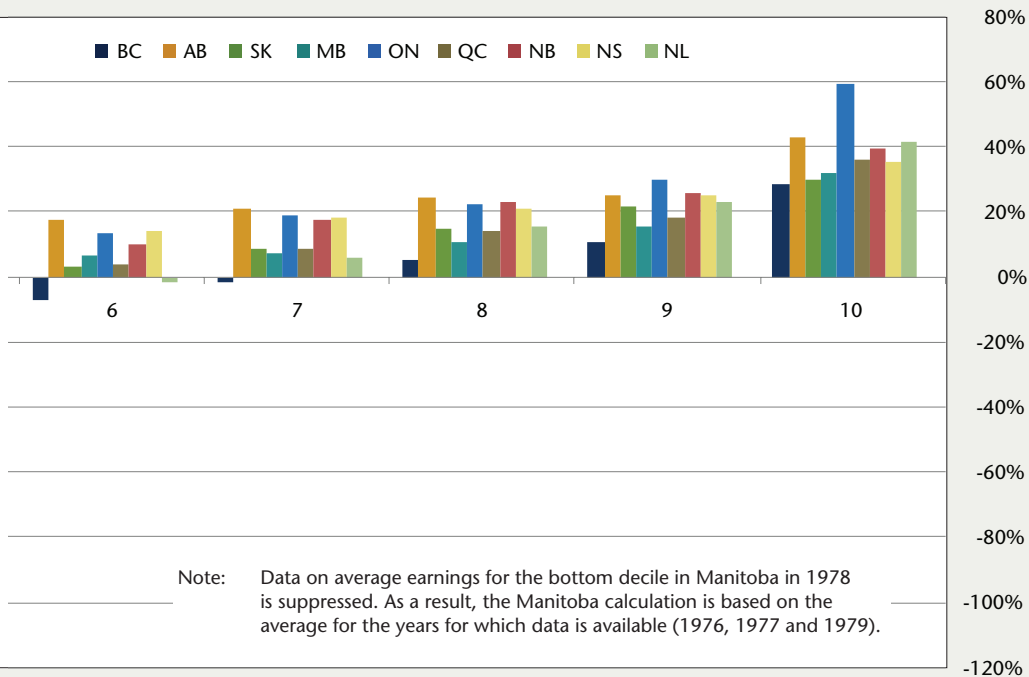
In most other provinces, families in the whole upper half of the earnings distribution saw gains in their average earnings, but that was the case only for the top three deciles of families in BC. A simplified version of the figure, comparing BC to Canada as a whole, is provided in Figure 10 on page 22.

Percentage Change in Average Earnings by Decile, Families With Children, 1976–79 Compared to 2003–06



**Percentage Change in Average Earnings by Decile, Families With Children
1976–79 Compared to 2003–06**

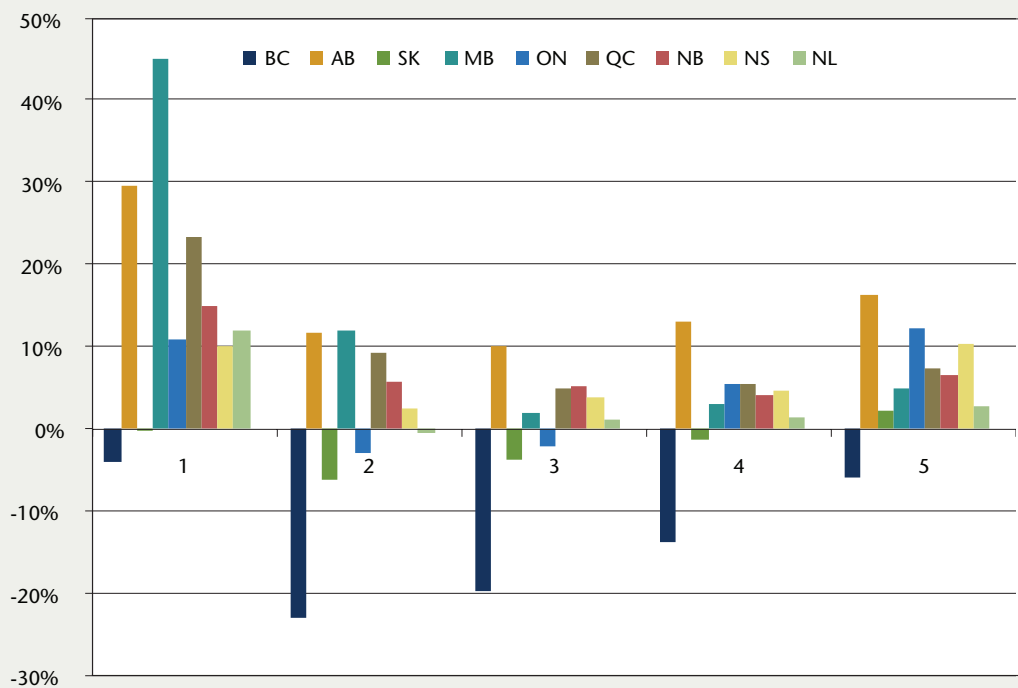
	BC	AB	SK	MB	ON	QC	NB	NS	NL	Canada
1	-74%	-6%	-83%	-13%	-52%	-17%	-81%	-13%	-100%	-40%
2	-57%	-8%	-46%	-9%	-31%	-20%	-16%	-23%	-62%	-27%
3	-42%	-2%	-26%	-9%	-15%	-16%	-6%	-10%	-27%	-15%
4	-29%	5%	-14%	-4%	-3%	-10%	-4%	1%	-15%	-6%
5	-18%	13%	-4%	3%	7%	-2%	4%	8%	-7%	3%
6	-7%	18%	3%	7%	14%	4%	10%	14%	-2%	9%
7	-1%	22%	9%	7%	19%	9%	18%	19%	6%	15%
8	5%	25%	15%	11%	23%	14%	23%	21%	16%	20%
9	11%	25%	22%	16%	30%	19%	26%	25%	24%	25%
10	29%	43%	30%	32%	60%	36%	39%	36%	42%	48%



Change in Average Income After Tax, 1976–79 to 2003–06, BC Compared to Other Provinces

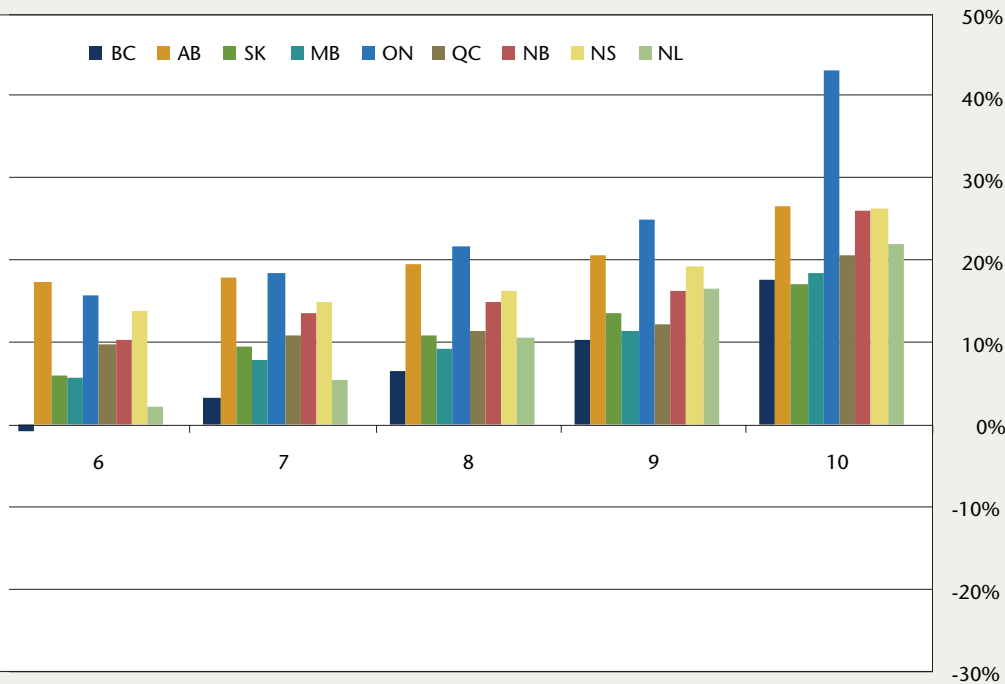
Data in the table and figure clearly demonstrate that the change in average after-tax income for families with children in BC is very different from what families experienced in the rest of Canada. While families in most deciles in virtually all other provinces saw gains over the last 30 years, the bottom 60 per cent of BC families saw their average after-tax incomes drop. This is particularly concerning given that the trends in average family earnings over the past 30 years are broadly similar in BC and the rest of Canada. That is, whereas other provinces have managed to reduce some of the inequalities arising in the labour market through the system of government transfers and taxes, BC has not. A simplified version of the figure, comparing BC to Canada as a whole, is provided in Figure 11 on page 23.

Percentage Change in Average Income After Tax by Decile, Families With Children, 1976–79 Compared to 2003–06



Percentage Change in Average Income After Tax by Decile, Families With Children, 1976–79 Compared to 2003–06

	BC	AB	SK	MB	ON	QC	NB	NS	NL	Canada
1	-4%	30%	0%	45%	11%	24%	15%	10%	12%	15%
2	-23%	12%	-6%	12%	-3%	9%	6%	3%	-1%	2%
3	-20%	10%	-4%	2%	-2%	5%	5%	4%	1%	1%
4	-14%	13%	-1%	3%	5%	6%	4%	5%	1%	4%
5	-6%	16%	2%	5%	12%	7%	7%	10%	3%	9%
6	-1%	17%	6%	6%	16%	10%	10%	14%	2%	12%
7	3%	18%	10%	8%	19%	11%	14%	15%	6%	15%
8	7%	20%	11%	9%	22%	11%	15%	16%	11%	17%
9	10%	21%	14%	12%	25%	12%	16%	19%	17%	20%
10	18%	27%	17%	18%	43%	21%	26%	26%	22%	33%



INEQUALITY PROJECT

The CCPA's Inequality Project examines the growing gap between the rich and the rest of us. It works towards solutions to reduce poverty, narrow the income and wealth gaps between the richest and poorest, and improve quality of life for all Canadians.

The Canadian Centre for Policy Alternatives is an independent, non-partisan research institute concerned with issues of social and economic justice. Founded in 1980, it is one of Canada's leading progressive voices in public policy debates. The CCPA is a registered non-profit charity and depends on the support of its more than 10,000 members across Canada.



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