

# BC's Growing Gap

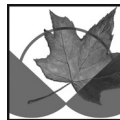
Family Income Inequality 1976–2006

## Summary

Copies of the full report are available from the CCPA, and at [www.policyalternatives.ca](http://www.policyalternatives.ca)

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CCPA  
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# BC's Growing Gap

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.

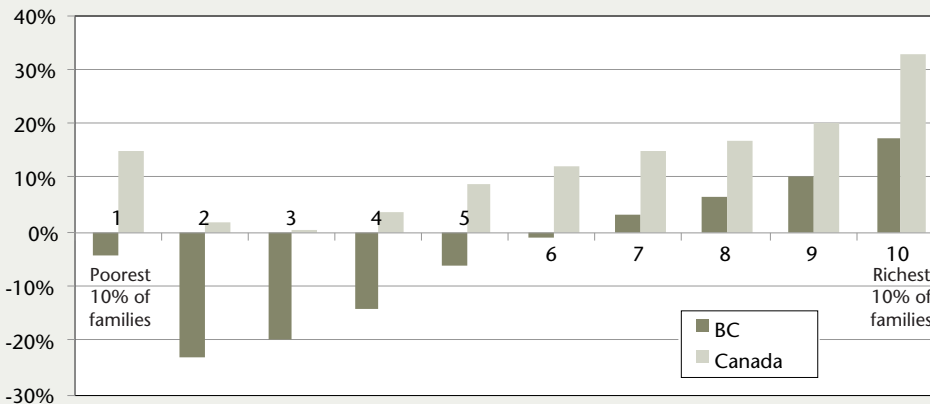
Compared to other provinces, British Columbia saw a particularly rapid growth in the share of earnings going to the top 10 per cent of families with children and a particularly steep decline in the share of earnings for the entire bottom half of families.

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.

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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.

## 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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