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FAST FACTS

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We have a floor, now we need a ceiling: reducing Canada's income inequalities

In recent decades we've seen a dramatic increase in income inequality, which has concentrated the gains from economic growth in the hands of a small minority at the top of the income distribution. Studies documenting this development cite an unprecedented increase in the amount paid to corporate executives since the early 1980s as a key factor in the growth in inequalities. This trend has been accentuated by tax changes that benefit people with very high incomes.

The Canadian Centre for Policy Alternatives has been tracking this trend in a series of papers on growing income disparities. The latest report by Hugh Mackenzie pegs the average compensation of CEOs at a staggering \$7.3 million in 2008. This amount was 174 times greater than the \$42,305 earned by the average Canadian worker. It was 388 times greater than the \$18,833 annual earnings of a full-time minimum wage earner. This ratio is now estimated to be 7 or 8 times greater than it was in the early 1980s. Mackenzie also confirmed that between 1998 and 2008 "compensation for the top CEOs outpaced inflation by 70 per cent," while the average worker lost 6 per cent to inflation.

The Consequences

These increases in income inequality have adversely affected both the economy and society.

For the economy, the enrichment of the few and impoverishment of the many imposes a severe drag on growth in domestic markets and the economy as a whole. With the rise of individualism and the subordination of society to the market, the greed of those who run corporations has run amok, the results of which were much in evidence during the present economic crisis.

Further, recent research confirms that the decisive factors determining the health of populations are inequality and poverty: the greater the inequality, the poorer is people's health. The people who pay the highest price in highly unequal societies are the poor, who are much more likely to live short, unhealthy and unhappy lives. However, recent research shows definitively that there is a gradient to health outcomes: those at the bottom of the income scale suffer poorer health than those in the middle; those in the middle suffer poorer health than those at the top. The result is that most Canadians suffer poorer health than would be the case if incomes and wealth were more equally distributed. A recent book by Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better* (2009), compiles the evidence that makes this case once again.

The burden of this wealth of evidence is that in our drive to enrich the already rich---



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FAST FACTS continued ...

remember Michael Wilson's assertion that he wanted to create more billionaires in Canada when he was Mulroney's Finance Minister--we are compromising not only the lives of millions of Canadians, but also the long-term viability of Canadian society. We need a new vision and new policies to overcome our current obsession with promoting the rich. We need policy innovations that reduce inequality in Canada.

Getting Started: A Cap on Earnings

One such innovation that would contribute to reducing the unacceptably wide and growing gap in market incomes is a ceiling on what is paid to high income earners. This is the essential other bookend to the growth in minimum wage levels that creates a floor for the wage distribution of income. The idea of limiting CEO salaries is not new and it doesn't come from the 'fringes'. Management guru Peter Drucker consistently argued that CEO salaries should not exceed 20 times that of the average worker.

In the 1970s and early 1980s CEO earnings were 20 to 25 times greater than the annual earnings of average workers, not the 174 times greater than is now the case. If a ceiling set at 25 times the average earnings of workers had been in place in 2008, the maximum earnings allowed CEOs would have been \$1,057, 625.

One argument likely to be made against establishing a ceiling on wages is that it would create serious disincentives, leading to either a reduction in the time and effort corporate executives would put into their jobs, or increased emigration. However, these effects are unlikely to be very strong. First, annual incomes of \$1 million are more than enough to provide an incentive. Second, the jobs of most high-income earners have other desirable attributes: for example, considerable autonomy and power, and much status in society. Emigration is a possibility, but the most likely country to which they would emigrate

is the USA, where even greater income inequality creates even greater social problems, making it in many important respects an unattractive alternative. Some would leave, however, and we would have to weigh that loss against the multiple gains of greater equality, just as was done in Saskatchewan when our Medicare system was being introduced and doctors threatened to leave.

There will be others who point to the complexity of the pay structure for CEOs (base salary, bonuses, stock options, etc.) and argue that it would be impossible to impose a ceiling that would work. This argument is not very compelling. In fact, there have been rumblings from shareholders in many corporations that they would like to see a simplification of and greater transparency in pay arrangements. No doubt, many of them would also welcome an end to open-ended pay structures.

Once we have established the boundaries to earnings from employment – floors and ceilings – we can then look to other reforms to compress the overall distribution of income. These reforms would include more progressive income taxes and wealth taxes to establish a ceiling on non-wage incomes at the top and some form of guaranteed minimum income to establish a floor under incomes of all persons at the bottom.

The point is that it is in the interests of almost all Canadians to create much more equality in the distribution of income. A cap on higher-level incomes will contribute to greater income equality and thus better health and quality of life. Those few who benefit from astronomical incomes will undoubtedly object. But policy solutions can be found to all of their objections. And as noted by Drucker with respect to astronomical incomes: "there is no excuse for it. No justification. This is morally and socially unforgivable, and we will pay a heavy price for it."

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