

Winners and losers in the “new” economy

By David Robinson

The stock market continues to soar to new heights. The Canadian economy is posting solid gains, riding on the coattails of the seemingly unstoppable US growth. The jobless rate is at its lowest point in a generation. And incomes are finally showing some signs of recovering from the big declines in the early 1990s.

So with nearly all of the economy’s broad indicators today pointing to more good times ahead, why aren’t Canadians joining the legions of beaming business economists in the celebrations? Part of the answer lies in the fact that despite all the cheerleading from Bay Street, this is turning out to be one of the weakest recoveries in the post-war period for most Canadian families. Most Canadians simply are not sharing in the wealth of the so-called “new” economy.

To get a sense of just how little most families have gained from the recent economic growth, we can look at how they are faring compared to the last recovery in the 1980s. In the middle of 1981, Cana-

da’s economy slipped into what was then the deepest recession since the 1930s. Unemployment reached a peak of 12.7% as employment fell by over 5%. By the beginning of 1983, the economy finally entered a period of recovery which lasted until the spring of 1990. A brutal 23-month long recession then took hold, pushing unemployment up to nearly 12% again, and lasted until the spring of 1992.

Table 1 tracks the real average annual change in after-tax family incomes for five years during the two recovery periods — from 1984 to 1989 and from 1993 to 1998. Families are divided into 5 equal-sized income groups (or quintiles), ranging from the 20% of families with the lowest income to the 20% with the highest incomes.

As shown in the table, the lowest income families experienced the greatest percentage increase in after-tax income after the 1981-83 recession. During the recovery following the recession of 1990-92, however, the situation was reversed as the lowest income families witnessed the weakest

	Lowest quintile	2 nd quintile	3 rd quintile	4 th quintile	Highest quintile
1984-89	1.7%	1.4%	1.1%	0.9%	0.9%
1993-98	0.3%	0.3%	0.6%	0.9%	1.9%

Source: Calculations based on *Statistics Canada, Income after tax, distributions by size in Canada, 1997; Income in Canada, 1998.*

growth in after-tax incomes. In fact, the richest 20% of Canadian families are the only group that has done better in the recovery of the 1990s when compared to ten years earlier. Little wonder then that Bay Street economists and corporate CEOs are singing high praises about this recovery — it's been a windfall for them.

What explains this dramatic reversal in family fortunes during the current expansion? Generally, low- and middle- income families have been falling further behind because of sharply slower growth in their market incomes — income from earnings and investments. This has been combined with reductions in government transfers, largely due to deep cuts to Unemployment Insurance. As a result, government transfers have not been able to make up the growing gap in market incomes during the most recent recovery.

As illustrated in table 2, average market incomes for the lowest quintile, when adjusted for inflation, rose by more than 32% during the expansion of 1984-89. At the same time, government transfers also increased, helping to boost after-tax income by over 14% during this period. For the 2nd quintile, market income also grew dramatically (17%) while government transfers fell only modestly, helping to push after-tax income up by nearly 9%. The middle and 4th quintiles saw their market incomes and government transfers rise, and their after-tax income rose by 6% each. The richest families also witnessed a 6% increase in after-tax income. Overall, the growth in after-tax income during the recovery of the 1980s was fairly evenly distributed, with the greatest proportionate increase going to the lowest income quintile.

Ten years later, however, a very different picture emerges. During the current expansion, families in

Table 2
Average Family Income and Transfers by Quintile, 1984-89 and 1993-98
(\$1998)

	Market Income			Government Transfers			After-tax Income		
	1984	1989	% change	1984	1989	% change	1984	1989	% change
lowest quintile	\$7,808	\$10,323	32.2%	\$9,024	\$9,613	6.5%	\$16,288	\$18,573	14.0%
2 nd quintile	\$26,630	\$31,274	17.4%	\$6,990	\$6,792	-2.8%	\$30,416	\$33,103	8.8%
3 rd quintile	\$43,890	\$48,663	10.9%	\$5,029	\$5,163	2.7%	\$41,933	\$44,371	5.8%
4 th quintile	\$61,294	\$67,740	10.5%	\$4,183	\$4,303	2.9%	\$54,381	\$57,555	5.8%
highest quintile	\$103,057	\$114,191	10.8%	\$3,522	\$4,035	14.6%	\$85,083	\$90,201	6.0%
	1993	1998	% change	1993	1998	% change	1993	1998	% change
lowest quintile	\$7,524	\$8,627	14.6%	\$10,543	\$10,268	-2.6%	\$17,416	\$17,662	1.4%
2 nd quintile	\$25,192	\$27,486	9.1%	\$9,040	\$8,861	-2.0%	\$30,217	\$31,754	5.1%
3 rd quintile	\$43,238	\$46,835	8.3%	\$6,734	\$6,421	-4.6%	\$41,392	\$44,019	6.3%
4 th quintile	\$62,776	\$68,505	9.1%	\$5,553	\$4,798	-13.6%	\$54,561	\$58,533	7.3%
highest quintile	\$107,937	\$124,681	15.5%	\$4,559	\$4,111	-9.8%	\$85,068	\$96,175	13.1%

Source: Calculations based on Statistics Canada, *Income after tax, distributions by size in Canada; Income in Canada, 1998*.

the lowest quintile have experienced much more modest growth in market incomes compared with the 1980s — 15% vs. 32%. Meanwhile, government transfers have declined. Consequently, after-tax income rose by just 1.4%. The 2nd and middle quintile of families witnessed an increased in after-tax incomes of 5% and 6% respectively —

— truly, a lost decade. Only the richest 40% of families have made any gains thus far over the 1990s.

Ironically, then, the “new” economy seems to be lending credence to a very “old” adage — the one about the rich getting richer.

“In fact, for 60% of Canadian families, after-tax incomes when adjusted for inflation were lower in 1998 than in 1989—truly, a lost decade. Only the richest 40% of families have made any gains thus far over the 1990s.”

about the same rate of growth as during the 1980s. The fourth quintile experienced a jump in after-tax income of more than 7% and the top families saw their after-tax incomes grow by a whopping 13%. In contrast to the recovery of the 1980s, then, the growth in after-tax income is far more uneven with the rich reaping the biggest gains and the poor barely getting ahead.

In fact, as illustrated in the table, for 60% of Canadian families, after-tax incomes when adjusted for inflation were lower in 1998 than in 1989

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