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CANADA'S ECONOMIC PERFORMANCE: INEQUALITY, POVERTY AND GROWTH

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A consistent set of economic policies has dominated Canada for the last decade. In the name of faster economic growth and higher incomes, policy makers have deemphasized the pursuit of economic equity in public policy and pursued a strategy of "providing a framework of price stability, reducing government spending and deficits and improving incentives for the efficient allocation of resources" (IMF, 1988, 24). Armed with the twin clichés of "wealth creation not wealth distribution" and "short-term pain for long-term gain," conservative governments continue to promise Canadians more of the same. However, it is about time to ask — does this all actually work? Have these economic policies delivered the goods? Do these policies increase the rate of economic growth, reduce unemployment, raise average wages, improve the quality of life — or even decrease the dependence of Canadians on government transfer payments?

Canada has paid the price of these policies in increasing inequality of income, in growing unemployment, in worsening poverty, and in heightened strains on social institutions such as the family, but the promised prosperity has not arrived. Canadian society *is* becoming increasingly polarized, but there is no long-term gain to balance the current pain.

Furthermore, other countries have continued to do a better job than Canada in reducing economic inequality and in alleviating poverty — as well as growing more rapidly. The international evidence indicates that Canada did have alternatives, and that these alternative policy choices produce less polarization and at least as great a rate of economic growth. Compared to European countries, Canada does a poor job of fighting poverty and limiting economic inequality. Furthermore, inequality of wealth in Canada remains relatively high by international standards. Recent Canadian economic policies have, therefore, failed — Canada has paid the price, but the promised benefits have not arrived.

Table 3-1 presents an overview of the distribution of money income among Canadians from 1951 to 1990. Hiding behind these aggregate numbers are the complex processes by which labour market earnings, transfer payments, and capital income are determined and by which individuals are combined into households — not to mention the thorny theoretical issues involved in constructing a measure of aggregate inequality (see Jenkins, 1991). Nevertheless, the basic lessons of Table 3-1 are fairly robust. As others have noted (*e.g.*

TABLE 3-1
INCOME DISTRIBUTION
Canadian Families & Unattached Individuals

	Income Quintiles (% of Income Received)						
Year	Poorest 20%	2	3	4	Richest 20%	Average Income (1990$)	Median Income (1990$)
1951	4.4	11.2	18.3	23.3	42.8	17,661	15,502
1961	4.2	11.9	18.3	24.5	41.1	23,366	21,477
1971	3.6	10.6	17.6	24.9	43.3	33,175	29,375
1975	4.0	10.6	17.6	25.1	42.6	37,383	32,882
1981	4.6	10.9	17.6	25.2	41.8	41,250	36,276
1983	4.3	10.3	17.1	25.0	43.2	39,380	33,644
1986	4.7	10.4	17.0	24.9	43.0	40,787	34,621
1988	4.6	10.4	16.9	24.9	43.2	41,813	35,151
1989	4.8	10.5	16.9	24.6	43.2	43,042	36,446
1990	4.7	10.4	16.9	24.8	43.3	42,525	35,795

Source: Osberg, Economic Inequality in Canada, Butterworths, Toronto (1981, 11), and Statistics Canada, Income Distribution by Size, Cat. No. 13-207 (1990, 91, 137; 1981, 146) J.R. Podoluk (1968, 247), Income of Canadians, Statistics Canada

Wolfson, 1986), there have been dramatic changes in Canadian society over the last 40 years in the economic role of women, in industrial structure, in unemployment and in many other dimensions of social life — but there has been much less change in the aggregate distribution of money income. The slight improvement in the income share of the poorest 20% largely reflects a dramatic reduction in the rate of poverty among older Canadians, due to the introduction in the early 1970s of the Guaranteed Income Supplement and the advent of the Canada Pension Plan and Québec Pension Plan.[1]

Over the last 40 years as a whole, households in the bottom 60% of the income distribution have lost income share while the top 40% have gained. However, although the losses of the lower middle class continued in the 1980s, gains in income share were limited to the top 20%, whose percentage of family income rose from 41.8% to 43.2%. This increase of 1.4% may seem small compared to what the top 20% already had, but it is large compared to what the poor get. Indeed, as Table 3-2 will indicate, the increase in the share of the top 20% over the 1980s is as large as the amount of money required to eliminate poverty totally in Canada.

The last two columns of Table 3-1 report trends in the average and median real (after inflation) income of Canadian households. Over the twenty-year period between 1951 and 1971, the real income of Canadian families and unattached individuals essentially doubled. Although real incomes continue to grow in the 1970s, the rate of increase slowed (to about 25%, over the decade) and one must distinguish between the income growth of the early 1970s (when hourly wages were rising) and the income growth of the late 1970s (when families supplied more labour, but real wages stagnated). The 1981/83 recession produced a substantial drop in incomes. Economic recovery in the late 1980s, together with greater inequality, fueled the prosperity of upper income groups, and their rising incomes pulled up the average of all incomes over the decade.

In many ways, however, averages can be misleading numbers. If a few families at the top of the income distribution are gaining substantially, average income will rise, even if most people are no better off. For this reason, trends in median income are often more revealing. The median income is the midpoint of the income distribution, above which are 50% of the population and below which are the other 50%. As Table 1 indicates, median income, after adjustment for inflation, has decreased slightly over the last decade.

Many Canadians feel that they aren't getting ahead, although they are working harder — and they are right. Although median income has stagnated in the last decade, Canadian families now supply significantly more hours to paid employment than they used to. In 1951, 11.2% of married women were in the paid labour force, but by 1976 their labour force participation had increased to 50.5%, and in 1990 it was 61.1%. The increase in the paid employment of married women with pre-school children has been particularly dramatic.

Although, as many recognize, it now often "takes two incomes to keep up," it is also true that women have always worked, whether at home or at the job site. Work at home is not paid, but child care, meal preparation and all the other work which occurs in the home is productive. However, time which is spent in paid employment is not available for such non-market work. As a consequence, what the money income figures of Table 3-1 do not reveal is that the maintenance of the money income of Canadian families has come at the cost of decreased time available for "family life". The cost of increased paid labour supply is not captured by the figures of Table 3-1. A stagnation of money income masks the decline in the real standard of living of many Canadian families.

The fundamental factor underlying these trends in family income is the stagnation of real hourly wage rates and the increasing difficulties which Canadians face in obtaining employment. Figure 3-1 graphs the average real hourly wage (in 1990 dollars) of all Canadian workers over the period 1967 to 1990. Between 1967 and 1976, average real hourly wages increased by over 50% (measured in 1990 dollars), from $9.95 in 1967 to $15.30 per hour in 1976. Between 1977 and 1983 average real wages declined significantly, to a low of $14.31 in 1983, but the latter part of the 1980s saw some recovery. However, average real hourly wages have never regained the heights of 1976 — in 1990 the average real hourly wage was $14.98.

Furthermore, trends in average wages do not reveal the increase in inequality of wages, especially the substantial decline in the relative earnings of young workers (Picot and Wannell, 1990). Nor do average wage trends reveal the precariousness with which some incomes are now earned. As the Economic Council of Canada documented, 41%

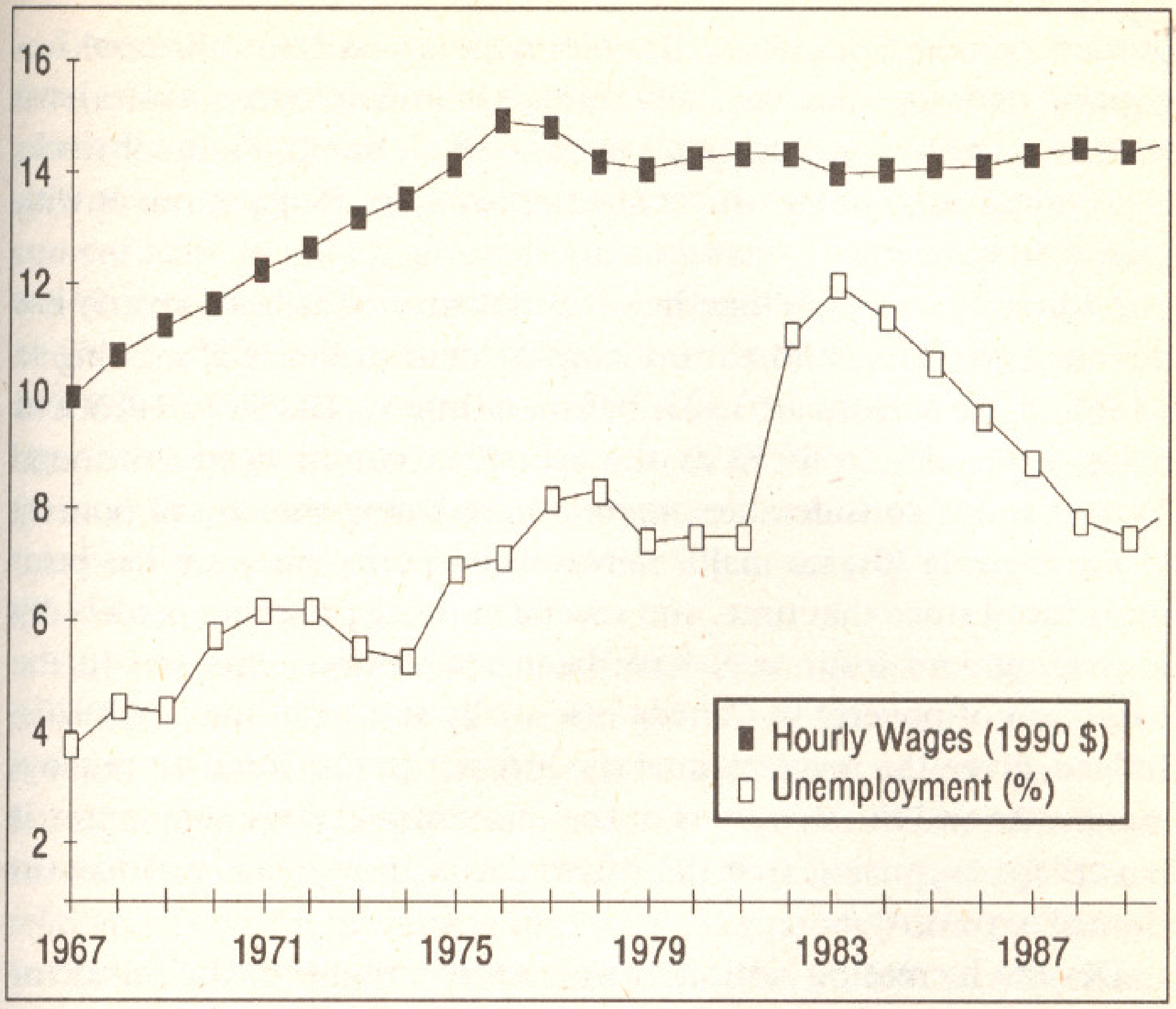

FIGURE 3-1
HOURLY WAGES AND UNEMPLOYMENT RATE IN CANADA, 1967-90

of all employment growth since 1975 has been in "non-standard" employment forms (own-account self-employment, contract employment, temporary help agency work, involuntary part-time employment, etc.). In addition to offering relatively poor pay and few fringe benefits, the defining characteristic of such jobs is their precariousness.

The period 1967 to 1990 has also seen a dramatic increase in unemployment. Figure 3-1 also presents a plot of the Canadian national unemployment rate, from the low of 3.8% in 1967 to the high of 11.9% in 1983 and the 8.1% rate of 1990. (Since then, unemployment has continued to increase, averaging 10.3% in 1991 and over 11% in 1992.) To this increase in the official measure of unemployment one could add increased involuntary early retirement, withdrawal of discouraged workers from the search for paid employment, and underemployment of skills. As with wages, one must also emphasize the increase in inequality in the distribution of the burden of unemployment. Unemployment has become more unequal in two ways. Regional differentials in unemployment rates have widened, and an increasing proportion of all unemployment weeks is experienced by those who are unemployed for long periods or with greater frequency.

Adding these trends together, it is not surprising that poverty has marched hand in hand with unemployment in the 1980s, rising to 17.0% of all persons in 1983, before falling to 12.2% in 1989 and rising to 13.2% in 1990 as the recession commenced. Although Canada made considerable progress in reducing the rate of poverty in the early 1970s, no major new social security program has been introduced since that time, and several existing programs (especially unemployment insurance) have been scaled back. Progress in the reduction of poverty in Canada essentially stalled in the late 1970s. Indeed, given the magnitude of the increase in Canadian unemployment rates and the sharpness of the onset of real wage stagnation, it is perhaps surprising that there has not been a greater increase in Canadian poverty.[2]

Despite increasing restrictions on social programs, the failure of the Canadian economy to generate enough jobs has produced a steady increase in transfer payments. As has already been noted, the introduction in the early 1970s of CPP/QPP and the Guaranteed Income Supplement for seniors made a really significant impact on the poverty of elderly Canadians. The number of senior citizens is steadily increasing, as is the number of single-parent families. Both groups tend to be dependent on transfer payments, because both are generally excluded from the paid labour market.

However, the biggest change of recent years is the increasing transfer dependency of the employable population. Despite cutbacks in the generosity of unemployment insurance, higher unemployment rates still imply increased unemployment insurance payments. Furthermore, as the fraction of the labour force employed on contract or on a "self-employment" basis increases, and as the entrance requirements and duration of unemployment insurance benefits become less generous, an increasing fraction of the employable population becomes unavoidably dependent on social assistance. Despite the low level of these payments,[3] the increasing number of people forced onto social assistance inevitably implies an increase in aggregate transfer payments.

Given all these trends, where does Canadian complacency come from? How is it that we congratulate ourselves on the "kinder, gentler" nature of our society and the strength of our social welfare system? In part it may be because many Canadians limit their comparisons to examination of the contrasts between Canada and the United States. Although the poverty rate in Canada in the early 1960s was higher than that in the United States, this changed in the 1970s. Buoyant labour markets and a surge of policy activism in the late 1960s and early 1970s in Canada (CPP/QPP, Canada Assistance Plan, unemployment insurance reform and medicare all date from this period) produced a decline in Canadian poverty unmatched by the U.S.

Furthermore, inequality in the distribution of income in Canada has been less than that in the United States for many years (see Sawyer, 1976). Indeed, despite the smaller size of the Canadian economic pie (average real income in Canada in 1986 was 5% lower than that in the United States), the bigger slices of the pie which the relatively poor get in Canada imply that the poorest 65% of Canadians are unambiguously better off than the poorest 65% of Americans (Wolfson, 1991) — even before one considers that in Canada there is greater equality in access to medical services and to quality public education.

However, when it comes to inequality and poverty, it is easy to look good compared to the United States. As Table 3-2 indicates, the U.S. has, by a considerable margin, the highest rate of poverty and the greatest degree of income inequality of all developed nations. Canada has significantly less inequality and poverty than the U.S. , but significantly more of both than most European nations.

In order to provide a common standard of comparison, Table 3-2 sets the poverty line at half the median income in each country.[4] Since larger families obviously have greater needs but some expenditures (such as housing) do not increase in strict proportion to family size, Column 1 reports the percentage of people who are poor, after family incomes have been adjusted for the relative cost of living of a given family size. The difference between poverty rates in the U.S. and in other developed countries is striking — and it is equally striking that although Canada, the U.K. and Australia have relatively fewer poor people than the U.S., they have significantly more than the continental European countries.[5]

TABLE 3-2
POVERTY, INCOME, INEQUALITY AND GROWTH IN 9 COUNTRIES, 1982

	% Poor[1]	Poverty Gap[2] as % of GDP, early 1980s		GINI Index[3]		Annual % Growth	Real GDP/ Capita[4]
		Pre-transfer	Post-transfer	Raw	Adjusted	1979-1988	1960-1988
United States	16.6	5.6	2.3	.330	.315	1.8	2.1
Canada	12.3	4.2	1.3	.306	.290	2.1	2.8
Australia	11.4	4.5	0.4	.314	.292	1.6	2.3
Netherlands	7.5	6.5	1.4	.303	.291	0.7	2.3
Switzerland	8.2	4.9	1.2	.292	.275	1.6	1.9
UK	11.7	3.3	0.2	.303	.275	2.0	2.2
Germany	4.9	6.4	0.6	.280	.249	1.7	2.7
Sweden	5.0	4.1	0.4	.264	.197	1.9	2.5
Norway	4.8	4.6	0.5	.255	.222	2.9	3.5
AVERAGE	9.2	4.9	0.9	.294	.267	1.8	2.5

*1. Percentage of all persons with income, adjusted for family size, less than half median income (**Source:** Table 2.2 in T.M. Smeeding, "Cross-National Comparisons of Inequality and Povertiy Position" in L. Osberg, ed. (1991), Economic Inequality and Poverty: International Perspectives, Armonk, N.Y., M.E. Sharpe*

*2. **Source:** Table 4.7, page 57 in D. Mitchell (1991), Economic Transfers in Ten Welfare States, Brookfield, Vt., Ashgate Publishing*

*3. **Source:** Smeeding, op. cit., Table 2.1. "Raw" refers to the Gini index which is calculated when family incomes are not adjusted for family size. "Adjusted" family income inequality considers the number of people in each family*

*4. **Source:** OECD Economic Outlook: Historical Statistics, 1960-1988 (1990), Paris, Organization for Economic Cooperation and Development, Table 3.2, 48*

Columns 2 and 3 of Table 3-2 focus on a slightly different question — how much of national income would be required to bring everyone's income up to the poverty line? The "poverty gap" for each poor family is the difference between their family income and the income which a family of that size would need to be just at the poverty line. Column 2 adds up the poverty gap for all families, and expresses it as a percentage of each country's gross domestic product, considering only the market incomes which families receive from labour and capital earnings — it measures the depth of poverty "before" the receipt of income transfers. Column 3 includes the transfer payments received by families and reports the poverty gap, again expressed as a percentage of each country's GDP, which still remains after the impact of anti-poverty policy. Comparing Columns 2 and 3, one can see that some countries do a pretty good job in closing the poverty gap — but after transfers, the poverty gap in Canada remains relatively high.

It is notable that the poverty gap in continental European countries is, before transfer payments, often greater than the poverty gap in Canada. Nevertheless, Germany, Sweden and Norway do a much better job of filling the poverty gap through transfer payments. Indeed, Australia and the U.K. also do a better job filling the poverty gap — although a comparable percentage of people are poor in Canada and in the U.K. and Australia, their poor people are not as poor, on average, after the receipt of transfer payments. Again, the United States stands out as the country with the greatest depth and rate of poverty. Canada's poverty gap of 1.3% of GDP, after transfers, looks good compared to the poverty gap of 2.3% in the United States, but Germany (0.6%), Norway (0.5%), Sweden (0.4%), and the United Kingdom (0.2%) all do a much better job of filling the poverty gap.

Columns 4 and 5 of Table 3-2 report the Gini index of inequality, both "raw" and "adjusted" — *i.e.*, both before and after the adjustment of family income for the number of household members.[6] Since the standard of living of a family depends on both the number of people in it and the total income it receives, one must adjust family income for family size in order to estimate inequality in living standards. Because large families are common in some countries, while in other countries one-person households (often elderly) are quite frequent, it sometimes makes a difference to the relative ranking of countries whether incomes are adjusted for family size or not. However, it is also clear in Table 2 that whatever adjustments one makes, the rate and depth of poverty and the degree of income inequality is much higher in Canada than in Germany or the Scandinavian countries.

The final columns of Table 3-2 make the point that countries with little poverty and low inequality often grow just as fast, or faster, than countries which devote less effort to equity. Both during the 1980s and over the last thirty years, the fastest growing country in Table 3-2[7] is Norway, which has the lowest poverty rate and the second lowest level of inequality. The U.S., on the other hand, has the most inequality, the highest rate of poverty, and the deepest poverty gap among developed countries, and it also has the second lowest rate of growth of output per capita over the long term.

Even within any given country, growth rates vary over time, with spurts of growth often followed by slumps. In part this occurs because countries benefit at different times from natural resource discoveries and from swings in international prices, and in part these surges and slumps reflect the ups and downs of the business cycle. As a result, although some countries (*e.g.* the Netherlands) have slowed more dramatically than others in the 1980s, it is unwise to place too much emphasis upon short-run variations in growth rates. Different measures of poverty and inequality may also give different rankings of countries. There is no simple relationship between poverty, inequality and growth — in part because poverty, inequality and growth are not simple to measure.

However, in some instances all the indices of poverty and inequality agree in their ranking — for example, the Scandinavian countries have consistently much less poverty and inequality than the U.S. Furthermore, measured growth rates over the long term do diverge significantly — the U.S. has done relatively poorly, both in the 1980s and over the longer haul. In all the developed countries there has been a slowdown in growth in the 1980s, but growth rates in the Scandinavian countries remain above the growth rate of the U.S. The international evidence clearly does not support the idea that there is a necessary tradeoff between equity and growth.

Although Table 3-2 may indicate that it would not take very much of our national income to eliminate poverty, this has not happened and shows no sign of happening. Indeed, as many authors (*e.g.* Nolan, 1987) have noted, high unemployment and greater poverty and inequality march hand in hand. As well, the high interest rates which have produced high unemployment provide direct benefits to those who receive interest income — *i.e.* those who own financial wealth. Could Canadian inaction on poverty be connected to the political influence of those — *i.e.* the very wealthy — who benefit from higher interest rates and greater profits? Table 3-3 presents some data on the distribution of the ownership of wealth in Canada which indicates that over half of all wealth in Canada is owned by the top 10% of Canadian families.

In Table 3-3, the unbracketed numbers present the percentage of

TABLE 3-3
INEQUALITY OF WEALTH IN CANADA
Percentage of marketable wealth held by . . .

	1970	1977	1984
Top 1%	18.0 [19.6]	n.a.	16.8 [28.7]
Top 5%	39.2 [43.4]	n.a.	37.5 [46.5]
Top 10%	53.3 [58.0]	50.7	51.3
Top 20%	70.9 [74]	68.3	68.8
Quintile 2	20.1	20.7	19.8
Quintile 3	8.4	9.4	9.3
Quintile 4	1.6	2.1	2.4
Poorest 20%	-1.0	-0.5	-0.3
TOTAL	100%	100%	100%
Gini coefficient	.716	.689	.686
Median net worth	$7,575	$21,754	$39,876

Source: J.B. Davies (1991), "The Distribution of Wealth in Canada", mimeographed paper, March 1991, and J. Davies, "On the Size Distribution of Wealth in Canada", Review of Income and Wealth, Series 25 (5), September 1979, 237-259.

marketable wealth in Canada held by Canadian families as measured by Statistics Canada surveys of Canadian households. The bracketed numbers represent the amended estimates of Davies (1979, 1991). These estimates differ for the top 20% because the very wealthy are very few in number and do not show up in sample surveys of the Canadian population (and probably would refuse to answer the survey even if they did). Although billionaire families such as the Irvings, Bronfmans and Thomsons own a great deal of Canada's wealth, they are not part of the Statistics Canada surveys. As a result, in order to get a good picture of the total distribution of wealth in Canada, one must adjust survey estimates to account for wealth which is missing from sample surveys.

For most Canadians, whether one acquires wealth during one's life is mainly determined by whether one can buy a house and eventually pay off the mortgage. Roughly 30% of Canadian households never manage to get started on this process. Indeed, the poorest 20% of families have negative net worth — greater debts than assets. However, "middle class" Canadian families do move up the wealth distribution as they age, by paying off their mortgages and by acquiring consumer durables and pension entitlements.

"Middle class" Canadians do not, however, typically own any appreciable amount of stocks and bonds. The ownership of financial wealth is much more concentrated than the ownership of consumer durables such as cars, housing, or vacation homes. The national balance sheet accounts indicate that about half of all wealth in Canada is held in the form of financial assets such as bonds, cash, bank deposits, or corporate shares. (However, the difficulty of tracking down the holdings of the very wealthy makes it hard to be precise about the exact degree of inequality in the holding of financial wealth.) Only about 5% of Canadian families and unattached individuals reported owning more than $1,000 in stocks in 1977.[8] Survey estimates also indicate that at least two thirds of all reported holdings of financial assets are held by the richest 10% of family units, but this must be regarded as a "lower bound" on the holdings of the wealthy, since these surveys miss over a quarter of all financial assets. In short, a policy of tight money and high interest rates provides benefits to a very small segment of Canadian society.

CONCLUSION

A decade of "short-term pain for long-term gain" has produced long-term pain for a majority of Canadians and long-term gain for the already affluent. The real living standard of the median Canadian family has declined over the 1980s, at the same time as inequality in the distribution of income has increased. Unemployment remains at historically high levels and economic insecurity has become pervasive. The majority of Canadians have not benefited from the conservative macro-economic policies of the last decade.

However, some people did gain from the economic policies of the 1980s. Those who own significant financial assets benefit when the interest rate increases and when slowing inflation increases the real value of money assets. The real interest rate in Canada has been kept at historically high levels for a decade in order to decrease inflation. This has conferred very significant benefits on the small minority of Canadians who own most of Canada's financial wealth.

It is, however, clear from the continued poor performance of the Canadian economy that these inequities did not produce economic growth. It is also clear, from the better performance of other countries, that inequity does not, *in general*, accelerate economic growth. Canadian society has paid the price of conservative economic policies, but these policies have failed to deliver the promised prosperity.

NOTES

1. Between 1971 and 1986 the poverty rate among families with heads over 70 years of age fell from 39.1% to 9.9%.

2. The traditional measure of poverty in Canada has been Statistics Canada's "low income cutoffs". These have been calculated as the income at which a typical family of a given size, in a city of a particular size, has so little disposable income after expenditures on food, clothing and shelter that it can be considered poor. However, many authors have argued that in developed countries "poverty" is really about whether a family falls below social norms of a "decent" level of living, and that such norms inevitably depend upon the standard of living of the society in general. On this basis one might, for example, draw the poverty line at one half the median income, adjusted for family size. Since these two methods of calculating the poverty line produce numbers which, in Canadian data, are fairly close, the aggregate rate of poverty is not much affected by this debate, although there is some impact on the *composition* of the poverty population. Recently, Statistics Canada began publishing statistics on both concepts of poverty (see Statistics Canada, *Income Distributions by Size in Canada*, Catalogue 13-207). Hagenaars (1991) provides a full discussion of the conceptual underpinnings of poverty measurement.

3. In 1990, social assistance payments for a family of four were 24% below the poverty line in Ontario and 42% below the poverty line in Nova Scotia. See National Council of Welfare, Ottawa, 1992.

4. The figures in Table 2 are from 1982, when half the median income for a family of four in Canada was $17,040, while the Statistics Canada low-income cut-off for a family of this size in a mid-sized city was $17,229 — in other words, pretty close.

5. It should be noted that the Netherlands data are for 1983, and therefore reflect the onset of the worldwide recession, while other countries' data are from 1981/82 or 1979, when unemployment was lower.

6. The Gini index is probably the most commonly used index of inequality. It varies between zero (perfect equality) and one (perfect inequality), and is most sensitive to variations in the income share of middle-income and lower-middle-income households.

7. The selection of countries in Table 3-2 is determined by data availability — *i.e.*, data is drawn from the LIS database (see Smeeding, 1991, *op. cit.*, for a fuller description).

8. Statistics Canada (13-572, 46).

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