Two stories about inequality and the middle class

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Median incomes have been on the rise
market income of the typical household has increased by over $6,000 since 1992
Incomes of the typical family

**Median incomes have been on the rise**
the rise is so significant that Canadian median incomes are as high as in the US

The United States’ once-strong lead in middle class incomes is shrinking.

![Graph showing median per capita income after taxes for various countries over time.](source: New York Times/Luxembourg Income Study analysis)
Poverty rates have fallen significantly. The poverty rate as measured by the Low Income Cut Off is lower than it has ever been.

Poverty rates

![Graph showing poverty rates from 1995 to 2010. The rate started at 13.3% in 1995, decreased to 8.8% in 2010.]

Note: Persons in low income, annual rate. Low income cut-offs after tax, 1992 base.

Source: Statistics Canada, CANSIM Table 202-0802 (accessed August 16, 2014)
Top income shares have risen
the top 1% share is largely earnings, reflecting enhanced productivity and innovation.
Inequality has not changed

Market income inequality is no different now than 20 years ago.
Intergenerational mobility

Social mobility is high in Canada
family background is not destiny as only 25% of any relative economic advantage or disadvantage is passed across generations

**Figure 1**

The Great Gatsby Curve
More inequality is associated with less mobility across the generations

Source: Miles Corak, *Inequality from Generation to Generation: The United States in Comparison.* In Robert Rycroft, ed. The Economics of Inequality, Poverty, and Discrimination in the 21st Century (Santa Barbara, California: ABC-CLIO, 2013).
A benign equilibrium

Top income shares are sustainable, and middle class concerns are met

“middle class” concerns are being met by this new equilibrium

1. A sense of growth and progress
2. Security
3. Being treated fairly

Inequality is benign, and “envy” is the only basis for any expressed concern, but this cannot be a basis for public policy
Incomes of the typical family

Median incomes have been on the rise ... but this reflects red hot resource based economies, not Ontario or Quebec.

Note: Annual median market income, all family units.
Source: Statistics Canada, CANSIM Table 202-0203 (accessed August 16, 2014)
Median incomes have stagnated in fact the market income of the typical household is lower than in 1976

Source: Statistics Canada, CANSIM Table 202-0203 (accessed August 16, 2014)
Poverty rates have drifted upward
the poverty rate determined by the Low Income Measure has not improved at all
Top income shares have risen
the top 1% share reflects market power used to capture rents
Inequality has increased
market income inequality is higher and likely underestimated by the GINI
The earnings prospects of the young have deteriorated. Starting wage rates fell significantly for each successive cohort of young men up to 2000, and improved only slightly since then.

Note: First job entry cohort is 1980/81, and the last is 2006/07. Data are estimates from various Statistics Canada surveys for men with high school education.

Source: David Green and James Townsend (2010), Figure 3.
Past rates of social mobility reflect an era of higher equality will family culture and social connections play an increasingly important role in getting young people access to good jobs as they come of age in an era of inequality?

Proportion of sons employed currently or at some point in the past with an employer their fathers had worked for at any time in the past for each percentile of the father’s earning distribution

Source: Corak and Piraino (2011), Figure 2.
A new equilibrium
middle class concerns are not being met, and there is an unarticulated role for public policy

“middle class” concerns are not being met by this new equilibrium

1. no sense of growth or progress: in some regions and particularly for the young

2. security is precarious when tied to firm specific human capital, or investments in general skills that don’t pan out

3. fair treatment threatened: limits to upward mobility, and a heightened threat of downward mobility (both intra- and intergenerationally)
Income shares rose at the top, fell at the bottom, and were flat in the 'middle'.

Note: Income shares based upon individual equivalized total market income.
Meeting middle class concerns

“Growth”, “Progress”, “Hope”
1. tight labour markets matter
2. an ethic of mobility

“Security”, “Insurance”
1. retirement incomes
2. wage insurance, and “family” insurance
3. repayment assistance

“Fairness”
1. progressive taxation
2. neutrality and horizontal equity
3. opportunities for the young
Public policies that resonate

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Three major messages

1. The growth in median incomes
   - did not happen in Ontario, nor Quebec
   - will temper middle class concerns but only in particular regions of the country, and to the extent the reference is to current experience rather than that of a previous generation
   - all bets are off if commodity prices fall in a major way

2. The plight of younger cohorts, and the expectations for their future, is an important concern for the middle class

3. The framing of public policy interventions needs to resonate with those in the upper half of the income distribution (less the top 10%), and their concern for progress, security, and fairness