

Inequality and Inclusive Growth: Implications for Policy in Canada

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Changing policy paradigm

“[Maximizing growth and inclusiveness at the same time,] that’s exactly what we are trying to encourage our countries to do. We call it “the Nexus”... how to become more productive by being more inclusive ... But to do that, our economic models and our economic metrics may need to change... It means putting people at the centre of policy making. That’s what we don’t have. We have production. We have consumption. We have GDP per capita. We don’t have people.”

Gabriela Ramos, OECD Chief of Staff, The Globe and Mail, June 20, 2017

The old approach (1)

For several decades, governments promoted economic growth through:

- Trade liberalization
- Financial deregulation
- Tax cuts
- Flexible labour markets

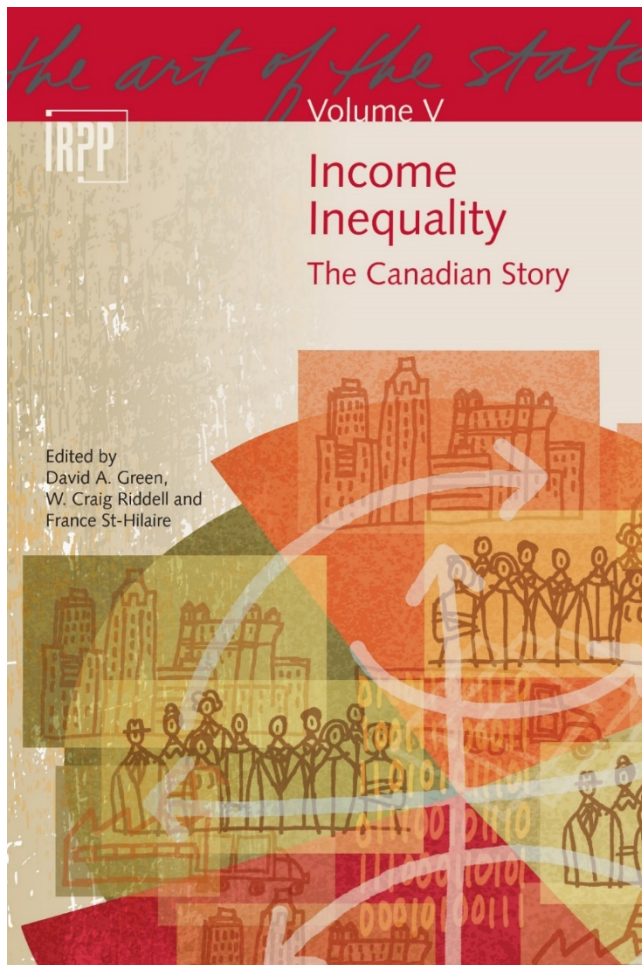
The old approach (2)

This period coincided with:

- Substantial rise in market income inequality
- Wage stagnation
- Polarization of jobs and/or earnings
- Rise of the 1%
- Increase in nonstandard work

Toward a new approach

- Mounting evidence on the long-term socio-economic impacts of inequality
- Potentially associated with poorer growth prospects
- Detrimental to social cohesion and political stability (Brexit, Trump)
- Trade, productivity and innovation still on the agenda
- But also need to mitigate their negative distributional impacts and more broadly share the benefits of growth

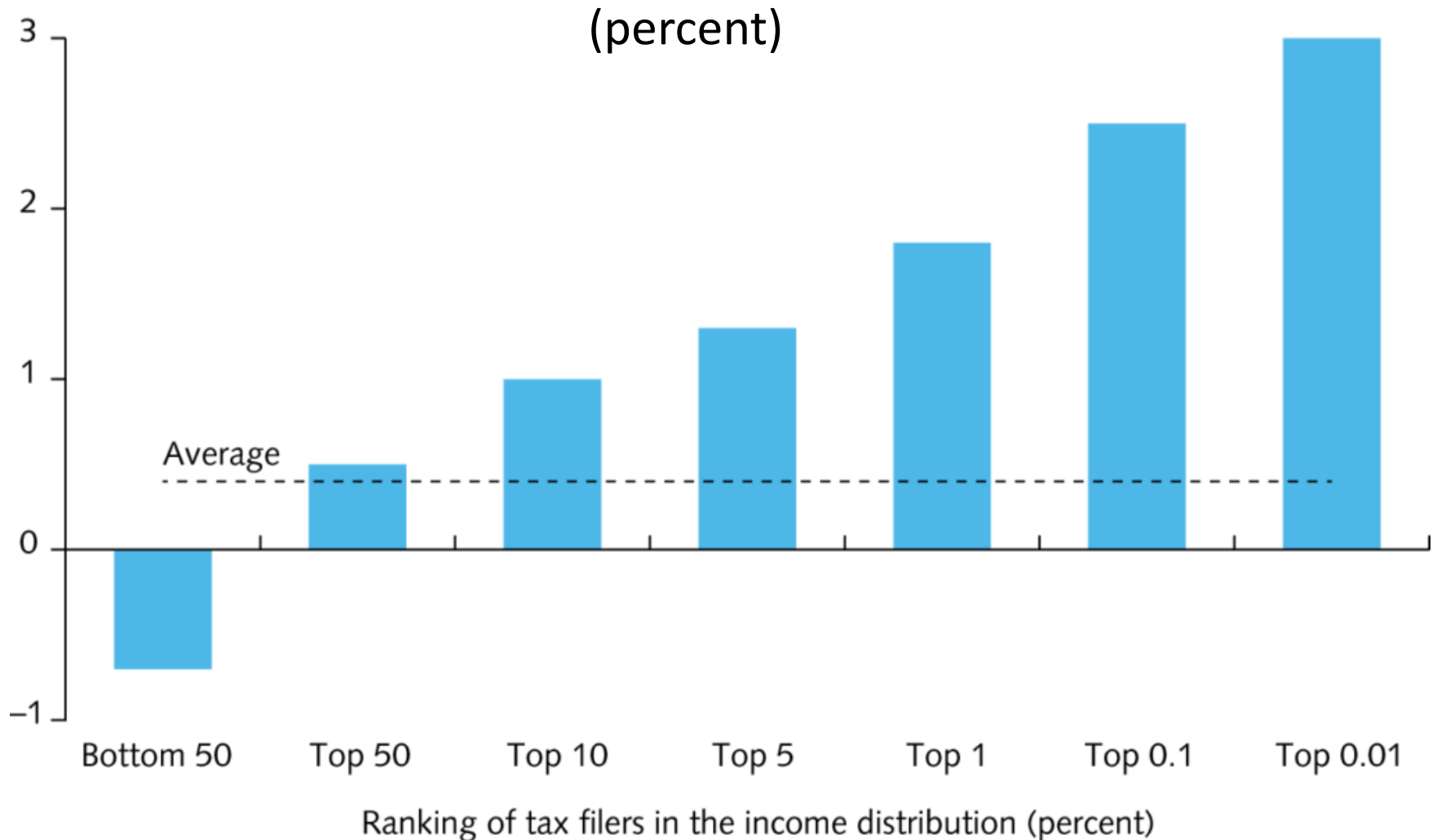


A 3-year research initiative, which examined the causes and consequences of income inequality trends in Canada over the past four decades and the role of policy

Inequality trends in Canada

- Market income inequality increased considerably in the 1980s and 1990s
- Stable since 2000 (natural resource boom)
- Proportion of male middle-class workers fell 10 points; their share of earnings dropped even more (1970-2005)
- The share of market income going to top 1% rose from 8 to 12% (1980-2014)

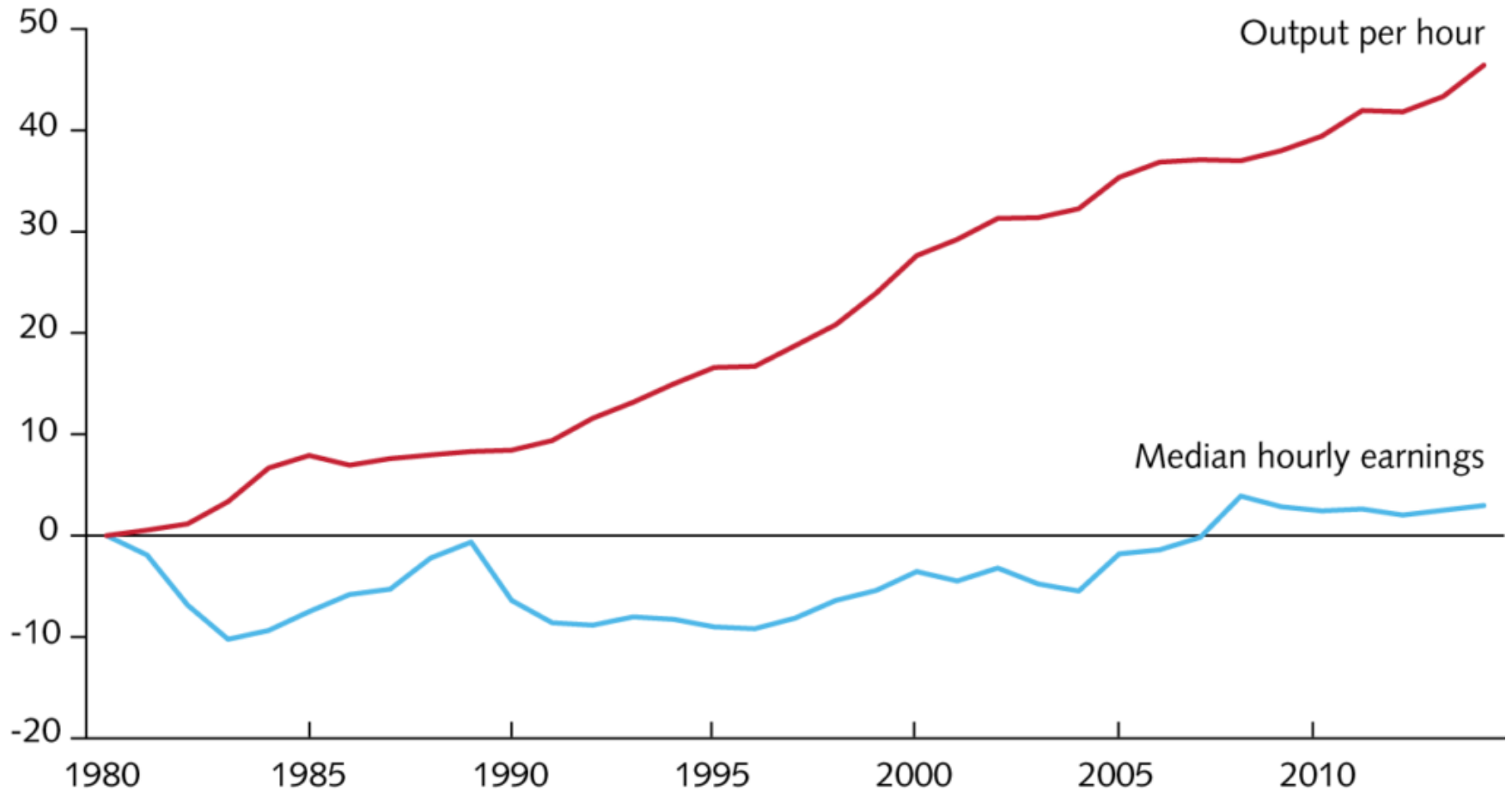
Average annual real market income growth, Canada, 1982-2014



Source: Calculations based on Statistics Canada, CANSIM tables 204-0001 and 326-0021.

Cumulative real change in output per hour worked and median hourly earnings, Canada, 1980-2014

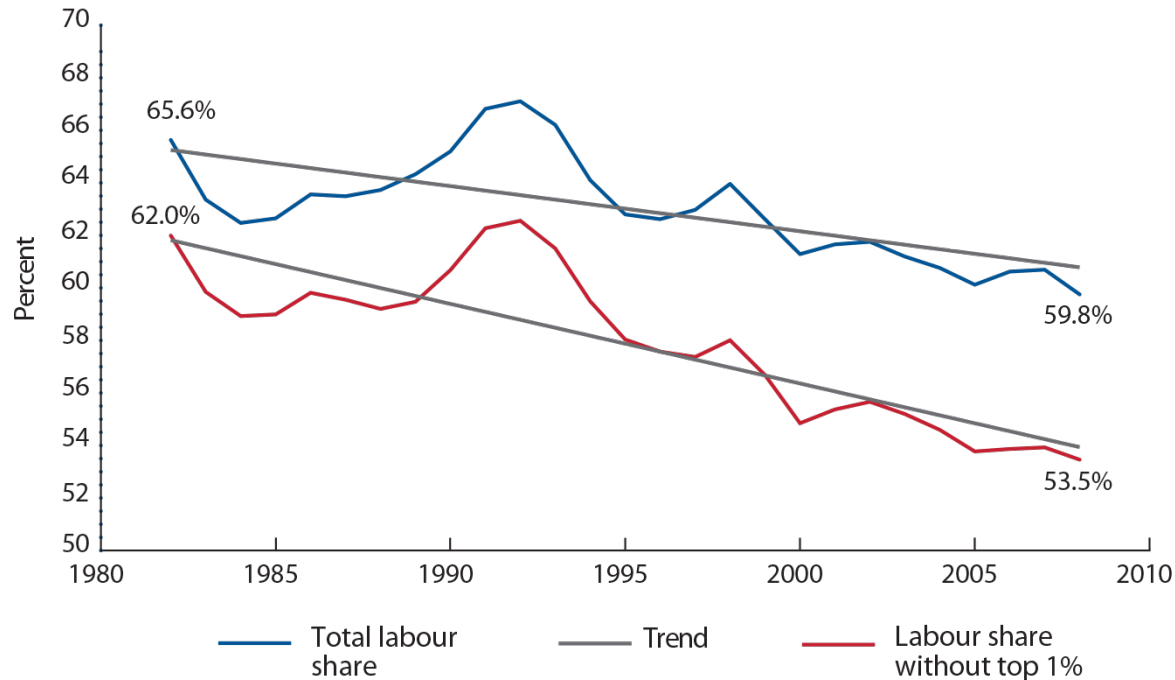
(percent)



Source: Calculations based on Ugucioni, Sharpe and Murray (2016).

Declining share of income allocated to wages and bottom 99%

Labour share of total income with and without the top 1 percent of earners, Canada, 1982-2008



Source: Lemieux and Riddell (in this volume).

Policy implications (1)

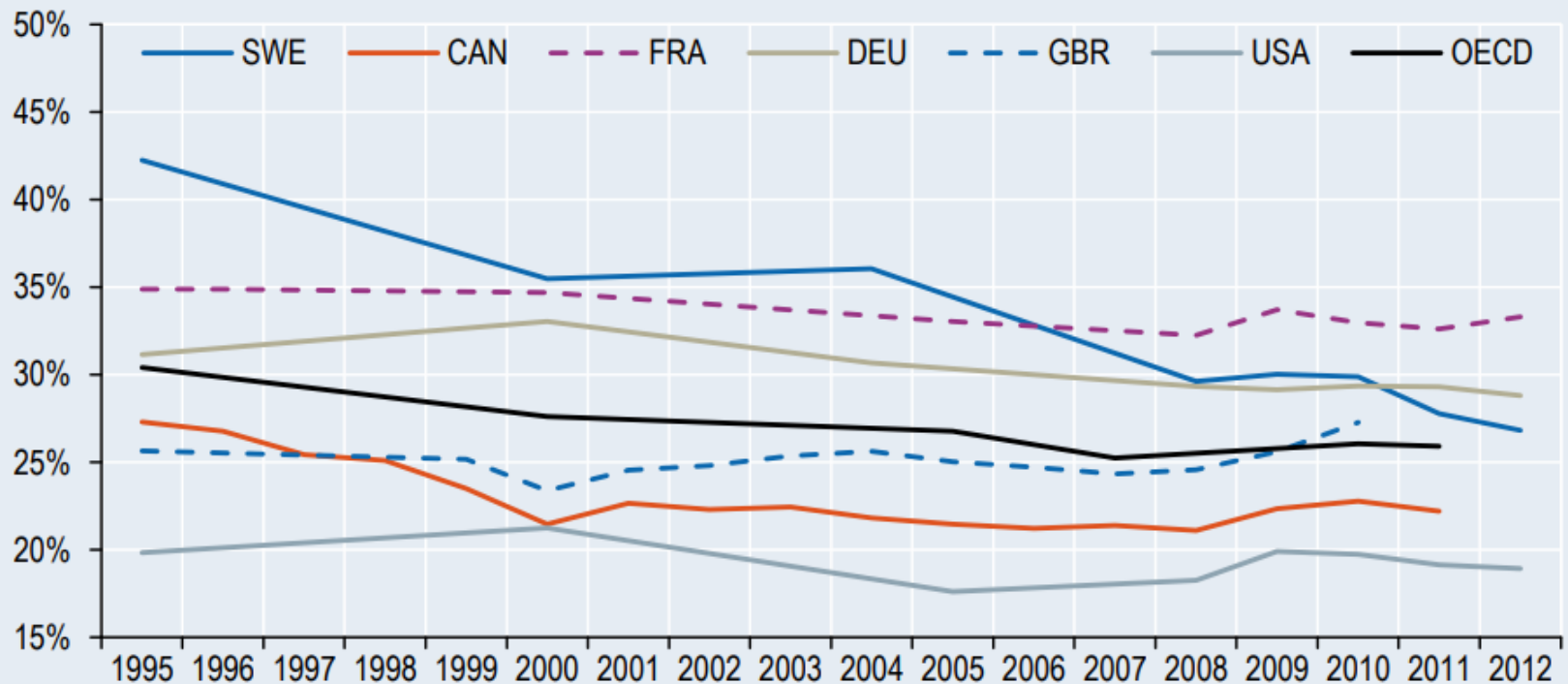
- Trudeau government quickly followed through on election promises to help the middle class
- But incremental policy changes will not alter underlying inequality trends
- Unrealistic to rely mostly on tax-transfer system to mitigate the outcomes of inherent economic forces, in particular shifts in bargaining power over wages

Policy implications (2)

- Reduce the ability of top earners to extract rents (taxes, CEO compensation and corporate governance practices)
- Move beyond traditional union framework to give stronger rights and protections to all workers
- A new take on the minimum wage (living wage movement; ongoing experimentation in larger US cities; some Canadian provinces following the lead)

Income taxes and cash benefits reduce inequality by 22%

Percentage difference between inequality (measured by the Gini coefficient) of gross market income and inequality of disposable income, working age population



Note: OECD average: un-weighted and based on ten countries for which data are available at all points (Canada, Denmark, Germany, Israel, Italy, the Netherlands, New Zealand, Sweden, United Kingdom and United States).

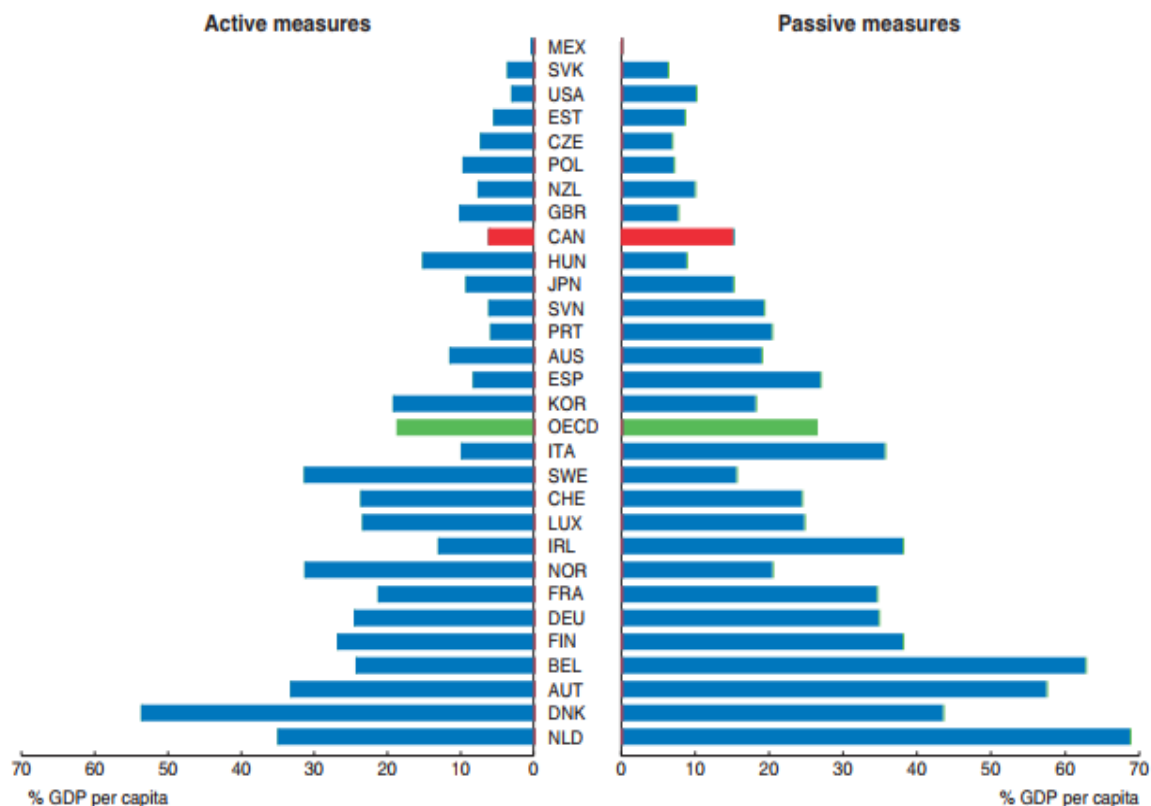
Source: OECD Income Distribution Database, .

Time to rethink social safety net for working-age adults

- EI and social assistance long criticized for letting too many fall through the cracks
- EI challenged by rise of precarious work
- Social assistance needs to better help those at risk of recurring and persistent poverty
- Complex web of overlapping income support programs still leaves gaps in the system
- Potential solutions: GAI, earnings supplements, wage insurance and active labour market measures


Public spending on labour market measures¹

Spending per unemployed, as a percentage of GDP per capita, 2012 or latest year available



1. Labour market measures include active and passive measures which refer to, respectively, Categories 1 to 7 and Categories 8 to 9 of the OECD/Eurostat Labour Market Programme Database. For more details about the categories, see Grubb and Puymoyen (2008). Countries are ranked in ascending order of the total of both active and passive measures in 2012.

Source: OECD (2015), *Back to Work – Canada*, Figure 5.6; D. Grubb and A. Puymoyen (2008), "Long-Time Series for Public Expenditure on Labour Market Programmes", *OECD Social, Employment and Migration Working Papers*, No. 73, <http://dx.doi.org/10.1787/230128514343>.

StatLink  <http://dx.doi.org/10.1787/888933370839>

Employment supports, skills and training

- Displaced workers need timely access to effective employment supports
- EI rules restrict this access for a growing proportion of unemployed
- Older, long-tenured workers have special needs
- There is a broader need to enhance second chance education and training options for working-age adults

From helping the middle class to promoting inclusive growth

- Budget 2017 addresses many of these issues
- Wide array of measures proposed to broaden skill development opportunities for workers, within and beyond EI, and in cooperation with provinces
- Potentially central component of Canada's evolving policy strategy for inclusive growth