Income inequality is a problem for everyone [1]

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EXCERPTS

Work hard and you'll get ahead. That's been the mantra of folks who prefer their governments small and their success big.

But as two recent Conference Board of Canada reports [3] show, that mantra is being cast into doubt. According to the voice of Canada's business establishment: "High inequality can diminish economic growth if it means that the country is not fully using the skills and capabilities of all its citizens or if it undermines social cohesion, leading to increased social tensions. High inequality [also] raises a moral question about fairness and social justice."

Say the word "inequality," and many people automatically assume you're talking about the poor. But a mounting body of research shows that, left unchecked, a growing income gap affects the rich, the poor and everyone in between.

Economic growth used to be touted as the surest ticket to broad-based prosperity. But during the strongest period of economic growth in the past 30 years, between 1997 and 2007, a third of all income gains went to the richest 1% of Canadian tax filers.

Think that's normal? In the 1960s, the most recent comparable period of sustained growth, the richest 1% took only 8% of the gains from growth.

Not since 1920, when Ottawa began to collect income data, have Canada's elites pocketed a larger share of the income gains from economic growth. Top marginal tax rates for millionaires also are at rates last seen in 1920.

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The Conference Board's international review of the data [4] shows that since the mid-1990s, Canada went from better-than-average to worse-than-average levels of inequality, slumping from 14th to 22nd place out of 32 OECD countries. Our decline was more rapid than even the United States, despite a decade of robust economic growth and record levels of job creation. At the very same time, 15 OECD nations - including many of our peers, like Norway, Italy and the U.K. - were reducing income inequality.

No matter your political leanings, most people understand that endless concentration of income, wealth and power is bad for the economy. After all, businesses rely on rising purchasing power of the many, not the few, to deliver growth and profits.

The top 10% of Canadian households have seen steady gains in income, but it wasn't until 2007 that most incomes finally nudged ahead of where they stood in 1976, in constant dollar terms. Then the recession hit.

Yes, many goods are cheaper than they were a generation ago. But the list does not include higher education and home ownership, both of which lead to greater economic security. Those costs have zoomed past most people's income growth. Increasingly, Canadians have been pursuing these two dreams with ever-growing piles of debt. You don't need to work at the Bank of Canada to know that current levels of household debt offer a precarious foundation for sustained growth.

For most Canadians, the issue isn't that the rich are getting richer. The dilemma they face on a daily basis is getting and staying in the middle class. Canadians rightly believe that hard work should lead to upward mobility. They believe most people won't need help if the market is fair and they play by the rules - get educated, work hard.

It's the promise of their own upward mobility that has many Canadians willing to brush aside the handsome gains enjoyed by the rich in the past 20 years. But rising inequality, in good times and bad, makes it increasingly feel like the game is rigged, destabilizing foundational values and expectations.

Take families. The citizens of the world's 10th largest economy should reasonably expect to be able to support and raise their children.

Yet today, Canadians are wondering if their children are going to do as well as they did.

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The story is the same in most large cities across this land, the places where most young Canadians live: The latest generation of Canadian families has to put in way more time in the labour market than their predecessors to avoid losing economic ground.

As the Conference Board study noted, since 1993, the richest 20% has increased its share of total income, while both the poorest and the middle groups have taken home a smaller piece of the economic pie. A system that lets a small group gain more while the majority is forced to settle for less, despite ever-greater effort, is a prescription for trouble. No one knows the tipping point, but lock enough people out of the promise of gains and at some point, instead of stability and growth, you get social unrest.

So what can we do to turn this story around?

Some will call for change that doesn't much disturb the status quo: Improvements in productivity, or tax cuts for Canadians with the lowest taxable incomes. But truly reducing inequality requires either increased incomes or lower costs for the majority. That means bosses and owners sharing more of the productivity gains and profits with workers; or paying more tax to expand affordable access to post-secondary education, public transit and child care, thus taking the pinch out of small paycheques.

For those who feel these measures are too costly, they should consider the alternative.

History has shown us, time and again: When too much is controlled by too few, something has to give. Continuously rising inequality is unsustainable.

Everyone has a stake in fixing this. And the fix has no political colour. It is about the future of Canada and where we're heading as an economy, a society, a democracy. That's why even conservatives are worrying about Canada's rising income gap.

- reprinted from the National Post

Related link: Conference Board of Canada report: "How Canada performs: Income inequality" [5]
Region: Canada [6]
Tags: poverty [7]

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