

# Disappearing middle class 'defining issue of our time' <sup>[1]</sup>

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## AVAILABILITY

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## EXCERPTS

Several years ago, many critics told Ricardo Fuentes-Nieva and his team of researchers at Oxfam International that they were foolishly mistaken when they predicted that by the end of 2016, the richest one per cent of the world's population would control more than half of worldwide wealth.

Their report was criticized for being exaggerated, whiny, and over-simplified by some.

It turns out, the only error in Oxfam's forecast was the timeline; it took just until the end of 2015 for 62 people—the number of suits you might see on a small, Tuesday morning commuter flight between Ottawa and Toronto—to have amassed the same amount of wealth as the bottom half of the entire globe's population.

Income inequality has increased in many countries over the past 30 years, resulting in a disappearing middle class, according to Oxfam's report. The wealth of the one per cent richest people in the world amounts to \$110-trillion, which is 65 times the total wealth of the poorest half of humanity. An international network of tax havens allows the world's elite to hide \$7.6-trillion.

Julie Delahanty, executive director of Oxfam Canada, told a packed room at a Hill Times Events panel discussion on Jan. 26 that income inequality is spiraling out of control, nationally and globally.

"It's the defining issue of our time," she said, explaining that the repercussions of the widening gap between the rich and the impoverished have myriad implications. "It slows economic growth, fuels violence and conflict, it undermines social cohesion ... and it stands in the way of eradicating global poverty."

And while Prime Minister Justin Trudeau (Papineau, Que.) stood in front of the World Economic Forum in Davos, Switzerland, last week and asserted his government's belief that "everybody needs to benefit from growth in order to sustain growth," the panelists maintained that this rhetoric must be backed by political will and imaginative policy if Canada is to halt the widening discrepancy between the rich and the poor.

## Canadian context

The global statistics are alarming according to Oxfam's most recent report, *An Economy for the 1%*. The wealth of the richest 62 people in the world increased by \$542-billion since 2010. Meanwhile, in the same time period, 3.6 billion people's wealth fell by \$1-trillion.

Canada's story illustrates a similar snapshot. A study by the Broadbent Institute showed that the wealthiest 10 per cent of Canadians saw their median net worth grow by 42 per cent between 2005 and 2012 to \$2.1-million. In that same period, Canada's bottom 10 per cent saw their median net worth decrease by 150 per cent. In 2012, their debts outweighed their assets by \$5,100.

This discrepancy doesn't just affect those on the very lowest rungs of the ladder, either. The study also signaled that the bottom 50 per cent of Canadians possess only six per cent of the economic pie in Canada.

Mr. Fuentes, who is now the executive director of Oxfam Mexico, explained during the panel discussion that in many countries around the world, the wage of the average worker is on a steady decline.

Not only that, but the share of national income is increasingly going to those with large amounts of capital (through means such as capital gains tax breaks, accumulated interest, and dividends) and less is going to labourers.

Essentially, the rich are making more money from simply having money, and workers are making less money in return for their labour.

Even still, France St-Hilaire, vice-president with the Institute for Research on Public Policy, pointed out that economic inequality in Canada is a topic with a great deal of competing opinions. Not everyone agrees that it's a problem in Canada, said Ms. St-Hilaire, who recently published a book called *Income Inequality: The Canadian Story*.

During the 2015 federal election, the party platforms "actually devoted a lot of attention to policies that affect inequality; child benefits,

tax reductions for the middle class, taxing top earners ... but the term 'inequality' and the issue itself were noticeably absent," she said.

Ms. St-Hilaire pointed out that the Canadian middle class temporarily experienced a bright horizon from the natural resources boom, but that has since dried up with the oil bust.

### Shrinking the gap

Andrew Jackson, a senior policy adviser from the Broadbent Institute who also spoke on the panel, argued that income inequality in Canada must be tackled on three policy fronts: the first is pre-distribution, where economic market outcomes are shaped to distribute wealth more evenly; redistribution, where governments can alter wealth through means such as tax and transfer systems; and lastly, policies of de-commoditization where certain services are taken out of the economy and are provided as a right of citizenship, or are heavily subsidized—such as health care, child care, affordable housing, and education.

He questioned, however, whether the federal government will have the fiscal capacity to deliver on promises of progressive social reform, which could have benefits to decreasing economic inequality.

One current federal policy that Mr. Jackson said he thinks could have a large impact on economic inequality is the proposed Canada Child Benefit policy, which provides tax-free support to families with children based on income.

Mr. Jackson said the Liberal government's \$22-billion per year plan is a "major step forward."

However, he added that he's disappointed most of the money gained from the tax increase for the top one per cent will then be lost to balancing out the tax cut to the middle class, which he said will largely benefit the upper middle class, or the top 10 per cent in Canada.

Instead, the Canadian government could use the funds from the tax increase to spend on de-commoditization and subsidized social services, he argued.

Meanwhile, David Crane, an economics columnist for publications including The Hill Times, argued that investing in innovation and Canada's youth is one of the best ways to combat income inequality.

"We've neglected policies on the social and taxation side," he said. "But we've had very poor productivity for a long time. The only way you really have a sustainable increase in living standards is to have a sustained high growth of productivity—and we haven't had that in Canada."

He added that the "policies of the Liberal platform do next to nothing to change this."

Mr. Crane also stressed the importance of accessible health care, education, and housing to all Canadians; implementing policies that will boost and invest in economic growth and innovation in the country; and lastly, focusing on creating opportunity—especially for the bottom 40 per cent of the population.

While a bit of inequality is good for the economy—it forces competition, rewards innovation, and encourages entrepreneurship—Mr. Crane said it is now at a level in Canada where the average person sees little or no reward for their hard work.

Mr. Crane agreed with Mr. Jackson that the Liberal's middle income tax cut does very little to benefit the masses, and instead, questioned why there hasn't been reference to a working income tax benefit, which would encourage lower-income citizens to reenter the workforce.

Lastly, he added that much more opportunity needs to be provided to children very early on in their lives, by teaching them essential non-cognitive skills such as ambition, perseverance, and creative thinking.

"We have to pay much more attention to creating opportunity and one of the places to start is with early childhood development," he said.

-reprinted from The Hill Times

**Region:** Canada <sup>[3]</sup>

**Tags:** federal <sup>[4]</sup>

inequality <sup>[5]</sup>

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