

OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*

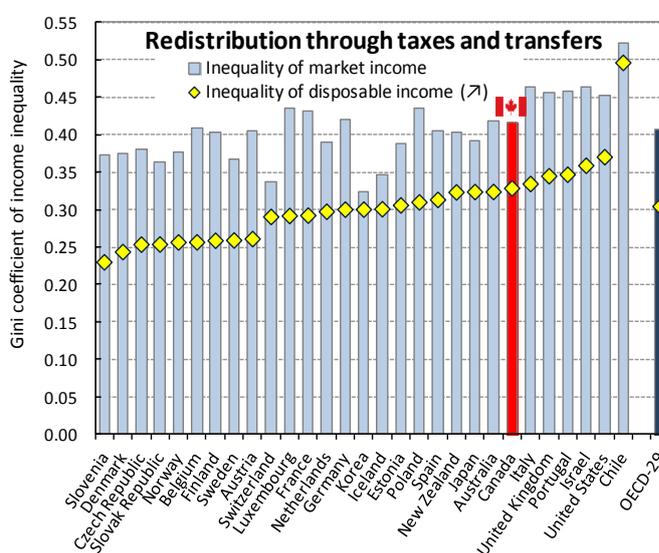
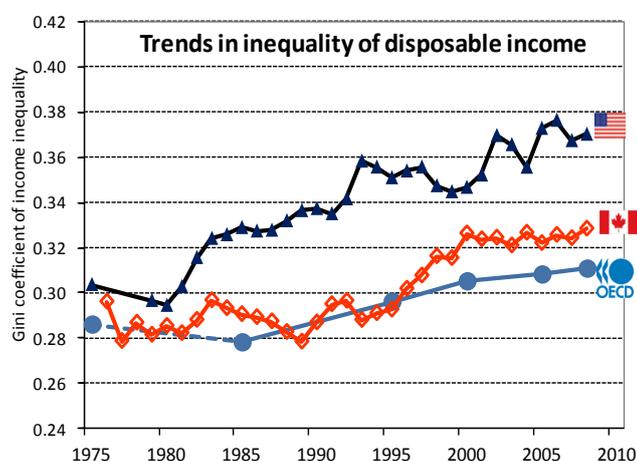
www.oecd.org/els/social/inequality

(Under embargo: Monday 5th December 2011, 11am Paris time)

COUNTRY NOTE: CANADA

Income inequality among working-age persons has been rising in Canada, particularly since the mid-1990s. According to the latest data, the level of inequality is above the OECD average but still below that of the US (see figure left-hand panel below). The average income of the top 10% of Canadians in 2008 was 103 500 can \$ (84 600 USD), 10 times higher than that of the bottom 10%, who had an average income of 10 260 can \$ (8 400 USD). This is up from a ratio of 8 to 1 in the early 1990s.

The rise in inequality was largely due to widening disparities in labor earnings between high and low-paid workers, but also to less redistribution. Taxes and benefits reduce inequality less in Canada than in most OECD countries (see figure right-hand panel).



Notes: The Gini coefficient ranges from 0 (when all people have identical incomes) to 1 (when the richest person has all the income). Market incomes are labour earnings, capital incomes and savings. Disposable income is market income plus social transfers less income taxes. Incomes are adjusted for household size. Data refer to the working-age population. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Key findings:

- The richest 1% of Canadians saw their share of total income increase from 8.1% in 1980 to 13.3% in 2007 [Table9.1]. Moreover, that of the richest 0.1% more than doubled, from 2% to 5.3%. At the same time, the top federal marginal income tax rates saw a marked decline: dropping from 43% in 1981 to 29% in 2010.
- The divide in hours worked between higher- and lower-wage earners in Canada is growing, confirming a trend seen in most OECD countries. Since the mid-1980s, annual hours of low-wage workers fell from 1300 to 1100 hours, while those of higher-wage workers fell by less, from 2200 to 2100 hours. [Table4.A1.2]
- In Canada, increased earnings inequality was also driven by a rise in self-employment, as on the whole the self-employed earn less than full-time workers. This explains more than one-quarter of the increase.
- Societal changes, such as more single parent families and people living alone, and people marrying within similar earnings classes, contributed little to inequality. At the same time, higher employment rates for women helped reduce household earnings inequality by around the same amount. The rising gap between men's earnings remains the main driver, explaining more than 40% of the increase.
- Prior to the mid-1990s, the Canadian tax-benefit system was as effective as those in the Nordic countries in stabilising inequality, offsetting more than 70% of the rise in market income inequality. The effect of redistribution has declined since then: taxes and benefits only offset less than 40% of the rise in inequality.

- This downward trend in redistribution was largely driven by the reduced role of means-tested transfers: benefit rates fell and benefits became less targeted. Changes in income tax rates played less of a role.
- Social spending in Canada relies more on public services (education, health, etc.) than on cash transfers, such as unemployment and family benefits. Only Korea, Mexico and Iceland put a higher weight on services ([Figure](#)). Overall, services cut inequality by the same amount than do cash transfers: some 20%.

Key policy recommendations for OECD countries from *Divided We Stand*

- Employment is the most promising way of tackling inequality. The biggest challenge is creating more and better jobs that offer good career prospects and a real chance to people to escape poverty.
- Investing in human capital is key. This must begin from early childhood and be sustained through compulsory education. Once the transition from school to work has been accomplished, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.
- Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. Large and persistent losses in low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies.
- The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden.
- The provision of freely accessible and high-quality public services, such as education, health, and family care, is important.

The roles of globalization, technological progress and regulatory reforms

Divided we Stand also looks into the impact of global developments on rising wage dispersion and employment trends over the past quarter century up to the 2008-09 financial crisis. For the OECD area as a whole, the following key findings emerge:

- Globalisation, i.e. the rapid trade and foreign direct investment integration that occurred in all OECD countries over the past quarter century did not – per se – play a major role in driving growing wage dispersion. However, globalisation pressure affected domestic policy and institutional reforms (see below).
- Technological progress led to higher wage differentials: advances in information and communication technologies in particular have been more beneficial for workers with higher skills.
- Regulatory reforms and changes in labor market institutions increased employment opportunities but also contributed to greater wage inequality. More people, and in particular many low-paid workers, were brought into employment. But one of the consequences of more low-paid people in work is a widening distribution of wages.
- The rise in the supply of skilled workers provided a sizeable counterweight to offset the increase in wage inequality resulting from technological progress, regulatory reforms and institutional changes. The upskilling of the labor force also had a significant positive impact on employment growth.

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