

# The Untold Tale About Income Inequality

By HERBERT GRUBEL

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The annual OECD report on income inequality released a short time ago has once again received its ritual media coverage in Canada with headlines like, "Rich-poor gap growing in Canada" and, "The rich are getting richer and the poor are getting poorer."

The explanation of the growing income gap found in these stories fundamentally involves blaming free markets for causing the export of middle class jobs to the developing world, the privileged who exploit consumers to get fat salaries and bonuses and the politicians who buy financial support from the rich by lowering their income taxes.

There is never any consideration of the really important causes of income inequality in Canada. One of these arises from the aging of the population, which increases the reported income of the growing numbers who are near retirement and have income from work as well as their nest eggs. Increased income inequality due to this phenomenon should not be considered a blemish on society and require corrective policies.

One of the most important causes of growing inequality in Canada that is never mentioned in the media is the country's immigrant selection policies. Statistics Canada reports that the incomes of recent immigrants initially is about 60 percent of the incomes of Canadians and rises to a maximum of 80 percent after 10 years in the country.

Government data show that these recent immigrants are over-represented by more than 20 percent in LICO poverty statistics. (Low income cut-offs, or LICOs, are a gauge of the income level at which a family may be financially stressed because it has to spend a greater share of its income on basic needs, such as food, shelter and clothing, than an average family of similar size.) Of the immigrants

living in poverty, 38 percent receive housing subsidies while only 23 percent of Canadians do. Immigrants with low skills compete with low-income Canadians, depressing their wages and increasing inequality.

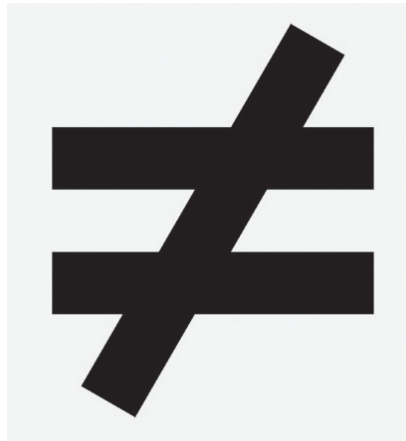
During the last 10 years alone, about 2.5 million immigrants have entered Canada and contributed to the growth in income inequality. Should it be reversed by raising income taxes on the rich, who already pay for fiscal transfers worth \$6,000 a year to each immigrant due to progressive tax rates and universal access to government benefits and who already pay much to support the larger number of Canadians who have been pushed into the low-income class by competition from the many immigrants with low skills?

The media reports on income inequality never mention the life cycle of earnings experienced by all Canadians. After schooling, incomes are low but increase with age, reaching a peak around age 60 and drop again in retirement.

These reports also fail to note the presence of Canadian adults who are in the low-income classes due to temporary influences like illness, divorce, unemployment or lifestyle choices that see them travel the world or study for a different career. Similarly, those in the top income brackets are there only for a limited period of time, like the athletes, performers and artists whose extraordinary success often lasts only a few years.

The importance of life-cycle incomes and temporary influences on the distribution of income is documented in studies of the incomes of individuals through time. Statistics Canada tracked low-income earners between 2002 and 2007 and found that 60 percent moved into a higher income group after one year, 79 percent did so after two, and nearly 90 percent after six. In the U.S., of 100 workers who were in the bottom 20 percent of earners in 1996, 45 percent had moved to higher brackets nine years later. Of 100 in the top quintile of earners, 39 percent had moved to lower ones.

It is a tragedy that these truths about causes of income equality in Canada rarely reach the public and leave it with a seriously distorted view of conditions in Canada. ■




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