

The Hollowing Out of the Middle Class In NL: The Evidence

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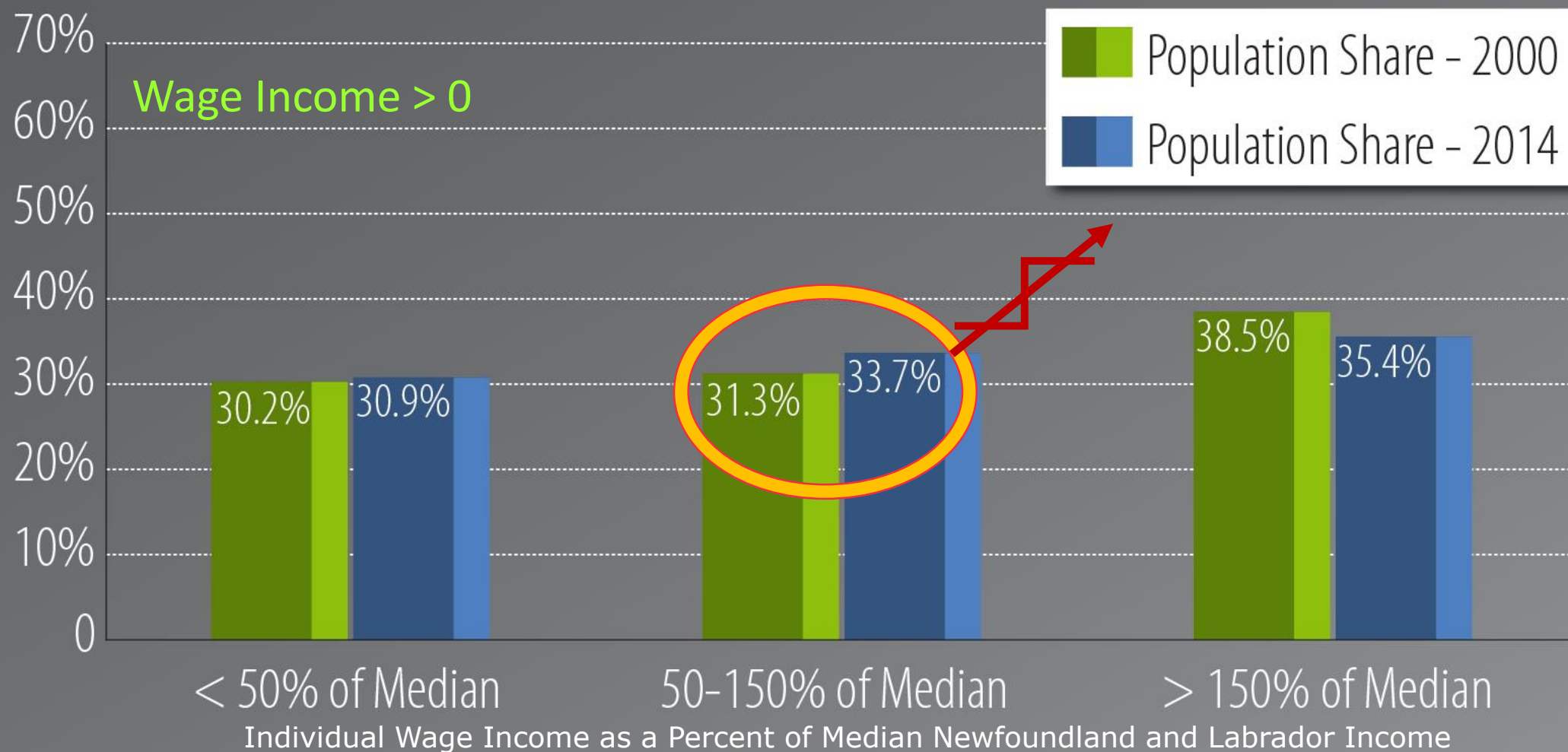
Motivation? The Political Chatter.

- Politicians from Donald Trump to Justin Trudeau have focused on the declining middle class.
- Economists have been concerned about increasing income, wealth, and/or consumption inequality both in terms of the **causes** and **effects**.
 - Increasing robotics from replacement of simple repetitive tasks to use of Artificial Intelligence (AI) in more analytical tasks, e.g. translation
 - Outsourcing, increasing immigration
 - Large international corporations using more highly skilled workers.
 - Executive superstars
- Decreasing opportunities for those at lower end of income spectrum.
- Decreasing economic growth
- Good middle class jobs leaving the country
- Increasing social and political disruption.

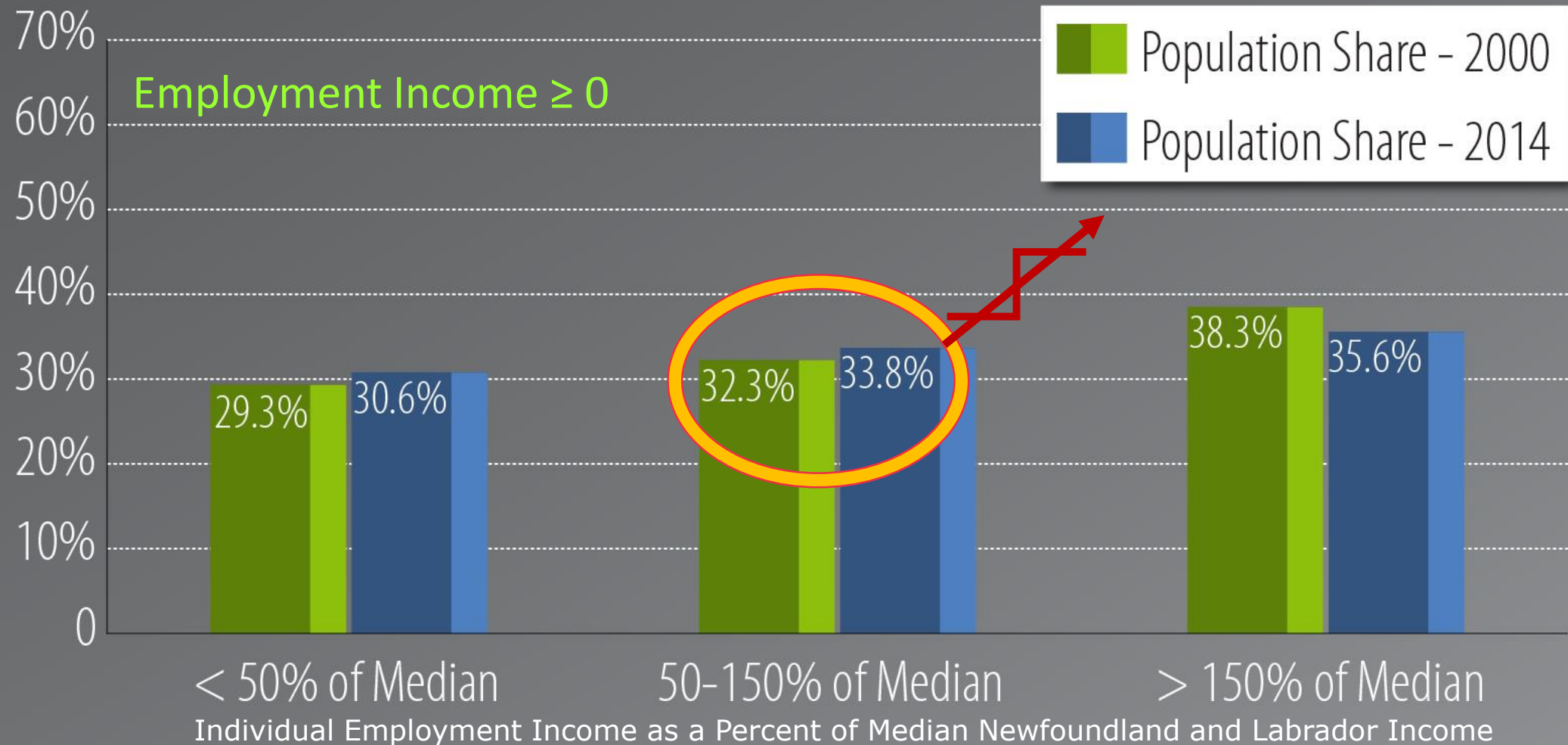
Who are the Middle Class??

- **Wikipedia** : those who are not in the working nor the upper class.
- **Economists**: 50 -150% of median incomes (IMF WP 2016), ; sometimes the upper income group are considered to be those >200% of median.
 - Note that “incomes” are after direct taxes and transfers
 - And since resources are shared within families (or households) the incomes are “**adjusted**” (equivalized) for family size (OECD and most studies do this by dividing the After Tax (Disposable) family income by the square-root of family size and then giving each member of that family that **adjusted** income.

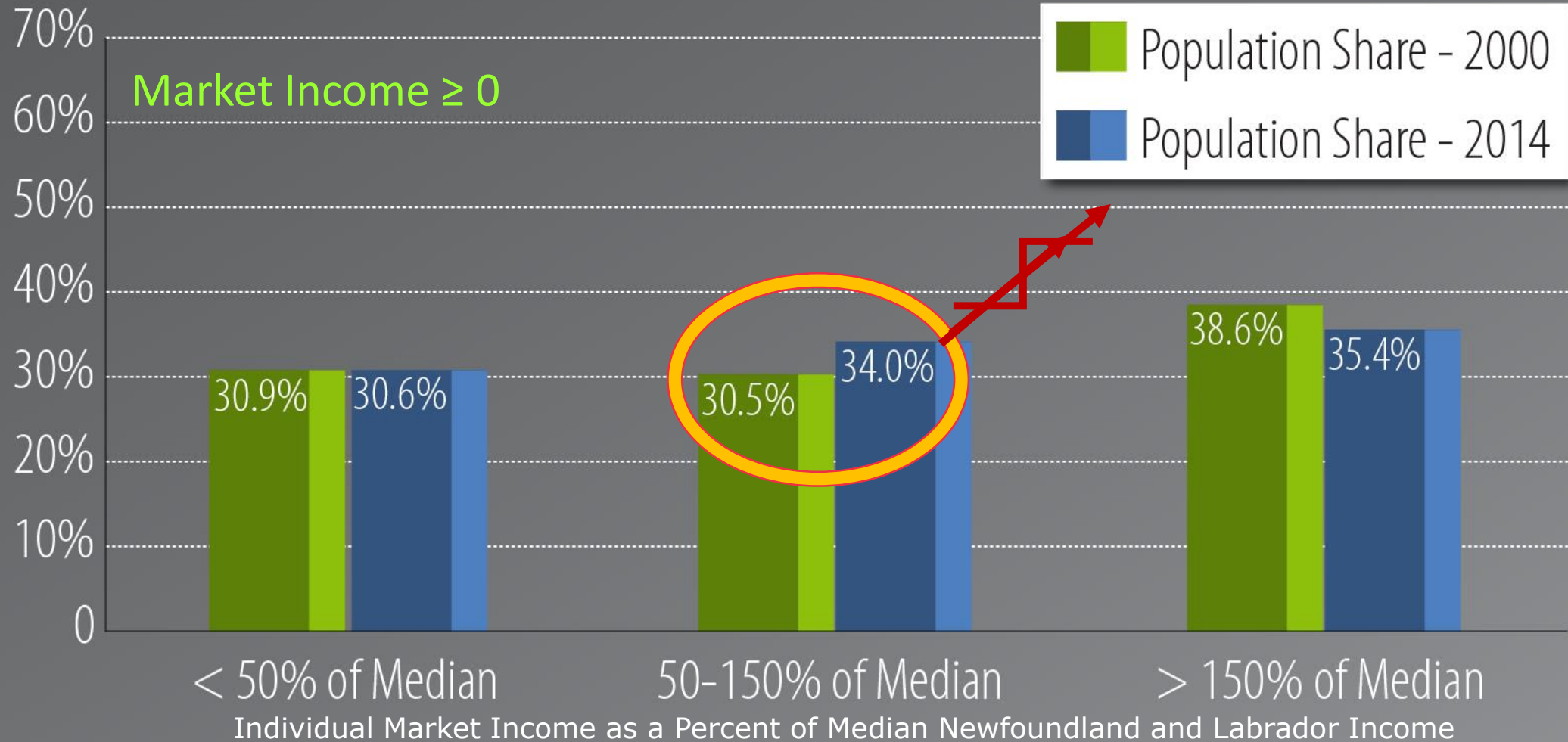
Population Shares by Median Relative Individual Wage Income Groups, NL, 2000 and 2014



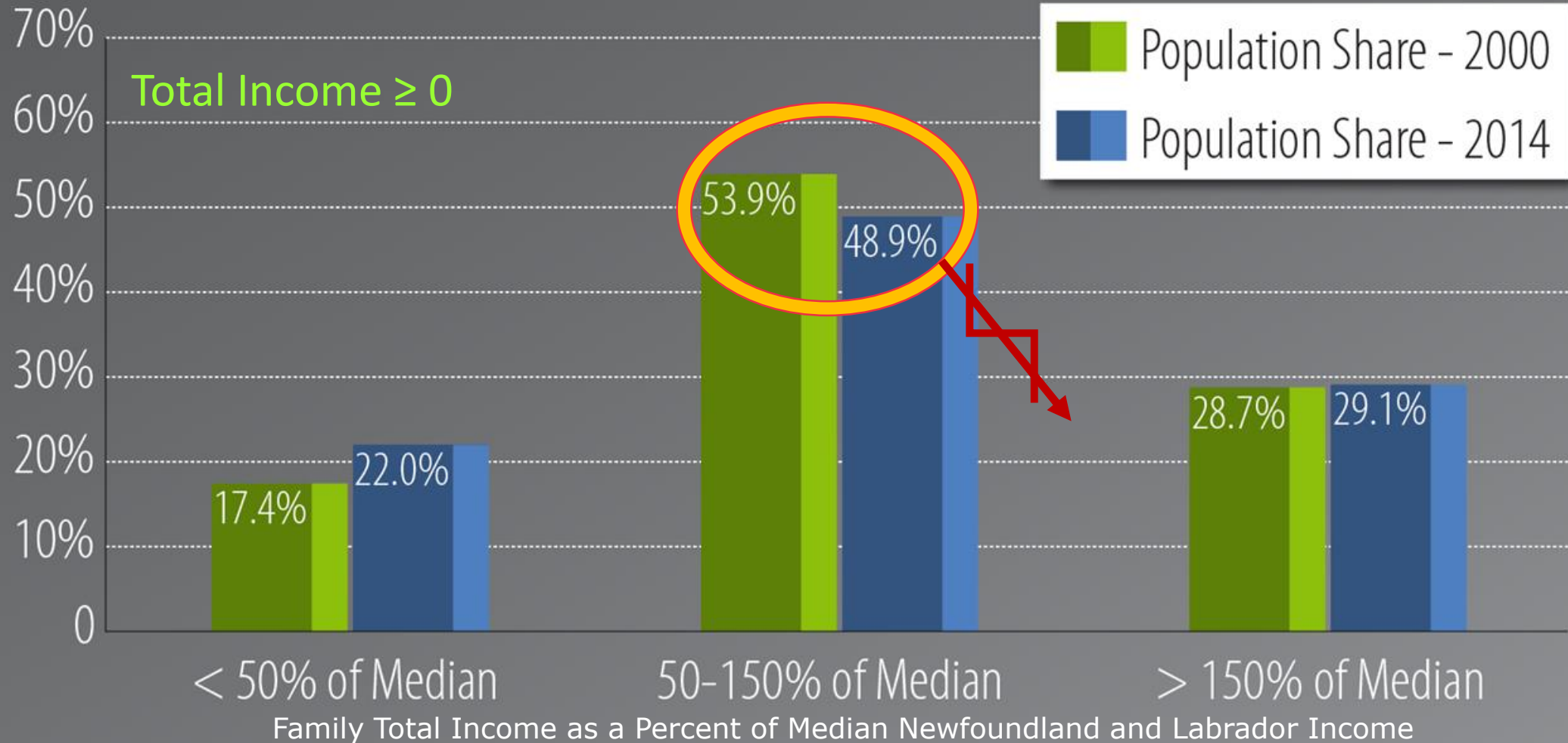
Population Shares by Median Relative Individual Employment Income Groups, NL, 2000 and 2014



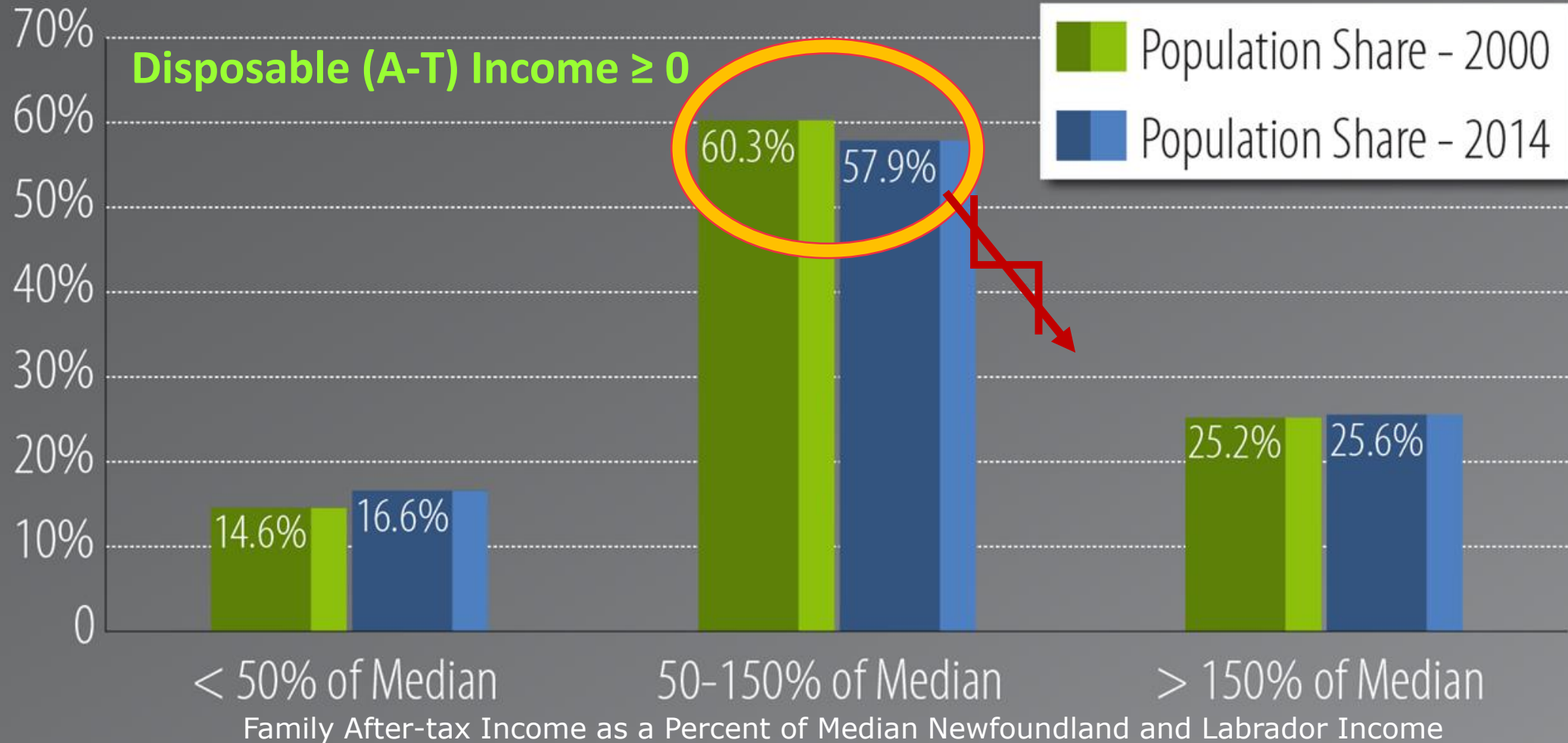
Population Shares by Median Relative Individual Market Income Groups, NL, 2000 and 2014



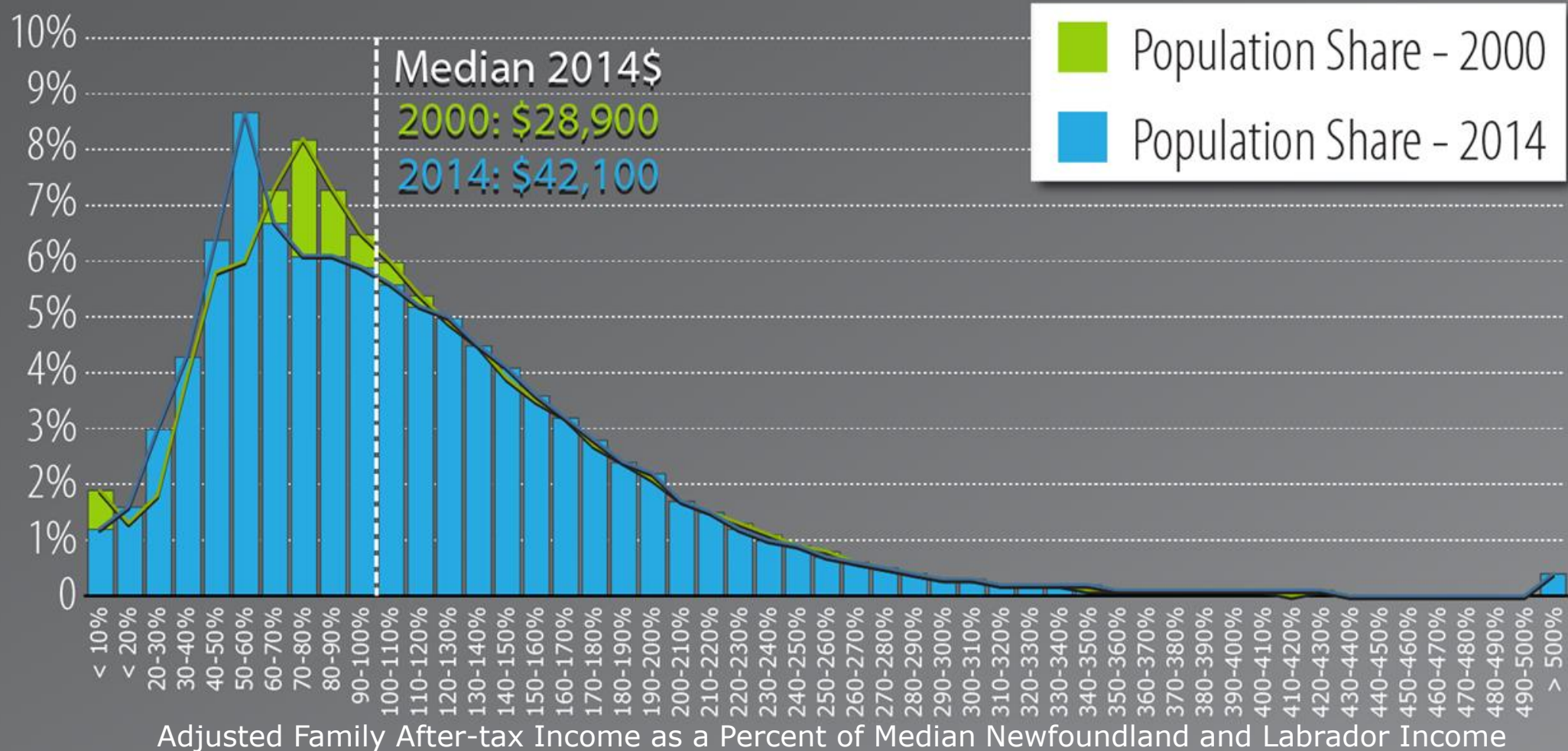
Population Shares by Median Relative Adjusted Family Total Income Groups, NL, 2000 and 2014



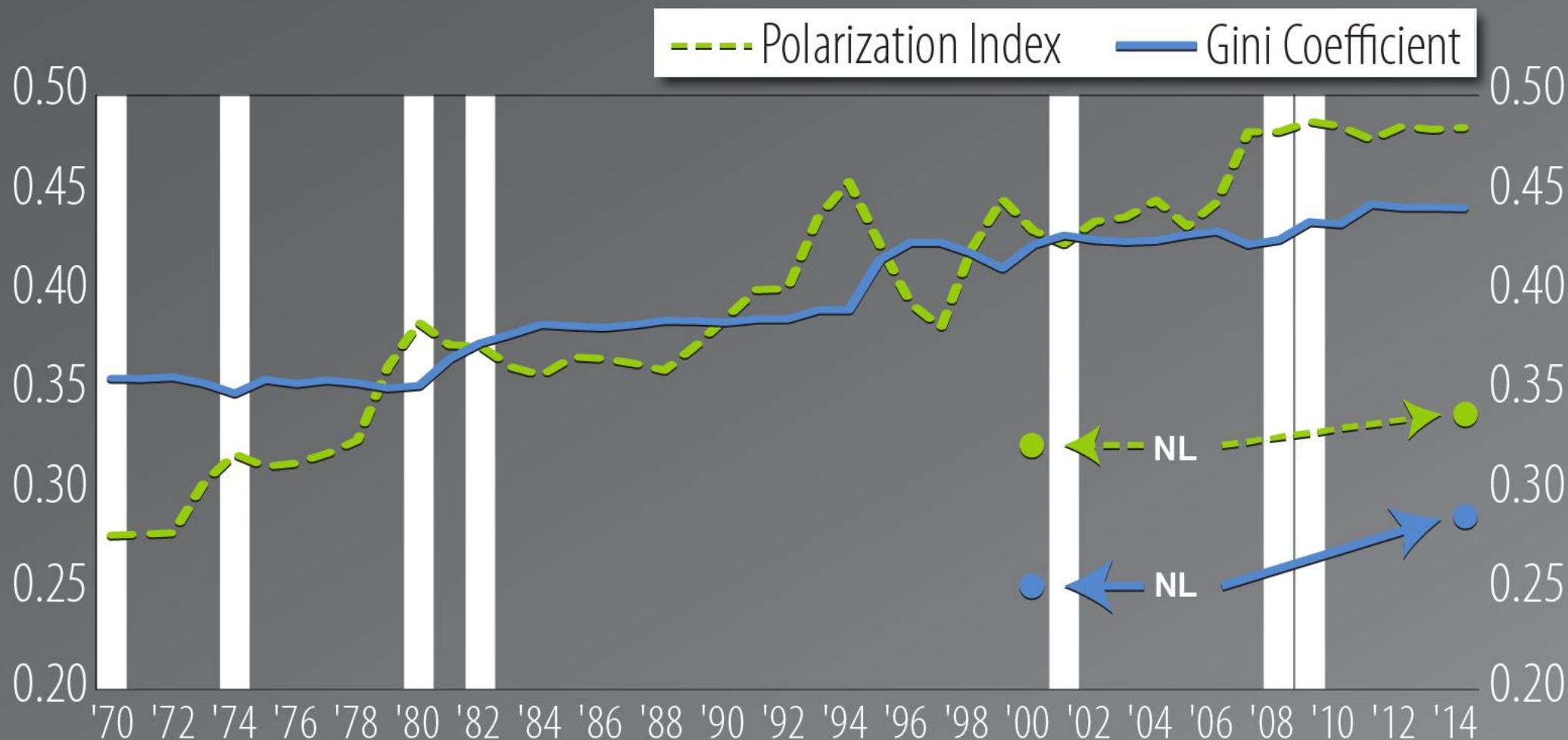
Population Shares by Median Relative Adjusted Family After-tax Income Groups, NL, 2000 and 2014



Population Shares by Median Relative Adjusted Family After-tax Income Groups, NL, 2000 and 2014



Polarization Index & Gini Coefficient, US, 1970-2014



Note: Underlying income data adjusted for household size using OECD's equivalence scale

Source: Current Population Survey.

Wolfson (1994) Index for Polarization

Adjusted Family Disposable Income, (All families Included)

Adjusted Family Consumable Income, (All families Included)

	2000	2007	2010	2014
INDEX AF Disposable Income:	0.2814	0.2874	0.3035	0.3215
INDEX AF Consumable Income:	0.2983	0.2989	0.3035	0.3077

E&D: Economic and demographic factors held constant

Wolfson (1994) Index for Polarization

Adjusted Family Disposable Income, (All families Included)

Adjusted Family Consumable Income, (All families Included)

	2014	2015	2016
INDEX AF Disposable Income:	0.3215	0.3262	0.3158
Median 2016\$	\$38,184	\$39,066	\$39,388
INDEX AF Consumable Income:	0.3312	0.3378	0.3282

A Summary of Our Findings

- Evidence to date (2014) shows that some slight hollowing out of middle class (50-150% of median) real after-tax and adjusted-for-family-size incomes has occurred in NL in 2000-2014 period.
- Our calculation using Wolfson-Foster polarization indexes supports this finding.
- BUT the degree of polarization and hollowing out is far less in NL than in the USA.
- Adjusted, real (inflation-adjusted) disposable incomes have risen (about 46%) during the 2000-2014 period.
- Surprisingly, this “hollowing out” in NL was not due to labour market forces. RATHER this hollowing out was partially due to government (federal and provincial) policies over that period as well as demographic factors (household size).
- Taxes and transfers over the period significantly increased the proportion of the population in the middle class but the impact in 2014 was far less than in 2000.

A Summary of Our Findings Cont'd

- Polarization is greater amongst women's paid employment income than men's.
- Our simulation modelling seems to indicate that current government policies should reduce the level of polarization.
- BUT median adjusted real disposable and consumable incomes are falling and this can be expected to continue over the next few years.

