

What's Happening to Our Middle Classes in Atlantic Canada??: Focus on NL

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The Backdrop

- Concern that rising income inequalities in industrialized countries: UK and USA but also in Canada (e.g. the latest headline Lars Osberg's (2018), **The Age of Increasing Inequality: the Astonishing Rise of Canada's 1%**) could result in social and political unrest.
- These concerns have led the Federal Government to call for “growing the Middle Class”. This call echoes the call by President Trump in the USA.

The Research Questions?

- Has the proportion of our population in the middle class in our province, region, country shrunk over the past 16 years?
- Has the economic well-being of individuals increased over those years? Are we better off, in terms of being able to consume more goods and services?

The Road Ahead

- Our Data
- Income distributions: The Skewed “Bell” curve
- Is the Middle Class disappearing?
- How much have real incomes shrunk?
- How does NL compare to the other Atlantic Provinces and to Canada?
- Growing the Middle Class: the sources of growth (wages, transfers?)
- NL payroll distributions?
 - By gender
 - By industry
 - By region
- The future of our Middle Class.
- Accounting for the Middle Class: Towards Better Social Accounting
- What we have learned.

Some Context

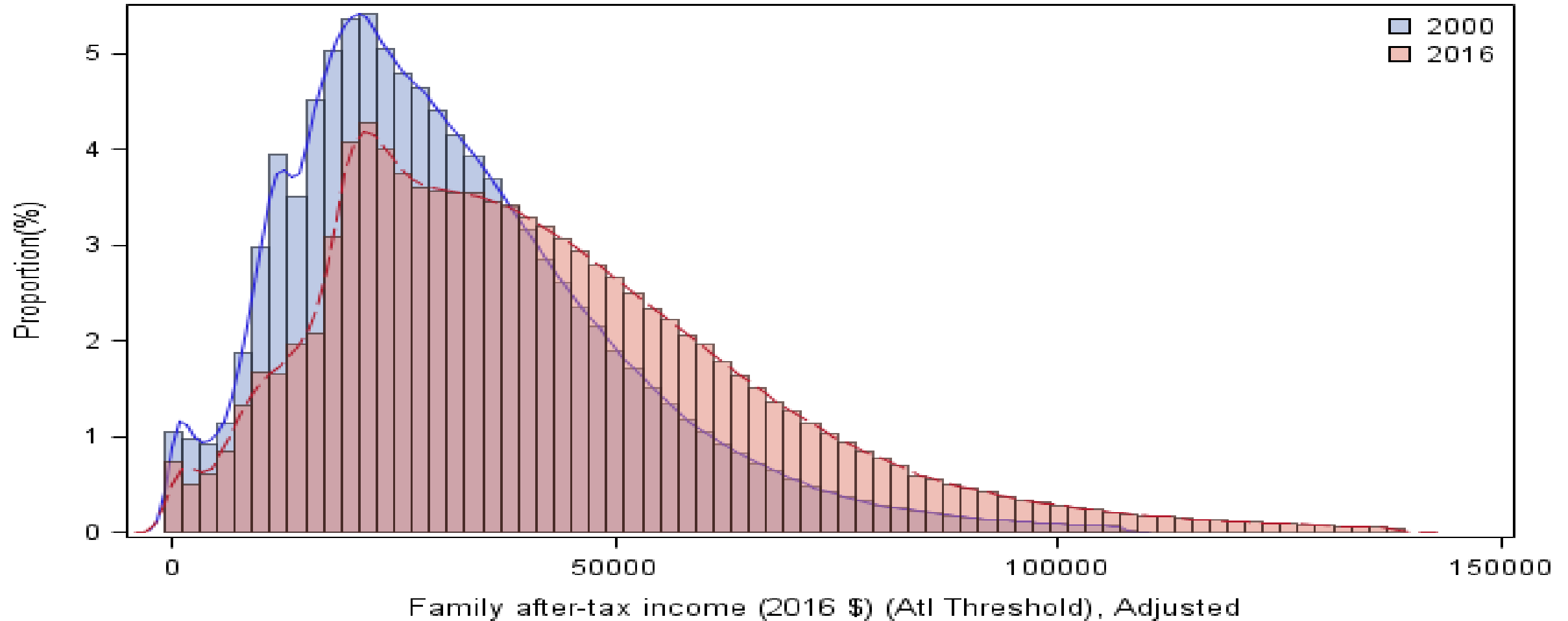
- There is really **no** internationally agreed upon modern consensus of who falls into the middle class (incomes). We follow the IMF, OECD and unofficial definition of Statistics Canada officials.
- Individuals in the range of .5 to 1.5 of after-tax (AT) “adjusted” median incomes are in the “middle class”.
- Income data are “adjusted” to acknowledge that resources are “shared” in families (economies of scale exist in family consumption), A family’s AT income is divided by the square-root of its size and that number is assigned to each member.
- The bottom threshold obtained by this method is used by the OECD as the “LIM” or low-income measure. Individuals below this amount are often referred to as being poor. The LIM and upper boundary are based on the national Canadian population.

Our Data Set

- Using the T1FF (T1 Family File) housed and produced at Statistics Canada using T1 data from the Canada Revenue Agency. Your T1?
- The data can be organized by income source and by tax expenditure
- The data can be organized by gender, by age, by taxfiler, by family type
- The data can be organized by industry using T4 data.
- The data can be organized for sub-provincial areas such as CCSD's e.g. Conception Bay South.
- What is not there is your name, your exact street address, social insurance #'s. Data are **ANONYMIZED!**
- Large anonymized dataset developed, for example, from about 1,854,370 T1 files in 2015 for Atlantic Canada housed in Ottawa and aggregated to maintain **privacy**. Screened by Stats Can personnel before it is released.

Some Density Functions/Histograms

Distribution of after-tax income, Atlantic Canada



Note: The 10th percentile was \$11600 in 2000 and \$15800 in 2016.

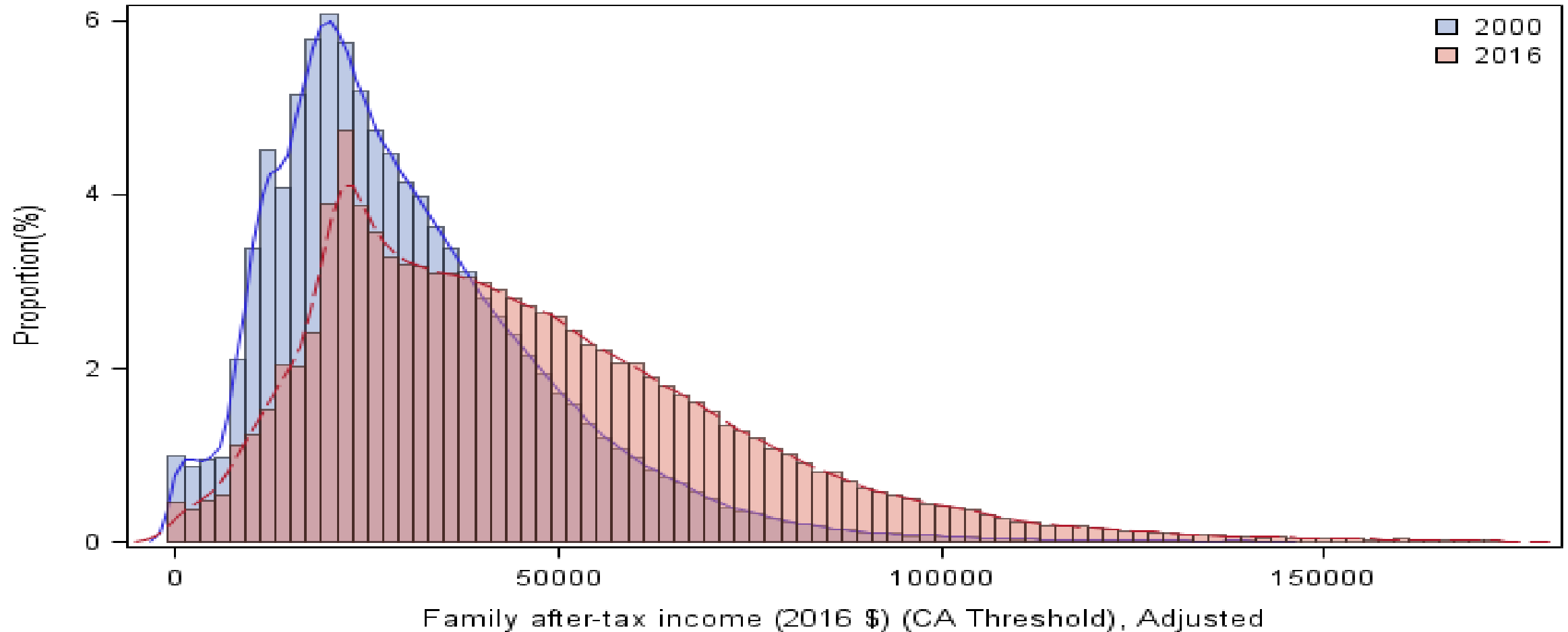
Note: The median was \$28700 in 2000 and \$38300 in 2016.

Note: The 90th percentile was \$57900 in 2000 and \$76000 in 2016.

Note: The top 1% and zero incomes were excluded from the figure.

Source: Statistics Canada, T1 Family File, 2000 and 2016.

Distribution of after-tax income, Newfoundland and Labrador



Note: The 10th percentile was \$11300 in 2000 and \$17300 in 2016.

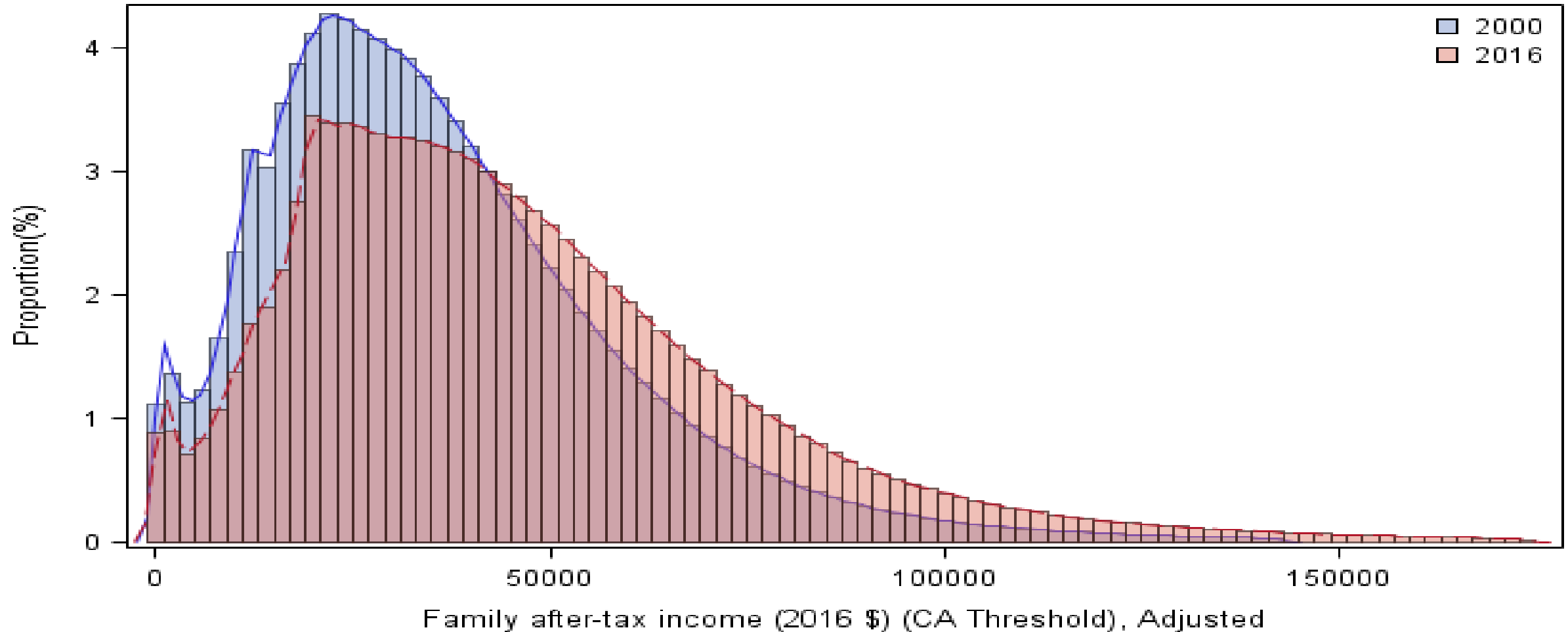
Note: The median was \$26800 in 2000 and \$41100 in 2016.

Note: The 90th percentile was \$55600 in 2000 and \$83500 in 2016.

Note: The top 1% and zero incomes were excluded from the figure.

Source: Statistics Canada, T1 Family File, 2000 and 2016.

Distribution of after-tax income, Canada



Note: The 10th percentile was \$11900 in 2000 and \$15500 in 2016.

Note: The median was \$32600 in 2000 and \$40900 in 2016.

Note: The 90th percentile was \$68000 in 2000 and \$85200 in 2016.

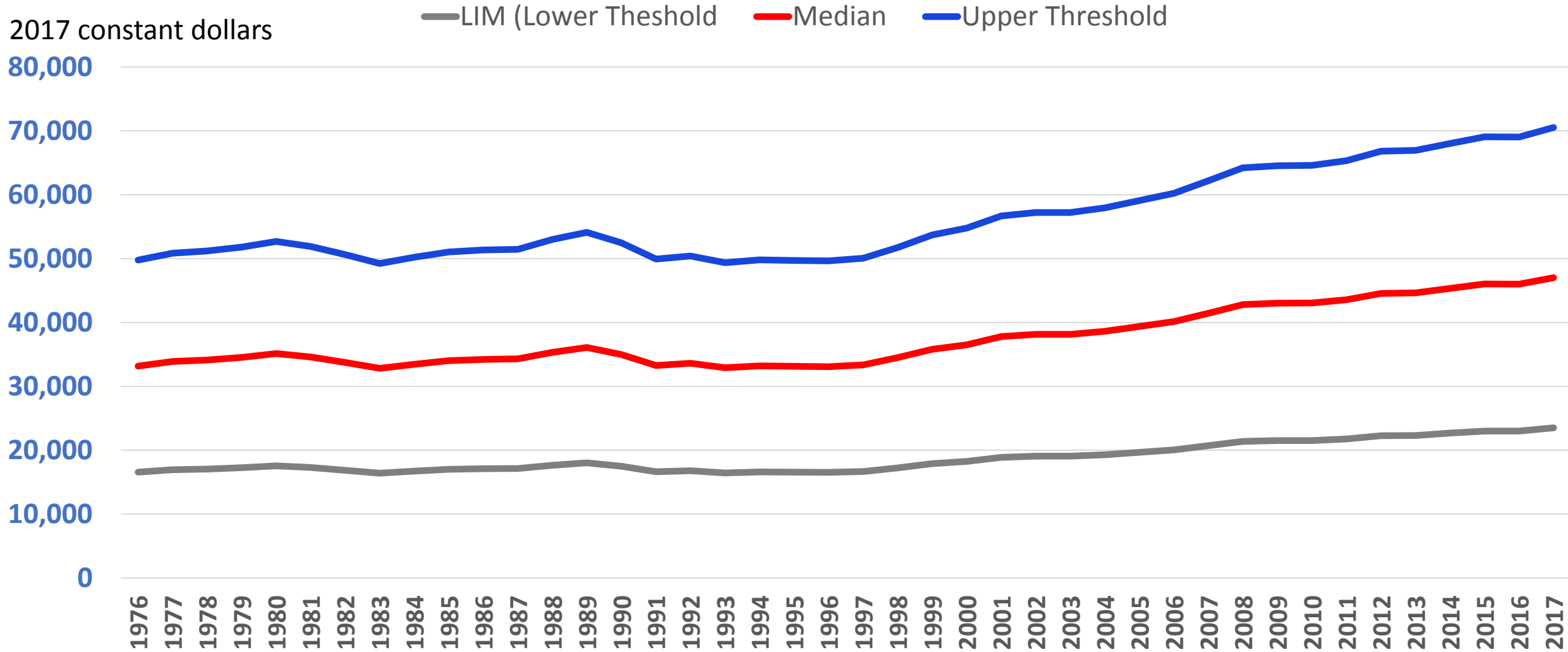
Note: The top 1% and zero incomes were excluded from the figure.

Source: Statistics Canada, T1 Family File, 2000 and 2016.

Both the shape and the position of the density function are important!

The distributions shape and the middle class.

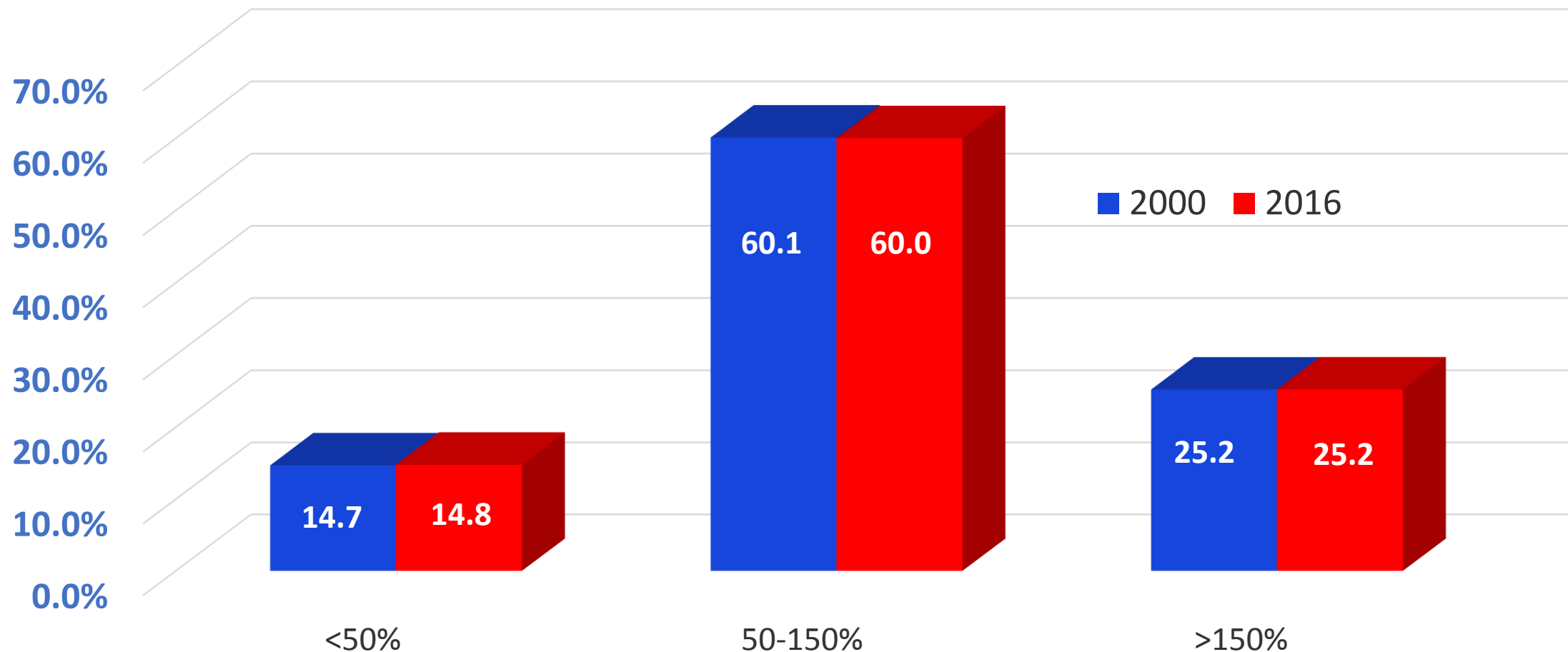
Thresholds for Determining the Middle Class using Adjusted After-tax Median Household* Income for Canada in 2017\$: 1976-2017



* 4 person household

Statistics Canada: Table 11-10-0232-01 Based on survey and **NOT** T1FF data

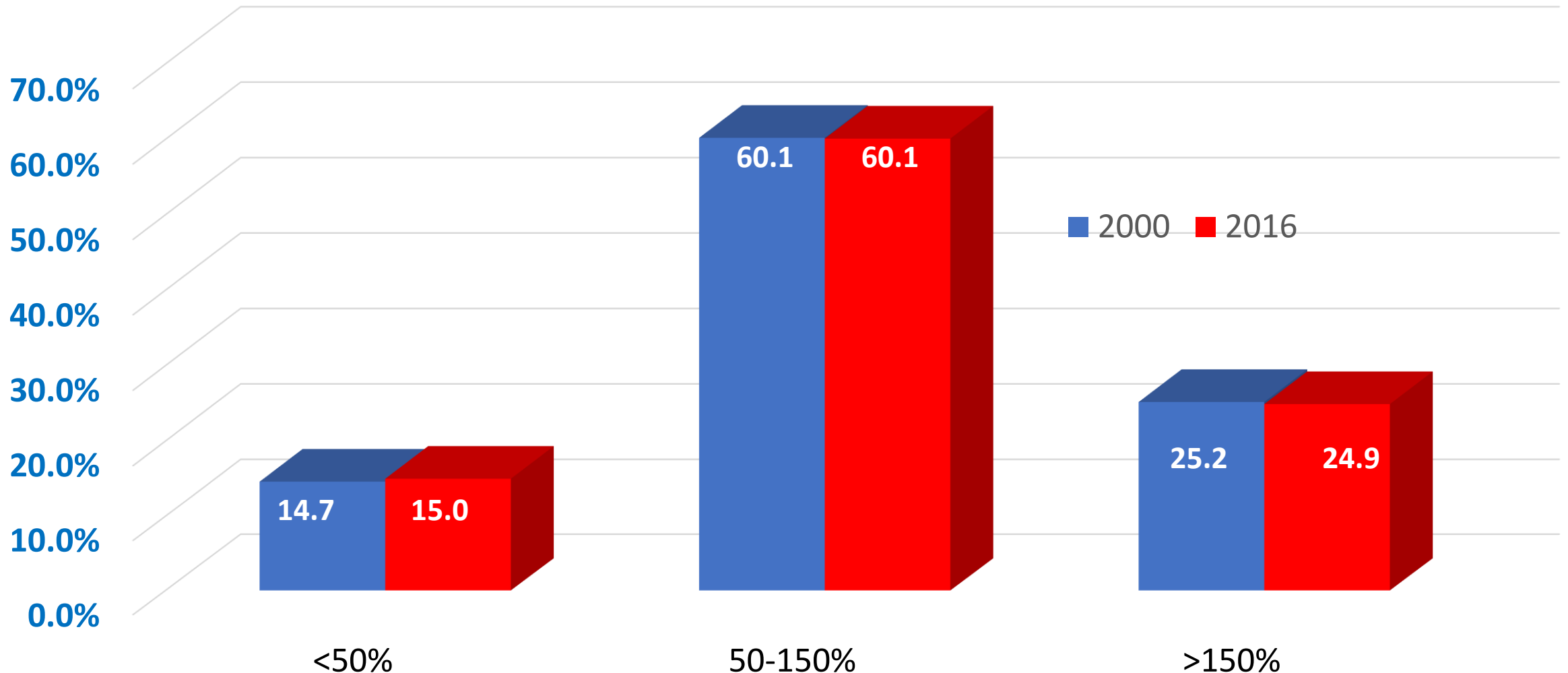
Has the Middle Class Grown in NL Since 2000??



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. 02_15_2019 NL_t1ff_Counts.xlsx

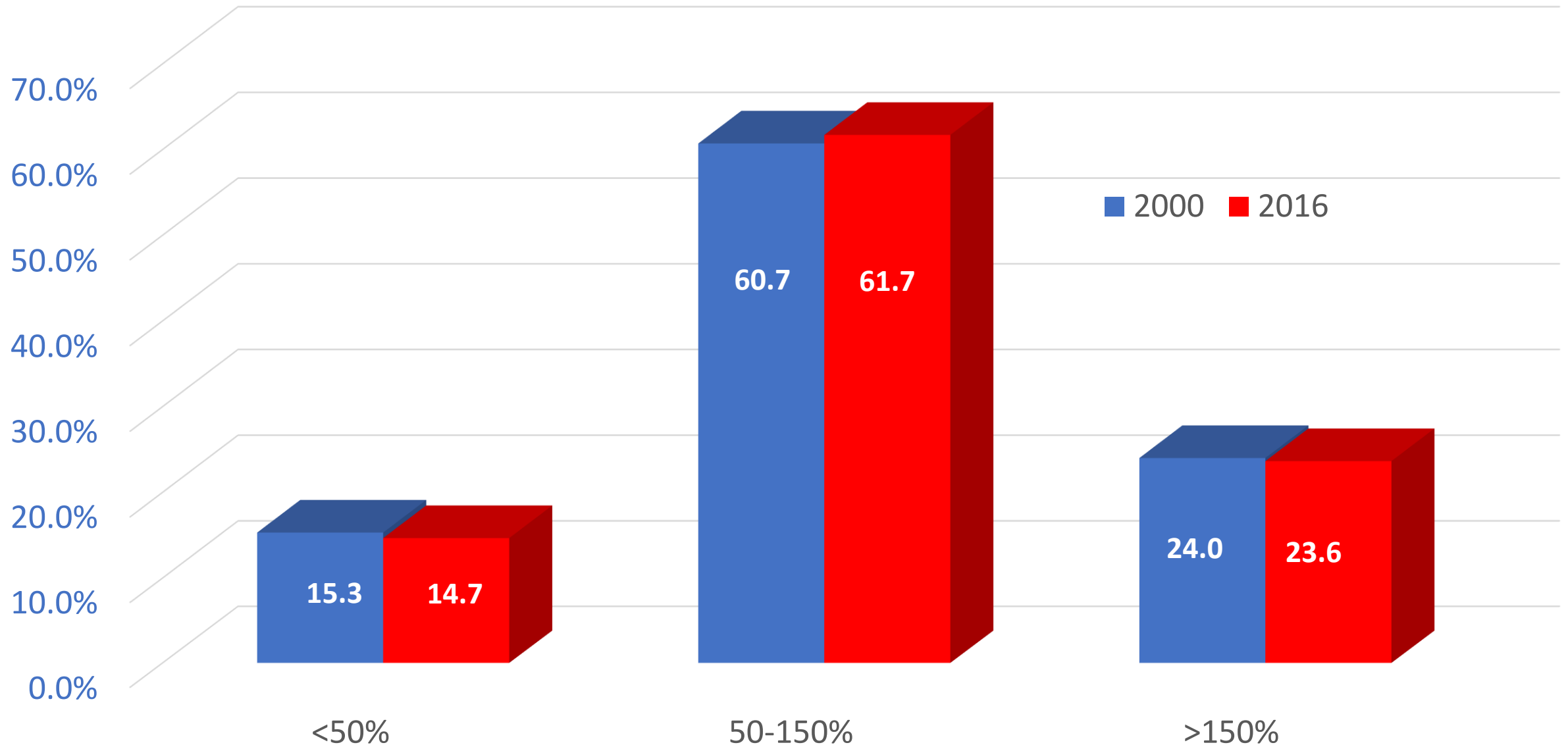
The Middle Class compared to the "Poor" and the "Rich" in Newfoundland and Labrador in 2000 vs 2016



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. 02_15_2019 NL_t1ff_Counts.xlsx

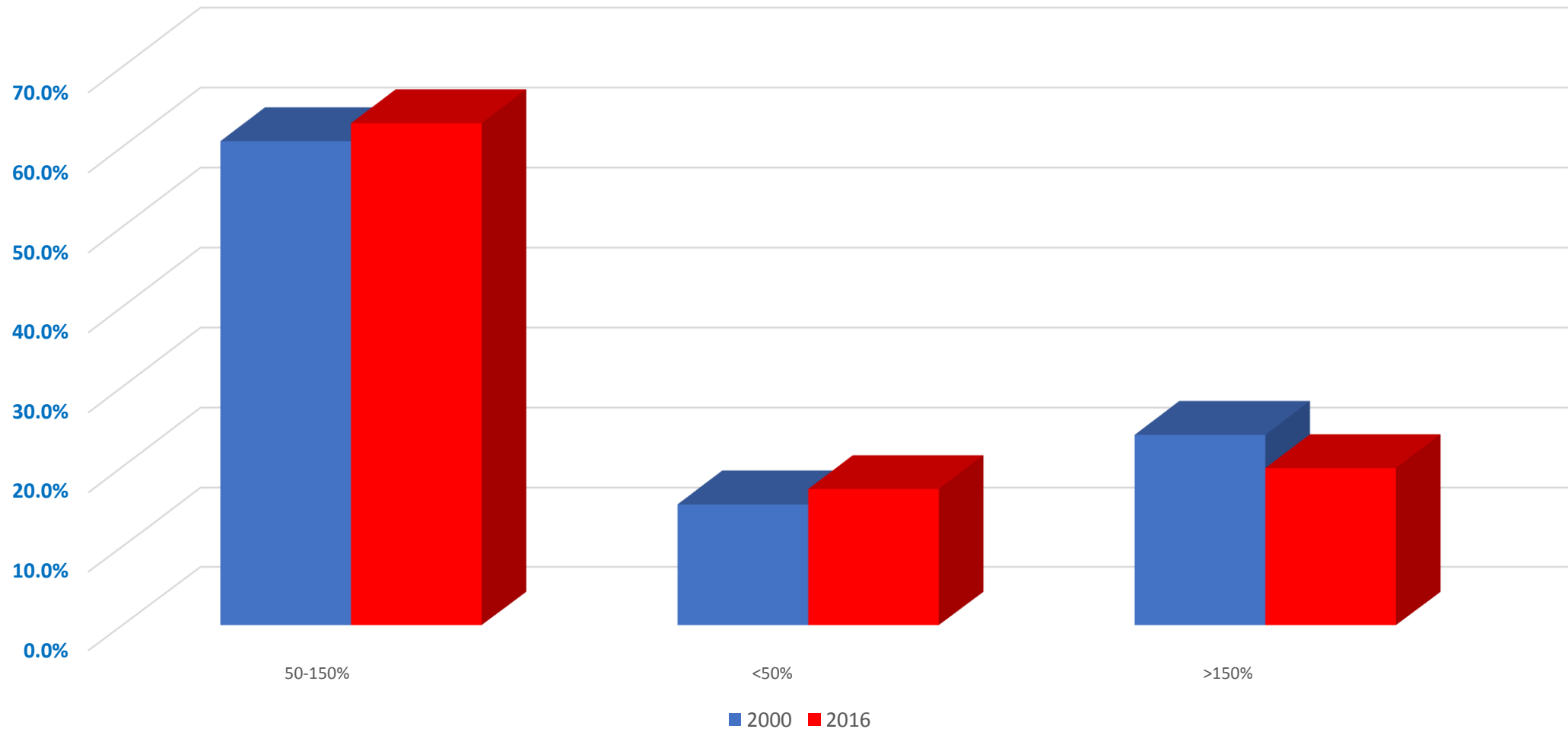
Has The Middle Class Grown in Atlantic Canada Since 2000?



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. 02_15_2019 NL_t1ff_Counts.xlsx

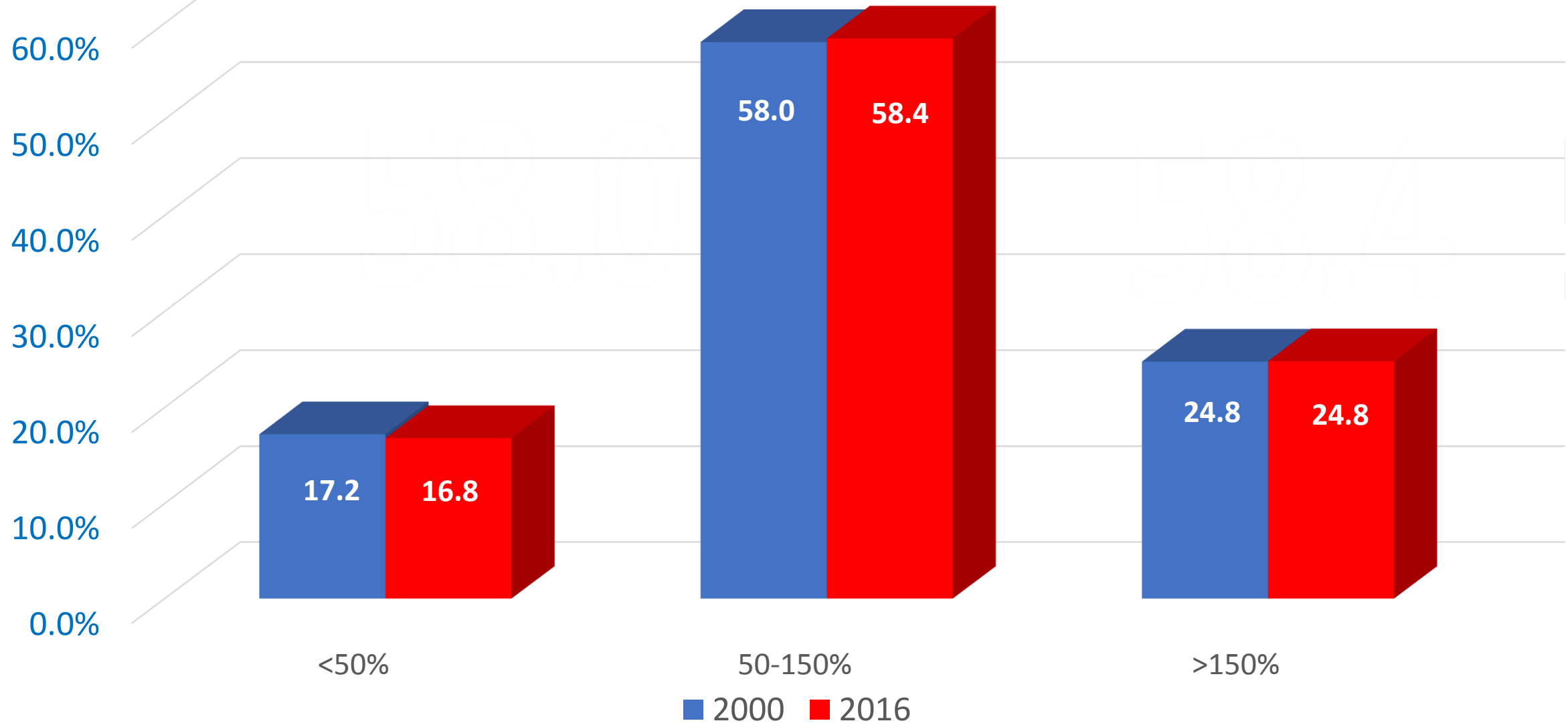
ATLANTIC CANADA



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. 02_15_2019 NL_t1ff_Counts.xlsx

Has the Middle Class Grown in CANADA Since 2000?



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. NL_t1ff_Counts 02_15_2019.xlsx

What do we observe?

- **In Newfoundland and Labrador**

- The relative size of the middle class has remained **virtually unchanged**.
- The relative size (percentage) of those in poverty according to LIM has remained **virtually unchanged**.
- The relative proportion of individuals in the upper income group has **remained the same**.

- **In Atlantic Canada**

- The relative size of the middle class has **increased** slightly.
- The relative size (percentage) of those in poverty according to LIM has **decreased** slightly
- The relative proportion of individuals in the upper income has decreased **slightly**

What do we observe?

- **In Canada**

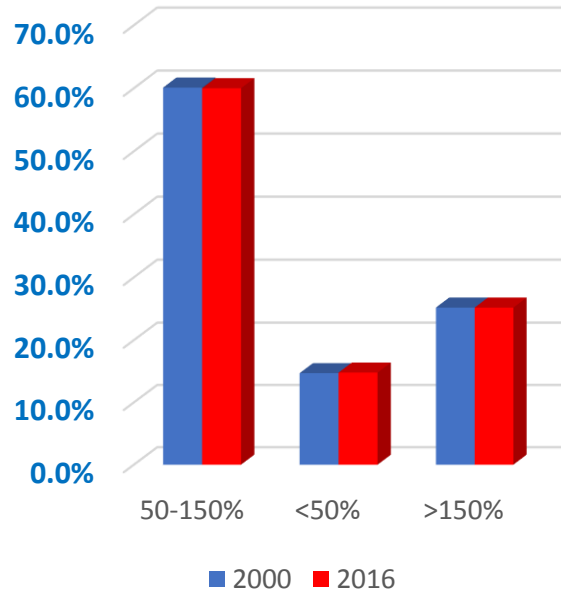
- The relative size of the middle class has **increased** slightly.
- The relative size (percentage) of those in lower incomes according to LIM has **decreased** slightly
- The relative proportion of individuals in the upper income has remained **unchanged**.

- **In General**

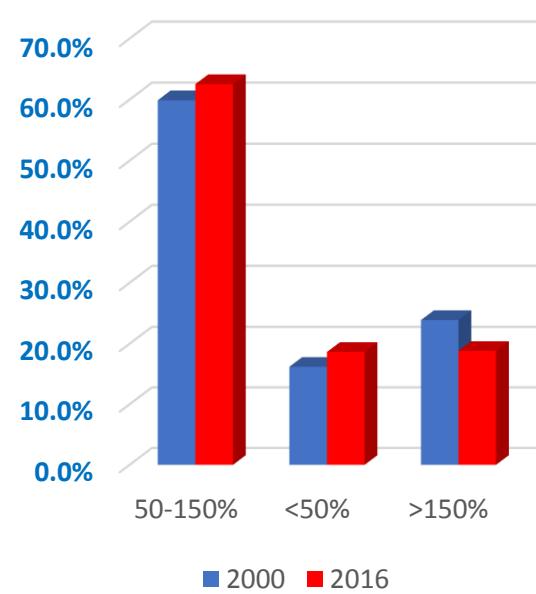
- The middle class in Atlantic Canada is slightly larger than NL which is larger than Canada
- Those in the lower income group is smaller in Atlantic Canada than

What about the Atlantic region and its provinces between 2000 and 2016?

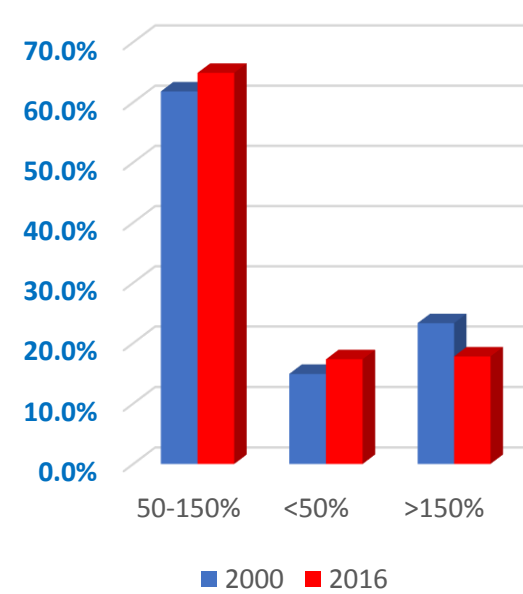
NL



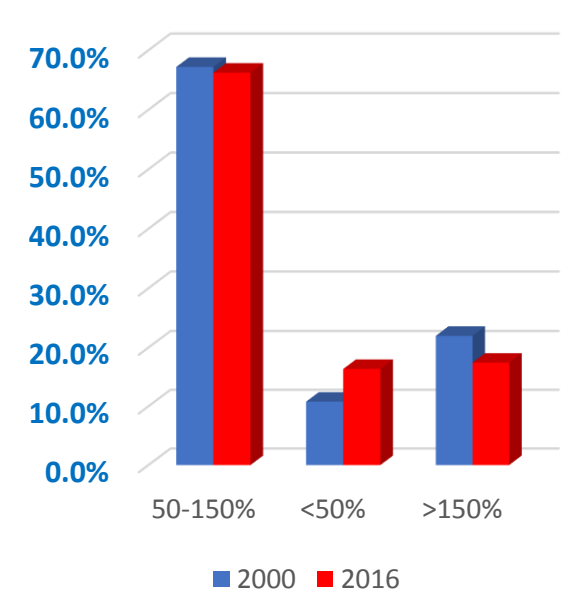
NS



NB



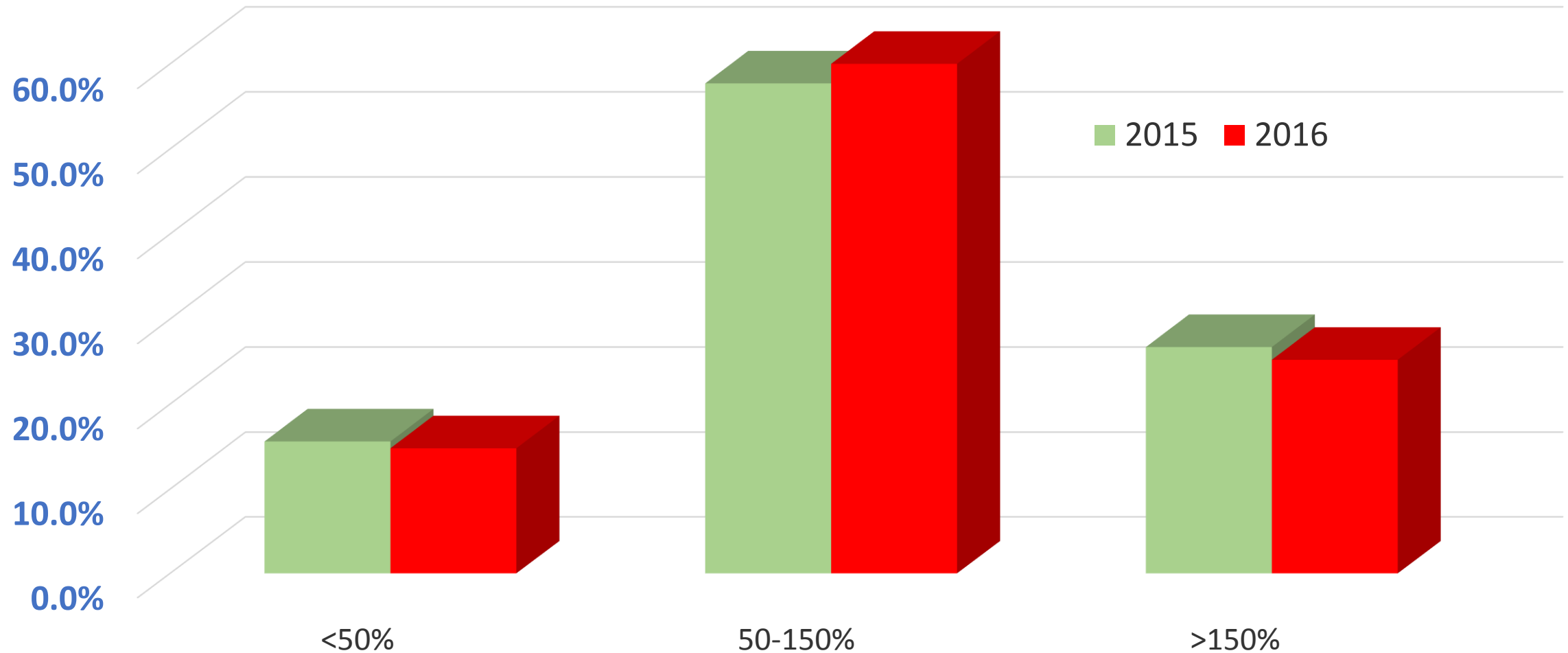
PEI



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF, Custom Tabs by Authors, Density_ajAFTNC_XX_adj, 02_15_2019 NL_t1ff_Counts.xlsx

Has the Middle Class Grown in NL Since 2015??

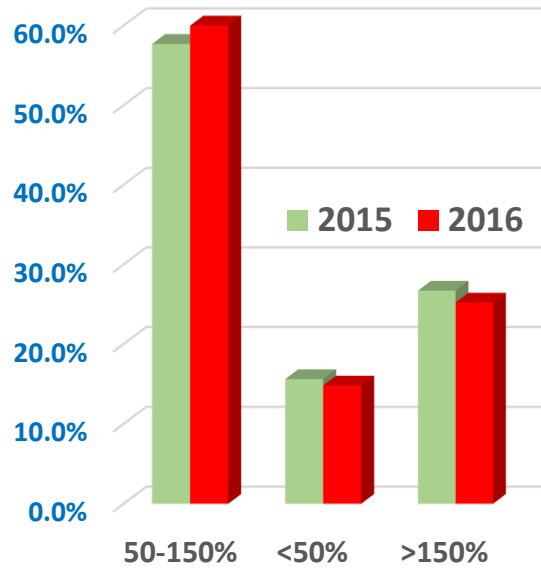


All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

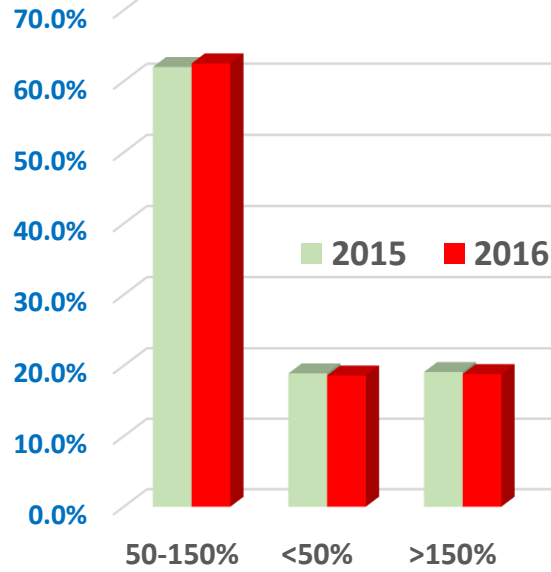
Source: Statistics Canada T1FF Special Tab. 11_29_2018 NL_t1ff_Counts.xlsx

What about the Atlantic region and its provinces between 2015 and 2016?

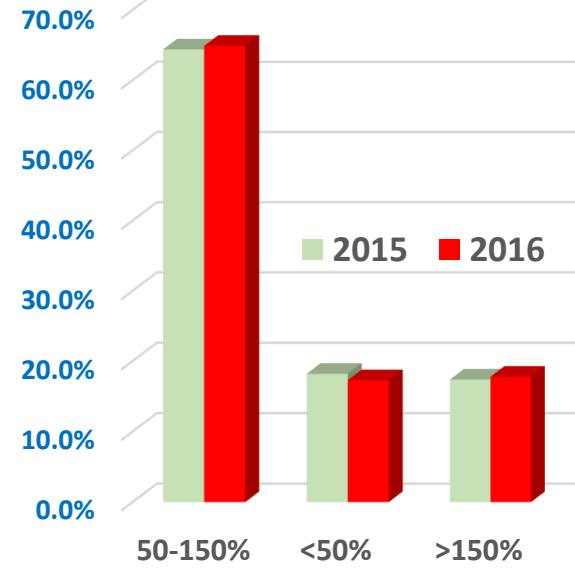
NL



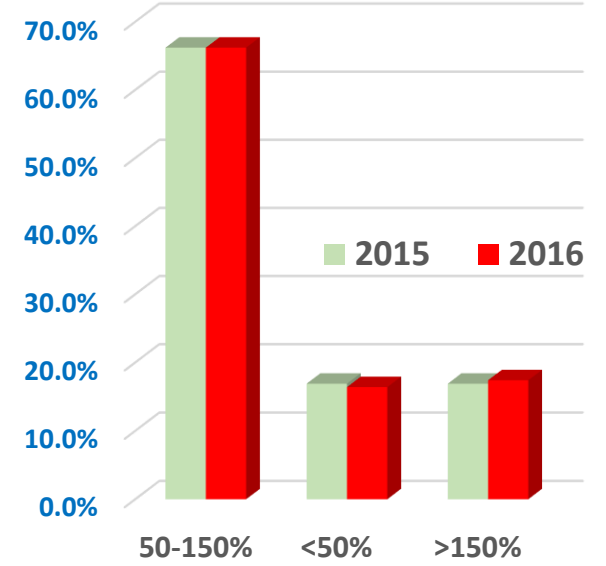
NS



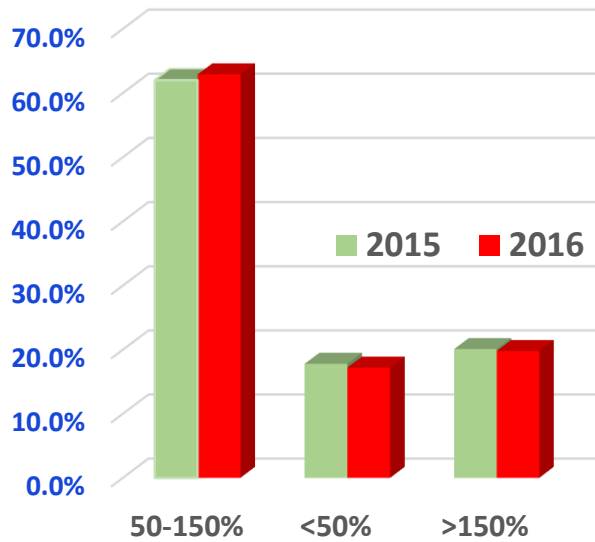
NB



PEI



ATL



All individual's family after-tax income, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. 11_29_2018 NL_t1ff_Counts.xlsx

How Do We In Canada Compare to the USA?

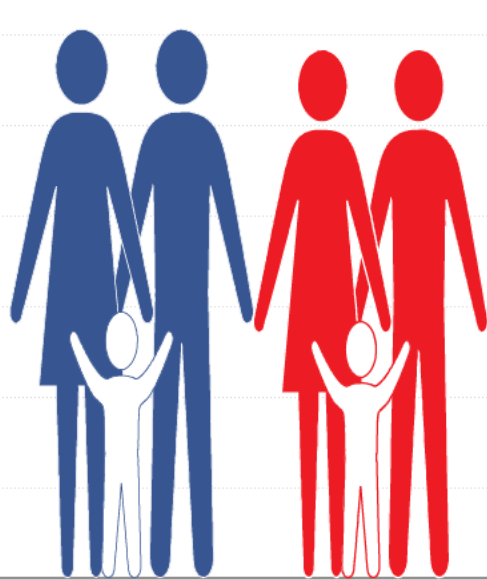
- Their middle class seems to be shrinking whereas ours is fairly robust and stable or growing over the last 16 years.

Hollowing Out?

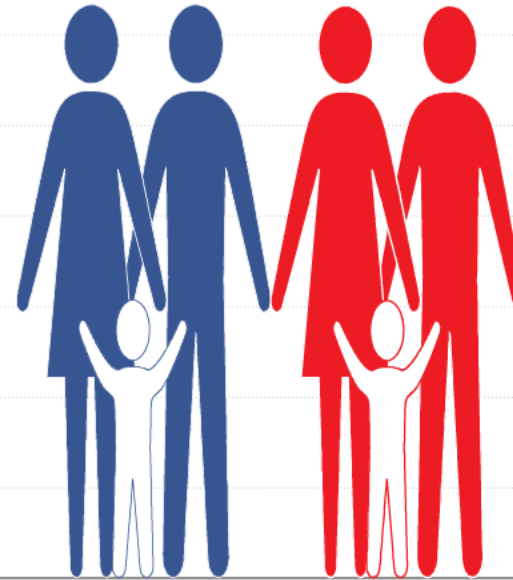
Population Share

■ 2000 ■ 2014

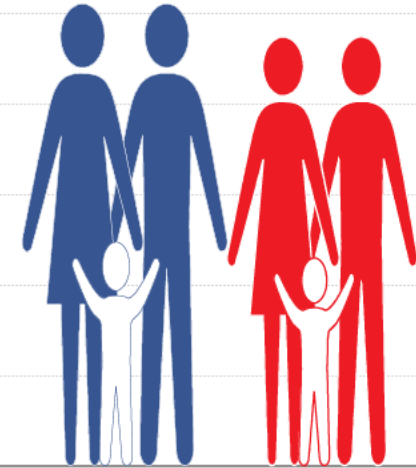
70%
60%
50%
40%
30%
20%
10%
0%



NL: some hollowing
but strong
middle class!



CA: no hollowing
and strongest
middle class!



US: hollowing
and middle class
as a minority!

What is happening to the level and growth of our standard of living in Atlantic Canada?

Real Income Levels and Growth in Atlantic Canada

- The median ($\frac{1}{2}$ above and $\frac{1}{2}$ below) disposable income for all individuals in 2016 in Atlantic Canada was \$38,300.
- Equivalized real (adjusted for inflation) **median** after-tax income grew by almost 35.5% between 2000 and 2016 or about 1.9% annually. In summary, economic well-being for people increased!
- However, from 2015 to 2016 real incomes fell very slightly. Remarkable!

What About the Tails of the Distribution?

- The real, equivalized after-tax incomes of the bottom 5% in society grew by 31.1% over the same period (2000-2016). Income inequality grew although they too were better off in economic terms.
- The top 1% had their real incomes grow by 30% during the period.
- The Federal Liberal government came into power in 2016 and how did real incomes change during that year in Atlantic Canada? The bottom 5% had their incomes grow by 3% while the top 1% had their incomes fall by 2.4%. The question is: what caused these changes?

Meanwhile in the Atlantic Provinces.

NL

- Median disposable income in 2016 was **\$41,100**
- Since 2000 RMDI has grown on average **2.8%** annually (56%)
- RMDI **Fell** by 2.1% in 2016 from 2015 !
- Income of the Poorest 5% grew by **49.3%** since 2000 and by 0.8% in 2016.
- Income of top 1% grew by **52.5%** from 2000-2016 and **fell** by 7.7% in 2016.

NB

- Median disposable income in 2016 was **\$37,400**
- Since 2000 RMDI has grown on average **1.7%** annually (30.8%)
- RMDI grew by .5% in 2016
- Income of the Poorest 5% grew by **21.9%** over the period and **5.2%** in 2016.
- Income of top 1% grew by **23.9%** over the period and grew by **0.9%** in 2016.

NS

- Median disposable income in 2016 was **\$37,800**.
- Since 2000 RMDI has grown on average **1.66%** annually (30.1%)
- RMDI **Fell** by 0.5% in 2016
- Income of the Poorest 5% grew by **35.3%** and **1.1%** in 2016.
- Income of top 1% grew by **15.0%** over the period and **fell** by **2.0%** in 2016.

PEI

- Median disposable income in 2016 was **\$37,800**
- Since 2000 RMDI has grown on average **1.74%** annually (31.9%)
- RMDI was flat in 2016
- Income Poorest 5% grew by **19.8%** over the period and was unchanged in 2016.
- Income of top 1% grew by **32.5%** over the period and **fell** by **7.7%** in 2016.

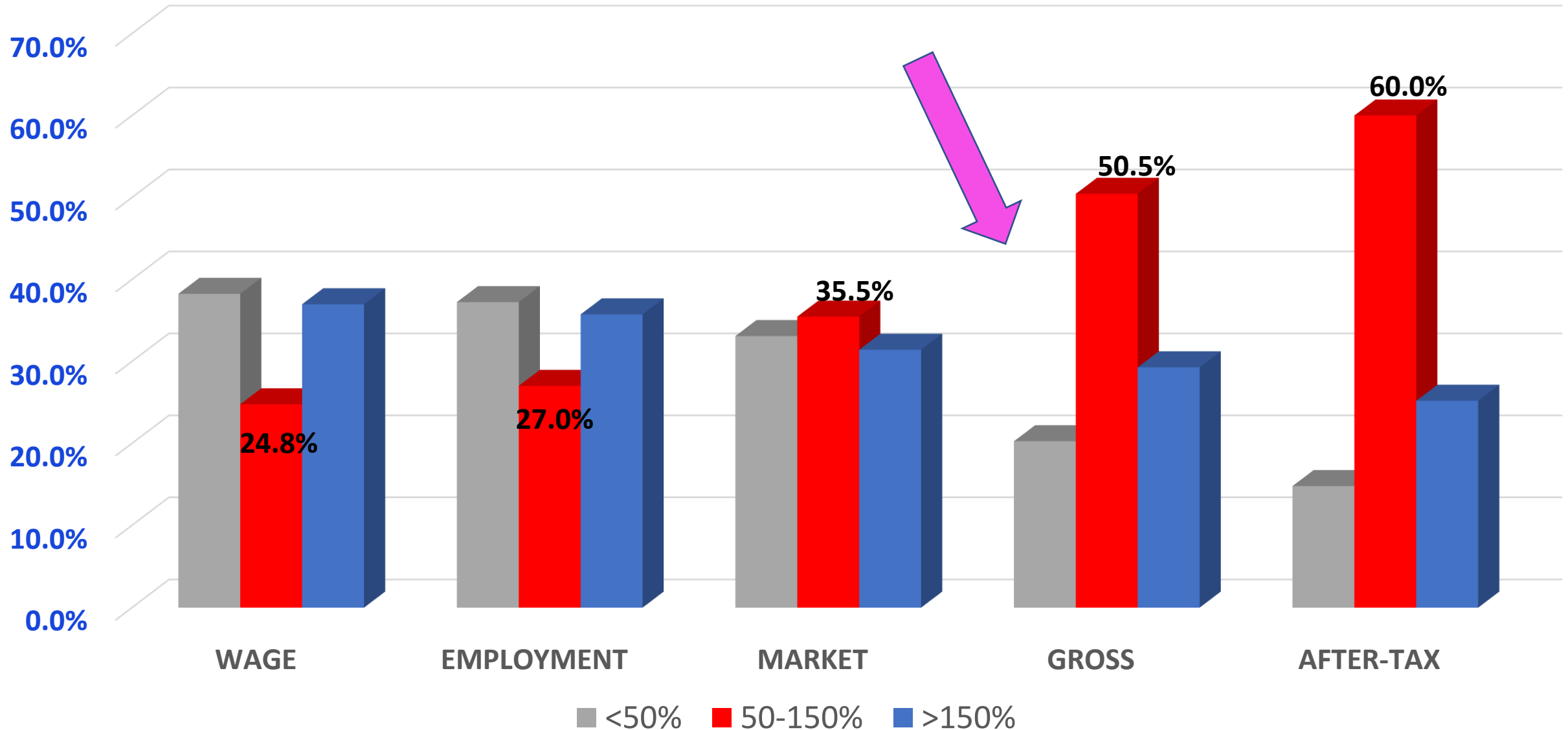
Economic Reality Summary?

- Adjusted real disposable income increased over the 2000-2016 period for all three groups. Economic well-being increased!
- During 2016, the picture was not so bright as real adjusted after-tax median income (RAATMI) was either flat or fell in each of the Atlantic Provinces.
- During 2016 RAATMI fell in some provinces quite dramatically for individuals in the upper income group.

Which factors produced these results?

- The relative contribution of the major sources of income.
- Changing family/non-family compositions.
- Industry and occupational determinants of wages as well as age, gender and unionization factors.
- Nature of self-employment earnings.
- Other sources of market income such as realized capital gains, private plan pensions, dividend income and interest earned.
- Direct cash government transfers: Canada Child Benefits, CPP benefits, OAS, GIS, HST tax credits, Income support payments.
- Payroll and income taxes.

Growing The Middle Class In NL, 2016



All individual's family incomes, adjusted for equivalized family size and including zero wages.

Source: Statistics Canada T1FF Special Tab. 11_29_2018 NL_t1ff_Counts.xlsx

Changes from 2015 to 2016 in NL to Cause Our Middle Class to Grow?

			2015		
	WAGE	EMPLOYMENT	MARKET	GROSS	AFTER-TAX
<50%	37.4%	36.3%	32.4%	24.4%	15.6%
50-150%	24.5%	26.7%	34.9%	45.3%	57.7%
>150%	38.1%	37.0%	32.6%	30.4%	26.7%

			2016		
	WAGE	EMPLOYMENT	MARKET	GROSS	AFTER-TAX
<50%	38.3%	37.2%	33.1%	20.3%	14.8%
50-150%	24.8%	27.0%	35.5%	50.5%	60.0%
>150%	37.0%	35.7%	31.4%	29.3%	25.2%

Relative Importance of Various sources in Determining The Middle Class

- Although about 20% of individuals in NL are in families that do not receive any wage income, 80% are and this is the most important source of income.
- The next most important source is surprisingly direct cash transfers from government.
- Government taxes are next in importance followed by other sources of market income such as private pension benefits.
- Finally, self-employment income plays a small role.

What We Found

- In NL, the Middle Class has remained relatively stable and relatively strong from 2000 to 2016 but slightly smaller than the other provinces in Atlantic Canada. In Canada, the MC has grown a bit.
- Our individual standard of living during the period examined, increased faster in NL than in the other Atlantic Provinces or Canada. Our family's adjusted median disposable incomes are now above those in Atlantic Canada and **Canada**. That statement does not recognize that generally our cost-of-living is lower than many parts of Canada. Northern Labrador is an exception.
- The increase in our standard of living was generally spread throughout society.
- Over the next few years, the MC in NL will continue to grow but our family economic well-being will fall for upper income groups.

Back to The Future

- In NL: a growing middle class over the next couple of years as higher paying jobs in construction disappear and government transfers increase along with real minimum wages. Incongruence: Real family disposable incomes will continue to fall as boomers retire and provincial public sector employment incomes do not keep up with inflation.

Thank you.
Comments welcomed.
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