



Backgrounder

Growing Income Inequality and You

September 2018



A staggering amount of wealth in Canada and in the world is held by a shockingly small group of people

Inequality in wealth and income is one of the great moral and political issues of the modern age.

The gap between the wealthy and the rest of us has widened over the past several decades, and the concentration of income among the super-rich is happening in many countries, including Canada.

When we talk about inequality in income and wealth we are referring to the extent to which they are distributed unevenly in a country.

Income is the sum of all money someone receives (through wages and other earnings). Wealth is the value of someone's assets (like personal property, stocks, bonds, and monetary savings) minus their debts or liabilities.

According to a growing body of credible evidence, from countless studies and empirical data, as well as from numerous cases and examples, there is no dispute that income inequality and wealth inequality have been continuously rising around the world.

The scale of global economic inequality is staggering and shameful.

Today we live in a world of breathtaking, unprecedented concentration of extreme private wealth and a new golden age of corporate power and greed.

The statistics are shocking:

According to one report, 42 people hold as much wealth as the 3.7 billion people who make up the poorer half of the world's population.

Another study says the richest 1% got 82% of the increase in wealth in 2017, while the poorest 50% got nothing.

And another report suggests 2 Canadian families have as much wealth as the poorest 30% of the country combined.

Inequality is Not Inevitable

So we know inequality is a problem. But here's the good news: we can do something about it.

Inequality of wealth and income is not an accident, or a law of nature. It's not inevitable. It is something created by human beings. It's the result of an economic system created by human beings. This means that we can stop it. If we all work together, and with good public policies, we can reverse the trend, and move towards greater equality of wealth and income.

The statistics are shocking

1. According to *The World Inequality Report*, between 1980 and 2016, the richest 1% of the global population captured 27% of the world's wealth.

And the richest of the rich increased their wealth by even more: the top 0.1%—about 7 million people—gained 13% of the wealth. And they captured as much of the world's economic growth as 50% of the global adult population—3.6 billion people.

This data on inequality is supported by 2 studies published by the aid organization Oxfam.

2. In their 2017 study *An Economy for the 99%*, Oxfam revealed that 2 of the richest Canadian families have the same amount of wealth as the poorest 30% of the country combined: the wealth of the Thomson family and of businessman Galen Weston Sr. equals that of 11 million Canadians.
3. Another study entitled *Reward Work, Not Wealth*, published by Oxfam International in January 2018, reports equally outrageous statistics. This annual report on inequality reveals that the disgraceful pace of wealth concentration is quickening
 - The richest 1 per cent got 82% of the wealth in 2017, while the poorest 50% got nothing.
 - 42 people hold as much wealth as the 3.7 billion people who make up the poorer half of the world's population, compared with 61 people in 2016, and 380 in 2009.
4. A shocking projection produced by the British House of Commons library in April 2018 suggests that if trends continue, by 2030 the top 1% will hold 64% of the world's wealth.

Why Should We Care About Income Inequality?

Because high inequality raises moral questions about fairness. Because, as several economists have argued, inequality is not just a moral issue, it is actually hurting the economy in 3 ways:

1. Equality is an important ingredient in promoting and sustaining growth.

2. Inequality increases the risk of economic crisis because people at the bottom of the income scale tend to borrow more.
3. Severe inequality increases social and political instability, which reduces foreign investment.

Inequality Is Higher in Canada than in Most Other Countries

The concentration of income and wealth among the super-rich is not happening just in other countries, but in Canada too, where it's actually worse compared to others.

A January 2013 study by the Conference Board of Canada entitled "Income inequality," explained that income inequality in Canada has increased over the past 20 years, and that Canada ranks among the worst compared to other peer countries.

A subsequent Conference Board "income inequality" study published in April 2017 confirmed these findings. This study showed that Canada ranked 13th out of 16. Although Canada's wealth is distributed more equally than wealth in the US, Canada's 13th-place ranking suggests it is doing a poor job of ensuring income equality.

The Difference between *Average* and *Median*

Canada is on average among the wealthiest countries in the world. But talking about the *average* income or wealth figure does not tell us how this income or wealth is actually distributed. Inequality within a country is hidden when it's calculated according to the *average*. But the median income tells a different story.

A guy walks into a bar

A better way of understanding the gap is to look at the *median income* of a country, rather than its *average income*.

Paul Krugman, winner of the 2008 Nobel Prize in Economics, gives a simple but effective example of the difference between average and median. Suppose there are 10 people in a bar and they each earn between \$34,000 and \$36,000. The average income in that room is around \$35,000. The median income is in the \$35,000 range as well. The median is literally the middle, or the level at which half of the people make more and half make less.

Now let's assume that the richest man in the world—Amazon's Jeff Bezos—walks into that bar. Let's also assume that his annual income is \$1 billion. All of a sudden the *average income* of the people in the bar soars to \$91 million, but the 10 people who

were already there before Jeff Bezos walked in are no richer than they were before. The *median income* remains around \$35,000. Only one person is better off, and so inequality rises.

While this example is admittedly simplistic, it has relevance to income patterns in Canada— average income has risen, but that’s due mostly to the top earners increasing their share of the economic pie at the expense of the rest. This is perfectly illustrated when we examine the insane amount of money that CEOs are raking in year after year.

Done Before Lunch: CEOs and the Rest of Us

They were all done by 10:57 am on January 2. Less than 2 days into the new year, the highest-paid CEOs in Canada already earned what the average Canadian worker will make in a whole year.

The top 100 Canadian CEOs were paid an average of \$10.4 million each in 2016—that’s 209 times an average worker’s salary of \$49,738.

200 years = one year

That means that most of us would have to work for more than 200 years—more than 4 whole lifetimes of work—to earn as much as the high-end CEO gets in a year.

It’s actually worse than that because the average income is calculated including the incomes of the super-rich. When you look at the statistics by income level, the fact is most Canadians earn less than \$34,000 a year—that is, less than the “average” income.

First at the trough

The CEOs taking the top 3 spots in 2016 were:

- Joseph Papa (Valeant Pharmaceuticals) at \$83.1 million
- Donald Walker (Magna International) at \$28.6 million
- Guy Laurence (Rogers Communications) at \$24.6million

The chief executives of the 6 biggest banks were also among the top earners, with Ignacio Deschamps at Bank of Nova Scotia leading the pack at \$12.75 million.

Why should we care about ballooning CEO Salaries?

There are lots of reasons why we should care about the concentration of wealth and ballooning CEO salaries and their connection to the idea of fairness.

1. Canada's CEOs were among the loudest critics of plans to raise minimum wages in several provinces. While stock options in a growing market push already high CEO incomes into the stratosphere, \$15 an hour would lift minimum-wage workers out of poverty for the first time in decades, with substantial spinoff benefits to the economy at large. If shareholders can afford CEO pay hikes, they should be endorsing higher wages at the bottom as well.
2. The majority of Canada's biggest publicly traded companies oversee substantial deficits in their employee pension plans, putting the retirements of those workers at risk. In 2016, Canada's largest companies paid out 4 times as much money to shareholders (including corporate executives) than it would have cost to fully fund their workers' pension plans.
3. Canada's wealthiest continue to profit from costly tax loopholes that the government has yet to close. And why should we care? Because the fallout of tax avoidance means that governments are poorer, with less tax revenues to provide necessary public services.



NATIONAL UNION OF PUBLIC AND GENERAL EMPLOYEES

- B. C. Government and Service Employees' Union (BCGEU)
- Health Sciences Association of British Columbia (HSABC)
- Health Sciences Association of Alberta (HSAA)
- Saskatchewan Government and General Employees' Union (SGEU)
- Manitoba Government and General Employees' Union (MGEU)
- Ontario Public Service Employees Union (OPSEU)
- Canadian Union of Brewery and General Workers (CUBGW)
- New Brunswick Union of Public and Private Employees (NBU)
- Nova Scotia Government and General Employees Union (NSGEU)
- PEI Union of Public Sector Employees (PEI UPSE)
- Newfoundland & Labrador Association of Public and Private Employees (NAPE)

The National Union of Public and General Employees is an affiliate of the Canadian Labour Congress and a member of Public Services International.

15 AURIGA DRIVE
NEPEAN, ONTARIO
CANADA / K2E 1B7

[613] 228-9800
FAX [613] 228-9801

www.nupge.ca

national@nupge.ca

