

Recent Indicators

BC Trade	March 1998	% change on 1 year ago
Retail Sales	2,681	-0.4
Merchandise Exports	2,086	-12.1

Unemployment Rate (seasonally adjusted)

	BC	Canada
April	9.3	8.4
May	9.7	8.4
June	9.4	8.4

Confirmed Cases of Child Abuse and Neglect, BC (rate per 1,000)	
1993/94	3.1
1994/95	3.5
1995/96	3.6
1996/97	4.9
1997/98	4.8

Percentage of Population Receiving Basic BC Benefits

	Dec. 96	Dec. 97
<65 years of age	8.6	7.4
children <19 years	11.8	10.2
young adults (19-24 years)	10.0	8.6

Consumer Price Index

	% change on 1 year ago
BC	0.3
Canada	1.1

What's happening to incomes?

Adjusted for inflation, British Columbia's economy grew 2.2 per cent in 1997 after posting just a 1.1 per cent gain in the previous year. However, BC continued to trail behind most other regions in economic growth. Nationally, the economy expanded by 3.8 per cent in 1997. Only the Atlantic provinces and the Yukon experienced slower growth than British Columbia. On a per capita basis, real GDP in BC was just 0.2 per cent higher than in 1996, well short of the national average of 2.7 per cent.

Many commentators would like us to measure the economic success of the province solely by the growth in GDP. But the total output of goods and services as it is conventionally measured is a poor index of economic performance. If more goods and services are produced, that does not mean that people on average are better off since there may be more people. In fact, despite the overall growth in economic output both in BC and in Canada as a whole since 1989, real average incomes are lower.

A long decline in incomes

Declining incomes have become a feature of the Canadian economy in the 1990s. Recently released 1996 Census Data reveal that when measured in constant dollars, average total income of Canadians — including wages and salaries, farm and non-farm self-employment, government transfer payments, investment income, and retirement pensions — fell 6 per cent from 1990 to 1995.

When compared with other industrialized countries, Canadians suffered far more from the recession of the 1990s. The Centre for the Study of Living Standards recently compared Canada's economic performance with 12 other OECD countries over the period from 1989 to 1996. On a per capita and constant dollar basis, which controls for the impact of population growth and inflation, the study found that Canada recorded the worst growth rate. In fact,

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Canada had the dubious distinction of being the only country to experience an absolute fall in living standards.

Personal after-tax income declining

While real GDP per capita is most often used to assess changes in the standard of living, some economists argue that a more appropriate measure is personal disposable income (PDI). This is because GDP measures only what is produced, and not how much of that goes to households.

To calculate PDI, earned income (i.e. wages, salaries, investment income) is added to transfers from government, unincorporated businesses, and other individuals. Direct taxes paid (i.e. excluding GST and provincial sales tax) and other payments to government are then deducted.

Growth of Per Capita Real GDP in 13 OECD Countries, 1989–96

Canada	-0.4
Sweden	0.0
UK	5.9
US	6.2
France	6.4
Italy	9.0
Germany	9.2
Belguim	9.4
Austria	10.6
Denmark	12.3
Netherlands	13.5
Japan	13.5
Norway	22.3

has declined an average of about 1.0 per cent per year between 1989 and 1997. Overall, PDI has fallen about 8 per cent since 1989.

Why have personal disposable incomes been falling in BC? To answer this question, one needs to examine the components that make up PDI. Government transfers have not played a role in the decline because transfers to individuals on a per capita basis have increased slightly since 1989, helping to boost personal income. **Per capita direct taxes paid by British Columbians, after climbing steadily in the 1980s, have remained fairly constant since the beginning of the 1990s. That means taxes have not significantly contributed to the decline in PDI since 1989.**

The primary factor underlying the drop in PDI is the lack of growth in real per capita labour income (wages, salaries, and

benefits). High levels of unemployment and low wage increases since the early 1990s have produced anemic growth in labour income. The rapid increase in self-employment in recent years has also played a role because self-employed individuals on average earn just two-thirds of those who work for an employer.

Average Weekly Earnings (\$)

	March 1998	% change on 1 year ago
BC	615.40	1.4
Canada	607.26	2.0

GDP & Income	BC		Canada	
	1997	% change on 1 year ago	1997	% change on 1 year ago
GDP (\$millions)	109,347	3.3	856,134	4.4
GDP (\$1992 millions)	98,201	2.2	799,142	3.8
GDP (\$1992 per capita)	25,039	0.2	26,387	2.7
CDP per employed person (\$1992)	53,428	0.5	57,323	1.8
Personal disposable income (\$1992 per capita)	16,515	-2.3	16,070	-1.6

On a per capita basis, PDI in BC (\$18,052) was above the national average (\$17,269) and second only to that of Alberta (\$18,389) in 1997. (While real per capita PDI in BC is about the same as in the other “have” provinces, caution must be exercised when making inter-provincial comparisons because PDI data neglect the fact that income goes farther in regions where the cost of living is lower.)

Adjusted for inflation, personal disposable incomes in all provinces have been falling in recent years. After increasing an average 2.8 per cent per year from 1961 to 1989, PDI

The Lost Decade

Thus far, then, the 1990s have been a dismal period for growth in per capita disposable income. Moreover, it is the lowest income earners that are the hardest hit. In 1996 alone, the income of the poorest 20 per cent of Canadian families fell by 3 per cent, while the income of the richest 20 per cent rose by 1.8 per cent. What is worrisome about this growing inequality is that cuts to government transfer payments to individuals and to other levels of government which provide income assistance to individuals, have accelerated since 1996 and will undoubtedly create an even wider gap between rich and poor.

Sources for *Recent Indicators* and *What's Happening to Incomes*: Statistics Canada, BC Ministry of Health and Ministry Responsible for Seniors, Centre for the Study of Living Standards, Bank of Canada

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Feature: Increased Economic Inequality in Canada: Is B.C. Any Different?

by Dr. Fiona MacPhail

Throughout the 1980s and 1990s, economic inequality has increased in Canada and many other industrialized countries. The topic has been widely discussed in academic articles, business journals, government policy papers, and in the mainstream media.

The attention is well-justified. If poor Canadians are getting poorer, then increased inequality has broader implications for the welfare of all Canadians. Rising inequality may affect our notions of fairness and the values fundamental to the smooth functioning of a modern democracy. As well, recent literature indicates that increasing levels of economic inequality may depress economic growth.

We know that Canada as a whole has experienced increased inequality over the past two decades, but is British Columbia any different? Estimates of inequality among households in Canada and B.C., presented in Table 1, show that the government tax and transfer system dampened the trend toward increased inequality. While inequality among households measured by Market Income increased by 13 per cent between 1981 and 1994, when Income After Taxes and Transfers is used, inequality increased by only 1 per cent [Table 1, Columns 1 and 2]. Similarly, in B.C., the rise in inequality measured by Income After Taxes and Transfers is smaller than the rise in inequality measured by Market Income — 2 and 11 per cent respectively [Table 1, Panel B, Columns 1 and 2]. Average household Income After Taxes and Transfers rose in the 1970s, but declined over the 1980s and early 1990s. The stability in the levels of inequality measured by household Income After Taxes and Transfers occurred against the backdrop of falling average household income. Many households today, therefore, have

become worse off compared to their counterparts in the late 1970s.

Since labour earnings are the largest component of Market Income and it is the inequality of Market Income which has risen so dramatically in the 1980s and early 1990s, we need to take a closer look at changes in the inequality of labour earnings for Canada and B.C. Table 2 provides estimates of inequality of individual employment annual earnings. Among all male workers, the degree of earnings inequality increased about 14 per cent [Table 2, Column 1]. Earnings

inequality among all female workers remained constant [Table 2, Column 2], largely due to the increase in the quantity of hours worked by women employed part-time.

How did B.C. workers fare? In 1994, the degree of earnings inequality was less in B. C. than in Canada as a whole. For all male

workers, inequality in B.C. was about 96 per cent of that in Canada. However, the increase in annual earnings inequality in B.C. is about the same as the increase in Canada: increases of 13 and 14 per cent in the Gini Coefficient [Table 2, Column 1].

Trends in inequality in B.C., therefore, are similar to those for Canada. The increase in household Market Income inequality is driven in large part by the increase in individual annual earnings inequality of male workers, in both B.C. and Canada. Designing policies that address the changes in labour markets which contribute to rising earnings inequality and falling real earnings of low-wage workers pose a major challenge to federal and provincial policy-makers.

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Table 1: Inequality Among Households, Canada & BC
(see notes on page 4)

		Gini Coefficient ¹		Average Income after Taxes/Transfers (1994\$)
		Market Income ²	Income After Taxes/Transfers ³	
Canada	1971	.447	.373	30,746
	1981	.439	.351	37,693
	1994	.495	.354	35,751
	% Change 1981-94	13	1	-5
BC	1981	.433	.355	39,078
	1994	.487	.361	36,381
	% Change 1981-94	12	2	-7

Table 2: Inequality of Individual Annual Employment Earnings ¹, All Workers, Canada & BC

		Gini Coefficient		Average Earnings (1992\$)	
		Men	Women	Men	Women
Canada	1981	.359	.427	31,548	17,119
	1994	.404	.427	31,519	19,603
	% Change	13	0	0	15
BC	1981	.339	.415	34,733	17,373
	1994	.387	.416	32,219	19,986
	% Change	14	0	-7	15

Focus: Unionization Rates in British Columbia

Beginning last year, the Statistics Canada Labour Force Survey began collecting information on union membership of workers. Data for 1997 was recently released and paints an interesting portrait of union membership in British Columbia.

In 1997, the share of all employees across Canada who were unionized was 34 per cent. Unionization rates, however, varied considerably from a low of 26 per cent in Alberta to a high of 42 per cent in Quebec. British Columbia had a unionization rate of about 37 per cent, or 3 per cent above the national average.

Unionization rates in BC, as in the other provinces, vary considerably between the private and public sectors. The unionization rate for those working for public education, health, crown corporations, and government employers in the province was about 81 per cent. Only Quebec had a higher rate of public sector unionization. For British Columbians

working in the private sector, by contrast, the rate of unionization is just under 30 per cent.

There are also marked differences in unionization rates in the province between age groups. Over half all male workers aged 45 or older, and 45 per cent of women in this group, held unionized jobs in 1997.

Percentage of BC Employees Unionized by Age Group & Gender, 1997
Source: BC Stats

	Ages 15-24	Ages 25-44	Ages 45+
Men	15	38	51
Women	14	36	45

For those aged 25 to 44, about 38 per cent of men and 36 per cent of women were unionized.

For youth aged 15 to 24, the share of male and female employees in union jobs was roughly 15 per cent.

Differences in unionization rates between age groups are closely related to the type of job held. Older workers tend to be employed in industries with the highest rate of unionization: utilities, public administration, education, and health care. By

contrast, younger workers are more likely to be employed part-time and to work in industries with lower rates of unionization: accommodation and food services, and retail trade.

The recent data reveals that the union movement, in comparison to other provinces, remains relatively strong in British Columbia. However, data collected by the BC Ministry of Labour shows that the trend over the past thirty years is toward an overall decrease in rates of unionization in the province, from a peak of over 55 per cent in 1958 to about 35 per cent in 1996.

Changes in unionization rates are important because of what impact union membership has on wages and earnings. The average hourly wage for unionized workers in BC was \$20.12 in 1997. Non-unionized workers, on the other hand, earned just \$15.11 an hour, or about 25 per cent less than unionized workers. Rates of unionization, therefore, can have significant impacts on the earnings and incomes of British Columbians.

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Sources and Notes for *Increased Economic Inequality in Canada*

Table 1

- Notes: 1 The Gini Coefficient is a measure of the degree of inequality which ranges from 0 (complete equality) to 1 (complete inequality).
- 2 Market income refers to wages, salaries, self-employment income, investment income and private pensions accruing to all household members.
- 3 Income after taxes and transfers refers to market income plus government transfers (including social assistance, employment insurance, CPP, QPP), after income taxes, accruing to all household members.

Source: Statistics Canada Catalogue 13-210 (1981: 19-20, 1984: 18, 40).

Table 2

- Notes: 1 Individual annual employment earnings refers to wages and salaries of individuals with a paid job, aged 17 to 64 years.

Source: Author's calculations using the Survey of Consumer Finances (individual file), 1981 and 1994.