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## **Canada vs. U.S. middle class: What the New York Times missed**

**'It's just one data set,' an economist says**

By Mark Gollom

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An analysis piece in the venerable New York Times declaring that Canada's middle class is now better off than the middle class in the U.S. has certainly generated headlines across this country. But not all analysts are convinced the report tells the whole story.

“It’s one data set and it’s an important data set but we should avoid drawing too many conclusions,” said Mike Moffatt, assistant economics professor at Western University's Richard Ivey School of Business. “There’s a lot it doesn’t look at.”

The Times report was based on income data compiled for the Luxembourg Income Study Database, which found that median per capita income for the U.S. in 2010 was \$18,700 US.

In Canada, the median per capita income was the same. But the Times pointed out that other income surveys, conducted by government agencies, suggest that since 2010, “pay in Canada has risen faster than pay in the United States and is [now] most likely higher.”

So, Canada wins. And why?

According to the Times, the discrepancy can be linked to growing income inequality in the U.S. based on three major factors: a substandard U.S primary education system churning out a lower skilled workforce, U.S companies not sharing the wealth with their employees and countries like Canada redistributing income more aggressively.

## **Analysis backs up statistics**

The Times story was certainly welcome news to William Robson, president and CEO of the C.D. Howe Institute, who said the analysis just provided corroborating evidence for Canadian income statistics that have been floating out there for years.

“It’s interesting how sometimes we don’t pay attention to how well we’re doing unless it’s somebody outside our borders who reports it,” Robson said.

“Statistics Canada has been publishing these data for a number of years and they have been telling a relatively positive story,” he said. “But it’s not gotten a lot of attention because of all the bad news, especially coming from the U.S.”

The StatsCan statistics revealed that during the 2000s, there have been gains in all Canadian income demographics. The income of the poorest grew by 1.7 per cent per year from 2000 to 2010, the income of the middle class grew by 1.29 per cent per year and the income of the richest grew by 1.52 per cent per year.

But some say the Times analysis leaves out some key details. Moffatt said the Times piece takes Canada as a whole and ignores regional disparities in unemployment. Places like Alberta and Saskatchewan, with their booming economies, are boosting the national average, he said.

The 2000 to 2010 time frame also takes into account a period in which the U.S. was at the epicentre of a major global recession, “the worst times for the U.S. middle class”, said David Macdonald, an economist with the Canadian Centre for Policy Alternatives.

As well, Canadian families are among the most indebted with a record high household debt of about 164 per cent of after-tax income, he added.

And while the Canadian middle class may have seen gains from 2000 to 2010, they had the lowest growth rate.

“If you wanted to tell a story: ‘Is the middle class falling behind the rest of the population?’ you could do it,” Robson said.

But he also added that “you couldn’t tell a story of decline because there were gains right across.”

## **U.S. housing crisis a factor**

Michael Tanner, a senior fellow at the Cato Institute, observed that Canadians, unlike Americans, are dinged by a value added tax (the GST), and that the study didn’t take into consideration how that tax burden hits the Canadian middle class.

More significantly though, he said Canada avoided the U.S. housing crisis and housing is such a huge portion of the wealth of the middle class.

"The fact that we took such a hit on that I think made a huge difference."

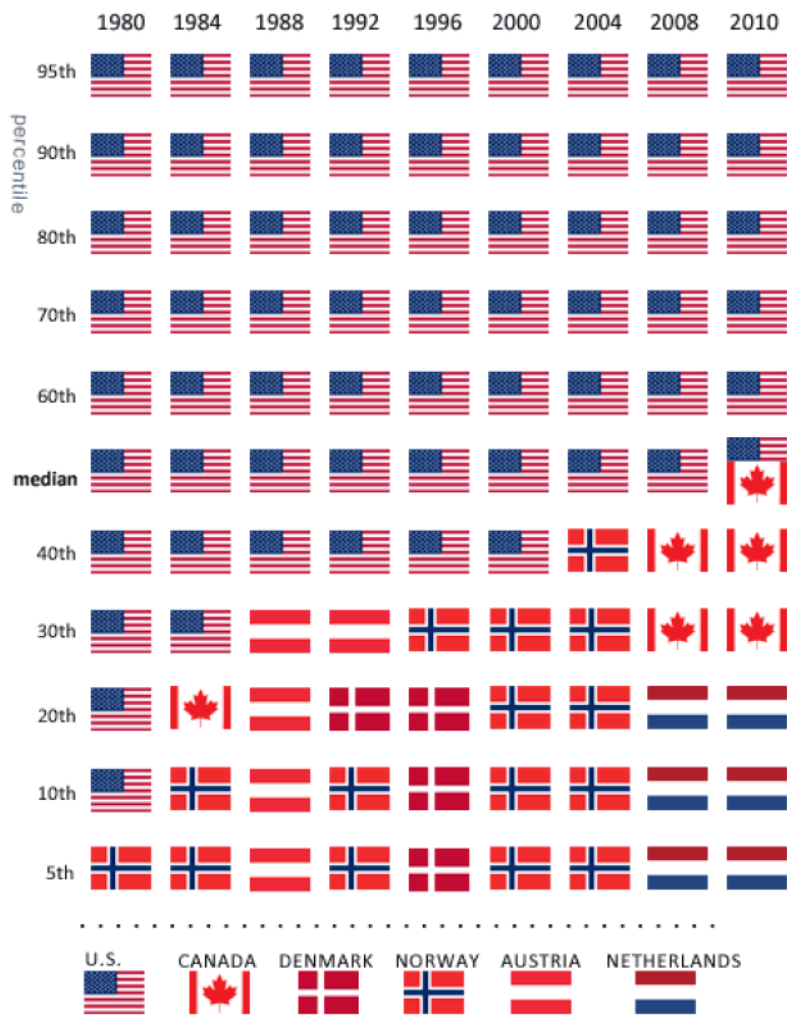
But Brenda Lafleur, an economist and program director with the Conference Board of Canada, said the media tend to get caught up on how Canada is doing compared to the U.S. While that's an important factor, it can miss the bigger picture.

In this case, the analysis focused on the growing income inequality in the U.S. — the main reason America is struggling, according to Lafleur. While the disparity between rich and poor may be narrower in Canada, Canada has also become more unequal since the 1970s and 1980s, she said.

"So it depends on whether you say, 'We used to do a better job of redistributing wealth in Canada and we're not doing as good a job now,' or you could say, 'Well, relative to the U.S, we're not doing too badly.'"

"Let's just stop agonizing about the United States. We can learn from many other countries in what they're doing as well. If we're truly global, we have to stop just focusing with blinders on the U.S."

## The country with the highest after-tax income in each income level, 1980-2010



*Source: The New York Times, LIS*