A New Gilded Age? Recent Trends in Top Income Shares in Canada

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Outline

• Recent trends in top shares in Canada
• Some comparisons
• Potential drivers/implications
• Briefly, intergenerational transmission
– The purpose of mathematics in economics is similar to that of cavalry in battle: to add tone to what otherwise would be an unseemly brawl

paraphrase of Axel Leijonhufvud, in turn based on a cartoon in Punch
Fig 1: Evolution of Income Deciles (Census Family)

Sources:
1. Rashid, A. (1999), Family income: 25 years of stability and change, Perspectives, Statistics Canada - Catalogue no. 75-001-XPE
Fig. 1 Top 1% (P99-100) income shares, 1920 - 2009

Old P99-100
New P99-100
Fig. 2  Top 0.1% (P99.9-100) income shares, 1920 - 2009

- Old
- New
Top Paid Executives in Canada
1978
(includes exercised stock options)

Armstrong, *Imperial Oil* $517K
Beekman, *Seagram* $456K
Bronfmann, *Seagram* $453K
Thornbrough, *Massey* $414K
Davis, *Alcan* $391K
J. Nielsen, *Husky* $389K
de Grandpre, *Bell* $386K

Source: Leigh, A. (2008), Top Incomes, Presentation at the University of Wisconsin, Madison, Figure 3
Income Share of Richest 1% in Non Anglo-Saxon Countries

Tax Year

France
Japan
Netherlands
Sweden
Switzerland

Germany

1900 1920 1940 1960 1980 2000
<table>
<thead>
<tr>
<th></th>
<th>1982</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top 1%</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold</td>
<td>145K</td>
<td>204K</td>
</tr>
<tr>
<td>Average</td>
<td>246K</td>
<td>438K</td>
</tr>
<tr>
<td>Multiple of Avg. Earnings</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>349K</td>
<td>951K</td>
</tr>
<tr>
<td><strong>Top 0.1%</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold</td>
<td>348K</td>
<td>663K</td>
</tr>
<tr>
<td>Average</td>
<td>655K</td>
<td>1484K</td>
</tr>
<tr>
<td>Multiple of Avg. Earnings</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>1018K</td>
<td>4150K</td>
</tr>
<tr>
<td><strong>0-90 Average</strong></td>
<td>23K</td>
<td>24K</td>
</tr>
<tr>
<td><strong>90-95 Average</strong></td>
<td>79K</td>
<td>91K</td>
</tr>
<tr>
<td><strong>95-99 Average</strong></td>
<td>105K</td>
<td>134K</td>
</tr>
</tbody>
</table>
Fig. 3 Top After Tax Income share (3 year moving average including capital gains)
Fig. 5 Top 1% After Tax Income share by province
(3 year moving average including captial gains)
### Types of Income Received by Those in Top 1% (ex. capital gains)

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1982</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>45%</td>
<td>53%</td>
<td>65%</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>35%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Capital</td>
<td>20%</td>
<td>30%</td>
<td>22%</td>
</tr>
</tbody>
</table>
Why?

Possible reasons:

• Globalization
• Skill-biased technical change, “superstar”, financial technical change
• Tax changes
• Corporate governance changes
• Changes in social norms
Implications

• Income Distribution

• Social Cohesion

• Economic growth: capital markets
Solutions ? Taxes?

“There is nobody in this country who got rich on his own. Nobody. You built a factory out there? Good for you. But...you moved your goods to market on the roads the rest of us paid for; you hired workers the rest of us paid to educate; you were safe in your factory because of police forces and fire forces that the rest of us paid for. You didn't have to worry that marauding bands would come and seize everything at your factory, and hire someone to protect against this, because of the work the rest of us did...you built a factory and it turned into something terrific, or a great idea? God bless. Keep a big hunk of it. But part of the underlying social contract is you take a hunk of that and pay forward for the next kid who comes along.” Elizabeth Warren
Solutions? More than Taxes?

• “rising inequality matters...because it both undermines hopes for any reasonable degree of equality of opportunity and cements the inequalities in power...These outcomes should matter even to those who have no concern for equality of outcome. I would add that some – perhaps a great deal – of the ultra-high incomes at the top are almost certainly the fruit of rent extraction facilitated by a breakdown in the control exercised by principals – outside investors – over their agents – corporate executives and financiers. Huge rewards then are both unjust and inefficient...
• What is to be done? That demands a huge agenda. It must cover employment, education, corporate governance and financial reform and, however difficult, also elements of redistribution. It will be unavoidably divisive. So be it. This debate cannot be avoided if western democracies are to stay legitimate in the eyes of their peoples. That may not be true in the U.S. It is surely true in the U.K. Warren Buffett has argued that “there’s been class warfare going on for the last 20 years and my class has won.” The remark has not made him popular with his peers. But he was surely right.

*Martin Wolf, Financial Times, December 22, 2011*
The Great Gatsby Curve

Source: Corak (2012)
Conclusions: A New Gilded Age?

Comparing 1920s and now:

• Rising top shares, more concentrated now
• Now less income in hands of top 5%
• Each coincident with financial collapse
• Perhaps higher intergenerational mobility in Canada now