



# Fact Sheet #4

## Income Inequality: The growing gap

It took ten years for families to recoup their income losses experienced during the recession of the early 1990s. Between 1993 and 2008, a strong labour market helped to lift the incomes and economic fortunes of all Canadians. At the same time, the gains were not shared equally. Families at the top of the income ladder experienced much larger income gains compared to modest- and middle-income families. As a result, the income gap in Canada has grown. British Columbia, Newfoundland and Labrador, Ontario, and Alberta have all experienced substantial increases in income inequality.

### Largest income gains are at the top

- The top 20% (quintile) of families experienced the largest after-tax income gains over the 1981–2010 period compared to families in the bottom four income groups.<sup>1</sup> The incomes of the top group rose by an average of 36.9%, from \$111,800 to \$153,100.<sup>2</sup>
- By contrast, the average after-tax incomes of the lowest 20% rose by 20.3%, from \$22,700 to \$27,300 over this period, while the incomes of families in the second lowest quintile rose by 12.6%, from \$42,100 to \$47,400. The incomes of families in the top 20% increased at nearly twice the rate of incomes of families in the bottom four quintiles.
- Trends in the distribution of market incomes from earnings and investments were even more skewed towards the top group. Average market incomes of the top quintile families grew by over 40%, while families in the bottom two quintiles lost significant economic ground.<sup>3</sup> The average market incomes in the lowest 20% fell by 12.2%, and by 8.3% in the second lowest income group between 1981 and 2010.

### The income gap between those at the top and the bottom is growing

- Another way to measure the gap between families at the top and bottom of the income scale is to look at the ratio of their incomes. In 2010, the 20% of families with the highest after-tax income had, on average, 5.6 times the income of those in the bottom 20%. In other words, for every dollar of income received by the lowest quintile, the highest quintile received \$5.60. In 1981, the ratio was \$4.90 to \$1.

- The gap in market incomes between families in the top 20% versus families in the bottom 20% is even greater, rising from \$11.80 to \$1 in 1981, to \$18.9 to \$1 in 2010.
- Canada's richest families now account for 47.5% of market income and 40.0% of after-tax income, an increase of 6.9 and 3.5 percentage points, respectively – all at the expense of the four lower groups. Thus, while poor and middle income families are minimally better off in an absolute sense, they are worse off in a relative sense.

### And within the top income group, the rich are pulling away

- Growth in incomes at the very top in particular has been driving inequality since the mid-1990s. The richest 1% of Canadians saw their share of market income almost double from 8.0% in the early 1980s to 15.3% in 2007. Likewise, their share of after-tax income increased from 6.3% to 11.7% over the same period.<sup>4</sup>
- The average total income<sup>5</sup> of the top 1% of tax filers, including capital gains, is now about 13 times higher than the average income of the other 99%, up from 30 years ago, when it was eight times higher.<sup>6</sup>
- Top incomes more than doubled between 1982 and 2010, reaching a peak of \$585,800 in 2007. With the recession, average incomes declined between 2007 and 2009, and started to climb again in 2010.
- The degree of income inequality also varies greatly across Canada. In 2010, the distribution of after-tax income was most unequal in British Columbia and least unequal in Prince Edward Island, as measured by the Gini coefficient.<sup>7</sup>

### Percentage Income Share, All Tax Filers, 1982 and 2010

	Market income (including capital gains)			After-tax income (including capital gains)		
	1982	2010	% change	1982	2010	% change
Top 0.1%	2.3	4.9	113.0%	1.8	3.6	100.0%
Top 1%	8.0	13.3	66.3%	6.3	9.9	57.1%
Top 5%	20.8	28.3	36.1%	17.3	22.1	27.7%
Top 10%	32.6	40.8	25.2%	27.8	32.7	17.6%
Bottom 90%	67.4	59.2	-12.2%	72.2	67.3	-6.8%
Bottom 95%	79.2	71.7	-9.5%	82.7	77.9	-5.8%
Bottom 99%	92.0	86.7	-5.8%	93.7	90.1	-3.8%

Source: Statistics Canada. Table 204-0001- High income trends of tax filers in Canada, provinces, territories, and census metropolitan areas (CMA), national thresholds, annual

### The top 1% is pulling away from the rest 1982–2010

