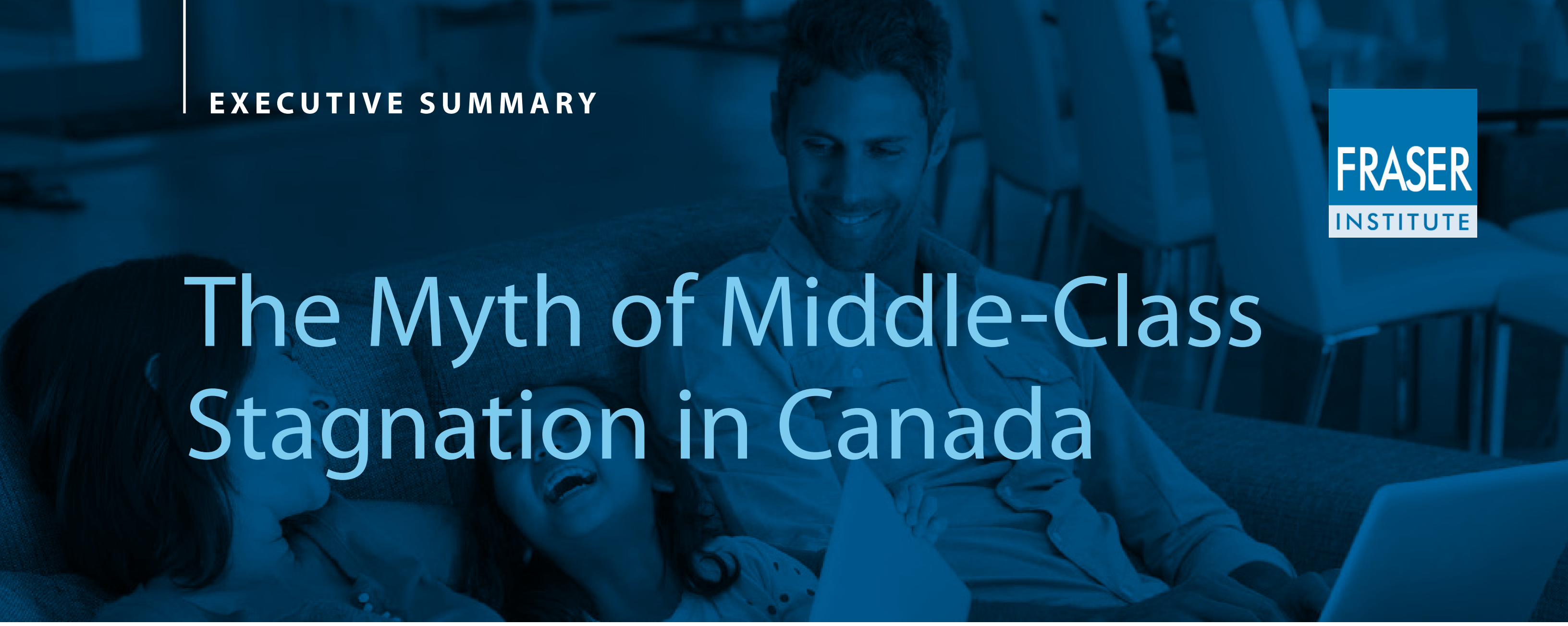


EXECUTIVE SUMMARY

The Myth of Middle-Class Stagnation in Canada

by Donald J. Boudreaux

A frequently heard complaint is that for the past several decades middle-class workers and families in Canada have stagnated economically. A typical rendition of this claim appears in the 2016 federal budget from the Department of Finance in Ottawa: "The net result is that even though there has been economic growth over the past three decades, it hasn't much benefitted the middle class. Too often the benefits have been felt only by already wealthy Canadians, while the middle class and those working hard to join it have struggled to make ends meet."

If it is true that over the previous thirty or forty years the material welfare of ordinary Canadians has remained stagnant, then this would indeed be a troubling state of affairs. But despite being incessantly repeated as if its truth were incontestable, the assertion of middle-class stagnation is a myth.

Like all widely accepted myths, this myth rests on superficially plausible foundations. Some data for Canada do tell a tale of stagnation or even decline. The inflation-adjusted median income of Canadian families before taxes was 7.0 percent lower in 2011 than it was in 1976. It's easy to conclude from such a statistic that, over the past several decades, middle-class Canadians have indeed not gained economically.

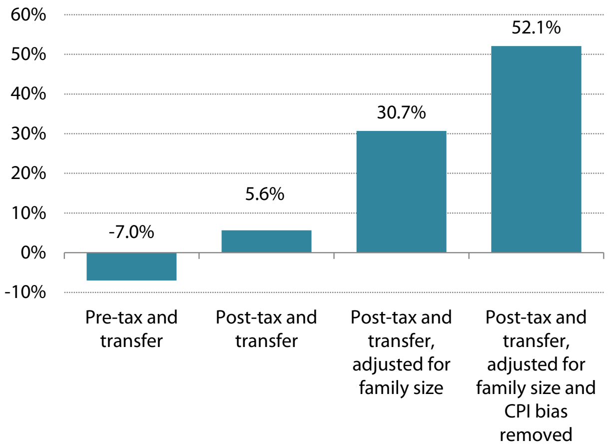
But statistics, although invaluable, are notorious for their potential to mislead the unwary. Great care must be exercised when assembling, interpreting, and drawing conclusions from them. Statistics emphatically do not speak for themselves.

The statistics that suggest stagnation suffer several problems, including:

- failure to adjust income for changes in taxes and government transfers;
- failure to adjust family income for changes in the number of people in the typical Canadian family;
- an overestimate of the amount of inflation suffered by the Canadian dollar.

First, instead of pre-tax income, looking at family income after taxes and government transfers reveals that, rather than falling by 7.0 percent between 1976 and 2011, real median income rose by 5.6 percent. This figure is more relevant for a family's economic well-being, because what a family cares about in the end is how much it has available to spend (and to save) after it has paid all taxes and received all transfers.

Median income growth (%) in Canada, 1976 to 2011



Next, consider the effects of changes in the average size of families. In 2011, the average number of people in a Canadian family was 2.3, which is 19 percent lower than the 1976 figure of 2.9 persons per family. This difference is not small. It means that the seemingly meager 5.6 percent increase in real median post-tax and -transfer family income becomes a 30.7 percent increase—in per-family-member income—once the data are adjusted for family size.

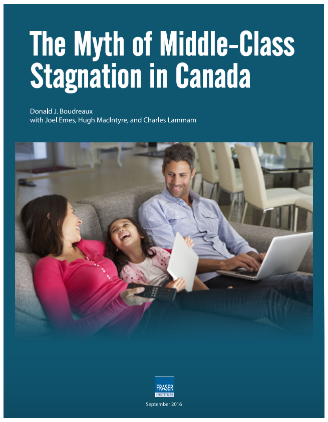
Finally, consider the distorting effects of over-estimating inflation. The income and wage figures that tell the tale of stagnation are adjusted for inflation using the consumer price index (CPI). But researchers have found that this common inflation adjuster erroneously overestimates inflation of the dollar by about 0.45 percentage points annually.

This error seems small, but over the course of 35 years its distortion looms large. Adjusting for inflation by correcting for this bias in the CPI, we find that in 2011 the income per member of the Canadian family earning the median after-tax and -transfer income was 52.1 percent higher than in 1976. This figure suggests impressive economic improvement, not stagnation. It is all the more marked when compared to the initial 7.0 percent decline cited above over the same period.

An alternative way to gauge changes over time in ordinary people's standard of living is to calculate how much time an ordinary worker must work today to earn enough income to buy a variety of goods compared to the amount of time an ordinary worker in the past had to work in order to buy the same goods. If the amount of work-time required to buy typical middle-class goods remains unchanged over time, then a conclusion of stagnation is warranted. But if work-time costs have fallen for most such goods, then a conclusion of stagnation is mistaken.

An examination of a wide variety of goods sold by Sears in 1976 and their counterparts sold by Sears today shows that the average Canadian wage earner today works fewer hours than he or she did in 1976 to earn enough income to buy almost all goods. For example, it took the typical Canadian worker 90 percent fewer hours to purchase a colour television and 84 percent fewer work hours to earn enough to purchase a refrigerator in 2011 than in 1976. These findings are yet further evidence that ordinary Canadians have enjoyed significant economic improvement since the mid-1970s.

The bottom line is that the myth of middle-class stagnation is just that: a myth.



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