

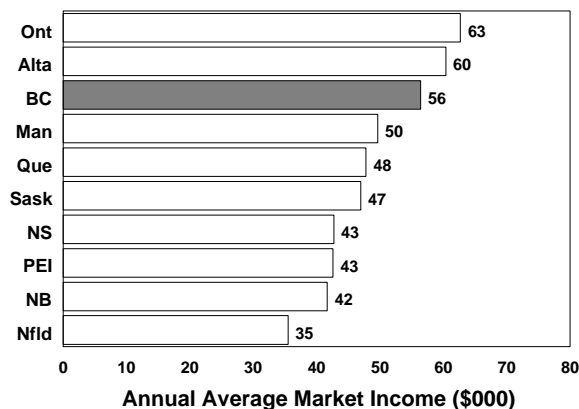
## Earnings and Employment Trends ♦ August 2000

### Income and Income Distribution: Comparisons between BC and the rest of Canada

At the beginning of the 1990's, the average market income<sup>1</sup> of families in BC was \$56,532<sup>2</sup>. Since then average income levels have fluctuated below that level, hitting a low point in 1993 of \$52,749. Since 1993, incomes have gradually rebounded reaching \$56,416, by 1998 (most recent year available).

Over the last ten years, Ontario consistently had the highest average family income in Canada. In 1998, Ontario families were earning 11 per cent more than BC families. However, like BC, the 1998 level was still below the high point of the last ten years, which happened in 1989.

*In 1998, the average market income<sup>1</sup> of BC families was the third highest in Canada, after Ontario and Alberta.*



On the other hand, Alberta has seen a significant increase in family income since 1989. While Alberta & BC had

<sup>1</sup> Market Income include earnings, investment income, retirement pensions, and other incidental market income. It excludes all government transfers.

<sup>2</sup> In constant 1998 \$.

similar income levels for the first half of the 90's, things began to change between 1995 and 1998. Alberta's income increased by 18 per cent compared to BC's increase of 3 percent. The most recent data show average incomes of Alberta families 7 per cent higher than BC families.

In 1998, families in the poorest province in the country, Newfoundland, earned only 57 per cent of what Ontario families earned but fortunately that gap has not widened since 1989.

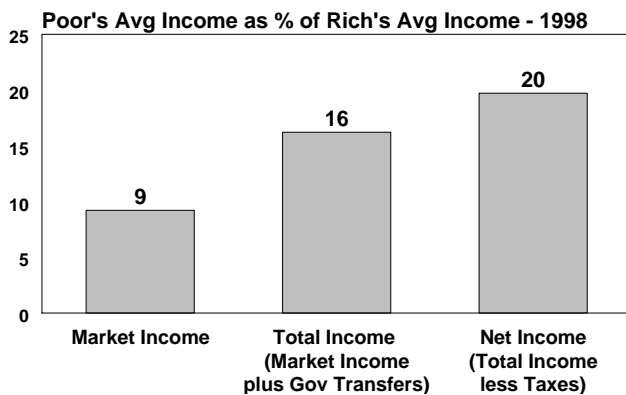
Averages reveal nothing about the disparity of incomes between families. Below we look at the difference in income of the rich (defined here as the 20 per cent of families with the highest incomes) and the poor (the 20 per cent of families with the lowest incomes).

In 1998, the average market income of poor families in BC was \$10,824 compared to the average of \$117,954 for rich families. The poor earned only 9.2 per cent of what the rich earned. This 9.2 per cent represents the market income gap between the rich and the poor in BC.

Relative to the last ten years, this income gap falls somewhere in between the high and the low. The most inequitable time was in 1993, when the poor had income levels only 7.3 per cent of that of the rich. The gap was at its lowest in 1996, when the gap was 9.8 per cent. Since then, the gap has been widening.

The discussion to this point has referred to the market income gap which does not take into consideration government income redistribution policies. A better measure of the difference in how families fare financially is the comparison of family income after transfer payments<sup>3</sup> and after federal and provincial taxes. Relative to market income (\$56,416), BC average family income is increased by transfer payments to \$63,252 but reduced by taxes to \$51,424. In that process, income is shifted from the rich to the poor.

**In BC, the redistribution of income, reduces the income gap between the rich and the poor by 11 percentage points from 91 to 80 percentage points**

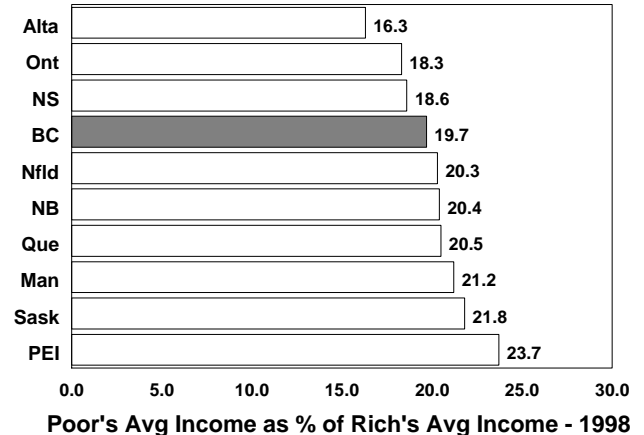


The income gap determined purely by market forces is tempered considerably by these income redistribution policies. A full 7 percentage points is knocked off through transfer payments, a further 4 percentage points through income taxes, for a total of 11 percentage points.

How does BC's gap between the rich and the poor compare to other provinces in the country? The next chart of comparative income gaps (after transfers and taxes) shows that the "have"

provinces, in general, have a wider income gap than the "have-not" provinces. Interestingly, the three provinces heavily reliant on agriculture, Saskatchewan, PEI and Manitoba, have the most equitable income distributions in the country.

**Among the provinces, Alberta had by far the worst income gap between the rich and the poor**



The larger gap between the rich and poor in Alberta compared to that in BC is because Alberta's rich have an average income, after taxes and transfers, of \$101,214 compared to BC's rich of \$95,177, a 6 per cent advantage. Alongside that, the income levels of their poor (\$16,547) fall short of BC's poor (\$18,727) by 12 per cent.

<sup>3</sup> Includes such items as Old Age Pension, Canada Pension Plan, provincial income assistance, provincial tax credits, etc.