

Canada's Middle Class: A Study for the School of Public Policy

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Key Questions

- Middle class is a cause for concern for many.
 - Most Canadians identify themselves with the middle class.
 - Hence middle class is large.
 - View that middle class performance has deteriorated.
- Key questions:
 - Who are the middle class?
 - How is it doing?
 - What are policy implications?

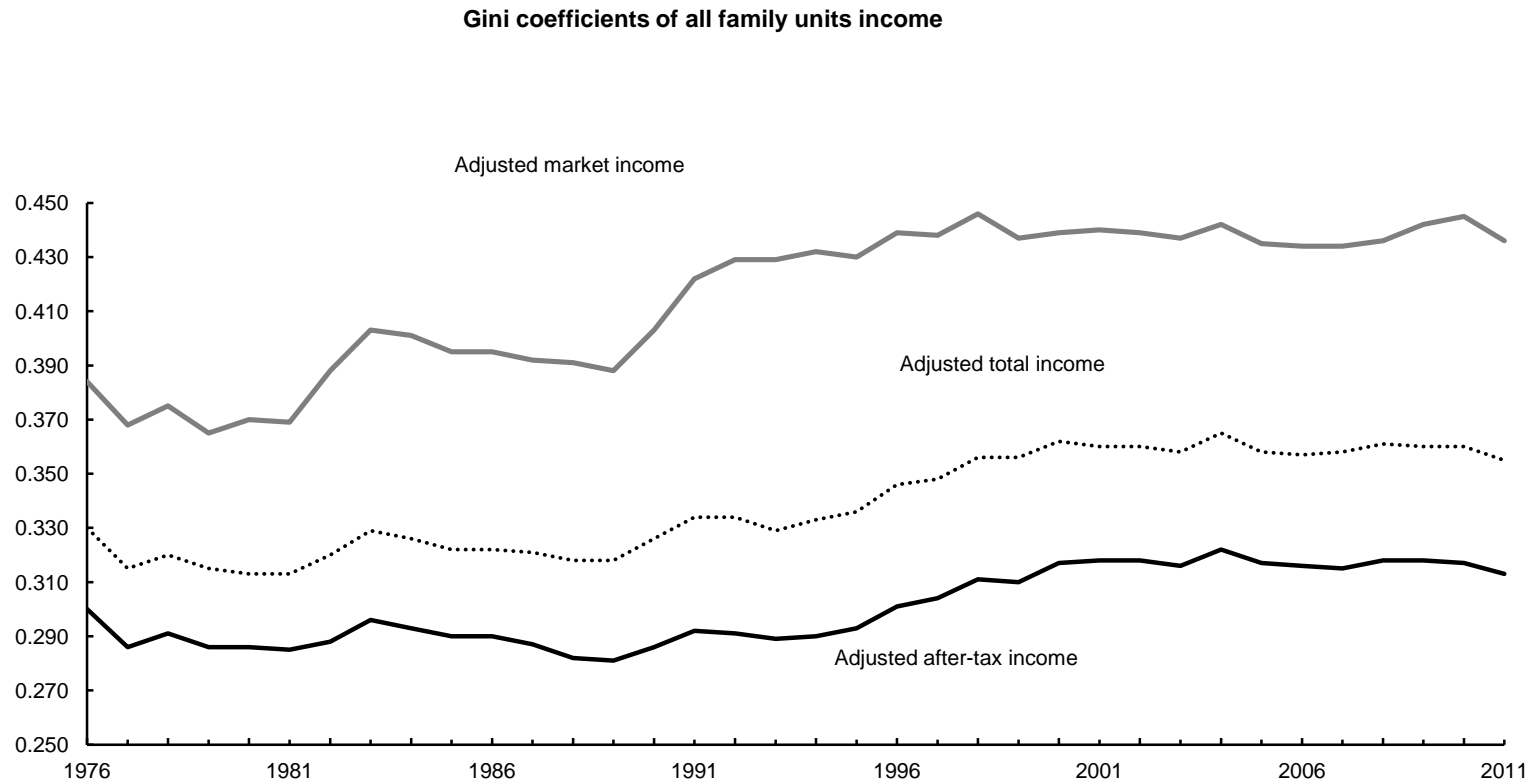
Who are the middle class?

- No consensus on what the middle class is; there are many dimensions.
 - Some think it is not even measurable in economic terms.
- Economists and sociologists have offered a variety of definitions:
 - Self-identification. Difference between middle and working classes
 - Possessions or lifestyle (consumption, wealth)
 - How people earn their living, not how much (occupation). Many income concepts
- Income concepts could include:
 - Distribution of income (relative)
 - Specific levels of income (absolute)
 - No one answer; look for a consensus in the data

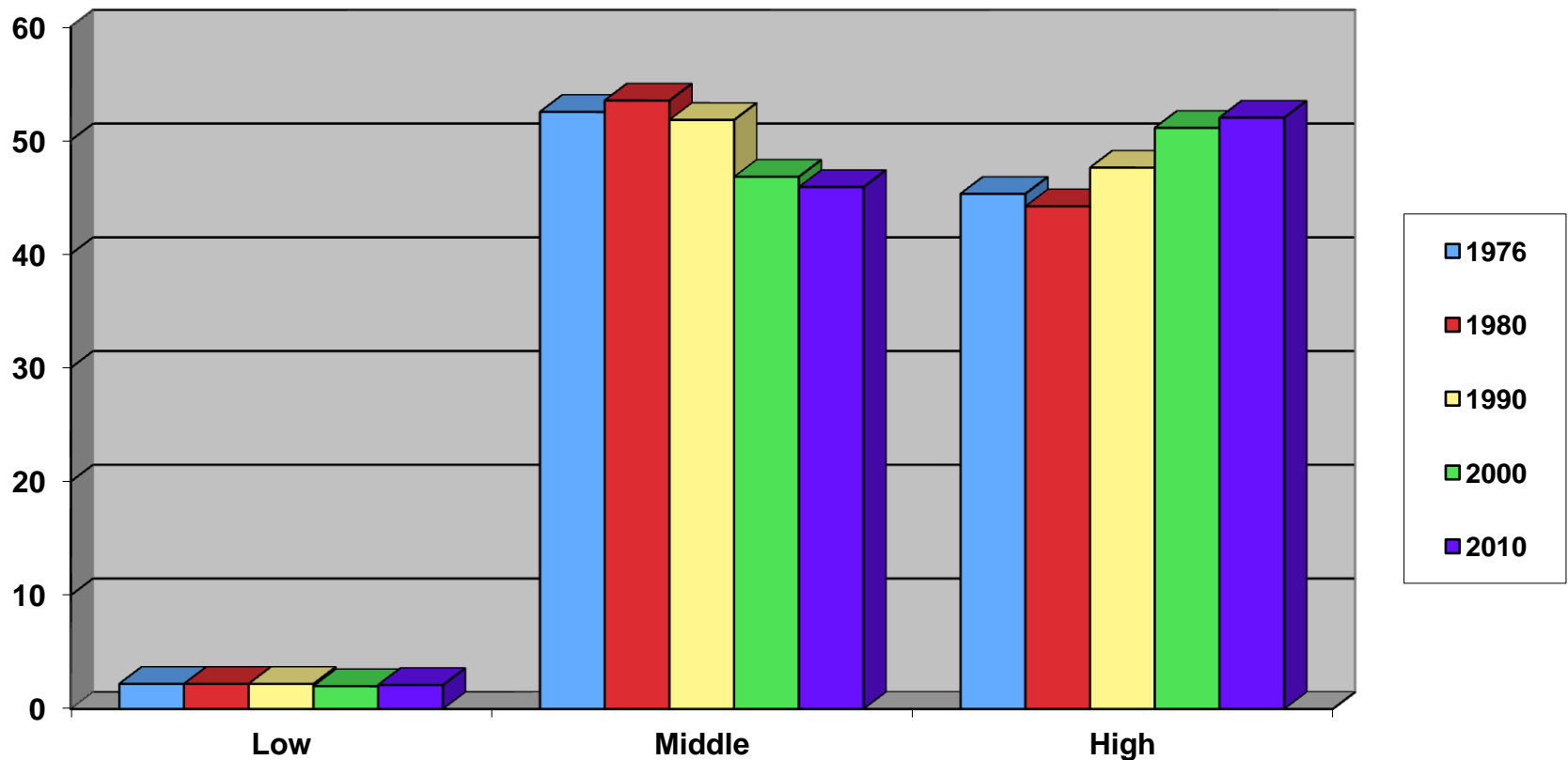
Challenges in Income Definitions

- Individual or family incomes (changes in family structure and size have been important)
- Defining middle class incomes. Relative concepts
 - Deviations from middle (Thurow: 25% above and below median)
 - percentiles/quintiles (Statistics Canada quintiles)
 - subjective ranges (Piketty: 40% above the average).
 - ***Problem: you can never get better. Middle class size never changes.***
- Defining middle class incomes: Absolute concepts
 - What does a middle class lifestyle require (ranges between \$40,000 to \$125,000 in literature)?
 - ***Problem: continuously shows improvements in middle class***
- What is income and how to measure it?
 - Wages, supplementary labour income (i.e. education and health), bonuses, overtime, non-monetary (e.g. time-off. Can be 10-13% of total compensation)
 - Before and after taxes and transfers

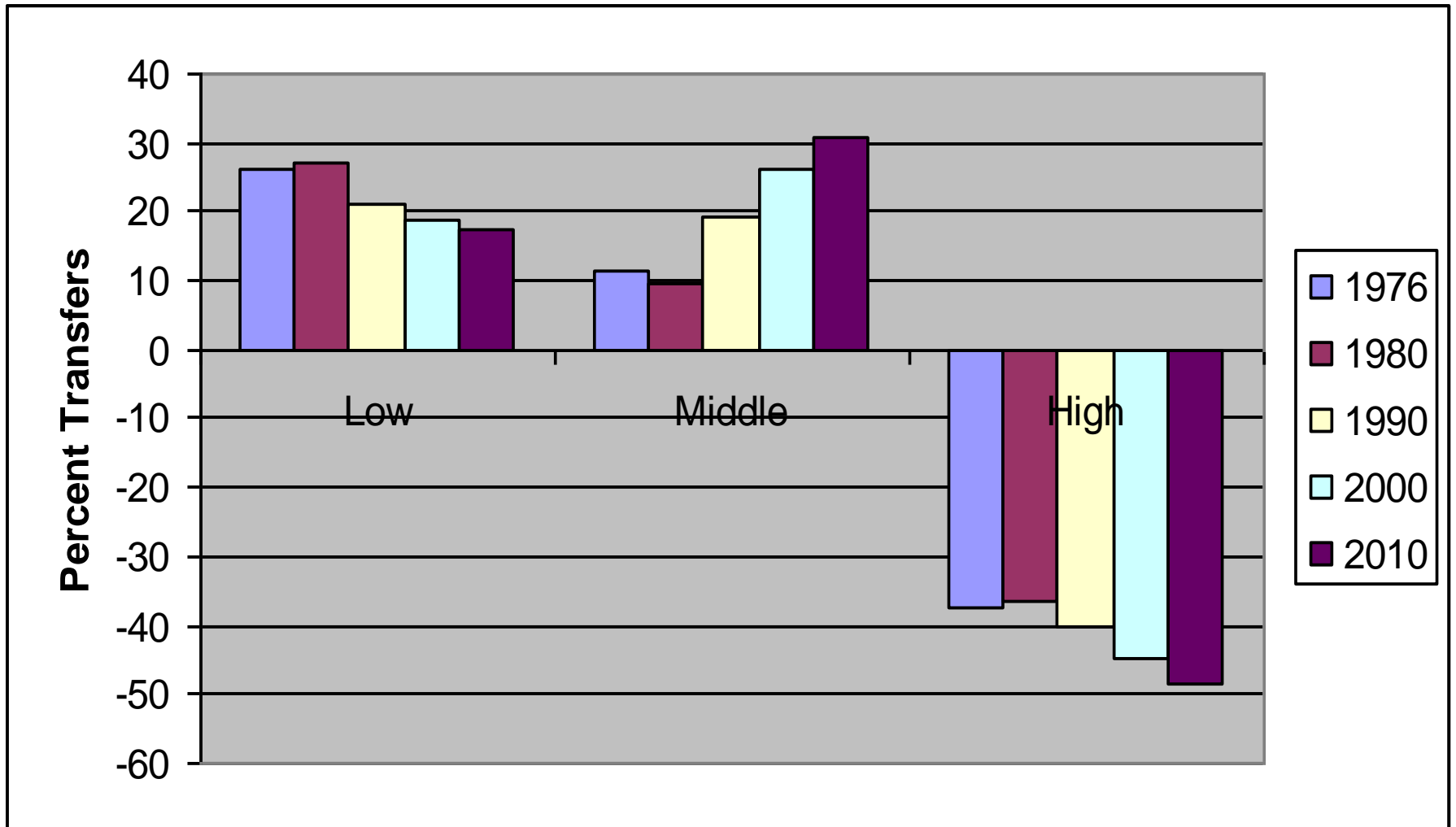
Impact of Tax Transfer System



3 Middle Income quintiles: Some losses in relative not absolute terms, as high incomes grew faster. Low income is mostly a transitory state

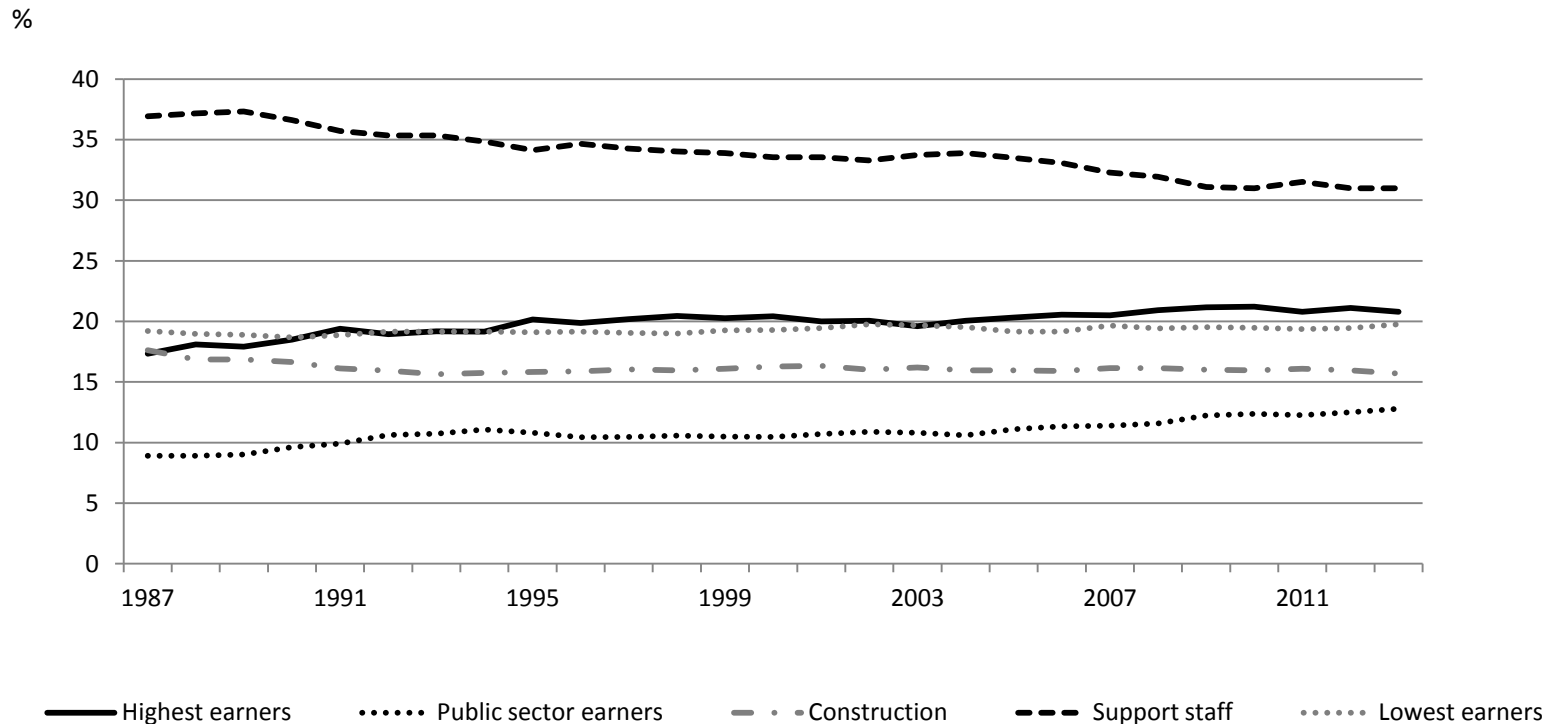


Impact of Taxes and Transfers on Incomes



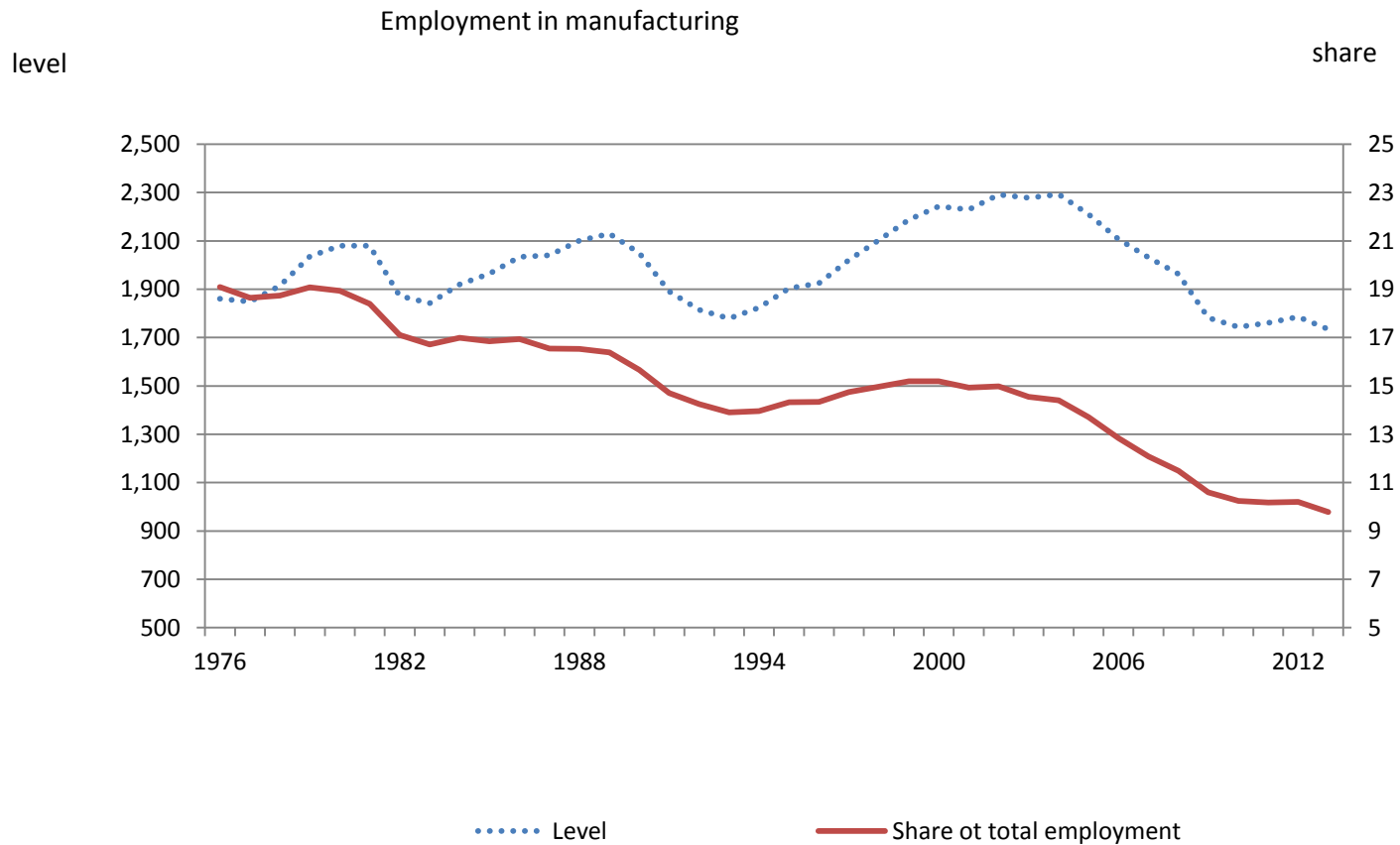
Occupational Groups: Losses in manufacturing, gains in public sector

Figure 5 Share of employment by occupational group



Source: Statistics Canada Labour Force Survey, Cansim Table 282-0010

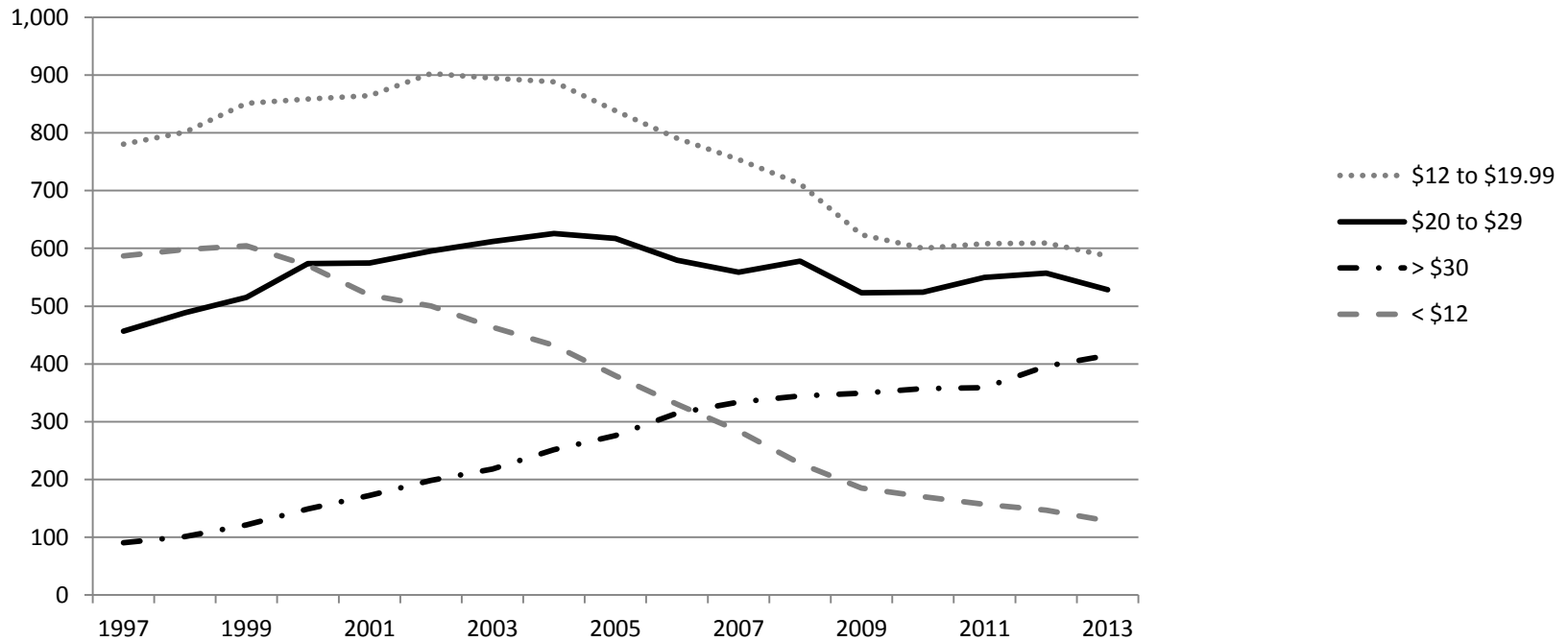
Manufacturing Employment



Manufacturing Employment: Shift from low to high paying jobs

Employment in manufacturing by dollar per hour

Thousands



Policy Issues

- **Observations:**
- Overall assessment is that most constructs show middle class situation has worsened for select groups, especially people with below average skills. Professionals and public servants with above average skills did well, often moving into the high income group
- Policy guidelines specific to nature of the problem
 - Not easy to provide general policy guidelines given difficulty of defining
- However, different constructs of middle class may provide guidance on specific issues
 - Manufacturing jobs: decline in number of low-paying jobs, increase in high paying jobs
 - Middle incomes: tax-transfer system helping middle financed by both high and low income groups. Policy issues: is 48 cent on the dollar support reasonable? who finances it?
- **Conclusion:**
 - the best policy to support the broadly-defined middle class are those that generate good macroeconomic performance, encourage continued high rates of human capital formation and reduce barriers to mobility within social classes and between regions. The middle class is too large to be addressed by government transfers; the only durable solution is sustained growth in the private sector.