Income Trajectories of High Income Canadians 1982-2010
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Growing income inequality in Canada and in many countries has become a topic of broad public interest. This has been spurred by the now well-documented increase in the share of income going to the very top of the income distribution. However, the vast majority of the statistical analyses of this rising income inequality focus on trends in annual incomes. An important question, therefore, is how the trend in income inequality appears when individuals' incomes over periods longer than a year are considered. This paper uses a unique longitudinal administrative database of individual income tax returns to explore the year to year patterns of income mobility of high income Canadians.

Specifically, the paper examines the year over year transitions into and out of high income categories as well as the durations of high income status amongst those at the top. The analysis emphasizes statistics on the top 5%, 1%, 0.1% and 0.01% of individual income tax filers. We also use both a conventional approach and a robust non-parametric method to decompose individual income trajectories into level, trend, and volatility components.

Interest in multi-year income mobility derives in part from earlier work by Milton Friedman, who argued that those with higher incomes also tend to have more volatile incomes, so that their higher incomes in any one year represent a return for higher risk. While the Friedman argument is supported moving from the middle range of incomes to the top, those in the lower quartile of the income distribution experience considerably higher relative volatility than those even at the very top.