

Falling Sparrows: Are we Gaining or Losing Ground?

Census Results Ignite a Debate over the Effect of Government Policies on Canadians

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May 31, 2003 - Picture yourself on a beautiful ranch on a nice sunny Sunday afternoon. You are a proud thoroughbred, sharing your stable with three other racing horses.

All of you have been working hard and it's now feeding time. The stable's budget allows for 10 measures of oats. Two horses get three measures each, while the other two get only two measures. You are all told that if you work hard and train well during the week, you will see the ration increase.

The four of you indeed do work hard during that week. You train, you race and you train again. You try your best. The following Sunday, the stable's budget is higher and allows it to distribute 14 measures of oats. You and your three companions are flaring your nostrils, awaiting the promised reward of your work.

The two most-fed horses, which previously had three measures, now respectively have six and five measures. You still get only two measures, while the last one is even less lucky, getting one meagre measure of oats.

Roughly put, this is what the recent Statistics Canada census data on income are saying: While the economy grew between 1990 and 2000, the median income stayed the same. Those above the median saw their incomes rise significantly, while those below it stayed put or experienced a decrease in their income.

That's what the growing income gap is, and Canadians are victims of it. No doubt the free-trade apologists will resort to juggling mathematical concepts to belittle these latest findings. Some will say income mobility -- when people are moving up and down the income ladder -- is unaccounted for. Some others will point out -- rightly -- that the large income gap reported in the study will be lessened by fiscal redistribution, without pointing out that the impact of this redistribution is itself lessened by the successive tax cuts. More will say the income gap isn't significant as long as the number of poor doesn't increase.

Smoke and mirrors. Simply put, Canada is much richer as a country than it was in the early '90s. Oh, it's not that free trade has a lot to do with it: A June 2001 Industry Canada study demonstrated that only nine per cent of the increased trade with the United States can be attributed to the free-trade agreements.

However, most Canadians, those who are not at the top of the income ladder, aren't seeing any of this increased wealth. This goes against everything Canadians were promised during the free trade debate of the '80s.

Remember the free trade debate? Promises of prosperity, more jobs, higher wages? Trade analyst Murray Smith appeared on Canada AM in 1987 to talk about potential job gains with the FTA -- "perhaps in the order of 300,000 to 400,000 . . . a combination of more jobs and higher wages. If we take it out in the form of higher wages, then there would be far fewer jobs."

Well, according to a study commissioned in 1999 by Industry Canada, 870,700 export jobs were created between 1989 and 1997, while 1,147,100 jobs were lost due to imports during the same period, resulting in a net loss of 276,000 jobs.

According to Smith's reasoning, wages should have been increasing at a very fast rate. Not so, says Statistics Canada. And this is a lot easier to believe than any notion of income mobility. It doesn't stop

there: Once the FTA, then NAFTA were signed, we were told we needed to eliminate the deficit so everyone could share in the fiscal dividend. So social programs, such as employment insurance and welfare programs were butchered and the minimum wage in most provinces barely grew.

When that was accomplished, mostly on the backs of those who are not part of that prestigious group of high-income earners, we were told that for everyone to enjoy the fiscal dividend, we needed to pay the debt and to have tax cuts. This would put money in Canadians' pockets, leading to a growth in consumption and investments.

Yes, the high-income earners would benefit most, but the money flowing from increased investments and consumption would "trickle down" to benefit all Canadians, we were told.

The Statistics Canada report is merely one more example of demonstrating the fallacy of trickle-down economics.

John Kenneth Galbraith had another horse analogy to define the trickle-down theory: "If one feeds the horse enough oats, some will pass through to the road for the sparrows," said the famous Canadian economist.

This horse is very well-fed indeed, and the sparrows are left pecking dust.