

Income Distribution



Noteworthy:

- The Gini coefficient (a measure of income inequality) for after-tax and after-government-transfer income was relatively stable between 1971 and 2003 for both individuals and families.
- However, since 1994 income inequality has been increasing among individuals and families.
- The gap between the rich and poor is greater in Alberta than any other province in Canada.
- The gap between the market (earned) incomes of the richest 20% and poorest 20% of Albertans has increased by 62.9%.
- These trends in income inequality in the last five years suggest that the benefits of a booming economy are not being evenly distributed.
- Rising income inequality is consistent with real weekly wages, which have remained relatively constant since about 1980.

Income Distribution in Alberta

The distribution of income can be measured in terms of the “Gini coefficient,” a measure of income distribution, or by the gap between highest income earners and the lowest. The figure below shows that while gains were made in income distribution between the early seventies and the early nineties, income inequality has generally been on the rise since the early nineties. If income were equal everywhere, the

Gini coefficient would be zero; the more unequal the distribution, the closer it gets to one. Our analysis shows that while the distribution of after-tax, after-transfer income appears to have been relatively unchanged since 1976, inequality rose in the 1990s. For example, between 1994 and 2003, the Gini coefficient (after-tax-transfers) rose 11% for individuals and 5% for families. Despite a prosperous economy, not all

are sharing equally in the growing pie of prosperity, in spite of a progressive tax system.

The gap between the market (earned) incomes of the richest 20% and the poorest 20% of Albertans has increased by 62.9%. In 1999, the top 20% earned 14.5 times more than the lowest 20%. Alberta now has the highest after-tax income gap between rich and poor of any province.

Income Distribution in Alberta (Gini coefficient), 1971 to 2003

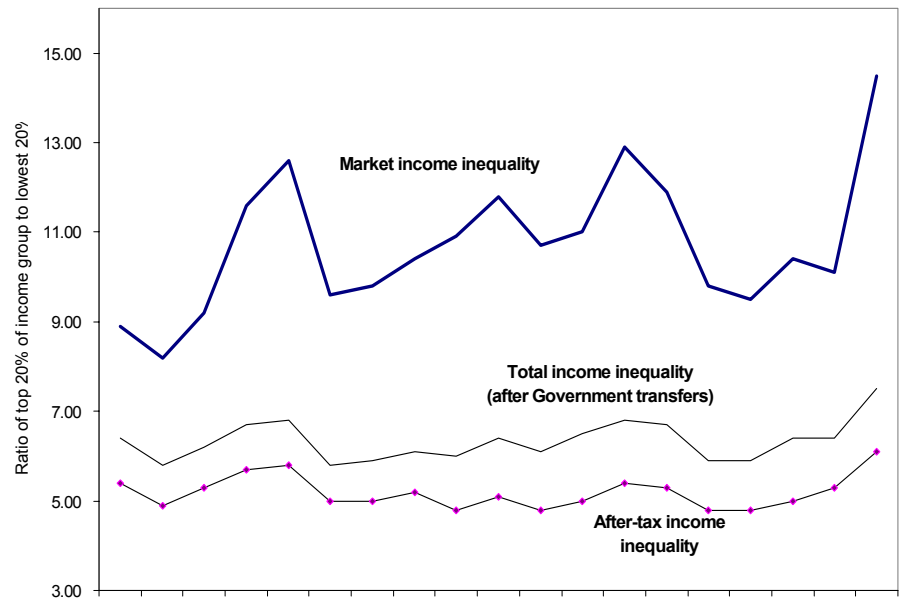


Source: Statistics Canada, CANSIM Table 200-0705 for 1989 to 2003 (other years extrapolated)

So What?

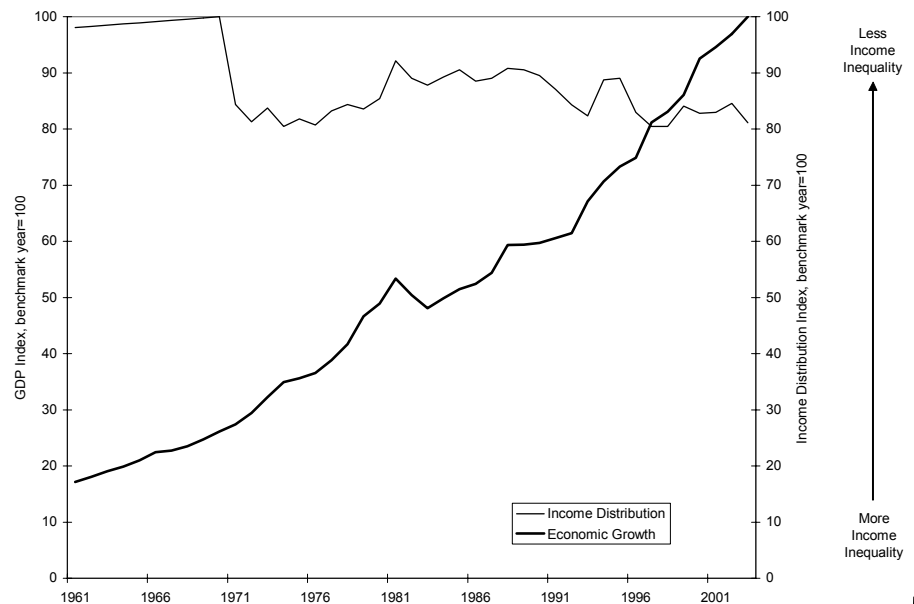
Our analysis of income distribution (see income distribution index below) shows that income inequality declined slightly between 1971 and the late 1980s and has been on a gradual trend upwards since 1994. This means that since 1994, the distribution of income across families in Alberta has become more unequal. In particular, there is a growing income (earned) gap between the top and the bottom income groups, a trend that should be watched closely (see adjacent figure). Using measures of income inequality that consider broad clusters of income groups, such as quintiles (20% of total) may mask the more extreme inequalities of income and wealth that exist in our society. Alberta now boasts the biggest gap between the rich and poor of any Canadian province. The reported net worth of Alberta's eight wealthiest individuals and families could earn them an hourly income roughly 5,645 times more than a person earning Alberta's minimum wage. Also, if the 1999 reported annual salaries of Canada's top 100 CEOs were converted to an hourly wage, they would be roughly 309 times the Alberta minimum wage. While these may be hypothetical and extreme comparisons they illustrate the need to be vigilant in ensuring money, wealth and power are equitably distributed to build and sustain an egalitarian and fair society. Unfortunately, economic measures like the Gross Domestic Product (GDP) are indifferent to how money and wealth distribution affect social cohesion. A close look at a number of economic trends can be revealing. For example, while real GDP per capita increase by 146% between 1961 and 2003, real disposable income increased by 128%, savings rates by only 27% and debt by a staggering 330%.

The Growing Income Gap Between Alberta's Top 20% and Bottom 20%, 1980 to 1998



Source: Statistics Canada, "Income Inequality within provinces", Dimitri Sanga, Perspectives, Winter 2000, Catalogue No. 75-001-XPE, Table, p. 35

Income Distribution Index: Where are we today?



There is no price tag on income distribution—only an adjustment to GDP (personal consumption expenditures) in the GPI income statement for changes in the Gini index.

As an index, income distribution in Alberta in 2003 ranked 81 on a scale where 100 is set equal to the greatest level of income inequality between 1961 and 2003 (see figure above).

