Labour Market Matters

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Special points of interest:

- Western Canada's Energy boom found to have halved the local poverty rate according to the Low-Income Cut-Off (LICO), but the benefits are not proportional in other sectors of the income distribution.
- Researchers find that while household income inequality has been flat between 1997 - 2009; inequality as measured by household consumption has actually grown over the same period.

"The drastic decrease in low income poverty is explained by the significant gains in the bottom of distribution"

Joseph Marchand
(University of Alberta)

Economic Windfall from Western Energy Boom may have the power to "lift all boats", but not evenly

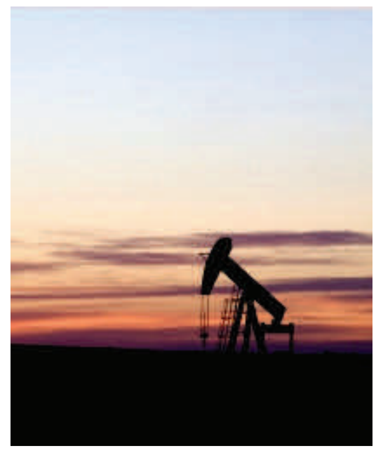
Recent trends in inequality and poverty across Western Canada, a region known for its energy resources, seem to correspond to movements in energy prices, with much of the rise in inequality and decline in poverty taking place during the energy boom from the mid-1990s to the mid-2000s. These trends had previously been more pronounced in the provinces containing greater energy resources as compared to the provinces with fewer of these resources. The economic benefits from an energy boom could potentially alter the aggregates of inequality and poverty, depending on how these gains are distributed across the distribution.

In a CLSRN paper entitled ***"The Distributional Impacts of an Energy Boom in Western Canada"*** (CLSRN Working Paper no. 137), Joseph Marchand (University of Alberta) investigates the relationship between inequality, poverty, and energy booms in Canada, by specifically focusing on the local labor markets of the western region. Overall, the evidence indicates that inequality modestly increased and poverty drastically decreased due to the recent boom. However, there were also a few notable cases where inequality slightly declined and poverty modestly increased.

The significant poverty reduction was found when using the standard low income cut off definition (or LICO) and was very close to a halving of the initial local poverty rate. Although the study finds that individuals are being lifted out of poverty according to the LICO, there was a slight growth in the poverty rate in relative terms. The drastic decrease in low income poverty is explained by the significant gains in the bottom of distribution, whereas the increase in relative poverty is linked to the bottom of the distribution not growing fast enough to catch up with the growth at the median.

With regards to inequality, different inequality measures show that the increase attributable to the boom was larger for measures sensitive to changes in the top of the distribution, for total earnings and wages & salaries, and for localities with a greater dependence on earnings from energy extraction.

Interestingly, whereas the boom led to a large increase in inequality for the directly-impacted energy extraction sector and a modest increase in inequality for the local industries of construction and retail trade, it appears to have reduced inequality in all services. Given that the greatest spillovers of employment creation from energy extraction to other local sectors during a boom were found in services, this may potentially explain why the energy boom is associated with lower inequality in this particular sector.



The western energy boom has lifted some of the poorest members of income distribution across the poverty line - but the income gains are not evenly distributed
Image:
Rosemary Ratcliff/freedigitalphotos.net

Despite this somewhat mixed evidence, all individuals across the distribution benefited from the gains of the energy boom albeit unevenly, with significant earnings growth across all segments with some segments of the population benefiting more than others. Altogether, this suggests that a rising tide may have the ability to lift all boats, although not proportionately.

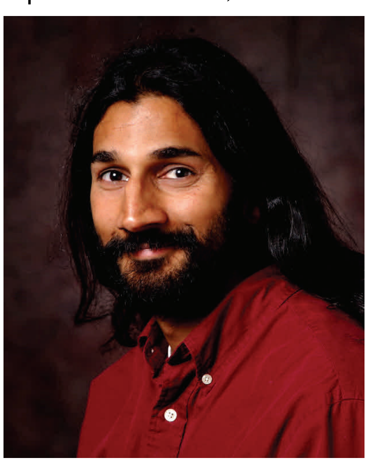
Trends in Consumption Inequality in Canada

Growth in income inequality has been surprisingly low in Canada over the last fifteen years. But, does this mean that inequality in material well-being has been flat? CLSRN affiliates Sam Norris (Northwestern University) and Krishna Pendakur (Simon Fraser University) find evidence to the contrary in their new study, ***"Consumption Inequality in Canada 1997 to 2009"*** (CLSRN Working Paper no. 138). They show that although inequality in household income has been essentially flat over the period 1997-2009, inequality in household consumption has grown moderately over the same timeframe. Since consumption is closer to material well-being than income, this suggests that there has been an important increase in economic inequality.

This study examines changes in household-level consumption inequality as measured by the Gini coefficient. The Gini coefficient is a measure of inequality with a "high" Gini coefficient (a number closer to 1) indicating a high relative level of inequality and a "low" Gini coefficient (a number closer to 0) indicating a low relative level of inequality. Consumption, rather than income, is used as the main measure of inequality since it is believed to better reflect changes in material well-being. In particular, since households choose consumption levels on the basis of their history of income, their level of wealth and their expectation of future income, consumption levels more closely reflect permanent incomes. Further, since income has to be consumed to yield material well-being, using a direct measure of consumption can shine a clearer light on material well-being than can income.

Using the Surveys of Household Spending 1997-2009 the researchers show that while household income inequality has been essentially flat over the period of 1997-2009, consumption inequality has actually grown moderately over the same period, with the Gini coefficient increasing from 0.251 to 0.275 over 1997 to 2006, and then declining to 0.264 by 2009. The overall increase of 0.013 Gini points is a medium-size increase compared to historical variation since the 1970s.

Both income and consumption inequality followed a hump-shape over the 1997-2009, peaking around 2006. However, unlike income inequality, consumption inequality did not fall all the way back to late 1990s levels. The authors speculate that two factors may have been important here. First, due to minimum wage increases in most provinces and a relatively strong labour market, wages increased faster in the bottom of the consumption distribution than at the top. Second, historically poor stock market performance depressed incomes for high-asset households, which tend to have higher levels of lifetime income than non-asset holders.


Krishna Pendakur
(Simon Fraser University)

"[P]rices (particularly in non-housing prices) for poor households grew at a faster rate than prices for rich households. Over the medium term, this trend could potentially reverse the drop in consumption inequality observed since 2006, especially if wage growth slows at the bottom of the distribution."

The authors found some variation across provinces. The largest declines in consumption inequality after 2006 were in British Columbia, Saskatchewan and Nova Scotia, while the declines in income inequality were greatest in Alberta, Saskatchewan and Manitoba. The researchers also uncover two notable provincial exceptions to the hump-shaped pattern: Newfoundland, where inequality rose very sharply from 1997 to 2000, then levelled off for the rest of the period; and Ontario,


Sam Norris
(Northwestern University)

which did not see significant declines in either type of inequality after 2006 (in fact, the highest measure was observed in 2008).

In both Canada and the USA, the path of consumption inequality was hump-shaped, with a peak in the middle of the 2000s, followed by a relatively rapid decline. In contrast, income inequality in the USA increased throughout the 2000s, unlike in Canada where it dropped in the second half of the decade.

Despite the surprising decline in consumption inequality over the latter half study period, the researchers find that prices (particularly in non-housing prices) for poor households grew at a faster rate than prices for rich households. Over the medium term, this trend could potentially reverse the drop in consumption inequality observed since 2006, especially if wage growth slows at the bottom of the distribution.

Endnotes

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