



# Labour Market Matters

## Special points of interest:

- Influx of low-paid workers from programs such as the Temporary Foreign Workers program may be driving the labour force towards the low end of the earnings spectrum and “hollowing out” the middle class in Canada.
- The Western resource boom in Canada has acted to counter the negative effects of “Job Polarization” by increasing the number of good-paying blue collar jobs

**“[M]iddle-class workers saw their share of total workplace earnings fall by 16.86 percentage points (from 64.19 to 47.33 percent) for males, and by 17.84 points (from 69.34 to 51.50 percent) for females between 1970 and 2005”**



Charles Beach  
(Queen's University)

Volume 6, Issue 5

May 2014

## Hollowed out Middle: What has Happened to Middle-Class Earnings in Canada?

Between 1970 and 2005, the share of total earnings in the Canadian labour market going to middle-class workers has fallen significantly, while the earnings share of higher-earnings workers has risen. Is the middle-class being hollowed out? A paper by CLSRN affiliate Charles Beach (Queen's University) entitled **“What has Happened to Middle-Class Earnings? Distributional Shifts in Earnings in Canada, 1970-2005”** ([CLSRN Working Paper no. 131](#)), finds that, while there has been a large drop in the proportion of workers making middle-class earnings, there has correspondingly been an increase in the proportion of workers earning higher and lower-end earnings. The study finds that there has been a drop in the number of middle-class earners in the Canadian labour market.

Using Census individual microdata files for 1970, 1980, 1990, 2000 and 2005, Beach examines how middle-class annual earnings in Canada have changed between 1970 and 2005. The study looks at the proportion of workers with low, middle and high earnings levels, the proportion of total workplace earnings being received by low, middle and high earners, and the extent to which changes in earnings shares of these groups are due to changes in the proportions of workers in these groups and to changes in the relative earnings levels of these different groups.

The study finds that between 1970 and 2005, among male workers and among Full-Time Full-Year workers (FTFY) the proportion of male middle-class earners fell markedly. For example, the proportion of FTFY workers fell by 11.56 percentage points (from 74.34 to 62.78 percent) and the proportion of female middle-class earners declined by 13.47 points (from 76.52 to 63.06 percent) between 1970 and 2005. The proportion of higher earners, however, went up by 3.41 percentage points for male FTFY workers and by 4.89 points for female FTFY workers, while the proportion of lower FTFY earners increased by 5.06 percentage points for male and by 5.69 points for female workers.

The study also found that middle-class workers were losing out to the strong earnings gains of higher-earnings workers for males and for FTFY female workers in the Canadian workplace. Not much change was found among the earnings share of lower-earnings workers in the Canadian workplace. FTFY middle-class workers saw their share of total workplace earnings fall by 16.86 percentage points (from 64.19 to 47.33 percent) for males, and by 17.84 points (from 69.34 to 51.50 percent) for females between 1970 and 2005. The corresponding proportion of FTFY higher-earning workers' earnings over the same period, however, went up 13.49 percentage points for males and by 13.56 points for female workers.

More than half of the decline (60-68 percent) in the earnings share of middle-class workers for males and for FTFY female earners was found to be attributable to the fall in the proportion of middle-class workers in the Canadian workplace. More than three-quarters of the dramatic rise (78-102 percent) in the earnings share of higher earners for males and for FTFY female workers is also due to an increase in the proportion of workers working in higher-earning jobs.

For middle-class workers, the percentage change in earnings share is driven by both decreases in the proportion of workers and falling earnings – relative to workers in other earnings categories. Beach suggests that possible policy initiatives in light of the evident hollowing out of the middle-class in the Canadian earnings distribution operating towards the lower end of the distribution could seek to bolster lower earnings/income by, for example, increasing somewhat the minimum wage and expanding the federal Working Income Tax Benefit (WITB) program. The WITB helps make work more attractive to low-wage workers, especially if tax credits are refundable. Beach also suggests that the federal government should reverse recent immigration policy developments of bringing in so many relatively low-skilled workers such as through the controversial Temporary Foreign Workers Program, and focus more on higher-skilled admissions within the current selection of economic immigrant programs.

## “Job Polarization” in Canada

In the United States, a marked pattern of “job polarization” – or the share of employment accounted for by high-skill and low skill jobs growing faster than the employment share accounted for by middle-skill jobs - has led to concern over the disappearance of the middle-class. Given the high degree of economic interconnectivity between Canada and the United States, it seems reasonable to ask whether job polarization is also occurring north of the border. A study by CLSRN affiliates David Green (University of British Columbia) and Benjamin Sand (York University) entitled **“Has the Canadian Labour Market Polarized?”** ([CLSRN Working Paper no. 133](#)) analyses movements in wage inequality, and employment and wage polarization across occupations in Canada for the last four decades. The authors find that Canada has also experienced faster growth in employment in both high and low paying occupations relative to those in the middle since 1981 but, in contrast to what occurred in the U.S. in the 1990s, wage rates did not exhibit polarization.

Using Canadian Census and Labour Force Survey (LFS) data covering the period from 1971 to 2011, the researchers find that wages at the 90th percentile grew roughly 15 percent, whereas wages of workers at the 10th percentile fell about 5 percent. In other words, the long term pattern reveals a straight increase in wage inequality with workers at the bottom of the wage

distribution losing ground relative to those in the middle, who, in turn, lost ground compared to the highest paid workers. Interestingly, the median real wage shows almost no real growth over the last quarter century.

Canadian employment patterns have been similar to those in the U.S. as both countries experienced some labour market polarization in the 1980s and 1990s, with a stalling of that pattern after 2000. The polarization before 2000 is also consistent with results from the U.K. and Europe, and, for all countries, these patterns are argued to have been generated by technological change associated with the Information Technology revolution. The standard argument is that IT related technologies increase demand for more workers in the top earning occupations while displacing workers in middle paying occupations such as those in manufacturing. Since much of the discussion of polarization has been built around U.S. patterns, the researchers use US Census

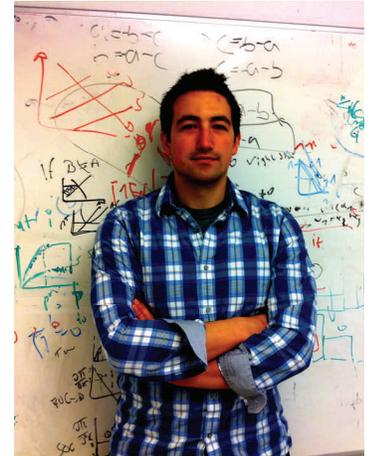


**David Green**  
(University of British Columbia)

data to provide a benchmark for the Canadian patterns they uncover. They document the polarization in the US labour market in the 1980s and 1990s but show that after 2000, employment growth in top end occupations has stalled.

**“Canada has also experienced faster growth in employment in both high and low paying occupations relative to those in the middle since 1981 but, in contrast to what occurred in the U.S. in the 1990s, wage rates did not exhibit polarization”**

In Canada's case, wage and employment patterns after 2000 differ sharply by gender and region. In top end occupations, the patterns for males are similar to those in the US, with a stalling of employment growth. But for females, employment in these occupations continues on a strong trend throughout the 2000s. The authors show some evidence that this is due to growth in the public sector and that in the private sector employment for females in top end occupations has also stalled. For middle and lower paid



**Benjamin Sand**  
(York University)

occupations, the wage and employment patterns in Ontario are somewhat similar to those in the US. That is, there is declining wages and employment in middle paying occupations such as those in manufacturing, and increasing employment but declining wages in the service occupations at the bottom of the wage distribution. In the West, in contrast, wages increased in all occupations after 2000 and employment rose in good paying blue collar jobs. Thus, the researchers argue that Canada has experienced some of the same technology effects as in the US but that the resource boom has moderated the negative part of those effects. In the end, while Canada is experiencing some of the same effects of technological change on the labour market, the combination of the resource boom and government spending has meant that Canada's version of those effects has been much less harsh.

### Endnotes

[Labour Market Matters](#) is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by the Social Science and Humanities Research Council of Canada (SSHRC) under its Strategic Research Clusters program. Opinions expressed in this publication do not necessarily reflect the views of the SSHRC. Articles in *Labour Market Matters* are written by Vivian Tran - Knowledge Transfer Officer, CLSRN, in collaboration with the researchers whose works are represented. For further inquiries about *Labour Market Matters* or the CLSRN, please visit the CLSRN Website at: <http://www.clsrn.econ.ubc.ca> or contact Vivian Tran at: [Vivian.Tran@ubc.ca](mailto:Vivian.Tran@ubc.ca)