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**What has happened to Middle-Class
Earnings? Distributional Shifts in Earnings
in Canada, 1970-2005**

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What Has Happened to Middle-Class Earnings?

Distributional Shifts in Earnings in Canada,

1970-2005*

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Abstract

This paper examines how middle-class earnings in Canada have changed between 1970 and 2005 using Census microdata. Middle-class earnings are defined as workers' earnings between 50 and 150 percent of the median or as earnings between the 20th and 80th percentile earnings. The analysis looks at the proportion of workers ("workers' share") with middle-class earnings and the proportion of earnings ("earnings share") received by middle-class workers.

The study finds: (i) there has been a marked decline of full-time full-year middle-class workers and corresponding marked increases of higher- and lower-earning workers in the Canadian workplace; (ii) there has been an even larger shift in earnings with middle-class workers losing out to strong earnings gains of higher-earning workers; and (iii) the majority of the decline of the middle-class earnings share was due to the fall in their workers' share for male and for full-time full-year female workers.

JEL codes: J24, J31, J39

Key words: middle-class earnings, polarization of earnings, Canadian inequality.

Executive Summary

This paper examines how middle-class earnings in Canada have changed between 1970 and 2005 using Census microdata files for 1970, 1980, 1990, 2000, and 2005. Middle-class earnings are defined alternatively as workers' earnings between 50 percent and 150 percent of median earnings levels or as the earnings of workers between the 20th and 80th percentile earnings levels of the distribution of workers' earnings in the Canadian workplace. The analysis of the paper looks at the proportion of workers – or “workers' share” – with middle-class earnings levels (as well as those with lower and higher earnings levels), the proportion of total workplace earnings receipts – or “earnings share” – received by middle-class workers (as well as by the lower- and higher-earnings groups), and the extent to which changes in earnings shares of these groups are due to changes in the workers' shares of these groups and to changes in the relative earnings levels of these different groups. The analysis is done for workers as a whole and for male and female workers separately, and for three alternative samples of workers – All Workers, Prime Age workers, and Full-Time Full-Year (FTFY) workers.

The study documents three major empirical findings. First, among male workers and among Full-Time Full-Year female workers there has been a big shift of workers in the Canadian workplace, with a marked decline of workers receiving middle-class earnings and corresponding marked increases of workers receiving higher and lower levels of earnings in the economy. For example, among FTFY workers, the proportion of male middle-class earners fell by 11.6 percentage points (from 74.3 to 62.8 percent), and the proportion of female middle-class earners declined by 13.5 points (from 76.5 to 63.1 percent) between 1970 and 2005. The proportion of higher earners, however, went up by 3.4 percentage points for males and by 4.9 points for female FTFY workers, while the proportion of lower FTFY earners increased by 5.1 percentage points

for male and by 5.7 points for female workers. The decline of the middle-class workers' share and the rise in the share of lower earners have occurred largely since the 1971 Census, while the increase in the upper-earners' workers' share dates from the 1981 Census.

Second, there has been an even larger shift in earnings receipts among workers in Canada, with again middle-class workers losing out to the strong earnings gains of higher-earnings workers for males and for Full-Time Full-Year female workers in the Canadian workplace. Not much change has occurred in the earnings share of lower-earning workers. For example, for FTFY middle-class workers within 50 percent of the median, their share of total workplace earnings for males fell by 16.9 percentage points (from 64.2 to 47.3 percent) and for female earners fell by 17.8 points (from 69.3 to 51.5 percent) between 1970 and 2005. The corresponding earnings shares of FTFY higher-earning workers, however, went up by 13.5 percentage points for males and by 13.6 points for female workers. Again, the shift of earnings from middle-class workers to higher-earning workers began with the 1981 Census data.

Third, 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 due 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. Changes in relative mean earnings levels of these earnings groups contributed to these dramatic shifts in earnings shares, but were not the leading source of the changes. Most of the decline in relative mean earnings for middle-class workers and most of the increase in relative mean earnings for higher earners occurred between 2000 and 2005.