

COMMENT on this column about the "phony crisis of the middle class"

- 1) Trudeau gives a speech in which the "middle class" is mentioned 11 times but never defined, other than by mentioning a two-parent family with children with both parents employed.
- 2) In a Maclean's blog Stephen Gordon provides the median income trend for that one particular demographic group. Other than referring to Trudeau's use of the term "middle class" for this one group, Gordon does not use the term middle class or claim this group represents the middle class or a middle class trend.
- 3) M. Wente, like Trudeau, does not define what she means by the "middle class," but claims, citing Stephen Gordon, that "real income for middle-income families has increased by about 30 per cent since 1997." Gordon was very clear that his data was only for Trudeau's one demographic, not for all "middle-income families."
- 4) See attached chart. Stats Can provides the median income trend for about 35 demographic groups (the data source used by Stephen Gordon). The one demographic group M Wente uses for the entire "middle class" is among the groups doing the best.
- 5) Real median income for "all family units" has not changed much since 1976, remaining at about \$50,000 (constant 2011 dollars).
- 6) I have inserted some notes in the text below, with final comments at the bottom of page 2.

February 27, 2014

The phony crisis of the middle class

By Margaret Wente

Justin Trudeau's convention tale contains an irresistible political message, even if it isn't true

The middle class is in trouble. Everybody knows it. Especially Justin Trudeau.

At last weekend's Liberal convention, he led off his speech with a promise to address "the historic decline of the middle class." He invoked a nation of Canadians "strangled by their debt," with "no savings for retirement." As an example, the Liberal Leader presented a fictional middle-class mom named Nathalie, who, along with her husband, makes \$80,000 a year. She works hard and presumably plays by the rules. As Nathalie sits in traffic on Montreal's crumbling Champlain Bridge, she wonders about her family's future.

Mr. Trudeau warned that our social contract is in trouble, because too many people are being shut out of a fair chance at prosperity. "That's not a political point," he said. "It's a fact."

So here's another fact. Nathalie and her family have actually done okay. As Laval University professor Stephen Gordon points out¹ on his excellent blog for Maclean's, real income for middle-income families has increased by about 30 per cent since 1997. In the five years since 2006 – including the recession years – it went up by 10 per cent. Wente misquotes Gordon here. "Statistics Canada's estimates for the median income of a two-parent family with children and in which both parents work." Gordon provides data on this very well-off subset of "middle-income families."

Wente applies Gordon's specialized subset of data to all "middle-income families."
The cliché of the collapsing middle class has been hammered so hard into our anxious brains that virtually everyone believes it. And maybe the middle class will start collapsing any day now. But it hasn't yet. Problem: who or what is this "middle class" that is or is not 'collapsing'? Without a definition she -- anyone -- can claim anything. Also, Gordon does not refer to or apply his data to the "middle-class." He only mentions the term at the start -- referring to Trudeau's speech.
On Tuesday, Statistics Canada released its first comprehensive report² on family finances since the beginning of the recession. It found that median net worth for Canadian family units reached a record high of \$243,800 in 2012 – 44.5 per cent higher than seven years before. These families experienced the largest percentage gain in net worth of any income group. Net worth estimates are interesting but referring to them in the context of a declining "middle-class" is changing the subject. Net worth is not annual income. The fact that the middle income group is smaller today than in the past refers to income polarization which is very well documented (see Walks 2013).

The study also looked at how the wealth was spread around. In 2012, the wealthiest 20 per cent of families held 67.4 per cent of all the net worth. But their share was less than it was in 2005, when they held 69.2 per cent. Their median net worth was \$1.38-million – up 40.6 per cent from 2005, less than the median.

So what about that crushing debt? In fact, debt loads are up only slightly since 1999. Mortgage debt is higher, but house values are too. About 40 per cent of families carried an outstanding balance on their credit cards in 2012 (the same proportion as in 1999) and the median amount they owed was a not-so-crushing \$3,000. The median student debt was \$10,000, lower than in 2005. Seniors had the lowest debt by far of all age groups.

There's more good news for Nathalie. When she trades in her old clunker, she'll find widespread free financing for her new car. Tuition is not as bad as it's made out to be, either, especially in Quebec, where more than 100,000

This is a switch from talking about income polarization (more Canadians in the bottom and in the top income groups -- with a smaller middle group) to income inequality (the growing gap between rich and poor).
↓ university students receive generous grants. (Thanks to HESA's Alex Usher for this observation³.)

But wait! What about rising inequality? The truth is that since 2000, almost every income group in Canada has gotten richer, while the people at the very top have gotten filthy rich. Is this a problem? You decide. Meantime, this being Canada, "rich" means something different than it does in the United States. In Canada, individuals who earned \$80,400 in 2010 were⁴ in the top 10 per cent of all income earners, and those who earned \$191,100 qualified as one-per-centers. So if you believe we ought to soak the rich, consider that this could mean you.

In a wealthy country we would expect "almost every income group" to be better off in periods of prosperity.

There is, however, one group of Canadians that really is doing worse: lower-income, lower-educated men. Their job prospects have dwindled dramatically, and their net worth is zilch to negative. On top of that, they make poor marriage material and women can increasingly get along without them. But these guys weren't at the Liberal convention. They're not half as sympathetic as Nathalie. And no one is going to get elected by promising to rescue them, especially if that might involve the redistribution of middle-class entitlements.

The crisis of the middle class is an irresistible political message, even if it isn't true. And if the facts don't fit the narrative, ~~good politicians~~ change the facts. Wente has carefully selected a few facts, none of them relevant to whether income polarization is taking place in Canada (the growth or decline of the middle income group). She misrepresents a fact from Prof. Gordon's blog. But Gordon was not using that data to refer to whether or not income polarization is happening. He was only pointing to a serious problem with Trudeau's selected demographic group in terms of the argument he (Trudeau) was making.

~~some columnists~~ distort, misquote, carefully select

References

1. www2.macleans.ca/2014/02/24/a-short-history-of-natha
2. www.statcan.gc.ca/daily-quotidien/140225/dq140225b-
3. higherstrategy.com/free-university-and-we-dont-even
4. www.statcan.gc.ca/daily-quotidien/130911/dq130911a-

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The final big problem here, ...

Income inequality and income polarization are not and cannot be measured by the trend in median or average income for any population group.

Income inequality measures the gap between the income of the highest income group in a selected range to the lowest income group in that range.

Income polarization measures the growth or decline of the high and low income poles on the income spectrum, which in turn defines whether the middle income group is expanding or contracting.

Income Inequality and Polarization in Canada's Cities:
An Examination and New Form of Measurement, by Alan Walks

"The findings show that Canadian metropolitan areas have trended toward greater inequality and polarization over the period 1970 through 2005, regardless of the index being used, although the trajectories of inequality and polarization show some distinct patterns among metropolitan areas. Inequality and polarization are occurring among all households, among neighbourhoods, and among municipalities." Walks, 2013, p. iii.

<http://neighbourhoodchange.ca/2014/03/13/income-inequality-polarization-walks-2013/>

Median After-Tax Incomes by Economic Family Type, Constant 2011 Dollars, Canada 1976-2011

