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THE RISE OF CANADA'S RICHEST 1%

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Executive Summary

THIS GENERATION OF RICH CANADIANS is staking claim to a larger share of economic growth than any generation that has preceded it in recorded history. An examination of income trends over the past 90 years reveals that incomes are as concentrated in the hands of the richest 1% today as they were in the Roaring Twenties. And even then, the Canada's elite didn't experience as rapid a growth in their income share as has occurred in the past 20 years.

Canada's richest 1%[1] — the 246,000 privileged few whose average income is $405,000 — took almost a third (32%) of all growth in incomes in the fastest growing decade in this generation, 1997 to 2007.

Think that's normal? The last time the economy grew so fast was in the 1950s and 60s, when the richest 1% of Canadians took only 8% of all income growth.

The richest 1% took almost a third of all growth in one of the slowest growing decades in recent history too, 1987 to 1997. This eclipses anything seen before in Canadian history, including the share of gains eaten up by the richest 1% in the Roaring Twenties.

This is the result of a stunning reversal of long-term trends, from steady increases in equality during the post-war years to growing inequality over the past generation, in good times and bad.

From the beginning of the Second World War to 1977, the income share of the richest 1% was cut almost in half, from 14% to 7.7%, as the gains from growth led to more people working and better paid jobs.

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1 There were 24.6 million taxfilers in Canada in 2007. The richest 1% made more than $169,000 and had an average income of $404,000. The richest 0.1% made more than $621,000 and had an average income of $1.49 million. The richest 0.01% made more than $1.85 million and had an average income of $3.83 million.

But by 2007 we were right back where we started: the richest 1% held 13.8% of incomes in Canada, and the trend-lines show no sign of leveling off.

The data show the higher up the income ladder you climb, the faster the rise of the rich. The richest 1% has seen its share of total income double, the richest 0.1% has seen its share almost triple, and the richest 0.01% has seen its share more than *quintuple* since the late 1970s.

Canada's elite are breaking new frontiers in income inequality.

WHAT IS DRIVING THIS TREND?

Surprisingly, the incomes of the richest Canadians are increasingly reliant on their jobs, just like the rest of us. That's a big change from the past.

In 1946, just after the end of the Second World War, their paycheques accounted for less than half their income (45.5%). Today over two-thirds of their incomes (67.6%) come from wages, with the balance mostly coming from professional fees, dividends, interest and investment income.

In fact, the richest 0.01% rely on their jobs for almost three-quarters of their income (73.5%), just like the average Canadian. The difference is their work is much more richly rewarded.

The richest 1% is increasingly like the average Canadian in another regard too: reliance on business income. In 1946, 24.3% of the incomes of the richest 1% came from running a business. That dropped to 3.1% in 2007 — the very same as for the average Canadian.

The tax system is playing a different role too. In 1948, the top marginal tax rate was 80%, on taxable incomes over $250,000, which would be $2.37 million in today's dollars. Not many Canadians fall into that category — nor did they back then — but those who have that kind of income get taxed at half the rate they would have in the past. The top tax rate in 2009, averaged across Canada, was 42.9% for incomes above $126,264. The last time the richest Canadians were taxed at this level was in the 1920s.

Combine record-breaking growth in incomes with historically low top tax rates, and the richest 1% is taking a bigger piece of the economic pie today than at any time in the past century.

The report also touches on the concentration of wealth, but 2005 was the last time Statistics Canada examined the distribution of wealth in Canada, a study it has no plans to repeat. A recent private sector study shows that by the end of 2009, 3.8% of Canadian households controlled $1.78 trillion dollars of financial wealth, or 67% of the total.

Like the Gilded Age a century ago, Canada is awash in money generated by an emerging new global economy. But during both slow and rapid periods of growth, incomes have increasingly become concentrated in the hands of the elite few rather than creating greater prosperity for all.

The excesses of the 1920s resulted in a collapse and triggered, in response, a new wave of public policy, one that helped redistribute prosperity through fair taxation and fair wages. In time, the response to this latest wave of excess may very well be the same.

Introduction

ALMOST EXACTLY A HUNDRED YEARS AGO, the Gilded Age that defined the height of American opulence came to an end. The era of robber barons and extravagant tycoons rose from the ashes of the American Civil War, which ended in 1865. During the following half-century, industrialization and global commerce expanded in great leaps and bounds, propelled by advances in transportation and communications.

For the first time, the good life was no longer the exclusive playground of the aristocracy. In this new land of opportunity a plucky immigrant, gold panner, country bumpkin or small-time entrepreneur could strike it rich. Trouble was that for every Horatio Alger, millions of people were struggling to survive. Despite a society awash in money, the majority found themselves on the outside of the Gilded Age looking in.

It was an era known for its wild excesses, overt exploitation and increasingly volatile markets. It was also known for its unfolding promise of modernity, rich with unprecedented technological potential and personal freedom. Both sides of the Gilded Age gave rise to a growing wave of social unrest and reform movements, both religious and secular. The anarchist movement arose out of this tempestuous period, but was vastly eclipsed by the movement of those seeking to improve society through structural and institutional change. At the heart of these reform movements was the pursuit of greater individual and social progress. The product of the Gilded Age was the Progressive Era and the New Deal, and the quest for greater equality.

Writing in the 1950s, economist Simon Kuznets traced the relationship between economic growth and income inequality over time, noting that the trajectory of development looked like an inverted U-shaped curve.[2] Using historical data from a handful of rapidly industrializing nations, he showed a consistent trend: inequality rose initially, then declined, starting as early as 1880 in Britain. The facts and the theory pointed to one promising conclusion: prosperity for the majority, if not all, was possible given sufficient economic development.

By the end of the 20th century, two economists, Emmanuel Saez and Thomas Piketty, stood Kuznet's theory on its head.[3] They showed a stark reversal of developments in the U.S. between 1913 and 1998. Emmanuel Saez and Michael Veall showed similar results in both Canada and the U.S., showing how long-term trends toward greater income equality were reversed after 1980.[4]

Some have dubbed this phenomenon the Great U-Turn: a flip from decades of steady declines in income inequality to its opposite: a steady increase in inequality, in good times and bad. Economic growth no longer paved the path to widespread prosperity. But for a select few, good times never seemed so good. Incomes of the very rich have doubled and tripled while they flat-lined for the majority, which has also been squeezed by rising costs and worsening household debt. Whether the economy grew or faltered, the rise of the rich has been unstoppable. Welcome to Canada's neo-gilded age.

2 Simon Kuznets, "Economic Growth and Income Inequality", *American Economic Review,* 1955, *45* (1), pp.1–28.

3 Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913–1998", Quarterly Journal of Economics, 2003, 118(1), pp. 1–39.

4 Emmanuel Saez and Michael Veall, "The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence", *American Economic Review*, 2005, *95*(3), pp. 831–849. It reviewed trends in high income from 1920 to 2000 in Canada and compared to the U.S., based on tax data going back to 1920.

Who Gains from Growth?

FOR DECADES, THE KUZNETS THEORY gave heft to the aphorism "a rising tide lifts all boats". But in recent decades, no such phenomenon has occurred — the gains from growth have become more unevenly distributed. Inflation-adjusted data from Saez and Veall's 2005 study shows those at the top always did better than those in the middle. But, on average, incomes in Canada barely grew over the course of a generation, making the gains for the richest 1% look more extravagant than ever.[5]

The original Saez and Veall data set ended in 2000, when Canada's surge in economic growth had really just taken hold. Through other data sources we know that between 1997 and 2007 Canada was a job juggernaut, creating more employment than any other G7 nation. The 1980s and 1990s were decades plagued by two recessions and long periods of jobless recovery.

Updating the data post-2000 could show that the trajectory traced by Saez and Veall was an aberration, the unhappy result of slow and uneven growth, but updated and unpublished data from Michael Veall [6] reveal that isn't the case. Much like in the Gilded Age, the richest 1% of Canadians harvested the lion's share of financial gains from both

5 Unless otherwise noted, all graphics and tables in this document are drawn from or calculated from data provided in the tables which supported the Saez and Veall (2005) study, covering the period 1920 to 2000; and the updated, unpublished Canadian data provided by Veall, which run from 1982 to 2007. All data are drawn from tax files.

6 In April 2009 Emmanuel Saez released US results updated to 2007. Michael Veall presented his unpublished updates for Canada at the Canadian Economic Association Annual Meetings in Québec City, Québec on May 29, 2010, and has kindly made the data available. The data are based on a 20% sample of tax files, the LAD data base (Longitudinal Administrative Data) of Statistics Canada. This data set runs from 1982 to 2007. The methodology has changed but the results for the overlapping years are similar.

CHART 1 **Compared to Earlier Era, Growth in Average Incomes Has Collapsed, While Incomes at the Top Continue to Soar**

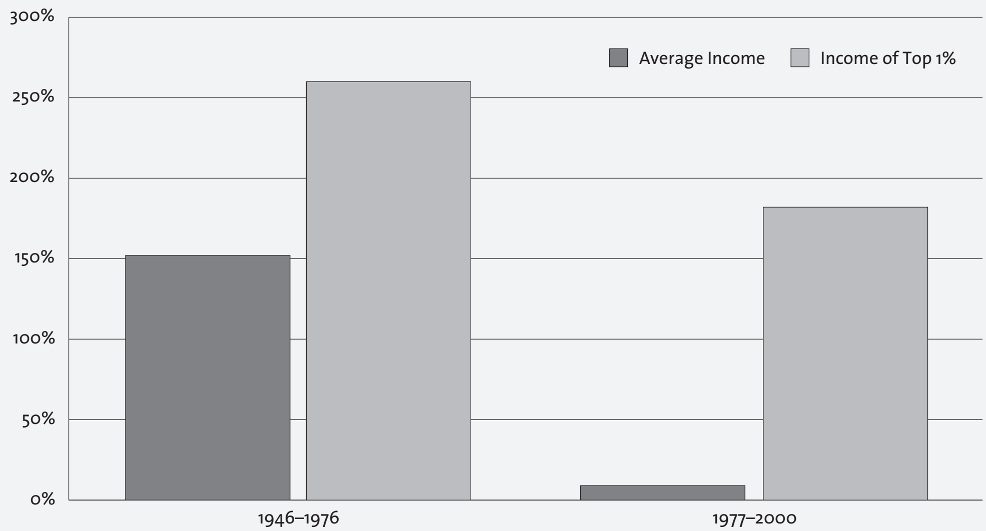
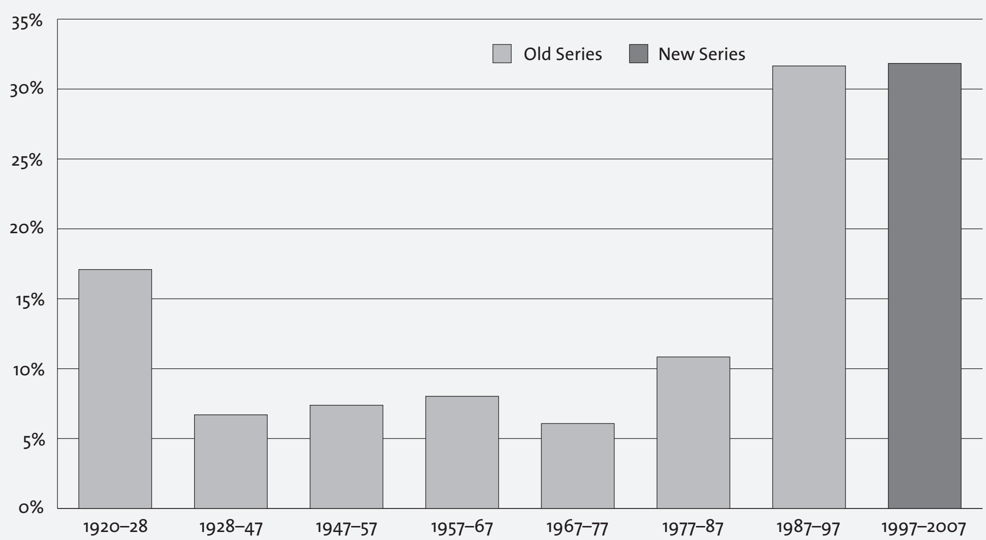


CHART 2 **Share of Income Gains Captured by Top 1%** Canada, 1920–2007



robust and weak economic growth. Between 1997 and 2007, just before the global economic meltdown quelled Canada's roaring economy, the richest 1% of Canadians — the 246,000 privileged few who took home $169,300 or more — had laid claim to almost a third (31.8%) of the decade's growth in total income. It was not always this way. From the late-1950s to the late-1960s, a similar period of strong and sustained growth, the richest 1% of Canadians only took 8% of the growth in total income. Nothing in the course of the previous century resembles what has occurred in the last generation.

The Great U-Turn: Reversing The Trend Toward Greater Equality

THE CHARTS THAT FOLLOW reveal a clear pattern emerging over time, which becomes more accentuated higher up the income ladder. This pattern has been dubbed the Great U-Turn of our time, reversing the trend toward greater equality that characterized most of the 20th century.

The 1920s and 1930s: Boom Times or Tough Times, Rising Inequality

The share of income held by Canada's elite dropped in the early-1920s because other people started making big gains in their incomes. Industrialization took hold and the population of waged labourers grew. Mass migration from country to city saw more Canadians earning more than they had when their livelihood depended upon agriculture. By 1925, these trends reversed. The share of income held by the top 1% rose, first because Prairie droughts triggered an economic slowdown, then because of the stock market crash in 1929. That trend continued through the Great Depression, as unemployment soared.

World War II and Post-War Growth: The Great Equalization

The richest Canadians saw a dramatic drop in their income (both before- and after-tax) during the Second World War (1939 to 1945). From 1946 to the end of the 1970s, as mass consumption of private and public goods expanded and more women joined the workforce, Canadians experienced growth both in the share of the population that was employed and in unionization. The migration from country to city continued, and the majority of Canadians saw a rapid rise in income during this period. The clear and consistent trend over these decades was towards greater equality.

Post-1980: The Neo-Gilded Age

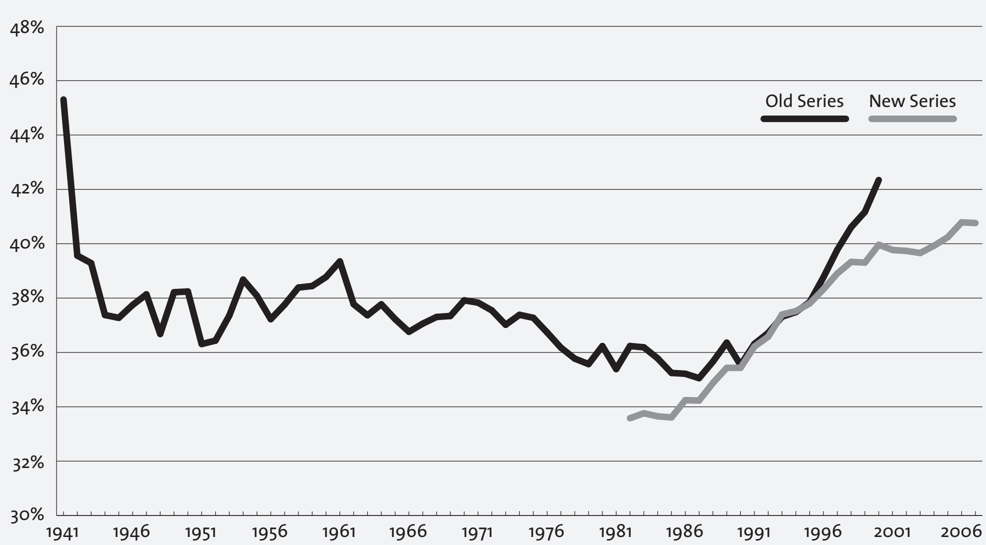
Two profound recessions in as many decades displaced millions of workers and put huge downward pressure on the wages of the majority. By the mid-1990s, Canada's place in the global supply chain had grown more important and the economy entered a decade of unbroken growth, even as the strength of the manufacturing sector faltered. This sustained expansion was unlike anything Canada had experienced since the 1960s. However, in comparison to the 1960s, the benefits of growth were not as broadly shared. The share of income accrued by the richest Canadians grew at a faster rate than any recorded period in our history.

The following charts reveal the shares of income enjoyed by Canada's richest 10%, richest 1%, richest 0.1% and richest 0.01% since 1920. The higher up the income spectrum, the more striking the U pattern. The shares of income going to the richest Canadians now resembles patterns last seen at the end of the Second World War, and even earlier for those at the very top of the income ladder. In fact, the richest 0.01% is taking home a bigger piece of the economic pie than at any time in the past century.

SHARES OF INCOME FOR THE RICHEST 10% OF CANADIANS

Who falls into the richest 10%? If you made more than $63,350 in 2007, you made more than 90% of Canadian taxfilers. Nearly 2.5 million Canadians fell into this category. The richest 10% of Canadian tax-filers accounted for 41% of the nation's

CHART 3 **Share of Total Income, Richest 10%** Canada, 1941–2007



$970 billion in total pre-tax income.[7] The richest 10% hasn't held such a large share of total income at any time since the Second World War, which is as far back as the historical tax data go for this group.[8]

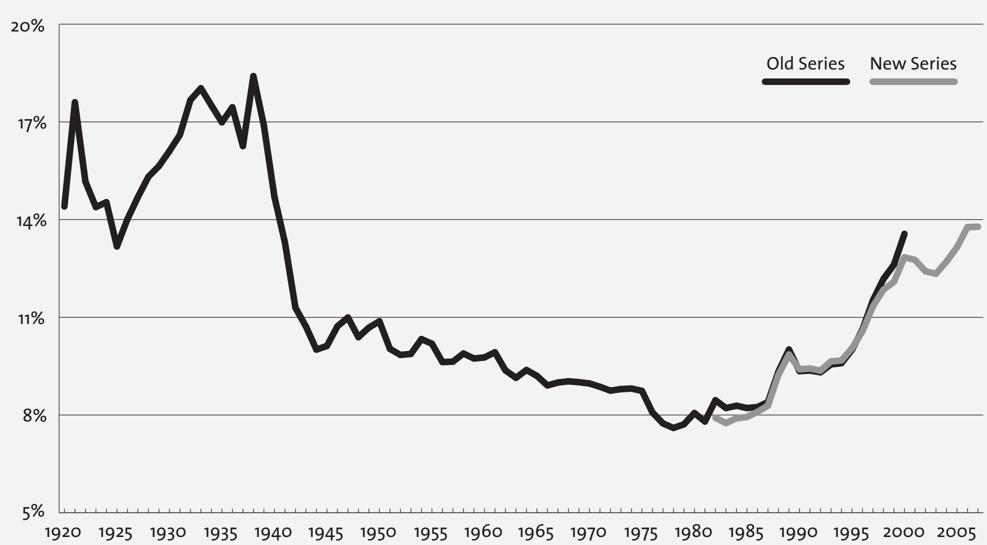
SHARE OF INCOME FOR THE RICHEST 1%

In 2007, a Canadian in the richest 1% of tax filers made a minimum of $169,300. The average income of this class was $404,500.

Tax records for Canada's richest 1% go back to 1920. They show that the top 1% of tax filers increased their share of total income from the mid-1920s to the mid-1930s. It only declined after Canada went to war.

From the beginning of the Second World War to 1977, the income share of the richest 1% was almost cut in half, falling from 14% in 1941 to 7.7% in 1977. Then that trend, which had been going on for decades, stopped and reversed direction.

CHART 4 **Share of Total Income, Richest 1%** Canada, 1920–2007



7 Total income is sourced from Revenue Canada's Income Statistics for 2007. Most of this income is employment related (almost $660 billion). The figure provided does not include $24.8 billion in taxable capital gains in 2007. Capital gains were not taxed before 1972. Therefore this long-trend historical analysis of income, based on tax data going back to 1920, excludes capital gains. Market income includes wages, salaries, commissions, earnings from self-employment, dividends, interest income, rental income, pensions, EI benefits, withdrawals from registered pensions and savings. There were 24.6 million tax filers in 2007.

8 Later charts in this report go back to 1920. These charts plot data from the Saez and Veall paper, running 1920 to 2000, and the Veall updated series, from 1982 to 2007, showing the overlaps and differences between the two series. Data from 1920 to 2000 were based on histograms, collapsing available tax records into tax brackets. Until the past few decades, tax data did not entirely capture trends at the very bottom of the income spectrum, as many people simply did not earn enough to warrant filing a return. With changes in transfer and tax policy, more people now file. Data since 1982 is based on a 20% sample of Canadian tax records.

The share of all income going to the richest 1% almost doubled between 1982 and 2007, rising from 7.9% to 13.8%.

By 2007, the 246,000 Canadians lucky enough to be among the richest 1% claimed a bigger piece of the income pie than at any time since 1941.

SHARES OF INCOME FOR THE RICHEST 0.1%

The higher up the income scale, the more dramatic the gains.

The richest 0.1% of tax filers includes 24,600 Canadians who have a minimum income of $621,300 and an average income of $1.49 million.

The share of total income held by the richest 0.1% of tax filers was cut from roughly 6% to less than 2% between the 1940s and the 1970s. Then the trend reversed itself.

By 2007, the richest 0.1% of Canadians held 5.5% of total income in Canada, more than double their share in early-1980s. You would have to go back to the Roaring Twenties to see a comparable phenomenon.

CHART 5 **Share of Total Income, Richest 0.1%** Canada, 1920–2007

SHARES OF INCOME FOR THE RICHEST 0.01%

In 2007, the richest 0.01% of Canadians made a minimum of $1.845 million. The average income of the 2,500 people in this rarified group was $3.833 million.

The share of total income held by Canada's elite (the richest 0.01%) remained remarkably constant throughout the Roaring Twenties and Dirty Thirties, roughly 1.8% of the total. But after the war broke out, their share of total income fell dramatically, dropping to 0.5% or less by the mid-1960s and staying at those levels right until the end of the 1970s.

What happened next was shocking, by any measure. Between the mid-1970s and 2007 the share of income accruing to the richest 0.01% Canadians *more than quintupled.*

The updated series starts in 1982, when the richest 0.01% of Canadians had incomes of no less than $640,000. The average income of this group was $1.172 million in 1982. As noted, minimum income of the richest 0.01% had risen to $1.85 million by 2007 and the average income had soared to more than $3.8 million. No other category has seen incomes grow at such an explosive pace.

By 2007, the richest 0.01% laid claim to 2.6% of total income in Canada, a larger share than at any time on record.

CHART 6 **Share of Total Income, Richest 0.01%** Canada, 1920–2007

INCLUDING CAPITAL GAINS

Until now, historic analyses of income trends did not include capital gains because prior to 1972 capital gains were not taxable in Canada, and so were excluded from the tax database used to follow the long-term evolution of incomes.

Veall's recent updates for Canada run from 1982 to 2007, permitting a first-ever look at how the inclusion of capital gains affects long-term changes in incomes.

The U-turn patterns are virtually the same as those described earlier, but adding capital gains to the mix slightly increases the shares of total income going to those at the top.

By including capital gains we can see that by 2007, the richest 10% of Canadians held 42.5% of all income generated by the market (compared to 41% when capital gains excluded). This is up from 34% in 1982 (33.6% excluding capital gains).

TABLE 1 Shares of Total Income Going to the Top, With and Without Capital Gains
Canada, 1982 and 2007

	Top 10%	Top 5%	Top 1%	Top 0.5%	Top 0.1%	Top 0.01%
Groups ranked by income including full Capital Gains						
1982	34.0	21.7	8.3	5.7	2.5	1.1
2007	42.5	30.6	15.7	12.0	6.5	3.1
Groups ranked by income excluding Capital Gains						
1982	33.7	21.5	8.1	5.5	2.4	1.0
2007	41.2	29.3	14.5	11.0	5.9	2.7
Growth in Share of Income from 1982 to 2007						
With capital gains	8.6	8.8	7.3	6.3	4.0	2.0
Without capital gains	7.5	7.8	6.4	5.5	3.5	1.7
Difference	1.0	1.0	0.9	0.8	0.5	0.3

Table 1 makes it clear that most of the change is being driven by the richest 5% of earners. It also makes clear: capital gains are not the cause of surging incomes at the top.

Richer Canadians are more likely to have capital gains. According to Revenue Canada's tax statistics[9], capital gains accounted for 10.4% of the total income assessed among tax filers with incomes of $250,000 or more in 2007, compared with 0.85% for those with incomes between $40,000 and $45,000. The average income of Canada's 26.4 million tax filers in 2007 was $40,400, before deductions and taxes.

But the Veall data suggest that, as a source of income, capital gains are not appreciably more important for the richest Canadians than they have been over the past 25 years, despite the colossal growth in asset value seen over the past generation.

Higher rates of pay for Canada's richest driving trends

There are many differences between the lifestyles of the rich and the rest of us, but over the decades we have developed this in common: wages are the primary source of income for all Canadians; we earn our money by working for someone else. That's a big switch for the rich.

Historically, Canada's richest citizens relied heavily on unearned income such as returns from their investments in stocks and bonds, and rents from their real estate holdings. In 1946, just after the Second World War ended, less than half the income of the richest 1% of Canadians came from pay cheques. Wages accounted for 45.5% of their incomes and a further 10% came from professional fees (for the doctors, law-

9 http://www.cra-arc.gc.ca/gncy/stts/gb07/pst/fnl/tbls-eng.html

TABLE 2 **Changing Sources of Income For the Rich and the Rest of Us**

	Top 1% in 1946	Top 1% in 2007	Average Taxfiler in 2007	Top 0.1% in 2007	Top 0.01% in 2007
Wages	45.5%	67.6%	73.5%	70.8%	73.7%
Professional Fees	10.1%	9.8%	2.2%	5.3%	1.3%
Business Income	24.3%	3.1%	3.0%	2.1%	2.4%
Dividends	8.7%	9.6%	3.6%	12.4%	14.5%
Interest Income	4.3%	3.4%	3.8%	3.8%	3.4%
Investment Income	7.2%	6.5%	4.0%	5.5%	4.7%

yers, etc. in this group). Higher up the income ladder, rental incomes and dividends were increasingly important sources of income.

Today the income of the richest 1% is due mostly to the lavish sums they are paid for the work they do. They also enjoy additional rewards and extras that the majority of workers don't: bonuses, stock options and other compensation received by bosses, bankers, inventors, athletes and artists. They're basically doing the same job that bosses, bankers, inventors, athletes and artists have always done in Canada. They just get treated as more of a rare breed than ever.

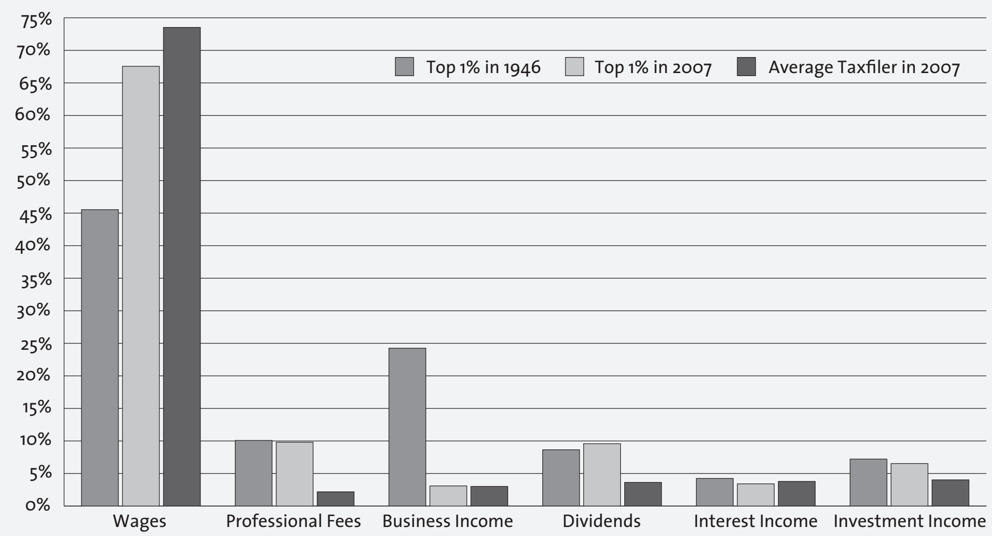
By 2007, wages provided more than two-thirds of all income for the richest 1% of Canadians, (67.6%), and even more for those higher up the income ladder. Professional fees, dividends, and interest income were roughly the same as two generations ago for those in the top 1%.

Apart from the growing importance of employment, the most striking difference between 1946 and 2007 was that only 3.1% of incomes for those at the top came from their businesses, compared to 24.3% in 1946. Few of those at the very top are entre preneurs any more, it would seem. Or perhaps they've just figured out new ways of channeling business incomes.

The data show that the rich today are just as reliant on wages as their primary source of income as the average Canadian. But they are more likely to be handsomely rewarded for the hours they put in. In 2007, almost three-quarters (73.5%) of all income received by Canada's 26.4 million tax filers came from their wages. This is virtually identical to Canada's richest 0.01%, for whom 73.7% of their income came from their wages.

Today as before, the richest Canadians received far more income from professional fees, dividends and returns on investment than the average Canadian. However, only 3% of total incomes for the richest 1% of Canadians comes from business revenues, which is exactly the same proportion as for the average Canadian. The super rich were less likely than the majority of Canadians to rely on business income (only 2.4% of their total income was business income).

CHART 7 **Major Sources of Income, Then and Now**



The main reason the rich are getting richer is how much they are getting paid. The flip side is how much they are getting taxed. Here, too, the trends make clear: this generation of affluent Canadians has both made more cash and has kept more of it than any generation since the 1920s.

MAKE THAT A DOUBLE: LOWER RATES OF TAXATION FOR THE RICHEST

Canada's pre-tax distribution of income is getting more concentrated at the top and taxes are not mitigating those results as they once did.

Marginal tax rates have fallen dramatically over the past half-century for Canada's richest. In 1948, the top marginal tax rate levied on taxable incomes over $250,000 (in 1948 dollars) was 80%. In 2009, the top marginal rate levied on income was 42.92%, averaged across all provinces — and it applied to all incomes over $126,264.[10] The top marginal tax rate varies from province to province.

An income of $126,264 today compares to an income of about $13,000[11] in 1948 dollars. In 1948, the tax rate on incomes over $13,000 was 45%. There were also seven more federal tax brackets that kicked in as incomes rose above $13,000, with escalating rates of taxation. In all there were 19 tax brackets in Canada in 1948.

10 Until 1972, income tax was levied only by the federal government. Incomes referenced are all taxable incomes, i.e. after deductions and credits. After 1972 provincial taxes were levied as a percentage of the federal tax. The federal tax structure is designed around an assumed provincial tax rate, which accounts for and synthesizes variations across the country. The combined federal/provincial marginal tax rate is provided by the Canadian Tax Foundation, Table 3.5 in the 2009 edition of *Finances of the Nation*. In 2009 the top federal marginal tax rate was 29%.

11 Using the Bank of Canada inflation calculator.

The top tax bracket of $250,000 in 1948 would translate to $2.37 million today. That means 80% of incomes above that amount would have been taxed back in 1948. Not many Canadians fall into that category, but those who do get taxed at half the rate that they would have in the past.

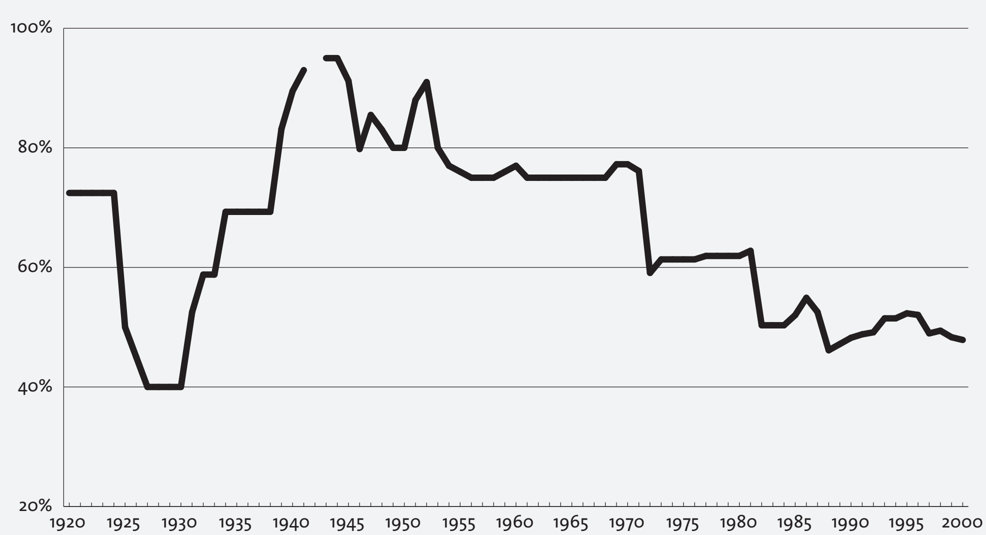
All income tax systems come with surtaxes and credits or deductions; and since 1972 both federal and provincial governments apply income taxes. The Saez-Veall data show trends from 1920 to 2000 in the top marginal tax rate, taking these different factors into account.

Since each jurisdiction has a different tax structure (number of tax brackets, surtaxes and exemptions) the Saez-Veall data chose to track Ontario only, as an example of trends in top marginal tax rates. As mentioned, the top tax rate is triggered for incomes over $126,264. Revenue Canada's tax statistics show that almost two-thirds (63%) of Canadians making more than $150,000 live in Ontario and Alberta (42% in Ontario). The top marginal tax rate is even lower in Alberta.

Graphing their findings provides a striking image, one that evokes the U-turn of falling, then rising, income shares for the richest Ontarians — but upside down. The top marginal rates of taxation start off high in the 1920s, drop sharply over the course of the 1920s, spike up to cover first the costs of the Depression years, then the Second World War, and decline thereafter, with two important drops in the early-1970s and the early-1980s.

These data end in 2000, just when a big wave of tax cuts started to wash over every jurisdiction in Canada. At the federal level alone, over $100 billion in personal and corporate tax cuts were implemented over 5 years, starting in 2000. A further $220 billion in federal tax cuts have been implemented or scheduled since 2006. In addition, virtually every province has reduced personal income taxes since the mid-1990s.

CHART 8 Top Marginal Tax Rate Ontario, 1920–2000



Note: 1942 omitted due to change in accounting basis[12]

It's worth noting that, already by 2000, the top marginal tax rates were approaching levels last seen at the height of the Roaring Twenties. In the coming months, the Saez-Veall tax-related data will be updated to 2008. It is expected these data will show that top marginal rates will be at levels lower than at any time in recorded history.

LIFE IS LESS TAXING… FOR THE RICHEST 1%

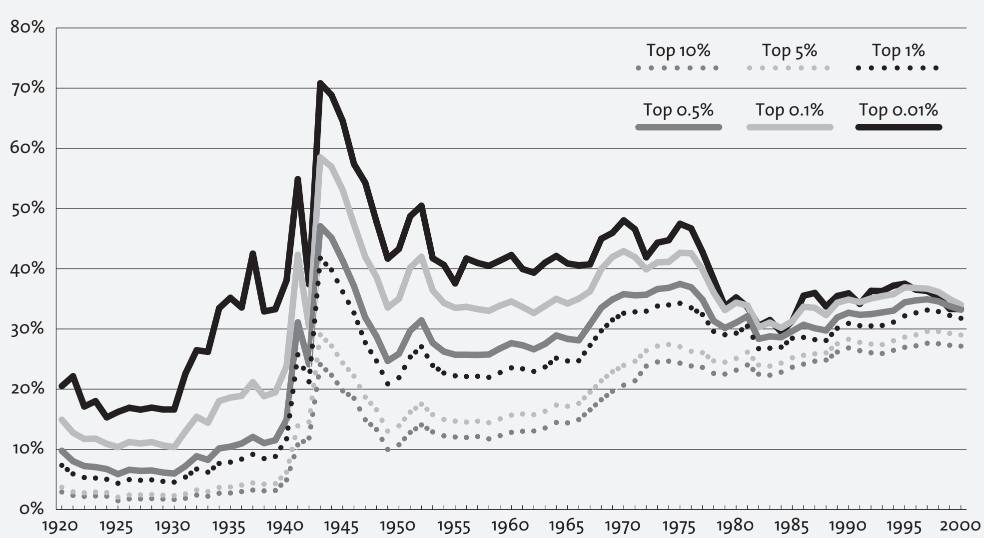
Chart 9 shows average tax rates applied to high income earners in Canada over time. These are computations of the average rate of taxation for people falling into different subgroups of the richest 10% of Canadians, irrespective of the jurisdiction in which they live, based on taxes paid.

Rates of taxation peaked in 1943, towards the end of the Second World War. At that time, the richest 0.01% of tax filers (average income of $775,000 in 2000 dollars) paid an average tax rate of 71%. By 2000, the average tax rate of the richest 0.01% stood at 33%.

A recent study examining changes in total incidence of taxes (income, payroll, consumption, property, capital gains, and corporate taxes) shows that between 1990 and 2005 the richest 1% experienced twice the reduction in taxes as the average Canadian (4% versus 2%). In fact, by 2005 the richest 1% was taxed at a slightly lower rate than the poorest 10% of taxpayers.[12]

The Saez-Veall data focus only on income taxes, but permit a comparison over a much longer period of time. They reveal that tax rates for the richest Canadians were roughly the same in 2000 as they were in the 1930s, while taxes paid by the richest 5% and richest 10% steadily rose between the early 1950s and 2000. (They have fallen

CHART 9 Average Tax Rates on High Income Earners Canada, 1920–2007



since.) Simply put, by 2000 Canada's elite were no longer shouldering as much of the cost of running a nation that rewarded them so handsomely.

Since 2000, taxes have been aggressively cut on incomes, capital gains, and money put aside in savings (easier to do for those with higher incomes). As a result, it is widely anticipated that updated data will show further significant declines in the average share of income paid in taxes for high income earners after the year 2000.

THE GREAT HOARDING: THE GROWING CONCENTRATION OF WEALTH

The share of market incomes held by Canada's richest is greater today than it has been at any time since the end of the Second World War. As an added bonus, rates of taxation for the richest Canadians have been pared back to levels of the 1930s (and even lower in some jurisdictions for the very richest), triggering dramatic reductions in their share of income going to pay tax.

Today, incomes are more concentrated in the hands of Canada's elite than they were during the 1920s or 1930s.

There is plenty of evidence the economic prosperity of the past few decades has padded the financial cushion protecting the most powerful Canadians from the economic collapse that devastated working- and middle-class households. Call it the great hoarding.

Up-to-date data on distribution of wealth from Statistics Canada isn't expected any time soon,[13] and the most recent Statistics Canada survey of how wealth was distributed in Canada was in 2005.[14] In 2005 household wealth was $4.862 trillion and there were 13.4 million households. If wealth was divided equally, each household would have a financial cushion of $364,300. According to Statistics Canada's Survey of Financial Security, about 80% of families had less than that to fall back on. In 2005, median wealth (the half way point in the distribution) was $148,400. The richest 10% held almost 60% of the total wealth in the household sector, leaving the

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13 Statistics Canada's Survey of Financial Security measures the net worth of Canadians, but hasn't been undertaken since 2005. That year, only 9,000 households were surveyed, compared to 23,000 in the previous survey, undertaken in 1999, so the sample became too small to provide a reliable estimate of trends for the top 1%. The top 10% of households saw its share of wealth rise from 51.8% in 1984, to 55.7% in 1999 to an estimated 58.2% in 2005, based on a study by René Morissette and Xuelin Zhang: *Revisiting Wealth Inequality*, published in Statistics Canada's periodical *Perspectives*, Volume 7, No. 12, December 2006. Prior to 1984, the survey had been conducted on a more regular basis — 1955, 1959, 1964, 1970, and 1977. There are currently no plans to conduct this survey again in Canada. The United States has been conducting the Survey of Consumer Finances — its survey of wealth, or net worth — through the Federal Reserve Board every three years since 1983, the latest being done in 2007.

14 "Wealth" refers to net worth — assets minus liabilities. In 2005 total assets of Canadian households stood at $5.6 trillion, while total household debt stood at $760 billion. The Survey of Financial Security is Statistics Canada's occasional survey which assesses the distribution of assets and liabilities — net worth, or wealth - by income, age, education, immigrant status and other attributes.

rest of the nation to divvy up the remaining 40%. On average, those in the bottom 20% were standing in a $7,800 debt hole in 2005.[15]

That year, 14 per cent of Canadian households owed more than they owned, including equity in their homes. Twenty-four per cent had no financial assets at all.

A recently updated annual report by the financial research institute Investor Economics identified 544,000 "high-net-worth" households in Canada as of December 31, 2009, which they said represented 3.8% of all households.[16] The report calculated that this group controlled $1.78 trillion dollars of financial wealth, 67% of the total financial wealth of Canadian households.[17]

Despite the global economic meltdown, the wealth of the nation has grown. As of the first quarter of 2010, National Accounts data shows that Canadian households had accumulated $5.9 trillion in net worth (assets minus liabilities). The largest component of this aggregate wealth is equity in one's home. There are about 15.4 million households.

Average wealth of Canadian households has grown to $383,100, primarily because of rising real estate prices. It is possible that median wealth (the half way mark in the distribution) has declined since the recession, as middle class families have taken on more debt, and it is probable that more households are in net debt positions at the bottom of the distribution.

That's because most Canadians entered the Great Recession of 2008-09 more exposed to the risks of economic downturns than at any time since the Second World War.[18] Jobless benefits are at levels last seen in the early-1940s. Savings rates haven't been this low since the late-1930s. Household debt has never been higher, rising from an average of $1.40 owed on every dollar of disposable income at the outset of the recession in 2008 to $1.49 by early 2010.

Most Canadians are inching their way through recovery, trying to hang onto what they've got. But for some Canadians, things have never been so good.

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15 René Morissette and Xuelin Zhang, *Revisiting Wealth Inequality,* Perspectives on Labour and Income, Statistics Canada Catalogue 75-001-XIE, Vol 7. No.12, December 2006. This article tracks the distribution of net worth in 1984, 1999 and 2005. Pension assets were not included in earlier surveys, therefore the 2005 value does not include pension assets. In 2005 29% of Canadians had no pension assets.

16 Marlene Habib, *For the Wealthy It Takes a Village,* The Globe and Mail, October 6, 2010

17 Investor Economics' annual Household Balance Sheet data updates come from a variety of administrative and survey sources, and do not line up with Statistics Canada's definition of financial assets on the Balance Sheet tables from the National Accounts. Their definition of total financial wealth assets totaled $2.7 trillion at the end of 2009. Statistics Canada shows total financial assets in the household sector were $2.037 trillion by fourth quarter 2009. (Table 3, Catalogue 13-022-X)

18 Armine Yalnizyan, *Exposed: Revealing Truths About Canada's Recession,* Ottawa: Canadian Centre for Policy Alternatives, April 2009.

Conclusion

IN THE 1920S, incomes of the richest Canadians were based mostly on capital gains and returns on investment — tantamount to winning the lottery. By 2007, the incomes of the richest Canadians were mostly based on employment income, just like everyone else. But that doesn't mean getting to the top of the income ladder is simply a matter of merit or effort any more than it was in the past. It's got more to do with how one's work is valued and, as this report has shown, the work done by the people at the top is valued much more handsomely today than in the past.

Given there were always talented people in society who advanced innovation, entertainment and production, it's hard to argue that today's leaders are worth many multiples of their counterparts from the previous generation while the average worker is worth, essentially, nothing more.

This review of the data shows that shares of market income held by Canada's richest 1% have soared dramatically over the past 30 years, making Canada's distribution of income look more like it did in the 1920s than it has at any time since.

But this is not just a return to the past. No previous generation of rich Canadians has taken such a large share of the gains of economic growth in recorded history.

If the story ended simply with some people winning the employment lottery, there might not be cause for concern. But the growing concentration of income and wealth has also led to a new thrust in public policy, which affects the fortunes of us all.

Canada's elite has managed to convince decision-makers that if they kept more of their income, they could create more wealth for everyone. After thirty years, the evidence shows that trickle-down economics was a hollow promise and a costly social experiment.

After the mid-1990s, Canada's economy grew at the strongest, most sustained pace seen since the 1960s, but the lion's share of income gains was concentrated in the hands of the richest 1%, who also enjoyed massive tax cuts.

Reductions in personal income taxes, tax exemptions for savings, and cuts to consumption taxes disproportionately helped the most affluent and actually made life harder for most Canadians, particularly those with the lowest incomes.

Tax cuts do little to put more money in the pockets of those at the bottom of the income distribution, who pay little or no income tax. But tax cuts have stripped hundreds of billions from the public purse since the mid-1990s, squeezing the public programs on which all Canadians depend. The cost of necessities like post-secondary education, health care, housing, childcare and transportation continue to rise. Meanwhile middle class incomes stagnate and the poor are kept on the sidelines or pushed out of the game. The majority of Canadians are running harder to stay in place and many are losing ground, even as the economy grows.

This has occurred not out of necessity but by design. Like the Gilded Age of 100 years ago, Canada is awash in money. But instead of using our resources to create greater prosperity for all — as our parents' and grandparents' generations did — this generation of Canadians has watched both markets and public policy concentrate resources in the hands of the elite few.

The excesses of the Gilded Age induced its own collapse and triggered, in response, a wave of public policy that helped redistribute prosperity through fair taxation and fair wages in order to grow the middle class, reduce poverty and keep a lid on income inequality in Canada.

As the story unfolds anew, the response to Canada's neo-gilded age may very well be the same.