

Rising inequality in Canada: A regional perspective



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ABSTRACT

In almost three-quarters of OECD countries, income inequality has increased over the past three decades. Canada is among those countries experiencing the fastest growth in inequality, especially since the mid-1990s. While there is an important literature dealing with rising inequality at the national-level, much less attention has been devoted to sub-national variations in the distribution of earnings, and to the potential causes of such differences. This paper investigates recent changes in inequality across regions (i.e. defined as census divisions) in Canada. It does so using micro-data from the 20% long-form sample of the Census for the years 1996, 2001 and 2006. Exploratory spatial data analysis suggests that there are widening divides between (i) regions located in western provinces (where earnings inequality is typically high) and their eastern provinces counterparts (where inequality is low) and (ii) urban and rural regions. A multi-level model is developed to examine the factors influencing these differences in earnings inequality. Multi-level analysis recognizes the nested structure of regions within provinces and accounts for the shared policy and institutional environments experienced by regions within the same province. At the regional level, modeling results indicate that economic development, industry mix, unemployment, ethnic composition, the distribution of educational attainment and population density are consistent predictors of inequality. In contrast, the effects of age and gender profiles on regional inequality are mixed. At the provincial level, institutional factors also matter.

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Introduction

One of the most significant labor market developments in Canada over the last 30 years has been the sharp rise in income inequality. From 1981 to 2010, inequality in the country increased by 20.5% with most of that increase occurring since the early 1990s. Canada is not the only country to experience such a trend. In a 2008 report, the Organisation for Economic Co-operation and Development (OECD) claims that nearly three quarters of its member countries saw an increase in inequality. Within this group of countries, Canada stands out as having the second largest increase in income inequality since the mid-1990s. And for the first time on record, even though levels of inequality remain higher in the U.S., inequality in Canada appears to be rising at a faster and more sustained pace than in the U.S. (Conference Board of Canada, 2014).

As we will argue in this paper, while there is an important literature dealing with the resurgence of inequality at the national-level in Canada, surprisingly little attention has been paid to sub-national variations in the distribution of earnings and to the

potential causes of such differences. This, despite the fact that Canadian labor markets have undergone significant changes over the last decades, shaped by the restructuring of economic activities, technological change, demographic shifts, increased global competition and changing institutional forces (Bourne & Simmons, 2003; Filion, 2010; Richardson et al., 2006). The geography of earnings inequality within and across the Canadian space-economy, to echo the words of Rodriguez-Pose and Tselios (2009), remains virtually a 'black box'.

The goal of this paper is to expose that black box and enhance our understanding of the spatial dimensions of earnings inequality in Canada. To do so, the paper begins by developing a regional dataset from the 20% long-form sample of the Census for the years 1996, 2001 and 2006. This dataset, which is geographically consistent over time, is then used to pursue two specific objectives. The first is to explore how earnings inequality in Canada has changed at the provincial and regional levels. Accordingly, exploratory spatial data analysis is employed to identify whether high (or low) levels of inequality are spatially clustered in certain parts of the country. The second objective is to examine the determinants of these distributional differences. Are differences in place-based characteristics (e.g. economic development, industry mix,

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unemployment rates) relatively more (or less) important in explaining increases in inequality than changes in person-specific characteristics (e.g. education, age, gender)? And what role do broader provincial-level institutional factors play in attenuating (or increasing) levels of inequality across regions? The mechanisms underlying the observed geographical variations in earnings inequality are examined using a multi-level modeling approach. Such an approach allows us to parse out the effects of variables that influence the distribution of earnings but operate at different scales.

We know that the negative outcomes of income inequality are potentially many: impacts on the long-run economic growth of economies, declines in the health of populations and higher levels of social dysfunction (Dorling, 2010; Wilkinson & Pickett, 2009). If we are to design public policies aimed at creating a more just society we must be able to target those segments of society where increases in inequality are concentrated and identify the main factors behind such increases. It is only by unpacking the geographical dimensions of inequality across the Canadian space-economy that we will be able to shed light on these crucial issues.

The rest of the paper is organized as follows. Section 2 provides an overview of the different causes of inequality. Section 3 surveys the relevant empirical literature and describes recent patterns of inequality in Canada. In Section 4, we discuss the research design adopted for the study and present descriptive evidence highlighting the emergence of new patterns of earnings inequality across Canadian regions. The social and economic mechanisms driving these patterns are analyzed more closely in Section 5. Section 6 summarizes the paper's main findings and briefly considers key policy implications.

The determinants of inequality: a theoretical assessment

The literature on inequality is vast, complex and fragmented. Early efforts to develop a conceptual framework to help us understand the causes of inequality long ago established that there is no overarching or general theory of income distribution (Lydall, 1979; Osberg, 1981). Rather, several competing explanations are offered and, as Bourne (1993) and Chakravorty (1996) argue, studies of inequality must ultimately address an array of contextual factors that shape the distribution of earnings. In general, we can distinguish four broad sets of mechanisms in the literature that potentially explain the recent rise in inequality: explanations tied to changes in (i) local labor market and economic conditions (i.e. demand-side factors), (ii) the socio-demographic characteristics of regions (i.e. supply-side factors), (iii) the spatial characteristics of labor markets (i.e. population size and density) and (iv) institutional factors which also affect the regional distribution of wages (see Fig. 1).

Demand-side factors link inequality to the structure of labor markets and regional economic characteristics. One of the most familiar explanations in this strand of the literature goes back to the early work of Kuznets (1955) who examined the relationship between inequality and the level of economic development across countries. In a nutshell, Kuznets argued that the trajectory of inequality would follow an inverted U-shaped pattern whereby initially, while a country's level of economic development increases inequality would also rise; however, as the country's economy continued to expand, inequality would, in turn, plateau and then start to fall. In theory, most advanced industrial countries were thought to lie on the descending segment of the Kuznets curve where higher levels of economic development meant lower inequality. The Kuznets hypothesis was a central tenet of the literature on inequality until the late 1980s when, in analyzing the recent upswing of inequality within the US, Harrison and Bluestone

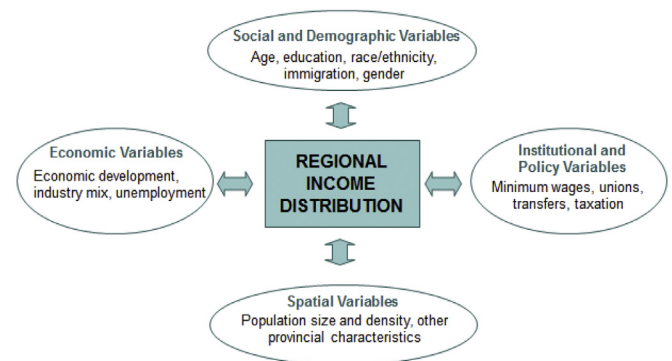


Fig. 1. The factors influencing inequality.

Sources: adapted from Bourne (1993) and Chakravorty (1996).

(1988) argued that higher levels of economic development could actually lead to higher inequality (i.e. this is the so-called Great U-turn). In other words, above a certain development threshold, one could expect inequality to start rising again (see also Alderson & Neilson, 2002; Moller, Alderson, & Nielsen, 2009).

Closely related to the above explanation is the argument that the sustained decline in manufacturing employment over the last two to three decades in several advanced countries has also led to increased inequality (i.e. the deindustrialization hypothesis). The reasoning behind this argument is that while higher paying full-time jobs with good benefits across manufacturing industries are gradually disappearing, they are being replaced with service sector jobs that are increasingly polarized in terms of wage outcomes. Here, we have on the one hand knowledge-intensive producer services (including finance, insurance and real estate services) where wages are high. On the other hand, we also find a growing number of low-wage, labor-intensive service jobs. As workers shift from one sector to the other, earnings inequality will thus increase (Bluestone & Harrison, 1982).

A second set of (supply-side) factors seen as potential sources of increased inequality consists of changes in the social and demographic composition of the labor force. Human capital theory figures prominently here linking inequality to changes in a population's educational profile (Boudarbat, Lemieux, & Riddell, 2006; Mincer, 1991). The conventional wisdom is that an increase in the relative supply of highly skilled workers leads to increasing competition among these workers thereby putting downward pressure on their wages and reducing the gap with less educated workers. In other words, a more equal distribution of education in a population should lead to less inequality (Checchi, 2004; Williamson, 1991).

The age composition of a population also affects the supply of labor and can influence the distribution of earnings in different ways. In cross-national studies of inequality, the premise is that greater shares of young and elderly people in the population can add greater pressures on the active labor force population and lead to higher levels of inequality. Whereas earlier studies pointed to age as one of the primary reasons for the increase in inequality (e.g. Lawrence, 1984), more recent empirical evidence on this relationship tends to present mixed results (Gustafsson & Johansson, 1999; Nielsen & Alderson, 1997).

As in many other OECD countries, the supply of labor in Canada has also been influenced by the recent influx of immigrants. Moore and Pacey (2003) find that immigration is linked to higher income inequality and they argue that as an increasing share of Canada's visible minorities is represented by immigrants, the two categories become 'confounding variables' within models with both

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