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Commentary

Averages Can Lie

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When Canadians look with envy at American incomes and productivity growth, they are not seeing the full picture.

Elites and well-paid professionals in the United States are enjoying an extraordinary boom, but the other 80 percent of the population is experiencing more work and less pay. In short, average after tax incomes are high and rising only because the rich are getting richer. As Harvard economist Richard Freeman has said, the U.S. is becoming "an apartheid economy."

There is no question that the U.S. economy has generated tremendous wealth over the past decade. And, as a result, average gross domestic product per capita (a measure of total economic output) has grown much faster than in Canada. But the benefits of that growth have not reached the average working person.

Just take a look at this brief portrait of the state of working America, based on an in-depth analysis published earlier this year by the Economic Policy Institute, a Washington, think tank.

The living standards of most working families have not recovered from the recession of the early 1990s. The typical American family faces:

- Increased hours of work – an extra 247 hours per year for a married couple, comparing 1996 to 1989 (that is about six weeks of work);

- Stagnant or falling wages, even for white collar workers and college grads over the same period, with some modest gains since 1996;

- Less secure jobs offering fewer benefits -- 30 % of American workers are not in regular full-time jobs, and the share of workers receiving employer-paid health insurance fell by 7.6 percentage points between 1979 and 1997. This decline is concentrated among lower paid workers.

- Layoffs continue at very high levels despite the boom. Only two-thirds of displaced workers find a new job within a year; those that do earn 13 percent less than in their previous jobs; and one in four of those who had health insurance coverage from their previous employer lost it in the new job;

- More Americans were poor in the mid-1990s than in the late 80's. And an astonishing 40 percent of the poor had incomes that were 50 percent below the poverty line;

- Effective federal tax rates for a middle class family of four (for federal income tax, social security, and medicare contributions) were the same in 1997 as in 1985. Only the wealthiest families have benefited from the tax cuts introduced by Congress over the past 20 years;

The United States does present an attractive model of life in the fast lane for the affluent. But that does not mean that we should adopt the United States as the model for the Canadian tax system or for social and economic policies.

First, we should look at some of the European countries which have been catching up with the United States on that all important indicator of economic vitality -- productivity growth.

Countries like Belgium, the Netherlands, France and Germany seem to be able to produce high rates of productivity growth without rising income inequality. In fact, the EPI argues that the U.S. position at the top of the world income charts relies on working longer hours, not working more efficiently.

These European countries are not fashionable as models for economic policy these days, partly because the European economy has been in a cyclical slowdown in recent years caused by restrictive fiscal and monetary policies, and partly because Europe is seen as being mired in old-fashioned labour market and social regulation. But they deserve a second look, especially by Canadians who recognize the need for tax cuts, but are aghast at the thought of the spending cuts implied if we were to adopt the U.S. tax system.

Like Canada, the Europeans are struggling to reform the welfare state to adapt to the fiscal and competitive challenges of the next decade. But reform is different from outright abandonment of the working and middle classes. These governments have not lost their commitment to buffer the impact of market forces on citizens, with the result that they experience less polarization of society into rich and poor.

Like Canada, they have paid a price for getting their fiscal situations in order - in their case driven by the rules defining entry into the new European currency; in our case by the fiscal crisis.

Not surprisingly, the overall tax burden in Belgium, the Netherlands, France and Germany (as a percent of GDP) is the same or even higher than it is in Canada. Governments can only buffer market forces if they play an active role in social policy, a role financed by taxes.

In sum, global economic integration in economic terms does not dictate the social values we live by. Canada has real choices about the social and economic model it will pursue in coming years.

The Senate Social Affairs Committee Report on Social Cohesion was clear on this: ". . . in Canada we do have ‘intelligent alternatives’ to the downward spiral of the polarized society. . . .We have choices."

If we want social outcomes that are right for Canada, we will need a tax system designed to achieve those outcomes. Blind imitation of the United States will not get us there.

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