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5 Minutes for Business

What to Do about Income Inequality

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Is it time to worry about the middle class and the rising gap between rich and poor? It's not just academics anymore—even businesses like McKinsey and TD Bank are taking a hard look at income inequality and what it means for economic growth.

Firstly, it's true that income inequality has been getting worse in most OECD countries. In Canada, the top 1% earns about 12% of all income, up from 8% in the early 1980s. In the U.S., the top 1% earns 23% of all income, up from 15% in the 1980s. What's more troubling is that income growth for the average family has been fairly flat. After a decline in the 1990s, Canadian incomes have been rising but they've recovered to only just above the inflation-adjusted levels of 1988. In the U.S., they actually fell slightly. So why are wages flattening across the developed world?

The most important factor is technology. For centuries, civilization has been automating repetitive tasks—from the steam engine to robotic welders and computer software. But today, technology is accelerating and it's pressuring the job market. A recent Oxford study estimates that 45% of jobs in the U.S. are at risk of being automated and taken over by computers by 2033.

Secondly, increased trade has massively grown the global availability of labour and capital. Thanks to falling trade barriers and advances in shipping, countries that were previously left out of global trade have seen exports and incomes flourish. The global poverty rate, which was over 25% in 2005, is falling by 1-2% every year, lifting around 70 million people annually out of destitution, mostly by bringing them into the global labour force.

Thirdly, the Internet is breaking down barriers and bringing the world to our doorstep. Retailers are competing every day with Amazon, Walmart and the best stores on earth. Manufacturers have to perform because they are up against the most innovative companies in the U.S., the least expensive products from China and new products from anywhere. There is no place to hide from global competition.

For Canada, this means that goods are better and cheaper, which raises our purchasing power—we all appreciate lower prices for clothes, food and TVs. The challenge is the adjustment required of Canadian industries. Thirty years ago, Canada's textile industry employed tens of thousands of workers hunched over sewing machines. Today, our textile industry has become a smaller, leaner fashion industry, with highly skilled designers, highly automated factories and the bulk of the manual fabrication done in Asia. Business is far more efficient, but these trends are hard for large parts of the labour force.

Technology and trade are polarizing incomes, causing fierce competition for highly skilled knowledge workers while reducing demand for low-skilled jobs.

What can we do? If we know employers will pay more for skills, then part of the response must be improved education and training. But we also have to invest more in R&D, in tax incentives and in venture capital for new innovative companies, so that the technologies to compete and win are located right here in Canada. The firms that succeed in the global economy will happily pay higher wages, hire more people and create prosperity for Canadians.

That's why the Canadian Chamber of Commerce wants business competitiveness to be the #1 issue in the coming election. Because to create prosperity in today's globalized economy, you have to win.

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