

THE GROWING GAP IN PURCHASING POWER

The purchasing power of Canadian households has increased since 1976 though more for some than others.

Statistics Canada reports inflation-adjusted after-tax incomes for households by 10 groupings called *deciles*. The 10 per cent of families grouped in the 1st decile are those with the lowest after-tax incomes and the lowest capacity to purchase goods and services (referred to as their *purchasing power*). The 10 per cent of households grouped in the 2nd decile are those at the 20th percentile of purchasing power, and so on. The households grouped in the 10th decile have the highest purchasing power.

In the chart we plot data showing the change in purchasing power of households in the 1st, 5th, and 10th deciles since 1976. It is notable that prior to 1997, the gaps between these incomes remained almost constant. Between 1976 and 1997, the average 5th decile income was greater than the 1st by an average of \$25,605 ± \$929. Over that same period, the average 10th decile income was greater than the 5th by an average of \$60,364 ± \$2,234. Starting in the middle of the 1990s, something changed.

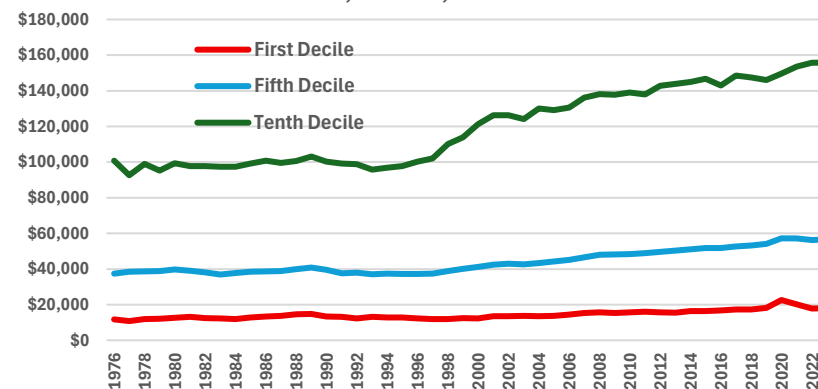
From 1976 to 1997, Canada's tax and transfer system maintained a relatively constant gap in the purchasing power of high versus lower income households. The gap has widened since then.

After 1997, while the gaps in purchasing power between all deciles increased, the gap in purchasing power between households in the 10th decile and households in all other deciles grew much faster and larger. What caused that?

This is an important question. A growing gap between households with high incomes relative to others raises concerns expressed by political analysts that high-income households may have an outsized influence on government decisions through lobbying and financial means. Economists raise similar concerns but for additional reasons.

From an economist's perspective, it is preferable for society to rely on the power of free markets to supply goods efficiently and reward people's efforts according to the

Comparison of Purchasing Power, by Income Decile, 2023
dollars, Canada, 1976-2023



Source: Statistics Canada Table 11-10-0193-01

market value of the goods and services they help produce. Economists also want to ensure that individuals in society have equal opportunities. Only in this way can merit be identified without biases arising due to differences in wealth and income.

At the least, to identify merit requires an equal opportunity to maintain good health and obtain an education that provides those skills valued in the free market. A person living in a household with low income ought not be limited to access these opportunities. Unequal access to opportunities is often seen as unfair and may additionally limit productivity and economic growth.

For these reasons, some economists suggest that when there is a growing gap in purchasing power between households at the top and those in the middle and bottom of the income distribution, it is important to ensure access to education and healthcare for all individuals, regardless of income. This suggestion raises interesting questions regarding the appropriate divide between public and private payment for these goods and services.