

Measuring Income Mobility in Canada, 2016

by Charles Lammam, Niels Veldhuis, Milagros Palacios, and Hugh MacIntyre

Too often, an underlying assumption in the income inequality debate is that low- and high-income Canadians are the same people year in and year out. In reality, however, Canadians are not permanently stuck in certain income groups. Over the course of their lives, the overwhelming majority move up and down the income ladder.

Fluctuation in our income is a part of the natural cycle of our lives. People typically start off with relatively low income early on when they are young, new to the workforce, and lack work and life experience. Once they acquire education, job-related skills, and experience, their income tends to increase until it peaks in middle age and then drops again as they retire (income may fall, perhaps temporarily, if someone exits the workforce or changes jobs).

Using data obtained from Statistics Canada, this study tracks nearly 1 million Canadians starting in 1993 to measure how their income changes after five years (1993-1998), ten years (1993-2003), and 19 years (1993-2012).

The people covered in the study were divided into five groups based on their initial income (defined as wages and salaries before taxes). The groups are referred to as: the bottom 20% (the lowest income group), the second, third, fourth, and the top 20% (the highest income group). If someone starts in the lowest income group in one year, but moves to a higher group after several years, he or she has experienced upward

relative income mobility. Conversely, if someone ends up in a lower income group than the one they started in, he or she has experienced downward relative mobility.

The study finds considerable upward relative mobility over all time periods, particularly for the bottom 20%. In just five years, 79% of Canadians who started in the bottom 20% in 1993 had moved to a higher income group by 1998. After 10 years (1993 to 2003), 88% in the lowest income group moved up at least one income group. The 19-year period (1993 to 2012) similarly had nearly nine of every 10 individuals (89%) in the lowest income group moving up. The results show being in the lowest income group is generally a temporary experience and that upward mobility occurs fairly quickly in one's life.

The results also show that many of those initially in the bottom 20% climbed high up the income ladder reaching the top income groups. Remarkably, nearly one in four (24%) of the bottom 20% in 1993 had reached the top 20% by 2012, and nearly half (46%) ended up in the top two income groups.

Some Canadians also moved down the income ladder over time, particularly those who were initially in the top 20%. Specifically, 35% of individuals in the top 20% in 1993 moved down at least one income group by 2012.

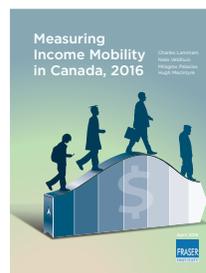
The study also examines absolute mobility, which is the change in average income of the same people over time (after accounting for inflation). In 1993, the average income earned through wages and salaries of Canadians in the bottom 20% was \$5,800. However, the average income of those same individuals increased dramatically to \$51,100 by 2012 (all income in 2012 dollars). The \$45,300 increase in average income translates into an impressive 781% gain.

By comparison, those that began the 19-year period in the top 20% had an average income of \$82,600 in 1993, which increased to \$106,100 by 2012. That is an increase of \$23,500 or just 28%. In absolute terms, individuals in the bottom 20% in 1993 experienced by far the largest income gains of any group.

Another telling figure emerges from the data: in 1993, the average income of individuals in the top 20% was 14 times

greater than those in the bottom 20%. By 2012, those who were in the top 20% in 1993 now had an average income that was only twice as high as those who were initially in the bottom 20% in 1993. In other words, in a comparison of income of the same group of people over time, income inequality declined significantly. This is because people's incomes were mobile—some moved up while others moved down.

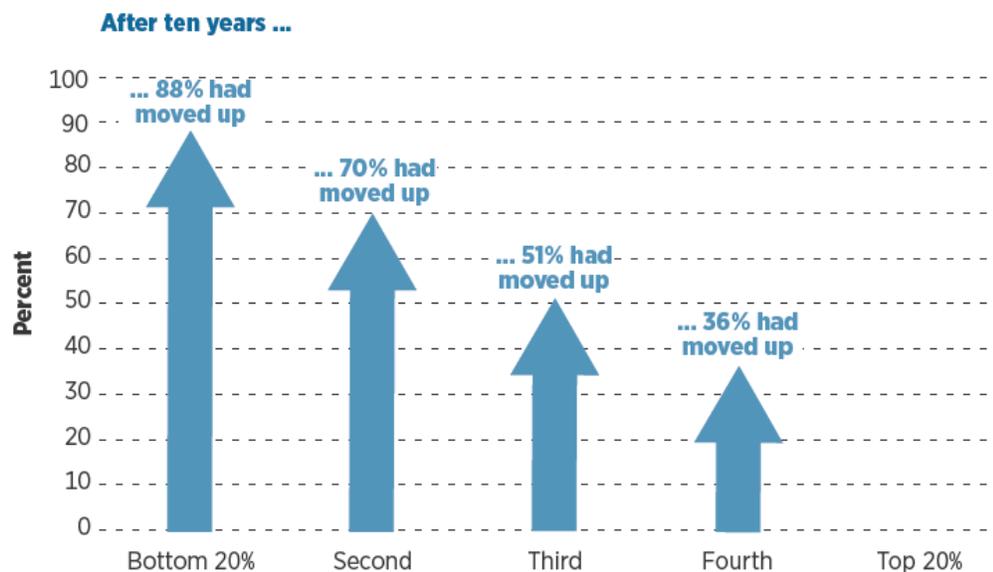
This study provides compelling evidence that the rich and poor do not remain stuck in their respective income groups year after year. In any measure of income inequality, it is misleading to rely solely on comparisons of “snapshots” of the income distribution at any two points in time because doing so does not capture the fact that Canadians are mobile.



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Proportion of each income group in 1993 that had moved to a higher group by 2003