The top one per cent aren't all financiers

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One statistic that has caught the attention of the Occupy movement is the share of income that goes to the richest, or "top," one per cent of the population. The graph, based on research by Emmanuel Saez and Michael Veall, shows that the concentration of income at the top has increased dramatically over the last few decades. In the late 1970s, about eight per cent of total income in Canada was concentrated in the hands of only one per cent of the population. Thus, those in the top one per cent had incomes that were eight times larger than the average income of (all) Canadians.

Things changed dramatically since then. The top income share almost doubled to reach 14 per cent in recent years. Such an uneven distribution of income has not been seen since the dark days of the Great Depression. Thus, it is no surprise that these dramatic figures have been a focal point in recent discussions of whether inequality was reaching socially unacceptable levels in Canada and elsewhere. But before discussing how we got there and what to do about it, it is important to first demystify just who are the top income earners who have done so well lately. In the eyes of many, the culprits have to be found at the very place where the Occupy movement started; on Wall Street, or our own Bay Street. But there are just not enough investment bankers and high-flying stockbrokers to fill the ranks of the 275,000 individuals (one per cent of Canada's adult population of 27.5 million) in the top one per cent. So who else is part of this group?

The now-defunct long form census provides, among other things, comprehensive information on the composition of the top one per cent (as of 2005). A number of interesting facts emerge from the analysis of census data. First, one needs an annual income of at least $230,000 to be part of the top one per cent. Second, we could as well call the group of top income earners the "brotherhood of top incomes" since a staggering 83 per cent of individuals in this top group are men. So despite the significant gains realized by women over the last few decades, they remain dramatically under-represented at the very top of the income distribution.

While Steve Jobs, Bill Gates and Mark Zuckerberg did not have to complete college to become billionaires, 59 per cent of individuals in the top one per cent do have at least a bachelor's degree, despite the fact that university graduates only represent 19 per cent of the adult population. Education is not a substitute for hard work, however, as close to 50 per cent of individuals in the top one per cent work at least 50 hours a week, compared to less than 20 per cent for the overall population. But besides being mostly educated men, the top income earners are fairly scattered over different sectors of the economy. Wall/Bay Street may be the focus of the Occupy movement, but less than 10 per cent of people in the top one per cent work in the finance and insurance industry. Senior managers and CEOs are also over-represented in the top group, but only account for 15 per cent of top earners. The only other large group of top income earners besides financiers and executives are physicians (and dentists and veterinarians) who account for...
close to 10 per cent of top earners, despite representing less than one per cent of the workforce. The Occupy movement may not be targeting physicians who, unlike those working in the financial sector, are generally perceived to make a positive contribution to society. But what the census numbers show is that policy measures such as a new tax on the rich would mostly target people who are neither top executives nor financiers.

Because top income earners are such a diverse group of individuals, it is hard to come up with a simple explanation for the growing incomes at the top end. The best candidate explanation is likely that, just like hockey teams, Canadian corporations have little choice but to pay higher and higher salaries to keep their "top players" who would otherwise be lured away by the ever-growing salaries south of the border. This leads to the next obvious question of why incomes at the top have grown so much in the United States in the first place? In the case of CEOs and top executives, one oft-mentioned explanation has to do with flaws in corporate governance. In the case of the financial industry, weak regulation by U.S. agencies has also been implicated. But since most individuals at the top end are neither executives nor financiers, the sources of increasing inequality have to be found elsewhere. This will be the topic of the next instalment in the series.

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