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Answer to unequal incomes

Why do some countries have fewer poor people but at the same time fewer rich people and why is the gap between rich and poor such a growing concern?

According to the Organization of Economic Cooperation and Development, even though technology and globalization have made a big impact on income equality, there are a number of other factors influencing income inequality today.

On a country by country analysis this includes things such as wage and non-wage income (capital investments), hours worked per person per week, hours of non-work per person per week, the role taxes play and the transfer systems of money through taxation to citizens in need.

The OCED report brought forward a number of points to help us understand what really drives income inequality.

The first is that education policies make a difference.

Countries that have high secondary school graduation rates and equal access to colleges and universities for all citizens, just not the rich, had less income inequality.

This makes sense as education tends to increase the wage of the average worker.

Second, labour market policies have the ability to reduce inequality.

Even though a high minimum wage helps in the distribution of labour income, it also has to be at a rate that doesn't prevent employers from hiring staff.

The same can be said about wage negotiations with trade unions.

A balance between meeting the financial needs of employees can't cripple the employer's ability to be competitive at both the national and international level.

Even though many of the provinces in Canada have increased their minimum wage, inflation has reduced our buying power so its effect hasn't really reduced the gap between rich and poor.

Third, countries need to look at all regula-



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tions that impact the market and affect the buying power of the consumer.

Canada has a number of tariffs and quotas which, although they help to protect some Canadian producers, also force Canadians to pay inflated prices for some staples.

Number four is true, but we never talk about it.

Discrimination leads to income inequality so policies that foster integration of immigrants helps reduce this inequality.

Fifth, taxation and transfer systems are the tools governments can use to make sure everyone has adequate shelter and enough money to buy food.

Although this system is far from perfect,

there are some countries such as Switzerland, Belgium, Denmark and Sweden which have low levels of income inequality because, through higher than average taxation, more funding goes into transfer payments.

At the end of the day the gap between rich and poor is smaller because the rich support the poor.

But transfer payments are not always targeted to individuals.

For example, in Canada both the federal and provincial governments commit a large portion of their tax revenue to education.

It is expected that by supporting education, all Canadians will have the opportunity to go to college or university and therefore secure full-time employment at a livable wage. This is where the challenges lie.

There are young adults who opt out of going to college and university for a number of reasons.

Depending on their

family circumstances some of these adults may continue to live with their parents for some time coasting in and out of minimum wage jobs.

Adults who lose their jobs and find their current occupation heading for a downward trend may also be reluctant to go back to school.

Both of these scenarios can result in individuals ending up on welfare or cyclical unemployment benefits.

Eventually the government does end up providing direct transfer payments to these people.

Policies that help people move beyond any form of income assistance are in the long run the economic mechanism we need to help keep income equality and allow the middle-class to continue.

Without these, the gap can be expected to grow.

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