



Behind the anti-trade sentiment: the wage gap

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There were many U.S. election night surprises, but perhaps none more so than the crumbling of the blue Democratic wall in the faded industrial heartland of the country.

Pennsylvania, Wisconsin and Michigan would fall to Donald Trump – states that haven't gone Republican since the 1980s. So too did Ohio, which U.S. President Barack Obama captured in 2008 and 2012.

There is a good economic reason that Mr. Trump's anti-trade rhetoric played so well in older blue-collar towns and cities across Middle America. It's there the contrast between a growing economy and the lot of ordinary workers is most stark. After factoring in inflation, the median wages of America's working middle class have gone virtually nowhere, for decades. "They've seen their wages staying absolutely flat and they see other people doing a lot better," explained Queen's University economist Don Drummond, a former top federal Finance Department official.

New research being released Monday by the Ottawa-based Centre for the Study of Living Standards (CSLS) concludes that the spoils of rising productivity have largely bypassed the middle class, particularly in the U.S.

Economists James Uguccioni and Andrew Sharpe found that the gap between median incomes and productivity has widened more in the United States than anywhere else in the rest of the developed world.

The 1-per-cent crowd, on the other hand, is doing very well.

Here's the problem: It's not just a U.S. phenomenon. Middle-class wage stagnation amid economic growth is also worsening in Canada and most other member countries of the Organization for Economic Co-operation and Development. Canada sits roughly in the middle of the pack of these wealthy nations.

Left unchecked, the anti-trade and anti-globalization sentiment sweeping across Europe and parts of the United States could soon wash up on Canadian shores. Brexit and Mr. Trump's victory are rooted in economic conditions that exist in many countries.

"The warning for Canada is that we had better pay attention to what has happened electorally in these other countries because our economic circumstances are very similar," said Mr. Drummond, who is also chairman of the CSLS.

Trade, globalization and the North American free-trade agreement (NAFTA) are easy targets.

One of the first casualties of Mr. Trump's win appears to be the Trans-Pacific Partnership trade deal. Late last week, Mr. Obama and Republican leaders in the U.S. Congress abandoned efforts to ratify the sweeping trade agreement, which would have lowered barriers to trade between the United States, Canada and 10 Pacific Rim countries.

Killing the TPP won't save the middle class. Manufacturing hasn't all fled to Mexico and China, as Mr. Trump claims. U.S. factories crank out more stuff than they ever have, only they're doing it with less labour and more automation. The manufacturing jobs that remain are likely to pay a whole lot less than when Big Auto and Big Steel dominated the economies of states such as Ohio and Michigan.

Capital has up and moved, often elsewhere in the world, where returns are better. Labour hasn't gone anywhere. Robotics and software have replaced the routine production line tasks that used to offer good middle-class wages.

That is the essence of productivity growth. Factories – and the wider economy – are producing more per worker than they ever have.

But the gains aren't flowing to the middle class. They're going increasingly to the 1 per cent, investors and business owners.

For years, Canadian economists and policy makers have looked enviously at the impressive productivity growth of the United States. It has averaged 1.6 per cent a year between 1986 and 2013. That compares to roughly 1 per cent a year in Canada.

The U.S. experience suggests boosting productivity alone won't fix the problem, unless the benefits are more broadly distributed throughout society. Raising prospects for the middle class will require much more.

The Liberal government in Ottawa has "Growing the middle class" as its main slogan.

The relatively modest tax changes it has made so far won't get the job done if the benefits continue to flow to high-income earners.

At least part of the answer lies in creating jobs, skills and opportunity for those stuck in the stagnating middle class.

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