

TOWARDS A MORE

EQUAL
CANADA



A REPORT ON CANADA'S ECONOMIC & SOCIAL INEQUALITY

OCTOBER 2012





This report is part of the Broadbent Institute's Equality Project. Launched in the spring of 2012, the project includes a Broadbent Institute-commissioned Environics poll which showed a majority of Canadians support taking action to reduce inequality, a social media campaign, and an animated video. Find the Equality Project at <http://www.broadbentinstitute.ca>, and please share it broadly.

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Preface by Ed Broadbent

The purpose of this paper is to stimulate and support a national discussion on the implications of extreme income inequality, and how we should, as a society, be responding.

Democratic politics, at its best, is about choosing what kind of society we want to live in.

Today, we are moving in the wrong direction.

There is widespread and growing agreement that Canada, among many other advanced industrial countries, has a serious and growing inequality problem. Experts at the Organization for Economic Co-operation and Development (the OECD) and the Conference Board of Canada have shown that we have become a much more unequal and divided society over the past generation. The incomes of the top 1% have exploded, while middle-class wages have stagnated for over thirty years.

This sort of inequality has profound implications for the quality of our democracy, for social and environmental sustainability, for our individual and social well-being, and for economic stability and performance at the global and the national level.

The activists of the Occupy Movement have made growing inequality the defining political issue of our time. An Environics poll commissioned by the Broadbent Institute certainly confirms that a significant majority of Canadians are deeply concerned, and are prepared to do something about it, including by paying higher taxes.

This paper is the outcome of serious reflection on the issue of inequality by a group of leading Canadian thinkers. Particular thanks are owed to [Alex Himmelfarb](#) and [Trish Hennessy](#) who drafted an earlier version of this paper. Alex and Trish played a central role in developing the ideas and framework that helped shape this important discussion among some of the most authoritative people on the subject of income inequality. I offer



special thanks to those who contributed both in writing and at a meeting in April 2012. These include: [Ken Battle](#), [Monique Bégin](#), [Bruce Campbell](#), [May Chazan](#), [Marjorie Griffen Cohen](#), [Julia Christensen](#), [Mary Davis](#), [Bernard Élie](#), [Martha Jackman](#), [Andrew Jackson](#), [Steven Lewis](#), [Ronald Labonte](#), [Leah Levac](#), [Hugh Mackenzie](#), [Linda McQuaig](#), [Matthew Mendelsohn](#), [Jason Morris-Jung](#), [Alex Neve](#), [Lars Osberg](#), [Kate Parizeau](#), [Peter Puxley](#), [Jeremy Schmidt](#), [Sherri Torjman](#), [Rob Rainer](#), [Marie-France Raynault](#), [Anna Stanley](#), [Daniel Wilson](#), [Peter Victor](#), and [Armine Yalnizyan](#). Although not all of their suggestions found their way into the final paper, their comments helped focus its message.

This synthesis paper shows why inequality matters, sets out the facts on growing inequality, summarizes some of its key causes, and concludes with ideas about how we can build a more equal and democratic Canada.

The intent is not to settle now on a detailed policy agenda, but rather to encourage Canadians to reflect on which options are available to achieve the goal.

I strongly encourage all Canadians to participate in the important discussions on inequality that we will be promoting over the coming months.

Ed Broadbent

1

Why Should We Care About **Inequality**?

“All human beings are born **free** and **equal** in **dignity** and **rights**. They are endowed with **reason** and **conscience** and should act towards one another in a **spirit of brotherhood**.” - Article 1 of UNDHR

The Universal Declaration of Human Rights, adopted by the United Nations in 1948 and seen as a touchstone of core democratic principles, states in Article 1 that “All human beings are born free and equal in dignity and rights.”

The Declaration enumerates a wide range of civil and political rights, such as freedom of speech, religion and association, equality under the law, the right to take part in free elections, and the right to protection from discrimination. Importantly, it also sets out the economic, social, and cultural rights which are necessary to secure individual freedom and dignity. It states that “everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.” The Declaration also speaks to the right to education

directed to the full development of the human personality, and not only the right to work, but also just remuneration in work.

The basic idea — hugely influenced by the recent experience of the Great Depression and the fight against fascism — was that without economic and social rights to complement and support traditional liberal rights, there can be no real freedom in a democratic society. John Humphrey, the Canadian who wrote the first draft of the Declaration, argued that such rights have little meaning for most people without social and economic rights, and that we need both to make possible a life of dignity for everyone.

An equal, or fair and just society does not mean equal outcomes for all. But it does mean that all individuals should have the opportunity to live in dignity, to participate in the community, to be free of discrimination on the basis of race, gender, or religion, and to develop their talents and capacities to the fullest extent possible.

Reasonable people can differ over what income and wealth differences are needed to provide incentives and appropriate motivation in a market economy. But extreme economic inequality clearly undermines equal developmental opportunities and individual freedom since unequal economic resources give rise to significant imbalances of power.

Markets are an extremely powerful tool for wealth creation, but they operate on the principle of “one dollar, one vote.” One can obtain on the market only what one can afford. Left to their own devices, markets generate large inequalities of income and wealth which pose a threat to the moral goal of equal life chances.

Accordingly, democratic societies have embedded the market economy in rules and institutions which promote more equitable outcomes. For example, as Canadians we have said that all children should get a good start in life through a high-quality public education system, that all seniors should be able to retire in dignity, that unemployed workers should receive temporary income support, and that all citizens should have free access to primary health care and hospitals, irrespective of their ability to pay. These social gains are the product of democracy, which operates on the principle of equality — “one person, one vote.” As John Myles (2008) has put it, “market economies have proved quite effective at producing wealth” but “markets need democracy to make market economies viable for people.”

Public services outside of the market, and social programs which redistribute and insure income, are funded through taxation of incomes earned in the market. This process equalizes society’s economic resources while sustaining a sphere of society which does not operate on market principles. Markets promote economic efficiency, but only socially-embedded markets can lead to social justice.

Democracy also operates on the moral principle that we not only have rights, but also obligations to one another. Article 1 of the Universal Declaration states not just that “all human

beings are born free and equal in dignity and rights,” but also that we “are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.” (Today, that would, of course, be called “solidarity.”)

In reason and in good conscience, we should desire to live in a society which promotes the rights and well-being of all of our fellow citizens, and not seek only to maximize our individual well-being in the market economy as workers and consumers.

Building on the Universal Declaration of Human Rights, Canada, with the agreement of the provinces, ratified the International Covenant on Economic, Social and Cultural Rights of 1976, which has the status of international law. This means that we, as a country, have not just a moral but also a legal obligation to respect these rights. The Supreme Court has increasingly pointed to international law ratified by Canada on social and economic rights as a touchstone for interpreting the constitutionality of Canadian legislation. Distinguished legal experts have argued that the security of the person provision in the Canadian Charter of Rights and Freedoms entails the recognition of social and economic rights. For greater certainty, these rights should be added to the Charter to ensure that social and economic rights have the same full constitutional recognition and respect as political and civil rights.

We also have a moral obligation to promote environmental sustainability and to leave a better world to future generations.


2 Implications of Rising Inequality

2a Inequality Undermines Common Purposes

Extreme inequality undermines the sense of shared destiny or solidarity which is essential to democratic citizenship. A marginalized underclass will rightly feel excluded from the society around it. We are not really ‘all in the same boat’ if high income and wealth allow some to secede from the common institutions of society and meet all of their needs from the market. The rich will have little interest in the quality of community parks and playgrounds, public transit, public education, and public health care if they live in gated communities, send their children to private schools and elite universities, and meet their health care needs in exclusive, for-profit clinics. They will also tend to oppose paying fair taxes to promote the public good.

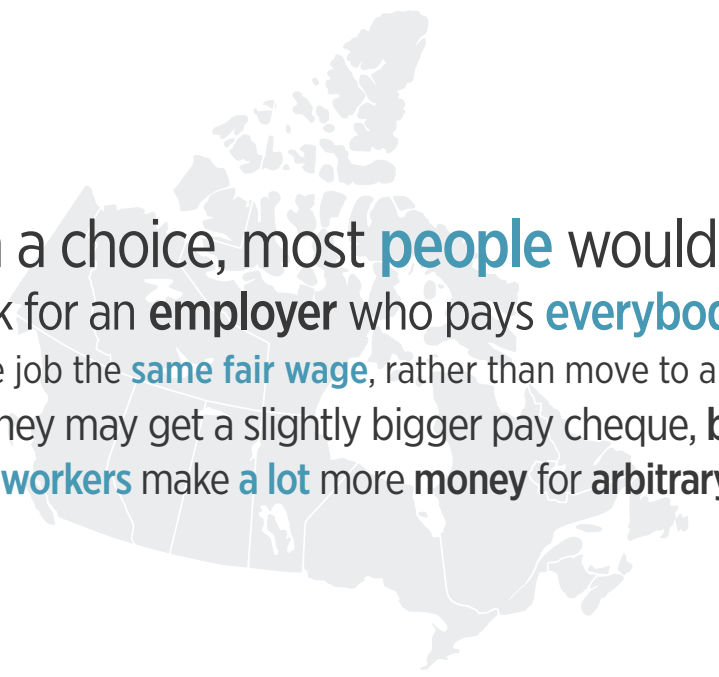
High income inequality threatens social sustainability. The Conference Board of Canada notes that “[h]igh inequality both raises a moral question about fairness and can contribute to social tensions” (Conference Board of Canada 2011). It makes futile the hope of getting ahead, and erodes our trust in public institutions. People don’t want to play when they think the game is rigged.

The ecological footprint of the very affluent is much greater than that of the poor, and they should pay a fair share of the adjustment costs.



“We are **not** really **‘all in the same boat’** if **high income** and wealth allow some to **secede** from the **common institutions of society** and meet all of their needs from the market.”

Taking effective action on the pressing social, economic, and environmental issues of our times requires some sense that we are all members of a society which has important common purposes. For example, reducing wasteful consumption to deal with destructive climate change will be much harder to achieve if some people are being asked to make much larger sacrifices than others. The ecological footprint of the very affluent is much greater than that of the poor, and they should pay a fair share of the adjustment costs. Similarly, the claim that major economic changes will lead to greater national wealth will not be listened to if the benefits go overwhelmingly to those with very high incomes, yet all of the costs of change are borne by average and lower-income workers. Fair outcomes are needed for people to join in shared social goals.



Given a choice, most **people** would prefer to work for an **employer** who pays **everybody** doing the same job the **same fair wage**, rather than move to a workplace where they may get a slightly bigger pay cheque, **but** where their **co-workers** make **a lot** more **money** for **arbitrary reasons**.

2b Inequality and Life Chances

A question asked by many is: what is the big deal if the incomes of those at the very top are taking off, so long as some of the benefits trickle down so that those at the bottom can meet their basic needs?

Part of the answer is that where a person stands on the income and social class ladder matters greatly to most people, not just absolute income. Given a choice, most people would prefer to work for an employer who pays everybody doing the same job the same fair wage, rather than move to a workplace where they may get a slightly bigger pay cheque, but where their co-workers make a lot more money for arbitrary reasons. The fact that wages in middle-class jobs may have increased in recent years does not make up for the fact that the income gap between ordinary workers and senior managers and CEOs has exploded. It is basic fairness, not absolute income, that matters.

Moreover, it is inequality and not just poverty that undermines the goal of equal life chances. If there was real equality of opportunity in our society, where children eventually ended up on the income ladder would depend mainly on their individual talents and hard work, not on the income and status of their parents. Indeed, the evidence clearly shows that climbing up, or falling down, the ladder is much more common in relatively equal societies (Corak 2012). A far higher proportion of the

top ranks of American society are held by the children of those who previously occupied those ranks than is the case in Canada, and still more so than in Sweden where there is a lot of movement between generations. A truly meritocratic society is undercut by extremes of wealth and income which allow the rich to buy advantage for their children; on the other hand, it is promoted by making the public investments needed to give a good start and high-quality education to all children.

2c Inequality and Democracy

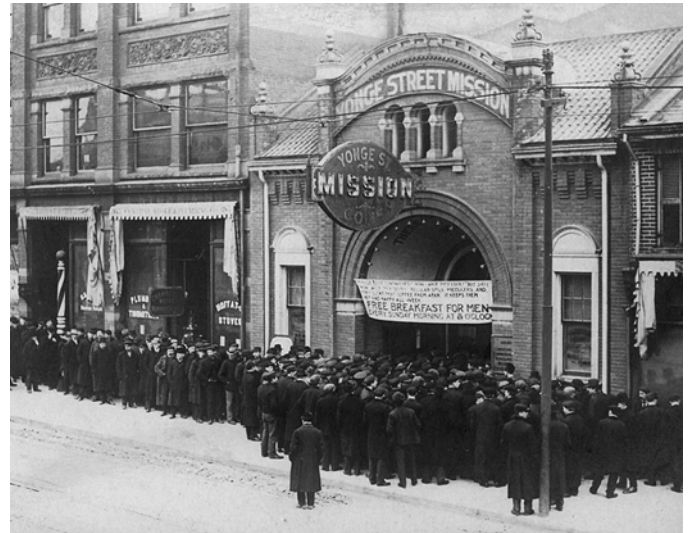
Extreme inequality is undemocratic because it undermines the real balance of power among citizens who are formally equal. The United States increasingly resembles a plutocracy in which money dominates the political process through election funding and lobbying, and those with money shape a political agenda that fails to address mainstream concerns. The very affluent also control much of the media and, with it, the power to set the terms of democratic debate. Canadian democracy is also limited by the narrow boundaries of acceptable policy debate, and a distorted presentation of economic and social realities.

2d Inequality Undermines Economic Performance

Extreme inequality also undermines economic performance. Nobel Prize-winning economist Joseph Stiglitz notes that it is no coincidence that peaks of extreme inequality preceded both the Great Depression of the 1930s and the recent Great Recession (IMF 2011). Inequality produces financial bubbles that inevitably burst. In a healthy economy, wages rise in line with growing productivity, maintaining the growth in spending which, in turn, supports new business investment. But the stagnation of the wages of the middle class and the poor meant that the U.S. and Canadian economies, over the past decade and beyond, were increasingly driven by the growth of household debt, much of it financed by the growing savings of the top 1% who had been reaping the lion's share of the income gains.

Robert Frank (2005) argues that one key impact of growing inequality is that people seek to copy the consumer patterns and lifestyle of the more affluent, but unable to afford to do so, they sink deeper into debt. The result was a housing bubble which eventually sank the global financial system, destroyed wealth, and led to very high unemployment. The high debt levels resulting from excessive consumerism also fuel popular support for tax cuts, undermining the strong fiscal base needed to support public services and social programs. Stiglitz and his fellow Nobel Prize-winning economist Paul Krugman argue that if we fail to rebuild the shrinking middle class, there will be no lasting economic recovery – and continuing stagnation of the global economy.

Inequality harms the economy in many ways. As the International Monetary Fund has noted (Berg and Ostry 2011), it robs countries of the talent needed to succeed in an ever more competitive world. Inequality also strangles demand. It diverts money we need for public investment and social development to the management of the crises and pathologies that income inequality inevitably produces. The pursuit of growth at all costs lends itself to a culture of excessive consumerism which undermines time needed for family and the community, increases private and public debt, and undermines economic security and environmental sustainability.



The **high debt** levels resulting from **excessive consumerism** also fuel popular support for **tax cuts**, **undermining** the strong base needed to support **public services and social programs**.

2e More Equal Societies are Better for Everyone

The consequences of higher inequality are certainly experienced most harshly by those at the bottom, especially the marginalized who suffer from many overlapping sources of disadvantage, such as low income and racial discrimination, and living in especially disadvantaged communities. We all know that poverty has real consequences for the quality of life and life chances of the poor, but accumulated recent evidence has also shown that high levels of inequality are dangerous for the whole society.

Wilkinson and Pickett (2010) have found, through a systematic collection of evidence on a wide range of indicators of well-being, that more equal societies are better for everyone. More equal countries, such as Sweden and Germany, do better than more unequal countries, such as the U.S. and Canada, when it comes to the level of trust in society, life expectancy, the incidence of mental illness, infant mortality and obesity, as well as children's educational performance, homicide rates, and levels of crime. They found the same pattern in the U.S. where more equal states have better outcomes. It is not the level of average income in a country or state which determines relatively poor outcomes like low average life expectancy and high crime rates, but rather the level of inequality within a country.

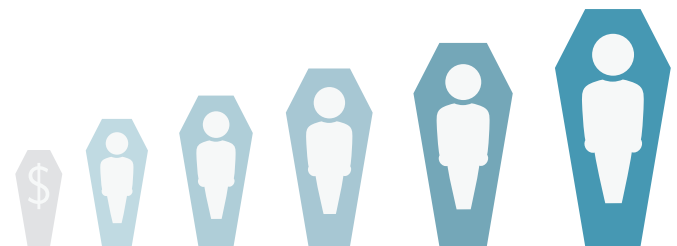
Wilkinson (2005) considers stress to be the key linkage from inequality to poor social outcomes. Income inequality is a proxy for major differences of power and status in hierarchical and hyper-competitive societies which generate acute levels of stress, anxiety, and depression across the income spectrum. In more equal countries, by contrast, there is a less intense search for status based on conspicuous consumption, community life is much stronger, and people trust and care for each other more.

Wilkinson has also assembled evidence which shows that, in all countries, one can see “gradients” of well-being, with the affluent generally doing better (e.g., in terms of life expectancy or educational achievement) than the middle class, with the

middle class doing better than the poor. But the differences in outcomes between groups are much less marked in more equal countries. Few people are surprised that lower-income Swedes and Canadians live longer than lower-income Americans. However, it is striking that middle-class Swedes do much better than middle-class Americans when it comes to child mortality and life expectancy.

A Statistics Canada study confirms that inequality is closely linked to life expectancy. They find that “compared with people of higher socio-economic status, mortality (death) rates were elevated among those of lower socio-economic status, regardless of whether status was determined by education, occupation or income.” Canadians aged 25 and in the top fifth of the income distribution can expect to have 5.6 more years of life than those in the bottom fifth, and 1.7 more years of life compared to those in the middle one fifth. The gap in life expectancy between the top and bottom one fifth is 6.8 years for men, and 4.3 years for women (Tjepkema and Wilkins 2011).

Inequality is, quite literally, a matter of life and death.



“compared with people of **higher socio-economic** status, **mortality (death) rates** were **elevated** among those of **lower socio-economic** status, **regardless** of whether **status** was determined by education, occupation or income.”


3 The Facts on Economic Inequality

3a The Shrinking Middle Class

Economic inequality is about differences between the top, the middle, and the bottom of society in terms of their share of economic resources, usually measured in terms of income or wealth. In an extremely unequal society, a tiny elite control a huge share of resources, there is a small middle class, and many at the bottom lack the ability to meet even their basic needs. In the more equal societies that exist today, there is still a significant gap between the top and the bottom, but the distance between them is relatively narrow, and there is a large middle class.

As Statistics Canada has noted, “Canada’s middle class, defined by income, became smaller during the 1990s, while incomes became more polarized” (Statistics Canada 2007a). Here, as in most other industrial countries, inequality narrowed considerably, from the 1940s through the 1970s, in line with low unemployment, the strong growth of middle-class jobs, and major investments in public services and social programs. However, income inequality began to increase from the early 1980s. This change occurred, in significant part, because rising national income has disproportionately gone to those with very high incomes, returning us to levels of inequality not seen since the 1920s. Meanwhile, the incomes of ordinary, middle-class workers and families have stagnated, while poverty has remained at unacceptably high levels.

This trend fundamentally undermines the legitimate expectation of most Canadians that those who work hard and play by the rules should have the opportunity to get ahead, and that their children will have the opportunity to do even better.



14% of all income in Canada is received by the top **1%** compared to just **8%** in the 1980s.

3b Earnings Have Become More Unequal: The Rise of the Top 1%

A major Statistics Canada study (2007b) looks at the distribution of taxable income among families. The study examines income from earnings and investments (without taking into account income from government programs and taxes). It found that over the period of growing inequality from 1982 to 2004, there was no increase in the incomes of the bottom 60% of families (taking inflation into account). Over that period of more than twenty years, the income of a family in the exact middle of the income range rose from \$42,000 to \$43,000 (measured in 2004 purchasing power). In short, the majority of Canadian families received no direct benefit at all from economic growth, even though they were working longer hours as more women entered the workforce and took full-time jobs.

Almost all of the income gains during that period went to the wealthiest 20% of Canadian families, with much of that going to the top 1%. In fact, the share of all taxable income going to the top 1% of families rose from 7.4% to 11.2%, and the average income of those in the top 1% of families soared from \$380,000 to \$684,000.

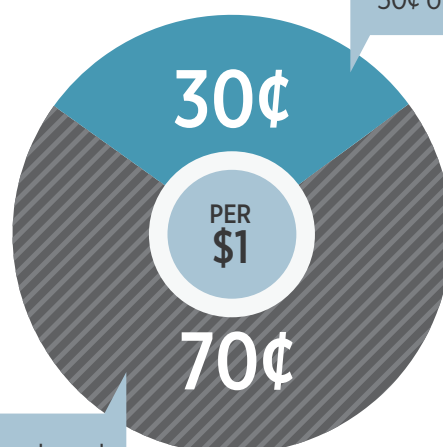
Important recent studies have focused on the before-tax incomes of the top 1% by examining income tax records which

provide an accurate picture of top incomes (Yalnizyan 2010). In Canada, the top 1% of tax-filers now receive fully 14% of all income, up sharply from just 8% in the early 1980s. We are now almost back to where we were just before the Great Depression when the top 1% controlled 18% of all income. They have captured a stunning one third of all of the growth in national income over the past twenty years. In other words, for every \$1 increase in national earnings over the past twenty years, more than 30 cents have gone to the top 1%, while 70 cents have had to be shared among the bottom 99%. By 2007, the incomes of the top 1% averaged \$404,000.

The OECD (2011a) reports that the share of the top 1% in Canada is slightly less than in the United States, where it now stands at 18%, but is double the 7.1% share of the top 1% in Sweden.

For the 100 highest-paid CEOs on the TSX index, Canada's business elite, the income gains have been even more pronounced. Mackenzie (2011) reports that, by the end of 2010, Canada's elite CEOs earned an average of \$8.4 million. They now make, on average, 189 times more than Canadians earning the average wage, up from 105 times more in 1998.

**Over the past 20 years,
for every \$1 increase in
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while 70¢ of every dollar has to be shared by the bottom 99%

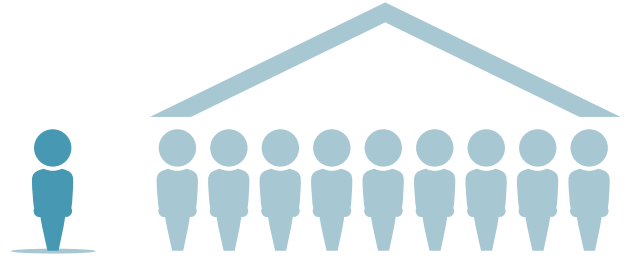
3c Taxes and Social Programs Equalize Less

The incomes of families are more equal when account is taken of income taxes paid and income received from government programs, such as public pensions and Employment Insurance (EI). While the overall tax system is quite flat — meaning that the rich and the middle class pay about the same percentage of their income in tax — income taxes are still progressive, meaning that the affluent pay at a higher rate (Lee 2008). Meanwhile, public pensions make up a larger share of the income of lower-income seniors, and programs like social assistance and EI mainly benefit lower- and middle-income groups.

While after-tax incomes are more equal, the trend is the same. Lars Osberg (2008) reports, based on Statistics Canada data, that there was virtually no increase in the inflation-adjusted family incomes of middle- and lower-income groups from 1980 to 2000, and that average incomes increased only because of income gains for the top one fifth or so of families. The OECD reports in its recent landmark study on inequality that the top 10% of Canadians now have after-tax incomes at least 4.2 times greater than the bottom 10%, up from 3.8 times as much in the early 1990s (this is the gap between the cut off income needed to get into the top 10% and the top income of the bottom 10%). Canada is more equal than the United States, where the minimum income gap between the top and bottom

“between the mid-1990s and the late 2000s...

Canada had the 4th largest increase in income inequality”



1 in 10 Canadian children still lives in poverty

10% of families is 5.9 times as much, but we are much more unequal than Sweden (3.2 times as much) and Denmark (2.8 times as much).

The OECD (2011b) also looks at poverty, defining it as a significant gap between those at the bottom and the middle-class. If poverty is defined as a family having less than two thirds of the income of a similar sized family in the exact middle of the income distribution, the poverty rate in Canada is 11.4%. This is significantly less than 17.3% in the United States, but much higher than the poverty rate of 8.9% in Germany. One in ten Canadian children still lives in poverty, and there has been very little progress in reducing poverty in Canada for the non-elderly over the past twenty years, despite the fact that House of Commons unanimously agreed, in 1989, to a resolution to seek to end child poverty by the year 2000.

3d. Canada Doing Worse Than Other Countries

The OECD and others note that the increase in income inequality in Canada since the mid-1990s has been much greater than the average among advanced industrial countries. The Conference Board of Canada (2011) reports that “between the mid-1990s and the late 2000s... Canada had the fourth largest increase in income inequality. This means that even though income inequality is higher in the U.S. than in Canada, growth in inequality in Canada has been higher.” Canada has slipped to “below the average” in measures of equality, and ranks 12th out of 17 peer countries (Conference Board of Canada 2011).

3e Inequality of Wealth

Economic inequality can also be measured in terms of the distribution of wealth (the value of household assets such as housing and financial assets, minus debt), which is even more unequal than the distribution of income. In 2005, the richest 10% of Canadian households owned 58.2% of all wealth. The bottom 40% have almost no net wealth at all because they owe more than they own (Morissette and Zhang 2006).

3f Social Roots of Economic Inequality

The overall statistics on economic inequality conceal complex human and social realities. Even when incomes were much more equal in the 1960s and 1970s, many Canadians, such as Aboriginal peoples, residents of very deprived communities, and persons with disabilities, were marginalized. Women earned far less than men – if they worked at all.

Today's growing income and wealth gaps reflect major economic differences defined by gender and, increasingly, by race. Women are still paid significantly less than men and tend to have more precarious jobs, meaning that single parent families headed by women and single women seniors are especially vulnerable to poverty, and that many women remain economically dependent upon men. There are very few women in the senior manager ranks which make up the top 1% of earners. Indeed, there is only one woman to be found among the top 100 CEOs in Canada.

Canada has become a much more racially-diverse society while at the same time becoming more unequal. Inequalities of income and class are caused and reinforced by inequalities based on racial discrimination. Many recent immigrants and racialized Canadians do very badly in the job market due to lack of recognition of international education and credentials, the devaluing of non-Canadian work experience, and outright discrimination. Racism is evident in the fact that young racialized workers who were born and educated in Canada face a significant pay gap when compared to their peers. Canada's "colour-coded labour market" contributes to the disturbing fact that one in five racialized families lives in poverty compared to one in twenty non-racialized families (Block and Galabuzi 2010). And racialized Canadians make



up a very high proportion of those who live in very low-income neighbourhoods in our largest cities.

For Aboriginal Peoples, the pernicious effects of colonialism persist. For every dollar non-First Peoples earned in 2006, Aboriginal persons earned only 70 cents, and one in four Aboriginal children lives in poverty (Wilson and Macdonald 2010). Conditions in far too many Aboriginal communities are a national disgrace.

There are large income gaps not just between persons, but also between Canadian communities. On top of large income differences between the richer and the poorer provinces, our major cities are increasingly divided between poorer and more affluent communities. We are being challenged by a large and growing gap between booming resource economies and hard-hit manufacturing communities.

4 What is Causing the Increase in Inequality?

4a Social Roots of Economic Inequality

The OECD (2011a) reports that “the single most important driver (of growing inequality) has been growing inequality in wages and salaries ... the labour market should, therefore, be the first place to act.”

The rapid rise in the incomes of the top 1% has been mainly caused by the rapid growth of ultra-high salaries and bonuses, and stock options for senior managers and executives, especially in the financial sector. Weak corporate governance and ineffective government regulation have allowed insiders to collect outsized rewards at the expense of both shareholders and ordinary workers. Growing pressure on corporations to deliver maximum short-term profits has produced a more ruthless and short-sighted capitalism, and rising profits have mainly benefited the most affluent. Cultural and social norms also play an enormous role. Pay gaps between CEOs and ordinary workers, which would once have been considered unjustifiable in terms of extra responsibilities and effort, have become the new normal.

As top incomes have soared, Canada has lost many formerly well-paid, middle-class jobs. We lost over 500,000 jobs in manufacturing just since 2002 due to the high dollar and changing patterns of global investment and trade. Good unionized jobs in other parts of the private sector have also been lost. Unions now represent less than one in five private sector workers, down from one in three in the late 1980s. Economists generally agree that unions help raise wages for ordinary and lower skilled workers, and reduce wage differences between workers and senior managers. Unions narrow pay differences between women and men, and between racialized workers and


other employees. When unions were strong, the gains they made for their own members also worked to raise wages and benefits for other workers (Jackson 2010). Unions have also been major champions of public pensions and other programs which benefit all working families.

At the other end of the spectrum, the sharp recessions of the early 1980s and early 1990s, followed by sluggish recoveries, meant that unemployment was much higher than in the era of greater equality. This put a lid on wages, especially for the lower paid, and allowed employers to offer less secure jobs. There has been a significant rise in contract, temporary, part-time, and lower paying jobs with little or no access to benefits and pensions. Only two thirds of workers today — and even fewer women and racialized workers — hold the full-time, permanent jobs which provide a measure of security. The ranks of the working poor have been rising since minimum wages are not enough to bring even a full-time worker, working all year, above the poverty line. One in four Canadian workers is employed in low paid jobs, defined by the OECD as paying less than two thirds of the mid-point wage, or less than \$13 per hour in 2012. Campaign 2000 reports that 40% of poor children live in families with at least one person working full-time, and only a minority live in families on social assistance.

The erosion of secure middle-class jobs owes something to major changes in economic forces, such as more trade and investment links with lower wage countries, and rapid technological and organizational change. Many economists believe that new technologies and rapid organizational change have left relatively unskilled workers at a major disadvantage

compared to the highly educated, at least unless employers and governments are prepared to invest in worker training and retraining for those who lose good jobs and do not have the needed skills to find new work. As middle-class jobs have been lost due to globalization, corporate economic restructuring,

and technological change, they have been replaced by both high-skill jobs in areas like financial services and health care, and by low-wage/low-skill jobs in services like stores and hotels and restaurants.



Increased inequality is the result of many **complex** and **inter-related social** and **economic changes**, as well as **changes** in how **democratic** governments have **intervened** to **shape** the outcomes of market processes through **social programs** and **taxes**.

4b Social Change

Another factor behind the growth of low incomes over the past decades has been social change. Families have become more diverse and less stable. The increasing proportion of children raised in single parent families headed by women was a significant factor behind increases in child poverty in the 1970s and 1980s – but this was not inevitable. It happened because of the lack of affordable child care, the fact that many women worked in low-paying jobs, and that child benefits were too low. We have made very modest progress in reducing child poverty, as targeted child benefits have been increased and as investments have been made in affordable child care, such as

in Quebec. Similarly, the rise in the ranks of working-poor families has been closely associated with the changing face of immigration to Canada. Again, diversity is not the problem, but the lack of supports and services for newcomers struggling to gain a toehold in a more insecure job market, and a failure to confront discrimination.



The more **equal** societies to be found in much of Europe held on to the **goal of shared progress**, reinvented social and **economic policies** to fit new times, and protected public institutions that kept a lid on **inequality**.

4c Values and Policies Matter: Some Countries Are More Equal Than Others

Some developed countries have been far more successful than others in shaping the forces of economic and social change, achieving both relative equality and economic success. Extreme inequality is not inevitable. Even within a competitive, globalized economy, there are options. As noted above, countries like Sweden and Germany today are much more equal than Canada, and have actually been more successful in terms of growth and job creation. This owes something to different traditions of corporate governance, to different social norms, to stronger unions, and, above all, to a stronger and continuing determination to shape market outcomes through social programs and taxes. High-equality countries spend much more of their national income on social programs and public services that are paid for by higher and fairer taxes. In contrast, high-inequality countries offer less generous supports to the unemployed, lower-income working families, and seniors, and also spend less on programs like child care, elder care, and affordable housing which reduce reliance on market incomes.

Values and politics clearly matter. The most unequal societies, such as the U.S. and the U.K., embraced free market fundamentalism most fervently from the 1980s, and have never really changed course. They weakened unions and cut public services and social safety nets in order to finance tax

cuts, especially for high-income earners. The more equal societies to be found in much of Europe held on to the goal of shared progress, reinvented social and economic policies to fit new times, and protected public institutions that kept a lid on inequality. While acknowledging that technological change and globalization have changed the game, OECD Secretary-General Angel Gurría has emphasized that “it is how countries have responded to these changes that accounts for the differences in inequality” (OECD 2011a).


Free market fundamentalism is an approach that is generally hostile to government spending on social programs and public services, puts an excessive emphasis on the market as the major source of individual freedom, and accordingly favours low taxes. Its most influential proponent was the prominent economist Milton Friedman, who served as a senior advisor to Ronald Reagan. Friedman baldly stated that “I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it’s possible. The reason I am is because I believe the big problem is not taxes, the big problem is spending. The question is, ‘How do you hold down government spending?’ ... The only effective way I think to hold it down, is to hold down the amount of income the government has. The way to do that is to cut taxes.”

4d The Course of Inequality in Canada

In Canada, the more equal society created from the 1940s through the 1970s was the product of economic prosperity, the strong growth of middle-class jobs, and major investments in social programs and public services. Taxes increased to pay for Medicare, Unemployment Insurance, public pensions, and accessible post-secondary education. The federal government led by example, and was a major funder of social progress at the provincial level through supports for health care, post-secondary education, social assistance, and services like child care.

Expansion of such programs slowed as the economy weakened in the 1980s, and the job market began to reward workers much less equally. However, the idea that we could no longer afford good social programs does not hold water. Today's economy is more than 50% larger than in 1980, measured in terms of real income per person. Rising inequality owes something to diminishing expectations about the equality-enhancing role of governments.

The increase in after-tax inequality dates back to the early 1990s, and coincides with significant cuts to social spending to deal with the increase in the public debt created by two recessions and high unemployment. The federal government deeply cut Unemployment Insurance benefits and provincial



Total tax revenue in Canada has fallen 5% from 36% to 31% of GDP since the mid-1990s

transfers which helped pay for social assistance, child care, and other anti-poverty programs. Then, when budgets were balanced, the focus shifted to tax cuts, especially for higher-income earners. Total tax revenue in Canada has fallen from 36% to 31% of GDP since the mid-1990s, matched by an equivalent decline in spending on social programs as a share of GDP. This shift has been one of the largest by far in the OECD.

4e Unfair Tax Changes Have Made Things Worse

Rising income inequality in Canada has been compounded by unfair tax changes. Lee (2008) calculates that when all taxes are taken into account, the top 1% pay an effective rate (all taxes paid as a share of income) that is lower than the middle class, and less than the bottom 10%. Their effective tax rate fell by four percentage points from 1990 to 2005, more than the tax reductions for other income groups; the bottom 10% actually experienced a tax hike. While the personal income tax component of the tax system is still progressive (meaning

that effective tax rates rise in line with higher incomes), top effective income tax rates have been sharply reduced (Statistics Canada 2007b). The very affluent have benefited from the fact that income from investments, especially capital gains, is taxed at a much lower rate than the wages of ordinary workers.

Rising inequality in Canada has, then, been caused not just by changes in the economy and the world of work. Instead of helping, our public policies have exacerbated the problem.

5 What Can Be Done About Growing Inequality?

5a A New Vision and Agenda

The pursuit of greater equality must become a core political commitment at all levels of government, grounded in a human rights framework, and informed by the experience of countries which have been more successful in avoiding extreme income inequality. There is no single magic bullet. Rather, we need to develop a comprehensive policy agenda integrating our economic, environmental, labour market, social, human rights, and taxation policies. The goal must be sustainable, shared prosperity, measured by a much broader range of indicators than GDP, which values only economic growth and not equity in its distribution. GDP also ignores quality of life and the environment. A new policy agenda must be grounded in the unique Canadian experience, taking into account the federal/provincial division of responsibilities, the important community-building role of local governments and the not-for-profit sector, and our diverse regional economies.

This agenda requires the full participation of Canadians. Enduring solutions will have national and local dimensions, and will require more than just governments doing the right things. Solutions will be effective and enduring only if they reflect the diversity of our experiences, and engage the commitment of Canadians in every part of the country.

As in past periods of combined economic and social progress, there is a need for federal leadership. Torjman and Battle (2011) note: “the federal level is the only government with the ability to ensure the equitable treatment of citizens in all parts of the country.” The federal government has many of the key levers — especially income security programs, a progressive income tax system, and transfers to the provinces — needed to combat inequality.

Poverty and exclusion can only be successfully addressed as part of a larger approach that addresses income inequality and social barriers, and discrimination that excludes or disadvantages particular groups (United Nations 2010). This will require targeted approaches to address the persistence of gender-based income inequality, and to include those who are shutout from the economic mainstream. We must address mental illness and homelessness, and the particular problems of communities that have experienced generations of poverty. We cannot afford to let the talents of people living with disabilities go to waste, or to leave families caring for the disabled to be left to fend for themselves.

We can do far more to help immigrants settle into their arrival cities and break down the colour-coded barriers of our labour market. In particular, we must address the unacceptable level of poverty in Aboriginal communities, and work with those communities on issues of health, education, housing, and economic development to ensure that they are able to contribute to and benefit from Canada’s prosperity. We must also recognize the unique place in Canada’s constitution of First Nation governments, enabling their efforts towards economic growth and independence by honouring Canada’s outstanding legal and historic commitments.

5b Good Jobs

Step One in confronting inequality means making major changes to our economic policies, especially by promoting a stronger economy and the growth of good middle-class jobs. The more equitable the distribution of market incomes in the first place, the less government will have to intervene after the fact.

We must fundamentally change trade and foreign investment policies to ensure high levels of labour rights and environmental standards here at home and around the world, and prevent a destructive race to the bottom. Canada needs to retain the policy levers needed to maximize good job creation from a sustainable resource economy, to maintain a strong and innovative manufacturing sector, and to allow us to maintain strong public services against corporate pressures to privatize. We have enormous potential to create good jobs in the essential transition to a green economy, as well as in our cultural industries and through the expansion of public services, such as education at all levels and the services we need to care for children and seniors.

Putting good jobs first means investing in the skills of all Canadians, through quality, affordable child care and early learning; maintaining our high-quality public education

system while ensuring that post-secondary education is open to all; expanding apprenticeship and other effective school-to-work transition programs; providing skills training to the unemployed and those trapped in low-pay, low-skill jobs; and achieving the goal of accessible lifelong learning opportunities for all. It means breaking down barriers by ensuring real pay and employment equity for women, racialized, and other equity-seeking Canadians. It means improving the quality of low-wage jobs by ensuring that workers have access to the potential benefits of unionization, which will require changes to our labour laws and a new commitment by unions to reach out to non-union workers. It means raising minimum wages and minimum labour standards along the lines proposed to the federal government in the landmark report “Fairness at Work: Labour Standards for the 21st Century.” (Federal Labour Standards Review, 2006.) rebuilding the middleclass also means changes to corporate governance and government regulation in the public interest to ensure corporate social and environmental responsibility. We must curb excessive financial sector and CEO compensation, and work toward wider representation on corporate boards to promote the interests of the public and employees.

5c Income Supports

Step Two in confronting inequality means changes to government support programs for all citizens and to programs targeted to those with low incomes or in short-term need. Canada has built an extensive system of income support programs that have contributed to greater economic security and income equality. These include federal programs, such as Employment Insurance, Old Age Security and the Guaranteed Income Supplement (OAS/GIS), the Canada Pension Plan (CPP) for seniors and persons with disabilities, the National Child Benefit, tax credits for low-income persons and families, such as the GST credit and the Working Income Tax Benefit, as well as provincial social assistance programs and tax credits.



**We must curb
excessive financial sector
and CEO compensation.**

Many of these programs have not kept pace with our changing economy, especially the increase in the ranks of the working poor. In the past, EI cushioned much more effectively against the impact of involuntary job loss. But with changes to the system in the mid-1990s which raised qualification requirements and reduced the level and duration of benefits, coverage has shrunk to under 40% of the unemployed. Part-time and casual workers and the self-employed are usually unable to access the program, and benefits are low for those who do qualify. Too few Canadians have access to paid parental leave, or leave for palliative care provided nationally through EI. This has created a two-tier system that undermines income security and exacerbates inequality.

Welfare is the last-resort income support option for the poor, including many persons with disabilities and temporarily-unemployed workers who cannot access EI. But provincial social assistance programs are deeply punitive, providing incomes far below the poverty line only after almost all savings have been exhausted. Rather than being encouraged to work, ‘poverty traps’ result from the fact that benefits as well as child care and housing subsidies are quickly clawed back if claimants find some work. The Caledon Institute has proposed expanding programs which supplement the incomes of the working poor and provide temporary income outside EI. A fruitful approach might be to expand federal and provincial tax credits, such as the Working Income Tax Benefit for those who need it most.

Similarly, Canada’s public pensions have not kept up with the changing times. They have been a great success story — eliminating deep poverty among the elderly — but cracks are beginning to show. This system was built on the now-outdated assumption that most Canadians would have private pensions tied to work. With the virtual disappearance of private-sector pensions, it is time to change the private-public mix of our pension system and increase the scale of benefits provided by the Canada Pension Plan. To eliminate poverty among seniors, we should increase the Guaranteed Income Supplement to Old Age Security.

The National Child Benefit and the Supplement paid to low-income families are important income security initiatives which have had some positive impacts. But they will need to be enhanced if we are to meet the goal of eliminating child poverty. As with pensions, we need to discuss the tension between universal coverage of citizens and targeting those in need. The former approach is more costly, but too much targeting of the poor and exclusion of the middle class can weaken public support – and thus undermine the social programs themselves. We should take a lesson from the European debate about “proportional universalism,” a system which provides some benefit to all eligible citizens, but proportionally greater benefits from universal programs for those in greater need.

We should consider the idea of a guaranteed minimum income. Tom Kent, the late social policy giant who was the architect behind the Pearson-era reforms that shaped modern Canada,

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left behind a plea to look at such an approach. Kent argued that we should design a system to ensure a reasonable level of income for every Canadian, building on the basic income guarantee we already provide to seniors. Support would be given in the form of regular payments to those with very low incomes, phased out with rising income reported via tax returns. He believed that the federal economies of scale would provide considerable efficiencies and reduce federal/provincial overlap and friction as provinces would focus on services (Kent 2011). Kent’s blueprints find supporters and detractors among both conservatives and progressives. There are significant issues of cost to be considered, as well as how to provide income support without discouraging work. Perhaps we could begin by providing a guaranteed income to persons with disabilities, including persons who are able to work but cannot do so on a continuing full-time basis.



we should design a **system** to ensure a **reasonable level of income** for every **Canadian**, building on the basic **income guarantee** we already provide to seniors.

5d Expanding Public Services

Step Three is to build accessible and affordable public services which benefit all citizens, while reducing reliance on market income. Mackenzie and Shillington (2009) have calculated that, for the great majority of Canadians, “public services are the greatest deal they are ever going to get.” The value of education, health, child care, and other services received annually far outweighs income taxes paid by the middle class and low-income groups. The benefit of most services is equally spread across income groups, and most public services geared toward meeting essential needs are far more cost efficient and equitable than the alternative of private services paid for in the market economy. For example, the administrative costs of Medicare are far lower than for-profit, private health care in the U.S., and all Canadians are covered for physician and hospital care.

Clearly, there is room for both reform and expansion of public services. Medicare could be more responsive, patient-centred, cost-effective, and innovative. At the same time, we need to expand the taxpayer-funded public health care model to cover prescription drugs, home care, and long-term care for the elderly, so as to lower costs and ensure that basic needs are met. Pressures caused by tax cuts have caused the erosion of

public services in some key areas. The cost of post-secondary education has been shifted to students and their families through higher tuition fees, causing access barriers and high debt. The changing needs of families and the new realities of working life mean that we should expand child and elder care services to support employment, to balance work and family demands, to lower costs, and to improve the quality of care. We might also consider other equality-enhancing priorities such as the expansion of affordable housing programs, including co-operative housing to build thriving mixed income communities, expanding of affordable public transit to help those with modest incomes and build more sustainable communities, and developing a wide-range of community social services.

5e Fair Taxes

Step Four is to make major changes to our tax system. Since about 2000, with income inequality on the rise, much of our political leadership and media turned “taxes” into a bad word. Canada’s taxes, as a share of national income, have been sharply reduced to 31%, below the average of 34% for the world’s most advanced industrial countries. These tax cuts have squeezed the services we already have, and made it difficult to talk about expanding the social programs we need despite overwhelming evidence that they would be cost effective. Our governments’ tax-cutting agenda has increased inequality by cutting equalizing social investments, perversely cutting the taxes of the affluent much deeper than those of the middle class, and contributing to declining trust in government.

Taxes are the hinge that links citizens to one another and to the common good. They are how we pay for those goods and services we most value and need. They are how we ensure shared prosperity in the good times, and limit personal devastation in the bad. They are how we assert ourselves collectively to protect the community and to shape our future.

Citizens rightly expect the cost of taxes to be fairly shared across income groups. An extra dollar of after-tax income is worth far more to struggling low- and middle-income families than to the very affluent, so effective tax rates should rise as people ascend the income ladder. Higher taxes for the very well-off also recognize the fact that while individual contributions to social well-being are needed, none of us succeed on our own. Most CEOs know that corporate performance requires a collective effort, and the most enlightened do not think it is fair that they should pay especially low taxes just because they get most of their income from stock options and capital gains.

The central part of our overall tax system should be a progressive personal income tax which treats wages and investment income equally, and we should have a major debate on the right level for top tax rates. Higher tax rates for very high-income earners are likely the most effective way to deal with the fact that the incomes of the top 1% are rising at the expense of everybody else. Top tax rates today are certainly much lower than they were twenty years ago.

Progressive income taxes contribute to equality by raising the money we need to pay for social programs, by limiting the difference between after-tax incomes, and by supporting the notion that society is fairly sharing the costs of its public programs.

We should also consider eliminating costly tax loopholes, such as the ‘boutique’ tax credits of recent budgets which benefit the most affluent, consider implementing taxes on very large inheritances of wealth which pass morally-unjustifiable class privilege on to the next generation, and reconsider the efficacy of repeated rounds of corporate tax cuts which have failed to stimulate a major increase in private investment and in high-quality jobs. Significant revenues could be raised by the introduction of a financial transactions tax, and by cracking down on tax evasion through offshore tax havens. Green taxes — such as a carbon tax and higher taxes on natural resources — need to be considered as a means of financing and promoting the transition to a socially and environmentally sustainable society.

Like other advanced democracies that have achieved higher levels of equality, we also need to consider broad-based taxes to pay for our social investments — including premiums to finance social insurance programs and value-added taxes. The opposition to these taxes is understandable at a time of squeezed middle-class incomes and high debt, but it is wise to rely on a number of tax bases, and the impact of flat taxes is equalizing, so long as revenues are put to progressive purposes.

There is certainly scope to improve income support programs and public services by shifting resources from areas like military and criminal justice spending, and many social investments will lower government costs and have a long-term payoff. As noted, the social ills created by inequality — ill health and premature mortality, high crime rates, and more — are enormously expensive for governments. Greater equality can help underpin better economic performance. That said, an agenda for greater equality will require an increase in social spending which demands consideration of changes to the tax system.

6 Conclusion

In the past, when Canadians were faced with major challenges, we found the collective will and purpose to make major changes to our social and economic arrangements through the instrument of democratic government. Over time, the balance between the market and democracy has shifted to place either more or less emphasis on achieving equality.

The rise of extreme income inequality over the past two decades of major political, economic, and social change has taken us too far in the wrong direction. Extreme income inequality has not only reversed past gains aimed at greater equality, but it also threatens our ability to respond creatively and effectively to major new economic, social, and environmental challenges.

We must re-balance our priorities. Other countries have shown that such choices are possible, and new social movements are forcing us to think harder about where we are headed.

We need a major national debate over the challenges we face, and the policy solutions at hand that will promote social equality, and give everyone a fair chance to achieve happiness and prosperity.



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