

# Confronting inequality: North American solutions to a North American problem

## A KINDER, GENTLER CANADA

An enduring Canadian myth is that we have embraced a “kinder, gentler” version of capitalism, tilting closer to European social democratic programs and values than our more Darwinian “free market” neighbours. Like all myths, this has elements of truth. Canada still has a flagship social program—medicare—to boast about, a somewhat stronger welfare state, and an avowedly social democratic party (or two, if we count the Bloc Québécois). Canadian nationalism is deeply bound up with the perception that we have built a different and more progressive social model than that of the United States.

But the fact of the matter is that deep cuts to government spending in Canada in the 1990s—combined with modest increases in the United States under Bill Clinton—markedly reduced the once huge differences between the two countries in terms of the size and scope of the welfare state. After slashing social spending more deeply than any other advanced industrial country in the 1990s, Canadian governments now collectively spend just 5 percent more of national income on non-defence spending than does the United States.

## THE GAP NARROWS

Although this is not an inconsiderable difference, it is sharply down from the 16 percent gap in the early 1990s. Our once more-generous employment insurance program has been cut to near US levels and provincial welfare benefits have been deeply slashed in real terms in almost all provinces, reducing equalizing transfers to lower-income working-age families. Public and social services, including health care, have been increasingly “marketized,” and our once strong unions have lost ground. Lower private sector union density, now below 20 percent, and a shrinking base of secure

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middle-income jobs have brought greater US-style inequality and insecurity.

Remarkably, total public social expenditures are now only marginally higher in Canada than in the United States as a share of national income (17.3 percent versus 16.2 percent, both little more than half the Swedish level of 31 percent). The United States actually spends relatively more than Canada on government transfers to persons because US social security provides more to the middle class than Canada’s public pensions, and because the United States is markedly more generous when it comes to income transfers to the working poor. The US Earned Income Tax

Credit provides up to \$4,700 per year to lower-income working families, with benefits phased out at \$40,000, while the Canadian Working Income Tax Benefit provides a miserly maximum benefit of just \$1,000 and is fully phased out at a family income of just \$20,000. The United States also issues food stamps to its poor—a degrading program, but arguably better than nothing.

## INCOME DISTRIBUTION AND TAXES: THE NORTH AMERICAN PARADIGM

Exposed to essentially the same big “neo-liberal” economic forces of globalization and unregulated domestic capitalism, income growth in Canada has, as in the United States, become remarkably concentrated at the very top of the distribution. Only the top 20 percent of earners have experienced significant real income gains since the early 1990s, with much of that taking place at the very top. The 1 percent of Canadians with the very highest incomes collected 12.2 percent of all taxable income in 2004, up from 8.6 percent in 1992, and their incomes averaged \$429,000 in 2002, massively up from \$268,000 in 1992.

In Canada, as in the United States under Ronald Reagan and the two Bushes, tax cuts for the very affluent—elimination of the high income surtax and much lighter taxation of capital gains income—have further undermined the once powerful redistributive effects of the combined tax/transfer system. This is important because progressive income taxes have long played a more important redistributive role in North America than in Europe, which has mainly equalized through generous social programs financed from flat payroll and consumption taxes.

The key point is that Canada has decisively moved from being intermediate between the United States and “social

Europe” to being little more than a regional variant of the US model. Like the United States, we have a big and ever-increasing inequality problem, and, like the United States, we are finally starting to talk about it. Research by the inequality project of the Canadian Centre for Policy Alternatives (see [www.growing-gap.ca](http://www.growing-gap.ca)) has been widely publicized in the mainstream media, drawing attention to the huge and rising gap between CEO and average worker pay, the exploding income share of the most affluent, the stagnation of average family incomes, and the chronic persistence of poverty despite falling unemployment. Inequality has become a major political issue, especially in our big cities, where low income has, as in the United States, become increasingly racialized and geographically concentrated.

### MYTH VERSUS REALITY

The myth of a “kinder, gentler” Canada was more descriptive of our reality in the 1970s and 1980s, but it always obscured the fact that a quasi social-democratic Canada was a relatively recent and fragile creation, dating back only to the Pearson minority government era, which brought us medicare, the CPP/QPP, and a much more generous unemployment insurance program, to mention only the highlights. American redistributive politics were more progressive during the long Democratic ascendancy from the New Deal until the demise of Lyndon Johnson’s War on Poverty and the sharp turn to the right under Reagan.

Arguably, Clinton was more of a progressive than Jean Chrétien. Although this does not say a lot, he worked with a Democratic Congress to attack the US deficit, partly by raising taxes on the affluent rather than just by cutting social spending, raised the minimum wage, and considerably expanded income supports for the working poor through the Earned Income Tax Credit (albeit slashing “welfare as we know it”). In the Chrétien-Martin period, the only really notable social policy achievement was higher child benefits for lower income families.

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### A COMMON OPPORTUNITY

With the prospect of a wholesale repudiation of the deeply inegalitarian Republican legacy now very much on the US horizon, the question arises as to whether we can reverse our common slide into ever more unequal and insecure societies. Deep social and economic reform is not on the US agenda today. Among Democrats, that cause was principally championed by the John Edwards campaign. But even Robert Rubin and his fellow Wall Street Democrats who will heavily influence a Barack Obama presidency see a need to deal with inequality, calling cautiously through the “Hamilton Project” for more progressive income taxes and selective social investments and transfers.

Progressive tax reform should be high on the policy agenda on both sides of the border. Higher taxes on the most affluent to fund higher income transfers and citizen entitlement programs are fundamental to a more egalitarian agenda, and any moves in that direction in the United States will make it far easier for us to follow suit. For once, tax

harmonization might come to mean harmonization up rather than down, and we can learn from the recent US experience of improving the lot of the working poor through living wages and earned income tax credits.

The issue of good jobs is also central. Part of the great North America-wide shift of income to the very rich is to be explained by relentless low wage/low social standard global competition, and Canada no less than the United States now confronts huge job-killing trade deficits with Asia. Beyond new trade models, we should be launching a North American green jobs strategy linked to a North American plan to deal seriously with global warming. It is difficult to talk sensibly about trade, industrial, and environmental policies—all of which link closely to good jobs—in a purely domestic Canadian context.

It has been a long time since Canadian progressives could think of making common cause with political movements south of the border, but a welcome whiff of change is in the air. 

### MULTICULTURALISM AND ITS DISCONTENTS: WHERE DO WE GO FROM HERE?

Conference organized by the Robarts Centre for Canadian Studies  
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Multiculturalism, once the crumb thrown to those not born into one of the “founding peoples,” has evolved into one of the cornerstones of what it means to be Canadian. In a broader sense it has come to encompass not only ethnicity but also gender, class, and regionalism. It is held together by a curiosity about the other and an exposure to many different ways of living and knowing. To address these changes and their future implications, “Multiculturalism and Its Discontents” is designed as a public event

featuring a wide selection of Canada’s best known social commentators, journalists, pollsters, scholars, artists and representatives of “multicultural” groups. They will, in a set of lively, open discussions address multiculturalism’s legal and social conundrums, its flashpoints, its successes, failures, as well as the unprecedented creativity of the many diasporas housed in Canada.

Check out [www.yorku.ca/robarts](http://www.yorku.ca/robarts) for details as they become available or contact Laura Taman ([llt@yorku.ca](mailto:llt@yorku.ca)).