

Income inequality and poverty: The Liberal record

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The Liberals had the good fortune to take over as the Canadian economy was starting to recover from the severe downturn of the late 1980s and early 1990s. By the measure of growth of GDP per person over the past decade, Canada put in just about the strongest economic performance of any major industrialized country, including the United States. However, GDP is a very incomplete measure of well-being, telling us little about economic security or the distribution of income, not to mention the quality of life in communities and the state of the environment.

THE ATTACK ON THE SOCIAL WAGE

The Liberal record is flawed when viewed from the perspective of distributional outcomes. Income inequality and poverty have both increased when account is taken of the state of the business cycle. And, redistributive economic transfers, economic security, and access to public and social services were all undermined by Liberal spending cuts, particularly cuts to the Employment Insurance program and transfers to the provinces. This short paper considers changes in market and transfer income, though cuts to the “social wage” of public and social services also greatly affected living standards.

From 1993 to 2002, government transfers to persons fell sharply, from 13.5 percent of GDP to 10.5 percent of GDP—the equivalent of \$35 billion in 2002. Seniors’ benefits were largely unaffected by policy changes, and rose due to population ageing. But, transfers to working-age households—mainly EI and social assistance benefits—fell, partly because of falling unemployment, which is a good thing, and partly because of reduced eligibility and benefits. In 1993, there were 1.6 million unemployed workers on average, 57 percent of whom collected regular EI benefits. By 2002, the number

of unemployed had fallen to 1.3 million, but just 38 percent of the unemployed now qualified for benefits. The dollar saving was much greater than that justified by the fall in unemployment, and the cost was borne mainly by lower- and middle-income households.

SHARING THE BLAME

The Liberals cannot, perhaps, be directly blamed for deep welfare cuts in the two richest provinces of Alberta and Ontario, especially since provincial governments here chose to deliver tax cuts. But, cuts to provincial transfers and the elimination of 50–50 federal cost-sharing of welfare under the Canada Assistance Plan certainly pushed the costs of social assistance (and related social programs such as child care) onto the provinces, including provinces that had little fiscal room to manoeuvre. No province increased welfare rates at anything near the rate of inflation after the mid-1990s, resulting in deep income cuts to Canada’s poorest households. Welfare cuts fell not just on persons and families outside the workforce, but also on the

working poor who move between low-wage jobs and social assistance.

On the other side of the balance sheet, the introduction of the National Child Benefit resulted in higher benefits for some low-income working families with children but, by design, did not provide an income supplement for the many low-income families with children on provincial social welfare programs.

Under the Liberals, the national unemployment rate fell and the employment rate rose. Between 1993 and 2002, the economy created some 2.5 million new jobs. However, unemployment of young adults remained high, as did under employment of adult women in involuntary part-time jobs, and the proportion of the total workforce in “own account” self-employment rose. The modest tilt toward more precarious and insecure forms of work had disproportional impacts on women workers and recent immigrants.

WAGE GAINS MODEST

Despite job growth, it is striking that, on average, there were no real wage gains whatsoever for workers over the past decade. Increases in average weekly and average hourly earnings for all workers just about matched the increase in prices, while even private sector unionized workers saw a very modest real wage gain of just 3.4 percent in total over the whole nine years. Real median annual earnings did increase—by 10 percent—between 1993 and 2001 (from \$23,028 to \$25,387), but this was due to working more hours in the week and weeks in the year, rather than because of higher wages per hour or week.

The boom in job creation had no impact at all on the incidence of low pay. In 2002, 25.3 percent of workers—19.4 percent of men and 31.5 percent of women—were low paid, defined as earning less than two-thirds the me-

dian (mid-point) hourly wage, the same level as in 1997. International data show that the incidence of low pay in Canada is, among the advanced industrial countries, second only to the United States.

INCOME INEQUALITY ON THE RISE

The Liberal years were marked by a major increase in income inequality, as the gains of the economic recovery went mainly to higher-income families. The table provides data on income trends in the 1990s for economic families of two persons or more. The data are in constant (inflation-adjusted) dollars. Data are shown for 1989, 1993, and 2001 (the most recent available) to show the changes under the Liberals as well as the longer-term structural trend. (The years 1989 and 2001 are comparable in terms of the level of unemployment.)

The first part of the table shows trends in market income—that is, wages and salaries, plus small business and investment income—but not including income from government transfers.

It is clear that the market income gains from 1993 went disproportionately to the high end. The top 20 percent of families, with average market incomes of \$145,580 in 2001, took 45.6 percent of all market income in that year, up from 44.4 percent in 1993, and up from 42.4 percent in 1989. In inflation-adjusted dollar terms (measured in 2001 dollars), the market incomes of the top one-fifth rose by 23.1 percent under the Liberals, much more than the other income groups with the exception of the bottom 20 percent. However, the bottom 20 percent, which is disproportionately made up of elderly families and recipients of social assistance, receives very little market income, and is mainly reliant on government transfers.

As also shown in the table, the top 20 percent of families also increased their share of after-tax/after-transfer income between 1993 and 2001, from 37.1 to 39.2 percent of the total. The share of all other income groups, including the bottom 20 percent, fell. This is unusual in a period

of strong economic recovery, which usually provides strong benefits to lower- and middle-income groups because of falling unemployment. In the economic recovery of the 1980s (1982 to 1989), the after-tax income share of the top 20 percent of families remained the same, and their share of market income increased

only very slightly from 42.0 to 42.4 percent. Increasing inequality reflects two broad forces pushing in the same direction. As noted, the increase in market income went mainly to the top, and the cuts in government transfers to non-elderly families fell disproportionately on

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FAMILY INCOME TRENDS IN THE 1990s

	1989	1993	2001	% Change 1989-2001	% Change 1993-2001
<i>Market income</i>					
Bottom quintile	\$ 8,969	\$ 5,307	\$ 8,362	- 6.8%	57.6%
Second quintile	33,729	29,896	32,362	- 4.1%	8.2%
Middle quintile	53,144	47,235	54,127	1.8%	14.6%
Fourth quintile	73,844	68,720	78,389	6.2%	14.1%
Top quintile	124,953	118,241	145,580	16.5%	23.1%
<i>Shares of market income</i>					
Bottom quintile	3.0%	2.0%	2.6%		
Second quintile	11.5%	10.1%	10.2%		
Middle quintile	18.0%	17.7%	17.0%		
Fourth quintile	25.1%	25.8%	24.6%		
Top quintile	42.4%	44.4%	45.6%		
<i>After-tax/after-transfer income</i>					
Bottom quintile	\$ 20,258	\$ 18,891	\$ 20,721	2.3%	9.7%
Second quintile	35,979	32,717	36,830	2.4%	12.6%
Middle quintile	48,064	44,738	51,074	6.3%	14.2%
Fourth quintile	62,247	58,886	67,878	9.0%	15.3%
Top quintile	97,242	91,683	113,615	16.8%	23.9%
<i>After-tax/after-transfer income shares</i>					
Bottom quintile	7.7%	7.7%	7.1%		
Next quintile	13.6%	13.3%	12.7%		
Middle quintile	18.2%	18.1%	17.6%		
Next quintile	23.6%	23.9%	23.4%		
Top quintile	36.9%	37.1%	39.2%		
<i>Poverty (Post-tax LICO)</i>					
All persons	10.0%	12.9%	10.4%		
Children	11.5%	15.7%	11.4%		
18-64	9.3%	12.3%	10.6%		
65+	10.9%	10.8%	7.3%		

(Data are for economic families of two persons or more. Constant \$ 2001.)
Statistics Canada. Income in Canada CD-Rom 2001.

Source: Statistics Canada. Income in Canada CD-ROM. Table T802.

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lower-income groups. Tax changes also contributed to greater inequality.

A SKEWED INCOME DISTRIBUTION AND CHILD POVERTY


Note that a family in the middle of the income distribution saw only a 14.6 percent increase in real market income over the eight years from 1993 to 2001, and a 14.1 percent increase in real after-tax/after-transfer income. A real income gain of only about 1.5 percent per year looks very small in comparison to the average real GDP growth rate of over 3.5 percent per year over the same period. The bottom 40 percent of families fared even worse in terms of growth of after-tax/after-transfer incomes. In short, there

has been a major disconnect between the statistics of overall economic recovery, and the incomes of ordinary working families, explained in significant part by the very unequal distribution of income gains.

The picture is slightly different when it comes to poverty rates, as measured by the after-tax low income cut-off line. Under the Liberals, poverty fell significantly for all age groups, reflecting the fact that the jobs recovery did give a boost to the incomes of those at the bottom, even if their share of the overall income gain was not large and was offset by cuts to transfers. However, poverty rates for the working age population in 2001 were still well above the level of 1989, when unemployment was at about

the same level. The fact that the child poverty rate was about the same in 2001 as in 1989 is no reason for great celebration given that this was the decade for the elimination of child poverty.

The clear bottom line is that income inequality increased significantly in the Liberal years, mainly because the increasingly unequal distribution of market income was not offset to the same extent as in the recent past by government transfers to lower-income families. And, poverty rates remained disturbingly high.

A note on sources: *Except as otherwise indicated, data are taken or calculated from the standard sources as reported in the 2002-03 issue of Statistics Canada's Canadian Economic Observer Historical Statistical Supplement.* 

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coincided with a loss of the national policy guidelines or principles that had prevailed for three decades. The supports for job training and child care that Liberals promised in their 1993 Red Book platform failed to materialize, leaving poor women in Canada to face less generous, more punitive, and often more paternalistic welfare regimes at provincial and local levels. Since significant cuts to federal social transfers, reductions in federal spending controls and weakened protections for poor citizens characterized the Canada Health and Social Transfer regime introduced in 1996, it was not surprising that subsequent years saw the arrival of US-style workfare programs in Ontario and time-limited social assistance benefits in British Columbia.

CHRÉTIEN'S ATTACK ON SOCIAL POLICY

So what? Of what larger significance were these patterns? Chrétien and other Third Way leaders tipped an already precarious and uneasy weighting of social rights and individual obligations toward a seemingly inexorable stress on duties owed. Over time, the combined effects

of their policies included narrowed social assistance eligibility, a glorification of paid work as the single unambiguous answer to welfare "dependency," and the growth of invasive social regulation in the lives of single mothers.

Austerity arguments as framed by Chrétien, Martin, and others suggested it was time to narrowly target scarce public funds toward selected "work-ready" recipients, in this way eliminating what were described as the wasteful universalist solutions of a "failed" welfare state. The combined upshot of their claims was the emergent Anglo-American duty state, under which individual obligations trumped social rights and administrative discretion rewarded "responsible behaviour."

For poor women, the crucial irony within the scenario of a fading residual or liberal welfare state and emerging duty state was stark and sharp. Surely among society's most dutiful members were mothers who cared for their children in the absence of a spouse or partner, in the absence of measurable financial assets, and in the absence of supportive social norms that said caring

work mattered. Yet it was precisely lone mothers at the bottom of the income scale who were singled out under the terms of the emergent duty state to find paid work, or a husband, in order to conform to moralistic norms about "self-sufficiency," "self-reliance," or "family values." Just as older social rights-based claims or entitlements were giving way to a nascent regime grounded in ideas about duties owed, women who thought they were fulfilling their obligations were assigned yet more responsibilities, and stripped of the rights they might have used to contest those additional burdens.

In short, Chrétien era welfare reform directions in Canada, when closely compared with conservative precedents in this country and elsewhere, often reflected more similarities than differences. From the perspective of late 2003, it seemed likely that a Paul Martin Liberal government would continue in the same directions as its predecessor—particularly given that Martin as finance minister had mapped out so many of those directions in his crucial budgets of the early Chrétien era. 