

Confronting Inequality: North American Solutions to a North American Problem?

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A Kinder, Gentler Canada

An enduring Canadian myth is that we have embraced a “kindler, 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.) Canadian nationalism is deeply bound up with the perception that we have built a different and more progressive social model than that of the US.

But the fact of the matter is that deep cuts to government spending in Canada in the 1990s - combined with modest increases in the US under Clinton - markedly reduced the once huge differences between us 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, our governments now collectively spend just 5% more of national income than does the US on non-defence spending.

The Gap Narrows

What is not an inconsiderable difference, but it is sharply down from the 16% 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. With private sector union density now below 20% and a shrinking base of secure middle-income jobs has come greater US style inequality and insecurity.

Remarkably, total public social expenditures are now only marginally higher in Canada than in the US as a share of national income (17.3% vs 16.2%, both little more than half the Swedish level of 31%.) The US 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 US 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 US also issues food stamps to their 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 US, become remarkably concentrated at the very top of the distribution. Only the top 20% of earners have experienced significant real income gains since the early 1990s, with much of that taking place at the very top. The 1% of

Canadians with the very highest incomes collected 12.2% of all taxable income in 2004, up from 8.6% in 1992, and their incomes averaged \$429,000 or 737 times median earnings in 2002, up from \$268,000 or 601 times the median in 1992.

In Canada, as in the US under 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 re-distributional effects of the combined tax/transfer system. This is important because progressive income taxes have long played a more important re-distributive 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 US and “social Europe” to being little more than a regional variant of the US model. Like the US, we have a big and ever increasing inequality problem, and, like the US, we are finally starting to talk about it. Research by the inequality project of the Canadian Centre for Policy Alternatives (see www.growinggap.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 US, become increasingly racialized and geographically concentrated.

Myth vs. Reality

The myth of a “kindler, 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 re-distributive 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 Chretien. While 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 Chretien-Martin period, the only really notable social policy achievement was higher child benefits for lower income families.

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 Edwards campaign. But even Robert Rubin and his fellow Wall Street Democrats who will heavily influence a Clinton or 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 US 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 US 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.