

PULLING APART – THE GROWING GULFS IN CANADIAN SOCIETY

Lars Osberg

If the objective of Canadian public policy is to increase the well-being of Canadians, then increasing the growth rate is not enough — the utility that citizens derive from economic life is affected by both the growth in average incomes and by changes in the distribution of those incomes. As well, in recent years the economics literature has increasingly recognized that “social capital” matters — because it is both a direct influence on the utility of individuals and because it is an indirect determinant of well-being, through its impact on other variables (like crime or the rate of growth in personal incomes) that influence individual utility. Income distribution therefore matters for national well-being in two ways — first because of its direct impact on economic inequality and second because of its impacts on the depreciation over time of our national stock of mutual trust, forbearance and civility.

Canadian society has become increasingly unequal in recent years, as incomes at the top have grown dramatically, while the least fortunate members of Canadian society have faced a substantially nastier economic reality. Although Canada’s GDP per capita grew by 36 percent from 1986 to 2004, social assistance recipients in all Canadian provinces now have, after inflation, lower real incomes than comparable individuals did twenty years ago. Figure 1 is taken from the National Council on Welfare and presents the Alberta case.

While the poor became poorer, the rich have become much richer. Figure 2 below graphs the changes, relative to a 1986 base, in inequality and average incomes. It plots the Gini index of inequality as a measure of the overall inequality of incomes (which increased from 0.388 to 0.425 — i.e. by about 10 percent) and it presents real GDP per capita. As well, since the Gini index is most sensitive to variations in inequality among middle class Canadians, Figure 2 also plots changes at the top and bottom of the income distribution. The real income (as reported for income tax purposes) of the top 1 percent of Canadian income earners increased by 65.7 percent

(from \$239,550 in 1986 to \$396,880 in 2000, both measured in year 2000 dollars). By contrast, the real income of Alberta single parents on social assistance decreased by 22.8 percent.

A growing body of research has found that localities with a more active associational life, a denser network of social ties and a higher level of trust have higher growth rates of GDP per capita — partly because of lower transactions costs and partly due to lower crime rates (particularly violent crime involving firearms). Increasing inequality corrodes social ties and thus has both a direct and an indirect effect on well-being — even after controlling for social capital, income inequality is a robust determinant of the incidence of violent crime rates.

More generally, social capital is the glue that holds social institutions together, the “shared values and rules for social conduct expressed in personal relationships, trust and a common sense of ‘civic’ responsibility” which enables society to function, either well or poorly. There are many ways in which the quality (and often the efficiency) of day to day life depends on the daily manifestation of a certain amount of consideration for the well-being of anonymous strangers. Individuals can, for example, choose to let other cars into traffic (or not) and they can choose to jump queues (or not) — in making those choices, they affect directly the quality of other people’s lives. It has been remarked that “Social Capital may be the stock, but forbearance is the flow” — and it is in the civility of daily social intercourse that Social Capital provides some of its direct benefits for individual well-being.

How then can we prevent erosion of the civility and mutual consideration on which our own daily well-being depends?

A particularly visible indicator of increasing economic inequality in Canada is the growth in homelessness, with its implied social message that Canadian society clearly does not care what happens to some of its citizens. In the same way as broken windows and graffiti are a socially visible indicator of

the physical neglect of a neighbourhood, the homeless are a highly visible indicator of our social neglect of the less fortunate. Canada may have signed a series of international treaties on human rights, starting with the UN Universal Declaration of Human Rights (1948), that declare adequate housing to be a basic human right — but in reality we do not care. Canada may have a constitution which presumes a “right to privacy” — but the homeless have no personal space over which they could exercise a right to privacy, and we do not care. The homeless may occasionally freeze to death in winter, but we do not care — at least not enough to spend money to fix the problem. And when it can plainly be seen that Canadian society does not much care about the rights or well-being of its least fortunate citizens, the question may well occur to others: “why should any individual care much about the rights or well-being of other citizens?”

As an empirical matter, homelessness is the extreme end of a continuum. Although literal homelessness is a condition of extreme deprivation, it is only a step away from being precariously housed — having a tenuous hold on housing of the lowest quality. Like the literally homeless, those with precarious homes are extremely poor. Poverty is at the root of both literal homelessness and being precariously housed, and homelessness affects both those who have no shelter from the elements and the much larger number who have to worry about the prospect of being on the streets.

Measured in real 2004 dollars, provincial welfare benefits for a single parent with one child fell from \$14,157 (Alberta) and \$14,652 (Ontario) in 1986 to \$8,784 (Alberta) and \$10,784 (Ontario) in 2004 — a 38 percent cut in Alberta and a 26 percent cut in Ontario, which was only partly offset by increased federal transfers. Meanwhile, the per capita real incomes of the top 1 percent rose by an average of \$157,330 between 1986 and 2000 — i.e. from \$239,550 to \$396,880. “Dropping out from the top” has become the new normal for these

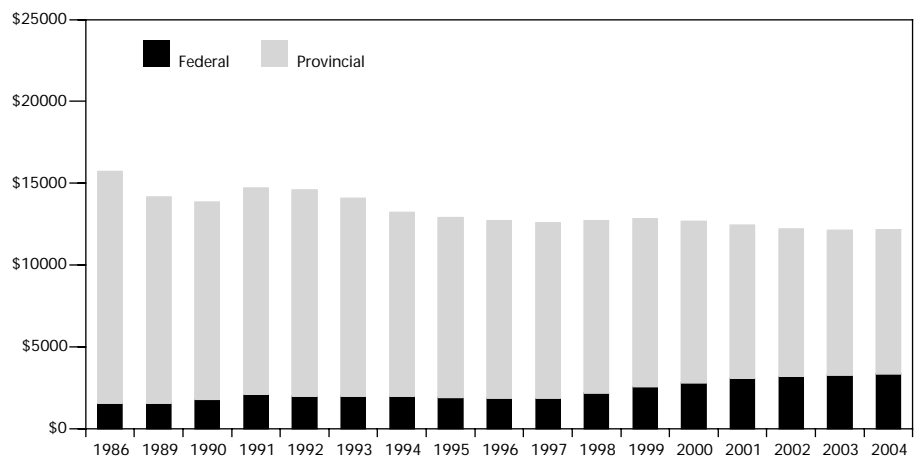
upper income groups, and whining for new forms of tax relief has risen to a crescendo, as the unprecedentedly affluent look for private sector alternatives which can enable their disengagement from the educational, health care and urban problems facing middle class Canadians. Canada now has both more “monster homes” and more homeless. As the extremes of the income distribution pull away from each other, the casualty is a common interest in the maintenance of the social infrastructure, despite its importance to a broadly based prosperity.

The policy challenge is to prevent social exclusion and poverty, and

to maintain the sense of social cohesion upon which effective public policy depends. Specific and feasible policy levers, which address this set of general issues might include:

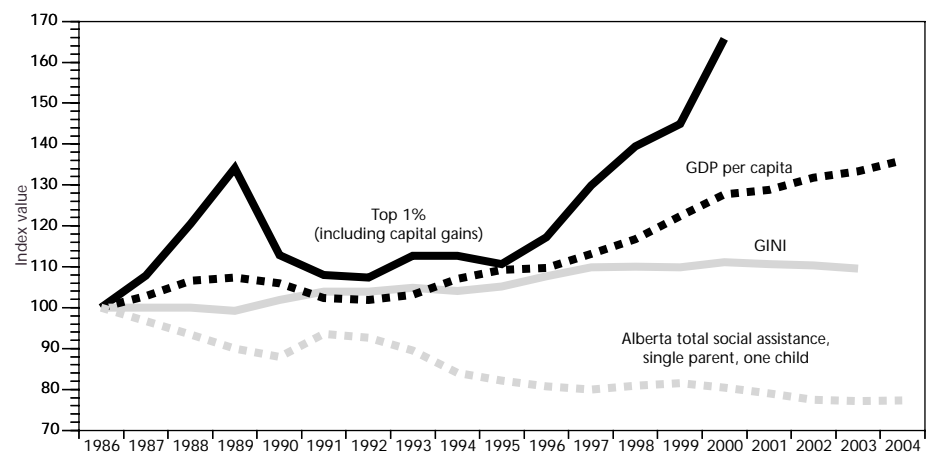
- the level, accessibility and administration of social assistance transfers, including “workfare,” supported employment and counselling and retraining initiatives;
- the design and funding of social housing programs, which range from assisted living arrangements and low income public housing to assisted home ownership plans;
- municipal zoning and land use regulations;

FIGURE 1. ALBERTA WELFARE INCOME, SINGLE PARENT, ONE CHILD (2004 DOLLARS)



Source: ????

FIGURE 2. INEQUALITY IN CANADA TRENDS 196-2004



Source: Gini coefficient and GDP per capita: Statistics Canada; Top 1 percent of earnings: National Bureau of Economic Research working paper number 9607; Alberta social assistance: national Council of Welfare.

- education initiatives aimed at the lower tail of the wage distribution — from pre-school to remedial to school-work transitions and life-long learning,
- maintenance of an adequate tax base for the social infrastructure

However, R.H. Tawney, writing in the 1930s, noted that “Contrasts of economic security, involving, as they do, that, while some groups can organize their lives on a settled plan with a reasonable confidence that the plan will be carried out, others live from year to year,

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week to week, or even day to day, are even more fundamental than contrasts of income.” Because such economic instability undermines the personal relationships which are fundamental to individual well-being, a sense of security about the future and “the ability to organize one’s life with a reasonable confidence that the plan will be carried out” is important for all citizens. Nevertheless, over the past 25 years a cluster of policies in Canada have aimed at encouraging “structural adjustment” and increased “labour market flexibility.” Acceleration of computer-based technological change and greater globalization of trade would, in any event, have increased labour market risks, but in recent years there has also been a trend to reducing the social protections of the welfare state. The combination of an increased rate of labour market change and decreased protections from the adverse consequences of change has had a clear consequence — greater economic insecurity.

Of course, those who can avoid hazards, or who can purchase private insurance against their consequences, or who can rely on others

for help, may have less reason to feel anxious about the future. But private insurance and family support may not always be available — so in the absence of a social safety net, the unlucky of the labour market must take the hit. Because each job loss means a loss of accumulated seniority and savings, the chances and the adverse consequences of future job loss increase. A string of bad luck can thus easily produce extreme deprivation — and the costs of such deprivation are not limited to the costs incurred by the unfortunate

few, since the avoidance strategies and anxiety incurred by others are also costly.

It is rational for risk averse individuals to want to avoid hazards, but in doing so they may behave in ways that are socially inefficient, even if privately optimal. The choice between specialized or generalist training is an example, since acquiring a diversified portfolio of skills may be individually optimal for risk averse individuals, but national productivity growth is likely to suffer if everyone decides to be “jack of all trades, but master of none”. “Social insurance” programmes have therefore historically had both equity and efficiency rationales, and from the origins of the welfare state in Bismarck’s Germany to the present day, most of the expenditures of the welfare state have not *primarily* redistributed resources from the rich to the poor. Although the lifetime income poor do benefit disproportionately from insurance against risks (like unemployment or workplace injury) to which they are disproportionately exposed, and although social insurance programs (like unemployment

insurance or worker’s compensation) are typically “pro-poor” in redistributive impact, their primary motivation is risk management for all citizens.

However, in recent years Canadians have seen a substantial erosion of the social safety nets of (Un)Employment Insurance and Social Assistance. The debate over the benefits claimed for these cuts has revolved round whether there have been any “incentive effects” on labour supply which might accelerate economic growth, and how large such effects

might be. There has been little consideration at all of the corresponding costs in economic insecurity. The focus in policy circles on supposed benefits in economic growth should be surprising, because when it comes to health and happiness, the impacts of personal

security and supportive relationships are positive, large and clearly established by research. Personal security and supportive relationships depend directly on “the ability to organize one’s life with a reasonable confidence that the plan will be carried out” but are increasingly at risk. By contrast, in affluent countries like Canada, positive impacts on health and self-reported happiness of further growth in average incomes are estimated to be (at best) small — and those estimates are hotly contested in the literature.

The policy challenge is to enable Canadians to have a sense of personal security in their economic futures, in a context of ongoing rapid technological, social and market changes. The existing policy levers that need to be re-addressed are:

- (Un)Employment Insurance
- Social Assistance
- Workers’ Compensation
- Canada Pension Plan

In addition, the design of tax incentives to savings, “personal accounts” and private insurance

strategies — i.e. the meshing of public policy and private mechanisms — needs careful analysis.

The inequality and insecurity of individual Canadians affects our national well-being, and there is also a growing gulf between localities within Canada. Over 65 years ago, the Rowell-Sirois Commission noted that:

The quality of education and welfare services is no longer a matter of purely provincial and local concern. In Canada today, freedom of movement and equality of opportunity are more important than ever before, and these depend in part on the maintenance of at least minimum national standards for education, public health and care of the indigent. The most economically distressed areas are the ones least capable of supporting these services, and yet are also the ones in which the needs are likely to be greatest. Not only national duty and decency, if Canada is to be a nation at all, but equity and national self-interest demand that the residents of these areas be given average services and equal opportunities.

The Rowell-Sirois Report was written during a period of emerging Canadian nationalism, and formed an important part of the intellectual framework for the role of government in that nation-building exercise. However, our current political reality is one of province-building, and the consequent erosion of an idea of common Canadian citizenship.

Canadian politics has been transfixed for at least 30 years by the problem of the relationship of Quebec to the rest of Canada, and in particular to the federal government. The continuing nationalism of many Quebecois, and the continuing ambivalence of many others about Canada, virtually guarantee that the Quebec issue will remain at the centre of Canadian politics — either in continuing debates about the role of

Quebec within Canada or in a long period of acrimony about the terms of the divorce. Within the last few years, however, two (linked) new elements have also been added: (1) the extraordinary affluence of Alberta, awash in a sea of petro-dollars but resentful of any suggestion for sharing and (2) the new complaints of the Ontario government about the 23 billion dollars which it alleges the federal government transfers from Ontario to less deserving regions of the country.

In Canada, there always has been a cacophony of provincial voices demanding additional powers and the transfer of tax room, and there has always been a particular sense of grievance in each individual province — e.g. the historic sense of alienation in British Columbia. The new element in Canadian disunity is the unanimity of the largest and most affluent provinces in considering themselves to be particularly victimized. And since no recent federal government has dared use the term “nation” or “national standards” for years (for fear of offending soft Quebecois nationalists) the idea of national citizenship has had no counterbalancing advocate.

Since most of the federal dollars which leave Ontario are in fact received by Quebec residents, the fact that Ontario and Quebec now share the rhetoric of “fiscal imbalance” disguises their divergent interests in the size and funding of federal-provincial transfers. The new common front of Alberta and Ontario (the two richest provinces) in demanding a smaller fiscal role for the federal government masks their conflicting macro-economic interests in exchange rate policy. The shared concern of Alberta and Quebec for provincial autonomy hides their many disagreements about language and social policies. Unanimity in Ottawa bashing does not necessarily imply agreement on any specific alternative — so the prospect of greater decentralization of the Canadian federation does not imply any greater likelihood of more effective policy design or co-ordination.

Increasingly lost in the chorus of provincial grievances is any sense that a common Canadian citizenship has much practical implication, other than an increasingly disparate Medicare and inter-provincial labour mobility. Because some sense of shared commitment to a Canadian polity can be seen as a general precondition for the give and take which effective democratic governance requires, many of the impacts of greater provincialism are hard to distinguish from general dysfunctionality of the Canadian federation. However, the most specific immediate consequence of current trends has been the further marginalization of the smaller provinces.

The policy challenge is establish and maintain “winning conditions” in which citizens in *all* parts of the country would prefer to be part of Canada as a political, social and economic union. The alternative is increasing dissension and dysfunctionality — and the prospect of eventual disintegration. Specific and feasible policies which could affect this trend include:

- Renewal of equalization and national programs of federal-provincial transfers
- Renewal of national cultural institutions

The common denominator to all these issues is the importance — both for individual well-being and for effective governance and efficient economics — of our social capital and our sense of common Canadian citizenship. Flag waving and fine speeches may partially paper over cracks for a time, but Canada’s growing gulfs in income and insecurity need real attention.

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