

From Keynesian Consensus to Neo-Liberalism to the Green New Deal

75 years of income inequality in Canada

Lars Osberg





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Executive summary

THIS REPORT TRACKS Canadian income inequality through 75 years of growth and recessions and speculates about the post-COVID-19 future. It emphasizes the importance of the economic paradigms informing the public policies which have shaped, and will shape, inequality and how the problems that one paradigm could not solve have informed the emergence of the next paradigm. Although the Keynesian consensus on the importance of full employment to balanced growth and social stability enabled growing real wages and stable inequality, it was replaced, after a surge in inflation in the 1970s, by Neo-Liberal policies that emphasized budget balance and low inflation. But slowing growth and the concentration of income gains at the top produced widening income gaps, increasing discontent and political instability—even before COVID-19 hit. In the post-COVID-19 era, the Green New Deal emphasizes social and environmental sustainability.

The Keynesian consensus

Canada was spared the destruction of World War II. Canada's war years were, in fact, a period of industrialization and rapid economic growth, as the unemployed of the Great Depression joined newly employed women and migrants from the farm in newly constructed wartime factories. Canada entered the post-war period as one of the richest nations on the planet—and, as a nation, we have become almost four times richer since then.

Keynesian full-employment macro-economics and welfare state social policy made balanced growth possible. Incomes were, and remained, unequal but because they grew at roughly the same rate at the top, bottom and middle of the income distribution, income shares were stable. That stability was an implicit social contract in which capitalists got growing markets, increasing dividends and continued political dominance while workers got jobs, rising wages and a taste of economic security through an expanding welfare state.

Like all grand bargains of political economy, it grew out of historic context. The Keynesian consensus in economic policy was implemented by a generation who had grown up in and witnessed the Great Depression and World War II. But the policy makers who grew up in the 1950s and 1960s, when the Keynesian consensus dominated economic discourse, grew up experiencing the world of stable inequality and balanced growth which the Keynesian consensus had produced—and thinking it was normal. Social stability and balanced growth became, for them, something that could be taken for granted—assumptions, not objectives.

The Neo-Liberal era

In the Neo-Liberal era, after 1980, unbalanced growth became the norm. Indeed, a general observation is that incomes grew faster the higher up one already was on the income distribution ladder. For the top 1% as a whole, average market incomes doubled between 1982–2018, rising from \$308,911 to \$615,670 (measured in 2019 dollars). However, most of this gain came from the very top of the top. The average income gains of the top 0.01% were \$5,187,956—a 189% increase, which made the average increase of the 99th to 99.9th look puny: a gain of “only” \$257,654, which was a 90% increase.

While the average income of the top 1% of Canadian tax filers roughly doubled, income gains further down the income distribution ladder were far more modest. Over the 36 years 1982 to 2018, the rest of the top 5% gained an appreciable 40% in market income, but the upper part of the middle class gained only 10% in market income, after price increases are considered, and taxpayers in the bottom half of the income distribution did not keep up with inflation.

Inequality in disposable income also depends on taxes and transfers. The Keynesian consensus generation of economic policy makers presided over the post-war expansion of Canada’s welfare state and its important role, through taxes and transfers, in mitigating market-based income

inequality. Transfer payments reduce inequality more than income taxes do but, added together, the total impact of the Canadian tax and transfer system on income inequality in Canada was quite significant. In 1976, it had resulted in a 0.084 reduction in the Gini index of inequality. Indeed, the tax and transfer programs that had been implemented in the 1960s and 1970s significantly offset the increase in inequality caused by the recessions of the 1980s and 1990s. During the 1990s recession, in 1994, the tax and transfer system reduced the Gini Index by -0.142 Gini points.

But while transfers and taxes played an increasing role in offsetting rising market income inequality until the mid-1990s, Neo-Liberal policy changes reversed their impact between 1995 and 2000, accentuating changes in market income inequality. Between 2000–14, the impact of the tax and transfer system on the Gini index was roughly constant—about -0.12 Gini points. Since 2015, the redistributive impact of both taxes and transfers has slightly increased. The slight trend downward in the Gini index of disposable income inequality reflects variations in the market income Gini, which, in turn, mirrored movement in the national unemployment rate.

Neo-Liberalism largely defined the policy agenda of Canadian governments after the early 1980s, producing low and stable inflation and rising incomes for the top end of the income distribution. However, high unemployment caused a sudden stop of average real hourly wage growth in Canada throughout the 1980s and 1990s. Most Canadians only tasted increasing prosperity a bit during the oil boom of the early-2000s, which ended with the collapse of oil prices in 2014.

Intellectually, the 1980–2008 period of Triumphant Neo-Liberalism had been marked by remarkable hubris. Lucas, for example, had famously declared: “macroeconomics...has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades.” Macro-economists routinely congratulated themselves on the presumed end of the business cycle and a “great moderation” of economic fluctuations. However, this complacency was shattered by the unforeseen financial crisis of 2007–08, the suddenness and the depth of the ensuing Great Recession, the slow speed of recovery and the consistent failure of macro-economic models to predict both the 2008 crisis and slow recovery.

Zombie Neo-Liberalism

Indeed, the 2009–19 decade probably deserves a “Zombie Neo-Liberalism” label because although the Great Recession shattered the unquestioning faith in markets that had underpinned the credibility of the Neo-Liberal agenda, no coherent alternative policy paradigm emerged. While some policies morphed, incoherently, into new forms, others staggered on.

The 2009 crisis had necessitated massive increases in public spending and the national debt, as well as a sudden, previously inconceivable, public ownership role in major sectors—breaking major taboos on deficits and public ownership. Although governments could, and did, sell off their stock holdings (e.g., in the auto makers) after 2010, returning to the certitude of the balanced budget mantra proved to be much more elusive. Indeed, the fiscal orthodoxy faith faced major defections, as some mainstream economists began to argue that public sector deficits since 2000 have been a good thing, because growth would have been even slower if governments had not injected aggregate demand by running increased deficits.

COVID-19 and the Green New Deal

And then, in March 2020, COVID-19 crashed the world economy. With unprecedented rapidity, severity, global synchronization and continuing uncertainty about emergence, the COVID-19 pandemic changed the social problem. The Keynesian consensus and Neo-Liberalism differed profoundly in their answers, but both framed the key policy question of income distribution as one of determining how the benefits of growth are to be shared. In the post-COVID-19 world, the problem becomes how to allocate the costs of contraction.

Although the pandemic is still ongoing, its impacts on the inequality of market income are already clear. Salaried professionals who can work from home have been inconvenienced, but their paycheques still arrive. Many hourly paid and gig workers in the hotel, restaurant, cultural and retail trade sectors have lost their income. Since these workers are disproportionately female, young and racialized, with low hourly wage rates, the pandemic’s economic impact has been “K shaped”: recovery at the top, but worsening misery at the bottom. As well as spotlighting the failings of Canada’s public health system, the pandemic shock revealed the inadequacy of Canada’s social safety net and the importance of both public health and the social safety net to the well-being of Canadians.

The pandemic has increased the inequality of market incomes, but its net impact on inequality will depend on how much its political economy impacts eventually affect disposable income—i.e. income after taxes and transfers. In 2020, after decades of balanced budget and anti-spending rhetoric, Canada’s federal government suddenly created new multi-billion-dollar social programs in a matter of weeks. The speed and size of those events were a necessary response to the emergency and they also constituted an important “possibility proof” that dramatic social policy changes can happen rapidly. The fact that the sky did not fall when governments increased their deficits by the several hundred billion dollars necessary to pay for these new social programs also clearly demonstrated that the barriers to a better social safety net are political, not economic.

The longer-term issue, therefore, is one of political economy—whether the “new normal” role for government of the post-COVID-19 world pivots back to Zombie Neo-Liberalism or is replaced by a new vision.

It is unlikely that the political economy of the post-COVID-19 world can be shaped by the same faith in low taxes and market-based individualism that fuelled Neo-Liberalism. The COVID-19 pandemic is the formative experience of a whole generation and will shape its lifetime political perspectives. In a pandemic, each individual’s chances of remaining healthy depend on the health and behaviour of their fellow citizens. As a concrete experience of a community’s shared fate, a pandemic is much more immediate than the gradual experience of climate change, but the essential role of government in dealing with a common problem is the main lesson of both crises. Having so many incomes evaporate overnight, in a way that so obviously is not due to personal failings, is also an experience that produces greater appreciation for the insurance value of social safety nets. Canada’s Millennial generation also was hard-hit by the Great Recession of 2008, entered the gig economy and the rising top-end inequality of the 2000s, incurred much of the earnings loss of the COVID-19 recession and can anticipate bearing the costs of climate change. Their early life experiences are very different from the social stability and shared prosperity that, thanks to Keynesian consensus policies, Baby Boomers took for granted.

Canada is not unusual in realizing that a new paradigm for economic policy is needed. Sometimes described as a Green New Deal, building back better has rapidly become mainstream thinking in international organizations, the European Union and the Biden administration in the U.S., and it is recognized that increased public spending is essential for progress in reducing both income inequality and greenhouse gas emissions.

When social insurance protections are dismantled and top-end incomes grow faster than middle-class incomes, inequality and insecurity increase over time. So the legacy of Neo-Liberalism includes the populist political reaction of those who were left behind and those who were, and will be, the casualties of the COVID-19 years. Neo-Liberalism could not produce inclusive growth and also did not solve the ongoing environmental crisis. The failures of Neo-Liberalism will condition Canada's emerging responses to the challenges of the post-COVID-19 world.

Introduction

IS INCOME INEQUALITY a “necessary evil”—the price that a society pays to enable economic growth and higher living standards for everyone? When economic growth is robust and broadly shared, this rationale for inequality may seem plausible to many people, which may lessen potential political discontent and reduce demands for change. But what happens when the benefits of growth are not widely shared—i.e., when mostly only the rich get richer? Or, even worse, what will happen when the economy shrinks and the question becomes how to share the costs of contraction?

This essay examines the 75-year relationship between income inequality and economic growth in Canada, from 1946 to 2021, and speculates about its future. It argues that the co-evolution of economic growth and income inequality in Canada can be best analyzed by distinguishing two main policy regime episodes, a balanced growth Keynesian consensus phase followed by a Neo-Liberal period of unbalanced growth. Since the problems that policy regimes cannot solve create the social pressures that change policy paradigms, increasing inequality was, by 2019, at the core of conflict over future policy directions—a conflict heightened by the massively unequal impacts of the COVID-19 pandemic crisis and subsequent recession.

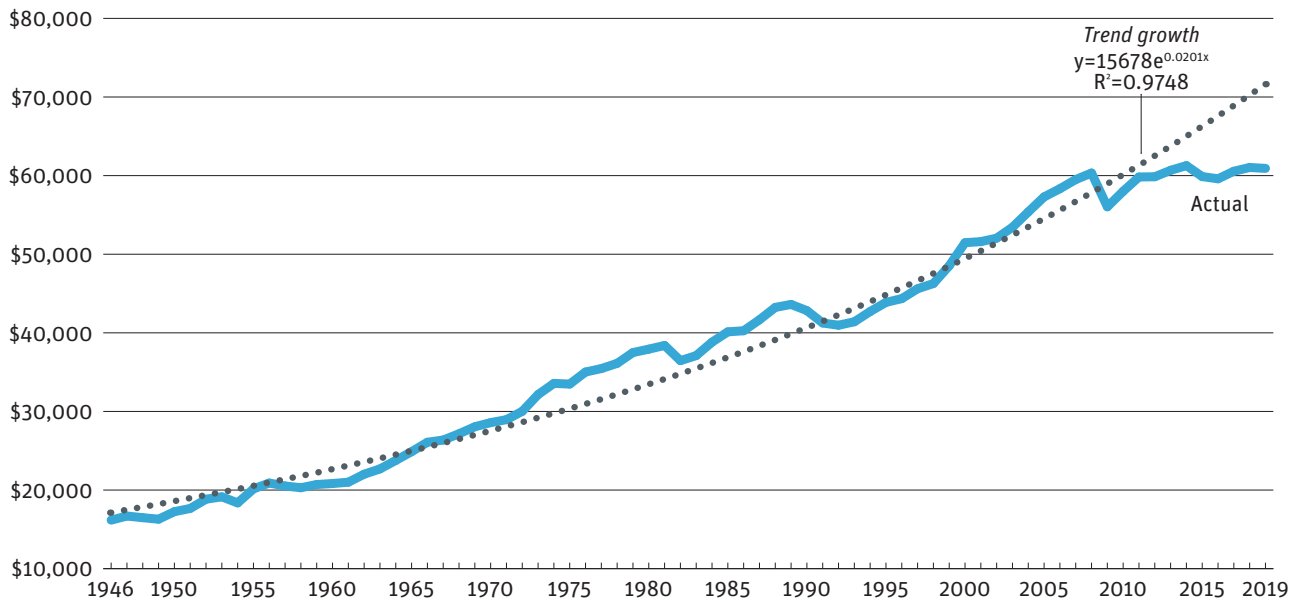
Section 1 summarizes trends in output growth and income inequality since 1946. The Keynesian consensus period (1946–80) and the Neo-Liberal Ascendancy of 1981–2020 are discussed in Sections 2 and 3 respectively, with a distinction in Section 3 between the Neo-Liberal Triumphant years (1981–2008) and the Zombie Neo-Liberal decade (2009–2019). Section 4 speculates on post-COVID-19 scenarios and the future of the Green New Deal.

Long-term trends

CANADA WAS SPARED the destruction of World War II. Canada's war years were, in fact, a period of industrialization and rapid economic growth as the unemployed of the Great Depression joined newly employed women and migrants from the farm in newly constructed wartime factories. Canada, therefore, entered the post-war period as one of the richest nations on the planet—and as a nation we have gotten almost four times richer since then. Measured in 2019 dollars, per capita real Gross Domestic Product (GDP) in Canada was \$16,179 in 1946 and \$60,918 in 2019¹, as plotted in Figure 1. For comparison purposes, Figure 1 also plots a simple compound growth time trend. For this 73-year period, the average annual growth rate of real GDP per capita, after adjusting for price inflation, was roughly 2% per year (2.01%, to be more precise²). Recessions in the early-1980s, in the 1990s, in 2008 and in 2015 registered actual declines in GDP per capita, rebounding shortly afterwards.

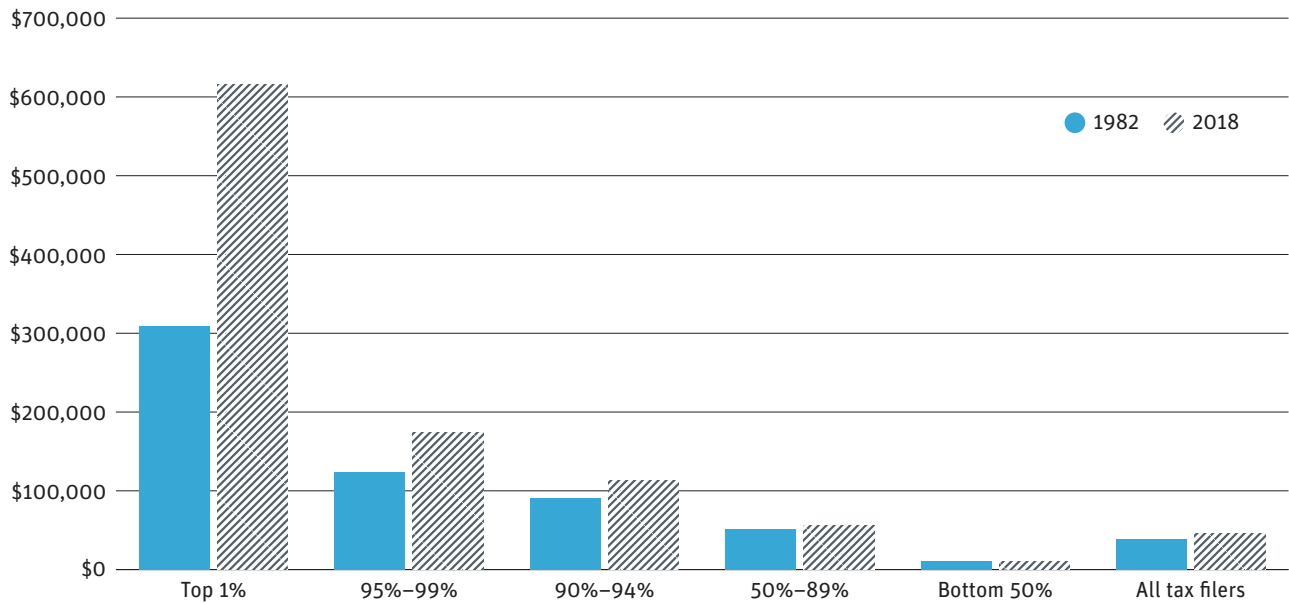
However, in both absolute dollar and percentage terms, growth in Canadian GDP per capita was more rapid during the 1946–80 Keynesian consensus phase of public policy than during the Neo-Liberal period that followed. Measured in 2019 dollars, real GDP per capita increased at an annual compound rate of 2.57% (on average \$640 per year) between 1946 and 1980, but it slowed to a yearly average increase of \$596 (1.26%) from 1981 to 2019. Indeed, per capita growth has slowed even more in recent years. During the Neo-Liberal Triumphant period, 1981–2008, the average annual growth rate was 1.7%,³ but after an initial recovery bump from the

FIGURE 1 Real GDP per capita in 2019\$, Canada 1946–2019



Source CANSIM Table 383-0027, Series B; Tables 051-0001 & 36-10-0369-01

FIGURE 2 Market income + capital gains, Canadian tax filers 1982 and 2018



Source CANSIM Table 204-0001 converted to 2019 dollars

2008–09 Great Recession, the Zombie Neo-Liberal decade saw stagnation in per capita GDP between 2010–19.

However, a crucial characteristic of the Neo-Liberal period was the very uneven sharing of income gains, as Figure 2 illustrates.⁴ While the average income of the top 1% of Canadian tax filers roughly doubled, income gains further down the income distribution ladder were far more modest. Over a period of 36 years, the rest of the top 5% gained an appreciable 40% in market income, but those between the median and the 90th percentile gained only 10% in market income—with a decline in average real income for taxpayers in the bottom half of the income distribution, as shown in Figure 2.

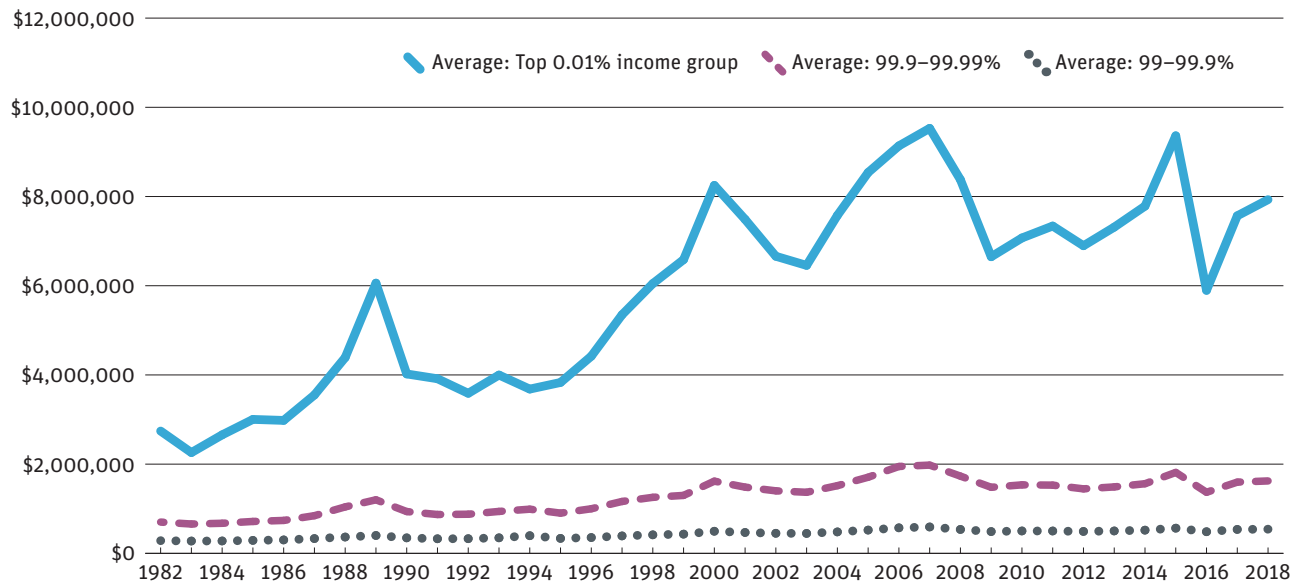
In the Neo-Liberal era, a general observation about income inequality in Canada was that incomes grew faster the higher up one already was on the income distribution ladder. At the very top, one has to measure incomes in millions of dollars, rather than the thousands of dollars portrayed in Figures 1 and 2. Figure 3 illustrates average market income gains *within* the top 1% of Canadian income earners—the top 0.01% and the next 9% of the top 1% (99.9th to 99.99th), and the bottom 90% of the top 1% (99th percentile to 99.9th).

For the top 1%, as a whole, average incomes doubled between 1982–2018, rising from \$308,911 to \$615,670 (measured in 2019 dollars). However, most of this gain came from the very top. The average income gains of the top 0.01% were \$5,187,956—a 189% increase, which made the average increase of the 99th to 99.9th look puny: a gain of “only” \$257,654, which was a 90% increase.⁵

As Figure 3 also illustrates, top-end incomes rise and fall with the business cycle. Since executive compensation is often partly paid in stock options, top incomes typically fall during recessions as capital gains on the stock market turn into losses. Canada’s recessions thus stand out clearly in Figure 3. After a recession, it can take a while for incomes at the very top to recover to their previous levels—an example being the early-1990s, when the recession produced a large income drop for the elite until 1995, before giving way to an even larger recovery.

Figure 3 also illustrates how some of the changes in reported income at the top can be illusory artefacts of tax avoidance. The upward spike in taxable incomes of the top 0.01% observed in 2015 is an example. Canada’s most affluent can often choose how and when they report income for taxation purposes. Because the Liberals won the 2015 election promising to raise the top rate of income tax in 2016, there was a tax advantage to shifting the reporting of income into the 2015 tax year, which produced a surge in reported taxable income in that year, and a drop in the next year.

FIGURE 3 Average incomes within the top 1%, 1984–2018, market income + capital gains in 2019\$



Source CANSIM Tables 11-10-0055-01 and 18-10-0005-01

Because there are very few people at the very top of the income distribution, and because the really rich often do not co-operate with interviewers, survey data rarely has enough observations on the top end to be reliable. In Canada and elsewhere, analysis of trends in top incomes therefore depends heavily on income tax data. However, a long-term trend toward greater under-reporting of top incomes is making that data increasingly unreliable. In Canada, incorporating oneself as a Canadian Controlled Private Corporation (CCPC) is a tax avoidance strategy that is readily available to high-income people. The income funnelled through a CCPC does not appear on income tax forms and, therefore, does not show up in the Statistics Canada data upon which Figure 3 is based. CCPC income in 2010 (the latest year available for research) was estimated⁶ to be at least \$48 billion, which was then about 44% of the total declared income of the top 1% of tax filers. Since CCPC income more than doubled as a percentage of GDP between 2002 and 2014,⁷ increasing tax avoidance means that the income tax data underlying Figure 3 are, year by year, missing an increasingly large fraction of the actual income of the top 0.1%.

On the other hand, income inequality in the middle 90% of the income distribution is reasonably well measured by surveys. (Unfortunately, these data only became generally available after the mid-1970s.) The Gini index

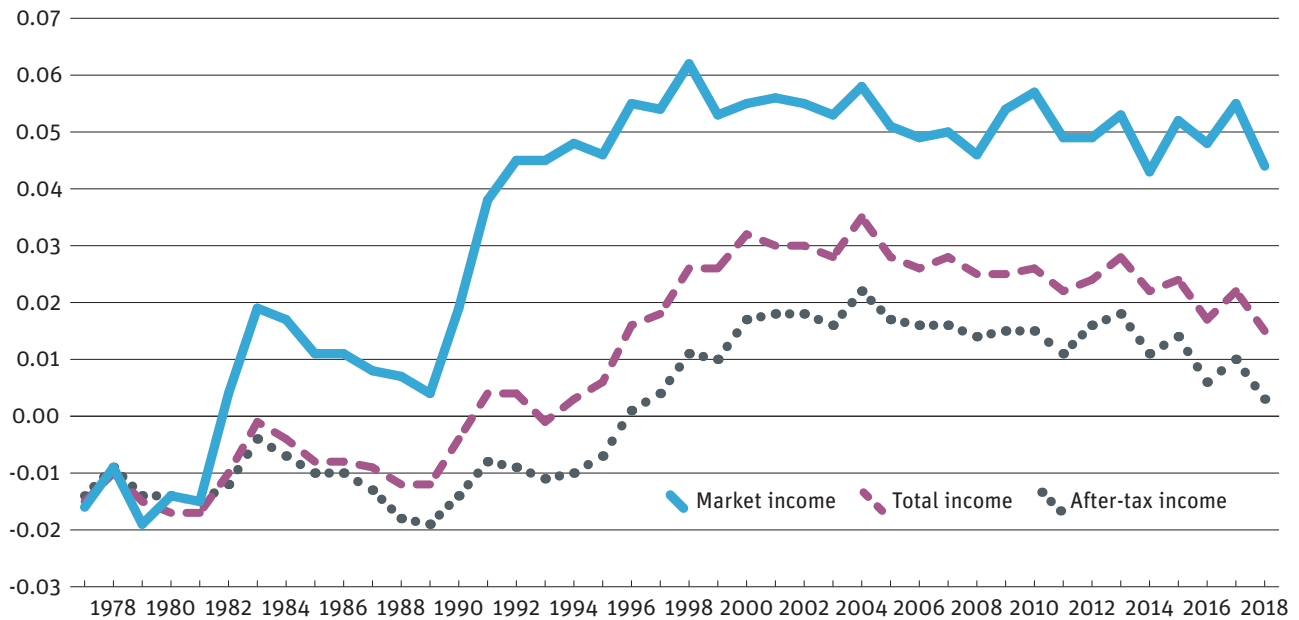
of income inequality is undoubtedly the single number most often used to summarize trends in survey data measurements of inequality. It varies between zero (perfect equality—all incomes are the same) and one (complete inequality—one person has all the income). In practice, it is most sensitive to what is happening to middle class incomes—there can be very large changes at the very top, with no changes at all in the Gini.⁸

Inequality in consumption also depends partly on living arrangements because family members who live together can “share the rent” and benefit from economies of scale in consumption. Measurement of inequality therefore commonly adjusts total household income for family size and estimates, for each household member, their *equivalent* income (i.e., the income necessary to support the same effective level of consumption as if each household member had lived alone). Figure 4 reports the change in the Gini Index of Equivalent Income since 1976 (the first year for which this survey data was available). To separate the impact of trends in market incomes from changes in government transfers and taxes, Figure 4 shows trends in the Gini Index of Inequality of market income (i.e., labour earnings plus capital income), total income (i.e., market income plus government transfers) and after-tax income (i.e., total income minus any income tax paid) compared to 1976.

The solid line at the top shows the change in the Gini Index of Inequality of market income. As Figure 4 shows, from 1976 to 1981 the change was negative (i.e., inequality actually fell as market incomes became more equal), but there was a sharp increase in inequality from 1981 to 1983, mirroring the increase of unemployment in the 1981 recession. The Gini index then trended downward, as unemployment declined and the economy recovered from the recession between 1983 and 1989. The Gini index of market income in Canada then surged upwards, from 1989 to 1992, followed by a more gradual increase until 1996—again matching the upward surge in unemployment during the recession of the early-1990s, but this time also reflecting the long period of high unemployment which followed.

Transfers and taxes make a considerable difference to the inequality of annual incomes in Canada.⁹ The middle, dashed line in Figure 4 is the Gini index of total income—i.e., market income from labour and capital plus transfer payments (social assistance plus Employment Insurance, CPP/QPP, the Guaranteed Income Supplement, and the Canada Child Benefit). The third line is after-tax income, often also called disposable personal income (DPI). Because it includes all types of market income and all transfer payments, subtracts income taxes and is adjusted for household size, inequality in equivalent after-tax income (DPI) is arguably more relevant than inequality

FIGURE 4 Gini index of equivalent income inequality, Canada 1976–2018, current year change since 1976



Source CANSIM Table: 11-10-0134-01 (formerly CANSIM 206-0033)

in market income for examination of trends in the inequality of annual living standards. However, to understand whether changes in inequality are due to shifting market forces (i.e., changing earnings and capital incomes) or to changes in social program or tax policy, one has to look separately at trends in the inequality of all three definitions of income.

Between 1976 and 1980, the Gini index of after-tax inequality declined, mirroring exactly the decline in the Gini of market income (because the impact of taxes and transfers did not change). In the recessions of 1981 to 1983 and the early-1990s, the market income Gini shot up, while the after-tax Gini rose by much less. In Canada in the 1980s and the early-1990s, unemployment benefits and social assistance payments were determined by programs designed in the 1970s—i.e. during the Keynesian consensus. Benefits then were higher and were received by many more people than is the case today. As unemployment surged upward in the early-1980s, increased unemployment benefits and other social assistance transfer payments offset a large part of the increase in market income inequality, so there was a much smaller increase in after-tax income inequality than in market income inequality.

During the 1983 to 1989 recovery, the Gini indices of market income inequality and after-tax income inequality declined in parallel, reflecting the fact that there was not much change in the inequality-reducing impacts of taxes and transfer payments. During the 1989–92 recession, Canada’s tax and transfer system kicked in to offset much of the increase in market income inequality. Indeed, although the Gini index of after-tax income moved upward in the early-1990s, it was not until 1995 that it finally rose above its 1976 level. Throughout those years, unlike the U.S. or the U.K., inequality in disposable personal income was not increasing because Canadian public policy decisions during the early-1970s had created a tax and transfer system that successfully offset much of the increased inequality in market incomes.¹⁰

As Figure 4 illustrates, transfer payments reduce inequality more than income taxes do. However, added together, the total impact of the Canadian tax and transfer system on income inequality in Canada was in 1976 a reduction of 0.084 Gini points and, in 2018, a reduction of 0.125 Gini points. At its peak during the 1990s recession, in 1994, the impact of the tax and transfer system was even larger: -0.142 Gini points. But while transfers and taxes played an increasing role in offsetting rising market income inequality until the mid-1990s, their impact reversed between 1995 and 2000, accentuating changes in market income inequality. Between 2000 and 2014, the impact of the tax transfer system on the Gini index was roughly constant—about -0.12 Gini points. Since 2015, the redistributive impact of both taxes and transfers has slightly increased. The slight trend downward reflects variations in the market income Gini, which, in turn, mirrored movement in the national unemployment rate.

Figure 4 starts with 1976 data because that is when the Statistics Canada survey data began. In the 1950s and 1960s, statistics on income inequality were usually reported in terms of the total income shares of each fifth, or quintile, of Canadian families and unattached individuals, from poorest to richest, without any adjustment for family size. As Table 1 shows, the key lesson of that data is that changes in inequality before 1981 were small compared to subsequent changes. In the 30 years from 1951 to 1981, the income share of the top 20% fell by 1.2 percentage points, but between 1981 and 2018 it rose by 5.5 percentage points (i.e., the *increase* in the top quintile’s share was considerably more than the entire income share of the bottom quintile). From 1946 to 1981, income inequality in Canada was less than in the U.S. and higher than in many European countries, but it was fairly stable because balanced growth meant that real incomes increased by roughly the

TABLE 1 Families and unattached individuals: Income shares from 1951–2018

	1951	1961	1971	1981	1991	1996	2001	2006	2010	2015	2018
Poorest 20%	4.4	4.2	3.6	4.6	4.5	4.3	4.1	4.1	4.1	3.9	3.9
2nd	11.2	11.9	10.6	11	10	9.6	9.7	9.7	9.5	9.3	9.5
Middle	18.3	18.3	17.6	17.7	16.4	16.4	15.6	15.7	15.4	15.4	15.5
4th	23.3	24.5	24.9	25.1	24.7	24.7	23.8	23.8	23.9	24	23.9
Richest 20%	42.8	41.1	43.3	41.6	44.4	45.2	46.9	46.8	47.1	47.4	47.1

Sources Statistics Canada, *Income Distribution by Size in Canada*, (1998), Catalogue No. 13-207, CANSIM Table 202-0701 V1546461 to V1546465, CANSIM Table 206-0031 and Podoluk (1968)

same percentage every year, from top to bottom of the income distribution.
Increasing inequality since the early-1980s was thus a major change.

Balanced growth and the Keynesian consensus

IN MANY WAYS, the lack of much change in income inequality in Canada before 1981 was quite remarkable, because Canada changed profoundly in many other ways between 1946 and 1981. The “baby boom” and high immigration doubled Canada’s total population, but because national income (GDP) was 4.5 times larger, per capita income more than doubled.¹¹ Urbanization and industrialization transformed the country. Farmers formed 27.1% of the population in 1941 but less than 5% by the 1970s. Horse-drawn wagons and steam engines were replaced, the telecom/computer revolution got underway and married women joined the labour force in unprecedented numbers. Medicare was introduced nationwide, post-secondary education expanded dramatically, the hippy phenomenon challenged social mores, the Canada Assistance Plan funded provincial social assistance programs, Unemployment Insurance was expanded in 1971 and Old Age Security (OAS) and the CPP/QPP pension systems were established. But in the end, the distribution of annual income hardly budged, because incomes grew at roughly the same rate from top to bottom. The rich, the middle class and the poor all shared in economic growth.

Keynesian full-employment macro-economics and welfare state social policy made balanced growth possible. It was an implicit social contract in

which capitalists got growing markets, increasing dividends and continued political dominance while workers got jobs, rising wages and a taste of economic security through an expanding welfare state. Like all grand bargains of political economy, it grew out of historic context, since the policy makers of the 1950s, 1960s and early-1970s had experienced the Great Depression of the 1930s and had witnessed the immense suffering, loss of life and destruction of World War II.

The lived experiences of the World War II generation produced, after the war, a widespread conviction that mass unemployment was the root cause of political instability and the growth of fascism and Nazism, and the totalitarian loss of freedom and the wars which that had produced. Influential voices had argued, throughout the 1930s, that balanced budgets and the avoidance of debt were more important than public spending to reduce unemployment. However, the rapid ramping up of wartime production concretely showed the illusory nature of these barriers to greater employment and output. As well, throughout the 1950s, 1960s and 1970s, domestic and international communist movements argued that mass unemployment was an inherent defect of market capitalism. This historical context produced a widespread Keynesian consensus: maintaining sufficient aggregate demand to produce full employment and sharing the benefits of growth were essential functions of government.

Keynesian macro-economic demand management aimed at full employment without inflation and, for many years, it was successful. After a brief Korean War surge, inflation averaged 1.4%¹² between 1952 and 1965 as the national unemployment rate fluctuated around an average of 5%. Between 1966 and 1972, unemployment averaged 5.1% while inflation crept up to an average annual rate of 3.9%.

Keynesian macro-economics was combined with a pragmatic approach to the public sector. Canada has always had a predominantly privately-owned capitalist market economy, but throughout most of the 20th century a pragmatic bipartisan tradition meant that governments created crown corporations when they deemed it necessary (e.g., Liberal governments created Canadian National Railways in 1919, Air Canada [originally Trans Canada Airlines] in 1937, Polymer Corporation in 1942 and Petro-Canada in 1975, while Conservative governments created Ontario Hydro in 1906 and the CBC in 1932¹³). The pragmatic approach also included occasional experiments with regulation and tripartite corporatism as well as recognition of organized labour as an important stakeholder (e.g., the Canadian Labour

Congress was invited, along with representatives of the business community, to name members to the Economic Council of Canada and other bodies).

However, the 1973 oil price shock sparked a surge in inflation, from 7.8% in 1973 to 11% in 1974. Unemployment rose slightly to 5.6% in 1973 and 5.4% in 1974. The failure of unemployment to decline spawned the term “stagflation”, as confidence in the Keynesian consensus began to evaporate. In the late-1970s, from 1975–80, unemployment averaged 7.9% while inflation, despite wage and price controls between 1975–78, averaged 9.1%. But as Figure 5 shows, although price inflation created discontent, money wages rose even faster than prices and the real hourly wages of Canadian workers grew at an annual average of 4.1% between 1970 and 1977.¹⁴

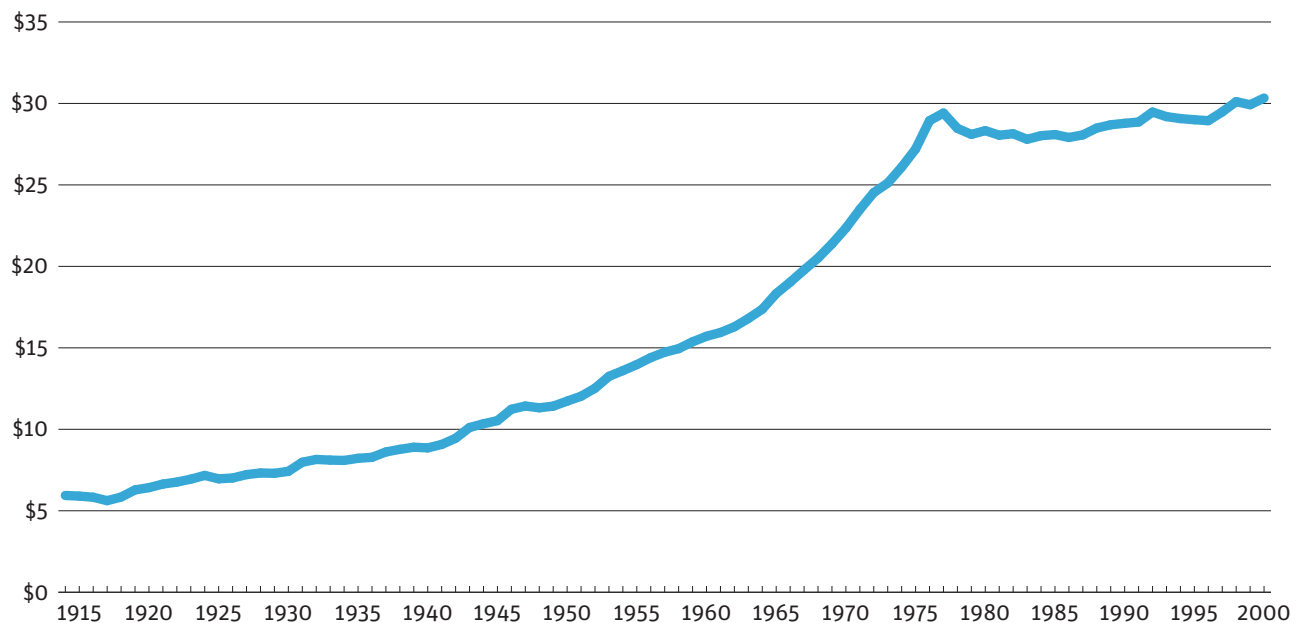
Neo-Liberalism

CANADA'S RECESSION OF 1981–83 was precipitated by a conscious decision of monetary policy makers to reduce aggregate demand in order to choke off inflation. Interest rates were raised to a peak of 21.3% in August 1981¹⁵ and the collapse of aggregate demand that ensued produced a surge in unemployment to 12% in 1983. But after the recession, there was no attempt to get back to full employment. For Canada's economic policy elite, the Keynesian consensus perspective on the importance of low unemployment had been replaced by the Neo-Liberal view that inflation control should be the overriding priority. Unemployment, therefore, remained high, averaging 9.5% between 1980 and 2000.

The sudden end of the growth of average wages produced by this increased unemployment is unmistakable in Figure 5.¹⁶ As Duclos and Pellerin (2016: 261) have concluded, between 1980 and 2010: "Hourly compensation growth among full-time workers is driven largely by rising educational attainments. Once we remove the wage effects of changes in the composition of the labour force, average hourly compensation stagnates or even declines over the period."

After 1980, labour's share of Canada's GDP trended downward. As Figure 6 illustrates, labour's share of national income fluctuates from year to year, but the long-term trend depends on whether real wages are increasing faster or slower than the rate of growth of labour productivity (e.g., when wages rise more slowly than productivity, labour's share of national income falls). Between 1961 and 2019, the underlying trend in labour's share of Canadian

FIGURE 5 Real average hourly wage (2019\$), Canada 1914–2000



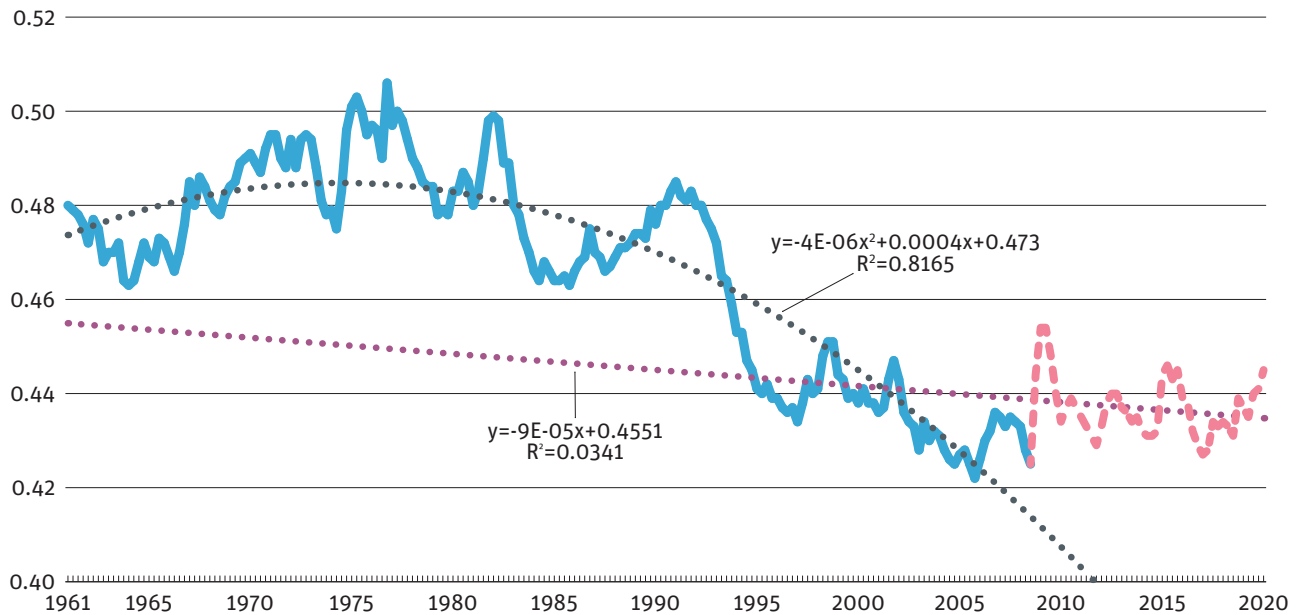
Source CANSIM ii V I603501; Urquhart et al “Historical Statistics of Canada”

GDP had three main phases: (1) An increasing labour share until the late 1970s, ending in 1980; (2) A trend to a declining labour share from 1981–2008Q3¹⁷ and (3) A period since 2008Q4 of no clear trend.

The sudden stop in real wage growth and the shift in labour income share trends around 1980 coincide with the ascendancy of the new Neo-Liberal policy regime. The Keynesian consensus had been implemented by a generation of policy makers who had grown up in, and therefore witnessed, the Great Depression and World War II and were skeptical that the market mechanism would, by itself, produce either enough growth or a fair enough share of growth to be socially acceptable. But the policy makers who grew up in the 1950s and 1960s, when the Keynesian consensus dominated economic discourse, grew up experiencing the world of stable inequality and balanced growth which the Keynesian consensus had produced—and thinking it was normal. Social stability and balanced growth became, for them, something that could be taken for granted—assumptions,¹⁸ not objectives. Faith in the market mechanism returned, as the memories of its failures faded.

Faith in the efficiency advantages of markets to maximize total national income and belief in the unimportance of equity in income distribution underlie the Neo-Liberal agenda. In this framework, the role of government

FIGURE 6 Wages and salaries of households, percent of GDP Canada 1961–2019



Source CANSIM Tables: 36-10-0104-01 and 36-10-0114-01

is to facilitate the operation of markets to the maximum extent possible, without worrying much about inequality or other social implications. In monetary policy, it means limiting the objective of the Bank of Canada to maintaining low inflation and jettisoning any mention of, or commitment to, full employment. In fiscal affairs, it means the policy priority should be balancing the annual public sector budget and limiting its share of GDP. Although economic nationalism had been an important theme in the Canada of the 1970s (e.g., in the Foreign Investment Review Agency's scrutiny of corporate takeovers for evidence of Canadian benefits), Neo-Liberal trade policy discarded any such considerations, emphasizing, instead, broadening the scope and size of markets through trade agreements that reduced tariffs, constrained regulations and removed any impediments to the movement of capital. Rationalized by a rhetoric extolling the importance of labour supply incentives, social policies for poor and middle-class people (like Employment Insurance or social assistance) were slashed while top marginal tax rates and corporate taxes were lowered for the affluent. Pragmatism about the public sector's role was replaced by a dogmatic belief that the private sector is always more efficient, which was used to justify the privatization of crown corporations and the sub-contracting of activities within government.

Each of these policy ideas was advocated as necessary reform that would produce faster economic growth. Each can be debated on its individual merits—the benefit of using a generic summary term like “Neo-Liberalism” is as a compact notation for an intellectually coherent set of policies which tended to reinforce each other in their practical implications. It became, in short order, the dominant perspective in academic economics and within Canada’s corporate, bureaucratic and political elite. Canadian governments implemented Neo-Liberal structural reforms, like deregulating and privatizing Crown corporations (e.g., CN Rail, Air Canada, Petro-Canada, Ontario Hydro) and signing a host of accords and free trade agreements, including the Canada-U.S. Free Trade Agreement, the North American Free Trade Agreement and the World Trade Organization accords. Austerity in public spending and tax cuts dominated fiscal policy discussion while monetary policy successfully targeted low inflation and the very word “unemployment” mostly disappeared from official policy documents.¹⁹

However, although Neo-Liberalism did define the policy agenda of governments and did produce both low inflation and rising incomes for the top end of the income distribution, the sudden stop of real hourly wage growth in Canada throughout the 1980–90s meant it did not deliver increasing prosperity to most Canadians. If the real wages of the middle class had increased, there might have been an interesting debate about which of these Neo-Liberal policies was responsible, or whether it was due to the substantial increase in the education and experience of Canada’s workforce. (The fraction of full-time workers with some college education or more increased by 26.6% between 1980 and 2010²⁰ and Canada’s baby boomers entered the most highly paid years of their careers). But although Canadians were repeatedly assured that this policy framework, and all these institutional reforms, would increase prosperity, middle-class incomes stagnated for 20 years, growing only when rising oil prices motivated an energy sector investment boom in Alberta, Saskatchewan and Newfoundland after 2000.²¹ When that boom ended with the collapse of oil prices in 2014, real wage growth collapsed as well.

Intellectually, the 1980–2008 period of Triumphant Neo-Liberalism had been marked by remarkable hubris. Lucas, for example, had famously declared: “macroeconomics...has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades.”²² Macro-economists routinely congratulated themselves on the presumed end of the business cycle and a “great moderation” of economic fluctuations. But this complacency was shattered by the

unforeseen financial crisis of 2007–08, the depth and suddenness of the ensuing Great Recession, the slow speed of recovery and the consistent failure of macro-economic models to predict both the 2008 crisis and slow recovery.²³

Indeed, the 2009 to 2019 period probably deserves a Zombie Neo-Liberalism label, because although the Great Recession shattered the unquestioning faith in markets that had underpinned the credibility of the Neo-Liberal agenda, no coherent alternative policy paradigm emerged. Some policies, therefore, staggered on while others morphed incoherently into new forms. Emergency conditions in 2009 had necessitated massive increases in public spending and the national debt, as well as a sudden, previously inconceivable, public ownership role in major sectors, breaking major taboos on deficits and public ownership. Although governments could, and did, sell off their stock holdings (e.g., in auto makers) after 2010, returning to the certitude of the balanced budget mantra proved to be much more elusive. Indeed, the fiscal orthodoxy faith faced major defections, as some mainstream economists began to argue²⁴ that public sector deficits since 2000 have been a good thing because growth would have been even slower if governments had not injected aggregate demand by running increased deficits.

A major tenet of the Neo-Liberal faith had also been the importance of low and stable inflation and the belief that inflation control should be the only objective of central bankers. But during the 2007–08 financial crisis and subsequent Great Recession, the importance of maintaining the stability of the banking system was suddenly rediscovered. In its aftermath, central bankers also realized that a major disadvantage of low inflation is the ineffectiveness of monetary policy and the loss of monetary stimulus that occurs when interest rates cannot go any lower. Before 2008 academic and policy circles almost never discussed the zero lower bound on nominal interest rates, but once it was reached, its importance was rediscovered.

The disadvantages of macro-economic Neo-Liberalism thus received much attention after 2010. The political economy implications of increasing inequality and rising insecurity also became more apparent, as populist appeals to the “left-behinds” of a globalized world of market dominance and welfare state withdrawal produced Brexit, Trump and ongoing political instability in many countries.

But when zombies stagger on, inertia partly determines their direction; micro-economic Neo-Liberalism mostly maintained its trajectory. Rebranding Unemployment Insurance as Employment Insurance while cutting benefits and accessibility had, for example, been part of Canada’s mid-1990s austerity

package—a reform that represented a drastic reduction in the social insurance role of the state and an increase in workers’ exposure to earnings risk that only worsened as the “gig economy” of insecure employment expanded in the 2000s. But the economic policy elite rarely become unemployed themselves and, in the Neo-Liberal faith, unemployment is often analyzed as a “voluntary” labour/leisure choice, with little attention to the hardships of involuntary unemployment and the need for a social safety net. In Canada, an implication of the continued hold of that belief was that Employment Insurance became increasingly inadequate as a social safety net, even before the COVID-19 pandemic hit.

The COVID-19 pandemic

Implications for inequality

AND THEN, in March 2020, COVID-19 crashed the world economy. Between February and April of 2020, 5.5 million Canadian workers, amounting to 28.5% of the workforce, lost their job or most of their work hours due to the onslaught of COVID-19. In February 2020, the official unemployment rate had been 5.9%, but its increase to 13.8% by May 2020 understated the job market crash because it did not count the increase in jobless people who had not looked for work, believing none was available. If they had also been counted as unemployed, the May 2020 unemployment rate would have been 18.2%.²⁵ Canada's GDP dropped at annualized rate of 38.7% between April and June before bouncing back somewhat with reopening in the third quarter and then stalling again with the onset of the second wave, new variants and new lockdowns in late 2020.

Unprecedented uncertainty became the theme of events. Initially, the uncertainty surrounding even short-term forecasts was such that the Bank of Canada's April quarterly policy report avoided making any projections. Although the initial forecast of the Parliamentary Budget Office (2020) of a 12% decline in annual GDP during 2020²⁶ looked pessimistic when third quarter output in 2020 was "only" 5.3% below 2019 levels, that was before Canada's economy stalled again. Around the world, the economic impact of COVID-19 differed widely but its unprecedented impact showed up most dramatically in the countries with the longest time span of statistics—e.g.

in the U.K., where over the year 2020 as a whole GDP contracted by 9.9%, marking the largest annual fall in UK GDP on record, i.e. since 1709.²⁷

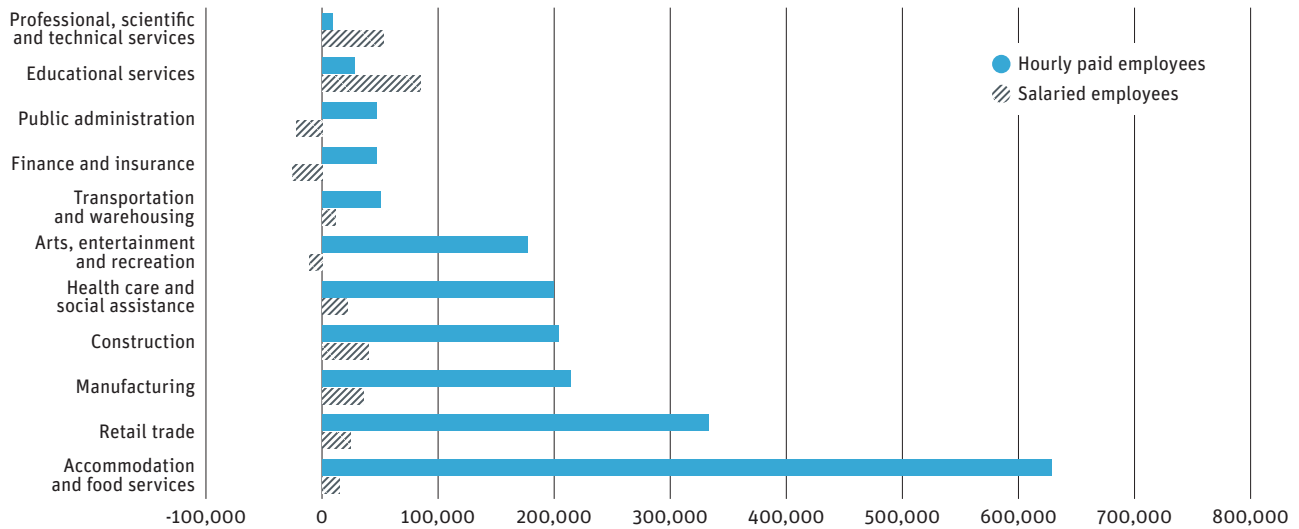
As Figure 1 has shown, growth in GDP per capita in Canada stagnated between 2010 and 2019. Even before COVID-19 hit, growth was slowing further. There was considerable uncertainty about how Canada could adapt to the end of the oil boom that had fuelled prosperity until 2014 (especially in Western Canada), about the costs of population aging and its impact on labour force growth and potential output, and about slowing productivity growth and the possibility of secular stagnation of GDP per capita. Layered on top of these long-term uncertainties were shorter-term worries about the impact of slowing investment and the implications of trade wars between the U.S. and China and Europe. Growth rate forecasts for Canada (e.g., by the OECD or IMF) were thus already low by historic standards and being marked down further, even before COVID-19 hit. Coincident with the pandemic, the Russia-Saudi Arabia price war depressed oil prices sharply. But the COVID-19 pandemic eclipsed all those issues, morphing with incredible speed, severity and worldwide synchronization from a global medical emergency into a worldwide economic disaster.

This paper has, thus far, contrasted balanced growth and stable income inequality during the Keynesian consensus years with unbalanced growth and increasing inequality during the Neo-Liberal era. A major theme has been the important role policy regimes can play in sharing the benefits of economic growth and the social and political stresses created if sharing is unequal. But by early 2021, COVID-19 had already shown itself to be an unprecedentedly large negative economic shock, and it was clearly not over yet.

As of February 2021, although the restrictions on economic activity produced by the second pandemic wave were not as draconian as those of the first wave, the emergence of new, more infectious variant mutations of the virus had produced another new wave of lockdowns and restrictions. Surging infections worldwide were producing millions more new cases daily and the realization was dawning that each new case is another opportunity for the virus to mutate—which will sometimes be into something more contagious and more dangerous. Meanwhile, the oscillation of the news cycle between the optimism of vaccine approvals and the pessimism of delays in vaccine delivery, combined with pervasive anxiety that vaccination may be less effective against emerging variants of the virus, continues to fuel massive uncertainty about the pandemic's future.

Both activity limitations and increased pandemic uncertainty produce declines in investment and consumption—i.e., depressed aggregate demand.

FIGURE 7 Job loss February–April 2020, by industry



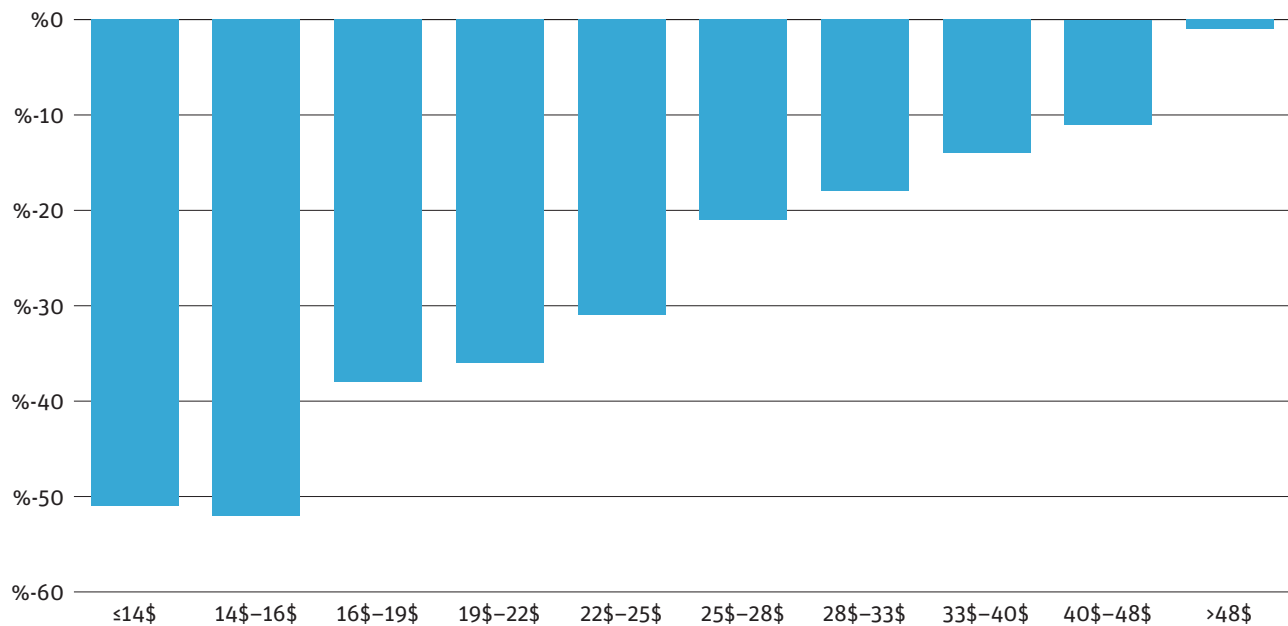
Source CANSIM Tables 11-10-0055-01 and 18-10-0005-01

Potential supply also declines because the costs of adaptation (e.g., in physical distancing) amount to a negative shock to productivity, implying a slower future growth rate of potential output, from a diminished base. In a very fundamental sense, the COVID-19 pandemic therefore changes the social problem. The Keynesian consensus and Neo-Liberalism differed profoundly in their answers, but both framed the key policy question of income distribution as one of determining how the benefits of growth are to be shared. In the post-COVID-19 world, the problem becomes how to allocate the costs of contraction.

The income distributional impacts of COVID-19 will comprise the impact of: (a) The initial shock of lockdowns; (b) The loss of output and income in the subsequent recession, and (c) The changes to social and economic policy regimes driven by the political economy implications of the lockdowns and the recession.

From the start, it has been clear that income losses from COVID-19 have been very unequally distributed. Salaried professionals who could transition to working from home saw little change in income, while the closure of workplaces involving face-to-face interaction meant drastic job cuts in the hospitality, travel and retail sectors.²⁸ These sectors have always been disproportionately female, racialized, younger and lower-waged, so these groups were most dramatically affected by COVID-19's economic and

FIGURE 8 Percentage with jobs or majority of hours lost, February–April 2020, by hourly wage



Source Table: 14-10-0223-01

health impact. Figure 7 shows the very different initial loss of hourly paid and salaried workers, by industry, and Figure 8 is a compact summary by hourly wage level. The concentration of job losses in low-wage sectors puts downward pressure on real wages at the bottom end of the wage distribution, increasing the inequality of market incomes.

Meanwhile, ultra-low interest rates (with central bank assurances that interest rates will remain low for years) have been jet fuel to stock market gains, which naturally accrue most to those who already had the most stock. By January 2021 it was noted that: “The collective wealth of all U.S. billionaires has increased over \$1.1 trillion since mid-March 2020, a nearly 40% leap during the past 10 months of national emergency.”²⁹

The direct impact of the pandemic on market incomes is thus growth at the top and shrinkage at the bottom, increasing inequality. But its net impact on inequality will depend on how much its political economy impacts eventually affect disposable income, which is income after taxes and transfers. In 2020, after decades of balanced budget and anti-spending rhetoric, Canada’s federal government suddenly created new multi-billion-dollar social programs in a matter of weeks. Because Canada did not already have in place a social safety net that could cope with the emergency, these new

programs were necessary reactions—and their speed and size constituted an important “possibility proof” that dramatic social policy changes can happen rapidly. The fact that the sky did not fall when governments increased their deficits by the several hundred billion dollars necessary to pay for these new social programs also clearly demonstrated that the barriers to a better social safety net are political, not economic. As well as spotlighting the failings of Canada’s public health system, the pandemic shock also revealed the inadequacy of Canada’s social safety net and the importance of both public health and the social safety net to the well-being of Canadians. The longer-term issue, therefore, is one of political economy—whether the “new normal” role for government of the post-COVID-19 world pivots back to Zombie Neo-Liberalism or is replaced by a new vision.

Before COVID-19, the phrase “Green New Deal” had become shorthand for an activist public policy regime rejecting globalization and market dominance, emphasizing the need to accelerate transition to a carbon-free economy and demanding greater economic fairness and equity—in the threefold sense of greater equality of opportunity, greater equality of income and wealth and greater economic security. Since it was clearly recognized that this vision requires substantially increased public spending, tax reform to generate revenue (e.g., from a wealth tax and/or higher top income tax rates) was part of the proposal but larger government deficits were also seen as quite acceptable. In “The Before Times” of 2019, many observers viewed these proposals as radical, impractical fringe ideas.

It is quite remarkable how mainstream this perspective (sometimes also called “Building Back Better”) has become in less than a year. As an example, one can cite the pronouncements of the International Monetary Fund (IMF). Founded in 1945, the role of the IMF has always been maintenance of the financial stability of advanced capitalism. Although Keynes was influential in its foundation, and Keynesian analysis informed its operations until the 1970s, the IMF was an early convert to Neo-Liberalism and throughout the 1980s, 1990s and 2000s, it zealously enforced the doctrine. Governments facing balance of payment difficulties and asking for loans were routinely required to commit to a policy package of balanced budgets, austerity, deregulation, low inflation and market openness. The IMF and market-oriented austerity policies became, for many people, synonymous.

But a necessary precondition for global financial and economic stability is political stability. And IMF research has found that “past major pandemics led to a significant increase in social unrest in the medium term, by reducing growth and increasing inequality. Higher social unrest, in turn, is associated

with lower growth, which worsens inequality, forming a vicious cycle.”³⁰ They note that there is “more unrest when redistributive transfers are low, suggesting that social safety measures help reducing social tensions.” At the height of a pandemic, overt discontent may be limited by the social controls and solidarity necessary for pandemic control, so “social scarring in the form of unrest may not show up quickly.... But looking beyond the immediate aftermath, the risk of social unrest spikes in the longer term (and) threats may be bigger where the crisis exposes or exacerbates pre-existing problems such as a lack of trust in institutions, poor governance, poverty, or inequality.”³¹

So the January 28, 2021 blog of the IMF³² is headlined “Government Support Is Vital as Countries Race to Vaccinate”. Green New Dealers would agree when the IMF now argues: “Fiscal policy should enable a green, digital, and inclusive transformation of the economy in the post-COVID19 environment” and that “Policies to strengthen the recovery and make it inclusive, resilient and green” should include: “Strengthening social protection systems to help counter inequality and poverty; and rethinking tax systems to promote greater fairness and provide incentives to protect the environment.”³³ Moreover, although the IMF knows well that plummeting tax revenues and new spending programs have produced a massive increase in public debt around the world, its Fiscal Monitor emphasizes the positive aspects of deficits, declaring: “Global fiscal support of \$14 trillion has contributed to saving lives and livelihoods and has mitigated the effects of the pandemic on consumption and output.”³⁴ To the extent that the increase in public sector deficits has been financed by central bank purchases of government bonds, the public debt is increasingly owed internally, and need not be an impediment to future public policy. So the World Economic Outlook argues: “Advanced economies continue to enjoy extremely low borrowing costs and can use the opportunity to provide fiscal support as needed to ensure a lasting recovery. Moreover, with well-anchored inflation expectations and subdued inflation pressure across the group, monetary policy should remain accommodative until the recovery takes firm root.”³⁵

Similar statements can be found in the most recent documents of many governments and international organizations. Partly these statements reflect a strong, purely economic case to be made for large “green” investments now. The benefits of reducing greenhouse gas emissions now will last long into the future, and the long term decline in global interest rates, even before COVID-19, has shifted the calculations of climate change policy, towards making the necessary investments now, rather than later.³⁶ But the language

used and the fact that it was felt necessary to make these statements is also partly an indicator of which way these institutions think the political wind is blowing.

It is unlikely that the political economy of the post-COVID-19 world can be shaped by the same faith in low taxes and market-based individualism that fuelled Neo-Liberalism.³⁷ The COVID-19 pandemic is the formative experience of a whole generation and will shape their lifetime political perspectives. In a pandemic, each individual's chances of remaining healthy depend on the health and behaviour of their fellow citizens. As a concrete experience of a community's shared fate, a pandemic is much more immediate than the gradual experience of climate change, but the essential role of government in dealing with a common problem is the main lesson of both crises. Having so many incomes evaporate overnight, in a way that so obviously is not due to personal failings, is also an experience that produces greater appreciation for the insurance value of social safety nets. Since Canada's Millennial generation also were hard-hit by the Great Recession of 2008, entered the gig economy, witnessed the rising top end inequality of the 2000s, incurred much of the earnings loss of the COVID-19 recession and can anticipate bearing the costs of climate change, their early life experiences are very different from the social stability and shared prosperity that, thanks to Keynesian consensus policies, Baby Boomers took for granted.

While Canada remains in recession, public sector deficits financed by Bank of Canada bond purchases can, and should, move the economy closer to its potential productive capacity. But if, after a recession of indeterminate duration, COVID-19 eventually produces slower growth there will be less output to be shared. Higher taxes to pay for more public services will then have to come out of a smaller national income. So who will eventually pay for the Green New Deal? Canada's affluent did very well for themselves during the Neo-Liberal era and have mostly cruised through the pandemic, but there was no evidence in 2021 that their appetite for increased income shares had abated. Many of them retain a strong belief in the wisdom of the Neo-Liberal policy environment that produced their decades of personal prosperity—a certitude that sharply contrasts with the lived experiences and the skepticism of the left-behinds and the COVID-19 casualties. When the Trump administration was cutting top-end tax rates and gutting environmental protections, opponents of a Green New Deal in Canada could use the argument that trading with the U.S. limits how much Canadian policies can diverge from American. But, in 2021, Canada will have to scramble in a progressive direction to keep up with the Biden administration's policy

initiatives in climate change, tax and social policy. Hence, a clear prediction about the political economy impacts of COVID-19 is increased conflict over income shares, as Canada's economic elites fight to defend, and enhance, their past gains.

Conclusion

THIS REPORT HAS contrasted the balanced growth and stable inequality of the Keynesian consensus era, 1946–1980, with the unbalanced growth and increasing top-end income shares of the Neo-Liberal years that followed. It has also contrasted the policy choice facing both past regimes—how to share the gains from growth—with the possibility that a post-COVID-19 world will be dominated by a more depressing choice: how to allocate the costs of contraction. As always, future policy choices will be conditioned on prior experiences. The era of Keynesian consensus decision-making saw full employment and the sharing of the gains from economic growth as central issues because that generation had experienced the costs of social instability. And although they could not solve the problem of inflation, they left a social insurance system and a history of stable inequality to their Neo-Liberal successors, which muffled initial discontent with the high unemployment, stagnant middle-class wages and increasing inequality of Neo-Liberalism. Neo-Liberalism solved the inflation problem but could not produce a fair distribution of the gains from economic growth—and that matters. When social insurance protections are dismantled and top-end incomes grow faster than middle-class incomes, inequality and insecurity increase over time. So the legacy of Neo-Liberalism includes the populist political reaction of those who were left behind in the Neo-Liberal decades and those who were, and will be, the casualties of the COVID-19 years. The legacy of Neo-Liberalism also includes a global climate crisis. Those failures of Neo-Liberalism will condition Canada’s responses to the challenges of the post-COVID-19 world.

Notes

1 Statistics Canada. CANSIM Tables 383-0027, 380-0084 and 051-0001.

2 The time trend explains almost all ($R^2 = 0.97$) the variation in real GDP per capita.

3 See Statistics Canada, CANSIM Tables 383-0027, Series B ; 051-0001 & 36-10-0369-01 for 1946–1980; Table 36-10-0104-01 from 1981 to 2019.

4 *Income change 2018 from 1982, Average Market Income + Capital Gains in \$2019*

	1982	2018	Ratio	\$ Difference
Top 1%	308,911	615,670	1.99	+ 306,759
95–99	124,357	173,721	1.40	+ 49,364
90–94	90,914	112,858	1.24	+ 21,943
50–89	51,464	56,607	1.10	+ 5,143
Bottom 50%	10,900	9,787	0.90	- 1,113
ALL TAXFILERS	38,645	46,285	1.20	+ 7,640

Source: Statistics Canada. Table 11-10-0055-01. High income tax filers in Canada. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110005501>. DOI: <https://doi.org/10.25318/1110005501-eng>—this data series begins in 1982 and at the time of writing in January 2021 had only been updated to 2018. The All Items Consumer Price Index (Table 18-10-0005-01) was used to convert to 2019 dollars.

5 Statistics Canada. Table 11-10-0055-01. High income tax filers in Canada.

6 See Wolfson, M., Brooks, N., Murphy, B. & Veall, M. R. (2016). ‘Piercing the Veil—Private Corporations and the Income of the Affluent’, *Canadian Tax Journal*, 64(1) 1–30..

7 Increasing from 3.1% of GDP in 2002 to 6.9% in 2014—see Finance Canada (2017) *Tax Planning Using Private Corporations* Background Paper: page 11, Chart 4. <https://www.canada.ca/content/dam/fin/migration/activity/consult/tppc-pfsp-eng.pdf>.

8 See Osberg, L. (2017). “On the limitations of some current usages of the Gini Index”, *Review of Income and Wealth*, Series 63, No. 3, September 2017, Pages 574 to 584, (published online 28 September 2016 DOI: 10.1111/roiw.12256).

9 *Gini Index of Equivalent Income: Canada 1976–2018*

	1976	1981	1986	1991	1996	2001	2006	2011	2016	2018
Market income	0.384	0.369	0.395	0.422	0.439	0.44	0.433	0.433	0.432	0.428
Total income	0.33	0.313	0.322	0.334	0.346	0.36	0.356	0.352	0.347	0.345
After-tax income	0.3	0.285	0.29	0.292	0.301	0.318	0.316	0.311	0.306	0.303

Source: Table: 11-10-0134-01.

10 See Osberg, Lars (2003). “Long Run Trends in Income Inequality in the USA, UK, Sweden, Germany and Canada—A Birth Cohort View”, *Eastern Economic Journal*, Vol. 29, No. 1, Winter 2003, Pp.121–142.

11 To 227% of its 1946 level. See CANSIM v480567, v466668, v742084-6, v742092-4.

12 See Statistics Canada, CANSIM 326-002—All Items Consumer Price Index and Table: 14-10-0078-01 (formerly CANSIM 282-0086), Official Unemployment Rate.

13 Originally, the Hydro-Electric Power Commission of Ontario and the Canadian Radio Broadcasting Commission.

14 Figure 5 splices together two data series (1914 to 1961 and 1961 to 2000). It shows real average hourly labour compensation defined as total labour compensation (taken from the National Income accounts, and therefore including the employer cost of CEO stock options, as well as social insurance contributions and fringe benefits such as employer paid pensions), adjusted for changes in the consumer price index and divided by total hours worked in the economy.

15 For a 5-year residential mortgage = see CANSIM V122497.

16 Figure 5 stops at 2000 and does not attempt to splice in succeeding series because the labour compensation of all employees includes the pay of top executives, whose salaries and stock options increased rapidly after the mid-1980s. Increases at the top end pulled up average compensation even as middle-class earnings stagnated, making *average* compensation an increasingly unreliable indicator of general living standards.

17 Canada’s experience was not unusual. As the IMF (2017:5) has noted: “In advanced economies, labor income shares began trending down in the 1980s, reaching their lowest level of the past half century just prior to the global financial crisis of 2008–09.” See Mai Chi Dao, Mitali Das, Zsoka Koczan, Weicheng Lian (2017). *Why is Labor Receiving a Smaller Share of Global Income? Theory and Empirical Evidence*. IMF Working Paper WP/17/169 Research Department, International Monetary Fund, July 2017.

18 Representative agent macro-economics, for example, has by assumption no possibility of conflict over distributional shares.

19 See Osberg, Lars (2011). “Why did unemployment disappear from official macro-economic policy discourse in Canada?”, in Fred Gorbet and Andrew Sharpe, (eds), *New Directions for Intelligent Government in Canada: Papers in Honour of Ian Stewart*, Ottawa: Centre for the Study of Living Standards, pp. 127–165.

20 See Duclos, Jean Yves and Pellerin, M. (2016). The evolution of hourly compensation in Canada between 1980 and 2010, *Canadian Public Policy*, 42 (3; Table 4).

21 See Green, David A., René Morissette, Ben M. Sand and Iain Snoddy, (2019). “[Economy-Wide Spillovers from Booms: Long-Distance Commuting and the Spread of Wage Effects](#),” *Journal of Labor Economics*, University of Chicago Press, vol. 37(S2), pages 643–687.

22 Lucas, Robert E. Jr. (2003). “Macroeconomic priorities”, *American Economic Review*, March, 1–14.

- 23 See Turner, David (2016). “The use of models in producing OECD macroeconomic forecasts”, in *OECD Economics Department Working Papers*, No. 1336, Paris: OECD Publishing; Guénette, Justin Damien, Nicholas Labelle St-Pierre, Martin Leduc, and Lori Rennison (2016). “The case of serial disappointment”, Staff Analytical Note/Note analytique du personnel 2016-10, Bank of Canada. Lewis, Christine, and Nigel Pain (2015). “Lessons from OECD forecasts during and after the financial crisis”, *OECD Journal: Economic Studies*, 2014(1), 9–39.
- 24 Rachel, Łukasz and Lawrence H. Summers (2019). “On falling neutral real rates, fiscal policy, and the risk of secular stagnation”, *Brooking Papers on Economic Activity*, 2019 <https://www.brookings.edu/wp-content/uploads/2019/03/On-Falling-Neutral-Real-Rates-Fiscal-Policy-and-the-Risk-of-Secular-Stagnation.pdf>.
- 25 Statistics Canada. Table 14-10-0077-01 Supplementary unemployment rates, monthly, unadjusted for seasonality.
- 26 <https://www150.statcan.gc.ca/n1/daily-quotidien/201201/dq201201a-eng.htm>
- 27 <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2020>
- 28 See Messacar, Derek, René Morissette and Zechuan Deng (2020). Inequality in the feasibility of working from home during and after COVID-19. Statistics Canada, Cat. No. 45280001, June 2020.
- 29 Updates: Billionaire Wealth, U.S. Job Losses and Pandemic Profiteers. <https://inequality.org/great-divide/updates-billionaire-pandemic/>.
- 30 [When Inequality is High, Pandemics Can Fuel Social Unrest—IMF Blog](#)
- 31 [COVID’s Long Shadow: Social Repercussions of Pandemics—IMF Blog](#)
- 32 [Government Support Is Vital as Countries Race to Vaccinate—IMF Blog.](#)
- 33 [Government Support Is Vital as Countries Race to Vaccinate—IMF Blog.](#)
- 34 [Fiscal Monitor Update, January 2021 \(imf.org\).](#)
- 35 (2021:10) [World Economic Outlook Update, January 2021: Policy Support and Vaccines Expected to Lift Activity \(imf.org\).](#)
- 36 <https://www.brookings.edu/blog/future-development/2021/02/04/secular-stagnation-climate-action-and-the-natural-rate-of-interest/>
- 37 In 2019, well before the COVID-19 crisis, about half of Americans under 45 expressed a preference for living in “socialist” country—see <https://www.documentcloud.org/documents/6145923-Axios-Tabs-1.html>.



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