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WHY INEQUALITY MATTERS, IN 1,000 WORDS OR LESS

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CANADIAN CENTRE FOR POLICY ALTERNATIVES

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Foreword

We live in an affluent nation during prosperous times.

Canada is now the 9th richest nation in the world. Unemployment is at a 35-year low, more Canadian families raising children are working, and they're working more.

And yet the income gap between the richest 10% and the poorest 10% of Canadian families keeps growing. The richest 10% now make 82 times more than the poorest—in 1976 they only made 31 times more.

A new phenomenon is also at play; one that goes beyond the extremes of the very rich and the very poor. Compared to a generation ago, 80% of Canadian families are taking home a smaller share of the economic pie they helped make. The concentration of incomes and wealth at the very top is accelerating.

Dropping poverty rates may signal a recent shift from welfare poor to working poor, but that shift has not lifted people out of the struggle to make ends meet. Their struggle is very real and it is shared by many Canadians. The growing gap in Canada is no longer 'just' about the rich and poor—it's about the rich and the rest of us.

The majority of Canadians say they worry about a growing gap. About half of Canadians told Environics Research they feel they are one or two missed paycheques from poverty. Economic insecurity is rife across most of the income spectrum.

Yet there is an unsettling silence among our governments when it comes to this issue. Some provincial governments have begun talking about poverty reduction strategies, which is welcome news but much is yet to be done on this file.

Then there are those who maintain the economy is working as it should: Some Canadians are doing better and poverty rates are improving. But the reality is that rates have improved only slightly over the past decade of tremendous economic growth. Canada's child poverty rates are no better today than they were in 1989 when parliamentarians of every political stripe declared child poverty was a national disgrace and needed to be eliminated.

Some maintain that growing concern about income inequality and poverty is much ado about nothing. I would say we ignore the growing gap at our peril—but don't just take my word for it. In this powerful collection of essays, seven of Canada's sharpest thinkers make a compelling case for why income inequality matters. And each makes the case in about 1,000 words or less.

The contributors to this essay series come from all kinds of academic backgrounds. Though all the contributors are distinguished and well-respected for their academic work, they are not of like mind. They have differing ideological starting points and differing intellectual approaches.

But they agree on this: Income inequality is a problem that should be addressed, right here in Canada.

They warn that income inequality and persistent poverty could have serious and adverse effects on our nation.

In this series we present the opinions of four economists—Lars Osberg, Charles Beach, Jon Kesselman and David Green; a political scientist—Michael Orsini; a sociologist—John Myles; a philosopher—Frank Cunningham. Queen's University Professor Charles Beach is past editor of Canadian Public Policy magazine and is Director of the John Deutsch Institute at Queen's University. He points to the 'historic change' in Canadian incomes of late, noting that "the benefits of economic growth have no longer been broadly shared. A rising tide has no longer been raising all boats."

Beach worries a growing gap could affect Canadians' living standards, erode Canada's 'middle class consensus' and reduce social cohesion. He warns, "a more economically polarized Canada may be more fractious and less stable; it could function less efficiently politically."

John Myles is a long-standing visiting research scholar with Statistics Canada. He is also a Canada Research Chair in the Social and Ethical Context of Health, and is a Fellow of the Royal Society of Canada. The University of Toronto professor zeroes in on the threat growing inequality can have on democracy itself. He writes, "If I were observing trends in Inequality Land, I would suspect I was observing a failed democracy. And I place a high value on democratic political institutions."

He says markets "need democracy to make market economies viable for people.

Quite reasonably, more economic growth isn't of much interest to the bottom half of the electorate if all of the gains are going to the top half."

University of Toronto Professor Frank Cunningham is a former Principle of Innis College, University of Toronto and past President of the Canadian Philosophical Association. He shares similar concerns about Canadian democracy, writing that ‘inequality is an enemy of democracy.’ His essay explores a myriad of ways inequality can undermine democracy and public spirit, including:

- The creation of two publics, one mainly concerned with making ends meet, the other with keeping and enhancing its wealth.
- With reduction of public resources, the charity of the rich must increasingly be relied on. One effect is that their priorities get privileged attention. Another is that catering to the wealthy to maintain social services defines these not as rights but as privileges conferred by a minority as they see fit.
- Inequalities foster elitism and resentment.

Political Scientist Michael Orsini is principle scientist with the Institute of Population Health, University of Ottawa. He links income inequality with Canadian policy makers’ increasing penchant to talk in terms of ‘risk management’.

He laments that the focus on risk management is ‘depoliticizing’. Talk of risk factors focus away from promoting the welfare of others, away from social injustice, away from economic insecurity.

Orsini writes, “This focus on risk factors all too conveniently shifts the responsibility from the state to the individual citizen to take charge of their own productive destinies as worker citizens. It individualizes the problem, and conveniently sidesteps its structural underpinnings.”

He says the language of risk masks “inequality in society—and government inaction to address this problem.

“And this is key,” he writes, “because economic risk does not just happen to people.

It is not something that can simply be managed. Governments all too often today exhort us to avoid or manage our exposure to risk, but neglect the fact that our ability to do this is affected by factors beyond our individual control.”

What to do about income inequality? What is within our collective control?

Simon Fraser University Professor Jon Kesselman is two-time winner of the Doug Purvis Prize in economic policy—perhaps the most valued prize in the Canadian economics profession. He is the Canada Research Chair on Public Finance and a research fellow of the C.D. Howe Institute.

Kesselman also co-edited a book on income inequality with 1,000 words contributor David Green, a professor at the University of British Columbia. (The book, Dimensions of Inequality in Canada by UBC Press, is a must-read for serious students of income inequality.)

Kesselman’s essay harkens us back to the Dickensian era, noting how extremes of destitution and wealth that were prevalent in the 1850s are an example of where

Canadian society might head if income inequality is allowed to grow unchecked. He talks about the costs of inequality—the social, political and economic costs of leaving some Canadians behind as others soar into the heady stratosphere of wealth.

He writes, “There is no need for Canada to drift toward a twenty-first century version of a Dickensian world. Policies to mitigate the extremes of inequality will benefit not only those at the bottom but Canadians more broadly.”

David Green is also a winner of the Doug Purvis Prize in Economic Policy and is an international research associate with the Institute for Fiscal Studies, University College London (England). In his essay, Green draws on Adam Smith for inspiration, writing: “To build a society on sympathy—the society that polls suggest many Canadians have in their heads—there is no substitute for providing real help to those who are faring worst in our society.”

John Myles urges Canadians not to ‘rest on the laurels of those who preceded us’. He writes, “Times have changed, and as the inequality trends indicate, Canadians face new distributive challenges. … The viability of our society requires efficient markets; but it also requires effective democracy.”

Lars Osberg is chair of the economics department at Dalhousie University and past president of the Canadian Economics Association. Osberg calls on those who debate how much income inequality is growing to take a reality check and ask: “‘Just when did the homeless first appear in such significant numbers on the streets of Canada’s cities?’

“They weren’t always so commonplace—during the 1980s, Canadians who traveled across the border could smugly contrast the ‘kinder and gentler’ streets of Toronto or Vancouver to the nastier realities of New York and LA.”

Osberg observes: “The implied social message of homelessness is that Canada very clearly does not care what happens to some of its citizens.

“In the same way as broken windows and graffiti are a visible indicator of the physical neglect of a neighbourhood, the homeless are a highly visible indicator of Canada’s social neglect of the less fortunate.”

Can Osberg be right? Could it be true that Canadians don’t care about income inequality, about poverty, about the homeless walking like ghosts among us?

Asked by Environics Research last Fall, 86% of Canadians said they would like our governments to act to reduce the gap and 85% want government to tackle Canada’s poverty problem.

Though growing income inequality is a regular topic of debate in the United States,

Canada’s political and media institutions lag behind public opinion on this issue.

Osberg points to the responsibility of our governments to ensure our collective well-being.

He writes: “By cutting the transfer payments that partly offset inequality, and by backing away from the specific needs (like affordable housing) of the least fortunate, federal and provincial governments have helped to make Canada a nastier place—particularly for the least well-off, and indirectly for all of us.

“It is time to both check and change that reality.”

Trish Hennessy is director of the Canadian Centre for Policy Alternatives' Inequality Project. The project focuses on trends in income and wealth distribution in Canada. For more information, visit the project's dedicated website www.growinggap.ca.

Jon Kesselman

Why Should We Care about Inequality?

It was the best of times, it was the worst of times. For those with the highest incomes, the past generation has seen an unprecedented bonanza. For those at the very bottom, the pickings have been as slim as ever. Income inequality has become more marked in Canada, particularly in the tails of the distribution.

Recent research finds that individuals at very low relative incomes have been undercounted, and this group has grown between 1980 and 2000. Individuals at the fifth percentile from the bottom actually suffered declining real market incomes over this period; even with the redistributive effects of taxes and transfers their incomes have stagnated, at just $6,900 per capita in 2000.

We are no longer in the 1850s when Dickens chronicled the extremes of destitution and wealth. Yet our society has been drifting in that direction, which some observers find distressing to their sense of fairness. But all Canadians have compelling reasons of self-interest to be concerned about growing inequality.

Most widely noted are the costs that people at the lowest incomes impose on the rest of society—the drain on tax revenues through income support, health care, and other social programs. These costs raise our tax burdens and displace funding from public services that we all rely on such as highways, schools, and hospitals.

All of us also bear increased costs of property crime, personal safety, home security, and perceived risks related to criminal acts resulting from poverty and limited options. These risks affect our ability to enjoy our desired lifestyles and personal possessions.

These costs go still further with individuals who never had the opportunity to develop their innate abilities. Their market earnings are permanently blighted, with a resultant loss of economic productivity and tax revenues. Society cannot tap their potential work and civic contributions, and they are excluded from the mainstream.

Moreover, empirical research has found that inequality and resulting economic insecurity make voters more resistant to supporting public policies that improve the operation of labour and product markets. All Canadians lose when policymaking discretion is constrained and the economy is rigidified.

The reduced supply of skilled workers, the higher tax burdens associated with poverty, and the social disorder from inequality make a jurisdiction less attractive for businesses to locate, invest, and expand. This result in turn reduces the number of quality, well-paid jobs for all workers and also diminishes the cultural vitality of the community.

Growing inequality at the bottom has resulted in part from weakening of income assistance, employment insurance, and social housing programs since the 1980s. Yet the programs needed to buffer economic insecurity for those with limited skills are also of value to everyone as insurance against risks such as disability or joblessness. Few of us other than the wealthiest can self-insure against all potential risks.

What about the other end of the income spectrum? Between 1980 and 2000, the top 5 percent of earners increased their share of total incomes from 23 percent to 29 percent. Even more striking, the top one-thousandth of earners more than doubled their share from under 2 percent to over 5 percent. Is there any reason for Canadians to be concerned about the sharp increase in incomes at the top end of the distribution?

Top earners exert disproportionate influence on public opinion and politics. The further their incomes diverge from average, the more divorced they become from the needs of average citizens. For example, the push for privatization of health care is driven in part by a minority who can easily afford to pay for their own needs directly.

Growing inequality at the upper end raises the spectre of a more class-riven society. Families who have the means to live on palatial estates, travel on a whim, and send their kids to elite schools develop a consciousness that sets them apart from others. Those divisions operate in all areas of life to diminish the efficacy and self-worth of the average citizen.

The lifestyles and possessions of the rich also reduce the well-being of their fellow and sister citizens. Social science research has confirmed the "relative income" effect; peoples' satisfaction with what they have hinges in part on the resources and opportunities enjoyed by others. A middle-class home is not as satisfying if your boss has a mansion.

We might not be so worried about rising inequality if it were accompanied by greater mobility, with improving chances of individuals rising from low incomes. Yet, research finds that earnings mobility for both male and female Canadians worsened from 1982-90 to 1991-99, yielding no consolation on that count.

The economic boom of the last several years has moderated some of these patterns, with poverty rates declining particularly for unattached women and female lone-parent families. Nevertheless, inequality levels overall have not significantly abated. And the troubling trends at the extremes of the distribution remain a matter for all to see in the homeless and destitute on the streets of our cities both large and small.

If we are concerned about inequality—whether for compassionate or self-interested reasons—what does this imply for public policy? Where feasible, the cycle of poverty, dependence, and powerlessness must be broken. While alleviating conditions for poor adults cannot be neglected, the emphasis should be on the next generation.

This perspective suggests the need for greater social investments in the support, education, and health of children from disadvantaged backgrounds. Key groups include families outside urban areas, with single parents, with low parental education or disabilities, and among immigrant and Aboriginal communities. High-school completion rates for youth from these milieus must be sharply increased, and graduates must be guided on to advanced education or job training.

Policy strategies for employable adults should focus on raising skill levels and supplementing earnings rather than unconditional cash transfers. For persons with major disabilities, income support levels should be increased to those publicly provided for all seniors. Expanded provision of social housing, day care, and mental health services are other top priorities.

Securing a more egalitarian society will require digging a bit deeper into all of our pockets, at least in the near term, in order to finance these policy initiatives. And the larger the pocket, the deeper the requisite digging, which also addresses growing inequality at the top end. As countries with the least inequality have shown, taxes that are smartly designed can produce both good economic performance and salutary social outcomes.

There is no need for Canada to drift toward a twenty-first century version of a Dickensian world. Policies to mitigate the extremes of inequality will benefit not only those at the bottom but Canadians more broadly.

John Kesselman holds the Canada Research Chair in Public Finance with the Graduate Public Policy Program at Simon Fraser University and co-edited "Dimensions of Inequality in Canada" (UBC Press), winner of the 2007 Doug Purvis Prize for economic policy research.

Charles M. Beach

Why Does Inequality Matter?

A quite historic change has been occurring to Canadians' incomes.

Following World War II though to the 1970s, real incomes rose dramatically in response to economic growth, and income inequality in Canada was relatively stable or even declined.

Economic growth was said to be a rising tide lifting all boats.

Since the 1980s, however, this has no longer been the case. Inflation-adjusted GDP in Canada has more than doubled since 1980, and GDP per capita has risen by about 54 percent.

Yet, between 1980 and 2005, median total incomes (adjusted for inflation) of families in Canada rose by only 4.3 percent—it actually declined by 3.9 percent for all families and unattached individuals.

The Gini coefficient, a standard and fairly conservative measure of income inequality, went up by 14.1 percent for families.

Since government transfers buffer what is going on in the market economy, the Gini coefficient of market income has gone up by 18.3 percent since 1980 among Canadian families. This run-up in income inequality is unprecedented.

In terms of the shares of total income received among all family units, the poorest 20 percent of family units saw their share of total incomes fall from 4.3 to 4.1 percent since 1980. The next 20 percent saw their share fall from 10.9 to 9.6 percent. The middle quintile share declined from 17.9 to 15.6 percent. The second top quintile share also went down from 25.2 to 23.9 percent.

The income share of the richest fifth of families rose dramatically, from 41.8 to 46.9 percent. Income tax data suggest the big winners are even a narrower band of very high income recipients.

Clearly over this period, the benefits of economic growth have no longer been broadly shared. A rising tide has no longer been raising all boats.

Again between 1980 and 2005, average incomes among the poorest 20 percent of family units rose only slightly from $12,200 to $12,700 per year, in 2005 dollars. For the middle quintile, it actually declined from $50,800 to $49,100. For the richest fifth, mean incomes rose by 23.8 percent, from $118,700 to $147,000 per year.

The benefits of economic growth have been largely enjoyed by high income families.

This historic change in Canadians' incomes has principally been driven by what has been happening in labour markets.

Even bigger changes have been going on in the United States and this promises to be a major issue in the 2008 U.S. election. Indeed, there has already been an active debate in the U.S. about rising concern over inequality.

Yet so far, there has hardly been a ripple of debate about the rise in income inequality in Canada.

So why does income inequality in Canada matter, and why should we care about rising inequality?

Equality can be viewed—expressed both in public opinion surveys and in extensive public policy—as a fundamental social value and a basic sense of equity or fairness. It serves as a normative ideal underlying public policy and provides a basis for distributive justice.

It also provides a context for a fair playing field in access to economic and social outcomes. We are concerned for those with slipping living standards, displaced workers in the labour market, and those experiencing earnings gaps for discriminatory or systemic reasons.

Such income differences can give rise to economic and social exclusion.

But we also wonder why the huge potential benefits of Canada's economic growth are not being more widely shared beyond a relatively small, already quite prosperous portion of society.

Marked inequality of income can give rise to inequality of power and abuse of the market system and the norms of social behavior.

Income differences can reflect, in part, differences in economic opportunities available.

Minimum wage workers can work full-time and still not get out of poverty. Minorities may not have the same opportunities for advancement. Children growing up in low-income households may lack the educational opportunities available to higher income families who can afford to send their daughters and sons to university.

In all cases, differing outcomes need to be viewed as resulting from a fair process across the population.

As well, there has been growing recognition that the distribution of income and degree of inequality can affect economic growth, macroeconomic activity and long-run living standards.

Widening income inequality may reduce people's borrowing opportunities and investment in human capital—building up productive skills and gaining access to higher paying, more skilled occupations—or entrepreneurial activity as fewer people can afford educational opportunities.

The result is a reduction of economic growth and potential, and a loss of long-run living standards.

Increased poverty within growing inequality is associated with poor diet, housing and sanitation, and with increased exposure to crime, personal stress and uncertainty, which in turn weaken health levels, readiness to learn, lifetime productivity and indeed lifespan. This lowers the productive potential in the economy.

When the poor do not have the opportunity to reach the full potential of their talents, economic growth suffers.

In cooperative and team work environments, increasingly being brought in as part of the high productivity workplace, large earnings differences do not foster joint output.

Increased resentment, disaffection, social conflict, violence and crime potentially associated with substantially widened inequality could also reduce the security of property rights. This would make capital investments less attractive when it comes to investing in other, more high-growth and secure regions in an increasingly globalized economy.

Again, this would reduce output potential and living standards in Canada.

Greater inequality may also generate political pressure in a democracy for distortionary redistribution policies (through the income tax system, say, or regulatory policies) which, in turn, would inhibit investment and long-run economic growth as well as living standards.

Finally, a more economically polarized Canada may be more fractious and less stable; it could function less efficiently politically. Widening polarization may erode Canada's established broad middle class consensus, reduce social cohesion in society, and make it harder to develop new policy directions to address social and economic problems.

Growing inequality can thus have fundamental effects on Canadian values, broad living standards, and middle class well-being.

Charles Beach is a professor of Economics at Queen's University.

John Myles

Income Inequality and Democracy

The news is now in: Family income inequality has risen substantially in Canada since the beginning of the 1990s.

Is inequality rising because more Canadians have developed a taste for "free-riding"? Hardly.

Canadian employment rates and annual hours worked per worker have reached historic highs. The employment of single moms rose from 61 to 73 percent between 1980 and 2000 and those working almost full-year (40+ weeks) rose from 42 to 56 percent.

Instead, the winners and losers in Canada's economic sweepstakes are mainly the result of historical luck.

Today's CEOs are earning exorbitant salaries because they happened to be born later than their predecessors of the 1970s, not because of any new-found managerial wizardry.

The earnings of less skilled and younger workers have fallen because of changes in supply and demand for their labour.

Family income inequality has risen because of higher rates of non-marriage and marital dissolution and increased selectivity of marriage based on education.

Large changes of this sort are partially under human control and partly the result of chance processes. They are "aggregative outcomes" that depend on decisions made by *all* individuals but not on the decision of *any* particular individual. The winners and losers are winners and losers as a result of millions of small decisions made by others rather than as a result of their own efforts and decisions.

TABLE 1 Hypothetical Changes in Household Income In Inequality Land

	Poor Household	Middle Household	Rich Household	Average Income	Income Inequality (GINI)
Time 1	15,000	40,000	100,000	51,668	0.37
Time 2	25,000	40,000	200,000	88,333	0.44
Time 3	30,000	40,000	10,000,000	3,356,667	0.66

If the winners and losers are merely a result of luck, why bother to do anything about it?

One reason is democracy. Political majorities in all rich democracies express deep concern about "too much inequality" and expect governments to take a hand in doing something about it. Fortunately for markets, the people are right.

In Canada, governments have been ambiguous but not indifferent toward these new inequalities. They have demonstrated a renewed interest in compensating those who are truly unlucky and taken important initiatives to limit inequalities at the bottom half of the income distribution.

The magic concept here is "social inclusion" which in practice means limiting differences between those in the middle and those at the bottom while largely ignoring growing inequalities between the middle and the top.

One of the main policy expressions of the social inclusion strategy is the very dramatic growth in negative income tax style programs such as the Child Tax Credit that have flourished in all of the Anglo-Saxon countries.

Unfortunately, a social inclusion strategy based on helping those at the bottom keep up with the middle is not a very ambitious one given actual trends in the income distribution. There has been only modest change in incomes at the bottom relative to the middle since 1990. As a result, there has been little change in the Canadian poverty rate for decades.

Most of the rise in inequality is the result of a growing gap between families at the top of the distribution and those in the middle. While higher income families have seen their earnings surge, earnings of middle- and low-income Canadians have stagnated.

So why not leave well enough alone and simply let the winners at the top enjoy their good "luck"?

Martin Feldstein, a leading U.S. economist and former advisor to President Reagan, has argued that so long as the poor are not made worse off, we should not object to a rise in inequality produced by growing incomes for those at the top. In contrast, moral philosophers such as John Rawls argue that a "just society" is one where changes work for the least advantaged (the poor). Rawls' main idea is that a rise in inequality is justified if the poor are better off as a result. But even changes that improve the situation of the poor can lead to surprising outcomes. Consider the hypothetical changes in household income in Inequality Land adapted from my colleague Lane Kenworthy.

In this example, average incomes grow dramatically over time but so does inequality since most of the gains are going to the top third of all families (the "rich"). Nevertheless, at the end of the cycle, the poor (or bottom third) are also twice as well off as they were at the start of the process. Notice, moreover, the poorest third is better off not only in absolute terms but also relative to the middle, which is the usual way we measure poverty. Consequently, poverty rates have declined.

Despite the rising living standards of the poor, I suspect many of us would think something is askew here. Inequality, not just poverty, matters. Why so?

If I were observing trends in Inequality Land, I would suspect I was observing a failed democracy. And I place a high value on democratic political institutions.

As T.H. Marshall pointed out many years ago, the mix of a market, economy and a democratic polity as the defining institutions of our contemporary world is a paradox.

Democracy, by definition, is egalitarian ("one person, one vote"): rights are attached to people, not to their property. Markets, by contrast, are driven by inequality ("one dollar, one vote") and, by definition, generate more inequalities. In the 19th century, it was widely believed that mass democracy would destroy markets: the "many" would simply use their political power to expropriate the wealth of the "few" and markets would collapse. That never happened. Why so?

One reason is that despite their failures, market economies have proved quite effective at *producing* wealth. And while markets are not very good at *distributing* wealth, democratic political institutions have shown they can compensate. That's why we have public health care, old age pensions, unemployment insurance, and income support for families. Markets aren't very good at that sort of thing.

Markets need democracy to make market economies viable for people. Quite reasonably, more economic growth isn't of much interest to the bottom half of the electorate if all of the gains are going to the top half.

But public pensions, universal health care and most of our other social programs of note are the product of the *democracy* we had in the 1960s.

Times have changed, and as the inequality trends indicate, Canadians face new distributive challenges. This is no time to rest on the laurels of those who preceded us. The viability of our society requires efficient markets; but it also requires effective democracy.

John Myles is Canada Research Chair and professor of Sociology at the University of Toronto.

Michael Orsini

Meet the New Risks, Same As the Old Risks

In 2004, Social Development Canada, a newly constituted federal government department, hosted a conference titled, "New Century, New Risks."

The purpose of the conference was to "examine the new social risks facing Canadians, highlighting the particular social development challenges that arise in a country defined by diversity."

The conference looked at whether the current social architecture can effectively respond to these purportedly 'new' social risks, which include changes in family structure, the aging population and the changing labour market.

According to its promoters, new social risks are qualitatively different from the old social risks, because they are occurring in a political and cultural environment that has changed dramatically.

Exactly what has changed? And what has stayed the same? What is significant about shifting our discussion from redressing inequalities to managing risk?

Why have we moved from a universal conception of post-war welfare entitlement to one in which we are obsessed with managing risks without doing anything about the underlying structure that disproportionately harms some people at the expense of others?

In particular, what accounts for the proliferation of risk management discourses in a number of policy fields, most recently the social policy arena, and what might this mean for how we think about the role of the state in the age of collaborative governance? Remember, of course, 'government' is hopelessly outdated, and 'collaborative governance' is in. Governments are best left hidden from public view; they should steer, not row, the ship of state.

In the age of collaborative governance, governments work with others, from the private sector and the non-profit sector, to solve collective problems. Society is now supposed to be part of the solution, helping to build the necessary social capital to enhance prosperity for all.

In provinces such as Quebec, the role of society is viewed as fundamental in combating poverty and social exclusion through the promotion of the "social economy".

German sociologist Ulrich Beck coined the term "risk society" to describe a fundamental shift in how societies, governments, and states are being managed. He argues that a focus on risk reorders how we think of ourselves and our relation to the broader world.

Risk, he says, is a systematic way of dealing with the hazards and insecurities of the modern era. "Risks, as opposed to older dangers, are consequences which relate to the threatening force of modernization and to its globalization of doubt."

Although the risk society threatens everyone, Beck is correct to point out that some people are disproportionately affected by the distribution of risks.

The focus on risk management is important because it signals a move away from promoting the welfare of others. It focuses, instead, on minimizing risk for certain "at risk" or "vulnerable" populations. In the new risk management state, as one commentator has noted, "the key historical actors become not social classes but abstract risk categories or risk factors."

Thinking of the welfare state as a risk management state "shifts our attention away from conflicts over the means of production and towards conflicts over the means of security."

The assumption here is that we need not worry too much about socioeconomic injustice or income inequality because most of us are better off today than we were 20 or 30 years ago. We are, as some people have labeled this trend, "postmaterial".

Having reached a level of economic self-sufficiency, we can concern ourselves with other quality of life issues such as the environment. This ignores, however, other serious issues—such as the growing gap between the haves and the have nots.

As the Canadian Centre on Policy Alternatives has found, the gulf between the rich and the poor is only widening: in 2004, for instance, the richest 10 percent of families raising children earned 82 times more than the poorest 10 percent.

Most troubling, the current focus on risk management is depoliticizing. Rather than speak in terms of fundamental socioeconomic injustice or inequality, we traffic in the vague language of risk factors.

Lack of education is a risk factor for X.

Inadequate or unaffordable housing is a risk factor for Y.

This focus on risk factors all too conveniently shifts the responsibility from the state to the individual citizen to take charge of their own productive destinities as worker citizens. It individualizes the problem, and conveniently sidesteps its structural underpinnings.

In a newly configured state marked by collaborative models of governance, the state's role veers sharply from providing or promoting welfare to minimizing our exposure to a host of risk factors that might contribute to a range of social problems.

Income inequality, in this calculation, is just another risk factor to throw into the mix. It's an unfortunate, unavoidable given.

Individuals who have found themselves out of work as a result of corporate downsizing are expected to polish up their resumes and quickly reintegrate into the workforce by any and all means possible.

Associated with this shift in thinking is a host of new buzzwords, including the ubiquitous "lifelong learning", which is a polite euphemism for retraining the middle-aged victims of the bleeding of corporate workforces.

The language of risk needs to be exposed for its tendency to mask persistent inequality in society—and government inaction to address this problem. And this is key, because economic risk does not just happen to people. It is not something that can simply be managed. Governments all too often today exhort us to avoid or manage our exposure to risk, but neglect the fact that our ability to do this is affected by factors beyond our individual control.

Our language should illuminate, not obscure, the deeply political processes that structure the daily lives of Canadians. Then, and only then, can we begin to tackle some of the fundamental issues of our time, income inequality chief among them.

Michael Orsini is associate professor in the School of Political Studies at the University of Ottawa. He teaches and conducts research in the field of health policy, and is interested in how interest groups and social movements influence and advance progressive policy responses. He is co-editor of the recently released, Critical Policy Studies, UBC Press.

Frank Cunningham

What's Wrong With Inequality?

When the Canadian Centre for Policy Alternatives published *The Rich and the Rest of Us,* documenting ballooning income gaps in Canada, some reacted by asking what is wrong with inequality.

One answer lies within John Dewey's 1927 tract, *The Public and Its Problems*.

Dewey argued that effective democratic action depends on people recognizing themselves as part of a common public who see themselves as "in the same boat" with respect to social, economic, environmental, and other problems common to them all.

Gross income inequalities stand in the way of a democratic Canadian public in the following ways:

The rich can leave the boat. They know it and the rest know it. With sufficient wealth, children can be educated in private schools, walled-in homes and country estates provide escape from urban blight, chauffeurs ease the discomfort of commuting. This creates two publics, one mainly concerned with making ends meet, the other with keeping and enhancing its wealth.

Public resources for addressing problems are diminished. The accelerating income disparities were largely made possible by reduction of social services and public resources. This affects the potential for public action and demoralizes people about taking collective action.

Canadians become beggars. With reduction of public resources, the charity of the rich must increasingly be relied on. One effect is that their priorities get privileged attention. Another is that catering to the wealthy to maintain social services defines these not as rights but as privileges conferred by a minority as they see fit. This is not a situation conducive to a sense of public reciprocity.

Inequalities foster elitism and resentment. A common right-wing allegation is that people who are not rich are jealous of those who are. At odds with this perspective is that those who thrive due to their own hard work typically are *not* resented. This results when people are well off just through inheritance, when rich executives give themselves large income hikes, or when the amounts of wealth in question are obscenely high. Meanwhile, many of the rich see their wealth as signs of their superiority. Though publics are not the same thing as friendship communities they still require mutual respect in order to take common actions. Resentment and elitism are not conducive to mutual respect.

Gross inequalities are part of a culture of possessive individualism. An alternative to resenting great wealth is aspiring to it as a main goal of life. This is a component of what the political philosopher C.B. Macpherson called "possessive individualism". The contrasting culture is one where people aim to develop their talents in cooperation with one another. Public action in a possessive-individualist society is motivated by self-interested calculations, which is a shaky foundation for a vibrant public.

Inequality is an enemy of democracy. Autocracy is harmful to public spirit, since people understand themselves to be politically impotent. When a democratic society contains significant inequalities, it begins to resemble an autocracy. If money can determine for whom one is able to vote and dictates limits on what representatives can do once elected, understandable cynicism results and, with it, the weakening of public commitment.

Morality also tells against inequality. Nobel Prize winning economist Amartya Sen observes that all political theorists think *something* should be equally distributed, whether it is resources for basic needs or the legal right to compete in economic markets.

One can go further by suggesting that there has always been a presumption that people ought, as a matter of elementary human morality, to have access to resources necessary for survival and, if possible, enough to enable to them to pursue satisfying lives beyond brute subsistence and that people's life options should not be limited by shear bad luck.

This does not mean that everyone has always favoured equitable distribution of resources, but rather that, similar to the way a court of law presumes people are innocent until proven guilty, distribution of the world's resources adequate to everyone's needs is a default or presumptive norm, and reasons must be given for departing from it.

A long-standing justification for tolerating inequalities was that stations in life are accorded people in virtue of their parentage, which identifies some as superior humans. This aristocratic position was discredited when people started to ask what was so naturally worthy about the upper classes and found no convincing answer.

Justifications for inequalities now mainly appeal to competitive markets. In competition for profits or for jobs, it is argued, some will win and some will lose. One of the consequences of correcting for the resulting inequalities is to dampen incentives. Another consequence is to introduce economic planning which upsets market functioning and leads to the inefficiencies and autocracy of the late Communism. These are dubious grounds for justifying inequalities.

Market incentives were working in Canada 30 years ago when inequalities were considerably less than today. In many countries—France, Germany, the Nordic countries, and Japan—economic productivity has coincided with less inequality than Canada. It is difficult to believe that Canadian entrepreneurs are proportionally more highly motivated or Canadian workers more productive than in these or most other developed capitalist countries.

The choice is not whether to allow regulation and planning, since no capitalist country has ever been without them. In Canada between the mid-1940s and the early-1970s, relatively ambitious state regulations partly designed to address problems of inequality served their functions without destroying the market system.

No critics of inequality are calling for full-scale plannification. Rather, they identify places where markets fail to produce socially desired results—of which reducing inequalities is one—and through regulation and compensation to rectify or head off these deficiencies.

Why should Canadians be concerned about inequalities? One reason is that they impede unified public action at a time when local and global challenges especially require it. Another is that inequality should offend our moral sensitivities.

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Lars Osberg

Reality Check—Economic Inequality in Canada

Physics professors have an easier life than economists in at least one important way—their measurements are rarely questioned, because there is no feasible way for ordinary citizens to check them against their daily experience.

But when economists debate how much economic inequality in Canada has increased, and precisely when, everybody can do a "reality check" and ask, for example: "Just when did the homeless first appear in such significant numbers on the streets of Canada's cities?"

They weren't always so commonplace—during the 1980s, Canadians who traveled across the border could smugly contrast the "kinder and gentler" streets of Toronto or Vancouver to the nastier realities of New York and L.A.

But that was then and this is now—when exactly did it change? Was it somewhere around 1995, when Ontario cut social assistance payments by 21.6 %? Across Canada, social assistance benefits have declined, in real terms, for at least the last decade.

Or was it a more gradual process of emerging holes in the social safety net, as UI morphed into EI and the percentage of the unemployed who can get benefits from either fell from 83% to 42% between 1989 and 1997? (Recognizing that these national numbers understate the situation in cities like Toronto, where just 22% of the unemployed got regular EI in 2004).

Physics professors do not have to face such reality checks—and they also have more control over data. In, for example, a recent *Canadian Journal of Economics,* Frenette, Green and Milligan note that most of the published studies of Canada's rising inequality have probably under-estimated the magnitude of the increase, because of non-response among the poorest and the richest Canadians to Statistics Canada's surveys.

They argue that Census of Canada offers a more complete picture of inequality—but the homeless are not counted even there, because they do not have a residence at which they could be interviewed. So when Frenette, Green and Milligan adjust for income taxes paid, transfer payments received and the impact of inflation and compare the incomes of Canadians at the bottom 5 percent point of the income distribution (which actually fell slightly between 1980 and 2000) and at the top 5 percent point (where incomes increased by approximately an eighth) they recognize that they are understating the true disparity.

The homeless have never been part of our statistical consciousness, and income tax data show that gains among the top 1% have been far greater than gains for the top 5%.

But the homeless are there—in day to day reality—and when our children see the homeless on the sidewalks, and the monster homes of the top 1% in the suburbs, what message is the contrast sending?

The implied social message of homelessness is that Canada very clearly does not care what happens to some of its citizens.

In the same way as broken windows and graffiti are a visible indicator of the physical neglect of a neighbourhood, the homeless are a highly visible indicator of Canada's 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 states there is a "right to privacy"—but the homeless have no personal space within which they could have privacy, and we do not care.

And when it can plainly be seen that Canadian society does not much care about the rights of its least fortunate citizens, the question may well occur to others: "why should anybody care very much about the rights of other citizens?"

So our "reality checks" on economic inequality may matter in a fairly important way.

The quality (and often the efficiency) of our day to day life depends in many ways on the daily manifestation of a certain amount of consideration for the well-being of anonymous strangers.

The civility of our daily social intercourse—whether people, for example, choose to let other cars into traffic, or grab parking spaces or otherwise behave considerately or boorishly to random others—is a large part of the quality of our daily urban lives.

A growing body of economic research has also found that localities with a more "Social Capital" have higher growth rates of GDP per capita— partly because of lower transactions costs when individuals can trust each other and partly because of lower crime rates (particularly violent crime involving firearms).

Increasing inequality therefore has both a direct and an indirect effect on everybody's well-being.

Social Capital has been defined as the "shared values and rules for social conduct expressed in personal relationships, trust and a common sense of 'civic' responsibility"—it is the glue that holds our social institutions together, and which enables our society to function, either well or poorly.

But when monster homes devour the landscape while the homeless clutter the sidewalks, that glue weakens.

By cutting the transfer payments that partly offset inequality, and by backing away from the specific needs (like affordable housing) of the least fortunate, federal and provincial governments have helped to make Canada a nastier place—particularly for the least well-off, and indirectly for all of us.

It is time to both check and change that reality.

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David A. Green

Thoughts on Inequality in Canada

Adam Smith argued: "All members of human society stand in need of each others assistance … Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy."

A society based on self-interest will function, but it will not flourish to the same extent as one built on what Smith calls "sympathy"—a regard for fellow citizens that he views as basic to human society.

Such sympathy is difficult to achieve in a society with large inequality. As the gulf between rich and poor grows, it becomes increasingly difficult to place one self in the shoes of others.

This problem is heightened when mobility within the income distribution decreases. The better-off are more likely to support public investments if they see some probability that they, or someone they know, will face reduced means.

It was the widely shared hardship of the Depression, for instance, that set the stage for modern welfare states.

Given these arguments, recent patterns in Canadian inequality seem particularly troubling. Inequality in market income has increased at a relatively constant rate in the last quarter century. The Gini coefficient, a commonly used measure of inequality, rose by six percent between the 1980 and 1990 Censuses; and by another six percent between the 1990 and 2000 Censuses.

Since 2000, the growth in inequality has accelerated.

Work by Charles Beach shows the probability of crossing that gap is declining too: The probability of Canadians at the very bottom of the distribution moving upward and Canadians at the very top moving downward has decreased since the 1980s.

Inequality has risen because of movements at both the top and bottom of the distribution. In the bottom, real starting wages of men with high school or lower education fell by over 20 percent between 1980 and the mid-1990s.

Since that point, Canada's employment rate shot past U.S. levels: the labour market has been booming. Yet the average wage of high school educated males and females increased only slightly.

The work of Michael Veall and Emmanuel Saez provides the most extensive picture of the top of the distribution. The share of total income going to the top one percent—and particularly to the top one-tenth of one percent—has increased dramatically over the last two decades.

These trends set up a difficult dynamic. Because those at the very top are now receiving their income as salaries instead of returns on capital, they are more likely to view their position as being due to the sweat of their brow.

Meanwhile, incomes at the bottom end of the distribution are now substantially lower.

Consider what this means for redistribution. In a world where everyone thinks they may take a turn of bad luck, redistribution can be viewed as an insurance scheme into which we all pay.

But in a world with less mobility, transfer recipients come to be seen as "them", in perpetual need of aid.

This outlook is likely exacerbated by the fact that the people at the top have more education. They may come to view those at the bottom as unwilling to make similar investments.

Before you start thinking this is just a figment of my dark imagination, it is worth considering patterns in inequality in disposable income.

In the 1980s, disposable income inequality declined, even though market income inequality grew strongly. In the 1990s, disposable income inequality grew at almost the same rate as market income inequality.

We have lost the political will to use taxes and transfers to offset the underlying inequality in the economy.

What are we to do? To begin with, there are a range of successful models for our economy. The U.S. is often touted as 'the' model, but several European economies with different levels of taxation and public spending have done well in recent years.

Given the persistent and increasing difficulties in redistribution, the only real way forward is to make Canada a higher wage economy. The answer to how to do this may lie in the capital market.

Paul Beaudry and I have argued that differences between European and American patterns in inequality growth stem from higher growth in capital per worker in

Europe than in the U.S. With more capital in the hands of each worker, productivity and wages increase.

It is also possible that part of the answer lies in strong unions, as unionization of new job starters among high school educated men declined from over 40 percent in 1980 to 17 percent in 2005.

I confess that I do not know how to reverse that trend; I suspect it has more to do with shifts in demand away from the type of jobs that were formerly unionized than with legislation.

Finally, redistribution should, in part, be done through wage subsidies both for incentive reasons and because they are likely to be more politically palatable.

We should not think such subsidies can be the end of the matter, however.

Canadians living on our streets face multiple barriers to employment. To help them, we must be willing to fund larger programs.

There is no magic economic bullet that can allow us to sidestep our obligations to our fellow citizens. Claims that we should keep taxes low in order to boost economic growth which will ultimately lift everyone up are false on two grounds: The growth retarding impacts of taxation are a matter of great contention among economists. We may well have more elbow room than some admit. Second, the group at the very bottom will not be lifted up by a booming economy, as recent experience shows.

To build a society on sympathy—the society that polls suggest many Canadians have in their heads—there is no substitute for providing real help to those who are faring worst in our society.

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