



GROWING INEQUALITIES AND THEIR IMPACTS IN CANADA

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Executive Summary

Compared to many modern economies, the overall level of income inequality in Canada has been relatively high since 1980 and grown steadily since. Specifically, the Gini coefficient for household incomes grew from 0.37 in 1980 to 0.45 by 2009. The largest gains in incomes occurred at the very top of the income distribution. Overall, those in the middle of the income distribution were relatively unaffected. There were consequences for the poor, however.

Most of the rise in inequality occurred during the 1990s, a period in Canadian history marked by government cuts to spending with the goal of tackling a huge public. Other important contributors to changes in inequality in Canada are a decline in large-scale manufacturing, which has been progressively replaced by lower paying service industry jobs, a decline in government expenditures as a proportion of GDP, and changes to the tax structure that favoured the rich. In short, Canadian governments became increasingly less concerned with social spending and redistribution from the 1990s onwards and focussed instead on decreasing Canada's huge public debt.

Despite inequality rising, relative poverty rates (percent of individuals earning less than 50 percent of the median after-tax income) have remained almost unchanged and absolute poverty rates (percent of individuals spending 63.6 percent of their income on essentials) actually decreased. Nevertheless, although poverty rates improved, it became increasingly more difficult to exit poverty during this period. There was also a significant increase in personal debt and the number of personal bankruptcies as inequality rose. In short, the situation for the least fortunate in society worsened as income inequality increased.

Family structure also played a role. The Gini coefficients for singles and the elderly actually decreased while the Gini coefficients for married couples and parents with children increased substantially. A significant increase in single parent families was important in this regard.

Other significant trends of note include: fairly consistent returns to education continuing to be high in terms of both income and employment despite the rise in inequality; a decline in high school dropout rates since 1980; and significant gains for women, both in employment levels and income, though some of these decrease in gender gap is due to men's losses than real gains for women, and a significant gender wage gap continues to persist.

Health, mental health, happiness, and life satisfaction have all seemingly been unaffected by the rise in inequality. Again, this relative stability probably reflects the fact that the rise in inequality was

largely driven by the rich getting richer, while middle income earners—who make up the vast majority—were unaffected.

Canadians were not completely out of tune with the rise in inequality in the 1990s. Canadians became less trustworthy of governments and political institutions and less likely to participate in politics as inequality rose. Canadians also became increasingly more likely to hold left-wing views and to support government intervention to decrease income inequality and help the plight of the poor during this same period.

Despite public opinion seemingly being in favour of it, Canadian governments did not respond to growing inequality with policies that could alleviate the problem. In fact, quite the opposite it is true. If anything, changes to government regulation, taxation and spending could only serve to perpetuate the growth of inequality. When adjusted for inflation, minimum wages generally declined during the period of vast growth in inequality. On the other hand, those with good incomes generally benefitted for cuts to their taxes. A decline in tax revenue corresponded with a significant decline in social spending, especially on employment insurance and higher education, which would undoubtedly have its greatest effect on lower income earners. In short, changes in government policy since the 1980s could have only increased the distance between the rich and poor.

1. Introduction

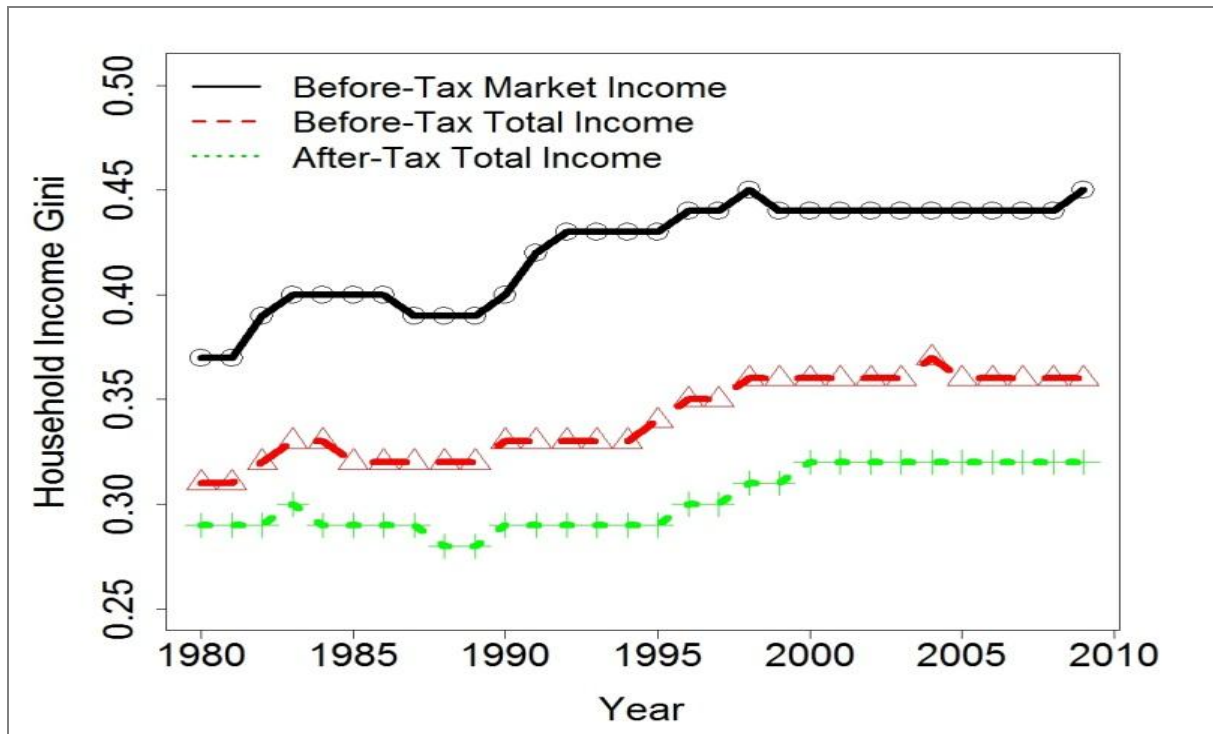
Following the mandate of the GINI project, the goal of this report is to explore inequality in Canada between 1980 and 2010, how it has changed, who it has affected, and how governments and public opinion have responded and influenced it. In many respects, the Canadian story parallels the story of similar countries, such as the US, but in other ways it is uniquely Canadian. Like many countries, Canada has experienced a tremendous increase in inequality over the past thirty years. It is also similar to the US in that much of the increase in inequality has been driven by big gains in income for those at the very top of the income distribution. There are also some fundamental differences, however—both politically and socially—that have shaped both how income inequality has developed and how Canadian public opinion and governments have responded to it. Before discussing Canadian trends in more detail, we start with a brief discussion of the Canadian context.

Canada is widely considered a liberal welfare state characterized by limited social spending when compared to many European countries (Banting, 2005; Esping-Andersen, 1993; Myles, 1998). That does not mean that the market goes unfettered, however. Relative to the US, for example, Canada is typically characterized as having far greater regulation of the economy (Booth & Purvis, 1997; Calmes & Liu, 2009), significantly higher taxation and redistribution (Banting, 1997; Myles, 1997, 1998), and a somewhat more extensive social safety net (Blank & Hanratty, 1993; Myles, 1997, 1998). Perhaps the most notable contrast between the US and Canada pertains to health care. US coverage is largely funded by private insurance plans, while Canada has a publically funded universal health care system. Nevertheless, it is just as important to note that the Canadian welfare state has been significantly weakened over the past few decades (Kneebone & White, 2009; Myles & Pierson, 1997; 2001; Swank, 2002). Moreover, despite these differences from the US, the general pattern in inequality over the past few decades has not been so dissimilar.

Figure 1.1 displays trends in inequality of household incomes in Canada from 1980-2010. The solid black line represents income inequality for households before taxes and transfers. In other words, this trend reflects variations in incomes from market-generated incomes only. The broken red line represents the Gini coefficient for all household income—i.e., market income and other incomes such as government transfers and benefits—before taxes. Finally, the green dotted line displays the trend in household income inequality after accounting for both taxes and government transfers. It is quite clear that market income inequality grew dramatically during the 1980s and 1990s. While government intervention muted the level of income inequality throughout the period under study,

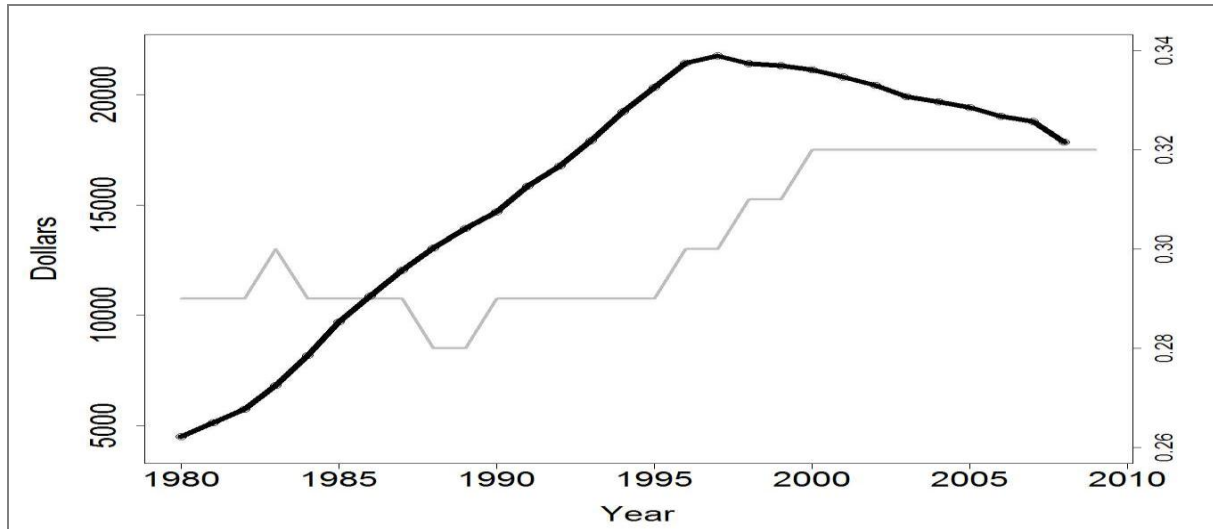
after-tax total income inequality also rose significantly, indicating that governments failed to respond to the drastic rise in inequality. [As a caveat, we should mention here that consistent with other Country reports in the Gini Project, we will overlay the Gini coefficient for 'After-Tax Total Household Incomes' on graphs of trends throughout the report.]

Figure 1.1 Gini coefficients for household income before & after taxes and redistribution.

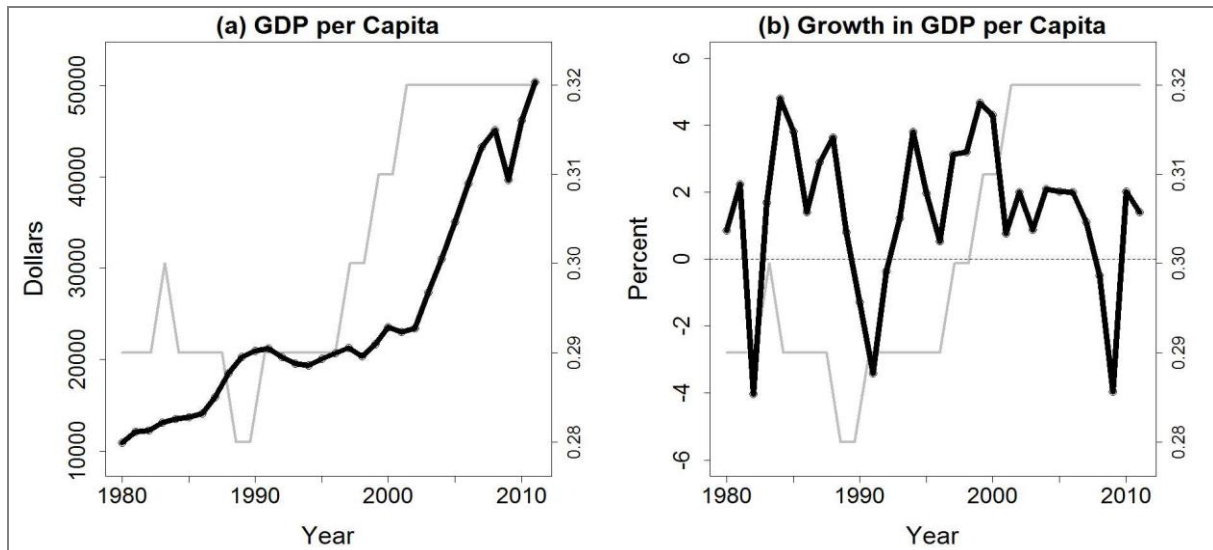


Source: Statistics Canada

Important to the Canadian story is a tremendous growth in public debt. Extensive public spending during the 1970s and high interest rates in the 1980s combined to create nearly unmanageable public debt by the end of the 1980s. As Figure 1.2 indicates, public debt grew rapidly during the 1980s and 1990s until finally tapering off in the late 1990s. The debt crisis peaked in the mid-1990s when reports that Canada could lose its AAA credit rating began to surface (Boothe, 1993; Macklem et al, 1995; Martin, 1996). As a result, by the mid-1990s the problem had become worrisome enough that both governments and public opinion saw it necessary to make it a high priority, and efforts continue to focus on the problem today.

Figure 1.2 Public debt (per capita) in Canada, 1980-2010.

Source: Statistics Canada

Figure 1.3 GDP per capita in Canada, 1980-2010.

Source: The World Bank

The rising debt took place during a time of slow economic growth. As Figure 1.3 suggests, the economy grew slowly between 1980 and 1985, had a significant—but short-lived—jump at the end of the 1980s, and then leveled out again for a 10-year period until around 2000. The slowdown in the economy in the 1990s is even more obvious in Panel (b) of Figure 1.3, which displays growth in GDP per capita. In short, a sluggish economy in the early 1990s made it difficult to simultaneously maintain existing spending practices and get the national debt under control.

As debt grew, political discourse began to be dominated by talk of debt reduction (Greenspan & Wilson-Smith, 1996; Minister of Finance, 2006; Wiseman, 1997; White, 1998). While neo-Conservative ideology had risen to prominence in the 1980s—and social spending had already started to be pared away at that time—it wasn't until the 1990s that cries for further cuts were

increasingly pinned on the rising debt. Ironically, the debt grew drastically under the Conservative government of the 1980s despite its mandate to cut spending. This was largely because of two factors—(1) spending cuts were accompanied by tax cuts, and (2) interest rates were very high, which meant that debt payments got out of control (Fortin, 1995; Strain, 2007).

The rest of this report will describe how inequality in Canada changed during the period from 1980-2010. As we shall demonstrate later, most of the changes in income inequality—both for market and after-tax incomes—were driven by large increases for the richest of income earners rather than decreases for middle and low income earners. Nevertheless, some of the changes in market inequality can also be attributed to a decline in traditional large-scale manufacturing jobs, which have been progressively replaced by lower paying service industry jobs (Myles, 1988; Golden & Wallerstein, 2006; Cranford et al, 2003; Vosko, 2006). In this regard, men have been hit hardest. Changes to family structure have also played a role. Particularly important in this regard is the growth of single parent families and dual income families (Heisz, 2007; Picot & Myles, 1995), which has polarized incomes even further. In contrast to common arguments, we shall also show that the very poorest in Canada have also been hit hard. While the proportion of people in ‘absolute’ poverty has actually decreased over the past 30 years, the situation for many of these people has actually worsened.

2. The Nature of Inequality and its Development over Time

This chapter gives an overview of the pattern of income inequality in Canada over the past three decades. As previously noted, Canada is widely considered a liberal welfare state (Banting, 2005; Esping-Andersen, 1993; Myles, 1998). It has a relatively open market economy and redistribution policies that are moderate at best when compared to those of many other modern nations, especially those in Europe. Just as important, the Canadian welfare state has experienced drastic retrenchment during the past few decades (Kneebone & White, 2009; Myles & Pierson, 1997; 2001; Swank, 2002). Concomitantly, there have been very noticeable changes in the patterns of income inequality.¹

2.1 Has Inequality Grown?

Compared to many modern economies the overall level of income inequality in Canada has been relatively high since 1980 and grown steadily since (Franette & Milligan, 2009; Heisz, 2007). Several patterns are particularly noticeable during this period: 1) overall market inequality has risen, 2) much of the change in inequality is related to top earners experiencing substantial gains in median incomes, 3) changes in family structure have played an important role, 4) household debt has increased significantly, and 5) redistribution policies have failed to keep up with changes in market inequality. These patterns will be discussed in more detail below.

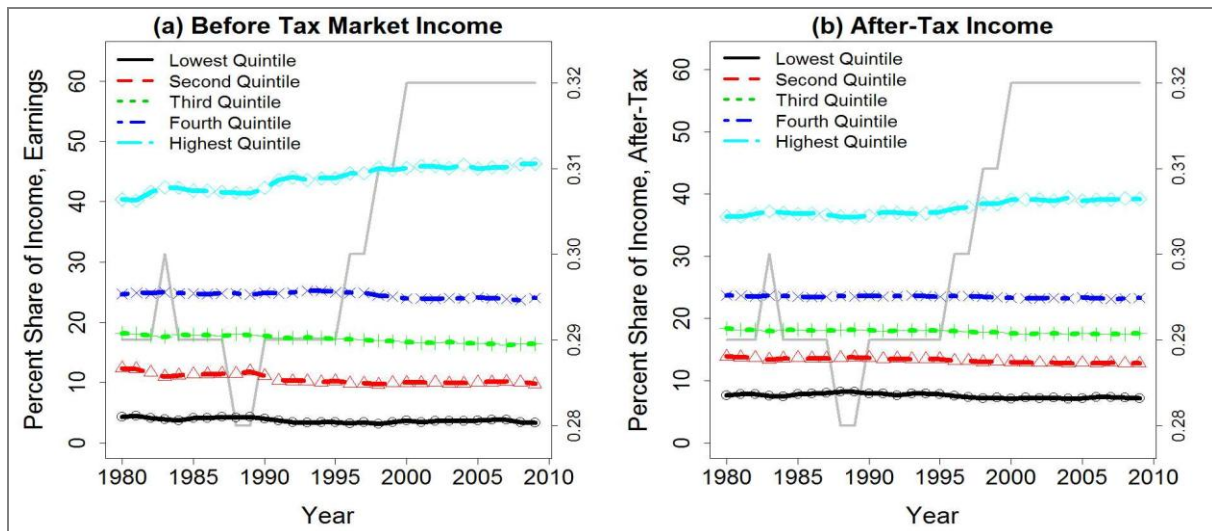
2.1.1 Household Income Inequality

Figure 2.1 displays the trend in household income inequality, as measured by the Gini coefficient, before and after taxes since 1980. Consistent with previous research (Fritzell, 1993; Glatzer &

¹ Data for chapter 2 was obtained primarily from the Statistics Canada's CANSIM (Canadian Socio-Economic Information Management System) database accessed through their website (www.statcan.gc.ca). Data from the CANSIM database represents cumulative summary data from the entirety of Statistics Canada's surveys. The data presented in this chapter is comprised mainly of CANSIM data derived from the Survey of Consumer Finances (1972-1998) and the Survey of Labour and Income Dynamics (1993-2009). Both primary sources are cross-national surveys conducted by Statistics Canada on large sample sizes (Survey of Consumer Finances sample size averages roughly 90,000 respondents; Survey of Labour and Income Dynamics sample size averages 15,000 households/30,000 respondents).

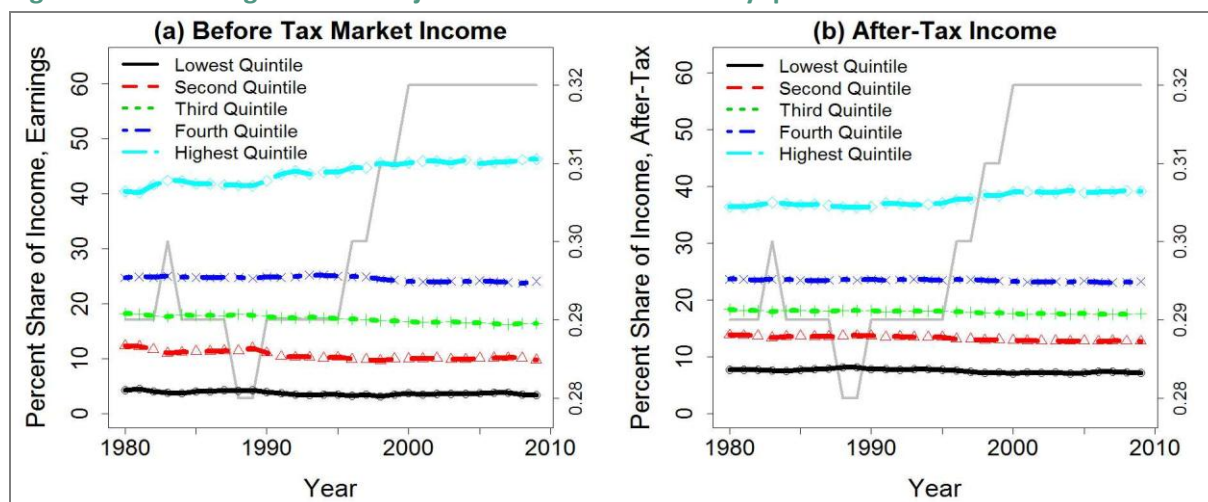
Langlois, 2002), we see a striking overall increase in market income inequality, with the Gini coefficient growing from 0.37 in 1980 to 0.45 by 2009. Although muted, after-tax incomes followed a similar trend towards increasing inequality, with a Gini coefficient of 0.29 in 1980 and of 0.32 in 2009. Most of these changes occurred during the 1990s, a period in Canadian history marked by government cuts to spending with the goal of tackling a huge public debt (Ferris & Winer, 2007; Tupper, 1993).

Figure 2.1 Gini coefficients for household income before & after taxes and redistribution.



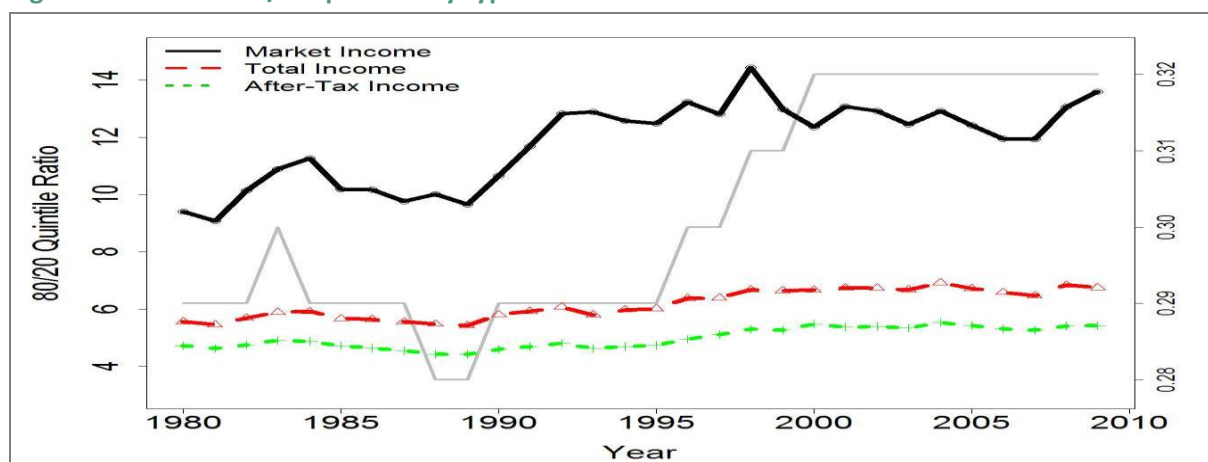
Source: Statistics Canada

Similar to the US, we also know from previous research that most of the rise in inequality in Canada over the past few decades is due to largely the rich getting richer, rather than the poor getting poorer (Fritzell, 1993; Johnson & Kuhn, 2004). Figure 2.2, which shows the market share of adjusted household income by quintiles, demonstrates this finding. Specifically, the top quintile (i.e., the top 20 percent of earners) has enjoyed significant growth in their income share—both before and after taxes—since 1980. During the 30-year period under investigation, the market share of the top income quintile rose from 40.4 percent to 46.3 percent. While this trend was somewhat offset by taxes, the top 20 percent are still the only group to experience a rise in after-tax income. Nevertheless, most of the rise in income inequality took place between 1990 and 2000, and it has remained relatively stable since. Moreover, this increase in the share of income for top income earners has had little influence on income shares for the other four quintiles because it was spread quite equally among them. That is, the relative share of income for each of the four other income groups changed only slightly.

Figure 2.2 Percentage share of adjusted household income by quintile.

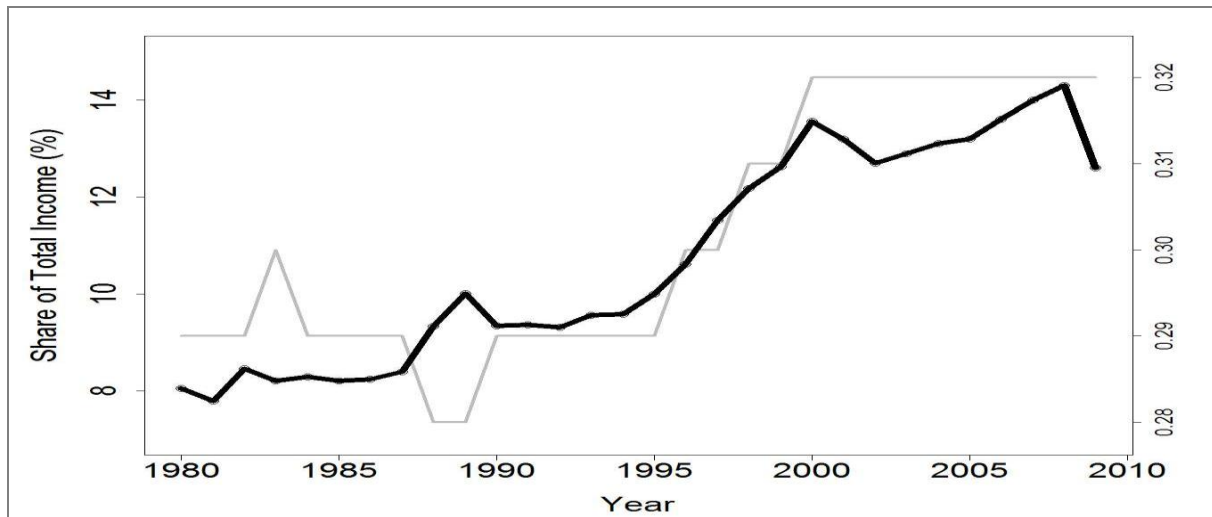
Source: Statistics Canada

Figure 2.3 shows the ratio of income shares for the top 20 percent of income earners relative to the poorest 20 percent of income earners. This figure provides an even clearer picture of the increasing advantage of the top twenty percent of income earners over time. The growing advantage of the rich is most pronounced in terms of market income, but it remains even after taxes and government transfers. Consistent with the previous figure, the biggest jump in after-tax income inequality occurred in the early 1990s.

Figure 2.3 Ratio of 80/20 quintiles by type of income.

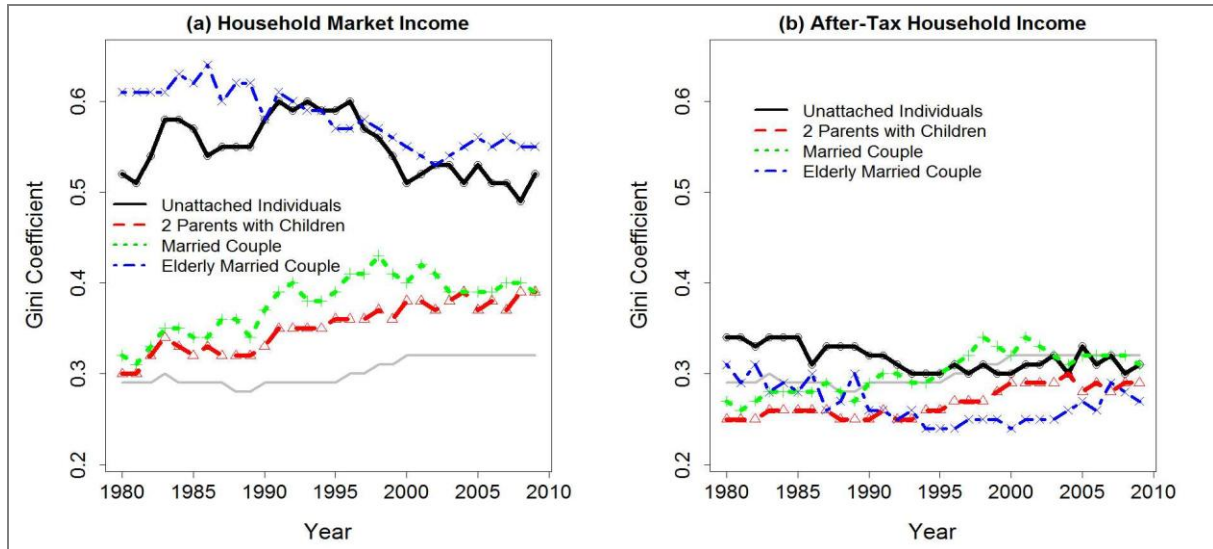
Source: Statistics Canada

Other research (Saez and Veal 2003; 2005) suggests that the largest gains in incomes occurred at the very top of the income distribution. Adapted from Saez and Veall (2003) and Fortin, et al (2012), Figure 2.4 displays the long-term trend in the share of income of the richest one percent in Canada since 1980. Consistent with previous research, the distance between the very rich has risen quickly since the 1980s. We also see quite clearly that the rise in incomes for the rich (the black line) follows quite closely with the rise in overall inequality as measured by the Gini coefficient (see the gray line).

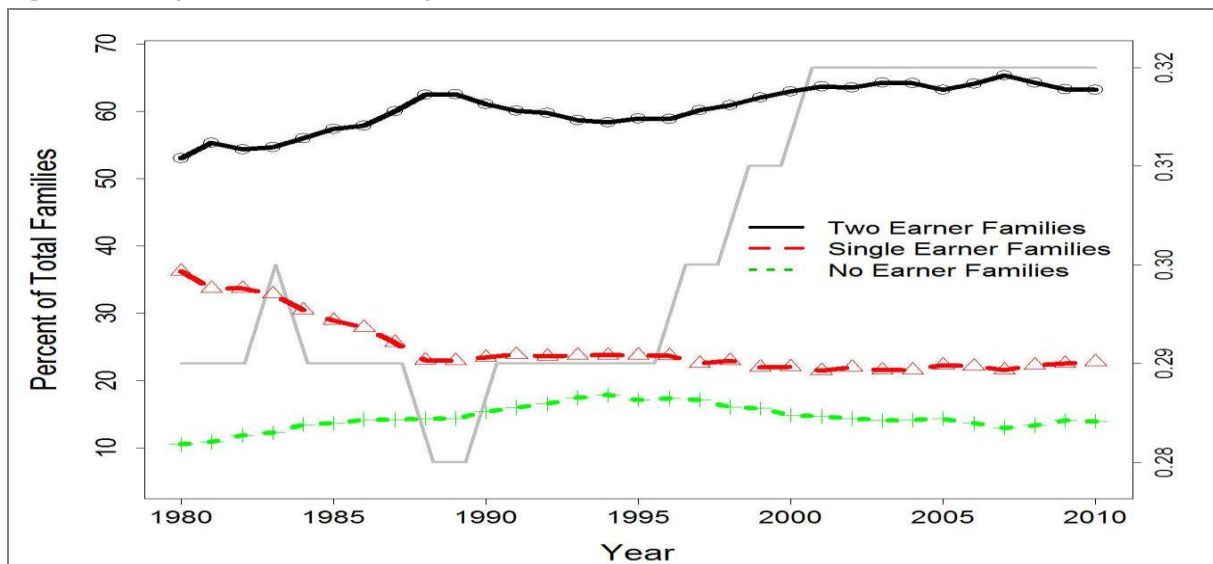
Figure 2.4 Top one percent of earners' share of total income.

Source: Saez & Veal, 2003; Fortin et al, 2012

A growing gap between top income earners and others is not the only trend in growing inequality in Canada, however. A second trend emerges with respect to the type of family unit. As Figure 2.5 suggests, since 1980 the Gini coefficient for before-tax income inequality has decreased from 0.31 to 0.27 for elderly married couples and from 0.34 to 0.31 for unattached individuals. Conversely, the Gini coefficient for total income inequality has grown from 0.29 to 0.35 for married couples and from 0.27 to 0.33 for two parents with children families. Again taxes and redistribution slightly mute but do not completely remove this pattern of growing inequality. Since 1980, the Gini coefficient for after-tax income decreased by 0.04 percentage points (from 0.31 to 0.27) for elderly married couples, and 0.03 (from 0.34 to 0.31) for unattached individuals, but increased by 0.04 percentage points (from 0.27 to 0.31) for married couples, and by 0.04 (from 0.25 to 0.29) for two parents families with children.

Figure 2.5 Gini coefficients for household income by household composition.

Source: Statistics Canada

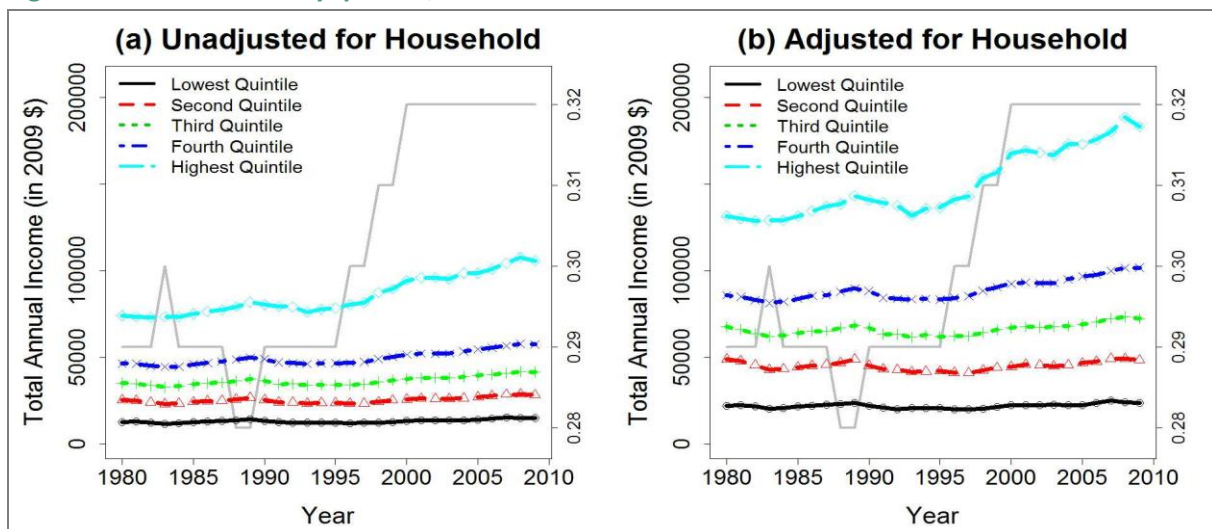
Figure 2.6 Proportion of families by number of income earners, 1989-2010.

Source: Statistics Canada

As we can see from Figure 2.6, growing income inequality among married couple, both with and without children, can be partly attributed to an increased number of dual earner families. The percentage of families with two income earners rose from 53.1 percent in 1980 to 63.2 percent in 2010. On the other hand, families with only one income earner decreased from 36.3 percent in 1980 to 22.8 percent in 2010. It is also interesting to note that the proportion of families without an income earner (i.e., no family member earned market income) rose from 10.6 percent in 1980 to 14 percent in 2010. This latter trend at least partly reflects the increase in the number of lone parent families, something that will be discussed later.

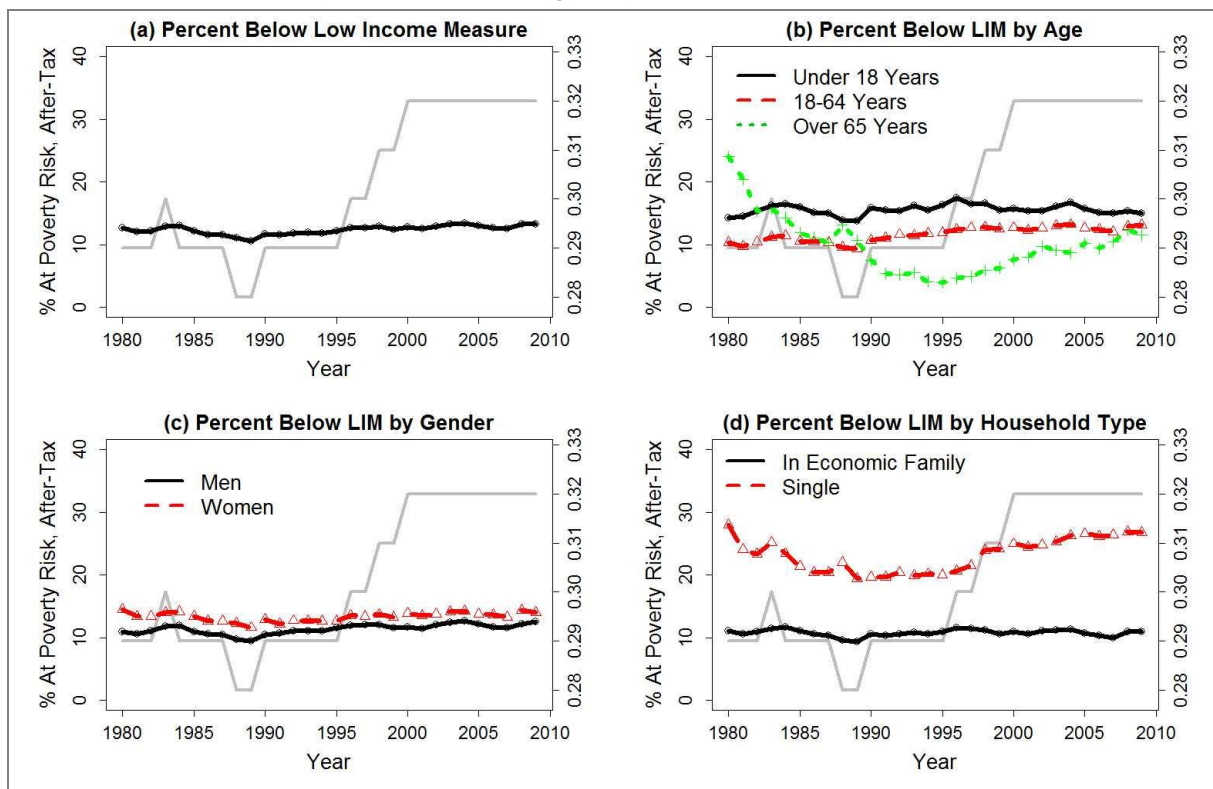
Figure 2.7 shows the relationship between household composition and the pattern of income inequality. Panel (a) displays the raw share of income by quintiles; the panel to the right displays the same information adjusted for household income and size. Unadjusted for household the top 20 percent of earners increased their average income \$30,400 going from \$72,400 in 1980 to \$102,800 in 2009. While these numbers represent a significant growth in inequality this trends is even more pronounced when based on household income. The top 20 percent earning households increased their average income \$49,400 going from \$128,500 in 1980 to \$177,900 in 2009. Once again this trend of growing inequality between families is slightly lessened by taxes but the pattern remains strong even for after-tax income. In short, it appears that income inequality has grown most between families with earnings in the top 20 percent of households. Panel (b) of Figure 2.7 suggests similar patterns for incomes adjusted for household size.

Figure 2.7 Total income by quintile, 1980-2010.



Source: Statistics Canada

Figure 2.8 Percentage of population with adjusted household incomes less than 50 percent of the median after-tax income (i.e. Relative Poverty Risk).



Source: Statistics Canada

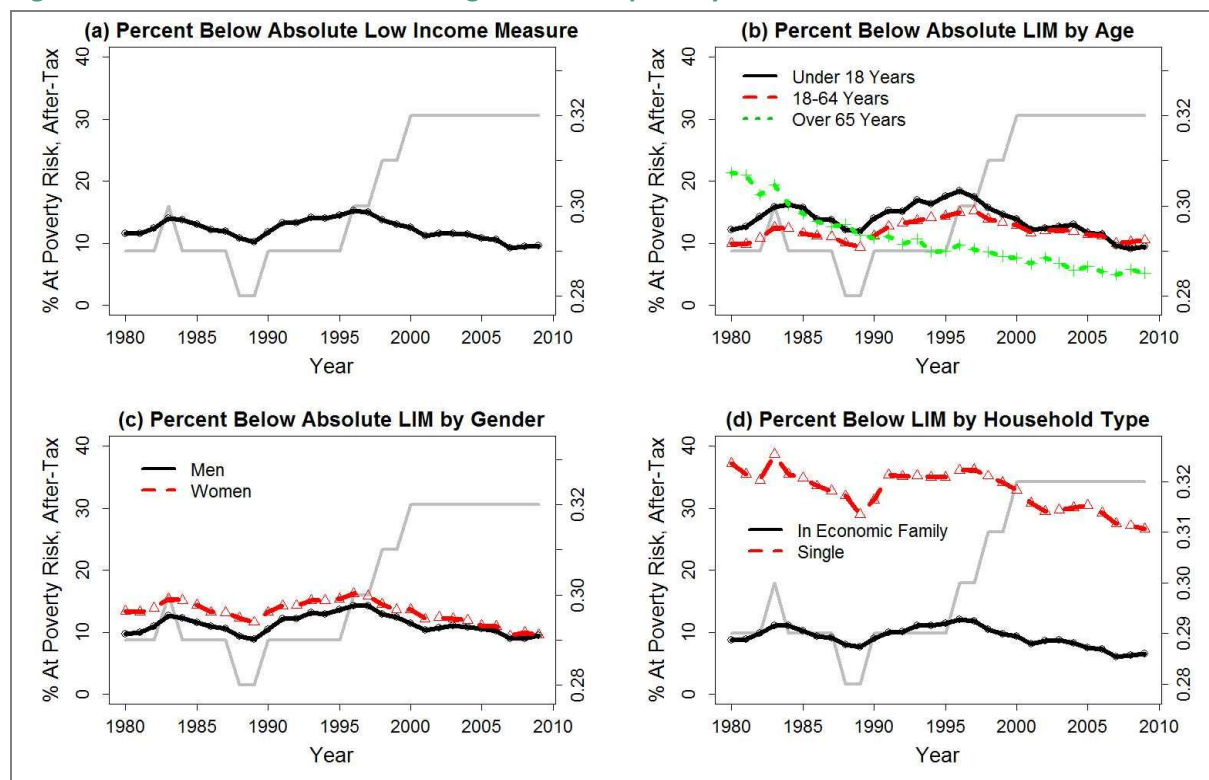
We now turn to the trends for various poverty-related measures. We start by exploring relative poverty rates. Figure 2.8 displays trends in Statistics Canada's low income measure for various parts of the population in Canada since 1980. Also referred to as the 'relative poverty risk', this low income measure classifies households earning less than 50 percent of median income after-taxes as at 'relative poverty risk'.² Not surprisingly given that the rise in income inequality has been largely driven by larger incomes at the top rather than significant changes elsewhere in the income distribution, the percentage of people at relative risk for poverty has remained quite stable since 1980 (panel (a)). Also notable is the fact that there were very little differences in this low income measure by gender throughout the course of the period under study.

There have been two very noticeable trends, however. First, although the percentage at risk for poverty has changed very little for those under 65 years of age, there is a very noticeable U-shaped trend for those over 65. Perhaps largely a reflection of lessening stock market returns for pensions, by 2010 those over 65 were nearly as likely to be at risk for poverty as people in the younger cohorts.

² "Low income measures (LIMs), are relative measures of low income, set at 50% of adjusted median household income. These measures are adjusted according to the number of persons present in the household, reflecting the economies of scale inherent in household size." (Statistics Canada: Table 202-0802)

Secondly, while single individuals have always been much more likely to be at risk for poverty than those living in families, the gap appears to have widened significantly since 1990. That is, in the same period that income inequality grew, single individuals not living in families became increasingly more likely to be in poverty.

Figure 2.9 Percent of households living in absolute poverty.



Source: Statistics Canada

As Figure 2.9 indicates, the patterns for absolute poverty rates are quite different. Following Statistics Canada's Low Income Cut-offs,³ households are considered to be living in absolute poverty if they spend more than 63.6 percent of their income on essentials (i.e., food, shelter and clothing). In contrast to the situation for relative poverty, absolute poverty rates have declined in recent decades. This decline is most marked from the mid-1990s onwards. This is further evidence that the driving force for the growth of income inequality in Canada is the big gains made by top-earners.

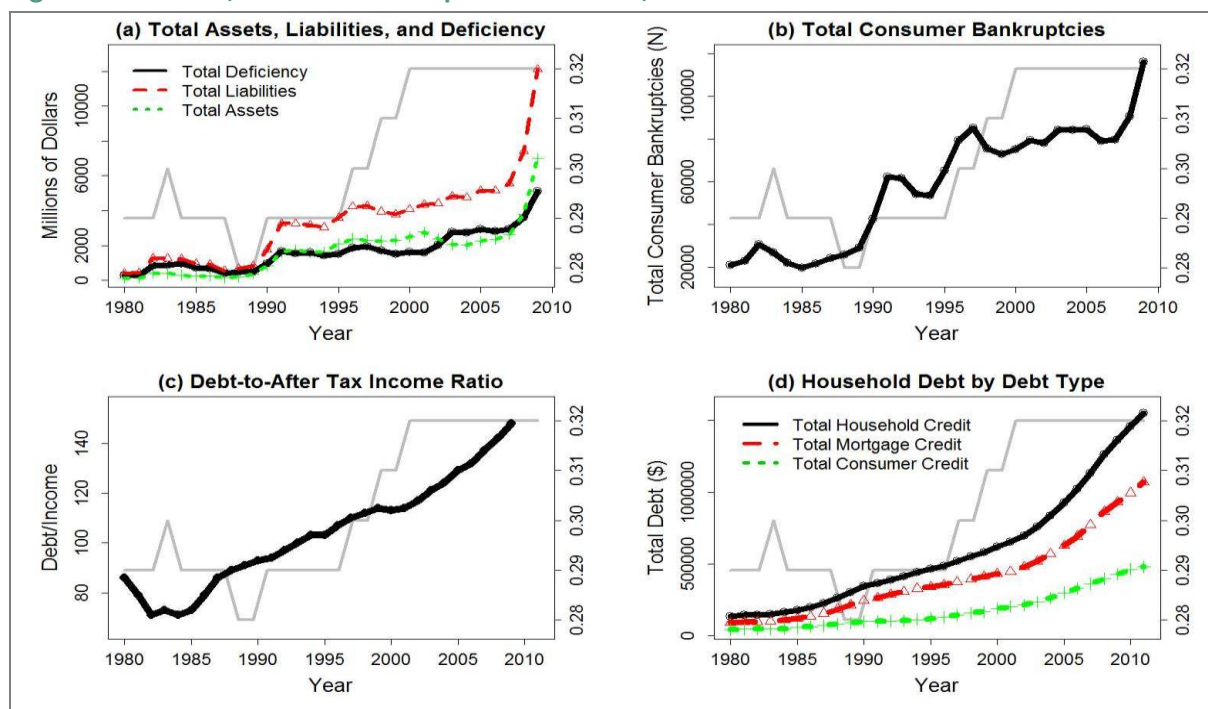
³ A Low Income Cut-Off is an income threshold below which a family will likely devote a larger share of its income on the necessities of food, shelter and clothing. The approach is essentially to estimate an income threshold at which families are expected to spend 20 percentage points more than the average family on food, shelter and clothing. The Family Expenditure Survey is used to estimate twelve different cut-offs varying by family size and region (The different cutoffs are intended to capture differences in the cost of living between family sizes as well as rural and urban areas). These thresholds were then compared to family income from Statistics Canada's major income survey, the Survey of Consumer Finances (SCF), to produce low income rates (adapted from Statistics Canada Low Income Cut-off Definition)

While the distance between rich and poor is growing, the percentage of people living in ‘absolute’ poverty has actually decreased.

2.1.2 Wealth & Debt Inequality

We now turn to trends in personal wealth and debt. As Figure 2.10 suggests, personal debt in Canada has grown exponentially since 1980. While total assets have grown since 1980, the total deficiencies and, even more so, total liabilities, have also grown at an even greater pace (Panel (a)). Not surprisingly given the increase in debt, there has also been a dramatic rise in the number of consumer bankruptcies (see Panel (b)). In 1980 only 21,000 people claimed bankruptcy; by 2009 the number of bankruptcies had risen to 115,000. The debt to after-tax income ratio has also risen dramatically from 86 percent in 1980 to 148 percent in 2009 (Panel (c)). Finally, as Panel (d) of Figure 2.10 indicates, this large increase in household debt accounts for much of the increase in personal debt since 1980, and it has become an increasingly larger proportion as time has gone by.

Increasing debt is largely a function of more people buying homes instead of renting, the increasing costs of homes, and the subsequent rise of mortgage interest payments (Chawla, 2011; Girouard & Blöndal, 2001). Rising debt is also partly a function of increasing costs of products, however, which appear to have outpaced wage gains. For example, the Statistics Canada’s Consumer Price Index—which measures price changes for a fixed basket of goods and services—was 120 percent higher in 2010 than it was in 2002, and 172 percent more than in 1980.

Figure 2.10 Assets, debt and bankruptcies in Canada, 1980-2009.

Source: Statistics Canada

Despite a rise in overall debt, net worth has also increased overall. Table 2.1 displays growth by net-worth quintiles and reveals that between 1999 and 2005 the average median family net worth grew by 23.2 percent. When looking at changes in net worth by quintile, however, we learn that families with the lowest 20 percent of net-worth have lost ground between 1999 and 2005. In fact, they were the only quintile to experience a decrease in net worth during this period. On the other hand, the wealthiest families made significant gains in wealth during the same period.

Table 2.2 makes it clear that it is low middle income earners—i.e., those with after-tax earnings between \$20,000 and \$29,999—who have seen the greatest decrease in net worth. Similarly those earning between \$30,000 and \$39,999 after-taxes made little gains in net worth, suggesting that those in the working class have experienced an increased financial burden. This most likely reflects increasing living costs, especially housing prices, which have made it more difficult for low income families to purchase homes. We discuss these issues in more detail in Chapter 3.

Table 2.1 Distribution of Net Worth by Net Worth Quintiles.

Quintiles	% of net worth owned by quintile 1999 ¹	Total Net Worth ²	Median Net worth ³	% of net worth owned by quintile 2005	Total Net Worth	Median Net worth	% change median net worth	% change total net worth
	%	Millions \$	\$	%	Millions \$	\$	%	%
All Family Units	100.0	3,432,000	120,500	100.0	4,862,000	148,400	23.2	41.7
Lowest 20%	0.1	-3,700	1,100	0.1	-6,300	1,000	-9.1	-70.3
Second 20%	2.6	89,700	34,800	2.3	110,000	37,300	7.2	22.6
Third 20%	8.8	302,000	120,500	8.4	409,000	148,400	23.2	35.4
Fourth 20%	20.1	691,000	275,600	20.2	983,000	361,200	31.1	42.3
Highest 20%	68.5	2,353,000	671,600	69.2	3,367,000	862,900	28.5	43.1

¹ All values in 2005 constant dollars

Source: Income Statistics Division, Statistics Canada

Table 2.2 Median Net Worth by After-Tax Income Quintiles.

After-Tax Income ¹	Family Units 1999	Median Net Worth ²	Family Units 2005	Median Net Worth	% Change from 1999 Median Net Worth
	%	\$	%	\$	%
All Family Units	100.0	120,500	100.0	148,400	23.2
Less than \$10,000	7.8	2,000	7.5	3,500	75.0
\$10,000 to \$19,999	15.7	14,700	13.5	16,000	8.8
\$20,000 to \$29,999	15.6	61,400	15.8	48,400	-21.2
\$30,000 to \$39,999	15.0	110,600	13.8	113,000	2.2
\$40,000 to \$49,999	12.2	146,700	11.2	187,500	27.8
\$50,000 to \$74,999	19.3	206,000	19.6	260,300	26.4
\$75,000 or more	14.2	438,900	18.6	505,700	15.2

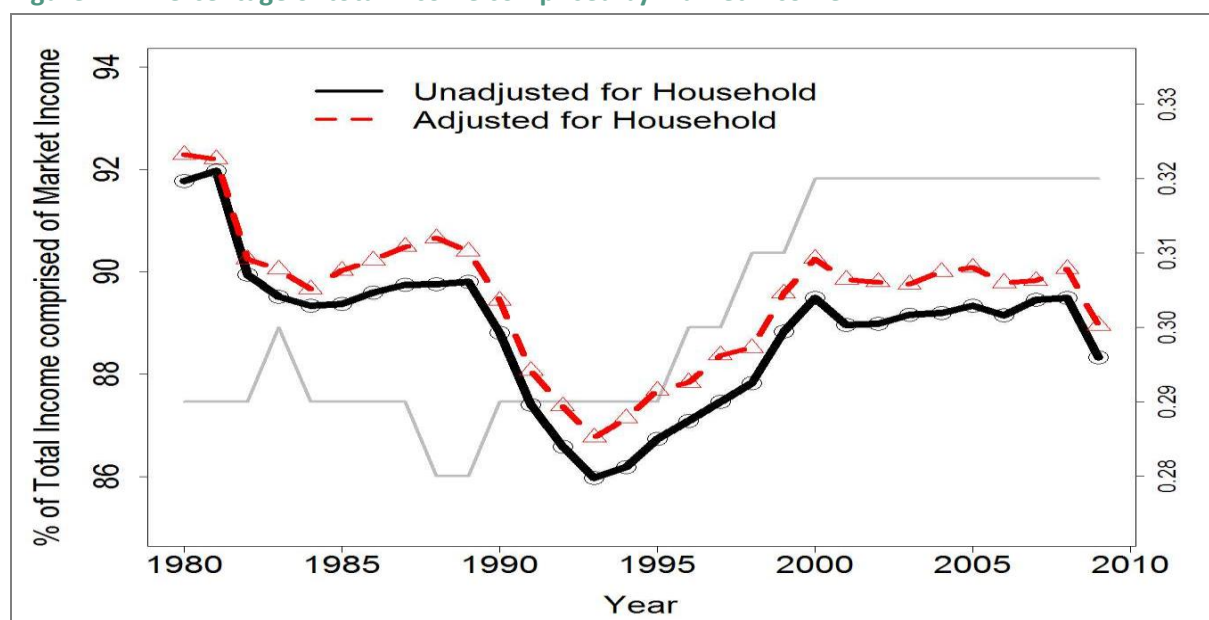
¹ All values in 2004 constant dollars² All values in 2005 constant dollars

Source: Income Statistics Division, Statistics Canada

2.1.3 Labour Market Inequality

We have already noted that the rise in inequality is most noticeable for market incomes. Nevertheless, social transfers have not kept up with the tremendous increase in market incomes. In other words, even after taxes and redistribution, income inequality has risen substantially. This is clear in Figure 2.11, which shows the percentage of incomes derived from the market. High levels of government spending on social transfer payments (see MacFarlan & Oxley, 1996; Picot et al, 2003) are reflected in the precipitous decline in the importance of market income from 1980 to the mid-1990s. Consistent with the big leap in inequality in the mid-1990s, however, the percentage of incomes derived from the market rises quickly until about 2000 when it remains fairly constant at a level close to that of the 1980s.

Figure 2.11 Percentage of total income comprised by market income.

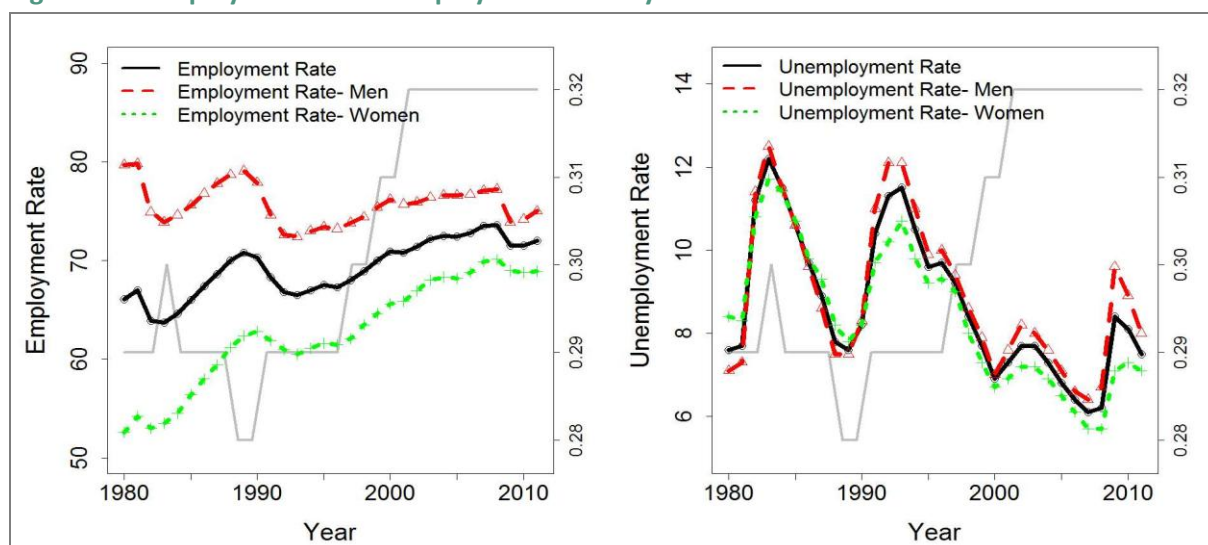


Source: Statistics Canada

The rise in inequality does not appear to be closely connected to the level of unemployment. Using Statistics Canada's Labour Force Survey data on people aged 15-65, Figure 2.12 displays employment and unemployment rates for men and women from 1980-2012. As is common knowledge, there has been a continual increase in women's employment during the period under investigation. While there was a slight decrease in men's employment in the early 1990s, it bounced back and levelled out within a few years. Even more interesting, the unemployment rate for men and women does not appear to follow changes in the level of income inequality. Nevertheless, although the rate was very similar for men and women throughout the three decades, in recent years it has tended to be slightly higher for men than for women.

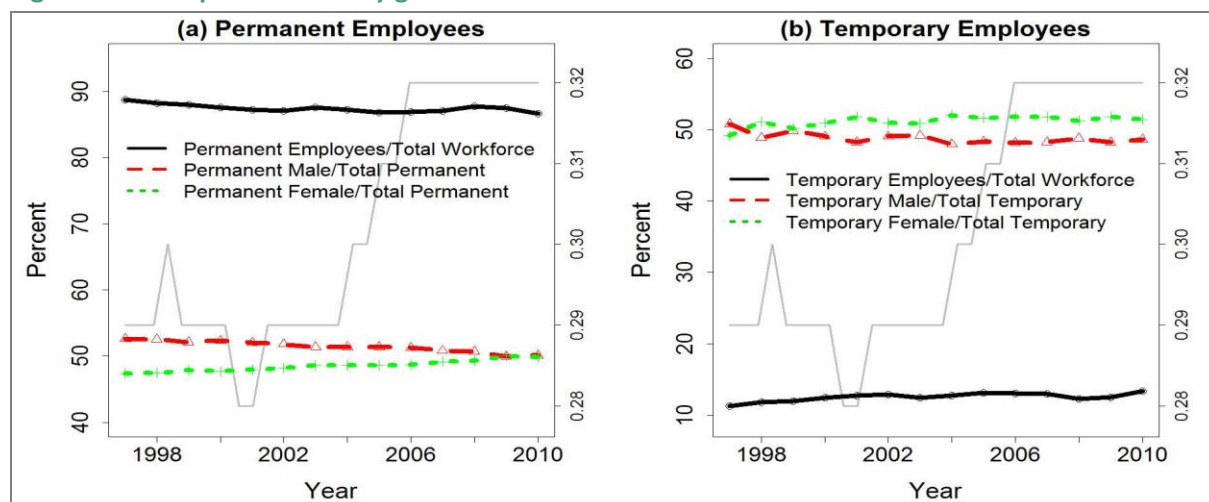
There is some evidence that changes in income inequality may at least partly reflect an increase in temporary employment. Unfortunately data are only available from 1997, so it is impossible to know whether changes in employment status coincide with the marked change in inequality in the 1990s. Still, Figure 2.13 indicates that the proportion of people employed in permanent jobs has declined slightly since 1997, especially for men. The decline in permanent jobs was at least partly offset by an increase in the number of people employed in temporary jobs. Of course, the substitution of temporary jobs for permanent jobs has implications for incomes.

Figure 2.12 Employment and unemployment rates by sex.

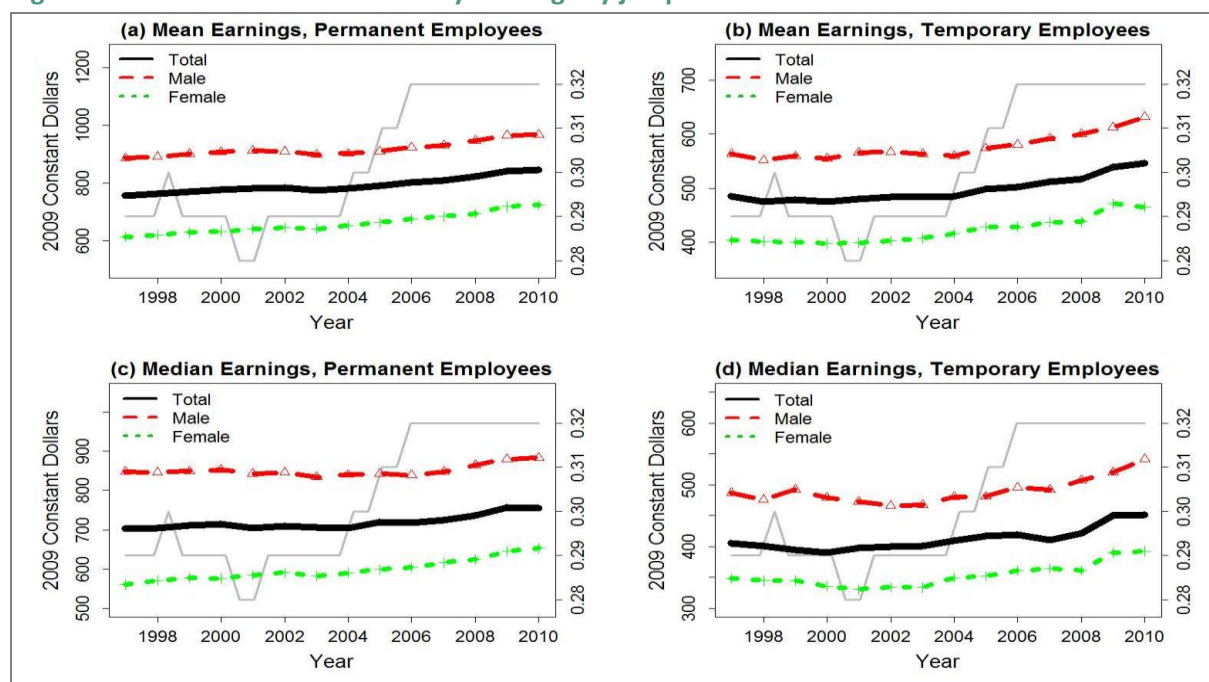


Source: Statistics Canada

Figure 2.14 highlights the importance of permanent employment for earnings. For both men and women, permanent employees have far higher incomes on average than temporary employees. While there has been a slight increase in both median and mean weekly earnings for both men and women who are temporary employees, median incomes for permanent employees changed very little. In short, the proportion of men in permanent, high paying jobs has declined, while the proportion of women in these jobs has increased. In other words, at least over the past 15 years, women have not been affected as much as have men by changes in the economy.

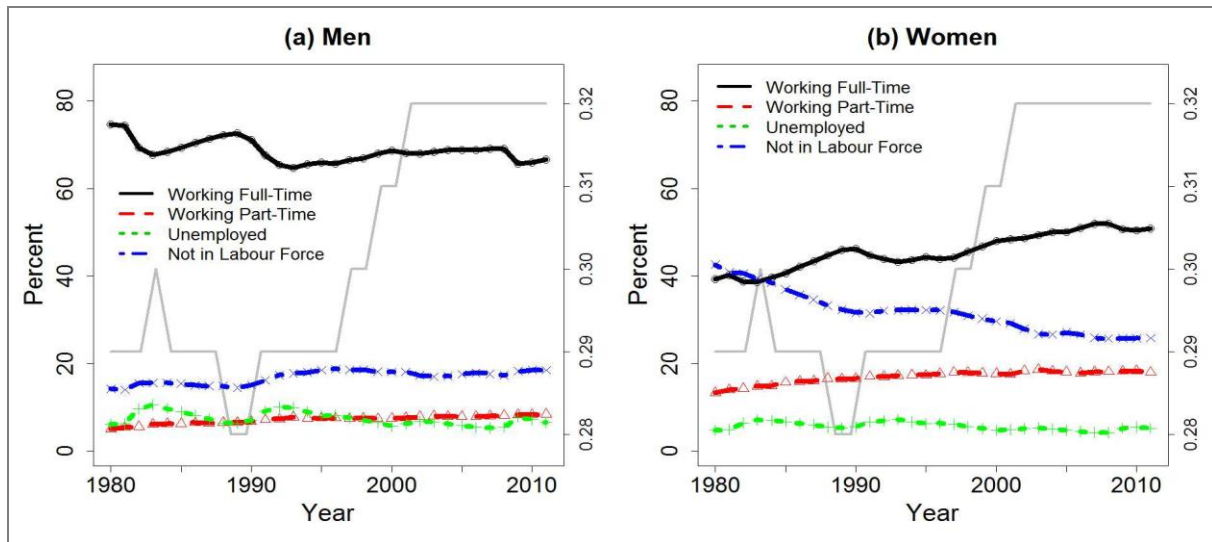
Figure 2.13 Job permanence by gender.

Source: Statistics Canada

Figure 2.14 Mean and median weekly earnings by job permanence and sex

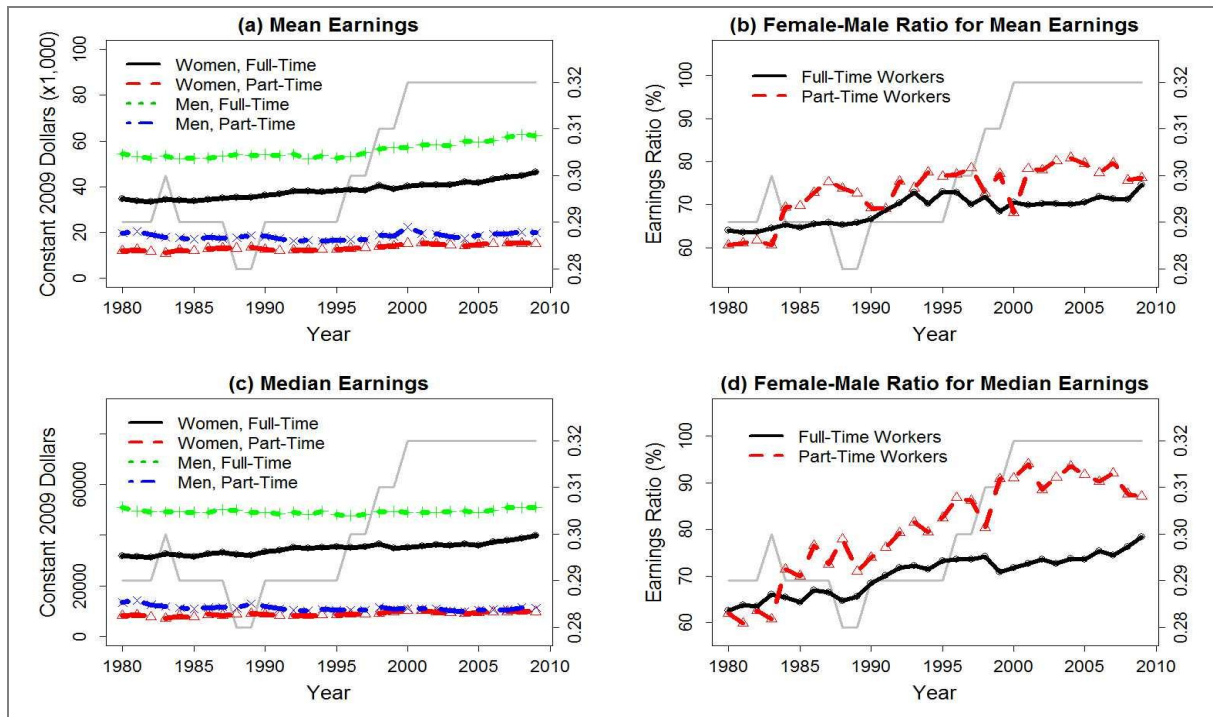
Source: Statistics Canada

It is possible that changes in the number of regular hours worked per week may also account for some of the rise in inequality. Figure 2.15 demonstrates that there was a slight decline in the proportion of men working full-time, and a concomitant increase in the proportion not in the labour force, especially at the end of the 1980s. For women, on the other hand, there was a relatively steep increase in the proportion working, both full-time and part-time, and a large decline in the proportion not in the labour force. As we shall see below, full-time and part-time work also followed different trends in earnings for men and women.

Figure 2.15 Labour force participation by gender and employment status.

Source: Statistics Canada

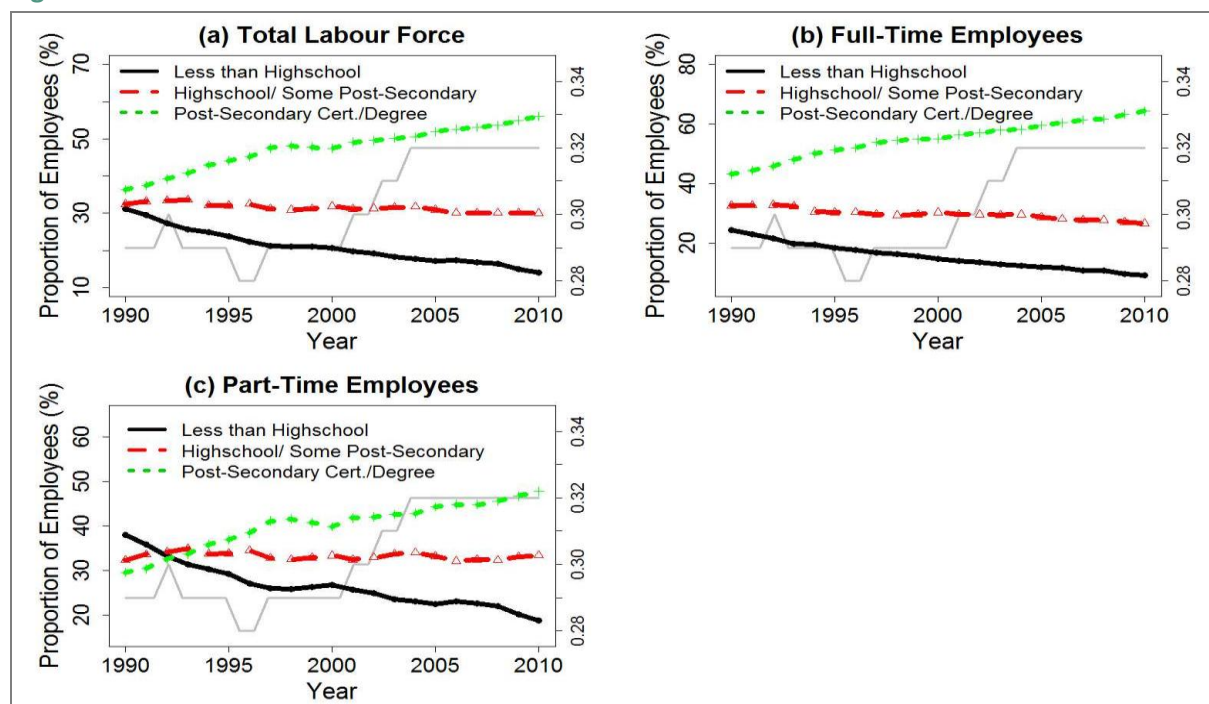
A close look at Figure 2.16 suggests that much of the loss in earnings for men have been partly offset by an increase in earnings for women. In other words, although the main story is about increasing incomes for high income earners, men in precarious jobs have also been hit hard. Nevertheless, despite the gains made by women, they still on average earn less than men—earning 78 percent and 74 percent of men’s median and average earnings respectively for full-time work and earning 87 percent and 76 percent of men’s median and average earnings respectively for part-time work. Therefore, while the gains made by women in terms of earnings ratios is encouraging for gender equity, a disparity between gender earnings still remains, especially in regards to full-time employment earnings.

Figure 2.16 Annual yearly earnings by gender and employment status, 1980-2010.

Source: Statistics Canada

2.1.4 Educational Inequality

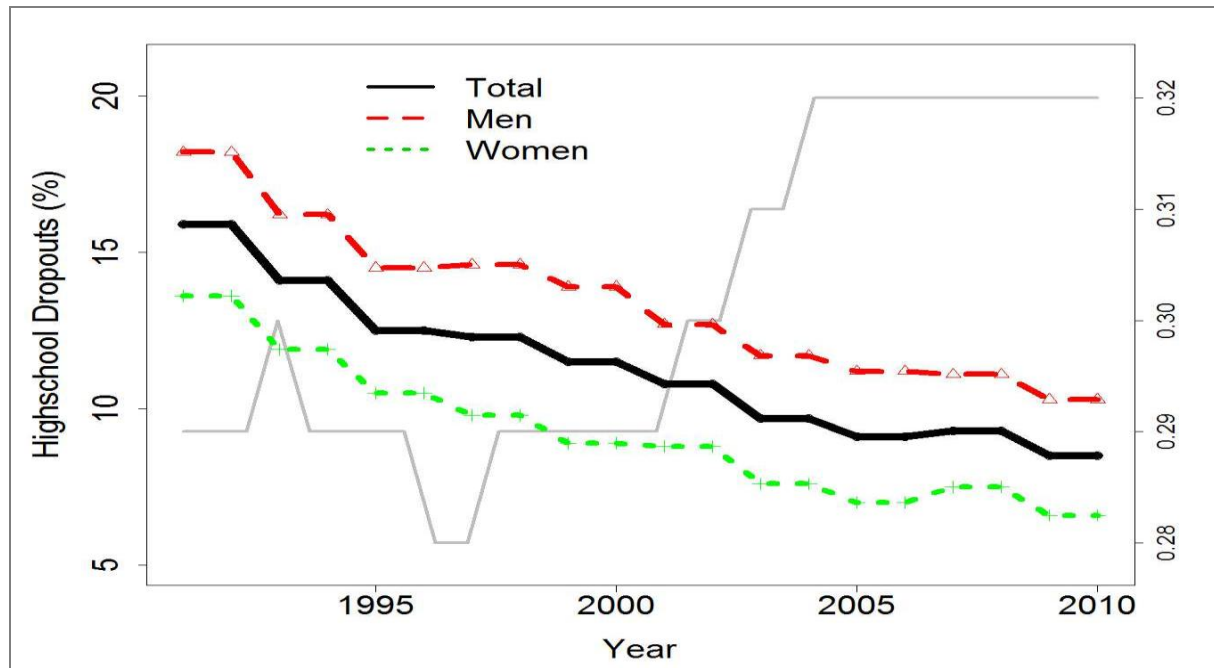
Figure 2.17 demonstrates the relationship between employment status and education since 1990. From 1990-2010 the percentage of all full-time employees with low education—i.e., less than high school, high school, and some post-secondary—have all decreased. On the other hand, from 1990 to 2010 those with a post-secondary certificate or degree became increasingly more likely to hold a full-time job. In terms of part-time employment similar trends are observed. Those with less than high school and high school education lost shares of total part-time employment. Once again, however, those with higher education increased their shares of the total part-time labour force.

Figure 2.17 Educational attainment.

Source: Statistics Canada

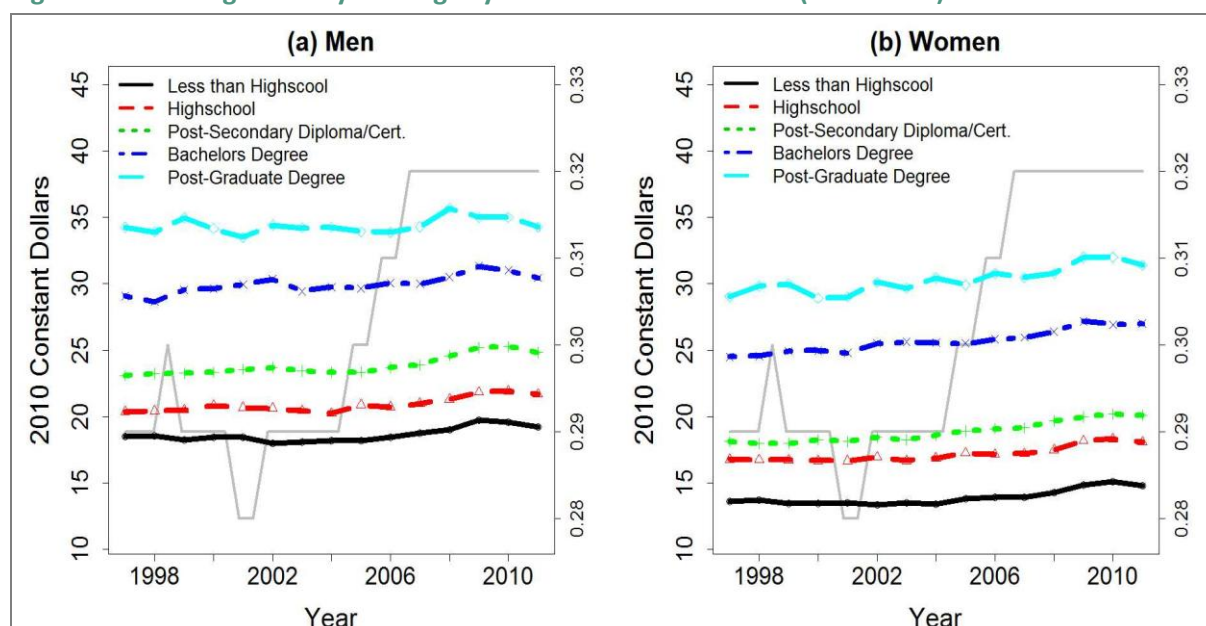
Figure 2.18 displays secondary school dropout rates in Canada over the past 20 years. Following Statistics Canada's definition, dropouts are defined as those aged 20-24 years old without a secondary school diploma. If inequality has affected secondary school completion rates, it is in a positive way. That is, fewer people have dropped out of school over time despite that inequality has risen. The decline in dropouts is quite marked—while more than 15 percent dropped out in the early 1990s, fewer than 10 percent dropped out by 2010. While men have always been more likely to drop out than women, the trend over time is virtually identical for both.

The decrease in dropouts partly reflects policy changes regarding the legal high school dropout age. In the 1980s, most provincial governments increased the legal dropout age to at least 16 (New Brunswick went as far as to make it age 18 in 2000) (Oreopoulos, 2006). Moreover, the increasing inequality and growing financial returns to education magnified the ramifications of dropping out. Although we have no evidence to support the idea, it is possible, then, that part of the decrease in dropouts can be attributed to students making rational decisions to stay in school. Such decisions are consistent with relative risk aversion theory which posits that youth attempt to avoid downward class regression (Boudon, 1974; Breen & Goldthorpe, 1997).

Figure 2.18 Secondary school dropout rates.

Source: Statistics Canada

As Figure 2.19 shows incomes are highly correlated with education level. A university degree gives the greatest wage advantage as it equates to roughly a \$10 per hour wage gain over those with a post-secondary diploma or certificate. Conversely, those with post-secondary diplomas or certificates have a much smaller advantage of roughly \$4 more than those with only high school or less. For the most part, this relationship remained fairly stable over the period under study. That is, it appears that the increase in inequality did not drastically affect the returns to education. Still, there were some small changes over time. Comparing the wages of those with and without a university degree, reveals that in 1997 those with a university degree made \$12.36 more per hour than those without but in 2011 this advantage had shrunk to \$10.99 more per hour. While those with a university degree still have a large advantage then it is an advantage that may be decreasing as university education becomes more common.

Figure 2.19 Average Weekly Earnings by Educational Attainment (1997-2011).

Source: Statistics Canada

2.2 Whom has it Affected

2.2.1 Regional Differences

Canada has a diverse population that occupies a large land mass. As a result, regional differences play an important role in cultural, political and economic life. Particularly important have been changes in poverty across the various regions of the country. As seen in Table 2.1, from 1980 to 2009, most regions and Canada as a whole saw a decrease in the percentage of people living in low income circumstances. Indeed, British Columbia was the only region to see a rise in the percentage of people living in low income circumstances; Ontario's numbers remained stable and the prairies, Quebec, and the Atlantic region all experienced a decrease in the number of people living in low income circumstances. Despite this relative national consistency, since 1980 British Columbia and Ontario went from being the two provinces with the lowest percent of people living in low income circumstances after-taxes to the two provinces with the highest percentage; conversely the Atlantic Region, the Prairies, and, to a lesser degree, Quebec all went from being the regions with the highest percentage of people in low income circumstances to the provinces with the lowest. In summary, consistent with the early observation that most of the rise in inequality has been generated by increases in incomes at the top of the income distribution, the rise in income inequality has not had a serious impact on the number of people living in poverty in any of the five major regions of Canada.

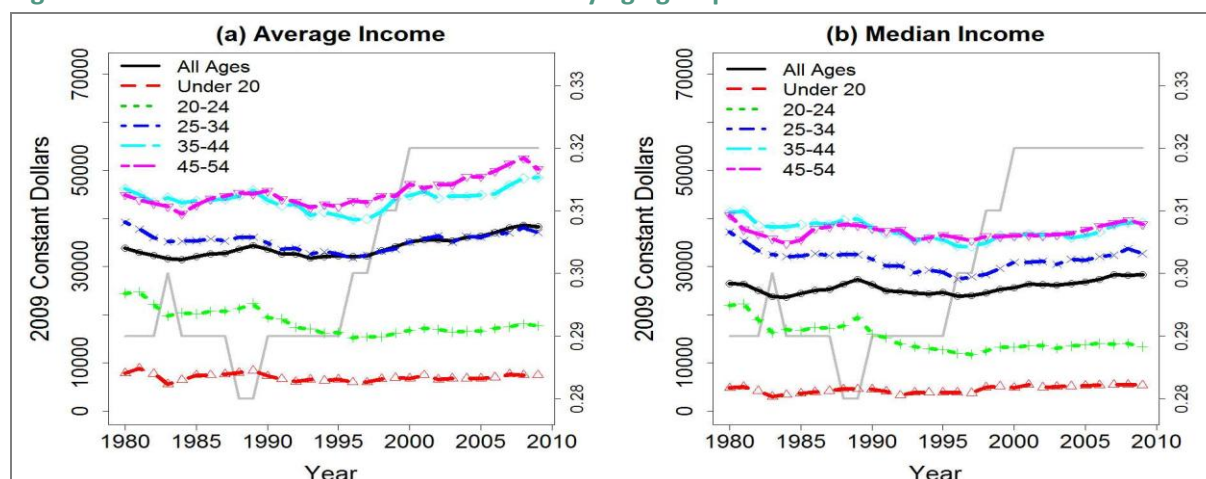
Table 2.3 Percentage of people living in low income circumstances (i.e., spend 63.6 percent or more of their income on food, shelter and clothing) by region

	1980		2009		Change	
	Market Income	Disposable Income	Market Income	Disposable Income	Market Income	Disposable Income
<i>Canada</i>	15.9	11.6	13.5	9.6	-2.4	-2.0
Atlantic	19.6	13.6	11.3	7.2	-8.3	-6.4
Quebec	19.2	14.6	14.4	9.4	-4.8	- 5.2
Ontario	14.1	10.0	13.7	10.1	-0.4	0.1
Prairies	14.6	10.6	11.4	7.8	-3.2	-2.8
B.C.	13.0	9.5	15.5	12.0	2.5	2.5

Source: Statistics Canada

2.2.2 Age Differences

Figure 2.20 displays trends in mean and median incomes for various age groups since 1980. We see quite clearly that there have been some significant changes in income by age group. Since 1980 the total average income for all ages rose 12.7 percent from \$33,200 in 1980 to \$37,300 in 2009. When broken down into age groups, we see that this increase in overall income is driven by gains made by two age groups, those aged 35-44 years and 45-54 years, which gained 7.7 percent (\$45,300 to \$48,800) and 16.3% (from \$44,700 to \$52,000) respectively. Conversely, the average income for those younger than 20 years old dropped 3.9 percent from \$7,600 in 1980 to \$7,300 in 2009 and 25.7 percent (\$23,700 to \$17,600) for those aged 20-24 years. Some of these patterns—e.g., the income drop for those aged 20-24 years—are also found for median incomes but others—e.g., gains made by those 35-54 years—are not. This is further evidence suggesting that income polarization is occurring in high income categories with the main trend towards increased inequality largely driven by top wages increasingly pulling away from others.

Figure 2.20 Mean and median market income by age group.

Source: Statistics Canada

2.2.3 Gender Differences

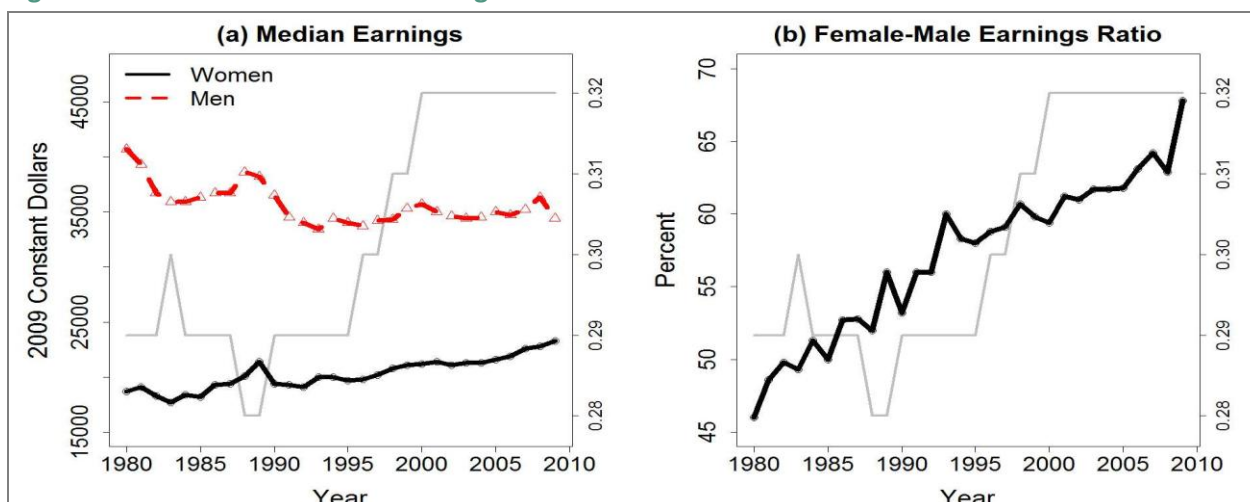
Table 2.2 displays the percentage of men and women in various income categories between 1980 and 2009. Although much of women's gains in earnings pertain to part-time employment, major gains have also been made in high income positions. For example, the percentage of women in jobs earning less than \$40,000 decreased by 14.5 since 1980, while the percentage of women earning over \$40,000 increased by 15.4. Conversely, the percentage of men in jobs earning less than \$30,000 grew by 8.6 while the percentage in jobs earning between \$30,000 and \$59,999 decreased by 10.8. This trend again suggests that women have been making strides towards earnings equity since 1980, though some of this has to do with men's losses rather than women's gains. Nevertheless, an overall gender gap in high paying occupations remains.

Table 2.4 Percentage of earners in each income category by gender, 1980 and 2009.

	1980		2009		Change	
	Men	Women	Men	Women	Men	Women
Under \$10k	15.6	32.8	20.7	27.7	5.1	-5.1
\$10-19,999	10.4	19.5	13.5	17.1	3.1	-2.4
\$20-29,999	10.3	18.7	10.7	13.7	0.4	-5
\$30-39,999	12.8	14.2	11	12.2	-1.8	-2
\$40-49,999	13.8	7	9.6	9.1	-4.2	2.1
\$50-59,999	12.8	4.2	8	6.8	-4.8	2.6
Over 60k	24.4	3.7	26.5	13.4	2.1	9.7

Source: Statistics Canada

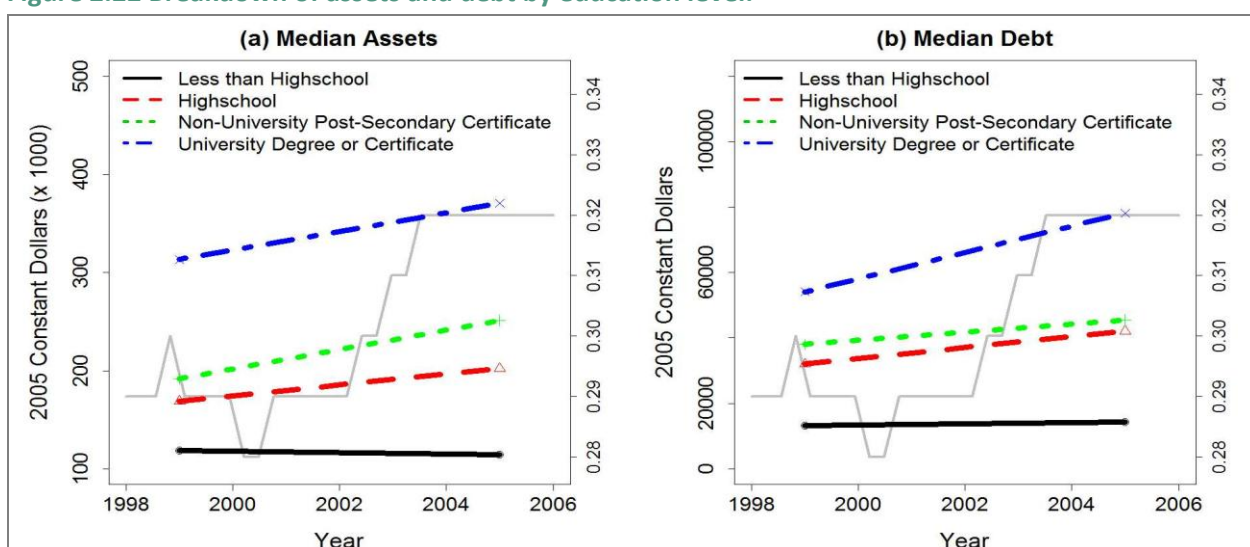
Figure 2.21 displays median earnings separately for men and women since 1980. In terms of gender earning equality major strides have been made by women in Canada since 1980 yet a large income gap does still remain. The female-to-male median earnings ratio rose 22 percentage points from 46 percent in 1980 to 68 percent in 2009. This convergence of incomes for men and women is largely a function of increases in women's earnings but it is also a function of a reduction in men's earnings. While men lost \$6,300 in median income since 1980, mean income increased by \$2,300 (42,900 in 1980 to 45,200 in 2009). This is yet another indication that the increased polarization in incomes is largely a function of large increases in high salaries. Once again, this polarization does not seem to be as pronounced for women as it is for men.

Figure 2.21 Gender and median earnings.

Source: Statistics Canada

2.2.4 Educational Differences

We have already shown that the labour force returns to higher education increased during the same period that inequality rose. We now turn to data from Statistics Canada's Survey of Financial Security to assess the relationship between education and assets and debt over time. Although data are available only for 1998 and 2006, there are still some noteworthy patterns. As Figure 2.22 shows, investing in education has become increasingly costly. Reflecting increasing tuition costs (Fortin, 2004; Wellen, 2004), debt has increasingly outstripped assets for university graduates over the decade for which we have data. On the other hand, probably largely reflecting that they were unaffected by increases in university tuition fees, there was little change in median assets or debt (home mortgages included) for those with less than high school education.

Figure 2.22 Breakdown of assets and debt by education level.

Source: Statistics Canada

2.3 Why has Inequality Grown?

There have been vast changes to the Canadian economy over the past 30 years. Most important, large-scale manufacturing has been progressively replaced by service industry jobs (Myles, 1988; Golden & Wallerstein, 2006). We should be clear here, however, that the vast majority of these new service jobs are not in the high wage knowledge economy. Instead, they tend to be in low wage routine non-manual occupations such as retail sales (Cranford et al, 2003; Vosko, 2006). As we have shown above, men have felt the blunt of these changes. At the same time that the male working class was hit hard, governments were slow—or perhaps unwilling—to respond (see Finnie & Irving, 2011; Heisz, 2007; Franette et al, 2009). In fact, as inequality started to rise in the early 1990s, government expenditures as a proportion of GDP began to decrease (Ferris & Winer, 2007). In other words, governments became increasingly less concerned with redistribution from the 1990s onwards and focussed instead on decreasing Canada's huge public debt (Greenspon & Wilson-Smith, 1996; Osberg and Fortin, 1998; Minister of Finance 2006).

Changes to family structure may have played an important role as well. Particularly important in this regard is the growth of single parent families and dual income families (Heisz, 2007; Picot & Myles, 1995). In contrast to thirty years ago when it was possible to have a relatively good living in a two-parent household with only one income earner, that has become increasingly difficult to do today. Most Canadian families now have two income earners (Figure 2.6). Although still a minority, there is also now much larger proportion of households with a single income earner, many of which are characterized by a single parent with children. The gap between households has thus risen accordingly.

Increasing rates of marital homogamy has also been offered as a major contributing factor to rising income inequality among families (Esping-Andersen, 2007; Kenworthy, 2004). Marital homogamy has risen significantly in Canada since 1980 (Fortin & Schirle, 2006; Hou & Myles, 2008), with the most homogamy occurring at the highest and lowest levels of the educational hierarchy (Hou & Myles, 2008:361). Given that the number of dual earner families has risen, homogenous marriages in which those with similar education levels form marital unions serves to further increase inequality between families. The growth in inequality is not only a function of primary earner income differences but also secondary earner income differences; thereby, a second dimension to income polarization has been created.

2.4 Conclusions

Income inequality in Canada has grown since 1980, and in ways unlike in prior historical periods. Despite inequality rising, relative poverty rates (percent of individuals earning less than 50% of the median after-tax income) have remained almost unchanged and absolute poverty rates (percent of individuals spending 63.6 percent of their income on essentials) actually decreased (Figures 2.8 and 2.9). The majority of the growth in inequality has instead been driven by the highest income earners increasing their advantage. During the 1990s those in the highest income quintile increased their share of total income by 6 percent, with losses in shares being spread equally among the other four quintiles. Breaking income inequality down further, however, reveals that income gains have occurred mostly for the very top earners.

There are certainly other parts to the story, however. For example, between 1980 and 2009 the gini coefficients for singles and the elderly actually decreased while the gini coefficients for married couples and parents with children increased substantially. We also demonstrated that there has been a drastic growth in personal debt and bankruptcies. With debt levels reaching an average of 148 percent of a household's annual after-tax income, debt may be masking some of the potential consequences of the rise in inequality. Other significant trends of note include: fairly consistent returns to education continuing to be high in terms of both income and employment despite the rise in inequality; a decline in high school dropout rates since 1980; and significant gains for women, both in employment levels and income, though some of these decrease in gender gap is due to men's losses than real gains for women, and a significant gender wage gap continues to persist.

3. The Social Impacts of Inequality

3.1 Introduction

This chapter explores the social impacts of the rising inequality discussed in Chapter 2. We begin by looking at a relatively new measure of material deprivation to determine whether absolute poverty rates in Canada have increased. This is followed by a discussion of entry and exit rates into and out of poverty using the same poverty measure—relative poverty (earning 50 percent of median income) and relative absolute poverty (spending 20 percent more income than the national average on essentials, i.e. spending 63.6 percent of income on essentials)—that were used in Chapter 2.⁴ Indicators of Social cohesion in the form of social contact rates are then discussed followed by an analysis of changing fertility dynamics in Canada. Finally, we consider how trends in family composition are related to changes in income inequality.

3.2 Material Deprivation

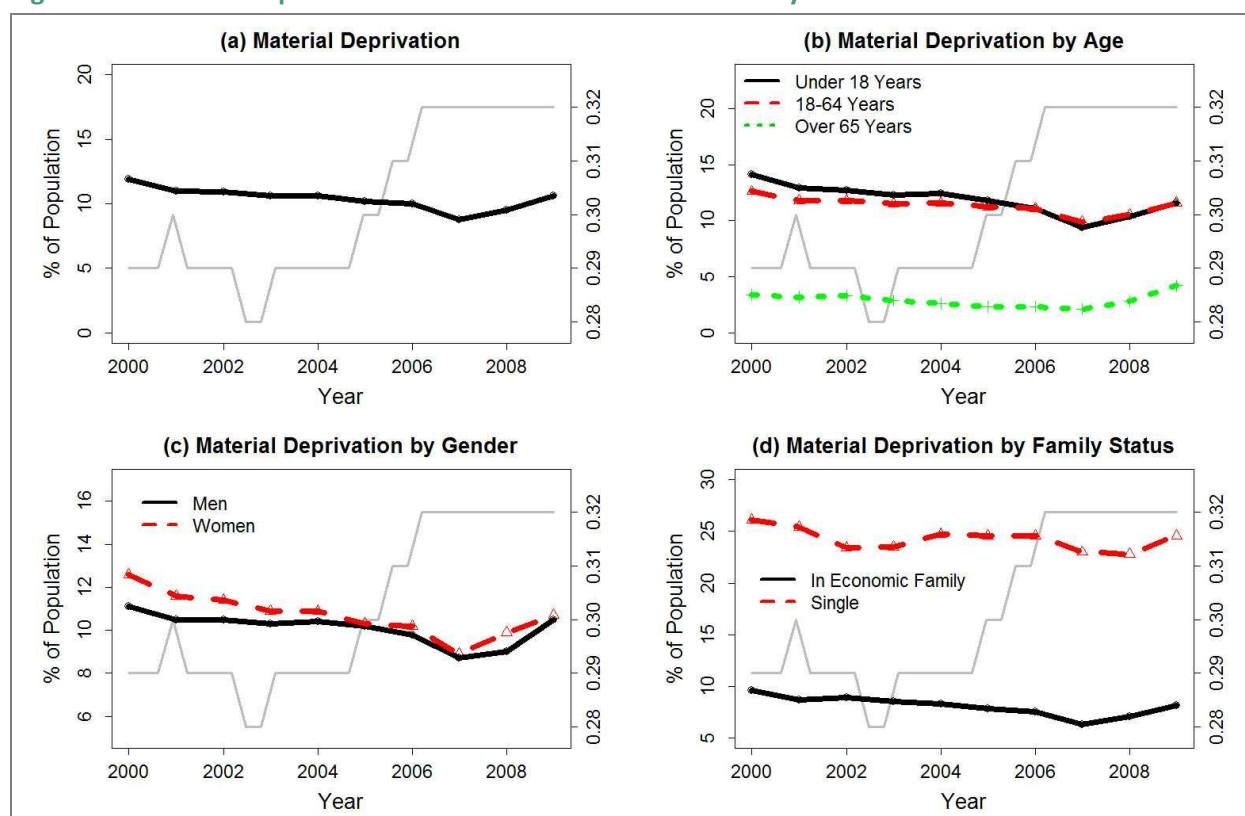
Measures for material deprivation in Canada have only been developed recently with Statistics Canada's introduction of the Market Basket Measure in 2000.⁵ Developed by a panel of officials and experts and led by Human Resources and Development Canada the Market Basket Measure provides an indication of the percent of people living below a basic standard of living—i.e. having adequate necessities such as food, shelter, clothing, transportation, medical supplies, etc.—and is based on disposable income, adjusted for region, and adjusted for family size (Hatfield, 2002; Michaud et al, 2004). Using these measures, Figure 3.1 indicates that material deprivation rates have generally been stable in Canada between 2000 and 2009, though there is evidence of a slight decline for some groups. Age has little bearing on the percentage of people living in material deprivation with people under 18 and people between 18 and 64 having almost identical rates and those over 65 having

⁴ The Canadian government does not have an official measure of poverty. Nevertheless, Statistics Canada regularly publishes the measures we use here as a proxy for poverty rates.

⁵ "The Market Basket Measure (MBM) attempts to measure a standard of living that is a compromise between subsistence and social inclusion. It also reflects differences in living costs across regions. The MBM represents the cost of a basket that includes: a nutritious diet, clothing and footwear, shelter, transportation, and other necessary goods and services (such as personal care items or household supplies). The cost of the basket is compared to disposable income for each family to determine low income rates" (Statistics Canada).

much lower rates than their younger counterparts (Figure 3.1, Panel (b)). Gender again has little bearing on the percent of people in material deprivation with a small gender gap in women having higher rates in 2000 being reduced to identical rates in 2009 (Figure 3.1, Panel (c)). Finally, as expected, those that are single have much higher rates of living in material deprivation than do those living in families (Figure 3.1, Panel (d)).

Figure 3.1 Material deprivation and social exclusion measured by market basket measure.



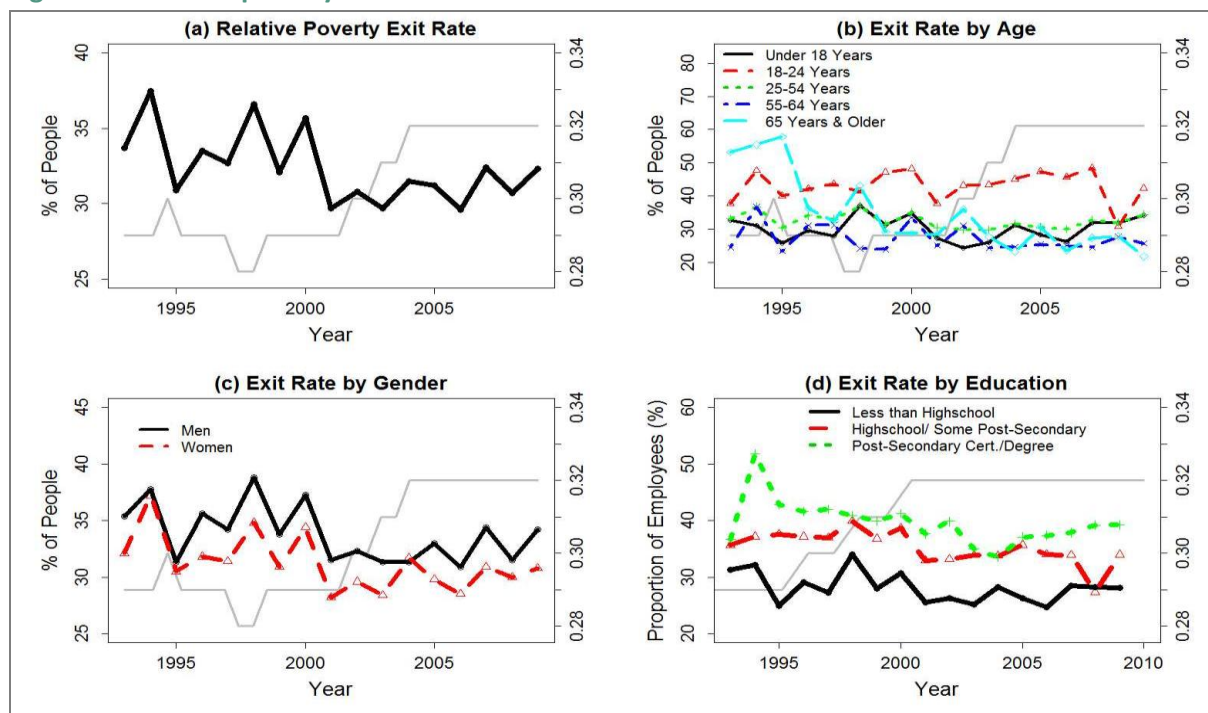
Source: Statistics Canada

3.3 Cumulative Disadvantage and Multidimensional Measures of Poverty and Social Exclusion

In Chapter 2 we discussed how the percent of people living in both relative poverty (earning 50 percent of median income) and relative absolute poverty (spending 20 percent more income than the national average on essentials) has been relatively stable over the past 30 years. We now turn to exit rates from poverty. Panel (a) of Figure 3.2 indicates that exit rates were much higher before 2000. In other words, a higher percentage of people were able to move out of poverty before 2000, after which those in circumstances of relative poverty tended to remain in the same circumstance longer. As Panel (b) of Figure 3.2 indicates age had little bearing on this trend. The trend was also similar for both genders, although there was a persistent gender gap, with men's exit rates being

higher (Figure 3.2, Panel (c)). Finally, those with higher education are more likely to escape relative poverty but once again lower exit rates are experienced across education levels after 2000 (Figure 3.2, Panel (d)).

Figure 3.2 Relative poverty exit rates.



Source: Income Statistics Division, Statistics Canada

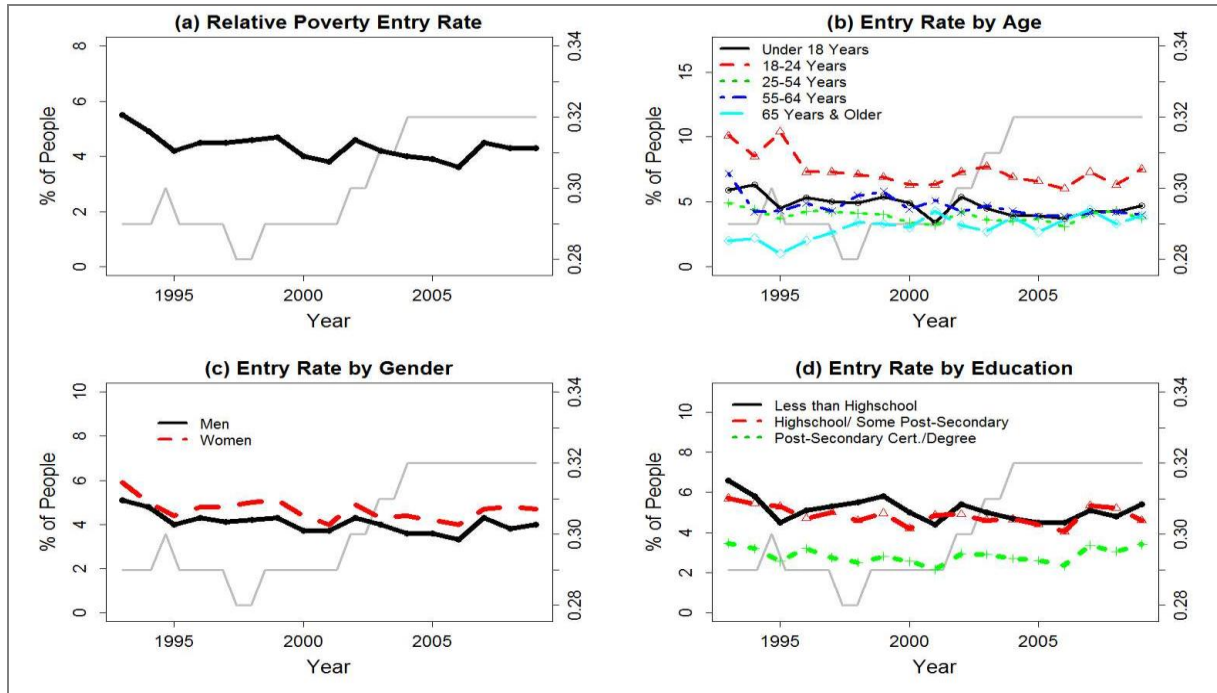
Absolute poverty exit rates do not show the same downward trend after 2000. Nevertheless, as Panel (a) of Figure 3.3 indicates, declining minimum wages, unemployment insurance, and social assistance after 2000 did temporarily set back rising exit rates. This setback was overcome by an overall increase in incomes, however. For example, even after adjusting for inflation, median wages rose from \$39,480 in 1980 to \$50,200 in 2009 (Statistics Canada). As with relative poverty, age (Figure 3.3, Panel b), gender (Figure 3.3, Panel c), and education (Figure 3.3, Panel d) had little impact on the overall trend.

Figure 3.3 Absolute poverty exit rates.

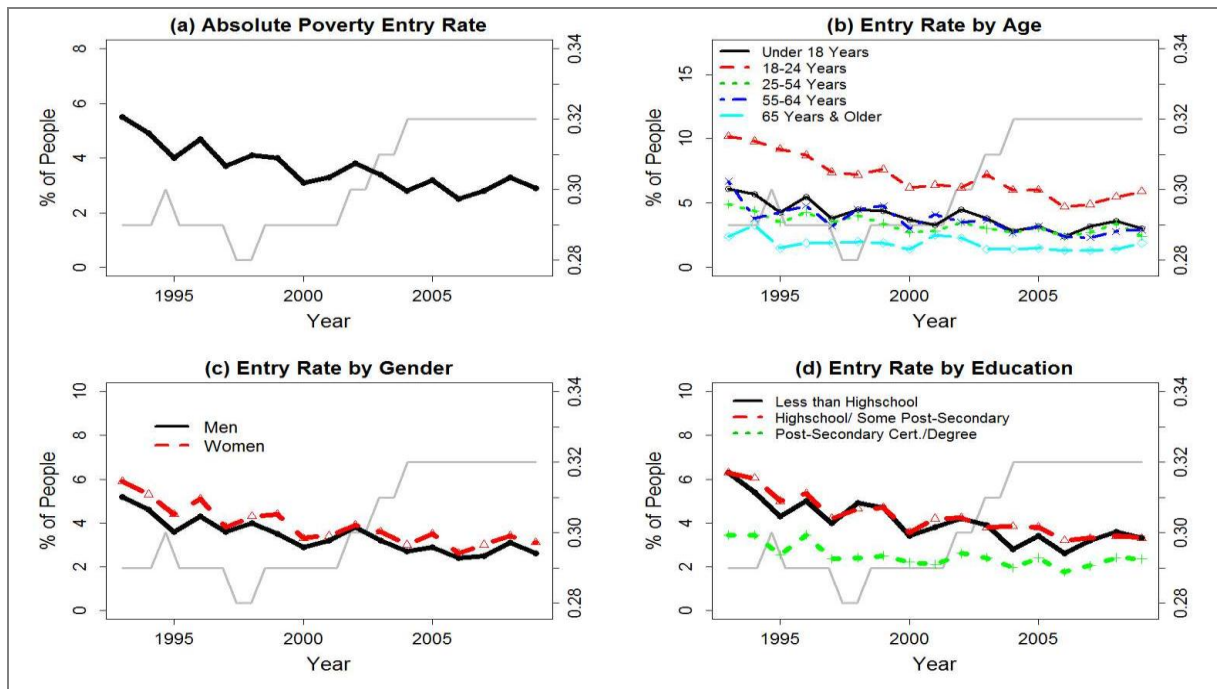
Source: Income Statistics Division, Statistics Canada

We now move to Figure 3.4 for a discussion of poverty entry rates⁶. In terms of relative poverty, entry rates have gradually decreased overall (Panel (a)). Combined with exit rate trends this indicates that between 1993 and 2009—the only years for which we have data—there has been an increasing tendency for both those in and not in poverty to stay in the same circumstance. This probably reflects that the Canadian income tax structure became considerably less progressive since the 1990s at both the Federal and Provincial level (Heisz, 2007). As with exit rate trends, age, gender, and education do not significantly differ from the overall entry rate trend with the exception of higher education and ages generally decreasing the likelihood of entering relative poverty (Panels (b), (c) and (d)). Absolute poverty entry rates (Figure 3.5) confirm the trend in decreasing rates of people entering poverty and show identical patterns as relative poverty entry rates as well.

⁶ According to Statistics Canada's definition, the "entry rate is the proportion of the population who entered low income as a share of people who were not in low income the previous year" (Statistics Canada).

Figure 3.4 Relative poverty entry rates.

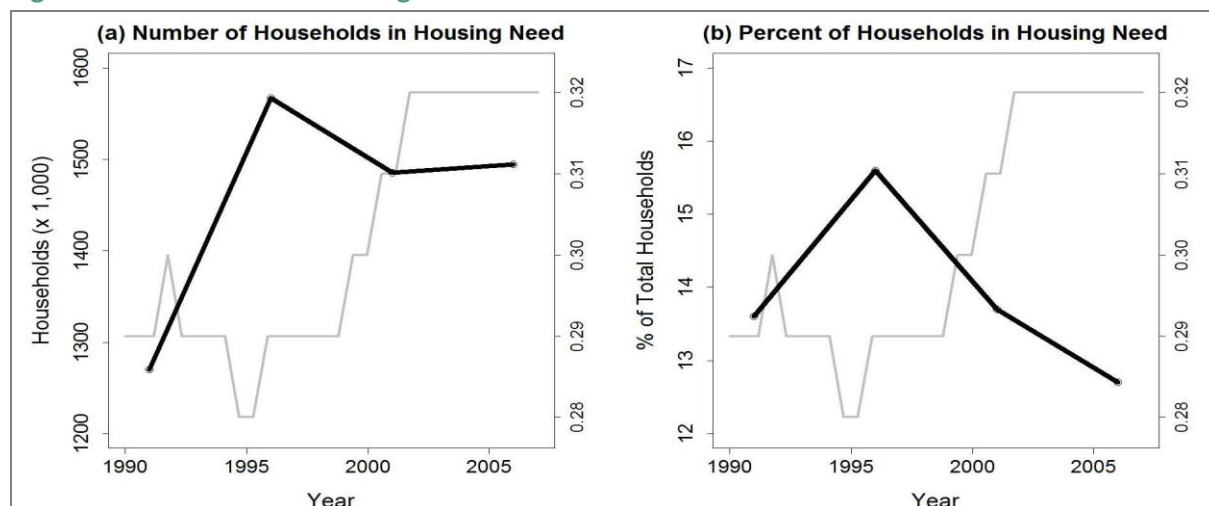
Source: Income Statistics Division, Statistics Canada

Figure 3.5 Absolute poverty entry rates.

Source: Income Statistics Division, Statistics Canada

We now turn to Figure 3.6, which displays information on housing needs over time. While the sheer number of households in housing need⁷ has increased since 1990, the percent or incidence of households in housing need has actually decreased slightly going from 13.6 percent in 1990 to 12.7 percent in 2006 [Figure 3.6]. Once again, this trend is consistent with all previous findings indicating that despite inequality increasing in Canada the percent of people living in poverty has remained stable and may have actually decreased.

Figure 3.6 Households in housing need.



Source: Canada Mortgage and Housing Corporation

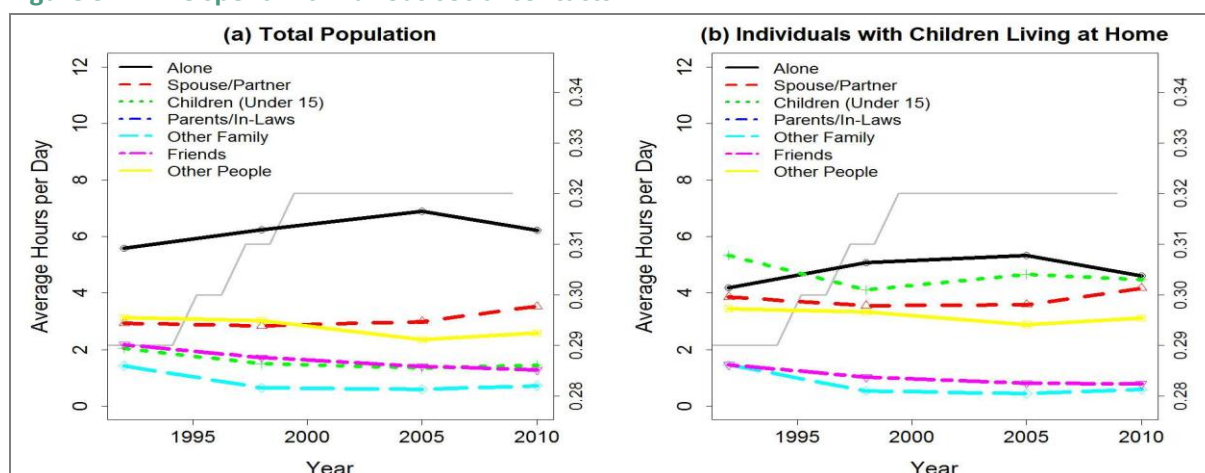
3.4 Indicators of Social Cohesion

Figure 3.7, Panel (a) displays Canadian data on time spent having social contact with people of different groups from 1992 to 2010. During this period time spent alone and with one's spouse or partner increased (38 and 35 minutes per day respectively) and time spent with children under 15, other family, friends, and other people all decreased (36, 43, 53, and 33 minutes respectively). As Figure 3.7 indicates, these changes did not track well with changes in income inequality. Furthermore, this trend of less social contact cannot be attributed to increased work hours as average actual hours worked decreased from 36.2 hours per week in 1992 to 35.5 hours per week in 2010 (Statistics Canada).

⁷ "Acceptable housing is defined as adequate and suitable shelter that can be obtained without spending 30 per cent or more of before-tax household income. Adequate shelter is housing that is not in need of major repair...[and] is not crowded, meaning that it has sufficient bedrooms for the size and make-up of the occupying household. The subset of households classified as living in unacceptable housing and unable to access acceptable housing is considered to be in core housing need."

Figure 3.7, Panel (b) explores social contact for just those with dependent children living at home. Once again time spent alone and with one's partner/spouse increased (41 and 31 minutes per day respectively) and time spent with one's children, other family, friends, and other people all decreased (75,81, 59, and 33 minutes respectively). One possible explanation for these reduction is the increase in dual earner families—59.8 percent of families in 1992 to 63.2 percent in 2010 (Statistics Canada).—which has been connected to less time spent with one's children, other family, and friends (Michelson, 1986). The percentage of lone parent families has also increased during this time from 13.8 percent in 1995 to 14.9 percent in 2010 (Statistics Canada), which may also have contributed to the decrease in time spent with children. Another explanation for decreased social contact overall is increases in the number of families without children—the percentage of couples without children increased from 36.4 percent in 1995 to 41 percent in 2010 (Statistics Canada)—as children have been known to increase parents' social contact with family and friends/other people with children (Belsky & Rovine, 1984; Bost et al, 2002).

Figure 3.7 Time spent with various social contacts.

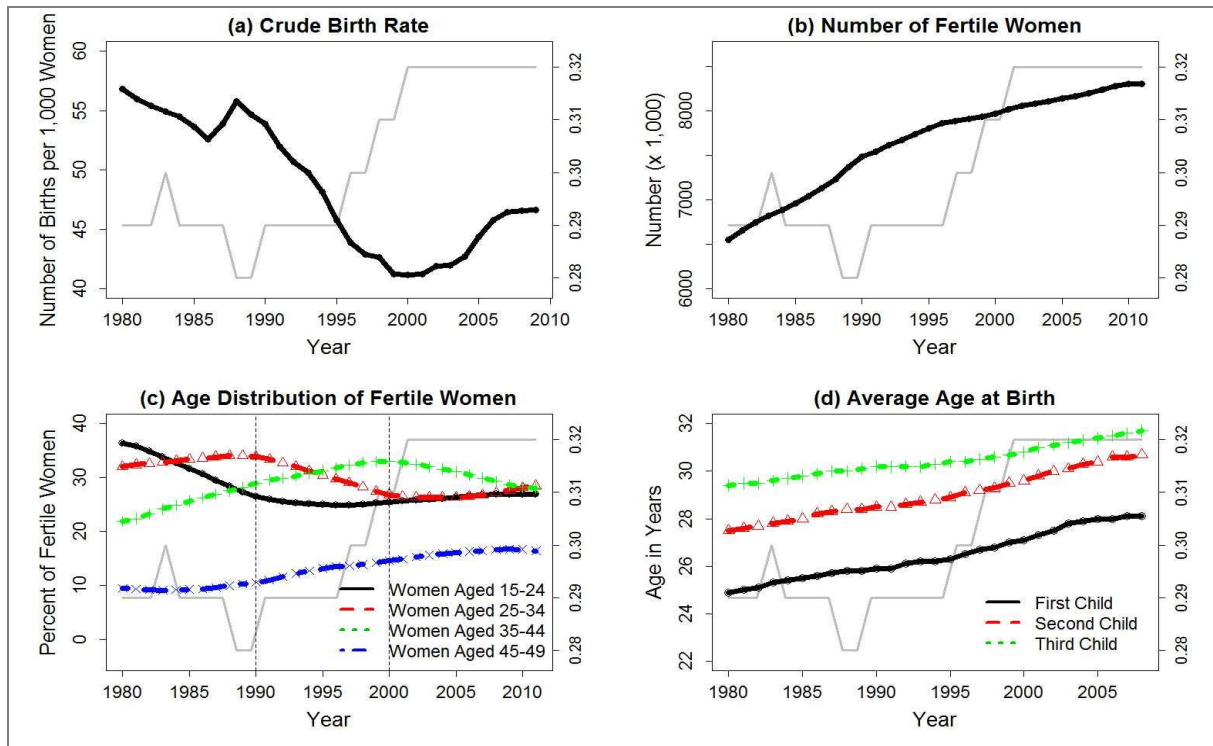


Source: General Social Survey (Cycles 7, 12, 19, & 24)

3.5 Family Formation and Breakdown

3.5.1 Fertility and Population Changes

Figure 3.8, Panel (a) displays the crude birth rate (i.e., the number of births per 1,000 women) between 1980 and 2009. The birth rate has fairly consistently dropped during this time, with only small gains made between 1986 and 1990 and in 2000 when birth rates slowly began to recover. Figure 3.8, Panel (b) suggests that the overall decrease in the crude birth rate cannot be attributed to decreasing numbers of fertile women—defined by Statistics Canada as women aged 15-49—as this number has grown fairly consistently since 1980. Some explanation for the downturn in the birth rate, however, can be found in the changing age distribution of fertile women.

Figure 3.8 Trends in Fertility.

Source: Statistics Canada

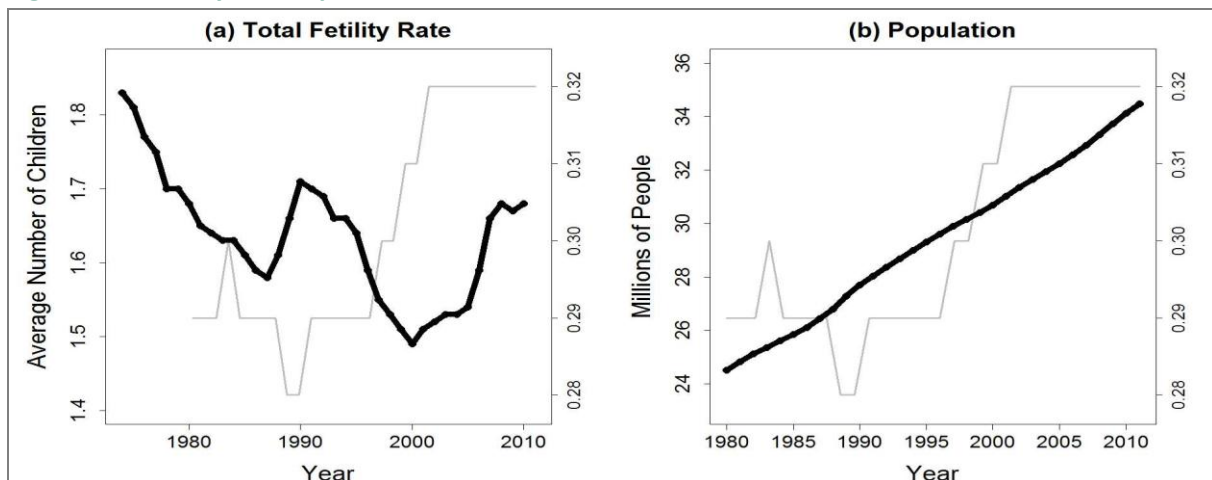
Figure 3.8, Panel (c) indicates that from 1980 to 2010 the percentage of women aged less than 35 had decreased dramatically. Much of this decrease took place during the 1990s, when the birthrate experienced its greatest drop. The number of women aged older than 35 during the 1990s, on the other hand, increased quite substantially until around 2000 when the trend reversed and those aged under 35 begin to make up a higher percentage of fertile women again. This trend of an aging fertile female population during the 1990s occurs at the same time that the average age at birth for women increased as well (Figure 3.8, Panel (d)). In 1980 the average age at childbirth was 27 but this had increased to 28 in 1990 and 29 by 2000.

Along with changing age demographics, decreases in overall fertility and increases in average age at birth have been attributed to a rise in women's post-secondary education and labour force participation rates (Sardon, 2006). A failure to introduce social policies to aid working parents—with the exception of Quebec, no other province has public childcare programs—has also forced many parents to choose between work and starting a family (ibid). This explanation is consistent with the increasing percentage of couples without children (see Figure 3.11, discussed later). The decreasing crude birth rate then can largely be attributed to women under 35 making up less of the population, women waiting longer to have children, and more women deciding not to have children at all.

Figure 3.9, Panel (a) adds another dimension to decreasing birth rates by showing that the total fertility rate has decreased as well. Where women had on average 1.83 kids in 1974 the rate dropped

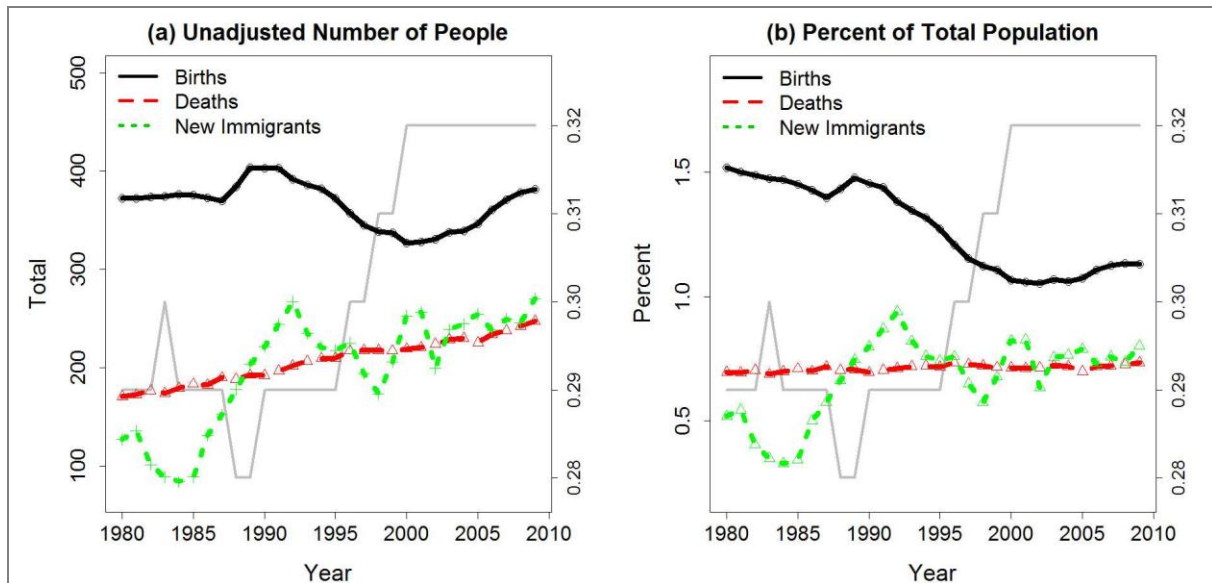
to 1.49 in 1990 before recovering to the 1980s level of around 1.7 kids per woman in the late 2000s. This again can be attributed to demographic changes and women entering the workforce but inequality may have played a role as well. Fertility rates in Canada have been found to be closely tied to perceptions of financial security (Beaujot & Wang, 2010), thus the drop in fertility after 1990 may be a function of the 1990 economic downturn and the subsequent social expenditure cutbacks occurring during the 1990s as Canada dealt with the national debt crisis (Greenspon & Wilson-Smith, 1996).

Figure 3.9 Fertility and Population.



Source: The World Bank & Statistics Canada

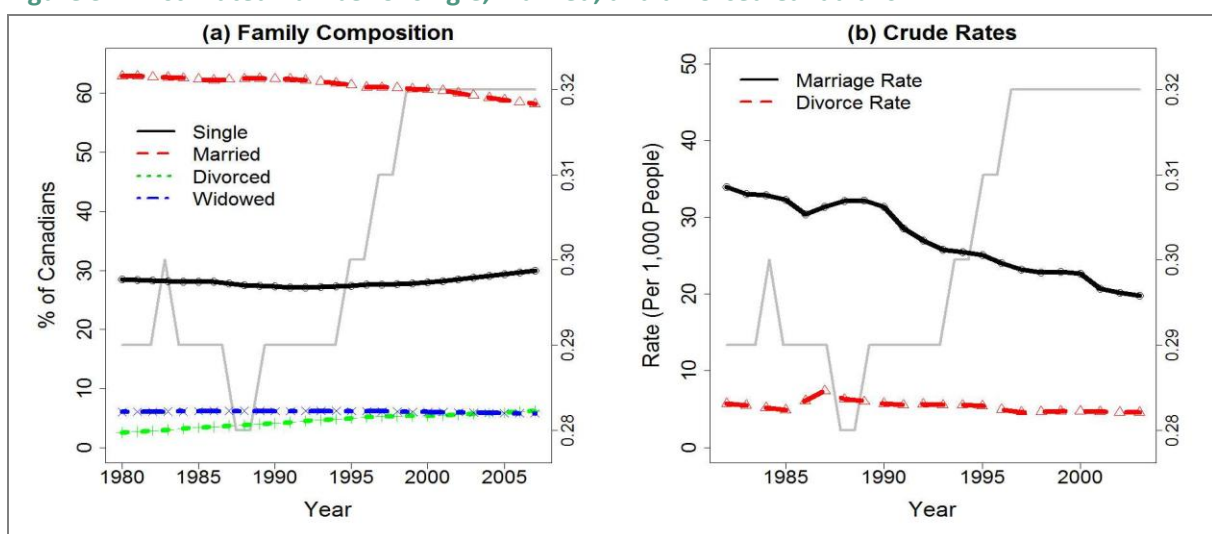
Figure 3.10 shows Canadian population changes by the number of births, deaths, and immigration levels. The total fertility rate has been below the replacement rate—typically set at 2.1 (Sardon, 2006)—in Canada since 1972 when it fell to 1.98 (Statistics Canada). Nevertheless, the Canadian population has steadily increased from 24.5 million in 1980 to 34.5 million in 2011 (Figure 3.9, Panel (b)). Since 1980 immigration levels have risen to replace the amount of Canadians lost to death. Further, while the number of births has decreased in Canada the birth rate has still outpaced the death rate (Figure 3.13, Panel (b)). Overall, then, the population has grown as a function of increased immigration levels, steady death rates, and a birth rate which, despite decreasing in recent years, still outpaces the death rate.

Figure 3.10 Population due to births, death and immigration.

Source: Statistics Canada

3.5.2 Family Structure

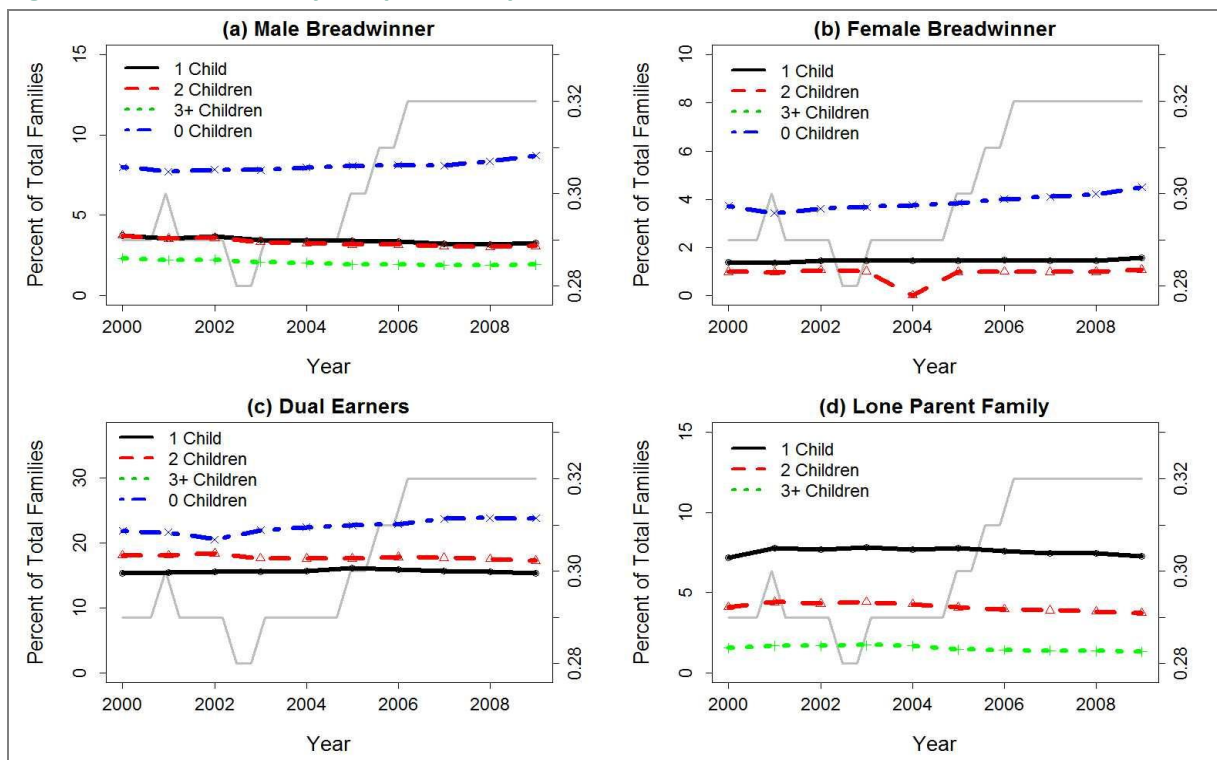
The structure of Canadian families has changed substantially over the past 30 years. In particular, there has been a shift away from marriage. Panel (a) of Figure 3.11 shows the percentage of Canadians 15 years and older who are single, divorced, widowed, and married—which includes common-law or civic partnerships. Between 1980 and 2007 the percentage of Canadians who were single and divorced increased 1.4 percent and 3.6 percent respectively, while the percent who were married or in a common-law partnership decreased by 4.8 percent.

Figure 3.11 Estimated number of single, married, and divorced Canadians.

Source: Statistics Canada

Panel (b) of Figure 3.11 displays crude marriage and divorce rates. The crude marriage rate—the number of marriages per 1,000 of the total unmarried or single population—has decreased dramatically and consistently going from a rate of 34 in 1982 to 20 in 2003. The divorce rate—i.e., the number of divorces per 1,000 of the total married population—on the other hand has almost universally decreased hitting its lowest rate in the last 25 years in 2003. The universal decrease in the divorce rate was interrupted by a jump in rates in 1986, which were likely caused by law reforms that allowed for no-fault divorce for the first time in the country’s history (Bystydzienski, 1993). As we see from Figure 3.12, we see a slight increase in the number of families with no children since 2000. This increase in couples without dependent children is consistent with earlier findings of people waiting longer to start families and people living longer. Given the gradual nature of these trends it is unlikely that economic inequality is a significant contributor. Instead, higher education rates, especially for women, have resulted in people getting married and starting families later.

Figure 3.12 Percent family composition by earner and number of children.



Source: Statistics Canada

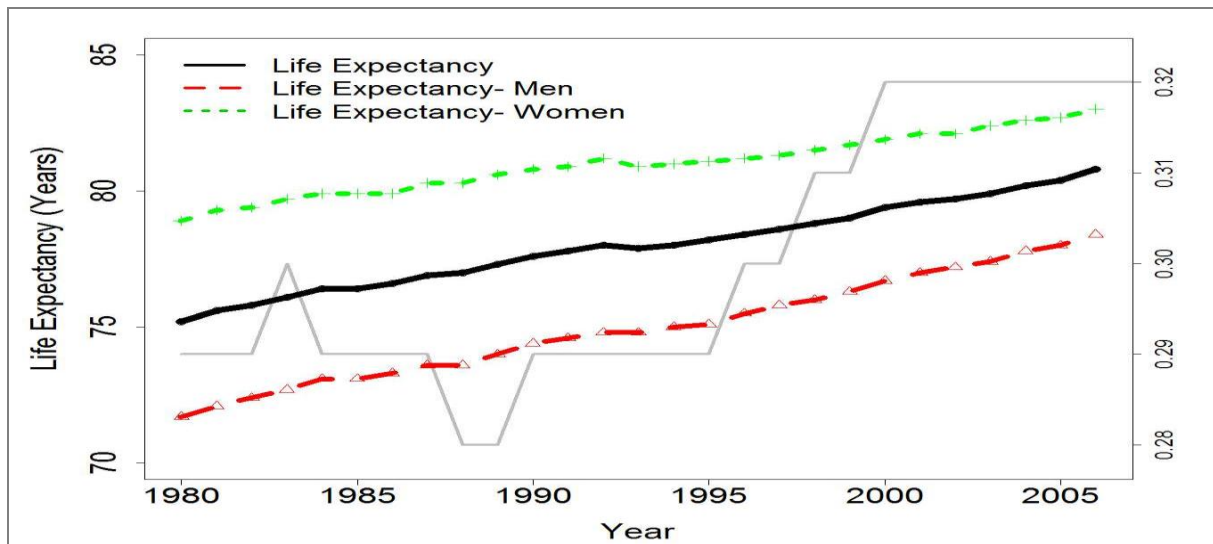
3.6 Health Inequalities

Life expectancy in Canada has increased for both men and women over the last thirty years. The overall life expectancy rose 5.6 years from 75.2 in 1980 to 80.8 in 2006; for men it increased by 6.7

years to 78.4 and for women it rose 4.1 years to 83 (Figure 3.13). These overall trends then indicate that not only is life expectancy rising but the gender gap in average age at death is shrinking as well.

The top ten leading causes of death in Canada are listed in Table 3.1. Given Canada's publicly funded universal medical care system, it is not surprising that none of the leading causes of death, with the possible exception of suicide, are directly linked to social inequality. A different story emerges, however, when looking at the leading causes of death for 15-24 year olds. While accidents account for almost half of youth deaths, suicide and homicide account for roughly a quarter and both have been linked to poverty and inequality (Aihara & Iki, 2003; Miller et al, 2005; Whitley et al, 1999). Suicide rates have remained stable since 2000 but homicide deaths have doubled for those aged 15-24 suggesting that growing inequality is potentially becoming a more important factor in the deaths of Canada's youth than previously.

Figure 3.13 Life expectancy by gender.



Source: Statistics Canada

Table 3.1 Top ten leading causes of death in Canada (all ages).

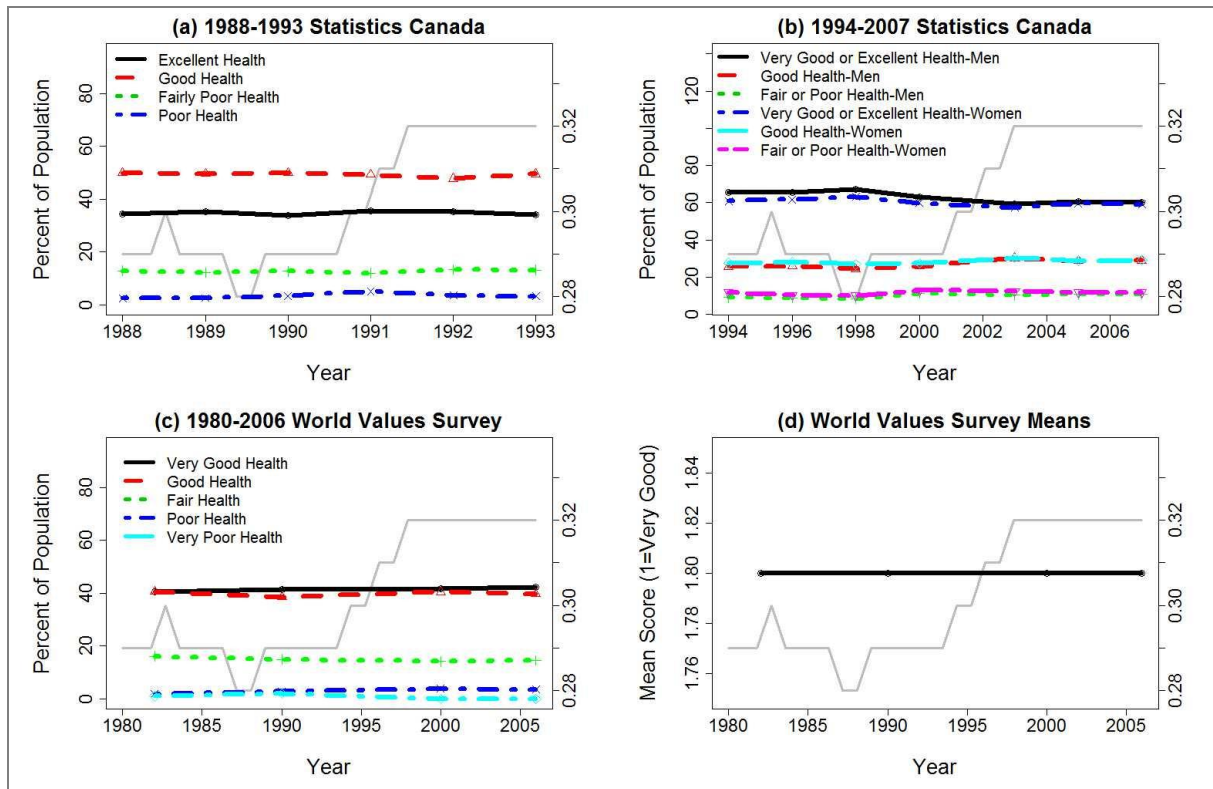
Cause of Death	2000		2010	
	Rank	Percent of Deaths	Rank	Percent of Deaths
Cancer	1	28.7	1	29.8
Heart Disease	2	25.3	2	20.7
Strokes/Aneurysms	3	7.1	3	5.9
Chronic Respiratory Diseases	4	4.5	4	4.6
Accidents	5	3.9	5	4.3
Diabetes	6	3.1	6	2.9
Alzheimer's Disease	7	2.3	7	2.6
Influenza & Pneumonia	8	2.3	8	2.4
Suicide	9	1.7	9	1.6
Kidney Disease	10	1.4	10	1.5

Source: Statistics Canada

Table 3.2 Top Five Leading Causes of Death for 15-24 Year Olds.

Cause of Death	2000		2010	
	Rank	Percent of Deaths	Rank	Percent of Deaths
Accidents	1	43.0	1	39.2
Suicide	2	22.9	2	22.9
Cancer	3	8.2	3	7.9
Homicide	4	3.8	4	7.5
Heart Disease	5	2.6	5	3.1

Source: Statistics Canada

Figure 3.14 Reports of perceived health.

Source: Statistics Canada & World Values Survey

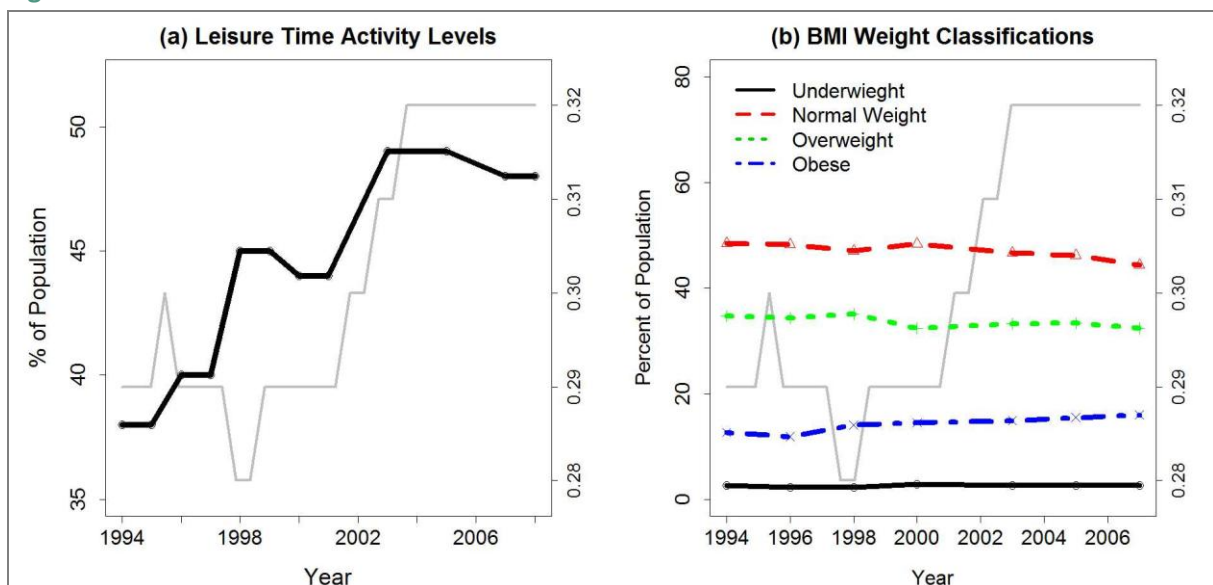
According to Statistics Canada data, from 1988-1993 the percent of people reporting excellent, good, fairly poor and poor health all stayed within one percent of the same number (Figure 3.14, Panel (a)). Statistics Canada switched to a three point scale for 1994 to 2007 and again there is little change in self-reported health even when broken into gender responses (Panel (b)). Finally, this trend of little change in perceived health is confirmed by World Values Survey data. From 1982 to 2006 the percent of people reporting very good, good, fair, poor, and very poor health all stayed within two percent of their respective 1980 averages and the mean score remaining unchanged (Panels (c) and (d)). The same finding across two sources of data seems to confirm that there has been little difference in perceived health in Canada from 1982-2007 and, therefore, that growing inequality has not affected health perceptions.

Turning to other measures of health, the percentage of Canadians who report being at least moderately physically active in their leisure time has increased from 38 percent in 1994 to 48 percent in 2008 (Figure 3.15, Panel a). Still, as panel (b) of Figure 3.20 indicates, this apparent increase in physical activity has not reversed rising obesity rates in Canada. Using the Body Mass Index (BMI)—a proxy measure that uses height and weight to measure body fat—to calculate weight categories, data from 1994 to 2007 indicates that the percentage of people with normal weights decreased by

four percent and the percent of people classified as obese increased 3.3 percent. Given the gradual nature of these trends, social inequality again appears not to be a significant contributor.

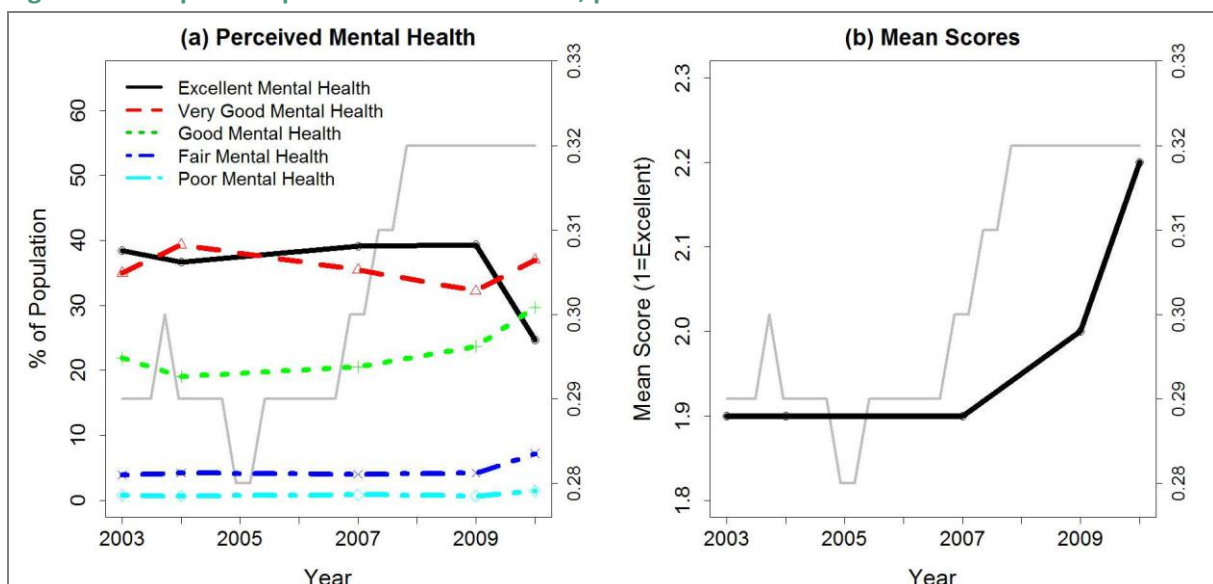
In terms of perceived mental health, Statistics Canada data from 2003-2010 indicates that some degradation has occurred. Those reporting 'excellent' mental health dropped by 13.6 percent' (Figure 3.16, Panel (a)). This change in perceived mental health caused the mean to jump from 1.9/5, where 1 is 'excellent' mental health, in 2003 to 2.2/5 in 2010 and indicates that people have perceived decreasing mental health as a whole since 2003 (Panel (b)). Even with these increases, overall perceived mental health in Canada still remains fairly high.

Figure 3.15 Leisure-time and BMI Classifications.



Source: Statistics Canada

Figure 3.16 Reports of perceived mental health, percent and mean scores.

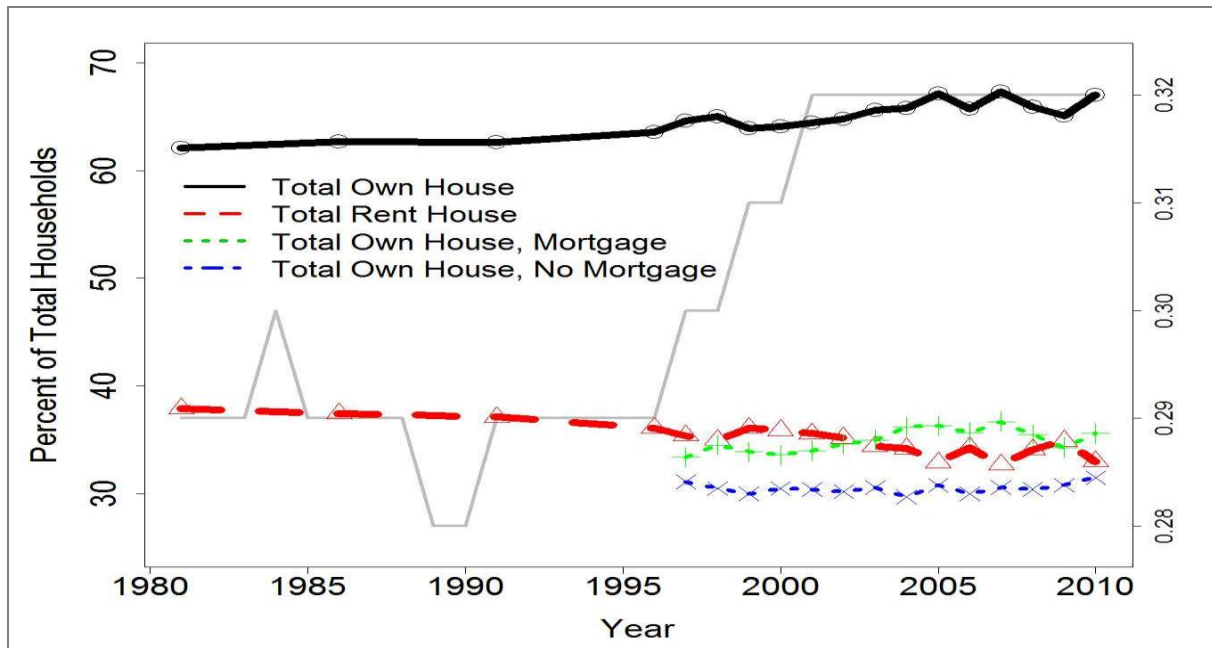


Source: Statistics Canada

3.7 Housing Tenure

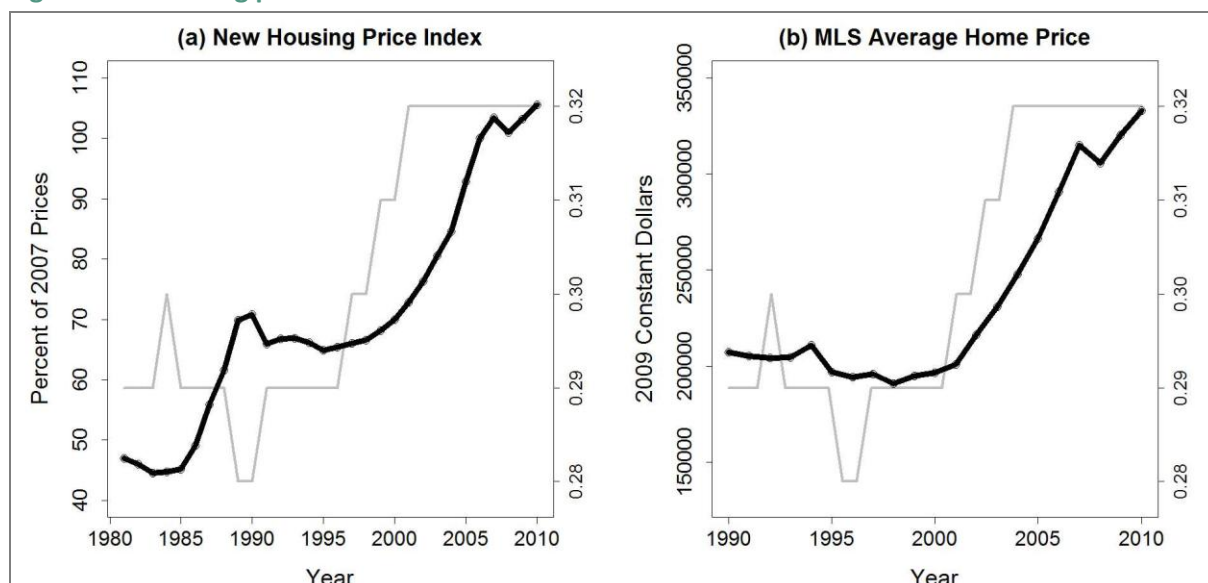
A few significant trends on expenditures on shelter since 1980 may also shed light on the impact of household inequality. As Figure 3.17 indicates, the percentage of homeowners has increased slightly from 62.1 percent in 1981 to 67 percent in 2010 and the percent of people renting has decreased slightly from 38 percent in 1981 to 33 percent in 2010.

Figure 3.17 Percent of households renting vs. owning.



Source: Census of Canada, Statistics Canada

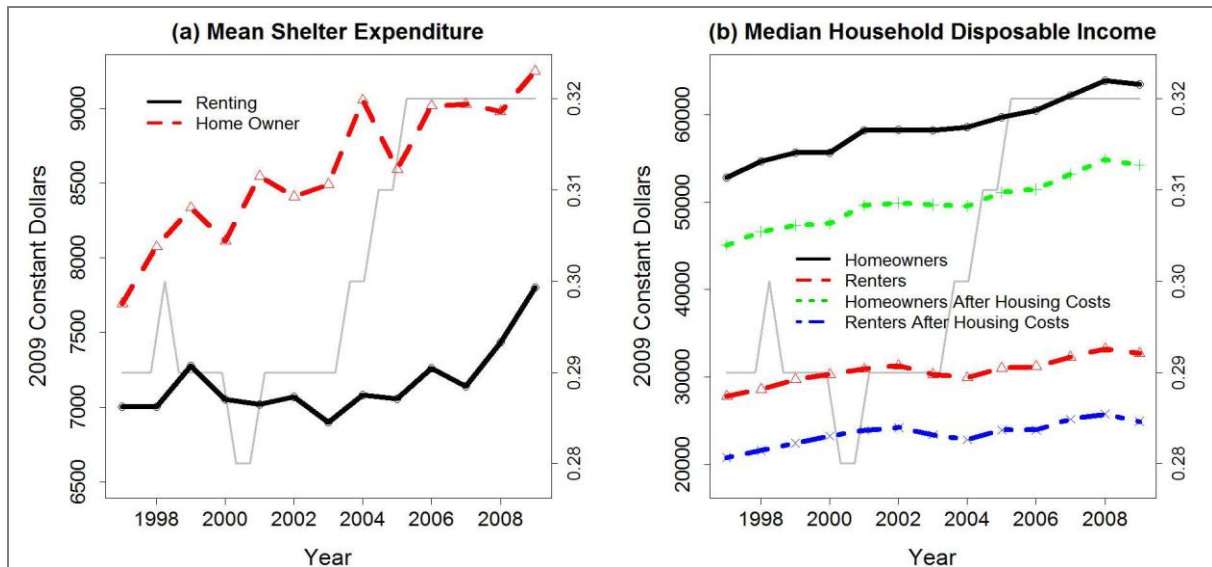
Figure 3.18 displays house prices in Canada from 1980 to 2010. Panel (a) demonstrates changes in new house prices; Panel (b) displays trends in average home prices obtained from the Multiple Listing Service—a home listing service overseen by Canada’s real estate boards. We see quite clearly here that home prices, as a percent of 2007 prices, increased substantially from 1980 to 1990 after which time they levelled off and actually decreased. This levelling off corresponds to the start of rising inequality in Canada in the 1990s. Since 2000, however, the level of inequality stabilized and home prices again began to increase drastically.

Figure 3.18 Housing prices.

Source: Statistics Canada & Canada Mortgage and Housing Corporation

It is easy to connect trends in home prices to social inequality trends in Canada. During the 1990s when home prices levelled off and unemployment peaked, the Gini coefficient for market income jumped from 0.39 to 0.44, and median incomes adjusted for inflation slightly decreased for all ages. The combination of these trends in the 1990s also caused the vacancy rate—the percent of apartments vacant in metropolitan (over 100,000 residents) areas as defined by the Census of Canada—to more than double from 1985 to 1994. When the trend in inequality began to stagnate in the early 2000s—unemployment decreased, incomes began to rise, and the market income Gini levelled off—the vacancy rate hit its lowest point since 1980 at 1.1 percent in 2001 and home prices began to increase exponentially.

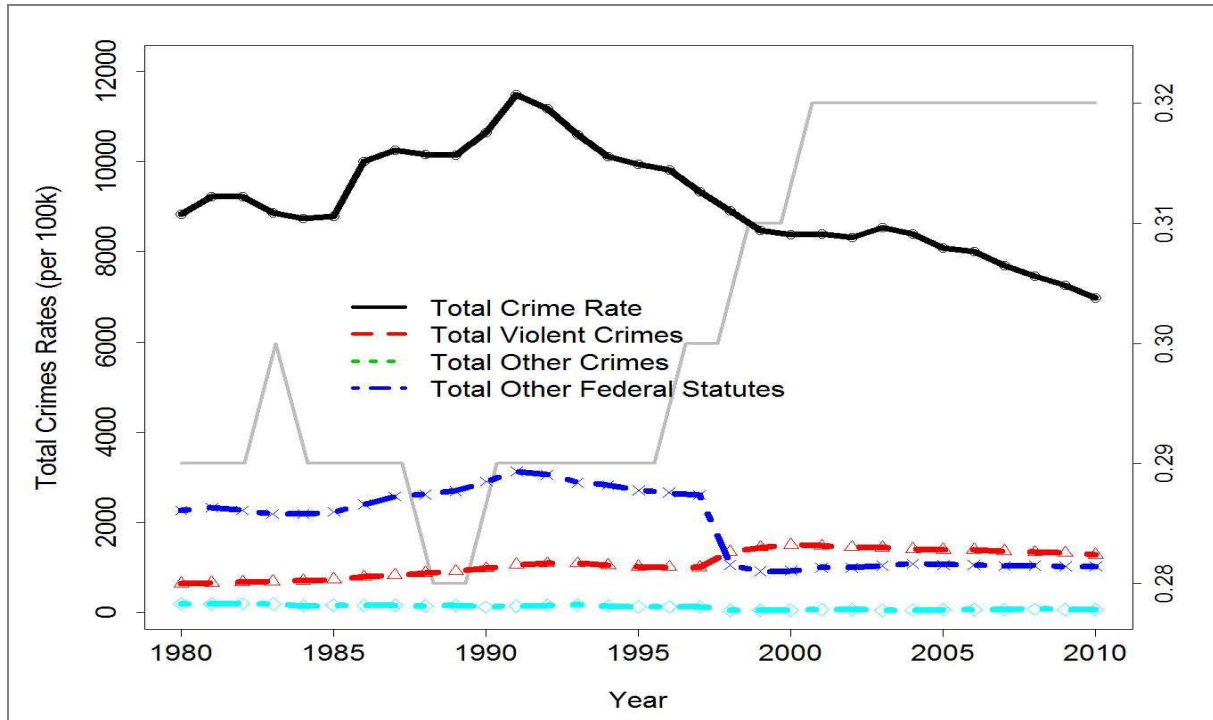
As Figure 3.19 indicates, homeowners had a large median income advantage over renters both before and after shelter costs throughout the period under investigation. Before shelter costs homeowners median disposable income increased 20 percent from \$52,800 in 1997 to \$63,500 in 2009, while renters' median income increased 18 percent from \$27,800 to \$32,700. After shelter costs the advantage of homeowners in income gains since 1997 is offset by their increasing shelter expenditure costs. Despite relatively equal income growth, however, in 2009 home owners had an after-shelter costs disposable income that over doubled that of renters—\$54,200 compared to \$24,900—indicating a large disparity between those owning and renting.

Figure 3.19 Median household income total and by ownership or rent.

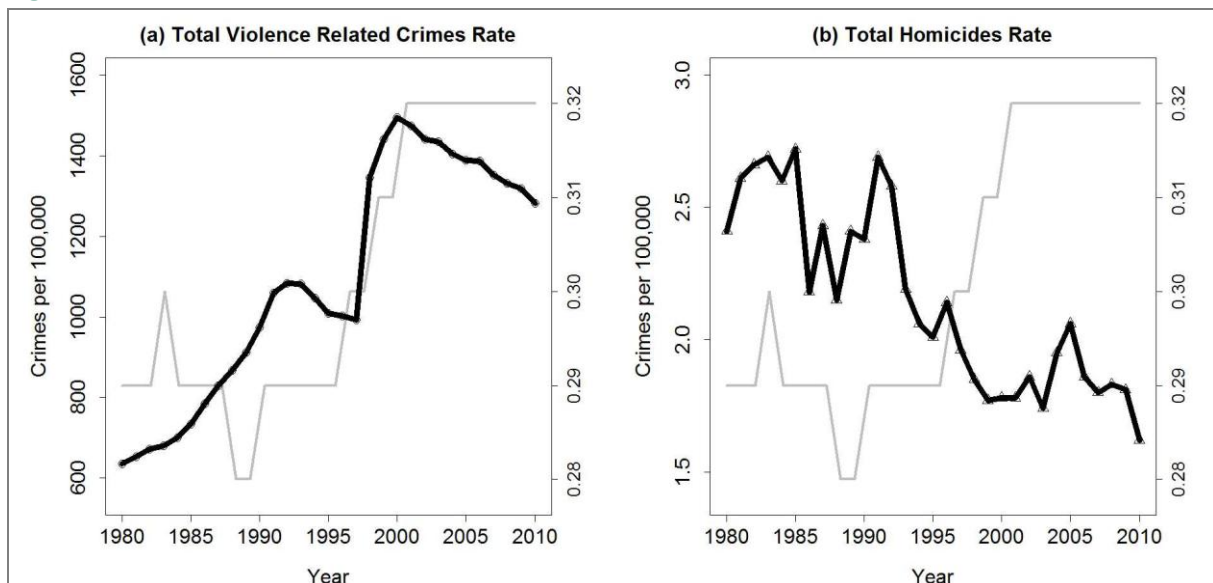
Source: Canada Mortgage and Housing Corporation & Statistics Canada

3.8 Crime and Punishment

Figure 3.20 displays total and specific crime rates from 1980 to 2010. As has been noted by previous research (Levitt, 2004; Mishra & Lalumiere, 2009; Ouimet, 2002), crime rates in Canada unexpectedly dropped in the 1990s despite increasing inequality, which is often linked to crime (Daly et al, 2001; Hagan & Peterson, 1995; Hsieh & Pugh, 1993). Political, rather than economic, explanations best describe the drop in crime rates. Over the past two decades socially conservative parties have campaigned and won elections on platforms geared towards getting “tough” on crime. In short, the drop in crime rates can largely be explained by increased police force sizes, more aggressive policing, and higher levels of incarceration for convicted criminals (Levitt, 2004; Mishra & Lalumiere, 2009; Ouimet, 2002). It is interesting to note that Canada was not the only country to see such a drop in crime rates. The USA, Germany, and England experienced similar declines in the 1990s, and apparently for similar reasons (Ouimet, 2002).

Figure 3.20 Crime rates (per 100,000 population) by type of crime.

Source: Statistics Canada

Figure 3.21 Crimes related to violence.

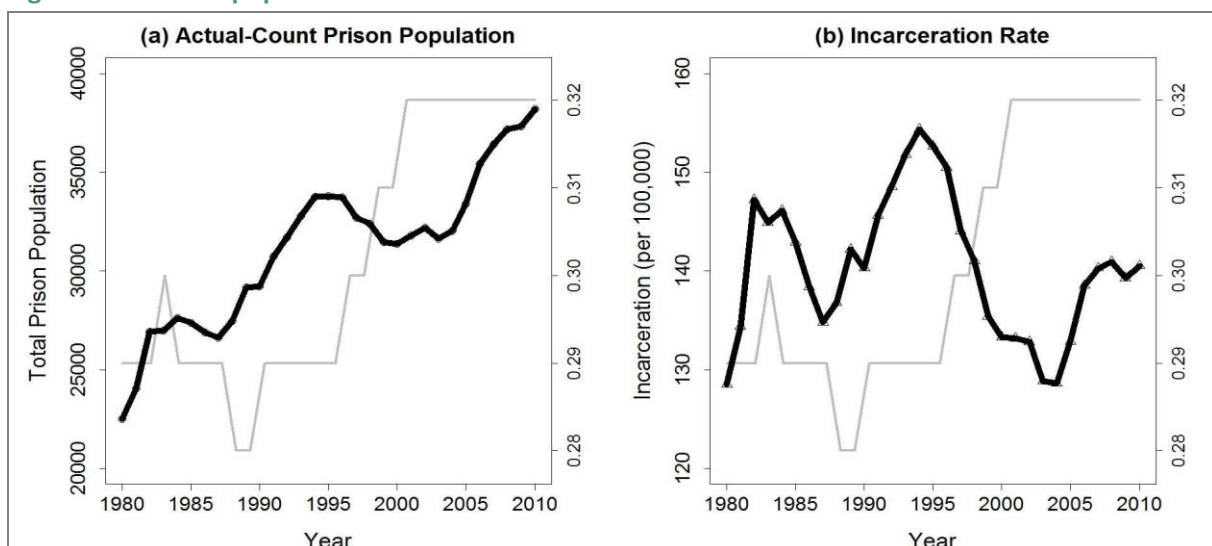
Source: Statistics Canada

Violent crimes, which tend to be closely tied to inequality (Daly et al, 2001; Hsieh & Pugh, 1993), was the only type of crime to increase in Canada between 1980 and 2010. Panel (a) of Figure 3.21 displays the total violence related crime rate, which according to Statistics Canada data has grown 102 percent since 1980. This rise in violent crimes is not reflected in the homicide rate, however, which is displayed in Panel (b). The homicide rate decreased 33 percent from 2.41 homicides per 100,000 people in 1980 to 1.62 in 2010. As was noted earlier, however, the percentage of youth (15-

24 years) deaths accounted for by homicide doubled (3.8 percent to 7.5 percent) between 2000 and 2010.

Also interesting is changes in the incarceration rate. As Figure 3.22 (panel (a)) demonstrates, the prison population grew exponentially from 22,502 inmates in 1980 to 38,219 inmates in 2010. However, the incarceration rate has tended to fluctuate, following a pattern related more to the political party in government than to the trends in inequality. For example, the incarceration rate steadily declined 13 percent (151.84 to 132.8) between 1993 and 2005 under Liberal Party leadership and almost immediately began rising from 2006 to 2010 under the ‘tough on crime’ Conservative Party leadership (Figure 3.22, Panel b). Overall the incarceration rate has risen 12 percent from 128.5 inmates per 100,000 Canadians in 1980 to 140.5 in 2010.

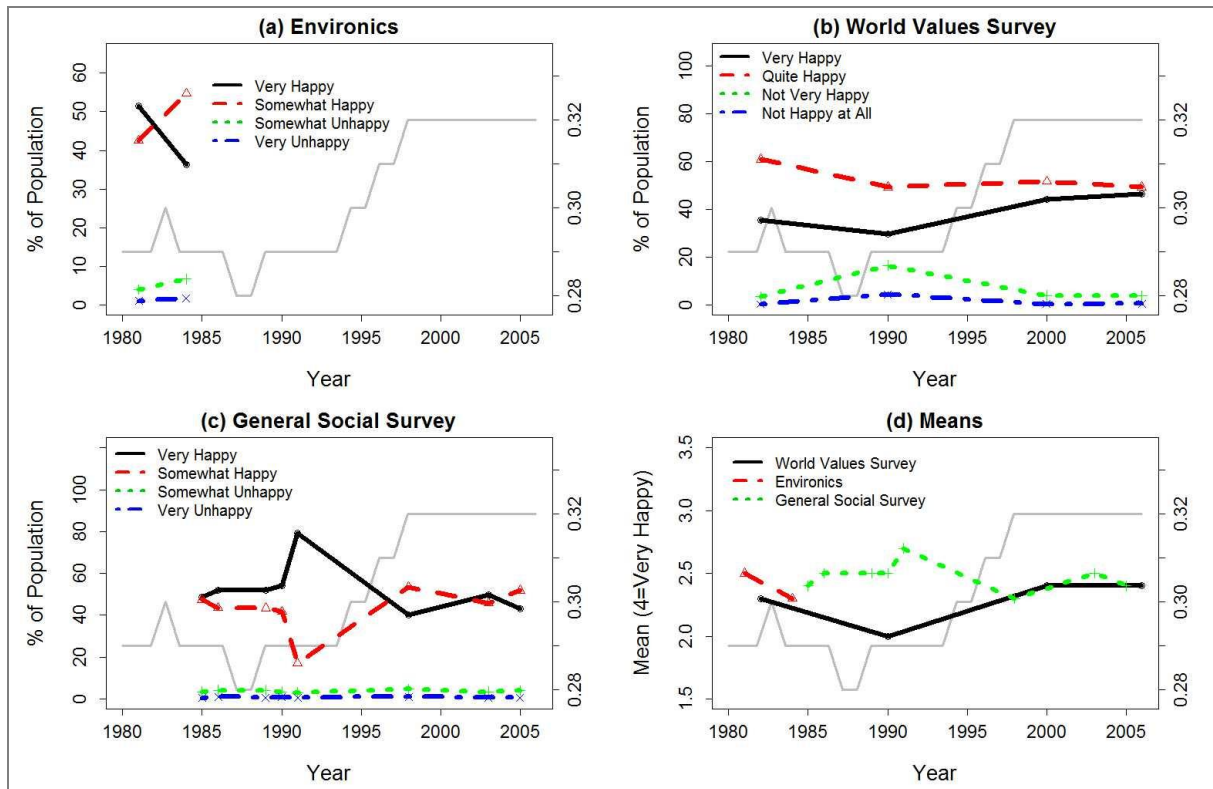
Figure 3.22 Prison population and incarceration rate.



Source: Statistics Canada

3.9 Subjective Measures of Well-Being, Satisfaction, & Happiness

Reported happiness levels in Canada have been fairly stable between 1981 and 2006. Three surveys—conducted by Environics, Statistics Canada, and the World Values survey—collected data on perceived happiness in Canada between 1981 and 2006 using similar four-point scales the results of which are displayed in Figure 3.23, Panels (a), (b), and (c) respectively. As Figure 3.23 (panel (b)) indicates, all three surveys found fairly consistent levels of mean happiness scores over time. In short, changes in inequality have had no obvious affect on overall levels of happiness in Canadian society.

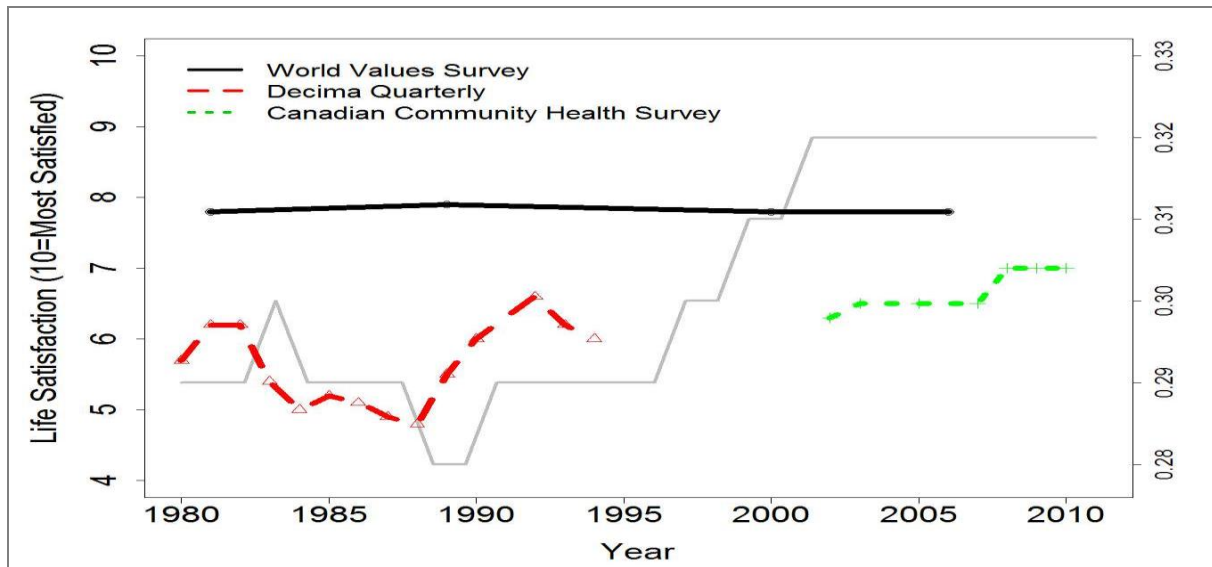
Figure 3.23 Happiness

Source: Environics, World Values Survey, & Statistics Canada

Figure 3.24 demonstrates that, similar to the pattern for perceived happiness, reported life satisfaction also appears to have been fairly stable in Canada since 1981. World Values Survey estimates indicate that on average Canadians reported a score consistently higher than 7/10 (where ten is the most satisfied and one the least) from 1981 to 2006. Decima Quarterly data presents a more fluctuating picture of reported life satisfaction but scores for all years stay within one point of the 1994 score of 6/10. Finally, Canadian Community Health survey data reports an increase of one point between the 2002 average score of 6/10 and the 2010 average score of 7/10. Survey question differences⁸ likely account for the differences in results, especially for the decimal quarterly survey which focused more on retrospective and prospective comparisons. Taken together, however, these surveys seem to indicate that Canadians are generally satisfied with life, and that this satisfaction has been relatively stable since 1981.

⁸ The World Values Survey asked: "All things considered, how satisfied are you with your life as a whole these days?"; Decima Quarterly asked: (1) "How would you say your personal prospects for the future are now, compared to how they were four or five years ago?" and, (2) "How about your prospects for the future, say in four or five years time?"; and Statistics Canada asked: "How do you feel about life as a while right now?"

Figure 3.24 Life satisfaction



Source: World Values Survey, Harris/Decima-Investors Group, & Statistics Canada

3.10 Intergenerational Mobility

A lack of longitudinal data that tracks families over generations makes it difficult to determine long-term trends in mobility in Canada. Research that has been done in this area, however, has typically found a greater degree of intergenerational mobility in terms of both income and education in Canada than in the U.S. or the U.K. (Corak & Heisz 1995, 1998; De Broucker & Lavallee 1998; Fortin & Lefebvre 1998; Western & Wright 1994). Data limitations do not allow us to assess whether mobility rates have reflected changes in inequality. We can speculate based on other information, however.

While studies done in the 1990s found intergenerational mobility was increasing in Canada, there is reason to believe intergenerational mobility may have decreased in recent years. For example, as we have already shown, relative and absolute poverty exit rates indicate that it has become increasingly difficult to escape poverty since 2000. Further, inequality has been increasing, the top income quintiles have been making larger income gains compared to all other quintiles, and, the costs of higher education have increased. For example, the incidence of postsecondary student debt has increased from 45 percent to 58 percent between 1990 and 2008, suggesting that more people are finding it difficult to pay fees outright (Berger, 2009). Taken together, these trends suggest that upward intergenerational mobility may have lessened in recent decades. We should be clear, however, that we are unaware of any data that would shed light on this issue and thus we can only speculate.

3.11 Conclusions

Despite inequality growing quite substantially the 'social' impacts (at least as defined in this chapter) of this inequality have been seemingly quite small. Health, mental health, happiness, and life satisfaction have all been unaffected. This lack of change probably reflects the fact that the rise in inequality was largely driven by the rich getting richer instead of the poor getting poorer. Indeed, this was confirmed by decreasing relative poverty, absolute poverty, material deprivation, and incidence of households in housing need. Some trends related to growing inequality have emerged, however.

One social impact of increasing inequality in Canada has been a decrease in relative and absolute poverty entry and exit rates. These decreasing rates indicate that beginning in 2000 those that found themselves in poverty tended to stay in the same situation and those not in poverty tended to do the same. This suggests that while the percent of people in poverty decreased, the chances of people getting out of poverty if they end up there worsened. A final social impact of rising inequality is the effects of increasing dual earner households. With more women entering the workforce and pursuing post-secondary education fertility and marriage have not only declined but are occurring at later ages. Further, people are spending more time alone and less time with friends, family, and their children.

4. Political And Cultural Impacts

4.1 Introduction

A long standing argument suggests that economic development and democracy go hand-in-hand (Lipset, 1959). At the root of this argument is an important role for public opinion. As Inglehart (2003:54) states, “a society is unlikely to maintain democratic institutions over the long term, unless democracy has solid support among the public.” Most research does indeed show a positive link between economic development and support for democracy (Kitschelt 1992, Przeworski 1991). Research on other values considered important to democracy, such as social trust (Putnam 1993) and social tolerance (Andersen and Fetner 2008), further suggests that democratic values are more likely in rich countries than in poor countries. Economic development allegedly influences support for democracy because, among other things, average people tend to become more educated and richer, and have better working conditions, once modernization occurs.

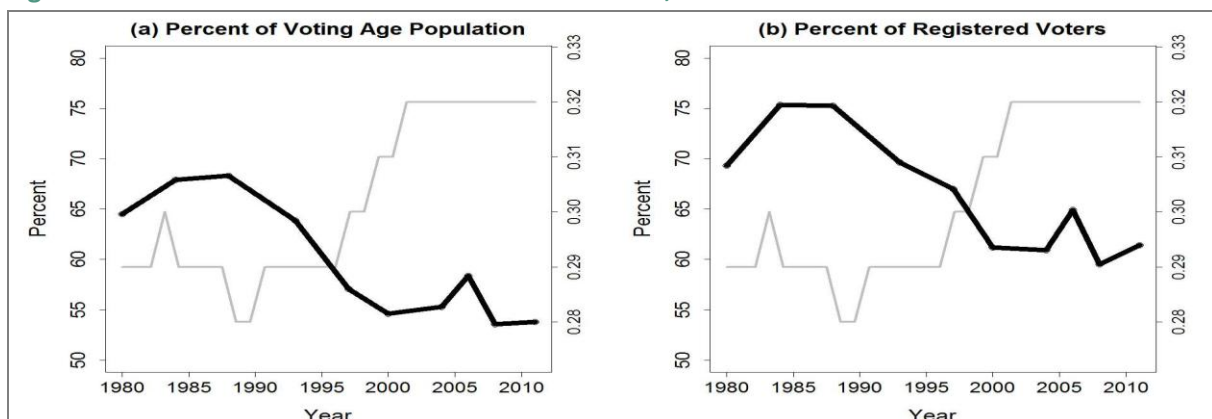
It is clear that everyone does not gain equally from economic development and modernization, however. This is obvious when one considers that income inequality has risen drastically in most modern societies in recent decades, despite economic development increasing (Alderson, Beckfield and Nielsen 2005; Brady 2009; Goesling 2001; Kenworth and Pontusson 2005). In this regard, Andersen and Fetner (2008) demonstrate that the extent to which economic development influences attitudes is largely determined by one’s own economic position. In short, economic development is not the only contextual factor to consider when assessing attitudes and behaviours associated with democracy. Economic inequality also plays a role (Andersen 2012, see also Uslaner 2002, Uslaner and Brown 2005; Andersen and Milligan 2011). The general finding from previous research is that the more unequal a society, the less likely people are to be socially tolerant, to trust one another, and to participate in voluntary associations.

The goal of the present chapter is to explore Canadian public opinion and political participation over the past three decades. Specifically, we pay close attention to whether trends in values and behaviours related to democracy have paralleled changes in inequality. We start by exploring trends in political and civic participation. We then move to a description of trends in social and political trust. The final two sections explore trends in various political values, especially those related to the legitimacy of the government, and the welfare state.

4.2 Political and Civic Participation

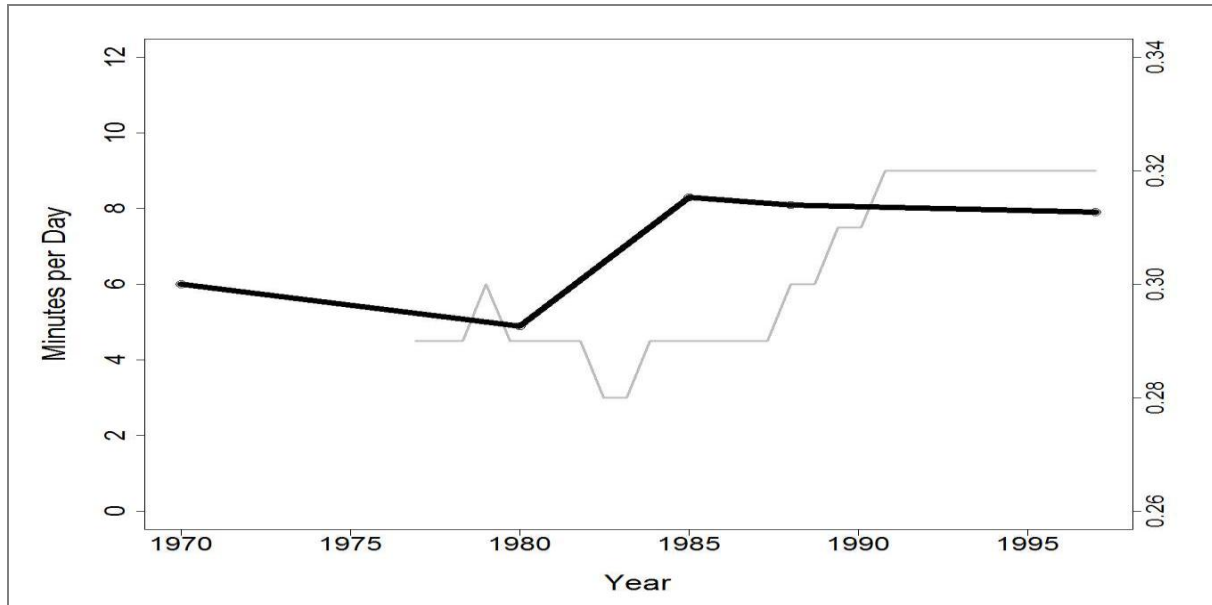
Previous research indicates that Canadian citizens have relatively high levels of civic and political engagement when compared to citizens of most other countries (Andersen, Curtis and Grabb, 2006). In this section we assess whether this high level of participation appeared to be influenced in any way by the growing inequality of the 1990s. We start by exploring turnout rates. Figure 4.1 displays turnout rates for Canadian Federal Elections as a percentage of the total voting age population and as a percentage of the total number of registered voters. The trends for these two measures differ slightly mostly due to differences in immigration patterns—and hence the proportion of Canadian citizens—over time. Nevertheless, a very marked decline in voter turnout is noticeable in both figures. Since 1980 voter turnout has decreased substantially from about 65 percent of the voting aged population in 1980 to less than 55 percent in 2010. A similar pattern is shown for the percentage of registered voters—in 1985 slightly more than 75 percent cast votes; by 2010 less than 65 percent cast votes. The largest decline in voter turnout took place in the 1990s, approximately around the same time that the largest growth in inequality occurred.

Figure 4.1 Voter turnout in Canadian Federal Elections, 1980-2010.



Source: International Institute for Democracy and Electoral Assistance (IDEA)

Another indicator considered important for the health of a democratic nation is voluntary association involvement (e.g., Putnam 1995:73; 2000:338–40; Skocpol 1999:27, 2002, 2003:99–100, 2004). It is commonly held that voluntary activities of private citizens and community groups are important in order to compensate for the reduced role that the state has played in meeting people's economic or social needs in recent decades (e.g., Skocpol 2003; cf. Wilson 2000). Nonetheless, despite inequality increasing—and hence one could argue volunteering and other forms of civic participation are becoming more important—influential research suggests that participation has declined over the past few decades, though these assertions generally pertain to the US (Putnam 1995, 1996, 2000).

Figure 4.2 Average time spent volunteering in Canada, 1971-1998.

Source: Andersen, Curtis, & Grabb, 2006 & Statistics Canada

Figure 4.2 is adapted from Andersen, Curtis and Grabb's (2006) research on civic involvement in Canada, the Netherlands, the UK and the US. Using Statistics Canada time use diary data, they found no evidence of a decline in participation in Canada over the past few decades. The solid black line in Figure 5.2 represents the average number of minutes spent on volunteering activities in Canada from 1971 to 1998. Not only does this figure provide clear evidence that participation in Canada has not experienced a long-term decline, it also suggests that if growing inequality has had any effect on participation, it is a positive one. Participation appears to have jumped slightly at the same time that inequality rose in the 1980s, and then levelled off again in the mid-1990s. Of course, the data do not tell us what has happened since 1998, so we have no idea whether the pattern continued to follow inequality since then. It is possible, however, that two factors were working against each other, resulting in no overall change. Specifically, an increase in inequality may have led to a fall in cohesion and civic involvement, while at the same time, the retrenchment of the welfare state (to be discussed in more detail later) led to volunteers stepping in to fill the void in some areas. The data do not allow us to test this idea, however.

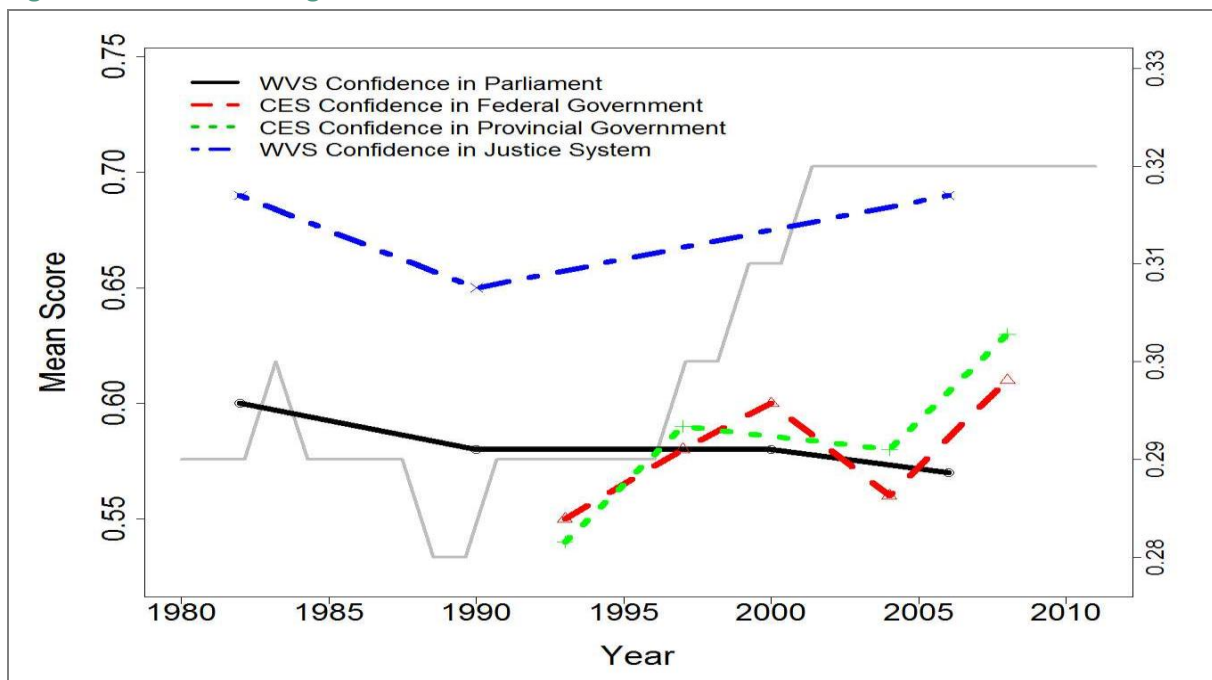
4.3 Trust in Others and in Institutions

In recent years, research has shown that political confidence, trust, and deference to authority have generally declined in Canada (Nevitte 1996; Perlin 1997; Adams 2003; Johnston et al. 2006). This decline, which has been witnessed in many modern democracies, is often attributed to a growing knowledge and awareness of problems with government agencies and institutions due to rises in

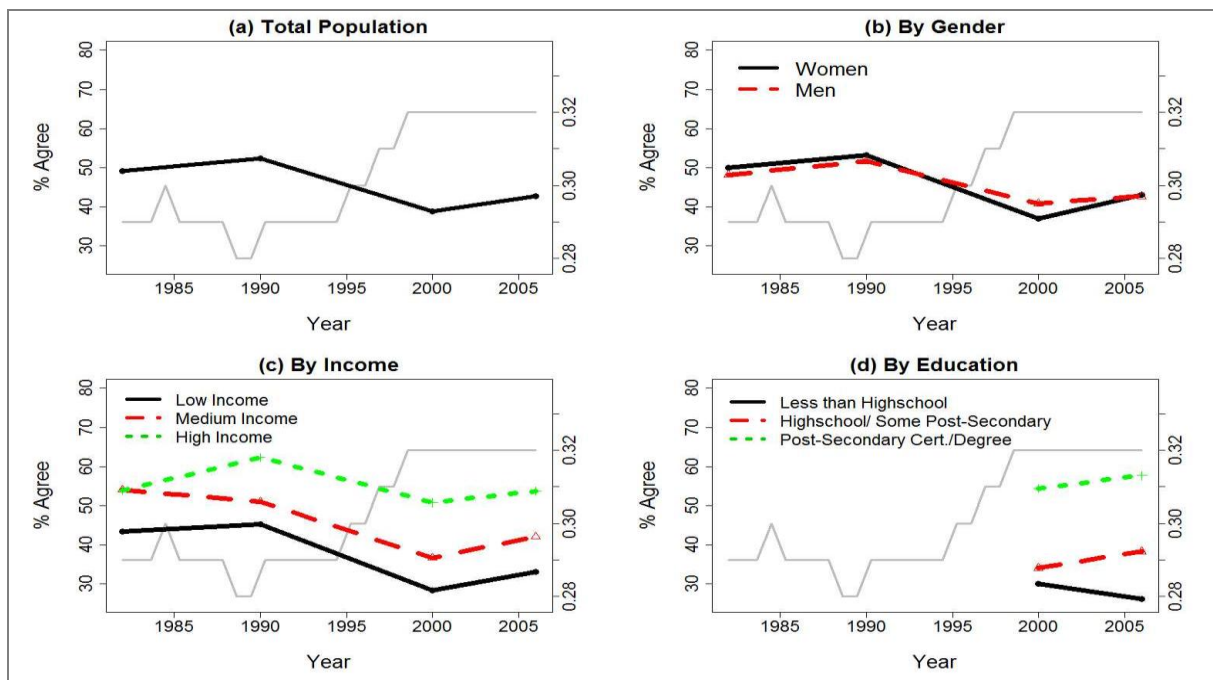
formal education and greater media exposure (Newton 1999; Dalton 2004). Nevertheless, it also seems sensible to suggest that confidence in government and political institutions could be declining as inequality grows. To our knowledge, however, there is no previous Canadian research on this topic. We thus explore this question below.

Figure 4.3 uses Canadian survey data from the World Values Survey (1982-2006) and the Canadian Election Study (1993-2008), which contain relevant questions on citizens' confidence in the federal government, provincial governments, in parliament generally, and in the justice system. Since 1980 trust in parliament appears to have been stable but decreasing slightly. Although there is some fluctuation over time in confidence in some of these institutions, the general story is quite straightforward: changes in the level of inequality do not appear to have had any profound influence on confidence in government. Trust in parliament generally appears to have declined slightly, but the decline took place from 1980 to 1990, which is before the major increase in inequality. For confidence in the other institutions there is some indication that trust actually increased over time, though not dramatically.

Figure 4.3 Confidence in government institutions in Canada.



Source: World Values Survey (WVS) & Canadian Election Study (CES)

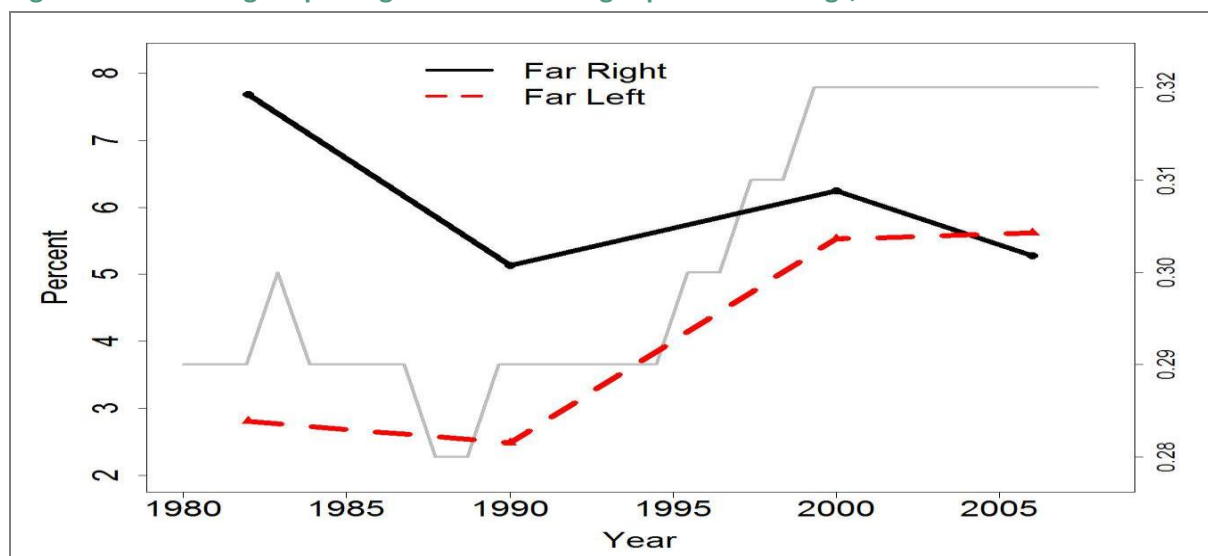
Figure 4.4 Figure 4.4 Percentage of Canadians who believed that most people can be trusted, 1982-2006

Source: World Values Survey (WVS)

While confidence in both government and the legal system has been relatively high and stable since 1980, there is some evidence that trust in other people has declined. Figure 4.4 displays trends in social trust using data from the World Values Survey (2008). When asked if most people can be trusted, more than 50 percent agreed in 1990. By 2000, however, the percentage of respondents who trusted most people had fallen to less than 40 percent (Figure 4.4, Panel (a)). This trend is consistent across gender, income and education (Figure 4.4, Panels (b), (c) and (d)); although both higher incomes and higher education are associated with increasing levels of trust.

4.4 Political Values and Legitimacy

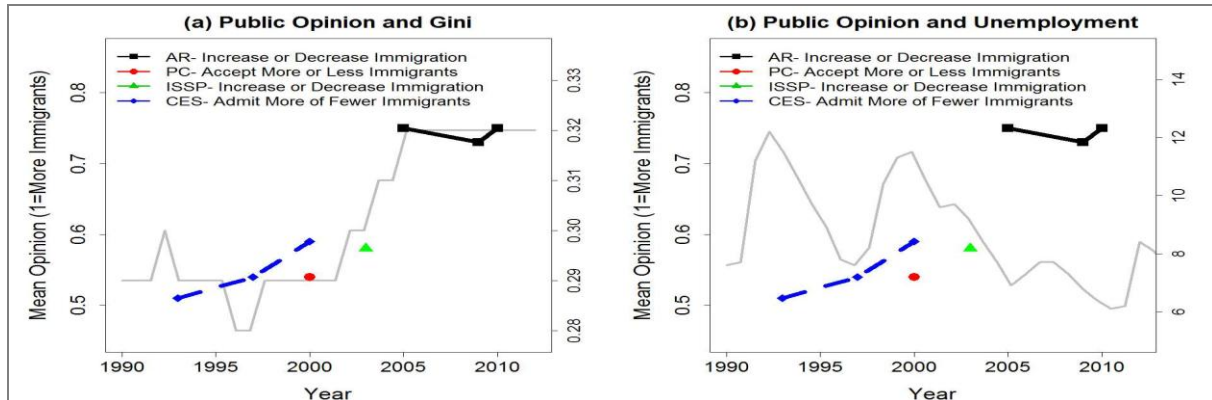
Of interest is whether growing inequality affected (or perhaps was affected by) political orientations. Figure 4.5 uses the World Values Survey once again to explore trends in far right and far left political leanings in Canada over the past few decades. We see quite clearly that the percentage of people reporting far left political ideology increased quite substantially after 1990. On the other hand, the percentage reporting far right views dropped around 1990 but has remained fairly stable since then. This increase in the percentage reporting far left attitudes coincides very closely with the increase in income inequality during the 1990s.

Figure 4.5 Percentage reporting far left and far right political leanings, 1982-2006.

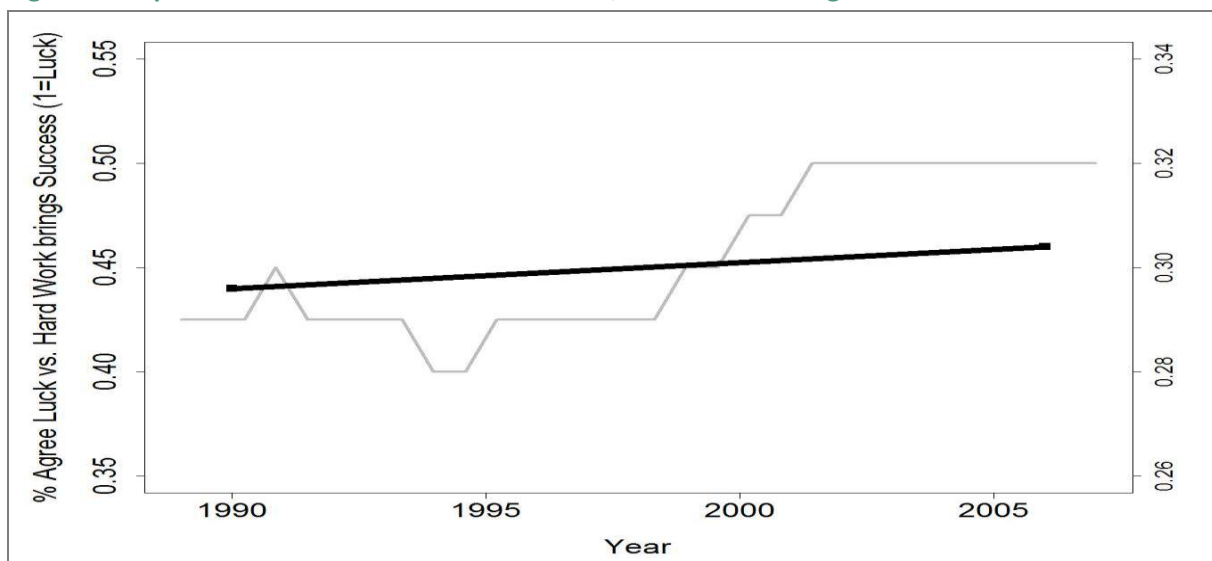
Source: World Values Survey (WVS)

Although there isn't one single data source with identical measures used over an extended period of time, it is possible to piece together data on attitudes towards immigration in Canada from various similar studies. Figure 4.6 plots data from four sources—Angus Reid, Portraits of Canada, the International Social Survey Programme and the Canadian Election Study—to explore trends in attitudes towards immigration over the past 20 years. These data suggest that attitudes have remained quite favorable towards immigration since 1990, and may actually be on the rise. Canadian Election Survey estimates indicate that on a scale where '0' equals no more immigrants and '1' equals many more immigrants, Canadians reported a mean of 0.51 in 1993 and 0.59 in 2000; estimates from the Portrait of Canada survey in 2000 and the International Social Survey Programme in 2003 report similar means on the immigration scale of 0.54 and 0.58 respectively; finally, Angus Reid surveys found means of 0.75 in 2005 and 0.76 in 2012. The rising means suggests that feelings towards immigration in Canada have followed roughly with the trend in inequality (Panel (a)). Further, favourable opinions towards immigration coincide with declines in unemployment (Panel (b)), which is predicted by literature that finds competition over employment detracts attitudes towards immigration (Esses et al, 1998; Palmer, 1996). Of course, these data are not ideally suited for making this inference, however, because while similar, the questions from each of the survey firms were not identical.⁹

⁹ Angus Reid: "From what you have seen, read or heard, do you think the number of legal immigrants who are allowed to relocate in Canada should increase, remain the same, or decrease?"
 Canadian Election Study: "Do you think Canada should admit more immigrants, fewer immigrants or about the same as now?"

Figure 4.6 Opinions on the immigration.

Source: Angus Reid, Portraits of Canada, International Social Survey Programme, & Canadian Election Study

Figure 4.7 Opinions on whether hard work or luck/connections brings success.

Source: World Values Survey

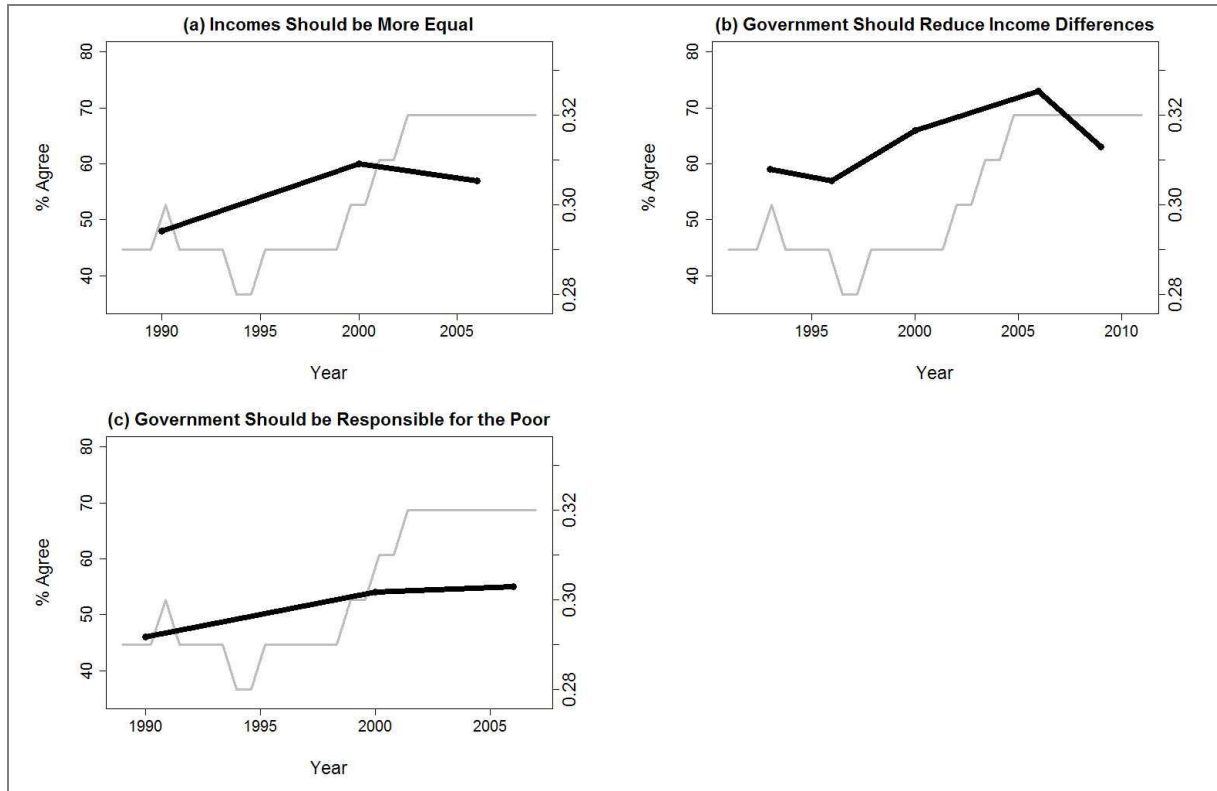
We now explore whether opinions on the relative importance of luck and hard work for success changed with changes in inequality. We gain insight on this question using data from the World Values Survey for 1990 and 2006, the only two waves containing appropriate questionnaire items. Figure 4.8 suggests that public opinion on the relative importance of luck and hard work changed very little over time. Forty-four percent of Canadians felt luck is more important than hard work in 1990; 46 percent felt the same in 2006. As Figure 4.7 shows, income inequality changed much more drastically during this period. We thus tentatively conclude that the rise in income inequality has had no apparent effect in this regard.

Portraits of Canada: “Do you think Canada should accept more immigrants, fewer immigrants, or about the same number as we accept now?”

International Social Survey Programme: “Do you think the number of immigrants to Canada nowadays should be more, less, or about the same?”

4.5 Values about Social Policy and the Welfare State

We now turn to an assessment of whether Canadian public opinion on inequality reflects the trend in actual income inequality. Rough estimates suggest that this may indeed be the case, with critical opinions on the state of inequality seemingly on the rise since 1980, though the evidence is somewhat mixed. Figure 4.8 shows trends in Canada towards various attitudes towards government's role in reducing inequality. Panel (a) uses World Values Survey data to show the trend in the percentage of people believing incomes should be made more equal; Panel (b) uses International Social Survey Programme (ISSP) data to show opinions towards government responsibility for reducing income differences; Panel (c) from the WVS shows trends in the percentage who feel that the government should take responsibility for the poor. Starting with panel (a), we see that opinions towards income inequality appear to have reacted against the trend in income inequality. That is, as income inequality grew in the 1990s, so too did the percentage of people who felt incomes should be more equal. Similarly, panel (b) suggests that people became increasingly more likely to think governments should reduce income inequality as income inequality grew. Panel (c) provides a slightly different picture, however. Although public opinion became slightly more favourable to the idea that the government should be responsible for the poor as income inequality rose, public opinion failed to keep up with the actual rise in inequality. Of course, "the poor" is a somewhat different issue than general inequality—the former pertains to a very small group, while the latter to the vast majority—so this finding is perhaps not that surprising. Nevertheless, it seems sensible to argue, then, that Canadians generally responded to rising inequality by feeling that it wasn't fair and that the government should do something about it.

Figure 4.8 Public Opinion on inequality and government responsibility for it.

Source: (a) & (c) World Values Survey; (b) International Social Survey Programme

4.6 Conclusions:

The trends in this chapter suggest that public opinion in Canada on many political issues was affected by the increase in inequality that started in the early 1990s. Consistent with other research on the relationship between inequality and political values and outcomes (Andersen 2012, Andersen and Fetner 2008, Uslaner 2002, Uslaner and Brown 2005), it appears that Canadians became less trustworthy of governments and political institutions and less likely to participate in politics as inequality rose. We also found that Canadians became increasingly more likely to hold left-wing views and to support government intervention to decrease income inequality and help the plight of the poor during this same period. In the next section we explore how governments responded—or perhaps helped create—the rise in inequality with social spending.

5. Effectiveness Of Policies Combating Inequality

5.1 Introduction

This chapter assesses how Canadian governments responded to rising income inequality. It is perhaps useful to start by providing some general background on the Canadian welfare state. Canada is typically considered a liberal social welfare regime characterized by fairly limited social spending (Esping-Andersen, 1990; Myles, 1998). Despite this label, Canada is clearly more statist than the United States (Grabb and Curtis, 2005), which is often deemed the best example of a liberal welfare state. The two countries have many differences in social expenditures (both in type and extent), most notably with respect to health care, where Canada's universal health care system stands in stark contrast to the privatized health care system of the US. On other hand, Canada's public spending is far less extensive than in most European countries and has declined drastically in the past two decades. It is also important to note that in terms of social policy, Canada is much more decentralized than most OECD nations (Obinger, Castels and Leibfried, 2005) , with most policies following under the jurisdiction of provincial governments.

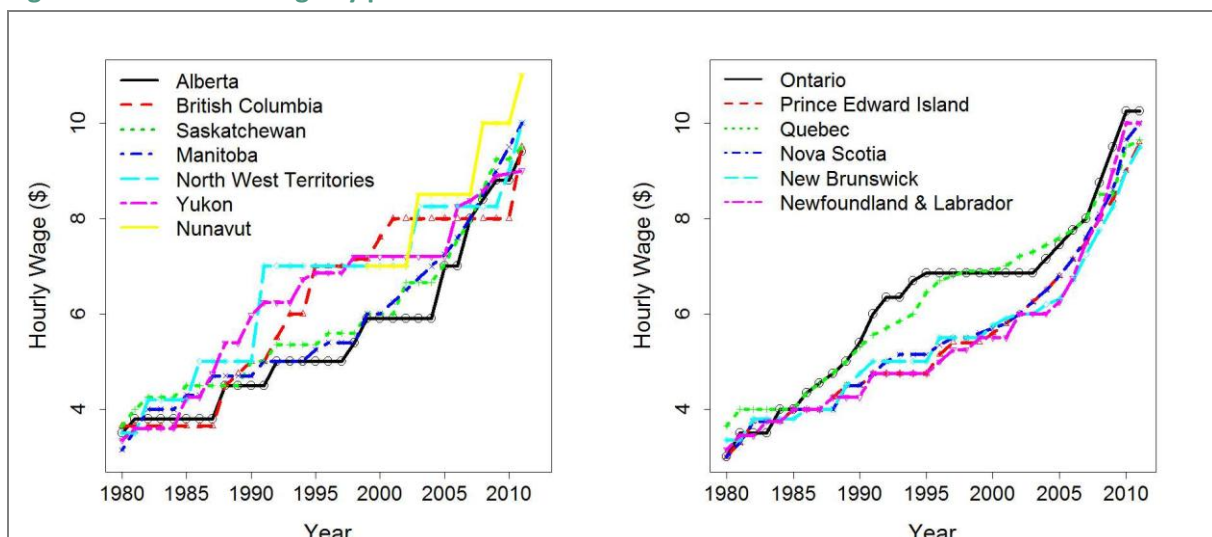
Consistent with findings from other research on social spending in Canada (Picot, Morissette and Myles 2002), we shall demonstrate that social spending rose from the early 1980s until the mid-1990s, after which it declined sharply until finally reaching approximately the same level as in the 1980s. Much of this decline was due to a reduction in benefits for the unemployed and single parents (Battle et al., 2005; Banting, 2006; Osberg, 2007). Although these benefits are primarily a provincial responsibility, the replacement of the Canada Assistance Program with the Canada Health and Social Transfer program suggests that the federal government also played a role in the decline (Frenette et al., 2009). Particularly important to this report is the fact that this decline in social spending corresponds closely to the increase in inequality.

We now turn to a more detailed description of trends in government intervention in the market. We look not only at social spending and related measures, but also taxation and other regulation such as the setting of minimum wages.

5.2 Labour Income

Minimum wages are set by provincial governments in Canada rather than by the federal government. As Figure 5.1 indicates, minimum wages have been quite variable across the country over the past few decades, though in all provinces they have typically been quite low when compared to the more extensive welfare states of Europe (Dinardo et al, 1996; Dinardo & Lemieux, 1997; Murray & Mackenzie, 2007). Still, in every province, minimum wages increased during this period. Ontario and Quebec are notable for the lack of change in minimum wages during the late 1990s and early 2000s, but even in these provinces the minimum wage has increased dramatically over the past decade. It is important to note, however, that the trends depicted in Figure 5.2 do not take into account inflation rates. As we show below, doing so changes the story dramatically.

Figure 5.1 Minimum wage by province.

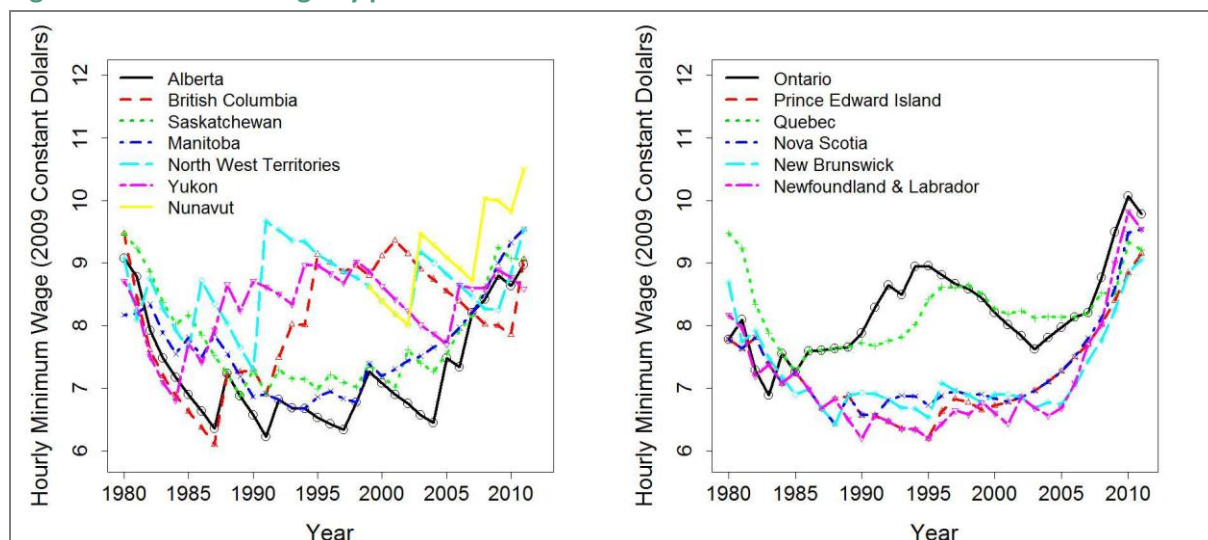


Source: Human Resources and Skills Development Canada

Figure 5.2 displays trends in minimum wages adjusted for inflation rates. Specifically, the minimum wages have been transformed to 2009 constant dollars. The cross-national trends now become much more variable, though in general, the mostly increasing trends shown in Figure 5.1 disappear. Most importantly, during the mid-1990s—the period of the greatest growth in income inequality—real minimum wages either stagnated or, in many provinces, actually declined. Particularly noteworthy is the drastic decline in Ontario from the mid-1990s to the mid-2000s. This decline corresponds with the ‘common sense revolution’ of the Progressive Conservative government at the time that explicitly targeted cuts in social spending as a way to reduce the provincial debt (Wiseman, 1997; White, 1998). While these cuts surely negatively affected the living conditions of the working poor, they did not follow the general downward trend in inequality. Most provinces dramatically and

progressively raised the minimum wage after the mid-2000s until it eventually reached levels approximately the same as in 1980.

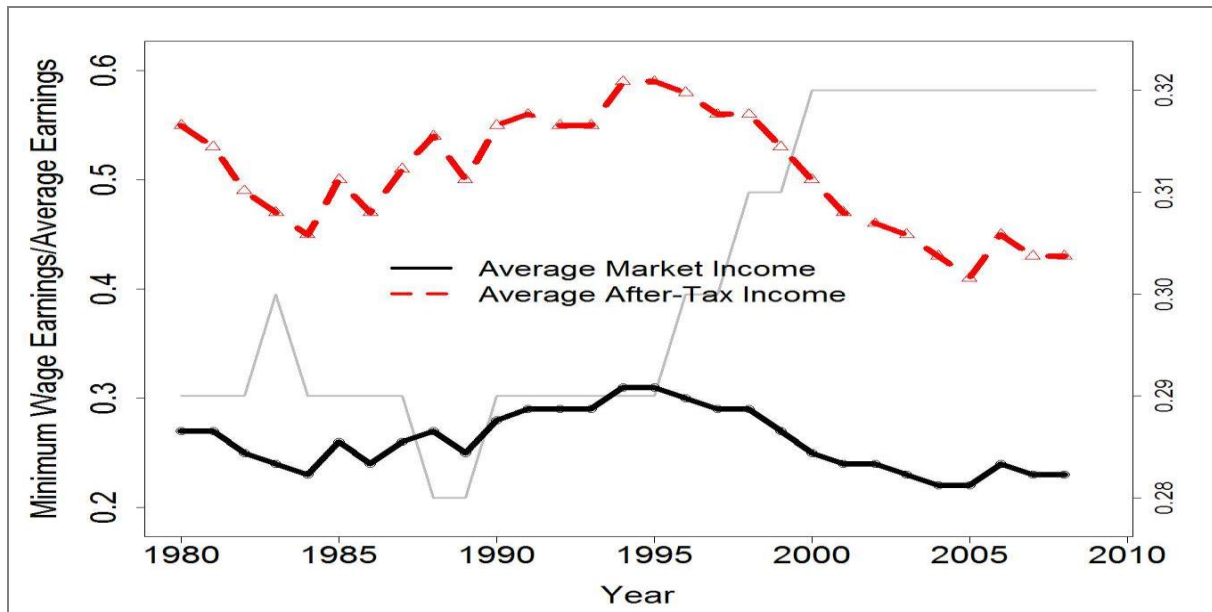
Figure 5.2 Minimum wage by province in 2009 constant dollars.



Source: Human Resources and Skills Development Canada

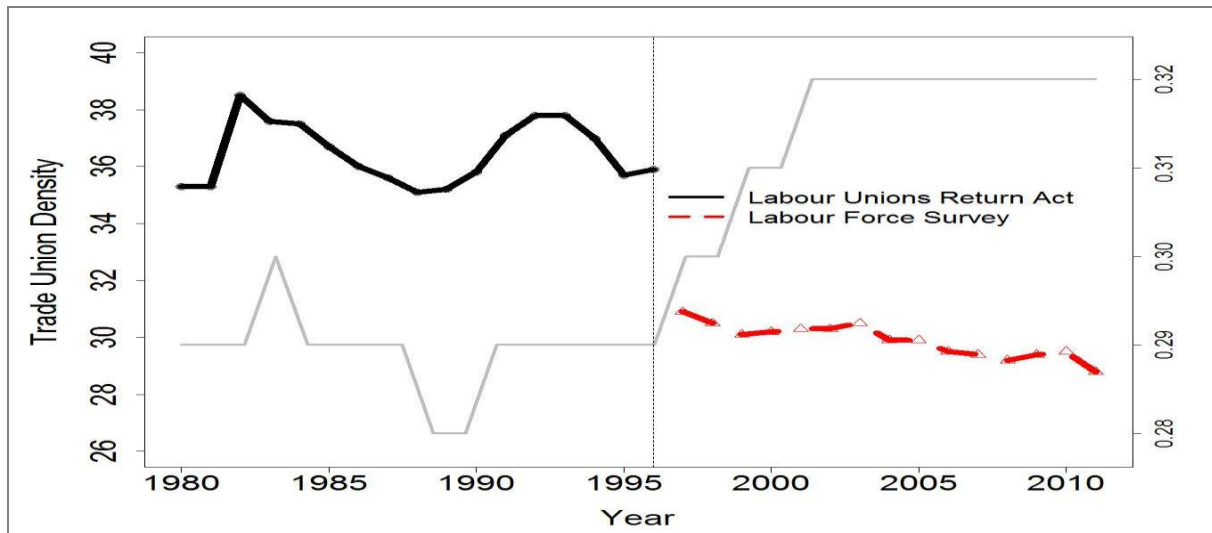
Figure 5.3 displays the ratio of the minimum wage to average earnings for Canada as a whole from 1980-2008. We can see quite clearly that people living on minimum wages have become increasingly disadvantaged relative to the rest of the Canadian population since the mid-1990s. Although taxes and redistribution increased the market ratio by more than double throughout the entire period under study, it has had a weakened impact from the early 1990s onwards. Although market forces are perhaps largely responsible, these findings suggest that cuts to redistributive policies played a role as well. We will return to this later in the chapter.

The balance of power for labour relations in Canada has tipped decidedly towards the interests of business during the past 30 years. Various labour laws adopted throughout the country during this period, especially in the 1990s, made it increasingly difficult for workers to start new unions (Jackson, 2004; 2006; Jackson & Baldwin, 2007). At the same time, the main home for powerful labour unions, large scale manufacturing, has declined drastically in terms of its share of Canadian workers. In 1980, 19 percent of the Canadian labour force was employed in manufacturing; by 2010 it had dropped to 10 percent (Statistics Canada). This has had a profound impact on union membership in Canada.

Figure 5.3 Minimum wage earnings relative to average income.

Source: Human Resources and Skills Development Canada & Statistics Canada

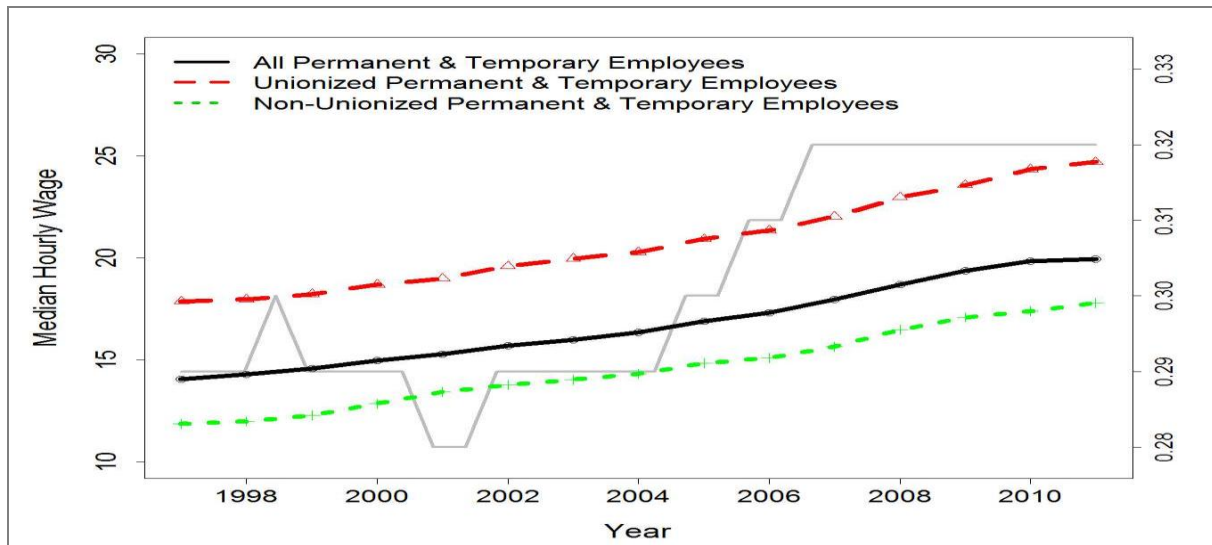
Figure 5.4 displays the trend in union density from 1980-2010. Although union density hovered around 35 percent from 1980 to 1995, it dropped precipitously afterwards, leveling out in the high 20s. This period of dramatic decline coincides quite closely to when income inequality rose greatly. The drastic drop between 1996 and 1997 has both technical and substantive explanations. Substantively, beginning in 1995 provinces began enacting new laws that implemented mandatory public certification votes for unions (Campolieti et al, 2007). This drastically reduced union certification success rates. For example, the success rate for private sector unions in Ontario dropped from 81 percent in 1996 to 59 percent in 1997 (Campolieti et al, 2007). Technically, the data from 1980 to 1995 were collected by Statistics Canada through the Corporations and Labour Unions Return Act and the data from 1996 to 2011 were collected by Statistics Canada's Labour Force Surveys. In other words, this drop may be somewhat exaggerated slightly by the different way each source of data measured union density but it should be noted that other studies considering union density have found this same drop (Campolieti et al, 2007; Gottlieb & Ponak, 2001; Johnson, 2002) although with varying levels of intensity.

Figure 5.4 Trade union density, 1980-2010.

Source: Organization for Economic Cooperation and Development

The influence of union contracts is not entirely restricted to union workers alone. Simply the presence of powerful unions can drive up wages of non-union employees in similar industries as employers give in to wage demands in an attempt to keep unions out. Nevertheless, Canadian labour laws do not require that union contracts extend to employees not explicitly covered by the contract. That is, unlike in many European countries, most collective agreements apply to employees of a single firm and do not apply to all employees in a sector (OECD, 2004). As a result, a decline in union density has serious implications for the overall income distribution.

In order to see just how much unionization matters to wages in Canada, we turn to Figure 5.5. This figure displays the median hourly wages for unionized and non-unionized employees from 1998-2010. Union wages were significantly higher in all years under investigation. In fact, median wages are about 40 percent higher for unionized workers than they are for non-union employees.

Figure 5.5 Median hourly wages by unionization.

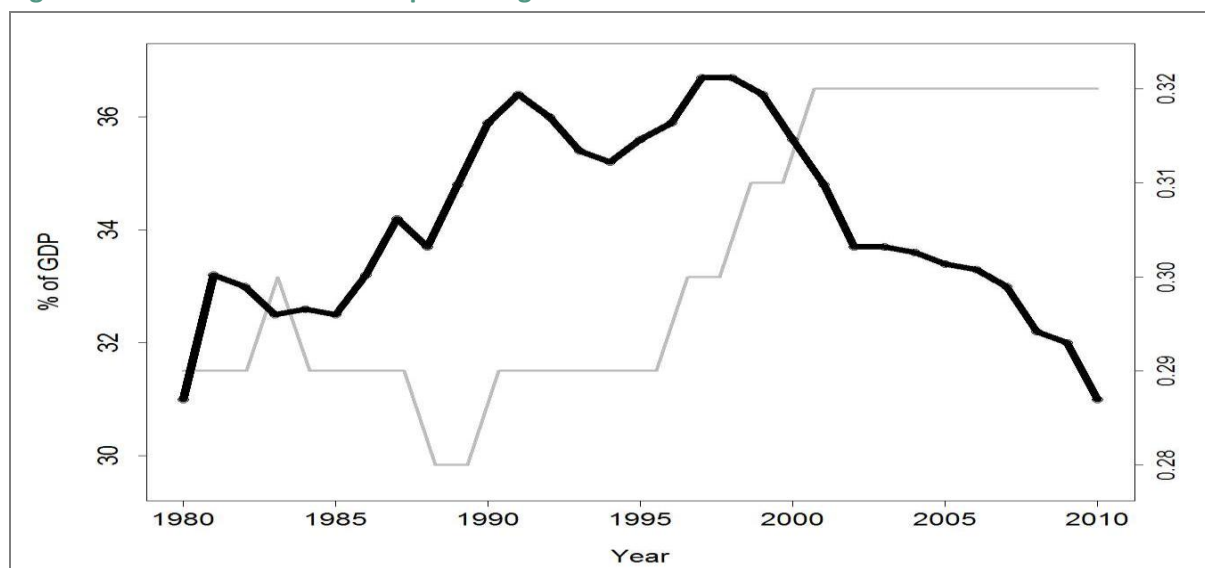
Source: Human Resources and Skills Development Canada

5.3 Taxation (Levels/Trends Policies and Policy Intentions/Discourse)

Taxes are the main source of revenue for redistribution policies to alleviate income inequality. With this in mind, Figure 5.6 displays the trend in tax revenue (as a percentage of GDP) in Canada since 1980. Until the mid-1990s there was a gradual increase in taxes. Since that time, however, tax revenue as a percentage of GDP has declined progressively.

This trend of decreasing tax revenues can be traced to the revival of neo-conservatism in the 1990s and its continued persistence today. As Banting (1992) notes, neo-conservatism and pro-business agendas in Canada can be traced to the competitive market created by economic globalization. The need to retain a competitive market internationally created pressure to reform the tax structure and adopt a pro-business agenda to keep up with other nation states' economic environments. This has affected Canada more than other OECD countries in part due to competition and strong trade ties to the U.S. for whom welfare state initiatives are less extensive (Martin, 1986).¹⁰ The need to keep up with competitors economic developments has ramifications for social expenditure, which in Canada resulted in tax-cuts for businesses and corporations both of which decreased overall tax revenues and, therefore, decreased funds for social programs (Courchene, 1987; Jones & Guttman, 2011).

¹⁰ Banting (1992:151) goes as far as to assert that "no other OECD nation is more dependent on one market" than Canada is on the US.

Figure 5.6 Total tax revenue as a percentage of GDP.

Source: OECD SOCX

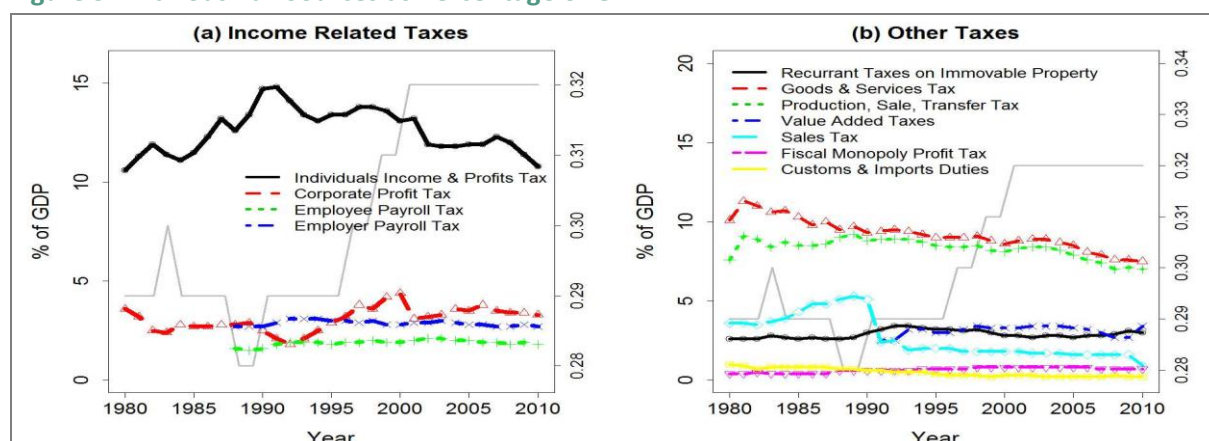
Neo-conservatism found empirical support in the growing debt of the country, which in the mid-1980s had risen to the point where Canada had one of the largest deficits among all OECD countries (Banting, 1992; Swank, 2002). With compound interest on Canada's national debt growing by \$85,000 a minute during this period (Greenspon & Wilson-Smith, 1996:200-201) public sentiment shifted to favour social expenditure cuts and a refocusing on economic growth. This is not to suggest that social program support waned during this period in Canada, in fact it remained fairly high, but the desire for social programs was forced to adapt to the contradictory need for economic reform in light of international competition (Banting, 1992). The result was tax and social spending cuts being implemented gradually and subtly, leading some to characterize the movement as a "politics of stealth" (Banting 1992:158). Income tax restructuring placed a higher burden on middle-income families with the top one percent and bottom 30 percent of families being the primary beneficiaries (Banting, 1992; Maslove, 1989)—a trend which was seen in section 2.1.1 of Chapter 2 by the growth in top income earner's share of total income and the stagnation of the other 80 percent of earner's shares.

As of 2012, the ruling Conservative Party continued to purport a pro-market platform that promotes the need for tax cuts to "help businesses create jobs" in a time where "Canadians remain concerned about their jobs and their children's future" (Conservative Party Platform, 2012). The modern recession has served to further entrench pro-market policy as seen by Conservative party victories in national elections since 2006. All indications point to the continued movement toward decreased taxes with recent federal initiatives focussing on promoting investments with corporate tax-cuts (Huffington Post, 2012) and family tax cuts that will primarily benefit families with a stay-at-home

spouse or with one spouse who earns significantly more than the other. These developments suggest a continued decline of total tax revenue and, therefore, at best a stagnation of social expenditure.

As government debt hit record levels in the early 1990s, the political right jumped on the opportunity to 'blame the poor'. It was commonly argued that the welfare state had become too generous and unaffordable. Political parties espousing both fiscally and socially conservative platforms experienced new found public support, winning elections in many provinces.¹¹ A main goal of these governments was to concomitantly cut welfare spending and taxes for the rich and the middle classes. As Figure 5.7 indicates, they were very successful in achieving this goal. Of the sources of taxes shown, only income taxes declined during this period. Much of this decline pertains to cuts to income taxes for those with relatively high incomes (Finnie & Irvine, 2011; Frenette et al, 2009; Heisz, 2007a).

Figure 5.7 Various Tax Sources as Percentage of GDP.



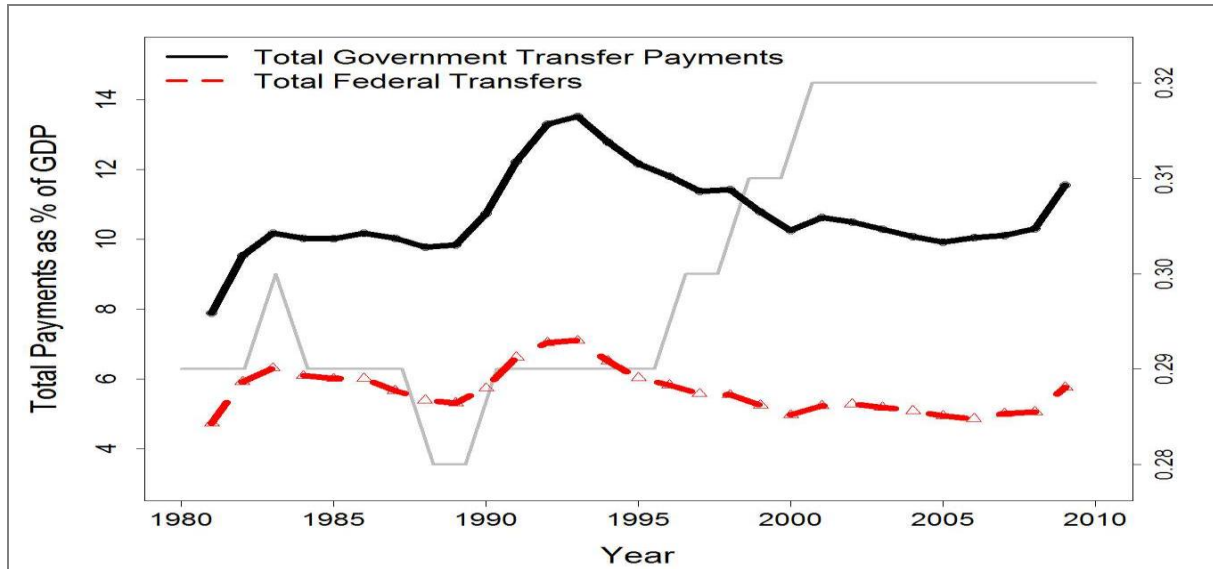
Source: OECD SOCX

Although the Canadian welfare state grew steadily in most of the post-WWII period, by the mid-1990s, a process of retrenchment began (Beland & Myles, 2005; Fernandez, 2010; Kneebone & White, 2009). At this time, public debt had reached record levels. The debt was so large, in fact, that it dominated political discourse (Greenspon & Wilson-Smith, 1996; Minister of Finance, 2006). This fueled arguments that the welfare state had become too generous. The dual goals of reducing taxes and bringing down the debt necessarily resulted in a serious attack on the welfare state. As Figure 5.8 makes very clear, there has been a marked and quite steady decline in government transfers in

¹¹ Conservative Parties have been in power in Alberta (1971-Present), Saskatchewan (1982-1991 & 2007-Present), Manitoba (1988-1999), Ontario (1971-1985 & 1995-2003), Newfoundland & Labrador (1972-1989 & 2003-Present), Nova Scotia (1978-1993 & 1999-2009), Prince Edward Island (1979-1986 & 1996-2007), and New Brunswick (1970-1987, 1999-2006, & 2010-Present)

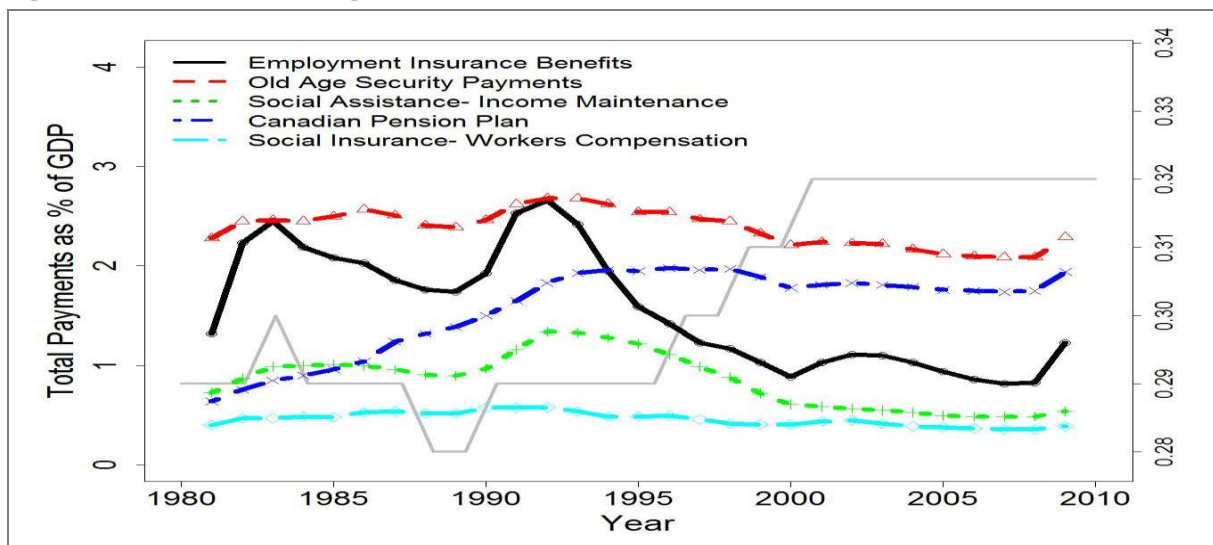
Canada since the mid-1990s. This decline coincides quite closely with the increase in income inequality.

Figure 5.8 Total government payments and transfers.



Source: Statistics Canada

Figure 5.9 Trends in various government transfers.



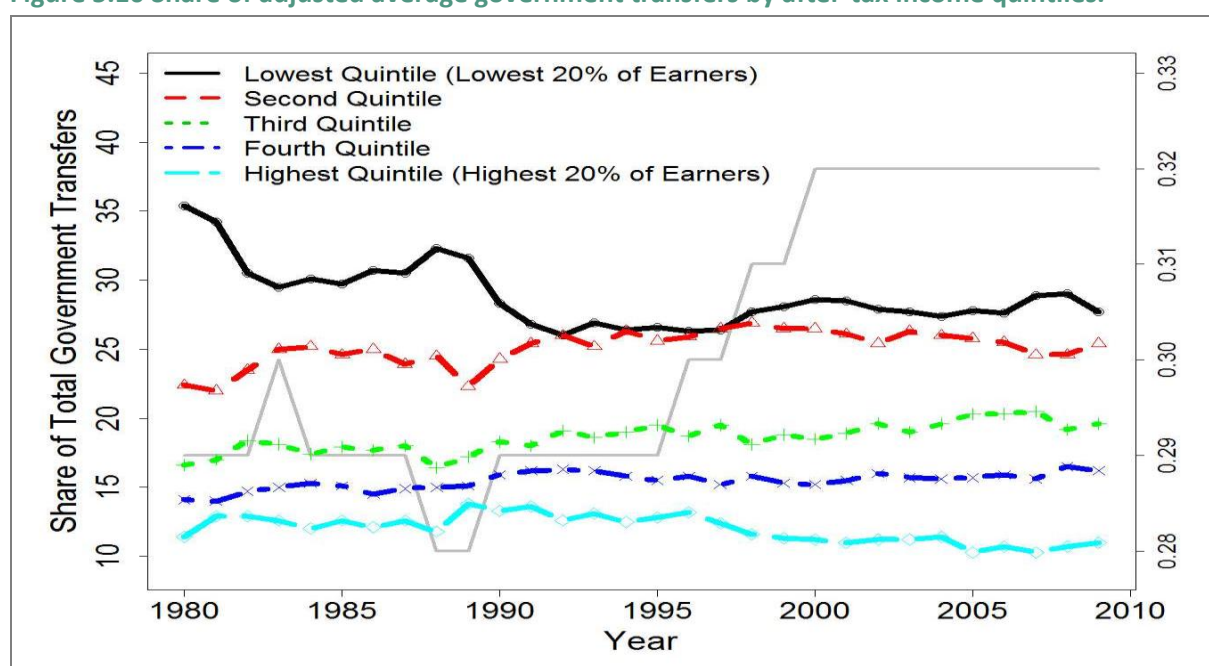
Source: Statistics Canada

Figure 5.9 displays trends in various types of government transfers. Most notable are the very marked declines in social assistance for income maintenance (i.e., welfare payments) and employment insurance payments. Both of these declines mirror quite closely with the overall decline in income inequality that starts in the early 1990s. While the main story has been about increasing incomes for the richest income earners, we see here that those near the bottom of the income structure were drastically affected as well. That is, although we should earlier that the number of

people in absolute poverty did not rise as income inequality rose, social assistance to these people lessened, making their situation worse.

Figure 5.10 shows the trends for government transfers for quintiles of the income distribution—i.e., 5 categories of earners with the first ‘quintile’ being the lowest 20 percent of after-tax income earners in that year and the fifth quintile being the highest 20 percent of earners. For the four highest income groups, the proportion of transfers they received remained fairly constant through the past 30 years. On the other hand, the poorest quintile experienced a drop in transfer in the late 1980s-early 1990s, after which payments leveled out.

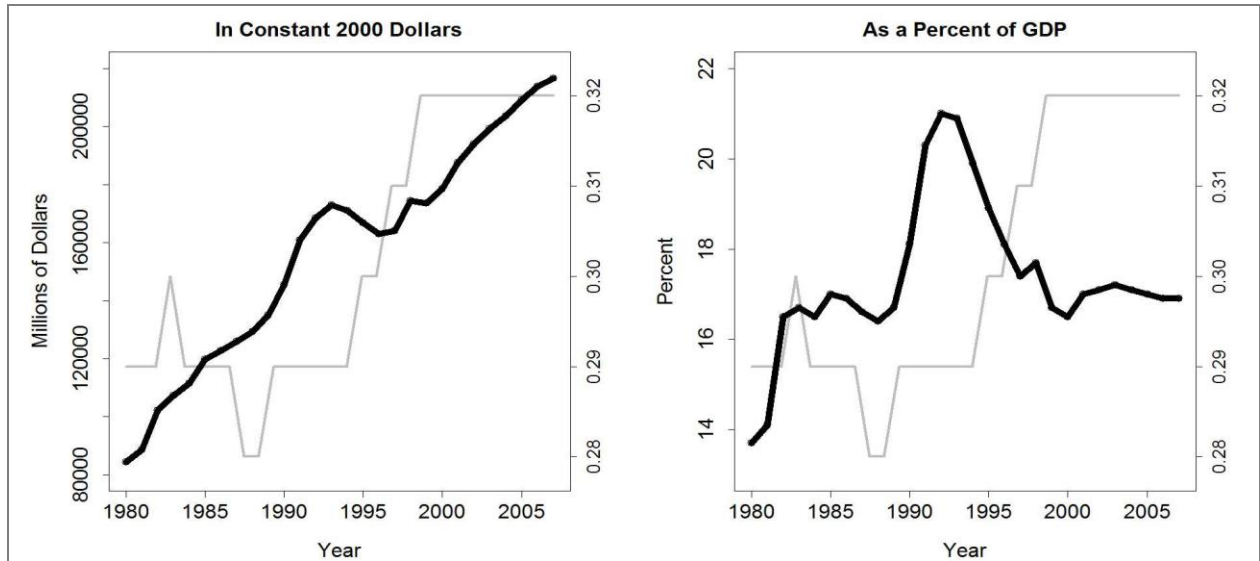
Figure 5.10 Share of adjusted average government transfers by after-tax income quintiles.



Source: Statistics Canada

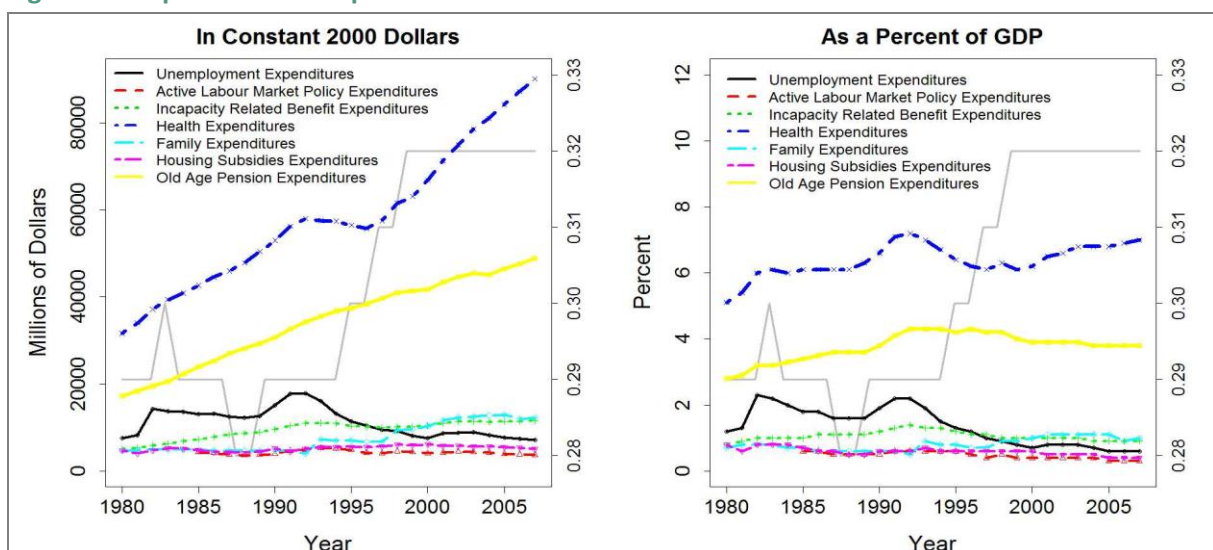
5.4 Social Expenditures

We now turn our discussion specifically to social expenditures. Trends in social spending since 1980 are shown in Figure 5.11. Panel (a) shows the trend in spending in constant 2000 prices; panel (b) shows the trend as a percentage of GDP. In absolute terms, total social expenditures grew fairly smoothly from 1980 to 2007. Nevertheless, spending has failed to keep up with economic development since the mid-1990s. Spending was at about 13.7 percent of GDP in 1980 and rose to 21 percent of GDP in 1992 before gradually falling back to 16.9 percent of GDP in 2007.

Figure 5.11 Total social expenditures since 1980.

Source: OECD SOCX

Figure 5.12 divides the total expenditures displayed in Figure 5.12 into specific types of social spending. A few noteworthy observations can be taken from this figure. First, spending on health care and pensions has increased tremendously since 1980. Although this is most noticeable in absolute terms (panel (a)), it is also true when spending is seen as a percentage as GDP (panel (b)). Of course, both of these expenditures reflect the fact that Canada's population has been aging over this period (Myles, 2000). The second notable observation pertains to unemployment expenditures. Consistent with the findings on government transfers discussed earlier in this chapter, we see a marked decline in spending on unemployment benefits.

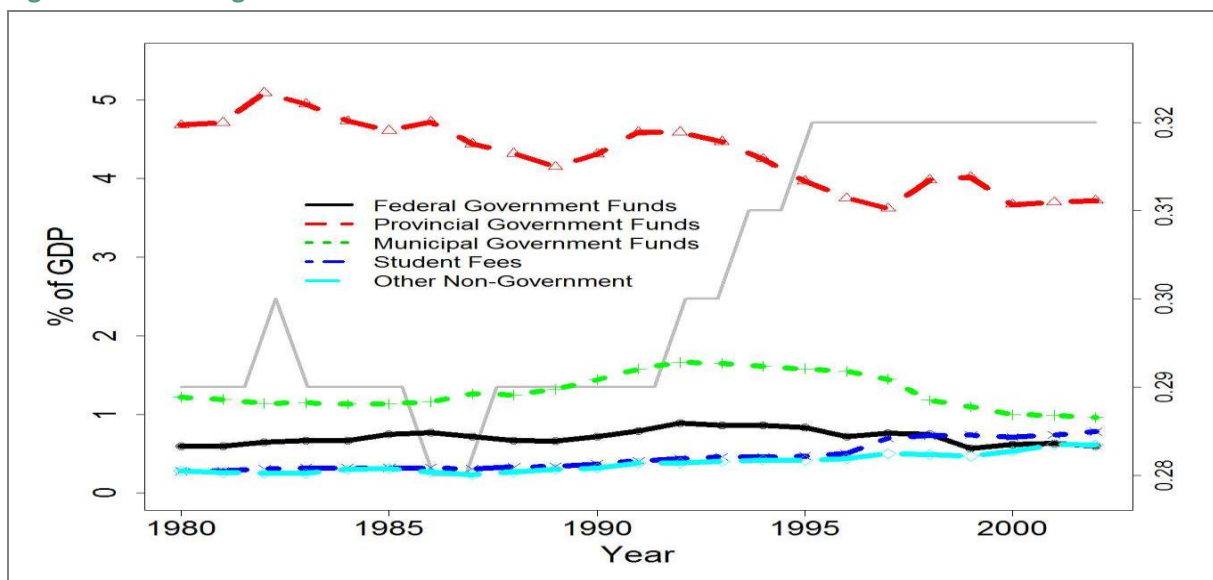
Figure 5.12 Specific social expenditures since 1980.

Source: OECD SOCX

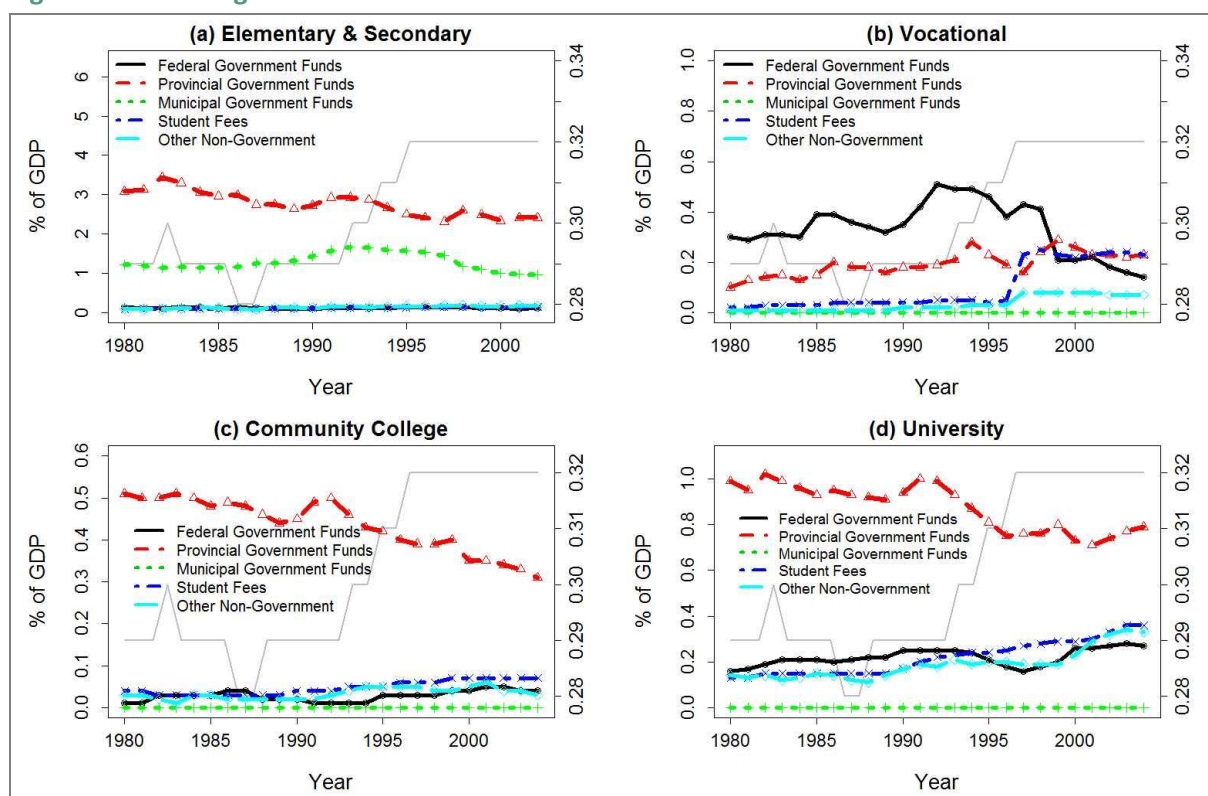
5.5 Education

Education spending was also not spared from spending cut. As Figure 5.13 indicates, provincial funding—which is the main source of education spending in Canada—fell drastically during the period under investigation. Figure 5.14 suggests that the spending cuts were not equally distributed among all types of education, however. While elementary and secondary school remained funded at almost 1980 levels by 2010, higher education—i.e., university and college education—experienced drastic cuts in funding. While these cuts almost certainly contribute to increasing inequality in society because they resulted in higher tuition rates, thus making it more difficult for low and middle income families to send their children to higher education institutions, they did not follow the general trend in the rise in inequality. Instead, the cuts to higher education have been persistent throughout the whole period under investigation.

Figure 5.13 Funding sources for all education.



Source: Culture, Tourism and Centre for Education Statistics Division, Statistics Canada

Figure 5.14 Funding sources for different levels of education.

Source: Culture, Tourism and Centre for Education Statistics Division, Statistics Canada

5.6 Conclusion

Previous chapters in this report have shown that inequality has risen drastically in Canada. We also demonstrated that much of the rise in inequality pertains to dramatically rising incomes of the very rich. We have made it clear, however, that low income Canadians were also affected. This chapter sheds further light on these issues. Specifically, we have clearly demonstrated that Canadian governments did not respond to growing inequality with policies that could alleviate the problem. In fact, quite the opposite it is true. If anything, changes to government regulation, taxation and spending could only serve to perpetuate the growth of inequality. When adjusted for inflation, minimum wages generally declined during the period of vast growth in inequality. On the other hand, those with good incomes generally benefitted for cuts to their taxes. A decline in tax revenue corresponded with a significant decline in social spending, especially on employment insurance and higher education, which would undoubtedly have its greatest effect on lower income earners. In short, changes in government policy could only serve to increase the distance between the rich and poor.

Appendix

Table A. 1 Summary of main findings.

	1980-1989	1990-1999	2000-2010
CHAPTER 2			
Market Income Gini	→	↗	→
Total Income Gini	→	↗	→
After-Tax Income Gini	→	↗	→
80/20 Quintile Ratio for Market Income	→	↗	→
Top 1% Share of Income	→	↗	↗
Percent at Relative Poverty Risk	→	→	→
Percent at Absolute Poverty Risk	→	→	→
Debt-to-After-Tax-Income Ratio	→	↗	↗
Consumer Bankruptcies	↗	↗	↗
Percent of Workforce Comprised of Post-Secondary Credentials	↗	↗	↗
High School Dropout Rate	↘	↘	↘
Female-to-Male Earnings Ratio	↗	↗	↗
CHAPTER 3			
Percent Living in Material Deprivation	→	→	→
Relative Poverty Exit Rate	N/A	→	↘
Absolute Poverty Entry Rate	N/A	↘	→
Percent of Households in Housing Need	N/A	↘	↘
Total Fertility Rate	↘	↘	↗

	1980-1989	1990-1999	2000-2010
Population	↗	↗	↗
Immigration	↗	→	→
Marriage Rate	→	↘	N/A
Life Expectancy	↗	↗	↗
Home Ownership	→	→	↗
Housing Prices	↗	→	↗
Crime Rate	→	↘	↘
CHAPTER 4			
Voter Turnout	→	↘	→
Trust in Other People	→	↘	→
Opinions on Immigration	N/A	↗	↗
CHAPTER 5			
Minimum Wage	↘	→	↗
Union Density	→	↘	↘
Tax Revenue as Percentage of GDP	↗	→	↘
Expenditure on Social Assistance/Unemployment Insurance	→	↘	→
Government Expenditure on Education	→	↘	→

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