A POLICY RESPONSE TO CANADIAN ECONOMIC INEQUALITY

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BA, University of Waterloo
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A Thesis

Submitted to the School of Graduate Studies

in Partial Fulfillment of the Requirements

for the Degree

Master of Social Work

McMaster University

MASTER OF SOCIAL WORK (2012)

McMaster University
Hamilton, Ontario

TITLE: A policy response to Canadian economic inequality

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SUPERVISOR: Prof. Rachel Zhou

NUMBER OF PAGES: vi, 143

ABSTRACT

Economic inequality is increasing in Canada and throughout the world. In addition to the equity concerns of distributive justice, growing economic inequality negatively impacts poverty, social cohesion, and the stability of the economy. This master's thesis undertakes a major literature review to explore the trends in economic inequality and the policies that influence it.

The current increase in economic inequality has been dominated by an increase in the income and wealth of the 1% to which the Occupy movement has drawn significant attention. Policies to directly counter this rise in both before- and after-tax top incomes are critical to combatting economic inequality. In addition to highlighting policies that target the very rich, this thesis examines intersections between traditional social policy and broader public policy in the field of economic inequality. It also argues for increased consideration of economics in social work research and policy practice. Economic inequality should be a concern to social workers alongside poverty.

Policies in four areas are considered: income taxes and transfers, public services, labour market institutions, and capital market interventions. Recommendations are made for the future. Addressing economic inequality through national policy is both possible and advantageous. A comprehensive policy package involving policies from the four areas explored has the potential to reduce economic inequality.

ACKNOWLEDGEMENTS

I would like to thank my thesis supervisor, Rachel Zhou, for her continued assistance throughout this project. She challenged me to always dig deeper to consider the complexity, and this thesis is stronger because of it. Her confidence in my ability never waned, and I appreciate her dedication.

I am grateful for the guidance I received from many professors. Gary Dumbrill, as both my second reader and research methods professor, asked questions that led me to expand my thinking and consider the issue from alternate points of view. Susan Watt generously provided her time and expertise to consult with me on statistical matters. I appreciate her assistance, even though I did not pursue a quantitative route.

My husband, Kevin Carr, was an invaluable support. Beyond his unerring faith in me, he provided critical assistance making graphs and proofreading my work. I would also like to thank my family, who helped keep my head on straight and have always been there to cheer me on as I pursue my education.

Finally, I would like to express my gratitude to the faculty, staff, and students of McMaster Master of Social Work 2012. The faculty and staff provided a welcoming and supportive atmosphere, and I could not have hoped for a better group of fellow students. This has been a memorable year.

I will ever be grateful to you all. Sincere thanks.

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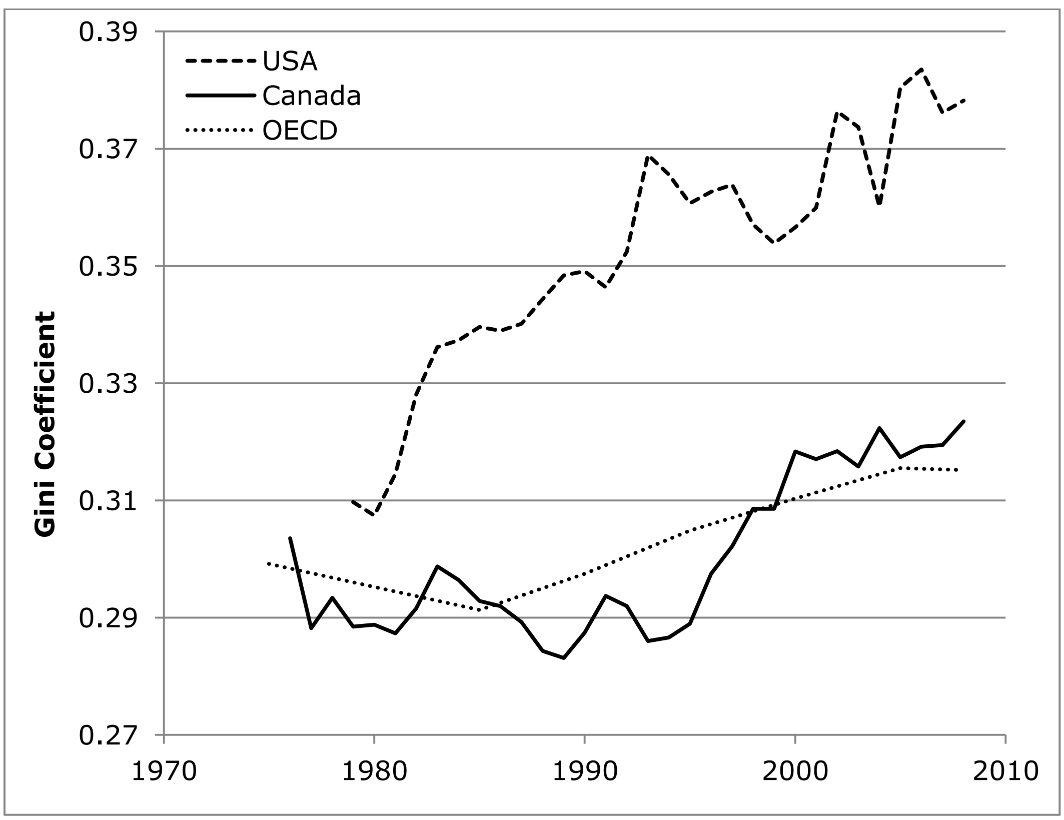
CHAPTER 1: INTRODUCTION

Research Context

Economic inequality is a pressing problem throughout the world. With the global rise of neoliberalism, economic inequality has been increasing in both developed and developing nations, as well as between nations. The focus of this thesis is national economic inequality in the Canadian context. Economic inequality is important to consider in addition to poverty. While economic inequality and poverty are interrelated, economic inequality impacts society in its own right, meaningfully and detrimentally. Economic inequality can and should be addressed through policies. A wide variety of policies have been suggested to reduce economic inequality, covering taxes and transfers, public services, labour market institutions, and capital market interventions. Despite debates in the literature, the majority of the policies suggested could be implemented as a coordinated economic inequality reduction strategy. However, alternative strategies that target the top of the income distribution have been largely absent from the academic journals, despite vociferous public attention.

Economic inequality has risen dramatically since the 1980s, with the rise of neoliberalism. The Gini coefficient in Canada has risen from a low of 0.28 in 1989 to a high of 0.32 by 2008 (OECD, 2011a). In other terms, “the average income of the top 10% of Canadians in 2008 was […] 10 times higher than the bottom 10% in 2008. […] This is up from a ratio of 8 to 1 in the early 1990s" (OECD, 2011b, p. 1). This trend is apparent in Canada and internationally. Figure 1 shows the increase in the Gini coefficient over time for Canada, with comparisons to the USA and the OECD average. Canada's income inequality is close to the OECD average, with substantially higher income inequality in the USA. While Canadian income inequality is still within the realm of the OECD average, it is important to note that it was well below the average in both the 1980s and 1990s, and is now pulling away from other OECD countries. Details of this increase will be discussed further in the Trends section of Chapter 2.



Notes: Data from OECD retrieved from http://dx.doi.org/10.1787/888932535204

Figure 1. Gini coefficients of income inequality, 1975 – 2008

Economic inequality is a crucial concept in understanding the ongoing changes to society, both within Canada and globally. International organizations such as the Organization of Economic Cooperation and Development (OECD) and the United Nations (UN) and national organizations such as the Canadian Centre for Policy Alternatives (CCPA) have been publishing reports and statistics about growing economic inequality for several years, with increased focus in the new millennium. These organizations are not alone in their concern for growing economic inequality and its negative impacts on the economy, society, and poverty. However, mass media coverage and the attention of the populace did not appear to be captured until the explosion of the Occupy movement.

Economic inequality is one of the social ills that sparked the Occupy movement taking place globally since 2011. While it can be seen as the most recent step in a series of similar demonstrations about comparable issues (Adbusters, 2011; Hennessy, 2011), it has captured the attention and imagination of the media and the populace in the Western world and beyond. A critical element of the movement's rise to fame is its broad focus and lack of defined goals or structure (Deseriis & Dean, 2012). Though a central message, Occupy's concept of economic inequality is not always explicit, but framed in different language in this movement. The terms "justice," "democracy," and "solidarity," and the notion of the 99% are used often, and can be interpreted as messages about economic inequality. For example, Occupy London can be used as a case example of the Occupy movement's approach to economic inequality, since Occupy London has released a thorough series of statements. They engaged in a series of General Assembly meetings to reach consensus on statements in many areas, including economics, local, and international statements. Occupy London addresses economic inequality in their "Economics Statement." They identify "systemic economic inequality" as a major issue, and elaborate thusly:

> The economic system we live in increasingly benefits the few over the many. We believe it is fundamental to the future health of society to reduce economic inequality and its grave social consequences. There has been a widening of the chasm between rich and poor in the last 30 years. […] We must acknowledge the role of the monetary and current tax system in perpetuating and augmenting inequality. It is not enough to redress the excesses of the system: we must reverse the damage done. (Occupy London, 2011b, para. 7)

This forthright statement needs no interpretation to clarify that Occupy London considers economic inequality to be problematic and in need of significant systemic change. Furthermore, this statement is an admirable summary of the concerns about economic inequality examined within this thesis.

In addition to this clear statement, economic inequality can be perceived as an underlying concept behind the themes throughout Occupy London's statements. The overarching themes are justice, democracy, and solidarity. The justice theme includes concepts of fairness, equality, accountability, contribution, and the distribution of resources and services. For example, using the concept of equality, the theme of justice is portrayed through the assertion, "We are all born equal. […] Our global institutions must reflect this, or be overturned" (Occupy London, 2011d, para. 3). Economic inequality can be understood as one of many forms of inequality that are unjust, and global institutions should work to reduce it.

Solidarity is a theme, as well as a motto, that can be observed frequently across the Occupy movement. Solidarity includes the concept and slogan: "We are the 99 percent." The message behind the solidarity theme is that despite differences in age, gender, ethnicity, nationality, and so on, the world's population has in common the exploitation and oppression inherent in the current economic and political system. The "other" in this model is the 1% of the population who control the wealth and governance of the world. In this theme, economic inequality is conceptualized as a comparison between the wealth of the top 1% and of the other 99%. Occupy London (2011a) states that the corporate system functions "only to benefit a small minority and not the needs of the 99 per cent" (para. 3). The concentration of finances—thereby increasing economic inequality—is one of these benefits to the minority. This interpretation of economic inequality as a concept of the solidarity theme is supported by Adbuster's analysis. In their view, the messages from Occupy are "a dialogue of wealth distribution beyond the scope of the 1 percent's project of capital accumulation" (Camp & Schulte, 2012, January 23, second section, para. 9).

Writing by Trish Hennessy of the Canadian Centre for Policy Alternatives (CCPA) echoes this analysis. In her blog "Framed in Canada," Trish Hennessy explains that the Occupy movement has reframed income inequality as the 99% (2011). She indicates that she supports this approach by explaining the process by which CCPA determined that "the gap between the rich as the rest of us" was the best way to present income inequality in a way that the majority of Canadians could understand the issue (2011, para. 12). Of the Occupy movement's new language of income inequality, Hennessy concludes, "it is about *the 99 per cent*. It isn't about individuals or individual failure. It's about a system that's failing the vast majority of citizens who believe things can be better than this" (2011, October 13, emphasis in original). Furthermore, understanding economic inequality through the lens of the 99% is supported by CCPA data. They state that increase in income inequality in Canada has been caused by the vast increases in income of the top 1% of earners (CCPA, 2012). The impacts of the Occupy movement are yet to be seen, but they are an important movement which underlines the current salience of economic inequality in society.

Economic inequality is not a concept commonly heard in social work circles. It gets attention internationally and locally, and is the focus of new social movements. From my experiences writing this thesis, it appears that there are relatively limited discussions of economic inequality in social work because the dominant discourse is based on economics. Rowlingson and Connor (2011) echo the lack of social policy attention to economic inequality. “Poverty has received much more attention from social policy academics than wealth, poverty being seen as a social problem whereas wealth is generally not” (p. 437). Furthermore, they argue that economic inequality should be considered a social problem distinct from poverty. Due to growing support for this notion, they state that social policy should focus on both the “rich” and the “poor.”

The distinction between economics and social work bears similarities to the distinction between social work and social policy. Social policy is considered a branch of social work, in theory. However, the majority of social workers are employed in direct practice settings (Canadian Association of Social Workers, 2008; Weiss-Gal & Gal, 2008), and those working in social policy do not consider themselves to be “of” social work (Rossiter, 2011, p. 981). This underrepresentation of policy interest and policy practice in social work hobbles our ability to make changes at the structural level, where the roots of social ills such as poverty and economic inequality can be found.

Social policy and economics are intertwined, since the vast majority of government programmes and interventions have financial costs and benefits. Indeed, the McMaster program used to include a course on economics, but it was removed from the curriculum in the transition from the Masters of Social Welfare Policy (Jane Aronson, personal communication, May 10 2012). In an article entitled, “In Praise of Leisure,” Robert and Edward Skidelsky (2012) discuss the detrimental effects of the continual growth focus and scarcity models of economics. They hail to a classical definition of economics which joins economics and philosophy. “It's time to revive the old idea of economics as a moral science, a science of human beings in communities” (Skidelsky & Skidelsky, 2012, para. 8). The ethics and morality that they invoke philosophy to provide could as easily be supplied by social work. Thus, not only should economics have a place within social work, but the two complement each other in the field of economic inequality.

Economic inequality is a salient topic to social work not only on a theoretical level about the ideal scope of social work, but also because of its effects on both society and individuals. Economic inequality negatively effects social cohesion, and increases the risk of crime and conflict. Furthermore, economic inequality is related to poverty, especially where poverty is defined by a relative measure, as it is in Canada.

Rowlingson and Connor (2011) examine inequality through the “deservingness” argument. They highlight that those on social assistance are often critiqued in their deservingness of social aid, while the rich are not subject to the same scrutiny. Because, though questionable, the question of deservingness of those in poverty is used to justify austerity measures, increased surveillance, and disciplinary practices, it should also be used to judge the rewards received by the rich. This is especially so in light of the many hidden forms of social assistance which benefit the wealthy. Additionally, “social policies inevitably involve the wealthy, particularly in relation to taxation policy, and some principles of fairness and justice are needed to guide these policies” (Rowlingson & Connor, 2011, p. 438).

Research Questions

The topic of interest for this thesis research is economic inequality. The goal is not only to understand economic inequality, but to critically consider the role of social policy in addressing economic inequality. The prospects of social policies that address economic inequality through targeting the upper income and wealth brackets will also be explored.

This question is in response to what I perceive as an inflated focus in the income inequality literature on policies that address poverty exclusively, while allowing the wealthiest citizens to control ever-increasing proportions of income and wealth unchecked. The ideology behind this reasoning seems to be that unbounded economic growth is beneficial to the economy, and that those at the top of the income spectrum have justifiably earned their right to be there (cf Cohen & Rogers, 1999).

In support of this primary goal, three **research questions** will be explored to offer the context necessary to engage in the analysis: (1) What is economic inequality? (2) What have been the major policy responses to economic inequality in Canada? (3) What are the possibilities and prospects for public policy to tackle economic inequality in the changing national and global contexts?

The first question will include definitions of economic inequality and related concepts. These concepts will include income inequality, income distribution, and poverty. How economic inequality is measured will also be discussed. An investigation of why it is important to address economic inequality will follow. I will also consider how economic inequality has changed, and how larger trends, such as neoliberalism, have influenced changes over time. The second research question will explore social policy responses to economic inequality. I will examine social policy responses in general and in a Canadian context. How social policy has changed, along with the effects of these changes, will be explored. The third question will explore alternative policy responses. This exploration will be based on findings from the previous questions and suggestions by economic inequality analysts and social movement activists.

Exploring these questions is important for social work. Economic inequality has implications for the good of society, as well as for poverty reduction, as will be demonstrated in more detail below in "Why Economic Inequality Is a Problem". In order to understand the ramifications of economic inequality, it is important to first understand what economic inequality is, and how it has been changing in recent decades. This will be addressed by the first question. Once it has been established that economic inequality is a growing concern, the second question explores how social policy has addressed economic inequality in the past and present. Getting a sense of how changes in policy have led to increasing economic inequality and of which policies are more effective at addressing economic inequality will lead into the third question. The third question, considering alternatives, builds on the knowledge gained from understanding economic inequality and the policy responses that have been implemented. The third question is critical for this thesis to move beyond description of what is and what has been, toward making suggestions for the future. These suggestions will include enhancing or reinstating previous policies that have been found effective, as well as exploring alternatives that have not yet been implemented in Canada.

Methodology

This thesis will be conducted primarily based on a literature review; no empirical data has been collected. The major sources of literature which I have reviewed are scholarly journals and books about inequality, reports on inequality by international organizations such as the OECD and the UN, and reports from social policy research institutions such as the CCPA.

This literature is also supplemented by online resources and media coverage. These additional sources were necessary for the research on the Occupy movement, as it is too recent to have been covered through traditional academic sources. These additional sources have also been relied upon to discuss some of the alternatives policies proposed, as these have not received sufficient attention from academics.

In addition, publically accessible statistical information is used to explain trends and relationships among economic inequality data. Sources for these statistics include secondary data supplied by the Statistics Canada, the OECD, and the World Top Incomes Database. These international data sources are valuable not only due to their ease of access online, but also for the international context they provide.

Use of international reports and statistics is important for understanding of the global trends and circumstances, as well as specific Canadian trends, of economic inequality. It is also helpful to compare Canada to a variety of other countries. Osberg (2008) argues that a “narrow focus on one or two countries with similar trends to greater inequality can lead to the TINA (“There Is No Alternative”) conclusion that a trend in inequality is inescapable — from a basic ignorance that alternative outcomes are actually happening” (Osberg, 2008, p. 18). Although Canada has lower economic inequality than the United States, it is worse than many European countries.

While acknowledging the nuances and complexities of measuring economic inequality, I am yet limited by the data at hand. Since I am using secondary data, I cannot choose which measures of inequality to use, or which populations to include. Comparisons between reports will be made with caution, with attention to the relevant contexts and the particulars of the data being used. However, I hope to surpass these limitations by utilizing a variety of sources and measures, as is done by the OECD and others (cf Osberg, 2008).

A mixture of qualitative and quantitative information is desirable for addressing a topic such as economic inequality. One the one hand, economic inequality is a financial concept, based on monetary wealth and earnings. Therefore, critical components of the issue, such as severity and trends, can only be captured through statistics. On the other hand, the complexity of social policy invites an in-depth qualitative inquiry. Qualitative approaches to policy analysis are advantageous in policy fields because they allow for values that quantitative methodologies strive to avoid (Luton, 2010).

Policy analysis is an interdisciplinary methodology useful for analyzing social problems and their appropriate policy responses. Policy analysis is integral to public administration research, as it can evaluate the impact of policies that have been implemented or recommend future policies responses. Consideration is also given to the impacts and limitations of proposed policies (Johnson, 2010, p. 16).

An article by Geva-May and Pal (1999) compares policy analysis and policy evaluation. Policy analysis brings in a broad range of methods and sources of data to make recommendations about future policy, while evaluation determines the effectiveness of policies or programmes that have already been implemented. From this explanation, policy analysis is well-suited to my thesis, because I want to look forward with my research, rather than simply exploring policies that have been done to date.

Policy analysis, by design, uses a variety of methods "to produce and transform policy-relevant information that may be utilized in political settings to resolve public problems" (Dunn, quoted in Geva-May & Pal, 1999, p. 263). Furthermore, policy analysis is interdisciplinary (Geva-May & Pal, 1999), which makes it applicable to my social work research, despite not being a standard social work method.

Policy analysis rests within a critical social science framework, where policy evaluation is positivist. "Policy analysis is understood to be shot through with value conflicts, political decisions and priorities, but evaluation is typically seen as the application of relatively neutral, social scientific research techniques to policy issues" (Geva-May & Pal, 1999, p. 259). Additional conceptual lenses meld well with my intentions: power is a central concept; analysis is structured to manage the complexity of the policy environment; and the researcher is encouraged to be transparent about their position in the research (Walt, et al., 2008).

Policies are the target of examination in policy analysis, and the typical unit of analysis is the state (Walt, et al., 2008). For my thesis, I will be focussing on the federal government in Canada. Although many relevant policies, such as social assistance, are set at the provincial level, the federal government influences provincial policies. Furthermore, a wealth of information is available at the national level, through international income inequality studies (Cornia & Court, 2001; OECD, 2011a). As Walt et al. (2008) explain, many new actors are being recognized to play a role in policy creation, including other jurisdictions, corporate actors, and global forces. I will consider these influences as part of the context of policy-making, but will not include them as a unit of analysis.

"The role of the analyst is to discover, collate, interpret, criticize and synthesize ideas and data that others have already presented" (Geva-May & Pal, 1999, p. 267). I will undertake a major literature review to gain the contextualized and historical understanding of economic inequality and the policy through which it is addressed. In addition, I will explore alternative policy options that may or may not have been implemented in other countries. While the majority of this information will be qualitative, I will also incorporate the results and data of some quantitative studies about the severity and trends in economic inequality.

Data collection in policy analysis includes "borrowing, historical comparisons and transfer, […] accumulated knowledge, experimentation, modelling, brainstorming and cost-benefit and efficiency analysis" (Geva-May & Pal, 1999, p. 267). Links to several other methods can be made here. Elements of historical-comparative research will be incorporated. Historical-comparative research is used to compare societies through a long time frame and a consideration of macro factors (Neuman, 2011). The historical-comparative approach will inform my analysis of the second research question regarding the history of the social policy response to economic inequality, with a focus on Canadian history.

The primary strength of policy analysis is that it can enable policy-makers to select and implement policies in the best interests of the citizenry (Dunn, 1981). It is a systematic approach that can combine both the relevant data and the value judgements and political context in support of socially just policies. Policy analysis is applied research that aims to make a difference, recognizing that the political environment is one “that defies a totally rational approach” (Johnson, 2010, p. 5). While policy analysis recognizes power relationships (Walt, et al., 2008) and the potential for policies to be oppressive (Hankivsky & Cormier, 2011), it moves beyond the postmodern aversion to universalities. Johnson (2010) expresses it well: “We begin to see that ‘it depends’ is not an excuse to avoid making fixed rules but a recognition that situations vary in ways that might affect why some things work and some do not” (p. 5). I consider this attitude a strength, since postmodernism can be used to cripple social justice work by eschewing universal truths and focussing on each person’s uniqueness while dismissing our commonalities (Noble, 2004).

Conversely, traditional policy analysis has weaknesses. While the ability to move forward in spite of differences is positive, ignorance of the effects of these differences is a weakness. Bensimon and Marshall (2003) advocate feminist critical policy analysis, asserting that traditional policy analysis is androcentric, and minor modifications to include women are insufficient. System reformation is necessary. Similarly, Hankivsky and Cormier (2011) explain an intersectionality approach. They argue that policies are not neutral, and that the effects of policy need to be considered on multiple marginalized populations simultaneously. Furthermore, some critics have argued that, due to the lack of specified methods, policy analysis lacks rigor (Luton, 2010; Walt, et al., 2008). Once acknowledged, these weaknesses can be mitigated by incorporating lessons from these critical policy analysis approaches.

Organization of the Thesis

This introduction chapter has attempted to lay the foundations to explain why economic inequality is a pressing matter to research and address, and why it is an important topic for social work. The following chapters will build on these foundations.

This thesis consists of six chapters. Chapter 2 briefly examines the theoretical orientation that both sparked my interest in this topic and guided my analysis. Welfare state theory and distributive justice are highlighted. Chapter 3 explores economic inequality more fully, in response to my first research question. Definitions, related concepts, measurement, the consequences of economic inequality, and trends in economic inequality are covered. The negative effects of economic inequality, as well as its relationship to poverty, will be outlined more fully in this chapter. Chapter 4 focusses on the policy response to inequality and the changes therewith, in response to my second research question. Overall policy changes are considered, including globalization, and then policies in four key areas that affect economic inequality are considered. The four areas are income tax and transfers, public services, labour market institutions, and capital market interventions. Chapter 5 builds on the history and trends uncovered in Chapter 4, in order to make recommendations for how policy should address economic inequality moving forward. This chapter responds to my final research question. The final chapter, Chapter 6, concludes the discussion. Policy recommendations are summarized, and overarching themes are considered, such as the ideological debates that accompany any social policy development, the strong effect social movements have had historically, and the constraints to implementing the proposed policies.

CHAPTER 2: THEORETICAL FRAMEWORK

My theoretical framework most closely resembles critical social science (CSS). Neuman (2011) describes critical social science as a theoretical framework that guides researchers "to critique and transform social relations by revealing the underlying sources of social control, power relations, and inequality" (p. 109). The purpose of CSS research is to pursue social justice, and it represents a combination between research and advocacy.

In relation to the research questions, my theoretical framework guides my concern with both inequality and policy. Economic inequality is a social problem of increasing severity, both nationally and internationally (OECD, 2011a). Public policy is a tool that can and should be used to reduce economic inequality. This assertion is based as much on my own worldview as on my review of the literature (cf. Cornia & Court, 2001). In addition to studying economic inequality to increase understanding, I hope to suggest policies that could ameliorate the situation, to the extent possible within the limitations of an MSW thesis. In particular, the conceptual framework of this thesis is constructed drawing upon theories on the welfare state and on distributive justice, highlighting the important role of the state in redistributing resources among citizens and in systematically pursuing social justice.

Welfare state theory explicates the provision of social welfare among welfare states. Gosta Esping-Andersen wrote a fundamental text in 1990 in which he distinguishes three "worlds" of welfare capitalism. This typology, along with the work that has followed from it, is an informative theory to guide my thesis. His typology distinguishes three ideal-types of welfare regime, based on decommodification, stratification, and the welfare mix (Powell & Barrientos, 2004). Decommodification can be understood as the relationship between the state, its citizens, and the labour market.

> Decommodification occurs when a social program is delivered as a matter of right, and when a person can maintain a livelihood without reliance on the market. People are decommodified, so to speak, when, due to the existence of income security programs, they do not need to rely on selling their labour as a commodity to survive. (Hick, 2007, p. 68)

Stratification can be understood as the degree of redistribution and universality, and is measured by such variables as the extent to which benefits are means-tested or universal and spending on social services such as health care (Powell & Barrientos, 2004). The welfare mix considers the public-private balance of welfare service provision (Powell & Barrientos, 2004). In his later work, Esping-Andersen adds a dimension of social risk, as the different styles of welfare regimes can be distinguished by how social risk is divided among the population (Powell & Barrientos, 2004).

The three ideal-types of welfare regime are liberal, corporatist, and social democratic. Liberal welfare states provide means-tested benefits at minimal levels, relying primarily on the market to provide for its citizens. The distinction between the deserving poor and the underserving poor is critical to the design of social welfare in these states (Headey, Goodin, Muffels, & Dirven, 1997).

> In the liberal welfare state there is no clear or direct intention to promote equality. Those benefits which are universal (i.e. available to all who meet the eligibility criteria) are set at a low flat rate. The aim is merely to relieve abject poverty, not to promote greater income equality or to ameliorate 'relative' poverty. (Headey, Goodin, Muffels, & Dirven, 1997, p. 332)

The welfare mix includes the provision of social services through the private market, and social risk is borne by the family or individual through private insurance (Powell & Barrientos, 2004).

Corporatist welfare states are highly organized around occupation, labour force participation, and family structure. Social welfare spending is high for education and training that is linked to the labour market. Social benefits are provided when family and church resources have been exhausted, but benefit levels are notably higher than in the liberal welfare state (Headey, Goodin, Muffels, & Dirven, 1997). Social stability is considered more important than reducing poverty or inequality, and this is achieved through the maintenance of family social status and attachment to social groups (Headey, Goodin, Muffels, & Dirven, 1997). The welfare mix again includes both private and public service provision, but the proportion of services provided publicly is higher than in the liberal welfare state.

Social democratic welfare states embody the ideals of universality and equality. Taxes and benefits are both high, and the reduction of poverty and economic inequality is an explicit goal (Headey, Goodin, Muffels, & Dirven, 1997). Full employment is pursued through policy, but citizens are decommodified in that they have the choice whether or not to work. The welfare mix is dominated by public provision of services, with charities and private service providers playing a minor role (Hick, 2007). The public sector is also a primary employer, and increasing jobs in the public sector is a technique used to ensure full employment (Powell & Barrientos, 2004).

No country is a perfect representation of the ideal-type. Most suit the typology to varying degrees, and blend policies from the different ideal-types. The codification done by Esping-Andersen garnered both support and criticism (Arts & Gelissen, 2002). Critics have challenged the variables used to differentiate the types as well as the categories themselves. For example, in an overview of responses to Esping-Andersen's work, Arts and Gelissen (2002) compare several alternative models and determine that five ideal-types would better represent the welfare states that exist today. However, despite these criticisms, there is broad agreement that certain countries undeniably represent certain categories. Broadly, the Anglo-Saxon countries are liberal welfare states, with the Unites States as an exemplar of this category. Corporatist welfare states are in Continental Europe, represented by Germany, and Sweden is the prototypical case of Scandinavian social democratic welfare states (Arts & Gelissen, 2002; Headey, Goodin, Muffels, & Dirven, 1997). Despite key elements of a social democratic welfare state, such as universal health care, Canada is categorized as a liberal welfare state by all methods of categorization reviewed (Arts & Gelissen, 2002; Powell & Barrientos, 2004).

Welfare state theory, particularly Esping-Andersen's typology, can facilitate an understanding of the theoretical basis of this thesis. The government approach taken to addressing economic inequality is shaped by the type of welfare state to which it belongs. The social democratic welfare state is the model which most highly values equality; thus, this is the model to which I aspire. However, the reality of Canada being a liberal welfare state must be taken into account. Furthermore, in addition to the goal and design of policy, Headey, Goodin, Muffels, and Dirven (1997) demonstrate that the three welfare state types have distinct and significant impacts on economic inequality and poverty. Social democratic welfare states are very effective at reducing both pre-tax and post-tax economic inequality and poverty, both annually and over time. The liberal welfare states do little in these regards. The corporatist welfare state is significantly better at achieving these ends than the liberal welfare states, but not as good as the social democratic welfare states.

Welfare state theory shapes the entire spectrum of the government's relationship to its citizens. While this does include statements on social and economic inequality, *distributive justice* is a theory that specifically considers inequality. Distributive justice is a normative theory that postulates which distributions of goods are just in a society (Lamont & Favor, 2008). Though distributive justice can be applied to a wide variety of goods, known formally as "receipts" (Cohen R. L., 1987), the most common and relevant application is to economic inequality.

While achieving a just distribution of resources is shared by all distributive justice theorists, many different strains of distributive justice exist. These cover the gamut from strict egalitarianism to libertarian theories. Strict egalitarianism advocates equal distribution of goods to all members of a society, while libertarian distributive justice proposes a system of where each individual has the right to keep all of what they have acquired, without interference or redistribution by the government (Lamont & Favor, 2008).

One foundational distributive justice theory is John Rawls' Difference Principle. This principle argues that an unequal distribution of resources is just if it benefits those who are least well off materially (Lamont & Favor, 2008). In essence, this principle is stating that one's absolute financial situation is more important than one's relative financial situation. Criticisms of this principle are that it is often used to justify the currently grossly unequal economic distribution through the argument that overall market growth improves everyone's standard of living, and that it ignores differentials in power (Cohen R. L., 1987).

Resource-based principles state that it is not the outcome of the distribution that determines justice, but the opportunities and resources that individuals are given at some initial point. Under this principle, all individuals ought to be given the same resources, to do with as they see fit. Differences in outcome are then seen to be the responsibility of each individual, as a consequence of the choices they have made (Lamont & Favor, 2008). Proponents of this principle do recognize that corrections are necessary to compensate for differences in people's ability. The primary criticism of this type of principle is the difficulty in implementing them in a complex economy (Lamont & Favor, 2008).

Welfare-based principles are distinguished from the other categories by a moral standing that financial resources are not the criterion on which a distribution should be judged. Rather, the welfare of people is their primary concern (Lamont & Favor, 2008). Difficulties and vast differences in the definition and operationalization of "welfare" ensue. Utilitarianism is a branch of welfare-based principles that considers factors such as happiness to be the ultimate good. In addition to practical difficulties with implementation, these principles are morally criticized on the basis that the suffering of some could lead to the pleasure of others (Lamont & Favor, 2008).

Desert-based principles are commonly used to justify current economic system, particularly in justifying high executive salaries (Rowlingson & Connor, 2011). These principles state that a just system is one in which differences in contribution, effort, and compensation are rewarded (Lamont & Favor, 2008). Desert-based principles are in line with the principles of meritocracy, in which the most able are chosen to lead. While our current system is often described as a meritocracy, many critics, such as those in the Occupy movement, would strongly disagree. One strength of Desert-based principles is that, in theory, those who contribute to the "social product"—raising the standard of living—are those who should receive higher rewards (Lamont & Favor, 2008).

The primary contention regarding Desert-based principles is how the benefit to society is defined. As Rowlingson and Connor (2011) point out, if caring for our children is a benefit to society, teachers should be paid much more generously. Conversely, they question the benefit offered by professional sports players who earn exorbitant annual salaries. Furthermore, in considering extremely high executive salaries, the pertinent question becomes not *whether* some people deserve more, but *how much* more they deserve (Rowlingson & Connor, 2011). Additional criticisms of Desert-based principles challenge the responsibility that is attributed to individuals, and instead highlights that one's productivity can be strongly influenced by factors outside of one's control (Lamont & Favor, 2008).

As can be seen here, distributive justice consists of several disparate principles, none of which are free of criticisms. It is challenging, therefore, to explain exactly how distributive justices as a theoretical orientation guides this thesis. Overall, distributive justice is a pertinent theory in that it is concerned with the just distribution of economic goods and resources. Beyond theories alone, distributive justice theories are concerned with the implementation of a system in which the distribution is just (Lamont & Favor, 2008). The Difference Principle contributes an understanding that some economic inequality may benefit everyone. Resource-based principles highlight the need to have an "even playing field," so to speak. Welfare-based principles remind us that finances are not the ultimate goal, but serves as a means to social wellbeing. Desert-based principles support the foundations of capitalist societies, whereby each member is encouraged and rewarded for their contribution. The extremes of strict egalitarianism and Libertarian principles must also be recognized as part of the social consciousness, although they lack the complexity necessary to be implemented in the modern world.

I find each principle of distributive justice to be helpful in guiding my thinking. Although they do contradict each other, the task in making use of them becomes to determine how they fit together, and what conditions or limitations on each would be necessary. While Welfare-based principles resonate most with me, I acknowledge that the challenge of defining "welfare" must be addressed.

CHAPTER 3: ECONOMIC INEQUALITY

"Economic Inequality" and Related Concepts

Economic inequality is a concept that considers how financial resources are distributed within a society. High economic inequality is a condition in which some members of the society have significantly greater financial resources than others. A hypothetical society with no economic inequality would be one in which financial resources were distributed evenly among all members. No inherent turning point exists at which a society's economic inequality becomes "high," but the UN set a threshold of a Gini coefficient of 0.4 (Cornia & Court, 2001, p. 6). Often, economic inequality is considered comparatively. Scholarly interest focusses on changes in economic inequality over time, and comparisons between groups or regions.

A concern with economic inequality implies a judgement based on distributive justice. The assumption behind monitoring the trends in economic inequality is that some ranges of economic inequality are undesirable. As economic inequality is rising, the focus of the literature is on the negative impacts of high economic inequality; however, some argue that economic inequality can be too low. There is no consensus on what range of economic inequality is ideal, and a variety of justifications against economic inequality have been put forth. These will be discussed in more detail below in "Why Economic Inequality Is a Problem."

Economic inequality includes all financial resources controlled by an individual or household. This included income from a variety of sources, such as annual salary and investment income, as well as accumulated wealth and assets. Economic inequality is thus hard to measure, since data on wealth is not widely available (OECD, 2011a; Osberg, 2008). *Income inequality* is a narrower, and much more common, concept. Income inequality includes measures of income, but not wealth.

Since income inequality data is much more accessible, most of the literature measures income inequality. Hence, much of the data below will use income inequality. However, as Osberg (2008) states, "whether one is 'rich' or 'poor' at a point in time is an issue of assets – an individual's stock of *wealth*" (p. 23). He considers the lack of attention to the concentration of wealth to be a shortcoming of much of the current economic inequality literature. I will be incorporating information on wealth where possible. I will use the term "economic inequality" as the overarching concept in this document, but will specify when data is limited to income inequality.

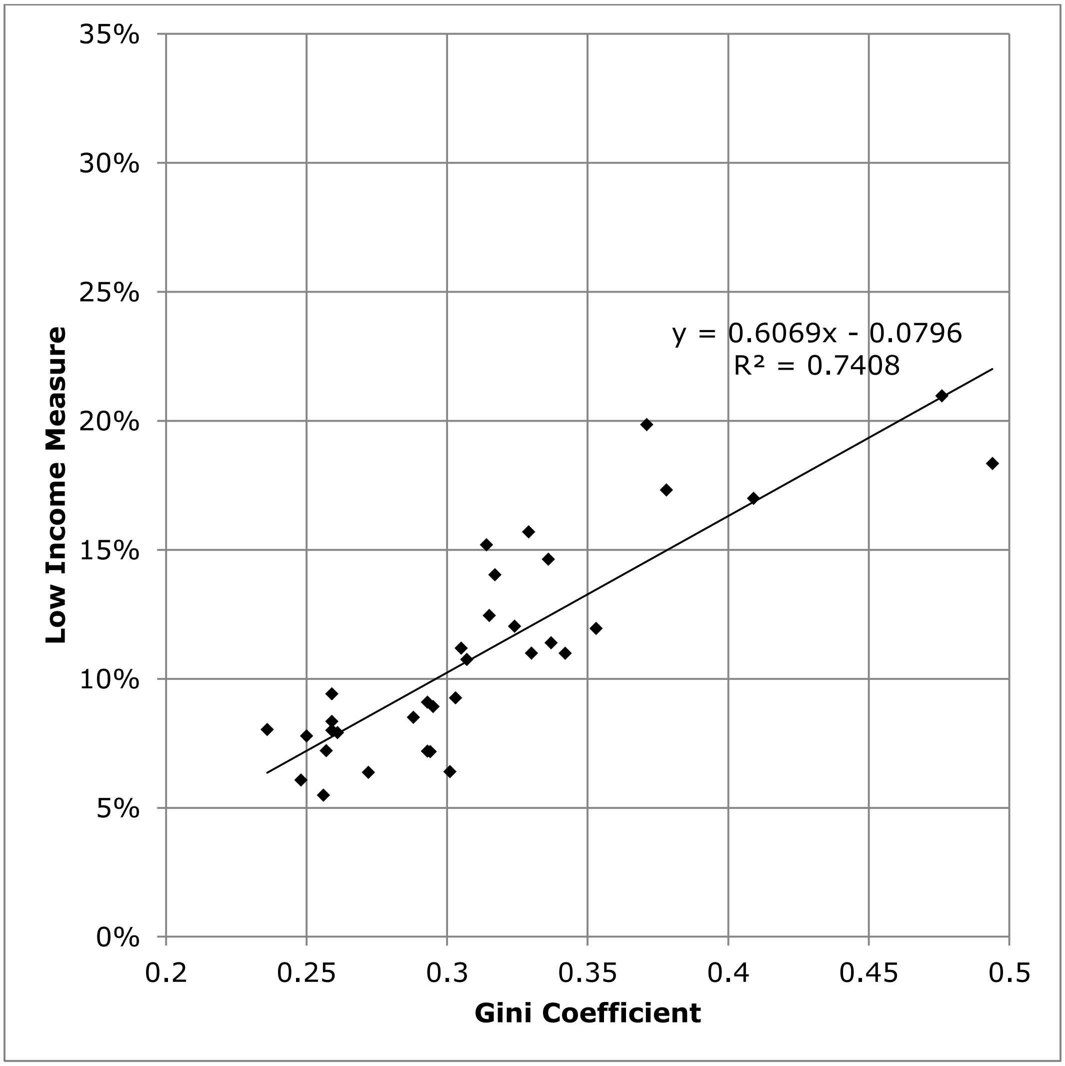
Several related concepts contribute to an understanding of economic inequality. These include social inequality, income distribution, income redistribution, and poverty. *Social inequality* is a much broader concept than economic inequality. It encompasses all forms of inequality within a society. "Social inequality […] is manifested in unequal access to goods, information, decision making, and power" (Price & Feinman, 2010, p. 2). Social inequality exists to various degrees within virtually every society over thousands of years (Price & Feinman, 2010). Concerns arise when social inequality becomes more pronounced, and when it is based on certain characteristics. Racism, sexism, ageism, classism, and so forth are concerns with regard to social inequality. Economic inequality is but one form of social inequality.

Income distribution is a concept commonly referred to in the economic inequality literature. The income distribution is the result of ordering all members of a society by income, such that the people who make the least are said to be on the bottom of the distribution, and those who make the most are said to be on the top. Economic inequality then compares the income of various segments or points of the distribution in relation to how much each person would earn if income were distributed evenly. Other related distributions are also used, such as the wage distribution.

Income redistribution is the transfer of income from some segment of the income distribution to others. Usually, this refers to government interventions that redistribute income from the upper segments of the income distribution to lower segments. This is achieved through mechanisms such as progressive taxation. The degree and effectiveness of income redistribution to lower economic inequality can vary greatly.

Poverty is a concept distinct from, yet related to, economic inequality. Poverty can be defined and measured in many ways. The definition of poverty is highly contested and is shaped by the measures being used. In general, poverty is a lack of resources needed to obtain a basic standard of living. In Canada, poverty is most commonly measured by the Low-Income Cut-Off (LICO) lines released by Statistics Canada. "A LICO 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 than the average family" (Statistics Canada, 2009). The threshold is set at 20 percentage points greater than the spending average. In other words, if the average spending of all families on these necessities is 30% of their income, then the LICO is calculated based on a family spending 50% of their income on necessities. It is not an official measure of poverty, but is the most frequently used as a proxy. For international comparisons, the Low Income Measure (LIM) is common. The LIM is defined as 50% of the median household income.

Both the LICO and LIM are relative measures of poverty. Relative measures define poverty in relation to the income of others. In this way, relative poverty measures are related to economic inequality. A higher proportion of the population being far below the average or median is a signifier of higher economic inequality. This relationship is graphed in Figure 2, plotting poverty as measured by the LIM against income inequality as measured by the Gini coefficient, for OECD countries. Variance in the Gini coefficient explains 74% of variance in the LIM. Though poverty's impact is far beyond financial, most definitions of poverty focus on financial deprivation.



Notes: Calculation based on OECD statistics retrieved from http://stats.oecd.org/Index.aspx?DataSetCode=POVERTY and http://stats.oecd.org/Index.aspx?DataSetCode=INEQUALITY
- The data points represent the OECD counties, in the late 2000s

Figure 2. The relationship between income inequality and poverty

Measuring Economic Inequality

As previously stated, economic inequality and income inequality are not synonymous concepts. While economic inequality includes more information, it is harder to obtain the data. Economic inequality does not have one specific measure, but is a composite concept that includes income inequality and wealth inequality. Thus, income inequality is often used as a proxy when discussing economic inequality, with specific data on wealth added where possible. The mechanisms and challenges of measuring income inequality are discussed herewith, followed by a look at the additional challenges of appending wealth data.

Income inequality is a concept that has been studied by social scientists and economists for decades, if not centuries. Brady (2003) links concern with income inequality as far back as the French Revolution. Due in part to this rich history of study, income inequality is a concept with meanings that have varied across time, disciplines, theoriest, researchers, and contexts.

The most common measure of income inequality is the Gini coefficient. The coefficient is a measure of dispersion. In effect, the Gini coefficient is "the average of the absolute values of the differences between all pairs on income, relative to the mean" (Jenkins, 1991, p. 15). The Gini coefficient varies between 0 (perfect equality) to 1 (perfect inequality – where only one person receives all income) (OECD, 2011a, p. 22). The Gini coefficient is closely related to the Lorenz curve, which is a graphical representation of the proportion of the population that controls a corresponding proportion of income. The Gini coefficient is widely used in the reports and articles referenced for this thesis. While the meaning of a given Gini coefficient may not be obvious, it is useful for comparisons between countries an over time. The greater the Gini coefficient, the higher the economic inequality in a society.

Some confusion exists between the Gini coefficient and the Gini index. Allison (1978) distinguishes between the Gini coefficient and the Gini index, where the index is the coefficient divided by twice the mean; this distintion was either inaccurate or has been lost in the current literature. For example, the UN and OECD use the Gini coefficient (Cornia & Court, 2001; OECD, 2011a), while Osberg (2008) uses the Gini index. However, their definitions are the same, and their numbers are comparable. The majority of those who refer to the Gini coefficient are using Allison's (1978) definition of the Gini index. Those who refer to the Gini index are either using the terms interchangeably, or are multiplying the Gini coefficient by one hundred to reach a Gini index that is displayed as a percentage number instead of a number between 0 and 1 (for example, see Central Intelligence Agency, 2012).

One limitation of the Gini coefficient is that it is most sensitive to transfers near the mean, which is to say that it is less sensitive to inequality at the extremes of the income distribution (Fortin, Green, Lemieux, Milligan, & Riddell, 2012). To compensate for this limitation, measures that Fossett and South (1983) call "point measures" (p. 858) are increasingly being used in conjunction with the Gini coefficient. These simple measures compare proportions or ratios of group proportions of incomes at specified points. The OECD (2011a) (see also Brady, 2003; Osberg, 2008) uses this type of measure when making statements comparing the top 10% and bottom 10% of the population.

While the mathematical utility of point measures in comparing economic inequality is limited (Fossett & South, 1983), the advantages of point measures are that they are easy to understand and clearly capture economic inequality trends taking place at the extremes of the income distribution. The ease of understanding is important because point measures express economic inequality *prima facie*. The Gini coefficient lacks this clarity, though it is more mathematically rigorous. Being able to capture the trends at the extremes has become necessary, since the increase in economic inequality over the last three decades has largely been characterized by the exponential gains in the top income percentiles (Osberg, 2008; OECD, 2011a). The extent of this pattern would not be apparent if the Gini coefficient were used alone.

In addition to a comparison of income shares of deciles and quintiles, the OECD uses three measures of economic inequality. The Gini coefficient is most commonly used, as discussed above. Additionally, the interquintile share ratio (S80/S20) and the interdecile ratio (P90/P10) provide mathematically comparable measures of the ratio comparisons. The S80/S20 divides the sum of the share of income going to the top 20% by the share going to the bottom 20% (OECD, 2011a). This can be a useful metric, since it is easily available and has been collected over a long time span in Canada (Osberg, 2008, p. 7). The P90/P10, in comparison, is the “ratio of the income of the person at the 9th decile to the person at the first decile” (p. 317). Since they are not measuring around the mean, these measures are more sensitive to redistributive interventions, such as the provision of public services (p. 316).

Allison (1978) and Fossett and South (1983) bemoan the tendency of researchers to base their choice of measure on convenience or convention. “In fact, the choice of an inequality measure is properly regarded as a choice among alternative definitions of inequality rather than a choice among alternative ways of measuring a single theoretical construct” (Allison, 1978, p. 865). In addition, Allison (1978) cites Dalton, a pioneer of income inequality research from 1920, as having argued that choosing an income inequality measure implies a value judgement about which income distribution is preferable, and that these judgements should be made explicit. Fossett and South (1983) quote Allison, and go on to say that even their analysis does not provide enough information to understand the full implications of choosing any income inequality measure. Hoeven (2010) follows the same reasoning in asserting that different measures of economic inequality invite different policy responses.

Further to the failure to critically select a measure of economic inequality, some researchers and authors are unclear about what they mean by the concept of economic inequality.

> The empirical evidence as to the key drivers of inequality remains largely inconclusive and is made more so by a lack of precise definitions and concepts used in different studies. […] Use of term "inequality" should clearly state inequality of what and among whom. (OECD, 2011a, p. 26)

The OECD goes on to discuss a variety of types of income that can be measured, among a variety of populations. Possibilities of income include primary (all income), secondary (income after deductions and transfers), and tertiary (includes value of public goods) incomes (Hoeven, 2010, p. 67). Secondary income is the most common on which to base income inequality measures (Hoeven, 2010; Osberg, 2008). This includes income from all sources, namely capital income, labour earnings, and transfer income, and deducts taxes (Osberg, 2008). Most of the research examined in this thesis uses household income, but individual income is also sometimes used. Likewise, it should also be noted that income is not the only variable for which inequality can be measured, but it is the most common (Chakravorty, 1996).

For the population under consideration, it seems that most researchers consider national level data, and compare populations over time or between countries. The OECD (2011a) is further explicit that only the working-age population is being considered, since economic inequality among children and seniors has different causes and implications. In another conceptual decision, Habibov and Fan (2008) limit the maximum incomes to be included in their calculations. Although they make this decision explicit, they do not adequately justify it. It is especially questionable in light of the assertion that much of the increase in economic inequality is thought to come from increases in the very top of the income distribution (Osberg, 2008; Hoeven, 2010).

Osberg (2008) outlines several challenges in measuring economic inequality in Canada. Changes in definitions and in survey instruments mean that comparisons must be made with caution. The various sources of information have strengths and weaknesses. Data is often collected in Canada through Statistics Canada surveys, but response rates are low among the poorest and richest Canadians. This could lead to an underestimation of economic inequality. The benefits of surveys are that they can ask demographic questions about factors such as educational attainment that can help to explain economic inequality (Osberg, 2008, p. 29). Census Canada data are considered more reliable, since responding is mandatory. However, there is no guarantee that the information provided is truthful. Income tax information is preferred where available, since it is the most accurate and frequent data collection about incomes. Moreover, data is collected from nearly all adults in the population, rather than from samples. Incomes of the wealthy can still be misrepresented, but only insofar as tax planning and evasion occur. The OECD (2011a) use income tax data when examining income at the top of the income distribution, echoing the benefits listed by Osberg (2008). However, adults who do not file their income tax are more likely to be poor, which results in underestimation of the bottom end of the income distribution. Furthermore, "the homeless have never been part of our statistical consciousness" (Osberg, 2008, p. 8), and are not included in any standard data gathering method.

Osberg (2008) relates the additional difficulties of measuring economic inequality, which includes wealth, as opposed to income inequality. Firstly, no Canadian survey exists that regularly gathers this information. "Furthermore, since the billionaires of this world are so few in number, and so likely to refuse to answer questions, the wealth of the very rich is often missed" (Osberg, 2008, p. 23). Census and income tax data, otherwise preferable measures of income inequality, do not collect data on wealth. Despite the difficulties obtaining wealth data, once it is obtained, wealth inequality can be measured with the same measures of income inequality, including the Gini coefficient, point measures, and share ratios. For example, Osberg compares the shares of wealth (measured as net worth) by decile in Canada from 1970 to 2005, as well as the "Gini index of inequality in the distribution of wealth" (Osberg, 2008, p. 25).

Why Economic Inequality is a Problem

Certain authors, such as Heckman (1999), acknowledge that economic inequality is increasing, but deny that it is a problem. Poverty is considered problematic, but often defined in absolute terms. These commentators tend to see economic inequality as the just outcome of the market, where differential rewards are granted for differing abilities and effort. They claim that economic inequality is necessary to support economic growth, by stimulating motivation and competition. However, Cornia and Court (2001) examined worldwide economic inequality data. Although they confirm that growth is hampered at very low levels of economic inequality, they conclude that "rising inequality threatens growth and poverty reduction targets" (p. 1; see also Hoeven, 2010). Both short and long term growth are hindered.

Some authors, such as Freeman, take a moderate approach. Freeman (1999) acknowledges that economic inequality is harmful to growth and antithetical to the "American dream," but considers economic inequality in outcome through the market to be just. They differ from the above authors in that they aim for equality of opportunity. These authors can be considered proponents of resource-based distributive justice. Restricted social mobility – both among and between generations – caused by high economic inequality (OECD, 2011a) is a concern to these analysts. "A key factor in determining where children end up in the income distribution is the economic standing of their parents" (Rowlingson & Connor, 2011, p. 441). This is a result of parents transferring not only wealth to their children, but also other forms of capital like human capital. Many authors Reich (1999) emphasizes the harmful effect that high economic inequality has on social cohesion (Reich, 1999; Coburn, 2000; Cornia & Court, 2001). Social bonds are strained when those at the top and bottom of the income distribution become too far separated. Trust, democracy, social norms, and the moral authority to rule are threatened when economic inequality is extreme (OECD, 2011a; Reich, 1999).

The most socially-minded authors see income inequality as a moral issue. Cohen and Rogers (1999) consider "growing economic inequality […] the most pressing problem of domestic politics" (p. xv). Champernowne and Cowell (1998) address income inequality primarily to improve the condition of the poor, who are hardest hit by market fluctuations and uncertainties. Hoeven (2010) is concerned with economic inequality on moral and economic grounds. He cites four moral reasons:

> 1. Inequality as domination: imposing hardships on other groups.
> 2. Inequality of political and legal status as a consequence of income inequality.
> 3. Inequality as callousness: when others cannot meet their basic needs.
> 4. Brute inequality: inability of a society to include all groups in welfare enhancement. (p. 70)

Furthermore, tolerating high economic inequality increases social and financial costs to society. Coburn (2000) theorizes that both equality and social cohesion are impaired by neoliberalism, and the relationship leads to the well-documented negative health outcomes that accompany higher income inequality. These health outcomes are particularly interesting because countries or regions with higher economic inequality have worse health outcomes for all citizens, including those with high incomes (Hoeven, 2010). Higher levels of crime have also been linked to higher economic inequality (Cornia & Court, 2001; Freeman, 1999). This is understandable in light of the reduced social cohesion discussed above. Additionally, poverty can lead to crime when it offers a more attractive alternative than the stigma or difficulty of receiving social assistance (Graham, Smith, & Delaney, 2003). Furthermore, education and training are limited by high economic inequality (Cornia & Court, 2001). Since increased education is a prime factor to reduce economic inequality, it becomes a critical area of policy development.

The social cohesion threatened by high economic inequality has several implications. In addition to higher crime rates and hampered economic growth, the risk of social tensions and conflicts are increased. "Inequality in a democracy can lead to populist measures with negative implications for economic efficiency, macroeconomic stability and growth" (Cornia & Court, 2001, p. 23). This result of high economic inequality can be seen recently in the many protest movements that have arisen, including the Occupy movement, as discussed in Chapter 1.

The above effects of high economic inequality concern society as a whole, and are likely to be more worrisome to the higher echelons of society who stand to lose more through crime and protests, and who stand to gain more through the continued growth of the economy. A more salient concern for social work is the relationship between economic inequality and poverty. As quoted above, Cornia and Court (2001) assert that both economic growth and poverty reduction targets are negatively affected by high economic inequality. They go on to explain that "higher levels of inequality are associated with lower rates of poverty reduction at any given rate of growth" (p. 25). As shown earlier, economic inequality and poverty are closely correlated. Therefore, high economic inequality therefore affects both the poverty rate and poverty reduction.

Osberg (2008) examines trends in poverty and economic inequality over the last twenty-five years in Canada. He demonstrates that although the poverty rate did not change significantly, the depth of poverty increased as economic inequality increased. As social services and government transfers have been cut back, not only is economic inequality increased, but so too is homelessness. He poignantly visualizes economic inequality thusly, "Canada's observable social reality is one of ever larger monster homes, and an increasingly glaring contrast with the homeless who clutter the sidewalks" (Osberg, 2008, p. 35). He further explains that social assistance benefits have lower real incomes than two decades ago, and emphasizes that social assistance rates are less than half of the LICO in many provinces. Social assistance recipients struggle to maintain the basic necessities of food and shelter.

Based on the breadth of the impacts of high income inequality, there is a strong case for governments to intervene to decrease economic inequality. By examining the causes of income inequality, Coburn (2000) demonstrates that economic inequality is not inevitable, but should be addressed through policies (see also Cornia & Court, 2001; OECD, 2011a). Ignoring rising economic inequality is detrimental not only the marginalized, but to all of society.

Trends of Economic Inequality

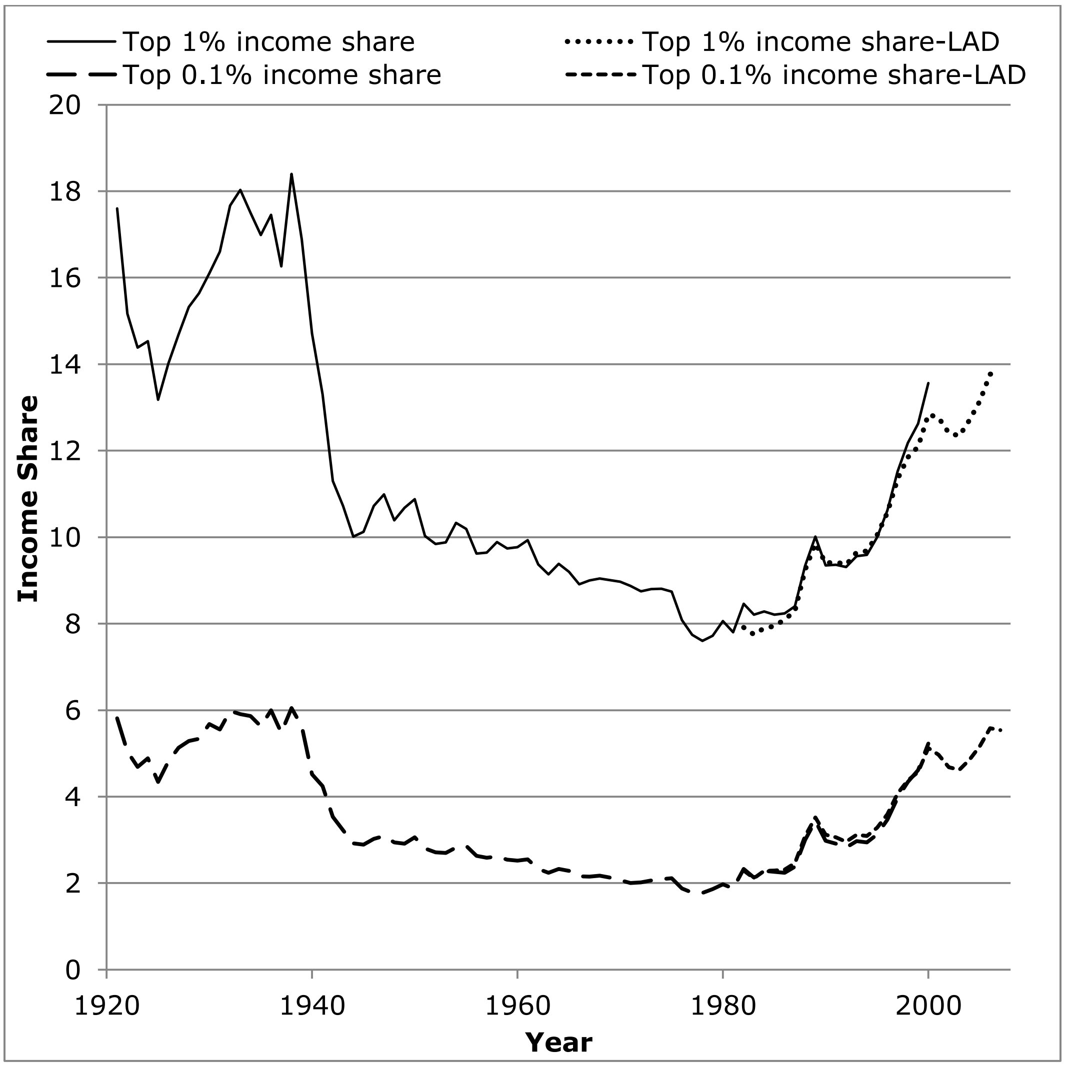
Economic inequality has been increasing since the neoliberal reforms of the 1980s. This followed a trend of growing equality from the 1940s-1970s, through the height of the welfare states (Cornia & Court, 2001; Osberg, 2008; Reich, 1999). Economic inequality is growing in more respects than income inequality. Discrepancies are increasing in employment benefits and wealth, in addition to wages.

In Canada, the rise in income inequality has been most pronounced since the mid-1990s (OECD, 2011b; Osberg, 2008). The top 10% of the population earn ten times the earnings of the bottom 10%. This is an increase of two percentage points since the early 1990s, and is the seventh highest income inequality (measured after taxes and transfers) among the 29 OECD countries. The growth in earnings of the top 1% and 0.1% have also increased, with the latter having more than doubled their share of the total income since 1980 (OECD, 2011b, p. 1). The primary contributor of the rise in income inequality is divergence in men’s earnings, caused by labour market transitions (Fortin et al., 2012; OECD, 2011a).

Furthermore, wealth inequality has increased since the 1980s (Osberg, 2008). The bottom 40% of the wealth distribution lost ground both in shares of wealth and in actual amount of wealth. Those in the bottom decile are deeper in debt, while those in the top decile enjoyed significant increases. Whereas in 1984, the top decile controlled 51.8% of the wealth, that share had grown to 58.2% by 2005 (Osberg, 2008, p. 24). The increase in economic inequality over this period is evident whether measured by the Gini index or income shares.

The rise in top incomes is an important factor in the growth of economic inequality. Internationally, the share of top-income earners grew in all OECD countries; increases were highest in the United States, but Canada and the other English-speaking counties also experiences sharp increases (OECD, 2011a). This rise was concentrated at the very top of the income distribution, with the top 0.1% gaining more acutely than the top 1%. The increase in economic inequality at the very top of the income distribution is primarily through employment and business income.

Income inequality at the very top of the income distribution is frequently reported as the shares of income flowing to a certain percentages of the population. Comparisons over time allow a long-term view of inequality. Worldwide and Canadian results are similar. Income inequality was high until the conclusion of the Great Depression, when it dropped significantly and continued a gradual decline from the 1940s to 1980. In the 1980s, the trend reversed, and shares of the top income earners began a steep climb. Figure 3 shows the data for the top 1 and 0.1% in Canada. The top 1% of earners now makes nearly 14% of all income, levels that have not been seen since the Great Depression.



Notes: Data from the World Top Incomes Database retrieved from http://g-mond.parisschoolofeconomics.eu/topincomes/
- The LAD lines represent a change in the methodology used to calculate these shares

Figure 3. Top income shares in Canada, 1920-2007

The OECD (2011a) report suggests that the decline during World War II was a result of a decline in capital, unlike the current rise which is caused by income. Between one third and one half of the current increase in income shares is the result of lowered tax rates (OECD, 2011a). Unfortunately, large scale data since the financial crisis of 2008 is not available, so it is not possible to determine the effects this event and the precipitated response have been. Although, using preliminary data from the Canadian Labour Force Survey, Fortin, Green, Lemieux, Milligan, and Riddell (2012) show evidence that the trend in growing wage inequality has reversed slightly in the past five years.

Market changes over the last three decades have led to increased economic inequality. The majority of wages have stagnated, especially in the industrial sector, while wages at the very top have increased, partly as a result of increases in technology. Reich (1999) expressed a worry that society is becoming a two-tier system with professionals at the top and service workers at the bottom (p. viii). Business power is growing at the expense of labour power, with both wealth and power increasingly concentrated (Champernowne & Cowell, 1998; Hartmann, 1999; Piven, 1999).

Cortes (1999) points out that through this mechanism, economic inequality is self-reinforcing. As wealth and power are concentrated, those negatively affected lose the ability to influence the economy. Furthermore, as Cornia and Court (2001) point out, “Societies tend to get used to higher levels of inequality.

[…] Inequality can also become entrenched through the political system" (p. 22). Osberg (2008) refers to this phenomenon as becoming the "new normal". He mentions several "new normals," including increased economic inequality and homelessness. Primarily, he uses the term to discuss the stagnation in wages that have occurred in Canada since 1979, such that new cohorts of workers earn less than the equivalent wage of the previous generation.

CHAPTER 4: POLICY RESPONSES

The development of social welfare in Canada has its basis in the earlier social welfare policies that accompanied expanding capitalism in Europe since the 1300s (Graham, Smith, & Delaney, 2003; Hick, 2007). The Elizabethan Poor Laws of 1601 were foundational policies which have shaped social welfare policy for hundreds of years. Since poverty was seen as an individual failure, and primarily the responsibility of family, only residual assistance was offered. Thus, reducing economic inequality was unlikely to have been a policy concern at this time, though economic inequality became a concern as early as the French Revolution (Brady, 2003).

Hick (2007) explores four phases of income security in Canada. The first phase is the colonial period, from 1840 to 1867. The second phase is the industrialization period from Confederation to 1940. The third phase is the welfare state period, which continued from 1941 until 1974. The fourth and current period is the era of erosion, from 1975 to present. Social programmes and the power and responsibility of the government increased throughout the first three periods, with dramatic increases in the welfare state period. The trend has reversed, however, in the era of erosion.

The colonial period is distinguished by the limited role government played in social welfare. When families could not assist the poor, relief was offered privately by churches and charities (Graham, Smith, & Delaney, 2003; Hick, 2007). The industrialization period is distinguished by rapid urbanization and industrialization, and included World War I and the Great Depression (Graham, Smith, & Delaney, 2003; Hick, 2007). Governments began to transition to publically provided social programmes in response to social unrest. Graham, Smith, and Delaney (2003) group these first two periods into what they call the "residual approach," which they extend to 1945.

The welfare state period is distinguished by significant increases in the public provision of social welfare. Graham, Smith, and Delaney (2003) call this the "institutional approach," which ended in 1973. The institutional approach included steadily rising social spending and the provision of universal programmes, with a focus on the entitlements of citizenship (Graham, Smith, & Delaney, 2003). The disconnect in the start of this period between the two texts rests on the timing of the Marsh Report, which was a significant driver in the establishment of social welfare provision in Canada. Graham, Smith, and Delaney (2003) do not consider the institutional approach to have started until 1945, after the submission of the Marsh Report. Hick (2007), on the other hand, includes the creation of this historic report in the welfare state period.

The era of erosion is marked by retrenchment and reduction of the social welfare services established during the welfare state period. Programmes have been redesigned to be targeted, rather than universal, and the primary concern of governments has moved away from the provision of social services toward controlling inflation and debt, which increased during this period (Graham, Smith, & Delaney, 2003; Hick, 2007). Graham, Smith, and Delaney (2003) call this the "post-institutional approach." Neoliberal ideology and globalization have dominated this period (Graham, Smith, & Delaney, 2003). The exact year that marked the beginning of the era of erosion varies by scholar, though they agree on its trends and characteristics. Graham, Smith, and Delaney (2003) consider this era to have begun in 1973, which coincides with the first oil crisis. The oil crises precipitated "trends that have been challenging the provision of social welfare services in Canada" (Jones, 2008, p. 52). Hick (2007) defines this period as starting shortly afterwards, in 1975. Turner (2008) marks the start of this period as the mid-1980s, with the election of Brian Mulroney's Progressive Conservative federal government.

Though Hick (2007) does not discuss economic inequality, aside from poverty, the impacts of policies on economic inequality can be gathered from the data. As discussed in the Trends section of Chapter 3, economic inequality was high during the industrialization phase, especially during the Great Depression. The beginning of the welfare state period was marked with a sharp reduction in economic inequality, and the low levels achieved were maintained or improved until the era of erosion. Osberg (2008) ascertains that "the *lack of change in economic inequality in Canada was itself interesting*, because over the 35 years from 1946 to 1981, the depth of structural changes in Canada had been profound"

(Osberg, 2008, p. 3). Although levels have not yet reached Depression heights, the era of erosion, especially since the late 1980s, has been characterized by significant increases in economic inequality.

Neoliberal economic globalization has been an important factor during the era of erosion. Globalization has many facets, including economic and social elements. Social elements include increased global communication and access to information, facilitated by rapid technological advances in telecommunications and the rise of the Internet. Economic elements, which are relevant for economic inequality, include increases in trade integration, international financial flows, and technological progress (OECD, 2011a). Trade integration has increased since the 1980s, with substantial increase since the mid-1990s. A factor of this growing integration is trade exports from Asia (OECD, 2011a). International financial flows also increased over the same period, along with liberalization of investment and finance. Cross-border liabilities now far exceed Gross Domestic Product (GDP). These liabilities grew from an OECD average of 50% of GDP to 300%. Again, most of the growth has occurred since the mid-1990s. Technological progress follows the same trend. The OECD measured this trend through private business research and development, patent counts, and shares of information and communication technology investment (OECD, 2011a). All three of these measures have increased.

Trade integration, international financial flows, and technological progress are interrelated in complex ways (OECD, 2011a). Trade integration often leads to a reduction in regulations on international financial flows. Multinational corporations' increasing control of business in other countries can lead to increased technological demands in those countries. The increase in technology can then lead to increased trade. "The complex interplay among these factors is expected to impact on the domestic wage distribution, for instance via a change in the skill composition of labour demand toward skilled workers" (OECD, 2011a, p. 94).

The OECD did not find a correlation between trade integration and wage inequality. While an overall association was not found between international financial flows and wage dispersion, this masks two opposing forces. Outward investment was associated with increasing wage dispersion, while inward investment tended to lower the wage dispersion (OECD, 2011a). Technological progress was shown to have a strong correlation with wage inequality, especially at the upper end of the wage distribution (OECD, 2011a). The magnitude of this increase was largely offset by an increased supply of skilled labour and women entering the workforce.

Most analysts who currently study economic inequality are concerned with the dramatic increases in the last three decades. Analysts have found that although some reforms have been pursued by government, such as tax credits and training programmes, these gains have not kept pace with income inequality (Freeman, 1999; OECD, 2011b). In fact, the opposite is largely true. Habibov and Fan (2008) compared income inequality in Canada in 1990 and 2000. The policy changes that took place during this period caused greater economic inequality despite a booming economy. These policy changes were in part a response by the Canadian government to deliberately align Canadian social policy with USA policy, after signing the North American Free Trade Agreement. These policies followed a neoliberal trend of "shifting emphasis from a concept of providing *security from economic shocks* to a concept of providing *capacity to adopt* [*sic*] *to economic shocks*" (Habibov & Fan, 2008, p. 43). This capacity is built primarily through attachment to the labour market. Overall, neoliberal policies and decreased government spending and regulation have resulted in increased economic inequality.

A broad range of public policy responses can be effective at reducing economic inequality. These go beyond the standard social policies of education, health, and social services; though these are of course included. For ease of discussion, the policy responses to economic inequality can be loosely grouped into four major areas. These distinctions are imperfect, and overlap occurs. Furthermore, these areas are not the only possibilities, but represent a classification of the policy recommendations I discovered in my research.

The four areas are (1) income taxes and transfers, (2) public services, (3) labour market institutions, and (4) capital market interventions. Income taxes and transfers are the most cited policy to achieve income redistribution. Public services include any services (as opposed to cash transfers) that are provided by government. Education is the foremost public service cited to reduce economic inequality. Labour market institutions include restrictions and regulations on the labour market that address pre-tax economic inequality. Capital market interventions involve regulations and restrictions on the global capital market, to counteract the factors of economic globalization and liberalization that have led to increasing instability, uncertainty, and economic inequality.

One shortcoming of the past and current policies is that the policies are developed in a piecemeal approach, with inadequate integration between these policy areas. Scholars who propose strategies to combat economic inequality, such as the contributors to *The new inequality: Creating solutions for poor America* (Freeman, 1999) and the OECD (2011a), include policies from these four main areas, though they do not necessarily categorize them as such. The need for a comprehensive strategy will be discussed further in the next chapter.

Income Taxes and Transfers

Income taxes and transfers are the most common and direct strategy to redistribute income (Fortin et al., 2012; Habibov & Fan, 2008; OECD, 2011a). Income taxes include both the taxes paid and the tax credits or rebates received.

A major advantage of the income tax system in Canada is that it allows the federal government to bypass the provincial governments, enabling the federal government to set national standards and deliver benefits directly to citizens (English & Young, 2006). "Income tax is instrumental in reducing inequality. Being progressive in nature, the Canadian income tax system is a major tool to counterbalance inequality" (Habibov & Fan, 2008, p. 37). For example, the Canadian government reduced income inequality through redistribution by 28% in 2009 (Fortin et al., 2012). However, the OECD (2011b) shows that taxes in Canada are currently less redistributive than the average OECD country, and that redistribution has been reduced through a significant reduction in the rates at which the highest income brackets are taxes. This has been a worldwide trend (Cornia & Court, 2001).

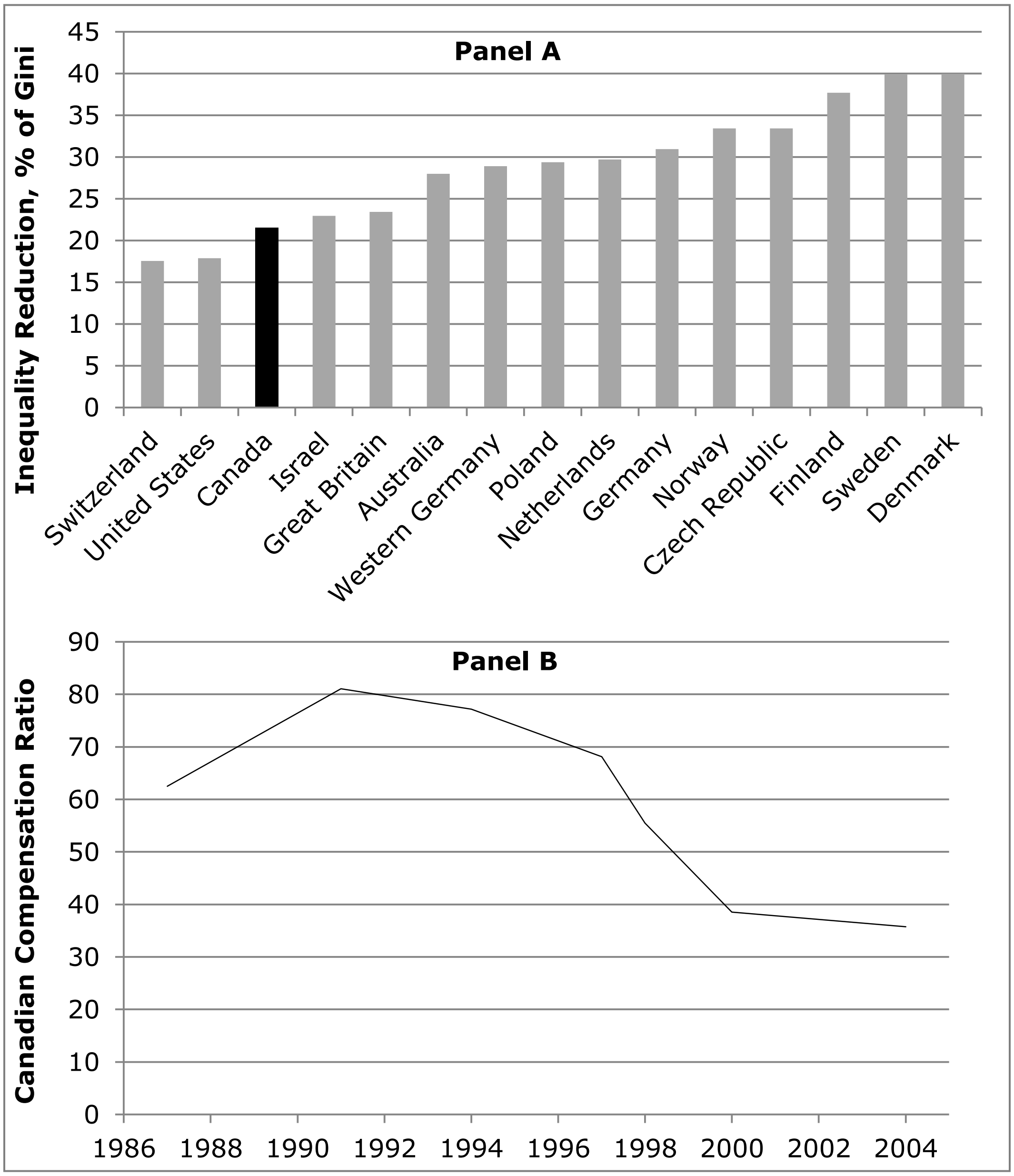
The income tax system in Canada has developed across the historical phases outlined above. Before confederation, there was a widespread aversion to paying taxes (Hick, 2007). Taxes were not used for redistribution during this period, since the government had a very small role in social welfare services. Tithing, however, can be considered a precursor to the modern income tax system, especially when the social service role of the Church is considered (Graham, Smith, & Delaney, 2003). By the welfare state period, in contrast, the populace accepted paying taxes. On the one hand, high levels of taxes had been collected to fund World War II. After the war, it was felt that revenues no longer spent on the war could then be invested in improving society and increasing the welfare of the public. On the other hand, “Canadians viewed the government in a positive way—as an efficient and positive force in society” (Hick, 2007, p. 43). Government intervention was accepted during the welfare state period (Graham, Smith, & Delaney, 2003; Hick, 2007). The era of erosion, however, was marked by tax cuts to both personal and corporate income tax. Canadian politicians followed suit of their American counterparts in cutting taxes, as this phase was characterized by increasing restructuring to Canadian policies to coincide with USA levels. In addition, regressive sales taxes were added during this period.

Transfers include the programmes through which the government transfers income directly to individuals and families. Notable Canadian examples are Canada Pension Plan (CPP), Employment Insurance (EI), and social assistance. In the earliest periods of Canada’s social welfare history, transfers were very limited. People were believed to be at fault for their poverty, and “many believed that charity or social programs encouraged idleness” (Hick, 2007, p. 28). What transfers did exist were undertaken by churches or charities, or were the purview of local government. Furthermore, transfers were only available to those deemed the deserving poor, who were unable to work. Able-bodied unemployed were not given transfers, but were instead sent to workhouses (Hick, 2007).

By the welfare state period, the government was seen as responsible for caring for its citizens. Many landmark transfer programmes were initiated during this period. The Canada Assistance Plan (CAP), established in 1966, was an agreement between the federal and provincial governments that set guidelines and cost-sharing responsibilities for welfare transfers such as social assistance. The goal of the transfers during this period was to create universal programmes that would provide a guaranteed minimum income. In the era of erosion, however, this ideology was challenged. The pendulum swung back to an emphasis on targeted programmes and subsistence level supports. The generous CAP was first capped, and then replaced by the Canada Health and Social Transfer (CHST) in 1996, which both decreased the funds transferred to the provinces, and removed restrictions that had previously forbade provinces from implementing workfare and cutting social assistance levels. The CHST "fundamentally changed the social safety net and the role of the federal government in the social policy field" (Hick, 2007, p. 49). The introduction of the CHST marked an important transition where the decisions of the Department of Finance crippled the ability of other departments, namely Human Resources Development, to create social policy (English & Young, 2006).

In Habibov and Fan's (2008) comparison of Canadian effectiveness at reducing income inequality during the era of erosion, they examined both the overall system and the contributions of individual programmes. The overall Canadian system did less to reduce income inequality in 2000 than in 1990. Osberg (2008) explains that part of the cause was a steep reduction in effective income tax rates for the top 1% and higher. To illustrate the cut in tax rates, the top 0.1% paid an average of 33% in income tax in 2000, the lowest level since before World War II (Canadian Centre for Policy Alternatives, 2012). He adds that the redistributive impact of progressive taxes was offset by regressive taxes, such as payroll and sales tax. This trend matches international results found by (OECD, 2011a) that although taxes and benefits still reduce economic inequality, they do so less than in the mid-1990s.

Figure 4 shows the redistributive effect of taxes and transfers. Panel A shows Canada among the OECD countries, ranked by the inequality reduction of taxes and transfers. While the Canadian system does redistributive income from wealthier to lower income households, Canada's system of taxes and transfers is among the least redistributive in OECD countries, as of 2004. In other words, the Canadian system does less to reduce inequality in market incomes than the majority of OECD counties. This performance marks a significant decline for Canada; Canada, along with the Nordic countries, was among the governments that provided the highest level of redistribution a decade prior. Panel B shows the decline in Canadian government redistribution since the mid-1980s, as a percentage of the increase in market inequality that is being counteracted by tax and transfer redistribution.



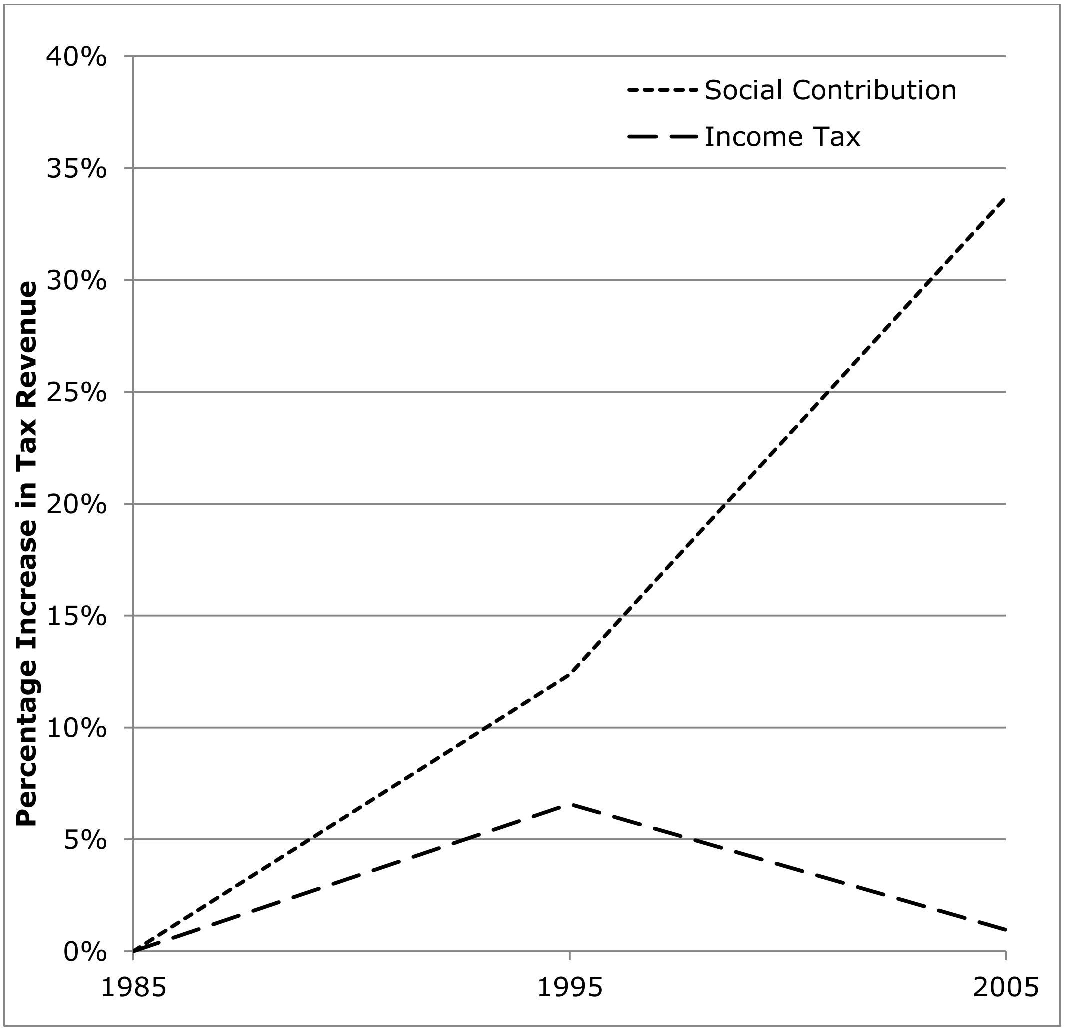
Notes: Data from OECD, 2011a
- *Inequality Reduction* is the difference between market and disposable income inequality, stated as a percentage of market income inequality (Gini)
- The *Compensation Ratio* shows the percentage of increase in market income inequality that is compensated for through taxes and transfers
- Panel A data uses most recent year available: Netherlands 1999, Australia 2003, Israel and Sweden 2005, all remaining countries 2004

Figure 4. Redistribution effect of taxes and transfers

Many Canadian transfers became less effective in reducing economic inequality; however, some programmes individually became more effective. This is consistent with international trends in which benefits have become more important, but less effective, at reducing inequality (OECD, 2011a). Old Age Security, Unemployment/Employment Insurance, and social assistance all declined in effectiveness in reducing income inequality. Employment Insurance had the largest drop in effectiveness. This drop was despite lower unemployment rates in the strong economy of 2000; hence, the decrease in effectiveness of this programme is likely underestimated (Habibov & Fan, 2008). The Canada Pension Plan increased in effectiveness (Habibov & Fan, 2008). Although, rather than being due to policy improvements, this may be due to favourable employment conditions in the 1950-60s, including the significant increase in the employment rate of women.

Family benefits, which changed during the time period to become the Canada Child Tax Benefit (CCTB), significantly increased their redistributive effectiveness. Habibov and Fan (2008) explain that the CCTB success can be attributed to the means of distribution. It is administered through the income tax system, which required substantially less overhead than the assessment, supervision, and control of social assistance recipients. In addition, this system does not create stigma and results in higher utilization. Habibov and Fan (2008) astutely observe that only programmes targeting “deserving” groups increased in effectiveness. "Hence, the change in welfare regime led to an increase in the *degree of stratification* in Canadian society" (p. 44).

Internationally, social expenditure levels have increased since the mid-1990s (OECD, 2011a). However, a declining share of this expenditure was devoted to benefits to working-age individuals and families. In some countries, including Canada, spending in health, old-age benefits, and active labour market programmes drove the increased social spending, rather than increases in benefits (OECD, 2011a). On average, the revenues acquired through personal income tax have remained constant with respect to GDP, while social security contributions such as payroll taxes now account for more revenues. Figure 5 shows the percentage increase in the share of government revenues accounted for by income taxes and social contributions. While the divergence in 2005 demonstrates a shift in the composition of tax revenues, it is important to note that social contributions still account for less than one fifth of the revenue collected through income taxes (data not shown).



Notes: Calculation based on OECD, 2011a
- *Percentage Increase in Tax Revenue* is the percentage increase in the share of government revenue by source, compared to 1985.

Figure 5. Trends in Canadian government revenue from personal income tax

Public Services

The second major area of policies to address income inequality is public services. Major public services impacting on economic inequality include education and training, early childhood supports, health care, infrastructure, and public investment in research. The provision of public services has a complex relationship with economic inequality that is not easily measured, since income and wealth are not modified directly. Many more public services than listed above have positive and substantial impacts on citizens. Housing, public transportation, goods and services, cultural programmes, recreation programmes, libraries, and so on serve important functions in maintaining a standard of living. Public services play a role in addressing poverty and economic inequality, since the benefits are proportionally greater for marginalized groups (OECD, 2011a). Moreover, public services can be targeted to low-income households through subsidies.

The provision of public services follows the same pattern as the history of transfers outlined in the previous section. It increased until the era of erosion, and is now being cut. In the face of widespread public support for public services, conservatives in the 1970s began to change the discourse to attack taxation. Through fear mongering and pandering, the conservatives managed to achieve cuts to popular public services through people's reluctance to pay taxes (Mackenzie, 2009). The most recent federal budget contains a number of cuts to public services, including environmental research and protection, social research, the CBC, and several youth and employment programmes (Raj, 2012). Commentators worry that the massive layoffs in several federal departments, including Human Resources and Social Development Canada, Environment

Canada, Government Services Canada and many others, will negatively affect service provision and programme availability (May, 2012).

Since education is the main public service cited to reduce economic inequality, its history will be considered here in more depth as an example. Education was the responsibility of the family until the mid-19th century, during which time the school system was established across Canada (Gaffield, 2012). The success of the early education system was partly the result of parents' willingness to send their children to school. This willingness was based on concern for the future financial wellbeing of the children. They valued academic knowledge and training for finding skilled employment, as society became increasingly urbanized and industrialized. In contrast, the motivation of the founders of the education system was social control. "In their minds, the purpose of mass schooling did not primarily involve the acquisition of academic knowledge. School systems were designed to solve a wide variety of problems ranging from crime to poverty, and from idleness to vagrancy" (Gaffield, 2012, 18th and Early 19th Centuries section, para. 7). Reducing poverty, and hence economic inequality, was thus a function of the education system from both the citizens and the government's perspectives. By the late 20th century, education was an integral part of the institutional network, operated and funded by the state (Gaffield, 2012).

Privatization of public services has been a growing trend in the era of erosion. Privatization can manifest in various forms. Overt privatization involves the sale of government public services to private corporations. More subtle forms of privatization include contracting-out of services and the adoption of the business model in public institutions. The least acknowledged form of privatization is "creeping privatisation," the underfunding of programmes that leads to the introduction of user fees or necessitates fundraising, volunteer support, or corporate sponsorship (Antony, et al., 2007). Privatization has increasingly taken place in Canada over the past two decades, especially in its covert and implicit forms (Antony, et al., 2007).

Antony et al. (2007) argue that privatization leads to erosion of the quality and equity of public services, concomitant with increased costs, despite proponents' claims of higher business efficiency. In addition to quality and accessibility losses, privatization challenges the notion of citizenship. "Canada has been built on the principle that there are public goods and services that are the rights of citizenship—not the privilege of income" (Antony, et al., 2007, p. 53). Moreover, as has been seen through the historical development of social welfare, privatization hampers the ability of the government to set universal standards and to administer public services. Promoters of privatization focus on short-term results, and advocate smaller government, fewer services for marginalized groups, and heightened integration with the USA (Antony, et al., 2007).

Cornia and Court (2001) assert that public services are more effective than welfare transfers in reducing economic inequality, especially in rural areas. They recommend that reforms to social programmes should focus on improving their efficiency and "preventing an excessive 'middle-class capture' of their benefits" (p. 35). Interestingly, Canada relies more heavily on public services than the average OECD country; hence, the cuts to these services have contributed significantly to the rising economic inequality in Canada (OECD, 2011b).

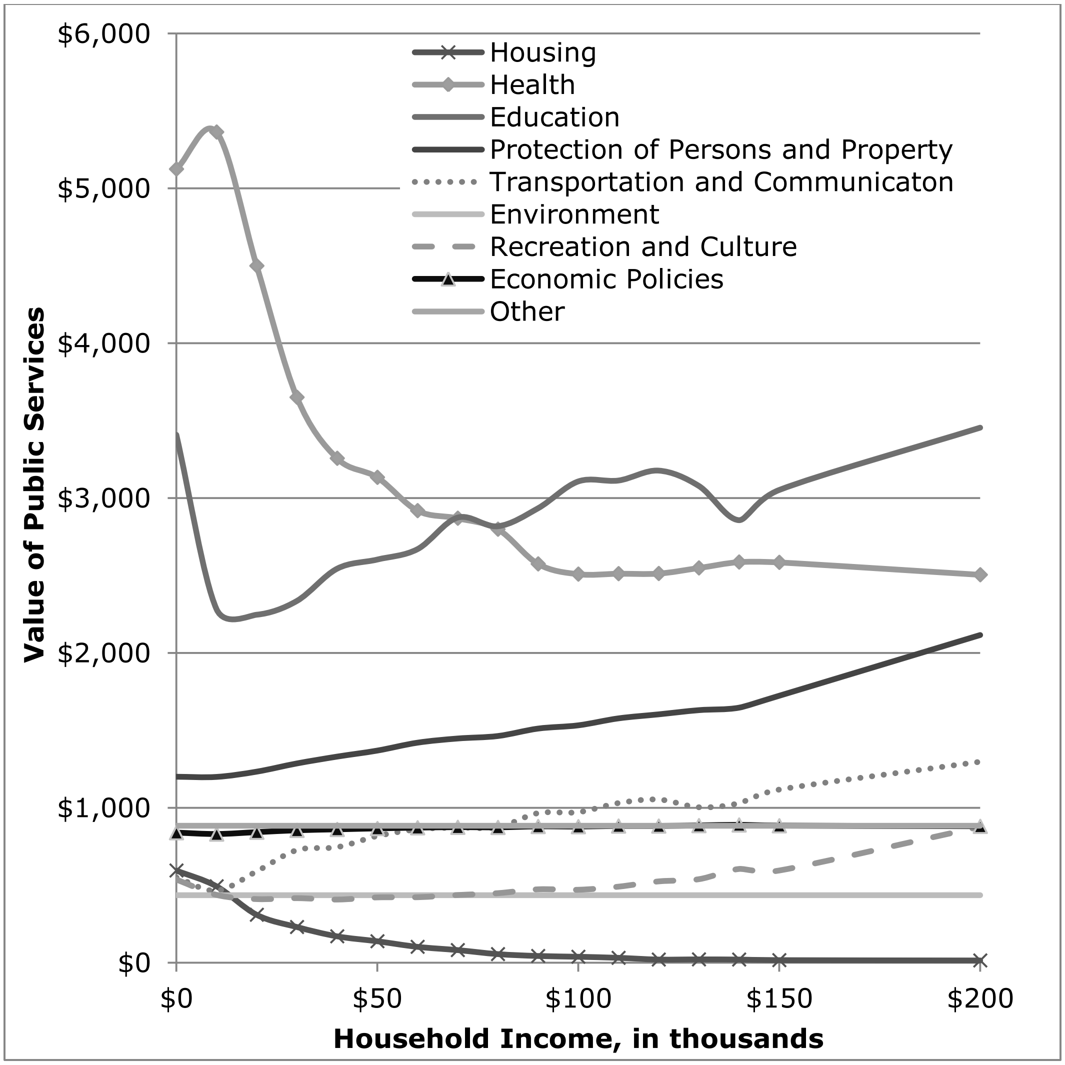
Increases in technology have been one factor in increasing economic inequality, especially for the upper half of the wage distribution (Cornia & Court, 2001; OECD, 2011a). However, increasing education can significantly mitigate this effect by providing skilled workers. "The increased share of educated workers exerted a sizable equalising effect, offsetting about two-thirds of the rise in the D9/D1 ratio due to the combined effects of institutions and technology" (OECD, 2011a, p. 123)[1]. The difference between the USA and Canada in this respect is so striking that Cornia and Court (2001) highlight it in their United Nations report about income inequality worldwide. In Canada, improvements in technology were matched by a rapid expansion in education; in the USA, the scarcity of skilled workers resulted in high wage differentials.

Mackenzie and Shillington (2009) explore the benefits of public services, and conclude that the value of public services exceeds the costs paid through

[1] The D9/D1 ratio is the ratio between the top and bottom deciles of the wage distribution

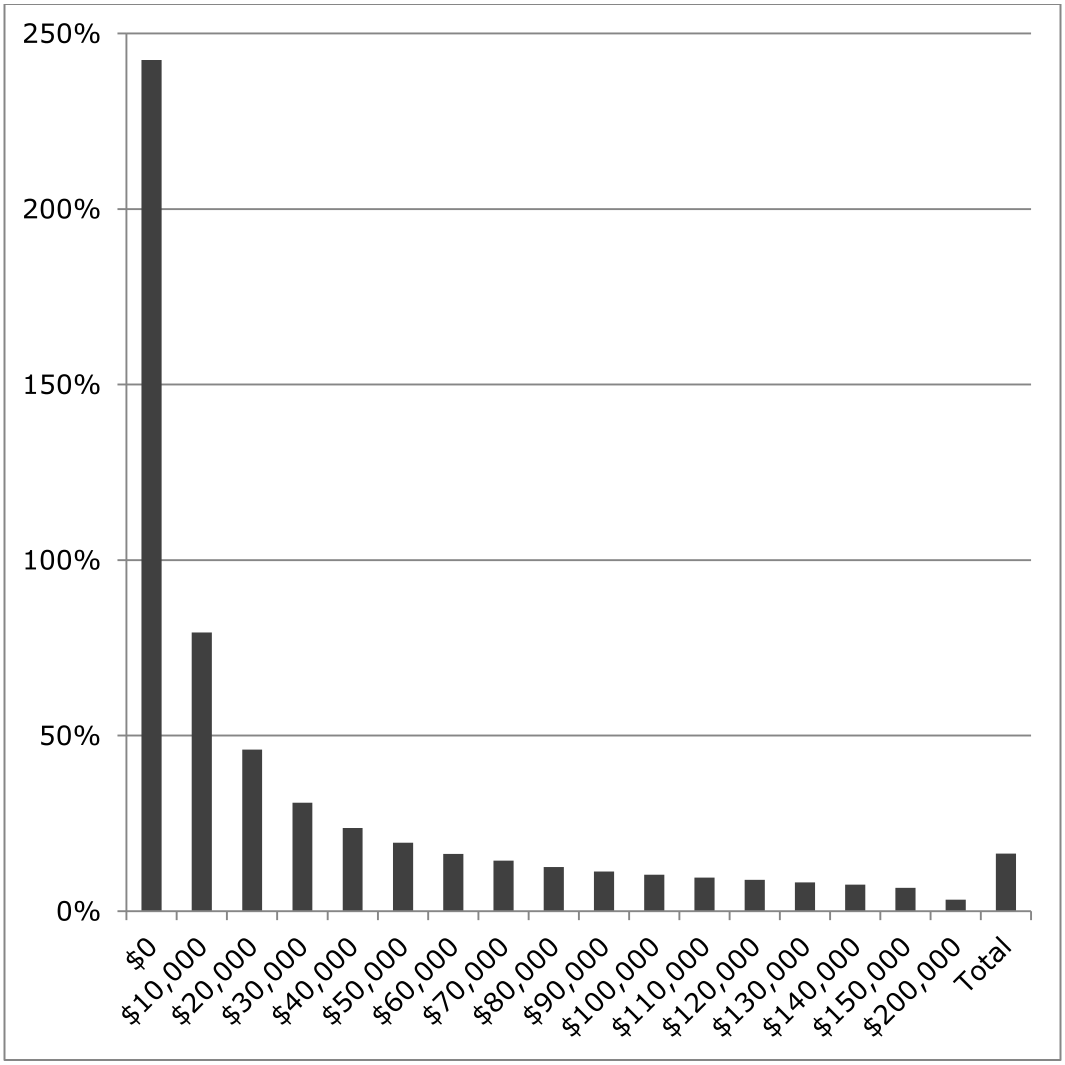
taxation. They demonstrate that “more than two-thirds of Canadians’ benefit from public services adds up to more than 50% of their household’s total earned income,” at an amount of $17,000 per year (Mackenzie & Shillington, 2009, p. 3). These authors include transfers and benefits in “public services,” which I have not. Transfers make up 21% of the public services accounted for, so removing them still results in a $13,000 value overall to each household for public services (data obtained from Mackenzie & Shillington, 2009). Moreover, Mackenzie and Shillington (2009) conclude that Canadians would have been better off if the government had invested in public services instead of cutting taxes, as has been done since the late-1990s.

Public services vary in their redistributive effect. Figure 6 shows the benefits gained from public services, as broken down by category and by household income. This figure shows that health and education provide the greatest benefit to Canadians at all income levels. Health and housing have redistributive effects, in that they benefit lower income households by a greater amount. Education, protection, transportation and communication, and recreation and culture provide greater financial benefits for higher income groups, while the remaining categories benefit all income levels equally. It is important to note, however, that these figures show actual dollar values. When the benefits are calculated as a percentage of the average income of each income range, a clear redistributive pattern emerges, as shown in Figure 7.



Notes: Calculated from data in Mackenzie & Shillington, 2009

Figure 6. Benefits of public services by household income



Notes: Calculated from data in Mackenzie & Shillington, 2009

Figure 7. Benefits of public service as a percentage of average household income

Infrastructure is a component of public services. Mackenzie (2009) lists growing income inequality as one of the trends that demands increased public investment, and refers to decades of underinvestment in Canadian public infrastructure. Bluestone and Harrison (2000) are also distressed by decreased government spending in these areas (see also OECD, 2011a). Infrastructure of interest includes transportation, communications, and environmental technology. Bluestone and Harrison (2000) use the Internet as an example of progress that would not have been possible without initial government investment, demonstrating the significant social and technological advancement that is possible through government investment. Research and development (R&D) are a component of infrastructure that is essentially being privatized. Over the past two decades, public investment in R&D has decreased, while private investment has increased (OECD, 2011a).

Labour Market Institutions

Labour market institutions are the third area of policy interventions. "Policies aimed at strengthening well-functioning labour market institutions and having an explicit goal of increasing employment will contribute to lower inequality" (Hoeven, 2010, p. 76). Labour market institutions include minimum wage regulation, unions, and employment policies. Neoliberal modifications to labour market institutions have negatively affected economic inequality, and these institutions are not fulfilling their potential to enhance equity in labour markets (Cornia & Court, 2001, p. 3).

Recent trends have intensified the necessity to consider labour market institutions alongside standard social policy such as transfer programmes and social services. In analyzing Esping-Andersen's typology of welfare regimes, Powell and Barrientos (2004) highlight the importance of active labour market policies in welfare provision. Links are growing between the labour market and social welfare. “[Active labour market policies] have become one of the most utilised policy options in welfare states” (Powell & Barrientos, 2004, p. 87). The integration of labour market policies into welfare provision is further evinced by the fact that including these policies results in more clearly distinguishable welfare regimes (Powell & Barrientos, 2004). The active labour market policies considered by Powell and Barrientos (2004) include “administration of programmes, training, youth programmes, subsidies to private sector jobs, job creation in the public sector and expenditure on disabled people,” (p. 97).

In many respects, several transfer programmes have noteworthy effects on the labour market. The duration and generosity of EI affects the unemployed labour pool. The generosity of government benefits such as parental leave and disability leave distributed through the EI system and health care affect the benefits that employers must offer to attract staff. Programmes such as social assistance also affect the labour market, in particular with the rise of workfare since the 1990s. Offering minimal levels of support through social assistance with mandatory employment or job search and training activities increases the supply of low-wage labour. More generous transfers have been shown to lead to lower employment rates (OECD, 2011a), as will be discussed in further detail in Chapter 5. Despite this overlap between areas, transfer programmes have been included in the "Income Taxes and Transfers" area, and will not be analyzed in depth again in this section.

Labour market interventions have taken many forms throughout the social welfare history of Canada. In the colonial and pre-colonial periods, the government supported businesses through the poor laws. Able-bodied unemployed people were sent to workhouses to work in exchange for assistance. While this may not appear to be labour policies at first glance, the workhouses were privately run for profit. This type of legislation "took the point of view of the employer in search of cheap labour, and not necessarily the point of view of the welfare of the individual" (Hick, 2007, p. 29). This element of labour market interventions is returning in the current period, as incentives to work again dominate social assistance delivery. The next major development in labour market institutions came in the industrialization phase. Worker's Compensation was instituted, and marked the first social insurance programme in Canada (Hick, 2007). Again, this legislation was favourable to employers in that it forbade employees from suing employers when injured on the job.

Unions were increasing in power during this period, and union pressure stimulated other legislation such as the Old Age Pension Act (Hick, 2007). Minimum wage was also implemented during this period, with the first provinces implementing minimum wage laws in 1918 and the last in 1960 (CBC News, 2009). Early minimum wage laws covered only women, as men were thought to be better represented by unions. Different rates for women and men, and for urban are rural areas, persisted until the 1970s. Minimum wage does not keep pace with inflation, and so loses value over time. Moreover, the minimum wage is generally insufficient to raise workers out of poverty (CBC News, 2009). However, all provinces have significantly raised minimum wage since 2005 to correct for its erosion and stagnation over the previous decade (Human Resources and Skills Development Canada, 2012).

Minimum wage plays an important role in reducing both poverty and economic inequality, and is supported by many authors (Bluestone & Harrison, 2000; Champernowne & Cowell, 1998; Cornia & Court, 2001; Hoeven, 2010; Piore, 1999). The OECD report asserts that "the effect of the minimum wage is strong and significant" (2011a, p. 120). Champernowne and Cowell (1998) debunk the arguments against minimum wage, which include the claim that increased minimum wage would lead to increased unemployment. They offer several justifications for minimum wage regulation. Employers are in a "quasi-monopsonistic" position in the labour market (Champernowne & Cowell, 1998, p. 306); competition among employers to pay higher wages is insufficient to guarantee fair pay. Economic efficiency is improved through setting minimum wage rates. Minimum wage supports low-income workers, and controls employer profits and inefficiency by ensuring that all employers pay comparably for equivalent labour without taking advantage of workers.

The last three decades have seen worldwide decline in labour market institutions (OECD, 2011a). This includes notable declines in product market regulation, tax wedges on earnings, unemployment benefit replacement rates, minimum wage rates, employment protection legislation for temporary workers, and union coverage. These decreases are correlated with increasing wage dispersion, based on full-time earnings (OECD, 2011a). Adding part-time, self-employed, and unemployed individuals increases the earnings inequality significantly (OECD, 2011a), and hence may enhance the relationship between economic inequality and labour market institutions. These effects are pertinent to Canada, and a prime area for policy reform, since Canada has among the lowest employment standards of the OECD countries (OECD, 2011a, p. 128). The trends and conclusions about minimum wage, however, may not apply to Canada. Since there is no federal minimum wage, Canada was not included in the OECD analysis of minimum wage.

The decrease in the power of unions has hampered their ability to reduce income inequality through centralized bargaining (Freeman, 1999; Hoeven, 2010). Fortin et al. (2012) cite studies that “attribute about 15 percent of Canada’s growth in inequality during the 1980s and ‘90s to declining unionization” (p. 133). Unions improve worker conditions including wages, benefits, and pensions. In addition to the positive effect on economic inequality, centralized wage-setting has positive economic effects by lowering inflation and improving industrial relations (Cornia & Court, 2001, p. 34). Large corporations in these industries are much more mobile than the factories of the past. In highly publicized media cases, Walmart and Starbucks closed stores where the employees were trying to unionize. The sanctions or fines for this sort of behaviour are considered a small price to pay to avoid having a union (Bluestone & Harrison, 2000).

Labour legislation is effective in reducing economic inequality (Fortin et al., 2012; Freeman, 1999; OECD, 2011a). "Employment protection regulations are intended to encourage longer term employment relationships, thus preventing repeated exposure to unemployment and fostering employer investment in skills" (Powell & Barrientos, 2004, p. 92). In contrast, current trends indicate that these goals are not being pursued in Canada. Instead, precarious work serves the purpose of a low-cost and flexible labour pool. A steep growth in non-standard employment has occurred over the past decade (Canadian Auto Workers, 2011). This includes temporary positions, contact work, and part-time work. The disadvantages of these types of employment are that job security is low, wages tend to be low, and few benefits or pension are provided by employers. In many cases, the Employment Standards Act does not apply, and these employees lack even the basic protections of statutory holidays, vacation, and overtime pay.

Capital Market Interventions

Capital market interventions are the fourth, and final, area of policy that will be considered for its impact on economic inequality. The relevance of the capital market has been underlined by the 2008 market crash. Reductions in the regulations of the financial market and the liberalization of financial flows have led to record profits in financial and corporate sectors while the rest of the economy experiences what is being called "The Great Recession." The Occupy movement refers to this polarization with their 99% versus 1% slogan. The Occupy London movement states it succinctly:

> Financial institutions have increased in size to dominate our economy but have not become socially accountable in line with their increased power. Since 2008 hundreds of thousands of people have lost their jobs and millions have experienced pain and hardship because of reckless financial practices. The debts incurred have been loaded onto almost every person in this country while a wealthy elite further enrich themselves. (Occupy London, 2011b, para. 4)

The recent financial crash has been a culmination of forces that have been in play throughout the history of capitalism. The colonial period and prior was shaped by the rise of capitalism. The transition from feudalism to capitalism brought economic insecurity that had not existed previously. Wage-labour was unstable, unlike agrarian feudal life. Since feudal lords were no longer responsible for the wellbeing of their workers, the government gradually had to take responsibility for a growing population of beggars and vagabonds (Hick, 2007). Capital market interventions did not exist in the early periods, until after the Great Depression and the work of Keynes.

Keynesian economics are a major factor in the history of capital market interventions in Canada. Keynes wrote during the Great Depression, in the industrialization period. His revolutionary thinking went on to shape the welfare state period. Keynesianism advocates governmental intervention in the markets through fiscal policy (Hick, 2007). The tenets of Keynesianism are to focus policies on a goal of full employment, to reflate the economy during a recession, and to deflate the economy during a boom. Through management of expenditure, taxation, interest rates, and the money supply, the government is able to encourage spending or saving, which impacts supply and demand. Government deficit is considered acceptable in order to allow the government to stimulate the economy during recessions.

In the era of erosion, Keynesianism lost favour due to spiraling inflation and unemployment; monetarism took its place. Monetary policy focusses exclusively on controlling the interest rate and inflation, abandoning fiscal policies. “Governments at all levels have abandoned the notion of increasing spending during recessions in order to stimulate the economy” (Hick, 2007, p. 67). Furthermore, capital markets are being increasingly shaped by globalization and the integration of financial markets. Trade agreements such as the North American Free Trade Agreement limited the government’s ability to mitigate market forces. “The focus of the era has been on free trade and expanding market forces, and on retrenchment of public spending and programs” (Hick, 2007, p. 47).

Globalization has influenced capital markets internationally. The liberalization of financial flows has increased income inequality through soaring wages in the financial sector and multiple financial crises (Cornia & Court, 2001). “In many countries, the rush to implement ill-designed privatization and premature liberalization of financial markets in the presence of weak regulatory capacity has contributed to rising income and asset inequality” (Cornia & Court, 2001, p. 30). On the other hand, the OECD (2011a) finds that “increasing trade exposure and financial openness have no significant impact on rising wage inequality in OECD countries” (p. 110). This lack of correlation, however, hides a more complex relationship. While overall trade exposure does not impact income inequality, the direction of financial flows changes the results. Inward investment reduces wage dispersion primarily in the lower half of the wage distribution, while outward investment increases income inequality in the upper half. Furthermore, the discrepancy between UN data (by Cornia and Court) and OECD data may reflect different patterns in the growth of economic inequality between industrialized and developing nations.

CHAPTER 5: POLICY RECCOMENDATIONS

The previous chapter outlined the main policy options that are commonly utilized to address economic inequality. The changes over time were explored, uncovering a trend of decreasing redistribution. The current chapter extends the discussion to recommendations to address economic inequality moving forward. Many of the suggestions logically follow the conclusion that programmes and policies have become less efficient at reducing economic inequality, advocating a restrengthening of these policies. Adopting or strengthening these policies would be to resist or rectify the neoliberal disassembling of the welfare state. Income tax is the major policy to which this applies.

As Frenette, Green, and Milligan (2009) show, a simple return to policies of the past would be ineffective at countering growing economic inequality. Economic inequality is increasing as a result of market changes, as well as policy changes. Therefore, while some suggestions are to correct changes to policies that reduced their effectiveness in countering economic inequality, other suggestions are to expand policies in areas that have been found to be inversely proportional with economic inequality. Education is the prime example of this type of policy.

Additional policies suggested in this chapter are those that have not previously been implemented. These policies represent a significant modification in comparison to past and existing policies. These policies would face the strongest opposition, as they represent an ideological shift further into social democracy. These policies include the maximum wage and the Robin Hood Tax. To significantly lower economic inequality, a comprehensive strategy of policies would be necessary. A sole policy would be unable to adequately affect a complex issue that permeates our economy. The constraints on the government implementation of any of these policies will be explored in the conclusion chapter.

Income Taxes and Transfers

Many analysts agree that neoliberal tax restructuring should be counteracted. Cornia and Court (2001) encourage governments to reconsider their taxation strategies, in light of the both equity and revenue requirements. The OECD (2011b) states it strongly:

> The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden. (p. 2)

Bluestone and Harrison (2000) emphasizes that the government would have sufficient revenue to support many of the proposed programmes if tax rates were returned to previous levels, and large tax cuts were repealed. The OECD (2011a) report demonstrates that failure to adjust tax thresholds to the wage distribution have resulted in a flatter tax structure with lower redistributive potential. Hence, tax thresholds in Canada should be readjusted to keep pace with wage growth. Hartmann (1999) suggests that corporate tax should be increased, since their proportion of the tax revenue has fallen compared to personal income tax.

In a new development in Canada, the New Democratic Party (NDP) has brought increased taxation on the very wealthy into the public debate (Fortin et al., 2012). In Ontario, Premier Dalton McGuinty agreed to a new income tax bracket, where individuals earning over $500,000 would be taxed at 49.5%. The Liberals accepted this new tax as a deal with the NDP who agreed not to vote again the Liberal budget, avoiding an election. McGuinty says that the estimated $440 to $570 million will be dedicated to reducing the $15.3 billion Ontario deficit, but commentators question how effective this will be (Gollom, 2012). This new tax comes in the context of recent international interest in taxing the super-rich, perhaps fuelled by social action pressures such as the Occupy movement. In comparison to the oft mentioned top 1%, this new tax bracket will affect the top 0.2% of Ontario tax filers (Gollom, 2012).

In addition to income taxes, wealth taxes are a possibility to raise government revenue. Tobin (1999) and Cornia and Court (2001) support a progressive wealth tax in addition to progressive income tax. This would both decrease economic inequality and increase government revenue, since wealth inequality is more pronounced than income inequality. Wealth taxes are a primary mechanism in decreasing economic inequality discussed by Rowlingson and Connor (2011). They support high rates of inheritance tax, since inheritance is a form of wealth that is not deserved in terms of distributive justice. However, they acknowledge that inheritance tax is very unpopular and is becoming less common. They suggest higher taxes on the assets of the wealthy, such as capital gains tax or higher property tax for high-value properties. They suspect that these forms of taxation are not common "due to the power of the wealthy to resist such reforms" (Rowlingson & Connor, 2011, p. 47), but highlight that there is public support for increased taxation of the rich. Additional taxes that target the wealthy are recommended to strengthen the redistributive effect of the tax and transfer system, since the current system is more effective at redistribution in the bottom half of the income distribution than in the top half (OECD, 2011a). The OECD report (2011a) recognizes the possibility of wealth and inheritance taxes; while vaguely supporting such measures, they do not address them in detail, but highlight the controversy attached.

Tax evasion and avoidance are significant factors to be considered when designing tax policy. They are currently considered significant, and are suspected to have grown with globalization (OECD, 2011a). Tax avoidance is of particular importance for high-income earners, who have the resources to hire tax planning professionals and the flexibility to move their money between sources, investments, trusts, and the like. This shifting of finances is advantageous when different sources of income are taxed at sizably different rates. Since 1986 in the United States, a reduction in personal tax rates that brought them below corporate tax rates has resulted in corporate income being claimed as personal income in "pass-through" arrangements (OECD, 2011a). Through both lowered tax rates and increased tax avoidance, the wealthy are likely able to keep more of their wealth; thus doubling impacting economic inequality. Increased legislation and surveillance should also be used to address tax avoidance and evasion, as well as addressing the moral climate that holds tax fraud as socially acceptable (OECD, 2011a). Unfortunately, the recent federal budget in Canada is hampering the ability of the Canada Revenue Agency to address tax evasion by cutting auditors in the criminal investigations department (May, 2012).

To address potential increases in tax avoidance that would result from a higher marginal tax rate, the OECD report (2011a) suggests alternate strategies to increase the effective tax rate on the highest income earners. In addition to closing loopholes and restricting tax credits that benefit high income recipients, the OECD report suggests that different forms of income should be taxed at similar rates. This includes the variation between corporate and personal income tax as well as distinctions between capital gains, investments, and employment income. This would avoid distorting the labour supply and would limit opportunities for aggressive tax planning (OECD, 2011a). "Differences in tax rates on different types of income (e.g. interest compared with capital gains) are at the heart of many income-shifting tax planning and more aggressive avoidance opportunities" (OECD, 2011a, p. 367).

Freeman (1999) envisages income tax and transfers as a social wage. Rather than individual programmes for different purposes, the income tax system should be restructured to provide each individual a guaranteed income. For those with low incomes, this would supplement market wages through a negative income tax. Freeman's system would include a workfare element to discourage the "poverty trap" (p. 21). Nevertheless, it would be a universal system that would be steeply progressively taxed. In addition, the calculation of the social wage would include the value of the public provision of goods and services (Champernowne & Cowell, 1998; Freeman, 1999). Heckman (1999) supports Freeman's proposal: "Job subsidies offer an attractive alternative to welfare: they promote employment, integrate the unskilled into the economy, and provide them, their communities, and their children with the dignity and social benefit of work" (p. 64). The debate between the workfare and the universal aspects of this proposal will be discussed in the next chapter.

Freeman (1999) also proposes a unique plan for each child born to be given a trust fund. The principal would remain intact, but the interest income would serve to replace the piecemeal transfer programmes currently in place. Upon the individual's death, the principal would be transferred to a new baby. The programme would be universal, but steeply progressively taxed.

In a Canadian context, a guaranteed annual income has been proposed at least twice, in major government reports. These include the Marsh Report of 1943 and the Senate Committee *Poverty in Canada* report of 1971 (Graham, Smith, & Delaney, 2003). Despite this support as a component of a comprehensive social welfare strategy, the guaranteed annual income has yet to be adopted federally or provincially in Canada.

Transfer programmes that have lost effectiveness over time should be reconstituted to recover their ability to redistribute income. Transfers are an important mechanism to reduce economic inequality aside from taxation, since many low-income Canadians already pay no income tax (Fortin et al., 2012). As discussed above, this includes Old Age Security (OAS), Employment Insurance (EI), and social assistance. The leading factor in the decrease of EI was that far fewer unemployed workers qualified to receive benefits after it was restructured. Eligibility restrictions should be relaxed such that part-time and temporary workers are again covered by EI. EI and other contribution-based transfer programmes such as CPP could be enhanced to acquire increased government revenue and lower economic inequality, if caps to contributions were removed (Rowlingson & Connor, 2011). The existence of these caps add a regressive element to these contribution-based programmes (OECD, 2011a), since those with very high incomes effectively pay a much lower percentage of their income than middle- and low-income workers. Therefore, contribution caps should be removed to ensure the progressivity of these programmes.

The OECD report highlights that even when policies remain constant, "fiscal drag" effects can reduce the redistributive effect of transfers (OECD, 2011a). This is particularly relevant to benefits such as social assistance, since "failure to adjust benefit levels as earnings increase can cause low-income families, who rely on government benefits for much of their income, to drop further down in the income distribution" (OECD, 2011a, p. 288). Therefore, transfers, like taxes, need to be adjusted to keep pace with market earnings growth.

Some programmes, such as Canada Pension Plan and the Canada Child Tax Benefit, increased in their redistributive effect. Modifications to these successful programmes could improve the overall redistribution of the system. The effectiveness of the CCTB could be increased if it were not limited to working families, or if it were extended to low-income families without children. A further limitation that the CCTB shared with the rest of the programmes is that it was not indexed to inflation, so may lose effectiveness over time. Habibov and Fan's (2008) main recommendation is to index such programmes to inflation. This shortcoming for the CCTB was addressed in 2005 when it was indexed to inflation (English & Young, 2006).

Although income taxes and transfers are the primary method of reducing economic inequality, they are not sufficient. “Redistribution strategies based on government transfers and taxes alone would be neither effective nor financially sustainable” (OECD, 2011a, p. 40). Champernowne and Cowell (1998) argue in support of an integrated plan. Individual taxes and transfers separately targeted at different groups can have detrimental interactions, and result in barriers to transitioning from programme to employment. To guarantee the effectiveness in redistribution, the system to address economic inequality should be designed as an integrated whole (p. 298).

Public Services

Education and training are the most popular public services recommended for reducing economic inequality. Increasing educational attainment upholds equality of opportunity. In general, countries with higher average educational attainment have lower income inequality (Cornia & Court, 2001). The OECD report concludes that investing in human capital is critical, and recommends continued access to education and training throughout life. “Policies focusing on education can be a successful tool as the increase of average years of schooling more than balanced out the increase in wage inequality brought by technological change in OECD countries” (OECD, 2011a).

Education should be improved through increased government spending at primary, secondary, and post-secondary levels, in order to improve both the quality and accessibility of education. In Canada, increasing high school graduation rates would reduce economic inequality, since a significant wage differential exists between those who have graduated high school and those who have not (Fortin et al., 2012). Furthermore, many argue that it should be made easier for students to attend post-secondary education (Bluestone & Harrison, 2000). I would go further by recommending that post-secondary should be universally available, as it is in the Scandinavian social democratic countries. Through personal experience, it is clear that a post-secondary education is necessary to find gainful employment. In many professional fields, a Bachelor's degree is insufficient, and increasing numbers of students, like myself, are returning for Master's and doctorate degrees.

Champernowne and Cowell (1998) highlight an additional role that education can play. Income inequality is amplified through a lack of understanding and knowledge about finances and the markets in all but the wealthy. Education could include instruction in these areas to assist people to make better use of their money.

In addition to standard childhood education, training is essential to attain and maintain gainful employment. Cortes (1999) criticizes welfare training programmes for providing only short-term training of limited usefulness, and asserts that long-term government training is effective in assisting the participants to escape poverty. Furthermore, employers should be encouraged to provide on-the-job training and skill development through subsidies and incentives (Bluestone & Harrison, 2000; OECD, 2011b).

Early childhood supports dovetail with education and training. These include prenatal health and support, parental leave, childhood health, and child care. Bluestone and Harrison (2000) propose that one or two years of preschool education be provided, to address the disadvantages that children in poverty already face when they reach elementary school. Universal child care or child care subsidies are similar proposals. Freeman (1999) recommends substantial increases in government resources spent on children, based on the dramatic benefit of effectiveness of early intervention. “Limited and unequal access to childcare services perpetuates social inequalities, whereas investment in early education can protect children from further social disadvantage and contribute to more equality” (OECD, 2011a, p. 313). Thus, Canada should reconsider the child care programme that was nearly passed by the Liberals, but cancelled when the Conservatives under Steven Harper were elected (Westhues, 2006). Investment in early childhood complements a life course perspective. The life course perspective encourages early intervention, and considers the compounding effects of economic inequality and disadvantage over the life course (McDaniel & Bernard, 2011).

Following from the benefits possible through infrastructure highlighted in the previous chapter, Bluestone and Harrison (2000) advocate increased government research and development spending and infrastructure investment. Development and expansion of infrastructure can improve the standard of living of all citizens. Furthermore, Bluestone and Harrison are strongly in favour of public investment in research and innovation. Corporations cannot be relied upon to adequately invest in R&D without a strong economy, but a strong economy is not possible without scientific and technological advancement.

Freeman (1999) and Cornia and Court (2001) target their infrastructure differently, which is understandable based on the different social conditions in the USA and developing countries. Freeman (1999) targets infrastructure to inner cities where ghettoization and social exclusion of those living in poverty are prevalent. He also discourages infrastructure expansion that facilitates industries to move out of city cores. Cornia and Court (2001), in contrast, encourage infrastructure expansion in rural areas. In developing countries, rural-urban economic inequality is prevalent. In these cases, infrastructure might include more basic items, such as sanitation and clean water. Moreover, investment in education and infrastructure is more effective in reducing rural-urban economic inequality than welfare transfers (Cornia & Court, 2001).

Privatization of previously public services threatens their redistributive potential. Furthermore, privatization "transfer[s] wealth from the state/nation as a whole to particular individuals within the country" (Rowlingson & Connor, 2011, p. 445). Champernowne and Cowell (1998) encourage a reduction in privatization of public goods and services, and stronger regulation where privatization has been completed. Public control of resources enables the government to protect the market, and ration distribution as necessary.

Additional public services can be used to reduce inequality and improve the quality of life of low-income individuals (OECD, 2011a). These include health care, social housing, long-term elderly care services, public transportation, and public utilities. Health care is an important mechanism for redistribution because of its high imputed value, and because of the high proportion of spending that serves the elderly. Social housing plays an important beneficial role for those who can access the services, but its overall redistributive effect is small as a result of low amounts of spending. Although care for the elderly varies greatly across countries, spending tends to be higher on the bottom of the income distribution. Due to the high cost per person, it has the potential to decrease economic inequality when public spending is high. Public transportation and utilities benefit individuals in poverty disproportionately, lowering relative poverty rates and economic inequality. Public or subsidized utilities may be an increasingly important policy approach. Aside from the redistributive potential, climate change and rising energy costs are upcoming policy issues. Overall, public services considered—health care, education, early childhood education and care, social housing, long-term elderly care services, public transportation, and public utilities—decreased income inequality by between one-fifth and one-third, serving an important redistributive role (OECD, 2011a).

Labour Market Institutions

Labour market institutions, as argued in Chapter 4, are integral to reducing economic inequality by reducing inequality in pre-tax employment income. They are vital especially in light of the decreasing effectiveness of the tax and transfer system. "While taxes and transfers can work to reduce inequality, the political will to address persistent increases in earnings inequality through these policy tools alone may not exist. The real solution must have to do with addressing earnings inequality directly" (Fortin et al., 2012, p. 124). The minimum wage is a primary mechanism for bringing up the wage floor to limit wage inequality at low-wage levels, and countries with minimum wages closer to the average wage tend to have lower earnings inequality (Fortin et al, 2012). Minimum wage rates should be raised so that they provide an adequate standard of living. To maintain the benefits of minimum wage, it must be indexed to inflation (Bluestone & Harrison, 2000).

Unions are an important force in reducing economic inequality. While most labour market institutions such as minimum wage and employment insurance affect economic inequality primarily in the lower half of the wage distribution, unions are more important in the upper half (OECD, 2011a). Reforms in the legislation are necessary to facilitate union formation, since the current legislation allows loop holes for employers to excessively delay the union formation process (Bluestone & Harrison, 2000; Fortin et al, 2012; Freeman, 1999). Unions also need to adapt to new conditions to become more attractive for professionals (Bluestone & Harrison, 2000). I would argue that more active support is needed to enable unionization of service workers. Employees in food, retail, janitorial and other services rarely work in close enough proximity in enough numbers to organize a union. Some form of worker involvement in employer decisions should be mandatory.

As outlined in the previous chapter, precarious employment has a number of disadvantages, including contributing to higher economic inequality. Cornia and Court (2001) outline the benefits of stable employment to the economy. "Subjecting workers to precarious contracts does not help improve the dynamic function of the labour market. Longer term contracts and established and well-negotiated roles for employment protection can provide a better climate for improvements in productivity" (p. 34). Governments can reduce the detrimental effects of precarious employment by both employing policies that create stable jobs, and by strengthening regulation for temporary and part-time work.

Growing employment counteracts economic inequality (Hoeven, 2010; OECD, 2011a). Policies that create jobs and encourage higher employment levels are recommended. Key challenges are to maintain employment in the industrial sector (Hoeven, 2010) and to facilitate employment for marginalized groups

(OECD, 2011a). These policies should complement education and training to ensure that the skills provided and the jobs created are compatible.

A complex relationship exists between labour market institutions and employment. Although a decline in labour market institutions increases economic inequality, it also increases employment (OECD, 2011a). Increased employment, in turn, decreases economic inequality. The current rise in economic inequality is influenced by both wage inequality and the employment rate (OECD, 2011a). A challenge then is for governments to design policies that ensure strong labour market institutions while maintaining high employment. Ideology and distributive justice principles must be considered, since there are trade-offs to focussing on either employment protections or employment levels. The "any job is a good job" mentality prevalent in current policymaking denies the detrimental effects of precarious and low-paid work, and further commodifies citizens. Once again, improving education policy is paramount, since it is the only factor found by the OECD (2011a) to both decrease economic inequality and increase employment.

To offset the risk that increasing employment standards will tempt employers to move to other countries, fair trade and global labour rights and standards should be developed (Bluestone & Harrison, 2000). Moral and economic justifications exist to improve the working conditions in developing countries. Imports can also be controlled through exchange-rate mechanisms

(Champernowne & Cowell, 1998). Canada should impose far stricter regulations on multi-national corporations that do business in Canada, but produce their goods elsewhere. Corporations with business in Canada should need to respect Canadian tax requirements, environmental standards, and basic employment rights. Human rights such as the prohibition against child labour should be upheld, and minimum wage and benefits should be tied to the economic conditions in the country of production.

Maximum wage. I propose that an integral component of any strategy to reduce economic inequality must be to reduce excessively high salaries before they are awarded, rather than only passively through redistributive taxation. Even Freeman (1999) recognizes that most people would "prefer generating equality 'naturally', from more equal labour-market endowments, to generating it 'unnaturally' by correcting market outcomes through taxes and transfers" (p. 19). Supporting distributive justice at the income stage avoids the pervasive problems of tax evasion and avoidance (Rowlingson & Connor, 2011). Moreover, policies to address economic inequality simply by raising low incomes will not be able to keep pace if the upward spiralling of corporate executive salaries is not capped. Just as minimum wage legislation is necessary to ensure that an unregulated market does not undervalue some workers, maximum wage legislation would ensure that some workers are not overvalued (Ramsay, 2005).

A maximum pay ratio is one mechanism to regulate high pay. Despite attention in the media and by certain governments, maximum pay ratios are largely absent from academic literature. When mentioned, they were only peripherally tied to reducing economic inequality. Ramsay (2005) and Rowlingson and Connor (2011) are exceptions in the academic literature. They recognize that action to address economic inequality has been concentrated on the poor. Despite the rhetoric of deservingness, responsibility, and motivation that permeates discussions of policy, poverty, and economic inequality, these same concepts are rarely applied to the rich. It should follow logically that if some people are deserving poor, than others would be undeserving rich (Ramsay, 2005; Rowlingson & Connor, 2011). Writers like Freeman (1999) ought to be as concerned with the disincentive effects of wealth accumulation as they are with the disincentive potential of government transfers.

The prime justification for not regulating high salaries is that they are earned, and necessary to maintain competition and economic efficiency. This relates to the desert-based principle in distributive justice, in that the high incomes of executives and the like are considered earned through hard work, skill, and contribution. Elaurant (2008) examines these arguments in detail, and demonstrates that the evidence does not support these claims. Not only are there many factors influencing a company's success, but executive pay is not even proportional to performance (Ramsay, 2005; Rowlingson & Connor, 2011). As

Rowlingson and Connor (2011) point out, the vast increases in top salaries compared to the past is not because current executives are harder working than their predecessors. "The difference is due to the very different economic and political climate within which they now work as a result of economic liberalisation and deregulation" (Rowlingson & Connor, 2011, p. 442). One of the systemic factors related to high executive pay is that the pay is not determined by the market, as some argue, but by a small group of individuals who serve on remuneration committees. This indicates that "reciprocity rather than a real assessment of contribution or performance plays the major role in setting pay" (Rowlingson & Connor, 2011, p. 448). In addition to setting a maximum wage, this remuneration structure should be reformed and made more transparent.

Maximum wages are proposed as ratios, rather than as an absolute amount. The Hutton Review of Fair Pay (2010) outlines several possibilities for this ratio. Suggestions include linking a maximum wage to the minimum wage, to the lowest paid employee of a company, to the median employee, or to the mean of employee salaries in a company. The Hutton Review suggests a 20:1 ratio, while Ramsay (2005) supports a 10:1 ratio to minimum wage. A disadvantage of the minimum wage ratio is that it allows for no flexibility between industries, and is not responsive to organizational or regional diversity (Hutton Review, 2010). An advantage is that it limits the economic inequality between professional and service workers that concerned Reich (1999).

Progress has been made in both the USA and the UK toward a maximum wage. In the UK, the Hutton Review has been retained to make recommendations to the government about fair pay. Although the details of the ratio are still to be finalized, they will be recommending a maximum pay ratio for all public companies. If accepted, it would be a significant step toward regulating the ratio for all corporations. In the USA, legislation now requires public corporations to publish the ratio between the CEO and median employee (Hutton Review, 2010). Although this new requirement does not limit the ratio, having the information publically available will help to put pressure on companies to control their ratios and on the government to regulate the ratios.

Capital Market Interventions

Capital market interventions, the fourth policy category, are required to produce macroeconomic stability and reduce economic inequality. Citizens and workers should have increased ownership and control of public goods and assets (Champernowne & Cowell, 1998; Freeman, 1999). Freeman (1999) supports worker-controlled pensions and mandatory stock options for workers.

Osberg (2008) discusses the effects that the monetarist policies of the early era of erosion have had on economic inequality. In a stringent attempt to control inflation, interest rates in the early 1980s were set by the Bank of Canada—as well as in other countries—at historically high levels. He argues that delayed impacts of this were both increased economic inequality and also an increase in government debt through high interest payments on past debt. High interest rates lead to increasing economic inequality because those with more wealth are able to invest at a high rate of return, while those with debts lose more to interest payments. He recommends that the Bank of Canada use a more balanced approach in setting interest and inflation rates, as they did in the past. Perhaps the very low interest rates that have been in place since Osberg's article will contribute to mitigating rising economic inequality in the years to come.

The Occupy London movement, in addition to enumerating the problems with the current system, has proposed solutions. This sets them apart from some other Occupy movements who have taken a no-demands stance. The bulk of the solutions proposed relate to capital market interventions, but taxes and public services are also touched upon. The overarching demands of Occupy London are to have a democratic, just, and sustainable system (Occupy London, 2011c). Towards these ends, Occupy London demands specific economic reforms (2011b). Financial institutions should be accountable to society in proportion to their power in the economy. Cuts to public services should be stopped, as they exacerbate financial instability. Tax regulations should be tightened to disallow tax avoidance of corporations and wealthy individuals. Lastly, regulation of corporations and the financial sector should be independent, effective, and enforceable (Occupy London, 2011b).

Occupy London calls for “deep structural changes” (2011b, para. 4). However, the reforms they suggest are not incompatible with capitalism, though a free market could not satisfy the proposed conditions. Occupy London do not label the economic system they advocate, nor do they explicitly renounce capitalism. This ambiguity may be necessary to achieve consensus, as they did, with a large diverse group of people. My interpretation is that socialism would fulfill the conditions set out, but capitalism with stronger governmental and international regulation reminiscent of the Keynesian era would be sufficient. Deseriis and Dean (2012) refer to Occupiers espousing these beliefs as “neo-Keynesian” (para. 15).

Robin Hood Tax. Hoeven (2010) refers to the capital market interventions as “restrained capitalism” (p. 80). The main strategies are to limit liberalization and privatization, and to regulate global capital. Bluestone and Harrison (2000) encourage increased stability of capital investments. The global capital market should be regulated through a multilateral agreement. One mechanism of regulation is the imposition of a small tax on each transaction. This would discourage the speculative excess and volatility that currently characterize the financial markets. The concept of a tax on financial transactions has been debated since the “Tobin tax” was proposed forty years ago (Sachs, 2010). The newest proposal is for a “Robin Hood tax”, and has gathered strong support in the wake of the 2008 financial crisis. The Occupy movement is one group who support the Robin Hood tax, but many politicians, notable economists, and commentators have also supported the proposal (Make Poverty History, 2012).

The Robin Hood tax would be a small tax, of about 0.05%, on each financial transaction (Make Poverty History, 2012). The tax would cover financial transactions such as stocks, derivatives, and futures. The Robin Hood tax is envisioned to address several goals. Primarily, it is meant to curb excessive trading, risk-taking, and speculation in the markets that led to the 2008 crash and overall instability of the financial sector. The tax would supply worldwide governments with an estimated $650 billion per year (Make Poverty History, 2012), with yearly revenues for the Canadian government estimated at $700 million (Scoffield, 2010). This revenue is intended to be used to fulfill social policy goals such as poverty reduction, to address climate change, and to support developing economies. Furthermore, the Robin Hood tax would ensure that the financial sector contributes their fair share of taxes toward both general revenue and recovering the costs of the financial crisis. Due to corporate tax laws in many countries, the financial sector is taxed lightly, and is not thought to contribute adequately to tax revenue (International Monetary Fund, 2010; Make Poverty History, 2012). Furthermore, financial professionals make up an increasing proportion of the top 1% (OECD, 2011a).

In a report provided at the behest of the G-20 leaders for the 2010 G-20 summit in Toronto, the International Monetary Fund (IMF) makes recommendations for ensuring the contribution and stability of the financial sector. They analyze financial transaction taxes (FTT) such as the Robin Hood tax. They conclude that, although an FTT could be easily implemented, it is not advisable. According to the IMF, an FTT would not accurately target financial instability by taxing all transactions. Additional drawbacks of an FTT could be a negative impact on long-term growth due to the cascading nature of these taxes. The burden could also be passed on to consumers, rather than being borne by the owners and managers being targeted by the tax (International Monetary Fund, 2010). In sum, although the IMF supports increased taxation of financial institutions, they conclude that an FTT is not the ideal mechanism to do so.

Instead of a financial transaction tax, the IMF proposes a multi-pronged approach to stabilizing the financial sector and recovering government costs from bailouts. Overall, the first objective should be as follows:

> **Ensure that the financial sector pays in full for any fiscal support it receives**. Expecting taxpayers to support the sector during bad times while allowing owners, managers, and/or creditors of financial institutions to enjoy the full gains of good times misallocates resources and undermines long-term growth. (International Monetary Fund, 2010, p. 9)

They refer to this condition as unfair, as well as damaging to the economy. Principles of distributive justice can be seen underlying this statement. The IMF acknowledges both the ability and the responsibility of financial institutions to contribute more to society, thereby curtailing some of the excesses and extremes that have led to skyrocketing financial sector salaries.

The two main financial instruments would be a levy and a Financial Activities Tax (FAT). The levy charged would be called a Financial Stability Contribution (FSC). The purpose of this levy would be for financial institutions to contribute sufficiently to cover the costs of any future financial crisis. It would be based on a flat rate, adjusted for individual institutions based on their level of riskiness and contribution to systemic risk (International Monetary Fund, 2010). Several counties, primarily in Europe, have already considered or implemented such levies.

What distinguishes an FAT from an FTT is that the former is charged "on the sum of profits and remuneration of financial institutions" (International Monetary Fund, 2010, p. 21), while the latter is charged on each transaction. The IMF asserts that an FAT would raise significant revenues and be used to satisfy many of the objectives of the Robin Hood tax. If designed properly, "it would be both non-distorting and meet equity objectives that have been prominent in public debate" (International Monetary Fund, 2010, p. 22). The IMF proposes that the FAT be set to levels that tax excessive returns and high remuneration. This would serve the function of reducing excessive risk-taking behaviour, and mitigate the risk of some financial institutions being "too-big-to-fail" (International Monetary

Fund, 2010, p. 23). Furthermore, since it would only tax excessive gains, the FAT would not be passed on to consumers as the IMF suppose the FTT would be.

While the FSC would be designed to cover the costs of future financial crises, the FAT would cover the additional economic and social costs related to a market collapse. These two fees of the FSC and FAT would be supplemented through international regulation and supervision, and tax policy adjustments. These tax policy changes should reduce the "pervasive tax bias in favor of debt finance" (International Monetary Fund, 2010, p. 5), and reduce the opportunities for tax arbitrage and evasion.

The IMF raises international considerations in favour of implementing their proposed policy package. Since no country is immune from economic collapse, even those countries relatively unharmed by the 2008 crash should implement strategies to protect from future market crashes. They reiterate the importance of cooperation between nations. If similar policies are implemented globally, harmful tax planning and evasion can be reduced, as can skewing of the market cause by favourable conditions in certain nations.

Unfortunately, the G-20 in Toronto did not follow through with the recommendations from the IMF (Government of Canada, 2010). Progress was blocked by the anti-tax positions of a few countries, including Canada (Scoffield, 2010). The G-20 Summit Declaration goes only as far as acknowledging the alternatives set out in the IMF report, and acknowledging that different countries are pursuing different measures. No commitment, however, was made to internationally move forward with a unified agenda (Government of Canada, 2010).

Regardless of the mechanism chosen, regulation is crucial, since the liberalization of financial markets had a stronger impact on worldwide economic inequality than any other policy change. “Left to themselves, deregulated financial systems cannot perform well owing to problems of incomplete information, markets and contracts, herd behaviour and weak regulatory institutions” (Cornia & Court, 2001, p. 19).

CHAPTER 6: REFLECTIONS AND CONCLUSION

Certain themes have been implicit in the discussion throughout this thesis. I will further reflect on them here, before moving into the conclusion, to address some of the complexity of considering policy options to address economic inequality. Three themes will be examined: policy debates, social movements, and constraints. The policy debates relate to Chapters 4 and 5, and consider the conflicting priorities and ideologies that arise when designing and implementing policies. Next, the critical role of social movements in the development of Canada's social welfare history will be considered, along with the potential influence of the Occupy movement. Lastly, constraints will be deliberated. Clearly, certain barriers and constraints hinder the development of progressive social policy; otherwise, policies that successfully counteract economic inequality would already be in place.

Policy Debates

The history of social policy response and the recommendations to reduce economic inequality share several themes and debates. Hick (2007) outlines the four key historical debates which are apparent in current policies. The first debate is the deserving versus undeserving poor. Individuals requiring assistance are distinguished on the basis of their supposed deservingness of assistance. Those who are able to work are considered undeserving, hence assistance to this group is punitive and stigmatizing. Those unable to work are considered deserving of aid, hence assistance to this group is more generous. Rowlingson and Connor (2011) extend the debate about deserving and undeserving to the rich, drawing attention to the distributive justice principles that shape the populace's acceptance of wealth. Although they question whether it should be the case, they assert that if social policy is to be determined on the basis of deservingness, this standard should be applied equally to everyone, including the rich.

The second debate is the "principle of less eligibility" (Hick, 2007, p. 32), which concerns the desirability and generosity of assistance. This principle states that the level of assistance should be less than the lowest-paid employment. This is to ensure that those able to work do not choose to remain on assistance if given the choice. The third debate is related to the second, and concerns whether assistance levels should allow for an adequate standard of living, or should provide only bare subsistence (Hick, 2007).

The fourth debate relates to how need is accessed. Programmes that are designed based on the assumption that poverty results from a personal defect are likely to subject the individual to invasive assessment to determine the "cause of need". Programmes, on the other hand, that are sympathetic to the structural factors influencing the need for assistance are satisfied by establishing "fact of need" without needing to prove "cause of need" (Hick, 2007, p. 33).

Common themes among the recommended policies are to resist neoliberalism, to increase government spending, to pursue multiple approaches, and to follow a life course perspective. Debates include whether programmes should be targeted or universal, whether workfare is appropriate or not, whether continual growth or increased stability will reduce economic inequality, and whether incomes of the wealthiest should be reduced.

With noble intentions, some authors think that programmes and transfers should be targeted to those who are in the most need (such as Bluestone & Harrison, 2000; Champernowne & Cowell, 1998). However, targeted programmes can have negative impacts such as stigmatization and low popular support. Moreover, the "*paradoxes of redistribution*" results in the fact that targeted programmes are less effective in reducing economic inequality (Arts & Gelissen, 2002; Habibov & Fan, 2008, p. 44). Other authors recognize the benefits of universal programmes (Coburn, 2000; Freeman, 1999; Habibov & Fan, 2008). To ensure that those with low incomes benefit most from the policies, transfers should be taxable, in such a way that the well-off pay back the transfer. Services, such as education and health, should be provided universally and supported through progressive taxes.

Certain authors are of the opinion that providing transfers and services for free will reduce motivation and result in masses of people who choose to remain on social assistance instead of working. To combat this, these authors support workfare programmes (Champernowne & Cowell, 1998; Freeman, 1999). In Freeman's opinion, "unconditional benefits to the old adversely affect savings behaviour and work effort" (1999, p. 18). The significance of this disincentive is doubtful. Habibov and Fan (2008) challenge the neoliberal view of labour market participation as the goal for everyone. Marginalized populations have disproportionate challenges in securing employment, and are more likely to be in low paying jobs with few benefits. Furthermore, employment may not be a reasonable goal for single parents or those with disabilities.

The majority of analysts see continual economic growth as the solution to economic inequality. Bluestone and Harrison (2000) are the most extreme in this view, favouring continued technological advancement and economic growth. This is understandable considering the technological boom and strong economy at the time of their writing. Cornia and Court (2001) and Hoeven (2010) support growth as well. An alternate model is presented in the Center for a New American Dream's (2011) video of Juliet Schor's Plenitude Economy. Schor argues that uncontrolled growth creates financial instability and depleted world resources. She advocates hiring more people at reduced hours, since "a fairer distribution of work makes income distribution fairer too." Skidelsky and Skidelsky (2012) also question the commitment to continual growth. They summarize an article by Keynes that hypothesized that as technology progressed, people would need to work less to satisfy their needs. However, even with the abundance we have achieved, economic inequality has risen, and the pace of work has intensified. Endless growth, they argue, fails to make us happier, is damaging environmentally, and, above all, is senseless (Skidelsky & Skidelsky, 2012). They blame modern economics and the scarcity model. They conclude, "the aim of policy and other forms of collective action should be to secure an economic organization that places the good things of life—health, respect, friendship, leisure, and so on—within reach of all. Economic growth should be accepted as a residual" (Skidelsky & Skidelsky, 2012, para. 34).

The final debate is challenging the top earners. Many authors did not acknowledge the significance of the top earners. Freeman (1999) focuses his proposals on raising the bottom of the distribution, and explicitly rejects the idea of lowering the top. Champernowne and Cowell (1998) recognize that the economic inequality must be addressed at the expense of the rich, but do not suggest any proposals to directly tackle high incomes. Hoeven (2010) and Cornia and Court (2001) both acknowledge that skyrocketing salaries at the very top of the income distribution are a cause of increased economic inequality, but also do not suggest policies to challenge this. Although in the minority, some progressive authors do discuss high incomes explicitly and advocate addressing them (such as Ramsay, 2005; Rowlingson & Connor, 2011). Osberg (2008), who represents the work of the Canadian Centre for Policy Alternatives, likewise highlights the top income earners.

As a general trend, it appears that older literature does not address top incomes, while the most recent literature does. It is probable that movements such as the Occupy movement and increased media attention have brought the significance of top earners to the fore. The OECD report (2011a) is evidence of this. A full chapter in their report is dedicated to “Trends in Top Incomes and Their Tax Policy Implications.” Furthermore, the cover art of their report utilizes the Occupy movement imagery, and features a hot air balloon marked 1% with very few people in it rising off the ground, while another hot air balloon marked 99% lies on its side with a crowd of people struggling to get on.

Social Movements

In the history of social welfare development in Canada outlined by Hick (2007), the power of social movements is apparent. He discusses how many of the critical moments in introducing social welfare policy were efforts by the government to allay civil unrest. This is true even for the earliest Poor Laws in Britain. These policies arose to “address the problems of begging, vagrancy, and the shortage of labour” (Hick, 2007, p. 28). The industrialization period was characterized by civil unrest and protests, especially after World War I. “Fearing socialism, governments reacted to this unrest by enacting social security programmes. The early programmes were seen as security for the government against a revolution by men trained in the use of arms” (Hick, 2007, p. 36). Additional specific programmes were introduced in response to social movements such as the women’s movement and unions. Further enhancements and improvements resulted from the social unrest of the 1960s.

This historical trend is noteworthy when considering the current climate. The Occupy movement is a major, worldwide social movement. Their existence evinces the dissatisfaction many people feel with current political and economic situation. The Occupy movement has helped bring economic inequality back into the public discourse (MacKinnon, 2011). Perhaps the Occupy and similar movements will be the impetus governments need to reverse the austerity cuts and restore the critical role of governments from the welfare state period as a positive and supportive force in society.

Constraints

Many constraints have been summoned by opponents of the measures recommended above. A number of constraints were mentioned and rebutted in the body of the thesis. An example is the opposition to minimum wage. However, some constraints are major forces in the neoliberal world, and require further attention here. Major constraints include path dependency, behavioural responses to tax increases, the “hollowing out” of the middle class, the Canadian constitution, and globalization.

Constraints exist based on the welfare state categorizations of Esping-Andersen discussed in Chapter 2. Path dependency limits the policy responses and changes that are likely to be adopted in any state (Arts & Gelissen, 2002; Powell & Barrientos, 2004). States are not likely to adopt policies that do not fit the characteristics of their welfare state type, and they are even less likely to change types. Even policies in response to shared global phenomena such as recessions and unemployment are taken up in distinct ways that match a country's welfare state type (Powell & Barrientos, 2004). The most recent data considered in the reviewed studies of welfare state typologies is from the 1990s, so it could be argued that the growing influence of neoliberalism has caused policy responses in the last two decades to align.

In the Canadian context, unfortunately, path dependency severely limits the possible policy alternatives that are likely to be adopted. Expecting a total overhaul of the social welfare system is unrealistic. Development and improvement of policy responses to social problems is always possible, as the history of social welfare in Canada from Chapter 4 showed, but a shift in priorities would be necessary to effect fundamental changes in the stratification of society. Denmark is an example of the possibility of positive change. In many ways it is considered a hybrid case, but transitioned in the 1980s from a corporatist to a social democratic welfare state, at least in terms of economic inequality (Arts & Gelissen, 2002; Headey, Goodin, Muffels, & Dirven, 1997). Denmark now enjoys the lowest income inequality in the OECD, having surpassed the prototypical social democratic state of Sweden (OECD, 2011a).

Adversaries of increasing taxes argue that higher taxes will not result in higher government revenue, since those affected by the tax will either employ aggressive tax planning or will move away. This is the case, for example, with the new high income tax bracket introduced in Ontario (Gollom, 2012). While it is true that tax planning does increase when taxes are raised, it does not overcome the increased revenue. The "tipping point" at which an increase in taxes will not lead to increased revenue is estimated at about 60% by Kevin Milligan, a Canadian economics professor (Gollom, 2012); more conservative estimates are a maximization of tax revue at 50% (Fortin et al., 2012). Furthermore, evidence does not support arguments that people will work less hard or will move elsewhere (Gollom, 2012; Fortin et al., 2012; Rowlingson & Connor, 2011). In part, this is because most of the top income earners are earning income from paying employment. These well-paid executives, managers, and professionals are not as mobile as some commentators fear (Fortin et al., 2012; Rowlingson & Connor, 2011).

Tax evasion and avoidance are valid concerns when taxes are raised. Rather than using this argument against tax increases, a more productive way of handling the issue is through increased regulation and enforcement of tax law. As discusses previously in "Income Taxes and Transfers" in Chapter 5, the OECD suggests alternate tax reforms to increase effective tax rates without encouraging tax avoidance. However, "wholesale and tight redesign of the entire corporate and personal tax system that would require tremendous political will to achieve and maintain" (Fortin et al, 2012, p. 137).

Similar concerns apply to taxation and regulation of the financial sector. The IMF (2010) asserts:

> Distortions will arise if the contribution measures are adopted by only some countries, though they may not be as large as some that already exist. The mobility of capital and sophistication of financial institutions and markets mean that the effectiveness of contribution schemes—as of regulatory measures—can be undermined by the relocation and restructuring of financial activities. (International Monetary Fund, 2010, p. 24)

The IMF asserts that international cooperation can significantly mitigate these distortions, even where all nations do not adopt identical policies. Moreover, they remind the reader that corporate tax rates already vary greatly across countries. Implementing the recommended levies and taxes on financial institutions would increase this distortion minimally, even if implemented only in some countries. International cooperation could mitigate avoidance of personal and corporate income tax more broadly, in addition to the financial sector reforms discussed by the IMF.

A further limitation to the potential for the income tax and transfers system to compensate for the recent growth in economic inequality is the "hollowing out" of the middle class. In other words, "jobs in the middle of the occupational wage distribution experienced declining shares of total employment" (Fortin et al,. 2012, p. 131). Fortin et al. (2012) demonstrate that this has occurred in the Canadian market. The contributors to this trend have been technological change that has most adversely affected middle-income earners, increasing off-shoring, and a decline in unionization. The inability of taxes and transfers to mitigate this trend does not imply that inequality cannot be reduced by policy; rather, it reinforces the need to address economic inequality directly through the labour market.

In a Canadian context, the relationship between the federal and provincial governments is a constraint to implementing new federal policies. The federal government is the best prepared to address social and economic problems such as economic inequality, because they have the ability to set national standards, and the financial clout to implement broad policy changes. However, since Confederation, the constitution has granted legislative purview of social welfare to the provinces, which severely limits the ability of the federal government to implement policies in this area (English & Young, 2006; Graham, Smith, & Delaney, 2003; Hick, 2007). In some cases, such as the development of EI, the constitution was amended to allow the federal government jurisdiction (Graham, Smith, & Delaney, 2003). In other cases, the federal government used its spending power through arrangements like the CAP to impose conditions on the provinces that ensured a national standard in the services provided through the transferred money (English & Young, 2006). As mentioned previously, the tax system is also a method frequently used by the federal government to bypass the provinces in providing benefits to Canadians. Although these mechanisms exist, the ability of the federal government to affect social policy has been further reduced through the era of erosion. As previously discussed in Chapter 4, the replacement of the CAP with the CHST removed the constraints on the provinces to maintain a minimum standard in services provision. Furthermore, continued provincial resistance, especially from Quebec, limits the federal government's ability to implement new social welfare policies (English & Young, 2006). This tension will continue to affect policy development in Canada.

Globalization has been used as an excuse to support the austerity measures of the neoliberal era. Trade integration, international financial flows, and technological progress are said to hamper government's ability to create social policy to handle issues such as economic inequality.

> International industrial capitalism and its multinational corporations have been increasingly freed from earlier notions of national responsibility. […] Social policies may well be determined less by national policy and more by the market-driven, lowest-bidder ethos of an increasingly international and competitive industrializing world. (Graham, Smith, & Delaney, 2003, p. 24)

There is truth to these claims, such as the constraining effect on Canadian policy makers of NAFTA, as mentioned previously. However, the OECD (2011a) found that trade integration and international financial flows did not exert a significant impact on economic inequality. Technology and weakening labour market institutions were the primary contributing factors to rising economic inequality. The effects of technology are largely offset by improvements in education; hence they can be influenced by national government. Labour market institutions are still largely within the control of national governments. While global pressures may exist to lower employment standards, they are still largely within the purview of national (or provincial) governments.

Moreover, though challenges to implementing unilateral national policies exist, globalization has also provided the means to overcome these challenges. Increasing international integration and cooperation through forums such as the G-20 provide mechanisms that can be used for countries to work together to address global issues such as economic inequality. The same suggestions the IMF offers to facilitate financial sector reforms can be applied to any social policy that may be constrained by globalization. Political will is the only element that is missing.

Conclusion

To review the direction this thesis has taken, I will restate the three research questions here. (1) What is economic inequality? (2) What have been the major policy responses to economic inequality in Canada? (3) What are the possibilities and prospects for public policy to tackle economic inequality in the changing national and global contexts?

In exploring economic inequality in Chapter 3, economic inequality and its relationship with redistribution and poverty was defined. The measurement tools for economic inequality were also discussed. More importantly, it was established that economic inequality is a concern in modern society. High economic inequality is detrimental to economic growth, efficiency, and poverty reduction, as well as being contrary to social justice and distributive justice. Exploring the trends in economic inequality unearthed a significant rise in economic inequality over the last three decades, in Canada and the world. This rise is particularly worthy of study because it followed four decades of relatively low and stable economic inequality. A cornerstone of this thesis is the composition of the growth in economic inequality—namely the central role of the growth in income and wealth at the very top of the income distribution, among the infamous 1%.

Policy responses to economic inequality that have been utilized in Canada are enumerated in Chapter 4, with consideration to how these policies have changed over time. The four policy areas of income taxes and transfers, public services, labour market institutions, and capital market interventions were established, and policies in each area explored. The trend across policy areas was that social welfare policies, including those that mitigate economic inequality, grew substantially throughout Canadian history until the 1970s. Since the 1980s, neoliberal reforms have crippled the effectiveness of policies through concurrent financial liberation and a withdrawal of governments from service provision and regulation.

The final and paramount question is then, ultimately, now what do we do about it? The third question exploring recommendations for policy responses is expounded in Chapter 5. In order for governments to again mitigate economic inequality, increased government spending and regulation of capital markets is needed. A comprehensive strategy involving a variety of policies in income tax and transfers, public services, labour market institutions, and capital market interventions would be most effective, in contrast to a single policy or a piecemeal approach. Policies to limit astronomically high incomes should be included in this strategy, since income inequality will not be adequately addresses unless both the top and bottom of the income distributions are brought closer to the median.

A wide variety of recommendations have been put forth in this thesis. For the readers' convenience, Table 1 provides a summary of these policy recommendations. Each has the potential to reduce economic inequality. Policy makers ought to consider distributive justice principles to guide their decision-making, and should implement a policy package that redresses the losses incurred in the era of erosion. Social democratic ideals impart obvious support for these suggestions, but citizens of any welfare state type should recognize the detrimental effects of economic inequality, and seek to redress it.

Table 1. *Policy Recommendations to Reduce Economic Inequality*

Taxes	• Restore previous tax rates, both personal and corporate
	• Restore tax revenue by adjusting tax thresholds to account for wage growth
	• Implement wealth, inheritance, and more progressive property taxes
	• Combat tax evasion and avoidance
	• Increase effective tax rates
	  ○ Equalize tax rates on various types and sources of income
	  ○ Close loopholes and reduce tax credits that benefit the very wealthy

Transfers	• Provide a guaranteed income • Restore both the rates and eligibility of transfer programmes such as EI • Remove contribution caps to contribution-based transfers • Index transfers to inflation and adjust them to wage growth • Expand the eligibility of successful programmes like the CCTB
Public Services	• Expand education at all levels • Expand training and early childhood education • Increase public infrastructure and research and development investments • Increase public services in general • Halt privatization
Labour Market Institutions	• Increase minimum wage and index it to inflation • Enable and facilitate the creation of unions • Reduce and legislate precarious employment • Target policy development to job creation • Implement fair trade and global labour laws • Implement a maximum wage
Capital Market Interventions	• Increase worker ownership and control • Restore balanced fiscal policy that considers the overall health of the economy • Implement Occupy London's demands for a democratic, just, and sustainable system • Implement a Robin Hood Tax, or an equivalent such as IMF's FSC and FAT • Strengthen regulations and reform taxes on the financial sector

Income taxes, transfers, and education form the primary targets for any strategy to reduce economic inequality. These would not be sufficient in isolation, however; a combination of policies from the four major areas of income taxes and transfers, public services, labour market institutions, and capital market interventions is preferential. Changes to income taxes are necessary to reduce economic inequality through their redistributive potential and their direct relationship to government revenue. Overall, recommendations for taxes are composed of modifying the tax structure to restore its redistributive potential, and taxing the wealthy at levels proportionate to their ability to contribute to society, including forms of wealth taxation in addition to income taxation. While the direct method of doing so is to raise marginal tax rates, any talk of raising taxes is met with political opposition and possible behavioural responses. Therefore, alternative measures to raising the effective tax rate by combatting tax evasion and tax avoidance are proposed. Aggressive tax planning can be addressed through equalizing tax rates on various types of income and closing loopholes. These measures have received notable support from international economic organizations such as the OECD and the IMF.

Transfers are necessary to address economic inequality as a crucial means of enhancing the redistributive effect of the taxation system. Transfers, funded by both contributions and general tax revenue, provide necessary income to those at the bottom of the income distribution. Ideally a guaranteed annual income would be provided to ensure that no member of our society should live in poverty. In the meantime, existing transfers should be strengthened by widening eligibility, increasing benefit rates, indexing them to inflation, and removing contribution caps.

Public services have been shown to have a significant impact on quality of life, especially for low-income households. Hence, public services in general should be increased, with particular attention to those whose benefits are progressive. An exception is education. Though it has been shown to provide a higher return to the wealthy than lower income groups, it has a significant counterbalancing effect on the growing economic inequality caused by changes in technology and labour market institutions. In addition to mainstream education, employment training and early childhood education are integral components of a comprehensive education system. Public research and development and infrastructure investments are also important public services that can strengthen the economy and improve quality of life.

Labour market institutions can address pre-tax income inequality before government redistribution becomes necessary. Many of the recommendations in this area involve undoing the losses of the era of erosion. This can be done by indexing minimum wage to inflation to prevent further degradation and raising it to a living wage, enabling unions, establishing protections for precarious employment, and restoring the Keynesian policy goal of full employment. To counteract the liberalization of trade that has accompanied globalization, global standards and fair trade should be implemented. Finally, to complement the minimum wage and directly target market income inequality, a maximum wage should be imposed to control exploding corporate and executive salaries.

Capital market interventions are required to reduce economic inequality because of the impacts the capital market can have on the rest of the economy. The detrimental effects of an unregulated capital market were demonstrated in the 2008 financial market crash. Reforms in this area dovetail with the recommendations proposed for income taxes and labour market institutions. Increased worker ownership of corporations would lead to a more equitable distribution of resources. A departure from monetarist policy of controlling the debt and inflation to return to balanced objectives would stabilize the economy, and mitigate the boom/bust cycle. Some form of taxation should be imposed on the financial sector to ensure that they contribute to the wellbeing of society and pay for their own recovery. This could be achieved either through a financial transaction tax such as the Robin Hood tax, or through a system of a financial activities tax and financial stability contribution as proposed by the IMF. As with income tax, financial sector taxes would need to be supported by increased regulations, tax reforms to reduce tax evasion and avoidance, and international cooperation.

Many of these recommendations target economic inequality in the lower half of the income distribution, and this is where policy approaches have previously been concentrated. Strategies to reduce economic inequality in the top half of the income distribution must be part of an overall policy package, due to the substantial effect rising incomes at the very top have had on growing economic inequality. The policies with the highest potential to accomplish this are tax reforms, education (especially in the technology field), a maximum wage, and taxation and regulation of the financial sector.

All policy proposals involve choice. The adoption of any policy recommendation means the benefits of alternative policies could be lost (Jones, 2008). Though shaped by many complex factors, the choice between policies that address economic inequality to greater or lesser degrees are molded by the type of welfare state, the concomitant beliefs about the role of the state, and the principles of distributive justice espoused by policy makers and those who influence them.

This thesis contributes to social policy research and social work knowledge. A main element of this contribution is the integration of areas of public policy that are not often considered social policy. In Chapter 1, I argued for a connection between economics and social work. Throughout this thesis, public policy areas that are not usually considered social policy have been included. An increased understanding of economics in social work goes hand in hand with a broadening consideration of policies that go beyond “social” policy. As discussed in Chapter 4, Canadian social policy began to be shaped heavily by financial policy through the transition to the CHST. Since that time, it has becoming increasingly important to consider less traditional social policies such as labour and capital market policies. These policy areas must be reformed alongside social policies to achieve the social work aims of social justice and “an equitable distribution of resources” (Canadian Association of Social Workers, 2005, p. 5).

An additional contribution of this thesis is the attention given to the top income earners, and specific policies that control the disequalizing influence of their sharp growth in income. While increasing attention has been paid to the rise of top incomes, this is a recent phenomenon particularly highlighted since the Occupy movement. Moreover, even where the extent of the share of top incomes is recognized, more radical policy changes such as the maximum wage and Robin Hood tax are only peripherally discussed in the academic literature.

However, it is also important to note that this thesis is not a comprehensive review of either economic inequality or the potential policy responses to it. It is meant, instead, to provide a broad overview of economic inequality and wide sample of potential policy responses. It highlights the impetus to mitigate economic inequality, and gives options that have been proposed in the current literature. One element of this limitation was that time did not permit a comparison of Canadian policy with specific policies implemented in the Scandinavian social democratic welfare states. While some of the overall policies were addressed through the international literature, an in-depth look at another country was beyond the scope of this thesis.

Writing a social work thesis in a topic that is chiefly an economics topic was a challenge. As discussed in Chapter 1, direct social work attention to economic inequality is uncommon in the literature. As such, my approach to the topic fell heavily on the economics side. While I maintain the importance of addressing economic problems from a social work point of view, the purely social aspect of the issue is lacking. The "human face" of the experience of high economic inequality at the individual level was supplanted by the attempt to offer a thorough review of the economic aspects of the problem.

Similarly, the different impacts of economic inequality on marginalized groups have not been addressed. The body of literature about the economic inequality between men and women was neglected. Aside from gender differences, marginalized groups are likely to be affected more harshly by economic inequality. These included, among others, racialized minorities, immigrants, persons with disabilities, children and the elderly. Inclusion of an analysis of differing effects of economic inequality on these various groups would have led to a more nuanced understanding of the social impact, in contrast with the nation-wide approach that I utilized.

Poverty, as established in Chapter 3, is closely related to economic inequality. In comparison to standard social work policy literature, it may seem that social policy that directly targets poverty has been insufficiently addressed in this thesis. An example would be social assistance, which is only peripherally discussed in the company of all transfer programmes. However, this was by design. As I have argued, the increase in economic inequality in the last three decades has been driven by an increase in top income and wealth. Of course, policies to address poverty are vital components of a social welfare system, and of any strategy to reduce economic inequality. As this is widely accepted, I chose to dedicate a greater portion of this investigation to the less popular policies that affect the income distribution as a whole, or target the upper segments of the distribution.

While I was guided by policy analysis in writing this thesis, it cannot be considered a comprehensive plan of thoroughly researched policies that could be implemented by government without extensive further research. In part, this is due to the fact that secondary sources were used exclusively, and no existing policies either in Canada or elsewhere were consulted directly. Furthermore, the Constraints section above does not do justice to the complexity of the contemporary global, economic, and political climate. The full scope of the power dynamics between corporation, the wealthy elite, and governments has only been grazed.

Further research could address these shortcomings. To continue the investigation into policy responses to economic inequality, I would explore Canadian policy and its history in more depth, including consulting the policies themselves. I would further the exploration of options by performing a comparison between Canadian policy and the policies in place in Scandinavian countries that make them so successful at controlling economic inequality. To further the social work aspects of the work, the consequences of growing economic inequality on individuals and marginalized groups ought to be incorporated. Extensive research into the global climate and political realities is paramount to deeper understanding of how policy can effectively be used to reduce economic inequality, and of how the neoliberal agenda can be stopped. I aspire to continue this research through a career in policy analysis.

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