INEQUALITY AND THE FADING OF REDISTRIBUTIVE POLITICS

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At its best, social policy reform is aimed at enhancing the well-being of the members of the next generation. We dedicate this volume to them, in the hope that the insights gathered here will contribute to fresh thinking about redistributive politics in Canada during the decades to come.

Acronyms

ALMPs	active labour market policies
AWPS	Annual Work Patterns Survey
BCNI	Business Council on National Issues
CACSW	Canadian Advisory Council on the Status of Women
CAP	Canada Assistance Plan
CCAAC	Childcare Advocacy Alliance of Canada
CCC	Canadian Chamber of Commerce
CCCE	Canadian Council of Chief Executives
CCED	Child Care Expense Deduction
CCSD	Canadian Council of Social Development
CCTB	Canada Child Tax Benefit
CES	Canadian Election Study
CFIB	Canadian Federation of Independent Business
CHST	Canada Health and Social Transfer
CHT	Canada Health Transfer
CLC	Canadian Labour Congress
CMA	Canadian Manufacturers Association
CME	Canadian Manufacturers and Exporters
C/QPP	Canada/Quebec Pension Plans

CPP	Canada Pension Plan
CPQ	Conseil du Patronat du Québec
CST	Canada Social Transfer
CSOs	civil society organizations
CUSFTA	Canada-US Free Trade Agreement
ECEC	early childhood education and care
EI	Employment Insurance
ELCC	early learning and childcare
ESCS	Equality, Security, and Community Survey
FAP	Family Allowance Program
GAI	Guaranteed Annual Income
GIS	Guaranteed Income Supplement
GST	Goods and Services Tax
HRDC	Human Resources Development Canada
HST	Harmonized Sales Tax
HRSDC	Human Resources and Skills Development Canada
LEAF	Women's Legal and Education Action Fund
LFS	Labour Force Survey
LMAS	Labour Market Activity Surveys
LICO	low-income cut-off
LIM	low-income measure
NAC	National Action Committee on the Status of Women
NAFTA	North American Free Trade Agreement
NAPO	National Anti-Poverty Organization
NCB	National Child Benefit
NCBS	National Child Benefit Supplement
NCW	National Council of Welfare
NDP	New Democratic Party
NIT	negative income tax
OAS	Old Age Security
OCBCC	Ontario Coalition for Better Child Care
OECD	Organisation for Economic Cooperation and Development
OLS	ordinary least squares
PCO	Privy Council Office

PMO	Prime Minister's Office
PQ	Parti québécois
PRSPs	Pooled Retirement Savings Plans
PRT	power resources theory
QPP	Quebec Pension Plan
RESP	Registered Education Savings Plan
RPPs	Registered Pension Plans
RRSPs	Registered Retirement Savings Plans
SA	social assistance
SCF	Survey of Consumer Finances
SLID	Survey of Labour and Income Dynamics
SMEs	small and medium-sized enterprises
SPP	Security and Prosperity Partnership of North America
SSR	Social Security Review
SUM	Survey of Union Membership
SWA	Survey of Work Arrangements
TFSAs	Tax Free Savings Accounts
UCCB	Universal Child Care Benefit
UI	Unemployment Insurance
VSI	Voluntary Sector Initiative
VSR	Voluntary Sector Roundtable
WITB	Working Income Tax Benefit
WVS	World Values Survey

INEQUALITY AND THE FADING OF REDISTRIBUTIVE POLITICS

1

Introduction
Inequality and the Fading of Redistributive Politics

KEITH BANTING AND JOHN MYLES

The redistributive state is fading in Canada. Until the mid-1990s, the consensus was that Canada was not following the lead of the United States and the United Kingdom, where the level of inequality began to grow in the late 1970s and accelerated dramatically in the 1980s. By contrast, inequality in the incomes Canadians derived from the market was rising, but government programs, especially the tax-transfer system, offset this development, even during the harsh recession of the early 1990s. This has changed. The tax-transfer system is no longer offsetting the growth in inequality generated by the market, and Canadian society is more unequal. The celebration of Canada as the kinder and gentler nation on the North American continent is now fading.

Politics has been critical to the redistributive fade. All advanced democracies have faced the pressures of globalization, technological change, and new family forms, which have generated higher levels of inequality in market incomes almost everywhere. But countries have responded differently, reflecting differences in their domestic politics. In some countries, changes in public policy have accentuated the growth of inequality; in others, policy has mitigated it. What has been the Canadian response? A major study by the Organisation for Economic Cooperation and Development (OECD) found that, in the period between the mid-1980s and the mid-1990s, the redistributive impact of the tax-transfer system was strongest in Canada, Denmark, Finland, and Sweden. But by the period between the mid-1990s and the mid-2000s, Canada had joined Switzerland and the US as the countries with the smallest redistributive impact (OECD 2011, 271).

The surge in inequality in the past several decades has posed a puzzling new question for policy makers in many countries. Income inequality can rise because the rich are getting richer or because the poor are getting poorer relative to those in the "middle." As we shall see in more detail below, much of the rise in income inequality in recent decades has been driven by the former trend. The rich have gotten dramatically richer, as the Occupy Movement highlighted in 2011, and higher-income groups generally have done well. By contrast, Canadians in the middle, especially those in the lower middle of the wage distribution, have been struggling in the wake of economic change and have not received their fair share of the benefits of economic growth for a generation. In Canada, however, the burden of growing inequality has not been concentrated at the bottom, among the poor. Compared to other OECD countries, Canada continues to tolerate high levels of poverty. But during the recent growth of inequality, poverty has been stable or even declining, depending on how it is measured. All this simply means that recent economic gains have gone disproportionately to high-income earners, while both the middle and the bottom have been losing ground in relative terms. Policy makers in many countries have had to decide whether and how to adapt their redistributive strategies to the contemporary form of inequality. Canada, however, seems to have done less well in this regard than many.

This book analyzes the changes in the politics of social policy that have contributed to the redistributive fade in Canada. There is no smoking gun to be found in the story that emerges. The politics of redistribution are too multidimensional for simple explanations. According to our authors, a complex mix of forces has reshaped the politics of social policy: global economic pressures, ideological change, shifts in the influence of business and labour, the decline of equality-seeking civil society organizations and think tanks, realignment in the party system, shifting bureaucratic politics, and decentralization in the federation. While it is impossible to disentangle the independent effect of these diverse changes, their cumulative impact has transformed the politics of redistribution. On one side, organizations that speak for the economic interests of lower-middle income groups and poor Canadians – mobilizing resources, expertise, and attention on their behalf – have been weakened; on the other side, changes in the distribution of power within our political institutions have made concerted action to tackle inequality more difficult. The result is a mutually reinforcing political syndrome that is less sensitive to the economic needs of lower-income individuals and families.

Changed politics generate changed policies. As we shall see, the policy trajectory in recent decades combines three elements: system maintenance, policy change, and policy drift. System maintenance has sustained universal programs such as pensions and health care that benefit the entire population, including the broad middle classes. While these programs were not designed primarily with redistribution to the poor in mind, they do have important redistributive impacts, which have also largely been maintained. Policy change and policy drift, however, have had the opposite effect. Policy restructuring shrank programs that provided support to vulnerable Canadians, such as unemployment benefits and social assistance, and reduced the progressivity of the tax system. As we shall see, Canada experienced a "neoliberal moment" during the 1990s, when the federal and provincial governments made dramatic changes. During the 2000s, governments continued to weaken the redistributive impact of the tax-transfer system in more incremental ways.

Policy drift also matters. There is a tendency to equate "retrenchment" with authoritative changes in formal rules, policies, and procedures. But an exclusive focus on action ignores the consequences of inaction. As the economic and social world changes, new risks and pressures are created for important parts of the population. If public policy fails to keep pace, social programs "come to cover a declining portion of the salient risks faced by citizens" (Hacker 2004, 243; Hacker and Pierson 2010). As we shall see, the Canadian story includes serious policy drift. Governments have not responded energetically to the evidence of growing inequality, and they have not modernized the policy architecture in light of new social risks confronting Canadian families. Action and inaction, sins of omission and sins of commission, have weakened the redistributive state.

This Introduction has two purposes. It seeks to integrate the findings in the chapters that follow into a comprehensive overview of the changing politics of redistribution. In addition, it puts Canadian experience in a broader perspective by drawing on insights emerging from comparative research on the politics of the welfare state. The Introduction comprises four sections. The first section sets the background context by briefly examining the welfare state that emerged in Canada during the postwar era and the politics that shaped it. The second section explores the ways in which Canadian politics has changed in the decades since 1980, altering the balance of political pressures on social policy. The third section examines the impact of the new politics on social programs, tracing system maintenance, policy change, and policy drift. The fourth analyzes the impact of change and drift on the redistributive role of the state in Canada, analyzing the extent and timing of the decline in redistribution in greater detail. The concluding chapter of this volume, Chapter 17, extends the discussion by reflecting on the importance of the findings, both for the scholarly literature on the politics of social policy and for the future of social well-being in Canada.

The Postwar Politics of Redistribution

Canadians built their version of the welfare state during the middle decades of the twentieth century. The remarkably innovative postwar era saw the introduction of programs to address a wide range of social needs: income protection for the elderly, the disabled, and the unemployed; support for families with children; health care for Canadians as a whole; and social services for those in need. These programs transformed Canadian society, reducing poverty and inequality, and making critical services such as health care accessible to everyone. As Hanratty and Blank (1992, 237-38) have shown, Canadian poverty rates declined dramatically in the 1970s, falling below US levels for the first time in 1974.

The postwar welfare state clearly made Canada a fairer place, and many Canadians began to think of their social model as a mid-point between Europe and the US. In reality, however, the Canadian model was always comparatively modest. In his typology of welfare states, Esping-Andersen (1990) classifies Canada, along with the US and other English-speaking democracies, as a "liberal" welfare state, in contrast to the more expansive corporatist or Christian-Democratic welfare states of Continental Europe and the social-democratic welfare states of Scandinavia. For Esping-Andersen, the term "liberal" has a nineteenth-century meaning: individualistic rather than solidaristic. Liberal welfare states are reluctant to replace market relations with social rights; instead, they seek to provide a safety net for the "poor" and to encourage the bulk of the population to rely as much as possible on private sources of economic security, including occupational benefits and personal savings.

Liberal welfare states are characterized by comparatively low levels of welfare spending. Table 1.1 tracks the growth in total social expenditures on income transfers and health care (excluding education) among democratic countries between 1960 and 2012. In 1960, no one was spending very much by contemporary standards. The countries of Continental Europe (where welfare state innovation began in the late nineteenth century) were the

TABLE 1.1

Total public social expenditure as a percentage of GDP, selected OECD countries, 1960-2007

Country	1960	1980	1990	2000	2007	2012*
Anglo-Saxon countries						
Australia	7.4	10.6	13.1	17.3	16.0	18.7
Canada	**9.1**	**13.7**	**18.1**	**16.5**	**16.9**	**18.2**
United Kingdom	10.2	16.7	16.8	18.6	20.5	23.9
United States	7.3	13.1	13.5	14.5	16.2	19.4
Mean	*8.5*	*13.5*	*15.4*	*16.7*	*17.4*	*20.1*
Scandinavian countries						
Denmark	10.6	25.1	25.1	25.7	26.1	30.5
Finland	8.8	24.1	24.1	24.2	24.8	29.0
Norway	7.8	22.3	22.3	21.3	20.8	22.1
Sweden	10.8	30.2	30.2	28.4	27.3	28.2
Mean	*9.5*	*25.4*	*25.4*	*24.9*	*24.8*	*27.5*
Continental Europe						
Austria	15.9	23.8	23.8	26.7	26.4	28.3
Belgium	13.8	24.9	24.9	25.4	26.3	30.0
France	13.4	24.9	24.9	27.7	28.4	32.1
Germany	18.1	21.7	21.7	26.6	25.2	26.3
Netherlands	11.7	25.6	25.6	19.8	20.1	24.3
Mean	*14.6*	*24.2*	*24.2*	*25.2*	*25.3*	*28.2*
Southern Europe						
Italy	13.1	20.0	20.0	23.3	24.9	28.1
Spain	3.2	19.9	19.9	20.4	21.6	26.3

* Projected

Sources: Data for 1960 from OECD, "New Orientations for Social Policy," *Social Policy Studies* 12 (Paris: OECD, 1994). Data for 1980-2012, downloaded from OECD, Social Expenditure Database (SOCX), March 2013.

welfare state leaders, while both Scandinavian and Anglo-Saxon nations were relative laggards. However, expenditures in Scandinavia and the Continental countries exploded between 1960 and 1980 and then levelled off. Canadian spending peaked in 1990 at 18 percent of gross domestic product (GDP), slightly higher than in the US but well below typical European levels. Canadian expenditures then faded somewhat to 16.9 percent in 2007, only trivially higher than in the US (16.2 percent). Provisional OECD estimates for 2012 show the lingering impact of the recession that began in 2008, with spending levels increased in almost all countries. The data suggest that, by that point, Canada (at 18.2 percent of GDP) had actually fallen behind the US (19.4 percent), no doubt due to a sharper US recession. By any international standard, however, Canada is not especially generous.

How to explain these differences? Power resource theory (Stephens 1979; Korpi 1983; Myles 1984; Esping-Andersen 1985) provided the dominant approach in the 1980s and 1990s, and it provides an important framework for several of our authors (see especially the chapters by Richard Johnston and Rodney Haddow). Studies in this tradition argue that differences in welfare state spending and entitlements can be explained by the relative success of left political parties, particularly social-democratic parties, and the strength of organized labour. Countries with strong left parties and powerful trade unions were more likely to develop expansive welfare states in the postwar era; countries in which parties of the right and the centre dominated and trade unions were weak developed more modest welfare states.

As Richard Johnston's chapter demonstrates, the postwar Canadian experience fits this model. Class-based voting was particularly limited in Canada compared to other Western democracies, and left political parties enjoyed only modest success at the polls. Founded in the 1930s by a coalition of farmer organizations, labour unions, and socialist intellectuals, the Co-operative Commonwealth Federation (CCF) was restructured in the early 1960s as the New Democratic Party (NDP), a more conventional social-democratic party with organic links to organized labour. Although the CCF/NDP has governed in five of the ten provinces at various times, it has never held power at the national level. During the postwar decades, it introduced important innovations at the provincial level and put pressure on centrist and conservative federal governments from the opposition benches in Parliament. Its overall role, however, has been secondary and indirect. Similarly, labour unions have been comparatively weak in Canada. Unionization of the labour force peaked at about 35 percent of the non-agricultural labour force in the early 1970s and declined slowly thereafter. Moreover, in contrast to European countries, organized labour in Canada remained decentralized and ideologically divided.

Nevertheless, an exclusive focus on comparative theory misses much that is distinctive about Canada. As Jane Jenson observes in her chapter: "An initial puzzle for the Canadian literature was, then, what were the politics that got it there? If they were not the class-based and class-organized politics … what were the political drivers?" More than in most countries, Canadian politics is territorial politics, rooted in linguistic and regional divisions. Territorial divisions cross-cut class-based politics at the national level, and the politics of equality has always centred as much on regional inequalities as on class inequalities. Territorial politics generated a distinctively Canadian dynamic of expansion in social policy in the postwar period. Ever since Bismarck introduced social insurance in Germany in the 1880s, the welfare state has been recognized as an instrument of social integration in divided societies. In most countries, attention focuses on the role of social policy in bridging class divisions. In postwar Canada, however, social programs were seen as an instrument of territorial integration (Banting 1995, 2005). In the 1960s, for example, federal Liberals expanded social programs as "part of a strategy to strengthen the presence of the federal government and encourage 'nation' building in Canada" (Maioni 1998, 132). Over time, many Canadians, especially in English Canada, came to see national social programs as part of the Canadian identity, something distinguishing them from their powerful neighbours to the south, and part of the social glue holding their vast country together (Boychuk 2008; Johnston et al. 2010).

As the chapter by Jenson demonstrates, the social model that emerged from this distinctive combination of class and territorial politics is best characterized as a modified or hybrid version of the liberal welfare state (also Tuohy 1993). Income security programs were a thoroughly liberal component of the social architecture. Universal benefits such as Family Allowances provided modest benefits compared to the programs developing in many European countries. Pension programs protected poorer Canadians but were not designed to meet in full the retirement income needs of the middle class. In combination, Old Age Security (OAS), Canada/Quebec Pension Plans (C/QPP), and the Guaranteed Income Supplement (GIS) replaced approximately 40 percent of earnings for the average wage earner, a modest amount by European or even US standards. Similarly, Unemployment Insurance provided lower benefits for shorter periods of time than did the unemployment benefits in most European welfare states. Although postwar social planners hoped that the new income security programs would end reliance on traditional welfare programs (Marsh 1943), Canada continued to rely more heavily than did many Western nations on means-tested programs, such as social assistance.

The major exception was health care. Its more social-democratic character flowed from a distinctive interaction between power resource politics and territorial politics in the health sector. Pioneered in Saskatchewan by the CCF government, the universal model of health care was extended across the country by federal efforts to build a national approach to the issue. Coverage for core diagnostic, medical, and hospital services was universal; funding came from general tax revenues; there were no charges at the point of service – no co-payments, no user fees. The public system was not fully comprehensive. Such important items as prescription drugs outside the hospital context, dentistry, and long-term care were not covered; these areas follow a liberal model with a complex mix of private plans and public programs for the elderly and the poor. Nevertheless, in core elements of the health care system, social-democratic principles predominate.

In short, the Canadian social model became a hybrid – essentially liberal but modified by social-democratic elements in health care.

The New Politics of Redistribution

Major turning points in history rarely announce themselves as such. In retrospect, it is clear that the politics that built the postwar welfare state were transformed in the last two decades of the twentieth century. The 1980s represented a transitional decade in Canadian social policy. In programmatic terms, the welfare state actually grew stronger. Parliament unanimously approved the Canada Health Act, 1984, reinforcing the universal model and strengthening the prohibition of financial charges at the point of service. In 1985, the federal Progressive Conservative government extended the Spouse's Allowance incrementally to all low-income widows and widowers aged 60 to 64. In some provinces, especially Ontario, social assistance benefit levels were raised sharply, and caseloads jumped. Both levels of government, struggling to reduce growing deficits, introduced surtaxes for high-income earners. As we shall see, the redistributive impact of the tax-transfer system actually strengthened over the decade.

However, the 1980s also saw growing pressures for a new politics of social policy. In the US and the UK, the election of the governments of Ronald Reagan and Margaret Thatcher, respectively, shifted political discourse dramatically. In typically Canadian fashion, this country's transition was more evolutionary. Over the course of the decade, conservative ideological challenges to the welfare state, fiscal pressures facing both levels of government, and regional challenges to the federal role in social policy all grew stronger. Explicit policy moves in these directions were largely repulsed in the 1980s, as John Myles's chapter on pensions indicates. Nevertheless, a new politics was emerging, and burst into full force in the 1990s, as federal and provincial governments retrenched and restructured. To understand these transitions, we start with comparative insights into the politics of retrenchment and then turn to Canada and the findings of our authors.

Comparative Perspectives

There is striking variation in the extent to which the redistributive role of the state has weakened in contemporary democracies, and much research has been directed to understanding this variation. Most discussions of the restructuring of the welfare state start with the impact of global economic changes. Initially, many analysts were convinced that globalization and technological change were eroding the foundations of the welfare state, forcing governments of both the left and the right to give priority to economic competitiveness, low levels of taxation, and a flexible labour force (Rhodes 1996; Strange 1996). The result, it was thought, would be a "race to the bottom" in which generous welfare states would be forced to adopt market-friendly social programs. Another school of thought, following Polanyi (1944), countered that globalization would trigger an expansion of the welfare state, especially in more open economies, as governments sought to protect their publics from the volatility inherent in the global economy (Cameron 1978; Katzenstein 1985; Garret 1998). But the dominant view was that globalization was weakening the welfare state. After several decades of further research, the evidence points to a more nuanced interpretation. Most analysts agree that large government debts create real vulnerability to global financial pressures, irrespective of the governments in power, as is illustrated by the fiscal crises that racked Canada in the 1990s and the European Union more recently. Beyond the vulnerability of large debts, however, comparative studies tend to conclude that, on average, the effects of trade openness and capital mobility are relatively weak. But they also find that the impact varies considerably and that domestic politics matters a lot when it comes to how different countries respond (Swank 2010, 2002; Brady, Beckfield, and Seeleib-Kaiser 2005; Busemeyer 2009; Huber and Stephens 200l).

A second common starting point in discussions of restructuring is ideological or ideational change. As Jenson argues in her chapter, "the way in which political actors interpret problems and identify solutions is important" (see also Heclo 1974; Béland 2009; Prince 2001). Recent decades have seen several changes in prevailing ideological currents. The 1980s and 1990s saw a return to classical liberal ideas about the relation between state and economy – a return usually identified as "neoliberalism" (McBride 1992).

Neoliberalism holds that countries with high minimum wages, generous social benefits, and "rigid" labour market institutions fare poorly in the global economy; and the neoliberal prescription calls for reducing income transfers such as unemployment insurance and social assistance and making labour markets more flexible. This strategy was advocated by international agencies such as the OECD, whose 1994 Jobs Study framed the social policy debate in democratic countries over the decade (OECD 1994; Mahon and McBride 2008). However, these ideas did not go uncontested. As Mahon (2008) argues, "liberalism" has always come in a variety of forms. Classical liberalism, with its emphasis on negative freedoms and a limited state, has had to jostle with currents of social liberalism, which are focused on positive freedoms of opportunity and personal development. In the contemporary period, this social side of liberalism has emphasized a more inclusive strategy of building the "human capital" of the next generation. Jenson's chapter highlights a "social investment" paradigm that emphasizes empowering people to meet the challenges of technological change and globalization by investing in early childhood education, life-long learning, and "helping parents to parent." Since the 1990s, these ideas have spread internationally (Esping-Andersen et al. 2002; Huo 2009; Morel, Palier, and Palme 2012). As in the case of economic pressures, however, the impact of new ideological currents is filtered through domestic politics. New ideas must be injected into policy debates by powerful political advocates; and the extent to which those ideas are implemented depends on domestic political battles (Hall 1993; Blyth 2002). As a result, the imprint of both neoliberalism and the social investment paradigm varies considerably from country to country.

What are the domestic factors that condition the impact of globalization and neoliberalism? There is intense debate about whether strong labour unions and left parties remain central. Analysts in the power resource tradition insist that the strength of left political parties largely explains why some countries have retrenched more than others (Brady 2009; Korpi and Palme 2003; Allan and Scruggs 2004). But others disagree. Most prominently, Paul Pierson (1994, 1996) argues that power resource theory cannot explain the relative durability of the welfare state in the 1980s. In the US and the UK, the Reagan and Thatcher governments attempted to reduce the welfare state at a time when organized labour was in retreat and the parties of the left were in disarray. In the end, they had limited impact on their respective welfare states because, according to Pierson, mature welfare states have sources of support well beyond those of left parties and unions.

Cutbacks to programs that benefit large parts of the population, such as pensions and health care, are unpopular with the electorate, and well-organized groups, representing both the providers and the beneficiaries of social services, patrol the boundaries of the welfare state. Changing social programs can impose high political costs on governments, and direct assaults are often defeated.

The structure of political institutions also filters the impact of globalization and neoliberalism. Cross-national studies suggest that resistance to retrenchment has been strongest in countries with corporatist institutions, common in Europe. In these systems, both business and organized labour are represented by strong national organizations, and are seen by the government as "social partners" who are directly involved in policy development and the management of social protection programs. In effect, such institutions build the direct representation of economic interest into the policy process and make it more difficult for governments to ignore organized labour (Huber and Stephens 2001). Other studies highlight the importance of other political institutions. Comparative evidence suggests that the electoral system matters a lot and that first-past-the-post electoral systems give less voice to low-income groups than do electoral systems based on proportional representation. Proportional systems allow the representation of more parties and more interests, and tend to facilitate alliances between those representing middle-class voters and those representing working-class voters with an interest in redistribution (Iverson and Soskice 2006; van Kersbergen and Manow 2009). In addition, constitutional structures that generate multiple "veto points" privilege interests that wish to block government intervention in health and social policy (Lijphart 1999; Immergut 1992, 2010). Federal institutions can create such veto points, and cross-national studies conclude that federalism constrains social spending, especially if both taxation and spending are highly decentralized (Rodden 2003). Finally, the form of the welfare state itself seems to matter: universal welfare states seem more resistant to retrenchment politics than do liberal welfare states (Rothstein 1998).

Sorting out the relative impact of each of these institutional factors is difficult. But their cumulative weight is clear. Countries characterized by corporatism, centralized government institutions, and universal welfare states have resisted retrenchment pressures more successfully than have other countries. Retrenchment has been more common in countries with pluralist rather than corporatist politics, majoritarian rather than proportional electoral systems, decentralized political institutions, and liberal welfare programs (Swank 2002, 2010; Beramendi and Anderson 2008; Brady, Beckfield, and Seeleib-Kaiser 2005; Huber and Stephens 200l; Hicks 1999). It is notable that Canada falls in the second group of countries on virtually all of these dimensions. Not surprisingly, the contributors to this volume echo many of the themes in the comparative literature.

The New Politics of Redistribution in Canada

In comparative terms, Canada seems vulnerable to globalization and neoliberalism. The Canadian economy depends heavily on international trade and is among the most open in the OECD. Globalization in the Canadian case has meant deeper integration with the American economy, which absorbed over 80 percent of Canadian exports in the 1990s. The adoption of the 1988 Canada-US Free Trade Agreement and the 1994 North American Free Trade Agreement triggered intense political controversy about whether deeper economic integration would require Canada to adopt the US social model (Banting 1997). Canadian vulnerability was enhanced by heavy debt levels, which comparative experience suggests is critical. Beginning in the late 1970s, governments regularly incurred deficits, and, by the 1990s, the accumulated debt was squeezing budgets at both federal and provincial levels. At the worst point, Canada was among the most indebted of the G7 nations; approximately 35 percent of all federal revenue was pre-empted by interest payments on its debt, and at least one province faced problems placing its bonds in financial markets.

Several of our chapters explore how the combination of globalization and neoliberalism has shaped the politics of Canadian social policy. In their chapter, David Green and James Townsend track the economic turbulence of the 1980s and early 1990s, characterized by high unemployment levels, stagnant wage growth, and a shift towards less stable forms of employment. The problems were pervasive throughout the Western world, but, in these years, the US seemed to fare particularly well (especially after 1990) and Europe particularly poorly. However, the underlying causes of these economic failings were not self-evident, and the key question was how they were interpreted. As Green and Townsend demonstrate, Canadian policy makers reinterpreted the economic world in those years. They fully embraced the interpretation advanced by the OECD, among others, assuming that Canada was living through a skills-biased technological transformation that favoured skilled over unskilled workers. These ideas permeated official Canadian policy discourse in the 1990s, appearing in key government documents, budget statements, and ministerial speeches at both the federal and provincial levels (Jackson 2008). Policy makers also adopted the neoliberal policy agenda implicit in this paradigm, pressing for cuts in "passive" benefits such as unemployment insurance and social assistance, and advocating flexible labour markets and activation programs that encourage movement into the labour force. Green and Townsend argue that this interpretation was actually wrong, a misreading of the ongoing economic transition in Canada and other Western nations. Right or wrong, however, these views profoundly shaped policy strategies in the 1990s, especially in the case of unemployment insurance and social assistance.

The chapter by Robin Boadway and Katherine Cuff also emphasizes the global transmission of policy ideas, especially in reshaping taxation. Elite ideas about tax policy have changed dramatically over the past half century, and taxation has been on "the leading edge of the new political tide" (Steinmo 2003, 217). Before the 1970s, the pervasive assumption was that taxes could and should be an instrument of redistribution and that the anchor of a fair tax system was a comprehensive and progressive system of income taxes, a belief captured in Canada by the mantra that "a dollar is a dollar no matter what its source" (Canada 1966). The 1970s and 1980s saw the erosion of these core beliefs in elite opinion, beginning in the first instance in the US and the UK. New doctrines argued that the tax system should be concerned more with efficiency than with equity; that capital should be taxed at lower rates, if at all; that progressive income taxes have disincentive effects; and that the tax mix should shift from income to consumption taxes. In Boadway and Cuff's view, "the case in favour of limited progressivity has been fairly widely accepted by dominant countries and imitated by others," including Canada. With few exceptions, the overall direction of Canadian tax policy has faithfully reflected these ideas.

As we have seen, in many countries domestic political institutions and processes have limited the impact of globalization and ideological change. However, Canadian politics posed fewer barriers than was the case in many countries. To start, Canada lacks corporatist institutions that have mattered elsewhere. In his chapter on the role of business and labour organizations, Will Coleman tracks how globalization has shifted the balance between economic interests, accentuating close ties between business representatives and government, and marginalizing labour from the policy process. Business associations have used their access to the highest reaches of government to promote market-oriented policies, emphasizing economic competitiveness in the American and global marketplaces, tax reductions, and limits to the social role of the state. Meanwhile, organized labour has been weakened by declining membership, especially in the private sector.[1] Old links with government departments such as the Department of Labour have been disrupted by the restructuring of government bureaucracies and the shift of power over social policy to the Department of Finance. Lacking close links to government, labour leaders have had to advocate greater social equality from the outside.

Civil society organizations have also weakened. Susan Phillips's chapter traces the rise and fall of civil society organizations (CSOs), including women's organizations, voluntary associations, welfare rights groups, and other social movements. During the 1960s and 1970s, they carved out a visible presence in the politics of social policy. However, they were never mass membership organizations; they found it hard to mobilize the individuals on whose behalf they spoke; and they could not sustain themselves based on membership dues. Instead, their growth and viability depended on financial support from the federal government. As the politics of restraint took hold in the late 1980s, social policy groups increasingly moved into oppositional politics, and the federal government responded by cutting their funding, destabilizing and dooming many. In Phillips's view, internal divisions also weakened the sector. The growth of identity politics rooted in language, gender, class, and race fuelled internal tensions within important organizations such as the women's movement; another schism developed between advocacy groups and service-providing organizations seeking closer links with government. Slowly but surely, equality-seeking CSOs faded from federal politics, weakening the support for redistributive initiatives.

This pattern has been reinforced by the decline in the vigorous network of government advisory bodies, research institutes, and think tanks that once populated the sector. The list of victims that have been decisively weakened or closed completely after cuts by the federal government includes the National Council of Welfare, the Canadian Council on Social Development, Canadian Policy Research Networks, the National Aboriginal Health Organization, and Rights and Democracy. The availability of quality data on social issues, the primary resource of equality-seeking groups, has also been compromised by cuts to Statistics Canada and the elimination of the mandatory long-form census. The resulting impoverishment of social policy analysis sucks the oxygen out of the social policy advocacy community.

The weakening of organizations speaking on behalf of the economic interests of lower-income groups is compounded by their own political passivity. Lower-income Canadians are less likely to turn out to vote or join either a political party or an interest group (Gidengil et al. 2004). Historically, the poor and disenfranchised made their voice heard through protests and demonstrations, but protest politics today is now largely the preserve of those who are comfortably well off: "In Canada, as in other advanced industrial democracies, the affluent and the highly educated are the most likely to sign petitions, join in boycotts, and attend lawful demonstrations, just as they are more likely to vote, to become members of political parties, and to join interest groups. They have voice, and those with voice are more likely to be heard" (ibid., 153).

What of public opinion more generally? In their chapter, Robert Andersen and Josh Curtis show that support for redistribution policy closely tracks national economic trends. When times are good, Canadians are more supportive of income redistribution than they are when times are bad. During the 1990s, as the recession took hold, opinion polls recorded more resistance to social benefits and greater support for tax cuts. But this pattern peaked in the mid-1990s and faded as the economy grew and public finances returned to surplus. By 2000, public support for social programs had returned to historic levels. Andersen and Curtis find no evidence of a long-term trend in public opinion supporting reductions in redistribution.

The chapter written by Keith Banting, Stuart Soroka, and Edward Koning drills down into one specific aspect of public opinion, examining the impact of growing ethnic diversity on public attitudes towards redistribution. In the US and Europe, many commentators fear that ethnic and racial diversity is eroding the sense of community, weakening feelings of trust in fellow citizens, and fragmenting the historic coalitions that built the welfare state. They fear that members of the majority public might withdraw support from social programs that give money to "outsiders" who are not part of "us" (Gilens 1999; Alesina and Glaesar 2004). Banting, Soroka, and Koning dig into Canadians' views of minority use of welfare and find that immigration is not eroding support for redistribution in this country (see also Banting 2010; Banting et al. 2010). But their chapter also documents a darker side to Canadian attitudes. Respondents who believe Aboriginal peoples are heavily dependent on welfare tend to reduce their support not only for social assistance itself but also for the redistributive state as a whole. This reaction is strongest in western Canada, where support for social assistance is lowest.

Shifts in organized politics and public attitudes have been amplified by changes in core political institutions such as the party system and the bureaucracy. As Johnston's chapter highlights, the Canadian party system shifted to the right in the 1990s, and party manifestos reflected an anti-welfare bias. Moreover, the Liberal government, elected in 1993, enjoyed unparalleled electoral freedom. Its historic enemy, the Progressive Conservative Party, was broken in two, while the social-democratic NDP fell to its lowest level of political support in a generation, barely surviving as an officially recognized political party. The gap in seats between the government and the Official Opposition was wider than at any time in Canadian history, a condition that Johnston, following Pierson, calls "electoral slack." Although freed from tight electoral constraints, the Liberals were under intense fiscal pressure resulting from cumulative debt levels. In response, the Liberals cut deeply into programs they had introduced during the postwar era. A similar process unfolded in many provinces.

A new bureaucratic politics also weakened the politics of redistribution. Traditionally, according to the chapter by David Good, redistributive policy making comprised three players: (1) the "advocates," the ministers and senior officials in social departments such as National Health and Welfare and its successor, Human Resources and Skills Development Canada; (2) the "restrainers," the minister and officials in the Department of Finance; and (3) the "gatekeepers" in the Prime Minister's Office (PMO) and the Privy Council Office (PCO), who kept track of priorities. This pattern of bureaucratic politics has been replaced by a centralized and politicized process. Line ministers and departments who were policy advocates and policy developers in the postwar era are now primarily delivery agents. Today, not only does the Department of Finance set fiscal parameters for program initiatives, but it has also become the undisputed policy designer. The PCO and, especially, the PMO, once the gatekeepers of priorities, are now mostly political communicators, shaping priorities through the lens of political strategy and messaging. This transformation has powerful implications. Inside government, redistributive policies are driven by fiscal and tax policy considerations, not by program departments and their constituencies, which led developments in the postwar era. As a result, redistributive policy making now focuses more on adapting past programs and less on responding to new needs (also Hale 2002).

The changing roles of business, labour, CSOs, political parties, and bureaucracies have parallels in many countries, but the distinctively Canadian *territorial* politics also shifted in this era. During the postwar years, the federal government saw national social programs as one of few instruments available to knit together a country divided by linguistic and regional conflicts. During recent decades, this tradition has been challenged by

Quebec nationalism and the rise to power of the sovereigntist Parti québécois. Regional economic conflicts also deepened when the energy crisis of the 1970s and free trade in the 1980s pitted region against region. In response to these pressures, the federation has become more decentralized, and the federal government's ability to steer provincial programs has been reduced. In addition, Quebec has carved out an increasingly asymmetrical place in the federation, expanding its autonomy in social policy beyond that of other provinces. In the field of social policy, Canada is now one of the most decentralized welfare states in the OECD (Obinger, Liebfried, and Castles 2005, Table 1.6). It is particularly decentralized in fiscal terms, with federal transfers representing a comparatively small portion of provincial revenues, which, as we saw above, is precisely the pattern that comparative evidence suggests most dampens spending (Rodden 2003).

Several chapters ask whether decentralization and asymmetry have changed redistributive politics in Canada. Gerard Boychuk argues that, at the federal level, the imperatives of territorial politics remain vigorous. In his view, the federal government still wishes to touch the lives of individuals and families through its social programs. In the mid-1990s, the federal government cut unemployment benefits and terminated the Canada Assistance Plan, but it also expanded benefits for a bigger constituency as its fiscal position improved. The National Child Benefit, in particular, expanded benefits for a larger number of families, including not just the poor but also lower-middle-income families.

Nevertheless, decentralization has decisively shifted much of the action to provincial politics and has accentuated regional variation in social programs. Quebec has seized the opportunity to build a stronger model of social protection, as the chapter by Alain Noël demonstrates (see also Béland and Lecours 2008). While support for redistributive policies was weakening elsewhere, Quebec introduced a family policy that included universal childcare, active labour market policies, and a strategy against poverty and social exclusion. These changes increased redistribution and helped Quebec defy the country-wide trend towards greater inequality (see also Fortin 2010). The distinctive politics of Quebec lay behind the growing divide. In the middle of the 1990s, Quebec still had a strongly organized society, with powerful trade unions, a solid women's movement, and a dense network of social and community organizations. As a result, the political dynamic resembled the politics of welfare state reform in many European countries, where governments seeking to reform their welfare states built coalitions among historic social partners (Häusermann 2010). In 1996 and

1997, the Quebec government and its social partners built such a reform coalition around innovations in public finance, employment, and family policies, including childcare. Quebec represents the road not taken by the rest of Canada. It also demonstrates that social policy is not driven exclusively by impersonal economic forces and that politics matters to our social future.

The distinctiveness of Quebec is underscored by Mahon's chapter on childcare in Ontario. In comparison with Quebec's universal approach to the issue, expansion in Ontario has been limited. Without the coalitional politics that exist in Quebec, policy has been more sensitive to shifts in party politics, with the Conservative government, elected in 2006, reversing the efforts of previous Liberal and NDP governments. In addition, progress has been slowed by the tendency of childcare activists and politicians in the province to play multi-level politics, seeking pan-Canadian solutions and funding for childcare. Waiting for the magic combination of sympathetic governments at both federal and provincial levels has delayed action and repeatedly dashed activists' hopes. Signs that Ontario is going its own way in early childhood development, discussed more fully below, point to an escape from the complexities of federalism.

Finally, Haddow's chapter also highlights the extent of regional variation in redistribution. He concludes that the difference between Canada's most and least redistributive provinces is strikingly large. Consistent with the power resources approach, his analysis shows that, over the past fifteen years, the redistributive impact of taxes and transfers has been higher in provinces with greater union density and more left-party governments. Provinces dominated by conservative parties have moved in the opposite direction.

What, then, is the cumulative impact of decentralization on redistribution in Canada? Optimists point to the Quebec experience as a path for other provinces. However, Haddow finds little evidence of convergence in provincial redistributive regimes. Pessimists fear that Quebec's distinctive language and culture give it greater flexibility in taxation, that other provinces are much more constrained by tax competition among each other, and that the imposition of a cap on growth in the equalization program, which supports have-not provinces, will weaken the scope for innovation in poorer regions. As we see below, redistribution has declined more at the provincial level than at the federal level; and, in their chapter, Boadway and Cuff conclude that decentralization and inter-regional competition are part of the explanation for the overall decline in redistribution in Canada.

In summary, a powerful confluence of changes has reshaped the politics of redistribution. As noted at the outset, no single factor represents a smoking gun, but the various changes have coalesced into two broad trends. First, the organized politics of social policy has been transformed. The displacement of organized labour, the decline of equality-seeking social movements and CSOs, and the crippling of advisory bodies and think tanks have weakened the traditional advocates of the economic interests of less affluent Canadians. This fading attention in public discourse, coupled with the lower propensity of the poor to vote, has reduced the incentives of political parties to worry about the less affluent compared to the highly attentive and vociferous middle-class and more affluent voters. Second, these shifts in organized politics have been reinforced by shifts in the distribution of power within our political institutions that further raise the barriers to concerted action against inequality. Within governments, power has shifted from social policy departments to departments of finance; between governments, power has shifted from the federal to the provincial level. In combination, these changes have weakened the politics of redistribution in Canada.

Restructuring the Model: System Maintenance, Policy Change, and Policy Drift

New politics generate new policies. The Canadian social model has been reshaped through system maintenance, policy change, and policy drift. Once again insights from comparative research help put Canadian experience in perspective.

Comparative Perspectives

The new institutionalist literature provides several distinctive interpretations of *how* welfare states change. Early contributions highlight the importance of path dependency and the resilience of policy structures, even "a 'frozen' welfare state landscape" (Esping-Andersen 1996, 24). In these interpretations, the past weighs heavily on the present. Over time, Pierson and others argue, social programs become progressively more "locked-in" as past commitments and program design narrow the options for the future. Pensions represent a classic example, as governments must manage commitments promised by their predecessors as much as forty years ago (Myles and Pierson 2001). From our perspective, it is important to note that such stability can require positive action and the injection of substantial resources, a pattern we describe as *system maintenance.*

By the 2000s, it became clear that welfare states were not frozen but, rather, were evolving, and two theoretical approaches have emerged to explain this process of *policy change.* One interpretation sees a process of "punctuated equilibrium," in which a pattern of long continuity suddenly gives way to a sharp burst of radical change, which, in turn, locks in a new trajectory that persists for a long time. In Pempel's (1998, 3) words, "path-dependent equilibrium is periodically ruptured by radical change, making for sudden bends in the path of history" (see also Tuohy 1999). A second interpretation anticipates a more evolutionary process. This approach assumes that policies and institutions are the subject of ongoing political contestation and that they evolve incrementally through a long succession of reforms (Palier 2010; Thelen 2004; Streeck and Thelen 2005; Mahoney and Thelen 2010). In this interpretation, governments employ strategies of "blame avoidance" (Weaver 1986), or what has been dubbed in Canada "the politics of stealth" (Battle 2001), adopting changes that are less visible to the public and are phased in slowly. Governments also seek to protect themselves by negotiating packages with opposition parties and/or associations representing labour and business (Myles and Pierson 2001). Because of the consensus-building process associated with such bipartisan agreements, dramatic change is unlikely. Moreover, such packages often combine cuts in old programs with innovations in new fields, such as child and elder care, to win support from emerging constituencies for reform (Häusermann 2010).

Finally, the historical record also contains considerable *policy drift.* As noted at the outset, Hacker (2004) argues that program effectiveness can fade through processes of drift. Drift occurs when policy makers choose not to reinforce programs with new resources, as in system maintenance, or to update them in response to changing external circumstances. Failing to increase benefit levels to reflect inflation or overall wage growth is the simplest form of drift. But failing to respond to emerging social problems and new social risks is also powerful. The danger is that social programs "mirror a society that no longer obtains" (Esping-Andersen 1996, 5). Deliberate inaction and neglect in the face of social change is a way of slowly marginalizing the welfare state.

Restructuring the Policy Model in Canada

The shifting political dynamics in Canada has led to a complex mix of system maintenance, policy change, and policy drift. While system maintenance has helped preserve universal programs, policy change and policy drift have weakened the redistributive role of governments. Both action and inaction have mattered.

System Maintenance

System maintenance characterizes two core programs that benefit both the middle class and the poor – health care and pensions. As the chapter by Carolyn Tuohy shows, neoliberal politics have not made much of a dent in the core health care model. The single-payer system of universal insurance for hospital and physician services enjoys iconic status in the Canadian psyche, and elected leaders trifle with it at their peril. Health care did come under serious pressure during the 1990s. Costs in the sector were growing faster than the general rate of inflation; and federal transfers to provincial programs were cut in 1995, exacerbating the restraint already under way at the provincial level. By the late 1990s, newspaper reports described the closing of hospital wards, the slower acquisition of new technologies, declining staffing levels, long waiting times for non-emergency surgical procedures, and crowded emergency departments. Polls suggested that Canadian faith in health care had fallen more rapidly than in other Western nations. Governments quickly responded: retrenchment was superseded by a "catch-up" phase of dramatic reinvestment in the 2000s. Health care rose from 13.3 to 17.8 percent of government spending between 1995 and 2007. In 2004, an "Accord" between Ottawa and the provinces guaranteed annual increases of 6 percent in federal health transfers until 2014; and, in 2012, the federal government announced an extension until 2024, although with a less generous formula governing increases after the third year.

The politics of system maintenance was equally marked in pensions. As John Myles shows in his chapter, attempts to cut old-age benefits were unsuccessful in the 1980s and 1990s. In 1985, the Progressive Conservatives proposed partial de-indexation of OAS but backed down quickly in the face of angry elderly voters. A decade later, the Liberal government proposed replacing OAS and the GIS with an integrated income-tested seniors' benefit, but it also abandoned the idea under withering political fire. In March 2012, the Harper government launched a new effort to cut future spending on OAS and the GIS by proposing to increase the age of eligibility for benefits from sixty-five to sixty-seven. But in a classic case of blame mitigation, the government plans to phase in the increases between 2023 and 2029 (Canada 2012, 197). If these changes are not reversed by a subsequent government, they will represent the first significant retrenchment in the pension sector.

In the case of contributory pensions, significant effort in the 1990s was devoted to stabilizing the C/QPP. A federal-provincial review was launched in 1996 in response to actuarial reports questioning the long-term financial status of the program. From the outset, however, negotiations focused on a narrow range of options; the governments did not even try for dramatic retrenchment. The electoral sensitivity of pensions was undoubtedly important, but federal-provincial decision making also led to a consensus-driven, incremental politics. The Province of Quebec announced that it would not consider significant reductions in benefits, a position supported by NDP governments in Saskatchewan and British Columbia. In the end, the federal and provincial governments agreed to accelerate increases in contribution rates from 5.5 percent to 9.9 percent of earnings over a ten-year period. There was a modest trimming of some benefits, and the two NDP governments refused to sign the final agreement. But the final changes largely stabilized the role of contributory pensions in the retirement income system through a major steady injection of new resources.

Policy Change

In comparison with the tender treatment of programs critical to the middle class, benefits for the unemployed and other vulnerable Canadians experienced deep cuts. The Canadian response here reflects a combination of "punctuated equilibrium" followed by incremental change. The "sudden bend in the path of history" – to borrow Pempel's words – came in the mid-1990s, with cuts falling most sharply on unemployment benefits and social assistance. Unemployment benefit levels were reduced and more restrictive eligibility requirements contributed to the decline in the proportion of the unemployed actually receiving benefits; in the late 1980s, over 80 percent of unemployed Canadians were in receipt of unemployment benefits; by the late 1990s, the number had dropped to 40 percent. Part of the drop reflected changes in the labour market, such as the growth of contract workers who are not covered by Employment Insurance (a clear case of policy drift). But a significant part resulted from formal changes in the program. The impact did vary by region as the cuts generated intense opposition in eastern Canada. As a result, the proportion of the unemployed receiving benefits in Atlantic Canada remained relatively high but plummeted to approximately 30 percent in Ontario and British Columbia in the early 2000s (Battle, Mendelson, and Torman 2006).

Social assistance programs underwent similar cuts. In 1990, the federal Progressive Conservative government imposed a cap on the Canada Assistance Plan (CAP) for the three richest provinces, limiting growth in the federal contribution for social assistance to 5 percent a year. In 1995, the Liberal government abolished CAP altogether, shifting its funding to a new block grant and dramatically cutting the funds being transferred. The federal government also took the opportunity to eliminate most of the conditions attached to its funding for social assistance, and provinces used the new flexibility. The intensity of retrenchment varied across the country, with the steepest reductions made in Ontario, when the Progressive Conservative government cut benefits by 20 percent in 1996. Nevertheless, the direction of change was consistent across the country (Kneebone and White 2008). The real value of benefits fell by large amounts. Caseloads dropped dramatically as eligibility conditions were tightened and beneficiaries came under increasing pressure to participate in employability programs and to move into employment.

At the federal level, the impact of retrenchment was partially mitigated by investment in other transfer programs. As federal finances came back into balance in the late 1990s, the federal government increased the Canada Child Tax Benefit, an income-tested payment delivered each month to all low- and middle-income families. The goal was to "make work pay" by narrowing the gap between the income of families on welfare and those living on wages from low-paid jobs. In the case of welfare families, the federal government urged provinces to offset the increase by reducing the child component of their social assistance benefits by the same amount and to reinvest the savings in child-related services, such as childcare. In this way, social assistance recipients would not lose all their child-related benefits when moving into low-paid work, and low-wage workers with children would have less financial incentive to leave work for welfare.

The period of deep and rapid retrenchment lasted only until the late 1990s. Thereafter, Canada's public finances moved into surplus, public resistance to social spending softened, and the electoral slack of the mid-1990s declined as federal politics once again became competitive. In the 2000s, Canada shifted into a period of incremental change along the trajectories established in the 1990s (Prince 2002). Even the sharp recession that began in 2008 did not shift the country onto a new path. The federal Conservative government extended unemployment benefits for an additional five weeks and increased retraining and work-sharing. But these initiatives were carefully designed to be temporary, lapsing within two years. After winning a majority government in 2012, the Conservatives returned to incremental retrenchment, introducing more stringent requirements relating to the nature of alternative employment that Employment Insurance (EI) recipients would be required to accept (Banting 2012, 27-28).

Finally, taxation policy has also evolved dramatically (for an overview, see Kerr, McKenzie, and Mintz 2012). As Boadway and Cuff note in their chapter, the income tax system became considerably less progressive in this period. In the case of income taxes, the surtaxes on higher-income individuals were steadily reduced, and the top marginal rate of combined federal and provincial taxes fell from 80 percent in 1971 to 51 percent in 1987 to 43 percent in 2009 (Treff and Ort 2010; Fortin et al. 2012). Once again the most dramatic changes came between 1995 and 2000, especially at the provincial level. Ontario reduced its provincial income tax rate by over 30 percent, but it was not unique; every province lowered its rates in these years, and Alberta eventually adopted a flat tax (Frenette, Green, and Milligan 2009). Since coming to power in 2006, the federal Conservatives have continued to give priority to tax cuts. They enhanced the sheltering of capital income and reduced federal corporate tax rates from 19.5 percent in 2008 to 15 percent by 2012, urging provincial governments to do the same (Treff and Ort 2009, 4.3). In addition, the federal government cut the Goods and Services Tax. While the GST was never a progressive tax, the reductions further reduced the fiscal capacity of the federal government to support social programs.[2] Overall, the role of the tax system for reducing inequality has been muted over most of the income range. When combined with changes in transfers, which they also survey, Boadway and Cuff conclude that "redistribution policy has become, if anything, less redistributive," and for "the neediest persons ... redistributive policy has become particularly harsh."

Policy Drift

Finally, the Canadian welfare state has been weakened by the failure to respond to emerging social problems, new social risks, and new policy ideas. At the simplest level, many provinces allowed social assistance to decline by not adjusting benefit levels for inflation for almost a decade between the mid-1990s and the mid-2000s (National Council of Welfare 2010). But Canadian governments have also shown limited taste for serious policy innovation in the 2000s, and the resulting drift is clear on both the old and the new frontiers of the welfare state.

Drift on old frontiers can be seen in the limited response to growing social risks on the margins of the core programs in health care and pensions. In the case of health care, technology and population aging are enhancing the risks not covered by the universal, single-payer program. Technological developments have enhanced the importance of pharmaceuticals in the health consumption patterns of Canadians. Except for those in hospital, however, pharmaceuticals are not covered by the universal program. Population aging has also driven up demand for both home care and long-term institutional care services, which are also not included in the single-payer model. Responses across the provinces to these technological and demographic shifts have varied. In the case of pharmaceuticals, for example, Quebec introduced universal "pharmacare" in 1996, but elsewhere governments moved selectively. In Ontario, for example, government took responsibility for covering "catastrophic" drug care costs in addition to its established programs for seniors and social assistance recipients; and several western provinces moved from age-based to income-based drug coverage. However, as Tuohy shows, these programs have not been sufficient to fully offset the "passive privatization" of health care at the margins.

Drift has also characterized old frontiers in pension policy. During the 2000s, attention shifted from the core public programs to workplace pensions (Registered Pension Plans [RPPs]) and individual retirement accounts (Registered Retirement Savings Plans [RRSPs]). As Myles points out, the concern here was not about today's seniors but those of the future. Workplace pensions have been in decline, especially among younger workers; risk has been shifted from employers to workers; and administrative costs for these private retirement vehicles are high. As a result, there is a real danger that many of today's middle-income earners will not be adequately protected when they retire. Four provincial reports and a federal-provincial summit put a number of innovative proposals on the table, and a proposal to expand the C/QPP was widely discussed. At the end of the day, however, bold action fizzled. The federal government introduced a modest proposal for a pooled retirement savings plan, a strategy about which many observers are sceptical.

The new frontiers of social policy have also seen drift, as Mahon's chapter highlights. Social change is exposing young families to new risks and pressures. The "old politics" of the postwar welfare state were focused on the male-headed, single wage-earner family model. At that time, families faced economic catastrophe if "dad" was unemployed, disabled, or faced with retirement. The gender revolution in women's education and employment has changed the risk structure facing individuals and families (Esping-Andersen and Myles 2009; Goldin 2006). In our education-driven economy, young adults – who bear the responsibilities for young children – begin their work careers much later. The relative earnings and accumulated assets of these young adults have also fallen sharply since 1980, placing new pressures on efforts to contain or reduce child poverty. Access to a middle-class lifestyle now depends on the dual wage-earner family, generating additional pressures for childcare, income support for single-earner households (especially single mothers), and policies to help reconcile work and family life. In all of these areas, the response of Canadian governments, outside of Quebec, has been tepid.

Nor have Canadian governments embraced new ideas in bold ways. As Jenson's chapter demonstrates, their response to the new social investment paradigm has disappointed its advocates. The federal Liberal government adopted the language of social investment in the late 1990s and early 2000s (Jenson and Saint Martin 2003, 2006), but concrete action was limited. Jenson sees the National Child Benefits and the Working Income Tax Benefit as expressions of the social investment approach. But investment in learning and early childhood development falls largely within provincial jurisdiction, and the federal government has little influence. Federal initiatives to promote early learning and childcare in 2000 and 2003 were short-term efforts with diffuse effects. A major effort in 2005 to establish a pan-Canadian childcare system through federal-provincial agreements did not survive the change in government in 2006. The incoming Conservative government cancelled the shared-cost agreements, replacing them with a small universal payment sent directly to all parents with young children (Prince and Teghtsoonian 2007). Since then, action has depended on provincial initiatives. Quebec established its universal childcare, and Ontario announced the phasing-in of all-day kindergarten. Nevertheless, these initiatives remain modest in international terms. In the euphemistic words of an OECD review team, outside Quebec, Canadian policy on early childhood education remains "in its initial stages" (OECD 2004, 6). In a 2008 report by UNICEF (2008) on childhood development, Canada tied with Ireland for last place among twenty-five economically advanced countries. More generally, OECD analysis of spending patterns actually suggests that Canadian public spending on education as a whole has declined significantly since 1980 (Nikolai 2012).

Finally, and most generally, Canadian governments have failed to respond to the evidence of growing inequality in Canada. As Good's chapter argues, governments seldom focus on inequality as such; in his words, no single institution in government is responsible "for monitoring and managing the Gini coefficient." But governments make decisions every day that alter the distribution of advantage and disadvantage in society. They can launch new initiatives to combat poverty and unequal life chances or they can chose to ignore the issues. In these matters, Canadian governments – again with the exception of Quebec – have been passive, taking only timid steps to help the disadvantaged and ignoring the broader dimensions of the new inequality.

In combination, system maintenance, policy change, and policy drift have redefined the aspirations of Canadian governments, with retrenchment and drift in particular weakening the redistributive role of the state. It is now time to examine the impacts on redistribution in detail.

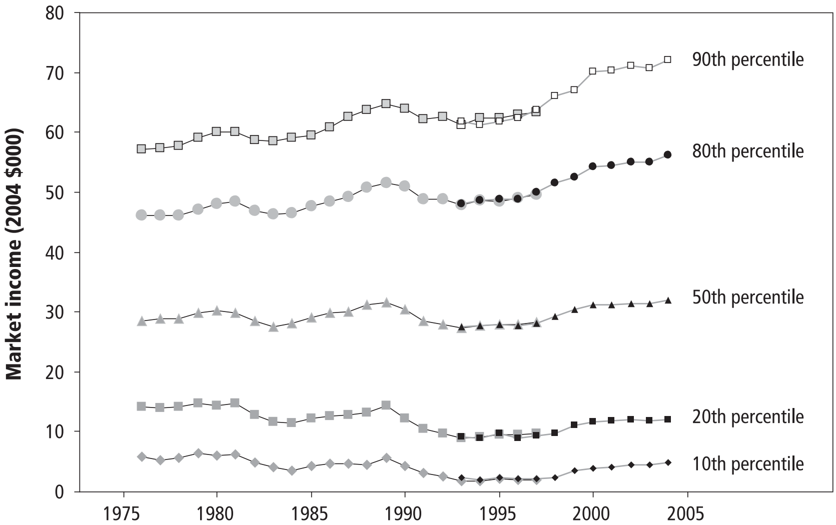
The Fading Redistributive Impact: Inequality and Poverty

After four decades of relative stability, income inequality in Canada surged upward in the latter half of the 1990s. Between the mid-1990s and the mid-2000s, inequality increased more in Canada than in other OECD countries, and the redistributive impact of the tax-transfer system in Canada declined (OECD 2008, fig. 4.7). As we saw at the outset, by the mid-2000s, the redistributive impact of Canadian taxes and transfers was among the smallest among OECD countries (OECD 2011, 271).

The big surge in *market* income inequality began during the recession of the early 1980s and continued until the end of the 1990s. Rising market inequality reflects several distinct but powerful trends. Most attention has focused on the stunning rise in the proportion of income captured by the top 1 percent of income-earners, reflecting changing norms about compensation for the highly paid (Saez and Veal 2005; Fortin et al. 2012). The share of income captured by the top 1 percent is now approaching the levels reached in the "Gilded Age" of the 1920s and the Great Depression of the 1930s, generating an intense debate about the division between the rich and the rest, which was highlighted by the Occupy Movement in 2011. However, other trends have also mattered. One is the loss of solid middle-income jobs as a result of a combination of technological change, outsourcing, and declining unionization. According to one analysis, "the young and the poorly educated have borne the brunt of these forces, but significant numbers of those previously in the middle and lower middle of the occupational skill and wage distribution have also been adversely affected" (Fortin at al. 2012, 133). Finally, social changes have been important. Women and men increasingly choose spouses with similar educational levels, a process known as marital homogamy, or educational assortative mating. This trend tends to increase family income inequality as high-income earners increasingly marry each other and lower-income earners do likewise. Figure 1.1 captures the impact of these wider trends, demonstrating the strong rise in the real

FIGURE 1.1

Family market incomes by percentile, all persons, 1976-2004



Note: The series shown in the graph combines results from the Survey of Consumer Finance for 1978-97 (when the survey was terminated) and the Survey of Labour and Income Dynamics (1993-2004) that replaced it. Hence, two data observations are charted for the period of overlap (1993-97). The results indicate that the change in design had little impact.
Source: Heisz (2007, Figure 13.1).

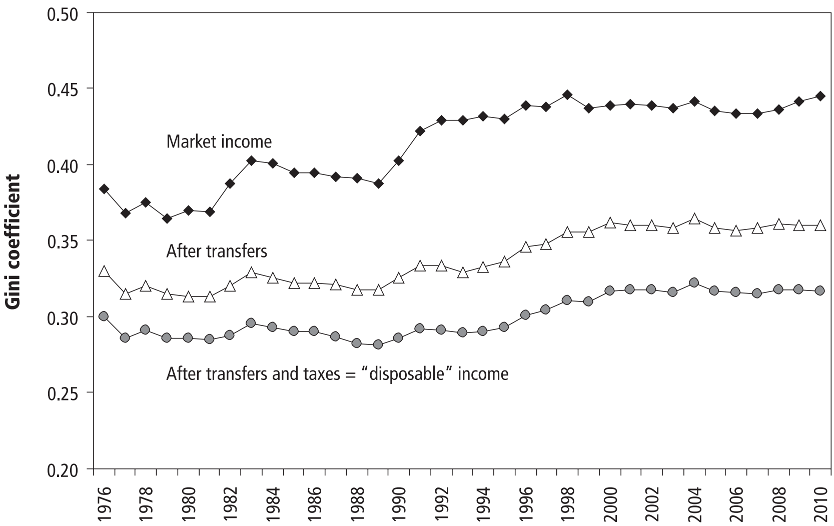
income of families at the 80th and 90th percentile, compared to the stagnation in the incomes of families in the middle and lower levels of the income distribution.

The fading redistributive impact of the tax-transfers system can be seen in Figure 1.2. The top line shows the long-term increase in inequality in the market income of families from 1976 to 2010. The redistributive impact of government is captured in the bottom line, which tracks disposable income (after transfers and taxes). Note the relative stability of inequality in disposable income through 1995, when the Gini coefficient for disposable income (.293) had scarcely changed from its 1979 level (.286). After 1995, however, inequality in disposable income rose over the remainder of the decade.

While the drivers of growing inequality have reshaped the distribution of income generally, including in the middle and at the top, the effects have not been concentrated at the bottom, among the poor. Comparative analysis

FIGURE 1.2

Inequality by income type, 1976-2010 (Gini coefficients)



Source: Statistics Canada, Table 202-0709, "Gini coefficients of market, total and after-tax income of individuals," CANSIM (database), http://www.statcan.gc.ca/cansim/home-accueil?lang=eng.

does confirm that, by international standards, Canada is still stuck near the bottom of the pack in combating poverty. Using the standardized estimates of poverty and inequality from the Luxembourg Income Study, Table 1.2 shows that, in the mid-2000s, poverty rates were twice as high in Canada and other Anglo-Saxon countries as they were in Scandinavia and Continental Europe. Child poverty rates were two to four times as high. The main exception is the dramatic decline in poverty rates among Canada's elderly since 1980, Canada's one big success story.

Nevertheless, viewed over time, poverty levels in Canada have not been increasing as inequality has been growing. Of course, much depends on how poverty is measured. Figure 1.3 presents two different patterns in the low-income ("poverty") series published by Statistics Canada. The low-income measure (or LIM) is much like an inequality measure. It is a calculation of the share of population with incomes less than 50 percent of the median for all families and does not register the effect of rising incomes. By this standard, there was little or no change in Canadian poverty rates between the mid-1990s and 2010. The low-income cut-off (or LICO) series, in

TABLE 1.2

Poverty rates, selected OECD countries, 2004 or near date

	Poverty rate		
Country	All	Children	Seniors
Anglo-Saxon countries			
Australia (2003)	12.2	14.0	22.3
Canada (2004)	**13.0**	**16.8**	**6.3**
United Kingdom (2004)	11.6	14.0	16.3
United States (2004)	17.3	21.2	24.6
Mean	*13.5*	*16.5*	*17.4*
Scandinavian countries			
Denmark (2004)	5.6	3.9	8.5
Finland (2004)	6.5	3.7	10.1
Norway (2004)	7.1	4.8	6.3
Sweden (2005)	5.6	4.7	6.6
Mean	*6.2*	*4.3*	*7.9*
Continental Europe			
Austria (2004)	7.1	7.0	9.4
Belgium (2000)	8.1	7.2	15.4
France (2000)	7.3	7.9	8.5
Germany (2004)	8.5	10.7	8.6
Netherlands (1999)	4.9	6.3	1.6
Mean	*7.2*	*7.8*	*8.7*
Southern Europe			
Italy (2004)	12.1	18.4	11.2
Spain (2004)	14.1	17.2	23.4

Source: Luxembourg Income Study (LIS), Key Figures, June 2010.

contrast, uses a "fixed" cut-off (in this case living standards in 1992), and when real incomes at the bottom rise, the poverty rate declines. Although redistributive programs weakened in the 1990s, labour markets and labour market policy took up some of the slack in the following decade. After three decades of virtually no growth, real hourly wages started rising, especially after 2005 (Morissette, Picot, and Lu 2012). At the same time, there were noteworthy increases in the minimum wage in virtually all provinces, with particularly large increases after 2008. Minimum wages declined in real value in the 1980s and 1990s, but by 2010 the national average minimum wage had increased again close to its 1976 peak (Battle 2011), contributing

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