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Dimensions of Inequality in a Just Society

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Inequality in economic and social outcomes is pivotal in the politics, public policy, and justice of a society. The many dimensions of inequality in Canada are analyzed in this volume by researchers from economics, sociology, political science, and philosophy.[1] Their studies examine what is known about Canadian inequality, adding to the evidence, identifying research gaps, and suggesting policies for reducing inequality. A wide variety of conceptual, analytical, and statistical approaches are employed in the studies. Inequality is measured in income, consumption, political participation, social exclusion, income mobility, earnings, work hours, and health. Inequality is seen to vary with gender, ethnicity, skill and education level, employment status, and family status. Data deficiencies and potential biases of research methodology are identified and assessed. The studies combine to give a detailed picture of inequality in Canada, a better understanding of its causes, and insights into the impacts of policies designed to affect it. They take a large step toward establishing a sounder basis for choosing future policies to create a more just society.

Establishing the Framework: Why Study Inequality?

In any measurement exercise, one needs first to decide on the questions being asked. Only then can we choose appropriate variables to measure, how to measure them, and what statistics to build from them. In these respects, Chapter 2 by Colin Macleod and Avigail Eisenberg offers a basic foundation for the rest of the volume. The authors argue that understanding equality is important on two grounds. First, justice is fundamentally egalitarian in nature. Recent political philosophy, they say, holds that a just society is morally impartial, that is, it accords equal moral standing to all its members. Second, justice has a special status among standards for judging society's institutions.

In the well-known phrase of philosopher John Rawls, "justice is the first virtue of social institutions." Macleod and Eisenberg argue that, from an eqalitarian point of view, "fundamental equality is not a value that can be balanced against other values such as efficiency, stability, productivity, community, or even individual liberty ... Their accommodation occurs within equality itself rather than in any form of compromise between themselves and equality" (35). So equality is of central importance and deserves study on its own merits, not as an adjunct to the maximization of efficiency.

This position is the starting point for the current volume. All the chapters take inequality as their central focus. Most of them examine direct measures of inequality of outcomes, and this introductory chapter relates their findings. In a larger sense, placing the research results in light of the concepts set out by Macleod and Eisenberg, this chapter considers whether Canada could be deemed a just society, or, more manageably, whether Canada was becoming a more just society in the past two decades.

Macleod and Eisenberg go on to observe that moral impartiality need not imply complete equality of measured outcomes. The forms of equality and inequality in modern societies are complex. Economists and other social scientists are likely most familiar with notions of distributive justice associated with forms of welfarism. In this context, one can imagine moving directly from considerations of equality of welfare or opportunity for welfare to equality of income or consumption. However, Macleod and Eisenberg observe that, in the "resourcist" approaches that are at the forefront of recent political philosophy, the goal is somewhat subtler: to provide persons "with a fair share of the resources that can contribute to the formation and successful implementation of life plans. In effect, the problem of determining how resources should be distributed focuses on determining what share of resources each person is entitled to receive in pursuit of his or her conception of the good" (43). Macleod and Eisenberg recommend that we take this kind of resourcist approach rather than a traditional welfarist approach to equality.

Taking a resourcist approach has two implications for measurement. First, we are less interested in whether society has equalized the direct inputs to individual utility than in whether society has provided individuals with the resources needed to form and pursue reasonable conceptions of what is good. This could mean, for example, that equality of access to education is of paramount importance even after taking account of the added income and utility from knowledge that extra education might bring. Equality of social status and access to influencing the political decisions of society also may be of importance over and above any direct impacts on utility. Thus, simple measures of the level of inequality are only a starting point; we need to consider how inequality in any dimension affects abilities to make and pursue life plans.

The second implication of the resourcist approach is that the list of resources in which we want to examine levels of inequality is potentially large. The list includes measures of income and consumption, to be sure, but it also includes, in Rawls's view, "liberty, opportunity, power and prerogatives of office, the social basis of self-respect." Macleod and Eisenberg note that even this list is too restrictive if cultural identity is crucial for accessing and appreciating other opportunities. An attempt to encompass this broader array of resources is reflected in the many dimensions of inequality described in the chapters of this book.

Even on an expanded list of outcomes, however, making comparisons among notional individuals is only part of the answer. As Macleod and Eisenberg point out, such comparisons assume that individuals have equal abilities to use opportunities. They assume an idealized, autonomous individual making rational choices. Feminist critiques of this model argue that women, who more often than men assume the role of caregivers, tend not to fit the idealized mould. Whereas theory and measurement typically consider outcomes in the public sphere, for many women the relevant interactions and outcomes are disproportionately in the private or family sphere, where they provide care and homemaking. One obvious implication is that women and men should be examined separately. Another is that, by extension, we should pay special attention to all those who do not fit the mould of the idealized individual: dependants as well as non-commercial caregivers. Chapter 8 addresses this issue directly by examining outcomes for children. Chapter 11 looks explicitly at inequality outcomes for women. Furthermore, at least some of the analysis should be based at the level of the family, rather than the head of household, as the relevant unit operating in the public sphere. Understanding movements in inequality at the family level requires further investigation of individual market outcomes, how resources are distributed within families, and how decisions are made for family formation and composition.

Similar arguments about appropriate measurement choices can be made with respect to cultural minorities. Macleod and Eisenberg discuss a literature that argues that standard liberal theory undervalues the importance of culture in framing and evaluating choices. They suggest that it is particularly important to understand not only the outcomes for minority groups but also the role of culture in affecting those outcomes. Chapter 9 addresses these questions in depth.

Inequality, poverty, and social exclusion are not just issues of political philosophy but also matters of great concern for the public at large. These aspects of socioeconomic outcomes are crucial for assessing the performance of any society. The United Nations Human Development Index (2003) ranks countries' development on a wider basis than average incomes. On that index, Canada has often ranked higher than other countries with higher levels of per capita income; indeed, for the seven years prior to 2001 Canada ranked in first place among all nations. Comparisons of Canada with the United States on the basis of average incomes yield an incomplete picture of the relative well-being of large parts of the populations in the two countries. For example, in 1995 the lower half of Canadian families by income had greater purchasing power than the counterpart ranking of American families (Wolfson and Murphy 1998); the higher overall average incomes in the United States stemmed from a concentration of earnings among the wealthy in the upper part of the distribution. In recent years analysts have also developed broader measures of economic well-being than average incomes to include factors such as inequality, poverty, and insecurity (Osberg and Sharpe 2002).

Establishing the Patterns of Inequality

Overall Patterns in Inequality

To assess the justness of our society we need to understand what patterns of inequality exist and how they arose. The latter is particularly important because, as Macleod and Eisenberg state, moral impartiality does not require perfect equality in outcomes. Not all inequality is undesirable, and an understanding of the reasons for the various forms of inequality is crucial. Most studies in this volume look at the origins of the types of inequality being examined.

Our discussion of patterns of inequality begins with the most common and encompassing measure – income. In Chapter 3, Marc Frenette, David Green, and Garnett Picot use a variety of data sources to examine movements in income inequality in Canada over the last two decades, with emphasis on the most recent years. They make families their unit of analysis, converting incomes for different-sized family units to a comparable basis by using an adult-equivalent-income measure. Their findings for the 1980s support those of several earlier studies. When cyclically similar years are compared, inequality increased substantially in that decade in pre-tax, pre-transfer (or market) income (which includes paid employment earnings, self-employment earnings, and investment income). But inequality actually declined slightly in after-tax, after-transfer (or disposable) income. Thus, the tax and transfer system was effective during the 1980s in undoing market-driven increases in inequality.[2] Market income inequality rose strongly during the recession in the early years of the decade and then in the subsequent boom declined, though not to pre-recession levels. During the recession, the tax and transfer system largely offset for disposable income the increases in market income inequality.

Income inequality patterns in the 1990s appear similar to those in the 1980s if one uses the standard survey data sources employed in earlier studies. Increases in market income inequality in the depth of the early 1990s recession were offset to some extent by the tax and transfer system. Market income inequality again fell in the subsequent boom. The main difference between the decades is that the tax and transfer system during the 1990s recession actually generated *increases* in inequality, which then declined with the boom in the second half of the 1990s. However, Frenette, Green, and Picot argue that the standard survey data (in particular the Survey of Consumer Finances or SCF), while providing an accurate picture of inequality patterns in the 1980s, in the 1990s severely under-represents the level and increase in inequality both before and after taxes and transfers. Using a combination of tax and Census data, they find that the standard surveys undercount people at the bottom of the income distribution. Thus, the standard surveys represent the 1990s as a decade in which the top of the distribution witnessed strong increases in market income while the bottom of the distribution experienced more moderate increases. The tax and Census data agree with the survey data about increases in market income at the top of the distribution but, in contrast, show dramatic declines in average income at the bottom. Moreover, while the survey data show market income inequality declining in the latter half of the decade, the tax data indicate that, for those at the bottom, the decline in average income and increasing inequality continued throughout the decade. The tax and Census data agree with the survey data that, during the early 1990s recession, the tax and transfer system partly offset the market income inequality increases but, in contrast, show that the tax and transfer system actually accentuated increases in inequality in the subsequent boom. Frenette, Green, and Picot hypothesize that the perverse effect of the tax and transfer system in the latter half of the 1990s could have been related to major reforms in the unemployment insurance program and in many provincial social assistance systems.

Overall, Frenette, Green, and Picot find that income inequality among families increased substantially in the 1990s, particularly among families with children. The growth of inequality reflected strong increases in income at the top and strong decreases in income at the bottom of the distribution. It is interesting to consider these patterns in light of John Rawls's Difference Principle: inequality is acceptable to the extent that it improves outcomes for the least well-off in society. As we will discuss below, one might reasonably see the increased market incomes for top earners, and, indeed, movements in inequality in general, as reflections of a process of technological change that ultimately raises at least the average standard of living. But the absolute declines in real market incomes at the bottom of the distribution contradict the Difference Principle. Of course, societies create redistributive institutions to convert the outcomes of efficiency improvements such as technological change into outcomes that fit with their notions of justice. In the 1980s, the Canadian tax and transfer system did this by converting increases in market income inequality into declines in disposable income inequality. In the 1990s, however, changes in the tax and transfer system accentuated inequality trends, and people at the bottom of the disposable income distribution on average faced real declines. It is hard to see how Canadian institutions and changes in them in the 1990s met the basic requirements of any of the theories of justice discussed in Chapter 2.

Frenette, Green, and Picot observe how cross-sectional measures of inequality in earnings and income change over time. However, cross-sectional income inequality can misrepresent true inequality patterns in an economy and may not provide enough information in strictly economic terms to allow judgments about a society's attainment of justice. This critical view is argued cogently in Chapter 4 by Charles Beach and in Chapter 5 by Tom Crossley and Krishna Pendakur. They advance two principal objections. First, earnings and income change over the life cycle as individuals move from investing in skills to earning full returns on those skills to retiring. A given level of cross-sectional inequality would not be troubling if, for example, the low end of the income distribution consisted of younger individuals who were taking reduced earnings in order to learn skills. In such a situation, movements in cross-sectional inequality across years might merely reflect demographic shifts such as those associated with the movement of the baby boom through the age structure. Second, there may be a natural amount of "churning" in the income distribution, with individuals constantly facing temporary shocks that move them up or down the distribution. Thus, a cross-sectional distribution that includes a given level of poverty would be more acceptable if everyone took turns moving briefly through poverty than if one group was chronically poor.

In Chapter 4, Beach tackles the churning issue, measuring how people move through the Canadian earnings distribution over time. He does this by dividing taxpayers into six earnings categories and then computing the probability that over a period of time a person moves from one category to another or stays put. Of greatest interest here are the probabilities associated with the periods 1982-1990 and 1991-99, presented separately for men and women. Those measurements clearly do not support an extreme churning model in which everyone faces the risk or hope of moving just about anywhere in the distribution. For males, for example, the probability is less than 2 in 100 that someone who is in the highest earnings category (earnings over 200 percent above the median) in 1982 will be found in the lowest category (earning less than 25 percent of the median) in 1990. At the other extreme, the probability is only 6 in 100 that a male in the lowest category in 1982 will be found in the highest category in 1990. Overall, Beach finds a high degree of immobility, that is, most people stay put in their original earning category. As Beach argues, this finding is directly relevant to discussions of equality of opportunity in Canadian society. Immobility suggests that we are not performing well in terms of providing everyone with the resources needed for an equal chance to pursue their notion of the good. It also relates to theories of justice that emphasize equal dignity for all members of society. You are more likely to regard someone as an equal if you know there is a good chance you could have an income as high – or as low – as theirs in a few years. But what about choice of lifestyle? Perhaps one's income level simply reflects the value one places on what money can buy? In that case, even a highly immobile population, as represented by Beach's estimates, may reflect a just society if people's material preferences diverge sharply. But it takes very little observation of Canadian society to conclude that free choice is not the source of the immobility represented here.

Differences in earnings mobility between men and women cast an interesting light on the earlier discussion of justice. Beach found that women are generally less mobile than men and when mobile more likely to move down the distribution. This may imply that women have fewer opportunities. Beach hypothesizes that women's greater downward mobility may involve moving to part-time work while taking care of children. If true, this ties in with the discussion of feminist notions of justice by Macleod and Eisenberg. If this pattern represented a rational choice by individual women in circumstances similar to those of men, it would not represent an injustice. But if it reflects a society that talks the language of equal opportunity while undervaluing resources and choices available for bearing and raising children, the difference in mobility would indeed be unfair.

Clearly some interpretation is involved in drawing conclusions about fairness from estimates of earnings mobility. However, Beach argues, when it comes to well-being, it is possible to make statements about whether changes in earnings mobility over time represent improvements.[3] For males, the 1991-99 mobility pattern is unlike that for 1982-90. The probability of staying in the same income category increased in the 1990s for almost all categories. For people in the second and third lowest categories, the probability of moving down in the distribution increased. For people in the second and third highest categories, the probability of moving up also increased. At the same time, the probability of people moving down at least two categories increased. Overall, everyone in the distribution had a greater chance of ending up in the bottom categories, while chances of escaping from the bottom categories went down. And yet, the chances of staying at the top of the distribution, for those who got there, increased. Overall, these changes seem to be the opposite of those implied by social goals, which suggest that people should share equally in chances to move up or down but that, once at the bottom, chances of moving up are particularly high. These findings also provide interesting insight into the increased inequality found by Frenette, Green, and Picot in cross-sectional measures using tax data from the 1980s to the 1990s. Beach shows that the increased inequality reflected a polarization in income distribution, with people at the top of the distribution tending to move up and those at the bottom tending to move down.

A large part of Beach's discussion is dedicated to making these types of judgments more precise. He presents measures for translating changes in earnings mobility into statements about changes in societal well-being.[4] Perhaps not surprisingly, those measures indicate that the changes in male earnings mobility from the 1980s to the 1990s represent a clear decline in well-being among men. For women, however, the pattern is not quite as clear. While the probabilities of staying in the bottom categories again rise, the probabilities of staying in the top two categories decline. The second lowest category again experiences an increased probability of having an earnings decline, but this is not true for the third lowest category. In instances like this, attempts to quantify the impact on societal well-being are particularly useful. Beach shows that we can make an unequivocal statement that the 1990s represent a deterioration relative to the 1980s if we are willing to impose stronger pro-equality restrictions in our calculations, such as placing greater weight on changes at the bottom of the distribution.

In Chapter 5, Crossley and Pendakur examine the measurement of inequality in terms of consumption. There are at least two reasons to believe that measurement using consumption data would be preferable to measurement using income data. The first is that consumption is a step closer to notions of individual well-being. In general, we assume that people value income for the consumption it can fund rather than as an end in itself. The second is that people tend to try to smooth their consumption over their lifetime and across fluctuations in their income. Some part of measured cross-sectional income inequality will reflect temporary income drops caused by factors such as illness or intermittent layoffs. These temporary fluctuations will be cushioned by borrowing against income in better times. Household actions to smooth levels of consumption imply that family well-being fluctuates less than income. In this respect, consumption levels provide a better measure of true inequality. This smoothing effect applies not only to short-term, typically unexpected, fluctuations in income but also to longer-term, predictable changes in earnings over a lifetime. If households smoothed their consumption perfectly to keep it constant over their lifetimes, then consumption inequality in a given period would perfectly reflect differences in lifetime inequality. In that case, using consumption data would address the fact, mentioned earlier, that we do not want to count lower incomes of younger families as a problem if they are part of a standard life-cycle pattern.

Unfortunately, as Crossley and Pendakur observe, only in a world with peculiar preferences, constant interest rates, and no variations in risk could households smooth consumption so well that cross-sectional measures of consumption inequality would perfectly capture differences in household lifetime well-being. Since our world is not like that, consumption data provide an alternative measure of inequality that may have advantages over cross-sectional income measures but is still far from perfect as a measure of lifetime well-being. Indeed, consumption profiles have a humped shape that is reminiscent of earnings profiles over the life cycle, which suggests that cross-sectional comparisons with consumption data face life-cycle concerns similar to those of income data.

With these reservations in mind, Crossley and Pendakur show that consumption inequality as measured by the Atkinson index declined from the late 1960s to the mid-1990s and then took a small upturn in the last half of the 1990s.[5] It is worth noting, though, that these trends are not strong; if we use a Gini index as our measure, consumption inequality is virtually unchanged over time. Furthermore, the decline in inequality captured in the Atkinson index is almost entirely confined to cohorts born before 1933. More recent cohorts show little variation in consumption inequality over time. Cross-cohort comparisons reveal that successive cohorts have higher levels of consumption, though this pattern has stalled for cohorts born after 1954.

The consumption inequality patterns match up in an interesting way with income inequality. As discussed by Frenette, Green, and Picot, disposable income inequality is essentially flat over the 1980s and 1990s if measured using standard survey data. This is the general pattern seen in the consumption data as well. However, Frenette, Green, and Picot find that inequality has actually increased strongly in the 1990s when measured using more representative samples, and it would be useful to know whether sampling problems at the bottom of the distribution in the Survey of Consumer Finances (SCF) also arise in the Family Expenditure Survey (FES), which is the source of consumption data. Given that the response rate of 75 percent in the FES is slightly below that in the SCF, this seems possible. It is also notable that the consumption-based measures indicate an increase in inequality after 1996, a period when taxes and transfers were less effective in combatting income inequality.

Even if we had good observational data on consumption and if consumption qualified as a good measure of inequality, Lars Osberg argues in Chapter 6 that consumption would still be incomplete as a measure of individual well-being. Some people may choose time in preference to material goods – essentially buying leisure rather than goods with their potential income. In that situation neither actual income nor consumption provides a complete picture, and we would want to adjust for changes in hours of work over time or across countries in making inequality comparisons. Osberg finds that hours of work are generally higher at higher deciles of the income distribution for Canada and a set of other Western economies. One might conclude from this that measures of inequality based only on income overstate true inequality in utilities because those at the low end of the distribution are choosing leisure rather than income and the consumption goods that go with it. To put it another way, if those in the low deciles of the income distribution worked as much as those at the top their incomes would increase, thereby reducing overall inequality.

However, Osberg's results suggest a different interpretation. He begins with the standard leisure-consumption choice model from labour economics. In this model, hours of work and leisure are chosen by individuals to maximize utility conditional on their wage rates and non-labour income. The important assumption is that hours of work are a choice, at least within certain constraints posed by workplace practices. Osberg uses this model to explain why Americans work longer hours and have more income inequality than Canadians and, especially, Europeans.

To see how different preferences could create more inequality, consider the following hypothetical situation. Suppose that American workers have a very high taste for market goods regardless of whether their wages are low or high, and suppose that European workers in contrast tend to "spend" more of any higher wages by purchasing more leisure, thereby working less and reducing their incomes and purchases of market goods. Suppose also that the two continents offered the same distribution of market wages and opportunities to earn income. The inequality of earned incomes would be greater among American workers than among European workers, because time off reduces higher wages more than it reduces lower wages. Therefore, the difference in measured incomes between low-wage and high-wage workers in Europe, smaller than the difference among American workers, tends to understate the true European differential in well-being, since the high-wage workers would also be enjoying more leisure time.

To evaluate this explanation of the effect of preferences on inequality, Osberg conducts a counterfactual exercise of assigning workers in other countries the same employment rate as Canadian workers. Thus, Europeans get both the higher employment rates of North America and the benefits of the more equal wage structure and tax and transfer systems of Europe. This exercise results in reductions in poverty and inequality in Europe, which are already lower than they are in North America, thus increasing the differences in inequality and poverty rates between continents. Since Europeans' working more would increase the difference in inequality between Europe and North America, Osberg argues that the existing difference cannot be explained by their working less. He concludes that simple leisure-consumption trade-offs cannot explain the differences in inequality across the United States, Canada, and European countries.

What can we learn from this exercise to help us in thinking about inequality and justice in Canadian society? A principal insight is that, while there may be elements of choice in differences in hours worked across countries and across the income distribution within a country, much of the difference seems related to an inability to find employment among the less well-off. In other words, the rise in hours with income in the Canadian data likely does not reflect a simple choice by some people to have less income and more leisure but, rather, a difficulty in finding employment among those with the most limited skills. This is hardly a surprising conclusion, but it is important in thinking about measures of inequality. Income inequality measures may overstate inequality of utility since those with less income tend to have more time to enjoy leisure than those with high income. Yet that overstatement may be mild, since the extra hours of leisure among low-income individuals is often involuntary unemployment and thus carries little utility.

Osberg's results also raise complex questions about the interactions in a society of preferences, earnings structures, tax and transfer systems, and employment rates. In the counterfactual exercise, giving Canadian employment rates to non-employed Europeans improves the European situation relative to Canada because the newly employed Europeans get European earnings, which are better at the low end of the distribution than those in Canada. But if these better low-end earnings are partly supported by an equilibrium in which a good transfer system allows individuals to turn down low-paying jobs, choosing non-employment with benefits instead, then we do not face a simple situation of redistributing hours of work in order to improve inequality outcomes. Instead, we end up back in complex considerations raised in theories of justice.

Systems that redistribute income extensively but are accompanied by lower employment rates may or may not yield more just societies. Even if we accept that equal consideration is the sovereign virtue, allowing for different preferences means that equality does not necessarily imply equality of income or even of hours-adjusted income. If what we ultimately want is equal dignity for all, then we have to consider how issues such as individual responsibility and a feeling of full citizenship in a country interact with material equality. Part of the difficulty is deciding how we measure true equality (say, in terms of dignity) instead of just equality of income or even of consumption and leisure.

Inequalities of Participation

Rather than measures of individual or family well-being, we can examine measures of equality of participation in society.[6] Being an equal and full member of society means not only sharing most of the material advantages enjoyed by one's fellow citizens but also being an equal participant in the community and political life of one's society. Measures of the equality of such participation are presented by James Curtis, Edward Grabb, and Thomas Perks in Chapter 7. They ask whether participation varies with socioeconomic status and with ascribed statuses such as race and gender. The answer to this question helps to assess the justness of a society. If people of low socioeconomic status or with particular ascribed statuses, such as visible minorities, are less involved in political activity, we have to consider what that means. It might indicate a voluntary withdrawal from key forms of participation in the belief that the system does not serve them and that they suffer an unequal status in key decision-making institutions of society. Or it might mean they are being involuntarily "frozen out" of key institutions by other groups.

Curtis, Grabb, and Perks base their inquiry on the World Values Survey and present results on political participation and political interest. Their main conclusion is that participation and interest differ. Active participation in politics among Canadians as a whole is very limited, with only 8 percent of the sample belonging to a political party. At the same time, a majority of Canadians express interest in politics, claim to discuss it, and vote in elections. While there is clear evidence that individuals with higher socioeconomic status are more likely to take part in all forms of political expression, there are substantial levels of interest and discussion in all socioeconomic status groups. It seems that some inequality exists in political participation, but not enough to make those with lower status give up on the political system. Of course, recent, well-known declines in voter turn-out at elections may suggest that this situation is deteriorating.

Curtis, Grabb, and Perks also provide evidence on participation in both formal and informal community networks. The results for the formal organizations, such as volunteer groups, are much the same as for political participation: there is relatively widespread participation, with higher participation levels among those with higher socioeconomic status. This positive relationship holds even for hours of volunteering in formal organizations. However, higher socioeconomic status is negatively correlated with participation in informal networks. What these patterns imply about the justness of Canadian society is far from clear. On one hand, participation is widespread, with the highest levels of participation in some organizations for the relatively disadvantaged. This may suggest that individuals from all walks of life are given equal consideration in key community networks. On the other hand, it may suggest that higher-status individuals focus their efforts on controlling organizations that have more power in society, leaving participation in less organized networks to those of lower status. In that case, widespread participation would reflect heterogeneity in power rather than a high degree of equality. As the authors note, the evidence is not sufficient to allow us to differentiate between these interpretations.

Curtis, Grabb, and Perks also examine how attained and ascribed statuses are correlated with political participation. A wide variety of these status measures show significant simple correlations with levels of participation. However, their main interest is in marginal effects, that is, in finding which factors make the most difference. In this light one factor stands out as particularly important – education. Differences by ascribed status such as race and differences across income levels become weaker (and perhaps even nonexistent) once the authors control for education, whereas the impact of education differentials remains after controlling for other factors. This finding has several noteworthy implications. First, if income level does not drive participation, then there is less concern that the rising income inequality described in Chapter 3 will lead to increased inequality in political and community participation. The translation from income inequality to inequality in political rights is not direct. Second, differences in ascribed status do not appear to lead to inequality in political and community participation. Ascribed status may be associated with discrimination in the political and justice systems – a basic failure of moral impartiality – but there are means of expression for persons of every status. Third, education should hold a central place in discussions of equality in a society. Education appears to be an important key to unlocking equal access to political and community organizations. As we shall see in Chapter 10, education also plays a key role in earnings inequality levels and trends.

Brief Recapitulation

In summary, Chapters 3 to 7 paint a complex picture of overall inequality in Canadian society. The "economic" measures of well-being in the cross-section (market income, disposable income, consumption, and hours of leisure) reveal considerable inequality. Furthermore, movements within the earnings distribution follow a pattern in which the rich tend to stay rich and the poor tend to stay poor. Depending on the data source used, inequality also seems to have been growing, especially in the late 1990s. While consumption and income data from standard survey sources indicate stability in inequality across the 1980s and 1990s, measuring income inequality with more reliable tax and Census data leads to the conclusion that Canada experienced a period of rapidly increasing inequality in the 1990s. This is consistent with results on mobility within the earnings distribution, which point to the conclusion that workers were more likely to fall into and less likely to escape from the bottom of the earnings distribution in the 1990s than in the 1980s. Moreover, a tax and transfer system that worked to offset increases in market income inequality in the 1980s failed to fulfill that role in the 1990s.

Not all is doom and gloom, however. Inequality in some of the measures may be ethically acceptable. For example, mobility within the income distribution, though perhaps not as high as we would like, is far from zero. One needs to know more about who benefits and who loses in a given distribution, such as the degree to which inequality is age-related and therefore shared across lifetimes. One also needs to know whether the processes that generate distributional change are themselves accepted as morally impartial. Moreover, when education is accounted for, there appears to be very limited impact of income on inequality in political and community participation, which suggests that equality in key public arenas has not been completely compromised by economic inequality. Finally, the existence of a political will to move towards equality and justice may be seen in earlier patterns of taxes and transfers offsetting market income inequality. Though the redistributive weakening of the tax and transfer system in the late 1990s might represent a lapse of this political will, it might simply have been the result of mistaken attempts to "reform" the system or from the transitory impacts of budgetary deficit pressures. Subsequent policy changes following from budgetary surpluses in the new millennium, such as repeated enrichment of the National Child Benefit System, should have acted to reduce inequality.

Inequalities among Groups in Society

A key conclusion by Macleod and Eisenberg is that the typical focus of liberal theory on fully autonomous individuals distorts our views on justice in a society that includes many who do not have such autonomy. The largest group without autonomy in Canadian society is children. Of course, there are good reasons that they do not have full autonomy, but those reasons make it even more incumbent on adults to be keenly aware of issues of justice for children. If justice is a sovereign virtue, then fairness toward those who do not have the means to defend, or even define, their own interests must surely be a marker of a just society. In this light, Chapter 8 is of particular interest. Shelley Phipps and Lynn Lethbridge provide measures of inequality among children in Canada and show where children fit into the overall income distribution. The income measure they use for each child is the household's total income converted into adult-equivalent amounts. The main result is that children fall in the lower part of the Canadian income distribution. Approximately 62 percent of children have associated incomes that put them below the median income for the population as a whole in 1997. Children in single-parent families fall even lower in the overall distribution, with about 35 percent of these children having associated incomes that place them in the bottom decile.

While children fare relatively poorly in terms of income, Phipps and Lethbridge find that there has at least not been a significant worsening either of inequality among children or of their position within the overall income distribution. Substantial increases in market income inequality have been completely offset by the tax and transfer system. Furthermore, the percentage of children with associated incomes below the median for the overall population in 1997 was 62 percent, the same as in 1973, despite growing market income inequality.

However, there are reasons to question this conclusion. First, as Frenette, Green, and Picot argue, the SCF data used by virtually all analysts, including Phipps and Lethbridge, greatly understates the increase in income inequality in the 1990s. If their results carry over to children, then inequality among children almost certainly increased in this period, despite the SCF data. But there remain uncertainties about the position of children in the overall distribution. To the extent that children tend to be in lower-income families and that those families are under-counted in the SCF, the problems outlined by Phipps and Lethbridge may be larger than their estimates suggest and may be getting worse. Moreover, Phipps and Lethbridge observe that the relative position of children held steady over the 1980s and 1990s in spite of some changes that might have been expected to lead to improvements in the relative position of children – increased ages of mothers and increased numbers of two-earner families. Though these potential improvements have been offset by increases in the number of single-parent families, the overall implication is that if these demographic changes had not occurred then children would have been worse off than they are. Hence, the trends hide a pattern that may become apparent once the demographic changes abate.

As Phipps and Lethbridge point out, the low position of children in the income distribution might be dismissed as almost definitional. Children tend to be in families in which the adults are young, that is, at an age at which they have relatively low incomes. Furthermore, in using adult-equivalence scales (the simplest of which consists of dividing family income by the square root of the number of people in the family), members of families with children seem automatically to have low adult-equivalent incomes since market incomes are subdivided among more members. However, comparisons across countries can be useful in interpreting this matter. Phipps and Lethbridge show that children in Norway tend to fall in the middle of the overall income distribution rather than in the lower end as in Canada and many other countries. So it is not inevitable or definitional that children fall in the bottom of the distribution. We need to think carefully about how children fit in and whether outcomes for children satisfy our notions of justice. Access to material resources in childhood can also affect individuals' opportunities for developing their full personal and educational potential and thus can have lifelong consequences for well-being.

Our definitions of a just society also need to be broad enough to encompass the outcomes for different ethnic groups. Canadian society has historically been very strongly segregated along ethnic lines, a result highlighted in John Porter's 1965 study, *The Vertical Mosaic*. In Chapter 9, Ellen Gee, Karen Kobayashi, and Steven Prus revisit that claim using both an examination of the existing literature and their own investigation with Census and health outcome data. They find that there are still clear differentials along ethnic lines in terms of economic outcomes such as income, occupation, and employment rates. Visible minorities, and especially recent immigrants who do not speak either official language, fare worse than European-origin, native-born Canadians in virtually all economic outcome categories. Results for Aboriginal Canadians appear even worse, with dramatic economic and health deficits below those of the rest of the population. Many of these differences, though, are dwarfed by gender differences, and the authors note that the interrelation of ethnic and gender dimensions is an important area for future research. All these differences underline Macleod and Eisenberg's argument that we need to be concerned about deficits in access to cultural capital. Any measurement of such deficiencies would surely combine with the outcome deficits presented here to paint an even worse picture of ethnic inequality.

In spite of unsatisfactory results in terms of ethnic differences in Canada, there are some more hopeful points. Older studies reviewed by Gee, Kobayashi, and Prus found economic and health differences among European-origin groups that have essentially disappeared. Canadians of various European origins appear relatively equal in well-being. Perhaps, over time, greater equality will emerge for other groups in Canadian society. Also, there is no clear health deficit for many visible minority groups, with the notable exception of Aboriginal Canadians. Still, the differences for new immigrants and Aboriginal Canadians suggest that Canadian society has considerable work to do in becoming fully just in the sense that all its members, regardless of their ethnic origins, are treated with equal dignity and given equal opportunities.

Explaining Movements in Inequality

In order to evaluate the levels and movements in inequality described above, we need to understand the causes of that inequality. As we have already discussed, the temporary inequality arising from life-cycle developments experienced by all members of a society is of less concern than permanent inequality in overall lifetime well-being. But even if we set aside life-cycle considerations, we may find some inequality acceptable and even desirable. Rawls's Difference Principle, in which inequality is accepted if it improves the well-being of the least well-off in society, is a strong statement along these lines. Similarly, other resourcist theories of justice appear willing to entertain inequality that arises from personal choices, in order to preserve incentives for individual responsibility and autonomy.

Thus, we would like to know more about the origins of the observed increases in family income inequality in the 1990s. Several studies in this volume provide building blocks that contribute to that understanding. Chapter 10 examines movements in underlying returns to education and experience, which have often been observed to play an important role in inequality trends. Chapter 11 provides more complete gender breakdowns and an analysis of how results for individual earnings are combined into results for family income inequality. Chapter 12 then examines how the tax and transfer system interacts with family incomes to generate disposable income inequality.[7]

In Chapter 10, Brahim Boudarbat, Thomas Lemieux, and Craig Riddell provide updated evidence on the evolution of earnings differentials with respect to education and experience for Canada. Using Census data for the period 1980 to 2000, they demonstrate the substantial differences in earnings across education levels. Like earlier investigators, they find that differences in weekly earnings between education groups were relatively stable for both men and women before 1995. However, this overall stability hides considerable differences across age groups for men, with younger workers experiencing substantial increases in returns to education while older workers experienced declines. Boudarbat, Lemieux, and Riddell provide new evidence on wage patterns after 1995. Using the Census, which they argue provides much more reliable estimates than other survey data, they find a strong increase in returns to education for men and some increases for women between 1995 and 2000.[8] Notably, a pattern of increasing differences in wages between older and younger workers continued from 1980 to 1995 and then, after 1995, reversed for men and stalled for women. As a result, overall inequality between age and education groups did not change dramatically after 1995. This means that the increases in earnings inequality in the 1990s observed by Frenette, Green, and Picot arise among people of similar age and education.

In Chapter 11, Nicole Fortin and Tammy Schirle extend the analysis by adding a more complete gender dimension. Using SCF data, they show that inequality in weekly earnings increased more for men than for women during the 1980s and 1990s. Male inequality grew because of increases at the top of the distribution as well as declines at the bottom, while female inequality grew mainly because of declines at the bottom. Underlying the movements in female earnings are dramatic increases in participation rates, in levels of experience and education, and in the presence of female single-parent families.

Fortin and Schirle offer an insightful analysis of movements in overall family earnings inequality between 1982 and 1997. They examine changes in the returns to education and experience, the substantial increases in female participation rates, increases in assortative mating of men and women (the tendency to marry a spouse with similar education and attainment, as measured by their earnings), changes in family composition (dominated by the increasing incidence of single-parent families), and changes in productive characteristics such as education and experience levels. Their results indicate that the changes in returns to education and experience discussed by Boudarbat, Lemieux, and Riddell for subsequent years probably increased inequality in family earnings. The changes in returns to these characteristics accounted for about twice as much of the increased spread in the lower half of the family distribution for women as for men.[9] The substantial increase in female participation acted to reduce overall inequality but was surprisingly less influential than other factors. For example, if the changes in female labour force participation had not occurred, the change in the 50-10 differential[10] in family earnings between 1982 and 1997 would have been only 1.6 percent larger, whereas, if the changes in family composition had not occurred, the change in the 50-10 differential would have been 56 percent smaller. Changes in family composition were the most important factor in explaining declines in the lower levels of the family earnings distribution, something the authors attribute to increased single parenthood. Assortative mating has increased substantially over the period of investigation and accounts for a further 32 percent of the increase in the 50-10 differential. Finally, increases in both education and experience levels between 1982 and 1997 acted to reduce family earnings inequality. The authors conclude that these changes implied improvements for families at the upper end of the earnings distribution but significant erosion for those in the middle, leading to the substantial increases in market income inequality described here and in some of the other chapters.

The changes in family income inequality over the last twenty years have been greatly affected by the tax and transfer system, whose redistributive impacts are thoroughly discussed by Jonathan Kesselman and Ron Cheung in Chapter 12. Their data on taxes paid and transfers received across the income distribution for the period 1971 to 2000 indicate that the redistributive tilt of both cash transfers and personal taxes has increased over the period. Rates of receipt of transfers have increased most at the bottom of the distribution, and average tax rates have increased most at the top of the distribution. It is noteworthy, though, that the last five-year period examined (1996-2000) shows disturbing breaks from this trend: transfers as a proportion of income decline sharply for unattached individuals in the lower quintiles of the distribution, and average tax rates increase much more at the bottom than the top. This finding matches the observation by Frenette, Green, and Picot that the role of the tax and transfer system in reducing inequality changed at the end of the 1990s. Nonetheless, Kesselman and Cheung conclude that the tax and transfer system remains strongly progressive and that most of the redistributive "work" is done by transfers rather than taxes at the lowest two quintiles of the distribution.

Kesselman and Cheung also provide an important warning about studies of the impact of the tax and transfer system on income distribution. A full explanation of this impact must take into account a wider range of taxes than is typically done in studies like that by Frenette, Green, and Picot. Furthermore, tax incidence issues raise serious questions about whether measures commonly used in the research literature overstate the impact of taxes on redistribution. A review of the relevant literature leads Kesselman and Cheung to conclude that a significant part of the burden of personal income tax may fall on firms, and thus on their customers through higher product prices, rather than on the individuals who nominally pay the tax. This effect is strongest at the top end of the distribution, where labour mobility, particularly across subnational jurisdictions, may force employers to compete for workers on a net-of-tax basis rather than on gross wages. By raising market wages to compensate for tax levels, this process can effectively undo the tax progressivity of the provinces. Moreover, to the extent that market wage levels reflect tax levels, the measured inequality of gross earnings is itself in part the result of the tax system.

Interpreting the Component Patterns

In analyzing the extent to which Canada is moving toward or away from the goal of becoming a just society, Chapters 10 to 12 strikingly suggest that something big changed in the latter half of the 1990s. Boudarbat, Lemieux, and Riddell show that the later 1990s saw dramatic increases in returns to education accompanied by reductions in earnings differentials between older and younger workers. Kesselman and Cheung show that the later 1990s saw a reversal in the long-term redistributive trends in transfers and taxes. Fortin and Schirle observe that, starting in the mid-1990s, the only group of women to experience increased labour force participation were single mothers, a trend consistent with changes in social assistance policies affecting mainly single parents. Thus, in the late 1990s, a sharp change in the wage structure was accompanied by reductions in the redistributive role of taxes and transfers. Together, these contributed to the increases in overall income inequality observed by Frenette, Green, and Picot.

On the surface, these changes, and many other longer-term changes depicted in these studies, indicate a society moving away from equality. Whether that also implies a movement toward a less just society depends on the nature of the forces driving the increased inequality. For example, the increased education differentials described by Boudarbat, Lemieux, and Riddell might be viewed as less problematic if they reflect a process of technical change that will ultimately benefit all members of society, and their study provides some evidence for evaluating this possibility.

A standard explanation of rising education differentials is that new information-based technologies make more intense use of skills and thus increase wage differentials between more and less skilled workers. Such a vision of increased productivity and earnings for those with education seems hopeful. It would mean that the increased inequality may be part of a tide lifting all boats. In this vision, the natural policy response is to increase education and training for the less skilled. This would give access to the benefits of the technological change to more people, eventually reducing education-wage differentials by increasing competition for more skilled workers and reducing competition for less skilled workers.

Murphy et al. (1998) apply this theory to Canada, arguing that the overall educational differential did not rise in Canada in the 1980s because of offsetting supply movements associated with more educated baby-boomers moving into the labour market. However, the evidence in Boudarbat, Lemieux, and Riddell does not support this interpretation because the group that would be most affected by the supply movements (the youngest workers) was the group that experienced the largest increases in the returns to education. Nor does the theory explain the large increase in the differentials in the late 1990s observed by Boudarbat, Lemieux, and Riddell. Furthermore, an explanation that stresses a tendency of new technologies to enhance the productivity of the most skilled does not help in understanding what happens to the least skilled. Something more is needed to explain the results of Fortin and Schirle, which show that much of the increase in inequality for men and especially for women occurs because of declines for those at the bottom of the distribution and not because of increases at the top.

This does not mean, though, that technological change has not played a substantial role in the rise in inequality. Beaudry and Green (2003) present a model in which firms choose between a newer, skilled-labour-intensive technology and an older, unskilled-labour-intensive technology. Increased education levels lead to firms preferring the newer technology since its main input is now relatively more abundant and cheaper. The shift toward the newer technology effectively takes capital out of the hands of unskilled workers employed in the older technology, resulting in lower wages for them and increased wage differentials between the skilled and the unskilled. Beaudry and Green (1998) argue that this model fits the Canadian wage patterns in the 1980s. Whether it is consistent with the sharp rise in the education differential in the late 1990s would depend on relative movements in physical and human capital. To the extent that it does fit, the model implies that the generation and distribution of physical capital is crucial for explaining the distribution of labour income. As Kesselman and Cheung observe, this has potential implications for the tax structure. Shifting the tax mix toward consumption bases, and away from income bases, will increase saving and thus raise capital accumulation. In the Beaudry and Green model, this raises real wages for both skilled and unskilled workers and lowers wage differentials. On the other hand, within this framework, increasing education levels does not, by itself, solve rising inequality. To the contrary, it can lead to further expansion of the skill-intensive sector, shifting more capital out of the hands of the less skilled and leaving them further behind.

Fortin and Schirle, following earlier work by Fortin and Lemieux (1997), offer an alternative explanation for increases in market income inequality. That is, institutional changes, including declining union power and changes in the minimum wage, may have shifted families who were formerly in the middle of the distribution to the bottom. The effect of institutional changes ties in interestingly with Kesselman and Cheung's point that changes in taxes and transfers (and, by extension, regulations) can affect the distribution of market wage rates for various types of work. Institutional changes may also include a reduction in the political will to support or use policy tools that promote income equality at a time of technological change, as described by Beaudry and Green. Such an outcome would be a disturbing shift away from equality since it reflects a move away from redistributive policies precisely at a time when technological change is generating increased inequality and declining real incomes for the less skilled.

Other results reported by Fortin and Schirle are also potentially worrisome – in particular, their finding that increased assortative mating has played a substantial role in growing family income inequality. If people have increasingly been marrying within their own income levels, this could imply greater stratification of Canadian society. However, caution is needed when measuring assortative mating, as Fortin and Schirle do, by proximity of spouses in the earnings distribution. This measure could increase over time even without any changes in who marries whom simply because some wives have become more likely to enter the labour market. Alternatively, suppose that the increased correlation of husbands' and wives' incomes reflects a growing tendency for people from high socioeconomic status to marry others from a similar background. This hypothesis could be investigated by examining the correlation in the socioeconomic status of partners' fathers. If this were confirmed, it would imply a relative concentration of wealth in a smaller subgroup of the population. It could also imply that we are facing greater social stratification, with people from different backgrounds being less likely to meet and, hence, understand each other. If the basis for redistribution ultimately stems from empathy, tendencies toward greater stratification in marriage represent a challenge to building a just society.

Fortin and Schirle further find that changes occurring in family composition are important for social equality. An increasing proportion of families are headed by a single parent, and our society treats this group particularly unequally. This point recalls Macleod and Eisenberg's arguments that liberal social structures can work to the disadvantage of women within family units in ways that carry over to their position after a marital dissolution.

Policy Responses in Broad Perspective

The changing patterns explored in the empirical and analytical chapters of the volume relate closely to what Keith Banting in Chapter 13 calls the 1990s paradigm shift in Canadian social policy. For decades, Banting argues, we operated on a security-based paradigm in which Canadians were asked to accept exposure to the vagaries of a free market economy while being assured that there were public transfer programs in place to reduce the risks they faced. But in the later 1990s, this traditional view was losing ground to a belief that the forces of technological change and globalization had made the economic risks in the global market too large for a traditional social safety net to continue to handle. Moreover, technological change requires an economy and a labour force flexible enough not to be left behind in the race for innovation. The result, says Banting, has been the emergence of a new paradigm in which citizens are expected to create their own security by investing in their human capital with better traditional education and lifelong learning.

The new paradigm has a ring of plausibility, but Banting observes that this new Emperor, if not naked, has been dressed too hurriedly and in something less than a full suit. Banting argues that there are two main problems with the shift to the new paradigm. The first is what he refers to as a cardinal sin of policy implementation – impatience. Governments at all levels in Canada, spurred partly by budgetary pressures and partly by ideological shifts, have worked quickly and assiduously to dismantle the old, "passive" transfer systems but have not replaced them with effective human-capital investment policies. There has been lip service to the new ideal but not enough in the way of new funding. But even with more than lip service, a human-capital investment policy will take at least one generation, and quite likely several, to implement fully and to get right. Banting argues that shifting paradigms effectively would entail a double fiscal burden since we need to continue to offer security to unskilled workers in the current generation, for whom complete adjustment to such investment is not possible, while expanding investments in younger generations and those who are able to access them in the current generation. Instead, by rushing to tear down the old system, we are exposing the unskilled to great insecurity during a transition that will take a long time to complete.

The second problem with the recent paradigm shift, Banting argues, is that human capital policy alone is being asked to carry too much of a burden. Citing a substantial body of research on socioeconomic gradients in access to education, he asserts that one cannot simply spend on education and training programs and hope to create true equality of security. Despite considerable advances in overall educational attainment in Western economies, children from disadvantaged backgrounds continue to be left behind in their educational attainment. Addressing this inequality requires both educational opportunities and a complex web of programs for dealing with social and economic exclusion. Moreover, many problems relating to economic and social justice cannot be addressed through education policies.

The shift in paradigms described by Banting may provide the explanation for what has been depicted by Frenette, Green, and Picot and by Kesselman and Cheung as a sea change in the impact of tax and transfer policies on inequality in the last half of the 1990s. In this period, both the provincial and federal governments altered programs such as social assistance and unemployment insurance, making them more difficult to access and placing greater emphasis on making recipients "job ready." These constraints on public spending for income transfers occurred during a period when governments at all levels faced intense pressures from mounting deficits as well as from public resistance to further tax increases. It appears, just as Banting predicts, that the dismantling of these programs left those at the bottom of the distribution in a particularly disadvantaged position. Given Kesselman and Cheung's argument that the transfer part of the tax and transfer system does the work of redistribution at the lower end, this outcome should perhaps not be surprising.

This sea change in policy has been occurring precisely at a time of high structural change in the economy. The extent of these economic changes has been observed in the sharp increases in the returns to education found by Boudarbat, Lemieux, and Riddell, the reduction in mobility shown by Beach, and the changes in family composition and female participation discussed by Fortin and Schirle. We saw earlier that one potential explanation for these phenomena is provided by a model of technological change in which firms are gradually making a transition from an older, unskilled-labour-intensive technology to a newer, skill-intensive technology. We also saw that, if enough new physical capital was not created during the transition phase, unskilled workers were likely to be particularly disadvantaged because the transition process effectively transferred capital out of their hands and into those of the more skilled. Thus, we may be removing transfer-system support from the least skilled just when changes in a market economy are exposing them to job loss and lower wages.

In the Beaudry and Green technology-shift model, the rush to educate more of the work force will improve the performance of the overall economy and benefit those who get the increased education but leave even further behind those who remain unskilled. If, as Banting argues of the shift in policy paradigms, the shift in technological paradigms is to the long-run benefit of society as a whole, it has imposed the burden of change on the one group least able to handle it. At a time when technological change is creating a group that most needs access to traditional income-transfer policies, we are busy diluting those very policies. This lends strong resonance to Banting's conclusion that our main challenge is "to design a redistributive complement to a human-capital strategy, one that makes meaningful the promise of education as an instrument of economic security and compensates for its limitations" (445). Unfortunately, he also concludes, Canada has thus far ignored this challenge.

Even these arguments, though, may not go far enough in critiquing the role played by education in the current policy discourse. Banting's second criticism might reasonably be expanded to say that education policy itself has been viewed in too narrow a light. The findings of Curtis, Grabb, and Perks indicate that education plays a central role in determining participation in political and community organizations. Thus, unequal access to education impairs not only economic security but also equality of citizenship. This is disturbing, in part, because even with complete equality of access to education, we will not attain complete equality of educational attainment –

nor would we expect to. Heterogeneity in education within the population is likely to persist for economic and other reasons. Many tasks in an economy can be performed by workers with less than a post-secondary education, sometimes much less. Even with completely equal access to education, differences in educational requirements and productivity across tasks will generate a set of wages that imply that it is not in some workers' interests to go on to higher education. Indeed, forcing them to do so through government mandates would be inefficient for the economy as a whole. Differences in individuals' innate abilities mean that many would not benefit much from pursuing advanced education, and these benefits would be swamped by the costs of the education and the forgone earnings while studying. Nevertheless, differing levels of education could create undesirable inequalities in political participation and perhaps political power, thus excluding less skilled workers from true equality in the citizenship sense.

How, then, do we reconcile the requirement to avoid inefficiencies with the power of education to open the doors of effective participation in society? The answer must be in altering the education system such that it provides resources for full participation to those who do not go on to post-secondary education or even complete high school. That is, public education must be enhanced as an institution of citizenship and social capital and not operated solely as a human-capital-generating institution (Green 2003). This point was anticipated in Adam Smith's discussion of education in *The Wealth of Nations*. Smith argued that specialization of labour is a strong force for productive efficiency but is also a force that cripples the human intellect:

> The man whose life is spent in performing a few simple operations ... has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgement concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging. (Smith 1937, 734-35)

The antidote to this, according to Smith is public education, not to teach potential workers how to be more productive but to help citizens take a larger view of their society.

The period since 2000 has witnessed most governments in Canada getting their public finances under control and in many cases allowing tax cuts. This improved fiscal environment has also created an opportunity to redress some of the policy mis-steps of the 1990s that Banting describes. While tax progressivity at the upper income levels may not be critical to inequality and issues of insecurity for less-skilled workers, as suggested by Kesselman and Cheung, collecting sufficient revenues to finance suitable public programs is crucial to the well-being of the less-skilled and disadvantaged.[11] This point can be combined with insights from Beaudry and Green's technology-shift framework to suggest new directions for public policy aimed at long-run gains for equality and justice. In the Beaudry-Green model, increasing access to higher education increases inequality because it diverts tangible capital away from sectors of the economy that employ less-educated workers. In order for Canada to reduce inequality while also raising wages for all workers, total investment must be increased. One strategy that could sustain or, if desired, increase overall tax revenues while also encouraging saving, investment, and capital accumulation would be to reorient the federal and provincial tax systems away from income and toward consumption, as envisaged by Kesselman (2004). This strategy could be implemented in ways that avoid sharp losses in tax progressivity, thus minimizing the sacrifice of equality in the short-run. The long-run benefits of this approach would be to raise real living standards for all workers, reducing inequality while simultaneously generating the revenues for more adequate programs of income support, in-kind benefits, and human capital investments. Coincidentally, this approach would also align the tax system more closely with consumption, which was identified earlier as a better proxy than income for the well-being of individuals.

Conclusion

We conclude by returning to our original questions about Canada as a just society. Do the levels and characteristics of inequality we find in Canada suggest that we are a particularly just society? Have changes in recent decades moved us toward or away from that goal? The studies in this volume paint a picture of considerable inequality in Canada in many dimensions of economic outcomes and political and community involvement. While this is not a novel finding, these studies have considerably deepened our understanding. However, a just society is not necessarily one with complete equality of outcomes. One might define it as one in which all members regard one another with equal dignity and respect. In this light, findings of unequal outcomes and participation for groups delineated by ethnicity and gender suggest departures from the conditions defining a just society. Findings of declining individual earnings mobility, of growing inequalities of family incomes, of increasing assortative mating, and of rising single-parent families with low incomes all paint a worrisome landscape. In short, inequality of income and earnings increased significantly in the 1990s and particularly in the last half of that decade, a period that also displayed reduced buffering of inequalities in market incomes by the tax and transfer system.

The studies in this volume have also provided insights into the causes of inequality and thereby suggest useful directions for future policy. Education is found to be a crucial element for advancing community and political participation, and hence its potential for improving social justice extends beyond the equalization of market earnings. Public transfer programs play a critical role in protecting incomes of the most vulnerable and disadvantaged, and this role must continue even as overall policy shifts more toward enhancing individual labour market skills. Both the level and structure of the tax system also have an important role in generating sufficient revenues to finance programs of income support and human capital investment and in inducing greater accumulation of tangible capital to raise worker productivity and earnings, particularly for the least skilled. The decade of the 1990s, and especially the latter part of that decade, witnessed many public policies adverse to those developments: restrained funding for public and advanced education; significant cuts to transfer programs; higher taxes with the revenues applied to deficit reduction rather than social investments; and heavier tax burdens on savings and investment.

Beginning in 2000, many of these policies have been reversed: partial restoration of public support for training and education; expanded transfers such as enriched National Child Benefits; the use of growing public revenues for new social investments; and tax cuts and reforms targeted at reducing the burden on savings, capital, and investment income. Most of the studies in this volume go no further than the year 2000 because of lags in data availability, research, and publication. One can hope that subsequent policy developments will show a reversal in Canada's declining inequality and social justice once the data and research have caught up, although, of course, ongoing changes in the market economy may have continued the deteriorating trend.

What we can conclude definitively from the studies in this volume is that, at least until the turn of the century, Canada experienced deteriorating inequality and social justice in many dimensions. Processes in the market economy that were leaving the worst-off further behind have been accentuated by shifts in public policy that actually reduced their support and compelled them to bear the brunt of economic changes. The one hopeful point in this scenario is that the policy changes were carried out with the stated purpose of generating better outcomes across society in the longer run. Time will tell whether those policy changes, and those that have followed in the early years of this century, do produce significant economic gains not only on average or for those well-placed in the labour market and society but particularly for individuals at the bottom of the distribution. In the short run, though, the impact of the combination of changes in the economy and in public policy at least through 2000 has been to increase inequality markedly. It is hard to escape the conclusion that these developments have also made Canada a less just society.

NOTES

1 Most of the authors have been associated with the ESC project (Equality, Security, and Community: Explaining and Improving the Distribution of Well-Being in Canada), of which this book is an outcome. The project was conducted from 1998 to 2004 with the support of a Major Collaborative Research Initiatives grant from the Social Sciences and Humanities Research Council.

2 However, one needs to keep in mind the point raised by Kesselman and Cheung (Chapter 12) that simply adding taxes and transfers onto market incomes ignores issues of behavioural responses to the incentives in the tax and transfer system and, therefore, the ultimate incidence of taxes and transfers.

3 This assumes, again, that most people in society want higher earnings and are not seeking a lifestyle with lower earnings and more leisure-oriented pursuits. See Osberg (Chapter 6) for further discussion of the role of leisure time variations in measuring inequality.

4 The measure of societal well-being is a function of individual utilities and thus fits most closely with the welfarist approaches described by Macleod and Eisenberg. However, by defining these functions with a large weight on whether initial levels of income were above some threshold, one could make the overall measure closer in spirit to a resourcist approach.

5 The Atkinson, Gini, Theil, and other inequality indices used throughout this volume are described and compared in Kesselman and Cheung (Chapter 12).

6 For additional studies on inequalities of social participation and social capital, see Kay and Johnston (2006), a companion product of the ESC project.

7 One important topic not included in this volume is the distributional impact of in-kind benefit programs, such as health care and education. For two such studies that also discuss the methodological difficulties of assigning in-kind benefits, see Gillespie (1980) and Ruggeri et al. (1996).

8 Still, it is worth noting that this late 1990s increase for young men is similar to the increase they experienced in the early 1980s.

9 Note that the Fortin and Schirle analysis ends with data for 1997, before the major changes in returns to education documented by Boudarbat, Lemieux, and Riddell, which would have accentuated the results of Fortin and Schirle.

10 The 50-10 differential is defined as the difference between an individual at the 50th percentile of the distribution (the median) and an individual at the 10th percentile from the bottom.

11 The impact of constrained public spending at the provincial level on less-skilled workers and the disadvantaged has been apparent; see for example the BC situation in Kesselman (2002).

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