To fight income inequality, we need a new politics [1]

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EXCERPTS:

Canadians are confronting a new inequality, and tackling it will require a new politics.

The one great success of the Occupy Movement was to shift attention away from the ups and downs of Canada's "poverty rate" to the larger issue of income inequality and the phenomenal and ongoing rise in the incomes of the top 1 per cent.

But an exclusive focus on the very top income earners obscures two important realities. First, if the division was the top 1 per cent versus the 99 per cent, the politics of managing inequality would be much easier. However, recent gains have not been limited to the top 1 per cent. Much of the top half of the income distribution has been doing better since the 1990s, pulling away from the middle.

Second, the number of individuals in the top 1 per cent is, of course, small relative to the rest. As a result, a simple redistribution from the 1 per cent is unlikely to significantly move the dial on national income inequality.

The big story of the past three decades has been the long-term stagnation of Canadian incomes in both the middle and the bottom, despite economic growth.

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 share of economic growth for a generation.

Government decisions are partly to blame. Since the mid-1990s, governments have reduced the progressivity of the tax system and cut social transfers such as Employment Insurance and social assistance. As a result, the tax-transfer system is much less effective in reducing inequality than in the past. According to the OECD, government taxes and transfers in the mid-1980s lowered the gap between rich and poor most in Canada, Denmark, Finland and Sweden. But by the 2000s, Canada had joined Switzerland and the U.S. as the one of the countries having the smallest redistributive impact on income inequality.

But government action has not been the only problem. Inaction and policy drift have been even more important. Even without cutbacks in transfers, inequality in incomes would have increased. Inequality in the earnings families bring home simply moved too fast for the existing policy framework to manage it effectively

As the world changes, new risks and pressures are created. If public policy fails to keep pace, social programs cover a declining portion of the real problems faced by citizens. This is policy drift. Policy inaction in the face of changing labour markets and family structures is a major theme in the Canadian story. Canadian governments have not responded energetically to the evidence of growing inequality, and they have not modernized policy in light of new social risks confronting families. Action and inaction, sins of omission and sins of commission, have weakened the social contract.

Social reformers in Canada have traditionally relied on anti-poverty discourse and evidence of surges in poverty levels to mobilize supporters. But focusing on the poor alone misses much of the pain being felt by Canadian families. Poverty rates are always measured relative to the living standards of the "middle." Because incomes in both the middle and the bottom have stagnated for three decades, poverty rates haven't moved much.

Meanwhile, top incomes have been rising rapidly. For social progressives, the new patterns of inequality point to the possibility of forming a different kind of political coalition - between the middle and the bottom - that has traditionally been absent from our conversations about income redistribution.

The response of the middle class will be critical. Traditionally, the "middle" has tended to align politically with the top in Canada. In many European welfare states, the middle class has tended to align with the bottom and to support a wider array of expansive programs that also benefit the poor. Long-term income trends indicate that the time has arrived for Canada's middle to rethink its political alignments.

The quiet indifference to new social risks and rising inequality has been costly. Living off the policy accomplishments of an earlier generation will not do. We must make a political choice: we can quietly reconcile ourselves to a permanent increase in inequality, or we can adjust our public policies to have greater effect.

The choice we make will determine whether the inequality surge of the 1990s proves to be an historical blip or a permanent and perhaps self-reinforcing feature of our economic and political landscape.

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