The evolution of the Canadian Social Model in International Perspective: how do we compared?

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Developments of Canadian redistributive and progressive social models

Public expenditure for in-kind and cash transfers, % of GDP

1990

- Health services
- Education services
- Other services
- Cash transfers

Canada

7.8
5.4
3.2
6.6

20 10 0 30 40 50

Health services Education services Other services Cash transfers
Developments of Canadian redistributive and progressive social models

Public expenditure for in-kind and cash transfers, % of GDP

1990

2007

OECD-24

OECD-24

Canada ranked 14th

Canada ranked 20th

OECD-50
Developments of Canadian redistributive and progressive social models

Tax revenue as % of GDP

1990

- Sweden
- Denmark
- Finland
- Netherlands
- France
- Belgium
- Norway
- Austria
- Italy
- New Zealand
- Canada
- Luxembourg
- United Kingdom
- Germany
- Spain
- Ireland
- Japan
- Australia
- United States
- Portugal
- Greece
- Switzerland
- Korea
- Mexico

2007

- Denmark
- Sweden
- France
- Belgium
- Norway
- Italy
- Finland
- Austria
- Netherlands
- Spain
- Germany
- United Kingdom
- Luxembourg
- New Zealand
- Canada
- Portugal
- Greece
- Ireland
- Australia
- Switzerland
- Japan
- United States
- Korea
- Mexico

Ranked 11th

Ranked 15th
1. How have inequalities developed over the long-term up to the Great Recession?

2. What are the major underlying forces behind increases in wage gaps and income inequality?

3. Which policies are most promising to counter increases in inequality?
Huge country differences in levels of income inequality

Source: OECD 2011, Divided we Stand. Note: The Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Gaps between poorest and richest are the ratio of average income of the bottom 10% to average income of the top 10%. Income refers to disposable income adjusted for household size.
Income inequality increased in most OECD countries ...

Trends in inequality of disposable income (Gini coefficient)

Source: OECD 2011, Divided we Stand. Note: Incomes are net incomes of the working-age population.
Rising inequality: the major strands of explanations

- Globalisation, brought by rapid trade & financial integration;
- Skill-biased technological change;
- Institutional and regulatory reforms;
- Changes in employment patterns;
- Changes in household structures;
- Concentration of non-wage incomes (e.g. capital);
- Development at the very top (1% or 0.1%);
- Changes in tax and transfer systems.
Causes and pathways for changes in income inequality (a partial and step-wise approach)
OECD evidence on main drivers of rising earnings inequality

- Technical progress was more beneficial for high-skilled workers;

- A number of regulatory reforms aimed at promoting growth and productivity...
  ...had a positive impact on employment...
  ...but at the same time have been associated with increased wage inequality;

- Globalisation (trade, FDI, financial liberalisation) had little impact on wage inequality trends *per se* but may put pressure on policies and institutional reforms;

- Increase in the supply of educated workers (human capital) offset much of the rise in inequality;
Changes in working conditions and working hours

Accounting for part-timers and self-employed increases earnings inequality

Hours worked decreased most among low-wage workers

![Graph showing changes in working conditions and hours worked across countries.]
• **Capital income** has grown more unequal, but its impact on inequality remains moderate.

• Changes in **household structures** ("assortative mating", single-headed households) had a more modest impact than often portrayed.
Societal changes played a rather modest role in earnings inequality trends

Contributions to changes in household earnings inequality

Source: OECD 2011, *Divided we Stand.*
Redistribution through taxes and benefits reduces market inequality by a quarter

Source: OECD 2011, Divided we Stand. Note: Data refer to the working-age population.
... but redistribution became weaker in many countries

Taxes and transfers offset more than 50% of the increase in market inequality during the early decade, but much lower in recent years

Change in market income inequality offset by taxes and transfers

Source: OECD 2011, *Divided we Stand*
Why have tax/benefit systems become less successful at reducing inequality?

- While overall redistribution has *increased*, this was not enough to offset growing market-income inequality;
- Changes in overall redistribution were mainly driven by benefits: those became more redistributive during the 1990s but less effective since then;
- Spending levels have been a more important driver of these changes than tighter targeting;
- Spending shifted towards “inactive” benefits, leading to reduced activity rates and higher market-income inequality.
Another explanation for increased inequality? ... changing social norms

Shares of top 1% incomes in total pre-tax incomes

Note: Refers to the working-age population. Source: OECD Income Distribution Database.
Policy lessons for OECD countries

• Promote up-skilling of the workforce: better training and education for the low-skilled. But this should start from early childhood;

• “More and better jobs”: Increasing employment may contribute to sustainable cuts in income inequality, provided employment gains occur in jobs that offer career prospects;

• Facilitate and encourage access to employment for under-represented groups: address labour market segmentation;

• Government transfers (cash and in-kind) have an important role to play to safeguard low-income households;
  • But social transfers need to be targeted and focussed on activation;
  • Scope for reviewing some existing tax provisions in light of increased “tax capacity" among top-income households;

→ Both redistribution and inclusive employment policies matter.
Thank you for your attention!
Inequality in net income rose since 1995 despite little change in market inequality

Gini coefficients of market and net income

Source: Statistics Canada
Social services also redistribute income
Education, health, care etc. reduced income inequality by a quarter

Source: OECD (2011), *Divided We Stand.*
... and reduced poverty rate by about a half

Source: OECD (2011), *Divided We Stand.*
... but the effect was reduced in many countries since 2000

Association between trends in size of public services and changes in inequality reduction, 2000-2007

Source: OECD 2011, *Divided we Stand.*
Capital income has grown more unequal, but its impact on inequality remains moderate

Source: OECD 2011, *Divided we Stand*. Note: Incomes are net incomes of the working-age population.
Generosity of UI benefits has declined, particularly since the mid-1990s

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Less generous provisions

Source: OECD 2011, *Divided we Stand*
Greater inequality does not foster greater mobility

Source: Miles Corak (2011)