
POLITICAL SOURCES OF INCOME INEQUALITY IN CANADA: THE ROLE OF ORGANISED INTERESTS

NAVID SABET

ABSTRACT

Market forces are often considered the principal determinants of income inequality. While this paper does not dispute the pivotal role economic forces play in generating and distributing wealth, it questions whether economic rationale alone can explain income disparities that are everywhere occurring as a result of the gross accumulation of wealth by the top percentile. In this connection, the role of politics in contributing to rising levels of inequality has received little attention. The purpose of this paper is thus to examine the role and influence of organised interests in shaping policies that promote rising levels of income inequality in Canada. It begins by tracing the resurgence of inequality across the globe and in Canada. It then questions the assertion of the median voter theorem that government policies inevitably converge to the preferences of voters located in the median of the voter distribution. It goes on to describe the ability of business and economic elites to overcome collective action problems and to utilise financial, technical and human resources to achieve policy outcomes in their favour and, finally, it attempts to discuss some of the implications for public policy.

Keywords: Inequality, Canada, Politics, Median Voter Theorem, Collective Action

INTRODUCTION

It is often assumed that income inequality is caused through the operation of impersonal market forces, the like of which include wages, advances in technology, increased market competition and the rising returns to education. While there is little doubt of the pivotal role economic forces play in generating and distributing wealth, economic rationale alone cannot explain income disparities that are everywhere occurring as a result of the gross accumulation of wealth by the top percentile. In this connection, the role of politics in contributing to rising levels of inequality has received little attention. The few accounts that do attempt to describe the effect of political processes on inequality tend to place undue emphasis on the median voter theorem and give surprisingly little attention to the role of organised interests in determining public and economic policy. The purpose of this paper is thus to examine the role and influence of organised interests in shaping policies that promote rising levels of income inequality in Canada. It begins by tracing the resurgence of inequality across the globe and in Canada. It then questions the assertion of the median voter theorem that government policies inevitably converge to the preferences of voters located in the median of the voter distribution. Finally, it attempts to describe the ability of business and economic elites to overcome collective action problems and to utilise financial, technical and human resources to achieve policy outcomes in their favour.

INCOME INEQUALITY: THE GREAT U-TURN

In the 1950s, Simon Kuznets attempted to describe the relationship between economic development and income inequality (Kuznets, 1955). Though relying on scant empirical evidence, the relationship he described formed the shape of an inverted-U, which later came to be known as the Kuznets Curve. It maintained that, as economic growth occurred, modest levels of inequality associated with a nation's low level of development would gradually give way to much greater inequality as nations industrialised, modernised and urbanised only to decrease to original levels once higher levels of growth and development were achieved. Although Kuznets was cautious in drawing conclusions, the implications were clear enough: encouraging greater economic growth would bring prosperity to all.

Developments in the industrialised nations of the world since that time have called to question Kuznets' relationship between economic growth and inequality. The resurgence of inequality has led some to label recent developments as the "Great U-Turn" (Bluestone and Harrison, 1990) indicating a departure from the Kuznets curve and suggesting instead that periods of great economic growth contribute to increases, rather than decreases, in income disparity. Piketty (2003), for example, studied top income shares in France between 1901 and 1998 and found that the "the decline in income inequality that took place during the first half of the century was mostly accidental" (Piketty, 2003). Piketty and Saez (2003) showed that, between 1913 and 1998, the income share of the top decile in the United States not only grew remarkably but also formed a U-shape. Saez and Veall (2005) showed similar results in Canada. Roine, Vlachos and Waldenström (2009) studied income inequality in 16 countries

across the entire 20th century. Their results indicated that in periods of high economic growth, the income share of those in the top percentile increased disproportionately and that inequality grew appreciably despite the attainment of ever higher levels of economic growth in the countries examined. Roine and Waldenström (2010) showed that trends towards greater equality which had been taking shape from the start of the 20th century began to reverse in 1980s, at which point inequality could be found “almost everywhere” (Roine and Waldenström, 2011).

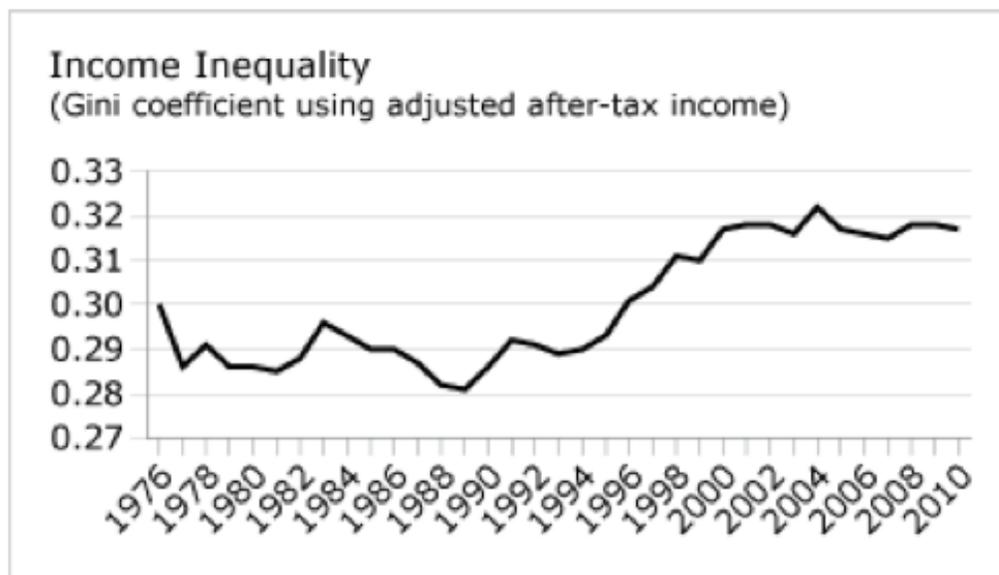
INCOME INEQUALITY IN CANADA

The situation in Canada is not unlike those found in other industrialized regions of the world. Figure 1 shows the steady increase in the Gini coefficient since the mid-1970s while Table 1 shows the concentration of wealth in the top 1% and 0.1% of the population as of 2007.

Table 1: Income share of Canada’s wealthiest 1% and 0.1% in 2007 (Yalnizyan, 2010)

	Top 1%	Top 0.1%
No. People	246,000	24,600
Average Income	\$405,000	\$1.49M
Income Share	13.8%	5.5%

Figure 1: Gini Coefficient in Canada 1976 to 2010⁸



The wealth accumulated by Canada’s elite has also been sustained over time. In the 20 years leading to 2007, Canada’s top 1% earned more than 30% of annual income over those decades (Conference Board of Canada, 2013). Finally, a notable feature of inequality seems to

be that there have been little trickle-down effects. Whereas the richest 1% of the population earn some \$180,000 more today than they did in 1982, the bottom 90% has experienced increases of just \$1,700 (Canadian Center for Policy Alternatives, 2013).

POLITICAL SOURCES OF INEQUALITY

It is commonly understood that economic markets function autonomously to produce varying degrees of wealth in a nation. Once the market has yielded its fruits, the role of governments is simply to redistribute gains through taxation policy or other social programmes. The aforementioned paper of Roine, Vlachos and Waldenström, for example, identified innovations in the financial sector along with reductions in top marginal tax rates as chief determinants of gross gain at the top. Other studies have focused on the percentage of the labour force engaged in agriculture, female labour force participation, investment outflows and other factors associated with global economic integration (Alderson and Nielsen, 2001). The question arises, then, as to why, despite such sophisticated and nuanced insights into the economic sources of inequality, maldistribution of income has been exacerbated in recent times?

Jacob Hacker and Paul Pierson (2010) make a compelling case to suggest that glaring income inequality is politically designed. Examining inequality in the United States, they contend that disproportionate gains have been the prerogative of the top percentile, that the gains have been sustained and that such increases have resulted in very few trickle-down benefits. The same three features characterise inequality in Canada. The rest of this paper thus draws on the framework set out by Hacker and Pierson in an attempt to offer initial insights that might form part of an alternative narrative to understanding income inequality in Canada.

THE MEDIAN VOTER THEOREM

The median voter theorem maintains that politicians and political parties have one overarching objective: to win office. As a consequence, policies are adapted to fit the interests of the times. As early as 1929, Harold Hotelling, observing the competition between the Republican and Democratic parties, noted that, in order to avoid losing votes, “each party strives to make its platform as much like the other as possible” (Hotelling, 1929).

Developing the idea further, Downs (1957) suggested that in order to win office, politicians offer policies that increasingly converge toward the preferences of the median voter. More precisely, the Downsian model of electoral competition states that, given a one dimensional policy space and single-peaked voter preferences, the policy inclinations of the voter in the median of the voter distribution will act as a sort of centripetal force, drawing the policy platforms of various parties towards it. The more widely political franchise is extended, the poorer is the median voter relative to the population and the greater are the demands for redistribution. Proponents of the median voter theorem thus have trouble coming to terms with inequality. After all, higher inequality creates median voters with greater interests for redistribution. These interests, in turn, put pressure on governments for redistributive public policy, thereby stemming growing gaps in income.

There are at least two shortcomings with the median voter theorem in trying to explain inequality. The first is in connection with voter turnout and the identity of the median voter. The second relates to the emphasis it gives to election results.

With regard to the former, it is not difficult to show that in many stable democracies across the world, voter turnout is falling to record low levels^{xviii}. As it turns out, those who vote are typically better educated, wealthier and more informed politically than those who abstain. It follows, then, that the median voter is often wealthier and less concerned with redistribution than the median citizen. Valentino Larcinese’s (2007) description of this phenomenon is apt:

“Downsian models normally assume that everybody votes...It is, however, clear from available data that non-voters are not randomly distributed across the total population: a substantial body of empirical research has documented that voters and non-voters systematically differ in their socio-economic and demographic background and, therefore, in their needs and policy preferences.”

Table 2 shows the voter turnout rate in Canada in all Federal elections and referendums since 1953. Data on the composition of voters was not readily available. However, given the falling rates of voter turnout, it seems legitimate to ask whether the preferences and needs of the median voter in Canada do indeed represent those of the median citizen.

Table 2: Voter Turnout in Canada 1953 to 2011 (Elections Canada, 2013)

Election Year	Voter Turnout (% of total population)
10 August 1953	67.5
10 June 1957	74.1
31 March 1958	79.4
18 June 1962	79.0
08 April 1963	79.2
08 November 1965	74.8
25 June 1968	75.7
30 October 1972	76.7
08 July 1974	71.0
22 May 1979	75.7
18 February 1980	69.3
04 September 1984	75.3
21 November 1988	75.3
26 October 1992	71.8

25 October 1993	69.6
02 June 1997	67.0
27 November 2000	61.2
28 June 2004	60.9
23 January 2006	64.7
14 October 2008	58.8
02 May 2011	61.1

A second shortcoming of the median voter theorem in explaining inequality is the emphasis it places on election results. Implicitly, it is assumed that markets produce output and that governments, chosen by the median voter, take action to distribute the benefits equitably. However important voter power may be in determining the outcome of elections, income inequality in Canada has been steadily rising for more than 30 years, despite several changes to the party in power. Clearly, then, there are other forces at play in determining the outcome of public and economic policies. This essay claims one such force to be the power of organised interests.

THE POWER OF ORGANISED INTERESTS

Organised interests have two distinct advantages over individual voters when it comes to influencing political and economic processes that determine the generation and distribution of wealth.

First, powerful interests associated with business and economic elites are able to overcome collective action problems that typically beset larger groups. Specifically, collective action problems arise when the benefits of an action undertaken by an individual member of a group are collectively shared. Because the benefits of the action are shared but the costs are not, individuals in large groups have less incentive to act in the interests of the group. Instead, each member relies on others to undertake actions that will be of collective benefit. As Olson (1982) explains, "...the gain from any sacrifice an individual makes to serve this common purpose is shared with everyone in the group... The paradox, then, is that large groups, at least if they are composed of rational individuals, will not act in their group interest" (p. 18).

Economic elites are able to overcome these problems for two reasons. First, their numbers are drastically smaller than those of the general voting population, which makes organizing to achieve policy benefits far easier. This follows "the logic" that "smaller groups will have a greater likelihood of engaging in collective action than larger ones" (Olson, 1982). Second, the marginal benefit of lobbying expenditures undertaken by powerful interest groups is greater than the marginal cost of making such contributions. In other words, the policy benefits business interests stand to gain as a result of their contributions act as powerful incentives to coordinate and act collectively.

The second advantage economic elites have over voters is that they command substantial amounts of financial, technical and human resources which they can mobilize in order to participate in, and exert influence over, complex political processes associated with enacting policy. While voters command unquestioned power at the ballot box and have considerable say as to who holds political power, organised interests have become deft at wielding a range of skills and abilities to shape, direct and guide that power, irrespective of who holds it. In this regard, the analysis of Hacker and Pierson is sobering:

Struggles over policy—over what the government actually does for and to its citizens—are usually long, hard slogs. These are struggles that involve drawn out conflicts in multiple arenas, extremely complicated issues where only full-time, well-trained participants are likely to be effective, and stakes that can easily reach hundreds of billions of dollars. Inevitably, organised groups are crucial actors, and usually the crucial actors, in these struggles (Hacker and Pierson, 2010).

In Canada, the political clout of organised business becomes clear after a cursory review of the role of money in politics.

In the May 2011 Federal Election, the average spending limit of the four major parties was C\$20,952,755 (Minsky, 2011). By contrast, the largest 1,000 firms spent some C\$25 billion on lobbying expenditures, employing some 10,000 full-time lobbyists. In comparison, citizen group lobbies in Canada employ just 500 staff and spend in the neighbourhood of C\$50 million annually (Democracy Watch, 2010).

The petroleum industry in Canada, to take a more specific example, is worth some 3.5% of GDP, which translates roughly into C\$40 billion (Natural Resources Canada, 2013). Recent data compiled by the Polaris Institute demonstrates the power and capacity of a small number of organised business interests to command the attention of the Canadian government and to influence its policy choices. Between July 2008 and November 2012, for example, 27 oil companies in Canada along with eight industry associations that represent them registered 2,733 communications with Designated Public Office Holders (DPHO)^{xix} in the Government of Canada. The topics under discussion included policies related to economic diversification, corporate tax breaks and proposals to amend the Income Tax Act of Canada (Cayley-Daoust and Girard, 2012). Interestingly enough, the corporate tax rate has dropped three percentage points from 18% to 15% between 2010 and 2012 (Revenue Canada, 2013). Of the 2,733 communications, 734 came from two major industry associations, the Canadian Association of Petroleum Producers and the Canadian Energy Pipeline Association. This figure was 78% more than the communications registered by the top two associations in the mining industry and 367% more than the two primary automotive industry groups. The Climate Action Network, the country's largest coalition of environmental organizations, registered six communications with DPHOs in the four years to November 2012.

These figures suggest that the real battles of economic policy in Canada do not occur at the ballot box but rather in and around Parliament where legislation is passed. And even as powerful business interests grow in strength and influence, the voices of ordinary voters—or of the median voter—in spaces where policy is shaped gets weaker and weaker. The OECD reports that 28.8% of Canadian workers were registered with a labour union in 2011. In 1980, that figure was 35%.

IMPLICATIONS FOR STEMMING INEQUALITY

What this analysis has attempted to make clear is that markets—their outcomes and their structure—are shaped to a significant degree by government policies which, in turn, are influenced by powerful organised interests. This influence is exerted quietly in spaces inaccessible to the median voter and far away from the media spotlight. “The art for policymakers” Hacker and Pierson (2010) poignantly remark, “is not to respond to the median voter; it is to minimize the trade-offs when the desires of powerful groups and the desires of voters collide” (p. 173).

The implications are clear enough. Efforts to produce a materially prosperous and socially rewarding society cannot succeed so long as economic and political processes are controlled and manipulated by a small minority. Reforms to make the lobby act in Canada more transparent—for example, by requiring firms to provide financial disclosure of lobby expenditures—can help raise public awareness of the undue influence economic interests exert on policy processes and perhaps serve to moderate that influence. But more fundamentally, the growing trend of inequality that is everywhere apparent prompts candid reflection on the very nature of political and economic processes. If governments are intended to serve the common good, then the fact that existing political processes deny meaningful participation to large segments of society and provide benefits to a few at the expense of many cannot be ignored. And in this context, public policy cannot be reduced to simple redistributive concessions that take but a fraction from the “haves” and distribute among the “have-nots”. Stemming inequality requires new institutional arrangements, not charity.

CONCLUSION

Undoubtedly, income inequality is a complex phenomenon that has both political and economic dimensions. On the one hand, there is little doubt on the role economic forces and actors play in creating and distributing wealth. On the other, by examining the influence of organised business interests, this essay has sought to demonstrate that the political economy in Canada is an organised space in which the money, expertise and human resources of economically advantaged groups are able to shape policy processes in order to achieve market outcomes that serve their own interests. This essay has also discussed the implications of such one-sided influence, that productive results cannot be achieved for households, communities and societies if 1% of a population commands such disproportionate amounts of economic and political resources. Political theory and practice must therefore rise to the challenge of developing new institutions and processes that allow for the full participation of people—irrespective of their material means—in shaping the political and economic affairs of their society. It is hoped that the issues presented in this paper make a compelling case to do so.

^{xviii} See, for example, the article entitled “The Beauty of Big Democracy” in *The New Internationalist* Maganize (<http://newint.org/features/2010/10/01/bigdemocracy>).

^{xix} DPHO include “all Members of Parliament and all Senators, as well as any staff working in the offices of the Leaders of the Opposition in the House of Commons and the Senate.”

REFERENCES

Alderson, A. S., Nielsen, F. (2001) 'Globalization and the Great UTurn: Income Inequality Trends in 16 OECD Countries,' *American Journal of Sociology*, 107(5), pp1244-99.

Bluestone B., Harrison, B. (1990) *The Great U-Turn: Corporate Restructuring And The Polarizing Of America*. New York, NY: Basic Books.

Canada Revenue Agency (2013) 'Corporation tax rates' [online]. Available from: www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/rts-eng.html.

Canadian Centre for Policy Alternatives (2013) 'Income Inequality Spikes in Canada's Big Cities', (28 January) [online]. Available from: <http://www.policyalternatives.ca/newsroom/news-releases/income-inequality-spikes-canadas-big-cities>.

Cayley-Daoust D., Girard, R. (2012) 'Big Oil's Oily Grasp, The Making of Canada as a Petro-State and how Oil Money is Corrupting Canadian Politics,' Polaris Institute [online]. Available from: http://polarisinstitute.org/files/BigOil'sOilyGrasp_0.pdf.

The Conference Board of Canada (2013) 'Income Inequality' [online]. Available from: <http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx>.

Democracy Watch (2010) 'Strengthening the Federal Corporate Responsibility and Bank Accountability Systems' [online]. Available from: <http://www.dwatch.ca/camp/actcorpsystem.html>.

Downs, A. (1957) 'An Economic Theory of Political Action in Democracy,' *The Journal of Political Economy*, 65(2), pp135-150.

Elections Canada (2013) [online]. Available from: <http://www.elections.ca/home.aspx>

Kuznets, S. (1955) 'Economic Growth and Income Inequality', *American Economic Review*, 45(1), pp1-28.

Hacker, J. S., Pierson, P. (2010) 'Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top incomes in the United States,' *Politics Society* 38(2), pp152-204. DOI: 10.1177/0032329210365042.

Hotelling, H. (1929) 'Stability in Competition', *The Economic Journal* 39(153), pp41-57.

Larcinese, V. (2007) 'Voting over Redistribution and the Size of the Welfare State: The Role of Turnout,' *Political Studies* 55(3), pp568-585. DOI: 10.1111/j.1467-9248.2007.00658.x.

Minsky, A. (2011) 'Elections Canada sets campaign spending limits', *Postmedia News*, 25 April [online]. Available from: <http://www.canada.com/news/Elections+Canada+sets+campaign+spending+limits/4671757/story.html>

The New Internationalist (2010) 'The Beauty of Big Democracy' [online]. Available from: <http://newint.org/features/2010/10/01/big-democracy/>.

Natural Resources Canada (2013) 'Additional Statistics on Energy' [online]. Available from: <http://www.nrcan.gc.ca/statistics-facts/energy/895>.

OECD, Online Employment Database [online]. Available from: <http://www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm>

Office of the Commissioner of Lobbying of Canada (2012) [online]. Available from: <http://www.oelcal.gc.ca/eic/site/012.nsf/eng/home>

Olson, M. (1982) *The Rise and Decline of Nations*. New Haven: Yale University Press.

Piketty, T. (2003) 'Income Inequality in France, 1901-1998,' *Journal of Political Economy*, 111(5), pp1004-42.

Piketty, T., Saez, E., (2003) 'Income Inequality in the United States, 1913-1998,' *Quarterly Journal of Economics*, 118(1), pp1-39. DOI: 10.1162/00335530360535135.

Roine, J., et al. (2009) 'The long-run determinants of inequality: What can we learn from top income data?', *Journal of Public Economics*, 93(7-8), pp974-988. DOI: 10.1016/j.jpubeco.2009.04.003.

Roine, J., Waldenström, D. (2011) 'Common Trends and Shocks to Top Incomes: A Structural Breaks Approach,' *The Review of Economics and Statistics*, 93(3), pp832-846. DOI: 10.1162/REST_a_00112.

Saez, E., Veall, M. (2005) 'The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence,' *American Economic Review*, 95(3), pp831-849. DOI: 10.1257/0002828054201404.

Yalnizyan, A. (2010) *The Rise of Canada's Richest 1%*. Ottawa: Canadian Centre for Policy Alternatives [online]. Available from: <http://www.policyalternatives.ca/publications/reports/rise-canadas-richest-1>.