

Crisis and Continuity: Pandemic Benefits and Inequality in Canada

by

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## **Abstract**

This thesis examines the redistributive impact of Canada's pandemic income support programs, particularly the Canada Emergency Response Benefit (CERB), and situates these findings within a broader political-economic analysis of neoliberal austerity. While these emergency benefits were not designed to reduce inequality, they nonetheless contributed to a temporary but significant decrease in after-tax income inequality across Canadian provinces. Using Gini coefficients and income share data, this study demonstrates that government intervention—especially when structured as near-universal income support—can meaningfully reduce inequality in the short term. However, the reversion to fiscal restraint and limited social spending in the post-pandemic recovery reveals the political and institutional constraints that prevented such redistributive measures from becoming permanent. The thesis argues that although moments of disruption can open space for structural change, the absence of sustained political coalitions and the persistence of neoliberal ideological frameworks ultimately foreclosed the possibility of a more equitable post-pandemic settlement. In doing so, the paper highlights both the possibilities and limits of crisis-induced reform in Canada's political economy.

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## **Dedication**

Dedicated to my mom, who was excited to read this.

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During the COVID-19 pandemic, Canadian governments introduced a robust set of social transfers, made up of new income-support programs, such as the Canada Emergency Response Benefit (CERB), and temporary enhancements to existing programs. Canada's pandemic income support programs were not designed to be redistributive or to reduce inequality. Rather, they were intended to limit the economic damage caused by the pandemic, both at a macroeconomic level (by supporting aggregate demand), and an individual one (by replacing lost income). Yet, even if the primary goal of these programs was not to reduce inequality, did they have that effect? More importantly, what does this tell us about the capacity and willingness of the state to address inequality in non-crisis conditions in the context of neoliberalism? This project aims to answer these linked questions.

I begin answering my research question with a straightforward empirical task. To discover, first, was income inequality reduced in Canada during the pandemic? And second, to what extent were pandemic benefits responsible for such changes? I answer these by analysing changes in inequality, on a province-by-province basis, using the Gini coefficient and income shares for market and after-tax income for workers in Canada in 2020 compared with 2019. I find that, while market income inequality in Canada increased between 2019 and 2020, after-tax income inequality fell over the same period. These results strongly suggest that the pandemic benefits had a significant, if short-lived, effect on inequality.

To investigate further to determine if pandemic benefits were the cause of these changes, I develop a measure of the redistributive impact of pandemic benefits on a province-by-province basis, and identify connections between relative inter-provincial

changes in inequality and characteristics of pandemic benefits. For example, did provinces that experienced a relatively greater change in inequality see a relatively higher proportion of pandemic benefits flow to lower-decile income brackets? Did they see a larger volume of benefit dollars? Did they have a higher percentage of recipients? The results of these calculations raise a series of new questions. Alberta saw the highest amount per recipient but experienced only an average impact on inequality, relative to other provinces. Ontario had one of the highest amounts per recipient but also had a relatively small change in after-tax inequality. Saskatchewan had the smallest benefit amount per capita but one of the highest impacts on inequality. I analyze these sometimes counterintuitive findings, and discuss what they have to tell us about the relationship between the pandemic benefits and inequality.

These findings lead to a broader argument, where I contextualize the Canadian government's COVID-19 response in the context of neoliberal austerity. The temporary decline in inequality during the pandemic demonstrated that the Canadian government is capable of significantly reducing inequality through direct income support. In effect, the pandemic acted as a natural experiment that demonstrated the redistributive potential of universal or nearly universal cash transfer programs – raising important questions for debates around Guaranteed Annual Income, Universal Basic Income, and income support reform more generally.

The interplay between the emergency benefits provided in response to the pandemic and the underlying structure of neoliberal austerity in Canada presents an important opportunity for understanding the political economy of crisis management and post-crisis recovery. The redistributive shift in policy was not sustained, with the pre-

pandemic austerity agenda being quickly re-established once the acute phase of the crisis passed. The political and policy landscape quickly reverted to the familiar emphasis on fiscal discipline, narrowly targeted supports, and market-led recovery. The failure to seize the moment for lasting change highlights the limitations of crises as opportunities for reform: without sustained political mobilization and effective coalitions between labour and other social groups, even dramatic state interventions are unlikely to disrupt the dominant paradigm of market-driven austerity and the prioritization of private capital accumulation.

This research is therefore not only of interest for what it reveals about the short-term impact of pandemic benefits on inequality, but also for what it tells us about the broader political economy of redistribution in Canada. It speaks to the conditions under which the state acts to reduce inequality, and why such actions are so rarely extended beyond the temporary and exceptional. The pandemic triggered an abrupt diversion from economic orthodoxy, but the return to austerity shows just how resilient that orthodoxy remains, particularly in the absence of strong progressive coalitions and ideological alternatives.

### **Context**

COVID-19 was officially declared a pandemic on March 11, 2020. As a result of the virus, and lockdowns intended to limit the spread of the virus, working hours in Canada dropped by 32% in March and April 2020 (Lemieux et al., 2020). Among all those who were laid off or those whose working hours were reduced, the most disadvantaged demographics were women and racial minorities (Yue Qian, 2020).

The unemployment rate jumped to 13% in April 2020, and the threat of widespread deprivation and economic collapse were imminent (Statistics Canada, 2021). In response to these threats, Canadian governments (federal, provincial, and territorial) spent just over \$270 billion on programs intended to provide financial support for businesses and individuals affected by the COVID-19 pandemic. Of this total, \$102 billion went directly to individuals through new programs or enhancements to existing programs, while the remaining \$168 billion went to supporting businesses. Most of this spending (86%) was made up of benefits from five new federal programs created in response to the COVID-19 pandemic; 11% was composed of enhancements to existing federal transfer programs during 2020 in response to the COVID-19 pandemic; and the remaining 2.5% was income support programs administered by provincial and territorial governments (Statistics Canada, 2022). To contextualize the magnitude of these expenditures, in the year prior to the pandemic Canada spent \$190.6 billion on social protections like unemployment, family and children, disability, and old age benefits (Statistics Canada). In other words, income support benefits increased by over 50%. The five new federal programs were as follows:

### **The Canada Emergency Response Benefit (CERB)**

This benefit provided financial support to workers and self-employed persons who had lost their job or were working fewer hours due to the COVID-19 pandemic and the public health measures implemented to minimize the spread of the virus. They had to be 15 years of age or older, and had to have earned at least \$5000 in the previous year. Eligible individuals received \$500 per week and the program ran between March and September 2020. The Employment Insurance (EI) program was merged with CERB. Approximately 7.6 million Canadians received this benefit, or nearly one third of Canadian adults. A total of

\$65.8 billion in benefits were paid through CERB. Of all the pandemic benefits, CERB was by far the most significant, making up a 76% share of total COVID benefits (Statistics Canada, 2022).

### **The Canada Recovery Benefit (CRB)**

This benefit provided financial support to workers and self-employed persons who lost wages due to contracting COVID-19 and were not entitled to EI benefits. Applicants were eligible for either \$1000 or \$600 depending on when they applied. It ran after CERB ended, from September 2020 to October 2021. A total of \$4.9 billion in benefits were paid through CRB.

### **The Canada Recovery Caregiving Benefit (CRCB)**

This benefit was intended to provide income support for individuals who lost income due to having to care for a family member during the COVID-19 pandemic. Eligible applicants could receive \$500 for each one-week period, up to 44 weeks, between September 2020 and May 2022. A total of \$628 million in benefits were paid out through CRCB.

### **The Canada Recovery Sickness Benefit (CRSB)**

This benefit provided income support for individuals who lost income due to being sick or needing to self-isolate due to COVID-19, or who had an underlying health condition that put them at greater risk of getting COVID-19. Applicants could receive \$500 for each one-week period, up to a maximum of 6 weeks, between September 2020 and May 2022. A total of \$193 million was paid out through CRSB.

### **The Canada Emergency Student Benefit (CESB)**

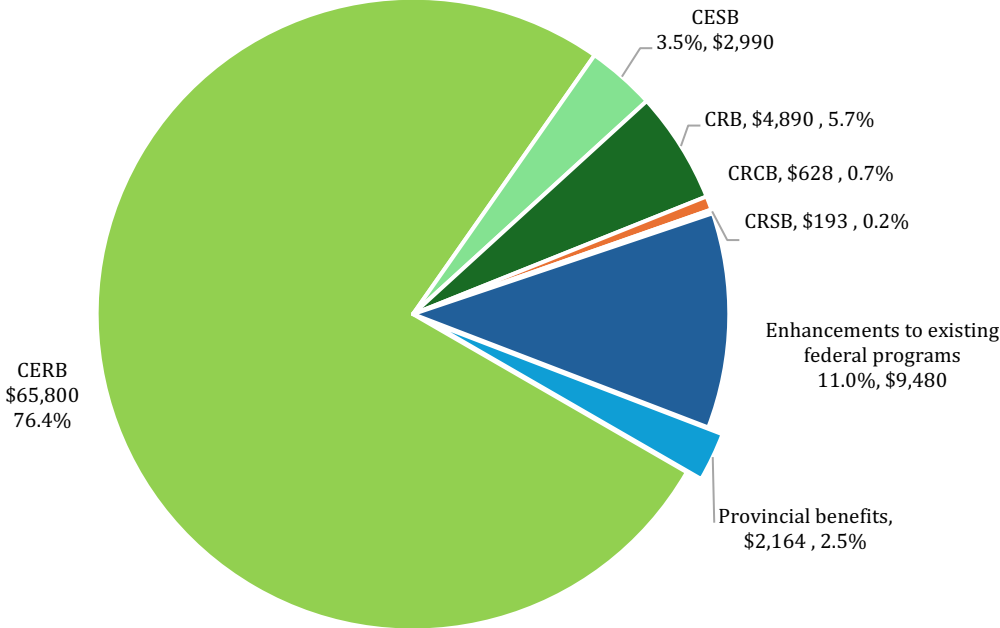
This benefit provided income support for students and recent graduates who were unable to work or find work due to the COVID-19 pandemic and the public health measures

implemented to limit the spread of the virus. This benefit provided \$1250 for a four-week period for a maximum of 16 weeks between May and August 2020. A total of \$3 million was paid out through CESB.

**Enhancements to Existing Programs**

The federal government transfer programs that saw pandemic-related enhancements included Old Age Security pension (OAS) and Guaranteed Income Supplement (GIS), Canada Child Benefit (CCB), goods and services tax (GST) credit and harmonized sales tax (HST) credit and benefit programs supporting persons with disabilities. These enhancements included a \$300 top-up for OAS recipients, \$200 top-up for GIS recipients, \$300 top-up for CCB recipients, and an estimated \$400 top-up to the average GST credit recipient.

**Figure 1: Composition of pandemic benefits, aggregate amount (\$millions), % of total**



In addition to the federal programs, several provinces announced pandemic benefits for their citizens. However, the magnitude of these expenditures was relatively minute compared to those of the federal government, and highly varied across the provinces.

By 2021, the majority of these programs were ended, including CERB, CESB, and top-ups to existing programs. These three programs made up 91% of COVID benefits. The CRB (5.7% of total benefits) ended in October 2021, and CRCB and CRSB (0.9% of total benefits) ended in May 2022. The unemployment rate fell to 7.5% in 2021 and returned to pre-pandemic levels in 2022 (Statistics Canada, 2024).

It is important to note that any reductions in inequality brought about by these new social transfers occurred in a context in which there were powerful economic forces pulling in the opposite direction, so to speak. I will highlight two.

First, it is clear that the pandemic intensified pre-existing inequalities in the labour market. The explanation for this phenomenon lies not in the way the virus itself affected different parts of the population, but because white-collar workers were much more likely than public-facing service sector workers to be able to work remotely. Since the ability to work remotely during the pandemic lockdowns was highly correlated with education – and education is correlated with wages – job losses affected lower-skilled and lower income workers the most (Clarke & Hardy, 2022; Lemieux et al., 2020).

While the fiscal response to the pandemic had redistributive effects and reduced inequality, on the monetary policy side, the effects were largely in the other direction. For example, the Bank of Canada, like central banks around the world, provided significant monetary stimulus in response to the pandemic. The Bank cut interest rates dramatically, to 0.2%. This monetary easing was intended to support economic activity by lowering

payments on loans throughout the economy. The Bank also committed to continuing asset purchases of longer-term debt, to keep capital markets functioning and credit flowing (Bank of Canada, 2000). The additional liquidity helped stock markets around the world rebound much more quickly than the national economies that underpinned them (Bradley and Stumpner, 2021). These monetary policy interventions were non-controversial and appropriate, and presumably helped reduce bankruptcies among households and firms. At the same time, since financial assets are disproportionately owned by the rich, the monetary-policy response to the pandemic likely had the unintended consequence of increasing wealth inequality, especially at the top end. While this paper is focused on income equality not wealth inequality, it is worth observing that the various institutional responses to the pandemic interacted with inequality in complex ways.

For these reasons, among others, we can assume that in the absence of the emergency social transfers, the pandemic would have caused an increase in inequality.

### **Literature Review: Income Inequality**

Inequality is a longstanding topic of research in economics and political philosophy. Plato viewed it as “the greatest of all plagues,” and proposed that in his ideal city the wealthiest citizens would have only four times the wealth of the poorest (quoted in Williams, 2016). Much more recently, inequality has received increasing attention since the financial crisis that began in 2008. For example, the Global Attitudes Project carried out by the Pew Research Center found that in 2014, respondents in the US and Europe ranked inequality as “the greatest danger to the world” (Quoted in Atkinson, 2015, p. 1).

For a concept that is such a fundamental concern within democratic societies, and has generated so much research and analysis over literally hundreds of years, inequality is

notoriously hard to measure or track because so much depends on how we define and measure it. What, exactly, are we measuring the inequality of? Income or wealth? (Beyond an economic focus there are many other registers of social inequality, from life expectancy to political power to education.) Furthermore, should the unit of measurement for inequality be the individual? Households? Different tools used to measure inequality are more sensitive to different parts of the distribution, and therefore can produce very different results.

This thesis focuses on the effects that pandemic payments had on *income* inequality, which is a measure of how income is distributed across a given population – in this case the population aged 15 and over within each Canadian province. Income inequality is technically distinct from wealth inequality, and we cannot use them interchangeably. Yet, conceptually, the debates around inequality encompassing wealth and income are interrelated, and relevant for our purposes.

I have organized this literature review around two main questions. One centres on whether or not inequality is truly harmful, or whether it is merely a natural, reasonable, inevitable – and possibly even desirable – consequence of a market economy in which people have differing abilities and contribute different levels of effort. This critique, which I will discuss in more detail in the section about “deservingness,” below, typically comes from a free-market, right-wing position. The other, closely related, debate centres around the question of whether it is appropriate to look not at *inequality* but instead at *poverty*. This debate is where I will start.

## **Inequality or Poverty?**

Poverty describes a situation in which people do not have access to sufficient income or resources to live at a socially acceptable level (World Bank, 2023). The economist Martin Feldstein (1999), who served as an advisor to President Reagan, argued, “inequality as such is not a problem and ... it would be wrong to design policies to reduce it. What policy should address is not inequality but poverty”. Similarly, the economic historian Dierdre McClosky writes, “the problem is poverty, not inequality as such — not how many yachts the L’Oréal heiress Liliane Bettencourt has, but whether the average Frenchwoman has enough to eat” (McCloskey, 2016, para. 7). We might call this position the “sufficiency” view. As a thought experiment, we can imagine a society in which no one has to go without sufficient food and shelter to survive, as well as, possibly, access to basic health care, education, and core social services. These indicators are unavoidably arbitrary. Yet while the vast majority of the members of this imaginary society meet only the minimum threshold to avoid living in poverty, a small minority of the population is extremely wealthy, living in luxury and exercising enormous political influence. Would we characterize this society as a fundamentally fair or desirable one? The “sufficiency” position would say it is.

Inequality is a broader concept than poverty. It concerns itself with an entire population, not just those below a certain threshold. In other words, while poverty is about the absolute size of income, inequality is about the size of income shares. However, there is a fundamental connection between inequality and poverty, with higher rates of poverty being correlated with larger top income shares (Atkinson 2015, p. 25).

There are several measurements commonly used to determine whether a person is living above or below the poverty line. These include: low income cut-offs (the income threshold below which a family must devote more than 20 per cent of its income on necessities); market basket measure (a family is considered low income if it does not have enough money to buy a “basket” of specific goods and services in its community); and the low-income measure (a household is considered low income if its income is below 50% of median household incomes) (Martin, 1999; Statistics Canada, 2012; Employment and Social Development Canada; 2016). Note that, while the market basket approach is an absolute measurement, the low-income cut off and low-income measure are relative. In 2018, Canada adopted the market basket measure as its official poverty line.

Focusing on poverty instead of inequality has the effect of separating inequality from capitalist political economy. This position is politically powerful, since, if we view inequality as inherent to capitalism, we may see the ways to address it in terms of redistribution, structural reforms, like increasing power for labour, and may even adopt radical, anti-capitalist politics. Poverty, in contrast, can potentially be explained away as being the product of individual failings rather than structural. In this view, charity comes to be seen as a more appropriate solution than radical systemic changes. In other words, it sanitizes and de-radicalizes the concept of inequality. While this dates back to at least the origin of the Industrial Revolution, Reed highlights a specific, significant and relatively recent historical transition in “the late 1950s and early ’60s,” when

The discovery of poverty as a national problem ... redefined economic inequality from a description of relative material circumstances to a cultural issue deriving from the inadequacies of individuals or groups. Debate within and around the John F. Kennedy and Lyndon B. Johnson administrations on how to understand and thus respond to “poverty” overlapped with the debate about structural unemployment. Figures like Labor Secretary W. Willard Wirtz, labor and civil rights leaders like

Walter Reuther, A. Philip Randolph, and Bayard Rustin, and labor economists like Charles Killingsworth continued to argue that poverty stemmed primarily from the economy's inability to generate sufficient gainful employment. In their view, the most effective anti-poverty strategy would involve the kind of substantial federal intervention that would tighten labor markets—including public investment, serious job training, and direct job creation. The other view, which won out, insisted that poverty was a residual problem in the United States, distinct from the issue of unemployment...It held that most unemployment could be eliminated through tax cuts intended to stimulate aggregate demand, which in turn would generate jobs through increased private investment. That view also reflected the contention that chronic unemployment and poverty resulted from deficits of skills or motivation, attitudinal problems, or in the case of Black Americans in particular, the effects of racial discrimination... Anti-poverty efforts, therefore, should target the affected groups for special remedial interventions—character-building rather than redistribution (Reed, 2023 paras. 2-3).

Tony Atkinson, a renowned British economist, heightened awareness of inequality in the scholarship. He developed analytical frameworks for studying inequality that would inspire and be adopted by researchers working in the field today. His subjects included historical studies of top incomes globally, the causes and consequences of rising inequality, measurements of inequality, and policy prescriptions for inequality reduction (see Atkinson 1970; 1981; 2015; Atkinson and Piketty, 2010). His 1970 paper advanced the methodology for measuring inequality by introducing the inequality aversion parameter to account for the normative aspects inherent to inequality measurements. The measurement he devised, known as the Atkinson index, works to acknowledge that “any measure of inequality involves judgements of social welfare” (p. 257). Atkinson’s work explicitly considered the role of political power and the consequences of power imbalances on democracy. He asserted that income and wealth inequality are closely tied to political power concentration, and that unchecked inequality undermines democracy by concentrating power in the hands of a few. Atkinson (2015) advocated for policies that promote greater equality, believing they are crucial for a healthy and just society.

Recently, writers including Hasset and Mathur (2012) of the American Enterprise Institute and Furchtgoff-Roth (2014) of the Manhattan Institute, among others, have developed another critique of focusing on income inequality. They argue that inequality of consumption spending is a better measure of inequality than income inequality, since “households are better able to smooth consumption rather than income over their lifetime” (Hasset and Mathur, 2012). Using the US Consumer Expenditure Survey, they show that consumption inequality has increased much less dramatically than income inequality since the 1980s. This line of reasoning is based on the reality that a household’s standard of living is not necessarily tied to its income at that moment. For example, young adults may borrow funds – to purchase a home or pay for tuition, as well as to achieve a desired level of consumption unsupported by their income. They then repay these loans as they age and their incomes rise. They also use a portion of their income to fund retirement savings, and when they reach retirement age, they draw these down to support a level of consumption higher than their employment income (which may be as low as zero if they are fully retired) directly supports.

Boyer (2020), taking a similar stance, states that consumption inequality is the “more important and socially relevant type of inequality,” and has been significantly reduced in Canada over the past decades and “probably around the world,” though he provides no evidence of this latter point (p. 41). This approach muddies the waters but ultimately just stretches the effect of market inequality over a longer time horizon. While it is no doubt true that young adults may take on debt to meet desired levels of consumption, these debts will be smaller if their incomes are higher.

Stiglitz takes a much different view from the one outlined above. He describes how significant, longstanding rates of wealth and income inequality in the United States were exacerbated by the financial crisis. According to Stiglitz (2013), the extreme inequality characterizing the contemporary US economy is not the unavoidable product of economic laws of motion, but rather of a series of legal rulings and policy decisions. In short, “inequality is a choice,” and income inequality reflects inequality in the distribution of political power (Stiglitz, 2013). Essentially, Stiglitz is suggesting that the degree of inequality we observe in capitalist economies is largely a product of deliberate actions and choices made by those in power, rather than something that happens organically or as an unavoidable side effect of the economy. For example, policies favoring the wealthy, tax breaks for corporations, or weak social safety nets can lead to greater inequality, while progressive taxation, wealth or inheritance taxes, stronger labour laws, and policies that support wealth redistribution can reduce it.

In *Capital in the Twenty First Century*, Piketty (2014a) employs a broader historical and geographic frame, tracing the rise of inequality in the US and Europe since the Industrial Revolution. Piketty’s main thesis is that the long-run rate of return on capital ( $r$ ) is greater than the rate of economic growth ( $g$ ), a phenomenon that produced increasing concentrations of wealth, and which in turn created social instability. In a subsequent article published in the *American Economic Review*, Piketty argues that, in the popular debate around his book, too much power had been attributed to the  $r > g$  formula, which he cautions does not on its own provide the explanation for rising inequality of income (Piketty, 2014b). Like Stiglitz, Piketty attributes rising inequality in labour income to specific policy choices rather than long-run structural dynamics. The popularity of Piketty’s

*Capital* has played a crucial role in recentering inequality discourse in recent years. Following its release, Atkinson was prompted to write *Inequality: What can be done?* (2015), focusing on proposed solutions to inequality. Atkinson provides a number of pragmatic policy prescriptions including basic income, taxation reform, target unemployment rates, increased welfare state interventions, improving business competition, and guaranteed public employment.

Milanovich, like Stiglitz, Piketty and others, emphasizes that the long-run historical evolution of inequality has not been mechanical. Instead, it has been driven by major events, some mostly benign, such as the spread of public education, demographic changes, or technological advances, others more violent, like wars and revolutions – all in addition to specific policy decisions (Milanovich, 2016). These authors also emphasize that policy decisions around inequality are inherently political, rooted in conflicts over social and economic power. The story told by Reed, above, of how a turn to poverty instead of inequality “let capitalism off the hook,” makes more sense when we remember that strong economic growth in the United States after the Second World War coincided with an increase in trade-union militancy – this militancy was a significant factor in lowering inequality in the decades after World War II. According to this line of argument, redefining inequality as poverty was not a technical matter but a political response to the rising power of labour.

### **Why Should We Care About Inequality?**

Typically, people at the bottom of the income distribution will be both relatively and absolutely poor, but it is entirely possible to imagine a country that has zero absolute poverty (by ensuring everyone has sufficient access to the basic necessities of life, such as

nutritionally adequate food, shelter and clothing), and also has extreme inequality. Imagine a country ruled by a “benevolent” royal family, who live in extreme luxury and the rest of the population are essentially serfs, although no one goes without the basics such as food and shelter. The imaginary country in this thought experiment takes us to the heart of the issue: what is the problem with inequality in its own right? If we could eliminate poverty, and ensure every single person had access to the basic necessities of life, such as food, clothing, and shelter – even if there were extreme inequality – would that be good enough? So: is inequality inherently a problem?

Essentially, there are two main arguments for why this would be the case. First, that inequality produces social, political and economic instability. And second, that inequality is morally unjust and unacceptable.

As Galbraith notes, “perhaps the most commonly raised concern about economic inequality is that it may have an adverse effect on economic growth” (Galbraith, 2016, p. 123). There is evidence to back this up: “the most egalitarian [among advanced economies] have become the wealthiest of all, thanks to high levels of investment and productivity growth” (Galbraith, 2016, p. 125). Cingano (2014) also concludes, “drawing on harmonised data covering the OECD countries over the past 30 years, the econometric analysis suggests that income inequality has a negative and statistically significant impact on subsequent growth. In particular, what matters most is the gap between low income households and the rest of the population” (p. 6).

Stiglitz argues that inequality actually undermines economic growth. According to Stiglitz, the process is as follows: rising inequality means that greater shares of economic output go to those who have a lower marginal propensity to consume (the wealthy). Given

an extra dollar, higher income and wealthier people are more likely to save it, and less likely to spend it on consumption. The aggregate effect is to reduce demand in the economy. The result is a vicious cycle: lower consumption leads to higher unemployment, less political leverage for workers, and another round of increased inequality. Inequality may also be a drag on economic growth because high-income people have a disproportionate influence on policy makers, who deliver an inefficient combination of tax cuts and spending cuts, neglecting investments in such things as public education that would help everyone, and support stronger growth in the long term, but that the wealthy can buy on their own (Stiglitz 2013, 2013a). For these reasons, inequality “is associated with more frequent and more severe boom-and-bust cycles that make our economy more volatile and vulnerable” (Stiglitz, 2013b; Alesina & Perotti, 1996).

Scholars such as Arcand, Berkes, and Panizza (2012) provide another critique of income inequality, by highlighting the complex interplay between inequality, credit markets, and economic growth. They emphasize that excessive financialization, often driven by inequality, can lead to inefficiencies that constrain overall economic development. It has been demonstrated that a higher degree of financialization can lead to greater macroeconomic volatility (Minsky, 1974 and Kindleberger, 1978, cited in Arcand, Berkes and Panizza, 2012). However, this does not necessarily mean that financialization also generates lower growth. Arcand, Berkes and Panizza (2012) demonstrate that “in countries with very large financial sectors there is no positive correlation between financial depth and economic growth.” (p. 23). Complementing this perspective, Stiglitz (2013a) argues that inequality undermines economic performance by restricting access to credit for lower-income households. When capital markets fail to allocate resources efficiently,

individuals with the potential to invest in education or entrepreneurship are unable to do so, thereby limiting both social mobility and the broader productive capacity of the economy. Meanwhile, those at the top end of the income distribution can profit through speculative or rent-seeking behaviour with money that would be more efficiently (from a societal perspective) invested in the productive economy.

A neoclassical economist might object to Stiglitz's argument on the grounds that, essentially in keeping with Say's Law, supply creates its own demand. As the saving – which is the supply of money – grows, the interest rate – the price of money – will fall, triggering increased demand. In this way, the saving will become investment that drives growth. However, those who, like Stiglitz, work in the Keynesian tradition, tend to hold that investment is driven by anticipated demand – essentially the obverse of Say's Law, that demand creates supply (Kent, 2005).

### **“Deservingness:” Inequality of Opportunities and Outcomes**

The reduction of income inequality is often touted as a desirable goal in terms of social justice – in other words there is a moral imperative to reduce inequality. Ironically, some critics of reducing inequality have also framed their analysis in terms of morality, specifically the deservingness (or lack thereof) of the poor. Especially under austerity conditions, government assistance is often framed in terms of the “deserving” or “undeserving” poor. While government assistance for the “undeserving” may be reduced significantly, some level of support for the “deserving” may still be maintained. The “deserving” poor are often depicted as individuals or families who fall into poverty due to circumstances beyond their control—such as illness, disability, or natural disasters. They are seen as good people who want to work and contribute to society but have been

thwarted by misfortune. Society, in this view, has a moral obligation to help them, as their poverty is not seen as the result of laziness, bad choices, or personal failings.

In contrast, the "undeserving" poor are often portrayed as those who have the means to work but refuse to do so, or who have made poor decisions that led to their poverty. This might include people who are unemployed by choice, engage in substance abuse, or make irresponsible lifestyle choices. The "undeserving" poor are sometimes viewed as freeloaders or individuals who take advantage of government assistance without making any effort to improve their situation. This distinction, which plays a crucial role in framing the public debate over welfare policies and has significant implications for the design of these policies, has deep historical roots.

The concept of the deserving and undeserving poor dates back at least to the 16th and 17th centuries in England, where it became manifest through the Elizabethan Poor Laws. These laws were among the first to create a distinction between the "worthy" and "unworthy" poor. The "worthy" poor were those who were unable to work due to age, illness, or disability, while the "unworthy" poor were those considered able-bodied but unwilling to work. The latter group was often subjected to punishment or public humiliation, as society believed they were responsible for their own poverty (Hansan 2011).

In *The Great Transformation*, Polanyi (2001) theorizes the Poor Laws' emergence in historical context, using them to illustrate ways in which the market economy creates social problems that require state intervention. However, this intervention was not designed to challenge the market's logic but to accommodate it. The state's role was to regulate and control poverty, but do so in a way that would not interfere with the

functioning of the market. Polanyi's argument about the Poor Laws can help us understand COVID benefits, which were a sudden, highly redistributive policy intervention by the state, even in the context of neoliberalism.

*The Great Transformation* (the "transformation" referred to in the title is from pre-industrial Europe to industrialized Europe), is an analysis of the historical relationship between the rise of market economies, and the social systems that evolved in response to the disruptions caused by market forces. Polanyi's central concept of the "double movement" describes a dialectical process in which the expansion of market forces disrupts existing communal social relations. This expansion has such profound consequences that it then calls forth a response in the form of government interventions aimed at protecting society from the destabilizing effects of the market. The "double movement" includes both the expansion of the market *and* the counter-movement by the state to put some limits around market-driven policies. This concept helps Polanyi explain the dynamic tensions that emerged in the development of market societies. It is useful to understand the sudden appearance and equally sudden disappearance of COVID benefits.

The first part of Polanyi's double movement refers to the liberalization and commodification of land, labour, and money, as the market system seeks to integrate all aspects of society into a self-regulating market economy (p. 71). Polanyi (2001) argues that this process was not a natural or spontaneous development but a deliberate political decision to place the economy under the control of market forces, stating that "the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's 'simple and

natural liberty' compatible with the needs of a human society was a most complicated affair" (p. 146).

The expansion of markets profoundly disrupted traditional social relations. Communal ways of life were eroded including the disintegration of traditional social structures that had previously provided for the welfare of individuals. Social relationships in pre-industrial societies were organized around mutual support at the community level. There were of course market activities such as trading and money, but these were embedded in a system of reciprocal social expectations, where the needs of the poor were addressed through communal support. Markets were "accessories of economic life" (Polanyi, 2001, p. 71). These systems were largely informal, relying on shared values.

However, with the rise of the market economy after the Industrial Revolution, this system was gradually dismantled. As market forces became more dominant, the importance of social relationships based on mutual obligation diminished. The economy became disembedded from a society governed primarily by the laws of supply and demand, and people were increasingly seen as individual units within a market, rather than as part of a collective social fabric. The commodification of labour treated people as mere instruments of production, and the market disregarded human needs, generating widespread inequality and, in turn, social unrest.

In response to the destructive consequences of the market's expansion, the second movement, the "protective counter-movement," emerged (Polanyi, 2001, p. 151). This response tried to shield society from the destabilizing forces of the market by implementing social protections, such as labour rights (for example, restrictions on the length of the work day and child labour, health and safety provisions), and social welfare

policies. Crucially, the intent was not to roll back or abolish the market, but to moderate and manage it, so human and social considerations were not completely overtaken by the logic of the market.

Polanyi (2001) writes, “the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones” (p. 79). The idea that labour is a “fictitious commodity” is a cornerstone of his critique of market economies. Polanyi (2001) argued that labour, unlike traditional commodities such as goods or services, is not something that can be produced for the market and bought or sold in the same way. The term “fictitious commodity” refers to the idea that labour is treated as if it were a commodity, even though it is fundamentally different from other market goods because it is not originally produced for sale.

Polanyi (2001) argues that labour is not a true commodity because it is tied to human beings. People are not objects that can be separated from their physical and emotional needs. When labour is commodified, it forces individuals to sell their ability to work in exchange for wages, which treats human beings as mere instruments of production. This commodification of labour results in the exploitation of workers, as they are subjected to market forces that determine the value of their labour without considering their well-being, personal lives, or social needs.

Polanyi's (2001) key point is that treating labour as a commodity has detrimental social consequences. Unlike land or money, labour cannot be produced outside of human life and experience. The process of commodifying labour thus leads to the degradation of human beings, who become mere tools within the economic system: “the alleged commodity ‘labor power’ cannot be shoved about, used indiscriminately, or even left

unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity” (p. 76). In essence, it alienates workers from their own humanity and ties their value solely to their utility within the market. This, according to Polanyi (2001), is unsustainable because the well-being of individuals cannot be reduced to their economic function. As labour is inherently tied to people’s lives, its commodification leads to social and economic instability, creating disparities and dehumanizing effects on workers.

In other words, labour is inseparable from human beings, and the attempt to commodify it disrupts social cohesion and individual well-being. The commodification of labour, for Polanyi, is an artificial construct that leads to social harm and unrest, revealing the contradictions within a market system that treats humans as mere economic agents — and necessitating the emergence of social limits: “no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill” (p. 76-77).

For Polanyi, the Poor Laws in England are an illustrative example of this counter-movement, designed to manage some of the adverse effects of industrialization on workers, without ever challenging the capitalist system. The commodification of labour, land, and money left people vulnerable. If you were unable to work — to sell your labour in the market — you could no longer rely on community supports to provide for and protect you. This phenomenon created a new class of poor people no longer supported by traditional social structures. As Polanyi (2001) summarizes, “the economic advantages of a free labor market could not make up for the social destruction wrought by it. Regulation of a new type

had to be introduced under which labor was again protected, only this time from the working of the market mechanism itself” (p. 81).

In response to the social disruption caused by the rise of capitalism, the English state implemented the Poor Laws, a system of welfare provisions intended to address the problem of poverty and also to control the growing class of the poor.

The Poor Laws began with the Elizabethan Poor Law of 1601. This law required each parish to provide assistance to the poor living in its boundaries. The Poor Law system evolved over time, and by the 18th century, the state began to take over the administration of poor relief. The laws went through various stages of reform and expansion, all with the goal of controlling poverty and preventing social unrest.

Polanyi (2001) explains that, under the early Poor Laws, there were efforts to provide relief for the poor, but the system was contradictory. On the one hand, it recognized poverty as a social problem that needed to be addressed. On the other hand, in “addressing” the problem it imposed harsh conditions on recipients of relief to deter dependence on public aid. This was part of a broader attempt to maintain the social order by regulating the behaviour of the poor. Relief was often provided under strict conditions, such as work requirements or public humiliation, to prevent the poor from becoming a permanent underclass dependent on charity (Hansan, 2011).

The most significant reform of the Poor Laws came with the New Poor Law of 1834, which was designed to reduce the cost of poor relief and enforce even stricter controls on the poor. Polanyi (2001) sees this reform as a turning point in the relationship between the state and the poor. The New Poor Law introduced the principle of “less eligibility,” which meant the conditions for receiving aid were deliberately made worse than the conditions

that the poorest members of society would encounter in the labour market. The idea behind this policy was to make public assistance so unappealing that it would force the poor to seek work in the market, thus keeping the cost of poor relief to a minimum. The principle of “less eligibility” anticipates the deserving / undeserving poor distinction.

The New Poor Law also emphasized the creation of workhouses, where the poor could be sent in exchange for relief. Workhouses were designed to be harsh, degrading places where the poor would be compelled to work in return for their basic needs. The principle of less eligibility meant that conditions in the workhouses were intentionally worse than the worst forms of employment in the market, creating an incentive for the poor to avoid relief and seek work. Polanyi (2001) argues that this system was designed not just to alleviate poverty but to enforce market discipline and ensure that the poor remained tied to the labour market.

The New Poor Law reflected the growing dominance of market logic in social policy. By treating poverty as a moral failing and a product of individual behavior, the state reinforced the idea that poverty was not a consequence of systemic economic forces but the result of personal inadequacy. This individualization of poverty was consistent with the ideas of classical liberalism, in which individuals were understood to be responsible for their own welfare within the marketplace.

Polanyi (2001) argues that the Poor Laws, particularly the New Poor Law, highlight the contradictions inherent in the capitalist system. On the one hand, the state intervened to address the social dislocation caused by the market economy by providing poor relief. On the other hand, this intervention was shaped by the logic of the market itself, which emphasized efficiency, self-reliance, and the minimization of state expenditure. Polanyi

argues that the Poor Laws were a temporary solution to the problems caused by the market economy but ultimately failed to address the root causes of poverty. The state's role in managing poverty was not to provide genuine social welfare or to address the underlying causes of poverty but to maintain social order by keeping the poor under control and ensuring that they did not disrupt the functioning of the market economy.

The commodification of labour, the central tenet of market society, created a situation where people were dependent on their ability to sell their labour to survive. As a result, poverty became an inevitable consequence of the market system, and the Poor Laws were a means of managing, rather than solving, this problem. The Poor Laws, like other forms of social welfare in capitalist societies, were shaped by the logic of the market rather than by a genuine concern for human welfare.

We see a similar dynamic in the context of the COVID pandemic, specifically in the way COVID benefits were ended as quickly as possible. They did not alter social power in any lasting way, and only reduced income inequality as a temporary (and largely unintended) side effect.

McGann (2020) makes a similar argument about how pandemic benefits temporarily disrupted the logic of the market, using the case of Ireland. Contemporary welfare states typically "tie social security to market participation to stimulate labour commodification," so the Pandemic Unemployment Payment, as Ireland's equivalent to CERB was called, represented a profound shift for the recipients: suddenly welfare replaced market earnings as their means of subsistence (p. 225). McGann characterizes this as a "window of decommodification," a temporary moment in which social welfare supports were not mediated through the market.

## **The Deserving, the Undeserving, and the Reserve Army of Labour**

This distinction of the "deserving" and "undeserving" poor became deeply embedded in Western social and political thought. In the U.S., for instance, it was institutionalized in the early welfare system. The 19th and early 20th centuries saw a shift toward a more moralistic approach to poverty, where individuals' worthiness for aid was judged based on their perceived behavior. This included attitudes toward race, gender, and class, where certain groups were deemed more likely to be "undeserving." For example, Black Americans, immigrants, and women were often stereotyped as lazy or prone to dependency (Moffitt, 2015).

Conservatives tend to emphasize personal responsibility and self-reliance, framing poverty as a result of individual failings. From this perspective, government assistance should be limited to the "deserving" poor—those who are unable to work due to reasons beyond their control. Welfare programs should focus on providing a safety net for individuals who are temporarily down on their luck, with the goal of helping them regain self-sufficiency. In contrast, progressives are more likely to argue that poverty is the result of structural inequalities in society, such as low wages, inadequate education, and discrimination. They may view the deserving / undeserving dichotomy as overly simplistic and harmful. Instead of focusing on moral judgments, they emphasize policies that address the root causes of poverty, such as expanding access to education, healthcare, and housing, and increasing wages through minimum wage laws or collective bargaining.

The concept of the "reserve army of labour" is a key idea from Marx, and refers to the "pool of unemployed and partially employed labour" which is "an inherent feature of capitalist society" (Shaikh, 1991, p. 475). It acts as a buffer or reserve pool of labour that

capitalists can draw on when the demand for labour increases. It reflects the structural dynamics of labour markets under capitalism, where there is a constant fluctuation between labour supply and demand, and unemployment is an inherent part of the system.

Workers in the reserve army exist alongside the active workforce, but they are not always needed or fully absorbed into the labour market. The reserve army provides political leverage for capitalists, who can exploit the threat of a surplus labour force to keep wages low and discipline the working class. When businesses need more workers, they can draw from this pool of surplus labour; when there is less demand, these workers are left without jobs.

The existence of a reserve army has several consequences for the working class. First, it helps to maintain inequality by preventing wage demands from rising too high, as workers know there is always a potential surplus of labour waiting in the wings to replace them. This keeps the working population insecure. Second, the reserve army creates competition between workers, as some are constantly in danger of falling into this reserve category, while others are actively employed and relatively better off. This division weakens solidarity among workers, which in turn helps keep labour costs down. In this way, the reserve army of labour ensures that the capitalist class can pay wages that are lower than the value that labour produces. In the Marxian view, this exploitation is the source of surplus value (profit). The extraction of surplus value from labour is what drives capitalist accumulation and is therefore existential to the capitalist class. As such, policies that increase non-work income to the reserve army are vehemently opposed by capitalists, as it impacts the rate of exploitation and, consequently, profits.

In capitalist societies, the reserve army of labour intersects with moral judgments about poverty. Unemployed individuals in the reserve army are often categorized as “undeserving,” especially when they are perceived to be unemployed not because of systemic economic forces but due to personal failings, such as not being willing to work hard enough or to gain the skills needed by employers.

This moral judgment becomes a way for society to justify the lack of state support or to impose punitive measures, such as workfare programs or restrictions on social welfare benefits. In contrast, the “deserving” poor—those who are seen as temporarily in need or deserving due to circumstances beyond their control—might receive more sympathetic treatment or more generous forms of welfare.

The way that society and the state deal with the reserve army of labour has significant implications for social policy. When large segments of the population are seen as the “undeserving poor,” there is a tendency to tighten welfare policies and focus on measures that emphasize individual responsibility, often at the expense of collective or systemic solutions to poverty. The unemployed are often pushed into programs that emphasize retraining or “workfare,” which are designed to reintroduce them into the labour market under the assumption that any form of work is better than unemployment. In this context, the unemployed are seen as responsible for their poverty because they are part of the reserve army of labour, and their condition is considered a temporary situation that can be corrected through the right incentives.

However, the situation is more complex than individual behavior. Capitalism, as Polanyi and Marx argue, inherently creates structural unemployment through its very nature. The fluctuations of the market—its booms and busts—mean that there will always

be a surplus of labour at certain times, leading to unemployment that is not the fault of individual workers. By classifying the unemployed as the “undeserving” poor, societies ignore these systemic factors and place the blame on individuals, ignoring the role that market forces play in creating the conditions of poverty. Consistent with classical liberal thought, even those who inhabit the necessary ranks of the reserve army are deserving of a basic standard of living and human dignity.

Polanyi’s critique, in line with Marx’s, emphasizes that these moral distinctions and punitive welfare systems obscure the underlying economic realities. The reserve army of labour is a structural feature of capitalism that ensures a pool of workers who can be exploited when needed and discarded when not. This process is not about individual failings but about the functioning of the market itself. In this light, the state’s moralistic treatment of the poor, particularly in defining who is deserving or undeserving, serves to perpetuate a system that allows market forces to dictate the lives of individuals, without addressing the systemic causes of inequality and poverty.

In the Canadian context, the concept of deservingness has shaped social programs. Under neoliberal austerity, government spending relative to GDP began trending downward, starting at around 21% in 1982 and falling to a low of 12% in 2000 (Krubnik & McBride, 2024, p. 85). While it has trended slightly upward since the early 2000s, it has failed to reach the levels seen in the early 1980s – except during the pandemic. One program hit particularly hard has been employment insurance (EI). In 1996, the Employment Insurance Act brought in significant cutbacks to the program. Among the many changes, the duration of the benefit period was reduced by five weeks and maximum insurable earnings were reduced, resulting in lower payments for many workers (Statistics

Canada, 2024). The rationale for these changes was to compel the unemployed to find a job sooner, even if the wage was low, since EI payments were unlikely to be higher than employment. The amendment also introduced penalties for repeat usage of the benefit – further reinforcing the notion that the unemployed, and especially those who face repeated unemployment, are personally responsible for their challenging circumstances.

Programs like the Canada Child Benefit and Old Age Security remained relatively strong, despite Canada's austerity mandate (Krubnik & McBride, 2024). The political popularity of child and old age benefits over employment benefits suggests that children (and their parents) and seniors deserve income support more than those who become unemployed. Of those who do become unemployed, those perceived as most deserving include new parents, those caring for a sick relative, or those who are sick themselves. Following 1996, amendments to EI have mostly been to "special benefits," which encompass parental leave and other extenuating circumstances for unemployment, such as compassionate care benefits and benefits for the parents of critically ill children.

From a Marxian perspective, it is entirely logical that child benefits and parental EI benefits would continue to be implemented, since these benefits do not threaten the reserve army (and, by extension, profits) in the same way. In fact, by giving birth and raising children, parents are playing a critical – though historically undervalued – role in the maintenance of the capitalist structure: the reproduction of labour power (Luxton, 2014). The provision of state support to parents allows for the reproduction of the labour force even when wages are low, thereby maintaining the structure of capitalist production.

More recently, COVID-19 crisis and subsequent government measures, like CERB in particular, stirred conversations surrounding the deservingness of the recipients. Studies

show that political support for government transfers often depends on the perceived deservingness of the recipients (see Applebaum, 2001; Skitka & Tetlock, 1993). Various factors affect perceptions of deservingness, including illness, employment status, presence of children, level of need, responsibility for the situation, and financial prudence (Applebaum, 2001; Feather & Dawson, 1998; Bridgman et al., 2022). In particular, Feather and Dawson (1998) found that unemployed people who were unable to find employment due to unfavourable economic conditions or other factors outside their control were considered to be more “deserving” than those that remained unemployed due to “low effort.” However, perceptions of deservingness also vary between those doing the perceiving, with perceptions being closely tied to socioeconomic status (Im, Wass, Kantola, & Hiilamo, 2024).

Along these lines, the widespread unemployment that occurred as a result of the pandemic was largely seen to be out of the control of those affected. As a result, large-scale near-universal cash transfer programs like CERB gained public approval (Bridgman et al., 2022). Bridgman et al. (2022) claim that crisis conditions increase support for universalist or collectivist attitudes toward government cash transfers. This support stems from both instrumental concerns (drastic action may need to be taken to prevent a worsening of the crisis) and collectivist sentiment (the public feels a common sense of loss and vulnerability). However, some assert that Canada’s pandemic policies still excluded the “undeserving” poor. CERB requirements meant that some of the most marginalized workers were unable to access benefits – those working in criminalized economies or unable to work legally in Canada, or those making very small amounts of money (Baiden et al., 2022). CERB’s requirement for recipients to have earned income in the previous year

also excluded people, such as Canadians with disabilities, who were not seen as “undeserving,” but who already faced low rates of employment (Pettinicchio & Maroto, 2021).

From a Marxian perspective, these notions about deservingness are undergirded by the unique structure of the labour market during the pandemic. Public approval for pandemic benefits was influenced by business’s tacit support for these programs. While capitalists would generally object to the increase of non-work income to the unemployed, lockdown measures meant that businesses could not operate. The exogenous force of COVID-19 forced much capitalist production to pause, rendering the relative power of labour temporarily irrelevant.

Most scholars who write about inequality take as their starting point the assumption that it is a problem to be solved, because inequality threatens social justice and political economic stability. Yet there are several critics (many employed and published by conservative public-policy research institutes in the US) who reject this position, typically viewing it as a critique of the market system (see Hederman & Azerrad, 2012; Mayer, 2015). According to this line of thinking, inequality is a natural and inevitable feature of capitalism – one that may seem unfortunate but that actually provides incentives to compete and innovate. Lucas (2004) writes, “of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution...The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.” In this view, policies intended to reduce economic inequality undermine economic growth by punishing high-income innovators

and risk-takers. In other words, a smaller overall economic “pie” means smaller slices for all.

The distinction between equality of opportunity and equality of outcomes, and the view that the former is more important than the latter, is a core tenet of classical liberal thought (Sen, 1980). What do we mean by equality of opportunity? In a classic essay, Tawney defines it as a situation in which everyone is “equally enabled to make the best of such powers as they possess” (Quoted in Schneider, Pottenger and King, 2016, p. 126). By equalizing the things a person cannot control, what is left is effort. So, if some people do well while others fall behind – in other words, if there is inequality of outcomes – those are deserved.

It is worth pointing out that truly eliminating inequality of opportunities would entail measures like prohibiting inheritances – measures that few self-identified proponents of classical liberalism are advocating for. An extreme version of the classical liberal position – one that emphasizes equality of opportunity to the exclusion of outcomes – also elides the role of luck. If a person works hard but experiences misfortune beyond their control, would it really be fair to deny them access to supports?

As noted above, Stiglitz and others argue that inequality hurts everyone, by triggering political instability and hampering economic growth. Beyond such functional analyses, there is a larger issue relating to social cohesion. Even if it were possible to create genuinely equal opportunity, can a society hold itself together when faced with large-scale, transgenerational, and worldwide issues such as climate change or a global pandemic?

Wilkinson and Pickett's 2009 book *The Spirit Level* explains how the status differences arising from income inequality serve to increase anxiety and insecurity in societies, leading to greater social and health problems. They assert that societies with more inequality foster environments that reward self-serving individualism, and competition over cooperation (Wilkinson & Pickett, 2017). Status anxiety will necessarily be increased in societies where status is more important, leading those with relatively less to compare themselves to those that have more. Wilkinson and Pickett hypothesize that this, in turn, results in less trust, a weaker sense of community, and higher levels of violent crime. Wilkinson and Pickett's (2015) review of literature surrounding income inequality and health reveals that greater inequality is overwhelmingly found to be associated with worse health outcomes. In short, the problems encountered by the least well off are more severe in societies with greater inequality. This issue became particularly pertinent in the wake of the pandemic, as countries with higher levels of inequality experienced higher numbers of COVID-19 cases and deaths (Davies, 2021).

Wilkinson and Pickett have been soundly critiqued from the political right, often with openly ideological basis. For example, the UK-based think tank the Democracy Institute published a book called *The Spirit Level Delusion: Fact-Checking the Left's New Theory of Everything* by Christopher Snowdon, a research fellow at the Institute of Economic Affairs. Two other major critiques were by Saunders (2010) and Sanandaji, Malm and Sanandaji from the Swedish Taxpayers' Association – a book translated and published in English by the UK-based Taxpayer's Alliance. Many of these critiques focus on data quality, with Snowdon and Saunders both accusing Wilkinson and Pickett of cherry-picking data. Rustin (2018) accuses them of conflating correlation with causality: "the fact that

[key] variables are strongly correlated does not mean that it is possible to describe one as the cause of the other” (p. 99). Rustin goes on to suggest that both inequality and problems correlated with it should be viewed as symptoms of power structures within a given society.

In a response to such criticisms, Wilkinson and Pickett characterize their critics as “those opposed to greater equality,” and emphasize how *The Spirit Level* is broadly consistent with epidemiological and scientific methodologies, and employs data provided by governments and NGOs including the UN and the World Bank (Pickett & Wilkinson, 2015).

Sanandaji, Malm and Sanandaji also take strong issue with *The Spirit Level's* country-to-country comparisons, essentially arguing that they are comparing apples to oranges by not taking into account the sometimes vast and complex differences between economic structures of different countries. In response, Wilkinson and Pickett refer to the extensive literature consistent with their book’s overall thesis:

The tendency for homicide to be more common in more unequal societies has been demonstrated by others 40 times in settings where complaints about data points are irrelevant. That health is worse in more unequal societies has been shown over a hundred times. So, when faced with research showing the same pattern among the regions of Russia, the provinces of China, the counties of Chile, or rich and poor countries together, it is irrelevant to suggest – as they do with *The Spirit Level*, that the Scandinavian countries, or the USA, or the southern states of the USA, should be excluded. Critics would have to dream up a completely new set of excuses for excluding Russian regions, Chinese provinces, Chilean counties or developing countries (2010, para. 2).

This exchange highlights a key methodological disagreement: while Sanandaji, Malm, and Sanandaji critique the cross-country comparisons for overlooking structural differences, Wilkinson and Pickett point to the consistency of inequality-related outcomes across a

wide range of contexts as evidence that the patterns they identify are both robust and broadly applicable.

As discussed above, in addition to the social benefits, some argue that inequality reduction has economic advantages. For example, reduced inequality leads to higher economic growth and employment because high levels of inequality lead to a lower propensity to consume, and since consumption drives investment, lowering inequality supports a higher level of economic growth (Elliott & Clark, 1987; Stiglitz 2013a). Others argue that low levels of inequality create political stability and a desirable investment environment, which in turn stokes economic growth. With this view, lowering inequality is a goal that aligns with both social justice and economic prosperity.

There are many debates around the issue of inequality, ranging from how to measure it to whether or not it is even an economic problem worth solving. Many of these debates are intertwined with deservingness discourse, as justifications for inequality normalize the “undeserving poor.” This paper takes the view that both inequality and the artificial distinction between the deserving and undeserving poor are inherent features of capitalism that serve to uphold the exploitative dynamics of the labour market. This concept is further discussed later in the paper.

### **Inequality Trends Amid Pandemic Supports in Canada**

In 2022, Statistics Canada published a report summarizing their findings on the impact of pandemic supports and benefits on low-income earners (Statistics Canada, 2022). Unsurprisingly, data shows that while the number of Canadians receiving employment income dropped, income losses were mitigated by pandemic benefits, with over two thirds of the population benefiting from various pandemic income supports.

After-tax income grew for lower income households, which the publication attributes to pandemic income programs such as CERB as well as top-ups to existing programs like Old Age Security and Canada Child Benefit. The report also states that income inequality fell across all provinces based on the after-tax Gini coefficients between 2015 and 2020. It is important to note that, as a result of choosing 2015 and 2020 as this report's reference years, the trends it attributes to the pandemic may have been present in the years before the pandemic. While the authors do not explicitly justify their choice, they presumably wanted to use Census data, which is collected every five years.

Understandably, the report attributes this decrease in inequality to pandemic benefits. However, it provides little investigation into how they directly impacted inequality or the other factors at play. While this report provides helpful evidence that suggests pandemic benefits worked to reduce inequality, my research will take a closer look at the changes in inequality, observing the year directly before the implementation, comparing market and after-tax Gini coefficients, and analyzing how CERB flowed to income deciles versus the level of inequality reduction.

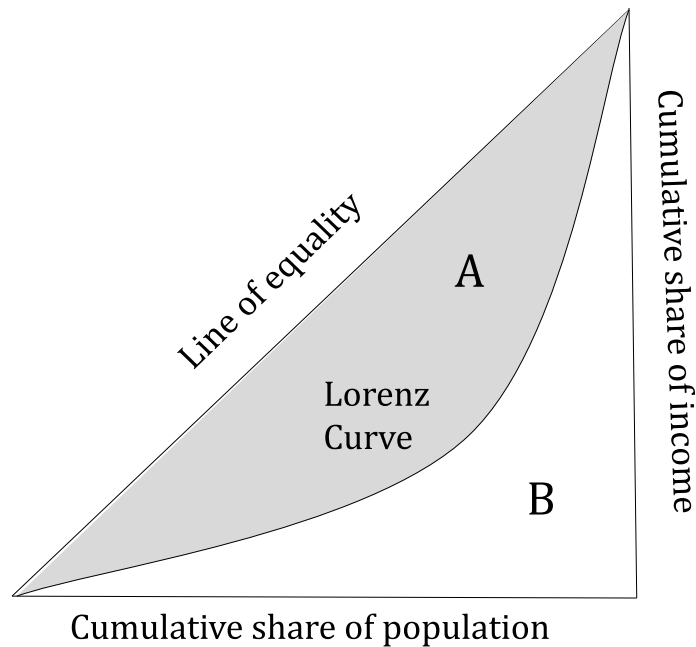
### **Methodology and Data**

This project uses a two-fold method for examining the impact of pandemic benefits on inequality. First, to show interprovincial changes in income inequality over the pandemic, market and after-tax measures of inequality will be analysed for each province between 2019 and 2022. This thesis employs two different approaches to measure inequality: the Gini coefficient; and income share ratios. Using income shares involves calculating the share of total income or wealth held by the richest percentile or decile, and comparing it with the income received by that group with the income received by other

groups. Piketty (2003, 2014), Saez (2020) and Atkinson (2015) all use variations on this approach to trace the progress of income and wealth inequality over decades in France, the United Kingdom, and the US.

The Gini coefficient measures income inequality using a frequency distribution for income levels, and is measured on a scale from 0 – 1, where 0 is perfect equality (everyone has exactly equal income) and 1 is perfect inequality (one person earns all income). The Gini coefficient relies on the Lorenz curve. The Lorenz curve is a visual representation of income inequality, where cumulative proportion of total income is plotted for each equal portion of a given population. This project uses deciles, though these portions could theoretically use any sized segment of the population. The “line of equality” represents a population where income distribution is perfectly equal, forming a 45-degree line from the origin. The Gini coefficient is found by calculating the area between the “line of equality” and the Lorenz curve (area A) and then dividing it by the sum of area A and the area below the Lorenz curve (area B) (see figure 2). This produces a number between 0 and 1, the higher the number the greater the inequality.

**Figure 2: Gini coefficient and the Lorenz curve**



The Gini coefficient is an attractive measure of inequality since it captures changes within the entire income distribution. Unlike income-share ratios, which generally use the deciles near the top and bottom of the income distribution, the Gini coefficient is sensitive to changes at all levels of income. However, the Gini coefficient has been criticized by some for being relatively more sensitive to transfers in the middle of the distribution and less sensitive at the tails (Atkinson, 1970). Palma (2019) also critiques the Gini, stating that differences in the Gini coefficients across countries are driven by distributional outcomes at the tails - therefore focusing on the top and bottom of the distribution is a more direct way of measuring inequality. Additionally, the Gini does not indicate where in the distribution the inequality exists. Consequently, income transfers made within the middle of the distribution can affect the Gini coefficient without producing a meaningful difference in inequality between the richest and the poorest.

As an alternative to the Gini coefficient, Palma suggests measuring inequality as the ratio of the share of income received by the top decile versus the income share of the poorest four deciles, 'D10/(D1-D4)'. The rationale for the Palma ratio is that the share of income received by the deciles 5-9 – what Palma refers to as the “administrative classes” – is similar across countries (Palma, 2019). In most countries, approximately half of the total income goes to the administrative classes. However, the shares of the richest decile, D10, and the poorest four deciles, D1-D4, show greater variation from country to country. He also argues that, given that D10 generally receives considerably more income than the ninth decile (and all others) it makes sense to consider it separately, rather than grouped with the ninth decile, as one does when using quintiles (Palma, 2011). Palma argues that the Palma ratio elucidates the main struggle of distributional politics, which is fought between the very rich and the poor, not the middle class.

The 'D10/D1' income share ratio is a measure of inequality that divides the share of income of the richest decile by the share of income of the poorest decile. The impact of CERB on inequality using this measurement would be interesting to observe, as the top and bottom deciles received the lowest share of COVID benefit dollars. One would expect to see a relatively lower impact than when using Gini or Palma. Unfortunately, due to data issues in the income share of the bottom decile, several provinces' results were not reliable enough for analysis.

This project focuses on the Gini coefficient as the main inequality metric, but also presents Palma ratios for consideration and contrast. Since relatively fewer benefits went to the tails of the income distribution and deciles 5, 6, 7, and 8 received a significant share

of the benefits, the Gini coefficient captures the total impact of COVID benefits on inequality best. However, the Palma ratio is used to provide further commentary.

The Gini coefficient is available by year and province through Statistics Canada (Statistics Canada, 2024). This data set includes the Gini coefficient for both after-tax and market income. Income share by decile is also available through Statistics Canada by province (Statistics Canada, 2024). This data can be used to calculate income share ratios for each province. Analyzing Gini coefficients for both after-tax and market income will provide insights into the nature of the change in income inequality during COVID-19. A greater decrease in the Gini coefficient for after-tax income compared to market income implies that COVID assistance played a role.

The main part of this project asks to what extent changes in inequality are explained by pandemic benefits. Since preliminary results show that market-income inequality increased while after-tax income fell between 2019 and 2020, there is a strong prima facie case for attributing the after-tax changes to pandemic benefits. To what extent can we confirm this?

One would assume that, if pandemic benefits caused inequality to fall, more pandemic benefits flowed to the lower deciles, and that the provinces that experienced a greater reduction in inequality saw relatively higher volumes of benefit dollars per capita as well as more COVID benefits going to the bottom deciles. It is worth emphasizing that both conditions would need to be in place for this to be true. In other words, one would assume a positive connection between the fall in inequality and the amount of COVID benefits, as well as the proportion of benefit dollars going to the poorer share.

To test these assumptions, I developed a proxy measure that captures the impact of the COVID benefits. First, the percentage change in the *market* Gini coefficient between 2019 and 2020 is calculated by province. Then, the percentage change in the *after-tax* Gini coefficient is calculated between 2019 and 2020. The percentage point difference between these two numbers provides a proxy measurement for the overall impact of taxes and transfers between 2019 and 2020. These numbers are then compared, by province, to a variety of COVID benefit statistics, including the volume (per capita dollar amount), uptake (the percentage of recipients in the province), and redistributive impact (which deciles received the most money).

In order to measure the redistributive impact of the benefits, I calculate the share of benefit dollars going to different deciles within the provinces. I compare the share going to the top half of the distribution versus the bottom half, the top decile versus the bottom decile, and the top decile versus the bottom four deciles. This data can be found using data from Statistics Canada (2022, Table 98-10-0094-01). The data provides the aggregate amount of dollars of total COVID benefits that went to each province. The data can be disaggregated into deciles. By dividing the amount of total provincial benefit dollars by the amount of dollars going into the different deciles, we arrive at the proportion going to each decile. Then, using this number for each province and the change in Gini coefficient between 2019 and 2020, I can analyse the connection between the two.

## **Results**

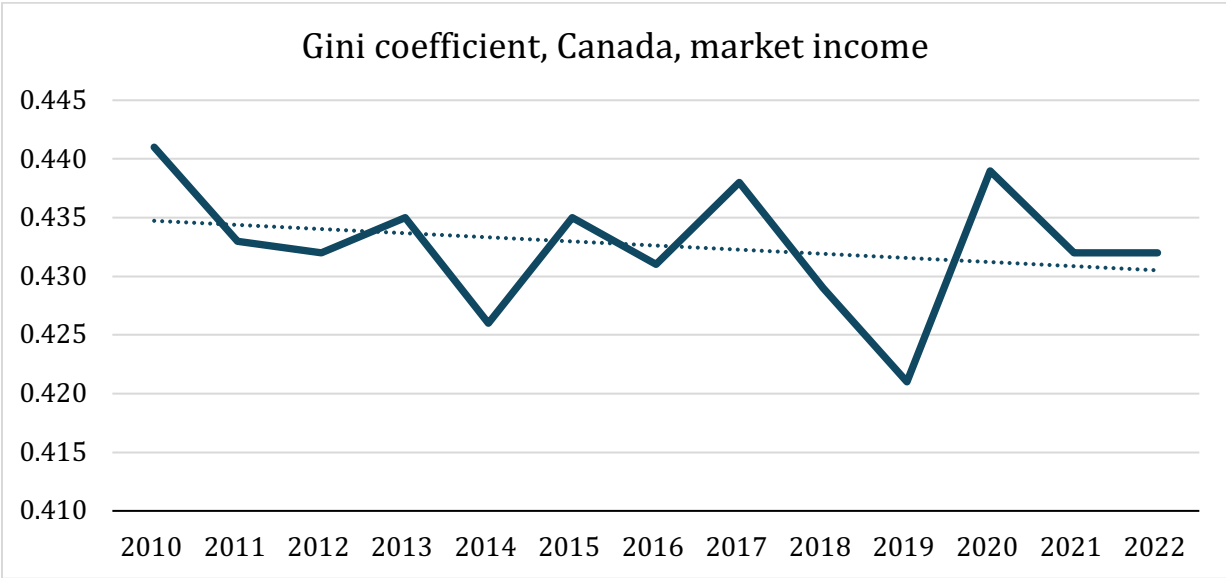
The data offer many interesting results for interpretation. Based on the different measures of inequality used in this project, inequality did indeed change over the course of the pandemic and the following years. This was seen on a national and provincial level. The

impact on inequality provincially largely lined up with the volume, reach, and redistributive impact of the benefits. However, there were some outliers that may require additional analysis. The results are discussed in detail below.

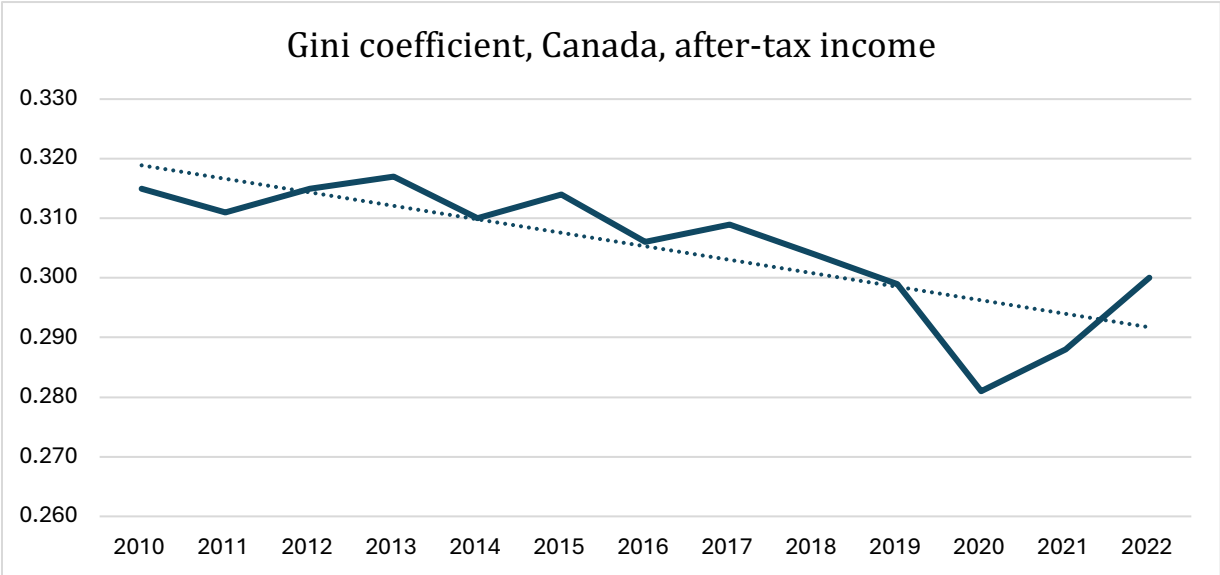
**How did inequality change?**

In Canada as a whole, market-income inequality as measured by the Gini coefficient rose from 2019 to 2020, then declined in 2021 and stayed the same in 2022 (See figure 3). In other words, the pandemic exacerbated inequality in market incomes. However, after-tax income in Canada as a whole followed the inverse pattern: inequality as measured by the Gini coefficient fell during the pandemic year of 2020, then rose again in 2021 and again in 2022 (See figure 4).

**Figure 3: Gini coefficient, Canada, market income**



**Figure 4: Gini coefficient, Canada, after-tax income**



If we look at inequality using the Palma ratio rather than the Gini coefficient, we get similar overall results: market inequality went up during the pandemic year, then fell between 2020 and 2022, while after-tax inequality did the opposite (Table 1). Given the magnitude of the pandemic payments – which are captured in after-tax income calculations but not market income – it is probable that these dynamics are attributable to the pandemic benefits.

**Table 1: Palma ratio, Canada, market, after-tax, 2019-2022**

Canada	Year	Palma Ratio
Market	2019	3.98
	2020	4.45
	2021	4.02
	2022	4.14
After-tax	2019	1.84
	2020	1.68
	2021	1.74
	2022	1.86

We can further test and explore this assumption by looking at inter-provincial comparisons. Between 2019 and 2020, the after-tax Gini coefficient fell for every province, meaning inequality was reduced the year the COVID income supports were introduced (Table 2). At the same time, Gini coefficients measured with market incomes rose in every province, except Newfoundland and Labrador, which fell slightly (0.64%). Between 2020 and 2022, market inequality fell in every province and after-tax inequality rose in all provinces but Prince Edward Island. Results were similar when using the Palma ratio in place of Gini.

**Table 2: Gini coefficient, by province, market, after-tax, 2019-2022**

	Market				After-Tax			
	2019	2020	2021	2022	2019	2020	2021	2022
Newfoundland	0.472	0.469	0.465	0.455	0.302	0.270	0.282	0.283
Prince Edward Island	0.406	0.423	0.396	0.390	0.266	0.257	0.252	0.254
Nova Scotia	0.413	0.434	0.418	0.428	0.277	0.260	0.264	0.280
New Brunswick	0.417	0.442	0.421	0.426	0.272	0.265	0.266	0.275
Quebec	0.425	0.441	0.429	0.428	0.282	0.261	0.264	0.270
Ontario	0.425	0.449	0.442	0.441	0.304	0.290	0.296	0.313
Manitoba	0.418	0.423	0.419	0.409	0.290	0.269	0.278	0.279
Saskatchewan	0.407	0.417	0.399	0.413	0.291	0.266	0.274	0.287
Alberta	0.394	0.414	0.420	0.412	0.291	0.274	0.295	0.301
British Columbia	0.408	0.423	0.416	0.419	0.305	0.280	0.291	0.306

### Who received COVID income support?

In order to reduce inequality, COVID benefits had to be redistributive. In order to be redistributive, the net offset of benefits minus market income lost had to be larger for lower income earners. More pandemic benefits flowed to recipients in the bottom half of

the income distribution than the top half of the income distribution, in Canada as a whole and in every single province. On average across the provinces, one third of benefit dollars went to the top half of income earners and two thirds went to the bottom half (Table 3). The same general pattern holds when looking at different income shares: more benefits flowed to the bottom 40% of income earners than the top 10%. Only 3% went to the top 10% of income earners, whereas 52% went to the bottom 40% (Table 4). So, in general, poorer people received a disproportionate share of COVID income support and benefits.

**Table 3: Pandemic benefits, decile 1-5 versus decile 6-10, by province, % of total**

Province	D1-D5	D6-D10
Alberta	61.5%	38.5%
Quebec	63.8%	36.2%
Newfoundland	66.0%	34.0%
Saskatchewan	66.0%	34.0%
British Columbia	66.7%	33.3%
Ontario	67.5%	32.5%
Prince Edward Island	67.7%	32.3%
Manitoba	68.6%	31.4%
New Brunswick	68.9%	31.1%
Nova Scotia	70.0%	30.0%

**Table 4: Pandemic benefits, decile 1-4 versus decile 10, by province, % of total**

Province	D1-D4	D10
Alberta	47.3%	4.3%
Quebec	48.0%	2.1%
Newfoundland	50.6%	3.9%
Prince Edward Island	50.6%	1.4%
Saskatchewan	51.8%	2.8%
New Brunswick	52.1%	1.9%
British Columbia	52.2%	2.7%
Ontario	53.0%	2.4%
Manitoba	53.7%	1.6%
Nova Scotia	54.4%	2.0%

Just because a larger portion of benefits went to the poor, does not automatically mean the benefits reduced inequality. A larger proportion of money flowing to the bottom half of the distribution does not guarantee the Gini coefficient will be reduced, as changes within or between the deciles in the top half or bottom half could diminish or even reverse the equality gains. The type of inequality measure also matters. For example, the Palma ratio may decrease (indicating a fall in inequality) if benefits flow disproportionately to the bottom four deciles versus the top decile, all else being equal, but the Gini coefficient may not increase due to income changes in the middle of the distribution, which Palma ignores.

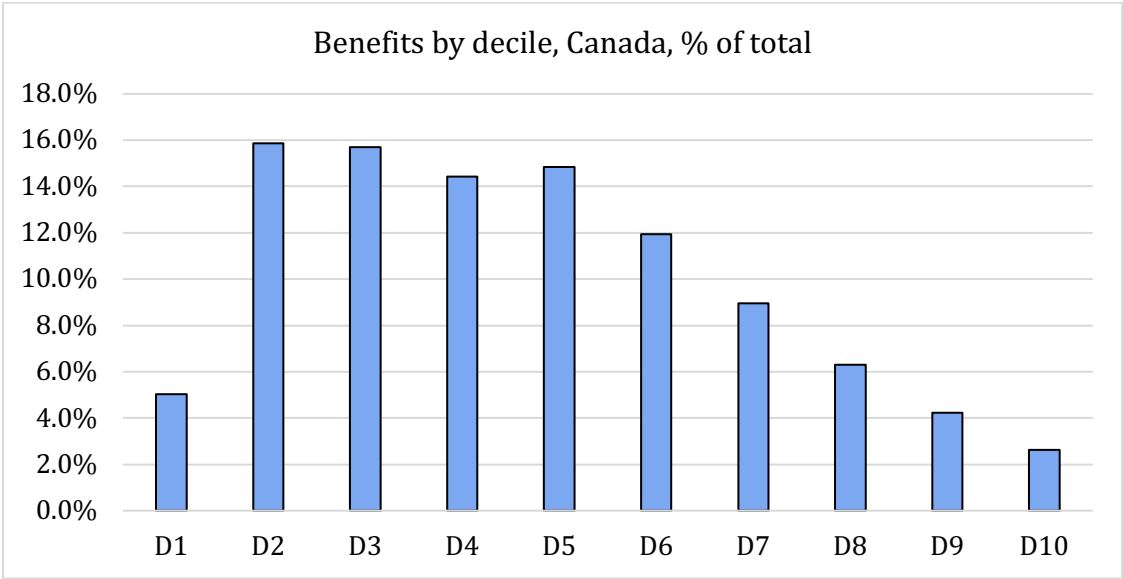
However, given that after-tax inequality did decrease across the provinces, and did so according to multiple different measurements, the fact that benefits went disproportionately to the lower income deciles further supports the hypothesis that COVID benefits reduced inequality in Canada in 2020.

Interestingly, the results are slightly different when comparing the top decile and bottom decile. The bottom decile received less than its “fair share” of COVID benefits, with less than 10% in all provinces (Table 5). However, the bottom decile still received a higher percentage of total benefits than the top decile in all provinces. This is likely due to the CERB requirement that recipients have an income of at least \$5000 in 2019. In fact, across Canada, the lowest decile received the third lowest percentage of COVID benefits, with only the ninth and highest decile receiving less (Figure 5). This shows that the COVID benefits impacted the poorest and richest Canadians the least.

**Table 5: Pandemic benefits, decile 1-4 versus decile 10, by province, % of total**

Province	D1	D10
Prince Edward Island	3.2%	1.4%
Quebec	3.5%	2.1%
Newfoundland	4.3%	3.9%
New Brunswick	4.5%	1.9%
Nova Scotia	4.9%	2.0%
British Columbia	5.0%	2.7%
Ontario	5.4%	2.4%
Alberta	5.6%	4.3%
Manitoba	7.1%	1.6%
Saskatchewan	7.7%	2.8%

**Figure 5: Pandemic benefits by decile, Canada, % of total**



**Provincial comparisons**

In Canada, inequality as measured in after-tax incomes fell during the pandemic then rose again after. This pattern was seen in every province. Yet provincial experiences were not identical. There were meaningful differences in the magnitude of the changes in inequality between provinces. The per-capita amount of COVID benefits flowing to the

provinces, and – importantly – who these benefits were flowing to, varied from province to province. This paper analyses the data in both of these areas to see if there is an observable connection.

Table 6 below breaks down the pandemic benefits received by each province, measured by three key metrics: the percentage of the population that received some amount of benefit; the dollar amount of benefits per capita; and the dollar amount of benefits per recipient.

**Table 6: Characteristics of pandemic benefits, by province**

Province	Recipients (% of population)	Amount per capita (\$)	Amount per recipient (\$)
British Columbia	74.5%	2412.23	3237.89
Quebec	71.2%	2169.28	3046.75
New Brunswick	70.1%	1987.06	2834.61
Newfoundland	69.8%	2018.06	2891.20
Nova Scotia	69.5%	2121.67	3052.76
Prince Edward Island	69.3%	1939.76	2799.07
Manitoba	69.3%	1993.05	2875.98
Ontario	66.2%	2371.22	3581.91
Saskatchewan	64.7%	1918.89	2965.83
Alberta	62.3%	2267.27	3639.27

British Columbia saw the highest proportion of benefit recipients, with 75% of the population receiving some benefit amount (See Table 6). Alberta had the lowest proportion of recipients, with only 62% of Albertans receiving an amount. Benefit amount per capita also varied, with British Columbia having the highest amount at \$2412 and Prince Edward Island and Saskatchewan having the lowest at \$1940 and \$1919, respectively. For average benefit received per recipient, Alberta had the highest amount and Prince Edward Island had the lowest amount. When comparing the redistributive effects of the benefits by

province, Nova Scotia had the most redistributive COVID benefits and Alberta had the least redistributive, in terms of the amount of benefits flowing to the top half of the distribution versus the bottom half of the distribution (see table 4).

Table 7 below shows the change in inequality by province between 2019 and 2020. It takes the change in the Gini coefficient between 2019 and 2020 for both market and after-tax incomes, expresses them as a percentage change in the adjacent columns, and subtracts the change in market inequality from the change in after-tax inequality. The percentage point difference between those percentages gives us the proxy measure for the redistributive impact of the benefits.

**Table 7: Change in Gini coefficient, by province, 2019-2020**

Province	Market		After tax		Difference (percentage points)
	change	% change	change	% change	
British Columbia	0.015	3.7%	-0.025	-8.2%	-11.9
Nova Scotia	0.021	5.1%	-0.017	-6.1%	-11.2
Quebec	0.016	3.8%	-0.021	-7.4%	-11.2
Saskatchewan	0.01	2.5%	-0.025	-8.6%	-11.0
Alberta	0.02	5.1%	-0.017	-5.8%	-10.9
Ontario	0.024	5.6%	-0.014	-4.6%	-10.3
Newfoundland	-0.003	-0.6%	-0.032	-10.6%	-10.0
New Brunswick	0.025	6.0%	-0.007	-2.6%	-8.6
Manitoba	0.005	1.2%	-0.021	-7.2%	-8.4
Prince Edward Island	0.017	4.2%	-0.009	-3.4%	-7.6

Most of the results seem consistent with the hypothesis that the pandemic benefits lowered inequality. For example, of all the provinces, British Columbia had both the highest amount of per-capita pandemic benefits, and the highest proportion of the population who received COVID benefits, and also saw the largest reduction in inequality from market income to after-tax income (Table 7). Prince Edward Island saw the lowest amount of

benefit dollars per capita and also had the lowest reduction in inequality. Nearly all provinces' benefit amount per recipient lines up with their after-tax impact on inequality. However, there were outliers.

The two key tables above help tell a story about the relationship between the characteristics of pandemic benefits, as measured by a number of key indicators, and the reduction in overall inequality, on a province-by-province basis. Table 7 shows how each province ranks by overall reduction in inequality. Table 6 shows how each province ranks by: percentage of the population that received pandemic benefits; pandemic benefits per capita; and benefits per recipient. Comparing ranks in Table 6 to each of the other indicators highlights three outliers: Alberta, Ontario, and Saskatchewan. These three provinces had the weakest connections between the percentage of the population that received pandemic benefits; pandemic benefits per capita; and benefits per recipient, and overall reduction in inequality. For example, Alberta saw the highest amount per recipient, but experienced only a relatively small reduction in inequality compared to the other provinces. Ontario had the second highest amount per recipient, but also had a relatively small change in after-tax inequality. Saskatchewan saw the lowest benefit amount per capita but one of the higher after-tax inequality impacts.

### **Contributing Factors to Provincial Differences**

Pandemic benefits in Canada represented a sudden, massive one-time injection of support to individuals and economic stimulus into the Canadian economy. The results of this research provide strong evidence that pandemic benefits produced a meaningful reduction in inequality across the Canadian provinces. Furthermore, their cessation is likely what caused inequality to jump back up in 2021 and 2022. However, differences

between the provinces remind us that pandemic benefits did not happen in a vacuum. There were other important factors that affected inequality and determined the effectiveness of federal social policy.

If the benefits did not solely cause the changes in inequality, what else might have done so? One explanation may be different provincial policy interactions with some federally administered benefits - claw backs or top-ups. It may also be the case that the way federal benefits were structured affected different provinces differently. For example, CERB, which was by far the biggest of all pandemic benefits, was a flat \$500 per week per recipient so, the lower a recipient's income, the greater a proportion of that income CERB would have replaced. In provinces with a relatively higher proportion of higher-income earners losing their jobs during the pandemic, CERB would replace a relatively smaller share of lost income. Changes to inequality may also be explained by structural differences, including the pandemic's differing effects on different sectors of the economy.

Evidently, the provinces have not had identical experiences in regard to COVID-19 and its impact on inequality. What drove these differences? This paper considers three main factors: economic structure, provincial policy responses, and pre-existing inequality.

### ***Economic Structure***

The structure of an economy has a significant influence on how that economy can weather a crisis. In general, highly diversified economies are more resilient to shocks, while more concentrated economies may be hit harder. Specific to COVID-19 crisis, economies that were highly dependent on industries that were impacted by lockdowns, like service and tourism, were more severely affected. However, due to a confluence of factors, oil-dependent economies also experienced significant economic challenges.

Abundant extractive resources can be a double-edged sword. Studies show that, paradoxically, resource-dependent economies tend to grow more slowly over the long run than other economies, and tend to have higher rates of poverty (Ross 2003). Resource-dependent countries, particularly those dependent on oil, experience greater volatility, as the economy is highly dependent on the price of their extractive commodity. When prices fall, countries can face budget deficits, rising debt, and economic contraction, which can have destabilizing economic and political effects. Oil price volatility, made worse by the conditions of the pandemic, had a significant impact on oil-dependent economies, including Canada.

At the onset of the COVID-19 pandemic, oil-reliant economies experienced a “dual shock,” simultaneously dealing with the economic consequences of the pandemic and subsequent lockdowns, and a collapse in oil prices. Demand for oil and gas dropped precipitously as lockdowns curbed transportation, travel, and business activity, drastically reducing the need for fuel (Arezki & Nguyen, 2020). At the same time, a price war broke out among oil producing countries after the Organization of Petroleum Exporting Countries (OPEC) negotiations failed. With a glut of oil and nowhere to store it, the price of oil fell into the negative in April 2020.

In Canada, the three most oil-dependent provinces, Alberta, Saskatchewan, and Newfoundland and Labrador, were significantly affected by volatility in the oil and gas sector. Alberta experienced the worst economic downturn of the provinces. Alberta’s economy is heavily dependent on oil, with an estimated 71 per cent of business directly or indirectly reliant on the oil and gas industry (Government of Alberta, September 2020). In

Alberta, by April 2020, petroleum sales fell to just a third of what they were in January. They did not return to pre-pandemic levels until June 2021. At the same, the unemployment rate doubled, remaining well above Canada's rate of unemployment through 2020 and 2021. In July 2020, Calgary, Red Deer, and Edmonton had the three highest unemployment rates of the census metropolitan areas, all sitting above 15 per cent. Newfoundland and Labrador was significantly affected by the downturn in the oil market with several major resource projects being delayed or canceled, which is estimated to account for about half of the drop in economic output (McCormack, 2021). Manufacturing dropped by a substantial 64% between February and April 2020, and remained well below pre-pandemic levels through 2024. While Saskatchewan experienced a similarly sharp contraction in manufacturing sales during the initial lockdowns, the province benefited from a larger agricultural sector where demand remained relatively stable despite the pandemic (McCormack, 2021). This helped to offset the fall in petroleum and coal sales.

Across Canada, 28% of oil and gas workers received CERB payments. In contrast, a staggering 67% of workers in the accommodation and food services industry were CERB recipients. In 2019, the average weekly earnings for accommodation and food services workers were \$420, versus \$2,740 for those working in oil and gas (Statistics Canada, 2024). Given this significant pay discrepancy, CERB payments would have been considerably more helpful to those working in food services, replacing over 100% of the average worker's salary. Since it is safe to assume oil-dependent provinces saw a higher-than-average proportion of oil and gas CERB recipients, inequality reduction would have resulted from both increased incomes at the bottom of the income distribution and decreased incomes at the top of the distribution. Interestingly, in terms of inequality

reduction, all three oil dependent countries congregate around the average, ranking fourth, fifth, and seventh among the ten provinces.

On the other hand, more diversified economies tend to fare better in crises, as growth in sectors less affected by crises can mitigate the downturn. According to the Hirshman-Hirschman Index, which measures industry concentration, Manitoba and Quebec were the two most diversified provinces in 2019, and Alberta and Newfoundland were the two least diversified. Diversified economies are often marked by slow and steady growth. As for their inequality reduction, Quebec and Manitoba had differing outcomes, with Quebec experiencing the third highest inequality reduction and Manitoba experiencing the second lowest.

### ***Provincial Policy***

Provincial policy responses also affected the degree to which inequality was reduced within the provinces. In Canada, provincial governments and provincial health officials were responsible for healthcare and pandemic restrictions, such as lockdowns, while the federal government was primarily in charge of economic support. Provincial policy responses were largely uncoordinated, with each province developing its own approach, making interprovincial comparisons difficult. The Bank of Canada developed a “stringency index,” based on Oxford University’s Covid-19 Government Response Tracker (OCGRT). The index aims to quantify the relative stringency of COVID restrictions in each province. According to this index, during the period in which CERB was available, Quebec was the most stringent, and Manitoba the least.

It is logical to assume there is a relationship between stringency and inequality, as provinces with longer and more wide-ranging lockdowns likely experienced relatively

greater unemployment, which in turn would have increased the number of CERB recipients. However, a more lax approach to COVID restrictions could have made provinces more vulnerable to worse outbreaks during subsequent waves of the virus. While there does not appear to be a strong connection between the inequality and the stringency index, the OCGRT has been criticized for over-simplifying in order to allow for cross-jurisdiction comparisons. Although it is one of the only tools available for inter-provincial comparisons, it may not be a particularly accurate one.

While the federal government was primarily responsible for economic supports and stimulus, through programs like CERB, some provinces provided additional economic relief to individuals. In 2020, 14% of Canadians received benefits from a provincial or territorial program, with an average amount of \$517 across Canada. This figure is significantly smaller than the amount of federal recovery benefits, which averaged \$8920 per recipient (excluding enhancements to existing programs). In addition to a smaller average payment, provincial benefits were received by half the proportion of those who received federal recovery benefits. Overall, the proportion of provincial assistance was small compared to the federal, with only 2.5% of total pandemic benefits coming from the provinces. However, interprovincially, there was significant variation in this regard. In British Columbia, provincial benefits made up 9.3% of total pandemic benefits. Manitoba had the second highest proportion of provincial benefits, at 6.7%. Provincial pandemic benefits made up less than 3% in all other provinces.

In times of crisis, governments typically are forced to work within existing funding program architecture in order to provide income supports. Crises are by their nature time-sensitive, giving a government little time to create new systems for income support

distribution. As an illustration, in Canada a significant flow of income support (11%) came as top-ups to existing federal programs like the Canada Child Benefit, Old Age Security, and GST/HST credit. New programs, like CERB, used the existing federal channels of EI and the CRA to distribute payments to recipients. As provincial governments do not have the same infrastructure as the federal government, governments looking to provide additional COVID support payments faced a challenge. One vehicle that the provincial government could use to distribute support payments was the welfare system. According to Laidley and Tabarra (2021), additional provincial COVID supports were available to welfare recipients in six provinces: British Columbia, Nova Scotia, Prince Edward Island, Manitoba, Ontario, and Saskatchewan. In 2020, British Columbia saw the biggest welfare income increase (35%) for a single person, largely due to significant pandemic support payments. These included a \$300 per month Income Assistance supplement, as well as \$175 tax credit. Other than British Columbia, additional provincial income assistance was relatively meagre, ranging from \$50 to \$100 for a single person (Laidley & Tabarra, 2021).

In addition to enhancements to income assistance programs, pandemic payments across the provinces were highly variable. British Columbia had the broadest program in the BC Emergency Benefit for Workers, a one-time payment of \$1000 for those eligible for CERB, introduced in May 2020. British Columbia saw the highest total benefit amount per recipient and had the highest reduction in inequality. In Quebec, the government offered a payment of \$573 to workers who were forced to isolate due to COVID-19, paid by prepaid card or bank transfer. In Manitoba, \$200 cheques were mailed to all seniors who had filed taxes in 2018. These examples highlight the ad-hoc and heterogeneous nature of provincial income support policy during the pandemic.

Other provinces were less generous during the pandemic, with some making downward adjustments to their own provincial benefits in response to federal programs like CERB. In Ontario, social assistance recipients had their benefits reduced at a rate of \$900 for every \$2000 CERB payment (Tweddle & Stapleton, 2020). This is because CERB was grouped with other taxable benefits and treated like income. Since CERB pushed up taxable income, welfare benefits were reduced. Similar practices were followed in Quebec, Manitoba, and Alberta. The consequences were even more severe in Saskatchewan, New Brunswick, Newfoundland and Labrador, and Prince Edward Island, where benefits were clawed back dollar for dollar. For these provinces, federal benefits served to subsidize their welfare programs. British Columbia was the only province that did not include CERB or other federal pandemic payments in income calculations for social assistance (though two of the territories, Yukon and Northwest Territories, also did not include them). Clawback policies likely impacted inequality across the provinces, especially since those affected by them would already be in the lowest deciles. Looking at the levels of inequality reduction, British Columbia was the most reduced, while three of the full-clawback provinces ranked seventh, ninth, and tenth in inequality reduction.

Interestingly, the resource dependent economies, Saskatchewan, Newfoundland and Labrador, and Alberta, were among those receiving the highest average provincial benefit amounts, coming in at first, second, and fourth, respectively. However, only a small percentage of their populations received provincial benefits: 2.8%, 2.4% and 0.2%, respectively. In contrast, Manitoba provided 27% of their population with provincial benefits, and British Columbia topped the list at 56%.

While we might assume that provinces with Conservative governments would be less generous with social transfers, provincial pandemic spending did not tend to fall along party lines. Conservative governments spent as much, if not more, than Liberal and New Democratic Party (NDP) governments on individual benefits, with the exception of NDP-led British Columbia. Liberal, Bloc Québécois, and NDP provincial governments did tend to have a better “welfare adequacy” score in 2020, which is a comparison of welfare income to a set poverty threshold. This makes sense when viewed through the deserving / undeserving dichotomy. Governments, despite any superficial political loyalties, were inclined to give more generously to the “deservingly” unemployed during the pandemic. Those on welfare, who are classified as less deserving, did not experience the same level of generosity from governments. However, the increase in welfare adequacy from 2019 to 2020 across all provinces indicates that even those on welfare were temporarily seen as more deserving in the context of the pandemic.

### ***Pre-Pandemic Inequality and Poverty***

Rates of inequality and poverty within the provinces may have also influenced differences in inequality reduction during the pandemic. A province with high inequality going into the pandemic may have seen a higher impact from CERB benefits that went disproportionately to the poor. British Columbia had the highest after-tax Gini coefficient in 2019, at 3.05, and saw the largest reduction in inequality. This may have been due in part to a larger share of the population benefiting from the CERB payments. In contrast, Prince Edward Island, which had the lowest inequality with a Gini coefficient of 0.266 in 2019, experienced a more modest effect on inequality, as the population was already relatively more equal, CERB’s impact may have been less pronounced.

Poverty rates could also affect change in inequality. Poverty rates decreased in Canada from 2019 to 2020, from 10.3% to 6.4%. Every province experienced a reduction in poverty, though the magnitude varied significantly. Saskatchewan experienced the largest drop at 5.2 percentage points, whereas Alberta experienced the smallest (2.2 percentage points). High rates of poverty may have actually resulted in a more moderated effect of the pandemic benefits. As we know, the poorest decile received only 5% of total pandemic income support. This was driven in part by CERB's requirement to have a minimum of \$5000 of income in 2019. Therefore, provinces with higher poverty rates may have had a lower proportion of CERB recipients. Since CERB was the most generous benefit, this would have exerted downward pressure on the change in inequality. Comparing poverty and the percentage of CERB recipients (excluding other pandemic benefits) by province, most provinces that had poverty rates above the national average were also below the national average of CERB recipients.

### **Pandemic Benefits in the Context of Neoliberalism**

One of the most striking aspects of the Canadian government's policy response to the COVID-19 pandemic is the degree to which it seemingly contradicted the neoliberal austerity that has been Canada's political orthodoxy for roughly the past 40 years. Neoliberal austerity, or just "austerity," as it will be referred to henceforth in this paper, refers to the specific ways that governments constrain fiscal stimulus to reduce the relative political power of labour. The term "austerity" is being used here in a specific, political context, as opposed to the more literal definition of austerity as a set of policy measures intended to reduce fiscal deficits.

The scale of fiscal stimulus and investments in unemployment benefits introduced during the pandemic represented an apparent rejection of austerity, in a number of ways. Bold state intervention, increased social spending, and the prioritization of economic relief over deficit reduction all ran counter to the principles of neoliberalism. The pandemic revealed deep contradictions inherent in neoliberal economic policies: the interplay between the emergency benefits provided in response to the pandemic and the underlying structure of neoliberal austerity in Canada presents an important opportunity for understanding the political economy of crisis management and post-crisis recovery.

In Canada, the ideological rise of neoliberalism began under the Mulroney government first elected in 1984, with policies that broke with the Keynesian counter-cyclical fiscal policies that had been the dominant approach since the end of the Second World War. The austerity agenda in particular was evident in the federal budget cuts of the 1990s under the Chrétien government. Following the 1990s, neoliberal austerity policies in Canada took the form of a retrenchment of the welfare state, which was further reinforced during the Conservative government under Stephen Harper (Krubnik & McBride 2024, 81-82; Lewis, 2003). In particular, austerity was justified on the grounds of fiscal responsibility and the need to ensure economic stability (Gutstein, 2014).

Neoliberalism in Canada has focused on reducing government spending, privatizing public services, deregulating industries, and pursuing balanced budgets. As a result, social safety nets have been weakened, labour precarity has increased, and public services cut and / or privatized. The ostensible rationale has been to promote free-market solutions to economic problems by minimizing state intervention in the economy, although the consequences have included rebalancing economic power toward business and away from

organized labour (Blyth, 2013). Neoliberal policies have led to rising inequality and an erosion of public services, while benefiting the wealthiest through tax cuts and deregulation. The focus on debt reduction and fiscal discipline frequently overshadowed investment in public services or social infrastructure. Canadian neoliberal austerity relied heavily on the idea that the market should be the primary vehicle for economic prosperity, with the state playing a minimal role in redistributing wealth or addressing social needs. It has been associated with greater income inequality since its beginnings in the early 1980s (Lewis, 2003).

Understanding the role of the state in the COVID-19 era requires a shift in framing. When the pandemic struck, it exposed deep cracks in Canada's neoliberal austerity framework. The public health crisis necessitated a rapid, large-scale government response, including direct financial assistance on a large scale, to protect both the population's health and the economic stability of the nation. While these emergency measures were generally welcomed and prevented widespread poverty and economic collapse, they also revealed the limits of Canada's neoliberal austerity regime. The crisis underscored the growing tension between the needs of the population in times of crisis and the imperatives of fiscal austerity.

The pandemic highlighted how, in normal times, austerity policies had left the public sector underfunded and ill-equipped to handle a crisis. For example, Canada's healthcare system, which had already been weakened by years of austerity-driven cuts, was immediately overwhelmed by the pandemic, forcing the government to scramble for emergency responses.

COVID-19 benefits, particularly the CERB, can be viewed as a momentary challenge to key tenets of neoliberal austerity. This is due not just to the scale of the benefits but also their universalist approach. By providing widespread, nearly unconditional cash transfers to citizens, the benefits went against the grain of the neoliberal mantra that social welfare should be minimal and targeted at a relatively small portion of the population. Under neoliberal austerity, conditionality was often emphasized, and social benefits were increasingly tied to narrow eligibility criteria, often creating barriers to access and leaving many people without adequate support. The CERB, in contrast, was nearly unconditional, with few restrictions, and it served as a lifeline for millions of Canadians, including many who had never relied on social welfare before.

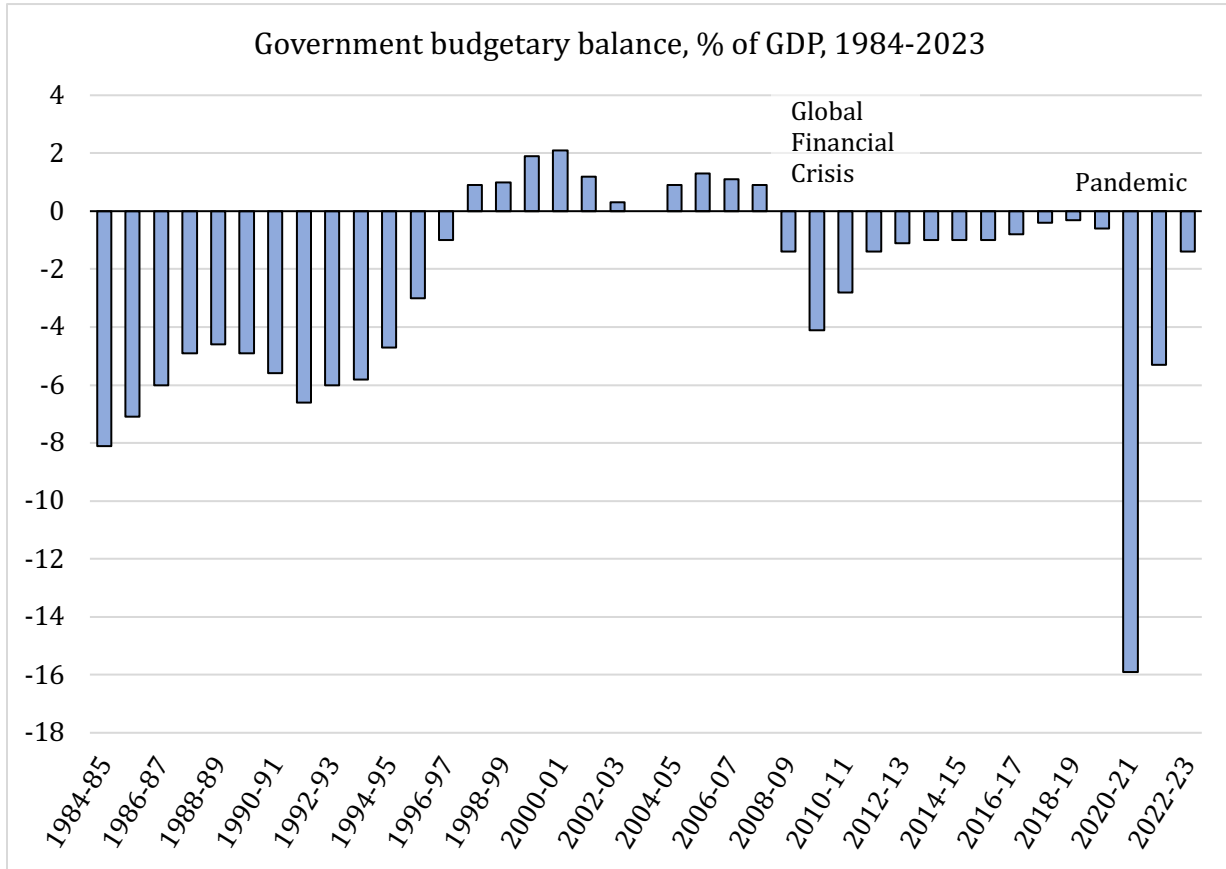
The pandemic benefits apparently represented an implicit recognition by the government that in times of crisis, the state must act decisively to protect the wellbeing of its citizens, regardless of ideological commitments to budgetary discipline. This temporary shift in government priorities sparked a larger debate over the future of social welfare policy in Canada. Should the pandemic benefits be seen as an anomaly, or should they serve as a model for post-crisis social policy reform?

To properly contextualize the relationship between COVID-19 supports and neoliberal austerity, we also need to take into account that the COVID-19 pandemic was preceded by another crisis a decade earlier – the global financial crisis that began with the bursting of a speculative housing bubble in 2008. Clearly the two crises were not the same. COVID-19 was an exogenous shock, while the financial crisis was endogenous to the capitalist system, but each was severe enough to challenge neoliberal orthodoxy. In both cases, governments' first policy response was aggressive fiscal stimulus designed to

prevent the economic system from seizing up entirely. So, the scale of pandemic relief spending was not unprecedented in our lifetimes. As Tooze (2021) writes, “the hard limits of financial sustainability, policed, we used to think, by ferocious bond markets, were blurred by the 2008 financial crisis. In 2020, they were erased.” After years of austerity, governments seemed to validate Keynes’ claim, “anything we can do, we can afford.”

Krubnik and McBride (2024) argue that the response to the COVID-19 crisis can be understood as part of a broader political economy of crisis management. They suggest that while the immediate response to the pandemic benefited from a shift away from austerity, there was no guarantee that this would translate into a permanent change in policy. Noting that “balancing budgets has always meant attacking social programs,” they use deficit-to-GDP ratios to show the historical emergence of neoliberalism under different federal governments in Canada.

**Figure 6: Government budgetary balance, % of GDP, 1984-2023**



(Krubnik & McBride, 2024, Figure 1, p. 82)

The macroeconomic trend illustrated through the above graph demonstrates how, if we use deficit-to-GDP as a shorthand for the concept, austerity was very quickly re-established after the pandemic supports were wrapped up. In some ways, rather than breaking with neoliberalism, we might say the pandemic provided an opportunity for governments to *consolidate* neoliberal economic models, by positioning temporary relief measures as short-term solutions while maintaining long-term commitments to fiscal austerity. While the pandemic-related benefits were a step toward a more expansive welfare state, they were consistently framed within the context of a temporary crisis response, not a long-term restructuring of Canada's economic or social policies. So,

however much the limits of fiscal restraint may have been “blurred,” the financial crisis was followed by a quick return to the kinds of austerity measures that had been in place since the early 1980s.

The pandemic benefits provided a significant but temporary departure from austerity. The temporary expansion of state support did not fundamentally alter the underlying logic of neoliberalism in Canada. The pre-pandemic austerity agenda quickly resumed once the acute phase of the crisis passed. For example, despite calls for a permanent increase in social benefits or the introduction of a universal basic income (discussed in the next section), the Canadian government quickly moved back to a narrative of fiscal responsibility as it began winding down emergency relief programs. Moreover, Canada’s ongoing challenges related to healthcare funding, affordable housing, and public education suggest that the government has not been willing to fully embrace the kind of state-led, redistributive policies that could address the systemic inequalities exacerbated by the pandemic.

The shift back to austerity is evident in the government's focus on debt reduction and deficit control in the aftermath of the pandemic. While the pandemic necessitated short-term fiscal intervention, the long-term recovery agenda has largely been framed in neoliberal terms, emphasizing private sector recovery, market-driven solutions, and a return to pre-crisis economic “normalcy.” This shift is clearly reflected in the 2023 federal budget, which makes repeated references to “responsible fiscal policy” and emphasizes the importance of “sustainable” public finances (Department of Finance Canada, 2023, p. v, 4, 19, 22-25, 181, 223). Program spending was to be “normalized” — meaning reduced — with the government signaling a return to expenditure restraint, even amid ongoing social

and economic challenges (p, 183). These spending cuts included a projected \$1.7 billion reduction in CCB and a \$16.3 billion reduction in EI benefits. COVID-19 income supports shifted from a \$15.6 billion expense in 2021-2022 to a projected *revenue* of \$3 billion in 2022-2023, as the government worked to recover of overpayments. This approach risks leaving the structural inequalities that were exposed during the pandemic largely unaddressed.

The relationship between COVID-19 benefits and neoliberal austerity in Canada reveals a contradiction within neoliberalism in Canada. The pandemic created a temporary window for rethinking Canada's social contract, but the return to austerity-driven policies following the crisis suggests that the moment for a more expansive welfare state has not yet arrived. For any meaningful, long-term shift away from neoliberal austerity in Canada, there will need to be a sustained political and social movement advocating for structural reforms that prioritize social welfare, equity, and public goods over market-driven solutions. Without such a movement, the pandemic may ultimately be seen as a temporary blip in the ongoing story of neoliberal economic governance in Canada.

### **Universal Basic Income**

By exposing the vulnerabilities of Canada's social safety net, and triggering an exceptional scale of government response, the pandemic sparked widespread conversations about the future of social protection policies. In particular, the universalist sentiment that accompanied the pandemic benefits generated debate around Guaranteed Annual Income (GAI) and Universal Basic Income (UBI) in Canada, two similar but distinct concepts (Thomson, 2020). UBI generally refers to a flat amount that is "universal" – paid out to everyone, regardless of their employment income, whereas GAI is income-tested,

decreasing as household income increases. GAI is also referred to by other names, including Guaranteed Basic Income (GBI), Guaranteed Livable Income (GLI), and Guaranteed Minimum Income (GMI). For example, in 2020 Winnipeg MP Leah Gazan introduced a motion for debate in the House of Commons to establish what she referred to as a “Guaranteed Livable Basic Income,” an idea she re-introduced through a Private Member’s Bill the following year (Gazan 2020, 2021). These debates quickly gained momentum in response to the pandemic as researchers wondered if they offered a way to address poverty and labour market insecurity (see Olive, 2021; Swift & Power, 2021).

Before the COVID-19 pandemic, the concept of Universal Basic Income (UBI) had been discussed in Canada primarily as a theoretical policy. Canada’s historical engagement with GAI included notable experiments such as the Manitoba “Mincome” program in the 1970s. Despite some localized enthusiasm, UBI had not gained significant political traction in Canadian federal policy until the pandemic exacerbated existing issues of inequality, precarious work, and inadequate social protections.

Some scholars and policymakers saw a natural alignment between the immediate relief provided by CERB and the principles of Universal Basic Income. For example, CERB functioned similarly to a basic income by providing direct cash transfers to individuals, in order to maintain economic stability. But scholarly opinion diverged on whether the emergency programs’ short-term success translated into a long-term argument for UBI or GAI in Canada. Proponents of UBI, such as Forget (2020) and Haagh (2019, 2021), saw the pandemic as evidence that UBI could be an effective tool for reducing poverty, increasing economic resilience, and providing equitable access to resources. Forget (2020), known for her work on the “Mincome” experiment in Manitoba, argued that the pandemic revealed

how necessary a guaranteed income is for securing economic and social stability in times of crisis.

The pandemic exposed deep-seated economic inequalities that disproportionately affected low-income and marginalized groups, such as racialized communities, people with disabilities, and women. For these groups, the economic shutdown exacerbated vulnerabilities, underscoring the need for a safety net that could offer more than just temporary relief. The COVID-19 crisis highlighted the precariousness of gig economy workers, those in part-time and contract-based employment, and others without reliable access to employment-based benefits like sick leave and unemployment insurance. These groups were often excluded from earlier iterations of Canada's social welfare programs. UBI advocates argue that providing a universal, unconditional income could address these issues more effectively than the existing patchwork system. Gruner (2023) frames UBI as a flexible solution to the labour market insecurity characteristic to the post-pandemic economy in Europe. UBI has also been presented as a potential "up-stream public health intervention" in light of COVID-19, where poverty and inequality reduction could impact the social and economic determinants of health (Johnson and Johnson, 2021). In Canada, this argument gained considerable support in the wake of the pandemic. Weisstanner (2022) finds that public support for UBI policies has likely increased as a result of the conditions of the pandemic. Scholars such as Moffatt and Ross (2021) emphasized that UBI could provide a predictable income for all citizens, ensuring that no one would fall through the cracks in times of economic uncertainty. The 2020 CERB rollout, despite its challenges, demonstrated how efficiently cash transfers could be delivered at a large scale, suggesting that UBI could be administratively feasible.

Opponents of UBI argued that the post-pandemic economic recovery required a focus on job creation and skills development rather than a universal income. Others, like Brewer and Tasseva (2021), argue that targeted emergency response benefits were more effective at helping those hit hardest by the pandemic than a UBI would have been. In the post-COVID era, critics raised concerns about the potential disincentives for work, the large fiscal cost, and the risk of undermining targeted social programs. These concerns, while not new, were amplified by the scale of government expenditures during the pandemic, as fiscal implications of UBI could strain public finances.

Underlying these critiques of UBI is the impact basic income could have on workers' relative labour power. Manjarin and Szlinder (2016) argue that a basic income program could improve labour's bargaining position and increase the wage share, thereby reducing profits. As stated above, capitalists rely on a reserve army of labour to keep wages low and keep the rate of exploitation high. When availability of non-work income reduces the cost of unemployment and gives workers more power, profits fall. Arguments that a UBI would disincentivize work are essentially arguments against the strengthening of the reserve army of labour.

It is important to recognize that stronger labour power is not only a potential outcome of a UBI, but also a prerequisite for its successful implementation and maintenance. Without organized labour or broad-based political coalitions to defend such programs, there is a risk that employers could undermine their effectiveness by passing on the costs through wage suppression, reduced benefits, or price increases. In this sense, a UBI must be situated within a broader struggle over the distribution of power between

capital and labour — not only to ensure its redistributive effects, but also to protect it from erosion by market forces or political backlash.

While UBI was a key focus during the pandemic, discussions surrounding GAI also resurfaced. GAI, which involves providing a minimum income guarantee for all citizens to meet their basic needs, can be seen as an alternative to UBI. Since GAI is targeted, it is often considered less costly and more politically feasible than a UBI. In fact, some of Canada's income support programs do act as a modest form of GAI, but only for certain subgroups. Examples include the Canada Child Benefit (for parents with young children) and the OAS and GIS system (for seniors). A more truly universal GAI would provide comprehensive safety net than Canada's current patchwork of income support programs. The Canadian social welfare system, though robust in some ways, has historically been fragmented, with certain groups excluded or inadequately supported. The pandemic exacerbated these inequities, reinforcing calls for more inclusive income guarantees.

The historical precedent of the "Mincome" experiment in Manitoba (1974-1979) continues to be a key reference point in debates about GAI in Canada. In the "Mincome," program, eligible participants received unconditional income as an experiment to test its impact on health, employment, and social welfare. Research from the "Mincome" experiment, particularly by Forget, revealed that providing a guaranteed income resulted in improved health outcomes, reduced hospital visits, and an increase in high school graduation rates. Additionally, there was little evidence that the program disincentivized work, especially when compared to other welfare programs that often had punitive conditions. Scholars like Forget argued that the lessons from Mincome, combined with a

new openness to broad, universal social programs, could inform future policy discussions around GAI.

By generating a temporary reduction in inequality, the pandemic benefits gave further credence to the idea that a GAI system could yield similar benefits. Proponents argue that Canada's recovery must be based on creating an income floor that ensures no one falls below the poverty line. A GAI system, they argue, would provide this basic level of security and could replace more stigmatizing and bureaucratic welfare programs. Conversely, critics warn that the financial burden of a permanent GAI could have significant economic consequences. The risk of inflation, the potential for reduced labour market participation, and the possibility of reducing funding for other essential social programs are major concerns.

While the Canadian government, in response to public pressure, extended CERB and transitioned into more targeted benefits like the CRB, ultimately these programs were shut down by the end of 2021. The temporary nature of these programs highlighted the tension between the immediate need for relief and the long-term viability of such policies in the context of neoliberal austerity. In particular, scholars like Moffatt (2021) argued that Canada's social policies were "piecemeal" and could not provide the comprehensive security needed in times of uncertainty. Despite the relative success of CERB, and the post-pandemic enthusiasm surrounding UBI-style programs, a true UBI has yet to be implemented in Canada, with the GLBI bill being defeated in September 2024 (Parliament of Canada, 2024).

## **The Great Resignation?**

In addition to increased interest in redistributive social programs, there was also a significant and high-profile shake-up in the immediate post-pandemic labour market. Labour shortages began to disrupt the market, and at the same time – at least in the US – record quit rates were reported. These phenomena quickly became known as “the Great Resignation.” Many attributed this in large part to pandemic benefits, with workers feeling particularly financially secure as “a consequence of federal stimulus checks” (Susik, 2021). Discourse around the Great Resignation elicited much media attention in both Canada and the US, with some workers and labour leaders enthusiastically framing the moment as the beginning of a radical transformation in working conditions, while business asserted the historically recurrent phrase of “no one wants to work anymore.” Despite the general optimism, and the legitimate uptick in labour unrest, the Great Resignation was short lived.

Were workers really so emboldened by the influx of non-work income that they quit their jobs en masse? In Canada, where those federal stimulus checks were significantly more generous, the Great Resignation failed to occur. Statistics Canada reported in early 2022 that the job-changing rate was nearly identical to the pre-pandemic period. Even in the US, the 2021 quit rates were far less staggering when set in the historical context – the quit rate had been rising steadily for years (Fuller & Kerr, 2022). The low quit rate of 2020 was the real anomaly, while 2021 was simply a catch-up year that more or less fit the multi-year trend.

The more interesting question may be: what is driving the year-over-year increases to quit rates in the US? One explanation might be an aging population, which is driving

higher rates of retirement (Reuters, 2022; Macdonald, 2022). However, others point to the increasing precarity of labour (Woods et al., 2024; Yako, 2023). The rise of the “gig economy” and flexibility in the workplace has replaced the Fordist employment model, at the cost of workers’ stability and protections (Woods et al., 2024). In this way, the Great Resignation does not represent a break from neoliberal orthodoxy, but is rather a *symptom* of policies that promote increased job insecurity and labour market churn. Krugman (2022), quoting Dube, states that what occurred was more of a Great Reshuffling, than a Great Resignation, as labour force participation rates have remained stable. This suggests that workers were simply switching jobs, not leaving the labour market.

After lockdowns ended, it was inevitable that employers would no longer consent to pandemic benefits because they were incompatible with the logic of capitalism. In the post-pandemic period, the need to return to profitability prompted governments to end benefits, thus increasing the cost of unemployment and dispelling the illusion of radical labour market restructuring. While increases to income supports for workers, paired with a low unemployment rate, may have temporarily increased the relative power of labour in the market, the Great Resignation failed to live up to its purported potential as the “beginning of a meaningful transformation” for workers (Susik, 2021). By 2023, the Great Resignation was declared over, or to have never existed (see Morgan, 2023; Casselman, 2023; Krugman, 2022).

### **Explaining the Resilience of Neoliberalism**

This paper has argued that pandemic benefits, despite effecting a temporary decrease in income inequality, did not fundamentally challenge the power dynamics of the labour market since support for the unemployed did not pose a threat to profits under

lockdown conditions. As the immediate crisis waned, the Canadian policy landscape rapidly shifted back toward familiar patterns. Pandemic supports were phased out or rebranded, and a renewed emphasis on fiscal discipline took hold. Calls for more ambitious structural reforms — such as a basic income and stronger labour protections — were largely sidelined or diluted. The brief political window for transformative change was shut, and with it, the momentum for a more progressive post-pandemic settlement. But why was this the case?

A central factor in this reversal was the return of inflation, which became a dominant political and economic concern by late 2021. While inflation was largely driven by global factors such as supply chain disruptions and energy price shocks, domestic political discourse increasingly blamed pandemic spending and wage pressures. The Bank of Canada responded with rapid interest rate hikes, reinforcing a policy preference for price stability over full employment or redistributive growth. Inflation provided a convenient rationale for rejecting new spending proposals and reasserted the orthodox view that government intervention should be minimal, targeted, and temporary.

This inflationary environment also undercut the real material gains made by low- and middle-income Canadians during the pandemic. Though CERB and other benefits provided critical short-term support, high prices for essentials like housing, food, and fuel quickly eroded purchasing power. Income support payments failed to keep pace with inflation, as payments indexed to inflation took a full year to adjust, while non-indexed benefits relied on ad-hoc increases to account for the rising cost of living. Public frustration, rather than being channeled into demands for stronger welfare systems or wealth redistribution, increasingly turned toward populist sentiment. In Canada, this shift was

most visibly expressed through the Freedom Convoy in early 2022. While the movement was ostensibly about vaccine mandates, it attracted a broader coalition of individuals frustrated with government overreach, inflation, and economic precarity. Rather than reinforcing the legitimacy of collective welfare, the crisis paradoxically fueled a form of right-wing populism that opposed the very forms of intervention that had mitigated hardship.

In fact, it was neoliberalism itself that allowed looser monetary policy to be employed as a stimulus, without significantly altering the balance of political-economic power between capital and labour:

[A]fter decades of quiescence in the labor market, the Fed was wakening up to the implications of the historic defeat of organized labor in the 1980s and the dawning of a new era of globalization. This meant that it could afford to run the economy hot without fear of a runaway wage-price spiral. Of course, if the economy picked up steam, so too would prices[.] (Tooze 2021, p. 290)

In short, Canada, like the rest of the capitalist world, experienced the expected price spiral, but largely without the wage spiral.

The failure to capitalize on the pandemic's opening also reflects the structural resilience of Canada's political-economic institutions. As scholars of the Varieties of Capitalism tradition argue, Liberal Market Economies (LMEs) like Canada are characterized by decentralized labour markets, limited welfare systems, and a reliance on capital-driven innovation. These features are supported by "interlocking institutional complementarities" — between education, industrial relations, and financial systems — that make transformative change difficult outside of moments of deep political realignment (Hall & Soskice, 2001; Thelen, 2014). Institutions evolve in ways that make radical change increasingly difficult, even in the face of exogenous shocks like a pandemic (Pierson, 2000).

The firm-state-labour coalitions discussed in the Varieties of Capitalism literature serve to stabilize institutional equilibria. Radical policy change requires these coalitions to break down or realign (Crouch, 2005). Similarly, Blyth (2002) argues that while economic crises can delegitimize prevailing ideas, new paradigms only emerge when alternative institutional and ideological frameworks are ready to take their place.

During the pandemic, the necessary realignment did not materialize. The Liberal government framed its actions as emergency responses rather than long-term shifts. While the federal NDP held the balance of power in a minority government from March 2022 to September 2024, and successfully pushed for some progressive policies – like income-tested dental care, anti-scab legislation, and expansion of childcare – these measures were modest given the transformative potential of the moment (Van Dyk, 2024). Overall, organized labour remained weak, and provincial-federal fragmentation inhibited coherent policy direction.

The temporary suspension of neoliberal norms — such as fiscal rules and inflation targeting — was carefully framed as an exceptional, short-term necessity. As Tooze (2021) observes, the central role played by technocratic institutions like the Bank of Canada reinforced a depoliticized, managerial approach to crisis governance. Without a compelling, widely accepted ideological alternative to neoliberalism, progressive policy proposals struggled to gain legitimacy. The talk of “building back better,” rewarding public-sector “healthcare heroes,” and other progressive ideas gave way to concerns about deficits and inflation, and the political appetite for ambitious reform quickly disappeared.

In short, while the pandemic briefly disrupted Canada's economic orthodoxy, institutional stickiness and the lack of organized political pressure for transformation

ensured a rapid return to the status quo. Rather than serving as a catalyst for a new economic order, the crisis ultimately reinforced the prevailing system. This outcome highlights a broader lesson from political economy: crises alone do not create change. Real transformation requires not only disruption, but the presence of sustained coalitions, ideological alternatives, and institutional pathways capable of supporting a different future.

### **Conclusion**

This project has sought to answer a set of interconnected questions: did pandemic benefits reduce inequality? What does this experience tell us about the capacity and willingness of the state to address inequality in non-crisis conditions in the context of neoliberalism? Through an analysis of changes in market and after-tax income inequality, it is evident that while market income inequality increased between 2019 and 2020, after-tax income inequality decreased, suggesting that the pandemic benefits had a significant, albeit temporary, effect on inequality. Further investigation into the relationship between provincial characteristics and the redistributive impact of these benefits revealed significant interprovincial variations. While each province experienced a decrease in inequality, the magnitude varied. The analysis of interprovincial differences suggests that the ways in which pandemic benefits interacted with provincial-level economic structures, the unique pandemic benefit policies implemented by the provinces, and pre-existing inequality levels drove these differences.

The reduction in inequality was only temporary, with a recorded increase in inequality in 2021 across multiple measures. This paper framed this extraordinary policy occurrence – the sudden reduction in inequality followed by an equally sudden reversal – within the broader historical and political framework. While the pandemic prompted a

temporary expansion of state support, it did not fundamentally challenge or alter the underlying neoliberal logic that predated the crisis. The scale of the increase in government income support that reduced inequality was arguably made necessary by the conditions created by neoliberal austerity in the first place. Once the immediate effects of the pandemic subsided, the Canadian government quickly ended the recovery benefit programs and returned to its pre-crisis austerity agenda, reinforcing the persistence of neoliberal policies and prompting a return to pre-crisis inequality levels.

The patterns of pandemic support payments also reinforced the deserving / undeserving dichotomy, even if the group of “deserving” poor was (temporarily) significantly larger than normal. The “undeserving” poor were excluded from the majority of pandemic recovery benefits, through measures like CERB eligibility requirements and welfare clawback policies. These policies helped to preserve the reserve army and constrain the power of labour, thereby upholding the power structures inherent to capitalism.

This project's findings are significant for policymakers, particularly in light of ongoing debates about the efficacy of GAI and similar social programs. The Canadian experience during the pandemic offers valuable insights into the potential for redistributive programs to reduce inequality, as well as the limitations of such measures within a broader neoliberal economic system.

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