A Casualty in the Class War: Canada's Medicare

Une victime dans la guerre des classes : l'assurance maladie du Canada

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Abstract

"There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning." (Warren Buffett, five years ago.) Last year's Occupy Wall Street movement suggested that people are finally catching on. Note, *making* war: Buffett meant that there was deliberate intent and agency behind the huge transfer of wealth, since 1980, from the 99% to the 1%. Nor is the war metaphorical. There are real casualties, even if no body bags. Sadly, much Canadian commentary on inequality is pitiably naïve or deliberately obfuscatory. The 1% have captured national governments. The astronomical cost of American elections excludes the 99%. In Canada, parliamentary government permits one man to rule as a de facto dictator. The 1% don't like medicare.

Résumé

« Il y a une guerre des classes, c'est un fait, mais c'est ma classe, la classe des riches qui mène cette guerre, et nous sommes en train de la gagner. » (Warren Buffett, il y a cinq ans.) Le mouvement « Occupons Wall Street » de l'année dernière porte à croire que les gens ont finalement

compris. C'est-à-dire, *faire* la guerre : Buffett indiquait qu'il y avait une intention et une organisation délibérées derrière l'immense transfert de richesse, depuis 1980, de 99 pour cent de la population à 1 pour cent des citoyens. Le mot guerre n'était pas employé métaphoriquement. Il y a de réelles victimes, sans housses mortuaires toutefois. Malheureusement, au Canada la plupart des réflexions sur les inégalités sont lamentablement naïves ou délibérément obscures. Le 1 pour cent a mobilisé les gouvernements. Les coûts astronomiques des élections américaines font fi des 99 pour cent. Au Canada, le gouvernement parlementaire permet à une personne de diriger comme un dictateur de facto. Le 1 pour cent n'apprécie pas l'assurance maladie.

"There's class warfare, all right," Mr. Buffett said, "but it's my class, the rich class, that's making war, and we're winning" (Stein 2006). Readers of The Undisciplined Economist may recall the same point being made slightly earlier that year (Evans 2006). There, we drew on the work of a number of quite disciplined economists – humble, useful people – who have demonstrated from taxation statistics in a number of countries the dramatic shift after 1980 from a relatively stable post-war income distribution to one that was becoming rapidly more unequal – and still is.

Buffett's methodology was somewhat less formal.

> [He] compiled a data sheet of the men and women who work in his office. He had each of them make a fraction; the numerator was how much they paid in federal income tax and in payroll taxes for Social Security and Medicare, and the denominator was their taxable income. … The people in his office were mostly secretaries and clerks, though not all.
>
> It turned out that Mr. Buffett, with immense income from dividends and capital gains, paid far, far less as a fraction of his income than … anyone else in his office. (Stein 2006)

And this without the aid of sophisticated "tax planning" (tax avoidance) advice. Mr. Buffett just filled out the IRS forms.

"How can this be fair?" he asked, "How can this be right?"

Healthcare Policy can actually claim publication precedence over Mr. Buffett on the subject of class war, though his remarks, reported in the *New York Times*, probably reached a somewhat wider audience.[1] But until the emergence of the "Occupy" movement in 2011, the dramatic (and well-documented) growth of income inequality had received little mainstream press. Efforts in the United States to bring these trends to broad public attention and encourage discussion of their sources and implications were effectively shouted down by spokesmen for the now-famous "1%" – such as former President George W. Bush – as attempts to "foment class war."

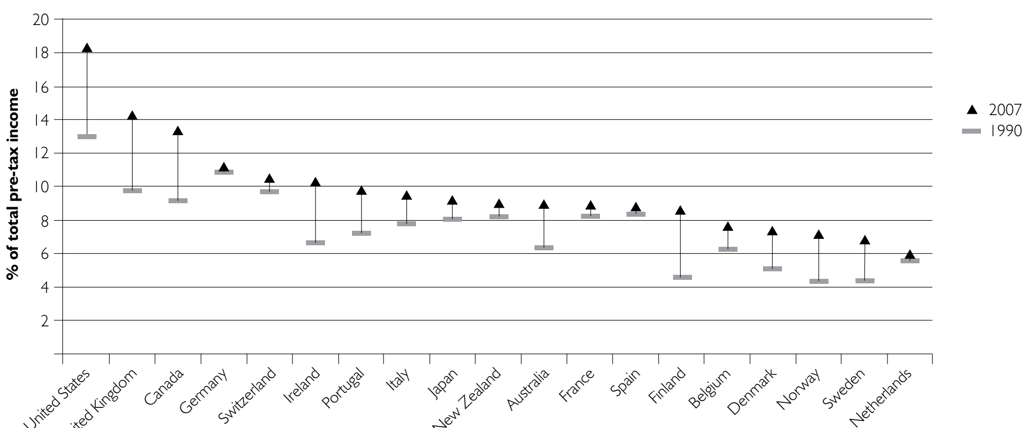
Only in the last year does it seem to be sinking in that a one-sided class war has been going on for decades. Mr. Buffett was simply expressing an obvious and consequential truth. The rich, and especially the very, very rich, have gotten steadily much richer.[2] The rest have not. It remains to be seen whether this awareness will "have legs" or will fade as the media in the Excited States become fascinated with something else.

But does this have anything to do with Canada? Conveniently enough, the Organisation for Economic Co-operation and Development has just published a cross-national study of growing income inequality in OECD member countries (OECD 2011). As one would expect, the awful Americans top the inequality chart, with "the 1%" taking 17% of pre-tax income in 2005. But "kinder, gentler" Canada? Yep, the bronze.

> The U.K. has been similar to the U.S., in both respects, over the past two decades. In 2005 the share of the top 1 per cent in pre-tax incomes varied from 5.6 per cent in the Netherlands and 6.3 per cent in Denmark and Sweden to 12.7 per cent in Canada, 14.3 per cent in the U.K. and 17.4 per cent in the U.S. Policies and social preferences – particularly the role of stock-driven rewards and of financial services at the top – make a very big difference. (Wolf 2011)

The inequality trends may be similar in both Canada and the United States, but there are a couple of important differences. In both countries, capture of the national government is a central feature of the redistribution strategy. But the process of capture has been quite different in the two countries – much quieter and less disruptive in Canada. The 1% in Canada are stealth fighters. And perhaps for that reason, very few Canadians have connected the dots to figure out that there is, in fact, a war on.[3]

FIGURE 1. Income inequality in OECD member countries, shares of top 1% incomes in total per-tax income 1990-2007 (or closest year)



Emphasis on the term "class war" underlines two very important points about the trends in income inequality. The first is that these trends are to a considerable extent a consequence of conscious, deliberate agency by more or less organized and coherent interest groups. They are not an inexorable result of the forces of nature, or the laws of motion of modern economies. When Warren Buffett says that his side is winning, he is not speaking metaphorically. The 99% may be only just beginning to realize what has been happening – after all, a great deal of effort and expense has been devoted to keeping them ignorant and confused on this score. But the 1% mostly know perfectly well what they are doing, and have a significant advantage in their influence over the instruments of propaganda.

The second point, grimly, is that there are real bodies. This war has casualties, in thousands and perhaps millions, though we never see them on the nightly news.

Let's start with the deaths. Professor Jeffrey Sachs is one of the world's leading students (and practitioners) of economic development. Writing in the *Huffington Post*, he almost scorches the (virtual) paper with his outrage as he predicts the consequences of a decision by the US government to renege on its pledge to the Global Fund to Fight AIDS, TB and Malaria (Sachs 2011a). That fund "has mobilized [scientific] knowledge over the past decade to save more than 7 million lives and to protect the health of hundreds of millions more." The elimination of the USD$4 billion contribution (over three years) would amount to a bit more than two days' spending on the American military, and is collateral damage from the ongoing ideological and financial "class struggle" over the US budget. "Millions of people are now at risk of death over the coming years" (Sachs 2011a). But of course, these people do not vote in American elections, much less make large political contributions. They are not PLUs (People Like Us).

Krugman and Wells (2006) bring the butcher's bill somewhat closer to home:

> The United States is unique in being a place where the cost of illness and medical expense can bankrupt you, where the inability to pay for basic medical care can lead to a downward spiral in your health, and eventually death. Millions of Americans are unable to afford medical care and the results are dire. The best estimates suggest that something like 18,000 unnecessary deaths take place each year just because of inadequate health insurance. That's the equivalent of six 9/11s every year.

The financing of medical care is a central battleground in the American class war. How could it be otherwise? Modern medicine is expensive and effective. While it is more expensive than it needs to be, and less effective than it could be, there is no denying its capacity to alleviate pain and suffering, maintain function and defer death. But need, or at least capacity to benefit, is extremely unequally distributed across all populations, bearing no relation to ability to pay. It follows that a modern health system is simply impossible without collective financing.

All this is well understood and has been for many years.[4] But the obvious implication is that a well-functioning modern health system requires the transfer, through taxation, of a very significant amount of money from the healthy and wealthy to the care of the unhealthy and unwealthy. This has always been much more politically contentious in the United States than in more civilized societies, which is why Americans remain saddled with a brutally inhumane and grotesquely inefficient and expensive health system.

As Stiglitz (2011) says about inequality in general, however, the American 1% actually like it that way. They get pretty much immediate access to some of the finest medical care in the world, without the necessity of supporting a similar standard for their fellow citizens. And indeed they are not, in any meaningful sense, fellow citizens. The 1% neither live with, nor die with, the 50-plus million Americans who have no health insurance coverage, public or private, and must get by with whatever care they can pay for out of thin pockets, or various forms of charity.

But the butcher's bill is by no means merely an account of inadequacies in the health system. The strong correlation between health and wealth has been known for years – centuries? – but over the last half-century a great deal of progress has been made in understanding the complex pathways through which social and economic inequality "get under the skin." In the face of rapid scientific advances, efforts to dismiss large social gradients in morbidity and mortality as simply a reflection of "bad behaviour and bad genes" have lost whatever credibility they might ever have had.

Social contexts – the environments in which people live and work – have mortal implications that unfold over long periods of time (see, e.g., Siddiqui and Hertzman 2007). And it is through degrading these environments that the class war being waged by the rich may generate the really big body counts – if anyone were counting.

The class warriors do not, of course, really want to kill anyone. Any disease, disability or death resulting from increased inequality is merely collateral damage from the collective pursuit by the 1% of ever greater economic advantage.[5] We turn, then, to consider the more bloodless matters of strategy and tactics in the American way of class war. Stiglitz (2011) matches Sachs in his outrage:

> It's no use pretending that what has obviously happened has not in fact happened. The upper 1 percent of Americans are now taking in nearly a quarter of the nation's income every year. In terms of wealth rather than income, the top 1 percent control 40 percent. … Twenty-five years ago, the corresponding figures were 12 percent and 33 percent. … While the top 1 percent have seen their incomes rise 18 percent over the past decade, those in the middle have actually seen their incomes fall. … All the growth in recent decades – and more – has gone to those at the top. (Stiglitz 2011)

Professor Stiglitz outlines briefly the broader social and economic costs of a lopsided income distribution – the decline of public infrastructure, institutions and services that the wealthy no longer need and so refuse to pay for. But his principal point is that

> one big part of the reason we have so much inequality is that the top 1 percent want it that way. … Lowering tax rates on capital gains, which is how the rich receive a

> large portion of their income, has given the wealthiest Americans close to a free ride. Monopolies and near monopolies have always been a source of economic power – from John D. Rockefeller … to Bill Gates. Lax enforcement of anti-trust laws, especially during Republican administrations, has been a godsend to the top 1 percent. Much of today's inequality is due to manipulation of the financial system, enabled by changes in the rules that have been bought and paid for by the financial industry itself. … Regulators turned a blind eye to a lack of transparency and to conflicts of interest. (Stiglitz 2011)

Stiglitz's summary: "Wealth begets power, which begets more wealth." But the process of begetting always takes place through intercourse between people.[6]

> Virtually all U.S. senators, and most of the representatives in the House, are members of the top 1 percent when they arrive, are kept in office by money from the top 1 percent, and know that if they serve the top 1 percent well they will be rewarded by the top 1 percent when they leave office. By and large, the key executive-branch policy-makers on trade and economic policy also come from the top 1 percent. When pharmaceutical companies receive a trillion-dollar gift – through legislation prohibiting the government, the largest buyer of drugs, from bargaining over price – it should not come as cause for wonder. It should not make jaws drop that a tax bill cannot emerge from Congress unless big tax cuts are put in place for the wealthy. Given the power of the top 1 percent, this is the way you would expect the system to work. (Stiglitz 2011)

And lest the money run short:

> The Supreme Court, in its recent *Citizens United* case, has enshrined the right of corporations to buy government, by removing limitations on campaign spending. The personal and the political are today in perfect alignment. (Stiglitz 2011)

So the United States government is owned by the 1%, directly or through the corporations these people control. And the situation is likely to get worse before it gets better – if it ever gets better. But what has that to do with Canada, or with health policy? Well, let's take that issue in two bites.

First, consider a still more recent column by Stiglitz (2012), in which he argues that the present economic crisis in Europe and North America is not simply a consequence of the reckless greed of "the banksters" and the irresponsibility of regulators drunk on wacko economic theories. (Yes, you, Mr. Greenspan and Ms. Rand.) Ideology and the reckless greed that it permitted and justified have certainly led to great dislocation and suffering. But, Stiglitz argues, there is a more fundamental economic re-alignment taking place, akin to the massive shift during the 1930s. Then, great increases in agricultural productivity eliminated millions of jobs in that sector. Today, a combination of globalization and increased productivity is having the same effect on manufacturing in the high-income world. Millions of "good" jobs have gone, and they won't be back.[7] Now, as then, the result is long-term high levels of unemployment and the corresponding human misery and economic costs.

The crucial point, though, is that the necessary economic re-alignments of the 1930s did not take place through the marketplace, even in the fabled "long run."[8] The Depression never really ended until the Second World War. (Go back and look at the historical data on unemployment and GDP per capita.) The many and justly celebrated achievements of Roosevelt's New Deal may have mitigated the effects of the Long Slump, but what ended it was massive government spending and taxation.

The war was also the historic break in the pattern of income inequality. It was followed by a generation of relatively more equal incomes, at least relative to what preceded and followed it (see Evans 2006 and the sources therein). If you really want to mitigate inequality, "tax and spend" works pretty well. That's why the 1% hate it like poison. It isn't a mystery.

The 1% were there during the Depression too, and battled Roosevelt's reforms all through the 1930s. The war simply overwhelmed them – for a time. But memories fade, and the pundits came back at the end of the 1970s with a repainted and refurbished collection of old economic fantasies. Depression-era restrictions on banking went first, with consequences we have seen. American Social Security is under continuing attack, as is the American watered-down version of medicare.

Yes, yes, the Americans are awful, we all know that. So what? Well, if Stiglitz is right, and the analogy with the 1930s holds, then we, all of the high-income world – even Canada, when commodity markets sag – are heading into another Long Slump. The only way out (that we know of) is a major government-led program of economic reconstruction. Is this anywhere on anyone's policy horizon? On the contrary, all the talk is of "austerity" and budget cuts, the same old fiscal orthodoxies that kept the Depression going.

> [I]n the face of high unemployment, growing inequality and looming budget deficits, most governments are paralysed, in thrall to powerful interests. Wall Street, the City of London, the Frankfurt banks and other corporate lobbies hold politics in their grip, and block effective change. (Sachs 2011b)

Build a big woodpile, folks, it could be a long winter.

The process of government capture, as noted above, has been completely different in Canada. Here is no political gridlock – quite the contrary. As students of political science are taught early on, any parliamentary government with a solid majority and no election in sight is essentially a dictatorship. The only constraints are customary – convention and precedent – and (in Canada) some constitutional restrictions. A majority government that chooses to ignore parliamentary conventions, even to be in contempt of Parliament, is to all intents and purposes a dictatorship. So while in the United States the 1% agenda is pursued through government gridlock and fiscal blackmail, here we have Stephen Harper's "strong, stable government."

Much could be said about the agenda of the Harper government, but not here. Readers will make their own assessments of the relationship between present federal policies and the agenda of the 1%. But there is the "curious incident of the dog in the night-time."

The Canadian right wing have tried for decades, first to prevent the emergence of universal public medicare[9] and then to undermine it by eliminating the federal cash transfer without which the federal standards cannot be enforced.[10] Medicare's enemies, like its architects, have always recognized the critical role of conditional federal cash transfers in maintaining the integrity of the system. If these cash transfers could be eliminated, the universal system would eventually crumble.

If there are no fiscal penalties for transferring health costs, directly or indirectly, from their own budgets to those of patients, the temptations for cash-strapped or ideologically unsympathetic provincial governments will become irresistible. An increasing share of the burden of payment will slowly (?) but steadily shift from taxpayers towards patients – from the 1% to the 99% – while access shifts in the other direction. At some point, the private insurance industry may return to impose a whole additional layer of "cost without benefit."

Until now, the broad privatization agenda has been (largely) frustrated by strong public support for Canada's most popular and effective social program. Yet, when Stephen Harper quietly slipped his knife into the heart of medicare – no more conditional cash transfers – few seem to have noticed. Where was the barking dog?[11] Very odd.

It may take some time for medicare to die – that's the point of the increased but "stringless" federal financing. Patch over the fatal wound – Stephen Harper is a patient man. When in due course medicare does crumble, he will be able to say to its ghost, as MacBeth says to Banquo's: "Thou can'st not say I did it. Never shake thy gory locks at me!"

It was the provinces.

NOTES

1. The Canadian publication may, however, have played some role in stimulating the Canadian Centre for Policy Alternatives to establish the Growing Gap project, which "takes an in-depth and sustained look at one of the biggest challenges of our time: Worsening income and wealth inequality in Canada." Retrieved January 11, 2012. <http://www.policyalternatives.ca/projects/growing-gap/about>.
2. The phrase "the 1% and the 99%" communicates very effectively, but the really spectacular increases in income shares have been taking place among the upper 0.001% (Evans 2006).
3. Some of the recent public comments on inequality in Canada have been pitiable; others appear to be deliberate obfuscation. "Poverty," or "homelessness," or Aboriginal issues, or any of a number of specific aspects of social injustice, are all distractions from the central point. The 1% have managed to take a much larger share of Canadian income and wealth, and this did not happen by accident. And they are not interested in a "culture of fairness."
4. Except by Kool-Aid-swilling marketophiles or the occasional lobotomized economist.
5. "Thou shalt not kill; but need'st not strive/Officiously, to keep alive." Arthur Hugh Clough, "The Latest Decalogue."

6. Stiglitz quotes banker Charles Keating. Questioned by a congressional committee, during the 1980s Savings and Loan scandal, as to whether his donation of $1.5 million to selected elected officials could actually buy influence, Keating replied: "I certainly hope so."
7. "Globalisation has undermined the manufacturing base of most of the high-income economies, costing millions of jobs and leading to stagnant or falling living standards for a large part of the workforce. … The US has lost around 8–9 million manufacturing jobs since the peak in that sector in 1979." (Sachs 2011b)
8. When, as Keynes noted dryly, "We are all dead."
9. See, e.g., the Keep Our Doctors committees in Saskatchewan.
10. See, e.g., the time-bomb in Brian Mulroney's *Government Expenditure Restraint Act* in 1990; Stockwell Day's campaign to convert the federal cash transfer to tax points; a decade or more of misleading "unsustainability" rhetoric.
11. Silenced in a blaze of silver?

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