CALEDON INSTITUTE OF SOCIAL POLICY

Good Work: Getting It and Keeping It

by

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February 1999

ISBN - 1-894159-35-7

Introduction

This paper discusses two tough and related problems that have plagued Canada in the 1990s: There is not enough paid work, nor enough good work.

Most people spend their day engaged in some form of work. The majority of adults are employed in paid work, generally referred to as their 'job.' It is this form of work from which Canadians derive most or all of their income.

In addition to paid work, many individuals are engaged for part or all of the day in unpaid work that includes taking care of children or of sick or elderly family members. Most caregiving is carried out by women. Managing a household and volunteering in the community are other common forms of unpaid work.

Unpaid work is not counted in the formal calculation of Canada's economic activity, as reflected in our Gross Domestic Product (GDP). Yet this work represents a substantial contribution - estimated recently by Statistics Canada at $16 billion a year.

It is generally agreed that there is no shortage of work - especially when it comes to unpaid work, such as learning and caring for children or the elderly. But there *is* a shortage of paid work: There simply are not enough jobs available for all those seeking employment.

The problem is the result of many factors. In recent years, corporations throughout the world have shed jobs in order to lower their costs and survive, so they say, in a highly competitive economy. Some developed countries, such as Canada, have been hit especially hard as companies comb the globe in search of cheaper materials and labour.

The means of production also are changing. Technology has taken over work that used to be done by human heads and hands. This is by no means a new phenomenon, since continual technological change is one of the defining characteristics of capitalism. But new technologies, especially computer-based, are transforming much of the workplace and demanding ever-renewed and higher skills and knowledge on the part of the workforce.

Governments have contributed to unemployment. Governments at all levels have slashed their budgets to 'put their fiscal house in order.'

These cuts have reduced the size of the public sector and have resulted in big job losses in areas such as health care and social services. Canada's substantial cuts to major social programs like Unemployment Insurance (UI) and welfare have weakened recipients' purchasing power and associated demand for goods and services - and the jobs that produce them.

Another public institution, Canada's central bank, has played a major role in our high unemployment rate. For years, the Bank of Canada's one-note obsession with fighting inflation through high interest rates has discouraged job creation by choking off investment and dampening consumer spending.

The major industrialized countries recognize that they face a jobs crisis; their leaders came together in Washington in March 1994 to discuss possible solutions. The European Commission recently identified 'a strong economy capable of creating more jobs' as a priority issue for 1999.

Despite governments' apparent recognition of the unemployment issue, its resolution appears to have taken second place to the more 'pressing' issue of the deficit and debt. Throughout most of the 1990s, the Canadian government, in particular, waged a massive war on the deficit - portrayed as public enemy number one.

Unfortunately, Ottawa has not acted with equal grit to fight unemployment. The government has not applied the same come-hell-or-high-water determination to combat unemployment that drove it to take tough measures to vanquish the deficit.

There is no question that governments' financial health is of utmost importance to economic health and to public confidence in both government and the economy. But the way the war on the deficit was won is open to question. The battle left many scars in its wake - with job loss among its biggest casualties.

To make matters worse, governments appear to have lost their appetite for trying to prevent unemployment or even just to ease its effects. The accepted wisdom in policy-making circles now appears to be that employment creation is the purview of the private sector alone, and that government should keep its hands off.

Unfortunately, this do-nothing attitude comes at a time when governments probably have a more-important-than-ever part to play in stimulating job creation, improving the education and skills of the workforce, and compensating for the uncertainties of a turbulent labour market.

Some observers argue that governments could solve the jobs problem through a 'guaranteed income:' Simply give everyone a base income, or at least guarantee a basic adequate income to all lower-income Canadians. Because most people will want to supplement this minimal income through paid employment, guaranteed income advocates claim there always will be an incentive to work.

The guaranteed income debate has raged for decades. But the option now seems more remote as the climate for new government spending has turned cold. And some opponents rail that a guaranteed income would weaken the work ethic.

Detractors also worry about the costs of such a scheme – especially if the minimum income is more than minimal. An era of deep spending cutbacks and a cautious attitude towards new expenditures even with an emerging surplus is not the time for discussing new big-ticket income security expenditures. Moreover, a guaranteed income could be viewed as a cop-out, letting government off the hook by responding to unemployment with handouts rather than jobs.

Others contend that the problem of unemployment lies not simply in the preoccupation with our national finances - our money-before-people obsession. They see the culprit as the economic order itself, whose continued success is predicated upon the built-in obsolescence of products and the endless consumption of resources.

Critics claim that the current economic mode is unsustainable in the long run. The rate at which we are using natural resources and poisoning the environment with toxic chemicals is nothing short of a courtship with disaster.

International thinking on sustainable development has highlighted what is likely the greatest challenge now facing the world: how to promote economic development while protecting the environment.

But the need to ensure enough paid work goes beyond the issue of sheer quantity of jobs. The latter part of the 1990s has seen significant growth in employment in Canada. But many of these are part-time jobs, making it difficult for workers to earn a living wage.

Granted, there are new 'good' jobs that require high levels of education and training, pay well, provide benefits and offer career opportunities. But there are still many 'bad' jobs that are often unstable, require few skills, pay low wages and afford little opportunity for advancement.

Ensuring enough work and good work for all Canadians will be a formidable task.

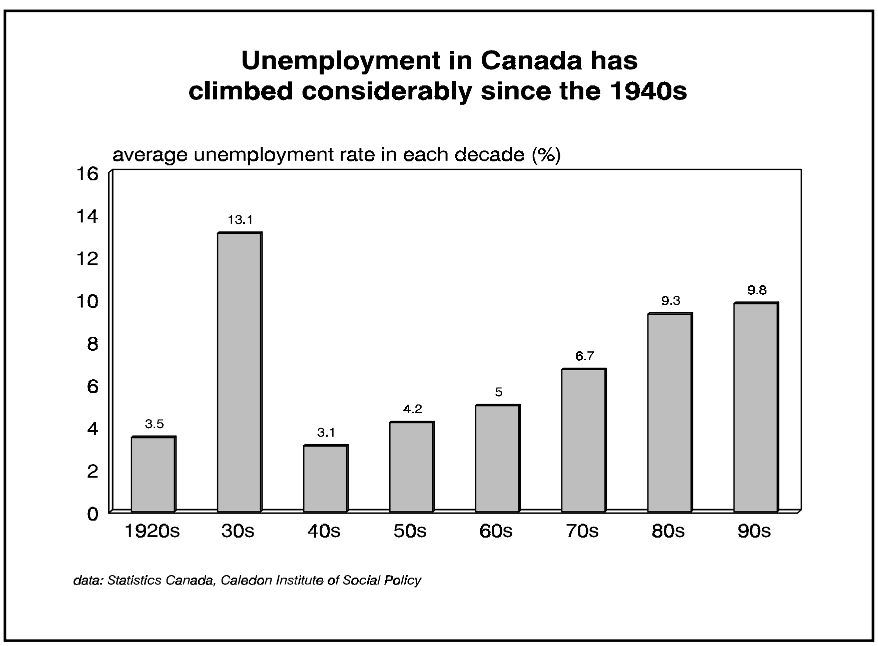
What's the Problem?

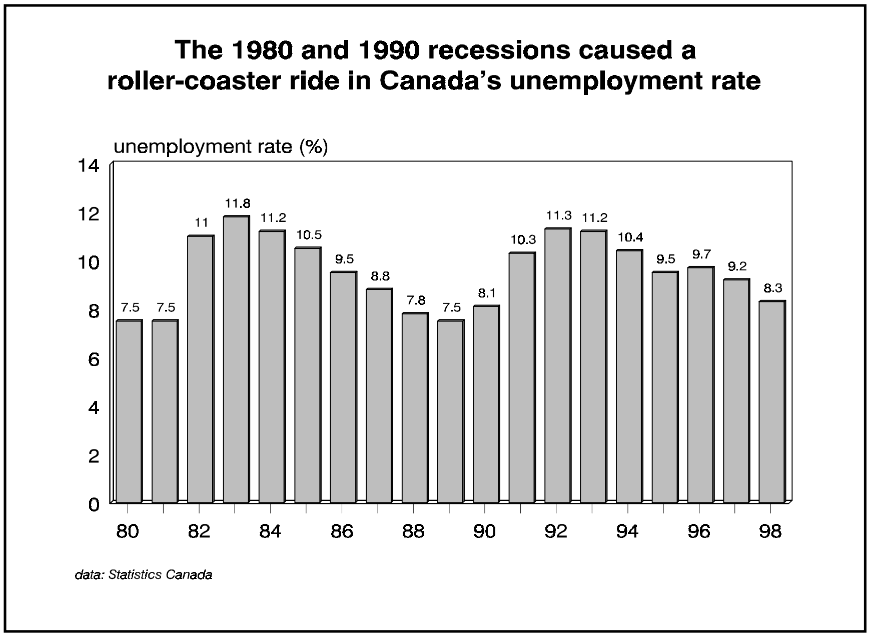
As we near the new millennium, Canada faces a perplexing dilemma. Unemployment and underemployment remain high despite substantial job creation and a recent upswing in economic growth.

Unemployment in the 1990s has averaged 9.8 percent to date - the second-worst decade on record, surpassed only by the Great Depression of the 1930s when 13 percent of the workforce was out of work. Although the national jobless rate eased from 11.3 percent in 1992 to 8.3 percent in 1998, 1.3 million Canadians are still actively seeking work. Another 82,000 discouraged unemployed workers have given up their job search.

Unemployment is not the only issue: Underemployment is a grave and growing problem as well. Many Canadians can find only part-time work. Others are employed in jobs that are below their credentials and experience. A living wage remains a distant dream for far too many families and individuals.

Yet our other economic indicators are healthy. The economy created close to 1.5 million new jobs between 1993 and 1998. In 1998,




The 1980 and 1990 recessions caused a roller-coaster ride in Canada's unemployment rate
unemployment rate (%)
14
12
10
8
6
4
2
0
7.5
7.5
11
11.8
11.2
10.5
9.5
8.8
7.8
7.5
8.1
10.3
11.3
11.2
10.4
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9.7
9.2
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80
82
84
86
88
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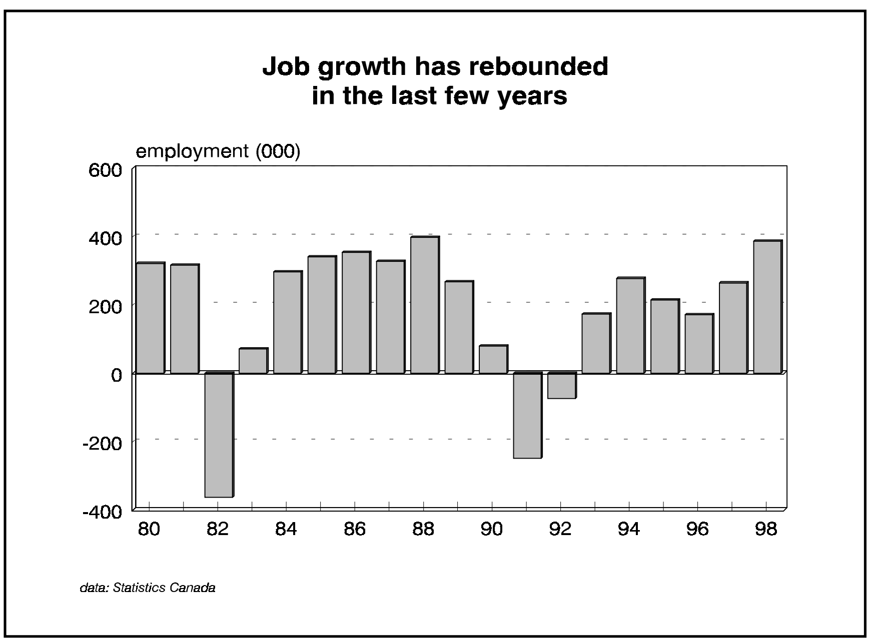
92
94
96
98
data: Statistics Canada


Job growth has rebounded in the last few years
employment (000)
600
400
200
0
-200
-400
80
82
84
86
88
90
92
94
96
98
data: Statistics Canada

386,000 jobs were created; full-time employment grew by 3.1 percent and part-time employment by 7.3 percent.

Canada's economic growth is forecast to rank among the top in the advanced industrialized nations in both 1998 and 1999. But the spectacular job projections stand in sharp contrast to the ominous headlines of recent weeks: Air Canada to cut more jobs in 1999; 8,000 jobs cut at Algoma Steel, and the loss of thousands of jobs through the sale of the Bell Canada telephone operator division to an American company, to name just a few examples.

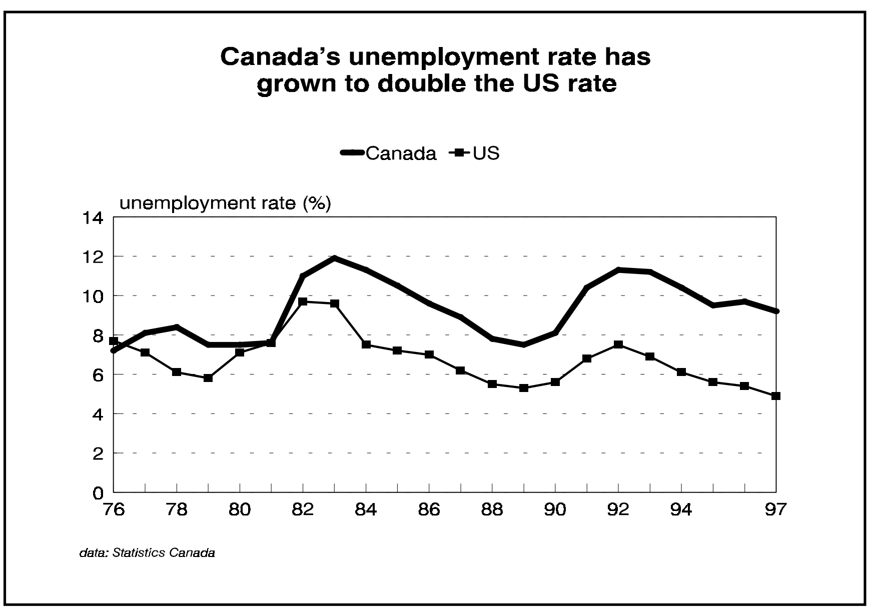
Self-employment has been the main engine of this recent growth. The number of self-employed grew from 1.1 million or 11 percent of the labour force in 1976 to 2.7 million or nearly 19 percent of the labour force in 1998.

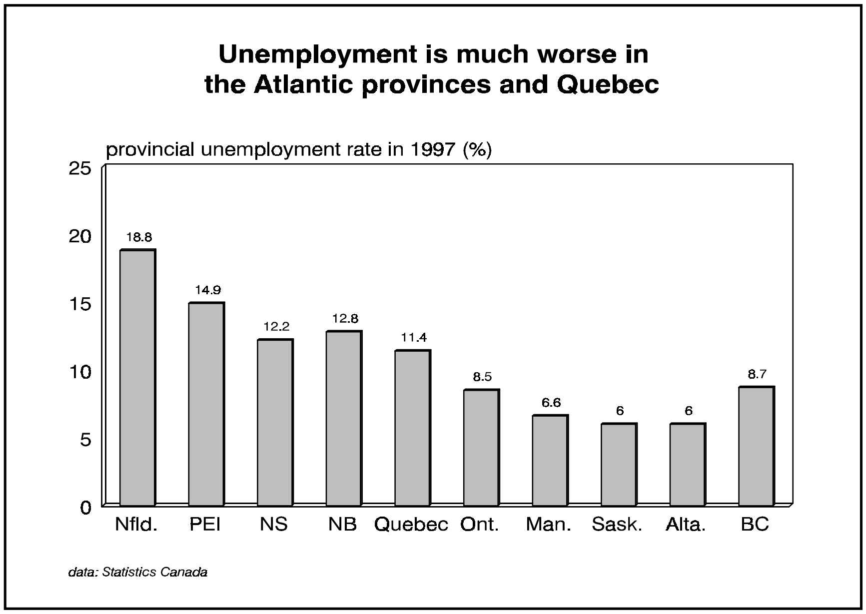
The importance of self-employment becomes clear when compared to employment trends south of the border. In Canada, self-employment increased by 39 percent throughout the 1990s, compared to growth of just 1.6 percent among employees. In the US, by contrast, both self-employment and the number of employees grew at the same pace – roughly 10 percent over the 1989-97 period.

Canada is expected to outperform the US in terms of economic growth in 1998 and 1999. Yet our unemployment rate is double that of the Americans.

The 1990s – A Decade to Forget

The 1990s will not go down as a decade to remember with fondness. Not since the dustbowl





days of the Dirty Thirties have so many Canadians been out of work.

For some parts of the country, scarce work is a fact of life. Unemployment has always been high in the Atlantic region.

The most recent annual averages, for 1997, show that Newfoundland had an official jobless rate of 18 percent – three times that of Saskatchewan and Alberta and double the national rate of 9.2 percent. Quebec typically has a higher than average percentage of unemployed.

But what was so special about the 1990s – or not so special as it turns out – is that all parts of the country suffered a rise in unemployment following the devastating recession that opened the decade. Regions that struggle under the best of circumstances were hurt even more. But Ontario, which always had been the engine of Canada's economy, suffered the largest job decline of all.

Canada's jobless rate reached double digits in 1991 (10.3 percent), peaked at 11.3 percent in 1992 and hovered near 10 percent for most of the 1990s; the annual average for 1990 through 1998 was 9.8 percent. Only Germany, France and Italy had higher growth in unemployment in the 1990s.

It was only in 1995 that Canada's unemployment rate fell back to single digits, reaching 9.5 percent. It rose again to 9.7 percent in 1996 before declining to 9.2 percent in 1997 and 8.3 percent in 1998. The jobless rate is expected to ease further to 8.1 percent in 1999.

But single-digit unemployment exists merely on paper. The real jobless rate is significantly higher than the official count.

The official unemployment rate does not include unemployed Canadians so discouraged that they give up their job search: An individual has to be actively seeking work to be considered 'unemployed.' Including discouraged workers as well as part-time workers who cannot find full-time work, the real rate of unemployment is closer to 13 percent.

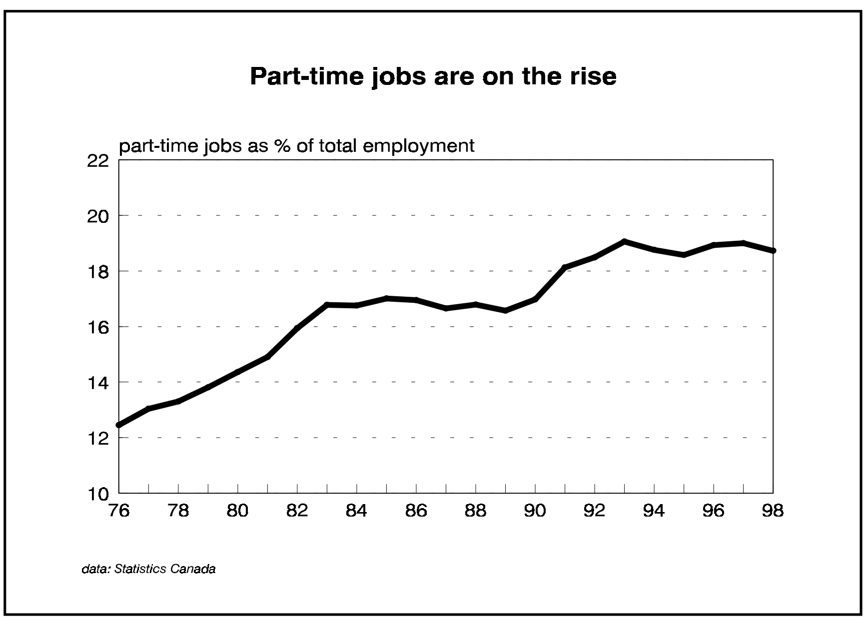
And the usual statistics on the number and percentage of unemployed give no sense as to how long they stay out of work. The duration of a typical unemployment spell has grown from an average 14 weeks in 1976 to 22 weeks in 1997.

Many Canadians without work now spend more than half a year looking for a job. Six months can be an eternity for households with few savings and no other source of income other than Employment Insurance (if they are lucky to qualify for that fast-shrinking program) or the last resort of welfare.

Nor do the official numbers count the underemployed. Underemployment has several dimensions.

First are those who would like to work longer hours but can find only part-time, casual or contractual employment. These people are referred to as 'involuntary part-timers.' They work part time – but not by choice. Their numbers swelled from 129,000 or 10.6 percent of all part-time workers in 1976 to 801,000 or 31.9 percent by 1995.

Statistics Canada defines part-time work as "less than 30 hours per week at the main or sole job or business." The share of part-time employment grew sharply during the recessions of the early 1980s and 1990s, and barely declined in the recovery periods following these recessions. In 1998, 18.7 percent of all workers had part-time hours compared with 12.5 percent in 1976.



In the US, by contrast, part-time work has not played nearly as strong a role over the past two decades. The Americans define part-time work as less than 35 hours per week at all jobs or businesses. Using this definition, part-time workers accounted for almost 80 percent of overall employment growth in Canada in the 1990s compared with only 27 percent in the US.

Consistent with the growth of part-time work has been a steep rise in the number of multiple jobholders. As of 1997, one in 20 Canadian workers was involved in a second job or business.

The second group of underemployed works at jobs considered below their qualifications. These are the mathematics graduates who are driving taxis and the engineering graduates employed as security guards.

In many cases, new Canadians in particular find themselves underemployed because their education or training is not recognized in this country. The body that issues certification will not accept their credentials. Sometimes these individuals must return to school for upgrading in order to 'Canadianize' their knowledge and skills. This retraining costs money – a luxury they may not be able to afford, especially if they have families to house and feed.

Yet another challenge faces today's job seeker. The labour market has been split increasingly into good jobs and bad jobs. The so-called good jobs pay well and typically require specialized training and higher levels of skill. In addition to good pay, these jobs usually provide benefits, such as employer-sponsored pensions and supplementary health insurance.

Bad jobs, by contrast, refer to low-paid work that requires relatively few skills. These jobs rarely provide a pension, benefits or opportunities for promotion. They are more prone to unemployment than good jobs.

The growth of high-end and low-end jobs also has seen some shrinkage in the middle-earnings range. The shift is partly the result of changing technology. Silicon chips have replaced many middle managers. The vogue for downsizing in both industry and government has created leaner organizations that have shed many middle-level positions.

The labour market has moved to extremes in yet another way. There has been growth in both long and short hours of work. Part of this shift in working hours reflects the ups and downs of the economy. People typically work fewer hours, for example, when there is less available work.

But this new distribution of working time also reflects more fundamental changes in how goods are produced and services delivered. Competitiveness requires flexibility and rapid response to market demand.

Work-sharing and flexible work patterns are generally good for employers. They can better meet consumer needs by offering longer hours of service. They have a competitive advantage by adapting quickly to an increase or shift in demand.

The division of work into long hours for some and not enough hours for others may be good for employers. But it generally is not good for employees.

Some workers like the flexibility and added pay from extra work. But for many workers, long hours and less play have had a negative impact: more stress, sleep disorders, family tensions or even breakup, and less time with children. At the same time, increasing numbers of Canadians cannot find full-time work.

The Face of the Unemployed

Between 1966 and 1990, women had a higher unemployment rate than men in all but four years. The story changed dramatically in the 1990s, with the percentage of jobless females about seven points lower than the male rate. This reversal reflects the worsening job prospects for men in this decade.

Neither has it been a good bet – at least when it comes to joblessness – to be young. The youth unemployment rate – at 16.7 percent in 1997 - was more than double the rate of workers between the ages of 25 and 44 (8.4 percent). In 1997, 406,000 young people were looking for work.

Only in 1998 did job opportunities finally improve significantly for young people, posting a healthy 143,000 or 7.0 percent growth in employment. The youth unemployment rate in January 1999 was 13.9 percent, the lowest since September 1990.

The prospects for Aboriginal youth are much worse. The jobless rate for on-reserve young people is close to 80 percent or more than five times higher than for other Canadian youth.

Gender and age are not the only factors linked to unemployment. Education plays an important role as well.

Not surprisingly, job seekers with less education have a harder time finding work. In 1997, the unemployment rate for those with less than high school education was 15.6 percent, dropping to 8.8 percent for high school graduates, 7.5 percent for those with postsecondary certificates or diplomas, and just 4.8 percent for university graduates.

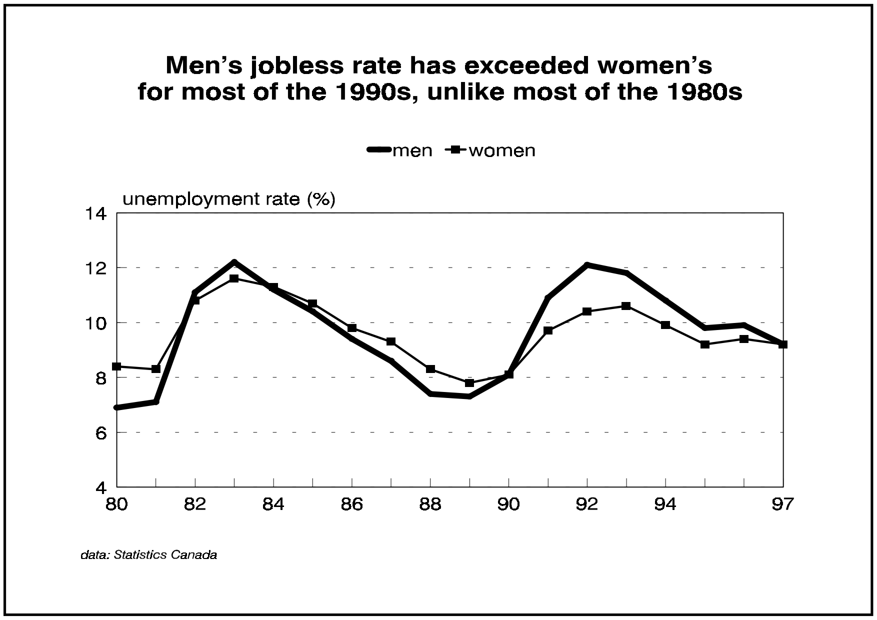
The sector in which work is being sought also makes a difference. The construction sector, with an unemployment rate of 13 percent, was not the place to be looking for work in 1997. The odds were much better in the finance, insurance and real estate sector, with a jobless rate of only 2.7 percent in 1997.

Type of work also affects the job seeker's chances. Blue-collar trades are more prone to unemployment than white-collar workers.

The blue-collars tend to be found in industries affected by business cycles and seasonal fluctuations. And these workers typically have less education, which makes it harder for them to find employment if they lose their job.

Where Canadians live also strongly influences their risk of unemployment. Double-digit unemployment holds for Quebec and Atlantic Canada, ranging from 11.4 percent in Quebec to 12.8 percent in New Brunswick, 12.2 percent in Nova Scotia, 14.9 percent in PEI and 18.8 percent in Newfoundland in 1997.

Single-digit unemployment rates characterize Ontario and the west, ranging from 6.0 percent in Saskatchewan and Alberta to 6.6 percent in Manitoba, 8.5 percent in Ontario and 8.7 percent in BC. Newfoundlanders are three times more likely to be unemployed than residents of Alberta and Saskatchewan.


Men's jobless rate has exceeded women's
for most of the 1990s, unlike most of the 1980s
men
women
unemployment rate (%)
14
12
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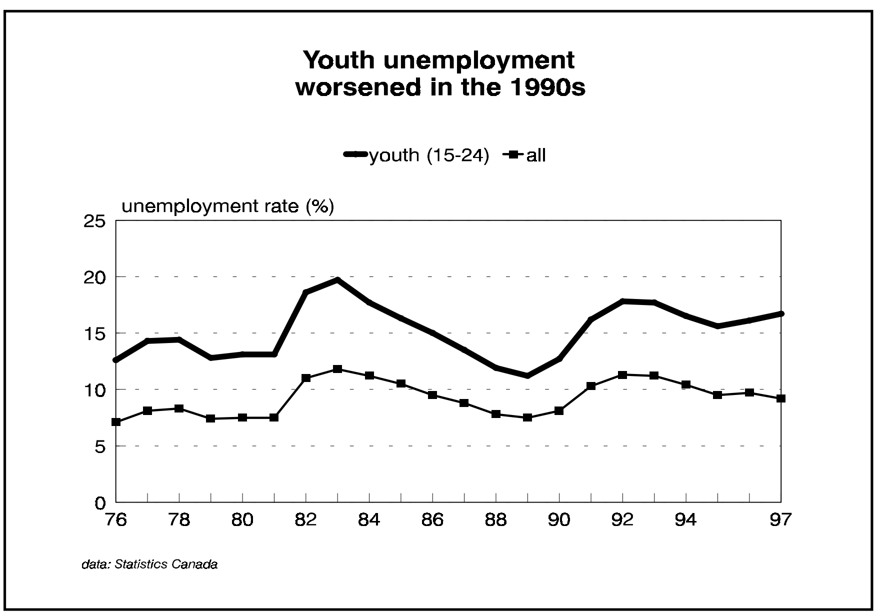
data: Statistics Canada


Youth unemployment
worsened in the 1990s
youth (15-24)
all
unemployment rate (%)
25
20
15
10
5
0
76
78
80
82
84
86
88
90
92
94
97
data: Statistics Canada

The Causes of Unemployment

Unemployment is a complex problem with no single cause and no one 'magic bullet' solution. Many explanations have been put forward to account for unemployment in general and Canada's high unemployment rate in the 1990s in particular. Not surprisingly, the experts differ on the causes of unemployment and their relative weight.

Behind the Trend in Unemployment

The trend in the unemployment rate depends on the relationship between two key factors: the growth in jobs compared to the growth in the labour force. If employment grows faster than the labour force, the unemployment rate drops. If job growth lags behind labour force growth, unemployment goes up.

This relationship may appear simple and straightforward. The reality is more complex.

the labour force is growing more slowly

Labour force growth is determined by the relative increase in two factors. One is the working-age population, defined as people age 15 and over. The other is the participation rate, which is the labour force – both the employed and the unemployed actively seeking work – expressed as a percentage of the working-age population.

The working-age population grew in the 1990s by an average 1.5 percent per year, up from 1.3 percent in the 1980s. Higher immigration to Canada in the 1990s was the chief cause of the rise in the working-age population. It resulted from the federal government's decision in the late

The rise, fall and slight recent recovery of the participation rate

data: Statistics Canada

1980s to allow higher immigration levels. Average annual immigration rose from less than 100,000 between 1983 and 1986 to more than 250,000 by 1992-93.

While the working-age population grew in the 1990s, the participation rate dropped overall. It fell every year from 1990 (67.3 percent) through to 1995 (64.8 percent).

The participation rate basically was unchanged at 64.9 percent in 1996 and 1997 at 64.8 percent. Though it rose to 65.1 percent in 1998 - the first increase in the 1990s - it was still down 2.4 percentage points from the 1989 figure of 67.5 percent. This general decline in the participation rate in the 1990s reversed the upward trend in the previous three decades.

Young Canadians and older men experienced the sharpest drop in their participation rate and accounted for the lion's share of the fall in the overall participation rate. The participation rate of people in the 15-24 age group dropped 9.4 percentage points from 70.6 percent in 1989 to 61.2 percent in 1997. The participation rate of men in the 55-64 age group fell 5.6 points from 66.2 to 60.6 percent over the same period.

Though unemployment was high in the 1990s, it would have been much worse if the participation rate had not fallen. If the participation rate were the same in 1997 as in 1989, the labour force would have been 634,000 larger and the unemployment rate as much as 12.8 percent - as opposed to the actual 9.2 percent.

What explains the decline in the participation rate? Does it represent a permanent change in the structure of the labour force related to increased postsecondary enrolment and more people retiring earlier than in the past? Or is it a cyclical and temporary development related to weak employment opportunities?

The jury is still out on the relative importance of these two explanations. Doubtless both have played a role in the declining participation rate.

But the evidence is stronger in support of the first. The rising educational credentials demanded by employers is clearly not a temporary trend, but central to the new 'knowledge economy.' While Canada's retirement income system is by no means adequate for all pensioners, increasing numbers of workers are able to retire earlier because they can draw upon employer pension plans and/or Registered Retirement Savings Plans (RRSPs), supplemented by public pensions.

At the same time, there is evidence that calls into question the notion that the decline in the participation rate is a temporary trend that automatically will be reversed as employment prospects improve. The participation rate failed to bounce back in 1994 and 1997 - both years of strong employment growth.

However, the 1998 rise in the participation rate did accompany the largest employment increase in the decade. Whether the recent rise in the participation rate will be sustained remains to be seen.

The labour force grew by an average 1.1 percent a year in the 1990s, down from 2.0 percent in the 1980s. This development is explained fully by the fall in the participation rate, since the growth of the working-age population actually accelerated in the 1990s.

but employment has slowed even more

The labour force grew more slowly in the 1990s than the 1980s. But employment growth

- the other side of the equation when looking at the trend in unemployment - slowed even more. As a result, unemployment increased in the 1990s. Put simply, the number of job seekers rose more than the number of jobs.

Job creation has been weak in the 1990s, averaging just 1.0 percent a year or only half the 2.0 percent annual average percentage increase in the 1980s. Labour force growth exceeded employment growth by 0.1 percentage point a year on average between 1990 and 1998. As a result, the unemployment rate increased by 0.1 percentage point a year on average during this period.

Another useful measure is the employment rate (sometimes called the employment/population ratio). This ratio is the percentage of the population with a job. Working-age population growth has outpaced employment growth overall in the 1990s. As a result, the employment rate fell significantly from 62.5 percent in 1989 to 58.5 percent in 1994, though it since has crept back up to 59.7 percent in 1998.

The root cause of Canada's poor employment record in the 1990s lies in the weak performance of the Canadian economy. Between 1990 and 1998, real GDP (i.e., Gross Domestic Product measured in inflation-adjusted dollars) advanced at only 1.3 percent a year on average. This rate was substantially below the 2.3 percent average annual growth rate in the 1980s.

With most estimates of potential output growth in the 2.5-3.0 percent range in the first half of the 1990s, the Canadian economy has performed well below par. Reduced economic growth accounts for the slowdown in employment growth.

But Canada's economy has picked up over the past few years. The annual real (inflation-adjusted) increase in GDP rose from 1.1 percent in 1996 to 2.8 percent in 1997 and a projected 2.8 percent in 1998, though it is expected to slow somewhat to 2.2 percent in 1999.

But even with this welcome improvement, and even barring a recession before the end of the decade, current projections indicate that Canada's economy will have grown by only a forecast 1.8 percent annual average during the 1990s. This figure is a far cry from the 2.3 percent average annual rate of growth in the 1980s and 5.1 percent in the 1970s.

Slowing productivity in the 1990s has been singled out as a serious weakness of the Canadian economy. Output per worker increased at only a 0.7 percent average annual rate between 1989 and 1997. This figure is less than half the 1.6 percent annual average rate in the 1980s.

Three Types of Unemployment

Although workforce participation declined in the 1990s, the labour market itself remains a very active place. Every year, many jobs are lost but many new ones are created. Hundreds of thousands of workers move from one job to another, or enter or leave the labour force.

The ranks of the unemployed include a varied mix. Some are new entrants to the labour force who are actively looking for their first job. These include students in search of temporary work, and both high school dropouts and secondary and postsecondary graduates trying to land full-time, hopefully permanent positions. At the other end of the career path, long-time workers are retiring from the workforce, some willingly but others due to compulsory retirement.

Many workers lose their jobs through layoff or downsizing. Still others quit their jobs to look for greener pastures in different companies or in the growing ranks of self-employed.

Some firms are shedding jobs, but others are expanding their workforce. Even employers with a stable workforce need to hire replacements for employees who have retired or quit. And whether employers are expanding, decreasing or not changing the size of their workforce, increasingly they are looking for highly skilled and specialized workers.

Clearly, unemployment is a complicated problem with several dimensions and multiple causes. In an effort to make some sense of all this complexity, economists traditionally have distinguished three major types of unemployment that are found in any economy, no matter what the jobless rate.

'Frictional unemployment' refers to the temporary unemployment of workers who are in between jobs. It is considered to be a normal and non-threatening feature of any economy. Since it is impossible for the unemployed to find and fit into each unfilled position the moment it appears, vacancies and unemployed people always coexist.

'Cyclical unemployment' (also known as 'demand-deficient unemployment') involves recurrent unemployment caused by inadequate demand for goods and services when there is a downturn in the business cycle. During a recession, the ranks of the unemployed swell with workers laid off.

Layoffs occur because consumers are not spending as they used to and because of the ripple effect on the economy of businesses closing down or cutting back their production. Typically, the unemployment rate escalates during a recession and eases with economic recovery, as cyclical unemployment rises and falls.

'Structural unemployment' occurs when there is a mismatch between the skills demanded by employers and the skills of workers available to fill job vacancies. Jobs for computer programmers, for example, may go begging even though many workers are unemployed because the latter lack the credentials required by the computer industry. Structural unemployment can occur whatever the unemployment rate.

These three basic types of unemployment will enter the discussion below when we assess different explanations that have been put forward to account for Canada's high unemployment in the 1990s.

job vacancies versus job seekers

No matter how we classify unemployment, at the end of the day what matters most is how many people are chasing how many jobs.

In 1997, there were estimated 400,000 job vacancies in Canada and 1,400,000 unemployed. If every unemployed person were able to fill every job vacancy, that still would leave one million without a job. Thus about 70 percent of unemployment was due to a lack of jobs, with only 30 percent due to mismatch between the available jobs, and the skills and geographical location of the unemployed (i.e., structural unemployment). In 1989, by contrast, the lion's share of unemployment was structural in nature.

What explains the imbalance between job seekers and jobs in the 1990s?

'Generous' Social Programs

Canada's supposedly 'generous' social programs, primarily welfare and Unemployment

Insurance, are often blamed for the high jobless rate. But this 'explanation' is more myth than reality.

The 'lure of welfare' argument is long on ignorance and short on substance. Contrary to widespread belief, welfare does not 'pay' very well; in fact, it 'pays' miserably. The National Council of Welfare's latest welfare income estimates, for 1996, found that welfare incomes for single employable recipients ranged from a low of $2,701 in Newfoundland to a high of $8,123 in the Northwest Territories.

To put those figures into context, the poverty line (which varies according to family and community size) for a single person living in the largest city in each province ranged from $14,591 in PEI to $17,132 in Quebec, Ontario, Manitoba, Alberta and BC. Welfare incomes measured as a percentage of the poverty line went from 18.4 percent in Newfoundland to 41.7 percent in Nova Scotia.

Average incomes for single workers ranged from $19,631 in Nova Scotia to $29,124 in Ontario. Welfare as a percentage of average income went from 11.5 percent in Newfoundland to 31.2 percent in New Brunswick. Welfare incomes fell thousands of dollars short of minimum wage incomes, ranging from $4,695 in Nova Scotia to $8,228 in BC.

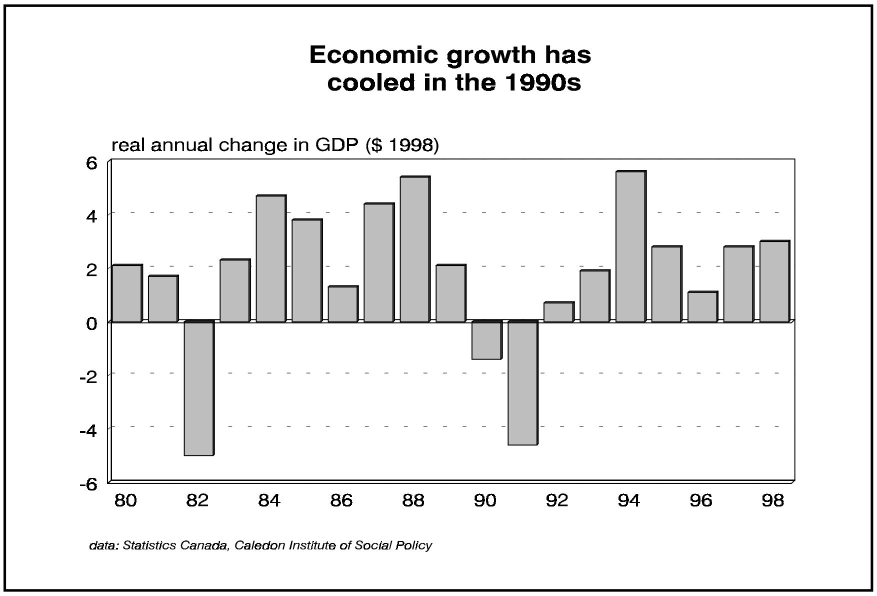
The numbers are different but the picture is much the same for single parents. Welfare incomes for single parents with a child age 2 are thousands of dollars below minimum wage in the large majority of provinces. Only in Newfoundland and PEI would such a single-parent family obtain a slightly better income from welfare than the minimum wage. In all provinces, welfare incomes for single-parent families fall far below the poverty line and average incomes.

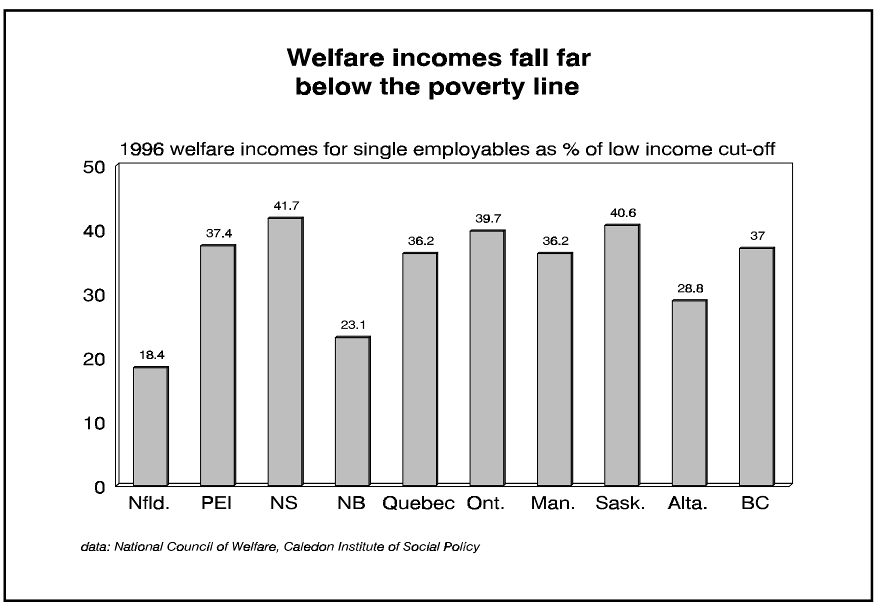
Moreover, during the high unemployment 1990s, welfare incomes have been dropping in value, as rates either were cut or frozen (i.e., benefits were reduced steadily and stealthily through lack of indexation). Ontario, which accounts for more than one-third of Canada's welfare recipients, slashed benefits for employable households by 21.6 percent in 1995. It is hard to see how 'generous' welfare payments could contribute to rising unemployment, since welfare is low and has been getting lower.

Unemployment Insurance is another of the usual social program suspects in the case of rising unemployment. The program is said to attract into the labour force workers who otherwise would not be there, making seasonal and low-paid jobs more attractive since UI supplements their low earnings. In effect, UI is claimed to act as a form of guaranteed income that helps sustain a marginal labour market in which people patch together an income from unstable work and income support.

Most of the increase in the unemployment rate since the mid-1970s is the result not of increases in the proportion of workers unemployed, but rather of longer average spells of unemployment. Unemployment Insurance has been criticized on this score for lengthening the time the unemployed can spend looking for work, since it provides an income bridge and supposedly allows them to be choosier about accepting a job.

Unemployment Insurance has been faulted for encouraging the jobless to stay in communities where there is not enough full-time work rather than migrating to where the good jobs are. Critics claim the program has distorted the proper operation of the economy in Atlantic Canada, ultimately weakening the labour market, deepening chronic unemployment and exacerbating dependence on government support. In the dictum of the day,


Economic growth has
cooled in the 1990s
real annual change in GDP ($ 1998)
6
4
2
0
-2
-4
-6
80
82
84
86
88
90
92
94
96
98
data: Statistics Canada, Caledon Institute of Social Policy


Welfare incomes fall far
below the poverty line
1996 welfare incomes for single employables as % of low income cut-off
50
40
30
20
10
0
18.4
37.4
41.7
23.1
36.2
39.7
36.2
40.6
28.8
37
Nfld.
PEI
NS
NB
Quebec
Ont.
Man.
Sask.
Alta.
BC
data: National Council of Welfare, Caledon Institute of Social Policy

UI is accused of being part of the problem, not the solution.

A veritable sub-industry has developed over the years carrying out studies to figure out the impact of Unemployment Insurance on unemployment. Yet despite all the industrious effort to test the accepted wisdom that UI is an unemployment assurance rather than insurance program, the research results have been far from conclusive.

Most researchers believe that the unemployment rate is, indeed, somewhat higher than it would be if there were no UI. But they cannot agree on how significant a factor the program is in the complex issue of unemployment.

The Unemployment Insurance Act of 1971 widened coverage to virtually all employees. It reduced the number of weeks that must be worked to qualify for benefits, raised benefits and extended them to cover unemployment due to sickness, maternity and retirement. It also introduced 'regionally extended benefits' – i.e., benefits which lasted longer in regions with above-average unemployment rates. However, estimates of the impact of the 'liberalized' UI system of 1971 generally range from a one to two percentage point increase in the unemployment rate in the 1970s.

In response to concerns that Unemployment Insurance accentuates the unemployment problem - not to forget its rising cost and resulting increases in premiums levied on employees and employers - the program has been tightened periodically ever since the introduction of the 'generous' Act of 1971. The 1990s brought several stringent changes in the form of tougher qualifying requirements and reductions in the level and duration of benefits.

The impact of the stricter rules on Unemployment Insurance's coverage of the unemployed has been devastating. In 1989, 87.3 percent of the unemployed received regular UI benefits. By 1997, the program – renamed Employment Insurance (EI), according to the Orwellian school of public policy reform – paid benefits to only 41.7 percent of Canada's unemployed. While changes in the program itself are not the only factor at play - so too is the rapid rise in 'nonstandard work' (part-time, contractual, self-employment) that often does not qualify for coverage - clearly they are central. No other social program has seen such a drastic slashing of its clientele.

If the 'generous' UI system introduced in 1971 really were a major cause of rising unemployment in the 1970s, then presumably the growing stinginess of the program in the 1980s and 1990s should have produced a drop in unemployment. This 'logical consequence' did not follow. The unemployment rate has increased - not decreased - over the long term. It averaged 6.7 percent in the 1970s, 9.3 percent in the 1980s and 9.8 percent in the 1990s to date.

As always with the contentious issue of UI, there are counter-counter-arguments. Those who believe the program adds to unemployment simply can reply that the observed rise in the jobless rate can happen even with cutbacks to Unemployment Insurance. Changes to the unemployment rate stem from a number of factors - lack of jobs due to deficient demand being the most important. The critics of UI can argue that, without cuts to the program, the jobless rate would have been even worse than it was.

Moreover, the recent significant improvement in the unemployment rate matches closely the decline in the coverage of Unemployment

Insurance. Economist Pierre Fortin calculates that the restrictions to UI in the early 1990s (prior to the most severe of all - the new Employment Insurance program of 1996) reduced structural unemployment by about 0.5 percentage points. Once the tougher EI program's impacts are factored into the equation, he reckons the stringent changes of the 1990s will have reduced the unemployment rate by about one percentage point.

The continuing controversy over the impact of Unemployment Insurance on unemployment should come as no surprise. It is a large and complex program that interacts in varying and differing ways with a large and complex labour market. Its impact on unemployment is bound to vary over time with changes in the labour market and, indeed, changes in the unemployment rate. Economists are devising new methods to gauge more accurately its effects.

Too often these days the critics forget that Unemployment Insurance traditionally has provided crucial income support to many unemployed workers and their families without which consumer demand would fall and unemployment worsen. We also should not lose sight of the fact that Unemployment Insurance functions as it is supposed to for many unemployed Canadians. It provides short-term income support for workers when work is not available, and helps them gain and keep a foothold in the labour market in the hopes of finding more secure employment.

Whatever the impacts of Unemployment Insurance on unemployment, surely the more important test of this key social program is whether it provides unemployed Canadians with the income insurance for which they pay and with crucial employment supports: retraining, self-employment assistance and job search skills. Judged by these criteria, the present 'Honey-I-shrunk-the-program' is severely lacking.

Social insurance programs, such as Unemployment Insurance and the Canada and Quebec Pension Plans, also have been criticized on the grounds that the payroll taxes required to pay for their benefits drive up the cost of labour to employers and thus dampen job creation. Unemployment Insurance premiums and Canada Pension Plan contributions doubled from about 5.0 percent of labour income in 1981 to more than 10.0 percent in 1994.

The past five years have seen modest but steady reductions in UI premiums. But these cuts are being more than offset by rising contributions to the Canada Pension Plan. These will increase much more rapidly and substantially during the transition from pay-as-you-go to partial funding between 1997 and 2003.

Payroll taxes paid by employers on behalf of their employees are included in labour compensation, not taken out of corporate profits. Employees effectively pay for their employers' payroll taxes in the form of lower wages than they would receive in the absence of social insurance programs. Employers eventually pass along increases in payroll taxes to their employees. At the end of the day, employees shoulder the full bill for their UI and Canada or Quebec Pension Plan benefits.

Moreover, real compensation growth (i.e., taking inflation into account) in the 1990s was not out of line with output per worker – also known as 'productivity growth.' So payroll taxes could not have significantly hampered job creation.

There has been considerable debate about the cost of doing business in Canada and whether it is exceptionally high - especially compared with our south-of-the-border competitors. But even if we ignore the fact that it is employees -

not employers - who foot the bill for payroll taxes, the evidence, at least on the payroll tax front, is mixed. Canadian employers are not necessarily disadvantaged by their payroll tax burden compared to their American competitors.

Canada's Employment Insurance premiums have been reduced repeatedly in recent years. But Ottawa has still set them far higher than required to pay for current benefits and to maintain a sufficient surplus to avoid having to significantly increase premiums when recession hits again.

The severe shrinkage of the program's coverage of the unemployed in recent years has contributed to the huge and mounting fiscal surplus ($19 billion in 1998) accumulating in the Employment Insurance Fund.

On December 1, 1998, Ottawa announced yet another reduction – 15 cents, which amounts to a 5.6 percent cut - in the Employment Insurance premium rate. Critics claimed that the reduction was too small relative to the large accumulated surplus. The move was criticized as an attempt to avoid confrontation with the Opposition, the provinces and small business, which have lambasted the government's use of the EI surplus to help eliminate the federal deficit.

The small business lobby has long railed against what it claims to be high payroll taxes as a killer of jobs and a drag on the international competitiveness of Canadian firms. Yet a comparative study of business costs in Canada and the US conducted by the consulting firm KPMG found labour costs in Canada to be significantly lower than in the US.

Employer-sponsored benefits in Canada are less costly than in the US. Although some Canadian employers provide supplementary health insurance, they do not pay for basic health care because it is publicly financed under medicare. By contrast, many American employers pay for both basic and supplementary health insurance since the US lacks a universal public health insurance system.

Indeed, health insurance is an important part of the labour compensation package that firms use to attract workers in the US. Although Canada Pension Plan contributions are increasing in Canada, they are still lower than Social Security payroll taxes in the US.

A recent report by the Business Council on National Issues, a group that speaks on behalf of big business in Canada, came to a similar conclusion. The Council argued the urgent need for tax reduction - but not necessarily with respect to payroll taxes. Canadian payroll taxes are among the lowest of major industrialized countries.

The biggest killer of jobs in Canada, according to the Business Council, is the high and rising burden of personal income taxes. The Council claims that Canada is badly out of step with its international trading partners and competitors when it comes to income tax, which saddles us with one of the highest overall tax burdens outside heavily-taxed continental Europe.

The Paris-based Organization for Economic Co-operation and Development (OECD) has joined the chorus complaining about Canada's onerous level of personal income taxes, especially in comparison to our major competitors such as the US, Britain and Japan.

Many economists argue that high levels of personal income tax do more than just take money out of Canadians' pockets. Our high marginal tax rates are said to act as a disincentive to work, especially for those in the top tax bracket who pay 40 cents or more of each additional dollar of earnings in income taxes. And high rates of taxation are claimed to stifle investment, job creation and economic growth.

Canada's relatively high income tax burden may influence some workers to reduce or refuse overtime, but for most people the level of taxation has no effect on whether they choose to enter the labour force or not. Even if the rising tax burden did lead some to withdraw from the labour force - an unproven, debatable and implausible assumption - this trend would lower the participation rate. But it would have no effect on the jobless rate: By definition, people who are not in the labour force are not unemployed.

'High' Wage Demands

Some observers claim that Canada's 'high' minimum wage contributes to unemployment. The argument goes that employers will be more likely to create jobs if they can pay less for the work.

Lowering the minimum wage is claimed to be a way of reducing unemployment. But the evidence to support this bitter medicine is, at best, far from conclusive. It certainly is not compelling enough to warrant lowering already low minimum wages.

Minimum wages are set by provinces. The federal minimum wage, which covers workers under federal jurisdiction, now equals the minimum wage for each province. Only 5.0 percent of Canadian employees - one in 20 - work for the minimum wage. This fact alone would suggest that minimum wages play at most a relatively modest role in influencing the jobless rate.

Minimum wages have declined substantially in value over the past two decades because of lack of indexation. Periodic 'increases' have not kept pace with inflation.

In all provinces, the real minimum wage (i.e., adjusted for inflation) was higher in 1976 (the peak level between 1965 and 1998) than in 1998. Between 1976 and 1998, the minimum wage fell by a low of 10.2 percent in Ontario to a high of 37.1 percent in Alberta.

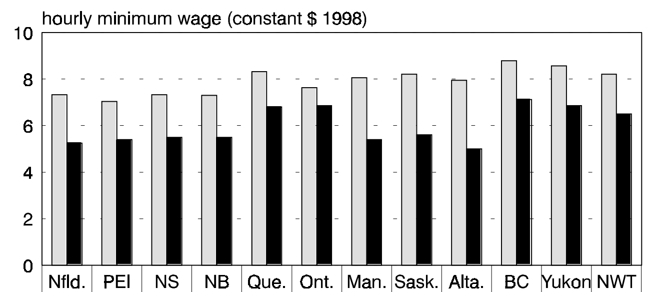
The losses in the other provinces were: 18.2 percent in Quebec, 19.0 percent in BC, 20.0 percent in Yukon, 20.7 percent in the Northwest Territories, 23.2 percent in PEI, 24.7 percent in New Brunswick, 25.0 percent in Nova Scotia, 28.4 percent in Newfoundland, 31.8 percent in Saskatchewan and 32.9 percent in Manitoba.

The precise pattern varies from one province or territory to another. But generally speaking, the decline in the minimum wage levelled off by the latter half of the 1990s. It has remained more or less stable since. The exceptions, which are important given the fact that together they account for eight in ten minimum wage workers, are Quebec, Ontario and BC. Minimum wages in these provinces have regained some ground in the 1990s.

So Canadian governments have reduced minimum wages considerably over the long term overall through the stealthy mechanism of non-indexation. Yet unemployment has still gone up.

In fact, the minimum wage has regained ground in recent years in the three largest provinces that together have 80 percent of minimum wage workers - at the same time that Canada's unemployment picture has improved after the devastating recession that opened the 1990s. So the links between minimum wages and unemployment seem murky at best.

Minimum wages are lower today than in the mid-1970s



	Nfld.	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta.	BC	Yukon	NWT
1976	7.33	7.03	7.33	7.3	8.31	7.63	8.05	8.21	7.95	8.79	8.57	8.2
1998	5.25	5.4	5.5	5.5	6.8	6.85	5.4	5.6	5	7.12	6.86	6.5

data: Human Resources Development Canada, Caledon Institute of Social Policy

Cuts to the minimum wage - either covertly through non-indexation or overtly through actual reductions in rates - do reduce the earnings of low-wage workers. But the supposed job-creating effects of such reductions are uncertain and unclear.

Research in the US has found that minimum wage increases have no definitive or consistent impact on job creation. In fact, a rise in the minimum wage in some situations actually may stimulate employment.

Higher wages may enhance the ability of firms to attract, retain and motivate employees. If paying lower wages means a drop in productivity, it may well be in a firm's interest not to reduce wages. Further cuts to minimum wages would do little, if anything, to resolve Canada's high unemployment problem - though they certainly would deepen the earnings poverty of minimum wage workers.

The only other way that governments are involved directly in wage setting is negotiations with their own employees. In the 1990s, public sector wage restraint has been the clear model. Federally and provincially, the pattern has been one of wage freezes and occasional rollbacks. So governments cannot be accused of worsening unemployment by granting generous wage increases to their employees, since they have done the opposite.

Sometimes heavily unionized workplaces, typical of Europe, are blamed for creating high unemployment. Unions are cited as responsible for wage inflexibility. But extrapolation to Canada is hardly valid; there is a big difference between European and Canadian labour markets.

In countries such as Sweden or Denmark, more than 90 percent of the labour force is unionized. And in many countries where union membership is not particularly high (e.g., France), collective bargaining strongly influences wage levels because union agreements are extended by law to the non-union sector.

In Canada, though, only 31.5 percent of employees are union members (32.9 percent of men and 30.0 percent of women) and only 34.5 percent of employees are covered by union-negotiated collective agreements. Neither union membership nor union militancy has grown in Canada. To the contrary, union membership has remained at less than one-third of the workforce over the past 30 years.

The strike rate has fallen dramatically in recent years. Unions have accepted real wage cuts every year since 1991. Wage agreements have not been out of line with the productivity growth in the 1990s.

Globalization and Free Trade: *Footloose and Condition-Free*

Some critics see globalization, meaning increased international trade and capital flows and a resulting decline in state power, as a job-killing spectre. A related fear is that freer trade with the US has demolished Canadian jobs.

Rising unemployment in Canada in the 1990s coincided with implementation of the Canada-US Free Trade Agreement (FTA) of 1989 and the North American Free Trade Agreement (NAFTA) of 1992. Some critics link the rising tide of unemployment in the early 1990s to the free trade agreements.

It is true that some sectors, especially in manufacturing - the economic engine of Ontario in particular - suffered substantial job losses due to lower trade barriers resulting from the Free Trade Agreement. But other sectors have benefited from the FTA, as evidenced by soaring Canadian exports to the US.

Research indicates that the net effect of the FTA on employment is much smaller than claimed by the critics. Only 15 percent of job losses in the tradeable sector between 1989 and 1993 can be attributed to the Free Trade Agreement.

Free trade agreements are part of a worldwide trend to increased international trade. The search for cheaper inputs (including workers) is one aspect of the phenomenon known as globalization. The old world order in which certain goods and services were produced strictly within the boundaries of one area or one country is gone. The globe is smaller than ever.

But there is another dimension to globalization that is far less obvious than travelling production. Footloose capital now moves instantaneously and in great volumes throughout the world in search of lucrative investment.

The rules of the economic game also have changed. Barriers such as trade tariffs are the Berlin Wall of the old order. Economic transactions of all kinds now cross international boundaries with much more freedom than before.

But with freedom comes a price – at least for workers. Footloose capital easily can pick up and instantly move over the cyberwires. If investors do not like the rules, there is always somewhere else to play the game.

In the search to level the playing field and attract investment, many countries have opted to lower the ante. Canada has far better working conditions than Mexico and parts of the US, for example, but now feels pressure to move in line with its southern competitors.

This reality makes it more difficult for governments (at least that is what they claim) to impose rules that business does not like. These rules include decent minimum wages, strong pension and labour standards, safe workplaces and clean environments.

Canada's labour movement fought long and hard for good working conditions. Unionized workplaces tend to pay more than non-organized workplaces, have more protection against layoff and ensure due process.

Unionization has been especially effective in raising the wages of women, part-timers and workers in sales and services. Union members are far more likely than non-unionized workers to have access to employer pensions, health and dental plans, paid sick leave and life insurance.

But many hard-won job and environmental protections are threatened by powerful international trade agreements that see these conditions as a cost to business and a barrier to investment. Trade negotiators have become the new stewards of working conditions and the environment.

While many jobs have been lost due to globalization, jobs also have been gained. New markets have opened up for our goods and services.

Canada has relied more heavily on international trade in the 1990s, with exports rising from 25 percent of Gross Domestic Product in 1989 to 40 percent in 1997. This growing foreign demand for Canadian goods and services likely has increased employment, not reduced it, by offsetting weak domestic demand. By contrast, our imports from low-wage countries are limited, representing less than 5.0 percent of total imports.

Similarly, the free flow of capital has seen money move out of the country as well as come in. The loss of investment and jobs in some sectors has been offset by gains in other areas.

So the impact of globalization upon the Canadian economy has been mixed, with job growth as well as losses. It is unlikely that globalization and the free trade agreements of 1989 and 1992 were the primary culprits behind the higher unemployment of the 1990s.

What about the other frequently cited spectre: technology?

Technology Over People

The globalization of production and trade is not the only powerful force that has altered Canada's labour market. Technology has replaced many jobs formerly performed by human heads and hands. Computers and telecommunications have revolutionized many businesses, creating new industries and changing the structure of employment.

Ironically, technology was supposed to raise our living standard and deliver the 'leisure society.' Yet the opposite appears true in the 1990s.

Real wages have languished, earnings and wealth inequalities have widened, and the number of Canadians working unusually long hours (more than 50 hours a week) has been rising. Growing unemployment has brought a form of enforced 'leisure' that is a far cry from the voluntary leisure replacing work envisioned by technology enthusiasts.

Like globalization, technology is a mixed blessing. It has replaced some jobs but has created new ones.

Massive and ongoing changes in technology have been blamed for the mismatch between the qualifications required for existing vacancies and the job seekers who lack the requisite skills – what economists call 'structural unemployment.'

But if high unemployment is due to a mismatch between vacancies and workers, where are all the so-called opportunities? Until the near-end of the decade in 1998, the job vacancy rate was dropping. Statistics Canada's Help Wanted Index went up somewhat in 1997 but was not much above the recessionary pit of the early 1990s. It remains well below the 1989 level.

Stories abound about unfilled positions in high-tech firms. But even with a shortage of as many as 20,000 programmers in software development, there are still 1.4 million unemployed. Filling all the high-tech vacancies would make only a minor dent in the jobless rate. There is clearly more to the unemployment story than mismatched jobs and workers.

Besides, labour market and technology changes are not new. The Canadian economy has undergone comparable if not greater change in the past.

Major structural shifts likely were more profound in the 1950s – a period of rapid urbanization, large-scale immigration and labour-saving technology – than in subsequent decades. Despite massive economic and social upheaval, unemployment averaged only 4.2 percent in that decade. The real issue is whether enough new jobs are created to match the old ones destroyed.

And technology affects more than the sheer number of jobs. It alters the way in which work is performed.

The entire world has been hit by technology takeovers. Even the low-skill jobs of the hamburger flipping variety require some literacy – if nothing else than to give instructions to the computerized equipment doing much of the work.

Most jobs now call for at least high school completion. It is uncertain whether this education is essential or whether it is simply a way for employers to screen out the few from the busloads of job seekers who often appear at the door for a single position.

The bottom line is clear. Education is essential. It does not guarantee a job - there are no guarantees in today's labour market. But education is a necessary condition - don't leave home without it - to even writing a job application. And the bar is being raised ever higher when it comes to the level of education required, especially for good jobs.

The basic schooling requirement does not stop there. Greater automation and computerization call for more sophisticated training in order to run the machines now doing the work.

Training is no longer a one-shot deal. 'Trained once, trained for life' is a thing of the past. The new technology-driven world means that people must upgrade continually their hardwiring.

Unfortunately, in this race-with-technology world, workers quickly can become obsolete. Even computer engineering graduates who are riding high on the hiring cycle may find their skills out of date in a few years. The watchword is training for all - all the time.

The rise in unemployment in the 1990s is sometimes blamed on the failure of Canada's education system to produce a workforce with the appropriate skills. But the International Literacy Survey found that this country's literacy and numeracy skills compare favourably with our major competitors. While education and training can always be improved, there is no strong evidence that they are primarily responsible for high unemployment.

Slow Growth

Globalization combined with technological change hit Canada like a one-two punch. But these factors are only part of the story. There is another piece of the puzzle - perhaps the most important - that explains the scarce supply of work.

The most compelling explanation for the lack of jobs is slow economic growth. Between 1990 and 1998, annual real GDP – or output growth – advanced at an average 1.3 percent. Even with the recent resurgence in economic growth, which may well prove short-lived, average annual real GDP growth in the 1990s overall is forecast to run only 1.8 percent.

This rate is substantially down from the annual 2.3 percent average annual real increase in GDP in the 1980s. It also is well below the growth potential of the economy, estimated at 2.5 to 3.0 percent a year. Productivity growth, or output per worker, slowed in the 1990s as well.

Why has the Canadian economy performed so consistently below its potential? The most compelling answer can be found in our monetary and fiscal policies.

a. Monetary Policy - The Money Supply

Some critics contend that our weak economic performance lies at the doorstep of the Bank of Canada. The Bank is a federally appointed agency - Canada's central bank - whose role is to control the supply of money in the economy (i.e., monetary policy).

The Bank uses interest rates as the primary lever to manage the cost and associated supply of money. High interest rates are a way of attracting investment to Canada.

But high interest rates also make money more costly to borrow. These rates limit the amount of cash available in the economy.

In short, high interest rates are used to dampen the economic fires. The objective is to prevent the economy from heating up too quickly and driving up prices and wages. But by limiting the economic fuel (i.e., the supply of money) in its obsessive fight against inflation, the Bank effectively hampered economic growth and worsened unemployment.

When it comes to setting monetary policy, the Bank of Canada and most traditional economists are guided by a concept called the 'natural rate of unemployment.' Technically, this 'natural rate' is known by the snappy phrase 'the Non-Accelerating Inflation Rate of Unemployment' or NAIRU.

For every economy, there is a so-called 'natural rate' of unemployment. However, there is no agreement on the level of the NAIRU for Canada. Estimates range from a high of 9.5 percent to a low of 6.5 percent, with the average at 7.7 percent.

The theory goes that if an economy achieves the NAIRU level of unemployment, inflation will be kept in check. The jobless rate must be held at its 'natural' level to prevent a rise in inflation.

But what if Ottawa decides it is more concerned about fighting unemployment? The

NAIRU argument simply would not allow economic policies that fuelled inflation.

Lower interest rates and more government spending might stimulate the economy and thereby reduce unemployment. Before long though (or so the NAIRU theory goes), these policies would push inflation up to an untenable level. Government would have to back off and the jobless rate would go back up – consistent with the ‘natural law’ of the NAIRU.

In the long run, government intervention to reduce unemployment is deemed useless – even harmful – since it may allow inflation to rise. The ‘logical’ conclusion: A nation may as well concentrate on the one thing it can achieve - controlling inflation.

Since 1988, the Bank has adopted the view that its only objective is price stability. This objective has been interpreted to mean: Keep the inflation rate in the 1.0 percent to 3.0 percent range. In practice, inflation has been held well below the midpoint of the range - an average of just 1.4 percent a year since 1991.

In the early 1990s, the Bank launched an all-out war on inflation. It wanted to ensure that the value of prices and wages did not skyrocket out of control as they had in the 1980s. High interest rates made money more costly to borrow and restricted the supply of available cash. Money simply became too expensive for business investment.

Tight credit also made it more difficult for consumers to consume – clearly a grave problem in a purchase-driven economy. Long periods of high interest rates meant bigger mortgage payments. Households were forced to cut back on spending in other areas. Higher interest rates also jacked up the exchange rate, making Canadian goods more expensive to export.

In short, tight credit and higher prices reduced the demand for goods and services. This drop, in turn, depressed the need for labour. The result: fewer jobs and more unemployment.

But business and consumers were not alone in facing constraints on their purchasing power. Governments (i.e., the public sector) were choked off in much the same way.

b. Fiscal Policy - Spending and Taxes

Fiscal policy refers to the economic activity of governments: revenue collection through taxation as well as direct program spending and indirect spending through various forms of tax relief. At the federal level, the Department of Finance controls fiscal policy.

The federal government puts money into the economy in several ways. It directs payments to a large number of households through income security programs, such as child benefits, public pensions and Employment Insurance.

Government spending in the form of tax breaks allows households to purchase more goods. Business can invest more in plant and equipment. Fiscal policy also includes the transfer of federal funds to the provinces.

High interest rates to curb inflation had a serious impact on fiscal policy. As interest rates rose, so did the cost of servicing the public debt, which became the fastest growing component of federal expenditure.

The federal government chose to deal with the rising deficit and debt by slashing program spending. Departments shed jobs and people in several rounds of belt-tightening.

Social programs were another prominent target. Ottawa took aim at its major cost-sharing arrangements for human services, first trimming and then fundamentally reshaping and drastically reducing payments for these programs.

The Department of Finance cut $6.2 billion from cash transfers to the provinces for health, postsecondary education, welfare and social services under the Canada Health and Social Transfer (CHST). Provinces reduced their health and social spending in response.

Ottawa also tightened up Unemployment Insurance and then replaced it with a further downsized Employment Insurance (EI) program, at the expense of unemployed workers - the majority of whom no longer qualify for benefits. Cuts were made despite the fact that the program's financing is now in more than fine shape.

The EI Fund posted a $19 billion surplus in 1998 and is expected to ring up a $25 billion windfall in 1999. EI monies were used to reduce Ottawa's deficit rather than maintain (let alone restore) eligibility and benefits.

Governments also raised income taxes in their war against the deficit. Ottawa and several provinces slapped on additional taxes known as 'surtaxes.' A number of provinces increased their income taxes as a percentage of basic federal tax.

The partial deindexation of the income tax system is another major cutting tool. Since 1986, this 'taxation by stealth' measure has imposed hidden federal and provincial income tax increases each year on all taxpayers.

Partial deindexation also has pulled increasing numbers of low-income Canadians into the tax net. Federal income tax revenues are now more than $10 billion (16 percent) higher than they would be under a tax system protected fully from inflation.

c. Monetary Policy Trumps Fiscal Policy

The single-minded focus on inflation control has subordinated fiscal policy to monetary policy. So we have low inflation – but at what cost? Canadians paid a high price for low and stable prices: lost jobs.

Evidence from the US supports this conclusion. Its unemployment rate in the 1990s has been substantially lower than ours. In 1998, the US jobless rate was 4.4 percent - little more than half of Canada's 8.3 percent rate.

From 1970 to 1989, when Canadian and US employment performance was almost identical, average real (i.e., inflation-adjusted) short-term interest rates in the two countries were very close. During the 1970s and 1980s, Canada and the US employed about the same percentage of the population age 15 and over. In 1989, the employment rates were, in fact, exactly the same in the two countries: 62.4 percent.

But that picture changed in the 1990s. Short-term interest rates in Canada averaged 6.1 percent in real terms between 1989 and 1996. US real short-term rates, by contrast, averaged just 2.9 percent, a differential that partly explains the unemployment gap between the two countries. Close to half (47 percent) of the US-Canada unemployment rate gap has been attributed to the greater cyclical weakness of the Canadian economy.

Some of the difference may be due to what economists call the 'productivity gap.' US workers are more productive than their Canadian counterparts. But the factors that contribute to this productivity difference are unclear.

In short, Canada experienced a made-at-home recession in 1990 and 1991, the result mainly of tight monetary policy aimed at lowering inflation that stifled economic growth and inflated unemployment. Global production and technology changes doubtless have contributed to the unemployment problem – but are not the primary culprits.

The Costs of Unemployment

Unemployment takes a serious toll, not only upon the affected individuals and their families but also upon the economy as a whole. In financial terms alone, the cost is enormous.

According to the Department of Human Resources Development Canada, estimates of the loss to the Canadian economy due to reduced demand for our goods and services ranged between $16 and $55 billion in 1994.

The loss from so-called 'structural unemployment,' due to factors such as technological change that makes many workers' skills and experience obsolete, was pegged at between $13 and $22 billion in 1994. The estimated cost of both demand-deficient and structural unemployment came to anywhere from $29 to $77 billion that year.

High unemployment lands a double whammy on the public purse: The demand for income support programs such as welfare and (the renamed) Employment Insurance increases. At the same time, fewer Canadians working means lost revenues from the income taxes, payroll taxes and consumption taxes required to pay for social programs.

It cannot be claimed with certainty that there is an ironclad cause and effect relationship between unemployment and issues such as mortality, suicide and crime. But the evidence suggests strong links between unemployment and many adverse health outcomes.

Indirect costs arise from increases in physical and mental health problems, crime and delinquency. Higher rates of death and suicide have been found among unemployed men and women than among the employed or the general population. Workers laid off because of factory closure have reported more symptoms and illnesses than those who remain employed.

The unemployed tend to have higher rates of admission to psychiatric hospitals. They visit physicians and are admitted to hospital more frequently than those who are employed. Some studies have found links between rising unemployment and arrests for various types of crime.

The Department of Human Resources Development Canada estimated the social costs from unemployment-related rises in heart disease, admission to psychiatric hospitals, death, homicide and imprisonment at $7.4 billion in 1982. The cost of unemployment and underemployment drained the Canadian health care system of an extra $1 billion in 1993.

Unemployment also means massive waste from unused knowledge and skills both now and in future. 'Human capital' in the form of knowledge and skills typically deteriorates.

The longer workers are unemployed, the more difficult it is to get back into the labour market. Their skills may become rusty. They may lose key contacts that could help reopen the job door. But perhaps most difficult to retrieve is the loss of self-confidence.

And long-term unemployment, particularly for workers over age 45, will increase the cost of public pensions down the road. A sizable group among the growing elderly population will have to rely on income-tested old age pensions for much or all of their income because they will have little in the way of private pension income (from employer pensions and RRSPs) and only modest Canada or Quebec Pension Plan benefits to retire on.

The human and financial costs of unemployment are enormous.

What Now?

The Canadian economy has been expanding quite strongly since 1996. National unemployment eased to 8.3 percent in 1998, leaving Ottawa and most provinces below the double-digit years. Still, with 1.3 million unemployed Canadians actively seeking work, and many more underemployed, there is no cause for rejoicing or complacency.

Ottawa and most provinces have slain the deficit dragon. And Ottawa's debt-to-GDP ratio is on a downward curve thanks to the dead deficit and recovery in economic growth. But the recent resurgence in economic growth may prove short-lived, as the fragile state of the world economy causes economists to revise downward their growth forecasts.

Nonetheless, there is no sign that governments intend to ease up on fiscal policy to encourage economic growth. The size and disposition of the so-called 'fiscal dividend' are still under debate. The Department of Finance, with the support of the business community, urges continued fiscal restraint to help reduce the debt and as a hedge against the possibility of another downturn in the economy.

Perhaps most serious is the Bank of Canada's never-ending concern that the economy will expand too rapidly and that inflationary pressures may intensify. The noose of tight monetary policy doubtless will remain in place.

Monetary Policy

There is a package of remedies for unhealthy monetary policy. First things first: Canada should set the goal of reducing unemployment from 8.3 percent in 1998 to a maximum 6.0 percent by 2001. This target sets the stage for other measures that support this goal.

Monetary policy and the proper management of interest rates are the major levers to attain the target 6.0 percent jobless rate. The first step is to keep Canadian real short-term interest rates below US rates until our unemployment reaches the 6.0 percent goal.

The Bank of Canada also should abandon its war-like tactics in which it strikes a 'preemptive attack' even though the enemy is far from sight. It shoots high interest rate bullets well before inflation rears its ugly head.

The Bank should follow the American lead and keep testing the waters of lower unemployment. The US Federal Reserve (commonly known as the 'Fed') acts only upon clear evidence of an inflation threat. The Bank of Canada needs a bit more risk in its risk management strategy.

Monetary policy should allow inflation to move into the upper half of the 1.0 to 3.0 percent target range before interest rates are hiked. Rampant inflation is a bad memory from the past: Since 1991, Canadian inflation has been kept near or below its target range close to 90 percent of the time.

By contrast, the Fed never was upset by inflation rates of up to 3.0 percent. The top of the target inflation range in Canada should not fall below 3.0 percent in mid-economic recovery. There is no inflation precipice on which the country now hangs. And there is time to make a correction should the need arise.

Fiscal Policy

For the first time in decades, Canada has a budgetary surplus. Ottawa is now taking in more revenue than it spends on programs and debt financing charges. The debt burden will continue to decline significantly in the years to come, leaving plenty of fiscal room for increased spending and tax relief.

A key priority is to restore adequate funds to social programs debilitated by both overt and covert cuts under the Mulroney Conservative and Chrétien Liberal governments.

Another important action is to provide relief from rising income, sales and payroll taxes – particularly for low- and modest-income Canadians who generally have been hit hardest by the various tax increases. Partial deindexation has hurt lower-income families and individuals especially hard, resulting not only in creeping income tax increases and a declining taxpaying threshold, but also a steady erosion of the refundable GST credit. The rapid rise in Canada Pension Plan contributions between 1997 and 2003 will impose the heaviest burden on workers with below-average earnings.

The troubled Employment Insurance system needs serious review. The change of name from Unemployment Insurance to Employment Insurance did little more than put a brave face on what amounted to yet another - albeit particularly tough - cut. The EI Fund surplus was $19 billion in 1998 and is expected to rise to $25 billion in 1999.

The EI program – especially in its present decimated form, paying lower benefits to far fewer unemployed – does not require the level of premiums being collected from employees and employers. The choice: Cut EI premiums much deeper or, better still, restore the coverage of the program.

Monetary policy that encourages economic growth is the primary lever through which Canada can attain a 6.0 percent unemployment rate. Fiscal policy can play a complementary role by reducing the public debt and strengthening the social safety net. It not only should restore lost funding but also continue to invest in crucial programs, such as the new National Child Benefit.

Governments also can invest in and help support the following important areas: the distribution of work, corporate social responsibility, training, self-employment and community economic development. Each of these areas is discussed below.

Distribution of Work

Unemployment can be reduced by distributing work more equitably. This solution will not increase the amount of available work. But it can help prevent layoffs and ease the burden of unemployment and underemployment.

Most workers in Canada are covered by provincial employment regulations. But the federal government also has considerable influence over hiring and hours of work – in industries covered directly by the Canada Labour Code and Labour Standards Regulations. Ottawa and the provinces can affect the distribution of working time through regulation, payroll taxes, tax incentives, the Employment Insurance Work Sharing program and moral suasion.

The federal government could revise the Canada Labour Code to shorten the standard work week, reduce the use of overtime, limit exemptions to the regulations, increase minimum vacation time, provide for additional paid or unpaid leave, and lengthen the advance notice for layoffs and severance pay. Provincial regulations could follow suit.

Ottawa also could consider the introduction of a wage subsidy. One option is to shorten the working week. For example, employees could work four days but be paid for five. The fifth day effectively would be supported by the federal government in the form of a wage subsidy paid directly to employers. Firms would use the subsidy to hire additional workers.

Reforming Employment Insurance and Canada Pension Plan payroll taxes is another possibility. These taxes could be restructured to broaden the earnings base over which they apply, allowing a lower tax rate. A lower rate reduces the immediate cost to employers of hiring more workers and decreases the financial incentive to use overtime rather than hire additional workers.

It also has been suggested that EI payroll taxes could be reduced for employers that provide work sharing or meet specified job creation targets. The EI program did, in fact, introduce a New Hires program in 1996 which took effect in 1997 and 1998 to provide a 'premium holiday' for employers that hire young workers. Small businesses with employer premiums up to $60,000 in 1996 were eligible for premium relief. The program has since been expanded to include more small businesses and to increase the premium relief for which they are eligible.

This measure could be combined with some form of 'experience rating' for EI premiums – i.e., employers that tend to generate more unemployment would have to pay more. Layoffs could be subject to penalty, such as higher premiums. Work sharing, by contrast, could be exempt from penalty.

Options to use EI premiums as an incentive for employment creation aims may seem attractive in theory. In practice, they pose some serious problems that would have to be carefully thought out and resolved. Experience rating on the basis of industries, for example, could result in inequities between individual firms. Administrative costs would increase. And ensuring a stable financing base for Employment Insurance would be more complicated if the premium system were to become variable.

Work benefits, such as sick leave, severance pay, retirement allowances and health benefits, can be restructured to remove barriers to full-time hiring. Part-time employees should be eligible for pro-rated benefits.

The EI Work Sharing program can be expanded. The program is accessible only to firms experiencing temporary layoffs, not permanent employment cuts. The program could be broadened to cover other firms.

The federal government could bring various parties together and use moral suasion to convince them of the benefits of work sharing. But to provide credible leadership, Ottawa must set the example by encouraging the sharing of work among its own employees.

Clearly, it is important to place these proposals in context. Work sharing is not a 'magic bullet' for preventing layoffs and other job losses. In fact, an expansion of these arrangements simply might delay the adjustments that some firms should make to the changing marketplace.

An expansion of work sharing also might increase the number of unstable, short-term jobs. To the extent this were to happen, work sharing would have done little to reduce the economic hardships in the labour market. It is imperative that the redistribution of working time be considered in conjunction with other pro-employment policies and not as a panacea.

Corporate Social Responsibility

Another way to reduce Canada's high jobless rate is to change corporate employment practices. Current laws and policies allow corporations to concern themselves primarily with financial returns to their shareholders. The private sector is permitted to internalize the benefits of business activity while externalizing many of the costs – layoffs, resource depletion and environmental damage.

But there is growing recognition of the principle of corporate social responsibility. Certain practices – such as shedding workers while generating higher profits – increasingly are being viewed by potential investors and society more generally as unacceptable.

The emerging 'socially responsible investing' movement is trying to encourage responsible corporate behaviour regarding employment standards and ethical business practices. Social investors believe that they can have an impact upon corporate performance. They can support companies that pay attention not only to the financial bottom line but also to their social and environmental records.

To help assess corporate performance, the social investment movement has developed investment 'screens' on employee relations, community commitment, ethnic and gender diversity, environmental performance, and job training and employee development.

Positive screens in the area of employment policy include good relations with workers and a range of benefits such as pensions, employee assistance, health promotion and supplementary health care plans. Employee stock ownership and participation in management decision-making are encouraged.

Layoff is employed as a last-resort option. If the workforce must be reduced, it is done to the extent possible through early retirement and voluntary exits. Retraining and job search assistance are provided. Canadian jobs are not exported to other countries.

Shareholders also can encourage socially responsible behaviour. Shareholder action involves speaking directly to corporate directors, writing letters, proxy voting and filing shareholder proposals.

With respect to the latter action, the Canada Business Corporations Act allows companies to exclude shareholder proposals deemed by corporate directors to promote economic, political, racial, religious, social or similar issues. Shareholders may advance resolutions concerned only with financial health. Corporations have used this rule to refuse circulation of resolutions on the company's social performance.

By contrast, the US Securities Exchange Commission responsible for the regulation of the American investment industry permits non-economic factors to be considered for proxy circulation. The key condition is that the shareholder proposals relate significantly to corporate operations.

Governments can encourage the disclosure of corporate information to help investors assess business performance. They can allow shareholders to raise broad issues related to corporate practice in areas beyond the strict financial bottom line.

Governments also can require corporations to act in the public interest. The Socially Responsible Amendment being debated in the US, for example, would oblige all corporations with annual revenues of $20 million or more to apply for a new charter every 20 years.

To receive their charter, corporations would have to prove that they serve the common good, give workers substantial power over their working conditions and have a history of social responsibility in the communities in which they operate. Every five years, corporations would have to submit to Congress an ethical impact report.

Another US proposal involves a plan for business to be 'allied with working families.' In order to qualify, corporations would have to meet several conditions. For example, they would have to direct at least 2.0 percent of payroll towards employee training or education. Corporations also might be required to meet higher standards of occupational safety and environmental compliance. They could operate a profit-sharing plan for American workers in which at least 50 percent of employees participate.

Finally, corporations can become involved voluntarily in community initiatives. The Imagine program sponsored by the Canadian Centre for Philanthropy encourages investment in community renewal through corporate and voluntary sector partnerships. There is growing interest in employee voluntarism.

Training

Training has become a crucial investment in the increasingly knowledge-based economy. Ongoing training and upgrading are essential in a world in which information and technology change so rapidly. Maintaining a skilled, well-educated workforce is a crucial ingredient to Canadian firms' ability to compete successfully on the global stage.

Training can be general or specific. This distinction is made to determine who should pay for training (sometimes referred to as 'human capital investment').

Language training, for example, is considered general education since linguistic skills can be used in any firm or occupation. General training or education is useful to many firms and occupations. By contrast, specific training, such as knowing how to operate specialized equipment, is of value mainly to the firm providing the training.

Because training and production go hand in hand, most job skills are best taught as part of the job. On-the-job training is the cheapest form of training and is the main kind used by small firms.

Larger firms engage in both on-the-job training and formal education in on-site classroom and training facilities. There tends to be more training in larger establishments and in firms in which technology changes quickly.

Training generally increases with age - up until 45 - and then drops beyond that point. Training also tends to focus on employees with higher educational levels (typically those in professional and managerial positions) and job tenure, effectively representing an investment in long-term workers.

About one-third of young people ages 20 to 29 participate in continuing education outside full-time school. Most of this training is job-related and employer-sponsored.

Despite the recognized importance of investing in human capital, Canadian industry falls behind the rest of the industrialized world. The overall level of training expenditure in this country lags behind that made by European, Japanese and American industry.

There is a need to foster a learning mentality in Canada that places a significant focus on training. Countries such as Sweden or Germany have training systems that formally link schools and workplaces.

Sweden has a national labour market board that requires the listing of all available jobs. The board also counsels job seekers, sets up training programs for workers of all ages, sponsors employment and pays subsidies to employers to create jobs. Unemployment benefits are linked to training programs.

Germany has a national labour board that administers counselling, training, placement assistance and job creation incentives for employers. Germany is noted for its system of apprenticeships.

Sweden and Germany are examples of countries in which education, training, employers and labour comprise an integrated labour market system. Several measures can be taken in Canada to promote a more integrated approach to training.

Firms and employers in an industry can create technical ‘schools’ or facilities of their own. As a sector, they could train collectively for their industrial needs without regard to a particular firm. Firms could ‘tax’ themselves voluntarily through memberships in industry-wide associations.

Another financing option involves a grant-levy system. Governments could levy a charge on all firms that would benefit from sector-wide training. It also could pay grants to firms whose workers undertake training or retraining.

Alternatively, firms might be assessed a fixed percentage of gross profits in the form of a training tax credit. Firms could spend these credits on training their employees. Or they could direct these amounts to the industry’s training institute or new apprenticeships.

Governments can provide tax breaks for training costs or for hiring recent graduates from an approved training centre, such as a community college or government training program. Government contracts could include training requirements. Apprenticeship programs can be expanded.

Many workers employed in smaller firms lack the resources to finance their own training. One option is for governments to share the cost through income-contingent repayment loans for job-related training. Repayment would be tied to employees' future earnings.

Another option is to encourage everyone to engage in lifelong learning. Canadians could set up personal lifelong learning accounts to which they would be permitted to make tax-deductible contributions (as under RRSPs) for themselves or a family member. Ottawa could augment these contributions, as it now does for contributions made to Registered Education Savings Plans that help families save for their children's postsecondary education. The funds in these lifelong learning accounts would be used for ongoing education and training.

One approach to training that is being tried with some success with welfare recipients, in particular, is known as 'customized' training. Under this model, a designated community organization works with local employers to identify the training requirements for targeted jobs. The designated organization provides short-term, intensive training that prepares individuals for the target jobs. The partner companies, in turn, use the designated organization as a hiring 'window' because it already has prescreened and trained prospective workers.

Labour unions have an important role to play in training. They can encourage the retraining of their members through the provision of scholarships and grants. In fact, unions have become engaged increasingly in training issues – largely the result of job insecurity, layoff and workplace restructuring.

Historically, unions have been involved in the design and delivery of training through apprenticeships, which remain most prevalent in the construction trades. Some unions have built non-apprenticeship programs on a similar model. They negotiate employer contributions to training funds, which the union then uses to finance skills training and labour education.

About one-half of major collective agreements provide for paid training on the job, while one-quarter of these agreements ensure a right to retraining in the event of technological change. Thirty-four percent of collective agreements include paid training through outside courses.

Several unions coordinate and deliver literacy and other basic adult education programs. These may be workplace, union or community-based, and often are partially funded by employers and governments.

Many unions are involved with employers in joint training and adjustment programs. The federal government supports business-labour sector councils that provide training and employment to displaced workers.

In addition to displaced workers, there are some populations – notably youth – for whom training is especially important. They tend to face serious barriers in getting a toehold in the labour market.

Canada needs a sustained, serious and well-designed national strategy on youth employment. Current policies tend to lump all youth together as though they have the same needs. Many federal and corporate initiatives target groups, such as university graduates, that are at relatively low risk of being unemployed.

At the greatest risk of unemployment and a dismal future in the workforce are unskilled and poorly educated young Canadians, who face limited work and income opportunities. There must be a better system for ensuring that young people stay in school and are appropriately supported by community services, voluntarism and mentoring.

Canada's education curriculum should include youth enterprise and entrepreneurship. Young people typically do not contemplate self-employment. Nor are they encouraged by schools to consider this option. Opportunities to explore self-employment as a career should be highlighted - even as early as elementary school.

Agencies that serve disadvantaged and unemployed youth also should promote entrepreneurship. Programs that help adults with self-employment should adapt their services to meet the needs of youth.

Certain subgroups of youth - Aboriginal, disabled and young offenders – require special attention. For Aboriginal youth, in particular, strategies must be developed and applied in line with the needs and customs of Aboriginal communities, under the guidance of experienced leadership and community elders.

Self-Employment

A growing number of Canadians have responded to unemployment by creating their own jobs. But Canadian policy-makers generally continue to ignore self-employment in favour of more traditional work strategies.

The unemployed typically are seen as capable only of being employees, not entrepreneurs or self-employed. But as self-employment becomes an increasingly important option, it will be essential to break down the barriers to owning a business.

These barriers begin with negative attitudes regarding the ability of the poor and unemployed to achieve self-employment and result in policies that hamper self-employment efforts. Chief among these policies is income security.

The Self-Employment Assistance program operates as part of Employment Insurance (EI). The program is small, currently serving fewer than 2.0 percent of total EI claimants. Self-Employment Assistance is limited to recipients eligible for EI or to those who have exhausted an EI claim in the past three years. The rules basically leave out most welfare recipients, especially those on long-term assistance.

At the same time, more than 2.4 million self-employed are not eligible for Employment Insurance. They have only welfare as a last resort if the business fails.

Other problems arise from the barriers to self-employment embedded in government policy. Barriers frequently are rooted in provincial welfare rules - more specifically, in the treatment of assets and income.

Work tools generally are considered to be an asset. Before applicants can qualify for welfare, they often have to sell these tools to provide for their support. This policy makes it difficult for these individuals to resume self-employment or seek work that requires special equipment.

Another problem relates to the treatment of income. Welfare recipients who try to start a business find that they can keep only a small part of their earnings. A longer transitional period typically is required for a new small business to take hold.

Most provincial public housing authorities do not allow tenants to operate businesses out of their apartments. Housing authorities also deduct business income from housing subsidies.

At the local level, municipal by-laws may prohibit the start-up and operation of home-based businesses. Until recently, it was illegal, for example, to teach piano lessons from a private home in Toronto. Some rural areas have restrictive sign policies, making it difficult for home-based businesses to promote their location.

Community Economic Development

Community economic development (CED) refers to a range of activities that integrate economic and social goals, using often untapped resources and capacities that exist at the community level. Its primary purpose is to create employment opportunities in the community and to generate income for those with little or no financial security.

But CED can achieve far more than job creation. Some forms of CED actively engage local citizens not only in identifying employment possibilities but also in improving the community. Community improvements may focus on, for example, environmental protection and social inclusion. The promotion of an inclusive community is equally important to the development of its economic health.

Community economic development seeks to identify the factors that create disadvantages for communities. It mobilizes both local and outside resources into comprehensive approaches to tackle poverty.

Organizations engaged in CED may be involved in a wide range of activities including training, job creation and the provision of capital and technical assistance for business start-up. Training typically focusses upon self-employment and skills for the existing labour market.

However, training also can incorporate business start-up. Aboriginal Development Corporations, for instance, link business ownership with related training. There are many examples including Nisga'a Economic Enterprises (northwest BC), Kitsaki Development Corporation (northern Saskatchewan) and Ma-Mook Development Corporation (Vancouver Island's west coast).

In addition to training, CED involves job creation through self-employment and local business development. Job creation, whatever its form, typically entails two key challenges: gaining access to capital and ensuring technical assistance for business development.

On the capital side, a federal program entitled Community Futures provides essential support for CED. It has set up more than 200 Community Futures Development Corporations in small-town and rural Canada. These corporations pay loans of up to $75,000 for high-risk business start-ups.

But urban areas have not had a similar federal program despite the concentration of poverty in cities. For most low-income entrepreneurs, loans or credit for investment are not available through banks or public programs. The few options that were supported by the Ontario government were cancelled.

Some micro-lending initiatives in Canada like Calmeadow, the Canadian Youth Business Foundation, the Montreal Community Loan Association, and Women and Rural Economic Development (WRED) are achieving success. But these are generally small programs providing limited response to the demand.

Financial institutions could help ease the investment problem by providing wholesale credit at a discounted rate (e.g., prime less one-half percent) to community lenders or to a central pool of funds. Community lenders, in turn, would administer micro-loans to qualified local borrowers.

The lenders also would provide business training and management assistance to local borrowers. Governments could establish operating standards for the community lenders and ensure loan guarantees to a designated maximum.

Governments can encourage private investment in CED as well. The tax credit program operated by the New Hampshire Community Development Financing Authority, for example, provides 75 percent tax credits to individuals and businesses that invest in the work of a community economic development organization.

Low-income households and many unemployed typically have difficulty with access to equity such as business ownership, home ownership or savings. The federal Self-Employment Assistance program allows unemployed workers to receive Employment Insurance for up to a year while starting a business.

Individual Development Accounts (IDAs) are being promoted widely in the US as a way to encourage personal savings. These accounts are restricted savings plans established by low-income individuals. Unlike loans, they do not have to be repaid.

The accounts are matched on a set ratio (e.g., 3:1) with tax-deductible funds donated by charities, businesses, service clubs and individuals. Every dollar in private savings would be matched by a three-dollar community contribution. These matched funds can be withdrawn only for certain purposes: postsecondary education, business start-up or expansion, down payment on a home or collateral for a micro-loan.

In addition to raising capital for loans and equity, community economic development organizations require funds for their own support. While government has been the primary source of funds, public monies generally are intended for specific projects - not for core operations. One solution is to set up business ventures in which the community economic development organization itself is an owner and uses the business profits for self-support.

Co-operatives, credit unions and communities are renewing their commitment to integrating social goals into their business operations. In 1997, for example, co-operatives in the Atlantic region helped 100 families by creating 100 jobs at wages that would move them above the poverty line.

Co-operatives typically are thought of as small and informal associations. While many are indeed small operations, others are among the largest corporations in Canada.

Despite their difference in scale, all co-operatives are voluntary associations of individuals effectively providing a good or service to themselves. These individuals are considered members of the co-op and are entitled to vote at general meetings and elect a board of directors that has legal responsibility for the organization. The board usually hires professional managers to run the operation.

Shareholders of private corporations make money from the increased value of their investment. Co-operatives, by contrast, retain surplus earnings or profits within the organization in order to strengthen it financially, improve its services or provide a return to members. This return commonly is paid in the form of dividends proportionate to members' use of the service.

The roots of Canada's co-op system lie in the rural tradition of mutual aid; farm marketing co-ops have evolved into powerful corporations. Co-ops exist in other areas as well, including credit and finance, insurance, housing and child care. Organizations such as BC's VanCity Savings, the Atlantic Regional Co-operative Development Council and labour-sponsored investment funds are major investors in community business.

Labour-sponsored investment funds also have been successful in raising capital for local business creation. The development of these funds has been encouraged through federal and various provincial tax credits.

The Quebec Solidarity Fund *(Le Fonds de solidarité des travailleurs du Québec*) is an example of labour involvement in investment activity. The Solidarity Fund was established to earn a return for its investors and to create jobs. Potential investee firms are assessed with respect to participation in decision-making, human resource policies, support for local communities, environmental practices and product quality.

The Solidarity Fund has served as a model for the formation of 17 labour-sponsored venture capital funds. But some labour funds have run into trouble. The Working Ventures Fund created by the Canadian Federation of Labour, for example, was slow in spending on venture capital investments.

In other cases, there are fears that the funds are labour-controlled in name only. The real control, it is argued, has slipped into the hands of mainstream investment dealers who sell shares in the funds.

Despite these concerns, the emergence of various labour-sponsored funds is a response to federal and provincial tax incentives. All provinces, except Alberta and Newfoundland, have laws that support the development of these funds.

The Crocus Fund, sponsored by the Manitoba Federation of Labour, has identified family-owned manufacturing businesses as investment targets. The First Ontario Fund supports worker-owned businesses. The New Brunswick Workers Investment Fund and Working Enterprises invest in firms that adapt to and employ new technologies.

Labour-sponsored funds account for nearly one-third of the venture capital market, with assets of more than $2 billion. These funds have increased the supply and stability of venture capital. They also have equalized its regional distribution.

On a larger scale, the Community Reinvestment Act in the United States requires banks to reinvest a portion of their deposits in low-income neighbourhoods and communities for housing and business development. Since the introduction of the Act, hundreds of millions of dollars have been invested in a range of initiatives assisting low-income people and neighbourhoods.

The Canadian Community Reinvestment Coalition is actively pursuing a similar legislative mechanism in order to broaden the criteria for accountability from our financial institutions. The proposal has received support from the Liberals, the Bloc Québécois, the New Democrats and the Conservatives at their policy conventions.

Technical assistance – another important component of community economic development – may be required to make effective use of the available capital. Technical assistance includes community and business planning, marketing, financing, enterprise management, investment mechanisms, institution-building, human resource development, board development, trade opportunities and information technology.

The McConnell Foundation has set up a program to strengthen the accessibility of technical assistance in Canada. The Community Economic Development Technical Assistance Program (CEDTAP) matches technical assistance providers with communities interested in embarking upon or strengthening a CED initiative. Technical assistance for community economic development also will be made available through the newly-created Canadian CED Network (formerly known as the Digby Network).

But CED itself needs to build its own capacity by ensuring a new generation of leaders. While some universities offer courses in CED, they tend to be theoretical rather than practical. The field needs an applied educational strategy that builds a practitioner/leader base. The University College of Cape Breton, for example, recently introduced a Masters of Business Administration in CED that focusses on skill development.

Who Does What?

The preceding sections propose various actions for reducing unemployment and improving jobs. This section looks at the roles that different sectors can play in moving forward this agenda.

In addition to sectoral initiatives, every organization should recognize that it can help resolve the problems of unemployment and underemployment. All employers can assess their respective employment practices, wages and benefits, training opportunities and layoff policies. Every employer can create some employment for young people and provide internship placements.

Business

The private sector – especially small business - proudly calls itself the "engine of economic growth." It should be encouraged to keep this engine moving through pro-employment practices.

The private sector should reconsider whether downsizing is really the appropriate solution for competitiveness. Some firms now are admitting that they may have let go too many people, that their 'institutional memory' is reduced or gone, or that their client satisfaction has declined. Employers can make layoff a last-resort solution through alternatives such as a shorter workweek or job sharing for those who prefer this arrangement. A reduction in the use of overtime also can help create new jobs.

The private sector can invest actively in people. It can work closely with labour, governments and the educational sector to encourage employment through apprenticeship training and co-op opportunities.

Educational institutions, for their part, can do a better job of ensuring the quality of training and the relevance of their curricula. The European experience of close cooperation among the business, labour and education sectors is worth noting.

The so-called engine of economic growth also can act at the forefront of social responsibility at home and abroad. Corporations can examine their own employment practices and environmental standards. The private sector can boycott goods produced through child labour. Companies can do business with countries that respect human rights and with countries with good environmental records.

Business can contribute to community initiatives through the direct involvement of time and resources. Some corporations have committed themselves to donating a certain percentage of pre-tax profits to the community. Others allow their employees paid time off to volunteer.

On an individual basis, some business owners promote self-employment by acting as mentors to prospective entrepreneurs. Recent private sector initiatives of note include the Canadian Youth Business Foundation, the Corporate Council on Youth in the Economy and the Career Edge Internship Program.

Career Edge is intended for graduates of university, college and high school who have finished their education but who lack work-related experience. Participating businesses provide on-the-job training, coaching from experienced employees and networking opportunities. The federal government runs a similar Federal Public Sector Youth Internship Program.

Labour

The labour movement has been active over the years in trying to protect jobs and create good jobs. Its role is increasingly important in an era in which there are far fewer protections for workers.

Labour can make an important contribution to job creation by reducing the working time of members who are already employed. Collective bargaining was the major instrument that brought in the standard five-day, 40-hour workweek. There has been a trend in the 1990s to longer hours of work for those in full-time jobs. While many workers may welcome overtime hours, limits on overtime can spread the existing work more equitably.

Labour has recognized the need for worker training. In many workplaces, unions support or even carry out training to ensure continued investment in workers. Unions should make available funds to their members for continual upgrading and training. Labour can work with business, governments and the educational sector to encourage employment through apprenticeship training and co-op opportunities. Again, the European experience is worth noting as a model.

Labour plays a crucial role as the conscience of business and government. The movement has been at the forefront of promoting occupational health and safety, and environmental protection. Unions have sought to incorporate safe work practices and human rights as conditions of trade. They should continue to press for these protections within international trade agreements.

Unions have worked equally hard to ensure protections for Canadian workers. These include adequate wages, pensions, reasonable working hours, unemployment insurance coverage, workers' compensation and disability insurance. Labour should continue to advocate for a more adequate Employment Insurance program with respect to both benefits and coverage.

Finally, labour can invest far more actively than it does in community economic development. The CED movement would benefit immeasurably from an infusion of funds for business start-up, technical assistance and stabilization of core CED operations.

Governments

Governments are central players in promoting enough work and good work. Their primary role is to put in place the conditions for a healthy economy that create employment.

Disagreements typically arise as to the factors that comprise these ‘winning conditions.’ Some people believe that the best thing governments can do to encourage job creation is to let business get on with the job – to ‘free enterprise.’ The private sector is and must remain the main engine of economic growth and employment creation.

But government has a crucial part to play in ensuring enough good jobs - through its employment and social policies, in its capacity as a major employer and in its (recently flagging) responsibility to exercise leadership by mobilizing major sectors of society to deal with public issues, such as unemployment and underemployment.

Monetary policy is key: Ottawa should ensure that interest rates do not go so high in the endless war on inflation as to discourage economic activity through the heavy cost of borrowing.

The federal government should reform the personal income tax system to make it fairer and to stem the steady erosion of workers’ earnings resulting from partial deindexation of the income tax system. First and foremost, it should reindex tax credits and the tax bracket system. Otherwise, so-called ‘tax cuts’ will be offset immediately by inflation-imposed creeping tax increases that mount cumulatively over time. The taxpaying threshold will resume its steady downward slide.

Other potential changes include lowering tax rates, eliminating remaining surtaxes and introducing additional tax brackets to create a more progressive system. The tax credits for EI premiums and Canada and Quebec Pension Plan contributions should be redesigned to provide geared-to-income relief from these regressive payroll taxes.

Ottawa and the provinces can expand the use of tax breaks and subsidies for job creation. Quebec, for example, is offering tax breaks for companies that set up shop in one of several newly created high-tech centres. Local governments can reduce or delay the payment of property taxes for firms that hire welfare recipients. However, the impact of such tax measures must be monitored carefully and evaluated rigorously to ensure that they are achieving their intended goals and are cost-effective.

Governments also are responsible for setting appropriate guidelines for the labour market and work conditions. These instruments include adequate minimum wages, and strong health and safety conditions.

Governments themselves can act as model employers through exemplary wages and benefits, working conditions, pay equity, training opportunities and last-resort layoff policies. They can establish inclusive work policies for groups with higher-than-average rates of unemployment, such as young people, Aboriginal Canadians and persons with disabilities.

Ottawa can assume a leadership role on the international stage by ensuring that its trade commitments respect social and environmental protections at home. It can use trade policy as a lever to influence human rights and environmental protections abroad.

Governments should support innovation in strategic fields such as biotechnology, information technology and environmental technology. They can invest directly and indirectly in these areas through research grants, subsidies and the development of incubator businesses.

Governments also must invest actively in human capital. This investment can take several forms and should involve all three levels of government.

Ottawa, in particular, can encourage investment in self-directed learning plans. It can engage in direct training for certain groups, such as young people. In fact, the federal government launched the Federal Public Sector Youth Internship Program in October 1997. It provides internship placements in various federal departments, agencies and Crown Corporations.

Governments can remove barriers to training that arise from current income security policies. The fact that fewer-than-ever workers now qualify for Employment Insurance means that they have no access to the training funds associated with the program. The federal government also could explore the possibility of Employment Insurance coverage for the growing sector of self-employed workers.

Ottawa and the provinces can reduce the steadily rising cost of postsecondary education. Other barriers include the lack of recognition of foreign credentials. Both the federal and provincial governments must work in close collaboration with professional associations and trade organizations to address this problem - which contributes to unemployment and underemployment.

Governments can remove barriers to self-employment in welfare rules and municipal by-laws. In addition to reducing barriers, governments can promote self-employment as a viable option to reduce the jobless rate.

The federal, provincial and local governments can provide support for community economic development. CED holds great promise for lasting community renewal in terms of both economic and social revitalization. Yet governments have tended to treat CED as a marginal solution for marginalized people. Unfortunately, its potential goes largely unrecognized.

Finally, governments have a crucial last-resort role – one to which they have not resorted in recent years. In the past, governments could be counted on as an employer of last resort to provide work and a living wage when unemployment was high. Publicly supported employment helps reduce the jobless numbers as well as reliance upon what governments themselves term 'passive' income supports, namely Employment Insurance and welfare.

But the employer-of-last-resort role appears to have fallen out of favour in the obsession with cutting costs and trimming the public sector. The wisdom of this approach now is being challenged – not only in light of continuing high unemployment, but also because of much crucial work that remains to be done.

And compulsory, punitive and ineffective 'work-for-welfare' schemes are not the answer. The need is for real work that must be performed as real jobs with real wages and benefits.

There is no shortage of possible employment in the human care field in particular. There are ample work opportunities related to child care and child development, elder care, home care and supports for independent living in the form of attendant and homemaker services. Years of cuts in government budgets have weakened the capacity and morale of the skilled workforce required to meet the rising demand for essential human services.

This investment in social infrastructure can be supplemented by the age-old investments governments typically made in the physical hardware of the country. Many roads, sewers, bridges need to be upgraded. Their repair would help fix the economy.

Foundations

Foundations can invest both indirectly and directly in the jobs problem. Indirect investment includes public education, capacity building, and research and evaluation. Direct investment affects worker skills, the availability of work and access to employment.

All sectors can educate the public about the causes of unemployment and underemployment as well as possible solutions. But foundations can make an especially important contribution by keeping the issue alive on the public agenda.

Foundations can help build the capacity of the voluntary sector to deliver more effectively their work-related programs. Capacity is supported through stable financing of core operations, training of community leaders, provision of information and access to networks. Private funders can help develop the capacity and improve the performance of the voluntary sector by providing key players an opportunity to share concerns and learn from each other.

Investment in educational institutes is another form of capacity building. Foundations can support research and evaluation in such areas as successful community economic development projects and welfare-to-work models.

Private funders can promote investment in human capital through skills development. Grants and scholarships from foundations are a priceless investment in enabling capable individuals to acquire education and training.

Foundations can encourage job creation through financing for business start-up and technical assistance. They can support initiatives to reduce work-related barriers. They can test promising and innovative solutions to unemployment.

Foundations also can support direct employment. They can train individuals directly through apprenticeships and placements in their offices or other community settings.

Private funders invest substantially in the other side of the equation – i.e., programs that teach job skills or connect individuals to available jobs. Some programs incorporate a job development function. A designated staff person explores the range of prospective employment and identifies the participants most appropriate to fill the positions and their training needs.

Foundations can match prospective workers with mentors to help them find appropriate employment. This individualized approach is particularly effective with young people and new Canadians.

Private funders can support various job creation initiatives through self-employment and funds for community business. Foundations actually have led the way in ensuring access to capital for self-employment, community business start-up and individual development accounts. These accounts help households accumulate assets by matching individual savings with private dollars. Support for technical assistance is also important.

Foundations can finance groups and organizations that work to reduce barriers to employment. And more than any other sector, foundations have been at the forefront of creating and supporting leading-edge interventions to combat unemployment and underemployment.

What We Don't Know

The preceding section focusses on the numerous actions that various sectors can take to reduce unemployment and underemployment. This 'list' may imply that we already know all there is to know about the nature of these complex and interrelated problems.

But there is still a great deal to learn. The following proposals for further research are by no means an exhaustive inventory of ideas. They merely illustrate some of the unanswered questions.

There is substantial research that documents the gap in the Canada and US unemployment rates. Part of this gap is due to the so-called 'productivity' differential - the fact that US workers appear to be more productive than their Canadian counterparts.

The reasons for this gap are unclear. Is it the result of more updated technology south of the border? Are American employers providing more and better training? Is a combination of factors responsible?

In the area of training, good information is available on the descriptive aspects of this field - who is doing what. But we know little about the impact of various approaches - i.e., the training most appropriate for certain types of employees and for diverse skill requirements in different economic conditions.

The nature and effectiveness of training methods employed by smaller firms in particular are largely unknown. Neither is information available on training in voluntary organizations that collectively provide substantial employment.

We lack a solid understanding of self-employment. We know little about the economic impacts of this type of employment on local and regional economies, despite the fact that it is the fastest growing sector of the Canadian job market.

There is no information on the long-term self-sufficiency of people who participate in self-employment programs, graduate and start a business. Unfortunately, this lack of information creates barriers to the development of informed public policy.

We know still less about the long-term impact of no income protection for the self-employed in the event of unemployment. The federal government could commission research through the Canadian Labour Force Development Board or Canadian Labour Congress, for example, to assess the potential impacts of some form of self-employment insurance.

The effects of self-employment on individual workers - the isolation as well as the pressures of combining work and family - are unknown. This information is especially pertinent to women, for whom self-employment has become an important option.

We need to explore the models of community economic development that are working effectively. It is also important to learn more about the precise factors that appear to contribute to the success of CED initiatives. This type of research will help ‘upscale’ CED work - i.e., move it from the margins of the economy where it now resides to the mainstream of the economy where it belongs.

The role of municipalities in promoting sufficient and good employment is another area that requires research. Finally, there is a lack of information on possible partnerships that organizations from different sectors can form to work jointly on tackling unemployment and underemployment.

Conclusion

There are no easy answers as to why Canada lacks enough jobs and good jobs. Unemployment and underemployment are the result of several complex and related factors.

Neither are there any simple solutions to these problems. A combination of approaches undertaken by diverse sectors is required.

If any single message emerges from the wealth of information in this area, it is the following: A successful employment strategy actively seeks ways to keep workers employed in good jobs. It is against the interest of individual workers and the economy more generally to have a large army of unemployed and underemployed.

An effective response needs a concerted attack by all sectors. Governments must shoulder once again their leadership role. The almighty market cannot do it alone.