

New Social Architecture Series

BY JOHN MYLES

POSTPONED ADULTHOOD

*Dealing with the
New Economic Inequality*



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Postponed Adulthood: Dealing with the New Economic Inequality

by John Myles
University of Toronto



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This paper is part of the Canadian Council on Social Development's **New Social Architecture series**. The project is designed to highlight and examine key social challenges facing Canada today and set out a number of strategic options for change.

Other papers in this New Social Architecture series include *What Kind of Canada?* (CCSD, April 2004); *The World We Have: Towards a New Social Architecture* (Katherine Scott, March 2005); and *Raising Our Sights: The World We Want* (forthcoming).

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John Myles
University of Toronto

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Introduction

Almost two decades ago, political scientist Hugh Hecló (1988) pointed out that the great debate over intergenerational “class war” and equity in the U.S. had largely passed Europe by. The difference, he speculated, has to do with Europeans’ greater inclination towards “life course” thinking when tackling issues about inequality: childhood and old age are simply *different moments in the lives of the same people*. Americans, he argued, are more inclined to consider the elderly and children as more or less static, distinct social groups that, in turn, divide into yet other groups based on race, disability status, and so forth. For Americans, thinking about childhood and old age as raising a distributional problem over a single life course seems distinctly foreign.

Whether Hecló captured the true mindset of Americans and Europeans correctly is not important. What matters is the way we approach the issue of redesigning Canada’s social architecture – that is, from a life course perspective. But what exactly does that mean? To illustrate, consider an example well-known to all of us.

Looking back to the 1950s and 1960s, most old people in most industrial democracies were poor. Moving ahead to the present day, comparatively few old people are poor. Why is that? Back then of course, people didn’t have the Canada Pension Plan (CPP), the Guaranteed Income Supplement (GIS), occupational pensions, or all the other good stuff we have today. But that’s only part of the answer.

The elderly cohorts of the 1950s were poor because they had poor lives. Born at the close of the 19th Century, their youth was marred by World War I and their working years straddled the Great Depression and World War II. They were poor not only because public retirement plans were ungenerous, and private plans underdeveloped, but also because they were “unlucky” generations.

By comparison, today’s retirees are relatively affluent mainly because they had good lives. They are the children of high industrialism. Their early careers straddled the booming post-war decades. They generally enjoyed job security and rising real wages over most of their lives, and as a result, accumulated substantial savings and resources, not just CPP benefits. Compared to their parents, today’s retirees, these children of high industrialism, had “good lives.”

The objective of redesigning our social architecture is to ensure that today’s children and the young adults now entering the labour market also have good lives – as children, as young adults, during middle age, and in their retirement years. So let’s think about the potential life courses of today’s post-industrial cohorts and their children. That’s not so hard. The cohorts who will reach age 65 in the year 2040 are already with us. In fact, they will turn 30 in 2005. How will their

lives differ from those of their industrial-age predecessors, today's retirees who entered the booming labour markets of the 50s and 60s when the foundations of the contemporary welfare state were put in place? What new risks do they face?

Post-industrial Labour Markets

A leading suspect in the new risk structure is the labour market. A standard assumption is that post-industrial economies have produced a new post-industrial, low-wage proletariat of fast food and other service workers. It is true that Canada has the dubious distinction of having lots of low-wage jobs. Almost a quarter of full-time workers in Canada earn less than two-thirds of median earnings, compared to 13% in Germany and only 5% in Sweden.

Table 1: Per cent of full-time workers earning less than 65% of median earnings, 1994

Country	All	Men	Women
United States	25%	20%	33%
Canada	24%	16%	34%
Germany	13%	8%	25%
Sweden	5%	3%	8%

Source: OECD, *Employment Outlook*, 1996.

But this is not new. Despite all the discussion of wage polarization, the low-wage character of the Canadian economy has always been with us (see Table 2). In short, the good old days of high industrialism were not all that good. Our low-wage economy is undoubtedly a major flaw in our social architecture but this has always been so.

Table 2: Per cent of full-time workers, aged 25-54, earning less than two-thirds of total median income, Canada, 1971-2001

	Total	Male	Female
1971	22%	14%	50%
1981	22%	14%	40%
1991	22%	15%	34%
2001	24%	18%	31%

Source: Census of Canada Master Files, 1971-2001.

What has changed are the ways in which earnings are distributed over the life course and among households.

The Second Demographic Transition and Postponed Adulthood

The most dramatic difference between today's young cohorts and their industrial-age predecessors is when, and how, they begin their adult lives.

For the cohorts of high industrialism – today's retirees – the transition to adulthood occurred early in their lives. Industrializing economies were relatively benign places for muscular young men and unmarried women, and from the turn of the last century through the 1960s, the main age

markers of reaching social and economic maturity fell decade after decade. By the 1950s and 60s, young adults were leaving home, getting married and having their first child much sooner than any of the cohorts that had preceded them.

But all that has changed. Since the 1960s, all of the age markers of social adulthood have been rising. As Rod Beaujot (2004) has documented, over 40% of young adults in their 20s are living at home, up from 20% in 1970. Marriage and first childbirth now occur in the late 20s – just about the time people are beginning to establish themselves in real career jobs.

The reasons for these changes are not difficult to fathom. Post-industrial economies are knowledge-based economies. Rising demands for educational credentials means that “real” work careers start much later in life. More importantly, the changing demands of the labour market now affect women as much as men. High female employment is a defining feature of our post-industrial world.

The consequences of starting adulthood later have been compounded by the most important shift in the wage distribution of the past quarter century: the relative earnings of young adults have been falling for over two decades. Postponed adulthood combined with declining entry-level wages mean that both the cumulative earnings and the accumulated wealth of adults in their mid-30s have fallen dramatically since the end of the 1970s. By 1999, the median wealth of Canadian-born families (where the highest earner was aged 25 to 34) was down 26% from 1984 and among young foreign-born families, it was down 44% (Morissette, Zhang and Drolet, 2002).

Why does this matter? We’ve all seen the sitcom *Friends* and living like an adolescent at age 30 isn’t so bad, or is it?

First, postponed adulthood and the declining earnings of young adults are the main reasons we have made such little progress in reducing child poverty. For while the social and economic life course has changed, biology hasn’t. Because of biology, young adults (that is, those under age 35) still comprise the vast majority of parents of our young children, and no social policy can change that.

Given the incredible changes in the behaviour of today’s young parents, the remarkable fact about child poverty is that it has not disappeared. Today’s young parents are much better educated than parents of a generation ago and most mothers are employed. In the past, child poverty was associated with large families, but large families have disappeared into the mists of history.

Postponed adulthood is also important since it is the major driver of the low fertility equilibrium that is characteristic of almost all post-industrial societies. As such, it is a major cause of the huge social policy challenge that lies ahead – namely, population ageing. Indeed, the revolution in life course patterns of young adults over the past 40 years – the “second demographic transition” – is as much a part of the phenomenon of “population ageing” as is the much-vaunted arrival of the baby-boom generation.

The fact that current fertility levels in no way reflect the fertility preferences of our young adults has largely been ignored as a welfare issue. When asked about the number of children they would like to have, the most frequent response of young Canadians is two; the second most frequent response is three. It seems that young parents and would-be parents are simply not achieving their ideal family size.

Quite simply then, post-industrial economies – characterized by long periods of juvenile dependency that now extend into young adulthood and where both women and men must build their careers – are not family-friendly places.

New Life Course Inequalities

But let's move on and imagine how the lives of our post-industrial 30-somethings will evolve as they move through their working years towards retirement in 2040. As with any major change, there is good news for some and bad news for others.

The first cohort divide in a world of dual-earner families is between single-adult households with comparatively little labour to sell and those with two or more adult earners. While the earnings of young adults have been falling overall, family earnings for many young families have been rising as a result of higher female employment. By contrast, single-earner households – with or without children – are at greater risk and their numbers have been rising. The percentage of single adult (aged 25-54) households in the population has doubled, from 10% in 1971 to 20% today. A recent U.S. study estimates that the share of never-married and divorced among the elderly poor will rise from 33% today to 48% by the time the baby-boomers retire (Butrica, Iams and Smith, 2003: 46).

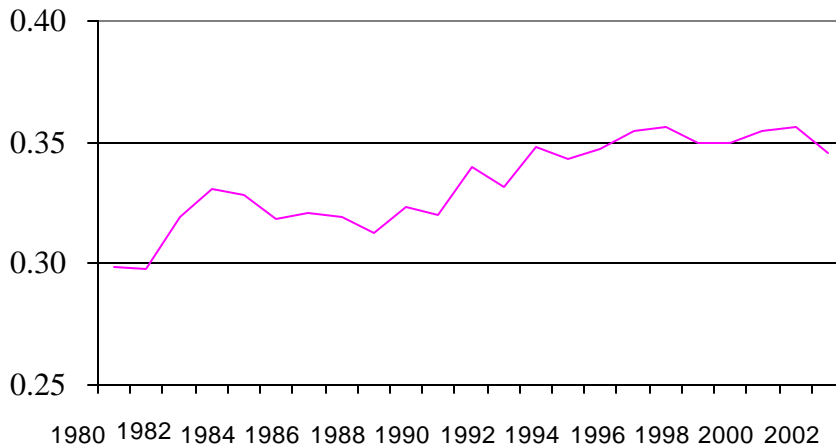
The second divide that will persist over the working lives of these current cohorts has two sources: the division between the educationally advantaged and disadvantaged, and the multiplier effect of marital homogamy in a world of high female labour force participation. Well-educated men and women tend to marry one another, forming families which have high earnings and few risks of unemployment. Less well-educated couples tend to have lower wages and they are far more likely to experience periods without work. Marital selection based on education has risen and it is unlikely to abate. In the 1950s, there were few highly educated women to marry. The doctor married his nurse or his secretary. Today they are more likely to be married to another doctor, lawyer or advertising executive.

Morrisette and Johnson (2004) show that while the growth in the earnings gap among *individual* workers with more or less education has been modest in Canada, the corresponding gap in family earnings rose substantially. Between 1980 and 2000, couples with two university graduates saw their average annual earnings rise by 14%, to 22%, while couples where both had high school education or less had stagnant or declining earnings.

The cumulative effects of these trends over the last quarter century is the long-term secular increase in earnings inequality among families (shown in Chart 1). This is a conservative estimate, as it excludes lone parents and unattached individuals. And we know from other sources that this trend has been accelerating, not abating, in recent years (Frenette, Green and Picot, 2004). Until the early 1990s, the tax-transfer system was able to keep pace with these

changes so that the final distribution of family incomes remained relatively stable. Since then, however, it has been losing the battle against rising inequality in family earnings.

**Chart 1: Inequality in market incomes (Gini)
among two-parent families with children,
1980 to 2002**



The point is that today, the world our 30-somethings are entering is very different from the one their young cohorts of a quarter century ago encountered. A new high-inequality equilibrium in the distribution of family earnings has emerged, and it appears to be a relatively permanent feature of our post-industrial world.

Finally, our post-industrial cohorts will face an additional constraint that neither today's retirees nor the baby-boomers encountered: the necessity of financing the consumption of an aging population when the baby-boomers begin to retire.

What is to be done?

Consider first the financing side. As Tom Kent has insisted, we need to be thinking about taxation, not just spending. If the new high-inequality equilibrium in family earnings is a relatively permanent feature of Canadian society, the case for progressively financed income transfers and services is stronger than it ever was for our industrial-age predecessors.

The case for progressive financing is even stronger when we consider the second great change in the post-industrial life course – the fact that we are living longer. This post-industrial longevity bonus is very unequally distributed, however. The highly educated and well-paid are experiencing the greatest longevity gains. As a result, they will absorb a disproportionate share of future pension and health care costs, just as they absorbed a disproportionate share of education costs when they were young.

What about spending? Our post-industrial cohorts, and especially those in the bottom third, face two problems simultaneously. The first is an income problem and the second is the servicing or caring problem that results from high levels of female employment.

To address the income problem, we need two sets of basic income guarantees.

The first set of guarantees would apply to persons who cannot reasonably be expected to participate in the paid work force, either temporarily or on a continuing basis, such as single-parents with very young children, and persons with severe mental or physical disabilities.

For the employed, there are two strategies: one for the long-term and a second for the intermediate term.

The first best strategy for the longer term is one that aims to transform the Canadian labour market from a low-wage to a high-wage economy in ways that do not reduce total employment. Canada's large low-wage labour market indicates the presence of a large number of low-productivity jobs and a large number of firms habituated to a low-wage, low-productivity equilibrium. This could reflect the presence of a large pool of low-skilled workers, a large number of jobs that are undercapitalized, or some mix of the two. In either case, it is undesirable for both economic and social reasons.

If, as is often assumed, the problem lies on the supply side (i.e., inadequate skills), then new investments in human capital development that are targeted to the bottom third of the learning distribution – especially early in life – offer a solution. There is a strong case to be made for more and better early childhood education, but these investments will only begin to bear fruit 20 to 30 years in the future.

To the extent that there is a demand side problem, the available strategies are equally long-term. Cross-national differences in wage structures of the current magnitude are, in part, the product of long-standing historical differences in wage-bargaining systems and labour market regulation. Institution building and reform, however, is almost by definition a long-term project. It is high time to revisit minimum wage legislation in Canada but very large, *short-term* increases sufficient to induce dramatic changes in employer behaviour would undoubtedly reduce demand, and hence jobs, at the lower end of the labour market. However, a longer term, incrementalist, approach that allows time for, and creates expectations of, employer adjustment may be feasible. Fatalism about what is possible in the long run is our worst policy enemy. A good policy starting point for the 21st Century, then, would be to invest resources in developing a long-term strategy for a different sort of labour market for future generations.

But what of the intermediate term? What of the cohorts who are now completing their schooling and who will be paying for the pensions and health care when the baby-boom generation retires? For the foreseeable future, they are more or less stuck with our low-wage economy. This leaves us with only one, albeit second-best, solution.

In combination with a legislated wage floor, low-wage economies like that of Canada require a system of earnings subsidies for all low-wage earners. Essentially, we require a system of refundable tax credits or negative income tax (NIT) along the lines of the Earned Income Tax Credit in the U.S. or the Working Tax Credit in the U.K. Importantly, such a strategy passes the litmus test of political feasibility. Ottawa has both the legislative authority and long historical

experience with NIT-style programs dating back to the Guaranteed Income Supplement and more recently, the National Child Benefit.

What about services and especially early childhood education? The wage subsidy strategy and the servicing strategy are sometimes pitted against one another as though we were faced with a zero-sum trade-off between the two. I think this is wrong. Like health insurance, investments in children and other caring services also represent an earnings subsidy to low-wage families. Not only do they offset some significant share of child-rearing and caring costs, they also help raise female employment levels and family earnings.

Where will the money for all this come from? What about the impending increase in retirement and health costs when the baby-boomers retire? I think the answers to both questions are connected. The second distinctive feature of the post-industrial life course is that we are living longer and healthier than our industrial-age predecessors.

According to the anthropologists, the evolutionary reason for human longevity relative to other primates is related to the long period of juvenile dependency we require in order to acquire the complex skills we need to survive on our own. Instead of dying shortly after we finish reproducing, post-reproductive males and females provide the surplus goods and services that make extended juvenile dependency possible. Someone has to be around to help the kids finance their first mortgage.

The period of so-called juvenile dependency has now moved well into young adulthood. But as yet, we have not taken advantage of our longevity gains to offset this development. The retirement age has been falling, despite increased longevity. I, for one, agree with the strategy advocated by the OECD to take steps to reverse that trend and encourage later retirement. Moving the average retirement age back towards age 65 not only saves on the expenditure side, it would also help create the additional output required to finance a refurbished social architecture for Canada.

The aim of social policy reform is to make our children's lives better over the whole of their life course, from childhood to old age. The post-industrial life course poses new challenges; it also provides new opportunities to meet those challenges.

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