

New Social Architecture Series

BY KATHERINE SCOTT

# THE WORLD WE HAVE

*Towards a New Social  
Architecture*



CANADIAN  
COUNCIL  
ON SOCIAL  
DEVELOPMENT



# **The World We Have: Towards a New Social Architecture**

**By Katherine Scott**



Canadian Council on Social Development  
Conseil canadien de développement social

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); *Postponed Adulthood: Dealing with the New Economic Inequality* (John Myles, March 2005); and *Raising Our Sights: The World We Want* (forthcoming).

These papers are available online at [www.ccsd.ca](http://www.ccsd.ca)

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## Foreword

What roles and responsibilities do the federal government, provinces and territories, and cities have in securing the social welfare of Canadians?

Does the market have a larger role to play in an evolving social economy?

Are the new profile of the Canadian family and our changing demographics factors which are sufficiently well reflected in our social programs?

These are only a few of the questions that must be addressed in any discussion about where we as a country are headed. And these questions are essential ingredients in any debate about the risks Canadians face in “the world we have” and in any dialogue about “the world we want” for ourselves and our children. They are also the inspiration for this New Social Architecture series.

Since 1920, the Canadian Council on Social Development (CCSD) has been speaking up for the needs of Canadian children and families, the poor and the disadvantaged.

This New Social Architecture series is designed to continue that tradition. The series promotes sound and effective social policies at a crucial time in Canada’s history. It is meant to craft strategic directions in the redesign of social policy, linking social security and inclusion with economic productivity.

This initiative was spearheaded by Professor John Myles from the University of Toronto. It has benefited from the wisdom and pragmatism of a working group of leading scholars, analysts and researchers across the country, and from a wealth of ideas and research on income equality provided by Andrew Jackson. And it is the dogged vision of CCSD President Marcel Lauzière, who is currently on a two-year assignment as Deputy Chief Executive with Social Development Policy and Knowledge at the Ministry of Social Development in New Zealand.

The Social Architecture initiative has been a labour of love and commitment for the CCSD’s Vice President of Research, Katherine Scott. While overseeing the Council’s research department, her work on the voluntary sector and on issues related to children and poverty has convinced her of the need for and effectiveness of wide reaching policy dialogues beyond the inner circles.

As well, this project has benefited from the financial support of the Strategic Policy department at Social Development Canada.

The architecture metaphor is not one that is used loosely. The aim of this series of papers is to provide research, analyses and strategic options which all Canadians can examine, discuss and indeed, build upon.

The work facing Canadians at this juncture is not easy. And like any construction project, it requires a vision, planning, and a combination of hard work and skill. But in the end, it will be a blueprint for success only if those who are to inhabit this structure have co-operated in its construction.

*Peter Bleyer*  
President, CCSD



“Fatalism about what is possible in the long run is our worst policy enemy.”

John Myles

*Postponed Adulthood*

## **Introduction**

Compared to Canadians who lived in the first half of the 20<sup>th</sup> century, those who grew up or grew old in the second half have enjoyed remarkably good lives. The first half of the century brought two World Wars and the Great Depression. The second half began with a quarter-century of sustained economic growth and rising living standards almost unimaginable for an earlier generation. The 1950s and 1960s also saw the creation of a host of new social institutions: new social investments in education and health care, and new forms of social protection against the risks associated with unemployment, illness and old age.

That period of social innovation served Canada well. But the world has changed fundamentally over the last 25 years. This country’s systems of social provision have also changed over time, but not necessarily in ways that reflect the nation as it is – or as most Canadians would like it to be – in the first decade of the 21<sup>st</sup> century.

What *do* Canadians want? Their expectations are probably not that much different from what expectations were a few decades ago when the social architects of the day were creating programs like unemployment insurance and old age security.

Canadians want an economy with high levels of employment with decent wages and working conditions. They want their children to get ahead in life and have the opportunity to develop their potential. Canadians want government to provide essential public services, especially health care and education, for everyone, and they want governments to spend their tax money wisely and fairly. They want to be able to grow old in security and dignity. They want a Canada where no child has to grow up without adequate food, shelter and other necessities of life, and where no one is homeless. Canadians want a country where human rights and fundamental freedoms are respected and protected. They want to live in safe, tolerant, healthy and sustainable communities. And they want to have a say in how all of this happens.

Canadians’ expectations for themselves, their children and their fellow citizens have probably increased over the years. But they also know that conditions are different now, and what might have worked well a generation ago may no longer fit the dynamic social and economic realities of today’s Canada.

We have been through a period of profound economic and social change driven by such factors as globalization and the impacts of the new post-industrial, knowledge-based economy, the aging and diversity of the population, the entrance of large numbers of women into the labour market, and the changing patterns of family formation and dissolution. Some of these factors are causes and some may also be effects – like, for example, the low birth rate – but all of these forces and many others are altering the old assumptions about labour markets, families, communities, and the primary institutions of what is widely known as the “welfare state.”

Faced with such profound societal changes, it is vitally important that Canada builds a new model – a new social architecture – which will hold us in good stead, now and into the future.

“Our welfare models were moulded generations ago, and have generally changed little since and mirror, accordingly, an economy, family, and risk profile that is no longer dominant. . . . We need to construct a new welfare equilibrium, one that is more in tune with emerging risks and needs” (Esping-Andersen, 2003: 1).

There are at least two lines of thinking about fashioning a new equilibrium. One is that there is an inevitable trade-off between economic development that creates jobs and provides a rising standard of living, and social development that tries to ensure equality of life chances and a level of social protection for all. As this argument goes, markets are driven by the pursuit of gain and if individuals do not retain enough of their own product because of high taxes, wealth creation will suffer, and if people are too protected by social programs, incentives to work will diminish. In this view, economic development necessarily trumps social development.

Another point of view is that the instruments of social welfare policy can help nations adapt to and prosper in the new knowledge-based economy. Those instruments can include investments not only in human capital, such as early childhood development, public education and training, but also in social capital to strengthen networks of social consensus and reduce societal inequities. Indeed, there are large economic costs attached to poverty, marginalization and inequality. From this perspective, tinkering around the edges of the current social architecture will not be enough. A new period of social innovation is needed.

This paper leans unapologetically to the perspective that Canada should aim for *both* rising living standards with good jobs, and the most equitable, just and inclusive society we can create together. While we may not be able to do it all, we can certainly do better, much better. The experience of other nations indicates that such a goal is not beyond our reach.

In order to get there, a wide-ranging discussion is needed – to reassess the appropriate roles and responsibilities of markets, families, states and communities in securing the social welfare of Canadians, and to forge a new, shared understanding of what we mean by social development and how we will ensure social progress in the new millennium.

This paper is the first in a new series which discusses the key challenges Canada faces and some of the promising directions for change. It is based on discussions among a group of eminent researchers, scholars and analysts, headed by Professor John Myles from the University of Toronto, and aided by the ideas and insights of Andrew Jackson at the Canadian Labour Congress. Some of the complex challenges identified here will require long-range thinking and action. But as Myles warns in a quote at the beginning of this paper, giving up in the face of what may seem like intractable long-term issues is the worst possible policy option.<sup>1</sup>

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<sup>1</sup> In a paper of this size, we can only deal with a narrow range of topics. We do not in any substantive way tackle reform of Canada’s premier welfare state program – health care – although progress in enhancing the quality of employment and early childhood programming, to name two examples, would certainly go a long way towards improving the health of the population. We have also decided not to discuss with any degree of specificity the situation of historically disadvantaged groups such as persons with disabilities and Aboriginal peoples.

Other papers in this New Social Architecture series include *What Kind of Canada?* (CCSD, April 2004); *Postponed Adulthood: Dealing with the New Economic Inequality* (Myles, March 2005); and *Raising Our Sights: The World We Want* (forthcoming).

This discussion paper is intended to promote a dialogue on social policy reform and in particular, to stimulate discussion about the Canada Social Transfer (CST). It is an important tool in the Council's ongoing commitment to raise awareness about the CST and add to the debate about the future of Canada's social programs.

Redrawing a blueprint for a vibrant social architecture, one that is comparable to and as innovative as what was developed in the post-war period of the last century, is both an exciting – and daunting – task.

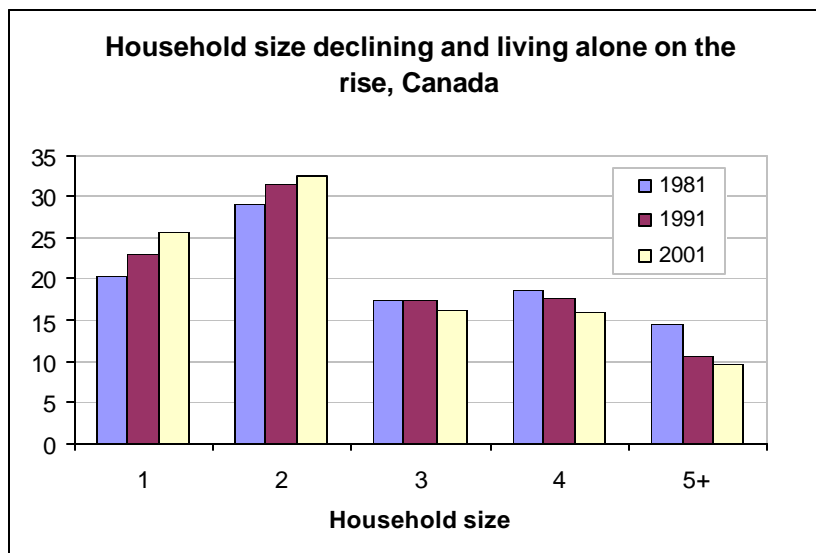
We are pleased to submit this paper as an early first step in preparing the ground for that dialogue.

## Changing Assumptions and New Challenges

The post-war welfare state was designed to accommodate the realities and thinking of the day. It was assumed that the great majority of people would live in stable families, with men assuming the role of financial provider from paid employment, and women assuming the role of unpaid caregiver of children and home. Fundamental assumptions about the composition of the population, and the operation of labour markets, families and communities guided policy-makers as they defined the role of the state in support of market, family and community. But on all of these fronts, things have changed over the last 25 years, and changed profoundly.

### Changing Families

Families are in no danger of disappearing. Indeed, over the past few decades, we have witnessed the emergence of new household forms. The conventional nuclear family of the 1950s and 1960s including two parents, several children and perhaps an elderly relative, describes a shrinking share of Canadian families today. (It is important to remember that even at that time, it never described all Canadian families.)



Source: Statistics Canada (2002). *Profile of Canadian families and households: Diversification continues*.

While couple households still predominate, the proportion of working-age couples without children has increased. As well, a growing number of people are living in one-person households, and they made up fully one-quarter (25.7%) of all households in 2001 (Statistics Canada, 2002a).

There has also been a long-term rise in rates of marital dissolution: four in 10 marriages in Canada now end in divorce, and common-law relationships – much more common than in the past – can be very unstable (Statistics Canada, 2002b; Le Bourdais, Marciel-Gratton and Juby, 2003). Lone-parent families now make up one-quarter of all families with children – up from just over one-tenth in 1961 – and one in five children live in lone-parent families. Research has shown that family break-up is at least as important a route into child poverty as is loss of a job (Picot, Zyblock

and Piper, 1999). In many cases, parents will go on to remarry or cohabit with a new partner (Le Bourdais et al, 2003). However, relationship instability is creating more complex households and extended kin relationships, as well as more vulnerability to poverty for children and women (Juby, Le Bourdais, and Marcil-Gratton, 2003).

Less well-known but equally important from a policy point of view is the growing phenomenon of “homogamy,” which is “like marrying like.” Unlike 20 or 30 years ago, well-educated and affluent men and women today are much more likely to marry one another and form families where both partners have a high probability of being employed in well-paid jobs. Less well-educated couples face a greater risk of unemployment and lower salaries when they are employed (Morrisette, 2004). Thus, marital homogamy acts to compound divisions between the educationally advantaged and disadvantaged.

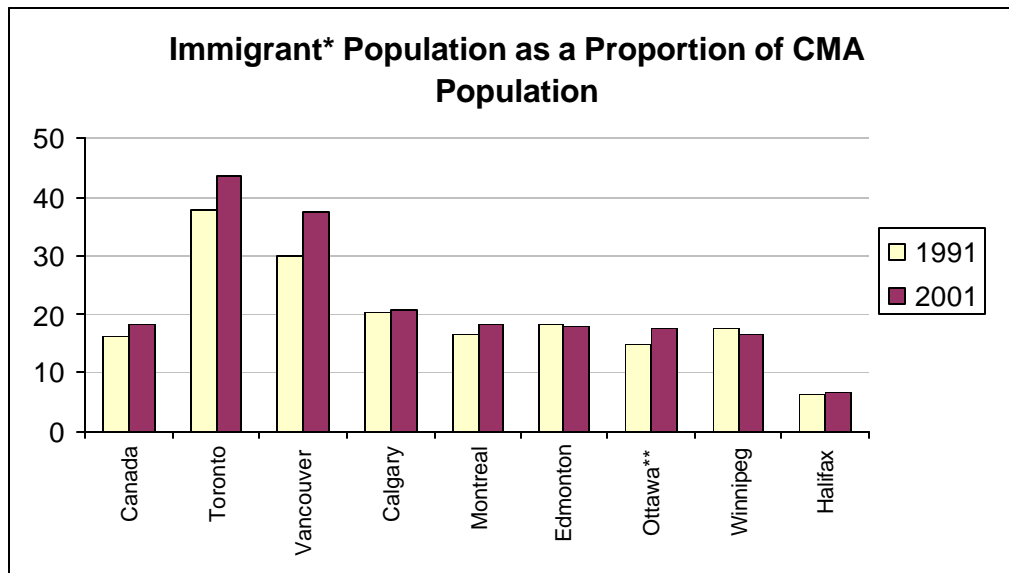
Trends in family formation also pose a number of challenges. The rise of single-earner households, for instance, is problematic within a labour market that demands at least two incomes in order to make ends comfortably meet. Single-earner households are much less likely than two-earner households to have the resources necessary to deal with a spell of unemployment or disability. Being single is particularly difficult for women, since women on average still earn about 20% less than men, and they are more likely to be working in part-time jobs (Drolet, 2001).

High poverty rates among female-led single-parent families, single young adults, and the unattached near-elderly – particularly for those who lack good education and thus access to decent jobs – reveal the inhospitable social and economic conditions faced by these households in the present, conditions which also place them at risk of poverty in retirement.

### **Increasing Cultural Diversity**

Any account of Canada’s changing social landscape would be seriously flawed if it did not include the growing diversity of our population. Immigrants now make up almost one-fifth of the total population, close to half the population in Toronto, and one-third the population in Vancouver. Three-quarters of new immigrants over the last five years have moved to Canada’s three biggest city-regions. Consequently, immigrants are by far the largest source of population and labour force growth in the Greater Toronto Area (GTA) and the Lower Mainland of BC. Soon, new immigrants will provide almost all of the growth in Canada’s labour force.

Canada has always been a society of immigrants, and successive waves of immigrants have settled in this country over the past 200 years. Canada is variously described as a multicultural and ethnically diverse society, drawing on the resources and talents of cultures the world over. Indeed, as measured by economic standing, immigrants have traditionally done very well here, experiencing a period of low income upon arrival, but outperforming Canadian-born citizens over the medium to long term.



\* immigrant = foreign-borne population who are or have ever been landed immigrants

\*\* Ottawa is now know as Ottawa-Gatineau

Source: Calculations by the Canadian Council on Social Development using data from Statistics Canada's 2001 Census.

This trend has changed. Compared to previous waves of immigration, persons who arrived in Canada in the 1990s, and to a lesser extent in the 1980s, have been much more highly educated than the Canadian average, but they have experienced a great deal of difficulty in breaking into the labour market and making financial gains (Jackson and Smith, 2002; Picot and Hou, 2003).

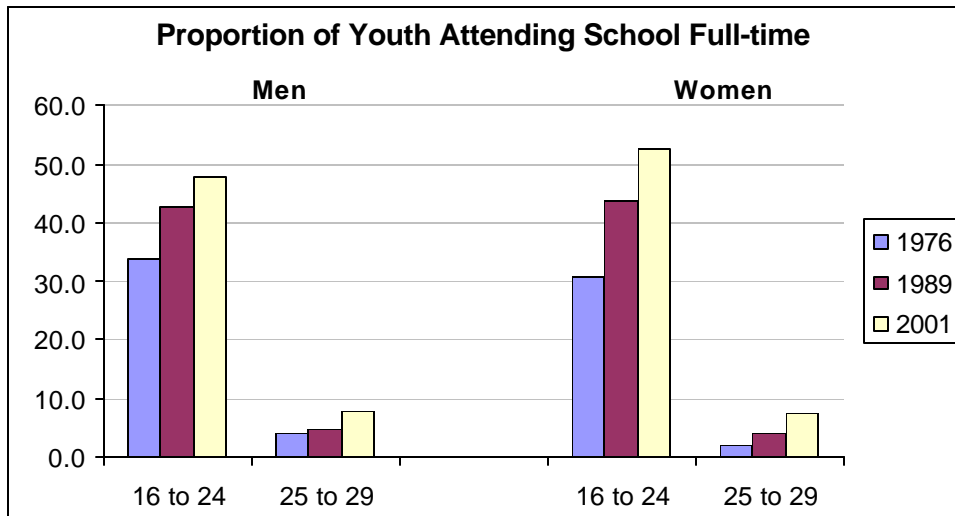
While it does not explain everything, the changing racial mix of immigrants has played a role. The proportion of immigrants born in Asia was 3.2% in 1961 and rose to 58.2% in 2001; the proportion born in the U.S. and Europe fell from 94.4% in 1961 to 22.3% in 2001. Strikingly, in 2000, almost half of recent immigrants to Canada from Africa and East Asia were poor. This change in countries of origin explains some of the increase in poverty among immigrants, since visible minority workers, including those born and educated in Canada, do less well in the job market than comparably skilled Canadians and they face much higher risks of periodic unemployment, low wages and poverty (Picot, 2004; Aydemir and Skuterud, 2003). As well, decreasing economic returns for foreign work experience and the non-recognition or undervaluing of foreign education and training have also played a role in thwarting the economic progress of immigrants.

Canada has become a racially diverse society, and we are much the richer for it. All of our future labour force growth will come from immigration, but high rates of poverty among immigrants, now concentrated in our big cities, are a serious and growing national problem.

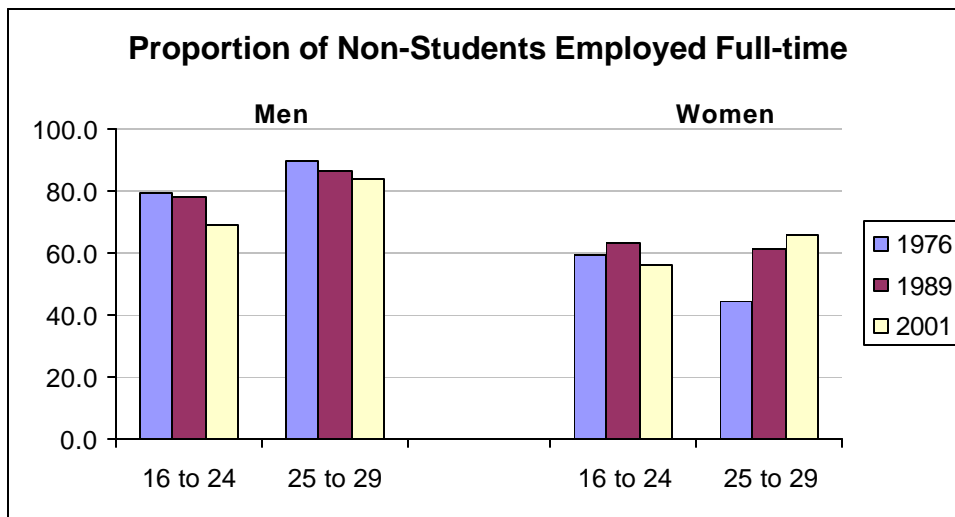
### **Delayed Family Formation and Labour Market Integration of Youth**

In the past, the transition from youth to adulthood occurred early and it was typically associated with a man getting a fairly stable full-time job, getting married, and starting an independent household. For women, a majority stopped work after the birth of their first child, and only a minority returned to work later on in life. For most citizens, the active phase of their life course

was quite standardized and linear: for men, a long working career, with few interruptions; for women, a life of domestic and caring labour. Retirement was comparatively short relative to today, but it carried high risks of poverty, especially for single women.



Source: Morissette (2002), p. 33.



Source: Morissette (2002), p. 33.

Today, the transition to adulthood and economic independence is delayed and prolonged (Beaujot, 2004). About half of all young people now enter some form of post-secondary education after high school, and many do not seek a full-time job until their mid-20s or even later. Many young people move back and forth between work and education over an extended period of time.

At the same time, more and more young adults are bearing a heavy burden of student debt. While increased educational attainment is a good thing and strengthens the eventual prospects for stable employment at decent wages – and young Canadians are among the best educated in the world – the transition to work is taking longer and it has become more difficult. Entry to middle-class career ladders generally requires a post-graduate qualification, but longer schooling means that today’s young adults have less job experience by age 30 than their earlier cohorts, a deficit that is

reflected in their comparatively lower wage levels and acquired wealth (Morissette, 2002).<sup>2</sup> Everywhere younger workers are overrepresented among the unemployed and among those in precarious employment (Esping-Andersen, 2005).

Young people are also delaying marriage and cohabitation, opting instead to live with their parents through their twenties. Among young people aged 20 to 24, 58% were living in their parental home in 2001, up from 42% in 1981. Even among those aged 25 to 29, almost one-quarter (24%) were living in their parental home in 2001 (Statistics Canada, 2002a). This generation of young people is also delaying having children, and they are choosing to have fewer children when they do start families. Beyond labour market and income issues that affect all young people, young women may choose not to have children or delay having children in order to establish themselves in a career or avoid conflicts between a demanding career and a family (Beaujot and Bélanger, 2001). Perceived labour market insecurity constitutes another major barrier to union and family formation (also see Esping-Andersen, 2002, for a discussion of Europe).

Fertility – the average number of children borne by a woman – has plummeted from 3.8 in 1961 to 1.50 in 2002, and the proportion of families with no children has risen sharply. Low fertility rates tell us that Canadians are having fewer children, though not necessarily by choice. In fact, opinion polls suggest that Canadians would like to have larger families.<sup>3</sup> The major factors at play seem to be the need for two stable and relatively high incomes in order to purchase a home and raise a family, and the difficulties in balancing the demands of well-paying jobs with child-rearing responsibilities.<sup>4</sup>

### **Population Aging and the Changing Path to Retirement**

Population aging is not new. In 1921, 4.8% of the Canadian population was aged 65 or older; by 2001, 13% of the population was over the age of 65.

By contrast, retirement is new. Retirement in its contemporary sense – an extended period of labour force withdrawal driven by the accumulation of sufficient wealth to make employment unnecessary – was, until recently, the privilege of a few. In the past, the rank and file of older workers were often “retired” due to layoffs or disability, not because their work was economically unnecessary (Burtless and Quinn, 2002). Even as late as the 1960s, old age was a virtual synonym for poverty. All this has changed in the past quarter-century. Old age incomes have been rising, retirement ages have been falling, and the elimination of poverty among seniors is now well within Canada’s reach.

The prospect of continued population aging within the context of high and (until recently) rising levels of retirement is new, and therefore a source of uncertainty. In the 21<sup>st</sup> century, the cost of

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<sup>2</sup> The median wealth of families in which the highest earner was aged 25 to 34 in 1999 was down 26% from 1984.

<sup>3</sup> In an analysis of the World Values Survey, Shelley Phipps reports that 47% of Canadian men and 45% of Canadian women say the ideal family size is two children. The second choice for both men and women is three children (30% respectively), and the third choice is four children (15% among men, 18% among women). (Phipps, 1999: 15)

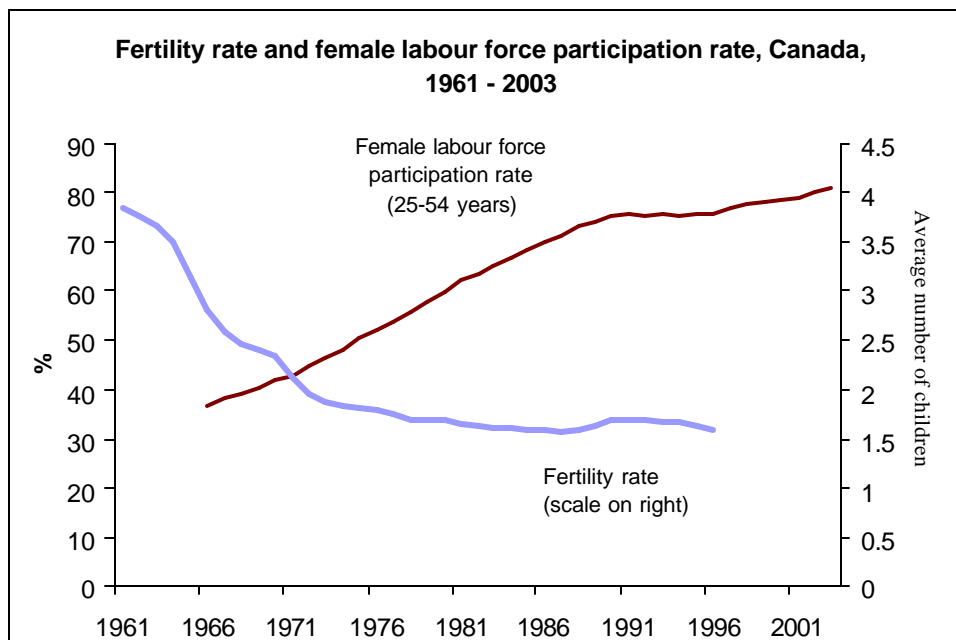
<sup>4</sup> Oppenheimer (1997) attributes the delay in marriage to the importance of paid work in the lives of young men and women. Economic uncertainty is a significant factor in prolonging education as well as union formation and child-rearing. (Cited in Beaujot, 2004)

maintaining the status quo will escalate substantially as a result of population aging brought about by continued gains in life expectancy and low fertility. The level of future pension expenditures is one such consideration. According to Peter Hicks, “as recently as 1960, men might expect to work for 50 years and not be at work [including childhood and retirement] for 18 years, for a total average life expectancy of 68 years. That has changed in recent decades. Today, men live until 76, with half of their lives spent in activities other than work” (Hicks, 2003: 4).

Gains in longevity are producing both qualitative and quantitative changes among seniors. The portion of the elderly most at risk of disability – those aged 80 and older – has been growing faster than the elderly population in general. At the same time and as importantly, the capacity of the traditional pool of informal caregivers – elderly wives, daughters and daughters-in-law – who provide about three-quarters of all care to frail seniors is declining relative to this increased demand (OECD, 1996a: 63). The OECD’s benchmark study estimated that the aged in general consume 3.2 times more health care than the non-aged, but the ratio rises to 4.1 among those over age 75. Assuming steady frailty levels, the cost of providing non-familial care is bound to rise in order to keep up with demographics. The cost to families in both financial and social terms will necessarily increase as well.

### **Women’s Growing Presence in the Labour Market**

Families and labour markets are moving towards greater “individualization” with the erosion of traditional family bonds and greater economic independence among women reflected by their growing presence in paid labour markets for longer periods of their lives. Where once women’s economic security was tied exclusively to her family status, now the control of fertility, access to higher education and development of the service economy have afforded women greater choice – including the choice to live outside of marriage. Since the early 1960s, women’s labour force participation rate has doubled from 30% to 60%, and it is even higher among mothers of young children. Of those with children under age three, 66% of mothers were in the labour force in 2001; among mothers with at least one child aged three to five, the rate was 73%.



Source: Calculations by the Canadian Council on Social Development using data from the following Statistics Canada catalogues: *Historical Statistics of Canada* (11-516-XIE, Series B1-14); *Fertility Projections for Canada, Provinces and Territories, 1993-2016* (91F0015MIE, Table A1); *Vital Statistics Compendium, 1996* (84-214, Table 4.3); *Labour Force Historical Review* (CD, 2003, Table Cd1T01an); *Historical Labour Force Statistics, 1993* (71-201).

Soon, employment rates for women and men in Canada will almost converge at one of the highest levels in the world. (We are about the same as the U.S., and labour force participation by women is higher only in the Scandinavian countries.)

However, what has not changed to the same extent in Canada is the gendered pattern of caring responsibilities within families. While men have undertaken more work in the home as women participated to a greater degree in the workforce, women still carry most of the burden of household responsibilities (Statistics Canada, 2000; Clark, 2001; Fast and Frederick, 2004). Relatively few men take extended leaves from the workforce to care for children, and working women spend more time with children than do working men, although men have increased the number of hours that they spend doing child care each week (Daly, 1996; Silver, 2000; Zuzanek, 2001).

The labour force participation rates of adult children of aging parents who require care are also far higher today than was the case for previous generations. Indeed, a “sandwich generation” must often cope with the burden of caring simultaneously for both children and parents.

Women’s lifelong employment is critical to our future social and economic well-being. Without discounting the importance of choice for families, and the ability of women (or men) to take extended leaves to care for children or other family members, there are considerable benefits – for individuals and for society – when both women and men are engaged in full-time paid employment throughout most of their adult lives. Two incomes from the job market provide a higher material standard of living for families. Two incomes provide greater protection against the vicissitudes of unemployment and labour market change. Two incomes are not a guarantee against family and child poverty, but reliance on a single income carries a higher risk.

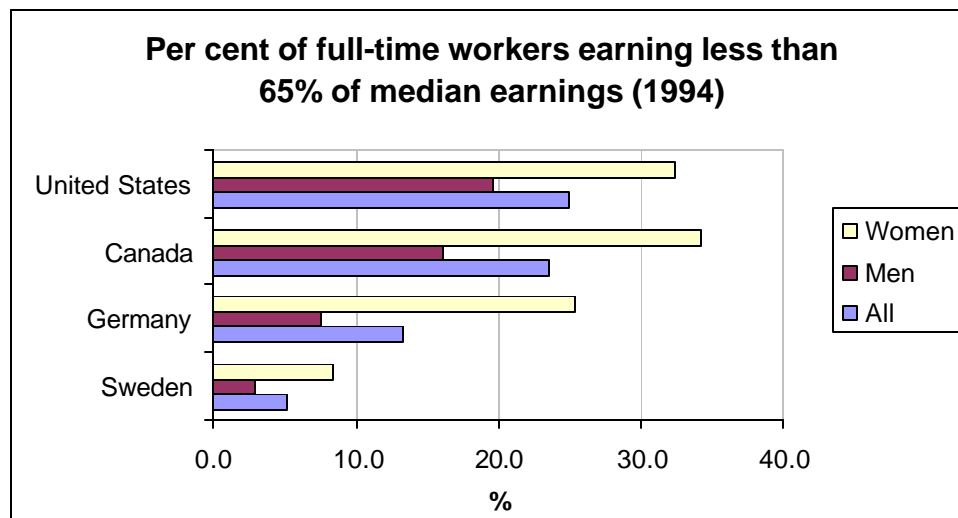
Moreover, high levels of employment for both women and men are needed to maintain the size of the workforce in a period of low fertility. While Canada does not face the same kind of demographic pressures as do many European countries at this time – in part, because of our high levels of immigration – high rates of labour force participation for working-age generations will be needed to help pay the economic and fiscal costs of a relatively large elderly population (see Esping-Andersen, 2002). Last, but not least, paid work for women affords them some measure of security and economic equality, for those with limited skills and little labour force experience face high risks of poverty if their marriage or common-law relationship breaks down, as many do.

The current pattern of work and family life poses considerable challenges for both caring and gender equality. In Canada, where we have high rates of female employment, a large low-wage private market has sprung up to meet caring needs – both market-based and non-profit/community-based. Much of our child care, for example, is delivered informally, and often low cost is strongly associated with low quality (Cleveland, 2003). Not-for-profit child and elder care providers do a good job with limited budgets, but their working conditions leave much to be desired – a point we return to below. Quality in private sector services is, on average, inferior to non-profit care.

There are also real issues with regard to the accessibility and quality of care which is available to families. Governments in Canada – with the notable exception of Quebec – do relatively little to assist families compared to governments in some other countries, and effective access to parental and family leaves is very limited for those who are self-employed, frequently unemployed or low-wage workers. How care work is to be accommodated in an “adult worker family model” is a major issue – today and going forward – and one that continues to be subordinated to economic and labour market concerns (Guillari and Lewis, 2005).

### **Low-wage Employment and the Service Economy**

Compared to other OECD countries, Canada’s long-term adult unemployment rate is very low, and the employment rate for both women and men is high. But Canada stands out as a low-wage country among advanced industrialized nations.



Source: OECD (1996b). *Employment Outlook*.

In the mid-1990s, about one in four full-time workers in Canada (23.7%) were low paid – defined as earning less than two-thirds of the median full-time hourly wage, or less than \$10 per hour in today’s dollars – compared to just one in 20 workers (5.2%) in Sweden, and only one in eight in Germany (OECD, 1996b). One in three Canadian women workers are low paid – an even higher proportion than in the United States – compared to less than one in 10 women in Sweden.<sup>5</sup>

Recent data from *Eurostat* defines low pay as earning less than 60% of the median wage and confirms the extraordinary level of wage equality in the Scandinavian countries. By the *Eurostat* definition, incidence varies from a low of 7% in Denmark, to 13% in France and 17% in Germany, to a high of 21% in the United Kingdom (EIRO, 2002). As in Canada, low pay in Europe is relatively concentrated among women working in consumer services, especially in small firms not covered by collective bargaining agreements; among temporary contract workers; among mainly women workers in caring services; and among men in unskilled blue-collar jobs (See also Nolan and Marx, 1999). Canadian studies show that individuals with low levels of education, recent immigrants, unattached individuals, and lone-parent mothers account for a clear majority of workers in low paid employment (Morissette and Picot, 2005).

In addition, new longitudinal research suggests that most low-paid adult workers – particularly women and those with low levels of education – remain low paid over time (Drolet and Morissette, 1998; Finnie, 2000; Beach, Finnie and Gray, 2003; Janz, 2004). Many working-poor families cycle in and out of poverty and near poverty as they find, or fail to find, enough weeks of work at decent wages during the year. A single person in a large urban centre must work more or less full-time in a full-year job and earn about \$10 an hour in order to escape poverty. Obviously that threshold is even higher if the single earner is supporting a child or spouse. A two-adult family with children must put in about 75 weeks of work a year at \$10 per hour in order to clear the poverty line (National Council of Welfare, 2004a).

<sup>5</sup> According to the 2001 Census, 23.6% of jobs held by people aged 17 to 64 paid low wages (below \$10 per hour in 2001 dollars). If we exclude those aged 17 to 24, the figure was 15.7% (Morissette and Johnson, 2005, Table 2). See also Saunders, 2005.

Those trapped in low wage employment also face a higher risk of having the employment terminated, and they have limited access to benefits (Vosko, Zukewich and Cranford, 2003).<sup>6</sup> In 2000, for instance, only 13% of low wage earners (those with wages below \$10 per hour) had access to non-wage benefits such as extended medical, dental, life and/or disability insurance, compared to 51% of workers who earned \$10 to \$19.99 per hour, and 77% of workers who earned over \$20 per hour (Marshall, 2003). What's more, low wage, precarious employment rarely involves the development of skills and capacities that can increase a worker's ability to access better jobs, to start and proceed on a lifetime career ladder, or to better handle labour risks such as unemployment (See Saunders, 2005: 12). It does not allow for the exercise of skills, capacities and capabilities on the job. "Dead-end" jobs – held disproportionately by women, recent immigrants, Aboriginal people and persons with disabilities – beget "dead-end" jobs.

### **Precarious Employment**

- Between 1989 and 2002, the proportion of the workforce in part-time jobs rose from 16.8% to 18.7%, with most of the increase taking place in the early 1990s.
- At least one in three adult part-time workers – overwhelmingly women – want, but cannot find, full-time jobs. These jobs are much lower paid, on average, and they provide lower benefits than full-time jobs.
- Further, the proportion of the total workforce in "own account" or self-employment rose from 7.2% to 9.8% between 1989 and 2002. These Canadians do not employ others, and they generally have very low incomes.
- The incidence of temporary work – seasonal work, plus work on short-term contracts – rose from 11.3% in 1997 (no consistent earlier data available) to 13.0% by 2002.
- Non-standard or contingent employment has grown in Canada, from 33% in 1989 to 37% in 2001. These include workers employed part-time on a permanent basis, those engaged in part-time or full-time temporary employment, or people working as "own account" self-employed.

The nature of service employment is a key reason behind the expansion of low-wage, precarious employment in Canada. While all service economies are not the same, the balance between "good" service jobs and "bad" service jobs is markedly different in different countries. In North America, low-productivity personal service jobs constitute a much more significant component of service employment than is the case in Scandinavian or continental European service sectors. The ratio of private-to-public sector jobs, for example, is six to one in the United States, four to one in Canada, and two and a half to one in Sweden and Denmark.

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<sup>6</sup> Leah Vosko and her colleagues use the concept of "precarious" employment to describe jobs which carry a high risk of unemployment and are relatively low paid. Precarious work can be "permanent" full-time employment which is frequently interrupted by unemployment; employment in temporary jobs; underemployment in involuntary part-time jobs; or employment in low-income "own account" self-employment. It is perhaps best defined by the combined risk of unemployment and relatively low pay.

In Canada and the United States, one in six people in the working-age population are employed in the retail trade, restaurants and accommodation sectors combined, compared to one in 10 in Sweden and Denmark (Scharpf and Schmidt, 2000). Overall, there is a much more polarized pattern of service employment in North America, where highly skilled professional employment co-exists with a sizeable pool of low-end, routine service jobs that offer poor working conditions.

Services will continue to dominate employment; indeed, service consumption is destined to grow as women engage in longer hours of paid employment and seek affordable care and supports to meet the needs of their families. The critical question is whether employment in the service sector must be “bad” employment, or alternately, low-skill traps. Experience from Europe suggests otherwise. The experience of Scandinavian social democracy in the 1990s reveals that a combination of high employment, relatively equal wages, and real opportunities for workers in traditionally low-wage, dead-end jobs *is* possible (Auer, 2000; ILO, 2003; EC, 2002). Even in the United States, some employers have eschewed wage freezes, benefit reductions, the use of temporary workers, or job relocations and instead employed high skills/high productivity strategies to improve financial performance (Appelbaum, Bernhardt and Nurmane, 2003). Building a distinct kind of post-industrial service economy that is based on a strong non-market sector and productive private services is key to creating higher-quality jobs and high levels of employment as has been achieved Europe.

### **Strain in the Non-profit, Voluntary Sector**

Non-profit and voluntary sector organizations are a vital part of every community. They provide a wide range of essential services and programs that touch virtually all aspects of our society – social justice, human rights, environment, health, faith, arts and culture. They play a critical role in promoting active citizenship, supporting economic and community development, and advocating on behalf of diverse communities and causes. These organizations help establish the connections among citizens, communities and governments that build social capital and sustain democracy.

A decade of growing economic and social tensions has focused attention on the non-profit and voluntary sector as organizations struggle to meet the needs of their communities. The combination of increased demands for service and reduced financial capacity has severely strained the ability of non-profit and voluntary organizations to pursue their mandates. Valued organizations have closed their doors, while others have cut back on their programs and activities (Howarth, 2003; Toronto, 2004). At the same time, many fear that established boundaries between the non-profit and voluntary sector and the state and the private market are now breaking down.

The unique contributions of the non-profit and voluntary sector are threatened by a funding environment in which non-profit organizations are forced to compete in the funding marketplace, while funders such as governments exert greater control over the organizations’ activities. The shift away from core funding to project-driven contract funding, the pursuit of commercial activity, and pressures from funders to adopt results-based management are three key trends signalling dramatic change in the sector (McFarlane and Roach, 1999; Reed and Howe, 2000; Scott, 2003). As well, non-profit and voluntary organizations report other serious challenges to their capacity,

including recruiting the right type of volunteers, obtaining board members, planning for the future, and providing training for staff and volunteers (Hall et al, 2004).

Data from the National Survey of Giving, Volunteering and Participating reveals that a small core of adults is responsible for the lion's share of charitable giving, organized volunteering and civic participation. In fact, only 28% of adults over age 15 accounted for 83% of total hours volunteered, 77% of total charitable dollars donated, and 69% of civic participation (Reed and Selbee, 2001). It is of additional concern that this group of civic leaders tends to be older, and the aging of this support base raises important issues for the capacity of community-based organizations to sustain their social welfare efforts as social innovators, high-quality service providers and community convenors. Further, low wages and poor working conditions for paid staff within the sector undermine the capacity of organizations to pursue their missions (Saunders, 2004).

In other countries, non-profit and public service delivery is a proven route for creating more highly skilled and well-paid jobs, particularly for women. In Canada, however, much of the non-profit sector has developed as a low-wage alternative to the provision of services through the public sector. Improving working conditions and financial security in the non-profit sector should be a priority for enhancing the quality and capacity of social welfare provision, facilitating the participation of community members in civic life, *and* creating high-quality employment.

### **Growing Income Inequalities**

Among industrialized countries, income inequality has been on the rise. After decades of relative stability in the distribution of family income, inequality began to increase in Canada in the mid-1990s.

Between 1989 and 2001, the market incomes – overwhelmingly job earnings – of the bottom 40% of families fell in real terms, by 7% for the bottom one-fifth of families and by 4% for the next fifth. The market incomes of the middle quintile basically stood still, up by only 1.8%, while those of the top 20% of families rose by 16.5%. Between 1989 and 2001, the share of market income going to the top 20% of families rose from 42.4% to 45.6%, at the expense of all other income groups.<sup>7</sup> In short, the earnings of the top have been growing away from those of the middle and the bottom, and earnings at the bottom have been falling in both dollar terms and in relative terms. An even closer look would show that within the top quintile, it is the top 10% and even 5% who have been doing very well.<sup>8,9</sup>

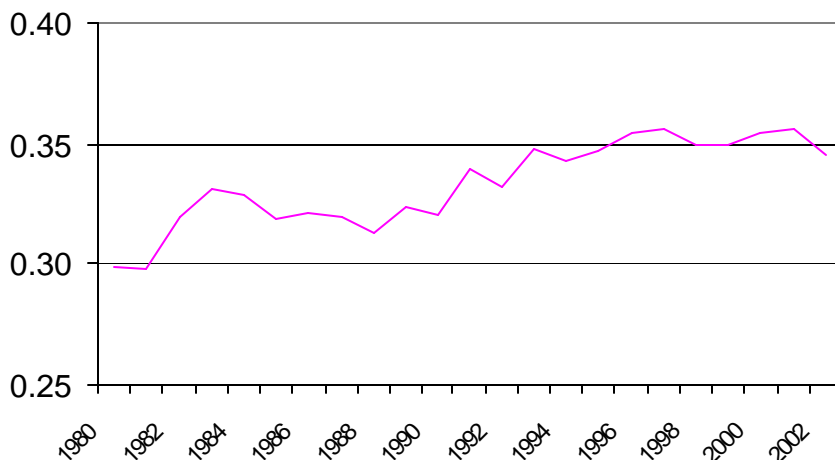
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<sup>7</sup> Data from the Survey of Labour and Income Dynamics is for economic families of two persons or more.

<sup>8</sup> According to Saez and Veali (2003), the share of individual income of the top 1% rose from 9.3% to 13.6% between 1990 and 2000.

<sup>9</sup> Underlying the trend towards greater inequality of earnings among families in Canada is the growing inequality of earnings for men and women. The median annual earnings of men have stagnated for two decades, yet since the mid-1990s, there has been an increase in the proportion of men with “high” annual earnings of more than \$60,000. Among women, the pattern of stagnation of median earnings is less pronounced, while the trend to more “high income” earners is much more pronounced. (See Beach, Finnie and Gray, 2003, for a wealth of supporting empirical detail.)

### Inequality in Market Incomes (Gini) Among Two-Parents Families with Children, 1980-2002



Source: John Myles, “Egalitarian Politics in Hard Times: Can Welfare States Still Promote Equality?” Unpublished Paper. Data based on SLID.

Income inequality after taxes and transfers has also been growing and this is of particular concern. Unlike the 1970s and 1980s, after-tax/transfer income inequality rose in the 1990s because cuts to transfers stopped their usual income-equalizing role. Between 1989 and 2001, the top 20% of families increased their share of after-tax/after-transfer income from 36.9% to 39.2%, while the share of all other income groups, including the bottom 20%, fell. By contrast, in the economic recovery of the 1980s (1982 to 1989), the after-tax income share of the top 20% of families remained the same. Thus in the 1990s, increasing family inequality among the working-age population has reflected two broad forces: increasing market income inequality, and a decrease in the counterbalancing impact of income transfers.

In 1993, for example, there were approximately 1.6 million unemployed workers over the year, 57% of whom collected regular EI benefits. By 2002, the number of unemployed had fallen to one million, but just 38% of those now qualified for benefits. While changes in the proportion of the unemployed who were eligible for EI benefits reflected, to some degree, a change in the makeup of the unemployed population – such as more new entrants to the workforce – the sharp decline in the proportion collecting benefits mainly reflected the policy shift to an hours-based system with higher qualifying periods of work. These changes heavily penalized many seasonal, casual and part-time workers – mainly women – compared to the system which existed in 1993.

The same story of growing inequality is apparent in the most recent evidence on wealth, which is even more unequally distributed than income. Between 1984 and 1999, the overall distribution of wealth became more unequal, with the share of wealth of the top 10% of family units rising from 51.8% to 55.7% of the total, and the share of the bottom 50% falling from 10.9% to 5.3%. Wealth rose significantly only at the high end (Morissette, Zhang, and Drolet, 2002).

Much of this increase in inequality of wealth is explained by the growth of financial assets among the most affluent, but inheritances also played a role. At the other end of the wealth spectrum, there has been a sharp rise in student debt and mortgage debt among younger families. As with income, the changing distribution of wealth is related to the erosion of the relative economic position of younger families, the less well-educated, and single persons, compared to other families. The absence of wealth among the bottom one-third of Canadians makes those households particularly vulnerable to the loss of income caused by a job loss, disability or other misfortune.

In this context, it is not surprising that Canada has made little headway in combating our comparatively high rates of poverty, particularly among children and working-age households. Child poverty – as measured by the after-tax low income cut-off – was essentially unchanged in the 1990s (11.5% in 1989 and 11.4% in 2001), before declining slightly to 10.2% in 2002. Poverty among persons aged 18 to 64 rose slightly over the 1990s, from 9.3% in 1989 to 10.6% in 2001, then also declined modestly to 9.7%.

### Relative Low-income Rates in Eight Countries

Nation (year)	Overall	Families with Children		Childless	Elders
		1 Parent	2 Parents		
United States (00)	17.0	41.4	13.1	11.1	28.4
United Kingdom (99)	12.3	31.3	8.9	7.7	24.6
<b>Canada (97)</b>	<b>11.9</b>	<b>38.9</b>	<b>9.5</b>	<b>12.1</b>	<b>5.2</b>
Netherlands (99)	8.9	26.8	7.9	9.5	3.2
Germany (00)	8.2	31.6	2.8	9.0	12.2
Belgium (97)	7.9	12.5	6.6	7.3	13.1
Sweden (00)	6.4	11.3	2.1	9.7	8.2
Finland (00)	5.4	7.3	2.2	7.6	10.1

Source: Smeeding (2003). Taken from Picot and Myles, *Income Inequality and Low Income in Canada*.

It should be remembered that even at the beginning of the decade, Canada had much higher poverty rates among children and the non-elderly than many other industrialized countries, and bigger gaps in family after-tax/transfer incomes (UNICEF, 2005). In short, our system of social transfers was not particularly generous to begin with, and this was especially true of our social assistance programs (NCW, 2004).

While the poverty rate has been fairly stable (rising in the recession, then falling in the recovery), the depth of poverty has increased due mainly to falling social assistance incomes for those outside the job market and a collapse of earned income among the working-poor (Picot, Morissette and Myles, 2003). In the second half of the 1990s, very low incomes for some vulnerable groups combined with rising rents in many big cities to produce a sharp rise in the homeless population and the number of people who were precariously housed. Family homelessness was almost unknown in Canada in the late 1980s, it soared in the late 1990s, and has since remained at historically very high levels. One contributing factor has been the near elimination of social

housing programs, as well as the huge gap between market rents and the incomes of social assistance recipients and vulnerable workers.

Poverty has also become more concentrated among some particularly vulnerable groups – notably, recent immigrants, the single near-elderly (those aged 55 to 64), Aboriginal persons, and persons with disabilities (Hatfield, 2003). High rates of poverty among new immigrants are particularly troubling. The majority of new immigrants still make economic progress over time, but a significant minority are experiencing very low incomes and have jobs that are well below their skill level. The risk of poverty among recent immigrants has increased sharply, from 1.4 times the national average in 1980, to 2.5 times the national average in 2000. In 1980, 25% of immigrants who had arrived in Canada in the previous five years lived in poverty, whereas by 2000, it had grown to 36%. Increased poverty among immigrants, including those who have been here for up to 15 years, explains almost all of the increase in poverty among all Canadians over the 1980s and 1990s (Picot and Hou, 2002).

Inequality and economic vulnerability are not new. In fact, welfare state reformers of the mid-century were driven to create a more equitable society in the aftermath of the Depression. But the face of inequality has changed over time. Economic and demographic trends have culminated in new divisions – between the young and the old, between Canadian-born and immigrants, between highly educated and poorly educated Canadians, between single-earner and dual-earner households – that pose profound challenges for present-day reformers.

### **The Connection between Employment and Earnings in the Knowledge Economy**

In the new and rapidly changing global economy, education, skills training, and lifelong learning (i.e., investments in human capital) are widely viewed as the key to success for individuals, firms, and countries.

Investments in education and skills, and the fostering of an advanced knowledge-based economy are critical to maintaining and increasing Canadians' living standards. If Canadian-based companies are to successfully participate in global markets, and create new jobs while improving wages and supporting higher social standards, then we must produce high-quality and innovative products and services. This requires a highly educated and skilled workforce. Recent work by the OECD confirms that countries which have invested most heavily in education and worker training have achieved higher rates of job creation and economic growth (Arnal, 2001).

Not all jobs require a high level of skill. As noted above, new job creation in Canada has been concentrated at both the high and low ends of the skills spectrum. But the average skill content of jobs has been gradually rising because of faster-than-average job growth in professional and technical occupations, and because of the rising skill content of jobs within a wide range of other occupations (Betcherman et al, 1998). Increasingly, workers in all occupations and industries will need higher levels of education and skills to find and keep jobs, particularly well-paid and secure jobs. Moreover, the evidence is clear that education and access to training on the job allow workers to follow progressive career ladders and better adapt to change. Thus, regardless of the employment scenario, access to good jobs will depend on skills, as will mobility out of McJobs (Esping-Andersen, 2004).

Without broadly based, equitable access to lifelong learning and skills training, many workers will be left behind, consigned to precarious and marginal jobs that provide low levels of employment security, low pay, limited career prospects, and a high risk of poverty. This is especially true of young people who leave school early, women who leave the workforce for extended periods, older workers who fall victim to industrial restructuring which devalues their existing skills, and new immigrants whose skills and credentials are often not recognized.

The Adult Literacy and Life Skills Survey highlights the critical importance of literacy. About one in seven Canadians aged 16 to 65 were ranked at the lowest performance level in 2003, down slightly from 17% in 1994.<sup>10</sup> This represents three million Canadians who have problems dealing with printed materials. Perhaps most troubling, the survey revealed an apparent decline in literacy skills among young people aged 16 to 25, particularly those whose parents had low levels of education (Statistics Canada, 2005).

The need for good education and training over the life course has never been more important. There is strong evidence that social origins – the socio-economic status of the family into which children are born – continue to affect life chances as much today as they did in the past, despite significant investments in public education (Erikson and Goldthorpe, 1992; Shavit and Blossfeld, 1993). The connection between people’s opportunities and their social origins persists. While economic mobility between generations is more pronounced in Canada than in the United States or the United Kingdom, short-term mobility – that is, movement from one quartile to the next – is far more likely than long-range mobility (Corak and Heisz, 1998).<sup>11</sup> The long-term position of adults in the income/jobs hierarchy is still deeply conditioned by the income and socio-economic status of their parents (Corak, 2001).

The specific pathway through which advantage and disadvantage are reinforced or diminished remains unclear, but increasingly researchers point to the early years as critical, a period during which a host of skills and resources shape child well-being and healthy development. Attainment in the early years sets the stage for later in life: past disadvantage can “snowball” into ever larger problems for the child over time (Hoddinott, Lethbridge and Phipps, 2002).

While there has been scepticism in Canada about the effectiveness of training for vulnerable workers, research is now showing that lower-paid workers can benefit from investments in lifelong learning (ILO, 2003; Madsen, 2003; OECD, 2004). Moreover, training can be a real force for improvement in normally low-wage private services by enabling employers to pursue business strategies that require higher skills and lower-skilled workers to climb job ladders (Applebaum et al, 2003).

The key message is that the knowledge economy is raising the ante – the basic requirements for securing a good job and a good income have increased. Gaps in education and skills are major

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<sup>10</sup> The ALL Survey measured skills in four domains: prose (continuous text such as the type in books); documentary literacy (such as graphs, charts and other written information of a discontinuous nature); numeracy; and problem solving or analytical reasoning. See Statistics Canada (2005), *Learning a Living: First Results of the Adult Literacy and Life Skills Survey, 2003*, Catalogue No. 89-603-XWE.

<sup>11</sup> These results are sensitive to notable differences in measurement among mobility studies.

reasons underlying the income and job quality polarization of post-industrial economies. Given the prevalence of low-wage and precarious employment noted earlier, the consequences of this pattern of employment are significant and long-term in nature. The key question now is whether citizens can be ensured of having realistic chances of economic mobility.

### **Looking Forward ...**

There are challenges and opportunities in the social and economic forces transforming Canadian society. We have noted the serious challenges ahead. On the positive side:

- The growing cultural, racial and linguistic diversity of the Canadian population, particularly in the largest cities, is a major benefit in the global economy, and it provides new richness to the country's social and cultural environment. While far from perfect, Canada is rightly seen around the world as a major success in terms of building a socially inclusive yet culturally diverse society.
- In the 1970s, poverty levels for Canada's seniors were among the highest in the affluent democracies; by the 1990s, they were among the lowest. Canada is considered an international leader in tackling poverty among seniors.
- Young Canadians are among the best educated in the world. In the knowledge economy, a well-educated workforce is a key attraction for business investment. A well-informed population is also better prepared to be engaged in civic life and dialogue on public policy issues.
- If Canadians are healthier as they grow older and they are living longer, there is the potential for their skills and knowledge to be valued and used longer, either by postponing full retirement or by encouraging them to use their expertise for social initiatives in their communities.
- The massive number of women entering the Canadian workforce is improving their family's income, providing a buffer against hard times (since two incomes are safer than one), and improving women's economic equality. There is also evidence that the division of labour between men and women is more balanced than in the past, particularly among young adults.
- Overall, the Canadian economy is producing jobs at a healthy rate – 2.5 million jobs between 1993 and 2002. Canada's employment rate is now at an all-time high, even higher than that of the United States. Between 1993 and 2002, the employment rate for all persons aged 15 to 64 rose from 58.0% to 61.8%, and the employment rate for the core working-age population (25 to 54 years) rose sharply, from 74.9% to an all-time high of 80.2%.

While at times, the challenges may seem insurmountable, there are opportunities as well. Canada is well-positioned to build on past strengths and to chart a course to the future.

## The Welfare State in Transition

The welfare state developed by social architects in the post-war period took different forms in different countries. There are, for example, major differences between the model adopted by the predominantly English-speaking countries, including Canada, the U.K. and the United States, and the model adopted by European and Scandinavian nations. Those differences were both philosophical and practical.

In the model of the mainly English-speaking countries, social welfare programs generally favoured liberalism, individualism and the private market. There was an explicit bias towards targeted, needs-based entitlements, low wage replacement rates in transfer programs, considerable discretion in determining eligibility, low levels of employment protection, and little by way of active labour market policy or vocational training. Emphasis was placed on private market alternatives, employer-sponsored programs in core sectors, as well as supports and services available for purchase to those with financial means.

The social reformers in post-war Canada built a system of social protection to insulate citizens from the power of the market so graphically illustrated by the Depression. The risk or threat of income interruption due to old age, sickness, disability, widowhood and unemployment was the key driver behind the development of Canada's systems of social provision. It was not to create an alternative to markets or families as the primary sources of social welfare, but rather to create a "safety net" for those who could not – for reasons deemed "acceptable" – participate in the labour market.

By contrast, the welfare state in Europe was characterized by higher investments in social services, beyond health and education. The degree of protection was comparatively stronger. While equality of outcomes was of specific interest to policy-makers in Canada – reflected in the universal family allowances and pensions, and large-scale investments in health and education – it was not a dominant concern.

Similarly, the goal of full employment and active labour market management that underpinned the vision of European reformers was never fully embraced in Canada (Myles, 1996). Here, individual families, headed by gainfully employed fathers, were expected to make their own way, to ensure the welfare of their individual members by drawing on available community supports and services if and when needed. The public and private domains were understood as clearly distinct. Even during the economically buoyant post-war period, many Canadians fell through the porous social safety net.

While differing from the European model in these ways, the Canadian social architecture also took on some unique characteristics as a result of federalism and regional differences. It has been observed that Canada's social architecture is constructed around the politics of place, not the politics of class, as has been the case elsewhere (Jenson, 1989; 1990).

In the 1930s, the inability of poorer provinces and municipalities to meet the relief burden of the Great Depression set in motion a process of massive centralization of responsibility for income security in Canada (Banting, 1987). The central government emerged as a nation-builder, forging

social bonds among citizens and across regions. A common set of national goals or standards was established in key areas of social policy, such as unemployment insurance, child benefits and old age security, that produced large inter-regional transfers from richer to poorer provinces. In the 1960s, the redistributive impact of national standards in social spending was complemented by a complex mix of direct federal-provincial equalization payments and cost-sharing arrangements.

The federal government was the major, if not the leading, actor in post-war social policy development. In collaboration with the provinces, it expanded direct income transfer programs to individuals and households. It was also active in spurring the development of programs such as health care and child welfare services through cost-sharing arrangements and equalization payments intended to ensure that broadly comparable services were available to all Canadians, regardless of the fiscal capacity of the province in which they resided.

This vision was not universally shared. Politicians in many provinces, notably Quebec, were loathe to cede the social agenda to an activist federal government. Nevertheless, the federal government spending power, through vehicles such as the Canada Assistance Plan (1966) which provided cost-sharing for social assistance and other social services, and the Hospital Insurance and Diagnostic Services Act (1957) and subsequent, the Medical Care Insurance Act (1968), meant that Ottawa was able to push forward.

By the mid-1970s, most pieces of the Canadian social architecture were in place, a patchwork of services, demogrants, social insurance, and means- and income-tested programs. “Admittedly, the post-war welfare state never delivered completely on its promise of economic security. Nevertheless, it did represent an effort to balance economic liberalization and economic security, one which contributed to a relatively broad political consensus underpinning the role of the state for almost half a century.” (Banting, 2003: 4)

### **A Period of Retrenchment**

In most countries, including Canada, the era of rapid policy innovation and institution-building peaked in the mid-1970s with the emergence of relatively stagnant growth and high inflation. The inflationary spiral was only brought to a halt when the Bank of Canada raised interest rates in the early 1980s to historically unprecedented levels, engineering the deepest recession that Canada had experienced since the Depression.

Among policy-makers, the confident belief that fiscal stimulus and social spending were the handmaidens of a sound economic policy to maintain high levels of employment was profoundly shaken. Instead, attention turned in the 1980s to strategies of cost containment and debt reduction to address what was perceived in some quarters to be a crisis of the welfare state. Pressures to scale back social welfare programs were spearheaded by those who saw social programs as the cause of public fiscal woes, both a source of massive inefficiencies and incentive-sapping levels of taxation. The counter-cyclical consequences of social expenditures were seen as inflationary, while the cushioning effects of income security programs were deemed to be impediments to necessary economic adjustment.

Governments in the United States and Britain, to name the two most notable examples, undertook to dismantle or cut back key social programs and to emphasize the role of the individual and the private market in the provision of social welfare.

In Canada, fiscal retrenchment was a key response. Spending reductions by the federal, provincial and municipal levels of government in Canada were much more severe than in other OECD countries, 18 of which moved from deficits to balanced budgets at more or less the same time as Canada in the late 1990s. Between 1992 and 2002, total Canadian government spending fell by 10 percentage points of GDP, compared to 4 points of GDP in the United Kingdom and 2 points in Italy, the only other OECD countries where program spending fell significantly.

Across the OECD as a whole, including the United States, program spending hardly fell at all as a percentage of GDP over this period. Indeed, the difference between Canada and the U.S. declined from 10.9 percentage points of GDP in 1992 to a remarkably small difference of just 2.9 percentage points in 2001. Canadian governments collectively spent 34.8% of Canadian GDP on all programs in 2001, while U.S. governments spent 31.9% of U.S. GDP. There has been a downward convergence to the U.S. expenditure levels, including social spending.

Some of this decline was purely cyclical in nature (in 1992, Canada was in a deep recession), but some was engineered as part of the assault on the deficit which included changes to Employment Insurance discussed above, and the dismantling of the Canada Assistance Plan (CAP) and Established Programs Financing (EPF).

Looking at federal program spending, expenditures save debt service costs fell from 15.7% of GDP in 1993-94, to an estimated 11.7% of GDP in 2003-04.<sup>12</sup> This is the equivalent of almost \$50 billion less in current spending. While most cuts came in the period of deficit elimination that culminated in 1997-98, federal program spending has continued to decline as a proportion of national income at a more modest pace, making room for tax cuts and debt reduction.

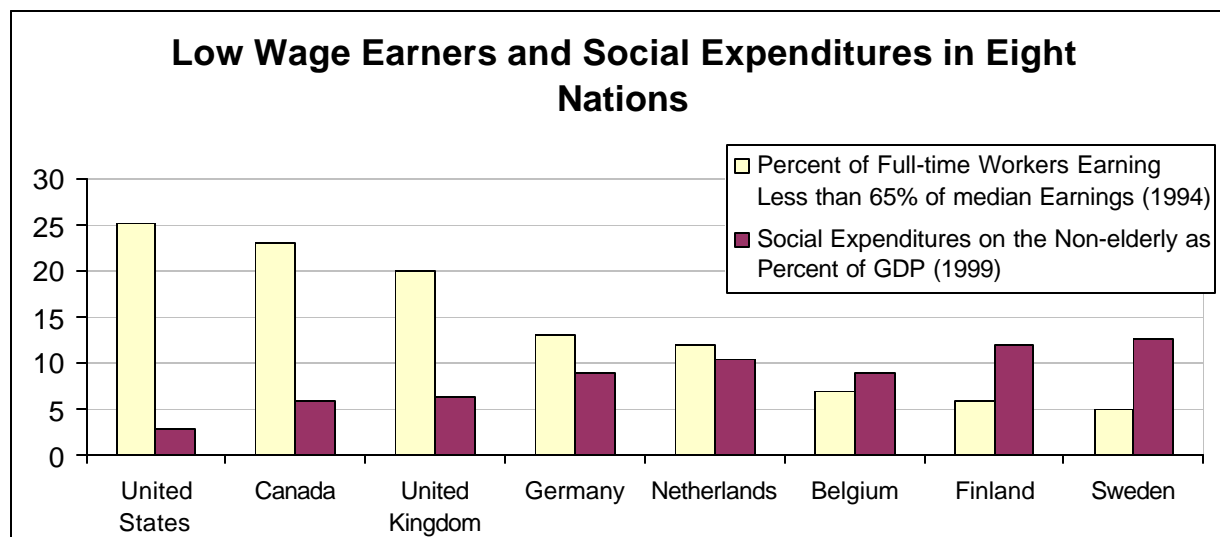
Gains in labour income from higher employment were, in the aggregate, offset by lower income transfers to working-age households from all levels of government. At lower income levels, cuts to transfers just about offset all gains in earnings. For example, deep cuts to social assistance, particularly in the two richest provinces of Alberta and Ontario, resulted in major income cuts to Canada's poorest households and increased the depth of poverty for many vulnerable groups, particularly lone-parent families and persons with disabilities. Eligibility for disability benefits under CPP and provincial social assistance was also tightened and related benefits more narrowly targeted. The introduction and enhancement of the National Child Benefit which improved the financial position of many low- and middle-income families with children, did not – by design – improve the situation of most poor families receiving social assistance.

Similarly, cuts to and the restructuring of Employment Insurance had a significant impact on family incomes. The dollar savings were much higher than was justified by the fall in unemployment, and the cost was borne directly by the unemployed – particularly women,

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<sup>12</sup> Department of Finance. *Fiscal Reference Tables*, and *Fiscal and Economic Update*, November 2003.

seasonal employees and part-time workers. The sharp decline in coverage has been directly linked to the introduction to an hours-based system with higher qualifying periods of work.



Source: Calculations by the Canadian Council on Social Development using data from the OECD's *Employment Outlook*, 1996b, and Smeeding (2003) based on OECD figures.

Federal transfers to the provinces and territories were also scaled back as well. In 1993-94, transfers to the provinces made up 23.5% of all federal program spending (mainly equalization, health care, post-secondary education and the Canada Assistance Plan). In 2003-04, transfers are estimated to be 20.3% of program spending. Thus, transfers to the provinces have been cut deeper than many other areas.

As importantly, the structure of transfers changed with the termination of CAP, which covered cost-sharing for social services and the EPF, which covered health and post-secondary education. They were merged into the Canada Health and Social Transfer (CHST) and subsequently separated into the Canada Health Transfer for health care spending and the Canada Social Transfer, which consolidates all social services and post-secondary education.

In reality, health has swallowed up the lion's share of federal funds. Very little federal financial support is now provided for provincial social assistance programs and related social services, at least compared to the levels of the 1980s. As well, the loss of federal "50-cent dollars" (equal cost-sharing) has undoubtedly been a factor in provincial freezes or cuts to social assistance benefits and social services, and a reluctance to embark on major new social service initiatives like child care (outside of Quebec.)

Recent federal initiatives have seen some re-engagement in social services (child care and early childhood education, affordable housing), but funds are much more limited, and the federal role is much more modest. In short, the relative disengagement of the federal government from the provision of both income transfers to the non-elderly and social services has been an important change over the past decade.

Some would argue that federal program spending in 1993-94 was “too high,” but the current 11.7% level of spending takes us back to the 1950s, before the introduction of most of today’s major social programs.

### **Recalibrating Social Policies**

Cost containment has certainly been the most visible strategy that governments have employed to address mounting fiscal pressures. At the same time, governments at both the provincial and federal levels have pursued other reform strategies over the past 20 years to modernize Canada’s social welfare system. Indeed, Canada has emerged as something of a “poster child” for new social policy in their efforts to “recalibrate” income security policy (Banting, 2003: 7).

Central to these efforts has been the introduction of new negative income tax (NIT) style policies, notably the National Child Benefit. Canada has a long history with NIT policies; the most significant exemplar of this design is the Guaranteed Income Supplement (GIS) for seniors, introduced in 1966. NIT-style blueprints for social policy are described by Myles and Pierson as “the progeny of austerity.” Because they are highly targeted, they cost less than universal programs. At the same time, because benefits are gradually phased out as incomes rise, these programs are more effective than means-tested programs in sustaining work incentives (Myles and Pierson, 1997: 10).<sup>13</sup>

Eligibility for NIT-style programs is determined exclusively through income reported on the tax return, in contrast to conventional “poor relief” policies typical of liberal welfare states. A minimum level of benefit is provided to a target population with no other income (the guarantee level). As income from other sources rises – typically through employment – benefits are taxed back at a designated rate below 100%. Benefit levels are eventually phased out altogether at a set “break-even” point. In practice, NIT programs tend to be divided into two programs: one tier is intended for people where there is little expectation of employment; the other tier is designed for those who are expected to seek paid employment, with a lower guarantee level and tax-back rate and a higher relative break-even level.

Federal and provincial governments are also experimenting with other incentives to “make work pay,” including the provision of supports such as child care and retraining, and “in-work” benefits such as subsidized dental and pharmaceutical plans. The intent of these programs is to facilitate the labour market participation of Canadians, especially groups that have historically been marginal labour market participants, including women, persons with disabilities and those with low-skills. As such, the introduction of these programs has been an important complement to the welfare system, particularly for low- and modest-income Canadians.

The other strand of reform in social welfare evident over the last decade is the emphasis on human capital development. Canada has taken a number of steps towards creating what Anthony Giddens calls a “social investment state,” one which supports lifelong learning, improved job

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<sup>13</sup> Another feature is that NIT-style programs tend to be difficult to understand. The intricacies of the tax system make it easier for governments to phase in changes as largely technical amendments to regulations that effectively limit public discussion and conflict over policy change.

quality, broader social inclusion strategies, and quality services across the income spectrum, including children's services, health, education, and urban infrastructure (Giddens, 1998).

In Canada, children have emerged as a central focus of activity. At the federal level, the government has steadily enriched child benefit levels over many years in efforts to reduce the debilitating impact of child poverty in Canada. Reform of parental benefits and the introduction of a limited caregiver benefit program have also been important "family-friendly" initiatives. As well, provincial governments have invested to varying degrees in children's services, particularly those that target low- and modest-income families. Quebec, in particular, stands out as developing exemplary child care and other early investment services. The ir \$7/day child care system has inspired current efforts to build a pan-Canadian child care program. The federal government has earmarked funds to build such a program but has yet to conclude an agreement with the provinces. Canada's early childhood development system remains a patchwork of varying quality, inaccessible to the majority of Canadian families (OECD, 2004).

Other facets of the social development strategy have received less attention. Significant funding has been set aside for research and development, and initiatives such as the Millennium Scholarship program are attempting to offset the costs of post-secondary training for young people. But there has been little or no action on a broader lifelong learning strategy which encompasses early childhood development through to ongoing workplace training. Indeed, the type of investments in human capital that have been made to date disproportionately benefit the elites – elite researchers, elite students – as opposed to strengthening the basic educational systems in Canada.

Canadian educational systems have lost ground over the last decade, as provinces have struggled to accommodate demands for ever-increasing health care spending. Training programs for working-age adults are undeveloped, certainly in comparison to programs available in other countries (Betcherman, et al, 1998; Statistics Canada and HRDC, 2001). High levels of poverty among immigrants speak to the inadequacy of efforts to integrate new Canadians into the labour market. Little effort has been directed towards improving the quality of employment, particularly for those at the bottom of the income ladder. Indeed, low-income Canadians have effectively no access to the training system funded through the EI system. As Keith Banting notes, "human capital has been given pride of place in policy blueprints [but] not in actual budgetary allocations." (Banting, 2003: 13)

### **Running Hard to Stand Still**

The emphasis on the market as the primary source of social welfare has not changed over the years. Security and equality are still identified as key social policy goals. What *has* changed is the definition of how these goals should be achieved. The welfare state is no longer seen as an instrument to protect citizens from the risks of life in market economies; rather, there has been a transition from the idea of security as "protection *from* change, to security as the capacity *to* change." The challenge of policy design is "to transform social policy into an instrument of change, by trimming historical protections, strengthening incentives to adjust, and equipping citizens to cope more effectively with economic transitions." (Banting, 2003: 5).

By and large, however, the main political debate has not been about whether low-skilled workers should be in the labour market or not, but rather about the terms under which their participation should take place (Pierson, 2001: 435). The standing of those who are not engaged in the paid labour market is largely peripheral. Similarly, the model's accent on private welfare for the majority – such as private insurance for drug benefits, home care, RESPs, maternity top-ups – similarly reinforces social dualisms between those who are in or out of the paid labour market and those with the shrinking number of stable “good” jobs and those in precarious “bad” jobs.

These themes have been taken up in different ways in different countries. In Canada, there has been a clear effort to redefine government's responsibilities vis-à-vis markets, families and communities. Cost containment strategies have figured prominently, certainly as evidenced by cutbacks on the ground, if not in policy blueprints for the future. So too, the emphasis on private provision and strategies to “make work pay.” With regard to the latter, income security programs such as the child tax benefit have been redesigned to enhance work incentives, and stricter eligibility requirements and lower benefit levels have been introduced in programs intended to support working-age people through periodic spells of unemployment or other absences from the paid labour market. Overall, we see a further targeting of expenditures on poverty alleviation and health care evident among other countries in liberal welfare states (Castles, forthcoming).

Governments in Canada have attempted to offset rising labour market inequality among families with children and highlighted the need to reconcile employment and care and engage in lifelong learning. But these efforts have largely fallen short of the mark, especially in light of the failure of markets to generate a sufficient stock of “decent” employment, evident in growing levels of family inequality. Strains in the community sector among voluntary organizations are also clearly evident. While the welfare state is certainly not withering away, as some have argued, it is failing to address the new “high inequality equilibrium” that characterizes Canada today.<sup>14</sup> We are running hard to stand still.

One can debate at length the merits of fiscal retrenchment in Canada in the 1990s, and there are reasonable differences regarding the extent to which federal and provincial public social spending on income transfers and social services had to be cut, and at what pace, in order to balance government budgets. However, there can be little doubt that the major restructuring of the welfare state has had deep implications for social well-being.

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<sup>14</sup> John Myles (2005). “Egalitarian Politics in Hard Times: Can Welfare States Still Promote Equality?” unpublished manuscript.

## **Towards Building a New Social Architecture**

In some respects, Canada has made important progress towards creating a prosperous and inclusive society – creating the collective means through selected policies and programs to care for ourselves and one another. However, after about a decade of retrenchment and recalibration of the welfare state in the 1990s, a number of indicators of well-being among Canadians are declining.

Canada faces long-term, structural forces that are unlikely to go away. If we as a society fail to respond, we run the risk of higher levels of social and economic polarization, the entrenchment of a marginalized underclass, and declining overall levels of social and economic well-being and prosperity.

We need new thinking because the ideas, relationships and institutions that have defined Canada's social welfare mix between market, state, family and community over the past 30 years are ill-equipped to address the current challenges. The disjuncture or disconnect between the social welfare mix and the major social and economic trends is graphically illustrated in rising levels of income inequality, particularly among new immigrant and Aboriginal families. Many families and households now struggle to secure living wages while attempting to reconcile the demands of family and community life, yet others enjoy a life of affluence increasingly distant from the majority. Community services are hard-pressed to sustain programs and services in the face of increasing demands.

Governments in Canada, as elsewhere, are struggling to address challenges to their systems of social protection while at the same time, aspiring to be a more innovative and competitive force in the new global, knowledge-based economy. But while the demand for change is obvious, the way forward is not as clear. Long-term structural problems are not likely to correct themselves, and tinkering around the edges of individual policies and programs is similarly unhelpful in light of the fast pace of change and the range and complexities of current social and economic challenges.

Instead, a fundamental rethinking of the post-war welfare edifice is needed, a new “social architecture”<sup>15</sup> to build an inclusive and prosperous Canada. The timing is right, as we emerge from a period of under-investment in the social infrastructure from the past and a relative absence of investments in new social experiments to respond to the current, and future, social and economic risks.

The primary concern of post-war social reformers was how to ensure full employment (the “foundation”), not the creation of generous social programs. If one could ensure that the majority (of adult males) were employed at decent wages for most of their lives, societies could afford generous social programs to deal with the social risks (illness, disability, lack of labour income

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<sup>15</sup> Gosta Esping-Andersen and his colleagues use “welfare architecture” to describe their own proposals for welfare state reform in Europe (Esping-Andersen et al., 2002: xxv). They call for a coordinated response to four great challenges: a new family policy; a new gender contract; a new generational contract; and a new social framework for Europe.

in old age, fluctuations in the business cycle) that led to spells of unemployment or permanent exit from the labour market. Rising productivity meant more revenues were available to build schools and health care institutions (one of the major achievements of the 1950s and 1960s) that, in turn, raised the educational levels and health status of the population, leading to further productivity gains – a virtuous circle. The challenge today is to identify a new “virtuous circle” – a set of policy and program strategies that are mutually reinforcing going forward.

### **A New Frame of Reference**

There are many factors to consider in proposing a social architecture. Income from employment, for one, is the fundamental basis of economic and social well-being for individuals and families in market economies. Thus, a productive and growing economy is essential to individual and collective welfare. But it is not enough.

It is also necessary to ensure that people have the ability to choose lives that they personally have reason to value (Sen, 1992, 2000). This fundamental exercise of choice is only possible when all individuals are able to meet their basic needs (Rawls, 1982). Stated another way, the ability of individuals to realize their aspirations and engage in social relationships critical to their well-being hinges on the equality of basic conditions within a society. Thus, providing for human needs – the basic rights of citizens in liberal democracies – is a precondition for effective and autonomous choice in the pursuit of life and happiness (Osberg, 2001).

One can debate, for instance, how much equality of condition among parents is required to secure genuine equality of opportunity among children, but certainly big income gaps and large distances between the wealthiest and the poorest militate against real opportunities and equal life chances. Most would also agree that equality of access to “primary” goods such as health care, education and housing are also prerequisites for the exercise of autonomous choice. This doesn’t mean that everyone will have the same health or education “outcomes,” but it does imply a certain equality of condition in, say, the consumption of health care in order to facilitate participation in the life of the community.

Some economists theorize that there is an inevitable trade-off between more equality and economic growth. But in the real world, among advanced industrialized countries, there is a wide range of both economic and social performance, and no systematic linkage between the two (Aidt and Tzannatos, 2003; OECD, 1997; Baker, Glyn, Howell and Schmitt, 2002). Contrary to economic orthodoxy, some European economies – notably Denmark and the Netherlands – have performed very well in terms of economic growth and low unemployment the 1990s, combining high levels of quality employment with low levels of poverty, inequality and insecurity (Jackson, 2000b; Auer, 2000; ILO, 2003).

The sources of success seem to lie in an intelligent redesign of social programs to balance security and job creation needs, high levels of social investment in early childhood and in education and training, co-operative business-labour relations, recognition of the need for an investment-friendly climate, and a high level of social consensus on the desirability of a relatively equal and inclusive society.

While Canada lacks the very strong “solidaristic” social democratic traditions of the Nordic countries, and is closely integrated with the United States, it is also true that our national identity is very much bound up with maintaining and enhancing a distinctive social model in North America. In short, we cannot imitate European models, but we can and should learn from them and adapt them to our own circumstances.

And it is certainly in our interests to raise our sights higher. It is possible that “too much” equality can reduce incentives and efficiency, and that high taxes to finance generous social programs may reduce business investment. But at the same time, there are large economic costs attached to poverty, marginalization and inequality that must be acknowledged. Many economists have begun to study the impacts of human capital and social capital on growth and productivity (Osberg, 2003). Simply put, too much inequality and poverty is bad for the economy if it leads to the loss of the skills, talents and capacities of the bottom third, if it makes workers and citizens less concerned and less willing to co-operate with others, and if it leads to too many costs such as high crime and blighted communities. By the same token, productivity is enhanced in a knowledge-based economy if workers at all levels of the occupational hierarchy have high levels of education and basic skills, enjoy good health, and want to make a productive contribution.

Ultimately, it is an extraordinary waste of human potential to relegate members of our community to the social and economic margins. Providing support to meet basic needs, respecting human rights, promoting the active participation of community members in social, economic, cultural and political life, and affording opportunities to learn over the life course are the key building blocks of a new social architecture for the 21<sup>st</sup> century.

This discussion paper has described some of the challenges and opportunities in Canada today. It raises questions about the often confusing roles and responsibilities of families, markets, communities and states in the provision of social welfare. It outlines some key considerations to bear in mind as we debate a new social vision for Canada. The next step is to identify the strategies and tools – the building blocks – necessary to address these challenges and capitalize on the opportunities before us.

Looking forward, strategies are essential to contain and, ideally, reverse the growth of market-based inequalities. Increasingly, labour market conditions run counter to the goal of promoting high levels of socially inclusive employment. We therefore need strategies that invest in the care and development of children and provide for lifelong learning, strategies that facilitate the transitions between employment and other life activities over the life course (notably caring), and strategies to raise the quality of employment for Canadian workers across the board, and especially among those in low-paid, precarious employment.

Lately, attention has focused on supply-side strategies. As importantly, however, demand-side strategies which foster innovation and increased productivity, and induce the creation of more well-paid jobs, must also be an important part of the tool kit of egalitarians. High-equality countries such as Sweden are successful not only because of generous social programs, but also because the primary distribution of income through the job market is fairly equal. Facilitating the

growth of “good” employment that is both socially inclusive and highly productive is essential to the vision of a new social architecture for Canada.

And while keeping an eye on the future is important, we cannot afford to lose sight of the present. A new social architecture must also address tensions that are negatively affecting the health and well-being of citizens in the present day. For example, lifelong learning initiatives are unlikely to change the skill profile or income distribution of current cohorts. For the intermediate term, traditional redistributive strategies must also remain as part of our architecture tool kit. Much more flexible programs are needed, programs which sustain people who have precarious or little labour force attachment, and programs which support their efforts – in respectful ways – to gain greater self-sufficiency and build relationships.

Obviously, income is central to individual and family well-being in market economies. Therefore, creating inclusive employment and responsive and adequate income security programs are essential building blocks of a new social architecture for Canada. As importantly, we also need creative strategies to address the caring needs of families and communities. The stereotypic traditional model of a male breadwinner and a female homemaker presumes caregiving to be a private, largely female, concern. Meanwhile, however, families struggle alone with the new demographic, social and economic realities. Clearly, the answer lies in acknowledging the collective character of caregiving, and equitably redistributing the costs and responsibilities between men and women, and between households, communities, markets and governments.

Healthy neighbourhoods help create healthy families. Fostering and supporting the vitality of neighbourhoods and communities is important to social and economic well-being. Public and private strategies are needed to build more-inclusive communities that facilitate the active participation of members, build networks of social support, and strengthen the non-profit and voluntary sector.

The success of any reform initiative lies in its ability to engage citizens and decision-makers in the process of change. Experience from the European Union and their open method of co-ordination (OMC) reveals that success *is* possible through negotiation with multiple stakeholders and consensus-building to create a public base of support for reform. Leadership in this regard is critical in facilitating active citizen engagement and public participation.

### **Encouraging Dialogue**

A paper like this can only be suggestive of some of the elements to be considered in crafting a new social architecture. It is meant to spur discussion about the critical need for social policy reform in Canada. A broad range of people and organizations will be encouraged to join in this dialogue. As citizens, we have the opportunity and the responsibility to participate in the public discourse. The task of building a new social architecture is about the future of our country – a more productive, equitable and inclusive Canada.

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