CHAPTER 1

From the "Golden Age" to the "Great Canadian Slump":

The Declining Economic and Social Well-Being of Canadian Working People

What does it mean to say that working people are becoming better or worse off over time, or to argue that society as a whole is making progress? Attempts to define well-being inevitably arouse a host of conceptual and philosophical questions which are debated at length by academics and working people alike. Is money the key to happiness? Are we better off if our income goes up but we work longer hours in more precarious and more stressful jobs? Are we better or worse off if we are making progress, but our neighbours, family and friends are sinking into poverty? Are we better off if our taxes are cut, but the social programs and public services provided by government are reduced? Are even steadily employed working people better-off if they get some crumbs from the corporate table in a world where Bill Gates and a handful of global billionaires accumulate massive wealth? Is society richer if GDP rises while the natural environment becomes unliveable, and the quality of life in our community erodes as a result of crime, vandalism and the other diseases of a divided society?

While dollar income is a critically important indicator of living standards, there are clearly important measures of well-being that are not captured by GDP. Some of these have been identified and included as key components in measures of well-being that attempt to go beyond GDP, such as the Genuine Progress Indicator or GPI, the Index of Social Health (see Chapter 7), and the Index of Economic Well-Being which has been developed by Lars Osberg and Andrew Sharpe of the Centre for the Study of Living Standards, (available from *www.csls.ca*). Broader measures of well-being include the level of security, access to free time, the level of poverty and inequality in a society, the quality of community life, and the environmental and social legacy which is passed on to future generations.

Despite the value judgments which are rightly central to this debate, basic dimensions of well-being are relatively easy to define, are enduring over time, and can be measured. The approach taken throughout this book views the level of real income as measured by GDP and other

indicators, such as family income and wages, as very central indicators of social progress, along with the availability of social programs, public services, security, and free time to working people. Further, it is assumed that most people prefer to live in a society where extremes of income and life chances are limited, and where our fellow citizens need not endure poverty, either in the form of absolute or relative deprivation. To be poor is not just to be deprived of basic needs, but also to have much less ability to consume than the social norm.

A preference for equality as a goal is not just altruistic to the considerable extent that working people face a real risk of experiencing periods of low income over a lifetime. Statistics Canada recently reported that there is a turnover in the number of households living in poverty (i.e., below the low income cut off line) of about 50% each year and that, while one in 20 Canadians were poor throughout the 1993-1996 period, one in five Canadians and one in four children experienced at least one year of poverty over that period. (Statistics Canada Cat. 75F0002-MIE. *To What Extent are Canadians Exposed to Low Income?*). The costs of inequality are also to be counted in terms of crime, divided communities, and the high costs of poverty in terms of spending on social programs and health.

This Chapter provides a general overview of two key dimensions of well-being—income and inequality—by tracing the changes in those dimensions from the 1950s and the 1960s, the *"Golden Age*" of post-war capitalism, to the 1990s. This study does not examine indicators of environmental well-being or of community health, though these are important. This overview also serves as an introduction to the more detailed examination of specific trends in the 1990s which is taken up in later chapters.

INCOME

The Composition of Income

Most working people would put income at or near the top of the list of determinants of their well-being. Money may not be everything, but, in a market society, most of our needs and wants are met through purchases in the marketplace. To be poor, in terms of income, is to experience limited access to even such basic needs as food, shelter and clothing. By contrast, to be affluent and to enjoy a rising real income over time means that one can buy more goods and services, provide greater opportunities to one's children, and enjoy access to leisure and a measure of security. The accumulation of the savings needed to buy a house, to enjoy a decent retire-

ment, and (increasingly in today's Canada) to finance education and training is closely linked to income.

In all contemporary market or capitalist societies, money income is distributed to people in three main ways: as wages and salaries, as income from investments, and as income transfers from governments, such as old age pensions, and unemployment insurance and social assistance benefits. In Canada, in 1997, more than $7 of every $10 of before-tax personal and household income (71%) came from wages and salaries, another 7% came from income from self-employment, 3% came from investments (excluding income earned in RRSPs and pension plans), and 13% came from government transfers. Income from transfers is concentrated among the elderly and the non-working poor, while income from investments in stocks and bonds is concentrated in the hands of the highly affluent and, to a lesser extent, among retirees.

Table 1.1 presents the composition of household income by income group showing the very high level of dependence on wages for middle and higher income households, and the high level of dependence on transfers for low income households. Even high income households depend much more on wages and salaries than on investment income (though the figures in the Table are low since investment income, as reported here, excludes income earned in tax sheltered RRSPs, pension plans, and unreported income). Overall, 12% of personal income in Canada comes from investments (1997 National Accounts data). Investment income is clearly distributed on generational lines, with older households and the elderly typically depending more on income from savings. Table 1.2 shows the

Table 1.1
The Composition of Household Income by Income Group (1997)
(Families and Individuals Combined)

Income Group	Wages and Salaries	Self-Employment Income	Investment Income	Transfers
Low $10,000-$15,000	21.5%	3.3%	2.5%	68.6%
Middle $50,000-$55,000	75.4%	5.8%	2.4%	9.5%
High $100,000 plus	77.6%	11.5%	4.6%	2.2%

SOURCE: Statistics Canada Cat. 13-207-XPB. *Income Distribution by Size in Canada, 1997.* Table 42. "Other" money income brings totals to 100%.

share of the three major sources of personal and family incomes, which go to the highest income 10% of Canadian families, further broken down, and to the bottom 90% of families. The figures are for 1990, when average family income was $51,300, the top 10% made more than $99,100, and the top 1% made more than $185,000 (and averaged $295,000). The top 10% made just over $2.50 in every $10 of wage and salary income, almost $6 out of every $10 of self-employment income (all those high-paid doctors, lawyers and accountants), and more than $4 out of every $10 of investment income. The very affluent, the top 1%, had a much smaller share of wages and salaries than of income from business or investments, and collected $1 in every $4 of self-employment income, and almost $1 in every $5 of investment income.

Table 1.2
The Distribution of Income Among Families by Major Source (1990)

	Top 1%	**Share of Next 4%**	**Next 5%**	**"Bottom" 90%**
Wages and Salaries	4.2%	10.2%	10.8%	74.8%
Self-Employment Income	23.9%	23.0%	9.9%	43.2%
Investment Income	17.5%	15.5%	9.7%	57.4%
Government Transfers	0.6%	2.3%	2.8%	94.3%

SOURCE: Abdul Rashid. "High Income Families," *Perspectives on Labour and Income.* Statistics Canada. Winter, 1994.

To state the obvious, the vast majority of working people and working families are very heavily dependent upon wage and salary income, so the wages provided by jobs are an absolutely crucial determinant of working-class well-being. Transfers are very significant for lower income households, while investment income is of limited importance for the great majority with the partial exception of the elderly.

THE LEVEL OF OVERALL INCOME

It is true and important to say that national income or GDP per person is a limited measure of well-being which has to be supplemented by other indicators. But the fact remains that income is probably the single most important measure of living standards over time. If real (that is, inflation-

adjusted) GDP per person increases, then most of the increase in national income will go to working people in the form of higher wages and salaries, and in the form of better public and social services paid for through taxes. It is true that the division of national income between working people and profits is an important distributional issue, but the portion going to wages has changed relatively little over time, and no permanent significant increase in working class living standards can be won through redistribution from investment income.

Higher GDP and higher real wages give people the ability to consume more goods and services, to collectively pay more in taxes for better public services and social programs, and to save more for the future. It is also easier for society as a whole to deal with pressing social problems, such as the quality of the environment and poverty, if total income is rising. In the 1960s and 1970s, when key Canadian social programs such as Medicare, the Canada Pension Plan, the Canada Assistance Plan, and accessible higher education were being put in place, the proportion of income going to taxes was rising at a faster rate than wages. Working people seem to have generally supported paying higher taxes for better services, not least because their after-tax incomes were also rising. In short, the collective provision of public goods and services, the pursuit of broad social goals, and the redistribution of income and wealth are most likely to advance when real GDP is rising.

Table 1.3 provides a long-term overview of the income of Canadians in average per capita or per person terms. The first column shows real GDP per capita, the single most important indicator of Canadian liv-

Table 1.3
The Growth and Stagnation of the Income of Canadians 1961-1998

	(1) Real GDP per Capita	(2) Personal Disposable Income Per Capita (1992 Constant Dollars)
1961	($12,121)	$8,036
1971	($17,066)	$11,165
1981	($22,248)	$16,101
1989	($25,840)	$17,564
1999	($28,686)	$17,001
Growth		
1961-73	3.66%	3.91%
1973-81	2.22%	2.97%
1981-89	1.89%	1.09%
1989-99	1.05%	-0.33%

Sources: (1) (2) Centre for the Study of Living Standards based on National Accounts data. $ are constant 1992 dollars

ing standards over time. As illustrated, the real income of Canadians has grown more slowly decade by decade since the 1960s. Over the 1989-1999 period, real GDP per capita grew by an average 1.05%, compared to 1.89%, 1981-89 and 2.22%, 1973-81. After tax income—personal disposable income per capita—fell by an average 0.33% in the 1989-99 period, compared to an increase of 1.09%, 1981-89, and 2.97%, 1973-81.

It was only at the end of the 1990s—from 1997 on— that Canada resumed a sustained "normal" real economic growth rate of 3% (which is itself only a 2% growth rate of income per person when 1% population growth is taken into account). Even this is well below the 4% average growth rate of the recovery in the 1980s. One telling indicator of the depth and duration of what economist Pierre Fortin has described as "*the Great Canadian Slump*" of the 1990s is the fact that the absolute number of full-time jobs which existed in 1989 was not regained until 1998. In other words, all net job creation over that period was in the form of part-time jobs or self-employment. (The trend to very precarious forms of employment is detailed in Chapter 2).

The real GDP long-term growth rate began to fall from about the mid-1970s, in part because the Canadian government, along with most other advanced industrial country governments, deliberately gave priority to fighting rising inflation through high interest rates, and abandoned full employment and strong growth as key objectives of macro-economic policy. The abandonment of pro-growth macro-economic policies coincided with—and some would argue caused—a slowdown in the rate of productivity growth, which is the most important determinant of longer-term growth rates. Most economists would agree that a major cause of falling productivity was a slump in business investment.

The Canadian experience was neither particularly poor nor unusual compared to other industrial countries in the 1970s and 1980s. Indeed, by some measures Canada did quite well over this period. Canada grew by an average 4% per year in the 1970s compared to 3% in the U.S., and the 3.2% average of the major industrial countries (OECD *Economic Outlook*. December, 1998. Annex Table 1.) Growth and job creation more or less matched U.S. performance in the 1980s. While Canada had a very deep recession in the early 1980s, largely because of the very high real interest rates imposed by Bank of Canada Governor Gerald Bouey, real growth in the 1983-1989 recovery period averaged a fairly healthy 4%, the same rate as in the U.S., and at least matched growth in the major European economies.

However, the 1990s have been an unmitigated disaster in terms of Canadian macro-economic performance. From 1989 to 1998, we experienced the slowest rate of GDP per capita growth of any major industrial country, and significantly lagged behind the U.S. in both growth and job creation. From 1989 through 1998, the Canadian real growth rate (not adjusted for population growth) averaged just 1.8% compared to 2.5% in the U.S. (notwithstanding the convergence with U.S. economic performance which was supposed to result from the Free Trade Agreement) and this was mirrored in a much worse job creation performance. Real GDP per capita did not grow at all from 1989 to 1994, and has grown very slowly since. The 1990s saw the worst performance of the Canadian economy since the 1930s. Indeed, Andrew Sharpe of the Centre for the Study of Living Standards has calculated that the 1990s were almost as bad as the Great Depression decade of the 1930s in terms of real income growth per person.

Column 2 of Table 1.3 shows the growth of *"personal disposable income per capita."* This refers to the income which is left in the hands of households after income tax and social security contributions. (Note, however, that GST and sales tax paid are not included in calculating disposable income per capita). Because governments in the 1990s dealt with the debt problem in a slow-growth economy by raising taxes on top of spending cuts (mainly by not fully indexing the income tax system to inflation), the average tax burden rose while incomes were flat or falling. As of 1999, after-tax real household incomes were still about 3% below the 1989 level**.**

A different indicator of the broad evolution of incomes is the level of real average pre-tax family income. Families in 1997 were, on average, almost $3,000 worse-off than in 1989 even before they paid income taxes ($57,146 in 1997 compared to $59,862 in 1989).

Real incomes do, of course, vary across Canada and there are important differences in household income between the richer and poorer provinces. However, differences in wage levels and employment are offset to some degree by transfer payments to households, and federal equalization payments serve to level up the tax base in the poorer provinces.

In 1996, the gap between per person after tax income across provinces was more narrow than one might imagine—varying between a low of $14,000-$15,000 in Atlantic Canada, to a high of between $17,000 and $18,000 in the "have" provinces of Ontario, Alberta and British Columbia. Moreover, the distribution of real GDP between regions has changed

very little over the past twenty years. As shown in Table 1.4, despite suffering the most severe impacts in the recession of the early 1990s, Ontario's share of national GDP has grown since 1981 at the expense of all other regions. (In the 1990s, the West has increased its share somewhat.)

Table 1.4
Real GDP by Region as % of National Total
1981-1996

	1981	1996
Atlantic	12.5%	12.0%
Quebec	23.8%	22.3%
Ontario	38.4%	40.5%
Prairies	19.2%	19.0%
British Columbia	12.5%	12.0%

SOURCE: Statistics Canada, Canadian Economic Observer, cat. no. 11-010-XPB.

WHY DID CANADA DO SO BADLY IN THE 1990S?

Studies produced by the Canadian Centre for Policy Alternatives and leading Canadian economists, such as Pierre Fortin, Lars Osberg and Mike McCracken, have argued that Canada experienced a decade of stagnation in living standards mainly because the Bank of Canada imposed radically deflationary policies in the late 1980s. In an attempt to squeeze inflation to near zero, the Bank raised interest rates and overvalued the currency. The deep recession of the early 1990s, which resulted in the loss of about one in five manufacturing jobs over a little more than two years, and a peak unemployment rate of more than 11% in 1992 and 1993, combined with high interest rates to produce a rapid growth of public debt. Government spending cuts to deal with the debt problem in a slow-growth environment further lowered growth in the recovery. [On the macro-economic factors behind the Great Canadian Slump of the 1990s, see Lars Osberg and Pierre Fortin (Eds.) *Unnecessary Debts*. Lorimer. Toronto. 1996; *The Alternative Federal Budget Papers*. Canadian Centre for Policy Alternatives. 1997 and 1998; Brian MacLean and Lars Osberg (Eds.). *The Unemployment Crisis: All for Nought?* McGill-Queen's University Press. Montreal and Kingston. 1996.)] Even eminently "*orthodox*" and "right-

wing" economic analysts now put the major blame for Canada's dismal economic performance in the 1990s on contractionary macro-economic policies. (See, for example, *OECD Country Reviews of Canada.*]

It can also be argued that the turn to pro-business and *"free market*" policies in the 1980s and 1990s did nothing to raise economic growth rates or close the productivity gap with the United States (see Andrew Jackson. "From Leaps of Faith to Lapses of Logic" *Policy Options*. June, 1999). By these measures, the introduction of the Free Trade Agreement and NAFTA, combined with privatization, deregulation, and the virtual abandonment of active, government-led, industrial and economic development policies, were a bust. Ironically, the tenth anniversary of the Free Trade Agreement—which was, above all, supposed to lead to stronger productivity growth—coincided with a raging national debate over Canada's poor productivity performance in the 1990s. The OECD, which sparked the debate, itself pointed out in the *1998 Country Review of Canada* that "*structural policies*" had to date done nothing to promote the needed shift to a more innovative and productive economy.

Conversely, it is often argued that Canada has not gone "far enough" in pursuing pro-market policies. Proponents of this view say that the strong growth of U.S. jobs in the 1990s shows the superiority of the U.S. *"model"* of highly "*flexible*" labour markets and small government, and that countries like Canada would do better in terms of growth and job creation if unions were weaker, if labour standards were lowered to U.S. levels, if taxes were cut, and if income support programs for the unemployed were severely cut. This was, broadly, the policy prescription presented in the major *OECD Jobs Study*, which is regularly parroted in the right-wing media.

As shown below, the U.S. model is associated with many less desirable features, notably very high rates of inequality and poverty, while countries with more generous welfare states, higher taxes, and stronger labour movements are much more equal. Is the choice, then, between growth and inequality; between efficiency and equity? The evidence suggests not. [See L. Mishel and John Schmitt (Eds.) *Beware the U.S. Model: Jobs and Wages in a Deregulated Economy.* Economic Policy Institute. Washington. 1995.] In fact, on close examination, U.S. growth performance is not terribly impressive in a comparative context, and much of the modest difference between U.S. and European growth rates in the 1990s can be explained by different macro-economic policies. The U.S. has been more relaxed about inflation, and budget cuts have been much less

severe. Further, it is quite possible to find examples of countries which have created jobs at the same pace as in the U.S., but which still have strong labour movements, decent welfare states, and a reasonable level of equality. The Netherlands, Denmark and Norway are cases in point—all of which had higher per capita GDP growth rates than the United States from 1990 to 1998 and had very low unemployment rates at the end of the 1990s.

None of the advanced industrial countries has performed at all well in terms of growth since the mid-1970s. The consequences have been seen in different combinations of rising unemployment, stagnating wages, and increased inequality. The abandonment of full employment objectives bears the major part of the blame, though the downward pressures of *"globalization"* have also played a role.

Earnings from Employment

The fact that average real incomes of households have been growing ever more slowly since the mid-1970s, and have been stagnant in the 1990s, is mainly explained by changes in earnings from employment. The decline in incomes would have been far greater for low-income households if increased transfer payments from governments had not cushioned the fall in earnings which resulted from flat wages, combined with high rates of unemployment and underemployment in the late 1980s and 1990s.

Annual earnings depend on two main variables: the amount of time worked, and pay rates. Obviously, the annual earnings of a person will be lower if she or he is unemployed for part of the year, or works part-time, or for only part of the year. By the same token, the annual earnings of two-person households will be greater if both spouses work full-time for pay outside the home. As shown in Table 1.5, household earnings in the 1970s and 1980s were boosted by the increased participation of women in the paid workforce. Between 1976 and 1990, the proportion of adult women (age 25 and over) who were employed rose from 39% to 53%. (In both years, some women were also unemployed and seeking jobs.) An increased proportion of women who were working also moved into full-year, full-time jobs. (Other women who would have liked to move into full-time jobs were unable to do so because of labour market conditions.)

Further, as shown in Table 1.6, through the 1970s, 1980s and, above all, in the 1990s, the pay gap between women and men closed as women moved closer to the still distant goal of pay equality. From 1967

Table 1.5
Employment Rates of Women, 1976-97

	Employment Rate of Adult Women	Percentage of all Women Working Full-Year, Full-Time
1976	39%	—
1980	44%	45%
1990	53%	51%
1997	53%	51%

SOURCE: Statistics Canada. *The Labour Force Survey.*
Statistics Canada Cat. 13-217, *Earnings of Men and Women.*

to 1997, the pay gap between women and men working full-year, full-time, closed from 58% to 72%, and the gap between women and men working on a non-full-year or part-time basis closed from 51% to 79%. It is very important, however, to note that only about half of all working women, even today, work full-time on a full-year basis compared to two-thirds of men—so a large part of the annual earnings gap between women and men is produced by time worked rather than by pay rates. Some of the gap in time worked is explained by the high level of involuntary part-time employment among women.

The closing of the gap was the result of increased time worked by women, falling or stagnant wages of men, and modest increases in the earnings of women as noted below. The increased paid work-time of women—offset to a modest degree by the tendency of men to retire earlier—made a major contribution to the growth of household incomes in the 1970s and 1980s, cushioning the impacts of slower wage growth com-

Table 1.6
Average Real Annual Earnings ($1997)
of Men and Women, 1967-1997

	Full-Year, Full-Time Workers			Other Workers
	Men $	Women $	Women as % of Men	Women as % of Men
1967	32,057	18,725	58.4	50.6
1975	42,635	25,664	60.2	50.6
1980	42,586	27,405	64.4	61.4
1989	42,328	27,928	66.0	73.7
1997	42,626	30,915	72.5	78.6

SOURCE: Statistics Canada Cat. 13-217-X1B, *Earnings of Men and Women.*

pared to the 1950s and 1960s. Clearly, many women wanted to work outside the home, and this shift was not caused solely or, even most importantly, by the desire to maximize household incomes.

It is striking that this trend for women to work longer hours came to a shuddering halt in the 1990s when both the employment rate of adult women and the proportion of women working full-time, full-year remained stuck. This almost certainly reflected poor conditions in the job market much more than any new-found desire on the part of women to return to the home. In any case, part of the story of the stagnation of working family income in the 1990s is the inability of women to work longer hours.

The second major factor behind the level of annual earnings is pay rates. Table 1.6 shows the average real annual earnings of workers who are employed year-round, full-time. Workers in these kinds of jobs are not directly affected by rising unemployment or by the shift to part-time and contract jobs. As shown, there was a very significant growth in the real wages paid in these *"core"* jobs between 1967 and 1975, the closing years of the "*Golden Age.*" In those eight years, the real wages of men grew by 33%, and the real wages of women grew by 37%. Astonishingly, there has been no real wage growth at all for men working full-year and full-time since 1975, and wages have just about matched the growth of prices through both the 1980s and 1990s. (As will be shown below, much of the burden of this stagnation has fallen upon younger men.)

The story for women has been different. Earnings growth in permanent, full-time jobs has been slow, but it has nonetheless been real. Overall, however, the real earnings of the one in two women who work in permanent, full-time jobs rose by only 13% in the entire period since 1980.

When all paid workers are divided into 10 income deciles, (10 equal sized groups, ranging from the lowest to the highest paid) it can be seen that real average earnings fell between 1981 and 1995

Table 1.7
Change in Real Annual Earnings by Decile, Women and Men, 1981-1995

Decile	Women % Change	Men % Change
1	9.8	-31.7
2	17.1	-24.5
3	17.5	-21.6
4	13.6	-17.7
5	11.9	-12.3
6	13.4	-8.5
7	13.7	-4.7
8	16.1	-2.2
9	17.0	-0.5
10	17.9	6.2

SOURCE: Picot, Garnett. What is Happening to Earnings Inequality and Youth Wages in the 1990's? Statistics Canada. Table 1. July, 1998.

for the bottom 90% of male workers (See Table 1.7). By contrast, real earnings for workers in the top decile increased by 6.2%. The annual earnings of women increased across the whole earnings distribution, but by more at the very top. Most of the growing inequality in earnings was among men. Between 1981 and 1995, real earnings in the lowest wage decile of men dropped by a huge 31.7% and by 24.5% in the second lowest decile. The fall in lower income men's earnings was the result of a drop in hours and weeks worked, a decline in real wage rates, and an increase in the number of men with no earnings.

While the real annual earnings of women rose, it must be noted that much of this increase was due to more hours worked over the year. There is obviously much more to the quality of jobs than wages and, as will be documented in Chapter 3, workers have been working harder and longer in more and more stressful conditions in the 1990s.

SECURITY OF EMPLOYMENT AND INCOME

Security in a particular job or in work is another major dimension of well-being. A major defining feature of a market or capitalist society, going along with dependence on wage income, is insecurity of employment at the level of the firm. The vast majority of working people enjoy no real long-term job security through the terms of a contract or collective agreement, but remain employed only so long as it is profitable for their employer to continue in business with the same number of workers, or until the next round of corporate or public sector "*downsizing*" intended to produce more for less.

Unions have won important protections from layoff, notably through seniority provisions in collective agreements, but most unionized workers are nonetheless subject to temporary and permanent layoffs. In the 1990s, at least, job security has been no greater in the public than in the private sector, and *"downsizing*" through layoffs has actually been more prevalent than in the large corporate sector where hiring freezes and waves of early retirement have been the preferred instruments.

Despite the lack of formal job security and the risk of layoff, a significant proportion of all workers are employed in reasonably steady *"core*" jobs, and average tenure in a job has actually increased in the 1980s and 1990s, mainly because of the lack of new hiring, particularly in larger workplaces. Meanwhile, many workers—particularly women, young workers and workers of colour—are employed in very precarious and un-

stable jobs which do not provide guaranteed hours in a week or in a month, let alone ongoing job security.

Clearly, the overall health of the job market or labour market is an absolutely crucial determinant of well-being. Employment security will be highest when unemployment is low and employment growth is high. This is true for two key reasons: 1) workers will be somewhat less likely to be laid-off from the job they currently hold in periods of expansion, and 2), most importantly, they will be much more likely to find a job if they are laid-off or are just entering the job market. The ability of workers to win wage increases is also much greater in a low unemployment economy where many employers are hiring workers, as is the ability to progress up career ladders.

The level of GDP growth is very closely linked to the level of employment growth and thus to the unemployment rate. While it is possible to have some brief periods of *"jobless growth"* in the early stages of an economic upturn, growth of GDP over and above the rate of growth of labour productivity—output per hour—inevitably results in increased demand for workers. As a very rough rule of thumb, employment growth will equal GDP growth less the trend rate of labour productivity growth, currently a bit above 1% per year. (The figure will vary depending upon how jobs are divided between full and part-time, and between paid jobs and self-employment.)

Increased employment will generally reduce the unemployment rate, though unemployment may remain high and even stable despite rising rates of hiring if more workers join the labour force. Historically, periods of strong job growth have pulled more people into the workforce. Given that productivity is growing by about 1% per year and that the population is growing by about 1% per year, it takes GDP growth in excess of 2% to have any impact on the unemployment rate.

Table 1.8 shows that the average rate of unemployment in Canada has been ratcheting upwards decade by decade in line with slowing economic growth, a growing population, and rising rates of labour force participation.

Table 1.8
National Unemployment Rate

1950s	4.2%
1960s	5.0%
1970s	6.7%
1980s	9.3%
1989	7.5%
1992	11.3%
1997	9.2%
1998	8.5%
1999	7.6%

SOURCE: Statistics Canada. Labour Force Survey.

The national unemployment rate averaged 9.3% in the 1980s, sharply up from the 4% level of the 1950s and the 5% level of the 1960s, and still stood at 8.5% in 1998 after six years of slow growth in the recovery from the recession of the early 1990s. It was only in late 1999 that the unemployment rate fell to near the 7.5% "low point" of the late 1980s.

Many people today have come to believe that "*full employment"* is an impossible dream. Yet Canada came close to providing a job for everybody who wanted one in the "*Golden Age,*" and unemployment rates of 4-5% have been achieved in the 1990s not just in the U.S., but also in Japan before the recent slump and, in Europe, the Netherlands, Norway, Austria, Denmark and Ireland.

The widely cited headline unemployment rate represents average unemployment in the course of a *month*. Over the course of a *year*, a higher proportion of workers will experience at least one spell of unemployment. The likely length of a period of unemployment tends to vary in the same way as the unemployment rate, increasing when unemployment is high, and falling when unemployment is low. In the 1970s, and at the peak of the expansion of the 1980s, the average length of a completed period of unemployment was about 3 1/2 months. In the recessions of the early 1980s and early 1990s, the average length rose to almost five months, and the average length of a new unemployment spell today is a bit above four months. (Garnett Picot and Andrew Heisz, *Canadian Labour Market Performance in Historical Context*. Paper presented to the CSLS Conference on the Structural Aspects of Unemployment in Canada, 1999. Available from *www.csls.ca*.)

The *"turnover*" of the unemployed in Canada, as in the U.S., is very high compared to most European countries, and the proportion of workers who are unemployed for long periods of time is relatively low, while the proportion of workers hit by periods of involuntary unemployment over a year is correspondingly high. That said, some workers "*end*" a period of unemployment by giving up looking for work rather than by getting a job. The ranks of these "*hidden unemployed*" have been growing as jobs have dried up, as will be detailed later.

While long-term unemployment of permanently laid-off older workers has become a major problem in the 1980s and 1990s, much of the burden of unemployment falls upon young workers trying to enter or get a foothold in the job market, and on adult women trying to re-enter the job market after time spent looking after children. In periods of rising unemployment, the increase in the unemployment rate is driven more by the

sharp fall-off in job creation than by layoffs of workers from existing jobs. Nonetheless, as shown in Table 1.9, the risk of layoff for workers is quite high, and there has been some increase in that risk over time. In 1994, a year of strong job growth, 19% of men were subject to a layoff, compared to 17.1% in 1978 (11.2% vs. 10.6% for women). Layoffs tend to be higher among men because of the higher concentration of employment in male-dominated industries such as construction, forestry, and manufacturing. As will be noted later, this is an underestimate of the recent increase in job insecurity, which is revealed not just in the incidence of layoff from paid jobs but also in the rapid growth of self-employment. Four in ten new *"jobs"* created in the 1990s (1989-99) came in the form of self-employment, and about one in five workers are now self-employed. For this large and fast growing group, there is a risk of losing the *"job"* through bankruptcy, but the greater risk is to have a low and very variable income. Income security for working people involves security not just against layoff, but also against loss of income due to unemployment. Unemployment Insurance is the key cushion against the impact of temporary unemployment, while social assistance only guards against destitution in the event of long-term unemployment. (Social assistance is a very poor cushion against loss of wages due to unemployment, not just because of low benefits, but also because unemployed workers qualify only if their liquid assets have been exhausted, and only if other members of the household are not working.)

Cuts to UI have greatly increased income insecurity for workers. In the 1970s and 1980s, about three in four unemployed workers qualified for UI benefits. This proportion fell very sharply in the 1990s, from 74% in 1990 to just 36% in 1997. And average weekly UI benefits have fallen

Table 1.9
Incidence of Job Lay-Off, 1978-1994

	Men			Women		
	Permanent	Temporary	Total	Permanent	Temporary	Total
1978	9.0	8.1	17.1	5.2	5.4	10.6
1981	8.6	9.1	17.7	4.3	5.7	10.0
1984	9.9	10.8	20.7	5.4	7.1	12.5
1989	8.1	8.6	16.7	4.1	5.6	9.7
1994	8.9	10.1	19.0	4.6	6.6	11.2

SOURCE: Statistics Canada Cat. 71-539-XPB, *Permanent Layoffs, Quits and Hiring in the Canadian Economy, 1978-1995.* Table 1.

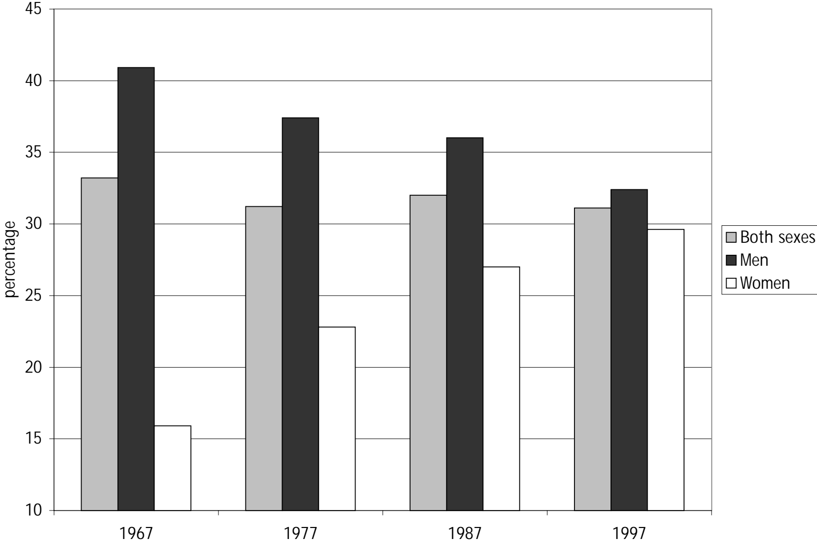
from 60% of average weekly earnings in the early 1980s to 54% in 1995. (Data from Lars Osberg and Andrew Sharpe. A*n Index of Economic Well-Being for Canada*, and Canadian Labour Congress *Left Out in the Cold.* 1998.) The erosion of UI in the 1990s has contributed in a very major way to decreased income security for working people and, as noted below, to increased poverty.

For working people, security also means protection against interruptions of wage income due to illness, disability, or old age. It is occasionally forgotten by progressives that a central purpose of the income transfer system is to provide *security* for working people against loss of income, a purpose which is distinct from its other important function of providing a *minimum level* of income to deal with poverty. In a society providing high levels of security for working people, transfers will tend to be significant, not just for low-income groups, but also for the broad ranks of the middle class.

Unionization affects worker well-being along many dimensions, and the *"union advantage*" in terms of wages, benefits, working-time, and other issues is considered at length below. While the union impact on wages is significant, the benefits of unionization are also experienced very importantly in terms of greater worker security. The protections of a collective agreement give access to grievance and arbitration procedures in the event of disciplinary action, making arbitrary individual dismissal much less likely. Seniority provisions provide some assurance of access to career ladders, and protection against layoff. Benefits provisions (e.g., employer-sponsored pensions, extended health plans) provide security against illness and old age above and beyond those provided through public programs.

As shown in Figure 1.1, the unionization rate in Canada has been remarkably stable over time, declining only marginally through the 1970s, 1980s and 1990s. Canadian experience contrasts sharply to that of other industrialized countries, notably the U.S., where the unionization rate has fallen from 30% at the end of the 1960s to less than 15% today. However, the overall stability of the unionization rate in Canada is mainly due to a major increase in public sector unionization up to the 1990s which was concentrated among women (who make up about two-thirds of the total public sector workforce). The unionization rate of men has fallen since the 1960s, in large part because of the shrinking proportion of jobs to be found in traditionally heavily unionized sectors such as the resource industries, manufacturing and construction. As will be explored in detail

Figure 1.1
Unionization Rates, 1967-1997 (Union Members as % of Paid Workers)



Source: Statistical Portrait of Unions, Perspectives on Labour and Income, Statistics Canada, cat. 75-001-XPE, Winter 1997.

below, access to the benefits of unionization has been very limited in the private service sector industries which have dominated job creation in the 1980s and 1990s.

POVERTY AND INEQUALITY

Other major dimensions of economic and social well-being are the level of poverty and inequality. All market economies deliver unequal outcomes to a greater or lesser extent in terms of the "primary" distribution of incomes which takes place through market mechanisms before government intervention. As noted above, income from investments tends to be highly unequally distributed in line with the concentration of wealth ownership in the hands of the few.

Most importantly, wages and salaries are also distributed very unequally, for three major reasons. First, unemployment and underemployment affect workers differently. Some remain in jobs right through an extended period of high unemployment while others are temporarily or permanently on the sidelines of the job market. Second, the hours of work

vary between jobs. Third, and most important, the level of earnings varies a great deal from the top to the bottom of the wage distribution, with chief executive officers sometimes earning hundreds of times more than the average workers, who may themselves earn twice as much as very low-wage workers.

Pay differences are obviously related to skill, education and experience, and serve a necessary purpose in all economies. Few would question the need for some progress in terms of pay as workers progress up career ladders, and some jobs are more demanding or require scarce skills and thus merit higher pay. However, pay differentials also reflect bargaining power in the labour market; unionized workers have more power than non-union workers and thus typically enjoy a significant wage premium over otherwise comparable workers. Unions also tend to compress wage differentials in workplaces, and thus reduce wage inequality in the economy as a whole in countries where unionization rates are high (see Chapter 4).

Wage differentials also reflect various forms of segmentation and segregation in the job market. For example, women are typically paid less than men, even when they are similar jobs in terms of skills, and women tend to hold jobs which are less well-paid than the jobs of men. The structure of earnings is directly affected by the level of collective bargaining and labour standards, and differs between countries in major ways, as will be noted below. The wage distribution in Canada is quite unequal compared to that of many European countries, though not as unequal as that of the U.S.

Table 1.10 is based on Statistics Canada data taken from the widely publicized *Growing Gap* report released in 1998 by the Centre for Social Justice. It shows the distribution of market incomes for families with children, and thus removes the elderly—who typically have little earned income—from consideration. The table shows the average market incomes for the bottom 20%, middle 20%, and top 20% of the population for four years from 1973 to 1996 (further broken down into *"deciles,"* each representing one-tenth of the population). The following key observations emerge:

- The middle fifth of working families bear out the story of the average person and family told above. Overall, their incomes rose somewhat from 1973 to 1984 and 1984 to 1990, but fell in the 1990s. In 1996, real incomes were only slightly higher than in 1984.

Table 1.10
Average Family Income Before Transfers, 1973-1996
(Families with Children) ($1996)

	1973 $	1984 $	1990 $	1996 $	% Change 1973-90	% Change 1990-96
Bottom 5th						
Decile 1	5,204	2,062	2,760	435	-47	-84
Decile 2	19,562	14,930	16,599	11,535	-15	-31
Middle 5th						
Decile 5	40,343	42,495	46,477	42,829	+15	-8
Decile 6	46,136	49,664	54,561	51,494	+18	-6
Top 5th						
Decile 9	71,611	79,628	88,426	86,497	+23	-2
Decile 10	107,253	123,752	134,539	136,737	+25	+2

SOURCE: Statistics Canada *Survey of Consumer Finance* data from Armine Yalnizyan, *The Growing Gap*, Centre for Social Justice. October, 1998.

- The bottom fifth of working families experienced a major decline in income from 1973 to 1984, some recovery from 1984 to 1990, and then a huge income decline in the 1990s. The poorest 10% of families had very low market incomes throughout the entire period, and these shrank dramatically to just $435 per family in 1996, indicating almost complete marginalization from the job market. The poorest 10% of families clearly do not get even close to a survival income from the market, and poverty rates would be very high for the next 10% as well if it were not for social programs. (Almost all of the bottom 20% of families with children would fall below Statistics Canada's Low Income Cutoff or poverty line.) Clearly, rising unemployment and the growing precariousness of jobs have had major impacts upon the poorest one-fifth of families, undercutting their ability to survive from the market.
- The story for the top 20% of families is different again. Their market incomes rose by about one-quarter from 1973 to 1990. However, even this top group did not fare well in the 1990s. Only the very top 10% experienced a market income gain in the 1990s, and this was just 2% (1990-1996). Likely, very high-income earners—say, the top 1-2% who are successful lawyers and accountants or senior corporate executives—experienced much faster real income growth in the 1990s in line with the rise in corporate profits and the booming stock market. However, the Canadian experience is different from that of the

U.S., where increased inequality in the 1990s has been very much associated with rapid income growth at the top of the income distribution pyramid.

- Differences in market incomes are clearly profound. The top 10% of families have market incomes almost three times larger than families in the middle of the income distribution.

Overall, the data clearly bear out the now familiar picture of the "*shrinking middle class*." Middle-class working families gained a bit of ground in the upturn of the 1980s, but overall have market incomes only a little higher than in the mid-1970s. Families at the bottom have suffered large losses of market income, and the bottom 10% have become an underclass, all but expelled from the market and almost entirely dependent on transfers. Meanwhile, high income families have continued to experience rising incomes, though even they were by no means immune from the income disaster of the 1990s.

This polarization of market incomes is not explained by an overall shift of income from wages and salaries to profits, since the wage share of national income has changed little over time, tending to rise in recession and fall in recoveries. As of late 1999, the share of corporate profits in Canadian national income had just recovered to the level of the late 1980s, which was itself a bit below the level of the *"Golden Age."* The interest income share of national income has risen since the mid-1970s in line with the shift to high interest rates, but this has been mainly at the expense of other forms of business income.

The major driving force of greater market inequality in Canada has not been a shift of national income shares between capital and labour, but changes in the job market. Again, this is in contrast to the U.S., where the profit share of national income has indeed risen at the expense of wages and salaries in the 1980s and 1990s, in turn boosting the fortunes of senior corporate executives and stockholders.

One determining factor affecting the distribution of wages has been the increased impact of unemployment and underemployment on time worked. Table 1.11 shows the number of weeks worked in the year for adult (aged 25-54) men and women at the bottom, middle and top of the earnings distribution. As shown, men in the middle and at the top average very close to a full year's work, while men at the bottom have experienced, over time, a decline in the weeks worked in a year. 1981 and 1989 and 1984 and 1993 represent similar years in the business cycle. In 1993, men at the bottom of the income ladder were working about two

Table 1.11
Weeks Worked in Year, 1981-1993

		1981	1984	1989	1993
Men					
(Age 25-54)	Decile 1 (lowest)	31.0	24.0	28.7	21.9
	Decile 2	43.5	37.7	41.4	35.6
	Decile 5	50.5	50.2	50.4	49.9
	Decile 10 (highest)	51.6	51.6	51.7	51.7
Women					
(Age 25-54)	Decile 1 (lowest)	20.4	20.3	24.3	21.3
	Decile 2	31.3	32.4	36.9	35.8
	Decile 5	48.3	48.2	49.1	49.6
	Decile 10 (highest)	51.2	51.3	51.7	51.8

SOURCE: G. Picot *Working Time, Wages and Earnings Inequality Among Men and Women in Canada, 1981-1993* (1996).

weeks less than in 1984, a roughly similar year in the unemployment level. By contrast, women at the bottom and middle of the earnings ladder have increased the number of weeks worked per year, as noted above.

The second major factor behind increased earnings inequality has been increased inequality of wage rates. Table 1.12 shows average weekly earnings, again for adult (aged 25-54) men and women at the top, bottom and middle of the earnings distribution. The table indicates some increase in polarization as measured by the ratio of earners at the top to earners at the bottom. In 1993, men in the top 10% were earning $1,534 per week, up somewhat from 1981, while men at the bottom were earning just $301, much less than in 1981. The wage gap between top and bottom grew from a factor of 4.3 in 1981, to 5.1 in 1993.

Again, the story for women was different, with real wages growing from 1981 for all women, and the wage gap between top and bottom women workers remaining more or less the same. (The wage gap for women is higher than for men mainly because a much larger proportion of women work part-time). In fact, the overall distribution of wages in Canada would have become more unequal if it had not been for the increased participation of women in the work force, and the closing of the pay gap between men and women.

A very detailed analysis by Garnett Picot of Statistics Canada has found that increased inequality in terms of annual earnings has, for both men and women, been driven more by hours worked in a year than by hourly wage rates (Garnett Picot, *"Working Time, Wages and Earnings*

Table 1.12
Average Weekly Earnings of Adult Men and Women, 1981-1993
(Constant 1993 Dollars)

		1981 $	1984 $	1989 $	1993 $
Men					
(Age 25-54)	Decile 1 (lowest)	350	298	301	301
	Decile 2	493	431	454	437
	Decile 5	710	670	683	630
	Decile 10 (highest)	1492	1449	1569	1534
	D10/D1	4.3	4.9	5.2	5.1
Women					
(Age 25-54)	Decile 1 (lowest)	157	151	157	173
	Decile 2	233	235	242	241
	Decile 5	373	381	399	393
	Decile 10 (highest)	984	1002	1018	1069
	D10/D1	6.3	6.6	6.5	6.2

SOURCE: Picot (1996).

Inequality Among Men and Women in Canada, 1981-1993." Paper presented to the Conference on Labour Market Institutions and Labour Market Outcomes. Hamilton, Ontario. September, 1996). Unemployment and the shift to jobs with shorter hours have hit the lower paid hardest, while those in high-pay jobs have tended to work more hours per week.

Statistics Canada analysis has also shown that it is young workers who have been hit hardest by changes in the overall distribution of earnings. As shown in Table 1.13, the real median earnings of both men and women *"entry*" workers aged 20-24 fell by more than one-fifth between 1983 and 1992. This fall has been driven mainly by a fall in the hourly wages of young people. Somewhat older young workers also experienced a decline in relative earnings. Put another way, over time, younger people have become steadily worse off than preceding "*cohorts*" of young people were at a similar stage in their lives.

Table 1.13
Change in Median
Annual Earnings by type, 1983 - 1992

All Earners	2.1
Men	-1.6
Women	11
Younger Workers (Age 25-34)	
Men	-8.1
Women	-1
Entry Workers (Age 20-24)	
Men	-21.9
Women	-24

SOURCE: Ross Finnie. *Earnings Dynamics in Canada: Earnings Patterns by Age and Sex, 1982-1992.* Research Paper R-97-11E. Applied Research Branch, Human Resources Development Canada. 1997.

The labour market experience of those who first entered the job market in the later 1980s and 1990s has been worse than those who entered it in the 1970s and early 1980s—bearing out the usual picture of a dismal working life for those following in the wake of the "baby boomers." (However, demographics does not really explain what happened. As a relatively small generation, the post-baby- boomers should have had limited difficulties making their way into good jobs, particularly given the falling age of retirement of their grandparents. The problem was that very few new good jobs were being created as they entered and are still entering the job market.)

The key point is that the significant increase in the inequality of earned income has been driven by both high and rising unemployment, and by the decline in the relative earnings of lower-earning men. It seems likely that families with two wage earners have been protected to some degree by the increased annual earnings of women, which reflect an increase in time worked more than increased real wages.

Young workers and their families have suffered a particularly sharp erosion of their real earnings. It is important not to lose sight of the fact that increased market income inequality in Canada has been driven much more by the loss of income at the bottom and middle of the income ladder than by large absolute gains at the top.

The Tax/Transfer System and Low Incomes

A major factor shaping the overall level of income inequality and the incidence of low income and poverty is the transfer system: payment of dollars by governments to people. Major transfers consist of public pensions (Old Age Security, the Guaranteed Income Supplement and the Canada/Quebec Pension Plan), Unemployment Insurance benefits, Social Assistance benefits, Workers' Compensation and child benefits, including the Canada Child Benefit now delivered through the income tax system. As briefly noted, transfers make up a very large share of the income of poorer households. Table 1.14 shows the significance of transfers as a share of disposable family income from 1980 to 1996. The already high transfer dependence of the poorest 20% of families has grown from just under half to almost 60% of income, and the dependence of the next poorest 20% has increased even more, from one-seventh to one-quarter of income. It is only the top 20% of families who have seen no increase in transfers as a share of income since 1984.

Table 1.14
Transfer Payments as % Income — All Families, 1980-1996

	1980	1984	1990	1996
Lowest Quintile	46.5	56.2	53.2	59
Second Quintile	13.8	21.3	21.5	25.5
Middle Quintile	6.9	10.3	10.5	12.8
Fourth Quintile	4.2	6.1	6.3	6.8
Top Quintile	2.3	3	3	3

SOURCE: Statistics Canada Cat. 13-210-XPB. *Income After Tax, Distributions by Size in Canada.* Text Table V.

The term "*dependency*" is often used to imply that the existence of a transfer program results in its use and abuse, and cuts to UI benefits and to social assistance have been explicitly justified on the basis that they create "*disincentives*" to paid work. In point of fact, to qualify for benefits, UI beneficiaries must become involuntarily unemployed, and are required to actively seek work. Benefit entitlements are modest and expire after very short periods of time, depending upon work history and the local rate of unemployment. The majority of UI recipients are on temporary layoff and will return to the same employer. Most others use UI as a bridge between jobs. UI "*dependency*" is, then, largely determined by the state of the labour market.

Many social assistance recipients do depend on benefits for extended periods of time, usually because they are temporarily or even permanently unable to work (e.g., persons with disabilities; single parents with children). Low wages in available jobs create a welfare "*trap*" for others. Single parents, for example, are often unable to find jobs that match the already well-below-poverty-line incomes provided by social assistance, let alone cover child care costs, drug costs, and so on. Even so, there is very significant movement between low-paid jobs and social assistance and, again, "*dependency*" is more due to the fundamental shortage of good jobs than to any alleged "*disincentives*" to work.

It can be easily shown that both UI and social assistance caseloads ratchet up in times of recession, and fall in times of recovery. The fact that declines in the 1980s and 1990s have not matched the increases in periods of recession is yet another indicator of the fundamental problem: the lack of jobs that can provide a steady, adequate income. As noted above, the overall level of employment in the economy is determined by the demand for labour, which is a function of economic growth and productivity growth.

Increased *"dependency"* was the result of economic failure, not some sudden surge of worker disinterest in holding jobs.

Dismantling UI and social assistance, as advocated by right-wing economists, could perhaps starve more of the unemployed into accepting jobs at extremely low wages. Such a strategy might even create some new jobs by lowering the price of very labour-intensive services, and thus increasing demand for those services. In many developing countries, for example, there is close to *"full"* employment, but a huge proportion of the workforce work for a minimal income in the informal economy, and the wealthy can hire many servants at very low wages. The availability of desperate, underemployed workers, in turn, pulls down the wages of all workers, perhaps with the exception of the very highly skilled. If it were not for the availability of transfer income, Canada's unemployed and underemployed would be even more desperate, further worsening the position of those employed at low wages, and in turn worsening the position of even steadily employed workers.

From the point of view of all workers, then, using taxes to compensate the unemployed and underemployed for the lost wages and low incomes caused by economic failure is preferable to the right-wing model of bringing back *"full employment"* on the basis of a highly "*flexible*" labour market in which workers have very little bargaining power. (In the textbook world of many economists, full employment can be achieved quite simply by cutting wages to a "*market clearing*" level. What these economists forget is that this "*solution*" did not work in the Great Depression—when the welfare state barely existed—and that working people will rightly reject an economic system that forces them to choose between starvation and working poverty.)

Transfers, in combination with taxes, make a huge difference to the overall distribution of family income. Table 1.15 compares the distribution of family income by the market with the distribution after the intervention of the tax/transfer system. The income shares of the bottom 40%, and particularly the bottom 20%, are increased (more than trebled in the case of the bottom 20%), mainly at the expense of the top 20%. The top 20% receive more than 20 times more market income than the bottom 20%, but "only" five times more in terms of total after-tax income. The gap would be narrower still if public services consumed were added to after-tax income.

In the 1980s, and in the 1990s to 1992, there was no change in the inequality or polarization of the overall distribution of disposable (after-

Table 1.15
Family Income Shares: Before and After Taxes and Transfers

	Market Income	Income After Tax and Transfers
Lowest Quintile	2.1	7.4
Second Quintile	10.1	13.2
Middle Quintile	17.7	18.1
Fourth Quintile	25.8	23.9
Highest Quintile	44.3	37.5
Ratio of Highest/Lowest	21.1	5.1

SOURCE: Statistics Canada Cat. 13-210-XPB. *Income After Tax, Distributions by Size, 1997.* Table 1.

tax and transfers) family income in Canada. Over this period, the top 20% more or less consistently received about five times more than the bottom 20%, and the overall distribution of disposable income (as measured by the Gini coefficient and other technical measures) did not change. (See Caledon Institute for Social Policy, *"Government Fights Growing Gap between Rich and Poor*," 1995.) Setting aside fluctuations in periods of high unemployment, transfers alone almost offset increased inequality in the distribution of market income.

Further, as shown in Table 1.16, overall poverty rates—as defined by Statistics Canada's Low Income Cutoffs—have changed rather little in the 1980s and 1990s. The incidence of poverty rises in periods of high unemployment and falls in periods of recovery, but there was little change between 1985 and 1993, which are roughly comparable years. However, the child poverty rate has remained stubbornly high in the 1990s, reflecting increased poverty among young families, while the poverty rate among the elderly has been declining over time. As explored later in Chap-

Table 1.16
Incidence of Low Income, 1980-1997

	1980	1985	1990	1993	1997
All Persons	16	17.7	15.4	18	17.5
Children	15.8	19.5	17.8	21.3	19.8
Elderly	34	28	21.3	22.8	18.7
Families, Head (Aged 25-34)	12.1	15.8	15.1	21.1	18.7

SOURCE: Statistics Canada Cat. 13-207, *Income Distributions by Size in Canada.* Text Table III and Table 66.

ter 5, the poverty rate has fallen only very slowly in the 1990s recovery, particularly for families with children.

John Myles and Garnett Picot of Statistics Canada [Garnett Picot and John Myles, "*Social Transfers, Earnings and Low Income Intensity Among Canadian Children,*" 1981-1996. Statistics Canada, May, 1999] recently noted that poverty lines which separate the poor from the non-poor provide only limited information on changes over time since they ignore the *intensity* of poverty, that is, the extent to which people with low incomes fall short of the poverty line. As the Nobel Prize-winning economist Amaryta Sen argued, the proportion of the population living in poverty in a country could be reduced just by redistributing income from the very poor to those just below the poverty line, pushing some out of poverty at the expense of much deeper poverty on the part of others. The fall in the poverty rate which results is clearly not a true indicator of social progress.

Myles and Picot use a broader indicator to show that, until 1993, transfers were not only offsetting the impact of falling market earnings on low-income families with children, but were also reducing the intensity of poverty among such families. This is a further *"good news"* story to add to the proven success of the transfer system in terms of reducing poverty and the depth of poverty among Canada's elderly. However, progress in terms of fighting poverty among families with children came to a halt from about 1993, when cuts to social assistance and UI benefits really began to bite, offsetting the modest increase in child benefits targeted to low-income families.

The overall stability in the overall distribution of disposable family income as the result of the tax/transfer system shows that government policies can and do have a very large impact on inequality and on the incidence of low incomes. Though not without many defects (such as poverty traps) and gaping holes, the welfare state has served Canadians relatively well in terms of holding market-driven inequality at bay, and has stopped Canada from becoming a highly unequal and polarized society like the U.S. Ironically, this fact has been celebrated by right-wing think tanks like the C.D. Howe Institute, which have nonetheless championed cuts to precisely those programs that made this result possible. The left has correctly pointed to the success of social programs, and the enormous implications of cuts in terms of dealing with poverty and increasing market-driven inequality. However, the fact remains that the task of cushioning the impact on incomes of unemployment, precarious employment,

and the stagnation and increased inequality of market incomes has been very expensive, and has run into limits.

It is difficult to finance redistributive social programs in a high unemployment economy with a very insecure labour market because of mounting costs. Further, the growth of UI and social assistance benefits in the 1980s and into the 1990s was (in the context of slow growth, high interest rates, and a deep recession inflicted by macro-economic policy) a major cause of rising public debt, which squeezed government budgets. Further, the tax revenues needed to fight the erosion of market incomes (and to service the growth of debt) undoubtedly played a major role in sparking the cut-taxes/slash-social-spending policies adopted by most Canadian governments in the 1990s.

Recent spending cuts have begun to bite with a vengeance, placing in question the long-standing overall stability of poverty rates and the overall distribution of disposable family income in Canada. Table 1.17 shows the average level of income from various sources of families living in poverty in 1993 and 1996. (These figures cannot be added up to get an average income, since not all families receive income from all these sources.) The main story that emerges is that, while market earnings and other transfers (e.g., child benefits) have grown very modestly in this period of recovery, social assistance and UI benefits have been cut quite deeply. The result has been almost no decline in the child poverty rate in

Table 1.17
Average Income by Source of Families with Children Living in Poverty

	1993 $	1996 $
Two-Parent Families		
Market Earnings	8107	8276
Social Assistance	5518	4747
UI Benefits	2560	1436
Other Transfers	4574	4738
Lone-Parent Families		
Market Earnings	3777	4075
Social Assistance	7676	6103
UI Benefits	922	489
Other Transfers	3287	3579

SOURCE: John Myles and Garnett Picot. *Social Transfers, Earnings and Low Income Intensity Among Canadian Children, 1981-96.* Statistics Canada. May, 1999.

a period of recovery, and an increased depth of poverty. The "*cut-taxes/ cut-social-spending*" solution is obviously no solution at all for the poor, and no solution to the overall social problems of poverty and inequality.

CANADA IN AN INTERNATIONAL CONTEXT

In assessing the well-being of working people, it is useful to look at Canada in a comparative international context, in meaningful terms. Our political leaders have frequently hailed Canada's No. 1 place in the United Nations Human Development Index, while glossing over the fact that the Index is very narrowly based. Canada's ranking drops significantly when income distribution and the relative position of women are taken into account. Put bluntly, Canada may well rank very highly for relatively affluent men, but we are a more unequal and insecure society than many continental European countries. They have done better by having more regulated labour markets and stronger welfare states.

Table 1.18 presents a comparison of the overall distribution of disposable (after-tax and transfer) income for a number of advanced industrial countries for the most recent year in which comparable data are available (usually the early to mid-1990s). For each country, the total population has been divided into 10 equally-sized groups or deciles, ranging from the top (highest income) 10% to the bottom (lowest income) 10%. (The data have been adjusted to take into account differences in family composition and other factors, and are from the Luxembourg In-

Table 1.18
National Income Distributions Compared

	Top/Bottom Decile	Bottom as % Middle	Top as % Middle	Child Poverty Rate (%)
U.S.	6.44	34	219	22.7
Canada	3.93	47	185	13.9
U.K.	4.56	46	210	17.9
Germany (W)	3.84	46	177	8.7
France	4.11	45	185	7.5
Netherlands	3.05	57	173	4.1
Sweden	2.78	57	159	2.7
Industrial Country Average	3.53	52	181	na

SOURCE: Luxembourg Income Study data in Timothy Smeeding. *"Income Inequality: Is Canada Different or Just Behind the Times?"* Paper presented to the 1999 meetings of the Canadian Economics Association.

come Study, an academic research body which has, for many years, been compiling national data on the computer system of the Government of Luxembourg, making the data as comparable as possible, and sponsoring comparative research studies.)

The first column of the table presents the ratio between the income of a person in the top 10% of the national income distribution compared to a person in the bottom 10%. (It is actually an underestimate of the gap between the richest and poorest, since the ratio calculated is between the top income of the bottom 10% and the bottom income of the top 10%, rather than between the average in each decile.)

As expected, the U.S. clearly emerges as the most unequal society, with the top 10% having incomes almost six times greater than the bottom 10%. The U.S. is very different from the most equal societies, Sweden and the Netherlands, where the top 10% have incomes only about three times larger than the bottom 10%. By this measure, the Scandinavian countries and the Benelux countries (Belgium, the Netherlands, and Luxembourg) stand at the high-equality end of a wide income distribution spectrum, with the U.K. and the U.S. standing at the other end. A similar pattern emerges when more technical measures of inequality are used.

Canada is a somewhat more unequal society than the average among industrial countries, with the top 10% having incomes almost four times larger than the bottom 10%. However, it is clearly a much more equal society than the U.S. or that other central paragon of *"free market"* capitalism, the United Kingdom.

The second and third columns of the table compare the bottom and top 10%, respectively, to the mid-point of the income distribution (median income). In most countries, the bottom 10% have incomes about half the middle level, but the U.S. again stands out as having a very poor underclass with incomes only one-third as high as the middle. In most industrial countries, the top 10% have incomes roughly twice as large as the middle, but the U.S. gives much more to its most affluent citizens than the average. If $50,000 was the median family income, the top 10% in the U.S. would begin at $109,500, the top 10% in Canada would begin at $92,500, and the top 10% in Sweden would begin at just $79,500.

Finally, the table shows dramatic differences in child poverty rates (with poverty defined as living in a family with less than half the middle income). A child is far more likely to live in poverty in the U.S., the U.K., and in Canada (where the current poverty rate is one in five by the Statistics Canada measure of low income) than in the continental European coun-

tries, and child poverty is of minimal proportions in Sweden and the Netherlands.

The dry statistical detail of the table disguises visible and tangible differences between countries. If a Canadian drives around any large U.S. city, she will be struck by the fact that there are fewer middle-class neighbourhoods than at home, and correspondingly more upper-class neighbourhoods with huge houses and new model cars, and more very low-income areas where the poor are concentrated and deprivation is clearly present. In many European countries, there are much smaller visible variations in living standards, with the great majority of the population living in apartments or modest houses.

It is sometimes argued that inequality is the price we have to pay for higher rates of growth and thus higher incomes. But, as noted above, per capita GDP growth rates in the U.S. in the 1980s and the 1990s have averaged no higher than those of other industrial countries. And the gap in incomes between the U.S. and other industrial countries—when adjusted for real purchasing power to eliminate the effects of fluctuating exchange rates—is modest at best. According to the Luxembourg Income Study, median income in Sweden and the Netherlands in the early 1990s was 86% and 83% of the U.S. level. Real GDP per hour worked in these countries is only a bit below the U.S. level, so that most of the modest U.S. income premium is paid for through longer hours of work.

We Canadians are highly inclined to compare ourselves to the U.S. and, in doing so, often forget to take into account the much greater extent of income inequality south of the border. It is true that Americans, on average, have somewhat higher incomes than Canadians. However, almost all of the extra income goes to the well-off and does not benefit the average working family. A recent study by Michael Wolfson of Statistics Canada found that, on average, U.S. families have an annual after-tax income $2,200 more than Canadian families. (This figure is in Canadian dollars, with the comparison made to equalize differences in purchasing power in the two countries.) While American families are better off "*on average*," a family at the precise mid-point of the income distribution in Canada is actually better off than an American family at the mid-point of the U.S. income distribution to the tune of $700. In fact, it is only the most affluent 20% of Canadian families who are significantly "worse off" in Canada than in the U.S.

Moreover, that income advantage for ordinary working families in Canada is supplemented by much higher levels of access to free or cheap public services, notably Medicare, but also higher education, public recreational facilities, and so on. (See Mark MacKinnon, *"The Myth of the Rich American," Globe and Mail Report on Business*, December 21, 1998.) Put simply, if a family on Planet Krypton were trying to decide where to send their future son, Superman, to be raised on Earth, they would be better off to aim his rocket at Canada (or, better still, at Sweden) since the absolute income advantage of the U.S. is monopolized by the very well-off in that society. Inserted randomly into the U.S. income distribution, Superboy would face much higher odds of growing up in poverty than in Canada or in continental Europe.

As discussed above, there are two major forces shaping the distribution of income and the level of low income and poverty in any country: 1) the *"primary"* distribution of income by the market, above all in the form of wages and salaries, and 2) the subsequent reshaping of the market distribution of income through the tax and income transfer system run by governments. The first of these factors is critical because wages and salaries make up such a large share of total income. It is very hard to create a relatively equal society with low rates of poverty if the "*primary*" distribution of income is highly unequal, since the scale of the redistribution required through government will be very large.

Relatively equal countries like Sweden and the Netherlands do have good social programs which redistribute income to some degree, but a lot of the work of the welfare state in those countries is concerned with taxing middle-class people in order to provide them with public benefits, rather than taxing them to provide benefits for others. It turns out that countries like Sweden are quite equal mainly because wages and salaries are distributed in a relatively equal way.

Table 1.19 provides some data on the structure of earnings in the countries considered above. The first column shows the ratio between the cut-off point for the top 10% of all full-time earners and the median wage (the wage earned by a full-time worker at the middle of the distribution of earnings). The figure of 2.04 for U.S. men means that the top 10% of male earners have wages or salaries at least 2.04 times the earnings of the median worker. The gap between top and middle male workers is somewhat lower in Canada at 1.73, and lowest in Sweden at 1.62. Thus, if an average worker made $30,000 per year, top earners in the U.S. would make at least $61,200, compared to $51,900 in Canada and $48,600 in

Table 1.19
The Structure of Earnings Compared

	Ratio of Top to Middle (Full-Time Earners)		% Incidence of Low Pay	
	Men	**Women**	**Men**	**Women**
U.S.	2.04	2.03	19.6	32.5
Canada	1.73	1.78	16.1	34.3
U.K.	1.86	1.82	12.8	31.2
Germany	1.64	1.59	7.6	25.4
France	1.60	1.60	10.6	17.4
Netherlands*	1.66		11.9	
Sweden	1.62	1.4	3.0	8.4

SOURCE: *OECD Employment Outlook.* July, 1996. Tables 3.1, 3.2. Low Pay defined as less than two-thirds median earnings. * No separate data for women and men.

Sweden. It is interesting to note that the structure of earnings is little different for women and men, and differences between countries follow the same general pattern.

The more significant difference between countries, as shown in the second column, is the incidence of low pay, defined as earnings by full-time workers which are less than two-thirds of the median full-time wage. The incidence of low pay is very high at about one in three for women working full-time in the U.S., Canada and the U.K., and is significant for men working full-time. The level of low pay is generally much lower in continental European countries, and is particularly low in Sweden. The major factors which counter low pay are the level of collective bargaining coverage, and the level of minimum wage protection. Overall, the data show that Canada is closer to the U.S. model when it comes to the structure of earnings of full-time workers. The gap between high earners and the middle is appreciably less than the U.S., but the incidence of low pay is quite comparable.

The second major determinant of income distribution differences between countries is the tax/transfer system. A major role of governments in all countries is to use the proceeds of the tax system to deliver programs and services to all citizens, and to supplement low incomes. In all countries, public pensions are crucially important for maintaining incomes and reducing poverty among the elderly, who no longer work, and transfers will largely determine whether or not the unemployed must endure poverty and low incomes. Further, transfers are becoming increasingly im-

portant as a means to raise the incomes of the working poor, that is, of people who are working but at very low wages.

Table 1.20 provides one indication of the different role played by the tax/transfer system in different countries. It shows the proportion of the population who fall below a poverty line defined as one-half median income, before and after transfers. As shown, the poverty rate for all households in Canada is cut in half, from 22.9% to 11.2%, by transfers, and transfers also cut the child poverty rate in half. The impact in Germany, France and Sweden is even more dramatic, indicating the high level of dependence on public spending by the elderly and the unemployed. The transfer system plays a major role in reducing poverty among working families with children in Canada, France and Sweden. These data clearly illustrate the much more limited role of the transfer system in the U.S.

Table 1.20
National Poverty Rates — Before and After the Impact of Transfers

	All Households		Two Adult-Working Families with Children	
	Before	**After**	**Before**	**After**
U.S.	25.3	17.7	15.4	12.7
Canada	22.9	11.2	12.6	6.4
Germany	22.1	5.5	3.1	1.5
France	34.5	8.2	18.7	2.1
Sweden	33.9	6.5	9.6	1.4

SOURCE: OECD Economics Department Working Paper #189 *Income Distribution and Poverty in Selected OECD Countries* (1998). Tables 5.4, 5.7. Poverty defined as income less than half median.

The level and distribution of income in different countries is affected by more than the structure of earnings and the tax/transfer system. The levels of unemployment and job creation, linked to economic growth, are also important. Nonetheless, it is clear that public policies which impact on the structure of the labour market (such as support for collective bargaining and minimum wages) can, in combination with the welfare state, produce quite different societies. All of the countries considered above have been subject to the same stresses of "*globalization*" in terms of increased trade with developing countries, and in terms of increased competition between the developed countries. All have experienced more or less the same pattern of technological change. But the social contexts within which

these changes have taken place have produced quite different outcomes for working people.

While no one model has solved the problems of working people, by any means, the greatly increased inequality and insecurity experienced in the 1980s and 1990s by some working people were not experienced by all. The OECD recently noted that, among the advanced industrial countries, only the U.S. and the U.K. experienced a significant rise in income inequality from the mid-1970s to the mid-1980s, while inequality was actually stable or falling elsewhere. However, more disturbingly, there was an almost universal shift to greater inequality from the mid-1980s to the mid-1990s (*OECD Report on Income Inequality and Poverty,* 1998).

Conclusion

Set against a historical backcloth, the 1990s appear as one of the worst decades for the well-being of working people since the Great Depression. The reason for this lies principally with the poor macro-economic performance of the Canadian economy, driven as it was by high interest rate policies and neo-liberal restructuring.

The tax and transfer system has done a remarkably good job of helping to counter poverty and market inequality in Canada in the 1980s and 1990s. However, it is not a viable long-term proposition to argue that the welfare state can indefinitely hold at bay the consequences of economic stagnation and market-driven inequality. The architects of the welfare state built up after the Second World War—notably Leonard Marsh in Canada and William Beveridge in Britain—as well as the labour movements and social democratic parties which championed the growth of public provision, always recognized and argued that a strong and redistributive set of social programs had to rest on the firm foundation of a well-functioning labour market. Full employment and decent and rising wages were viewed as the primary element of security for working people, to be supplemented as needed by programs to deal with temporary unemployment, disability, illness, and old age.

In the 1990s, the fundamental challenge of creating security and well-being for workers in a market society has increased, since the market economy is now not only failing to deliver anything close to full employment, but is also generating more and more precarious and badly-paid jobs. Increasingly, the welfare state has been pushed in the direction not

just of replacing occasional losses of wage income, but of supplementing inadequate incomes from employment—as in the recent expansion of child benefits targeted at low- and middle-income families. (The welfare state has also had to cope with massive social changes, such as the huge increase in the proportion of single-parent families, headed mainly by women.)

Much of the political debate in Canada today is narrowly defined as one between those who would maintain social programs and those who would cut them and accept the social consequences. While progressives will clearly support the first position, they must also argue that fixing the labour market and the primary distribution of income by the market are of fundamental importance if we are to create a more secure and equal society.