
THE SOCIAL ROLE OF
THE STATE
IN A KNOWLEDGE-BASED
ECONOMY

A paper prepared for the
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by

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Section I maps out the boundary between the household and the state in the past. Section II then describes some of the global political and economic trends that will affect that boundary in the future. Section III reviews changes in the nature of work, while Section IV looks at shifts in demographic trends and family structure. Section V then explores the trends in the social and political values of Canadians. Section VI concludes by outlining some of the issues to be resolved and three possible scenarios for the future.

I. The role of the household

For centuries, the role of the household in society was focused on providing food, shelter and clothing for members of an extended family. It also provided training and care-giving, and looked after intergenerational transfers. Interaction with the state was incidental and often to be avoided -- since it frequently involved military service or tax collection. Families and communities were remarkably self-sufficient, though the statistics available obscure the fact that there were many unrecorded transactions between households -- exchanging food for help in building a barn or harvesting a crop, for example.

Chart 1: The Household in Society (note: charts are not available in the PDF version of this document at this time)

Even in the 1860s, at the time of Confederation, the household was relatively self-sufficient, as depicted in Chart 1. The role of the state was as a glorified night-watchman. It provided defense, it meted out justice, it regulated foreign trade, and it helped private agents to build railways and canals. It also in some cases provided free land to homesteaders. The state was limited mainly to economic and judicial affairs. Indeed, it was the Church that looked after charity until after the First World War. At that stage, governments began to take on responsibility for mothers' allowances, for relief, and for workmen's compensation.

But the role of governments began to change dramatically during the Depression, when the federal government began to take on more public production (Trans Canada Air Lines) and began to try to stabilize the economy (the Bank of Canada). At the same time, municipal and provincial governments were overwhelmed by the need for relief payments to the destitute. The searing experience of the Depression followed by the huge expansion of federal activities during the Second World War led to a sharp break with the past. The first shift was the introduction of Unemployment Insurance in 1941.

During the Second World War, a number of factors converged. The hardships and stagnation of the Thirties stood in stark contrast to the extraordinary burst of collective action required to fight the war. Political thinkers were influenced by the fear of extremism created by excessive disparities in income -- the Bolshevik revolution and the rise of Nazism in Germany. There was a sense that some countervailing force to the harsh strictures of capitalism was needed. The ideas of John Maynard Keynes and of W.H. Beveridge [1942] appeared to offer the necessary synthesis. In a sense, they provided the intellectual legitimacy for a more active economic and social role for the state [Yalnizyan].

From this background emerged proposals for a new role for the state in four areas: education, health care, income support for the elderly and for families, and unemployment insurance. The proposals were set out in the Marsh Report on Social Security for Canada in 1943 and then in the

federal Speeches from the Throne of 1943 and 1944. [Johnson] For reasons of affordability and federal-provincial differences of opinion, this agenda was not fully implemented until the early 1970s, when Medicare was implemented in all ten provinces. In more recent decades, the state has expanded its regulatory role -- governing the behaviour of employers and producers in areas such as pay equity, health and safety, and environmental protection.

The wage economy

The key change in society that permitted this transformation in the contract between the state and its citizens was the shift to a wage economy.

In earlier times, human beings worked as hunters and gatherers, and then settled into agricultural production. The household or tribe could be self-sufficient in that kind of economy. The shift from agriculture to manufacturing that began in the late 1700s created a social and an economic revolution. Until that time, people were employed primarily by the tasks of providing their own food, shelter and clothing. The market economy was very limited. But as people moved to the cities to work in factories, a number of things happened:

- Cities developed to house and provide services to workers.
- Employment was monetized. People worked for wages, and used their wages to buy food, shelter, and clothing.
- Employment became more specialized. People came to be cogs in a machine. They developed a sense of vulnerability because of their dependence on employers. This led to collective bargaining and a focus on increasing wages and on job security. [Ide and Cordell]

The process of automation began with agriculture in the late 1700s. The early machines displaced people but they substituted for muscle power. Those who were displaced moved to the factory, and, then to the office. The marriage of the computer and communications technologies in recent times means that machines now substitute for human intelligence.

Chart 2: Changing Patterns of Work

Chart 2 shows that in the 1860s, more than half of Canadians worked in primary industries where self-sufficiency was possible. By the 1960s, only 20 percent were in primary industries -- by far the majority were earning wages in secondary or service industries. Note that the shape of the curve in each case is like a flat s -- the traditional learning curve.

Each new form of employment evolved from the previous one and the forms continue to co-exist -- about .5 percent of the work force still earns their living from hunting and trapping. There are still farmers -- about 3.7 percent of the work force. In the meantime, the service industries, which now dominate employment, can be broken down into two kinds of work -- knowledge work and service work [Drucker]. There is no generally accepted measure of knowledge work, but one analyst argues that it now amounts to 28 percent of total employment [Beck, p. 138]. Drucker, for one, believes that the current transition to a knowledge-based economy is at least as important as the industrial revolution of the 18th century.

Each household now has one, two or more workers who use their earnings to contract out to the private market to buy food, shelter and clothing. They contract out to governments, through their tax payments, to buy education, health care, social services, pensions and income support systems. This new social role for governments accounts for roughly half of the outlays of the public sector in Canada, and public sector spending, in turn, is equivalent to about half of GDP.

Just as the state was transformed, so was the household. With more women working, the rise in living standards, and the availability of contraception, families are smaller. The family group is usually spread over several households with grandparents and adult children living independently. Birth rates have fallen dramatically in the post-war period to the point where the natural rate of increase has dropped below the replacement rate -- see Section IV.

Note that the 1990s circle in Chart 1 includes a bigger private sector, a bigger government, and that the role of the Church has been taken over by charities. Churches are now one of many non-government organizations providing services to the community. But it is important to note here that the bigger social role for government embraces many forms of program delivery. While governments finance education and health care, in many cases, the actual agents delivering the service -- hospitals, universities, physicians -- are private, non-profit agents.

The other change in the circle is that the informal economy is bigger and more diverse. This is the dark circle between the household and the other institutions in society. In the 1860s, there was a great deal of economic activity that never passed through the market -- food, shelter and clothing produced for personal use or for exchange with other families, for example.

Nowadays, the informal economy still includes this kind of non-market activity -- it can be quite important in some parts of the country, like the outports in Newfoundland. [House et al] Other informal activities also exist -- some are benevolent -- like the millions of hours of voluntary work done by Canadians every year [Campbell]. But some activities are criminal (smuggling drugs or cigarettes), some are illegal (paying cash to avoid GST).

In 1986, Seymour Berger of Statistics Canada made an effort to count the unrecorded economy, looking at unreported income and expenditures. He estimated them to be equal to roughly 3 percent of GDP, about the same order of magnitude as estimates for the United States and the United Kingdom. More recently Reuven Brenner has estimated that unrecorded activities amount to 15 percent of GDP [Little]. Experts at the Department of Finance argue that the size of the underground economy is still small, but they are concerned that it is growing very quickly.

This suspicion is confirmed by anecdotal evidence suggesting that the size of the underground economy has begun to expand in response to the introduction of the GST (which shifted tax burdens from production to consumption) and the sharp increase in provincial and federal taxes in recent years. If this is the case, then it is a sign that the contract between governments and the household is beginning to break down -- citizens are less willing to pay governments to provide services.

In summary, the boundaries of the social role of government expanded suddenly in the post-war period, in a distinct break with the past. The state has become far more than a night-watchman. It is the referee for much of what happens in the private sector and a full-fledged player with an active role in the production of social services, education and health and in the redistribution of

income. The rest of this paper will examine some of the forces that are leading to changes in that boundary.

II. The World Has Changed

The purpose of this section is simply to sketch some of the most important "sea-changes" in the international environment, and to highlight some of the discontinuities that create challenges for national governments.

One key driver for change in the international environment is technology. The fusion of computers and communications technologies has reduced barriers of distance, time, and language to the point where London and Beijing can be in instant communication. This has produced the notion of borderless economies and has opened up competition between companies on opposite sides of the globe. This in turn has dramatically reduced the capacity of governments to protect their citizens from foreign influences -- moral, economic and political.

At the same time, the borderless economy has increased the sense of insecurity -- a development which would seemingly create a greater need for effective action on the part of the state. By miniaturizing weapons, it has transformed the risks of terrorism and the nature of war. By automating production, it has altered the nature of work (see below) and significantly reduced the ordinary citizen's sense of control over his/her own life. [Davidson and Rees-Mogg]

By homogenizing the world into one global society, technology produces strong reactions -- new forms of nationalism, for example, and new tensions between the great religions -- Muslim, Christianity and Judaism. As the big picture becomes more threatening and difficult to understand, people naturally seek out a sense of community or homeland to countervail these external forces.

Yet, countries and citizens are now more interdependent than at any time in history. We now discuss the global environment -- global warming, holes in the ozone layer, etc. Countries share a planet which is a fragile and changing eco-system. [Kennedy] Cutting down an old growth forest on Vancouver Island is an international issue. Countries also share a financial system which can respond instantaneously to news of a default, a new bond issue, or an important policy change. Countries share a trading system. Canada buys imports from over 120 other countries, and sells to just as many. This interdependence creates new responsibilities for the state and new forms of accountability, which limit the choices the state can make domestically. For Canada, at the moment, a critical issue is the dependence on international lenders to finance about one-third of the public debt, which now amounts to about 91 percent of GDP.

Interdependence, combined with global communications, has dramatically altered Canada's exposure to world political events. As CNN displays famine in Africa, political pressure builds for Canadian governments to respond with humanitarian aid. As the new nationalism leads to outbreaks of violence, governments are under pressure to offer peacekeeping forces. The large industrial nations are being dragged into conflicts around the world in part because of their potential to trigger mass migrations of political and economic refugees. Some Europeans, for example, are dedicated to the revitalization of eastern Europe and the former Soviet Union partly

because they wish to avoid a mass migration of refugees from that region. [Davidson and Rees-Mogg]

Another aspect of the globalization of the economy is the stateless or transnational corporation. In the 1960s there was much talk of the challenges created by U.S. multinational corporations. They operated in numerous countries, but always with an American identity. Now the transnational corporations are truly global and identify with no home country. Their legal and ownership structures have adapted to global operations. Their headquarters operations are often rather small -- acting as a coordinating unit, rather than a control centre. Power is decentralized to operating units. Decisions are driven by corporate rather than national considerations -- minimizing costs and maximizing profits or growth [Blank and Krajewski]. These companies are now more detached from the public affairs of the countries in which they operate and make their employment decisions on basis of global economic choices. This too has had an effect on the nature of work and on the economic security of workers. Heilbroner [1993] argues that the stateless corporation will be the greatest economic challenge to policy-makers in the 21st century.

In summary, changes in technology and in world politics and economics place new limits on the capacity of the state to protect citizens from global events. As a result, the state, especially the federal government, looks less relevant and less responsive to citizens' needs. Yet, this is a time when citizens need a vigorous representative on the international scene, and when economic insecurity creates a greater need for citizens to pool risks.

III. The Changing Nature of Work

Employment plays three roles in society. It is a foundation for personal self-esteem, it is a means of distributing income, and it is the means of producing goods and services. This section describes three related forces that are transforming the nature of work -- technology, corporate restructuring, and the global reorganization of production. It then goes on to explore some of the consequences for workers, the policy response, and employment prospects.

Technology

The first source of change is the direct use of technology in the work place. Lasers and remote sensing equipment do the work of hard-rock miners. Computer-based systems replace the skilled tradesmen in manufacturing. Computer networks displace clerical and secretarial staff and blur the boundary between the plant floor and the front office. This has led to a dramatic shift in skill requirements and in the occupational structure.

Job growth has been concentrated in managerial and professional work and in services. Job losses have been in routine manufacturing and lower skilled jobs that require muscle power. Unfortunately, the job losers rarely have the skills required to qualify for the new jobs in the managerial and professional occupations. These people often experience long spells of unemployment and/or migrate to lower paid work in the service sector.

Chart 3: Penetration of Computer-Based Technologies

Chart 3 shows that computer based technologies are penetrating deep into the workplace. In 1991, 37 percent of workers were using these technologies, up from 13 percent in 1986. At this rate of diffusion, nearly all workers will soon be expected to be users of technology in the workplace -- not to mention users at home and at the bank. [McMullen]

About 20 percent of Canadian homes now have a microcomputer -- compared to 10 percent in 1987. But, according to the 1989 General Social Survey, 35 percent of teenagers and 30 percent of 35-44 year olds had home computers. In addition, 59 percent of those employed (or students over the age of 15) were able to use computers. At the same time, many more citizens are using automated tellers -- the number of ATMs has increased by nine times since 1983 to over 10,000. [CBA] About three quarters of all households have a VCR, including 48 percent of households in the lowest income bracket. [Stat Can] Even the telephone has become a system to store, transport or organize information.

In short, technology has become a way of life. In the process, it is transforming personal relationships, the organization of work, and the capacity to get work done. It does not, however, seem to diminish how hard people work. If anything working hours have lengthened for those who have full-time work or who are self-employed. The hours of work are polarizing into those who work 40 or more hours per week and those who work 20 hours or less. Inevitably, this makes the distribution of income more unequal.

Corporate restructuring

The second force is the restructuring of the corporation in response to technology and to globalization. To manage global operations, companies have to devolve decision-making to local units, thereby eliminating the layers of management normally associated with head-office operations. At the same time, to reduce wage costs and remain flexible, they are rewriting the employment contract with both professional staff and hourly paid workers. Most large enterprises now include three distinct groups:

- The core workers who are generally well-paid and protected by generous benefits;
- The professional staff who work on contract (as self-employed or in partnerships with others) and are well-paid but must look after their own benefits; and, finally,
- The flexible work force which is hired on a part-time, short-term basis. Many of these people work for low wages and have few if any benefits such as pensions, insurance, holiday pay etc.

Charles Handy calls these groups the three leaves of the Shamrock Economy. [Handy]

This restructuring has led to a broadly based downsizing of employment in large organizations. Indeed, total employment by large corporations has been shrinking since the early 1980s. Job growth has been concentrated in small businesses (who, typically, offer less job security, lower wages and fewer benefits than a large corporation producing the same products). Many of the new jobs created by large and small firms are part-time or short-term, and more people are opting for self-employment. The result is that employment in Canada has become concentrated at two

ends of the spectrum -- high paid, secure jobs and low paid, insecure jobs. This polarization of earnings is shown in Chart 4. As the middle range jobs (both blue and white collar) disappear, the distribution of earnings in Canada has become more unequal.

Chart 4: The Polarization of Earnings

So far, the polarization of earnings from work has been offset, to a considerable extent, by the social safety net. On an after tax, after transfer basis, there had been only a modest shift towards inequality in family incomes, by 1991. But, as the corporate restructuring continues, the pressure on the social safety net could become overwhelming. The safety net will not be equipped to handle the wide disparities in income in the baby boom generation when it retires, for example.

Global production

The third force that is changing the nature of work is the migration of jobs to locations dictated by the new global production structure. Operations can be grouped into four categories:

- Warehousing operations, selling imports from abroad. They employ mainly clerical and sales staff.
- Assembly operations, putting together components purchased from abroad or working to designs developed abroad. They employ assembly workers, clerical and sales staff.
- Plant complexes which fabricate some components based on local engineering, but key elements of production come from abroad. They employ some middle managers, as well as clerical and sales staff.
- Fully integrated production units with full responsibility for product design, engineering, marketing, planning and other functions. This can be focused on a single product line or on a wide range of products. These units employ the full range of managerial and professional staff and will have the highest proportion of high paid, and relatively secure jobs. [Hixon and Kimball]

During the restructuring of Canadian manufacturing industries in recent years, we have seen firms shut down production or move it to another country where wages and other costs are lower. This reduces the Canadian operations to a warehousing operation. In some cases, however, assembly operations have been given a world product mandate and transformed into a plant complex or a fully integrated production unit. These location decisions have a significant effect on the number of jobs in Canada and also on the content of those jobs. The job losers, especially those with narrow skills and low education, find it difficult to qualify for new jobs.

The spatial distribution of employment has also shifted. The high-paid jobs and the new jobs in the service sector are concentrated in the largest cities and in regional centres like Halifax and Edmonton. The job losses have been concentrated in the resource-based regions which are primarily rural. This fosters the concentration of the population in larger centres and creates serious imbalances in infrastructure. Schools, hospitals, and transportation systems are unused or abandoned in rural areas, while there is congestion and a need for new construction in the cities.

It is not clear that this trend to the big cities will continue, however. At this stage, there is no empirical evidence of a shift to home-based work. But there is certainly anecdotal evidence of professionals working from their homes, connected to clients by modem, Fax and E-mail. There is evidence of cottage-type industries working from the basement or the garage. There are also more regional offices, deliberately located away from congested urban centres. (IBM Canada and B.C. Telephone have both run pilots based on home work and regional offices outside big cities to cut commuting time.)

Current economic and quality-of-life incentives are likely to reinforce these trends away from cities and towards self-employment. The lack of full time job opportunities, the pressure for early retirement, the favourable tax position of the self-employed and the relative availability of contract work all encourage the adventurous to move out of large organizations, where the competition for promotions is fierce. The high tax burdens on individuals combine with the above pressures to foster a bigger underground economy.

Consequences for workers

These three forces for change in employment -- technology, new corporate structures, and global relocation of production -- are far from being completed. The result is Canadian citizens are experiencing greater economic insecurity: they face a higher risk of a spell of unemployment. When they are laid off, it is likely that the layoff is permanent rather than temporary, forcing them to look for work in a new occupation or a new sector. If they find a new job, it is likely to be non-standard -- that is, low pay and low benefits.

The most disadvantaged people in this turbulent job market are the poorly educated, as Chart 5 shows. In the old industrial jobs, older workers were not handicapped by limited literacy and numeracy. But they cannot adapt easily to the new information economy jobs. The combination of youth and poor education is particularly devastating, leading potentially to a lifetime of dependency on UI, low-paid jobs, and welfare. (Unemployment rates for people without secondary school education in 1975 were only 1.3 percentage points higher than the national average. Now they are 4.7 points higher.)

Chart 5: Unemployment Rates by Level of Education

One of the most worrisome trends has been the high rates of unemployment among young people -- now dubbed the "boomerang" generation because they try to leave home to become self-sufficient but end up moving back to their parents in order to make ends meet. Indeed, the hardships of the recent shakeout have been concentrated among younger Canadians -- those under 25 years of age in 1990 had real incomes 22 percent lower than that earned by the same age group 12 years earlier (Chart 6).

Chart 6: Real Family Income, by Age of Head

The Canadian economy is now part way through its transition from the old industries based heavily on resources to new industries based on the information economy. There are many "new" industries that are growing rapidly and are successful exporters, but they do not yet have the critical mass to act as the locomotive pulling the whole economy forward at rates of economic growth that would compare with the 1960s. Thus, even though the economy has

technically been in recovery since the spring of 1992, there are industries that are still shrinking (steel and rail transport, for example) and many large organizations that will have to downsize if they are to survive. This has led to the expression "jobless recovery."

Chart 7 shows the pattern of job loss and recovery since 1990, breaking the period down into the recession years, and the recovery since April, 1992. So far, the increase in manufacturing and construction and even in service industries like retail trade lags way behind the normal rebound at the early stages of other post-war expansions.

Chart 7: Job Change, by Industry

The next chart (Chart 8) shows the dramatic shift in the occupational mix of employment over this period. Most occupations continued to decline during the recovery period. All of the growth was concentrated in managerial and professional occupations.

Chart 8: Job Change, by Occupation

As a result, some observers have begun to raise questions as to whether the economy will ever again produce the growth in employment typical of recent decades. As production becomes more efficient, they argue, it may be possible to produce all the goods and services that people can afford to buy while employing only a portion of the population available to work. They talk about a "jobless economy." [Marshall Cohen; Ide and Cordell] These observers also raise the

Kingdom, a large number of major industrial countries elected political parties offering a more conservative approach to economic policy and to the role of government. It became conventional wisdom in the 1980s that governments were too large, too inefficient and too indebted. The job of political leaders was to shrink governments, reduce taxes, and get out of the way of private investors and citizens.

This new ideology was implemented in a variety of ways. But typically, it shifted the political priority from fighting unemployment to fighting inflation. Monetary policies became much more restrictive, while fiscal policies were all over the map. In Canada, federal fiscal policies used the rhetoric of restraint, but deficits were endemic through the 1980s and then worsened dramatically when the economic restructuring described earlier hit in the 1990s. Looking back over the period since the break in productivity growth in 1973, it appears that policies were much too expansionary from 1973 to 1988. Then, when policies reversed, they were highly restrictive in the post-1988 period (taking the overall mix of fiscal and monetary policies), just at the time when industry faced massive restructuring. (After 15 years of too much policy heat, Canadians experienced an extended period of too much policy cold.)

No one can say, at this stage, what the impact has been of the combination of a restructuring in monetary and fiscal policies and a restructuring of industry. Some would argue that industry

- The creation of new industries which were not even imagined ten years ago -- in bio-technology, software services and so on.
- The scope for knowledge workers to `create their own jobs` by shifting to self-employment.

On the pessimistic side:

- The mountain of public debt will make it necessary to shrink the public sector, while the application of new technologies will displace many routine government jobs -- especially in the clerical occupations. This will act as a counterweight to the recovery in the private sector.
- The concern that Canadians are still not sufficiently internationally-minded to take advantage of all the opportunities that exist in other markets.
- The acceleration of technological change may lead to new waves of displacement in the private and the public sectors, which cannot yet be anticipated.

There is a tendency, given the sluggish recovery in employment to date, to adopt the pessimistic view -- to project a jobless future for Canadians. But there are reasons to be cautious -- if only because such pessimistic forecasts have proven to be unfounded in the past. (It was fashionable in the mid-1970s to project "limits to growth.") However, there is no research on the topic and the evidence to date is weak.

Chart 9 shows the four categories of people who are unemployed or inactive for work related reasons. It includes the people who are actively seeking work, those who are no longer seeking work either because they lost their job or because they believe there is no work, and the people who are involuntarily working part-time. The total for 1992 is 3.2 million, equivalent to 26 percent of total employment. The number is large, but the percentage is not quite as high as the peak of 27.4 percent in 1983.

Chart 9: Underemployment - The Inactive Work Force

In summary, then, there are a number of issues that flow from the changing nature of work.

- First, there is a risk of involuntary idleness as technology displaces workers and they are unable to qualify for the new jobs being created. If this occurs, then there is a risk of an underclass of unemployed and underemployed, with all the related social pathologies. There is also a clear cost to the state. Dependence on Social Assistance and UI increased dramatically in Canada in the 1980s. The number of general assistance beneficiaries under the Canada Assistance Plan averaged 1.9 million per year in the late 1980s, compared to 1.4 million in the late 1970s. The number of UI claimants climbed from 2.9 million in 1981 to 3.9 million in 1991, despite a significant tightening in eligibility rules over the decade. Combined claims have obviously accelerated in the current recession -- they already absorbed 3.6 percent of GDP in 1990-91.

- Second, there is a problem of income distribution. Earnings from work are being distributed less equally. So far, the social safety net has compensated for this, so that the distribution of total family income has not become less equal. But, if the polarization of earnings continues, society faces the choice between providing income supplementation for people with low incomes or simply accepting greater inequality. Past efforts to introduce income supplementation have failed because of affordability and technical design issues concerned with disincentives to work. [Johnson]
- Third, with so much job turnover, even among good jobs, people will be changing jobs, skills and even occupations frequently during their life time. Hence the need for lifelong education. The Canadian education system was designed at a time when education was concentrated in the first 20 years of life followed by a career of 40 years or so. That has already changed. About one-quarter of university students are now over 25 years of age. [Foot] But adults with family responsibilities face major costs when they go back to school. There is much scope for adjustment by employers and by the tax system to foster tax and compensation schemes that favour the alternation of work and study.
- Fourth is the issue of the underground economy. Are there people who are working, but do not report themselves as employed and who do not pay taxes? Finance departments across the country have been baffled by their inability to project revenues correctly, even when they have an accurate forecast of the level of employment and of retail sales. One possible explanation for this is that more activity is unreported. This in turn would mean that citizens are no longer committed to paying their taxes as a means of contracting out to the state. The state is left in a difficult dilemma. Should it deny services to people who refuse to pay taxes? Or should services be cut back to reflect the lack of revenue?

IV. Changing Households

The traditional starting point for examining the social needs of citizens is to look at the dependency ratio -- the ratio of people who are not of working age to those who are aged 18 to 64. At first glance, Chart 10 suggests that there is no problem. The total dependency ratio in 2011 will be less than the ratio in 1976. True the ratio will be rising in the next 18 years, but most of the increase will occur after 2001.

Chart 10: The Demographic Dependency Ratio

However, hiding under the surface are some major social challenges. First of all, the child dependency ratio will continue to fall. Since these are the citizens who will be the future work force, their development is important. As we shall see below, many of these children are at risk. Secondly, the elderly dependency ratio will be rising, and the frail elderly -- those over 75 -- will rise significantly before 2001. Finally, the stable ratios hide big changes in absolute numbers. In 1992, there were 3.2 million people over the age of 65 living in Canada. By 2011, there will be 7.1 million -- more than double.

This section begins with a broad overview of demographic trends and then turns specifically to children and the elderly. The baby boomers receive special attention in both sections -- they are

the sandwich generation with caregiving responsibilities for both the children and the elderly. The section concludes by identifying the stress points in family support systems.

The broad outlines of Canadian demography are well-known. The population is aging slowly, fertility declined sharply in the 1960s and has stabilized at roughly 1.8 births per woman of childbearing age. Life expectancy has increased to about 80 years for women and about 74 years for men. The baby boom generation born between 1947 and 1966 continues to dominate values, consumer trends, and voting patterns. Net immigration is currently running at an unusually high rate of about 200,000 per year, and the majority of the immigrants originate in developing or newly industrialized countries.

Those broad trends explain an extraordinary change in family structure in one generation. Between 1961 and 1986:

- The typical husband\wife family has shifted from one earner to two earners -- now 60 percent of families with children under the age of 15.
- The share of lone parent families rose from 8 to almost 13 percent by 1986 and then stabilized.
- Only 23 percent of households have children present, down from 40 percent in 1970. This reflects an increase in childlessness -- about 25 percent of women, compared to 8 percent in earlier generations -- and an increase in the number of years lived after the children have left home. [Gee]
- Between 35 and 40 percent of children do not live with their biological parents because of divorce and remarriage into reconstituted families. [Eichler]
- Many families now have four generations existing within a single line of descent -- great-grandparents, grand-parents, parents, and children. But each generation has a smaller number of siblings, each generation and each individual may keep a separate residence, so that "a family" in the broad sense may now consist of numerous households. [Osberg]
- Persons living alone now constitute the single largest type of household -- with high concentrations among young people and the elderly. [Demographic Review]

To summarize the family revolution, the Montreal Gazette reported in March, without giving a source, that in the 1970s, the average family had 2.6 children, whereas in the 1990s the average child has 2.6 parents. That shift has its consequences, especially for children.

Children

Patterns of care-giving have changed dramatically over recent decades. In the 1950s, the mother provided full time care-giving for children and the elderly. Now:

- Because most mothers work, even when their children are infants, they must find a sitter or pay for day care. This need for child care is urgent and expensive for a short span of

years (given that typically there are only two children and they are born within a few years of each other).

- Grandparents have become an important resource for the family -- offering help with child care, financial assistance, and other in-kind support. In the 1990 General Social Survey, 20 percent of people over the age of 55 provided un-paid baby-sitting services, and 12 percent donated money to sons or daughters in the reference period.
- Children have been transformed from being the private property of their parents to being a "junior citizen" with some claims against broader society for the protection of her or his rights. [Osberg]
- About 18 percent of Canadian children live in poverty.
- In the minds of some parents, schools are more important for their babysitting than for their active education. School curricula have taken on more and more of the functions that were once provided by the family -- building self-esteem, sex and health education, musical and cultural training and so on. These topics crowd out the more formal academic curriculum.
- Increasing numbers of children are not ready to learn when they arrive at school, placing severe strains on teachers and other students. These children appear to be vulnerable to an array of risk factors that may include one or more of the following:
 - Family breakdown
 - Poor health
 - Family violence
 - Alcohol and drug abuse

While some children have the resilience to overcome these disadvantages, there is a strong probability that many of them will drop out of school and/or become involved in drugs or crime, while the young women face the added risk of an adolescent pregnancy. All are predictors of a life of poverty and dependency. [Schorr, Werner]

It is important to note that these problems are concentrated in poor families, but not restricted to them -- children experiencing divorce and separation in affluent homes can become vulnerable as well. [Whitehead] Recent social research has also begun to underscore the damage caused by family breakdown. Whereas society tends to treat divorce as a form of self-actualization and renewal for the adults, the research shows that it can impair the development of many, though not all, children. This raises profound moral questions as to when divorce or separation is necessary to protect members of the family from damage and when it is inappropriate because the breakdown itself will prevent healthy child development.

While social research identifies some serious gaps in the care and nurturing of children, this does not mean that the state should now take over. (Past interventions such as residential schools for aboriginal children would argue strongly against.) But it does mean that society as a whole has to find ways to reinforce the nurturing capacity of parents.

There is strong evidence to suggest, for example, that early childhood interventions such as Headstart, which combine support for health, nutrition and education can make a dramatic difference in the outcomes for disadvantaged children. [Schorr] However, this demands a complete shift in emphasis in social policy -- moving to prevention rather than the treatment of crisis situations.

The elderly

The elderly have also experienced a revolution. By far the majority of the elderly are financially and personally independent and would like to remain so. The incidence of poverty among the elderly fell dramatically in the 1970s, thanks to the introduction of the Guaranteed Income Supplement and the maturation of the Canada and Quebec Pension Plans. In addition, the majority are in good to excellent health into their late 70s and early 80s [Krahn], with the result that the elderly are now subdivided into at least two categories -- the young elderly, who are under 75, and the frail elderly who are over 75. (Some would prefer to draw the line at age 80.)

Only 16 percent of the elderly lived in institutions in 1986. For most, this is a relatively short transition towards the end of life. The actual number of people living in institutions will double from 166,000 in 1986 to 318,000 in 2001. [Priest] This means that capacity will have to double, just to accommodate 19 percent of the elderly.

Almost two-thirds of the elderly lived alone or with their spouse in 1986. The two key factors that make it possible for the elderly to remain independent are financial freedom and support from family and friends -- regular phone calls, visits, help with shopping, household maintenance and transportation. This assistance is provided by children, mainly daughters, and by friends and neighbours. Projections show, again, that the number of elderly living independently will double to 1.2 million by 2011. [Priest] (Note that 62 percent of elderly men live with their spouse, while only 22 percent of elderly women do so. This is a reflection of the longer life expectancy of women and the lower rate of remarriage after divorce or widowhood.) [Priest]

The patterns of financial freedom and informal care-giving are strongly influenced by the cumulative life experiences of the elderly. The current elderly appear to be particularly well-placed. But, the next generation of elderly -- the baby boomers -- may not fare as well, for several reasons. [Osberg]

- Today's elderly have several children living who can organize or provide care-giving directly. In contrast, when the baby boom retires, beginning around 2010, they will have fewer children to rely upon because of smaller families and increased childlessness. In addition, their daughters will for the most part be working full-time and be less available for informal care-giving.
- Those who bought homes in the 1950s and 1960s have benefited from a remarkable increase in urban real estate values which create an asset base for generating future income. In contrast, the levelling off and declines in urban land values in the 1990s will reduce the asset base of the baby- boom generation.
- Those who retired in the 1980s were likely to be married to their original partner. They therefore have a partner to provide mutual support during retirement. In contrast, at least

one-third of the baby-boom generation will be divorced or separated. This reduces the resources available to many women -- in fact, roughly half of the women living on their own who are now in the 55-64 age group have incomes below the low-income cut off. [Burke and Spector]

- Only half of the people who are currently employed are participating in employer pension plans that will supplement the Canada and Quebec Pension Plans. The CPP and QPP were designed to supplement, not substitute for these employer plans. [Lowe] Given that the attachment to employers is becoming more unstable, some of these people may lose their pension entitlements before they retire.

Thus the elderly in the future are likely to exhibit wide disparities in income -- some will be well-to-do because of personal savings and employer pensions. Others will enter retirement with meagre financial resources. This means that the Guaranteed Income Supplement will continue to be an important source of financial support for a large proportion of the elderly over the longer term. However, across-the-board subsidies and grants to the elderly, including Old Age Security may not be an appropriate use of funds, since many of the elderly will be quite well-to-do. (Note that any change in OAS has to be accompanied by adjustments to GIS payments to maintain their value.)

The stress points

In summary, there are four stress points that emerge from this assessment of the future trends in family structure.

- First, there will be an urgent need for more effective systems of child care for young children. These systems will have to pay special attention to the needs of disadvantaged children, helping them to become ready to learn by the time they enter school.
- Second, the school system, as presently structured does not have the capacity to meet its mandate to educate young people or to respond to the needs of children and parents. Parents normally work 50 weeks per year from 8 to 4 or from 9 to 5, plus commuting time. Schools operate for 39 weeks per year from 9 to 3.30 pm. The gap between the two is immense. If both the school day and the school year were extended, there would be more time for the nurturing curriculum (which requires a leader\instructor with different training from a teacher), more time for the core curriculum, and the parents would not be left with huge gaps in time when they have to find child-care, or worry because the children are unsupervised.
- Third, the current generation of elderly has established a remarkable capacity for independence for all but their frailest years. But, when the baby boom generation reaches retirement around 2010, their scope for independence will be diminished for both financial and family structure reasons. Some, perhaps half, will lack pensions, many will lack a marriage partner or close companion, and most will have few children in a position to provide informal care-giving. Still others will be affluent, with considerable wealth to pass on to their children.

- Fourth, the sheer numbers of elderly who will need either informal or formal support and shelter in the next two decades is impressive. In general, numbers will double. The number of frail elderly will increase by 50 percent by 2001. By far the majority of this care is provided by the household; the state's role, at present, is primarily income support.

This examination of the changing household and the changing nature of work reveals a paradox. Families are under a great deal of stress trying to balance their care-giving and their work responsibilities. Today's parents are sandwiched between their commitments to elderly parents and their desire to help adult children in the boomerang generation who cannot find work. Those that have jobs work long hours, and are competing hard for advancement. The layering of organizations is reducing the scope for promotions just as the big generation hits the mid-career stage. Those that do not have jobs are frustrated by the lack of income and opportunity, and fighting the slump in self-esteem that comes with underemployment.

Researchers have not been able to document the degree to which this inevitably leads to a polarization of society, but there are concerns about the poverty trap. The new economic literature, for example, stresses the importance of path-dependence. Applied in the context of this paper, this may mean that, once a person becomes unemployed, he or she can get trapped in a downward spiral. On the other hand, a person who qualifies for a good job can get onto a learning curve where success leads to further success. Under these conditions, then the role of the state may be to help people to break out of the downward spiral by getting on a more productive learning curve. This would justify a major commitment to the design of effective training and life long learning systems to help people adjust to the changing nature of work.

Other responses would include reshaping or redefining work. One possibility would be to share the work around -- reduce the work week of those that are employed, and create jobs for those that are unemployed. This creates real organizational challenges for employers and raises important questions about the incentives against work-sharing generated by bookkeeping costs, payroll taxes and other mandated employment costs. It also confronts very strong opposition from unions - witness the reaction to the Ontario government's effort to negotiate a way to spread the work around to avoid layoffs in the spring of 1993.

Another possibility would be to increase the scope for voluntary work by organizing community services intended to fill the gaps described above. The voluntary sector in Canada already performs an array of vital community services, but it has never developed to the degree it has in the United States. That is partly due to differences in the view of government -- Americans do not trust government and feel compelled to volunteer as a substitute. Canadians, on the other hand, have a tendency to expect governments to deal with social issues. [Duncan Campbell]

V. Changing Social Values

The purpose of this section is to describe some of the recent shifts in the values of Canadian citizens and to link the discussion to the rethinking of the social role of the state.

A typical poll of values in the 1980s would have revealed that Canadians prize, above all other things: universal health care insurance, safety and security in the streets, and access to the wilderness -- the ability to go camping or rent a cottage. These preferences were based on the

expectation that living standards could and would rise steadily over time -- that each generation would be better off than the last.

All age-groups were dominated by the "me-generation" in the 1980s -- well-to-do elderly who jealously guarded their Old Age Security cheques; adolescents working part-time so they could buy clothes, stereos, cars and other symbols of success; and yuppies who set the trend for everyone else. They were preoccupied with shopping, houses with five bathrooms, the most recent fashion in cars, gadgets and clothing.

These values have shifted for many reasons. The recession brought sobering economic pressures. It is now recognized that the youth of the 1990s are unlikely to surpass the living standards of their parents. The ageing of the baby boom has also altered family priorities. The typical baby boom family (now aged 31 to 46) is loaded with debt (76 percent of personal disposable income, on average), caring for children, and beginning to think about saving for retirement. When Decima and Environics asked about their plans for spending in 1992, most Canadians replied that they had all the material things they needed. Some admitted that they no longer wished to be on the fast track, that their new priorities are family and friends. Other questions reveal a strong preoccupation with protecting the environment and with reducing government deficits.

Such polling results provide no foundation for predicting the future, so we cannot say whether this new pattern is sustainable. However, the historical pattern of political change described earlier shows that economic conditions do shape social values, just as they influence choices at the ballot box. Hirschman's analysis [1982] would suggest that the disappointments of recent times will trigger major changes in the interaction between citizen and state.

Some of the evidence is beginning to unfold. Expectations have been altered on the economic side, as noted above. But Michael Adams reports that expectations on the political side have also shifted. People are less deferential. He attributes this trend to

"...a profound disappointment with traditional authorities, particularly political parties, and a feeling that today's problems are beyond the control of contemporary leaders."

He argues that Canadians have post-modern values -- they do not totally reject the authority of traditional institutions, and they are less ideological or dogmatic in their attitudes toward religion, the family and government. He observes a new balance between individualist and collective identities, with the social life more oriented around informal networks and flexible relationships, rather than on old allegiances.

The discussion that follows focuses on three themes: the willingness to share, the search for community, and the impact on governance.

Willingness to share

One of the unique characteristics of Canada has been the willingness to share -- the pooling of risk between citizens and across regions. This has been the foundation of the social contract described earlier, but also the fundamental tie that has bound diverse regions together [Economic Council, 1991].

Social programs account for 47 percent of total public spending in Canada, and they are financed by a complex web of intergovernmental transfers which are intended to ensure that citizens have access to reasonably comparable social programs at roughly comparable cost, no matter where they live. Provinces have the scope to differ in program design and administration, but there is a shared commitment to a basic safety net. The common approach to the safety net is founded on the federal government's taxing power. It is used to finance at least part of the programs and to equalize tax burdens across regions

These arrangements are now under stress for both fiscal and constitutional reasons.

Over the past decade, the federal government has made a number of changes in the formulas governing transfers to the provinces which finance health, education and social assistance in order to reduce the cost to the treasury. Peter Leslie and Ken Norrie have pointed out that the system of fiscal arrangements is therefore about to self-destruct [Leslie, Norrie, and Ip].

The linchpin of the intergovernmental transfer system has been Ontario, which in 1990 generated 47 percent of federal revenues. When the Ontario economy fell into a traumatic recession, the federal government had nowhere to turn to raise the revenues needed to help stabilize the Ontario economy. Indeed, the combined federal and Ontario debt problems will make it exceedingly difficult to preserve the pattern of inter-regional sharing established in recent decades. And there is considerable evidence that Ontario is shifting to an "Ontario-first" attitude which will reduce the scope for inter-regional transfers in the future.

The fiscal stress also buttresses the arguments of the more conservative thinkers in society about the need to break the "dependency syndrome" that discourages work effort and creates a drain on the country's resources. The polling evidence on this issue is difficult to read. Canadians seem ready to maintain support for the "deserving poor," but they also want to see an end to the abuses of the system. This suggests that people are rethinking their willingness to share, and it is not clear yet how that will play out in terms of policy design.

At the same time, many of the provinces -- especially Quebec -- are lobbying fiercely against the federal "dominance" of key areas like manpower training. And, as the federal government cuts back on its funding commitments to deal with its own deficit problem, its ability to impose or enforce national standards is seriously weakened. This, as well as the long-simmering debate over the place of Quebec in Confederation, has led to a political deadlock in federal-provincial relations at a time when many of the most pressing social issues demand close cooperation.

Thus, the willingness to share is in a state of flux. Consensus around the design and the funding of the social safety net has broken down, and it will be necessary to work out a new understanding of the entitlements and the obligations of citizens in a new social contract.

Search for community

A key development of the 1980s has been the evolution of a more fragmented, pluralistic, culturally diverse and litigious society.

Partly because of the implementation of the Charter of Human Rights and Freedoms in 1982, Canadians have become preoccupied with individual rights, after a long history of focus on

collective rights. Equality-seeking groups have become active participants in public debate,

We can therefore imagine a world in which governments can be completely transparent by opening up their data systems (within the limits of privacy, military secrets etc) to offer the public all they need to know about government operations. This presumes that the capacity to organize and analyze the information exists, of course. Still, information has become one of the key services that governments can offer to economic agents -- information on markets, on programs, on regulations, etc.

Such transparency could be used to build public trust and to establish new foundations for consultation before policy decisions are made. However, there is a dark side to the power of the computer. Governments will always be tempted to try to restrict the flow of information or to use that information for coercion. The scope for surveillance and the invasion of privacy is not yet well understood, but the risks are ever present [Gooderham].

VI. Conclusions

The revolutions in work and family described in this survey paper make it very clear that the definition of the social role of the state put in place in the post-war period needs to be reviewed. The existing social infrastructure looks like a big and cumbersome Chevrolet from the 1960s. It is expensive to run and it is not well designed to handle the curves in the road ahead.

What becomes very clear, when we review the revolutions in work and family, is that the family still carries the predominant responsibility for redistributing income and for caregiving. The social safety net is big and expensive, but it operates at the margin, offering insurance and in-kind support under a variety of conditions.

This dominant role for the family is a remarkable achievement, considering that, in most households, there is no one home for most of the working day. And a good many of the ones that are at home are there involuntarily -- unemployed. Most of the mothers and daughters have gone out to work. Many jobs do not provide enough income to support a whole family, but most employers assume that there is someone at home to care for sick children, look after the frail elderly, prepare the meals and provide the nurturing and love that keep people healthy and happy.

These conditions mean that many, perhaps most, families are stretched to the limit. Thus, any decision to shift responsibilities back to the family because the state can no longer afford to provide support is likely to lead to considerable overload and to a whole new wave of social pathologies.

The choices that lie ahead are fundamental moral choices -- not just a tinkering at the margins. They will have to be worked out in a political process in which governments are at a distinct disadvantage -- their credibility is on the line, and they are not effective at working together.

Here are some of the issues to be resolved, as Canadians strive to work out a new blueprint for the social role of the state:

Technology

1. Technology is now driving society: should society attempt to control technology and its impact on the nature of work and the well-being of citizens? If so, who should do it and how should it be done?
2. The nature of work has shifted in ways that make it less effective in distributing income fairly and in building personal self-esteem. How then do citizens survive and what alternatives are there for building self-esteem?

Sharing

3. The growth in government revenues may be at risk if more people are inactive and more people opt for the underground economy. Does this mean that services should be denied to people who evade taxes? Does it mean that we should be taxing technology in order to lighten the tax burden on labour? [Ide and Cordell] If so, how should technology be taxed?
4. What is the appropriate balance within the family between adult happiness and child development. Under what conditions is divorce or separation the best solution for all? What are the responsibilities of biological parents after marriage breakdown? How far should the state go in enforcing child support?
5. If more of the elderly population is healthy but inactive, are there ways to tap that energy to provide social and community services needed by families and the elderly?
6. Are there ways of sharing work so that people with family responsibilities work a shorter week or a shorter year, creating more jobs to go around.
7. Are there new vehicles for intergenerational sharing to be exploited that would help the well-to-do elderly provide support to their children and grandchildren and vice versa?
8. What tasks are best done by the state, and which are better done by community organizations, by the family or by individuals?

Learning

9. Governments now spend a lot of money on programs designed to look after disadvantaged children. Are the resources concentrated on the right issues -- are parents being helped to nurture? Are children being helped to be ready to learn when they get to school? Is enough money being spent on prevention?
10. The school day and the school year are still organized for an agrarian society where children were needed at home to help with the chores for part of each day and during the growing season. This creates stress on the education system, which is expected to teach a full curriculum and handle an array of nurturing tasks which the family is not able to cover. It also creates stress on the family since there is not normally an adult at home to supervise the children after school and during the summer. Should the school day/year change? Or should working time be altered?

11. If most working people now require reskilling at regular intervals, the majority of students will be adults, and thus no longer in the care of their parents. What does that mean for the way we value, and pay for, study? How should the costs be shared among citizens, employers and the state? Do we need a system of registered borrowing to finance career breaks for study? Is there sufficient scope in the tax system for lifetime averaging of earnings?
12. If large numbers of people on social assistance and unemployment insurance are "employable" but not equipped for the jobs currently available, what are the respective obligations of the citizen and the state with respect to training and preparation for new kinds of work?

Three scenarios

There are three possible routes that Canada can go in answering these questions. They are characterized here as a polarized society, a resilient society and a cooperative society.

In a polarized society, Canadians find it impossible to adapt to the polarizing trends in the workplace -- the increasingly unequal distribution of work and unequal rewards from work. The fiscal stresses are managed by putting a cap on expenditures rather than rethinking the roles of the state. Social policy reform tinkers with program design, meaning that programs are cut or allowed to wither.

As a result, society will polarize into rich and poor, or educated and uneducated. Programs will probably remain generous for the elderly (since they have a powerful lobby), but new pools of poverty will build up around young families who cannot get a start in life. This will marginalize large numbers of young people, with the result that governments may spend less on social programs, but they will end up spending a lot more on fighting crime, protecting property, and combatting racism. In short, Canada will look more like the United States.

This is not likely to be a deliberate choice by Canadians. It is more likely to happen by default, for one or more of the following reasons: governments may be unable to agree on a new blueprint for the social safety net and for social and economic regulation; the design of that safety net may be controlled by finance ministers fighting the deficit, rather than ministers with a strong sense of the social context; or, in the event that governments do agree on a blueprint, implementation could be blocked by citizens with entrenched rights and public servants who want to keep their jobs.

In short, this polarized society is driven by a set of values that can be characterized as "beggar thy neighbour". It is a society with no money to spend on learning or on prevention, a society that risks flagging economic growth because it cannot apply new technologies, a society where a combination of fiscal and social crises can easily lead to a downward spiral.

In a resilient society, there are fundamental reforms of social programs motivated by both efficiency and equity concerns. There is a shift away from passive income support for people of working age with the potential to work. Programs are focused on helping them to become fit and able to work. The role of the state is to make it possible for every citizen to be "on the learning curve."

This demands a complete rethink of unemployment insurance and social assistance. It includes a new headstart-type of program so that disadvantaged children arrive at school ready to learn. It offers clear pathways from school to work so that young people do not drift from one poorly paid job to another. It includes programs that help families to cope with the periods in their lives when they must juggle work and major caregiving responsibilities.

To fund these new commitments, governments are forced to make tough choices on expenditure reductions, but the cuts are designed to renew and rebuild. They will have to have the political will to reform UI and programs which support the affluent elderly, for example. They will also have to reform education and health care with a much stronger focus on "value for money" -- always linking the inputs to costs and to outcomes.

To make this resilient society work, Canadians must come to terms with a new set of values which redefine the responsibilities of the state and of citizens.

- Education and training are regarded as an investment and are financed by all the parties -- students, families, taxpayers, employers, and employees.
- There is a joint commitment by state and citizens to stay on the learning curve. The state can create opportunities to study, but only the individual can learn.
- The role of the family in nurturing children and the elderly is valued and therefore reinforced by strong community institutions and sensitive public policy.
- The driving objective is to build a country. Deficit reduction cannot be avoided, but it does not become an end in itself.

In a cooperative society, there is an even bigger transformation in the social contract, with a whole new sharing of responsibilities and obligations. It includes the elements of the resilient society, but goes even further.

- Work sharing becomes a common occurrence. Volunteer work is rewarded in ways that recognize the importance of caregiving and community services.
- Corporations take on a strong social role within the community. They become responsible providers of infrastructure.
- Communities and not-for profit organizations take on responsibility for delivering many social programs. Communities become entrepreneurial in the way they finance training and build the necessary infrastructure.
- New forms of financing and taxation are designed to take account of the shift to a knowledge economy. This way the productivity payoffs from technology are shared across the whole society.

Many of these ideas are already being tested in Canada today -- work sharing, entrepreneurial communities etc. What is different is the scale of the action. In a cooperative society, there is a broad-based consensus that the key values are collective action and sharing.

In conclusion, the single most important message that flows from this survey of the world of work and family is that nothing in society has a preordained right to remain static. People grow up and grow old. Technologies diffuse and become obsolete. Communities and cultures rise and fall. Industries expand and contract.

Governments cannot override these basic laws of nature. Their responsibilities must also adapt to the times. The state is not the only provider of economic security, though it makes an important contribution in Canada.

The current boundaries of the social role of the state were written by another generation, which had very different needs from the citizens of today. This means that the contract between state and citizen will have to change in response to the needs of citizens and the wealth of society. Efforts to preserve the last vestiges of the old social contract may well lead Canadians into the downward spiral of the polarized society.

Creating a new contract will force Canadians to concentrate on the core values that bind them together. These values will have to evolve from the political process. They cannot be sent down from the mountain as a new set of commandments.

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