Globalization and Family Security.

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The purpose of this paper is to explore the consequences of globalization for the security of Canadian families. Part 1 examines the effects of globalization on the organization of production and the structure of employment. Part 2 looks at the stresses on family security, and Part 3 explores the policy reactions to the pressures on industry and on the safety net. The paper concludes with some ideas for future policy directions.

I. **Globalization**

Over the past twenty years, Canadians have been struggling with a paradox. Economic growth has slowed and the rise in living standards has come to a halt, while the pace of change in the economy and in society has accelerated. The result has been a lot of turbulence and a growing sense of alienation.

As trade barriers have declined in the post-war period and new technologies have reduced the barrier of distance, production has become more integrated across nations. Exports have increased at a much faster pace than production, indicating that each manufacturer has become more specialized -- exporting more of production but also importing more components and supplies (Chart 1(note: charts are not available in the PDF version of this document at this time)). Also, foreign investment flows have soared as firms integrated operations around the globe. (Chart 2)

Globalization has also opened up new markets for products and services that can meet the test of the marketplace. Countries like Thailand need new subway systems and big telecommunications investments, for example. The emerging middle classes in Asia and Latin America have more money to buy consumer products.

The competition between firms has intensified. New competitors have emerged in distant low-wage countries. New products and new processes have transformed markets that were once regarded as a stable source of earnings.

Even consumers have begun to "globalize". As they become more conscious of their shopping and travelling options, a greater share of their spending has taken place outside the country:

> Cross-border shopping has led to a wholesale migration of consumer dollars not just for goods but also for meals, accommodation and entertainment. This has forced a dramatic restructuring of Canadian distribution systems, a shakeout in retailing, and substantial changes in regulations governing opening hours, especially Sunday shopping.
>
> The availability of attractively priced charters to the sun has caused a shift in the middle-class family budget. In effect, the need for sunshine led to a surge in foreign spending at a time when the total family budget was shrinking.

Corporate structure

Falling trade barriers and easier communications across time zones permit firms to serve the global market in real time. Funds can be transferred instantaneously, 24 hours a day. Typing can be shipped to low-cost word processing centres in distant countries. Orders for key components, even designs for new products can be faxed to production facilities half way round the world for delivery to the customer within hours or days, rather than weeks or months.

The options firms face in adapting their Canadian operations to global market pressures and new technologies are set out in Box 1. They can become distributors, importing products from abroad. They can assemble products that are conceived abroad. They can fabricate some of the product line, or they can have an integrated production complex. The type of employment they will offer will depend on their production mission.

BOX 1

Alternate Corporate Structures

Importers

- Limit local activity to sales, marketing, distribution.Aim is to increase business base for a production facility located offshore.
- Employ sales, clerical and possibly service staff.

Assemblers
- Make products locally, using designs, processes, management systems developed in home country.
- Few local suppliers, little scope to build clusters.
- Employ many assembly workers

Plant complexes
- Fabricate some components, based on local engineering, but key intellectual elements of production still in home country.
- Employ many assembly workers and some middle managers and engineers.

Fully integrated production units
- Product design, manufacturing, process engineering and vendor management located locally.
- Many components are outsourced
- Activity may be focused on a single product line (world product mandate) or on a whole array of products.
- Employ highly skilled design, engineering, R&D professionals, management skills focused on a global market.

(Hixon and Kimball, in Robert Reich Harvard Business Review).

In the restructuring that has been taking place in Canada in the past decade, we have seen Canadian and foreign-owned firms move up and down this spectrum, and, interestingly enough, the source of ownership does not seem to predetermine the outcome. Indeed, Canadian-owned firms have become major foreign investors in the past decade. (Chart 3)

On the negative side, for example, both Canadian and foreign-owned firms have:

- Shut down their local assembly operations or plant complexes and become importers, handling only the merchandise of other firms.

- Shut down production of some product lines in order to concentrate production in one product line. They then act as distributor for other related lines.

- Invested in production facilities in the United States, or elsewhere. In some cases, the foreign facility acts as an importer or as an assembly operation, while the core production facility is here in Canada. Still, in some cases, these firms have become so international (90 percent of sales are for export) that they are no longer actively involved in public affairs in Canada (e.g. corporate donations to Canadian-based institutions).

- Shifted the core operation to the United States, closer to the main market, while maintaining some production here in Canada.

On the positive side, on the other hand, both Canadian and foreign-owned firms have:

- Formed new branches or subsidiaries here in Canada, based on Canadian expertise to serve the global market. Software companies have been successful in breaking into the Asian market for example, with products and services conceived and developed here.

- Assigned the Canadian operation a world product mandate with fully integrated responsibilities for design, engineering, and marketing on a global scale.

Decision-making and firm size

This revolution has also forced a dramatic transformation of the decision-making within multinational corporations. In the early 1980s, a multinational corporation, such as EXXON, had production and marketing activities around the world. It also had at least three layers of large bureaucratic head office functions -- one for each country, one for each region, and then world headquarters in New York. Decision-making moved laboriously up through all these layers.

Charles Handy (in The Age of Unreason) points out that the traditional head office managers could not analyze and interpret the information that the new technologies dumped on their desks. This meant that they had to ask for information which had already been digested and acted upon. In effect, they were forced to shift power as well as production to their decentralized operation. Box 2 describes the key elements of Handy's federal organization.

BOX 2

The Federal Organization

- An organization which delegates the power of decision-making on production, design, and marketing to small, independent units.
- The centre co-ordinates, advises, influences, suggests. It is not a head office, but a centre.
- It appoints the key officers and waits for results.
- It thinks about the long term.
- To promote creativity, it leads through consent and trust, not through control.
- Work is not precisely defined. Boundaries are clear, but large areas of discretion exist.
- There are no hiding places for the incompetent. People who are tired or losing their creativity are given a parachute.

This revolution in corporate structure has turned the employment structure inside out. In its extreme form, an organization with operations in 30 countries and billions of dollars in turnover may operate with a centre of 15 to 20 people. In fact, the regional headquarters typical of Exxon in 1980 has completely disappeared, along with hundreds of highly paid, secure jobs. These transformations have spread gradually through the corporate who's who -- the most recent to face the problem are IBM, which announced 25,000 layoffs in December, 1992, and GM, which is going through an even more drastic reorganization.

While large corporations have been shrinking over the past decade or more, small firms have become the engine of job creation. Statistics Canada tabulations, showed, for example, that all of the 850,000 new jobs created between 1978 and 1985 were created by small firms. Employment in large firms actually declined by 45,000 in that period. (More recent data show that the trend has accelerated since 1985). Some of those small firms will eventually grow into large ones. But for the most part, small firms pay lower wages and offer less generous benefits than do large employers. This alone would have an impact on the employment structure. But there is more going on than that.

The New Employment Structure

Handy has characterized the new employment structure as the Shamrock Organization, with the three leaves of the shamrock representing three different work forces in one organization (see Box 3). His analysis is based on anecdotal evidence, not on empirical evidence.

(Note the parallels with the Japanese economy, where about one third of the work force has the benefit of lifetime employment, and where large proportions of production are sub-contracted to small and medium sized firms that carry all the inventory and the risk of market fluctuations but are compelled to use the designs and engineering specified by the contractor.)

The core workers have the security, the pay and the long-term responsibility. Many of the highly qualified professionals have set up their own operations (self-employed or in partnerships or consultancies) and contract their services back to the core. These people have good pay but no security. They at least have the funds available to provide their own pension, insurance and other benefits. Then, there is the flexible work force. They are paid for what they produce. For some, the wages may be good, for others, the scope to control their hours may be attractive. But many are really a contingent work force, with low wages and no security. Most do not have the money to finance their own benefits.

In the parlance of the Economic Council of Canada, the first two leaves of the shamrock qualify as good jobs. For the third leaf, there is a high risk of bad jobs. But the employer is only

Box 3

Charles Handy's Shamrock Organization

Core:

- Well-qualified professionals, technicians or managers
- On a career track, but early retirement likely to ensure management is up to date
- Compensation based on performance
- Generous benefits
- Partners or colleagues, not subordinates i.e. small, flat organizations
- Expected to work long and hard
- Making strategic decisions
- Sub-contracting much specialized and routine work to the contractual fringe or to the contingent work force

Contractual Fringe:

- Self-employed professionals or technicians or smaller specialized organizations
- No control by the core organization
- Paid fees for results, not wages
- Frequently telecommute
- No benefits paid by core organization
- Worker carries the risk of insecurity
- Work is shaped to suit the schedule of the worker

Flexible Work Force; (Contingent Work Force)

- Contract labour
- Often part-time workers
- Routine jobs
- Can be high or low skill
- Employer may or may not provide training
- No career track
- No benefits (or very few)
- Jobs are chosen to fit the schedule of the worker

responsible for the economic security of the first leaf. Responsibility for the other two work forces falls to the individual or to the state. But the contingent work force is unlikely to have the earning power to be saving for retirement or for a rainy day. Thus, as the size of the contingent work force increases, the potential claims on the social safety net multiply.

The non-standard jobs which employ contingent workers have emerged in many industries. Good Jobs, Bad Jobs demonstrated that the increase was occurring in all sectors -- goods, commercial services and in the public sector. In 1987, part-time, short-term, own-account self-employment and temporary-help accounted for 34 percent of total employment. The share diminished during the later years of the expansion but increased sharply during the recession of 1990-92.

Non-standard jobs have increased for many reasons. Longer opening hours in retail and restaurant industries created a demand for more part-time workers, working odd shifts. Relationships between employers and the work force have altered because employers believe that they can no longer protect their employees against the insecurity in the marketplace. In addition, rising payroll taxes and mandated benefits for full-time employees in large organizations, have fostered the creation of jobs that avoid the mandated costs: that is, jobs that were part-time, short-term or offered by small organizations. Some workers voluntarily choose this flexible type of employment for personal reasons, but large numbers accept these jobs involuntarily -- because they have no alternative.

In summary, we have now identified three different (but related) forces that have altered the structure of employment. The first is the direct use of technology in the workplace. 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 plant floor and front office. (For a thoughtful discussion of the future implications for work, see Ide and Cordell).

The other two forces flow from the combined effect of technology and globalization on corporate structure and on the location of production.

The second force is the restructuring of the corporation which eliminates layers of management and revises the nature of the employment contract with lower paid production workers -- both blue and white collar -- and with many professional groups.

The third force is the migration of jobs to locations that suit the new corporate structure. Many low- or medium-skill jobs have migrated to low-wage jurisdictions. Examples would be standard assembly functions or textile and clothing operations. Many medium- or high-skill jobs in management, engineering, design etc. have been moved because local operations were reorganized into warehouse or assembly operations

Thus, globalization and technology have an impact on workers at every wage and occupation. To date, the impacts have been concentrated in manufacturing, resources and dynamic services where the employer is exposed to international competition. However, the effects are likely to spread in the coming decade as the competitive pressures penetrate service industries (financial institutions) and as the public and parapublic sectors come under the combined stress of the debt crisis and new technologies. In sum, the effects are likely to be pervasive.

The social effects of these changes are fundamental. One effect is the polarization of the work force into good and bad jobs, and the disappearance of the jobs in the middle of the wage spectrum. (Chart 4).

This is a trend that has occurred across most industrial countries. In Canada, the trend was slower to emerge than in the United States. Also, the impact on family income in Canada was quite different from that in the United States in one important fashion. The social safety net in Canada offset much of the increased inequality in employment income. Canadians therefore experienced a sharp increase in economic insecurity -- that is, they were carrying greater risk than they had in earlier decades, but the safety net cushioned much of the risk -- at least until the early 1990s.

As a result, real earnings of individual workers are now much more unequally distributed than real family income. (In technical terms, the Gini coefficient, which is a measure of inequality, increased by 3.1 percentage points for earned income and by only 0.5 percent for family income from 1967 to 1990.) But, given the stresses outlined above, and the problem of deficit reduction, we have to ask ourselves whether the existing safety net can continue to offset the forces unleashed by globalization and technology.

The other critical effect is the stagnation in the growth of real earnings and in real family incomes over the past decade. This is shown in Chart 5 which shows average family income before tax (which rose 3.6 percent in the 1980s). But on an after tax basis, average income declined by 2 percent over that period. Clearly, the turbulence in jobs has had an impact on the well-being of the typical Canadian family.

II. Family security

The discussion in this section will focus primarily on the economic side of family life, but recognizes the interaction with the emotional and physical well-being of the family and with some of the social ills in the community.

In general, living standards in Canada are high. But large sections of the middle and upper class have had their sense of security severely shaken in the past decade. This sense of insecurity is certainly affected by events in the labour market, but it also encompasses a concern about being able to afford a home, or about being able to support one's children through higher education, or about feeling safe in the streets and in one's own home. Thus, a family with two incomes, a home, two cars and a large mortgage can be shaken to the core by the loss of one of those incomes.

The notion of family security is therefore different from the notion of poverty. Security is intended to convey a sense of stability and predictability and, hence, confidence about the future. Perhaps the biggest shift in expectations in recent years has been the sudden recognition that young people can no longer expect to surpass the standard of living of their parents.

About 85 percent of the income of families of working age came from employment in 1991, down from 91 percent in 1980. Note that the dependency on transfer payments has risen quite dramatically, from just under 5 percent to 8.5 percent. (Table 1) This would include unemployment insurance and social assistance, and thus confirms the increasing stress on the safety net observed above.

TABLE 1
Sources of Income, Working-Age Families

	1973	**1991**
Average income (1991$)	44,237	55,419
Sources of income (Percent):		
Total earnings	91.2	85.1
Investment income	2.8	3.6
Transfer payments	4.8	8.5
Other	1.1	2.7
Total	**100.0**	**100.0**

Source: Statistics Canada, *Survey of Consumer Finance*

The increase in risk faced by the typical family of working age includes the following factors:

- A greater risk of unemployment. The average unemployment rate in the 1980s was about 9 percent, compared to about 6.5 percent in the 1970s. (It was over 11 percent in 1992 and is likely to remain high for some years).

- There is a higher incidence of permanent layoffs because of industrial restructuring. At one time, most layoffs were temporary and the worker could expect to be recalled to the same job. Today, he or she must start to look for work in another firm, and often, in a completely different industry where different skills are required.

- Even in the mid-1980s, there was evidence that almost half of the workers who experienced permanent layoffs ended up taking jobs that paid a lower wage than the previous job, while just over half (53 percent) found a job that paid a higher wage. However, the likelihood of experiencing a wage decline increased with the age of the worker.

  (Matthew Robertson, cited in Economic Council of Canada, Adjustment Policies for Trade Sensitive Industries p. 32).

- A higher proportion of existing jobs are non-standard, that is, they tend to pay low wages and they do not offer the insurance, pension and holiday coverage of a typical full-time job. This reflects the restructuring of large corporations and the growing importance of small and medium-sized business discussed above.

- The growing incidence of divorce and breakdown of common-law relationships is leading to an increase in the proportion of families headed by a single parent -- from under 10 percent in 1976 to almost 13 percent in 1991. Economic Council of Canada data show that the incomes of women with children tend to fall by about one-third for at least three years after a relationship is severed. (Economic Council of Canada, The New Face of Poverty, p.49.)

In essence, Canadians are now exposed to more insecurity than in recent decades, despite the safety net that was established during the post war period. The New Face of Poverty points out that one family in three will experience poverty during their lifetime.

These hardships are highly concentrated among young families. Chart 6 shows that families whose heads were under the age of 25 in 1990 earned 20 percent less than families of the same age in 1980. The 25-35 year olds earned about the same as their predecessors. In contrast, families with heads aged 35 to 55 were better off than those in 1980. It is difficult to disentangle the reasons behind this. Some could be positive and others negative. On the positive side, enrolments in post-secondary education have risen in the past decade, indicating that some young people are investing in higher education and deferring income to later years. On the negative side, the minimum wage has been allowed to erode in purchasing value. This combined with the increase in bad jobs explains a good part of the setback in income.

It appears, therefore, the heaviest burden of adjustment has fallen on the youngest generation of workers -- unable to get the kind of job experience that would give them a chance at a good job. What we do not know is how this will affect their life chances in the longer term. Will they be scarred forever by these unfortunate beginnings? Work done by the Economic Council of Canada showed a pattern of higher life-time unemployment for age groups who entered the work force during hard times. (Preston, Saiyed and Burns 1992)

The situation has evolved, then, where family incomes are volatile, risks of insecurity are high, and the family in total puts more time and energy into work, leaving less time and energy for the nurturing of children. One consequence of this is that many children are arriving at school not yet "ready to learn", and teachers must cope with far more complex psychological and social problems amongst their students. Another consequence is that the schools are being asked to take responsibility for instruction and guidance that was once left to the family (sex education, exposure to other cultures and the arts, instruction in basic values, and so on). (ECC, *A Lot to Learn*, p.56)

Other social indicators have begun to portray a circular pattern of dysfunction which associates poverty, hunger, family violence, failure in school, unemployment, and dependency on social assistance. Children from homes of this sort can easily get stuck in a lifetime of insecurity and alienation. Yet, evidence from the 1980s shows that many people experience short spells of poverty and are able to escape within a year or two.

No one can judge, at this stage, whether the increase in reported family violence is a reflection of greater economic and emotional stress or an increase in sensitivity to the issue.

There is concern that many (though not all) victims of violence in childhood become perpetrators of violence as adults. Experts in child abuse also believe young people today are more vulnerable to longer term damage than previous generations. The victims are less likely to be survivors because they have not had the minimum amount of nurturing which previous generations apparently did have. If that is the case, then a vicious circle can take hold, with economic disadvantage leading to social pathologies which in turn lead to greater economic disadvantage.

Thus there are three conclusions to draw about the family in the 1990s.

- First, the family faces more economic insecurity in the 1990s than it has in the recent past, perhaps since the 1930s. Life is less predictable, people are therefore less confident about the future, and less confident about their ability to cope with the hazards that come their way.

- Second, the family sinews are not as strong in supporting and nurturing children and young people.

- Third, the economic hardships are concentrated among Canadians under the age of 35. These are the critical years of family formation and child-bearing. Thus, if there is a vicious circle, the current situation could be particularly damaging.

Not surprisingly, this situation has begun to provoke an important shift in the way citizens think about economic and social policies, including those affecting family security.

III. Policy reactions and prospects

Economists explain the extraordinary burst of economic growth from the 1940s to the mid-70s by listing a number of special factors that coincided after the war. That list typically includes: the reconstruction of infrastructure destroyed by the war, the surge in household formation and in births which created demands for housing and consumer goods, the opening of new markets through trade liberalization, and the application of new technologies for commercial purposes (aircraft, communications equipment).

During the post-war period, standards of living rose throughout the OECD countries. Most of them, including Canada, introduced comprehensive social programs and social infrastructure like health and education. At the same time, a huge amount of government debt was repaid, and, despite occasional recessions, there was general optimism that growth and price stability could be maintained.

By the mid-1970s, many of these special positive factors had begun to reverse or subside. The baby boom had ended, and infrastructure was generally rebuilt. At the same time, some new negatives, such as the energy price shock came on the scene. The rate of productivity growth slowed down quite dramatically across all industrial nations except Japan. As productivity slowed, so did the growth of government revenues, and, after the mid-1970s, the growth in real per capita incomes began to slow as well. In Canada, the reversal in fortunes was aggravated in the 1980s by the slump in commodity prices and the shift in world trade from resource to technology-based products.

At first, Canadians reacted to the change in momentum by adjusting their patterns of work. Women joined the work force, partly because of their personal and professional aspirations but often because the family needed the extra money. Participation rates of women aged 25 to 44 rose from 40 percent of the population of that age in 1970 to almost 80 percent in 1991.

Without judging which factor was most important (aspirations or economics), it is clear that women began to make a major contribution to family income. In the process, however, much of the time that had been reserved for nurturing, for leisure and for family interaction was diverted into work. When this extra work effort failed to meet all family needs, the choice was made to go into debt and the ratio of personal debt to income rose dramatically through the 1980s.

At first, governments faced their revenue shortfall by a combination of raising tax rates and going into debt. It was not until debt to GDP ratios began to get out of hand in the mid-1980s, that they began to restrain expenditures, and even then, the restraint was rather erratic. However, the stresses built up over the 1980s. Soaring debt to GDP ratios at the federal level led to intense conflict over intergovernmental transfers, and as they were scaled back, provincial and municipal governments faced the same relentless pressure from exasperated taxpayers and debt-service agencies. (Chart 7). By 1991, both federal and provincial governments were trapped by the pressures of compound interest. They had to borrow to pay the interest on the money they had borrowed in earlier years.

The spending cuts, tax increases and higher interest rates associated with excessive deficits and debt all had a negative impact on family purchasing power. (Chart 5, cited earlier).

The guiding political ethic of the 1980s was conservative. The shift to the right occurred as a reaction against the sense of deteriorating economic performance and the excessive inflation pressures of the last half of the 1970s. It began with the election of conservative governments in the U.S., U.K., West Germany, and Scandinavia in the late 1970s and early 1980s. Even the new Socialist government elected in France in 1981 shifted to highly conservative economic policies within 18 months.

The conservative ethic was based on freeing up markets -- on releasing the energies of individuals and of firms from excessive burdens of regulation, barriers to trade, taxation etc. There was a trend across most of the industrial economies toward reducing the tax burden on capital, and an effort to reduce marginal effective tax rates to create incentives for private investment.

Just as voters rejected the social democratic\liberal traditions of political thought in Europe and North America in the early 1980s, they are now reassessing the conservative governments which are still in power. The United States has elected President Clinton, while the governments in Canada, Germany and the United Kingdom are looking tired and vulnerable.

At the same time, a new economic literature has begun to develop, which strongly rejects the conservative political ethic of the 1980s and promotes a new conception of economic and social policy based on the importance of human capital.

The "new" economic literature

The "new" economic literature is driven by the notion that the cumulative knowledge of a person, a firm, an industry, or a nation will have an important bearing on the rate of growth in income and on success in the market place.

This literature treats citizens as part of a collectivity. Individuals matter, as leaders, entrepreneurs, etc. They also matter as followers, because all citizens are on the same team. In general, it is a handicap to have a group in society who are poorly educated or not working because society is losing the contribution they could make.

In this conception, economic security is a public good. The three authors chosen to represent this new literature are, in alphabetical order, Michael Porter, Robert Reich, and Lester Thurow. (Quite accidentally, this also ranks them from right to left, for they have quite different views of the role of government). Behind the scenes are theorists who write for a less popular audience, who are developing a whole new approach to understanding economic growth -- including especially Paul Romer and Richard Lipsey in the Canadian Institute for Advanced Research program on economic growth. Boxes 4, 5 and 6 compare the main elements of Porter, Reich and Thurow that are relevant to this paper. (It relies to some degree on an excellent paper written by Rick Harris and Bill Watson for the John Deutsch Institute Conference on Competitiveness.)

How governments reacted to globalization

The European Community has deliberately chosen to accelerate economic integration through the commitment to complete the internal market by the end of 1992 via an extensive harmonization of tax and regulatory policies. Following is a brief overview of recent trends in European social policy.

First, most countries in northern Europe start from a strong commitment to income redistribution. They see this as a way to preserve social stability and to avoid the creation of a permanent underclass like the blacks and Hispanics in the United States. In several countries, like Sweden, this is accompanied by a commitment to full employment, on the grounds that a truly comprehensive social safety net can only be financed if all or most of the work force is employed and paying taxes.

BOX 4

Michael Porter

Drivers of Growth
- Firms are the key and firms are national

Global Context
- Nations are distinct, but clusters can transcend national borders.

Prescription
- Tough love.

Industrial Policy
- Don't pick winners, pick clusters.
- Governments should push and challenge firms by making domestic markets more competitive.

Social Policy
- Strengthen education. Link education to firms.
- Foster permanent employment to encourage mutual commitment. Link performance to compensation.
- Re-design safety net to target on those in need and to increase incentive to work (lower tax-back rates)
- Regional policy should build on clusters, specialized infrastructure, trained labour pools.

Second, the institutional framework for social solidarity is already deeply entrenched in most of the European countries, although the formula varies from the co-determination and training-based culture in Germany to the corporatism in Austria, to the strong tradition of centralized bargaining on economic policy issues in Sweden, to the careful process of building consensus on social and labour market issues that exists in the Netherlands and Belgium. The

United Kingdom and France have adopted a different institutional structure but a comprehensive system of social programs does exist in both countries.
Third, when the EC members committed to the completion of the single European market, they dealt at the same time with the social dimension, in the Community Charter of the Fundamental Social Rights of Workers, or Social Charter, for short. Michael Gold has commented that the

BOX 5

Robert Reich

Drivers of Growth:	A high quality work force.
Global Context:	Firms have no national identity. Liberalized trade will continue, economies will be borderless. Gains from trade are crucial, but that tends to polarize the work force.
Prescription:	Industrial policy is social policy
Industrial Policy:	Invest in human resources, quality of life. Education, training and group learning determine capacity to compete. Encourage foreign direct investment. Tax inducements for training. Eliminate corporate taxes. Link compensation to productivity.
Social Policy:	Governments should redistribute income. Tax consumption directly and progressively. Spend on education, retraining, child nutrition, prenatal and postnatal care, R&D, infrastructure.

dispute between the U.K. and the other eleven members of the EC over the implementation of the Charter:

> "... resulted from deeply contrasting attitudes towards both European integration and social policy.... the U.K. opposes what it sees as the imposition of further regulation of labour markets governing areas like working time, maternity rights and participation. Its partners, however, reflecting more regulatory traditions, could not envisage the creation of a single European market without a `social dimension' to protect employees exposed to increased competitive pressures." (National Institute Economic Review, Feb. 1992. "Social Policy: the UK and Maastricht", p. 102)

Finally, while the economic stresses of the 1990s (slow growth, globalization, the opening of eastern Europe and the former Soviet Union) are forcing many countries, including Sweden, to revise their social programs, the focus has been on improving the way programs and services are delivered -- a search for efficiency, rather than a departure from basic commitments of the social contract. Few, if any, political movements in Europe would base their programs on the destruction of the safety net.

BOX 6

Lester Thurow

Drivers of Growth:	Governments can determine competitive advantage.
Global Context:	Head to head competition between trading blocs. Liberalized trade within blocs.
Prescription:	A new "new deal" based on social organization.
Industrial Policy:	A strategic consensus among government, industry and labour on basic direction for economy. Invest in infrastructure and skills, which will stay at home. Create dynamic technological and efficiency advantages to win markets, by linking suppliers and producers. The firm is a partnership of labour, management and shareholders. Pay for performance. Encourage investment and saving. Abolish the corporate income tax and reduce payroll taxes.
Social Policy:	Jobs are the answer to hunger and poverty. Governments should restructure the economy to provide more jobs and a more equal distribution of income. (Recommends specific changes to social security and health care.) Start with a high quality education system, with training linked to employers. Social policy constrained by actions of other governments-- need to agree on rules of game.

In the United States, the traditions and the responses have been rather different. There social policy has been treated as a cost of production, not as an investment in growth. It remains to be seen whether the Clinton Administration will change this.

Many Canadians were deeply concerned that the Canada-U.S. free trade agreement would lead to an erosion of social programs, with Canadian programs being harmonized downward to the U.S. level. These concerns have resurfaced in connection with the North American Free

Trade Agreement announced in August, 1992. Many advocacy groups oppose the NAFTA agreement on the grounds that it will lead to social and environmental dumping -- that jobs will move to the jurisdiction with the weakest regulatory framework.

However, Keith Banting, in a forthcoming paper, reviews the trends in health care, pensions, child benefits and UI in the two countries through the l980s and into the l990s. He found some areas of convergence (in a few cases, the U.S. was moving up to the Canadian standard) and many areas of divergence. But he concluded that

> "... each country has adjusted to its economic context in its own way, subject to the rhythms of its domestic politics; and Canada and the United States therefore continue to travel different paths in many parts of the welfare state ...... Despite a pervasive globalization of economic life, politics within the nation state retains its social importance. Indeed, its role has never been more compelling." ("Economic Integration and Social Policy: Canada and the United States", p.41.)

This brief skim of the international experience suggests that globalization may not predetermine a country's response to social issues. In fact, governments retain the scope to set the principles that guide their programs affecting family security and to determine how those principles will be implemented. Those governments with a clear commitment to some form of social contract have deliberately chosen to deal explicitly with the social dimension of globalization. Many of these countries (including those with conservative governments like Germany) have already adopted policy approaches with a heavy emphasis on human capital -- in tune with the new economic literature cited above. However, it is fair to say that all industrial countries are re-examining their approach to income redistribution and to human capital. Canada faces the extra constraints imposed by its fiscal crisis, which may well lead to severe cuts in social programming, if economic growth does not soon show a dramatic and sustained revival.

Future prospects

How far can the polarization of the employment structure go? The one sure conclusion at this stage is that it is not over yet. The recent industrial shakeout in Canada has revealed serious weaknesses in the way Canadian firms and institutions are organized. The pressures are currently in the industrial sector, with some major industries or corporations in a state of collapse. They are now beginning to penetrate to the large bureaucracies in the banking system. And they have yet to really affect the biggest bureaucracy of all -- governments. (This paper has concentrated mainly on the private sector, but we must not forget that governments, too, have a lot to learn about efficient organization in an era of scarce resources. See the forthcoming work from the Government and Competitiveness Project sponsored by the School of Policy Studies at Queen's University).

Canadian industry was lulled into complacency in the 1980s by the apparently strong recovery from the recession, by the steadily depreciating dollar, and by ongoing increases in selling prices. Behind the facade, however, was industry that was technologically out of date, lax on quality, locked into an old product mix, incurring costs of production well above most competitors, and plagued by a 19th century tradition of adversarial relations between management and labour.

The hidden problems became all too visible in the late 1980s when the central bank put the brakes on inflation, the dollar appreciated, and firms began to take a serious look at the products, the costs, and the quality of their competitors in the United States and elsewhere. Suddenly, they were forced to adapt or die. Much adaptation has now taken place. Some firms are now fit and able, many new firms have been born, but many others are still in a state of collapse. (Chart 7 shows a distinct recovery in productivity growth in the industrial heartland since early 1991, despite sluggish growth in output).

Because we are still in the middle of the process, it is hard to figure out what the outcome of all this adaptation will be. One possibility is that the painful adjustments of the past five years have created the foundation for a resurgence in productivity growth which produce higher real incomes for those who are employed. However, much of that income will have to be taxed away to pay the interest on the public debt, and, eventually to pay down the debt.

The other possibility is that Canadians will not be able to get ahead of the inexorable pressures from new technologies and globalization, with the result that the economic decline will continue indefinitely.

Whichever possibility is correct, it is clear that the painful adjustments of the 1980s are far from over, so economic and social policy must be focused on two priorities. One will be to rethink the concept of work and how it will be rewarded. The second will be to reexamine the way we are investing in human capital -- education, training, and life-long learning.

Conclusions

The Depression experience of the 1930s reshaped Canadians' understanding of the need for family security. Between 1940 and 1966, federal and provincial governments put together a comprehensive set of programs for income redistribution among working age Canadians based on two principles:

- People who were on temporary layoff needed temporary assistance in the form of unemployment insurance; and
- People who were unable to work for reasons of health or family responsibilities needed social assistance.

This safety net was intended to help in hard times. It was expected that fortunes would rebound when the economy recovered from one of its periodic recessions.

Today, there are different threats to family security that flow from the change in the way work is organized and rewarded. People can only adapt to the change in the nature of work if they have a chance to learn new skills and if they have access to a new set of social services for family support. Those that are underemployed still have a great deal to offer society, if they can find an outlet for their skills. In this new environment, income redistribution provides palliative care, but it offers no remedies.

The way to build family security is to use the energy and skills of members of the family to learn, to adapt and to contribute to the community. Much of this remedial help will be organized or financed by governments, but it will be delivered through active participation by educators, school boards, employers, union leaders, caregivers and voluntary organizations, and, most important of all, by the families themselves.

There are three overriding conclusions to be drawn from the above analysis of globalization and family security.

First, it is clear that work is being transformed in ways that create large pools of unused time and energy, regardless of whether the economy is expanding or contracting:

- Young people cannot get started on a career because there are few entry level jobs and there are discontinuities in the traditional career ladder.

- Mature workers are forced to change jobs frequently, often into occupations for which they were not trained.

- Older workers are retiring with perhaps twenty years of unstructured time and energy. Many are taking earlier retirement.

Second, it is also clear that the needs of society have changed in ways that make the Canadian safety net obsolete because it is still focused on replacing income rather than upgrading human capital:

- Young children need headstart or other programs to help them get "ready to learn" when they start school

- The baby boom generation is beginning to confront the problems of the sandwich generation -- with responsibility to care for elderly parents as well as children who are floundering because of the lack of job opportunities or weaknesses in the education system.

- The working poor and the hovering poor live in a constant threat of poverty, as they move from one non-standard job to another, unable to set aside the funds or the time to upgrade their skills to qualify for better-paying work.

Third, governments are running out of money and taxpayers are running out of willingness to pay. This means that the needs cited above can not be met by throwing money at them. Rather, needs have to be met by reallocating money from one program to another. Indeed, if the fiscal crisis continues on its current track, Canadians may face a drastic retrenchment with cuts in programs and sharp increases in taxation.

Here are a few ideas for squaring the circle.

A. Make use of wasted time

l. Create a Job Corps for both youth and older workers who are unemployed or retired, which will channel their unused energy into community services like headstart, childcare, care of the elderly, remedial teaching systems for children with problems at school etc. Such a Corps should be organized primarily through existing voluntary organizations in the Third Sector such as the YMCA, Boys and Girls Clubs, etc which have a strong tradition of community service. The funding should come primarily from federal, provincial, and municipal governments. It should be offered in such a way that the voluntary organizations are able to plan programs over a three to five year time horizon. They should be given access to unused schools and industrial buildings, where needed. Voluntary hours worked should be recognized through a system of credits against future tuition fees or against income taxes due.

2. Rebalance the support for generations. Old age security and the guaranteed income supplement have had remarkable success in reducing poverty among the elderly. But the elderly are, to a remarkable extent nowadays, healthy, energetic and well-educated. Many already do community service, but that service needs to be recognized and rewarded through the system of credits suggested above. We therefore need to rethink the notion of retirement and rethink the need for a universal demogrant like the OAS. Income support for the elderly should be based on need, and compensation for the elderly should be based on the contribution they make to community service.

3. Social assistance rolls now include large numbers of people who are fit for work but do not have the skills necessary to find a job in today's market. However, social assistance was originally designed for people who were unemployable because of ill-health or family responsibilities. The old definition of need should be reinstated, and a separate program designed to help employable people get the training they need -- either on the job or in a formal training program.

B. Integrate school and work

4. Commit to a policy of full employment for young people. No Canadian under the age of 25 should be eligible for unemployment insurance. If they are not working, they should sign up for the Job Corps or enrol in a formal education or training program. As long as they are committed in this way, they should be eligible for income support. This generation will be central to Canada's capacity to produce in the 21st century. It would be a tragedy to let these young people be scarred by long spells of unemployment.

5. Tax incentives for life-long learning should be introduced through income averaging procedures, a Registered Learning Savings Plan, and an extension of student loans to learning which is not restricted to university courses. These would make it possible for families and individuals to plan for periodic upgrading where they return to school or volunteer to do work that will give them valuable new work experience. The loans are needed to make upgrading possible for people with low incomes.

6. Every school board should offer a full range of apprenticeship, vocational and technical training focused on skills that are needed by local employers. These programs should be integrated into the secondary school program and should provide logical pathways to further training in colleges or to jobs with local employers (through cooperative education or employer participation in the design of the training).

C. Adapt the learning system

Schools, colleges and universities are now preoccupied with remedial work, looking after students who are not ready to learn when they arrive at school in the morning, and compensating for the cumulative losses that occur over 10 or 12 years of compulsory but unsuccessful education. Part of the problem is curriculum; another part is the bureaucratic constraints on principals and teachers. But another part of the problem is the excessive social burden placed on the education system.

7. No university or college should admit a student without seeing the results of a national entrance exam. Weaknesses that show up in that exam should be dealt with before entering college or university in extra programs offered for that purpose by colleges and secondary schools.

8. No high school should admit a student without seeing the results of standardized tests. Entry for weak students would be contingent on agreement on remedial courses offered in the summer, in the classroom, and after school so that the student has full opportunity for success in secondary school. The remedial work can be provided by volunteer mentors from the Job Corps, working under the guidance of experienced teachers. They would be compensated with the credits for voluntary hours worked offered by the Job Corps.

D. Rethink job security

Employers and trade union leaders need to rethink the notion of job security. Employers can no longer offer the security of a job for life. But they can offer the security and self-confidence that comes from regular training, multi-skilling, and other investments in human capital which have a direct payoff a) to the bottom line of the firm and b) to the capacity of the worker to cope.

9. Employers should be offered a reduction in payroll taxes to reflect the commitment they are making to training their existing work force. The amount of the reduction can be adjusted to reflect various levels of commitment by the employer. For example, they should reflect active participation in national, sectoral or community-based programs that:

- deliver training that meets agreed standards
- set the standards for training
- help to define training needs
- establish courses in the work place, community college, or secondary school that meet the national standards for a particular occupation
- adopt a school, etc.

In sum, there is no reason to believe that the effects of technology and globalization on employment and family security have run their course. The key policy levers lie in enhancing human capital and rewarding the contribution that all citizens can make to their society. That contribution may not constitute the traditional notion of a job -- the secret is to encourage people to invest in other people, with the backing of a society that genuinely values what every individual can offer.