

# **Canada's New Social Risks: Directions for a New Social Architecture**

**by**

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**Executive Summary**

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## Executive Summary

This research report provides a synthesis of the year-long analysis undertaken by Canadian and international experts for a research program organized by the Family Network of CPRN. Its starting point is that any social protection system for risk sharing is significantly greater than a set of separate government programs. It is the expression of overarching values and a vision that define the desired social objectives, the economic functions of social policy and the appropriate role of the state. To use an architectural metaphor, the edifice of social protection is based on an overall blueprint that provides its coherence.

This synthesis report asks the following five questions:

1. How can we think about the mix of sources of well-being and means for risk sharing?
2. What are the major social risks today?
3. Why should we pay particular attention to these new risks?
4. How appropriate are the institutional tools for facing up to these new social risks and achieving better pooling of the costs of social risk?
5. What kind of social architecture would be in line with the values and hopes for well-being that Canadians hold?

Each section of the research report addresses one of these five questions.

Part 1 presents the notion of social architecture, which is the term used to describe the roles and responsibilities as well as governance arrangements that are used to design and implement relationships among family, market, community and state – the four sectors of the welfare diamond. In this research we use a broad definition of welfare incorporating: material well-being (i.e., adequate income); social inclusion (i.e., belonging); and personal well-being (i.e., health). Each sector of the diamond is a potential source of well-being and provides means for risk sharing.

Every country makes its own choices about the shape of its welfare diamond and therefore the relationships across sectors. For example, while all rely heavily on the labour market as the primary source of income, some (like Canada) are reluctant to allow markets to distribute access to all goods and services (such as health care or public education). While all countries assume that families have primary responsibility for ensuring the well-being of their children, some countries leave parents on their own to purchase what they can afford in the market, while others provide low cost or free services (early childhood education and care, for example) and/or ensure that parents have adequate income to meet the needs of their children.

The economic environment around the world has changed over the last thirty years, with significant consequences for the capacity of all sectors of the welfare diamond to generate well-being. Markets are very different and state capacities to shape the economy have changed

because of: (1) globalization and open economies, bringing both cost competition among firms and fiscal competition among states; (2) new technologies which enable a knowledge-based economy; and (3) shifts in the international division of labour, pushing developed economies toward knowledge-based work and an expanding service sector, and leaving more manufacturing to low-wage countries.

The combination of these trends has altered the employment structure in Canada, as many well-paid factory and middle management jobs have been eliminated. This restructuring forces Canadian workers either to move up into higher skill jobs (that are well paid) or down into low skill, service jobs (where wages are low). The result is that much new wealth has been created, but at the same time we see more people who are the “working poor.”

The fact that wage and employment structures are altered does not in and of itself mean that architectural change is necessary. It is only when there is a mismatch between life situations and expectations and policy responses that a “problem” exists. Part 2 of the research report identifies these problems.

The weakened contribution of the market sector of the welfare diamond to Canadians’ well-being is indicated in two ways. From 1948 to 1981, Canada’s unemployment rate was, on average, the same as the United States’. In the 1980s, however, the Canadian rate averaged more than two percentage points higher than the American unemployment rate, and the gap reached four points in the 1990s. Concurrently, changes to eligibility criteria for Employment Insurance mean fewer of the unemployed qualify for replacement income. Loss of a job means, then, an immediate fall into low income for the individual.

A second sign of the lessened contribution of the market sector relates to the employment rate. In the 1990s, the Canadian employment rate was at an all-time high and *yet* many Canadians who were working hard were still poor. This situation could occur for one of two reasons: because jobs were low paid or because workers did not have sufficient hours of work, either weekly or annually, to climb out of low income. In the Canadian labour market, both factors are at play.

Several major differences in the ways Canadians live their lives have also given rise to new social risks. These differences are: an ageing society, new family structures and the work-family nexus, shifts in immigration, and intensification of challenges in Aboriginal communities.

Labour market restructuring coupled with these other changes have created a set of new social risks that can be summarized in this way:

- Growing income inequalities associated with the shape of the global economy and restructured work in knowledge-based economies may demand new state and family strategies for ensuring that inequalities in income do not create conditions for rising inequality in health outcomes or in access to public services.
- Rising employment rates have eliminated neither the problem of unemployment (and low income associated with loss of work) nor that of low income. Low-paid, part-time and insecure jobs (all are forms of “precarious work”) mean that Canadians are often “paid to be

poor.” Couple families with a single earner as well as lone-parent families and young families are particularly hard hit.

- An ageing society and changing family structures mean families can no longer provide care for children and vulnerable adults in the same ways as the past.
- Whole categories of the Canadian population are confronting difficulties in achieving social inclusion. Newcomers to Canada and visible minorities face higher barriers to labour market integration and other forms of integration than in the past.
- Aboriginal peoples, living out the consequences of centuries of marginalization and mistreatment, require particular efforts if they are to realize their full potential and achieve levels of well-being equivalent to those of other Canadians. Here the community sector, that is Aboriginal institutions, is particularly important as is the state sector and all the governments it houses, including Aboriginal governments.

The third part of the research report examines the reasons why attention to these inequalities and social risks is important. A first reason is that research has found that investments designed to create a “healthy society” – that is both healthy individuals and a high health status – pay off in terms of economic productivity. Low levels of health and high levels of illness and disease have substantial economic costs, affecting both direct expenditures on services and indirect costs resulting from lost productivity. Investments in overcoming the inequalities are not simply those traditionally lumped under “health expenditures.” They also include policies that work to equalize the distribution of income and to provide access to public goods and services on a citizenship basis rather than a market basis.

Second, our research has documented that many citizens’ values include a “working society,” in which each person can contribute. The notion was that most people should be in the labour force, earning and paying taxes to pay for collective goods and services. Citizens also recognized that many people might need supports to be able to make their contribution, for example, via adequate access to post-secondary education or physical access for persons with disabilities as well as services such as child care. They also expressed the belief that people who work full-time should be able to earn a “living wage” to support themselves and their families. But citizens also reported that vision and reality were not in sync. They expressed dismay that so many low-wage workers have pursued post-secondary education but this investment in their human capital was not paying off as expected. Poverty level wages offended citizens’ sense of justice and fairness.

Third, policy choices sometimes have had the unintended consequence of making it difficult for responsible people to exit low income simply by relying on the labour market. Four examples are: high marginal tax rates and reduction of transfer benefits as income increases; lack of services to enable balancing work and family; access to government training programs limited to the “unemployed” but not covering the working poor or those wanting to leave social assistance; and increasing numbers of jobs that do not provide employment protections because they are not covered by labour standards and other legislation.

Part 4 is premised on the idea that any social architecture is also composed of governance arrangements. By governance we mean mechanisms for assigning responsibility across all four

sectors of market, family, state and community and thereby identifying the responsibilities of each sector of the diamond for the provision of well-being.

Policy commitments to the “new governance” in recent decades have brought a belief in the need to expand the responsibility of markets for well-being. Labour markets were a primary target, but so too were markets for housing and services. Such beliefs, coupled with the real challenges of deficit-fighting in the 1990s and pressures on firms to be competitive, generated a number of responses that have contributed to the situation of the working poor and new patterns of social risk. These include the reliance of employers on labour contracts that provide few protections to workers and the decisions of governments to off-load service design and delivery to the private sector, both for-profit and non-profit. Often in the latter case, the goal was to save costs by having work done at lower wage costs.

Another dimension of the new governance involves relations within the state sector of the welfare diamond. One response to the challenges of social policy redesign and of multi-level coordination has been the proliferation of experiments in devolved decision-making, information pooling and performance comparison, deliberative exploration of promising solutions or “good practices,” and redefinition of policy objectives in light of accumulated experience, with consequences for Aboriginal communities, intergovernmental relations and the place for municipal governments. Concerns about accountability and partnership are also widespread. Partnerships have been prescribed as instruments for overcoming the painful legacies of history in Aboriginal communities, in Canada and elsewhere. Another example is the Voluntary Sector Initiative in Canada, an explicit effort to design a new relationship between communities and the state. In these situations, communities can be involved in many different ways. The reinforcement of responsibilities of the community sector can be a double-edged sword, bringing space for innovation to those that are strong, capable and resilient, and leaving the weak even further weakened.

The last section of the research report suggests a number of steps that might be taken in order to design a new social architecture. The recommendations combine proposals to reduce income-testing with suggestions for extensions of services and reinforcing the advantages of greater community autonomy. They assume that individuals and families have primary responsibility for their well-being but the values of common citizenship and fairness also demand shared responsibility across Canadian society. All the steps proposed here are designed to build upon Canada’s social policy heritage and, in particular, to recognize the advantages of universality in social programs. But this must be a universality modified to suit the social risks of our times.

The recommendations proceed from five visioning principles:

1. Social policy is a productive factor. The well-being of individuals and of the Canadian economy and society all depend on a social architecture that is appropriate for current times and challenges.
2. Well-being is achieved through a good balance in the welfare diamond. This means a shared mix of contributions from the market, state, community and family.
3. In Canada, as in other countries like it, the well-being of individuals has been provided primarily by access to markets. This access is ensured in large part by income earned in the

labour market by themselves or someone in the family. Canadians believe it should continue to be so. They believe most people should have access to work and the value of work should be recognized.

4. A commitment to common and shared citizenship means that social risk should be pooled. Governments have a responsibility to use their taxing, spending and regulatory powers to cover risks that are beyond the capacity of families to address alone. Any social architecture will, therefore, provide a mix of universal, progressive universal, and targeted programs.
5. Governments take the lead in shaping the social architecture. From the beginning of the country's history there has been a widely shared expectation that the state sector will lead. Sometimes that has meant fostering geographical cohesion by ensuring that railroads were built and sometimes that has meant ensuring social inclusion via spending on social protection and respect for diversity via immigration and settlement policies as well as constitutional protection of cultural and other rights.

Attention to these visioning principles reveals areas where adjustments are necessary in the face of new social risks, and it also shows the ways in which the roles and responsibilities across the welfare diamond are affected by new patterns of risk. This research report concludes by highlighting four new directions for public policy. They are intended to identify directions for change that will respond to pressing needs and go a significant way towards an improved social architecture. They are to:

- Adjust policies in the state sector of the welfare diamond, combining effective investments in services for low-, modest- and middle-income Canadians with the current focus on supplementing the income of low-wage workers and their families;
- Use the powers of the state and community sectors of the welfare diamond to fill the gaps in the systems of care for both children and the elderly;
- Rebalance responsibilities within the market and family sectors by encouraging more employers to enhance their responsibility for the well-being of their workers; and
- Ensure Aboriginal communities and families can move from dependency to autonomy by strengthening community capacity and family resiliency in addition to providing resources from the state sector.

The last section concludes with attention to governance. Leadership is the key, and this is of three kinds. Based on analysis of the experiences of other places done for this project, we explain that in order to achieve the vision Canadians want for their social architecture there needs to be effective leadership around a diagnosis of the need for change, around a shared vision of well-being, and then of the ways to achieve it. This said, we also recognize that for this leadership to be effective, all actors must be willing to accept that the roles and responsibilities may differ from one place to another. However, appropriate governance arrangements in such circumstances of greater autonomy also require transparency, monitoring, and sharing in order to ensure accountability. As long as mechanisms are available to allow for ongoing review of the evidence and assumptions, adjustments can be made in situations where any disequilibrium begins to unfold and goodwill is in place.

These characteristics of good governance of Canada's social architecture lead to our call for leadership in consensus building and visioning. Beyond that, we recognize the need to support partners to ensure that they can all maintain their capacities for participation in policy thinking. One way to achieve these ends would be to create a "meeting place" that would provide an *institutional locus* where policy learning can take place. Such a meeting place is essential not only because it can help to foster policy dialogue and build mutual trust. It is, above all, important to help build the credibility and effectiveness of the governance arrangements. If they are to be seen as objective, fair and consistent by governmental and non-governmental participants, as well as citizens, there will need to be institutional guarantees of independence, transparency and quality of work.