

# Living Without Fear

AN ALTERNATIVE ECONOMIC STRATEGY

PART THREE IN A SERIES ON THE ECONOMIC CRISIS



Improving economic well-being and securing a better future for all Canadians

NUPGE • OTTAWA • MAY 2010



Let's think this  
through...together



**PART ONE**  
**The Next Economy**  
*Published November 2009*



**PART TWO**  
**WE ARE The Way Out**  
*Published February 2010*



**PART THREE**  
**Living Without Fear**  
An alternative economic strategy  
*Published May 2010*



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## **An Alternative Economic Strategy Part Three in a Series on the Economic Crisis**

Improving economic well-being and securing  
a better future for all Canadians

National Union of Public and General Employees

Ottawa • MAY 2010



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# Foreword

SINCE DECEMBER 2008, Canadians have been living through a global economic crisis of unprecedented proportions. As economic conditions worsened across Canada throughout 2009, the National Union of Public and General Employees (NUPGE) was anxious to get out and meet with Canadians across the country. We wanted to hear first hand from Canadians about the effects of this historic crisis on their lives and communities. We also wanted to know what Canadians thought went wrong and what, as a country, we should do next.

Throughout the spring and summer of 2009 we held 26 town hall meetings across the country. In October 2009, we published a booklet summarizing the sentiments, ideas and insights we heard from people. The booklet is called **THE NEXT ECONOMY**, and it is Part One of a three-part series about the economic crisis.

Predictably, while we were consulting Canadians, the financial elites were busy spreading myths about the causes of the crisis. They want to deflect the blame away from their role in causing the system to come apart at the seams. They want to prevent any real change and just return to business as usual. That's why, in February 2010, we published Part Two in our economic series called **WE ARE THE WAY OUT**. It tackles the biggest myths head-on and spotlights four hidden truths about the crisis.

The economic crisis has resulted in hardship, job loss and stress for hundreds of thousands of Canadian families. But it is also sowing the seeds for new thinking on how we organize our economy and measure progress. The Gross Domestic Product (GDP) and its various proxies – rates of growth, expansion, recovery – have become the de facto measure of how well our economy and country is doing. Yet, it is a meaningless figure. It tells us next to nothing about progress and how the economy actually affects people’s lives and their communities.

The GDP is simply a measure of the total amount of goods and services sold. It measures how much money is being spent. It does not measure progress or well-being. That is because the GDP makes no distinction whatsoever between the desirable and undesirable, between costs and benefits, between equitable or inequitable, or between sustainable and unsustainable.

For example, if you chop down a forest, GDP goes up. If you get in a car crash and everyone is taken away by ambulances, GDP goes up. If you have a factory that is polluting a river, that adds to the GDP – and if people downriver start getting sick and require doctors, lawyers and hospitals, you’ve just created a GDP windfall.

At the same time, the GDP completely ignores crucial activities which have a huge and measurable impact on well-being, such as: functions performed by parents in the household; the value of unpaid child care; the amount of leisure time families have; the state of our natural environment; the quality of jobs; the overall health of the population; the amount of political engagement; and the level of equality, compassion and companionship in our society.

Our consultations throughout 2009 clearly revealed that Canadians consider economic life to be about a lot more than just money. They feel the current economic indicators are out of touch with the things they value most, the things that make life worthwhile. They want our measurements of progress to go beyond the simple calculation of prices and quantity of goods and services sold. They urged us to help start a public conversation about how well human needs are being met, and what is being left out.

That's what we've tried to do in Part Three of our economic series. **LIVING WITHOUT FEAR: AN ALTERNATE ECONOMIC STRATEGY** has four sections. First, we look at what we measure, and why it matters for the future. The goals we set influence what we do, and how we rate our performance as a society. When we measure the wrong thing, we do the wrong thing. Second, we look at how government economic strategies have failed Canadians. In attempting to improve productivity, we have created injustices. Third, we look at how reducing inequalities can improve social health in Canada, and why aiding the vulnerable must be a concern for everybody. Fourth, we set out the challenges we must tackle in improving access to good jobs – an essential part of establishing economic well-being and combating fear and insecurity. In the conclusion we look at what choices we need to make to create a genuine economy of well-being and enable all of us to live and work without fear of the future.

We intend to be at the forefront of those arguing for new economic goals, defending Canadian values and contributing new ideas for making Canada a better place for everyone. Working together, we can create a consensus in Canada about the need for a more holistic way to measure progress – one that accounts for more than just the exchange of money (such as the GDP) and takes into account the full range of social, health, environmental and economic concerns of Canadians.

The task has never been more formidable. The need has never been greater. It will take the effort of each of us. All together now!



James Clancy  
National President



# Introduction

LEGISLATORS FACE the judgement of informed public opinion every day and have to answer to the people in regular elections. They need to be reminded constantly that livelihoods are what matter to people. Well-being and security require citizen participation in politics. In a democracy, vigilance is needed to ensure people's needs are placed first. Jobs, incomes and access to public services are the important concerns for citizens. What happens in the workplace affects family life, health and every aspect of the quality of life.

Citizen well-being, the health of our society and improving the overall quality of life are of major importance to the membership of the National Union, just as to all Canadians. With a membership of 340,000, the size of a Canadian metropolitan region, such as Victoria, B.C. (the 15<sup>th</sup> largest), our union stands out among Canadian organizations of any kind. Through our provincial affiliate unions we are a major voice in politics and public policy across the country. Within the broad context of social and economic policy, we make our voice heard in Ottawa, and provincial capitals on behalf of

our membership. Abroad, we are linked to other labour bodies through Public Services International, and follow debates and enter discussions of economic and social programs around the world.

When the economic crisis was on the horizon we issued a report called **MAKING PUBLIC SERVICES A PRIORITY**. It called for increased public investment spending to counteract a fall in private investment, consumption, and exports that were threatening prosperity and well-being. While federal government spending was maintained, the important role of public investment in providing for economic and social well-being is not yet well enough understood by governments in Canada.

As the crisis hit Canadians, we wanted to know what people thought caused the downturn, and what needed to be done. The National Union organized 26 public meetings across Canada, so that citizens could engage with the issues surrounding the crisis and dialogue with each other. The town hall tour was called: **Cut Me a Slice: A People's Response to the Economic Crisis**. As we reported back in our publication, **THE NEXT ECONOMY**, Canadians care about community and social values and want them expressed in government policy. Our citizens see democracy as a way of defining what is right and wrong (justice) and what is good and bad (values). Canadians expect governments to act on their behalf, and to reflect the ideals people hold dear, building a society free of injustices, where all can participate equally.

In this report we build on themes raised by our members, and what we heard in public forums. Calling for more economic growth is not good enough. Employment creation needs to be the priority, not an afterthought. We need to address the injustices that characterize too much of daily life, and affect

far too many people. As an overall goal, Canadians want governments to do more to promote economic well-being.

Canadians look to their workplace to provide them with economic security. Making a contribution to the community through their job is important as well. Improving job prospects and the quality of working life goes a long way to combating fear and insecurity. Canadians want to feel free to pursue their dreams, including pursuing a chosen occupation, enjoying a supportive work environment, and knowing that what the community truly values, is the basis for government strategies.

In this publication we lay out how we can improve economic well-being by rejecting policies that have failed, by reducing inequalities and through improving our working lives. Like others, we are interested in the future of our country, and want to express what we heard through public consultations: Canadians want to secure a better future for all. Living without fear means surviving and flourishing in the face of major challenges. What NUPGE has heard from Canadians convinces us that we can do a lot better than we have been doing. Making progress requires that we think ahead carefully to tomorrow and beyond. We need to lay out our goals and adopt a broad economic strategy for securing a better future. The paths we have been following have led us the wrong way.

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Second, we look at how government economic strategies have failed Canadians. In attempting to improve productivity, we have created injustices.

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At NUPGE we intend to be at the forefront of those arguing for new goals, defending Canadian values and contributing ideas for making Canada a better place for all its citizens and residents.





## SECTION ONE

# Measuring what matters

HISTORICALLY, WE HAVE seen that measures such as inflation or deficit reduction get assigned priority and end up driving public policy. In the process other concerns such as reducing unemployment get tossed away. In the 1980s, governments bought into the idea of a “natural” rate of unemployment, a rate consistent with low inflation. The 1985 Macdonald Royal Commission estimated the natural rate as falling within a range of 7.5 percent and 9.0 percent! This then became a target rate for unemployment. Little wonder that buttons appeared, “I am not unemployed, I am fighting inflation”. Unemployed workers were victims of deliberate action by government to create unemployment.

When Canada decided to put the fight against inflation first, we paid a higher price than anything gained. Using sky-high interest rates (up into the 16-19 percent range) to control consumer prices had the consequence of adding billions

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of dollars to public debt. Money that could have been used to provide education, health care, transport, protect the environment, and promote amateur sports, recreation, and cultural activities went into interest payments on the debt.

Governments could have set a new direction for monetary policy. Instead of ordering central bankers to reduce interest rates, governments reacted by cutting spending on needed programs, and making lives worse for people.

Overall the fight against inflation reduced GDP growth. When \$10 of every \$100 of GDP is lost due to a 10 percent inflation rate, that is a bad result. But when we slow the economy down to fight inflation, and have to give up \$90 of GDP growth, just to save the \$10 lost to inflation, you have to question the wisdom of making inflation reduction the over-riding priority for society.

In March 2010, as we entered the second decade of the new century, the Governor of the Bank of Canada was still claiming his only mandate was to meet a two percent inflation target. Yet, Canadians face an uncertain economic future, characterized by job losses, exhaustion of employment insurance benefits, inadequate welfare, rising inequalities and cuts to public services. Not only does the future look more frightening, the present has become bleak for those whose unemployment insurance has run out or those denied benefits despite having paid premiums.

Canada lost over 400,000 jobs in the economic downturn of 2008-09. Dealing with this jobs deficit needs to take priority. The Act creating the Bank of Canada stated its goal was to act "in the best interests of the economic life of the nation". The Governor of the Bank cannot be allowed to narrow his parliamentary mandate because he wants us to believe measuring inflation overrides everything else.

It is important to recognize that measurement is not just a question of collecting numbers about unemployment, the deficit or inflation. It is first a question of deciding what matters to us as a society, and what we can expect in a free and democratic society from our government. If we are going to attach importance to an economic measure, we have to recognize it influences our economic and social health. When we measure the wrong things, we do the wrong things.

*When we measure  
the wrong  
things, we do the  
wrong things.*

We need to agree first that what we are measuring is what we value as citizens, and what we expect to see from public policy. When what is being measured does not (or no longer) represents what citizens are looking for from the future, it is time to change what is being measured.

For years economic growth, measured as the rate of increase in output or GDP, has been a prime goal for policy makers, and influenced public opinion. Our idea of what we should be aiming for as a country is still guided by the monthly, quarterly, and annual releases of GDP figures. Overall income growth matters, but how the income gets distributed matters more. GDP per person does not tell us who is getting the increase in incomes, and therefore can be misleading.

GDP growth is linked to employment creation. It has been shown, for example, that each percentage point decline in unemployment leads to a one to three percentage increase in GDP. In other words, if we want to increase GDP we need to create jobs. Thinking of positive GDP growth as a good outcome, because it increases employment, makes sense. However, the improvement in well-being comes from more people working, not the GDP growth statistics. Work brings the benefits of well-being. For individuals, jobs add both subjective benefits of feeling competent and autonomous, as well as the material benefits of income.

*Unfortunately,  
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the top place.*

## **The Human Development Index**

Former Prime Minister Jean Chrétien used to brag about Canada being the best country in the world: “we are number one”. The former prime minister was not just exaggerating. In 1990, the United Nations Development Programme (UNDP) had adopted an important new way of measuring economic and social performance: the Human Development Index (HDI). Its ambitious purpose was to rank the performance of countries across the world. Canada came out on top of the scale, for a seven year period in the 1990s.

The UNDP was founded in the 1960s to promote economic development across the world. Three decades later, the UNDP wanted to correct the shortcomings of the traditional method for measuring economic growth, GDP per capita. GDP was a measure of output (production of goods and services). The UNDP wanted to broaden the definition to capture economic success more fully. In addition to GDP per capita (which is the most important component of the HDI), the UNDP decided to include average life expectancy, and adult literacy (years of schooling was added in 1994) to create a composite or overall index. Development was more than growth in output per person, the new HDI measure said to the world.

The HDI gained world attention when it was launched. It had the backing of Member States of the UN. Leading authorities, such as Harvard economist Amartya Sen, were instrumental in its creation. Canadian ministers and officials were particularly pleased when Canada topped the HDI scale. Impartial observers noted our performance on adult literacy was the factor that put us narrowly ahead of the Northern European states and our literacy figures were uncommonly high. Unfortunately, the Canadian ranking fell from the top place due, in part, to policy decisions made by the Chrétien

Liberal government slowing economic growth. In fact Canada's position has stayed further down the scale for over a decade, under both Liberal and Conservative regimes in Ottawa.

*Production needs to be linked to creating more equality.*

It is not easy to develop a comprehensive measure of economic and social well-being. The UNDP thought it was important to try, and was not afraid to combine quite different aspirations. Some national objectives are not controversial. Seeing citizens enjoy long life for instance, or having access to learning and adequate literacy skills, are goals worth pursuing anywhere, and always. Longevity measures overall health indirectly. A society where people die early indicates that people suffer more ill health as families or individuals. Literacy and school enrolment measure education and also the capacity to follow and participate in public life. No wonder the UNDP chose to include these important measures of well-being in its HDI index.

Canadians need benchmarks in order to judge our overall performance as a society. As Canada is a complex society, we have adopted a wide variety of economic and social measures. It would be nice to have a single composite measure, such as the HDI, that would give us a full picture of our lives, but no one measure is likely to be satisfactory. The UNDP found it necessary to create two additional composite indices, one to measure gender empowerment, and another to measure poverty.

Most Canadians care how output is being distributed as incomes and how work gets divided up in producing GDP. If economic growth means some get very rich and the rest of us lose ground or stay in the same place, what is the point of more growth? Thinking that more production is good for everyone needs to be rejected. Overall, production needs to be linked to creating more equality. When environmentalists say GDP as a measure of output exerts too much influence

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over government policy, they have a point. What we need is sustainable growth, not growth for its own sake.

## France Debates Well-Being

In 2008, Nicolas Sarkozy, the current President of France (and a Conservative), asked a group of experts headed by the American economist, Nobel prize winner Joseph Stiglitz, to come up with a new set of measures of economic and social performance. The 2009 report, prepared by a prestigious team drawn from around the world that included Amartya Sen of Harvard, focused on three topics:

- GDP as a measure of performance,
- Quality of life, and
- Sustainability.

The report pointed out GDP only measured what was produced for sale in the national market. Markets had become more complex, and difficult to measure. In the manufacturing sector, parts for goods were produced in more than one country, assembled into final products elsewhere, and then sold in many markets. It was hard to say where a car had been produced, when much of the content was spread around various countries.

As well, GDP failed to capture the structural shifts from the production of goods towards more provision of services that had taken place in the advanced countries. Services output cannot be measured with anything like the precision of manufacturing. How do you measure the productivity performance of a teacher or a prison guard? Importantly, GDP ignores non-market activities. Child care or meals done from the home are not valued for example.

Machinery, tools, buildings, roads, airplanes, trucks, and equipment of all kinds wear out. But this “depreciation” of capital goods is not evaluated, overstating current GDP. Capital goods need to be upgraded. Natural resources get used up in production, but the cost of replacing them when they are gone is ignored by the national accounts that make up GDP.

The French government agreed that we need to attach more importance to quality of life and re-think what we measure. The report admits that we know more about measuring production than well-being. But it insisted we have to develop measures of what matters to people. Instead of thinking of the economy as production, we need to think about human capabilities. Education, health, and the sum total of our non-material personal resources are the economic and social outcomes that need our attention.

The report is not afraid to call for “robust, reliable measures of social connections, political voice, and insecurity that can be shown to predict life satisfaction” though these are not at all easy to quantify.

The Stiglitz report to the French President wants governments to measure the impact on economic well-being of current activities for future generations. Instead of giving free reign to forces that favour more investment from whatever source, and for whatever reason, why not first ask what the investment will do to our ability to live a better life? Do we want to have more consumption today or do we prefer better conditions for teaching children to do mathematics? A society that decides to give more space to young mathematicians makes different spending plans than one that decides to favour more current consumption goods.

*The report admits that we know more about measuring production than well-being.*

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individuals.*

We need to take the costs and benefits that are “external” to the direct cost of the market transaction seriously. The secondary effects, or as economists call them “externalities” of education, are not the same as those of operating factories and producing consumer products. The direct cost of the public expenditure of education is what GDP measures. It misses the benefits of education for society from having educated people providing us with needed services in a host of areas. Similarly, the sale price of the consumer goods does not measure the damage done to the environment through air and water pollution of operating the factories.

## **Jobs Matter Most**

Our society is made up of people doing paid work for a living, looking for paid work, retired from paid work, or dependent on those with paid work. Paid work defines who we are as individuals. Without access to well paid work, or generous retirement income, people suffer income deprivation, and every indignity that accompanies not having much money. It follows that for most Canadians the significant measures of economic well-being are family income and the rates of employment and unemployment.

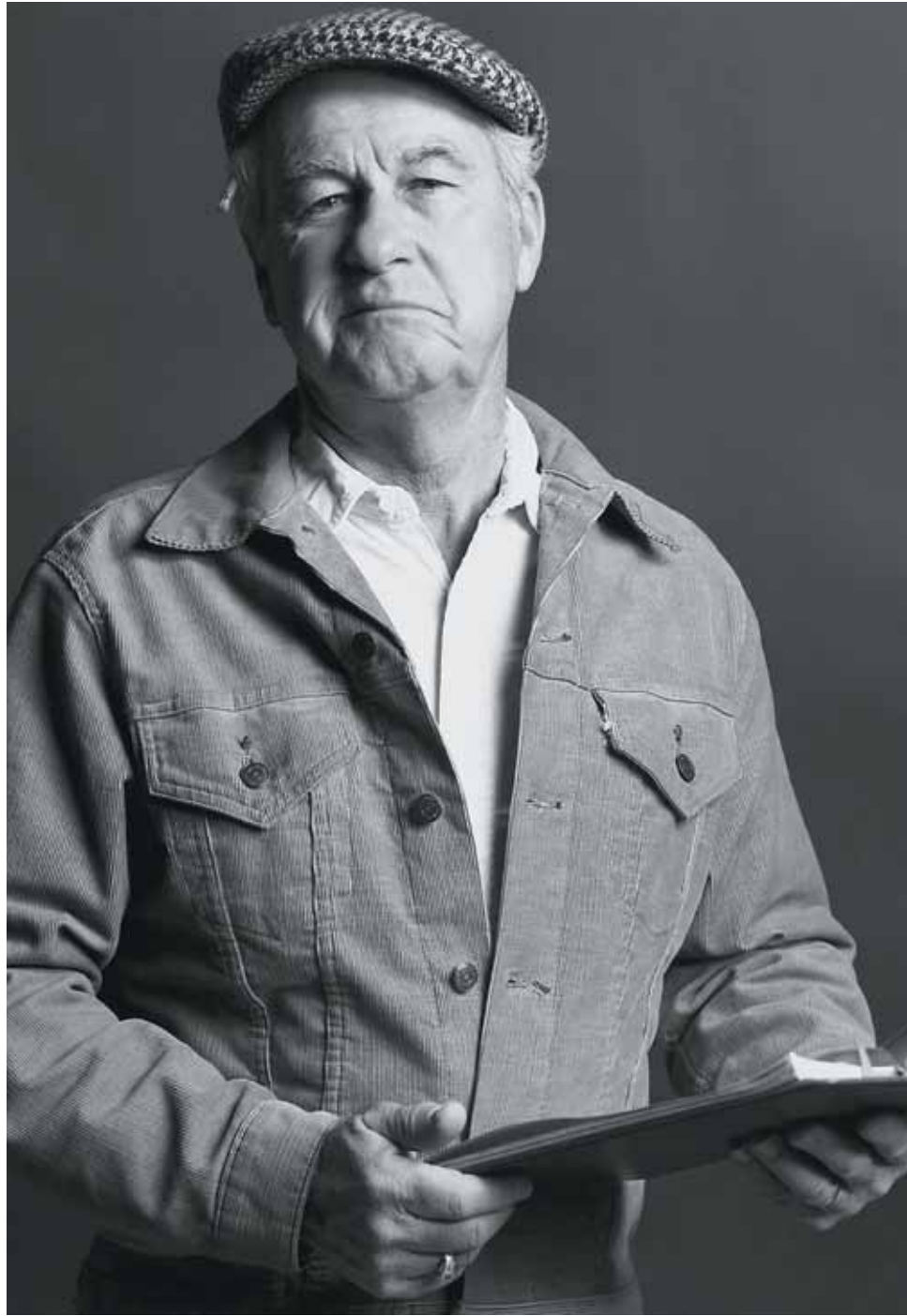
Logic dictates that the main goal of a society should be a job for all who want to work. But even that important goal is not enough to sustain family income, and promote well-being. People need access to well paying jobs, with generous employment benefits attached. Part-time jobs, and other precarious employment such as those “self-employed” for lack of better opportunities, are included in official employment, but the reality is most people want full-time work. All want to be paid good wages and salaries, and receive employment benefits.

Layoffs ruin lives. Declines in manufacturing employment over the years have devastated families. People who lose jobs in a downturn find unemployment benefits expire before the job market turns around. Part-time or seasonal workers often do not qualify for so-called employment insurance and find themselves destitute on welfare.

Government policies lie behind our “objective” measures of success, and our “subjective” sense of well-being. What measures get singled out as important have an impact on what governments choose to do. So, what a country decides to highlight as good performance needs to be widely understood and accepted, because it constitutes a goal for all of us. Arbitrary measures of performance can lead to bad decisions and do great damage.

As workers Canadians have been betrayed by government policies. As we see in the next section, by even conventional measures such as productivity, we are performing poorly.

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## SECTION TWO

# The Failure of market-oriented policies

IN THE 1960S, the Canadian federal system adopted the principle that across Canada comparable public services should be available to all Canadians, irrespective of provincial income. Otherwise, a region with one-half of the income of Ontario, would end up with a health care and an education system that had only one-half of the resources available to residents of Ontario. The system of equalization payments and the cost-sharing arrangement negotiated to give effect to this principle implied that the federal government would raise money to be spent in areas of provincial jurisdiction.

This “federal spending power” created the Canadian welfare state; withdrawal from the cost-sharing programmes in the 1990s signalled its withering away. The current Conservative government has been quite clear that it intends to give up the federal spending power and let the provinces pay for whatever social policy they can afford. This would be in character with

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its mistrust of the benefits of government spending, and belief that people are better off when they fend for themselves in the market place.

## **Welfare for Canadians**

From 1963 to 1968 our major welfare state measures were adopted during the life of two Liberal minority governments (supported by the NDP). Using the federal spending power, we established the Canada (and Quebec) Pension Plans, Medicare and through the Canada Assistance Plan (CAP), a national safety net. These were set up alongside, what was to become in the 1970s, a comprehensive unemployment insurance programme, and the existing small, universal family allowance.

In the 1995 federal budget the agreements between the federal government and the provinces, painstakingly negotiated over many years to build our welfare state, were tossed out. The reason given was deficit and debt reduction. The non-stated purpose was to reduce wages in order to “improve” the labour market, and promote productivity gains.

Along with the 1988 free trade agreement negotiated under the Conservatives, the 1995 Liberal budget was the centrepiece of a two decade strategy championed by Canadian business to improve productivity. The idea was to remove “non-market barriers” to productivity enhancement by cutting government spending. Reducing corporate taxes, introducing de-regulation, signing free trade deals, and pursuing privatization were all part of the same productivity package. In the language of “new public management”, governments were not elected just to pass laws; they had a mandate to “make” markets.

## The Productivity Slump

Andrew Sharpe of the Canadian Centre for the Study of Living Standards has carefully tracked and analyzed the market enhancement measures introduced in Canada. He has shown that Canada has gone very far in promoting liberalization of markets. He concludes we have achieved very little.

Our productivity performance is still very weak, compared to other countries, and to our past record. If, over the past two decades, business friendly policies have been adopted across the board in Ottawa, and the provinces, without improving our productivity performance, why do governments not get the message? Recently, the Governor of the Bank of Canada pointed the finger at business leaders, saying they have failed to invest despite the adoption of generous tax credits and business tax cuts. But the culprits are governments that continue to pursue policies that fail Canadians.

Sharpe has summarized the measures that have failed to produce better productivity: inflation targeting (1991); zero-deficit philosophy and policy (mid-1990s); federal debt-to-GDP ratio target of 25 percent over 10 years (1994); plans to hold program spending to below economic growth (on-going); Canada-U.S. Free Trade Agreement (1989); North American Free Trade Agreement (1994); Foreign Investment Review Agency (1985) replaced by investor-friendly Investment Canada (later merged into Industry Canada); federal privatization of Crown corporations, including CN, Petro-Canada, NAV Canada, Air Canada, Telesat, de Havilland, and Canadair; deregulation, including air transport, electricity, road transport, and telecommunications; Goods and Services Tax (GST) replaces the Manufacturers' Sales Tax (1991); reductions in the statutory federal corporate tax rate from 37.8 percent in 1980 to 19.5 percent in 2008, to go down to 15 percent by

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*It is important to recognize the limitations of the concept of productivity.*

2012; reduced direct research and development performed by government; attempts to eliminate inter-provincial barriers to the movement of goods and people; labour-law regime that discourages unionization in emerging sectors, resulting in a significant decline in private sector union density.

## **Re-Thinking Productivity**

Productivity measures output against the main inputs that are used to produce output: labour, capital and technology. Output per hour worked is one common measure. More sophisticated analysis is used to arrive at “multi-factor” measures that include capital and technology as inputs into production, as well as labour.

It is important to recognize the limitations of the concept of productivity. It is a backward looking measure – it tells us how we are doing. It cannot tell us why we are doing poorly, or what we need to do in order to do well.

Though it is not well known, as American sociologist Fred Block showed through his research, productivity analysis was first developed by American trade unions as a tool for collective bargaining. When labour negotiators sat down with employers to talk salary and remuneration they wanted to be able to identify how much more had been produced per worker since the last contract.

Unions wanted to be able to show what the company had gained in order to bargain a wage and salary increase in line with the real growth. Thus, productivity was “invented” so as to give collective bargaining a focus on the contribution of labour to production.

Trade unions were used to dealing with companies that refused to give a full accounting of income and expenses, and were always pleading poverty despite evidence to the contrary available to the workers. Developing the productivity measure was a way of determining the gains to be shared between workers and shareholders.

Productivity analysis takes for granted the distribution of income, and the ownership and control over the production process. It assumes that what people earn they deserve, and what companies own belong in their hands. Taking these facts to be a given makes sense from a pure social science perspective and is part of what is needed to complete the analysis.

But it turns out the distribution of income is vitally important to productivity, as is the ownership (and form of organization) of production. Privately held companies are different from co-operatives. U.S. owned companies have their own corporate cultures. Wholly foreign owned companies in major sectors of the economy do not make the same contribution to Canadian life as Crown corporations, publicly traded corporations, or even private Canadian companies.

Yet our government policies favour the implantation of more foreign companies, inhibit the growth of co-operatives, and try to eliminate Crown corporations.

The availability and quality of government services are very important to productivity as well. Countries with well developed governmental infrastructure, educational and social services rank higher in productivity performance than nations with less government spending. Yet exponents of productivity often equate improvement with cutbacks to government.

*The availability and quality of government services are very important to productivity.*

The 10

progressive  
income tax  
brackets were  
reduced to three.

## The Not So Hidden Agenda

In the 1980s, the ability to pay as the basis of taxation gave way to the GST (where everybody pays the same amount regardless of income level), and corporate tax breaks, aimed at making Canada a cheap place for business. The 10 progressive income tax brackets were reduced to just three brackets, allowing upper income people to pay less tax than before. Ever since, Canada has focused on productivity enhancement and abandoned direct employment creation policy.

Employment was assumed to increase as a result of opening the door to foreign owners, and encouraging Canadians to invest abroad. Making business investment more profitable through tax breaks was thought to have more jobs as an offshoot. Measures to “improve” the job market were aimed at making it more “flexible.” Holding back on the minimum wage, reducing welfare benefits, eliminating unemployment insurance coverage for one-third of the workforce, and reducing income replacement ratios, and pay-out periods, were designed to force people to take poor paying jobs. Thinking that had been discredited by economic history, was invoked to try and re-establish an imagined “equilibrium” in the job market.

Neo-liberals argued lowering wages would lead to an increase in employment. If people were unemployed it was because wages were too high. Getting wages down was the economic strategy poorly concealed within the 1995 federal budget which killed the Canada Assistance Plan (the social safety net which guaranteed an income for all in need, and 50 cents on the dollar to provinces for welfare payments), gutted U.I., and tore up the federal-provincial cost-sharing agreements for health and post-secondary education. Though billed as debt reduction it was about reducing the size of governments, and

reducing wages and salaries. Instead of thinking of income as important for the standard of living of Canadians, salaries and wages were renamed “unit labour costs”. Canadians were told falsely that to compete internationally, wage concessions and public sector compression were necessary.

One big result of the efforts to make the Canadian economy more market friendly was to increase income inequality. Inequality of income is the most important factor explaining social health. In an effort to help Canadian business do what they said was necessary for Canada, Canadian governments made life worse for all Canadians.

*Canadian  
governments  
made life  
worse for all  
Canadians.*



### SECTION THREE

# Reducing inequalities

THE WORLD HEALTH Organization convened a Commission on the Social Determinants of Health which produced a major report on what to do about inequities in health around the world. Commissioner Monique Bégin, a former Canadian Minister of Health, was quoted: “The truth is that our country is so wealthy that it manages to mask the reality of food banks in our cities, of unacceptable housing (one in five), of young Inuit adults with very high suicide rates”. The starting point for improving well-being is surely bringing all the necessary resources to bear on eliminating economic hardships and social exclusion.

As a society, improving human well-being means deciding what we want to see, and agreeing to do something to make it happen. Just as importantly, when we know what we do not

*Our social health is determined by the degree of economic equality that exists.*

want to see for each other, we have to correct it. From this perspective, economic well-being means looking to improve living conditions for the most vulnerable.

The late Hyman Minsky, a noted economist, laid out what to do when financial panics (which he saw as endemic in a profit driven economy) created bad times for people. In boom times people invest money and expect to see ever increasing returns. When the bust comes, new spending stops and the economy gets stuck, with no recovery in sight. Minsky argued that the best way to stop a slowdown was to put money in the hands of people who would spend every penny, those at the bottom of the income scale. Anything extra they receive in transfer payments gets spent in the community.

## **Growing Inequalities**

Canada had a serious downturn in 1981, and another one in 1990, before the current great recession of 2008-2009. What we learned from the other two was that people who lost their jobs, and succeeded in finding other work, fell down the income scale. Five years after being let go, average earnings for those who eventually found work slid by about 30 percent, according to Statistics Canada estimates. As well, unemployed manufacturing workers had difficulty finding new work. There is every reason to believe something similar will happen to the victims of the 2008-09 recession as well.

Probably the most important thing we have learned in recent years about public policy is that our social health is determined by the degree of economic equality that exists. The gap between the rich and the poor shows more than just who are the “have-nots” and who are the “have-yachts” – it

determines social health, including the prevalence of mental illness and overall ill health among citizens.

In their important book *The Spirit Level: Why More Equal Societies Most Always Do Better*, Richard Wilkinson and Kate Pickett demonstrate through extensive statistical comparisons how inequalities create social stress, and how the resulting anxieties hurt people across the income scale. Such unwelcome social conditions as violence (domestic and crime related), alcoholism, obesity, drug addiction, school drop-out rates, and chronic diseases like diabetes are more common in countries that are more unequal. Countries with lower levels of inequality, Sweden and Japan for instance, score much better on these measures of social health.

*Countries with lower levels of inequality score much better on measures of social health.*

## **Objective and Subjective Well-Being**

Theorists of well-being say our jobs and incomes influence how we feel about ourselves, and about others. When we go to work, we meet our needs for shelter, food, clothing, recreation, and so on, but we also are looking for self-esteem, companionship, pleasure, satisfaction, a sense of achievement and more. These values are not captured by traditional indicators used by governments, such as GDP per capita or the HDI.

However, “objective” measures such as GDP or the HDI do help us understand why some nations rate better on a “subjective” scale when citizens are asked about how satisfied they are with their lives. Income, longevity, education, and literacy are associated with society health, and psychological well-being, but they matter for individuals as well. Homeless people, without means of support, are not just materially

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deprived; they are also going to suffer severe damage to their emotional health. The Canadian Mental Health Association has been telling governments for decades that the cost of unemployment can be measured in increases in suicide, family breakdown, divorce, and indicators of what we now call social health.

The social scientists who collected the information showing the link between equality and social health have also confirmed some widely held truths. The golden rule (do unto others as you would have others do unto you) tells us not to allow some to do with a lot less than others.

In the trade union movement we know the value of solidarity: it is better to share the good times, and to fight together through the bad times. Creating solidarity within a society by reducing the gap between rich and poor, turns out to be more important than any other single factor in explaining economic well-being. In the name of improving productivity, governments abandoned most of the policies that fostered solidarity. Rising inequalities were the result. The supposed productivity “cure” was incubating the inequality disease.

## **The Social Wage and Well-Being**

Establishing a social wage for those retired from the workforce, those whose circumstances limit their access to paid work, and those with special needs, such as parents, students, and people with physical or related difficulties with participating in the workplace, has been an important part of social well-being, at least since World War II. Indeed we measure how well societies are doing by looking at how generously governments

provide for people facing special challenges through social spending programmes.

With research showing beyond any reasonable measure of doubt that inequalities within societies cause problems for every member of society, and not just those who suffer the most inequalities, there is no excuse for not attacking inequalities through re-distributing income. When some Canadians lose their access to paid work, for whatever reason, it is all Canadians that suffer. Recognizing this, and acting upon it, is the most important step we can take as a society towards improving our economic well-being.

For years Canadian economic well-being has been measured by economists from the Canadian Centre for the Study of Living Standards (CSLS). Indeed its work was cited approvingly by the French Presidential Commission. According to the CSLS index of economic and social well-being, because of poor performance on measures of equality and economic security, Canada could do no better than ninth place among 14 OECD countries surveyed (the U.S. was 13<sup>th</sup>).

When the CSLS first broached the idea of an economic measure of well-being that would include items such as unpaid work in calculating well-being, the federal government was supportive. The federal department, now known as Human Resources Skill Development Canada (HRSDC), gave them a small grant.

When the index was calculated it found that cuts to unemployment insurance had led to a decrease in Canadian well-being. Instead of paying attention to the work, the government withdrew its grant. Today, to its discredit, HRSDC does not include measures of inequality on its website looking at well-being.

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In 2005, the Pembina Institute in Alberta calculated a Genuine Progress Indicator (GPI) for the province. It found that as GDP rose, the GPI fell. No wonder. Touting Canada as an energy superpower cannot change the environmental impact of the race to develop the tar sands of Northern Alberta.

A new initiative is underway under the leadership of Roy Romanow (former Premier of Saskatchewan) and Monique Bégin (former federal health minister) to bring greater understanding to the concept of economic well-being. Ambitiously the intent is to create an Index of Canadian Well-Being that could receive general acceptance.





#### SECTION FOUR

# Securing Our Future

JOB PROSPECTS are weak in Canada, and employment goals are nowhere to be seen. There is a pressing need to evaluate the future of paid work in this country. We know that a large number of Canadians are headed for retirement. We also know that many people cannot afford to retire. Canada needs to adopt a jobs strategy. The solution being offered – the market solution – is not working.

Canada now has a population of nearly 34 million people. Of the 27.2 million Canadians over the age of 15, less than one-half held a full-time job in 2008. Of the 16.8 million who were working for pay in November of 2008, 22 percent had a part-time job. Over one million part-time workers (about one in three) were looking for a full-time job.

*Canada has never adopted full employment as a goal.*

When we add the officially unemployed in 2008 (about 1.5 million) to the 1.1 million part-time workers looking for full-time work, we see that 2.6 million Canadians were unemployed or underemployed. The 2008-09 recession kicked 400,000 people out of work and increased “official” unemployment to eight percent. And, the eight percent does not include those who have given up looking for jobs because paid work has dried up. Adding these “discouraged” workers is needed to get an idea of the current dimensions of unemployment.

Surprisingly, Canada has never adopted full employment as a goal. In Northern Europe, full employment has been an accepted national benchmark for governments and business, not just trade unions. In Canada, after the war, an important white paper did talk about maintaining high levels of employment. This was achieved briefly in the mid-1960s when unemployment dipped to just over three percent.

Lots of people face serious barriers to employment. Aboriginal Canadians, immigrants and people with disabilities are less likely to find work. Young people aged 15-24 and workers over the age of 54 have higher unemployment rates. People with less education have higher unemployment rates than university graduates (four percent in 2006). Trained teachers have the lowest unemployment rate of any occupation according to census data from 2006.

Each year sees a lot of job turnover. A sort of musical chairs gets played out, as companies go bust, or downsize and lay people off. New ventures start up, and people get hired, or conditions improve, and companies rehire. The important thing is that job searches take place in an economic environment where investment decisions are being made about what is going to be done. Unfortunately, in the usual state of affairs, no labour body gets to participate in those decisions.

Governments continuously subsidize business investment through tax policy, but do not require companies to hire or even train workers. Banks play a leading role in determining who gets the money needed to start a business, and who gets told their credit is no longer any good. Banks have the powers they have because successive federal governments have granted bankers those powers. Yet no efforts are made by government to link bank lending to employment goals.

The employment outlook, as seen in 2006 by Human Resources and Social Development Canada (HRSDC), assumes the Bank of Canada will be able to match supply and demand for labour through macro-economic measures. It projects market equilibrium as the number of new workers declines and the number of job openings keeps pace. There is little reason to become complacent because of the HRSDC analysis.

Historically more people have been looking for work than there were jobs to be had. Workers without jobs, or workers in precarious jobs, are a recurring problem that has not been fixed. Canada has consistently failed to adopt appropriate full employment strategies combining macro-economic policy and sector specific strategies. In the last 65 years Canada has had economic growth in spurts. Recessions have been common, with three severe ones in the last 30 years (1981, 1990-92, 2008-09).

Believers in supply and demand assume that the supply of workers and the demand for workers can be equilibrated by fluctuations in wages and salaries. However, since workers are not commodities, and wages and salaries are set by historical norms, and by negotiation (and not by flexible rates of pay) the “market solution” of letting wages align jobs with workers holds out no promise.

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*In non-union environments all productivity gains go to employers, not employees.*

Despite talk of globalization, the Canadian government has not taken into account the world wide trends in employment in preparing its employment outlooks. In the last 10 years, millions of manufacturing jobs have been added in China, India and other lower wage countries. The large number of workers in under-developed countries willing to accept poorly paid work as a substitute for life in subsistence farming has kept a ceiling on wages, and promises to keep wages low for the foreseeable future. In non-union environments where workers can be easily replaced, all productivity gains go to employers, not employees.

Looking ahead HRSDC has identified three distinct trends. A larger percentage of new jobs are going to be created through retirement than in the past. A smaller number of new workers are going to be looking for employment. More highly skilled jobs or jobs requiring higher education are going to be available, while low paying jobs requiring only on the job training will become scarce.

Before we accept this outlook, we need to account for the current situation. In any given year some 300,000 to 350,000 people enter the labour market for the first time, young people and immigrants for example. Canada needs to create that many jobs yearly, less eventual retirees, just to avoid increasing the jobs deficit, which stands at about 500,000 at a minimum.

HRSDC says about 125,000 Canadians “self-declare” their retirement each year. It expects that number to increase dramatically. Because of the recession, and the financial collapse on Wall St., some people planning to retire will be postponing their departure. Many people can ill afford to retire. Changes to legislation have eliminated obligatory retirement at age 65 in Ontario and Quebec – Canada’s two

largest jurisdictions. Bad economic conditions may keep people who hold a job from leaving it. In any event, it would be a huge mistake to imagine that retirements can do our job planning for us.

Populations age slowly, just as people do. The changes being projected as a result of the baby boom generation reaching retirement age can be easily over-stated. Pretending we are about to have a skills shortage, or huge job vacancies, due to an aging population is largely fear mongering. It draws attention away from the need to create jobs now for the unemployed, upgrade the skills of workers on the job, and plan a future for the new entrants to the labour market. We need to know where our jobs are going to come from, and how many we are going to need, in order for everyone who wants full-time work to find a job, let alone in their chosen field.

Looking ahead to the future of the Canadian workplace, entails taking account of occupations, and what happens within occupational groupings. Statistics Canada and HRSDC have established a matrix assigning job descriptions classified by occupation for the Canadian workforce. Data is available from 2006, and the matrix is updated with each census, so the next revision comes in 2011.

The broadest classification divides the workplace into 10 occupations:

1. Management Occupations Business.
2. Finance and Administrative Occupations.
3. Natural and Applied Sciences and Related Occupations.
4. Health Occupations.
5. Occupations in Social Science, Education, Government Service and Religion.
6. Occupations in Art, Culture, Recreation and Sport.
7. Sales and Service Occupations.

*Pretending we are about to have a skills shortage, or huge job vacancies, due to an aging population is largely fear mongering.*

*There is every reason to believe that services employment represents the future.*

8. Trades, Transport and Equipment Operators and Related Occupations.
9. Occupations Unique to Primary Industry.
10. Occupations Unique to Processing, Manufacturing and Utilities.

The matrix then breaks these down into more detailed descriptions of job categories within broad occupations. The data collection is done in collaboration with occupational associations. These groups are a source of specialized knowledge about Canadian workplaces.

Those interested in trying to forecast job requirements for the future need to pay close attention to what these associations have to say. The basis for the jobs plan for the future needs to be developed in partnership with occupational associations and labour organizations. Policies on retirement, training, job-sharing, parental leave, employment equity, and new hires need to be worked out in consultation with knowledgeable people on the ground.

Looking at recent survey information about employment can only give us broad ideas of where Canada is headed. From Statistics Canada information, we see what have been the growth occupations, and where employment has fallen off. Using November 2008 data we can see that services account for 11 million of Canadian jobs. In the subsequent recession, over one year, we lost over 100,000 services jobs. There is every reason to believe that services employment represents the future. For more and more Canadians, manufacturing employment represents the past. Our recent job losses in manufacturing are the continuation of a trend. Over the last 60 years the percentage of people employed making goods has fallen from better than one in four to less than one in eight.

## **Economic Strategy**

The current approach to the economy is to favour tar sands development and tout Canada as an energy superpower. Growth in employment in the energy sector has been very rapid, but overall remains small. Billions of dollars in investment represents less than 250,000 sector specific jobs. Canada as a military nation is also an important element in Conservative policy. Military spending has increased faster than other types of spending. Again billions of dollars are spent and any resulting Canadian employment is accidental.

Under Pierre Trudeau, the Canadian government talked about an economic strategy linking natural resources to manufacturing. Instead of exporting raw materials, we would upgrade and transform natural products and add value through manufacturing. The policy was abandoned. The fight against inflation, and the 1981 recession, postponed industrial planning for the future indefinitely.

Putting employment first requires that we invest in education of all types. People need to be free to develop their innate talents, and pursue careers and occupations of their choice. Whether it is a Ph.D candidate or an apprentice chef, people need institutional and financial support from government. Providing adequate bursaries and training allowances to young people and adult job seekers is a necessary part of any employment strategy.

Putting investment and job creation together is the only long term solution to unemployment and poor economic performance. Establishing jobs and investment tables for the main sectors of the economy is needed. Indicative planning by government, in conjunction with labour organizations, occupational associations, and business is the best way to go.

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Revisions to federal government strategy have gone in the direction of off-loading financial responsibilities to the provinces for improving education, health, recreation, culture and all manner of direct services. The idea of improving human capabilities through new spending in these areas then gets crushed when the economic outlook changes for the worse. Every time a recession hits, provincial governments announce austerity programs, cut services and attack public employees by cutting jobs, freezing wages and eliminating benefits. The financial problems are caused by the recession, but the responses only make things worse.

We do not need further reductions in corporate taxes, or misguided attempts to bring down inflation through high interest rates, or cuts to government spending. What is needed is planning for employment. How long does it take to understand that when the unemployment rate is low governments do not face deficits? When governments make cuts to public spending they weaken the economy and get in the way of recovery.





# Conclusion

THE EMPLOYMENT outlook for Canada depends on what goals we adopt. The current long-standing free-market scenario of removing barriers to “equilibrium” in the labour market has failed as an employment strategy, and has created inequalities which endanger our health as a society and as individuals, as we have seen.

A second scenario can be envisaged of using government policy to create employment opportunities directly. A full employment strategy could be developed based on sound macro-economic principles of meeting overall demand for goods and services. This scenario envisages allowing existing industries to take the economic lead, taxing them fully, and using expanded governments as active agents to back-up market failures, and promote economic well-being pragmatically over time. Strategic social spending would reduce inequality, and promote better economic well-being. This scenario corresponds to traditional European social democracy. It can be made to work in Canada. The main challenge with this strategy is securing support from the

companies operating in Canada. Leading corporations are often foreign owned and uninterested in being part of a Canadian economic strategy. Absentee landlords never do want to join willingly in national endeavours.

A third scenario would see full employment integrated into a larger plan to achieve economic well-being, as part of green strategy, that rejected GDP growth as a goal, and instead looked at building a sustainable future based on reducing existing inequalities. Governments would become the employers of last resort, ready to provide jobs for all, much as the Bank of Canada acts as the lender of last resort to the banking system. In the financial crisis, the federal government made \$125 billion available to the big commercial banks by standing ready to purchase bad mortgages. It would take much less than that to create a meaningful employment program in Canada.

This third scenario starts from Canadian experience. As a northern society with a foreign owned economy dependent on resource exploitation, we have major requirements for energy, transport and infrastructure. Building and heating costs are high. The growing season is short. Regions within Canada are markedly different. Overall Canada has become an urban society where, for most people, jobs entail providing services to other Canadians. Because of our size and diversity we need to make large scale public investments in infrastructure that meet our special needs as Canadians.

Publicly owned, financed and operated transport facilities, sports, recreational, cultural and arts facilities are needed. Canadian industry needs regular environmental audits. Penalties for polluters and those who ignore the environmental consequences for workers and the community of their operation need to be punitive.

Whether we adopt a European model, or a new economic paradigm, the employment outlook needs to be nailed down, and monitored closely. Canada could create employment boards (much as we have school boards) in order to ensure that all have access to paid work. In either scenario we have to consider how to remunerate unpaid household workers, and provide people who have been outside the labour market with retirement income.

Corporations plan routinely. Every aspect of their future is built around strategies. Human resources, transport, vacation time, all are mapped out in advance. Governments need to get more serious about economic planning. The federal government has adopted a deficit reduction plan. But it has failed to plan for the future employment of our citizens. It has failed to plan for an economy of well-being and genuine stewardship of our common wealth. That task lies ahead.



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