

# **Casualties of the Labour Market: Equity, efficiency, and policy choice**

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# Executive Summary

Governments everywhere adopt policies that modify the operation of the labour market. For example, they subsidize training, regulate hours of work and, through welfare payments and insurance against unemployment, establish income floors that may sometimes modify the choices of those considering taking a job. Such policies are likely to be judged in terms of their effects on both equity and efficiency. Most of us benefit from the high living standards generated by the Canadian economy, living standards that substantially rest on market processes that reward effort and encourage the acquisition of skills. At the same time, because markets sometimes fail, some forms of regulation *may* improve efficiency. Even regulation that reduces efficiency may be judged worthwhile where it prevents the living standards of citizens from falling to a level that most Canadians would judge to be unreasonable. In this paper we examine the distribution of disadvantage in the labour market and possible policy responses to it.

## **The Character of Disadvantage**

Disadvantage in the labour market can take several forms. Low income and/or poor working conditions are the most obvious. Recently, increasing attention has been paid to the difficulties produced when paid employment has to be reconciled with the demands of caring for young children, difficulties that are disproportionately confronted by women.

Not surprisingly, those in families without employed members or whose members are employed but work temporarily or part-time comprise a significant part of the low income population. While anything leading to unemployment can produce this outcome, a particularly important route to low income is *lone parenthood* which, because of the difficulty in conciliating child care and employment, often leads to complete or partial withdrawal from the labour force. In fact, family transitions (especially separations and either births or deaths of family members)

are the most important source of *durable low income*. However, some of those in families within which a member holds a full-time, full-year job also fall into the low income category. This occurs in many families with a single full-time, full-year earner paid at or near to the minimum wage. The proportion of households in which this is the case seems relatively small. Still, it seems likely that the number of Canadian families dependent on the *working poor* numbers in the hundreds of thousands.

Pay is not the only attribute people seek in jobs. Other things considered include promotion opportunities, relations with supervisors, employment security, the number and schedule of hours, and the dangerousness of the work. 'Compensating differentials' exist - that is, pay that, after removing the effect of skill differentials, is a bit higher in jobs with unpleasant characteristics and lower in jobs with pleasant characteristics. However, there are reasons for expecting desirable traits to cluster in some jobs and undesirable traits in others. Where direct supervision is difficult employers may motivate employees by offering a bundle of better-than-average compensations, including employment security - an *efficiency wage*. Alternatively, those already employed may extract those compensations using bargaining power - *insider-outside processes*. Either mechanism tends to divide the labour market into good and bad jobs and to create barriers to the transition from bad to good ones. This implies that some part of the work force is systematically disadvantaged across job traits.

Finally, the burdensomeness of work may be increased where it has to be combined with the responsibilities of child care and, more generally, household chores. There is little difference between men and women in the total annual hours of paid and unpaid work they report. A case can be made, however, that the nature of women's work makes it more stressful than men's. Multitasking (e.g., supervising a child and cooking at the same time) is probably more demanding than concentrating on a single task (e.g., mowing the lawn). Women seem more likely to have to multitask. Given the average domestic division of labour, and given the

relative incompatibility between child care and existing labour market arrangements, it is likely that women with young children have a particularly difficult time.

### **Who Does Badly and Why?**

Disadvantage is embodied in either lack of full-time, full-year, jobs or in the character of those jobs. More skilled employees should and do get paid more. Stimulated by a period of rising earnings inequality in, in particular, the United States, many observers have concluded that the demand for skilled employees has risen relative to that for the less skilled. The research on these issues has yielded mixed results. The skill premium in the Canadian labour market as a whole has not risen over the last fifteen or twenty years. While the employment rate of men has fallen the fall is about as large among the more as the less educated. Neither pay nor employment trends suggest a deterioration of the relative labour market situation of the less skilled in recent years in Canada.

The more reliable and interesting markers of disadvantage are gender, age, and immigrant status. Women earn less than men, though their relative pay and labour force participation has been rising. Much of the difference in pay between men and women is explained by differences in the kinds of jobs they occupy. This outcome might be explained by discrimination - probably 'statistical discrimination', where a higher propensity to quit or be absent on the part of some women is generalized to most of them. It might also be explained by the (related) effect of family care obligations on women's job preferences. Overall, there is some evidence that women who are unencumbered by child care obligations are not disadvantaged in the labour market but that those with child care obligations - particularly lone mothers - are substantially disadvantaged.

The labour force participation and relative earnings of both young men and women fell during the 1990s. As compared to previous immigrant cohorts, the labour market performance of immigrants also worsened. This suggests a deterioration in the conditions confronting new

labour market entrants. The problems of immigrants have been compounded by the fact that employers tend to assign little value to the overseas education or work experience of many of them.

The situation of some employees is further worsened by health-threatening work. Men are more likely than women to be employed in industries where the risk of injury is greatest - in construction, the primary industries, and durable goods manufacture. Exposure to harmful substances is a form of work-related risk the importance of which is increasing. These are *insidious risks* in that determination of their existence and evaluation of their magnitudes is often very difficult and tends to lag exposure. But, if the category is expanded to include repetitive stress injuries from keyboarding and poor air quality in office buildings the proportion of women exposed increases substantially. There may also be some negative effects on health of stress at work, though the evidence seems to suggest that, in aggregate, life outside work is a much more important source of stress than is work itself.

### **Caring for Casualties: Canadian Policy**

Canadian governments intervene in the labour market in a wide range of ways. They invest heavily in skills development, in particular through subsidies to education. There is some funding of retraining. The Canada and Quebec pension plans have been adjusted to facilitate earlier exits from employment of older workers. Despite a series of modifications the employment insurance system remains an important source of income after job-loss. There is a very wide range of statutory interventions in the labour market. These include: a narrowing of the range within which a contractual relationship can be defined as self-employment as opposed to employment; the application of fairness criteria to the employment contract (legislation on human rights, employment equity, and pay equity); regulation of pay through, in particular, the minimum wage; limits on the employer right to dismiss for cause; in Quebec and Saskatchewan there is an obligation to pro-rate benefits to hours worked - reducing the incentive of employers

to offer part-time employment; workers' compensation for work-related injury financed with experience-rated employer premiums; and a body of law that supports union organizing.

### **Policy Alternatives**

At its most general level, debate tends to be framed in terms of whether government intervention in the labour market should increase or decrease. A purpose of this paper is to argue that the debate is better framed through an identification of those who seem to be particularly disadvantaged under current institutional arrangements. Three such groups stand out: lone parents, new entrants to the labour market, and working women with young children. Other countries are often used as policy models - often incautiously, in our view. Sweden does provide better support than Canada to working mothers with children. But to a large extent it does so by the creation of effectively sheltered employment in a large public sector of questionable productivity. Over the last decade or so Denmark has combined a large welfare state with impressive economic performance. But part of its success seems to rest on a liberalization of its labour market and a tightening-up of access to benefits. Reregulation of the Canadian labour market to make it more like much of Europe's might not only be costly in terms of growth, in addition, since regulations tend to protect those currently employed, it might exacerbate the situation of the young people and immigrants who are already having difficulty finding their first good job. This is, of course, not to say that nothing can be done. It is to say that some prudence should be exercised in deciding on what to do.





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# I. Introduction

The bulk of income for most of the population comes from earnings. How much people earn, or whether or not they earn anything at all, is determined by the functioning of the labour market and, in turn, by the laws, customs, and practices that frame the labour market. That functioning generates profoundly unequal outcomes. It is supposed to.<sup>1</sup> Higher pay (often accompanied by better fringe benefits<sup>2</sup>) rewards skill and effort. It provides a reason for people to acquire skills and to exert themselves. At the same time, in *all* societies governments intervene to attenuate the inequalities that would otherwise be produced by labour markets. For example, they subsidize training, set minimum wages, legislate and enforce working conditions and standards, and regulate both hiring and firing decisions, though different governments do these things to widely varying degrees.

These interventions are justified on one of two grounds. One is that *some* outcomes of an unregulated labour market are inefficient. Training subsidies are often justified on the ground that markets supply less than efficient amounts of training. The other is that, whether efficient (by a standard economic definition of the term) or not, outcomes of an unregulated market are sometimes immoral. Thus, a minimum wage might be justified by the view that there is some living standard below which an employed person should not be required to fall. It is sometimes argued that there are interventions that have the fortunate property of *both* enhancing efficiency *and* producing a morally more desirable outcome. Training subsidies probably constitute one such intervention.<sup>3</sup> Similar claims are made with respect to the effects of guarantees of income and employment security. We return to these claims later in this paper.

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<sup>1</sup> A particularly forceful and influential discussion of the importance of inequality in rewards in producing efficient outcomes is Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff*. (Washington, D.C.: Brookings Institution, 1975).

<sup>2</sup> Katherine Marshall, "Benefits of the job" (Summer, 2003) *Perspectives on Labour and Income* 7-14.

<sup>3</sup> There is a useful discussion of the general issue of efficiency/equity trade-offs, and of the circumstances

The forms and extent of government intervention in the labour market are *always* a matter of controversy. How could it be otherwise? The labour market, incorporating whatever modifications to its functioning result from government policy, is one of the major engines determining the distribution of standards of living across a population. We all have a stake in its results. Even for those of us who are in a labour market situation with which we are reasonably content, the overall pattern of outcomes is likely to raise moral questions. It is difficult to view distributional differences and not wonder whether or not they are fair. In this paper we seek to contribute to the debate on labour market policy alternatives in Canada.

We discuss, first, the forms of advantage and disadvantage produced by labour market functioning. Broadly speaking, those forms fall into three categories. There is access to employment. For most of the population, their own or a family member's paid employment is a necessary, though not always a sufficient, condition for a reasonable standard of living. There are the pay and benefits that come with different jobs. The idea that there is a 'working poor' who hold jobs that yield an income inadequate to support themselves and their families, has a long pedigree in Canadian policy writings. There are also the conditions that might be attached to a job, even if that job comes with earnings that put the occupant outside the working poor category. Jobs vary in the extent to which they raise issues of health, safety and, perhaps, dignity.<sup>4</sup> Disagreeable working conditions may be compensated by higher pay - along the lines of the theory of compensating differentials. But the extent to which they do so remains controversial.<sup>5</sup>

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when equity and efficiency may coincide in Rebecca M. Blank, "Can equity and efficiency complement each other?" (2002) 9 *Labour Economics* 451-468.

<sup>4</sup> Randy Hodson, *Dignity at Work*, (Cambridge: Cambridge University Press, 2001) identifies the following work-related threats to dignity: mismanagement and abuse, chronic pressure and overwork, the absence of autonomy in the work process, and abusive increases in responsibilities and stress associated with the introduction of team work and other so-called 'high performance work practices'.

<sup>5</sup> For a discussion and analysis of compensating differentials see Michael R. Smith, Anthony C. Masi, & Paula Came-Lemay, "The determinants of blue collar wage rates: An analysis of a data set incorporating observed job characteristics" (1997) 11 *Labour* 113-139.

Second, we examine the distribution of advantage and disadvantage across the Canadian population. Employment rates (and, conversely, the probability of unemployment), earnings, and the incidence of more and less attractive job characteristics (including health risks) may vary depending on skill, gender, age, and skin colour, among other things. People's reactions to their employment are further complicated by what is going on in the rest of their lives. This issue is most frequently raised with respect to women. Within some age ranges, family obligations combined with an unequal division of labour within the household may mean that the wear and tear of paid employment is exacerbated by the time and effort involved in household work. After considering differentials in access to jobs and job characteristics we go on to discuss effects of family obligations on employees.

Third, we review the ways in which labour markets are regulated in Canada. Most of the relevant policy measures fall within provincial jurisdictions (e.g., the minimum wage, union recognition and bargaining procedures, labour standards) but important ones remain a federal responsibility (e.g., unemployment insurance and macroeconomic policy). Still others (e.g. training) are addressed by policies initiated and administered at both levels of government. Policies are always changing. For example, in the early 1990s the Federal government tightened up unemployment insurance regulations and in the later part of the decade the Ontario government changed its union recognition law. Much of recent policy discussion is animated by a concern to evaluate the effects of policy changes like these.

Finally, we explore the advantages and disadvantages of possible alternative labour market policies. To help in broadening the range of policy alternatives considered we examine some different policy models provided by other countries, and their effectiveness. Note that we use a broad definition of labour market policy alternatives. It includes interventions in employment relationships; for example, health and safety regulations. It also includes policies that better equip people to compete in the labour market - for example, training subsidies, the provision of day care, and legislation prohibiting discrimination in hiring decisions.

## II. The Character of Disadvantage in the Labour Market

### A. Exclusion from the labour market

Measurements of poverty are fraught with controversy. Statistics Canada tries to avoid the use of the term.<sup>6</sup> Still, it is recurrent within policy debate. Broadly speaking, the two positions on the definition and measurement of poverty are as follows.<sup>7</sup>

One side says that it is not possible to identify an absolute level of living, below which someone should be considered to be living in poverty. After all, settling for some threshold that was enough to sustain life in Canada in, say, 1800 or Bangladesh in 2005 would be to set decidedly low policy aspirations. It follows from this that poverty should be measured in some way that relates it to average living standards in the population as a whole - for example, some fraction of the median income. The other view says that poverty should most appropriately be considered a question of the capacity to meet basic needs. It requires the construction and costing of a list of items that is consistent with what someone believes to be the minimally acceptable living standard in a society at some point in time. That list should be updated periodically but, since it is supposed to correspond to basic needs rather than to general rises in living standards, it should be updated infrequently.<sup>8</sup>

There are problems with each approach.<sup>9</sup> But for the purposes of this paper this is not a major issue. We are not concerned with *trends* in poverty or low income (we use the terms

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<sup>6</sup> Thus, Canada's Chief Statistician, Ivan Fellegi wrote "Statistics Canada does not and cannot measure the level of poverty" (*On Poverty and Low Income*. Digital document: [www.statcan.ca:80/English/research/13F0027XIE/pauv.htm](http://www.statcan.ca:80/English/research/13F0027XIE/pauv.htm), September, 1997).

<sup>7</sup> Discussions of the alternative approaches can be found in Christopher A. Sarlo, *Measuring Poverty in Canada*. (Vancouver: The Fraser Institute, 2001) and *Understanding the 2000 Low Income Statistic Based on the Market Based Measure*. (Ottawa: Applied Research Branch, Human Resources Development Canada).

<sup>8</sup> Sarlo, *ibid.* at 12, recommends revisions every 20 to 25 years.

<sup>9</sup> Calculating a low income threshold as a percent of the median means that if the median rises the number of those falling below it may increase, even if there is no fall in their income - or even an increase in it. On the other hand, updating a minimal standard of living measure every couple of decades seems a bit arbitrary.

interchangeably in what follows) but, rather, who falls into the poorly-paid category. All we need for this purpose is a dividing line that marks off people who, for the most part, are genuinely poor. We also need some confidence that the composition would not change substantially if the line were redrawn a little higher or a little lower. *Or* we need some information on what the compositional changes of a redrawing of the line would likely be. In what follows we summarize the results from a number of studies that use different data sources and methods for drawing the dividing line that marks off those with low incomes. The conclusions we draw from those studies seem largely insensitive to those methodological differences.

The incidence of low income is associated, first, with employment status.<sup>10</sup> Many of those who fall below the poverty line are in families whose principal earner has either lost his or her job, or experienced a large reduction in their annual number of hours worked. There is a similarly fairly high incidence of low income among, young, single males and females who may have experienced difficulty moving from school to work. By definition, those with disabilities are limited in their capacity to work. Being disabled also increases the likelihood of falling below the low income line. But the highest incidence of *persistent* poverty is found among lone parents, whose capacity to participate in the labour market is obviously likely to be restricted. This applies to both female and male lone parents, though the aggregate effect of lone parenthood on the incidence of low income is overwhelmingly produced by lone parent women, since lone parenthood among men is relatively infrequent.

The often difficult income position of lone parents points to the other primary source of transitions into poverty - 'family events'. These include separations, marriages or common law

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<sup>10</sup> Unless otherwise specified, the sources for this section are Nathalie Noreau *et al.* "Crossing the low income line" (1997) *Income and Labour Dynamics Working Paper Series*, 97-11; Ross Finnie, *Low Income (Poverty) Dynamics in Canada: Entry, Exit, Spell Durations, and Total Time*. (Ottawa: Applied Research Branch, Human Resources Development Canada W-00-7E, 2000); Garnett Picot, Myles Zybblock & Wendy Pyper, "Why do children move into and out of low income: Changing labour market conditions or marriage and divorce?" (1999) *Statistics Canada Research Paper Series*, No.132; René Morissette & Marie Drolet, "To what extent are Canadians exposed to low income?" (2000) *Statistics Canada Research Paper* No.146; Maryanne Webber, "Measuring low income and poverty in Canada: An update" (1998) *Income and Labour Dynamics Working Paper Series*, Statistics Canada, 98-13.

relationships, births, or deaths. 'Family events' also frequently lead to very durable low income. Noreau et al.<sup>11</sup> found that 41% of all persons who shifted to low income in the early 1990s experienced one of these events. Lone parent families may result from separations, deaths, or births. Lone parents who marry tend to move out of poverty. But they need not do so. If one partner has an income just above the low income cut-off and another has one considerably below it, the family income after marriage may mean that both partners then fall below the line.

Depending on the definition and the year, between about ten and fourteen percent of *individuals* (adults and children) in Canada fall into the low income category. For about half of those low income is a transitional state. This has the following two implications. Five to seven percent of the Canadian population falls into the low income category for as long as two or more years. And, the turnover in the low income population results in an incidence of low income of one or more years in a five year period of about 20%. Low income is quantitatively important.

It does not always imply personal catastrophe. For instance, young people with low incomes during the transition from school to work may, even if they live in separate households, be assisted by parents. At some ages a *vie bohème* at a low income is probably entirely agreeable. Nonetheless, low income does imply something like personal catastrophe for many of those who fall into the state. As we have seen, it is intimately tied to inclusion or exclusion from the labour market. The young undergoing a difficult labour market transition, those affected by the loss of a job by a principal family earner, and the disabled and lone parents for whom employment may not be feasible, have low incomes because of the absence, or limitedness, of employment.

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<sup>11</sup> Cited *ibid.*



## B. Low pay

There is a long history of concern with the so-called working poor. In the 1970s the National Council of Welfare was at pains to emphasize that a majority (about 60 percent) of Canada's poor derived the bulk of their income from employment earnings of one or more family members.<sup>12</sup> Within that category there was an over-representation of families with large numbers of children, of families within which the principal wage-earner was under 25, of those with less than a high school diploma, of women, and those living in rural areas.

There are several ways of getting a sense of the bases of low pay. One is to look at the annual earnings implied by statutory minimum wages, and compare them with a suitable low income threshold. Figure 1 does this.<sup>13</sup> The LICOs by family size for selected community sizes slope upwards from left to right. The bottom two horizontal lines are annual earnings (assuming 50 weeks at 40 hours per week) at the minimum wage in Alberta (the lowest in Canada) and in B.C. (the highest). The figure shows that, even in high minimum wage B.C., annual earnings at the minimum wage in families with a single earner only exceed the relevant LICO for small families in rural and small communities.

Figure 1 is, nonetheless, a bit misleading. Larger families may have two earners. The income of a year-long minimum wage earner makes him or her eligible for various transfers: the federal GST tax credit, provincial refundable tax credits and, if there are children, federal and provincial child benefits. These transfers move significant numbers of minimum wage earners

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<sup>12</sup> National Council of Welfare, "The working poor" (1978) 5 *Social Indicators Research* 345-364. This category excludes those below the age of 65.

<sup>13</sup> In Figure 1 the minimum wage series come from [www.benefitsworld.com](http://www.benefitsworld.com) and the LICOs from Statistics Canada, 75F0002M. The LICOs for communities from 30,000 to 99,999 are omitted. They are almost identical to the next higher community size category. There is encyclopaedic information on minimum wages in Ken Battle, *Minimum Wages in Canada: A Statistical Portrait with Policy Implications*. (Ottawa: Caledon Institute of Social Policy, 2003).

above the LICO, but would not do so in the larger cities, which have higher costs of living.<sup>14</sup> The general conclusion is that most full-time minimum wage earners outside of rural areas have incomes that leave them below the LICO. The Caledon Institute study (p.32) summarizes the situation as follows: “Clearly, a worker earning the minimum wage cannot provide a living wage for a family, and both parents must work full time, year round at the minimum wage to earn more than welfare. Even single workers earning the minimum wage must struggle to get by, though welfare benefits for employable single people are so low that even the minimum wage - while anything but generous - offers more.” We do know that some of those moving from welfare to employment in the 1990s experienced a fall in income.<sup>15</sup>

This, of course, raises the question, what share of employees work at the minimum wage, for sustained periods of time? There is ethnographic research on this. There are women - often immigrants - whose work history has been a series of minimum wage jobs.<sup>16</sup> Some of them must be the main source of income in their families, either because they live without a partner or because their partner is unemployed. Some of those who are the only source of income in the family will have children. Their income would fall below the low income threshold, even after child benefit transfers. There is also a high incidence of minimum wage employment among young Canadians (between, say, 15 and 24).<sup>17</sup> Most of those are interspersing work with schooling. In fact almost half of the minimum wage workforce in Canada is made up of teenage

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<sup>14</sup> See Battle, *ibid.* Note, however, that the transfers were less likely to move people out of low income in the 1990s than they had been in the 1980s. See Garnet Picot, René Morissette & John Myles, “Low income intensity during the 1990s: The role of economic growth, employment earnings and social transfers” (2003) *Statistics Canada Research Paper No.172.*

<sup>15</sup> Marc Frenette & Garnett Picot, “Life after welfare: The economic well being of welfare leavers in Canada during the 1990s” (2003) *Statistics Canada Research Paper No.192.*

<sup>16</sup> For example, Margaret Manery & Marjorie Griffin Cohen, “Community skills training by and for immigrant women” in Marjorie Griffin Cohen, ed., *Training the Excluded for Work: Access and Equity for Women, Immigrants, First Nations, Youth, and People with Low Income* (Vancouver: UBC Press, 2003) 145 at 146-147.

<sup>17</sup> See Linda Wong & Stephen McBride, “Youth employment programs in British Columbia: Taking the high road or the low road?” in Marjorie Griffin Cohen, ed., *Training the Excluded for Work, ibid.* at 230-253.

girls and boys, most of them living in households where there are other earners generating, together, an adequate income. But that is not the case for all of them.

Overall, at any given time, about 4.6 per cent of Canadian employees are working for the minimum wage. The incidence varies considerably across provinces. The bulk (almost 60%) of minimum wage earners are working part-time. But 2.4 per cent of Canadian employees are full-time minimum wage workers. That is a small percentage. Still, it corresponds to almost a quarter of a million earners. Whether or not full-time minimum wage earnings indicates hardship depends on other income sources of the individual in question, along with the income of other family members. About 15 per cent of minimum wage earners are unattached individuals or lone family heads - that is, about 126,000 Canadians. It is a reasonable bet that many of those do confront severe hardship.

Let us accept, however, that relatively few families live on the income generated by a single minimum wage. Bear in mind that in cities, even after transfers, a minimum wage generates an income that is considerably below the LICO. Significant numbers of people must earn a wage rate above the statutory minimum and *still* be living below that threshold. There is a comparative analysis of the incidence of low income among the working poor in the late 1980s.<sup>18</sup> It reported that 3.4% of all households in Canada where the head worked full-time, full-year, fell below the LICO - a lower incidence than in the United States and the United Kingdom, but a bit higher than in Sweden and the Netherlands. Interestingly, the Canadian figure rose to 12.1% in households with a lone parent and children. This was considerably exceeded by the corresponding figure for the United States but was a percentage point higher than the United Kingdom and much higher than either Sweden or the Netherlands. There have been improvements in the transfers to families with children since then. It is not clear how radically those transfers have changed the situation of the working poor with children.

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<sup>18</sup> Inge O'Connor & Timothy M. Smeeding, "Working but poor: A cross-national comparison of earnings adequacy" (1995) 5 *Journal of Income Distribution* 91-110.

There is also pertinent evidence on trends in the median earnings of some population groups. From 1997 to 2000 the real earnings of men and women in the 20 to 34 year age group with a high school diploma were more or less stagnant. The mean annual wage of the men was about \$27,000 and of the women about \$18,500.<sup>19</sup> Where the earner is the sole source of income for a family such amounts would not take those receiving them above all the LICO thresholds in Figure 1. And those are the *averages*. That implies that the earnings of a significant proportion of the poorly educated in the relevant age group fell below most or all of the LICO thresholds.<sup>20</sup>

### C. Job quality

Whether or not people have a job matters to their welfare as does how much the job pays. What about other attributes of jobs? Jobs vary in the extent to which they are dull, dirty, and dangerous. They vary in the number and relative convenience of the hours of work they require. They vary in their fringe benefits. They also vary in the risk of temporary or permanent lay-off. How important to people are these job attributes? And what is their relationship to pay? The importance of these questions may seem obvious. But there is theory that *tends* to turn them into non-issues, from a public policy point of view. This is the theory of compensating differentials. It says that, if a job is unattractive wages will have to adjust to compensate a potential employee. If employers fail suitably to adjust the wages they offer they will not have enough candidates of an appropriate quality for the jobs they are seeking to fill. This raises two immediate questions. How strong is the evidence that employees put a substantial value on job

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<sup>19</sup> Andrew Heisz, Andrew Jackson, & Garnett Picot, "Winners and loser in the labour market of the 1990s" (2002) *Statistics Canada Research Paper* No.184 at 13. The values in the chart from which these figures are drawn were 1992 dollars. I have adjusted them for inflation to make them comparable to the 2002 data summarized in Figure 1.

<sup>20</sup> Bear in mind that means are sensitive to extreme values. Some poorly educated Canadians will earn very large salaries. As a result it is certain that the earnings of more than half of the relevant population are less than the mean.

attributes other than pay? To what extent are unpleasant job attributes compensated with higher pay?

When questioned about job attributes employees list a range of them that they regard as important. Economists tend not to be persuaded by data of this sort. Such responses could be seen as ‘wish lists’ in the sense that expressing a preference for a particular job attribute does not imply a willingness to incur any cost in securing a job with that attribute. What really matters, economists argue, is what people *do* rather than what they *say*.<sup>21</sup> One form of behaviour that is likely to indicate attitudes toward different job attributes is quits. There is evidence showing that satisfaction with each of a number of job attributes as well as pay is negatively associated with the probability of quitting. The job attributes considered in the study referred to here include promotion opportunities, relations with supervisors, employment security, opportunities to show initiative, the intrinsic nature of the work, and the number of hours worked. It is likely that job attributes other than these matter to employees too. The important point is that, in comparably paid jobs, attributes like the absence of an opportunity to take initiative and the intrinsic nature of their jobs matter enough to induce some employees to quit.

There is also evidence that what employees value varies by gender, age, and full-time/part-time status. For example, their quit behaviour suggests that, on average, men put a higher value on employment security and pay than women. Women are more likely to put a higher priority on the opportunity to take initiative and on the intrinsic nature of the job. Interestingly, both genders seem about equally concerned with the hours of work of the job.

Quitting may be seen as a major mechanism through which compensating differentials get established. However, there is a robust tradition of writing that claims that, for any given skill level, pay and working conditions do not cluster into equally valued packages across jobs.

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<sup>21</sup> Thus, “economists’ reactions to subjective data” is accompanied by “a suspicion that what workers say does not reveal their preferences (and thus their behaviour)”. Andrew E. Clark, “What really matters in a job? Hedonic measurement using quit data” (2001) 8 *Labour Economics* 223 at 224. Note that this is a study of English employees. It is likely, but not certain, that similar patterns of responses would be found in Canada.

Rather, broadly speaking, there are good jobs and bad jobs with clusters of desirable traits attached to good jobs and of undesirable ones to bad jobs. Various writings within the 'dual labour market' tradition provide theoretical rationales for this outcome. That is to say, they provide reasons to expect barriers to the sorts of flows of more talented workers from bad to good jobs that would lead to approximately equally valued packages of pay and other job traits across jobs. There are two more convincing accounts of labour market segmentation: the *efficiency wage* and *insider-outsider* theories.<sup>22</sup> Which is true (and to what extent) has fairly profound implications for the relative desirability of alternative policy choices.

The underlying premise of efficiency wage theory is that it is sometimes profitable for an employer to pay a wage in excess of the standard rate for a particular skill, in a particular labour market. Suppose that supervision of work is difficult or expensive. This could be because, for example, team work makes it difficult to apportion responsibility for output, work is remotely located, or it involves technical skills that are poorly understood by a supervisor. Where the capacity to closely supervise is limited, how can employee shirking be prevented? A documented case might be sanctioned with dismissal. But if other jobs are available to an employee at the same wage as in his or her current employment, the disciplining power of dismissal is more or less eliminated. Paying a wage above the market rate - an efficiency wage - is one solution available to employers. Doing so increases the cost of dismissal to an employee. For that matter, it also deters the employee from quitting. We might expect to see efficiency wages paid where supervision is problematic and/or turnover has been a problem. Another version of the efficiency wage argument claims that an increment in effort, output, and revenue can be gained by enlisting the loyalty of employees. That is to say, offering a higher wage is treated by employees as a sort of gift to which they reciprocate with greater effort. In all

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<sup>22</sup> See Gilles Saint-Paul, *Dual Labor Markets: A Macroeconomic Perspective*. (Cambridge, Massachusetts: MIT Press, 1996) and Assar Lindbeck & Dennis J. Snower, *The Insider-Outsider Theory of Employment and Unemployment* (Cambridge, Massachusetts: MIT Press, 1988).

the versions of the theory employers generate higher *net* revenues by paying above the market rate.<sup>23</sup>

Now, the effectiveness of efficiency wages as a shirking-avoidance device depends on the employee's expectation that he or she will receive an efficiency wage in the future. An employee confronting a significant likelihood of job loss has much less to lose in the discipline-reinforcing or quit-deterring versions of the argument and no reason to be loyal in the gift version. This means that higher pay and job security - two desirable job attributes - will tend to be found together rather than traded-off through some compensating differential process.

Efficiency wages, then, imply good jobs - higher than average pay combined with job security. They do not imply that *all* jobs are good. On the contrary, jobs will only command efficiency wages in particular conditions: where supervision is difficult, where significant turnover is costly, and where demand is sufficiently stable to make feasible an offer of secure employment. Where those conditions do not exist employment may be poorly paid and/or jobs are insecure. These are the bad job counterparts of the good jobs that receive an efficiency wage.

The efficiency wage theory assumes that employers set wages and conditions of work unilaterally, to maximize efficiency. The insider-outsider theory assumes, in contrast, that wages are bargained.<sup>24</sup> Turnover may impose costs on employers above and beyond expenditures on hiring and training. Through bargaining those already employed may be able to further increase turnover costs. They may, for instance, bargain salaries for new recruits that exceed the recruits' productivity. As a strategy to protect their own positions they may refuse to cooperate with new hires (in, say, training), or even harass them. Unions and lobbying groups (in

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<sup>23</sup> A useful introduction to these issues can be found in Gary J. Miller, *Managerial Dilemmas: The Political Economy of Hierarchy*. (Cambridge: Cambridge University Press, 1992).

<sup>24</sup> Assar Lindbeck & Dennis Snower, "The insider-outsider theory: A survey" (2002) *IZP Discussion Paper No.534*, contains a useful recent survey of the relevant research.

particular, professional associations) are likely to be the main vehicles through which limitations on new hiring are imposed with the objective of protecting the position of those already hired.

The result of these processes is lower employment than would otherwise be the case (because wages exceed their market-clearing level) and *social exclusion*. The socially excluded are new entrants to the labour market, who have difficulty getting into the jobs to which access is limited by insiders, and those who for one reason or another never do get access to such jobs.

Efficiency wages or insider-outsider processes may, separately or in combination, underlie a structure of good and bad jobs. It is not difficult to come up with mechanisms that imply that poorly paid, insecure, jobs cumulate additional undesirable attributes. Educational levels are used to screen entry into good jobs; most left in the bad job sector will be less well-educated and less equipped to protect themselves against unsafe and insalubrious working conditions. Jobs become good because they are difficult to supervise. That implies a degree of complexity in the work task such that good jobs will tend to be a bit more interesting than their bad job counterparts. Those in good jobs may choose to take part of their efficiency wage in the form of more congenial work hours and better fringe benefits. The result of all of this is a labour force divided between the chronically advantaged and the chronically disadvantaged, the latter queueing to switch to the advantaged sector.

Pursuing the logic of this argument, a structure of good or bad jobs may produce a distribution of employment that reflects discrimination. In addition to using education to screen potential new hires, employers offering good jobs may select on the basis of the estimated likelihood of quitting. After all, a worker considering quitting anyway is less likely to be impressed by the threat of dismissal created by an efficiency wage or an insider wage premium.<sup>25</sup> Their customary responsibilities for child care mean that some women are more

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<sup>25</sup> See Saint-Paul, *supra* note 22 at 47.



likely to quit than most men. Employers may respond to this by generalizing the likely behaviour of some women job candidates to all women job candidates and decide not to hire women into good jobs. Employers may apply similar reasoning to young job candidates. Or, with equally qualified job candidates employers offering good jobs can simply indulge their preferences and discriminate against candidates for whom they have a personal dislike. This sort of reasoning is often invoked to explain lower average earnings of women, visible minorities, and young people.

Some suggest that the quality gulf between bad jobs and good jobs has been increasing along with the proportion of bad jobs.<sup>26</sup> Rising world trade increases competition from overseas suppliers in both domestic and foreign markets. Many overseas suppliers have ready access to a poorly educated, low wage, workforce. Alternatively, domestic producers may choose to become overseas suppliers themselves by moving their production facilities to other countries. Either facet of 'globalization' may, in richer countries like Canada, put pressure on the earnings of the uneducated, who are already over-represented within jobs that would be considered 'bad'. This pressure on the earnings of the less educated may have been reinforced by technological changes that reduce the number of jobs available to those with less education. The extra foreign competition implied by rising trade may also make it difficult for employers subject to it to make a credible offer of the secure employment upon which efficiency wages rest.

The theories sketched above provide rationales for marked and persistent inequalities in labour market outcomes. They can reasonably be said to predict and explain the existence of *casualties*. In practice, in Canada, or anywhere else, jobs cannot easily be assigned to a good or bad category. Trade-offs between job attributes certainly exist, as the principle of compensating differentials says they should. Still, there is evidence that suggests that within the

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<sup>26</sup> The title of Gary Burtless, ed., *A Future of Lousy Jobs?: The Changing Structure of U.S. Wages* (Washington, D.C.: Brookings Institution, 1990) captures this idea nicely, though the essays in the book are generally a bit sceptical about the claim that jobs are becoming more lousy, in aggregate.

labour market there are some, probably significant, elements of the duality implied by the good job/bad job model - whatever mechanism produces it.<sup>27</sup>

## D. The context of employment

In the immediate postwar period fertility rates were much higher than currently. A large proportion of Canadian households more or less conformed to what is sometimes called the 'male wage-earner model'.<sup>28</sup> There was a division of labour by gender: employed husbands generated earned income while wives remained out of the labour force for a significant part of their adult life, cared for children, and took primary responsibility for household chores. The last thirty or so years have been marked - perhaps dominated - by two major social trends: a falling fertility rate and rising female labour force participation. Notwithstanding the falling fertility rate, there are still *some* children to care for. Even without children there are household chores to be done. Whether employed or not, women tend to do a disproportionate share of that work. Moreover, across most households the difference in shares of housework and child care by gender seem to be large. There is an apparent inequality here.

At first sight inconsistent with the idea of an inequality in work loads by gender some evidence suggests that when paid and unpaid hours are aggregated, *on average*, men and women spend similar amounts of time working.<sup>29</sup> But this average conceals pertinent differences. What is at issue is the stress associated with work. Multi-tasking - say, supervising a child and cooking at the same time - may be more demanding than labouring away at a single task - say, mowing the lawn. Leisure that takes the form of ten minute breaks may be less

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<sup>27</sup> Relevant evidence can be found in the sources listed above.

<sup>28</sup> A primary source for what follows is Pat Armstrong & Hugh Armstrong, *The Double Ghetto: Canadian Women and their Segregated Work*, 3d ed. (Don Mills, Ontario: Oxford University Press, 2001).

<sup>29</sup> The main source for this paragraph is Shelley Phipps, Peter Burton & Lars Osberg, "Time as a source of inequality within marriage: Are husbands more satisfied with time for themselves than wives?" (2001) 7 *Feminist Economics* 1-21.

agreeable than leisure that comes in the form of an uninterrupted hour's release at lunch time from the duties of paid employment. Even if both spouses work on a particular project (e.g., preparing a dinner party), the experience is probably more stressful for the one to whom responsibility for the project is allocated by social norms. Work loads over a life-time may generate weekly averages of hours worked that are similar across genders but a *very heavy* workload of child care and household chores imposed on employed young women by social norms may be particularly stressful.

The available evidence suggests that all of these effects are present and that they tend to operate to the disadvantage of wives. Married women who work outside the home are distinctly less satisfied than husbands with the time available to them. The satisfaction with available time of both husbands and wives is reduced by pre-school children. The magnitude of the reduction for wives is, however, much larger. All of this is consistent with the "double work day" view of the situation of many women, as compared to that of men.<sup>30</sup>

There is further pertinent evidence. We know something about Canadians' preferences with respect to *working* hours, preferences that are formed within the context of their non-work obligations. In one study, about two thirds of men and women were satisfied with their working hours.<sup>31</sup> Men were more likely than women to be satisfied, but the difference was small. More than a quarter of men and women would have preferred *more* working hours. Only between five and eight percent of both genders would have preferred *less* working hours, with women about

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<sup>30</sup> Arlie Hochschild, *The Time Bind: When Work becomes Home and Home becomes Work* (New York: Henry Holt, 1997), presents an interesting twist on this argument. Based on interviews with workers in a large, family-friendly, corporation she reports that, within her sample, the burdens of the home had become such that parents used work as an escape from it - maximizing their working hours in order to avoid the disorder and disagreeable chores that tended to dominate home-life. On the whole, the evidence suggests that this is not a quantitatively important phenomenon (see Susan L. Brown & Alan Booth, "Stress at home, peace at work: A test of the time bind hypothesis" (2002) 83 *Social Science Quarterly* 905-920, and the subsequent discussion in the same issue). But we can be reasonably confident that something like this sometime happens.

<sup>31</sup> See Marie Drolet & René Morissette, *Working More? Working Less? What do Canadian Workers Prefer?* (Ottawa: Statistics Canada, Analytical Studies Branch, Research Paper Series, No. 104, 1997). The data analyzed in this paper was collected in 1995 at a time when the Canadian economy was relatively depressed, though improving. That may have affected the results.

two percentage points more likely to do so. In aggregate, women with pre-school children were more likely to prefer reduced working hours than were women with no children (about eleven percent versus seven percent).<sup>32</sup> Perhaps at first sight surprisingly, women living alone with a single child were almost ten percentage points more likely to express a preference for *more* hours of work than their childless counterparts (39% versus 30%). This puzzle is, of course, easily resolved. Lone mothers tend to have low incomes. There is a very strong negative relationship between income and the preference for more hours of work.

All this suggests that many employed women with children are subject to particular stress because of the work they do in the household but that because of their low incomes, many single mothers, who often will have no one with whom to share their child care responsibilities, would prefer the stress of additional hours of work.

### III. Who Does Badly and Why?

The operation of the labour market leaves some people with a low income either because they have no job or because they work insufficient hours in a year to support an income that exceeds customary poverty thresholds. Some of those who work full-time, full-year earn so little that their incomes still leave them below those thresholds. Some, perhaps many, employees with low earnings have jobs that are disagreeable in a range of other ways, possibly including their health and safety effects. That *may*, in itself, warrant policy intervention. We return to this question at the end of this paper. It is also of interest that the likelihood of

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<sup>32</sup> Consistent with this, married women with children often choose self-employment, because of the schedule flexibility that it provides. See Theresa J. Devine, "Self-employment and schedule flexibility for married females" in Susan Houseman & Alice Nakamura, eds., *Working Time in Comparative Perspective, Vol. II: Life-Cycle Working Time and Nonstandard Work* (Kalamazoo, Michigan: W.E. Upjohn Institute) at 217-249; Bruce A. Arai, "Self-employment as a response to the double day for women and men in Canada" (2000) 37 *Canadian Review of Sociology and Anthropology* 125-142.

undesirable outcomes is unequally distributed across different categories of the population, and that the relative position of some groups is in one or another way worsening.

In this section we ask: Which kinds of people find themselves involuntarily excluded from full-time, full year jobs? Who gets low pay? We consecutively examine the role of skill, gender, age, and visible minority or immigrant status in providing answers to these questions. In a subsequent section we examine the question of which kinds of people seem most likely to get stressful, unhealthy work.

## A. Skill

Increased skill *ought* to bring increased pay. On average, it does. Better educated workers earn more. So do those with more experience, which will often have involved some learning component. Skill, of course, is unequally distributed across different categories of the population. It provides at least some of the explanation for earnings differences by gender, age, or skin colour.

What is currently most interesting about skill is shifts in its supply and in the demand for it. Foreign trade and capital mobility shift some production to third world countries that are richly endowed with very cheap unskilled labour. Technological change may have increased the demand for more skilled labour. All this suggests that the labour market outcomes of the unskilled should be progressively deteriorating relative to those of their skilled counterparts. Rising earnings inequality in the United States from about the end of the 1970s is often cited as evidence of these effects: wages of those at the top of the earnings distribution, who we assume are more skilled, rose more rapidly than those of the less skilled at the bottom of the distribution.

There are several reasons to be sceptical about these interpretations.<sup>33</sup> In particular, despite a shared international economic environment, the Canadian experience over the last twenty years or so has in significant respects diverged from that of the United States. The main facts of that experience are as follows:<sup>34</sup> i) earnings inequality across the entire working population, including both men and women, rose from 1975 to 1985 then stabilized from 1985 to 1995 and since the early 1990s appears to have declined;<sup>35</sup> ii) unlike the United States, there has been little or no increase in the return to education over the last two decades; iii) again, unlike the United States, the returns to experience have not, in aggregate, increased in Canada. Overall, the relative pay of the less skilled has not been declining in Canada.

However, labour market effects might reveal themselves in employment changes rather than wages. There may be no relative decline because those threatened with falling wages may choose to withdraw from the labour force, or not to enter it in the first place. From the late 1980s to the end of the 1990s, the employment rate in Canada rose slightly.<sup>36</sup> That concealed different

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<sup>33</sup> Michael R. Smith, "What is the effect of technological change on earnings inequality?" (1999) 19 *International Journal of Sociology and Social Policy* 24-59, and David Card & John E. Dinardo, "Skill biased technological change and rising wage inequality: Some problems and puzzles" (*National Bureau of Economic Research Working Paper*, No.8769, 2002) review evidence that challenges the technological change account of rising earnings inequality. Some of that evidence also poses problems for the trade and capital mobility explanations.

<sup>34</sup> The main sources for this paragraph and the next are Paul Beaudry & David Green, "Cohort patterns in Canadian earnings and the skill biased technical change hypothesis," Discussion Paper No.97-03, Department of Economics, University of British Columbia; Michael C., Wolfson & Brian B. Murphy, "New views on inequality and trends in Canada and the United States" (April 1998) 121 *Monthly Labor Review* 3-23; Michael R. Smith, Michelle Hsieh, & Yoko Yoshida, "Inégalités salariales, mobilité salariale, et commerce international au Québec et en Ontario" [forthcoming in *Recherches sociographiques*]; Andrew Heisz, A. Jackson & Garnet Picot, "Winners and losers in the labour market of the 1990s" *Analytical Studies Research Paper*, No.184, Statistics Canada, 2002); Garnett Picot & Andrew Heisz, "The performance of the 1990s Canadian labour market" *Analytical Studies Research Paper*, No. 148, Statistics Canada, 2002).

<sup>35</sup> Trends in earnings inequality *within* gender groups are a bit different (e.g. Susan Johnson & Peter Kuhn, "Increasing male earnings inequality in Canada and the United States, 1981-1997: The role of hours changes versus wage changes" (2004) 30 *Canadian Public Policy* 155-175. A good case can be made however that, insofar as one is interested in broad effects on the labour market, like technological innovation and 'globalization', it is appropriate to aggregate men and women. It is true that there is some occupational segregation of men and women. But that is much less than complete, and has been declining over several decades. Related to this, women's earnings in Canada have been rising relative to men's. Separately analysing earnings inequality by gender means that the major equalizing effect from the rising relative earnings of women is obscured. This general argument is made in Robert I. Lerman, "Reassessing trends in U.S. earnings inequality" (December 1997) *Monthly Labor Review* 17-25.

<sup>36</sup> By employment rate we mean the number in paid jobs divided by the total number in (usual) working ages, multiplied by one hundred.

experiences by gender. It fell for men but rose for women. What is interesting is that the decline for men took place across educational levels. Across age groups it was about as large, or perhaps larger, among those with university educations as it was among those with only a high school diploma. The changes were less marked among women. Again, *in aggregate*, they do not indicate a withdrawal from the labour force of those with less education and an increase in participation of those with more education.

Another pertinent factor distinguishes Canada's experience from the United States': Canada's level of education has risen more rapidly over the last two decades, along with average years of experience. The absence of increased advantage for the more skilled may reflect this increase in their supply. But whatever the reason, in aggregate, in terms of pay and access to employment, the relative position of the skilled in Canada has not improved. *If* the lower pay of the unskilled warrants labelling them as casualties of the labour market, trends in their earning and employment indicate no worsening in that situation.

## B. Gender

Women on average earn less than men. In 1997 the annual earnings of full-time, full-year women were 72.5% of those of their male counterparts. That figure is misleading. Full-time, full year, male employees tend to work longer hours and more weeks than women. When hourly wage rates are compared women earn 80% of what men earn. When the effects of differences in human capital and job characteristics are removed, the proportion rises to 89%.<sup>37</sup> We know several things about gender differences in earnings of those with full-time, full-year jobs. The hourly wage rate of men remains higher than that of women. That translates into a still larger annual earnings difference because men work more (paid) hours than women. The hourly rate

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<sup>37</sup> Marie Drolet, "The persistent gap: New evidence on the Canadian gender wage gap" *Analytical Studies Branch Research Paper* No.157, Statistics Canada, 2000). Job characteristics include, among other things, industry and occupation.

of men is also higher than that of women because they are employed in industries and occupations where average pay is higher. The difference has been narrowing; still, women with equivalent education and experience to men earn less than them, in part because of the jobs they hold. Even *within* the categories of jobs and occupations that can be used for purposes of statistical analysis, men command a pay advantage of about 10%. Clearly, much hangs on the interpretation of each residuum - the difference after controlling for human capital differences, then the difference after controlling for both human capital differences and job characteristics.

That controlling for job characteristics reduces the differences between the pay of men and women can be seen as evidence that women are sometimes excluded from better jobs. It can also be seen as evidence that, within the particular time constraints that women confront (discussed above), they tend to opt into jobs that are more easily reconcilable with the family maintenance work that they do, jobs that are also less well-paid (perhaps because they *are* more easily reconcilable with their family work).<sup>38</sup> Both factors may play some role.

Thus, women might be considered to be casualties of the labour market in one of several ways. There might be discrimination against them, in Canada probably of the *statistical* kind where the behavioural traits of some women are generalized to all women. They may earn less because unequal child care responsibilities shorten their hours of work below the hours they would otherwise prefer to work. And unequal child care responsibilities may also lead to work interruptions that reduce their years of earnings-increasing experience and, perhaps, reduce the likelihood that they will move into the very highest paid jobs.<sup>39</sup>

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<sup>38</sup> Along these lines, in a study of lawyers, Karen Robson and Jean E. Wallace ("Gendered inequalities in earnings: A study of Canadian lawyers" (2001) 38 *Canadian Review of Sociology and Anthropology* 75-95) found no difference in pay by gender after controls for experience and hours of work. Male lawyers with comparable experience in the same occupational specialties earned more than their female counterparts because they worked more hours. See also Fiona M. Kay & John Hagan, "Raising the bar: The gender stratification of law-firm capital" (1998) 63 *American Sociological Review* 728-743. Note that significant measurement error is present in the analyses discussed here. For example, the occupational categories used subsume very different kinds of jobs.

<sup>39</sup> Trond Petersen & Ishak Saporta, "The opportunity structure for discrimination" (2004) 109 *American Journal of Sociology* 852-901, examine in detail differences in pay by gender in a large corporation in the United States. They find no evidence of pay differentials by gender, after suitable controls. Nor do they find



Still, in aggregate the pay of full-time, full-year, women has been catching up with that of men. And, as we saw above, it is also clear that the level of pay available to women has not been discouraging them from entering the labour force. Quite the contrary. As we also saw above, the participation of women has been rising while that of men has been falling. None of that gainsays the fact that, following from the earlier discussion, there are women in part-time and/or part-year employment whose earnings consign them to poverty. Those women are often in that situation because of the particular difficulties associated with their status as lone parents.

### C. Age

Despite the fact that it was a period of sustained economic recovery from the recession of the beginning of the decade, the aggregate labour force participation rate in Canada remained approximately flat until the very end of the 1990s.<sup>40</sup> This flatness concealed quite substantial changes for particular groups. As we saw above, within all educational levels, from the late 1980s to the late 1990s the male labour force participation rate fell. The largest falls, however, were among the youngest (15-24) and oldest (55-64). These were also the groups with the largest falls in the proportion employed. The pattern for changes in unemployment rates was much less tidy. In general, increases in unemployment rates were largest for the least educated, in all age groups. All this is to say that, among males, from the late 1980s to the late 1990s unemployment rates tended upwards and labour force participation downwards, with the most marked labour force participation rate falls evident at the extremes of the age distribution.

Among women, the pattern is rather different. Labour force participation rose across almost all of the *prime age* (25-34, 35-44, 45-54) sub categories (the single exception was high

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evidence of a 'glass ceiling'. Their work will no doubt, appropriately, be subjected to some critical scrutiny over the next several years.

<sup>40</sup> The sources used here are Picot & Heisz, "The performance of .....", and Heisz, Jackson & Picot, "Winners and losers .....", *op cit.*, as well as René Morissette, "Cumulative earnings among young workers" (Winter 2002) *Perspectives on Labour and Income* 33-40.

school graduates, 25-34). It declined slightly in the oldest category. And there were marked declines in the 15-24 age category. Young women, then, seem to have been subject to the same forces reducing labour force participation as young men. The oldest age category does not display the increases found in prime age groups. But it has not been subject to the same substantial decrease found among older men. As is the case for men, the most marked increases in the unemployment rate were also found within the young and old categories, particularly the young.

Before trying to make sense of these observations, consider the pattern of change in earnings. Most striking is the decline in the relative earnings of the younger age groups. Among men in full-time employment, median real earnings of the 18-24, 25-34, and 35-44 age groups all fell from 1980 to 2000, though they were at their lowest in the early 1990s and rose again in the last part of the decade. Only the earnings of the 45-64 group were higher at the end of the period than at the beginning. The earnings of younger men fell relative to those of older men. Among women, the real earnings of the youngest age group fell too, though less than was the case for young men. The real earnings of all other age groups were higher at the end of the period than at the beginning, though the largest increase was for the oldest age category. In the case of women a fall in earnings relative to older employees is only clearly apparent for the youngest age category.

Three age/gender groups, then, stand out as displaying a worsening labour market situation over the last decade or so: there is falling labour force participation and relative and absolute pay among younger men; falling labour force participation and absolute pay among younger women; and falling labour force participation among older men. What do we know about the reasons for this? Might those affected properly be viewed as *casualties*?

The participation rate of youth is falling for three reasons. In order of importance they are: increasing school enrolment; falling labour force participation of students; and falling labour force participation of non-students. Picot and Heisz conclude, with perhaps more caution than is

absolutely necessary, that “These participation rate declines among youth were likely related to deteriorating job opportunities” (p.7). The fact of falling wages of youth relative to those of older employees tends to confirm that the labour market situation of those first attempting to enter the labour market has deteriorated.

An optimistic view might be that the extra education that has replaced employment will cause the earnings of youth to catch-up with those of their less educated elders. This seems not to be the case for young *men*. Net of blips up and down, there has been a deterioration in the labour market situation of successive cohorts. The more recent cohorts take longer to find full-time employment, and when they do so earn less than their predecessors. As a result, their cumulative earnings as they enter adulthood are less than were those of earlier cohorts of young men. The situation of young *women* is a little different. While falling relative to those of older women, in absolute terms their cumulative earnings have risen somewhat. This increase in cumulative earnings is probably produced by a combination of the increased presence of women in full-time, full-year jobs, and because more women are now employed in higher paying jobs.

That leaves the falling labour force participation of older men to be explained.<sup>41</sup> It would be easy to conclude that this was substantially a ‘discouraged worker’ outcome. That is, older male employees are laid off, see little prospect of getting another job, so withdraw from the labour force. That clearly happens. The fact that the highest inactivity rates are found in Atlantic Canada is consistent with such a process. But relative disadvantage in Atlantic Canada is nothing new. It cannot explain the *trend*. What might underlie the trend is institutional change that has increased the feasibility of retirement. In the late 1980s both the Canada and Quebec pension plans (CPP/QPP) reduced the minimum age for drawing benefits. There is also some

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<sup>41</sup> The sources for what follows are: Roman Habtu, “Men 55 and older: Work or retire?” (Spring 2003) *Perspectives on Labour and Income* 47-54; Andrew MacKenzie & Heather Dryburgh, “The retirement wave” (Spring 2003) *Perspectives on Labour and Income* 40-46; Geff Rowe & Huan Nguyen, “Older workers and the labour market” (Spring 2003) *Perspectives on Labour and Income* 55-58.

evidence of greater take-up of disability benefits. These provide an alternative to a pension for those leaving the labour force before the age of 60. Note, furthermore, that the highly educated are now about as likely as the unskilled to be inactive - something that was not the case in the past. There are particularly high early retirement rates among managers, professionals, and those employed in education, all of whom are likely to have access to better than average pensions. This leaves open the question, why are older women not withdrawing from the labour force at the same rate as their male counterparts? Part of the answer may be that on average shorter periods in paid employment mean that their pensions are smaller.

The bottom line is that, for the most part, the withdrawal of older males from the labour force seems to reflect better options rather than increased disadvantage. Most who withdraw are not 'casualties of the labour market'. They are beneficiaries of the choices provided by a richer society. Younger men and to a somewhat lesser extent younger women are another matter altogether.

#### D. Immigrants and members of visible minorities

Male members of visible minorities earn less than non visible minority Canadians.<sup>42</sup> The evidence of disadvantage among visible minority females is less consistent. Still, the male difference is *prima facie* evidence that skin colour produces labour market disadvantage. But interpreting this difference raises the same issues as does the gender difference in earnings: Is the difference partly explained by human capital endowments? Is it associated with differences in industries and occupations of employment? What do these differences *mean*? With respect to the first question, the evidence tends to suggest that controlling for human capital on average

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<sup>42</sup> See, in particular, Arnold deSilva, *Earnings of Immigrants: A Comparative Analysis* (Ottawa, Economic Council of Canada, 1992); Krishna Pendakur & Ravi Pendakur, "The colour of money: Earnings differentials among ethnic groups in Canada" (1998) 31 *Canadian Journal of Economics* 518-548.; Peter S. Li, "Earnings disparities between immigrants and native-born Canadians" (2000) 37 *Canadian Review of Sociology and*

reduces the disadvantage of native-born visible minorities, but *increases it* for immigrant visible minorities, who now comprise the bulk of the visible minority population. With respect to industry and occupation of employment effects, they tend to reduce the earnings disadvantage for both visible minority categories, but the extent to which they do so varies from study to study.

What is to be made of all this? A common answer is that these outcomes reflect discrimination. Research by Henry and Ginsburg in the 1980s played a major role in shaping that view.<sup>43</sup> That research suggested that, confronted with equally qualified white and visible minority job candidates, Toronto employers were likely to hire the former. In fact, the issue is not straightforward. A subsequent replication of Henry and Ginsburg's work has been interpreted as showing that employer decisions were much more shaped by language skills and accent than by skin colour. That interpretation has been hotly contested.<sup>44</sup> So consider it in light of other research on the visible minority earnings disadvantage.

There is the fact that the return to the human capital of visible minority immigrants is lower than that of other Canadians. This could indicate discrimination. But the research shows that where visible minority immigrants' education is completed in Canada, their human capital is much more likely to be as well-rewarded as that of other Canadians. What seems to be at issue is the confidence that employers have in credentials acquired in a third world country. The existing research simply does not tell us whether or not employer scepticism is well- or ill-founded. There is also the fact that the earnings disadvantage of visible minority immigrants is largely explained by the kinds of industries and occupations within which they are mainly employed. Here the question is: What is being measured by industry and occupation? It may be

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*Anthropology* 289-311; Jeffrey G. Reitz, "Immigrant skill utilization in the Canadian labour market: Implications of human capital research" (2001) 2 *Journal of International Migration and Integration* 347-378.

<sup>43</sup> Frances Henry & Effie Ginsburg, *Who Gets the Work? A Test of Racial Discrimination in Employment*. (Toronto: Social Planning Council of Metro Toronto, 1985).

<sup>44</sup> Jeffrey G. Reitz, *The Illusion of Difference: Realities of Ethnicity in Canada and the United States* (Toronto: C.D. Howe Institute, 1994) at 84-85; Jeffrey G. Reitz, "Statistics on racial discrimination in Canada" (March 1993) *Policy Options* 32-36; K.E.A. de Silva & D.L. Palmer, "A reply to Reitz" (March 1994) *Policy Options* 3-7; Jeffrey Reitz, "A comment on de Silva and Palmer" (March 1994) *Policy Options* 7-9.

differential access to better or worse jobs, along the lines of the theories of labour market segmentation discussed above. However, occupations and industries vary in the extent to which work in them upgrades the human capital of those involved. That is to say, they vary in the *training* they provide. If, say, a refugee is confined on his arrival to an unskilled job by his difficulties in Canada's official languages that immigrant also misses the human capital-upgrading training that would be available in more skilled employment. The interpretation of the effect on pay of industry and occupation is equivocal. Finally, the effect of their status on earnings varies across visible minority immigrant groups. Reitz reports an earnings penalty to Chinese immigrant males that is almost twice that of Filipinos.<sup>45</sup> DeSilva reports no penalty at all for some visible minority immigrant categories.<sup>46</sup> It is unclear why some people whose skin is not classified as white would be discriminated against while others are not.<sup>47</sup>

Another consideration, however, is trends in immigrant earnings. Before 1965 it took immigrants about 15 years to catch up with their native-born counterparts. Since then, the catch-up period has been progressively lengthening.<sup>48</sup> Recent calculations suggest that the earnings of the most recent immigrant cohorts will never catch-up. Those cohorts of immigrants also have the highest concentrations of visible minority members, so the relative deterioration of their earnings position lends itself to a discrimination explanation.

That is possible. But there are problems for this version of the interpretation too. How well immigrants do - whether visible minority members or not - is influenced by economic

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<sup>45</sup> *Ibid.* at 360.

<sup>46</sup> deSilva, *Earnings of Immigrants*, *op.cit.*

<sup>47</sup> Richard A. Wanner, "Prejudice, profit, or productivity: Explaining returns to human capital among male immigrants to Canada" (1998) 30 *Canadian Ethnic Studies* 24-55, contains a discussion of forms of discrimination.

conditions when they arrive. There were recessions at the beginning of both the 1980s and the 1990s that were (in different ways) more severe than any preceding postwar recessions. Immigrants arriving during those depressed economic conditions would have had a much harder time acquiring the sort of Canadian experience that allowed previous immigrant cohorts to achieve earnings growth rates that allowed them to catch-up with their native-born counterparts. Bloom, Grenier, and Gunderson (p.1000) underline the fact that the earnings growth of *all* immigrants slowed during the 1980s, including those from Europe and the United States.

Moreover, immigrants are not the only new entrants to the labour market; there are also young people. As we have seen, the relative and absolute earnings of more recent cohorts of young workers have fallen markedly. The fall in immigrant earnings looks very similar to that of young native-born Canadians.<sup>49</sup> A detailed analysis of this process shows that, while the entry earnings of immigrants fell substantially during the 1980s and by even more in the 1990s, about half that decline was shared with native-born new entrants to the labour market.<sup>50</sup> The rest of the decline is explained by the change in immigrant composition - the fact that the earnings contribution of the foreign work experience of non-European immigrants is approximately zero.

Immigrants males earn less than their native-born white counterparts and their relative earnings have been declining. Some of that may be explained by discrimination. But the case is not overwhelming.

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<sup>48</sup> Michael Baker & Dwayne Benjamin, "The performance of immigrants in the Canadian labour market" (1994) 12 *Journal of Labour Economics* 369-405; David E. Bloom, Gilles Grenier & Morley Gunderson, "The changing labour market position of Canadian immigrants" (1995) 28 *Canadian Journal of Economics* 987-1005; Hugh M. Grant & Ronald R. Oertel, "Diminishing returns to immigration? Interpreting the economic experience of Canadian immigrants" (1998) 30 *Canadian Ethnic Studies* 56-76; Marc Frenette & René Morissette, "Will They Ever Converge? Earnings of Immigrant and Canadian-Born Workers over the Last Two Decades" (Statistics Canada *Research Paper* No.215, 2003); Garnett Picot, "The deteriorating economic welfare of immigrants and possible causes" (2004) *Statistics Canada Research Paper* No.222.

<sup>49</sup> Picot & Heisz, "The performance of ...", *op cit.*, at 20.

<sup>50</sup> David A. Green & Christopher Worswick, "Immigrant earnings profiles in the presence of human capital investment: Measuring cohort and macro effects" (September, 2003) [unpublished manuscript].

## E. Health-threatening work

There are health consequences to employment, sometimes severe ones. We can usefully distinguish three different kinds: workplace accidents; 'insidious risks', mostly associated with the use of chemicals; and stress.

Some jobs come with a much higher than average risk of death, dismemberment, or other serious injury. The probabilities are low in even the most risky occupations. Still, risk exists, primarily among blue collar employees in construction, mining, forest products, agriculture, and in durable goods manufacture. These jobs are primarily held by males.<sup>51</sup> Their risks are fairly readily identifiable. Those using heavy equipment, working at heights, and dealing with powerful electrical currents, for example, are almost certainly aware that some risk is attached to their work. They are likely to take that risk into account in their employment decisions. Consequently, the evidence is fairly strong that pay incorporates a compensating differential where there are risks of serious injury or death. Some of that evidence suggests the existence of a high pay premium to risk in Canada.<sup>52</sup>

Because the incidence of events resulting in casualties can be counted it is possible for governments to formulate policy in response that imposes costs on employers offering risky jobs. This is important because people's risk estimates are biased.<sup>53</sup> The likelihood of low probability events (getting killed at work) is overestimated and of higher probability events (getting injured at work) is underestimated. This provides a rationale for government intervention. In Canada (and elsewhere), job safety measures, as well as payments to those who are injured, are funded by imposing 'experience rated' premiums on firms. Premiums vary

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<sup>51</sup> Relevant evidence on differences in industrial injuries by gender can be found in J. Paul Leigh *et al.*, *Costs of Occupational Injuries and Illnesses* (Ann Arbor: University of Michigan Press, 2000) at 237. It is unlikely that the differences by gender in Canada are much different from those in the United States.

<sup>52</sup> Morley Gunderson and Douglas Hyatt, "Workplace risks and wages: Canadian evidence from alternative models" (2001) 34 *Canadian Journal of Economics* 377-395.



with the incidence of accidents. Government regulations also normally provide for a worker right to refuse hazardous work.<sup>54</sup> Higher than average risk of injury remains an unavoidable attribute of some jobs. But the fact that there is fairly good evidence on the quantity of risk associated with a job allows employees to extract higher pay that compensates them for the risk and allows governments to develop policies to reduce risk and to compensate those who are injured.

'Insidious risk' is more complicated. There might be serious health damage as a result of long term exposure to one or another substance. The chemical industry is the obvious location for this sort of problem, but by no means the only one. Construction workers renovating a building may be exposed to asbestos. In some paper mills employees have to deal with chlorine and chlorine gas. Dry cleaners use a set of powerful chemicals. Some of the fungicides and pesticides used in modern agriculture are very toxic indeed. The list of examples is endless. The problem is that these sorts of risks are hard to quantify. The usual method is to compare the mortality experience of one or another occupational group and associate it with exposure to a substance. But the methodological difficulties in doing that are huge so that estimates of added mortality tend to vary widely.<sup>55</sup> Besides, some long term effects may have a larger effect on quality of life than on probability of death. Morbidity matters too. It is much harder to measure than mortality.

Risks are insidious when their effects are not immediately apparent. Governments have responded to them by creating agencies that identify hazardous substances. Those agencies require substance labelling, complete with a description of possible toxic effects, and that employees be educated on the risks associated with exposure to them.<sup>56</sup> Laws may also

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<sup>53</sup> See W. Kip Viscusi, "The values of risks to life and health" (1993) 31 *Journal of Economic Literature* 1912-1946.

<sup>54</sup> See, for example, Paul Lanoie, "Safety regulation and the risk of workplace accidents in Quebec" (1992) 58 *Southern Economic Journal* 950-965.

<sup>55</sup> For example, see Peter Dorman, *Markets and Mortality: Economics, Dangerous Work, and the Value of Life*, (Cambridge: Cambridge University Press, 1996) at 16-18.

<sup>56</sup> James W. McLellan, "Hazardous substances and the right to know in Canada" (1989) 79 *International Labour Review* 639-650.

provide for protective job reassignments where a medical certificate attests to possible harm from a job. (In practice, this right is mainly taken up by pregnant women.) Identifying hazardous substances allows exposure to them to be taken into account in wage-setting as well as requests for transfers, where necessary. The problem is that hazard identification either requires prior knowledge of the effects of a substance based on previous experience with a similar substance or an accumulation of evidence of symptoms. New chemical substances enter the market place in large numbers every year. Identifying what labelling should be attached is a major challenge. Some employees, then, are likely to suffer health-damaging exposures to harmful substances as identification of toxic effects lags the arrival of new substances.

Insidious effects are not confined to chemicals and related substances. Repetitive motion disorders (including carpal tunnel syndrome) have been a well-established problem in the meat-packing industry, and now occur among white collar workers who frequently use a keyboard.

It is likely that the exposure to hazardous *substances* is disproportionately concentrated among men. Toxic chemicals and minerals are most likely to be found in the jobs in heavy industry that are largely occupied by them. When poor air quality in office buildings and repetitive motion disorders are included within the insidious risk category, the share of exposure of women increases markedly. Evidence from the United States suggests that blacks and hispanics are disproportionately exposed to all sorts of job hazards.<sup>57</sup> It is also likely that a higher incidence of threats to health and safety come as part of the package of traits that define 'bad' jobs. Conversely, there is reason to think that the enforcement of health and safety

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<sup>57</sup> James Robinson, "Exposure to occupational hazards among hispanics, blacks, and non-hispanic whites in California" (1989) 79 *American Journal of Public Health* 629-630.

regulations is most effective in the presence of trade unions.<sup>58</sup> Non-union employees, in the kinds of jobs where health and safety is an issue are particularly vulnerable.

*Stress* shares two characteristics with the insidious risks discussed above. It may be cumulative, and it poses acute measurement problems. In practice, the concept is used to include a wide array of aspects of work that might be considered to be disagreeable: the need to learn new skills, the threat of accident or injury, underutilization of skills, perceived pay inequity, and so on. It *may* be possible to relate these aspects of jobs to the issue of employee control, which is central to the technical definition of stress.<sup>59</sup> But it hardly seems worth the trouble. Most work includes disagreeable features that might have a psychological effect on employees. Jobs differ in the incidence of various potential stressors. For example, managerial and professional employees are most likely to report that they work too many hours and manual employees that there is a risk of accident or injury attached to their jobs. Health care professionals report both too many hours and a risk of accident or injury. In popular discussion, stressful work is assumed to be harmful. Research paints a more nuanced picture.

Most studies report very small (between 0.1 and 0.3) correlations between stressful life events and the incidence of mental health disorders. Similarly stressful events appear to have widely differing effects on different people suggesting that *vulnerability* may be more important in producing, say, anxiety, than particular stresses.<sup>60</sup> Most people are subject to stress. Whether or not it produces anxiety, depression, or headaches depends on their capacity to cope. Those who confront stressful events without social support, those who confront stressors over which they have no control (say, a spouse's job loss rather than their own), and those who

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<sup>58</sup> Dorfman, *Markets and Mortality*, *op. cit.*, uses the relative absence of union representation to explain the ineffectiveness of health and safety regulation enforcement in the United States. Interestingly, unions seem not to increase the size of increases in pay that compensate for more dangerous work. See Felice Martinello & Ronald Meng, "Workplace risks and the value of hazard avoidance" (1992) 25 *Canadian Journal of Economics* 333-345.

<sup>59</sup> See Cara Williams, "Sources of workplace stress" (June 2003) *Perspectives on Labour and Income* 5-12.

tend to accept the incidence of stressful events fatalistically rather than seek to influence events, all seem more likely to exhibit negative psychological symptoms. Moreover, even were there a stronger correlation between stress at work and symptoms of distress it is very difficult to determine the direction of causation. Those with pre-existing psychological problems may find themselves being channelled into less desirable, more stressful, jobs because evidence of their difficulties discourages employers from hiring them.

It is possible that most of the existing research underestimates the strength of the relationship between work, stress, and psychological distress because of difficulties in both the measurement of stress and of distress. There is some evidence that this is the case.<sup>61</sup> Still overall, there is reason to think that popular concern about work as a source of stress is overdone.

With that reservation in mind, what do we know about occupations and stress?<sup>62</sup> As we saw above, professionals and managers report that they work long hours; manual employees report that they are at risk of accident and injury. More generally, repetitive work seems to be particularly stressful, and repetitive machine-paced work most stressful of all. Beyond this, jobs vary across a range of properties that may be defined as stressful. Stress rises with: responsibility for the welfare and safety of others (police and train dispatchers); very limited task complexity (unskilled employees); a much above-average need to concentrate (air traffic controllers); role conflict (train dispatchers dealing with both locomotive engineers and complaining customers); role ambiguity (performance standards are sometimes unclear for computer programmers and scientists); employment insecurity (the risk of layoff is higher for

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<sup>60</sup> A useful review of the issues discussed in the next two paragraphs can be found in R. Jay Turner, Blair Wheaton & Donald A. Lloyd, "The epidemiology of social stress" (1995) 60 *American Sociological Review* 104-125.

<sup>61</sup> On questionnaire items as indicators of stress and distress see Turner, Wheaton & Lloyd, "Epidemiology of social stress", *op. cit.* For an example of the use of physiological indicators of stress see Robert D. Caplan *et. al.*, *Job Demands and Worker Health: Main Effects and Occupational Differences*. (Washington, D.C.: U.S. Department of Health, Education and Welfare, 1975).

<sup>62</sup> This and the next paragraph rely on Caplan *et al.*, *Job Demands*, *op.cit.*, at 118-132.

assemblers and machine-tenders); underutilized abilities (again, assemblers and machine-tenders); apparent pay inequity (apparently accountants, who are in a position to see other employees' pay, are particularly likely to feel that they are underpaid); and exclusion from decision-making (assemblers and machine-tenders).

Where an attempt is made to exhaustively include stressors, including both those originating in work and those originating in the rest of people's lives there is evidence of a fairly strong relationship between occupation and stress: people in the more lucrative professions have less aggregate stress; those in unskilled manual jobs have more. But the largest source of stressors, by far, is extra-work life: conflicts with partners, problems with children, illness - particularly the long term variety, divorce, the death of a close friend or family member. Unskilled employees have more stress and a higher incidence of symptoms of depression.<sup>63</sup> This is probably, in part, because they hold jobs that are more stressful. But it is also likely that they have more stress in other parts of their lives and are more *vulnerable*, less endowed with the networks that provide the social support that facilitates coping with stress, and less disposed to deal with problems because they are more fatalistic in the face of them. In other words, the connection between work experience, stress, and negative psychological outcomes is quite complicated. In particular, the higher rate of depression among people in less skilled jobs reflects general disadvantage, not just the immediate effects of employment experiences.

There is, as we observed earlier, evidence that women, the young, and visible minority immigrants are disadvantaged in employment and earnings (while suggesting that the interpretation in each case is not straightforward). Is this labour market disadvantage compounded by the consequences of exposure to stress?

Women report higher levels of stress than men. They are also more likely to report depressive symptoms and disorders, and other negative psychological states that display some

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<sup>63</sup> Turner *et al.*, "The epidemiology of stress", *op cit.*, at 112, 117.

association with stress. Part of the difference in stress scores seems to rest in the fact that women are more likely than men to report stressful events originating in things that happen to others. But it is easy to link the incidence of higher stress among women to work experiences.<sup>64</sup> Women earn less and tend to work in smaller organizations. Some have suggested that they are more likely to be concentrated in the kinds of jobs where there is less of the autonomy that seems to reduce the incidence of work-related stress. It is possible, then, that employed women are subject to more stress than employed men because they are concentrated in more stressful jobs. It is also possible that they display more stress and stress-related symptoms because the effects of similarly stressful work for women and men are increased for women, because of their disproportionate responsibilities for child care, for parts of their lives. In either case, women *do* display a higher incidence of stress-related psychological symptoms, and it is possible that their employment experiences play some role in producing those symptoms.

Within the range of ages where people are usually employed, the incidence of stressful life events is also higher for younger people between 18 and 25, as is the incidence of depressive symptoms. However, multivariate analyses suggest that the higher incidence of depression is not accounted for by the higher incidence of stress. That is to say, young people who experience more stressful life events are no more likely to display depressive symptoms than those who experience less stressful life events. The same thing is true for older people.<sup>65</sup>

Relevant research on visible minority members is very sparse. Even in the United States, notwithstanding its vast academic establishment, “there is little research on the relationships between race, macroeconomic conditions, job characteristics, and distress”<sup>66</sup> We

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<sup>64</sup> The main sources for the next sections are Mark Taussig, “Work and mental health”, in Carol S. Aneshensel and Jo C. Phelan, eds., *Handbook of the Sociology of Mental Health* (New York: Plenum Publishers, 1999) at 255-274 and Mary Clare Lennon, “Work and unemployment as stressors” in Allan V. Horwitz & Teresa L. Scheid, eds., *A Handbook for the Study of Mental Health: Social Contexts, Theories, and Systems* (Cambridge: Cambridge University Press, 1999) at 284-294.

<sup>65</sup> Turner, Wheaton & Lloyd, “The epidemiology of social stress”, *op.cit.*, at 118.

<sup>66</sup> Taussig, “Work and mental health”, *op.cit.*, at 267.

know that the earnings of visible minority immigrants are lower because, on average, they receive a lower rate of return to human capital acquired overseas. Since education and experience provide the primary screen for access to 'good jobs' that means that visible minority immigrants whose education and training was in their countries of origin, will tend to be concentrated in bad jobs with lower pay, little autonomy, and with a high degree of economic insecurity. That *might* mean that they experience higher amounts of depression or other stress-induced negative psychological outcomes. But it also might not, depending on the *vulnerability* of visible minority immigrants. We know that negative stress effects are most likely where those subject to it lack social support. *If* visible minority members have supportive families or communities it is possible that negative effects of stress at work are offset. It is likely that many visible minority members do have supportive families and communities. It is also quite possible that there is variation in this respect across visible minority groups.

Death and injury, insidious risks, and stress, then, are unequally distributed across the workforce. Compensating differentials to some degree adjust pay to the risk of accidents and injuries. Is it reasonable to regard that compensation as adequate? Suppose that efficiency wage or other mechanisms create a division between good and bad jobs, and that part of what makes some jobs bad is exposure to a higher risk of death or injury. Suppose, further, that there is a degree of arbitrariness - of the sort implied by statistical discrimination - in the assignment of people between good and bad jobs. Surely the presence of these two conditions would tend to suggest that pay adjustments are not likely to fully compensate for risks of injury and death?

The problem is still more acute in the case of insidious risks. Labelling and other information are likely to palliate the problem.<sup>67</sup> But new risks continuously emerge, often originating in new chemical compounds but also from ergonomic sources (as in keyboarding

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<sup>67</sup> This position is argued with some force in W. Kip Viscusi, *Risk by Choice: Regulating Health and Safety in the Workplace* (Cambridge, Massachusetts: Harvard University Press, 1983) and W. Kip Viscusi & Wesley A. Magat, *Learning about Risk: Consumer and Worker Responses to Hazardous Information* (Cambridge, Massachusetts: Harvard University Press, 1987).

and carpal tunnel syndrome), and the process of information provision on risks is likely to lag. These risks are also likely to accumulate in 'bad' jobs and, because hard to measure, are less likely than death and injury to be adequately compensated. That is also likely to be the case for workplace stressors. The evidence establishing a causal connection between workplace stressors and psychological distress is not overwhelming, but it cannot be dismissed either. There is reason for particular concern where effects of a stressful workplace are compounded by the presence of (usually more important) sources of stress outside the workplace - as is likely for women with heavy child care responsibilities.

## IV. Caring for Casualties: Canadian Policy

The average standard of living in Canada is among the highest in the world. Ultimately, the functioning of Canada's economy makes that possible. Governments can and do redistribute income. But redistribution requires wealth to be redistributed. The Canadian economy delivers that wealth. Still, there are other countries that are about as rich as Canada, or richer. Per capita income in the United States and Ireland is higher. Per capita incomes in most other Western European countries are not so very different from Canada's.<sup>68</sup> The operation of markets is central in all of these countries. But within that broader context there is large variation in government policy. Rich OECD countries vary in amount and forms of government intervention to modify and limit markets and in the size of transfers to modify their distributive effects. These countries may provide examples of policies that might usefully be implemented to ameliorate the position of those for whom the labour market does not work well.

In previous sections of this paper we have identified some groups that might, for one or another reason be classified as casualties of the Canadian labour market. Significant numbers

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<sup>68</sup> The relevant series are easily available from *OECD National Accounts*, Volume 1.



of single parents - mainly mothers - have no employment and/or low incomes. New labour market entrants - young people (particularly males) and immigrants - are entering the labour market with lower wages than their predecessors. Whereas, unlike the United States, the differential between more and less skilled employees in Canada has not trended upwards, the falling relative earnings of the young and of immigrants could be interpreted as an outcome of a worsening of the position of the unskilled, as can the tendency of unskilled males to withdraw from the labour force.<sup>69</sup> There is some evidence of clustering of unfavourable job traits, including insecurity and work-related health threats. A case can be made that for periods of their work lives women suffer extra stress because of the combined burdens of paid employment and child care. To the extent that they deal with this by withdrawing from the labour force the result, on average, is permanent reductions in their long term earnings prospects. In the rest of this section of the paper we review the Canadian labour market policies that might attend to these casualties. In the subsequent section we compare the Canadian policy approach with the approaches of some other rich OECD countries.

Broadly speaking, three sorts of measures might address the problems listed above. First, there are policies designed to facilitate labour market transitions. Information, education, and training prepare labour market entrants and re-entrants for jobs. As we will see later, these policies sometimes take on a coercive form. Policies may also facilitate transitions out of the labour market - either temporary (parental leave) or permanent (early retirement). Second, employment insurance and/or social welfare reduce the economic challenges posed by job loss or poorly paid work. Third, there are all sorts of regulations that both prescribe and proscribe employer actions. An example of prescription is required labelling of hazardous materials. An example of proscription is the prohibition of layoffs for economic reasons in the absence of

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<sup>69</sup> Daniel Boothby & Yves Gingras, *Have the Labour Market Conditions of Low-Skilled Workers Worsened in Canada?* (Ottawa: Applied Research Branch, Human Resources Development Canada, 1998), conclude the following (at 36): "there has been some deterioration in access to employment for the lowest-skilled segment

reasonable notice. Regulations may also be designed to influence the likelihood of union membership that, in turn, often assists employees to protect themselves. Canada has policies to address each of these objectives.

## A. Labour market transitions

With respect to *entry into the labour market*, among OECD countries, Canada currently has the highest proportion of relevant cohorts completing post secondary education, which is substantially publicly funded.<sup>70</sup> We invest a lot in skill development. Young Canadians ought to be as well-equipped to enter the labour market as young people in any other society.

Expenditures on post secondary education shade over into so-called active ‘labour market policies’. These are designed to put people into work rather than provide income support when they do not have jobs. Canada Employment Centres and/or provincial equivalents act as brokers between employers and potential job candidates. There is “a mosaic of ad hoc initiatives and semi-permanent programs” to provide job training and to fund job search.<sup>71</sup> The most well-known federal retraining initiative was for workers displaced from the steel industry. Some Employment Insurance support is directed to retraining and to finance moving costs where a job requires geographic mobility. Tuition fees and moving costs (not paid by the government) are tax-deductible. There has also been a long tradition of direct job creation by

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of the Canadian work force, persons with 0-8 years of schooling. This deterioration is in access to the labour market and to employment, and not in earnings when employed.”

<sup>70</sup> Philippe Massé, Richard Roy & Yvan Gingras, *The Change in Skill Structure of Employment in Canada* (Ottawa: Applied Research Branch, Human Resources Development Canada, R-99-7E, 1998) at 32.

<sup>71</sup> Masahiro Abe et. al., “Worker displacement in Japan and Canada” in Peter J. Kuhn, ed., *Losing Work, Moving On: International Perspectives on Worker Displacement* (Kalamazoo, Michigan: Upjohn Institute, 2002) 195 at 215.

governments, both federal and provincial. These have been executed through a succession of programs.<sup>72</sup>

Canada's provision of active labour market programs is usually compared unfavourably to that of European countries. As a percentage of GDP its spending on them is between about a half and a quarter of that of most European countries.<sup>73</sup> There are, however, broad issues in the interpretation of these figures with respect to what should be classified as an 'active' program and the extent to which high expenditures are mandated by a high unemployment rate rather than a high level of support to the unemployed. It is quite clear that the much vaunted active labour market programs of Sweden, for instance, have substantially acted as places for stocking the unemployable.<sup>74</sup>

There is also a long experience in Canada with programs designed to facilitate the early transition of older workers out of the labour force.<sup>75</sup> Since its introduction in 1967 the Guaranteed Income Supplement has topped up Canada or Quebec pension plan payments. Prior to the mid 1980s access to benefits under the two plans was limited to those of 65 or above. From the mid 1980s, from the age of 60 those who had effectively finished working qualified for actuarially adjusted pension benefits, topped up with Guaranteed Income Supplement payments where warranted. There has also been a series of programs compensating older workers who lost their jobs as a result of import competition, part of a larger body of government policy designed to help restructure industries in decline. The most recent

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<sup>72</sup> Arun S. Roy & Ging Wong, "Direct job creation programs: Evaluation lessons on cost-effectiveness" (2000) 26 *Canadian Public Policy* 157-169.

<sup>73</sup> Low spenders in Europe are the UK, Luxembourg and Austria. See "Recent labour market developments and prospects: Special focus on labour market policies: How the money has been spent" (2001) *OECD Economic Outlook* 11-35 at 24.

<sup>74</sup> E.g., Suzanne Agell, Anders Björklund & Anders Harkman "Unemployment insurance, labour market programmes and repeated unemployment in Sweden" (1995) 2 *Swedish Economic Policy Review* 101-128.

<sup>75</sup> Sources for this section on pensions and other programs available to older workers are Michael Baker & Dwayne Benjamin, "Early retirement provisions and the labor force behavior of older men: Evidence from Canada" (1999) 17 *Journal of Labor Economics* 724-756, and "Lessons learned: A review of older worker adjustment programs" *Technical Report #1*, (Evaluation and Data Development, Strategic Policy, Human Resources Development Canada, 1997).

example was the *Program for Older Worker Adjustment* (POWA). It provided benefits to workers between the ages of 55 and 64 who had been laid-off in one or more of a set of designated circumstances (e.g., a large lay-off in a small community, the proportion of older workers laid-off, the anticipated economic disruption from the lay-off) and had exhausted unemployment benefits. That program expired in 1997. There have also been regionally- or provincially-targeted programs (e.g. the Atlantic Groundfish Strategy from 1994 to 1997) and there have been, and still no doubt are, provincial programs established as complements too, or substitutes for, the various federal programs. In Canada, then, a variety of measures have attempted to ease the process of adjustment of older workers out of employment. The range and complexity of the interventions, however, makes it difficult to judge how large Canada's expenditure on this sort of activity has been relative to that of other countries.

The effects of all of these programs need to be understood within the context of the overall incentives to retire, including both the amount of gross income replaced by pensions at various ages and the tax rates imposed on income if retirement is delayed. In some countries (in particular, the Netherlands) there are substantial tax penalties for *not* retiring early. This is not the case in Canada. Consistent with this, the rate of labour force participation after the age of 65 is higher in Canada than in most other OECD countries.<sup>76</sup>

## B. Financial support after job-loss

The core components of this are employment insurance, supplemented by social welfare when necessary. There are also the various income support programs described above

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See Jonathan Gruber & David A. Wise, "Introduction and summary," in Jonathan A. Gruber & David A. Wise, eds., *Social Security and Retirement around the World* (Chicago: University of Chicago Press, 1999). Among a sample of countries in the late 1990s only Japan and the United States had higher over 65 participation rates than Canada. The corresponding participation rates in Sweden, Germany, Italy, the Netherlands, the UK, Spain, France, and Belgium, were all lower than Canada's.

associated with shocks to employment in particular industries. Beyond this, the Canadian income support system has evolved in interesting directions in recent years.

With respect to the un(employment) insurance system, there has been a retreat from a high point of generosity at the beginning of the 1970s.<sup>77</sup> Early in the 1990s there was a major reform. It provided for longer delays before qualification for benefits where unemployment resulted from quitting, disciplinary dismissal, or where there was a refusal to accept a suitable job. The work period required to qualify for employment insurance was lengthened. The number of weeks of benefit of most recipients was reduced. But it also introduced payments for parental leave, allowed workers above the age of 65 to qualify for benefits, and increased expenditures on 'active labour market policy', extending benefits to some of those receiving training.

Subsequent modifications to the program fit into this broad pattern: a reduction of access to benefits and of the value of benefits for those who have a good chance of finding a job; increased funding of training; and a modest increase in benefits associated with childbirth, including additional payments to families with children. This increase in transfers to families with children has been supplemented through the tax system - the National Child Benefit Program, which has a federal component and various modifications by province. As we will see, these sorts of policy changes correspond to broader trends across a range of OECD countries.

## C. Statutory regulation

In international comparisons Canada is usually bracketed with the United States as countries with relatively less regulated labour markets.<sup>78</sup> Those who make this classificatory decision usually know a great deal more about the United States than Canada. We return to the

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<sup>77</sup> There is a critical account of the evolution of the system in Georges Campeau, *De l'assurance-chômage à l'assurance-emploi: L'histoire du régime canadien et de son détournement*. (Montréal: Boréal, 2001).

<sup>78</sup> A recent example of this genre is Peter A. Hall & David Soskice, "Introduction" in Peter Hall & David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

issue of policy *relativities* later. In this section we outline the ways in which Canadian governments *do*, in fact, regulate labour markets.

i. Who is an employee?

'Employee' is a legal status.<sup>79</sup> It confers access to benefits like employment insurance and pensions. It is also the qualification for legal protections, including limits on the right of employers to dismiss. For legal purposes, the obverse of employment is self-employment. Canadian courts continually struggle with the problem of drawing a boundary between the two statuses. They do so across a range of issues including taxation, employment insurance access, wrongful dismissal, and 'vicarious liability'. This latter refers to the extent to which someone who hires someone else to do work is liable for personal or material damage caused by the person hired. Generally speaking, the party hiring is more likely to be responsible for damages if there is an employment relationship than if there is a sub-contract with a self-employed person.

The courts use several tests to determine whether someone is employed or self-employed. Classification as self-employed is more likely where the person's work practices are largely independent, they own their tools, there is a possibility of either profit or loss from a contract, and where the activities of the two contracting parties are less integrated. Permanency of a contracting relationship increases the likelihood that it will be classified as employment, as does contractual exclusivity. These criteria are applied pragmatically across cases.

The term self-employment incorporates quite diverse forms. The categories used by Statistics Canada give some indication of the range of them: those who are incorporated and employ others; those who are incorporated but work on their own account; those who are not incorporated and employ others; those who are not incorporated and work on their own account;

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<sup>79</sup> On this see Judy Fudge, Eric Tucker & Leah Vosko, *The Legal Concept of Employment: Marginalizing Workers* (Ottawa: Law Commission of Canada, 2002).

and unpaid family workers. There is substantial variation across these self-employment statuses in average income and, more generally, economic security. Consecutive court decisions have tended to extend the status of employee to ever larger shares of the labour force.

## ii. The application of fairness criteria to the employment contract

There is a set of laws at the federal and provincial levels designed to offset discrimination in the labour market.<sup>80</sup> Discrimination is defined to include both deliberate actions damaging the employment and pay of particular groups as well as 'systemic discrimination' - employment practices that, whatever their original purposes, systematically work against the interests of particular groups.<sup>81</sup> Four disadvantaged groups have been designated in the relevant legislation: women, visible or racial minorities, aboriginals, and persons with disabilities. The statutory protections take three principal forms: human rights legislation, employment equity legislation, and pay equity legislation.

*Human rights codes* provide for complaints to human rights commissions by either groups or individuals. These complaints may cover either pay or employment issues (including both hiring and promotion). Human rights commissions have been created to replace courts. The premise in doing this is that "through the use of relatively informal procedures and a gradual accretion of expertise" the commissions "will ensure the availability of a prompt and inexpensive remedy for victims of discrimination".<sup>82</sup> It is sometimes argued that the standard of proof

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<sup>80</sup> Sources for this section are Carol Agocs, "Canada's employment equity legislation and policy, 1987-2000: The gap between policy and practice" (2002) 23 *International Journal of Manpower* 256-276; John Hucker, "Antidiscrimination laws in Canada: Human rights commissions and the search for equality" (1997) 19 *Human Rights Quarterly* 547-571.

<sup>81</sup> The (much longer) definition of systemic discrimination given by Agocs, *ibid.* at 257-258 is "those patterns of organizational behaviour are part of the social and administrative structure and culture and decision-making processes of the workplace, and that create or perpetuate relative disadvantage for members of some groups and privilege for members of other groups. In other words, the concept of systemic discrimination encompasses the complex and interrelated pattern of policies, institutionalized practices, norms and values that perpetuate exclusionary structures and relationships of power and opportunity within organizations and labour market."

<sup>82</sup> Hucker, "Antidiscrimination laws ...", *op cit.*, at 550-551.

required by the commissions is excessively high. Nonetheless, within the federal jurisdiction there have been some successful, high profile, employment-related cases - notably, by a group of women against the Canadian National Railway Company and by visible minority employees against Health Canada.<sup>83</sup> Though all ten provinces in Canada have human rights codes and commissions, the amount of resources allocated to their operation varies between provinces and over time, as does their effectiveness. Parallel to legislation, anti-discrimination clauses are present in about half the collective agreements currently in force in Canada.<sup>84</sup>

*Employment equity legislation* requires that employers be proactive, that they revise their practices to increase the proportion of under-represented employees. The Federal Contractors Program required that employers bidding on federal contracts implement employment equity programs. From 1997 the Canadian Human Rights Commission was mandated to conduct compliance audits of a broad range of employers under federal jurisdiction. There is evidence of success of these policies for two of the designated groups - women and visible minorities. Their representation in employment in general, and in senior positions, has increased in both the private and public sectors.<sup>85</sup> There is little evidence of success for aboriginals and those with disabilities. It does, however, appear that organizations that implement employment equity programs narrow the gap in pay between designated groups and others, though not at senior levels.<sup>86</sup> Across provinces there is wide variation in legislation and its implementation.<sup>87</sup>

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<sup>83</sup> The Health Canada case is described in some detail in J. Helen Beck, Jeffrey G. Reitz & Nan Weiner, "Addressing systemic racial discrimination in employment: The Health Canada case and implication of legislative change" (2002) 28 *Canadian Public Policy* 373-394.

<sup>84</sup> Harish C. Jain, Peter J. Sloane & Frank M. Horwitz, "Introduction" in Harish C. Jain, Peter J. Sloane & Frank M. Horwitz, eds., *Employment Equity and Affirmative Action: An International Comparison* (Armonk, New York: M.E. Sharpe, 2003) at 1-55.

<sup>85</sup> But it is difficult to show that this increase is a result of policy implementation. The increase in employment shares of these two groups may well have increased anyway. Agocs, "Canada's employment equity legislation ....", *op.cit.*, does not address this methodological issue.

<sup>86</sup> See, Joanne D. Leck, Sylvie St Onge & Isabelle Lalancette, "Wage gap changes among organizations subject to the Employment Equity Act" (1995) 21 *Canadian Public Policy* 387-400.

<sup>87</sup> Abigail B. Bakan & Audrey Kobayashi, *Employment Equity Policy in Canada: An Interprovincial Comparison* (Ottawa: Status of Women Canada, 2000).



Finally, there is *pay equity legislation*, which is present at the federal level and in all but one of the provinces. Ontario's provisions are the most far-reaching. According to Gunderson, "Pay equity in Ontario can be ranked as the most advanced in the world".<sup>88</sup> The evolution of Ontario's policy is marked by the quest for appropriate comparators and, as a result, a shift to comparators that are increasingly difficult to apply. The sequence of comparators (from least to most problematic) is as follows: equal pay for equal work, equal pay for *substantially similar* work, equal pay for work that has an equal *composite set of tasks*, pay equity across occupations using gender-neutral occupations as comparators, *proportionately equal pay for proportionately equal value work* (where suitable male occupational comparators are not available) and, within the public sector, proxy comparisons with similar *female* job classifications.

The degree to which methods are controversial tends to increase as the comparator becomes more practically difficult to establish.<sup>89</sup> It remains the case that the magnitudes of the effects of pay equity programs have been difficult to establish.<sup>90</sup>

### iii. Regulating pay

The governments of lots of countries with market economies have nonetheless played a major role in fixing wages. In the United Kingdom Wages Councils set wages for categories of workers deemed to be vulnerable. In Australia, agreements generated through arbitration have been extended to large parts of the rest of the work force. Collective agreements have been

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<sup>88</sup> Morley Gunderson, "The evolution and mechanics of pay equity in Ontario" (Supplement 2002) *Canadian Public Policy* S117. See also Nan Weiner, "Fair pay" in Jain *et al.*, *Employment Equity and Affirmative Action*, *op cit.* 126-170.

<sup>89</sup> The procedural, legal, and economic problems in the design and implementation of pay equity legislation are reviewed in Morley Gunderson, "Implementation of comparable worth in Canada" (1989) 45 *Journal of Social Issues* 209-224; Morley Gunderson, "Comparable worth: Canada's experience" (1992) 10 *Contemporary Policy Issues* 85-94; and Morley Gunderson & Roberta E. Robb, "Legal and institutional issues pertaining to women's wages in Canada" (1991) 3 *International Review of Comparative Public Policy* 129-150.

<sup>90</sup> Morley Gunderson & Paul Lanoie, "Program-evaluation criteria applied to pay equity in Ontario" (Supplement 2002) 28 *Canadian Public Policy* S133-S148.

similarly extended in France and the Netherlands. Wage-setting of this sort is uncommon in Canada, though it has been used in the Quebec construction industry. Generally speaking, wage regulation by government in Canada takes two forms: the minimum wage and imposed limits on wage increases, particularly in the public sector.

As we saw earlier, there are substantial variations in the minimum wage across provinces (with Alberta now at the bottom and British Columbia at the top).<sup>91</sup> From the end of the 1970s through to the second half of the 1980s the minimum wage lagged inflation in all jurisdictions. Its value relative to the average industrial wage also fell. A recovery in the real value of the minimum wage followed that varied from negligible (Atlantic Provinces, Manitoba, Saskatchewan, Alberta) to appreciable (Quebec, Ontario, British Columbia). While the increase in Quebec and British Columbia was approximately sustained, since the mid 1990s there has been a sharp fall in Ontario.

We can gauge what a minimum wage means by looking at its *effects*. There is a general concern that high minimum wages will discourage the creation of jobs, particularly for those with negligible skills. Teenagers are the standard example of this (and usually qualify for a separate, lower, minimum wage than adults). In fact, however, any negative effects on employment of the minimum wage in Canada seem quite modest. This is no doubt because Canadian minimum wages are set at quite low levels - around 40% of average earnings.

Canadian governments' largest regulatory effect has been through the imposition of *limits* on pay increases. In the inflationary 1970s the federal government introduced wage and price controls. Subsequently, the federal and provincial governments have, from time to time,

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<sup>91</sup> Useful sources on the Canadian minimum wage are Battle, *Minimum Wages in Canada, op. cit.*, and Nicole M. Fortin & Thomas Lemieux, "Income redistribution in Canada: Minimum wages versus other policy instruments" in W. Craig Riddell & France St-Hilaire, eds., *Adapting Public Policy to a Labour Market in Transition* (Montreal: Institute for Research on Public Policy, 2000) at 211-247.

either frozen public service pay or cut it. However, the net effect on the attractiveness of pay in the public sector relative to the private sector appears to have been modest.<sup>92</sup>

#### iv. Protection against dismissal

Most European countries provide more substantial protections against economic lay-offs than do Canadian governments.<sup>93</sup> Still, protections exist. In the early 1990s not quite half of all agreements reduced the likelihood of job loss from contracting-out by prohibiting it.<sup>94</sup> In the absence of contracting-out prohibitions some unions have negotiated either notice of impending lay-off and/or severance pay provisions. The importance of these provisions has diminished because the federal and provincial governments have enacted termination of employment legislation. It establishes notice periods that vary with the number of weeks employed and the number of people laid off at the same time in the workplace.<sup>95</sup> Depending on these factors, the length of the notice can vary from one week to several months. In the Federal and Ontario jurisdictions notice requirements have been supplemented by severance legislation that applies in some circumstances. The amounts involved go up to a maximum of the equivalent of 26 weeks of pay, depending on years of seniority. The legislated protections apply to both unionized and non unionized employees. Some Canadian employers, then, face delays and costs when they try to discharge employees for economic reasons.

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<sup>92</sup> Morley Gunderson, "Public sector compensation" in Gene Swimmer and Mark Thompson, eds., *Public Sector Collective Bargaining in Canada: Beginning of the End or End of the Beginning?* (Kingston: IRC Press, 1995) at 103-134; Morley Gunderson, Douglas Hyatt & Craig Riddell, "Pay differences between the government and private sectors: Labour force survey and census estimates" *CPRN Discussion Paper*, No.W|10, 2000, not only report a continuing pay premium in the public sector but also provide some evidence that the size of the premium has tended to rise over time.

<sup>93</sup> See "Employment protection and labour market performance," OECD *Employment Outlook*, 1999.

<sup>94</sup> Anthony Giles & Akivah Starkman, "The collective agreement" in Morley Gunderson & Alan Ponak, eds., *Union-Management Relations in Canada* (Don Mills, Ontario: Addison-Wesley, 1995). Note that in most jurisdictions there are also legislative provisions that maintain union recognitions when an employer subcontracts part of his operation.

<sup>95</sup> See Jane Friesen, "The response of wages to protective labor legislation: Evidence from Canada" (1996) 49 *Industrial and Labor Relations Review* 243-255.

There are also protections against dismissal for cause. Employees can use human rights statutes to appeal against dismissal. Those covered by collective agreements are normally expected to use the grievance procedure to make a wrongful dismissal claim. Employees not covered by a collective agreement can use the courts. Specifically, dismissal for cause is only warranted under quite limited conditions. Wagar cites the following legal opinion: "Absent a flagrant dereliction of duty, it must be shown that something was done clearly inconsistent with the proper discharge of the employee's duties that reasonably indicates a risk of injury to the employer's interest through continued employment."<sup>96</sup>

Where employers wish to dismiss on the grounds of *incompetence* they must establish a record of multiple examples of that incompetence, including the fact that they have issued warnings that work is not meeting suitable standards. Where employers wish to dismiss on the grounds of misconduct - e.g., conflict of interest, drug or alcohol abuse that affects work, wilful disobedience, theft or fraud - they must show that the behaviour threatened the operation of the organization *and* that dismissal is a *reasonable* sanction. It is likely to be judged *unreasonable* where the conflict of interest involves an employee in a position with less responsibility, where the employer has failed to assist the employee in dealing with a substance abuse problem, where the employee provides a plausible rationale for disobedience, and where theft or fraud might be judged to be associated with a mitigating circumstance.

In most Canadian jurisdictions the remedy for unfair dismissal is a sum of money rather than reinstatement. The sum varies with earnings, length of tenure with the employer, and the responsibility attached to the dismissed employees' previous job. The usual maximum is about 24 months of salary. Additional punitive damages for mental distress may be added, though that is rare. In the Federal, Nova Scotia and Quebec jurisdictions reinstatement is one possible

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<sup>96</sup> Terry Wagar, "Comparative systems of wrongful dismissal: The Canadian case" (November 1994) 536 *Annals of the American Academy of Political and Social Science* 57.

remedy, where the employee meets a length of service standard.<sup>97</sup> Managerial employees are not covered by the legislation in the Federal jurisdiction but are covered in Quebec.

In all Canadian jurisdictions, then, employers seeking to dismiss for cause risk costs. But a non-union employee contesting a decision using the courts is also confronted with costs - costs that may exceed those of the maximum amount of salary recoverable. The effectiveness of legal protection against dismissal is partly compromised by the costs required to mount a defence.

#### v. The design of contracts

Many analyses of the labour market assume, explicitly or implicitly, a 'standard employment relationship'- one providing full-time, full-year work, with employment continuity over some number of years.<sup>98</sup> But a significant proportion of the Canadian work force is employed for less than a full week or for less than a full year. By international standards, the restrictions imposed on Canadian employers' flexibility to configure work periods are modest.

The main regulatory issue bearing on part-time work is *access to benefits*. In most jurisdictions in Canada there are minimum hours per week levels before employees are entitled to vacation pay, parental leaves, public holidays, and other benefits. Quebec and Saskatchewan are exceptions in this respect. Each imposes an obligation on employers to treat part-time and full-time employees the same, in effect compelling them to pro-rate benefits to hours worked.<sup>99</sup> In each case the intention of the regulation is to reduce the likelihood that an employer will choose to offer part-time employment "with the exclusive aim of lowering labour costs".<sup>100</sup>

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<sup>97</sup> The qualifying periods are: federal jurisdiction - one year; Quebec - five years; Nova Scotia - ten years.

<sup>98</sup> See Leah F. Vosko, *Temporary Work: The Gendered Rise of a Precarious Employment Relationship* (Toronto: University of Toronto Press).

<sup>99</sup> Judy Fudge & Leah F. Vosko, "By whose standards? Reregulating the Canadian labour market" (2001) 22 *Economic and Industrial Democracy* 327-356.

<sup>100</sup> *Ibid.* at 339.

Temporary employment contracts are almost entirely unregulated. Employers can choose to use them without review by any external body. There is no limit on the number of successive temporary contracts or on their cumulative duration. Nor are agencies that broker temporary work substantially regulated.<sup>101</sup> There *is* provincial variation. Regulations, where they exist, typically include licensing and the prohibition of the imposition of fees on job-seekers. There has been lively policy debate within Quebec over temporary employment regulation.<sup>102</sup> Measures *mooted* include: an employer obligation to offer the same pay and benefits to temporary staff as to those in a 'standard employment relationship'; extension of contracts to all employees in a sector (as is already the case in the construction industry), whether temporary or not; revisions to the labour code that would substantially raise the cost to employers of hiring temporary workers.

These latter include qualification for severance pay after a series of contract renewals, minimum payments for assigned temporary workers, even if they work less than a full day, an additional payment from a temporary help agency that assigns a temporary worker to a job to compensate that worker for the precariousness of the employment, and the prohibition of employment agency levies on employers who offer to change the status of a temporary employee to a permanent one. These proposals remain matters for debate.

#### vi. Health and safety legislation

By international standards Canada has a fairly high rate of workplace accidents.<sup>103</sup> This is partly because resource extraction remains a major source of employment and tends to come with relatively high accident rates. In any case, policies to address the problem of health and

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<sup>101</sup> "Employment protection ...", OECD *Employment Outlook*, *op.cit.*, at 104-108.

<sup>102</sup> See Vosko, *Temporary Work*, *op.cit.*, at 202-209.

<sup>103</sup> Unless otherwise specified, the source for this section is Jon Peirce, *Canadian Industrial Relations*, (Scarborough, Ontario, 2000) at 241-251.

safety at work can be grouped into two categories: attempts to reduce the likelihood of injury or other negative health outcomes, and financial compensation after injury or the onset of illness.

Policies designed to reduce the incidence of accidents include detailed laws regulating work environments (e.g., permitted dust particles in the air, guards on machinery, maximum working hours), a general employer duty to maintain a safe work environment, and an employee duty to work in safe ways. The primary policy issue with respect to these laws is enforcement effectiveness. Enforcement through inspection is inadequate, it is argued, because there are not enough inspectors and because modest fines give employers little incentive to comply. Laws obliging employers to provide a (relatively) safe and healthy workplace along with information on hazardous substances are supplemented by a statutory obligation to create employer-employee health and safety committees and to permit employee's to refuse unsafe work. There is lively discussion on the effectiveness of all of these measures.

Workers' compensation replaces the right of the work-damaged employee to litigate.<sup>104</sup> Benefits do not require demonstration of fault on anyone's part. Employer premiums to cover the cost of compensation are experience-rated, which provides an additional incentive for employers to reduce their accident rates. Increasingly, a duty of reinstatement is imposed on employers when an injured employee wishes to return to work, including the obligation to adapt the work environment to compensate for any disability incurred at work.

It is possible that changes in the nature of work and the work-force are reducing the effectiveness of the overall system.<sup>105</sup> Health threats increasingly come from the 'insidious risks'

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<sup>104</sup> Workers compensation programs were established at the turn of the century because litigation was seen as ineffective as a source of protection to employees. Only a small proportion of suits were successful and there were large delays before compensation was received. See Morley Gunderson & Douglas Hyatt, "Foundations for Workers' Compensation reform: Overview and summary," in Morley Gunderson & Douglas Hyatt, eds., *Workers' Compensation: Foundations for Reform* (Toronto: University of Toronto Press, 2000) at 7.

<sup>105</sup> Morley Gunderson, "Workers' compensation in the new world of work," in Gunderson & Hyatt, *ibid.*

discussed earlier, whose effects are difficult to document. Even where an effect is documented significant numbers of employees may already have been damaged. The labour force is aging. Women make up a larger part of it. More members of the labour force are members of two-earner families, with all that implies for pressures on time and for the addition of stress at home to stress at work. A more ethnically diverse workforce with variable official language skills may reduce the effectiveness of the usual methods for transmitting information on risk. The employment share of small firms has increased. This increases the cost of inspection and makes experience-rating more difficult. This is because the accident record of small firms is likely to be sporadic - many years without accidents, even where practices are unsafe, followed by a leap in the accident rate as a result of a single accident. *If* unions are becoming weaker then a major source of employee pressure to preserve a safe workplace is being undermined.

#### vii. Unions and the law

One of the main roles of unions is to provide a vehicle through which employees can ensure that health and safety regulations are enforced and that employees dismissed for cause can exploit the protections provided by the law. In some European countries the proportion of employees unionized is much higher than in Canada. At the same time, the proportion unionized in Canada is much higher than in the United States. The latter comparison is the more interesting since Canadian labour law was modelled on United States legislation. Both countries have formal, government-supervised, procedures for securing union recognition in workplaces, enforceable contracts after an agreement has been struck, combined with an employer obligation to show good-faith in bargaining. Unlike several European countries, in neither country has the administration of the unemployment insurance program ever been turned over to unions - an important source of union membership growth where that has



occurred. Nor is there an elaborate structure of centralized bargaining between union and employer federations.<sup>106</sup>

This raises two questions: Why the difference in the level of representation in Canada as compared to the United States? Is this difference likely to persist, or are there pressures to shift Canadian union representation downwards to the United States level? The pressures usually identified are globalization (in particular) and technological change.<sup>107</sup>

The most pertinent facts are as follows. There is some evidence of a modest decline in the proportion unionized in Canada during the 1990s. That decline was probably caused by poor economic performance, in particular in manufacturing, which is highly unionized. Union representation stabilized at the end of the decade at about 30%, as compared to the 13 or so percent in the United States. Part of the difference reflects the high level of unionization of the public sector in Canada. But even if analysis is confined to the private sector Canada's unionization rate is about twice that of the United States.

Canadian union representation, then, is holding up fairly well despite whatever pressures come from globalization. The most likely explanation for this is differences in labour law between Canada and the United States, within their broadly similar legal framework. In most Canadian jurisdictions collection of an appropriate number of signed cards indicating support for unionization secures recognition. In those where a vote is required after the collection of signed cards it must be held in a matter of days after the union applies for recognition. In the United States signed cards are always a prelude to a vote, and the number of days between an application for recognition and the vote is long enough to allow employers to mount effective

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<sup>106</sup> There is an enormous literature on these institutional differences. A recent example is Hall & Soskice, *Varieties of Capitalism*, *op cit*.

<sup>107</sup> For recent valuable contributions see Felice Martinello, "Mr. Harris, Mr. Rae and union activity in Ontario" (2000) 36 *Canadian Public Policy* 17-33; Susan Johnson, "Canadian union density 1980 to 1998 and prospects for the future: An empirical investigation" (2002) 38 *Canadian Public Policy* 333-349; and John Godard, "Do labor laws matter? The density decline and convergence thesis revisited" (2003) 42 *Industrial Relations* 458-492.

anti-union campaigns. The arguments against unionization that employers in Canada can use are more limited than in the United States, where employer free speech rights are strongly protected. In contrast to the United States, all Canadian jurisdictions prohibit the use of *permanent* replacement workers during a dispute. In Quebec and British Columbia *temporary* replacement workers are also proscribed. Finally, again in contrast to the United States, open shops are effectively illegal in all jurisdictions and most allow some kind of mandatory dues checkoff.

A good case can be made that the Canada-United States difference in unionization is likely to persist for the foreseeable future. Still, some would argue that, while higher than the United States, the level of unionization in Canada remains lower than it should be. Within Canada, the proportion of private sector workers unionized is highest in Quebec and British Columbia, which prohibit the use of temporary replacement workers *and* allow certification on the basis of signed cards. Even in those provinces the bulk of private sector employees are not unionized. Godard summarizes the situation as follows:<sup>108</sup>

... there are a number of additional limitations to the Canadian system, limitations that also generally apply to the United States. These include the residual rights doctrine ...., a decentralized bargaining structure ..., laws against striking during terms ... and (until 2002) against secondary picketing ..., a lack of statutory representation rights in non-union workplaces ..., and the majority requirement for certification .... Although the latter two of these limitations may have direct implications for density by reducing the ability of unions to serve members in uncertified workplaces, the others may have indirect ones by reducing the likely effectiveness, demand for, and survival of unions, especially in sectors such as trade, accommodation, food services, and banking and financial services that are highly competitive and in which unions otherwise have low bargaining power ....

Canadian union membership *could* be higher.

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<sup>108</sup> Godard, "The density decline ..." *op.cit.* at 483.

## V. Policy Alternatives

Growth is, and is likely to remain, a concern of economic policy, including labour market policy. Certainly, the issue usually features prominently in policy discussion.<sup>109</sup> Yet it is not the only policy objective. On equity grounds, policies might be chosen despite the fact that they reduce efficiency and growth. An example might be legal obligations to hire the disabled and/or the provision of subsidies to do so. Prejudice and misperceptions no doubt play some role in employer reluctance to hire the disabled. But there are usually real costs to employers associated with hiring them, that would not be incurred with non-disabled alternatives. Despite that, a case might be made for imposing those costs, or covering them through subsidy, precisely because the possibility of employment is a minimal requirement for social inclusion and social inclusion might properly be considered a right of citizenship.

Still, when trade-offs involving less growth and more equity are required it is better that they be acknowledged. That is a minimal requirement for intelligent policy discussion. An initial problem is that what is 'fair' is not straightforward. Even where there is consensus on what is fair, for most policies that might be regarded as equity-enhancing, it is difficult to establish whether there is likely to be a trade-off with efficiency, an improvement in efficiency, or no effect on efficiency at all. The methodological limitations of the social sciences mean that it is usually possible to contest claims about the likely or actual consequences of policies. These problems do not, of course, warrant evasion of the issue of trade-offs.

In the earlier sections of this paper we argued that there are some groups to which the label 'casualty of the labour market' might reasonably be applied. Three groups stood out: lone parents, mostly mothers, unable to work because their earnings would be too low to cover the

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<sup>109</sup> A concern with the environment need not change this. It is certainly possible for growth to take the form of expenditures on more environmentally-friendly goods. The extent to which growth *does* take this form is, of course, a matter of some debate.

costs of child care; new entrants to the labour market - especially young men, but also to some extent young women and recently-arrived visible minority immigrants; and working women who are subject to additional and large family-care obligations during the years of child rearing. More generally, there are those who are durably confined to jobs within which 'bad' traits cluster, jobs that include some combination of low pay, limited fringe benefits, contractual precariousness, and health risks.

There *are*, as we saw, Canadian policies designed to improve the situations of all of these groups. There are income transfers, employment is regulated in various ways, and union recognition and bargaining rights are well-entrenched and support a robust union movement. The issue is whether the design of the policies is right and whether they involve the right amount of intervention. Positions within the Canadian policy debate include arguments for both more and less intervention. Those positions can usefully be set within a larger, international debate on labour market policy which, inevitably, raises issues of comparative economic performance.

We identify three main strands in that debate and discuss them separately, before considering them together in the conclusion. A first issue is the family implications of work, including the protection of children, the circumstances under which women make decisions on employment, and the high rate of labour market marginalization among lone parents. Second, there is the issue of labour market flexibility. Labour markets may or may not be providing less secure jobs than they did in the past. Whether they are or not, there may be some advantage in terms of both efficiency and equity to facilitating transitions between employment statuses. Third, there is a body of policy writing, originating in Europe and taken up in North America, that claims that labour markets are increasingly deregulated. This literature argues for *reregulation*.

## A. Supporting families and children

A good place to start is fertility.<sup>110</sup> It has fallen below the replacement rate across almost all the rich countries of Europe and North America. Nonetheless, the *preferred* number of children expressed in surveys remains about two - closer to the replacement rate than the observed rate. This can be interpreted as evidence that the costs and wear and tear of child rearing lead to decisions not to have children. Generally speaking, the Nordic countries have established a distinctively family-friendly set of policies. They are generous in the provision of early child care services, both for children below three years of age and those between three and the age when compulsory schooling starts.<sup>111</sup> A larger proportion of the jobs occupied by women can be considered to be family-friendly - in the possibilities they provide for leave, for discretionary part-time work, and in hours flexibility. In contrast, the provision of child-care for very young children is *un*generous in Italy and the former West Germany and the incidence of family-friendly jobs much lower. Their fertility rates are also very low. Have the Nordic countries shown the way in conciliating employment and family responsibilities?

The case is not entirely clear. First, even in the Nordic countries the fertility rate is below two. Second, fertility in Sweden fell sharply from the early 1990s, when its economic performance declined. Third, it is worth being clear on the main method through which family-friendly jobs have been provided in those countries.

Using the sector dissimilarity index, the Nordic countries invariably rank among the OECD's most segregated labour markets. They pursued a massive expansion of public services and produced, inadvertently, new inequalities. The welfare state became a female labour market, providing good pay and the kind of job security and flexibility that makes careers compatible with having children. This is especially the case with the two dimensions of motherhood that are most difficult to harmonize, namely having preschool age children and/or more than two children. The creation of a 'soft' economy in the Nordic countries helped

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<sup>110</sup> On this see Joëlle Sleebos, "Low fertility rates in OECD countries: Facts and policy responses" *OECD Social, Employment and Migration Working Papers*, No.15, 2003.

<sup>111</sup> Wolfgang Tietze & Debby Cryer, "Current trends in European child care and education" (1999) 563 *Annals of the American Academy of Political and Social Science*.

women realize their preferred fertility level but at the expense of a virtual female employment ghetto.<sup>112</sup>

There are family-friendly jobs, in other words, because there is a large public sector, sheltered from the competitive pressures that are present elsewhere in the Nordic economies. Still, if it is accepted that working women with children are subjected to unreasonable work obligations, both paid and unpaid - that are reflected in the lower number of children born where institutions least accommodate child-rearing - then it is possible to at least think about policies, other than public sector expansion, that reduce the obligations.<sup>113</sup>

There is also the issue of the welfare of children. Children are now more likely everywhere to spend part of their childhood in a lone-parent household. In a recent estimate the probabilities in Sweden and Canada were about the same - more than a third - and in the United States over 50%.<sup>114</sup> The United States is further distinguished by a high incidence of births to a single, non-cohabiting, mother. Being raised by a lone-parent will usually imply some economic disadvantage to a child. It may also sometimes reduce the quality of parenting.<sup>115</sup> Negative consequences of lone parenting are reduced where family-, or more particularly female-, friendly jobs are available. On the whole, it is probably true that lone-parents in Canada and the United States are more likely to confront hardship than in the Nordic countries. We know from the data on earnings and income examined earlier that lone-parenthood is the major source of poverty in Canada.

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<sup>112</sup> Gøsta Esping-Andersen, "Towards a post-industrial gender contract" in Peter Auer & Sandrine Cazes, eds., *Employment Stability in and Age of Flexibility: Evidence from Industrialized Countries* (Geneva: ILO) 109 at 112.

<sup>113</sup> Note, that the fertility rate in Canada is about the same as it is in the Nordic countries. That of the United States is higher. Female labour force participation is high in both countries - not much lower than in the Nordic countries. There is much less occupational gender segregation in Canada and the United States than in the Nordic countries. In the United States, in particular, this does not rest on legislated or government-provided family-friendly policies. It rests on a private market for day care and is accompanied by a division of household work by gender that is about as equal as Sweden's.

<sup>114</sup> Patrick Heuveline, Jeffrey M. Timberlake & Frank F. Furstenberg, "Shifting childrearing to single mothers: Results from 17 Western Countries" (2003) 29 *Population and Development Review* 47-71. The probabilities reported (p.56 of the article) are for 1999.

<sup>115</sup> For an interesting discussion of the negative effects of parental stress on child development see Sue Gerhardt, *Why Love Matters: How Affection Shapes a Baby's Brain* (London: Routledge, 2004).

The Canadian approach to supporting lone parents involves income transfers, mostly while they are not employed. Successive Canadian governments have increased the transfers to low income parents to improve the situations of lone parents and their children. A danger often associated with this approach is *welfare dependency*. There may be an attrition of skills, confidence, and motivation during a prolonged period of non-employment. This is most likely to be the case for those with less education and, consequently, a reduced capacity to retool for a return to employment. For the less well-educated, the attractions of paid employment are further reduced by the low differential between the transfer income they receive and the level of earnings available to them. At some times, in some countries, shifting from welfare to employment has implied a fall in real income, especially when in-kind transfers like access to dental care and prescription drugs are taken into account.

A *constructive* policy response to this has been 'in-work benefits'.<sup>116</sup> These often involve a requirement that makes continued receipt of benefits contingent on taking employment, combined with a post-employment transfer to ensure that taking a job does not reduce the recipient's income. The Canadian self-sufficiency project is a long-term experiment testing the effects of in-work benefits. The experiment compares a large group of single-parent welfare recipients to whom the in-work benefits were provided with another large group who continued to rely on welfare alone. Coercion was not used to secure participation. The results have been very positive. Employment rates among those who took-up the program have been about double those who did not. Overall, the accumulated research suggests that the likelihood of benefit dependence can be reduced by suitably designed income transfer programs, that

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<sup>116</sup> An alternative response might be punitive reductions of welfare benefits. This section is drawn from Richard Blundell, "Work incentives and 'in-work' benefit reforms: A review" (2000) 16 *Oxford Review of Economic Policy* 27-44.

provide employment incentives. Whether the *long-term* effects on labour market outcomes are positive is not currently clear.<sup>117</sup>

Return to the premises of this section. Many women during their child-rearing years are subject to unreasonable work stresses and low income is often caused by lone parenthood. What do the policy models described above suggest? If there is a concern with the welfare of children it makes sense to transfer income to lone parents. Governments in Canada already do that. Whether they have got the amounts right remains a question. Lone parenthood increases the risk of detachment from the labour market. There is, however, good evidence suggesting that programs can be designed that result in reattachment (in the short term at least). The likelihood of detachment from the labour market as a result of lone parenthood can also be reduced where the terms and conditions of employment are family-friendly, and where child care is readily available. In the Nordic countries the first of these two conditions seems to have been met largely through the concentration of women's employment within a large government sector. Legislation and subsidies might produce the same outcome in the private sector. But the economics of such policies would require very careful scrutiny.<sup>118</sup>

## B. Facilitating transitions

Increasing productivity requires the redeployment of labour from less to more productive employments. Consequently, all capitalist economies display high rates of both job destruction and creation.<sup>119</sup> What policy measures facilitate the transitions between jobs? There has been recent interest in the labour market institutions of Denmark. This is because in the 1990s

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<sup>117</sup> There is a detailed evaluation of the Canadian program in David Card & Philip K. Robins, "Do financial incentives encourage welfare recipients to work?" (1998) 17 *Research in Labor Economics* 1-56.

<sup>118</sup> A reasonably early discussion of these policy issues can be found in, Economic Council of Canada, *The New Face of Poverty: Income Security Needs of Canadian Families*. Ottawa, 1992.

<sup>119</sup> Steven J. Davis, John C. Haltiwanger & Scott Schuh, *Job Creation and Destruction* (Cambridge, Massachusetts: MIT Press, 1996).



Denmark's economic growth accelerated, its unemployment rate fell, within the context of a characteristically Scandinavian low level of inequality (albeit one that rose a bit during the same period). Denmark has become, for many, a policy model. Its excellent economic performance over the last decade is often attributed to its policies promoting labour market flexibility.

Three features of Denmark's labour market policy are of particular interest. Throughout the postwar period it has been easy to dismiss employees: "Due to non-restrictive employment protection legislation, which allows employers to hire and fire workers at short notice, the Danish system has a level of flexibility comparable to liberal labour markets in Canada, Ireland, the United Kingdom and the United States ...".<sup>120</sup> Early in the 1990s labour market policy was modified in two significant ways. Wage negotiation was substantially decentralized, rendering it more sensitive to market forces. In addition, the active labour market policy that it shared with other Scandinavian countries became more aggressive in the following ways. The duration and levels of unemployment insurance entitlement were reduced (but remained more generous than Canada's). Added to this system was a more aggressive approach to 'activation'. What this means in practice is a requirement that an unemployed person receiving benefits either accept a job or enter a training or educational program, this reinforced by a social worker who closely supervises whether or not the benefit recipient actually goes to work or turns up for training.

Arguably, the labour market sources of Denmark's recent economic success, then, include unregulated hiring and firing, market-sensitive wages, and relatively aggressive measures to induce the recalcitrant to take jobs or to equip themselves for them.<sup>121</sup> This is combined with relatively generous income support during labour market transitions, and a public

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<sup>120</sup> Per Kongshøj Madsen, "Security and flexibility: Friends of foes? Some observations from the case of Denmark" in Auer & Cazes, eds., *Employment Stability in an Age of Flexibility ...*, *op.cit.* at 51. See also Per Kongshøj Madsen, "The Danish model of 'flexicurity': A paradise - with some snakes" in Hedva Sarfati and Giuliano Bonoli, eds., *Labour Market and Social Protection Reforms in International Perspective: Parallel or Converging Tracks?* (Aldershot: Ashgate, 2002) at 243-265

<sup>121</sup> Denmark also largely abandoned macroeconomic stabilization policies. Its policies became *monetarist*. See Martin Marcussen & Mette Zølner, "Monetarism and the masses: Denmark and Economic Integration" Paper presented at the *Conference on the State of Denmark*, Dartmouth College (January, 2004).

sector that is almost as large as Sweden's, providing family-friendly jobs to a significant proportion of female employees. This constitutes an interesting combination of flexibility and security, which seems to work economically - certainly in terms of economic growth.

In Denmark in the 1990s the formerly unemployed have been moved out of the labour market into various leaves and training.<sup>122</sup> This reflects the complexity of labour market flexibility. There is a range of possible statuses between which people can shift: employment, apprenticeship, self-employment, unpaid work in a family enterprise, education or training, unemployment, retirement, 'inactivity' including care for children or others, any other forms of 'inactivity', and community or military service.<sup>123</sup> The increase in the range of quantitatively important transitions is no doubt related to rising female labour force participation. But most of the transitions listed above involve significant numbers of men too.

One might respond to this complexity in one of two ways: the labour market is too complicated to allow implementation of a single, coherent, set of policies to facilitate transitions; *or* the volume and complexity of transitions *demand*s a coherent policy. Schmid chooses the second option. He characterizes the transitions as 'risk' and recommends an insurance approach to it. The insurance scheme, he argues, should incorporate these principles: education and training to limit skill attrition during periods out of employment; the extension of income security to transitions between employment statuses including full- and part-time employment; the extension of income security to those whose earning capacity is reduced as a result of child or adult care obligations; income security for those who become unemployed; and income replacement in case of disability or retirement. This system would constitute a "new

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<sup>122</sup> This can be seen as a less impressive feature of the 'Danish miracle'. The fall in unemployment came through the movement of people out of the labour force rather than into employment. See Wim van Oorschot & Peter Abrahamson, "The Dutch and Danish miracles revisited: A critical discussion of activation policies in two small welfare states" (2003) 37 *Social Policy and Social Administration* 288-304.

<sup>123</sup> Unless otherwise specified the source for the next section is Günther Schmid, "Employment insurance for managing critical transitions during the life cycle" in Auer & Cazes, *Employment Stability in an Age of Flexibility*, *op.cit.* at 63-82.

employment insurance” that “should provide some cover for the risks related to the standard employment relationship” (p.75).

Schmid, rather unsystematically, gives examples of the sorts of policies he has in mind. They include “the entitlement to (negotiate on) an intermediate employment status between part-time and full-time work, supported perhaps by a general part-time unemployment benefit scheme conditional on certain circumstances” (p.75), “minimum standards to protect people in a weak bargaining position. For example, on-call work should be restricted by setting a minimum working time” (p.76), “treat multiple employment relationships, usually a series of part-time jobs held simultaneously, as one regular employment relationship recognized as such in law” (p.76), “extended employment insurance ... would also cover the risk of income volatility” (p.76), “Concession bargaining or efficient employment contracts ... that ... combine wage goals with employment goals, for instance working-time flexibility or employability security” (p.77), and “all kinds of work-sharing” (p.78).

Schmid’s preferred policy design would reduce the income risks posed (he thinks) by the new economy. It is possible that some sorts of flexibility would be increased by it. Confronting less risk, employees and potential labour market participants might become less defensive with respect to the organization of their work, or with respect to the protection of jobs once they have them. Alas, he includes absolutely no discussion of the costs the sort of program that he proposes - costs that would include not only the transfers of income through the tax system but also the limits imposed on employers in their attempts to configure work in ways that would allow them to confront domestic and foreign competition.

Still, again assuming that child care poses special labour market problems to (mainly) women, *some* of the sorts of policy that he proposed might be useful. It remains the case, however, that one of the major ways in which labour market transitions are addressed in the European countries used by Schmid as his policy models is easing people out of the labour

market into early retirement, often preceded by a period on disability insurance.<sup>124</sup> This needs to be taken into account in assessing the overall changes in the labour market that have accompanied the development of forms of income security of the sort advocated by Schmid.

### C. Reregulating the labour market

There is a broader interest in ‘reregulating’ the labour market within which Schmid’s approach can be subsumed. *The Supiot Report*, produced for the European Commission, is very much inspired by this premise.<sup>125</sup> It assumes that the economy could at some point in the earlier postwar period be characterized as ‘Fordist’; that is to say, dominated by large firms offering stable jobs that came complete with a set of benefits and legal protections, with trade unions assuring the receipt of the benefits and the enforcement of the protections. Fordism, it is argued, has been in decline for several decades.

This same stability is what has been missing in post-Fordist models of labour organization. Companies still demand a great deal from their employees - certainly much more than before - when it comes to their level of training, adaptability, ability to work on their own, etc. ... but they no longer guarantee these same employees any job security in return. As a result, the terms of the trade-off on which employee status was always based - that is subordination in return for security - are now turned on their head without any new ones taking their place.<sup>126</sup>

Supiot’s subject is Europe. But the same sorts of argument have been applied to North America.

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<sup>124</sup> E.g., Anne-Marie Brocas & Franck von Lennep, “Retirement and the labour market: How do they interact? The example of France” in Auer and Cazes, eds., *Employment Stability in and Age of Flexibility*, *op.cit.* 3-48 and the discussions of disability insurance in the Netherlands and elsewhere in Jelle Visser & Anton Hermerijck, *A Dutch Miracle: Job Growth, Welfare Reform and Corporatism in the Netherlands* (Amsterdam: Amsterdam University Press, 1997) and Leo J.M. Aarts, Richard V. Burkhauser & Philip De Jong, eds., *Curing the Dutch Disease: An International Perspective on Disability Policy Reform* (Aldershot: Avebury, 1996).

<sup>125</sup> What follows is drawn from Alain Supiot, *Beyond Employment: Changes in Work and the Future of Labour Law in Europe* (Oxford: Oxford University Press, 2001); Simon Deakin, “The evolution of the employment relationship” in Auer & Cazes, eds., *Employment Stability in an Age of Flexibility*, *op.cit.* 191-205; Jeanne Fagnani, “Family policy, life cycle and linking working life and family life in France: New factors, new choices to be made” in Auer & Cazes, eds., *Employment Stability in an Age of Flexibility*, *op.cit.* 129-140; and Marie-Anne Frison-Roche, “The joint need for an analogous regulation of industrial relations and globalized markets” in Auer & Cazes, eds., *Employment Stability in an Age of Flexibility*, *op.cit.* 157-170.

<sup>126</sup> Supiot, *Beyond Employment*, *op.cit.* at 26.

The Bernier report produced in Quebec in 2003 is very much inspired by this sort of approach.<sup>127</sup>

Because the Fordist employment contract was reasonably satisfactory, Supiot argues, there was less need for legislative limits on private contractual choices. Under *post-Fordism* there is a large power inequality that demands forceful legislative intervention. The measures required include: a) a broadened definition of employment to reduce 'false self-employment'; b) improved benefits for the self-employed; c) a legal definition of labour force membership broadened to cover career breaks and occupational shifts; d) reinforced and broadened collective bargaining rights to allow negotiation over working hours flexibility; e) entrenched social rights, along the lines of the EU Charter of the Fundamental Social Rights of Workers; f) an aggressive quest for gender equality designed to reduce the damage to women's careers from child-care related breaks in employment and to strengthen the participation of women in collective bargaining ("trade unions and employers' organizations are still essentially male bastions"<sup>128</sup>). Supiot sees labour law as a vehicle for the emancipation of workers.

There is much that is caricatural in Supiot's claims about the shift from Fordism to post-Fordism. Throughout the entire postwar period all the Western economies have contained firms and plants of widely varying sizes. This is because what constitutes an efficient plant size varies

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<sup>127</sup> *Les besoins de protection sociale des personnes en situation de travail non traditionnelle*, Rapport Final du Comité d'experts chargé de se pencher sur les besoins de protection sociale des personnes vivant une situation de travail non traditionnelle (Jean Bernier, Carol Jobin, Guylaine Vallée), Québec: Gouvernement du Québec. Note that the Report does not explicitly address the issue of 'Fordism'. It simply proceeds from observations on the growth of 'atypical employment' to recommend a set of changes designed to increase in various ways the regulation of employment.

<sup>128</sup> *Ibid.* at 229.

markedly by industry.<sup>129</sup> Self-employment was more common in the earlier postwar period than currently, though its incidence has increased over the last decade or so.<sup>130</sup> Union representation of the bulk of the labour force was only present in a small group of Nordic countries. Whatever changes in labour market institutions and processes have taken place are much more modest than Supiot's somewhat breathless language might lead one to suppose.

Still, the substantive issues raised by 'reregulation' might warrant policy changes. However, the relevant literature pretty much ignores possible costs attached to the wholesale reconstruction of employment law being proposed. Or it evades the issue of cost by asserting efficiency improvements from reregulation, without serious justification. Frison-Roche claims that "markets need stability over time, particularly because of the scale of the investments needed in the regulated sectors" and deduces from this that greater legal regulation should be welcomed by "operators" in them, a category that includes investors and employers.<sup>131</sup> To combat the 'flexibility ideology' Supiot says that global competition requires quality products that can only be produced by skilled employees, and skilled employees are more present in a suitably regulated labour market.<sup>132</sup> Neither argument is entirely implausible. But the issues posed by the possibility of efficiency costs as a result of reregulation are important enough to require much more attention.

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<sup>129</sup> For classic studies of variations by industry in optimal plant size in the early postwar period see Joe S. Bain, *International Differences in Industrial Structure: Eight Nations in the 1950s* (New Haven: Yale University Press, 1966); P. Sargant Florence, *The Logic of British and American Industry: A Realistic Analysis of Economic Structure and Government* (London: Routledge & Kegan Paul, 3<sup>rd</sup> ed., 1972), ch. II, 2. For more recent evidence suggesting the efficiency and persistence of small firms in the United States from the mid 1970s to the beginning of the 1990s, see Sang V. Nguyen & Arnold P. Reznick, "Returns to scale in small and large U.S. manufacturing establishments" (1991) 1 *Small Business Economics* 29-46 and Sang V. Nguyen & Seong-Hoon Lee, "Returns to scale in small and large U.S. manufacturing establishments: Further evidence" (2002) 19 *Small Business Economics* 41-50.

<sup>130</sup> "Lessons learned on own-account self-employment in Canada", *Technical Report*, Ekos Associates for HRDC Canada (1998). Much, but not all, of the fall in self-employment before the 1980s was produced by the shift out of agriculture.

<sup>131</sup> Frison-Roche, "The joint need ...", *op.cit.* at 163.

<sup>132</sup> Supiot, *Beyond Employment*, at 192-193. Cite Boyer and Hollingsworth.

## VI. Conclusion: Who is a Casualty and What Should be Done?

It is worth identifying casualties in order to help those identified and reduce the likelihood that others might incur injuries, so to speak. But it is not a straightforward exercise to establish who is a casualty. Jobs and the rewards to them are unequally distributed. Defining as casualties those with worse jobs and worse pay does not get us very far. There is no intellectually respectable case for complete pay and benefit equality. And the available guidelines for distinguishing reasonable from unreasonable inequalities are distinctly imprecise.<sup>133</sup>

Nor is it obvious that those whose labour market outcomes have deteriorated relative to some comparison group should be considered 'casualties'. Men's earnings have fallen relative to those of women (while remaining higher). But, if the previous differential was unwarranted, and it probably was, that fall should be celebrated rather than regretted. Young people's earnings have fallen relative to those of older people of the same gender. But we have no simple way of determining whether the previous ratio was more right than the more recent one. Part of the deterioration in young people's earnings was caused by the poor overall economic performance of Canada during the 1980s and 1990s. It is likely that, had young people's relative earnings not fallen, their employment rates would have declined by even more than they did. More recent immigrants earn less as compared to earlier immigrants. But much of that decrease mirrors that of native-born young people. And it is likely that the skill mix of recent immigrants is less compatible with the structure of demand for skills when they arrive than was the case for

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<sup>133</sup> John Rawls' idea that decisions on inequality made behind a 'veil of ignorance' are likely to generate preferences for more equality provide a philosophical reason for less inequality but not much practical guidance on whether the president of a bank should earn one hundred or ten times the pay of an office cleaner. See Rawls' *A Theory of Justice* (Oxford: Oxford University Press, 1973). Nor, as long as there is a likelihood of a trade-off between equality and growth, can there be a presumption that less inequality is always better than more inequality. On this issue see Michael R. Smith, "Income inequality and economic growth in rich countries: A reconsideration of the evidence" (2002) 50 *Current Sociology* 573-593.

their predecessors. Italians and Greeks who arrived in Canada in the 1960s speaking neither English nor French could occupy manual jobs requiring modest language skills. They often, besides, brought with them highly valued trade qualifications.<sup>134</sup> Their Pakistani or Central American counterparts arriving in the 1990s with limited official language skills confronted a labour market in which many manual jobs had been replaced by service sector employment, for which official language skills are a requirement. It is not surprising that their transitional period is longer and more difficult. In any or each of these instances there *may* be grounds for ameliorative intervention. But simply observing a relativity or change in relativity does not on its own provide those grounds.

#### A. Problems and solutions, more narrowly defined

There are other situations where the case for intervention is less problematic. Lone parents are likely to have low incomes either because they cannot hold down a job or because the only kind of job available to them pays little. Many will have become lone parents through little or no fault of their own. In any case, whatever the causes of lone parenthood, fault cannot be assigned to the children that are supported with a low income. Within the Canadian population there is little evidence of reluctance to support children. There is a problem to be addressed here - that, to some extent, *has* been addressed by consecutive Canadian governments. It can be addressed through some combination of transfers, arrangements that make child-care more accessible, the provision of some working time flexibility to parents and, to avoid welfare dependence, in-work benefit schemes, where appropriate. What that combination of policies should be is beyond the scope of this paper. But the issue is already on the Canadian policy agenda. It should remain on it.

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<sup>134</sup> On the importance of immigration in meeting the demand for skilled trades see, for example, Noah Meltz, *Economic Analysis of Labour Shortages: The Case of Tool and Die Makers in Ontario* (Toronto: Ontario Economic Council, 1982) at 7.



Accessible child-care and greater working-time flexibility would also ameliorate the problem of the 'double bind' - the combination of domestic and paid work obligations that may impose unreasonable stress on women during the child-rearing part of their lives. It would remain the case, however, that to some substantial degree the relative onerousness of domestic work will depend on the outcome of private bargaining between cohabiting couples - something that is, and probably should remain, outside the purview of governments.<sup>135</sup>

Employees who are injured or suffer health damage from their work are literal casualties. To reduce the likelihood of disabling or fatal injuries at work Canada regulates work practices and ties employer contributions to Workers Compensation to their safety performance. More could no doubt be done. Some would argue, however, that it makes little sense to try to eliminate risk from the workplace.<sup>136</sup> It probably *is* true that people vary in their willingness to take risks and it is certainly true that people sometimes *choose* to take them. The accumulation of accidents in the home that are produced by unsafe practices - which certainly exceed those in workplaces - is eloquent testimony to the willingness of people to take risks. The compensating differentials attached to dangerous jobs is evidence of people's capacity to extract payment for risk-taking (or to have unions extract payments on their behalf). Still, policy can always be improved. The reasonably good evidence on accidents that is available can be mobilized in developing and testing the effects of alternative policies.

Insidious risks are another matter altogether.<sup>137</sup> Their effect is cumulative over a fairly long period of time. They usually change the probability of a negative outcome rather than assuring it. And they sometimes only do so when accompanied by another risk (either self-inflicted as in the case of smoking or from the combined exposure to another workplace-

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<sup>135</sup> Esping-Andersen, "Towards a post-industrial...", *op.cit.* concludes that the solution to an unfair domestic division of labour is changed men. He offers no suggestions for accomplishing this.

<sup>136</sup> See, in particular, Viscusi, *Risk by Choice*, *op.cit.*

<sup>137</sup> These might include the effects of stress on mental health though, as we saw earlier, the evidence of large negative effects of work-related stress is not currently overwhelming.

originating agent or agents). Establishing negative insidious health effects is no easy task. Informing employees of the risk they run at work in a timely way is even more challenging. It is, frankly, often impossible. More research on effects can certainly help. But the lags between exposure and outcome mean that insidious risks are unavoidable. This remains a significant policy issue.

## B. Problems and solutions more broadly defined

Making work a bit more family-friendly, providing suitable support to lone parents, and dealing with the risks to health posed in some workplaces, can all be regarded as responses to clear and identifiable problems - though designing solutions to each problem remains a difficult task. Much writing on labour market policies identifies problems and solutions under broader headings. The two broader headings we identified above are flexibility and security. The flexibility approach, often using Denmark as an exemplar, starts from the premise that movement into and out of the labour market and between jobs within it should be facilitated through reducing the income disruptions from those transitions. The security approach, particularly but not only associated with the French regulation school, argues that insecurity in the labour market is the main current policy issue and that the proper policy response is to shore up that security. Policies to shore up security are present in writings within the flexibility tradition and to secure flexibility within writings animated principally by a concern with security. Still, there are distinguishable differences of emphasis in these bodies of policy analysis and advocacy.

*If* Denmark is treated as a model of how to design a flexible labour market it should be clear that it is highly selective in the security it provides. It provides very modest protection against dismissal, it has increased the role of markets in wage-setting, and it uses threats and supervision to push into jobs, education, or training, those thought to need a push. But it does

provide fairly generous income support between employment, until enough time has elapsed for the threats and supervision to kick-in. It provides an interesting mixture of generosity, and both market and administrative constraint. It does seem to have worked well for Denmark, at least in terms of economic growth, within the context of a relatively equal distribution of income.

The alternative approach puts much more emphasis on security. In considering the policy implications of this model it is useful to return to the other feature of the labour market that might be regarded as a problem: the tendency for jobs traits to cluster. Identifiably bad and good jobs, with pay differentials that only imperfectly compensate for the disagreeable characteristics of the bad jobs, might be thought of as a problem, possibly warranting policy intervention. There are, it will be recalled, two main explanations for the clustering of job traits.

The first says that it is efficient for some jobs to offer distinctly generous wages and working conditions. Doing so improves productivity by more than the associated increase in labour costs. By the same token, it is not necessary to offer such generous working conditions where work is readily supervised. A Supiot-like reregulation of the labour market would have the effect of upgrading conditions of those in bad jobs and reducing their disadvantage as compared to those in good jobs. This would also reduce the extent of disadvantage of particular identifiable groups - perhaps women, the young, and visible minorities.

The difficulty with this is that this efficiency wage mechanism only works because there is *relative* advantage. In one version of the efficiency wage argument the productivity gain comes by raising the cost of quitting or being dismissed for shirking. In the other version it comes by engaging the loyalty of employees through the gift of a wage that is higher than the market requires. Forcing up the relative compensation of the less advantaged would, then, eliminate the differential upon which the higher productivity of the recipient of the 'efficiency wage' rests. Forcing up the wage of those in bad jobs would reduce earnings differentials. Those differentials might also be reduced through a decrease in the productivity and wages of

those in good jobs as the incentives to work hard provided by an efficiency wage are lost. The latter outcome is not obviously desirable.

Insider-outsider theory provides the other explanation for the clustering of job traits. Its core assertion is that obstacles prevent those outside an organization from competing for the jobs of those already employed within it. Those obstacles include wages set by governments and trade unions that exceed those that would be set by the market. In these latter two cases there is no claim that there are efficiency advantages to the wages set. Quite the contrary.

Now, as we saw earlier, the groups whose positions in the labour market show the most marked evidence of *deterioration* relative to their predecessors are young people and immigrants whose shared characteristic is that they are labour market entrants.<sup>138</sup> Suppose that, as advocated by Supiot, collective bargaining were reinforced and employment 'reregulated'. Suppose, further, that the effect was to broaden the range of jobs with desirable traits rather than to lead to a reduction in the quality of better jobs (the possibility mooted above). How would this affect new labour market entrants? There is surely some risk that they would confront an even more difficult transition. *Insiders* - union members, who are already employed (or in some cases on lay-off), vote on union leaders and policy. The interests of *outsiders* do not feature all that prominently in their set of preferences. Moreover, insofar as reregulation increases labour costs it is likely to reduce employer interest in hiring new labour market entrants who, by definition, lack work experience and the higher productivity that come from that. If insider-outsider theory explains the clustering of job traits it would follow that reregulation would lead to a further deterioration in the labour market situation of those whose situation has already deteriorated.

The same thing would be true of increases in costs to employers caused by *legislated* employer obligations to provide parental leave and work-time flexibility, unless the measures

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<sup>138</sup> Women's lower average pay means that they may be disadvantaged relative to men. But their position has improved rather than deteriorated.

generated increases in, say, employee morale and, in turn, productivity increases that were large enough to offset the increases in costs. Such an outcome is possible, but there is no reason to think that it is a certainty.

That a measure comes with an efficiency cost is not in itself a reason not to enact it. Fairness is a proper policy rationale. But, where fairness concerns *do* underlie a policy choice it is important to be explicit on the particular unfairnesses that are being addressed and to be able to show that addressing one situation of unfairness does not cause another one. Explicitness on possible or likely efficiency losses is also clearly appropriate. They are pertinent in the decision on whether or not a reforming measure is worth the trouble of its enactment. Note, in this respect that income transfers to lone parents as well as training and education subsidies are less likely to be disruptive because they can be funded out of general tax revenues the cost of which can be spread across the whole tax-paying population.