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Overview of Evolution of the Canadian Labour Market from 1940 to the Present

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by
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Abstract

This document paints a historical picture of the development of the labour market, of how governments saw unemployment and of the economic policies adopted to combat it.

The Canadian labour market and industrial structure have changed a good deal since the 1940s. Today Canada's industrial structure consists mainly of service industries. The labour market is becoming increasingly complex. Workers need more time than before to find another job, non-standard forms of work are increasing and members of the labour force who do not have the basic skills necessary for this new economy have difficulty participating fully in the labour market.

The federal government's view of unemployment and the methods used to combat it have also changed considerably since the 1940s. From an essentially Keynesian outlook to one of laisser-faire, the policy on combatting unemployment has evolved considerably.

Today the policy on promoting employment and combatting unemployment has become more eclectic, reflecting the many dimensions and facets of the problem (promoting demand for goods and services, making employment more profitable than benefits from social programs, ensuring that there is a match between skills and needs, encouraging worker mobility, reducing disincentives to work and barriers to employment and entrepreneurship, etc.). There is also a certain convergence of approaches and policies at the international level. The approaches set out in Part II of the *Employment Insurance Act* fit well into this context. They reflect the need for programs involving active intervention in the job market with a view to reducing unemployment and finding steady employment for unemployed workers.

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1. Introduction

1.1 Purpose of paper

This paper provides a historical portrait of the evolution of Canada's economy and labour market and of federal government anti-unemployment stratagems. It accordingly highlights the structural changes in Canada's labour market that have occurred since the 1940s. The paper draws a parallel between the evolution of the economy and the labour market since the 1940s, and the evolution of the concept of unemployment and the policies adopted by the federal government to combat it.

The portrait presented in this paper is far from complete and tends to focus on the elements of labour market evolution that have led to the requirement for the federal government to adapt active labour policies against unemployment or to reduce its impacts. We have used the information available to us, which consists of several public documents that we believe faithfully recount Canada's economic development since the 1940s. In several cases, we provide extracts taken directly from these documents to describe the phenomena and developments presented in this paper.

In the paper we will use many statistics from a number of sources; unfortunately, not all of these sources are strictly comparable, especially as regards statistics for the pre-1976 period. It is therefore probable that the statistics reported in this paper differ from those that could be identified from other information sources; in every case, however, we believe that the statistics used accurately reflect the phenomena they describe and that use of alternative sources would not change our descriptions of those phenomena.

1.2 Organization of paper

The remainder of the paper is organized as follows. The evolution of the economy and the labour market since the 1940s is presented in four subperiods: 1940 to 1970, the 1970s, the 1980s and the 1990s. In the case of the 1990s, we have opted to discuss the 1990-1995 period leading to the 1996 employment insurance program reform. In the case of each subperiod, we will discuss the major driving forces of the economy and of labour market evolution, federal economic policies concerning unemployment and the methods the federal government adopted to combat it or reduce its impacts, and we will present what in our view were the major labour market developments.

2. 1940 to 1970: Golden Age of Canada's Labour Market

2.1 Major driving forces of the economy and of labour market evolution

The extent of the economic effort brought to bear during and after the Second World War had such an impact that the Canadian economy became highly industrialized in less than 10 years. As a result of the high level of economic activity following the end of the war, both employment and national income continued at high levels. The following paragraphs, drawn from the 1948-1949 Canada Year Book, provide a good description of some of the factors that contributed to maintenance of employment and income during the post-war period.

Increased investment in capital goods - Spending on capital goods and in housing construction increased quickly immediately after the war. This was followed by a strong demand for construction materials and machinery for equipping factories and for construction of houses and other immovables. Determining factors for capital spending were the general need for increased production facilities and a heavily accumulated demand for modernization, favourable market prospects, the availability of investment funds created by wartime savings and current revenues, and a money market that favoured investors.

Increased personal spending for goods and services – Personal spending for goods and services also increased greatly in the period right after the end of the war. A major part of the increase stemmed from much heavier purchases of durable consumer goods such as automobiles, home furnishings and accessories. The buying power that gave consumer demand its strength resulted from personal savings accumulated during the war and growing current revenues, both in terms of salaried workers and the unemployed. In the post-war period, personal income was supplemented by increased payments by governments in the form of new social security benefits and some non-periodic payments such as allowances to veterans and the refund of the compulsory savings portion of income tax.

Sustained high volume of exports of goods and services – The largest share of Canadian exports during the war, in addition to foodstuffs and some non-specialized products consisted of munitions and war materials produced in large quantities but which were no longer in demand after the end of hostilities. The maintenance of export markets after the war demanded a vast transformation of production, and in the circumstances, it is remarkable that the annual value of

Canadian exports during the transition period never fell below two-thirds of the 1944 level, the year that marked the high point of the war effort. Purchases made in Canada after the war by countries that had been devastated were supported by substantial export credits extended by the Canadian and American governments as part of a European recovery program.

While the three factors mentioned above – increased investment, higher consumer spending and significant exports, - contributed to a demand for goods and services that guaranteed employment and at higher incomes, the strong increase in demand for goods and services in the transition period also had some negative aspects. It also strongly intensified inflationary pressure on the Canadian economy at a time when it had not yet entirely returned to civilian production. It also contributed to foreign exchange problems by causing an increase in imports from the United States. A drop of annual government spending for goods and services of about 60 percent during the same period, added to a surplus budget rather than a deficit, exercised a restrictive influence on inflationary pressures, while the gradual relaxation of wartime regulations and the continuance of some important regulatory functions kept inflationary pressures from imposing their full force on the economy. *Canada Year Book, 1948-49, pp. xxxi-xxxiv.*

The period of phenomenal economic increase that began in 1945 continued for a dozen years. In 1957, the economy entered its most serious recession since the war. Private investment had started to slow down in the fourth quarter of 1957 and continued to decline until 1962.
The three main factors for the drop in economic activity in 1957 were a slowdown in business capital investment, a decrease in exports and the use of large accumulated inventories to satisfy consumer demand to the detriment of new production. The unemployment rate, which was between 3 and 4 percent for most years of the 1950s, climbed to more than 7 percent in 1958 (Canada Year Book, 1959).

Although the 1960s had started with a lull in the Canadian economy, the favourable economic winds that prevailed after the war soon returned and the economy began to prosper again. By the end of the 1960s, largely because of the American war effort in Vietnam, the economy was working above capacity. The statistics were remarkably good for the whole country. Annual economic growth reached 5 percent on average while the annual rate of inflation remained below 3 percent for most of the 1960s (Hunter, 1993).

2.2 Federal economic policies

The federal government's economic policy during this period was based on the theories developed by the renowned economist J.M. Keynes, who maintained that the employment (or unemployment) level depended on the level of national income; unemployment was seen as the outcome of inadequate overall demand. Labour market policies designed more specifically to improve labour market adjustment mechanisms were therefore not adopted against unemployment. This concept of unemployment persisted until the late 1950s.

The federal action strategy against unemployment during this period was instead based on a macroeconomic policy focussing on stabilization of income and employment. The income and employment stabilization policy operated through a number of factors influencing the components of overall demand: private consumption, investment, foreign demand and public demand.

The federal action strategy gave prominence to use of income security programs, a low interest rate policy and financial assistance measures for housing targeting individuals. The 1940 *Unemployment Insurance Act* and the 1995 Act (which improved the 1940 Act) were some of the instruments used by the federal government to stabilize incomes in slack economic periods.

Following the 1957-1958 recession, when the unemployment rate rose above 7 percent, the federal government implemented a new economic policy based on a different concept of unemployment. Bellemare and Poulin Simon (1986) describe this concept as the “institutionalist” approach to unemployment. According to this approach, unemployment was not particularly the outcome of inadequate overall demand but rather of the system's inability to respond effectively and quickly to changes in the geographical structure of production and demand resulting from changes in consumer tastes, relocation of capital, and technical and job-related changes. If the problem is structural, although overall demand may be sufficiently high, the labour market will be unable to respond to it adequately, even where unemployed labour is available. As a result, there may be shortages of skilled personnel in specific economic sectors, occupations or regions. In these circumstances, a Keynesian policy to stimulate overall demand by means of macroeconomic measures may merely lead to bottlenecks and create inflationary pressures.

Like Keynesian unemployment, "institutional" unemployment is also involuntary. To counter it, specific measures need to be adopted, including an active labour market policy combined with stimulation of overall demand. This was the beginning of Canadian government labour market policies. After a period of gestation from 1960 to 1966, the federal government placed more emphasis on job training programs and the placement service as instruments to combat structural unemployment.

2.3 Major labour market developments

2.3.1 Urbanization and industrialization of Canada's society and economy

At Confederation in 1867, Canada's population was basically rural. There were no major cities as we know them today and about 85 percent of the population lived on farms or in villages. By the late 1960s, Canada's population had increased sixfold and the urbanization rate was 76 percent. In addition, 42 percent of the population lived in cities of 100,000 or more residents or in major metropolitan regions. Urbanization resulted in a transfer of economic activity from agriculture to industry and services (Ostry and Zaidi, 1979).

The main change in the industrial composition of the Canadian economy between 1940 and 1970 was the decline in the agricultural sector, especially after 1941. In 1941, about 26 percent of Canada's labour force worked in the agricultural sector. Thirty years later, in the late 1960s, the agricultural sector accounted for no more than 6 percent of the labour force (Ostry and Zaidi, 1979, Table V-1). This decline in employment in the agricultural sector was the result of a substantial increase in productivity brought about by mechanization, an increase in the size of farms combined with improved fertilizers and seed, and weak growth in the demand for farm products.

Over this period, the fall in agricultural employment led to a remarkable change in the composition of Canada's labour force. The evolution of the labour force over this time was characterized by a marked transfer from so-called blue-collar jobs (manufacturing sector manual workers, mechanics, construction workers, labourers, and so forth) of a more manual nature and requiring few skills and little training, to so-called white-collar jobs (recipients of income from property, managers, professionals, clerks, salespeople, insurance agents and so forth). The 1940s were the dividing line in terms of the transformation of the occupational composition of the country's labour force. In 1951, for the first time in Canada's history, the census reported fewer workers in primary sector jobs (farmers, fishers, hunters, trappers, loggers, minors, etc) than blue-collar workers: the industrial age had arrived! However, the 1951 census also reported more workers in white-collar occupations than blue-collar workers. Together, professionals, managers and salespersons made up the largest occupational group in the labour force. The post-industrial era had already begun as well (Ostry and Zaidi, 1979, Table V-3).

It should be pointed out that these changes mean that workers are constantly adjusting to the needs of employers. As the skills required to participate actively in the labour market change, individuals strive to acquire these skills to meet employers' needs. Unfortunately, this adjustment is not perfect and certainly does not happen immediately. As a result, there can be surpluses and shortages of certain types of labour that, on the job market, translates into positions remaining vacant for long periods, workers with outdated skills, workers unemployed for long periods, and changes in salaries in some occupations relative to others. The profound changes experienced by the Canadian labour market between 1940 and 1970 created the need for an increasingly more skilled and more flexible labour force.

The movement of people off the farms (mostly the young people, i.e., newcomers to the non-agricultural labour force) during the 1950s and 1960s went a long way to meeting the growing post-war demand for labour. This shift in labour, combined with international immigration and more women in the labour force, were major factors in eliminating the shortage of new workers during the period of rapid expansion in the 1950s. The result was that labour adjustment problems that might have been expected because of major change in the industrial and occupational composition of the labour market were relatively minor (Ostry and Zaidi, 1979).

2.3.2 Feminization of the labour market

Many women entered the labour market during the war or moved from low-paid domestic or service jobs to well-paid manufacturing jobs. For example, it has been estimated that the proportion of women in the aircraft industry increased from 3 percent in 1939 to approximately 30 percent in 1944 (Hunter, 1993). In the post-war period, many women left their jobs to start a family – and the baby boom. It has been estimated that between 1945 and 1946, the number of women employed in non-agricultural industries dropped by more than 300 000 or 25 percent, while the number of male jobs in those industries increased by approximately 500 000 or 18 percent.

Beginning in the 1960s, female participation in the labour market began to climb steeply. Between 1911 and 1951, the participation rate of women (percentage of women of working age on the labour market) took an average of eight years to increase by one percentage point. In 1951, the female participation rate was approximately 24 percent, compared with 19 percent in 1911 – a rise of 5 percentage points over 40 years. Ten years later, in 1961, the female participation rate had climbed by 5 percentage points to around 30 percent. By the late 1960s, it had grown by a further 10 percentage points to approximately 40 percent (Ostry and Zaidi, 1979, Table II-1).

The rise in the female participation rate during the 1960s was mainly a reflection of the increase in the number of married women participating in the labour market. For example, the participation rate of single women during the 1960s remained more or less the same throughout the period, since it was 51.9 percent in 1960 and 49.2 percent in 1970. Over the same period, the participation rate for married women rose steeply from 19.0 percent in 1960 to 32.5 percent in 1970 (Ostry and Zaidi, 1979, Table II-6).

The growing participation of women in the labour market considerably changed the composition of unemployment. Before their mass entry onto the labour market, the female unemployment rate was below the male rate. In the late 1960s, the female unemployment rate matched the male rate (Ostry and Zaidi, 1979, Table VI-2).

3. The 1970s

3.1 Major driving forces of the economy and of labour market evolution

Hunter (1993) says that the economic climate of the 1970s was as changing and unstable as a late winter day when the forecast is: [TRANSLATION] *"... bright and sunny in the morning, then overcast with snow showers, risk of hail or freezing rain followed by rain."*

Hunter (1993) describes the economic change that took place in the 1970s as very strong, with growth at more than 4 percent per year on average, but with marked variations from that average from one year to the next, ranging from 1.2 percent at a minimum to 7.5 percent at a maximum. Unemployment also fluctuated between 5.3 percent and 8.4 percent over this period. However, the 8.4 percent rate posted in 1978 was a new post-war record. The rise in the consumer price index – the measure of inflation – also varied substantially between 2.9 percent and 10.9 percent during the period. The 10.9 percent inflation rate of 1974 was the second highest of the post-war period, exceeded only in 1948.

As the 1970s began, inflation had been brought under control, and was only 3.3 percent in 1970. The federal government was watching both inflation and unemployment; until 1974-1975, however, its policies were directed somewhat more against unemployment than inflation, since thousands of young baby boomers were flooding the labour market looking for summer jobs and full-time work.

In 1974 and 1975, however, with the jump in OPEC oil prices and various other factors, inflation climbed to more than 10 percent annually, resulting in public concern. In September 1975, the Governor of the Bank of Canada announced that the Bank would henceforth strive to reduce inflation by maintaining tight control of the money supply. A short time later, the government joined the Governor in his fight against inflation and presented an anti-inflation program consisting of controls over government spending, structural policies for the energy supply and regulation of prices and incomes.

Once the anti-inflationary policies were fully implemented, inflation began to fall, dropping from 10.8 percent in 1975 to 7.5 percent in 1976. On the other hand, however, unemployment rose from 5.3 percent in 1974 to a peak of 8.4 percent in 1978. (Hunter, 1993, *The Employment Challenge*, pp. 221-223)

3.2 Federal economic policies

Throughout the 1945-1975 period, unemployment in Canada was generally seen as involuntary and government action was considered essential to stimulate overall demand and employment. Since the late 1950s, however, the institutionalist approach to unemployment, according to which it was necessary to combine a stabilization policy with active labour market policies, has made progress. But according to a number of analysts, the two popular theories concerning unemployment prevailing since the end of the Second War were definitely challenged in the mid-1970s (Bellemare and Poulin Simon, 1986 and Campbell, 1991). The laisser-faire philosophy regarding unemployment, rooted in liberal economic thought, became the dominant orthodoxy. Advocates of this approach believed that the inflationary anticipations of economic agents nullify macroeconomic employment stabilization policies, which merely promote inflation rather than reduce unemployment. The structural unemployment argument was very well stated by Bellemare and Poulin Simon (1986).

> [TRANSLATION] "They [workers] look for and take a job provided that the resulting financial gains will be more than they receive from unemployment insurance or welfare. The income transfer programs adopted since the last war cut the costs of looking for work and contribute to increasing the length [of unemployment?] and labour force instability. A portion of unemployment is apparently the outcome of this rational behaviour. Furthermore, this trend is stronger because the demographic composition of the labour market has changed in recent decades: there are more young people and women."
>
> *(Bellemare and Poulin Simon, 1986, p. 192)*

According to this argument, certain supply factors as well as social programs may also contribute to the rise in unemployment. This situation cannot be corrected by traditional macroeconomic policies or labour market policies. The government and workers themselves are generally considered mainly responsible for high unemployment. The proposed policies therefore target them.

Bellemare and Poulin Simon (1986) summarize federal economic policy strategy of that period under four points. A strict monetary policy combined with lower money supply growth; neutral public spending with respect to the economic cycle, in other words public spending should grow at the same pace as average gross national product over the cycle; a wage and price control policy; and structural policies designed to correct disincentives to taking a job. The goals of these strategies as regards the labour market were to cut the costs of unemployment insurance and welfare, more effectively control unemployment insurance abusers and protect the work incentives of certain groups of unemployed workers, especially chronically unemployed people and those obliged to turn to welfare (Bellemare and Poulin Simon, 1986). The 1975 and 1978 amendments to the *Unemployment Insurance Act* were part of this strategy, including an increase in the maximum period of disqualification for beneficiaries who left their jobs voluntarily without just cause in 1975, and tightening of the entitlement standard and reduction in the benefit period in 1978.

3.3 Major labour market developments

The major labour market developments during the 1970s were the continuing increase in female participation in the labour market and the arrival of a large number of baby boomers.

3.3.1 More women enter the labour market

The female participation rate, which was 40 percent in the late 1960s, continued to grow until it reached about 50 percent by the late 1970s. Over this period, the higher participation rate applied both to single and to married women, and for all age groups, with the exception of women aged 55 and older for whom the participation rate remained relatively stable during this period. In the 1960s, the higher female participation rate was concentrated mainly among married women (Ostry and Zaidi, 1989, Table II-6).

The gradual elimination of social barriers to the participation of women, especially married women, on the labour market, the falling birth rate, growing urbanization of the population, better household appliance technology and development of commercial substitutes for many household tasks, including dry cleaning, frozen meals and catering, the trend to a shorter working week and the rapid increase in part-time work – these were some of the many factors that promoted arrival of women on the labour market, by making it increasingly possible for them to combine household tasks and work (Ostry and Zaidi, 1979).

Another significant factor for the growth in the female participation rate was the increasing improvement in their educational levels, since participation in the workforce is strongly influenced by level of education. Generally speaking, participation rates rise significantly with educational levels. In the mid-1970s, for example, approximately one quarter of women without a high school diploma were in the labour force, compared with approximately half of those with a high school diploma and approximately 70 percent of those with a university degree. In 1945 approximately one fifth of university registrations were by women. Thirty years later, in the mid-1970s, more than 40 percent of university registrations were by women (Statistics Canada, 1983, Series W340-357).

Turning now to unemployment, the 1970s were bad years for women. During that decade, the female unemployment rate worsened greatly compared with the male rate. Around 1970, the female unemployment rate was slightly higher than the male rate (5.8% compared with 5.7%). Over the 1970s, the difference between the female and male unemployment rates consistently increased. The female unemployment rate was 1.3 percentage points above the male rate in 1975 and 2.1 percentage points above by the late 1970s.

The unemployment insurance liberalization in 1971, which promoted higher female participation in the labour force but also reduced the individual cost of unemployment and looking for work, and the existence of a larger concentration of the female labour force in some occupations, thus creating a female labour surplus in those occupations, are some of the factors put forward to explain the higher unemployment rate among women compared with men during the 1970s (Ostry and Zaidi, p. 153).

3.3.2 Advent of baby boomers on the labour market

The other major labour market development was the mass entry of baby boomers onto the labour market, which peaked in the mid-1970s. The advent of the baby boomers (15 to 24 years of age) was responsible for 40 percent of the growth in the total labour force between 1970 and 1974 and 30 percent of the growth for the 1970s as a whole. Young people aged from 15 to 24 represented 23 percent of the total labour force in the early 1960s. At the peak of the baby boomers' entry onto the labour force in 1974, young people aged 15 to 24 represented 28 percent of the total labour force.

Because of their mass entry onto the labour market during the 1970s and their lack of labour market experience, young people saw their unemployment rate rise substantially during the same decade. During the 1950s and 1960s, the youth unemployment rate was ahead of the overall unemployment rate by less than 3 percentage points. In the 1970s, the youth unemployment rate was, on average, 4.4 percentage points above the general rate, and the spread reached a maximum of 6.2 percentage points (or a 76% spread) compared with the overall unemployment rate in 1977, when the youth rate was 14.2 percent.

4. The 1980s

4.1 Major driving forces of the economy and of labour market evolution

The major economic event of the 1980s was definitely the 1981-1982 recession. The 1985 Canada Year Book describes the main causes of the deepest and longest recession of the Canadian economy since the Second World War as follows.

At the start of the 1980s, Canada's economic performance was largely ruled by the inflationist movements of the 1970s. In the face of growing concern caused by inflation, companies raced to carry out their investment projects before interest rates and construction costs rose any further. Once inflationary pressures eased in 1981, capital spending in certain sectors, including forestry operations, also began to slow or decline. Increased investment in the late 1970s and early 1980s was a major source of job creation so that employment continued to grow at an annual rate of more than 2.5 percent until 1980 and 1981.

Despite employment growth, consumer spending did not increase at the same pace as during previous periods of economic expansion. Between 1977 and 1981, the strongest real annual growth (that is, adjusted for inflation) in consumer spending was 2.6 percent, a rate far below the average annual growth rate of 6 percent that occurred during the growth periods of the 1950s to 1976.

As the inflationist psychology continued to hold in the 1980s, borrowers showed that they were more inclined to borrow, while savers became more and more reluctant to save. In order to get more money, borrowers were forced to offer savers higher interest rates. This was one of the main reasons for the rapid rise in interest rates in the 1980s.

Faced with persistent inflation, monetary authorities in Canada and other industrialized countries resolved to tackle the problem. To this end, in late 1979, the United States Federal Reserve announced that it planned to pay closer attention to controlling growth in the money supply than to preventing fluctuations in interest rates. During this time, the weakness of the Canadian dollar relative to the American dollar led to a much more restrictive Canadian monetary policy than in the United States. Exchange market conditions and a more rigorous monetary policy by the

Bank of Canada resulted in a significant widening of the gap between interest rates in Canada and in the United States.

Interest rate volatility was the main cause of the fluctuation in economic activity in the first part of the 1980s. In late 1979 and early 1980, a period of slower growth in the money supply and high interest rates, the Canadian economy fell into a recession. The economic slowdown was led by those sectors most sensitive to interest rates, including residential construction, durable consumer goods and export goods.

In spring 1980, interest rates fell. This was followed by a sharp rise in the money supply and inflation appeared to be on the rise once again. As a result, from late 1980 to the middle of 1982, the Federal Reserve and the Bank of Canada both restricted monetary growth and interest rates in North America reached historic highs. Continued high interest rates again plunged the Canadian economy into recession in the second half of 1982. In Canada, this recession proved to be deeper, more widespread and longer than any previous post-Second World War recession to date.

In 1982, when it appeared that inflation had been conquered, the U.S. Federal Reserve and the Bank of Canada allowed the money supply to grow rapidly. The fast growth in the money supply and the weak demand for capital left by the recession had the combined effect of significantly lowering interest rates in North America. Lower interest rates in turn acted as a strong stimulus to those sectors sensitive to these rates, including trade in durable consumer goods and residential construction. Moreover, the American economy rebounded strongly in 1983 leading to strong growth in Canadian exports. Expansion in these areas helped Canada emerge from the recession and recover in 1983. The economy continued to grow for the remainder of the 1980s. (1985 Canada Year Book, pp 782-785).

4.2 Federal economic policies

Implementation of the new philosophy concerning unemployment adopted in the mid-1970s continued during the 1980s. Developments in this regard over the latter decade consisted mainly of pressures originating in Commission reports, supporting the argument that it was necessary to substantially reduce the disincentives to work caused by the unemployment insurance program. Increasingly over the 1980s, it was accepted that the unemployment insurance program increased unemployment and must be reformed. This conviction was strengthened by the publication of many economic studies between the mid-1970s and the late 1980s to the effect that the unemployment insurance program, and more specifically its 1971 reform, had served to increase unemployment in Canada.[1]

The three major reports produced in this regard were the report of the Royal Commission on the Economic Union and Development Prospects for Canada (MacDonald Commission) submitted to the federal government in 1985, the Royal Commission on Employment and Unemployment (House Commission) set up by the Government of Newfoundland in early 1985, and the Commission of Inquiry on Unemployment Insurance (Forget Commission) also set up in 1985, by the federal government.

These three reports found that it would be difficult to reduce unemployment without generating additional inflation, unless the national unemployment insurance and income security programs were radically changed. Hunter (1993) identifies the common findings of the three reports, notably:

> [TRANSLATION]
>
> 1. Government policies, especially unemployment insurance and job creation policies, had a negative impact on the efficiency of the labour market and prevented it from adjusting to the evolution in the domestic and international economic situation;
>
> 2. Policies designed to address regional unemployment, such as extended benefits based on regional unemployment rates and job creation problem, did not work and in fact exacerbated the problem because of the impact they had on the attitudes and behaviour of workers and employers alike.
>
> 3. The Unemployment Insurance Plan should return to its original role as a social insurance plan, and should not serve as an income supplement or income support plan. The latter initiative should come from some form of guaranteed annual income plan.
>
> (Hunter, 1993, *The Employment Challenge*, p. 387)

[1] Specifically, Grubel and coll. (1975a), Lazar (1978), McCallum (1987), Miller (1987), Fortin (1988) and Keil and Simons (1990).

4.3 Major labour market developments

During the 1980s, major structural changes were identified affecting both the employment and unemployment facets of the labour market.

As regards employment, changes occurred in the structure and types of employment. More specifically, a polarization phenomenon took place between “good” and “bad” jobs (Economic Council of Canada, 1991a). On the one hand, there were “good” jobs resulting from the exponential growth of information and globalization of economic activity, which helped to increase demand for consistently better educated and more highly skilled labour. On the other hand, there were “bad” jobs offering lower pay and more uncertain employment and income. These “bad” jobs were often “non-standard” types of work, including part-time, short-term and temporary work, work for a temporary help agency and self-employment. According to Economic Council of Canada estimates, these “non-standard” jobs as a whole made up approximately 30 percent of total employment in 1989 and were responsible for approximately 44 percent of the growth in employment over the 1980s (Economic Council of Canada, 1991a).

The factors that contributed to the growth in “non-standard” jobs were related to changes in the make-up of the labour force (and in particular the mass entry of baby boomers and women onto the labour market), industry structure (and in particular the rise in the share of services in the Canadian economy) and the unfavourable labour market conditions during the 1970s and 1980s.

According to the Economic Council of Canada (1991a), more than three quarters of these jobs were in the service sector, more than half were held by women and more than 40 percent were held by young people.

With respect to unemployment, the Canadian labour market was marked by a trend to higher rates; persistent high unemployment; a growing proportion of unemployed workers facing the discouraging prospect of long unemployment; the emergence of interregional variances in unemployment; and an unemployment burden unequally distributed among the various demographic groups (Economic Council of Canada, 1991b).

4.3.1 Trend to a higher unemployment rate

The overall unemployment rate has consistently risen in each decade since the Second World War. During the 1940s, the unemployment rate averaged 2 percent. It rose to 4 percent during the 1950s and 5 percent in the 1960s. Over the 1970s, it reached 6.7 percent and the average for the 1980s was 9.4 percent.

4.3.2 Persistent unemployment rate

Not only has unemployment tended to increase over the last 30 years but it has also been persistent; in other words, it has taken a long time to decline during periods of recovery and economic growth. During the depression of the 1930s, it was ten years before the unemployment rate fell to its pre-depression level. During the 1957-1958 and 1981-1982 recessions, unemployment returned to pre-recession levels only after seven straight years of economic growth.

There are two main components to unemployment: frequency, which measures the percentage of the active population unemployed, and duration, which corresponds to the length of the period of unemployment. The persistent unemployment of the 1980s was due mainly to the high average period of unemployment that marked this decade. It was also a time that saw a sharp increase in the average period of unemployment. In 1980-1981, the average period of unemployment was 14.9 weeks (note that this refers to incomplete duration of unemployment). In 1988-1989, a year in which the unemployment rate was generally similar, the average period of unemployment was 18.1 weeks. Between 1984 and 1987, the average period of unemployment was 21 weeks.

4.3.3 Rise in long-term unemployment

The extension of the average period of unemployment during the 1980s resulted in a major increase in long-term unemployment, that is, in the number of individuals continuously unemployed for 12 months or more. Long-term unemployed workers represented 3.6 percent of all unemployed workers in 1976-1979 and 9.5 percent during the 1984-1987 period. The percentage then fell to 6.9 percent for the 1988-1989 period.

Long-term unemployment increased especially among workers aged 45 and over, where the average period of unemployment rose from 19 weeks in 1980-1981 to a peak of around 29 weeks in 1984-1988. During 1988-1989, the average period of unemployment for workers aged 45 and over was still very high at approximately 26 weeks.

4.3.4 Regional unemployment disparities increased.

The Ontario unemployment rate is normally lower than the national average, while the rate for the Atlantic provinces has consistently been above the average. But the spread between the provincial unemployment rate and the national rate increased substantially during the 1980s in all the Atlantic provinces, Quebec and British Columbia.

4.3.5 The unemployment burden was unequally distributed among population groups

The 1980s were marked by a significant movement of the distribution of unemployment among various population groups. Specifically, older workers (55 to 64) saw a considerable rise in their unemployment. Although they had always posted below-average unemployment rates, the rate for older workers increased by about 2 percentage points between 1981 and 1989, while the average unemployment rate was more or less the same in 1981 and 1989.

The spread between female and male unemployment rates which appeared during the 1970s stabilized. While the female unemployment rate during the 1980s was always higher than the male rate, the spread did not change. A minor slowdown in the rise in the female participation rate in the labour force during the 1980s may have contributed to stabilization of the unemployment rate difference between men and women, by allowing demand for labour (i.e., employment) to catch up with supply (i.e., the labour force).

The most spectacular rise in the unemployment rate occurred among individuals with little education (8 or fewer years). From 1981 to 1989, this group's unemployment rate climbed by 2.5 percentage points to a rate above 11 percent in the latter year.

5. The 1990s

5.1 Major driving forces of the economy and of labour market evolution

Canada's economy in the 1990s was characterized by the 1990-91 recession and action to control budget deficits. The 1997 Canada Year Book describes the events on the Canadian economic scene in the 1990s as follows.

5.1.1 The 1990 recession

The 1990-1991 recession was severe in Canada. It was mainly the outcome of high interest rates caused by unbalanced public finances and restrictions in the money supply applied to check inflation. As a result of the high interest rates, sales of durable goods and particularly homes fell off sharply. House builders suffered the impacts, and businesses were forced to reduce investment in factory buildings and machinery.

Simultaneously, the US economy was faced with similar problems and was also in recession. The US recession badly hit Canadian exports to the United States and the earnings of our natural resource firms. The high interest rates complicated the situation, existing liabilities became more burdensome and businesses were reluctant to borrow more for investment. This decline was quickly followed by layoffs and lower employment, while incomes and personal spending fell.

According to the 1997 Canada Year Book, a significant feature of the 1990 recession was what the media referred to as the “second wave” of declining employment. While fewer people lost their jobs during the 1990-91 recession than in 1981-82, the unemployed workers of the 1990s took more time on average to find another job than their counterparts of the 1980s. In 1991, when finding a job became somewhat easier, Canadians breathed a sigh of relief. However, their hopes were soon dashed when in mid-1992, the number of jobs began falling once again. Those who had lost their jobs knew no relief was in sight for a while.

During the 1990-91 recession, the risk of losing their jobs or seeing their incomes fall put Canadians in a vulnerable position since they were carrying high debt, and their savings were low. Consumer spending fell by 2 percent in 1991. Since Canadians could not borrow or use their savings, the decline in their real income caused by the fall in the number of jobs and the rise in prices inevitably reduced their spending.

Another significant feature of the 1990 recession was the fall in business profits. All through the 1950s, 1960s and 1970s, business profits represented, on average, 11 percent of GDP, and they accounted for 10 percent during the 1980s. The 1997 Canada Year Book reported that in 1992 business profits fell drastically to 5.1 percent of GDP. In that year, businesses were suffering from poor sales and their high level of debt. A record number of 14 317 businesses declared bankruptcy. There was every indication that unemployment would remain chronically high and that many workers who had lost their manufacturing jobs in the early 1990s would never find another one.

The situation began to improve in mid-1993, and production rose by 4.5 percent in 1994. The same phenomenon was seen in the United States. In early 1995, however, the monetary authorities in both countries were afraid that the economy would overheat and that inflation and interest rates would rise again. The ensuing slowdown in the United States led to lower Canadian exports, while businesses in Canada reduced their investment and consumers cut their spending. There was the apprehension of a further recession. Inventories rose, because many business firms could not immediately cut production.

Early in 1996, interest rates fell and US demand for Canadian products recovered. Growth remained slow because of accumulated inventories that had to be disposed of before resuming production. (1997 Canada Year Book, pp. 274-279)

5.1.2 Action against budget deficits

In 1993-94, the federal debt was more than 500 billion dollars and the budget deficit exceeded 42 billion dollars (Finance Canada, 1999). Canada's fiscal position was weak because of the size and fast growth of its debt. In the past, the government could increase its spending to stimulate a sluggish economy. In the 1990s, the public debt and the interest due on it prevented intervention of this type. The 1990s saw a long period of budget restrictions. Public sector employment was cut back substantially, taxes rose and program spending was also cut. In this context as well, the federal government withdrew in 1990 from funding the unemployment insurance program. The budget cuts were merely the reflection of the federal government – and the provinces, which were also struggling with budget problems – applying major measures to correct the situation.

These government budget cuts slowed the recovery during the 1990s, through its knock-on effects on demand for goods and services.

With regard to anti-unemployment policies, the period involving action against deficits also had negative impacts, reducing the budget amounts available for action against unemployment and policies designed to improve the operation of the labour market.

5.2 Federal economic policies

The federal government approach to unemployment during the 1990s reflects a more comprehensive concept of unemployment than in the past. This approach recognizes that unemployment has many causes that require a variety of specific measures.

During the 1990s, the federal government sought to reduce work disincentives in social programs, and especially the unemployment insurance program, in response to the reports of the MacDonald, House and Forget Commissions tabled between 1985 and 1990. The 1990, 1993 and 1995 amendments of the Unemployment Insurance Act were founded on the federal government's concern to reduce the unemployment insurance program's work disincentives.

Like other governments, the federal government was also concerned about other components of unemployment and would therefore resort to active labour force policies to combat unemployment and promote employment.

The basis of this eclectic approach to unemployment was, on the one hand, the major structural changes in the employment market during the 1970s, 1980s and 1990s and the high public debt preventing use of budgetary levers to stimulate the economy and, on the other hand, the June 1994 OECD employment study and the G7 (seven largest industrialized countries) Jobs Summit in July of the same year, which resulted in a consensus in Canada and the other G7 countries (also experiencing major structural changes in their economies) concerning an employment strategy.

The main points of this consensus are set out in a federal government paper entitled *Agenda: Jobs and Growth, A New Framework for Economic Policy*. The points of this consensus more specifically related to labour market policy are as follows:

> "Following the jobs conference in Detroit and the analysis of the OECD we have identified the actions we need to take.
>
> - We will work for growth and stability, so that businesses and individuals can plan confidently for their future.
> - We will build on the present recovery by accelerating reforms so as to improve the capacity of our economies to create jobs.
>
> Both of these elements are essential in order to achieve a lasting reduction in the level of unemployment.
>
> We will concentrate on the following structural measures. We will:
>
> - increase investment in our people: through better basic education; through improving skills; through improving the transition from school to work; through involving employers fully in training and – as agreed at Detroit – through developing a culture of lifetime learning;
> - reduce labour rigidities which add to employment's costs or deter job creation, eliminate excessive regulations and ensure that indirect costs of employing people are reduced whenever possible;
> - pursue active labour market policies that will help the unemployed to search more effectively for jobs and ensure that our social support systems create incentives to work."
>
> *Agenda: Jobs and Growth, A New Framework for Economic Policy, p. 38*

These commitments are reflected in Part II of the *Employment Insurance Act* . The Act mirrors the need for active labour market intervention programs to promote lower unemployment and the return of unemployed workers to stable employment. The employment insurance reform included modernization of the National Employment Service, which provides up-to-date information on potential jobs across Canada, to help workers find employment and employers find workers.

The employment insurance program also includes five types of flexible active measures targeting people who need direct help to return to the labour market. *Wage Subsidies* designed to cut the costs of hiring certain types of workers will help people facing barriers to employment get hired in jobs that may become long-term employment. *Earnings Supplements* designed to make work pay better than social programs, by providing beneficiaries with an opportunity to relinquish employment insurance and return to the job market well before the expiration of their income benefits. *Self-employment Assistance* designed to promote entrepreneurship by enabling unemployed people to start a business, thus creating their own job and sometimes more. Establishment of *Job Creation Partnerships* designed to mobilize community ideas and energies to create durable job opportunities in places where the unemployment rate is high and jobs are few. *Skills Loans and Grants* designed to create a skilled labour force suited to existing job opportunities, by enabling people to attend an educational institution to acquire the specialized knowledge they need to find a job.

5.3 Major labour market developments

The major labour market developments during the 1990s were, in short, continuation of the major structural changes in the job market which began in the 1970s. The preliminary report of a federal policy research committee including representatives of about a dozen federal departments reported, in a chapter concerning evolution of the Canadian labour market, that the trend to higher unemployment, low employment growth , the increasing number of permanent layoffs and, in particular, changes relating to skills had impacted adversely on the job prospects and wages of young people and workers with little education, but were benefiting more experienced and better educated workers (Policy Research Committee, 1996).

This chapter of the research committee's report accurately reflected the structural changes in the employment market which had been going on since the 1970s.

5.3.1 Trend to higher unemployment

The trend to higher unemployment continued during the first half of the 1990s. The unemployment rate increased from an average of 5.0 percent during the 1960s to 6.7 percent during the 1970s, 9.4 percent during the 1980s and 10.2 percent during the first half of the 1990s.

Most of this rise was due to longer periods of unemployment rather than more frequent unemployment (Sharpe, 1996). The average period of unemployment increased to more than 22 weeks during the first half of the 1990s, representing a considerable rise compared with the average of 12 weeks observed during the latter half of the 1970s and 18 weeks posted during the 1980s.

For more than 30 years, the negative social and economic impacts of the growing unemployment rate have been mitigated by a strong trend to higher employment and labour force participation. During the first half of the 1990s, however, unemployment rates continued to grow while labour force participation rates declined considerably. Between 1990 and 1995, the overall Canadian participation rate fell by 2.5 percentage points. Although the drop was evident in all groups, it was more marked among men, youths and older workers and also among workers with less education.

5.3.2 Weak employment growth

The employment growth rate has slackened considerably since the high levels posted during the 1960s and 1970s. Whereas annual growth in employment was, on average, around 3 percent during the 1960s and 1970s, and 2 percent during the 1980s, it did not rise above an average of 0.5 percent between 1990 and 1995.

The expression "jobless recovery" was coined to describe the weak employment market existing since the latest recession. Unlike previous recoveries, where a 1 percent rise in production resulted on average in a 0.5 percent rise in employment, a 1 percent rise in production during the 1991 to 1993 recovery generated only a 0.17 percent rise in employment. Research work seems to indicate that this weakness was attributable mainly to the unusual sluggishness of the recovery in production rather than to a fundamental change in the economy's capacity to create jobs (Cozier and Mang ,1994): Massé, 1995).

5.3.3 Permanent layoffs

During the first half of the 1990s individuals who had lost their jobs permanently made up a higher proportion of unemployed workers. The percentage of unemployed workers who had been laid off permanently rose from an average of 38 percent in 1976 to an average of almost 48 percent in 1995.

Furthermore, despite the fact that the average length of time jobs were held remained unchanged overall, the percentage of jobs lasting less than six months rose substantially, from 46 percent of all jobs during the period from 1981 to 1985, to 54 percent of all jobs during the period from 1991 to 1994.

5.3.4 Change in skill requirements

The rise in demand for highly skilled workers can be seen in the changed ratio of white collar jobs to all jobs. This ratio rose from 53.4 percent in 1971 to 68.3 percent in 1995, while the percentage of blue collar jobs fell from 46.6 percent to 31.7 percent over the same period. (Gera and Massé, 1996, OCDE)

5.3.5 Non-standard employment

Non-standard employment continued to grow as a proportion of total employment over the 1990s. The most common type of non-standard employment and the one that grew fastest by far was part-time employment. While most people who work part time have opted to do so, a growing proportion of individuals work part time involuntarily; this proportion was higher than 30 percent in 1995 compared with 10 percent of part-time workers in 1976.

5.3.6 Labour market participation

The rise in unemployment in Canada during the first half of the 1990s mainly affected the least educated and most vulnerable workers. For example, the unemployment rate for older workers (55 to 64 years of age) has practically doubled over the last 20 years, from 4.2 percent in 1976 to 8.2 percent in 1995. In addition, the difference between the unemployment rates of those without a high school diploma and university graduates was 4.6 percentage points in 1976 and reached 11.1 percentage points in 1995. The situation is even worse for young people with little education. In 1995, the unemployment rate for young people without a high school diploma was 19.3 percentage points above the rate for university graduates, compared with a difference of 13.2 percentage points in 1976.

The lower labour market participation rate for young people coincided with higher registrations in post-secondary educational institutions. Many young people, discouraged by the weak job market, have opted to continue their education. The labour force participation rate for young people dropped by 7 percentage points between 1990 and 1995.

6. Conclusion

In this paper, we have sought to present a historical portrait of the evolution of the labour market, government concepts of unemployment and the economic policies adopted to counter it.

The industrial structure of the Canadian labour market has evolved greatly since the 1940s. Canada's industrial structure today is based mainly on service industries. The labour market is increasingly complex. Workers spend more time than before on finding a job, types of non-standard employment are increasing fast and labour market participants without the basic skills required in this new economy have problems participating fully in the job market.

The federal government's concept of unemployment and its methods of combatting it have also changed considerably since the 1940s. The change has been from an essentially Keynesian policy, marked by manipulation of tax and budgetary levers to ensure full employment, to a laisser-faire policy designed to reduce government intervention in the markets and the disincentives to work that may sometimes result from those interventions. The anti-unemployment policy has therefore evolved considerably.

Today, with the benefit of 50 years' experience, the job promotion and anti-unemployment policy has become more eclectic, reflecting the many aspects and sides of the problem (promoting demand for goods and services, making employment pay better than social benefits, matching skills to needs, promoting worker mobility, reducing disincentives to work and barriers to employment and entrepreneurship, etc.). We are also seeing some convergence in international approaches and policies. The governments of the industrialized countries, confronted with problems of high unemployment (Europe, Canada) and growing economic disparities (United States) are sharing their experiences of success and failure in anti-unemployment and anti-exclusion policies and programs. The approaches entrenched in Part II of the *Employment Insurance Act* are part of this context and are to be so understood. They reflect the requirement for active labour market intervention programs designed to promote lower unemployment and the return of unemployed workers to stable employment.

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