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THE POLICY-MAKING PARADIGM
ON UNEMPLOYMENT

The post war experience in Canada

by
François Dumaine

A thesis submitted to the
Faculty of Graduate Studies and Research
in partial fulfilment of the
requirements for the degree of

Master of Arts

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THE POLICY-MAKING PARADIGM ON UNEMPLOYMENT

submitted by

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in partial fulfilment of the requirements
for the degree of Master of Arts

Chair, Department of Political Science

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ABSTRACT

This thesis analyzes how the unemployment issue has been defined politically in Canada during the period between the second World War and the mid-1990s. It is argued that the ever increasing average rate of unemployment in Canada has been legitimized by the fact that state actors have transformed the assumptions they use in defining unemployment in a way which renders unemployment a normal feature of the Canadian economy and which discards full employment as a credible policy objective. The analysis is based on an examination of the policy-making paradigm on unemployment. The use of a paradigm analysis allows for an examination and, more importantly, a questioning of the very premises state actors use in shaping what the unemployment notion means. It is also argued that a lack of consensus on the political meaning of unemployment renders the identification of lasting solutions doubtful.

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The post-war economic boom, full employment, the good old days, the 1950s and '60s -- these are powerful images, which continue to haunt many babies of the baby-boomers, many political and economic observers and, more importantly, many Canadians facing the harsh reality of the near double-digit-unemployment 1990s. The mythical year 1975 has often been ear-marked by scholars as the turning point in Canada's recent economic history. Before 1975, there was Keynesianism with its impressive growth and employment records, and then there is the post-1975 period, when monetarism besieged Canada's economy and when price stability, not full employment, became defined as the legitimate public policy focus.

Evidently, economics is never quite that simple. The rosy post-war portrait, so common today, is hard to detect in the assessment of scholars who actually lived through this period. Published in 1966, Deutsch's analysis of Canadian economic policy between 1945 and 1965 concluded that the "rate of economic growth over the period as a whole was mediocre by any standard" (Deutsch 1966, 126). According to Deutsch, "[a]fter 1957, the fear of inflation continued to dominate important areas of policy, while aggregate demand was seriously inadequate" (Deutsch 1966, 128). This is but one analysis of the post-war period, but it stands as a remarkable

illustration of how much perceptions have evolved around the sensitive issue of unemployment.

My interest in writing this thesis is to examine some aspects of unemployment in Canada. I can think of few other topics that are as important for every Canadian. Regardless of one's view of the causes or solutions to unemployment, the notion itself remains a powerful reminder that we have yet to build an economy which is genuinely inclusive of all. At the very least, unemployment acts as a red flag, revealing the precarious situation in which thousands of Canadians find themselves, unable to integrate themselves into one of the most fundamental structures of our society -- the labour market. It appears reasonable to argue that little space, socially and culturally, is left in Canada -- and for that matter, in all western countries -- for those unable to find employment. In the worst cases, unemployment destroys the lives of the individuals affected and their relatives. Left in poverty, many unemployed Canadians enter a life in the margins where it becomes increasingly difficult for them to relate to what they hear, see and experience on a daily basis.

Yet, for all its human dimensions, unemployment remains an economic issue of tremendous complexity. There might be easy ways to create more jobs, but no solutions to unemployment come free of trade-offs. Standards of living now enjoyed by a majority of Canadians are based on more than an access to employment. They are the product of intensive

economic relationships among nations of the world where trade has established a hierarchy among countries and thus, among citizens. In this sense, unemployment is but one component of an economic package which Canada adopted on the eve of the post-war period. By embracing a policy relying heavily on international trade, Canada has built an economy which has served a majority of its citizens well. But it has also failed many others who have found themselves unable to meet and adjust to the constantly emerging requirements of an economy coping with fierce competition from other nations.

From the 1950s to the 1960s and up to the 1990s, Canadians have been forced to cope with an ever increasing average unemployment rate. In this context, tips and advice on how to resolve the unemployment problem, once and for all, have multiplied. Politicians, economic observers, editorialists, unions and businesses leaders, as well as social activists have argued in favour of various combinations of economic and social policies.

This thesis, however, offers no "solution" to unemployment. I argue instead that the current debate is missing one central component: a well articulated problem. It appears that solutions for increasing employment levels are being advocated while very little consensus exists on what is, in fact, being debated. My objective in this context is to examine more specifically the political meaning that is now attached to unemployment. Since state actors have repeatedly

sought electoral mandates to intervene on the employment issue -- and particularly so under the influence of John Maynard Keynes -- their conceptualization of unemployment is an important aspect of understanding policy-making.

I will thus proceed by identifying and examining the premises and assumptions which have shaped state actors' views towards unemployment. It must be emphasized that this thesis does not aim at explaining what accounts for the changes that have transformed these assumptions. The exercise consists chiefly in identifying what the premises and assumptions are and how state actors have articulated them. This approach has the merit of challenging the conceptual framework adopted by those who gravitate around the unemployment issue, including state actors, union or business representatives, advocates or analysts. I would argue that the gap which separates these groups does not simply relate to a disagreement over which policies are the "right ones", or which "interests" prevail at the expense of others. If these various groups often appear to be paralysed in perpetual disagreement, it may be that they find themselves unable to communicate, since they attach different meanings to the same concepts.

This analytical approach is largely inspired by the remarkable contribution of Thomas Kuhn in ***The Structure of Scientific Revolutions*** (Kuhn 1970). Using the notion of "paradigm", Kuhn gave new meaning to the task of exploring the

premises and assumptions used by the students of science. In essence, Kuhn describes a paradigm as consisting of "achievements that some particular scientific community acknowledges for a time as supplying the foundation for its further practice" (Kuhn 1970, 10). More specifically, he identified the two essential characteristics of a paradigm. First, a paradigm includes an "achievement sufficiently unprecedented to attract an enduring group of adherents away from competing modes of scientific activity" (Kuhn 1970, 10). Also, a paradigm must be "sufficiently open-ended to leave all sorts of problems for the redefined group of practitioners to resolve" (Kuhn 1970, 10).

Because it relates to the earliest phase of analysis, a paradigm is inevitably broad in its scope. A myriad of images have in fact been advanced to illustrate what a paradigm is. It may be seen as a "world view", a "perspective", a "speculative vision", a "domain assumption" or a "tacit knowledge", to name but a few synonymous concepts (Bluhm 1982). In fact, it would be deceptive to look for a clear-cut definition of what a paradigm is. As argued by Mansbach and Vasquez, a paradigm "is very broad and somewhat nebulous. It is, by definition, broader than a conceptual framework, because it is what gives rise to concepts. It is also much less specific than a theory or a model, both of which are systems of propositions that relate concepts to be found in the paradigm" (Mansbach & Vasquez 1981, 4).

The investigation of paradigms arises from the need for some kind of analytical framework which will render possible the understanding of complex notions. But somewhat paradoxically, "all such belief systems or paradigms are *human constructions*, and hence subject to all the errors and foibles that inevitably accompany human endeavors" (Guba 1990, 18). Guba argues that "it is important to leave the term in such a problematic limbo, because it is then possible to reshape it as our understanding of its many implications improves" (Guba 1990, 17). As is made abundantly clear by the examples he uses for elaborating his theory of paradigms, Kuhn worked in the context of the pure sciences, not the social sciences. Nonetheless, there appears to be a strong case for applying his use of paradigm to the fields of economics or political science. By its very nature, the social sciences structure the analysis of knowledge and must deploy a number of assumptions in order to develop this knowledge further. As Kuhn noted, "[i]n the absence of a paradigm or some candidate for paradigm, all of the facts that could possibly pertain to the development of a given science are likely to seem equally relevant" (Kuhn 1970, 15). This requirement applies to social sciences just as much as it does to the pure sciences. By examining paradigms in a political context, one can observe how assumptions ultimately define the parameters which circumscribe what a *valid* vision is, or more practically, which *problems* should be at the centre of attention. As

emphasized by Mansbach and Vasquez, "a paradigm serves to make some facts salient and meaningful at the cost of other facts which may actually be of greater significance" (Mansbach & Vasquez 1981, 71). An important consequence of this was identified by Kuhn who warned that "[a] paradigm can (...) insulate the community from those socially important problems that are not reducible to the puzzle form, because they cannot be stated in terms of the conceptual and instrumental tools the paradigm supplies" (Kuhn 1970, 37). What a country should aim for in terms of employment levels and more importantly, what will emerge as the *credible* and *feasible* avenues for action will inevitably depend on which assumptions and premises were used in articulating the answers to these critical questions.

In relation more specifically to unemployment, assumptions and premises have transformed what this notion has come to mean and how it has been addressed politically. As it will be examined in this thesis, the emergence and the eventual rejection of the Keynesian paradigm and its related commitment to full employment has been this century's most significant development in relation to unemployment. However, as one ought to expect in analyzing paradigms, the movement away from Keynesianism has been anything but sudden. It is through a series of decisions and circumstances, in Canada and abroad, that a shift in paradigm has surfaced. Whether it is the emergence of monetarism in the 1970s or the globalization

of capital in the 1980s, the set of assumptions used by state actors in defining unemployment has been heavily transformed during the past two decades. Could it be argued that a new and enduring policy-making paradigm on unemployment has now been established or is the transitional period still been carrying on? And if the assumptions based on Keynesian principles have been discarded, what are the fundamental beliefs on which state actors in Canada now construct their vision of unemployment? These are the questions which will be examined in my thesis.

In summary, my central task is to understand and describe the current policy-making paradigm on unemployment and to discuss how it differs from paradigms previously experienced in Canada. In the next section, I will explore how unemployment was addressed in Canada during the post-war period, covering the period between the 1930s up to the mid-1980s. The actual definition of unemployment and how state actors positioned themselves in relation to this issue was strongly influenced by the work of John Maynard Keynes. His contribution is particularly important for our purpose, which is to identify the premises and assumptions used in relation to unemployment and how these variables have evolved. I will begin this analysis by laying out my view of Keynesianism and will emphasize those aspects which are particularly relevant for the examination of the unemployment problem. I will then

turn to the Canadian context and examine how state actors conceptualized unemployment during this first period.

Using these findings as a backdrop, the third chapter will examine premises and assumptions relating to unemployment in Canada during the period from the mid-1980s. The main question here will be to determine whether a new paradigm has emerged and if so, just how different is it from the old one. In the context of scientific revolutions, Kuhn argued that "[t]hough they may begin to lose faith and then to consider alternatives, [scientists] do not renounce the paradigm that has led them into crisis" (Kuhn 1970, 77). In the same vein, it would be misleading to believe that the paradigm on unemployment which has prevailed before the mid-1980s has now been completely discarded. Instead, to use Kuhn's image, one must realize that just "like an accepted judicial decision in the Common Law, [a paradigm] is an object for further articulation and specification under new or more stringent conditions" (Kuhn 1970, 23). The third chapter will therefore examine how the paradigm on unemployment has evolved in relation to factors such as state actors' commitment to full employment, globalization and trade, debt and deficit, and inflation. I will also examine the critical issue of how roles in relation to employment growth have been divided between the state and the private sector.

Overall, this exercise reveals just how much unemployment is, in so many ways, an awkward notion. Its examination

combines dry economic theories with human facets that speak a great deal of how we make sense of those economic and social structures through which all citizens must evolve. By focussing on the policy-making paradigm on unemployment, I am not attempting to explain all decisions made and all policies adopted by state actors in relation to this issue. Instead, I am exploring the meaning that state actors attribute to the notion of unemployment, in the belief that the way the notion is conceptualized will undoubtedly have a significant impact on the other stages of the policy-making process.

CHAPTER 2 THE CANADIAN TO APPROACH TO EMPLOYMENT UNDER KEYNES INFLUENCE

The examination of the post-war policy-making paradigm on unemployment in Canada is a fascinating task, due in large part to the influence of Keynesian ideas on state actors. This is not to say that Canada embraced Keynesianism altogether -- a theory largely contested -- but since Keynes' legacy sent waves all around the industrialized world, no one could argue that Canada has been completely immune from this trend. Peter Hall captured the strength of the Keynesian phenomenon when he remarked that "[n]ew ideas are most powerful when they change the basic categories through which we see reality, and, after Keynes, the economic world never looked quite the same as it did before" (Hall 1989, 365). This view was shared by Canadian economist W.A. Mackintosh who wrote in 1950 that "[t]here may be little left of his positive contributions but the fact remains that there will always be a dividing line in thinking about economic policy, pre-Keynes and post-Keynes" (Mackintosh 1950, 316).

How the economic world was seen, how unemployment was perceived and on which premises and assumptions policy decisions were based during the post-war period, constitutes the focus of this chapter. It must be emphasized that my task is not to assess the actual content or efficiency of those policies implemented by the state. Doing so would indeed imply that state actors' premises and assumptions on

employment were the sole generators of new public policies. In reality, other factors, such as institutional arrangements, international economic developments, political pressures or related state goals have also influenced decisions made in relation to employment in Canada (Campbell 1987; Hall 1989). Nonetheless, the way state programs and policies related to employment growth were *presented* and their stated *objectives* will be of valuable assistance in defining the post-war policy-making paradigm on employment. But again, my focus is those presumptions, supposition or beliefs which helped shape the range of policy options considered by state actors. For example, why was it that massive, direct job creation programs were central in discussions on unemployment during the 1970s, and that today, in the mid-1990s, not one major political party is even considering this kind of policy? Premises and assumptions do make a difference in establishing *what's in* and *what's out* in terms of policy options, and, by describing the policy-making paradigm on employment, it is my goal to help provide a better understanding of the employment and unemployment policy dynamics in the Canadian context.

This chapter will focus on the post-war period, up to the mid-1980s and will begin with an examination of Keynesian theory. Since Keynesianism encompasses many economic and social components, I will lay out my view of the theory and will specify those aspects which are particularly relevant to the issue of employment growth. The second part of the

chapter will examine policy debates which occurred during the 1930s and up to the end of the 1960s, a period in Canada's history where Keynesianism particularly influenced state actors. The third section of the chapter will look at the 1970s and the first half of the mid-1980s where a number of developments challenged the very foundations of Keynesianism.

Keynes and the employment issue

In an essay written in 1926, John Maynard Keynes noted that the "political problem of mankind is to combine three things: Economic Efficiency, Social Justice, and Individual Liberty" (Keynes 1926a, 344). Some seventy years later, capitalist societies -- perpetually struggling to balance those goals -- remain in fact captive of a dynamic involving opposite forces, the first being driven by what is good for the community and the second, by what is individually advantageous. The resulting outcome, particularly on economic matters, has been made-up of a series of collective compromises and individual frustrations.

In this context, achieving economic and social equity has remained a daunting task, which may forever challenge those who respond to its noble object. Keynes belonged to this philosophical group, considering himself to be in a position to rescue his country from the abject economic swamp associated with the Depression. As Joan Robinson remarked,

Keynes simply "hated unemployment because it was stupid and poverty because it was ugly" (Robinson 1975, 128). Interestingly, his contribution did not emerge out of necessity, but rather stood as an intellectual challenge. As he himself noted, "I can be influenced by what seems to me to be Justice and good sense; but the *Class* war will find me on the side of the educated *bourgeoisie*" (Keynes 1925, 324).

Published in 1936, *The General Theory of Employment, Interest, and Money* is Keynes's most influential writing, a contribution still unmatched in its impact on public policies and attitudes towards economic issues. John Kenneth Galbraith once noted a critical, if not awkward, aspect of the *General Theory* in referring to the non-experts who would consult the book: "[t]hough comfortably aware of their own intelligence, they will be unable to read it" (Galbraith 1975, 132). This is indeed a complex and technical book, which prompted Galbraith to add that the non-experts "will wonder, accordingly, how it persuaded so many other people - not all of whom, certainly, were more penetrating or diligent. This was only one of the remarkable thing about this book and the revolution is precipitated" (Galbraith 1975, 132).

One could argue that this Keynesian revolution had as much to do with the context in which the *General Theory* was published as with the book itself. As the Depression arose, the field of economics was dominated by the classical doctrine, a notion incrementally constructed by, among others,

Adam Smith, David Ricardo and J.B. Say (Stewart 1972). A striking characteristic of the classical theory was its reliance on broad economic assumptions, which included the view that full employment ought to be the natural state of the economy. In essence, the classic economists argued that unemployment was caused by wage and price levels which failed to adjust to the up and down swings associated with the trade cycle. By extension, they pointed to trade unions which were blamed for keeping wages too high and obstructing the clearing role of the demand and supply dynamic as it applied to labour. In essence, the classic economists placed an unconditional faith in the free market economy. Any disruptions, such as high unemployment, were blamed on individuals' behaviour and not on the capitalist system itself. Ten years before publishing the *General Theory*, Keynes began his crusade to challenge this non-interventionist approach. In 1926, he mocked the laissez-faire advocates, reminding them that "[t]he world is not so governed from above that private and social interest always coincide. It is not so managed here below that in practice they coincide. It is not a correct deduction from the Principles of Economics that enlightened self interest always operates in the public interest" (Keynes 1926b, 312).

The terrifying experience of the Great Depression would give new ammunition to Keynes and other economists who believed that more immediate actions were required. As Keynes

remarked, "[t]he task of transmuting human nature must not be confused with the task of managing it" (Keynes 1936, 374). Time was running out, and practical solutions had to be developed in the context of the newly industrialized economy. In light of the severity of the Depression, it may seem that a long period went by before economists and governments finally changed their economic approach. After all, the *General Theory* was only published some seven years after the economic crash. But as Robert Skidelsky noted, "the existence of a new and unpleasant fact [mass unemployment] is not the same as the perception of the fact as a problem, and even if it is perceived as a problem, it may not be perceived as a crisis which has to be overcome if the system is to survive" (Skidelsky 1975, 101). As odd as it may appear, unemployment levels during the 1930s first needed to be seen for what they were - symptoms of a crisis. Then, a new theoretical framework had to be applied to this economic dilemma. To use Walter Salant's words, "it takes a theory to kill a theory" (Salant 1989, 37) and this was a point well understood by Keynes, who noted in the introduction of the *General Theory* that "[t]he difficulty lies, not in the new ideas, but in escaping from the old one, which ramify (...) into every corner of our minds" (Keynes 1936, viii).

The policies advocated by Keynes were set within a specific theoretical framework. For one thing, Keynes was convinced that a permanent solution to societies' economic

problems could be designed and implemented. As he himself stated, "the economic problem is not - if we look into the future - *the permanent problem of the human race*" (Keynes 1930, 365). This view was in sharp contrast to that of Marxists who, during the same period, maintained that a pool of unemployed individuals was a structural and disciplinary characteristic of the capitalist regime. Keynes even expressed some apprehension with the fact that people appeared ill-prepared to manage all the leisure time that an eventual state of full employment would bring. In 1930, he warned that "there is no country and no people (...) who can look forward to the age of leisure and of abundance without a dread. For we have been trained too long to strive and not to enjoy" (Keynes 1930, 368). This concern illustrated the fact that Keynes's interests went beyond strict economic matters. He envisioned an entire new *projet de société* which would allow human kind to turn to less materialistic considerations. Interestingly, Keynes has often been labelled as the saviour of capitalism. In reality, he vividly ridiculed those who were solely driven by monetary ambitions. He maintained that once full employment will have been secured, "[t]he love of money as a possession - as distinguished from the love of money as a means to the enjoyment and realities of life - will be recognized for what it is, a somewhat disgusting morbidity, one of those semi criminal, semi-pathological propensities

which one hands over with a shudder to the specialists in mental disease" (Keynes 1930, 369).

Another important aspect of Keynes's doctrine related to the nature of economic relationships among nations. The experience of the first World War was never far behind when he designed his economic proposals, making social and economic stability a definitive goal. As one may expect, Keynes was not alone in his attempt to design policies which would achieve a greater level of stability, but many did not share his views on how to achieve it. As noted by Robert Skidelsky, "[t]he view of bankers, industrialists, pundits and politicians of all three parties [in Britain] was: look after the international economy and the domestic economy will look after itself" (Skidelsky 1975, 97). For Keynes, the valid approach was the one built the other way around: the domestic economy had to come first. He felt that a national full employment policy would effectively dissipate the tensions among industrialized nations. As Keynes put it, "if nations can learn to provide themselves with full employment by their domestic policy (and, we must add, if they can also attain equilibrium in the trend of their population), there need be no important economic forces calculated to set the interest of one country against that of its neighbours" (Keynes 1936, 382). This partly explains Keynes' stand against free trade and in favour of import substitution and of restrictions on capital exports (Skidelsky 1975, 98).

Believing that permanent economic solutions could be conceptualized and that this could be done at the national level rather than the international level, Keynes went on to design a number of economic prescriptions aimed at full employment. It is interesting to note that Keynes's goal (full employment) related to the number of jobs and, in fact, the man showed little concern for the quality of those jobs. This was, in any event, how he perceived the problematic when he noted that it "is in determining the volume, not the direction, of actual employment that the existing system has broken down" (Keynes 1936, 379).

In the introduction of the *General Theory*, Keynes examined the distinction between that portion of unemployment referred to as "frictional" and the other portion known as "voluntary" in classical economic theory. In practical terms, this distinction meant that an individual was unemployed either as a result of a personal choice or simply because he or she was in a transitional stage towards a new or a first employment. As noted by Keynes, the "classical postulates do not admit of the possibility of the third category, which I shall define below as *involuntary unemployment*" (Keynes 1936, 6).

With the benefit of experience, it is now possible to appreciate how revolutionary this concept of "involuntary" unemployment has proven to be. It clearly implied a substantial paradigm shift in relation to employment. Surely,

those who had lived through the Depression could relate to this concept, but what Keynes did was to *incriminate* an economic system. He used the symbol of an economic victim to describe the person who was forced to stay unemployed, despite his or her genuine willingness to work. By extension, the notion of involuntary unemployment also implied that trade or business cycles had gone too far, creating long term human casualties and this human cost was no longer acceptable. Because other economic systems, such as communism, not only existed but could be perceived as credible alternatives to capitalism, Keynes felt that lasting unemployment was a definite threat which needed to be addressed. As he warned in concluding the *General Theory*, "[i]t is certain that the world will not much longer tolerate the unemployment which (...) is associated - and in my opinion, inevitably associated - with present-day capitalistic individualism" (Keynes 1936, 381).

In dealing with the *guilty party* -- the capitalist system -- Keynes opted for proposals which related to the management of aggregate demand (on this point, see Stewart 1972). The two pillars of his theory were the level of consumption and that of investment. The former would be influenced by a person's level of income and the latter would be largely determined by the anticipated profits from one investment. On "anticipated profits", Keynes added that the cost of borrowing (the interest rates) and the expected returns on the money

invested were the two key factors which would generate investment.

The logic here was that strong levels of consumption and investment would automatically result in a greater demand for goods and services. Keynes labelled this the "effective demand" which, in turn, would determine the level of economic output for a country's economy. It is precisely this factor - the level of output -- which ultimately determined the level of employment. Full employment could only be achieved, Keynes argued, if a society could ensure that the level of output was such that it required all of the available labour to meet the resulting demand for the production of goods and services. This was, in a nutshell, what Keynes considered to be the appropriate economic direction to ensure full employment.

The theory itself was essentially conceptualized within a national framework. By emphasizing the level of income and investment as the key to the employment level, Keynes left little room for the realm of international trade. His proposal implied that most of what individuals consumed would be goods and services produced by companies located within the country. In the same vein, individuals' investments ought not, for the most part, to be directed towards companies located in foreign countries. As Robert Skidelsky appropriately noted, "the attitude gap between Keynes and the Establishment is to be found not so much in economic theory or vested interest as in a way of thinking about Britain's

relationship with the rest of the world which excluded the possibility of national self-determination as an appropriate goal of economic policy" (Skidelsky 1975, 98). In this context, it is not surprising that Keynes came to oppose free trade and support import substitution policies since these stands reinforced the role played by the income and investment functions.

In terms of the overall economic direction, one had to trust that the government and the monetary authorities had the required jurisdiction, the authority and the capacity to implement this policy. Keynes admitted that the "central controls necessary to ensure full employment will, of course, involve a large extension of the traditional functions of government" (Keynes 1936, 379). The central controls to which he referred included a "somewhat comprehensive socialization of investment" (Keynes 1936, 378), a stand which may appear radical in the context of the 1930s. In reality, however, one could argue that it implied little more than what most countries did (including Canada in 1938) which was to transform their central banks into publicly-owned institutions. In fact, the socialization process envisioned by Keynes had nothing to do with communism. As he explicitly emphasized, "[i]t is not the ownership of the instrument of production which it is important for the State to assume" adding that "the necessary measures of socialization can be

introduced gradually and without a break in the general traditions of society" (Keynes 1936, 378).

One of the most challenging responsibilities attributed to government and to its central bank was to manage monetary policies with the primary view of achieving full employment. Low interest rates were determinant in this context, not only because of the obvious fact that they rendered investment more affordable, but also because they created a situation where depositing money in the bank provided very low returns, this in itself being an additional incentive for investment. This approach also raised the question of whether the central bank was actually capable of balancing the policy objective of low interest rates with the goal of ensuring a reasonable level of price stability, an issue that sparked heated debates to be further discussed in the next section.

In addition to monetary policies, the government's *extended functions* were to include the implementation of countercyclical policies. As summed-up by Peter Hall, "[i]n period of recessions, Keynesians advocated an active fiscal policy, based on injections of public spending, tax reductions, or public works to be financed by budgetary deficits in order to revive investment and demand in the private sector" (Hall 1989, 364). The suggestion of incurring budgetary deficits during recessionary times and budgetary surpluses in periods of steady growth has become the hallmark of Keynesianism. Large public expenditures initiated in the

post-war era by governments in Europe and the North America to build roads, dams, harbours, public buildings or housing projects have been perceived as filling the dual functions of providing needed services and contributing to a full employment target. The same could be said of tax expenditures whose goal were to promote investments. Not surprisingly, those opposed to these kinds of countercyclical policies wasted no time in depicting them as bluntly irresponsible, creating the dangerous fantasy that countries could live beyond their means.

The main assumption of Keynesianism, then, was that the level of employment was determined by the level of economic output -- as opposed to the capacity of wages and prices to adjust to economic fluctuations -- and, perhaps more importantly, that governments and their central banks were capable of controlling this level of output in a sovereign and effective manner. It must be emphasized that while the traditional functions of government were to be extended, most of the new jobs were to originate from the private sector where higher levels of consumption and investment would create a greater demand for goods and services and thus, a greater demand for labour. One may wonder whether Keynes placed an emphasis on consumption and investment because he truly believed in a nationalist approach to economics or whether he ultimately perceived a nationalist approach as being the only

credible avenue for arguing in favour of controls over investment and consumption.

In any event, Keynes's view that his country was sufficiently sovereign economically to implement a full employment policy has proven to be difficult to translate in the reality of countries with economies as open as that of Canada. This, however, was not about to prevent governments - in Canada and in most industrialized countries -- from adopting policies that were largely inspired by the views of one of the most influential economists of the 20th century. In the next section, I will examine more closely how Keynesian economic ideas became prevalent in Canada during the four decades between the 1930s and the end of the 1960s during which Keynes's shadow has been omnipresent.

Employment growth in Canada under Keynes influence

To understand how unemployment was perceived by state actors in Canada during the post-war period, one must first reconstruct the broad social and economic context within which this issue was addressed. In so many respects, this context is in sharp contrast to what Canadians experience today, and yet, many of the policies implemented at that time continue to shape economic policy in Canada.

One striking characteristic associated with the first half of the twentieth century is the pace and the strength of

economic shocks experienced by the industrialized world, including Canada. For generations born after 1945, it may indeed be very difficult to appreciate the economic context faced by Canada at the beginning of the century. In less than 25 years, Canadians went through a First World War, a deep economic depression in 1929, and entered into a Second World War. During this same period, industrialization was completely redesigning the profile of the Canadian labour force. From the time of the first National Policy in 1879, up to the end of the Second World War, the proportion of Canadians employed in the agricultural sector moved from about 50 percent of total employment to a little more than 20 percent, leading to sharp increases in the proportion of Canadians employed in the service and manufacturing sectors (see table in Canada 1994a, 32). To this, one must add the ideological division between capitalist and communist regimes which, clearly, created an environment with a plurality of views on every single stage of economic activity, from the ownership of land and capital, to the nature of the remuneration to be expected by workers.

This political and economic instability, combined with the broad nature of the conflicts between various groups of citizens on how they would define their own interests -- be they workers, capitalists or farmers -- made difficult the emergence of a new theoretical framework which could be used to define a long-term economic strategy for Canada. In

addition, very little could be taken for granted since an armed conflict or a deep economic downturn could transform, if not destroy, economic activities in a number of Canadian communities. On the other hand, this instability also meant that there would be a more fertile soil for the development of new economic theories. In particular, the 1879 National Policy to which high tariff walls were attached and the neo-classical economic principles applied by governments of the time were helpless in the face of the 1929 economic Depression.

In examining the severe economic downturn of the early 1930s, one must appreciate the practical meaning of being 'out of work' during this period. In an economy that was characterized by limited technological progress and thus limited educational requirements, individuals and particularly men with no severe disabilities were expected to become employed, often long before they officially became adults. The educational background of a person or the aptitudes demonstrated could obviously influence the quality of work available, but generally, being *employable* included at the very least those having the rudimental physical and mental capacity to perform a task.

Lacking a social safety net and clear economic alternatives in the wake of the 1929 Depression, governments in Canada turned to ill-conceived relief measures which, in the case of unattached men, took the form of work camps.

These patchy and short-term measures would not receive any broadly based support among the electorate. The scars they left are undoubtedly reflected in the report on social security in Canada, tabled in 1943 by the Advisory Committee on Reconstruction which acknowledged that "[i]t can hardly be denied that one of the strong reasons for considering unemployment assistance anew is the inadequate and repellent character of the relief measures of the past" (Canada 1943, 48). In fact, the Committee was fearful that any public programs designed to provide employment would be rejected on the ground that they would be too similar to those measures imposed on unemployed Canadians during the 1930s: "The unemployment experience of the thirties in these fields is such that the very term 'public works' gives rise to hostile associations, which confuse any discussion of an employment programme unless the conception and intent of these programmes is clearly defined" (Canada 1943, 38).

The period between the Depression and the Second World War was therefore one of profound questioning, which later opened the way for a new world economic order. W.A. Mackintosh summed up the challenge faced by government in the 1930s when he asserted that "the disaster of the thirties and the apparent helplessness or ineptness of governments in dealing with it, either nationally or internationally, produced an impatient demand for a new and broader concept of government economic policy and a harsh complaint that the

world had been misled by disputing economists" (Mackintosh 1950, 315).

As the Second World War allowed the Canadian economy to run full speed, state actors could not forget the dramatic downturn which occurred after World War I. The Advisory Committee on Reconstruction warned, in 1943, that "the end of the war means a huge curtailment in the labour market for wartime forms of production. The extent to which peacetime forms of production will fill up this gap depends on the recovery of world trade and the reconversion of domestic industry on a scale which has never had to be contemplated before" (Canada 1943, 37).

When World War II came to an end, industrialized nations initiated intense negotiations on world trade. There was a strong sentiment that various forms of trade barriers such as high tariffs and quantitative restrictions had contributed to the economic misfortunes which led to the 1930's Depression and therefore, had to be avoided this time. To this end, the United States presented in 1946 a series of *Proposals For Expansion Of World Trade And Employment* to all its partners involved with the newly-created United Nations. The American government felt that the war had created an extraordinary opportunity to build a new world economic order. The document emphasized that "[h]uman institutions are conservative; only within limits can they be moved by conscious choice. But after a great war some power of choice exists; it is important

that the United Nations use it wisely" (Canada 1946, 5). The postulate of the American proposals was that "[t]rade connects employment, production and consumption and facilitates all three. Its increase means more jobs, more wealth produced, more goods to be enjoyed" (Canada 1946, 6). As noted by Michael Hart, this view on trade was based on the belief that any government policies which distorted the most efficient allocation of resources, capital and labour "were likely to lower national global welfare while the removal of such barriers was likely to raise them" (Hart 1994, 8; Stone 1992, 22). The purpose of the *Proposals* was therefore to seek a commitment from participating nations "to harmonize their policies with respect to international trade and employment" (Canada 1946, 5). The Americans insisted that their propositions were not to "impinge upon sovereign independence, but they do recognize that measures adopted by any country may have effects abroad and they suggest for general adoption fair rules of mutual tolerance" (Canada 1946, 10).

On the specific issue of employment, the *Proposals* emphasized the importance for nations not to "seek to obtain full employment for themselves by exporting unemployment to their neighbours. To seek employment by prohibiting imports or by subsidizing exports would be harmful and self-defeating" (Canada 1946, 9). Thus, the Americans concluded in recommending that "[d]omestic programs to expand employment should be consistent with realization of the purposes of

liberal international agreements and compatible with the economic well-being of other nations" (Canada 1946, 11).

From 1946 to 1948, the American proposals were used as the basis for trade negotiations. On October 30th, 1947, 23 countries including Canada signed what was meant to be an interim agreement, the General Agreement on Tariffs and Trade (GATT), which came into effect on January 1st, 1948 (Stone 1992, 17). In an address to Canadians, Prime Minister Mackenzie King captured the magnitude of this global economic arrangement: "In the General Agreement there are incorporated the results of the most comprehensive, significant and far-reaching negotiations ever undertaken in the history of world trade" (Canada 1947, 2). Mackenzie King added that "the Agreement clearly charts our long-run course. It confirms, on a world scale, the objectives towards which our country's trade policies have been steadily directed" (Canada 1947, 1). Focused on goods, the GATT limited tariffs and quantitative restrictions, introduced the most-favoured-nation principle and addressed the issues of international taxation as well as the valuation of goods for customs purposes (Stone 1992, 19).

The GATT was meant to be an interim agreement, to be eventually replaced by the *Havana Charter*, a project that never crystallized, due in good part to the opposition mounted in the United States. It was precisely the *Havana Charter* that dealt with employment concerns. Frank Stone described the intended, yet never implemented, provision of the *Charter*

which addressed this issue: "Article 7 of the Havana Charter would have recognized that *unfair labour conditions, particularly in production for export, create difficulties in international trade*. Moreover, [nations] would have accepted a general commitment to take *whatever action may be appropriate and feasible to eliminate such conditions* within their own countries" (Stone 1992, 51; his emphasis).

Canada was a strong supporter of the GATT, believing as Mackenzie King noted, that the country's "stake and interest lie in the fullest co-operation with like-minded countries in a programme of freer and ever expanding trade" (Canada 1947, 2). The expansion of trade and the lowering of tariff barriers was to be the first step in an extensive process leading toward the globalization of the market economy. Innovations in computer and communication technologies would later drive this process one step further, allowing capital to become increasingly mobile. Not surprisingly, reduced trade barriers -- including a world commitment to seek ever greater freedom of trade -- combined with unprecedented capital mobility, opened the door to the emergence of trans-national corporations (Bryan 1994, 247 and McBride & Shields 1993, 19). This world economic order, initiated through the GATT and eventually expanded to create a global economy, imposed significant parameters to the formation of an economic strategy in Canada. State actors were placed in the delicate position of having to promote freer trade to create new

opportunities for their open economy while, at the same, having little say in what the trade rules would be. The image provided by James Tobin sums up what has often been Canada's place on the scene of world economics: "Canada must willy-nilly follow in the footsteps of its large neighbour to the south, amplifying its world impact" (Tobin 1987, 25; McBride & Shields 1993, 128 and Hart 1994, 17).

Those aspects around trade and globalization bring a valuable perspective to the post-war policy-making paradigm on employment. The size of Canada's national market and the open nature of the Canadian economy made privately-led economic growth dependent upon the expansion of trade markets. These new trade markets did emerge, along with the economic globalization phenomenon, but trade rules were imposed by a few world economic powers to which Canada did not belong, and they centred on the object of trade, particularly goods, initially excluding labour practices. In this context, state actors' commitment to employment growth was based on what they could expect out of this complex economic process, largely involving players and rules over which Canada had little or no control.

Interestingly enough, the expansion of world trade during the post-war period -- including the many uncertainties associated with this kind of initiative -- has coincided with the emergence of what appears to be a precise policy goal: full employment. At first, the notion meant what the two

words are commonly understood to mean: any person able to work should be able to find employment. An illustration of this view was provided by Tory leader John Bracken who declared in 1943: "Every person willing and able to work must be assured of gainful occupation with sufficient means to maintain a home and family. The objective is full employment at fair wages and progressively improving standards" (quoted in Campbell 1987, 27).

It took no time, however, for the notion of full employment to move away from this clear-cut meaning. For the Mackenzie King government -- which had the responsibility of making critical post-war economic decisions -- the full employment objective might have appeared straightforward, but it was also clear that the means to achieve this goal would be tremendously complex. Was it really possible to maintain a state of full employment and expanding standards of living, and if so, how? In one of the most quoted documents on the issue of post-war employment in Canada -- the White Paper on Employment and Income tabled in April 1945 -- C.D. Howe described the task of his government as one of accomplishing "a smooth, orderly transition from the economic conditions of war to those of peace and to maintain a high and stable level of employment and income" (Canada 1945, 1). The terms *high and stable level of employment* were carefully chosen by Howe and they were obviously not meant to be a mere synonymous for "full employment". This distinction between *full* and *high*

level of employment is critical for our purposes. Just as Keynesian ideas were emerging in the mid-1940s, the Canadian government issued a clear signal that dealing with an economy as open as that of Canada would lead to no firm commitment towards full employment. Howe offered what can be perceived as a contradictory explanation of what a *high and stable* level of employment meant. In his White Paper, he insisted that "[i]n setting as its aim a high and stable level of employment and income, the Government is not selecting a lower target than 'full employment'. Rather, the Government is mindful that employment and income will be subject to fluctuations in the sphere of international trade (...) and that seasonal fluctuations (...) are not to be overcome without much patient and resourceful work" (Canada 1945, 1). Economist W.A. Mackintosh worked with Howe in developing the White Paper. Twenty years after the release of the document, Mackintosh admitted that Howe felt uncomfortable with its content: "More than once, as he himself reported, Mr. Howe had second thoughts. The scope was too broad; the commitments were too far reaching; the language was not that of a plain engineer" (Mackintosh 1966, 16).

The rejection of a forthright commitment to full employment did not mean that the White Paper was repudiating Keynesian principles altogether. On the contrary, one of the cornerstone concepts of Keynesianism has been the view that unemployment is to be considered a public issue, directly

involving the state. This principle was clearly included in the White Paper which, according to Mackintosh, "recognized that the responsibility for employment policy, which the Dominion had rejected in 1937-38, it could not avoid in 1945" (Mackintosh 1966, 21). For the entire period covered here -- that is between the Second World War up to the mid-1980s -- state actors perceived unemployment as resulting in part from a malfunctioning of the free market economy and assumed that the state could intervene to address this problem. In this sense, state actors have elaborated strategies which, at times, have centred on broad trade and demand-led policies, while on other occasions, they have attempted to influence the regional or sectoral distribution of economic activities and by extension, of employment opportunities. In other words, while individual enterprises were competing, adjusting, expanding and closing, state actors felt that the nation needed some supervising entity -- in this case, the state -- to look at the overall economic development of the nation and to ensure that a number of collective parameters would be established to control and direct the clearing functions of private markets.

This vision was not without its ambiguous components, among which was the question of determining where the economic role of the state was to end and that of the private sector was to begin. As one may expect, the combination of the state's commitment to a high level of employment and its

reliance on the private market to allocate available labour became difficult to conceptualize, let alone operationalize. But it must be emphasized here that one of Keynesianism's main hallmarks was its attempt to reconcile, on the one hand, the social and political goal of full employment and, on the other hand, the preservation of free market principles. Peter Hall captures the essence of this point in observing that "Keynes reinforced the belief that a middle way could be found between the complete socialization of the means of production and the excesses of unbridled capitalism" (Hall 1989, 366; Wolfe 1984, 47 and Stewart 1990, 108).

How well did Canada respond to this theoretical test? In the end, one may argue that drawing the line between the state and the private sector has in fact proven to be an enduring challenge for the entire post-war period. To appreciate the complexity of this situation, it must be remembered that the starting block for this process was anything but neutral: it was the interventionist role played by the state during the Second World War. During those years, state actors used subsidies and fiscal tools to direct private sector economic activity related to the war, Crown corporations were created to produce munitions, controls were imposed over vital commodities or industrial products and, finally, the government imposed mandatory wage and price controls (Wolfe 1984, 52).

In such a context, what form would the Keynesian compromise actually assume in a post-war Canada? An early signal came from the 1945 White Paper where Howe stated that the "Government does not believe it to be either desirable or practical to look to the expansion of government enterprise to provide, to any large degree, the additional employment required" (Canada 1945, 3). The interventionist role played during the war -- and which served as a backdrop for the development of the post-war economic strategy -- had therefore to be considered purely exceptional and was not, in any case, challenging the private sector's dominant role in creating the jobs needed to, hopefully, meet the employment goal set by the government. As enunciated by the Royal Commission on Canada's Economic Prospects ten years later, a clear assumption of the early post-war period was that "while government action may be needed to influence and guide the direction in which private initiative moves, this does not mean that fundamental changes are needed in the operation of the system of the free market in Canada" (Canada 1957, 419).

Thus, whatever employment target governments set, it would be just that, a target. In other words, state actors assumed that the free market economy was capable of generating enough jobs that they could commit themselves to a high level of employment and all this pledge would entail was a properly circumscribed involvement to stimulate the economy in order to smooth the edges of business cycles.

It is critical, for our purposes, to emphasize that at no point during the post-war period did state actors consider moving back to an economic strategy where the nature of the role played by the state would resemble that which prevailed during the war. This refusal to consider any scenario which would have engaged the state in providing long-term employment to a significant portion of the labour force had a great impact on the profile of employment growth in Canada. It meant, in particular, that state actors would drive their employment commitments through private economic avenues where unpredictability was perceived as a golden inducement to efficiency and productivity. The strength of the free market economy was indeed resting in the perpetual risk that a new product, service or competitor could emerge, forcing firms to seek ever-higher levels of competitiveness.

While many observers have insisted on Canada's post-war commitment to full or high levels of employment, it may appear more accurate to speak of a commitment to support a maximum level of private economic activity. In fact, it would be very misleading to presume that state actors targeted a high or full level of employment as an economic end, to be achieved through a variety of means including privately versus publicly-led economic growth. Rather, the economic end pursued by state actors was to support privately-led economic growth and the means to achieve it would include a variety of demand or supply oriented policies. This conceptualization of

the employment challenge by state actors has been vividly denounced by many observers. For example, Robert Campbell argues that the essential post-war economic choice was that between high unemployment or institutional changes (Campbell 1991, 39) and Gregory Albo's detailed review of the impasse of capitalist employment policy in Canada insists on the human cost Canada paid for not disengaging its economy from the market (Albo 1995). These observations are based on the belief that high or full employment ought to be the overriding economic objective of the government, a premise simply not shared by state actors during the entire post-war period. In reality, the pursuit of high levels of employment in Canada after the Second World War was not a goal to be pursued at any cost, and surely not at the cost of a reduction in the overall standards of living or at the cost of high levels of inflation. It also meant that Canada needed to maximize its economic activities, including more economic trade with other nations.

All these considerations led state actors to question what the notion of unemployment, in its broad and technical sense, actually entailed. At the tabling of the White Paper, references to a rapidly growing labour force, the seasonal nature of some of Canada's economic activities or regional unevenness surfaced and became increasingly part of state actors' discourse on unemployment. In its final report tabled in 1957, the Royal Commission on Canada's Economic Prospects

echoed this concern and attempted to delineate the extent of cyclical unemployment in the country, in opposition to frictional unemployment. The report noted that "there will always be those who are out of work at any given time. This cannot be avoided", but added that the "question to be answered (...) is where does frictional unemployment end and cyclical unemployment begin?" (Canada 1957, 421). The Commission concluded that frictional unemployment in the 1950s was at a level of three percent. It must be noted that the Commission's reference to "those who are out of work at any given time" was not meant to indicate that some Canadians would be permanently out of work. The notion of *frictional* employment was used in its traditional sense, to mean that there are always individuals who are moving from one job to the next or entering the labour market, and thus are theoretically out of a job for a short period of time. One of the Commission's premises was that long-term or permanent unemployment could be avoided, as long as the right policies were implemented. No doubt, the commissioners maintained their belief in the full employment objective: "Nothing has impressed us more during the course of our inquiry than the cardinal importance of a successful full employment policy. It can do much to further the welfare of Canadians by protecting them from the waste and misery of unemployment and from the inequities and distortions caused by inflation" (Canada 1957, 13).

The Diefenbaker government went further ahead with this concern to address all aspects of unemployment, including labour force capacity to adjust to new skill standards. His government put a new emphasis on the need for workers to meet the requirements of automation and other technological innovations (Campbell 1991). Not surprisingly, this focus on skills and labour force flexibility emerged at a time of sharp increases in the unemployment rate. While unemployment had varied between 2.5 percent and 5 percent during the first half of the 1950s, it increased substantially between 1958 and 1962, attaining close to 8 percent during the summer of 1958.¹ Essentially, the Diefenbaker government viewed the unemployment problem as deriving from a deficient strategy in relation to labour force adjustment and economic development. Increasing the pace of industrialization, strengthening the manufacturing sectors, addressing regional deficiencies and providing the right training remained the priorities of his government. In this sense, unemployment continued to be perceived by state actors as a dynamic involving *adjustment requirements*. If only the nature of the Canadian economic development could be *adjusted* and if only the pool of labour skills could be *adjusted*, unemployment could then be limited to a frictional level. Thus, the government's view of

¹ Unemployment rates in the text are all based on the final seasonally adjusted series of unemployment rates in Canada contained in the "Historical Labour Force Statistics", catalogues 71-201, published by Statistics Canada.

unemployment remained very consistent with that of the early post-war period: dealing with the problem would not involve drastic new economic policies or institutional changes.

In their first budget in 1963, the Liberals under Pearson continued to perceive unemployment as a problem whose resolution was within the grasp of the government and the Canadian society. Finance Minister Walter Gordon explained that the "prevalence of unemployment is a wrong that must be righted. Any Canadian, young or old, who wants a job must be able to find one" (Canada 1963, 4). The economic direction set by the Liberal budget as it related to unemployment was consistent with that of the Tory government under Diefenbaker: the focus was on the pace and the nature of industrialization and on the required adjustments to the labour force. It is in the means to achieve these objectives that the Liberals would innovate. The establishment of the Economic Council of Canada, included in the 1963 budget, is of a particular interest. The decision to create the Council was based, in part at least, on the premise that a finer understanding of the unemployment dynamic, based on scientific research, would permit the government to implement the necessary policies to strike against all the unemployment dimensions, be they seasonal, regional, or structural. On the one hand, this approach was consistent with the Keynesian view that unemployment was essentially a technical issue that could be assessed scientifically and addressed through a set of public

policies for which state actors possessed the competency to implement. On the other hand, however, the interest in the seasonal, regional and structural aspects of unemployment indicated some uneasiness among state actors with the Keynesian view that unemployment was primarily the consequence of an insufficient level of aggregate demand.

It was in its first annual review, tabled in 1964, that the Council recommended an unemployment target of 3 percent, a recommendation often referred to as the full employment goal for the 1960s. Beyond the target itself, it was the Council's scientific perspective that brought a new dimension to the way unemployment was perceived, as illustrated here in the meticulously chosen wording used by the Council: "In the light of careful studies, we have concluded that a 97 per cent rate of employment, or a 3 per cent rate of unemployment, of the labour force would constitute a realistic objective to be aimed at over the balance of the 1960s" (Economic Council 1964, 38). This cartesian view was also reflected in one of the first studies published by the Council and tabled in 1964, *An Analysis of Post-War Unemployment*, whose purpose was "to estimate a feasible utilization ratio of the labour force to be used as a basis for calculation of potential output to 1970" (Denton & Ostry 1964, 1). According to its authors, unemployment could be divided into two categories: demand-deficient unemployment (also known as cyclical unemployment) and non-demand deficiency unemployment, which included the

frictional, the structural and the seasonal portions of unemployment. The study concluded that "most of the increase in "residual" unemployment in the late 1950s and early 1960s stemmed from a growing slack in the economy, i.e., a growth of demand-deficient unemployment" (Denton & Ostry 1964, 18). But the study also warned that there were "other approaches to a definition of minimum unemployment, in particular those which stress the relationship between employment goals and price stability in terms of the 'trade-off' between unemployment and price change" (Denton & Ostry 1964, 21).

As discussed in the next section, the Keynesian view that monetary and fiscal policies could be primarily targeted towards employment goals eventually lost its dominant status. A dissenting voice emerged, arguing that this strategy was missing significant pockets of unemployment while exercising upward pressure on inflation. Monetarism gained support and led to a fundamental redefinition of the role of macroeconomic policies.

**Broken promises: the rejection of
Keynesian-based policy: 1970 - 1984**

State actors' concerns around inflation and its impact on how unemployment ought to be addressed became a definitive focal point during the late 1960s. While the rate of inflation remained below 2.5 percent during the first half of the 1960s, it reached 4.5 percent by 1969. This prompted the

federal government to table a discussion paper, *Policies for Price Stability*, and to create the Price and Income Commission. The discussion paper did not challenge the state's political responsibility for unemployment, but it clearly warned that a new economic direction was required in order to balance the state's various economic goals: "it is becoming increasingly evident that, with the existing tools of national economic policy, we cannot count on simultaneously maintaining the desirable level of employment and reasonable price stability" (Canada 1968, 7). There was, according to the discussion paper, a "very real conflict" that existed between a high level of employment and "the price stability that is necessary for sustained economic growth" (Canada 1968, 10).

In its final report tabled in 1972, the Price and Incomes Commission argued that "it was mainly because the expansion of aggregate demand in the economy was allowed to become too strong for too long that average price and wage levels in Canada began rising at a noticeably faster pace in 1965-66" (Canada 1972, 45). The report reflected the view that sweeping demand management policies failed to address that portion of unemployment which resulted from labour market rigidities, including regional unevenness. On this latter point, the report concluded that regional unemployment was "not so much voluntary as the result of institutional arrangements and policies", but added that "either the

unemployment must be accepted or the institutions and policies changed". The report finally concluded that "[s]ince some of the obstacles to high employment in these regions are very deeply ingrained in the economic and social framework of the nation, changing [these institutions and policies] is extremely difficult" (Canada 1972, 42).

Clearly, by the beginning of the 1970s, the quest to scientifically understand and address unemployment had turned into a serious political headache. By opening the door during the 1950s to a rational and cartesian analytical process, state actors ended up, two decades later, in a theoretical labyrinth, lost among contradictory economic objectives and tumbling over an array of policies dealing with labour demand and supply and all their regional, seasonal, structural and cyclical variants. Finance Minister John Turner exhibited this state of mind when he warned Canadians, in the 1973 federal budget, that his employment policies were a mere reflection of their subject -- human beings, investors or workers -- who are imperfect and often unpredictable: "I cannot claim that we will be fully successful in what we are trying to do. Economics is still an imperfect art, not a science. Its subject is people and their behaviour, not merely past facts and statistics." He then concluded that "[e]ven if it could be reduced to simplistic measurement, the fact is that the data are incomplete, imperfect, and often seriously contradictory" (Canada 1973, 24).

The *stagflation* phenomenon in 1974 and 1975 did little to clear state actors' views on unemployment. During this period, inflation went beyond 10 percent and unemployment increased by approximately two points to reach seven percent. With Keynesian-inspired policies apparently discredited, state actors were forced to question yet again their understanding of what unemployment was all about. In the minds of many, the array of post-war social programs and particularly the expansion of the Unemployment Insurance program in 1971, brought a new dimension to the notion of unemployment and altered its fundamental nature. Clearly, it was preferable to have Canadians employed, but gone were the harsh images of the 1930s. Joblessness was no longer perceived as imposing the same extent of human misery and the Unemployment Insurance program had long replaced the repellent relief measures of the 1930s. In a speech which many associate with the end of Keynesianism in Canada, Bank of Canada's Governor Gerald Bouey announced in October 1975 his determination to restrain money supply in an attempt to bring inflation down. In his address, the Governor plainly discarded the sense of urgency with which unemployment was traditionally addressed: "One can note that the current rate of unemployment in Canada is a full percentage point below that in the United States and that Canada's arrangements for providing compensation to the unemployed are among the most generous in the world, but the fact remains that no one welcomes unemployment" (Bouey 1975,

26). While sustained high levels of employment was, according to Governor Bouey, "the only acceptable goal for Canada" (Bouey 1975, 26), he claimed that the time had come to put short-term economic stimulus to rest: "For more than 20 years, almost every country in the western world has given rapid growth and high employment much higher priority in its policies than the preservation of the value of money. This approach worked for quite a while, but it will no longer work well any longer" (Bouey 1975, 29).

The decision of the Trudeau government, on October 13th, 1975, to impose price and wage controls and create the Anti-Inflation Board confirmed the fact that the issue of unemployment would increasingly be conceptualized in conjunction with other economic goals. The assumption was that immediate market anomalies, such as high inflation, were standing in the way of reduced unemployment levels. In its *Employment Strategy* tabled a year later, in October 1976, the government assured Canadians that they could look forward to better economic days. A victory over unemployment would not entail any drastic changes in policy direction and, according to the government, the anti-inflation stand of the mid and late 1970s, coupled with demographic adjustments, would go a long way towards reducing, if not eliminating, unemployment. The *Employment Strategy's* basic aim was "to reduce unemployment progressively over the next five years, without generating yet other problems." The document added that "[w]e

know, moreover, that in the early 1980s, when the influx of young people seeking jobs will taper off, we may well face a situation in which the shortage becomes one of workers rather than jobs" (Canada 1976a, 3-4).

During this turbulent period of the 1970s, state actors never challenged the assumption that the private sector was the main source of employment growth. This meant that the stagflation phenomenon had discredited Keynesianism in favour of the private sector and at the expense of the state. Indeed, despite the fact that the compromise proposed by Keynes had attempted to balance the roles of both the private sector and the state, the surge in unemployment and inflation was perceived as a failure of the state -- and not that of the private sector -- to meet its economic responsibilities. Not surprisingly, when the federal government reviewed its economic strategy in the mid-1970s, it concluded that an "essential theme emerging from this reassessment is the necessity to increase both the reliance on and the effectiveness of the market system" (Canada 1976b, 23). The rude 1982 economic downturn did not alter this policy direction. In tabling his budget in 1983, at which time high unemployment rate persisted at over 12.5 percent, Finance Minister Marc Lalonde pledged to do "all we can to relieve the anguish and hardship that unemployment is inflicting on Canadian workers and their families. More importantly, we must shorten as much as possible the time it will take for the

private sector to expand and provide jobs for the unemployed" (Canada 1983, 1).

It must be emphasized that by the beginning of the 1980s, the task of governing Canada had rarely appeared so laborious: a referendum vote in 1980 on Québec's sovereignty and the constitutional reform process it triggered, the Western alienation created by the National Energy Program of October 1980, the Bank of Canada's prime rate at an all-time high of 22.75 percent in August 1981 and an unemployment rate reaching close to 13 percent by the end of 1982 while inflation was running at over 12 percent. Setting a coherent political, social and economic direction for the country in this context was a colossal task. And contrary to earlier predictions, no shortage of workers occurred by the beginning of the 1980s.

Therefore, in order to deal with the persistent problem of joblessness, the federal government decided to create a number of task forces which, during the summer and fall of 1981, tabled three reports dealing with various aspects of labour market policies. These reports provide a valuable insight on state actors' perception of unemployment.

The first two reports, *Unemployment Insurance in the 1980s* (Canada 1981b) and *Labour Market Development in the 1980s* (Canada 1981a), were drafted under the supervision of senior bureaucrats. In looking at the Unemployment Insurance Program, the first Task Force focused on the behaviour of the unemployed. There was a recognition that U.I. benefits, which

"are paid to eligible workers automatically and as of a right" were "free of the stigma of social assistance", but the fact remained that the program's "contribution to labour market adjustments may be weakened by its impact on things like work incentives and mobility" (Canada 1981b, 99). In recommending a decrease in benefit levels and reduced access to the program, the Task Force came to the conclusion that the state of competition between compensatory benefits and available job opportunities was tipping in favour of the former. To the categories of frictional, structural, seasonal, regional and cyclical unemployment, the notion of *voluntary* unemployment was now receiving a renewed level of attention.

The second Task Force which addressed labour market policies did little to simplify this debate, particularly when it questioned the actual usefulness of the unemployment rate as a policy-making tool: "Although the unemployment rate is a reasonable way of translating the high employment goal into an operational concept, it is not without ambiguities as an indicator of the extent to which the high employment objective is being achieved" (Canada 1981a, 8).

Moreover, the Task Force felt that "unemployment is to a large extent just a symptom of badly functioning labour markets. To confine this study to unemployment would be to limit it to an analysis of the symptoms rather than the disease" (Canada 1981a, 3). In other words, since unemployment was the *symptom* reflecting the state of labour

markets, it logically meant that the *disease* was composed of those barriers in labour markets which blocked the emergence of an equilibrium between the demand for and the supply of labour. It is difficult to follow this distinction between the *symptom* and the *disease*, since it appears that one could just as well reverse these roles and argue that labour market barriers are in fact the *symptoms* of a deeper unemployment *disease* caused by a number of internal and external economic developments or by a certain set of institutional arrangements. Suffice to say that just as it was the case with the creation of the Economic Council of Canada, the approach of the Task Force consisted in deconstructing unemployment in every possible way so that an array of policies could eventually address all aspects of unemployment.

Along the lines of the discourse of the mid-1970s, this deconstruction of unemployment contributed to lessening the perceived hardship traditionally attached to it. The focus on work incentives and labour force flexibility presented unemployment as primarily one element in a trade-off dynamic. In fact, the issue became one of knowing whether unemployed persons would prefer receiving U.I. benefits instead of taking advantage of work opportunities or, in other cases, whether they would prefer being unemployed and stay in their community over moving where job opportunities existed. Echoing a theme which also emerged in the mid-1970s, the Task Force downplayed the human dimension of unemployment when it argued that "it is

clear that the hardship associated with unemployment is today much less than it was even 15 years ago" (Canada 1981a, 15). Under these particular circumstances, the Task Force felt that it could be legitimate for the state to pursue a steep anti-inflation strategy, even at the cost of somewhat higher unemployment rates: "it is understandable, therefore, that governments should be increasingly reluctant to risk the costs associated with higher inflation in order to obtain the perceived lower benefits attainable from lower unemployment" (Canada 1981a, 15).

The third report dealing with unemployment, *Work for Tomorrow: Employment opportunities for the '80s* (Canada 1981c), was tabled by a Parliamentary Task Force led by M.P. Warren Allmand. The views expressed in this report were in sharp contrast with those of the previous two reports. First, the Task Force rejected any form of *voluntary* unemployment: "There was some concern about the status of the work ethic in Canada. On this point employers, governments, educators, and Outreach workers all testified that the work ethic was very strong in Canada, among all ages and in all regions" (Canada 1981c, 58). Second, there was a rejection of the view that the goal of lower unemployment ought to be balanced with other economic considerations such as low inflation: "Task Force members did not accept that there was no solution to the present trade-offs between high unemployment on the one hand and high inflation on the other. They felt that human

ingenuity and political will should provide better solutions" (Canada 1981c, 59). It was on the issue of full employment, however, that the Task Force most clearly departed from the mainstream economic views of the time. A majority of Task Force members -- including all Liberal members -- endorsed a full employment target of 4 percent, which appeared to be the frictional portion of unemployment (Canada 1981c, 61). Moreover, the report criticized the vision of full employment contained in one of the two other reports tabled earlier: "Moving even further away from the concept of full employment is the philosophy outlined in the latest government report on labour market, *Labour Market Development in the 1980s*, which spends a whole introductory chapter asserting that a specific 'full employment' goal has never been clearly accepted by the Federal Government, and rationalizing high unemployment as a necessary part of price stability" (Canada 1981c, 61).

Summary

The purpose of this second chapter was to provide an analysis of the major components of the policy-making paradigm on employment in Canada for the post-war period, up to the beginning of the 1980s. There can be no doubt that Keynesianism highly influenced the way the employment issue was conceptualized during this period. In particular, the notion of full employment was redefined in such a way as to

associate unemployment with the levels of consumption and investment instead of associating it with the inflexibility of wages and prices. Thus, Keynes argued in favour of national policies which would increase the level of aggregate demand and consequently the levels of output and employment. One of the most remarkable aspects of Keynesianism was the significant role it attributed to state actors. By rejecting the predominant view that economic issues could only be dealt with at the international level, Keynes conceptualized unemployment on a national basis and concluded that state actors had both the competency and the tools required to implement nationally, a full employment policy.

One theoretical pitfall, however, would be to confuse the collection of premises and assumptions adopted by state actors with the Keynesian analytical framework which economic and political observers utilized to comment, criticize or analyze the issue of employment in Canada and its related policies. Keynesianism is indeed a complex and, more importantly, an evolving theory relating to both the functioning of the market economy and the economic role of the state. It goes well beyond the single issue of employment. It proposes rules and policy prescriptions which have a direct impact on the relationship among industrialized nations and the relationship between industrialized nations and developing countries. It also sets goals for economic growth which have a great impact

on a number of other policy issues, including those related to the environment.

In this context, it would have appeared misleading to label our chapter the *Keynesian paradigm on employment*, since this would have forced us to analyze the premises and assumptions used by state actors only within the parameters established by the Keynesian theory. My task here is to describe what those assumptions, premises and beliefs used by state actors on the issue of employment were. Practically, this means looking at the view of state actors independently of any specific economic theory. When clear manifestations of Keynesianism, monetarism or neo-liberalism surfaced, they were acknowledged. But my fundamental objective was not to rewrite Robert Campbell's *Grand Illusions* in order to determine the extent to which Canada embraced Keynesianism. And my objective was neither to judge the merit of those premises and assumptions nor the policies which flowed from them.

By referring to the employment paradigm "*under Keynes' influence*", we nonetheless acknowledged the prevailing position enjoyed by Keynes' ideas during the post-war period in Canada. If, as I mentioned before, W.A. Mackintosh could point to a "*dividing line in thinking about economic policy, pre-Keynes and post-Keynes*", it surely reveals a clear shift in public policy thinking. Beyond the tangible economic prescriptions advocated by Keynes -- such as counter-cyclical demand management policies -- it is his diagnostic of the

employment and growth problems which transformed the policy-making paradigm on employment. Keynes made unemployment a public issue involving, to an unprecedented level, public institutions. This simple conclusion triggered decades of debates and, in fact, transformed what governments were all about.

As we have seen, the two world conflicts and the profound economic Depression in between had opened the way for an adjustment to the economic process and to the role played in it by the state. The unemployment caused by the Depression had been ruthless, imposing human misery in its simplest expression. State intervention had been inadequate, ineffective and characterized by repugnant relief measures, based on discredited neo-classical economic tenets. These images were never far behind when the time came for state actors to plan for the post-World War II reconstruction period. It has often been contended that this political and economic environments led state actors to commit themselves, early in the post-war period, to achieve "full employment". I have examined this theory and concluded that state actors never assumed they could guarantee a state of full employment. Their postulate was that private economic activity ought to remain the primary generator of employment growth. State actors perceived that one of their leading responsibilities was to expand trade opportunities and facilitate investments. They never assumed that they had to use the state -- through

public works or crown corporations -- to absorb all those Canadians who were unable to find employment in the private economy. State actors believed in the so-called "job creation programs", but they never meant to use them to guarantee full employment. Rather, they assumed that job creation programs could be used to provide short-term assistance to a limited number of unemployed Canadians to adjust to new skill requirements.

With the sharp increases in the unemployment rate in the late 1950s, the interest grew to better understand the unemployment phenomenon. What I referred to as the deconstruction phase in the policy-making process was in fact based on the assumption that *adjustments* to the allocation of available labour could be facilitated through government institutions. This, in turn, implied a better understanding of what the barriers were in this process. The escalation of inflation levels at the end of the 1960s would fail to alter this prevalent policy direction. State actors remained convinced that the economic impediments faced by Canada were of a short-term nature and were largely imposed from the outside. What did change, however, was the belief that unemployment was mainly the result of overall demand deficiencies.

By the mid-1970s, the policy options associated with the post-war period had become *passé*. Monetarist principles did emerge, but these were developed within many of the same

parameters as those of the early post-war period. In other words, state actors continued to believe that growth in private investments was the key element in reaching higher levels of employment, but the leading barrier had now become high inflation. With wage and price control and the National Energy Programs, state actors reached a level of interventionism which had not been seen since World War II. In spite of this, however, they felt short of a direct involvement to decrease unemployment levels. State actors felt they could control some aspects of the production process, including wages, prices and commodities such as petrol, but the allocation of labour would remain almost exclusively within the private market realm.

In the next chapter, I will examine how the policy-making paradigm on employment has evolved in the context of the mid-1980s and 1990s, when public finance and globalization became predominant policy issues.

In chapter two, I examined how the policy-making paradigm on employment evolved during the post-war period, up to the mid-1980s. In particular, I looked at how Canada dealt with those Keynesian principles which influenced the entire industrialized world, including the development of the small and open Canadian economy. I also emphasized that Keynesianism was about more than economic prescriptions for growth and employment. It shed new light on what was to be expected from state actors and from the capitalist economy as a whole. In fact, Keynes acted as an economic peace-maker, promoting growth and full employment, attempting to prove that in fact, capitalism allowed everyone to be a winner, albeit unequal, but a winner nonetheless.

This third chapter will now turn to the current policy paradigm on employment. My goal is to describe those beliefs, premises and assumptions that are shaping how state actors act upon and react to the issue of employment growth in Canada. Only by fully understanding what these parameters are, will we be able to make sense of the policy direction which Canada has taken in relation to one of the most complex and enduring problems of our times.

To establish what the new policy-making paradigm on unemployment is, the analysis will cover the period from mid-1980s up to the mid-1990s. To this end, most of the material

reviewed will relate to the Mulroney-Campbell and Chrétien governments. While practical, this division is not without its pitfalls. For example, it may lead one to believe that the new paradigm has originated with the Tories and is now being maintained by the Liberals. No one person nor institution, however, can truly claim ownership of a set of beliefs and assumptions. It may well be that many of the observations and conclusions presented here could in fact suit previous governments and leaders. Suffice to say that the emergence of new state actors in 1984, bringing with them the room for manoeuvre associated with a new electoral mandate, makes the year 1984 a logical transition point for our research purposes.

In order to present a somewhat comprehensive picture of the new paradigm, I have built my analysis along two lines. The first line, which can be visualized as being horizontal, consists of various groups of influential actors among which I accord specific importance to state actors and their institutions. The second, vertical line, is made up of geographical segments each having political and economic significance. Analyses of economic developments have historically accorded a prominent place to geo-political considerations, and the search for a new paradigm on employment is no exception. Whether one considers the cod moratorium in Newfoundland, the expansion of the Pacific Rim or the relevance of the *OECD Jobs Study*, it is clear that

actions and actors at all levels influence how the concept of employment is being conceived and addressed within Canadian borders.

In the following sections of this chapter, I will attempt to identify the key components of the new paradigm on employment through a number of avenues: first, I will examine how the employment and unemployment concepts have been defined, politically; second, I will look at how state actors have conceptualized their role in relation to these questions; and third, I will focus on key policy debates to provide a more detailed portrait of this policy-making paradigm, including an analysis of the impact of labour market policies on state actors' assumptions relating to employment growth in Canada.

What unemployment has become, politically

In 1984, Alberta's Manpower Minister, Ernest Isley, declared that "[f]rom an economic point of view, if you define full employment as everyone having a job, that's not a healthy thing." He added that the days when there was virtually no unemployment in Alberta "caused many of the problems we have today," referring to the high levels of inflation and the lack of productivity that his government was facing at the time (Canadian Press 1984). This statement appears to be a fair reflection of a widely shared logic among state actors in

which unemployment is consistently linked to other economic considerations. This view originated in the work of the Economic Council of Canada which, in 1979, conceptualized the relationship between inflation and unemployment in the notion of NAIRU, non-accelerating inflation rate of unemployment (Campbell 1991, 22).

While no consensus has ever been reached on what is the actual unemployment level that would trigger inflationary pressures, the notion of NAIRU has maintained a remarkable dominance in economic debates. As we have seen in our analysis of the post-war period, the idea that unemployment could either be frictional or cyclical isolated the employment issue from other economic goals such as price stability. This, in turn, had the political effect of placing great pressure on state actors to use macroeconomic remedies to curb unemployment. The emergence of regional, seasonal and structural considerations, on the other hand, brought out numerous aspects closely linked to the behaviour of the unemployed and to the side-effects of employment policies. Concerns around skills match, impact of social programs or labour force flexibility made unemployment a problem requiring behavioral remedies as well as macroeconomic prescriptions if governments were to avoid creating other economic problems while attempting to lower unemployment levels. NAIRU's strength, from a policy point of view, has therefore been to reshape what had to be expected from state actors. *There's-*

only-so-much-we-can-do was to become the acceptable tone among elites when speaking about unemployment. In translating the structural, regional and seasonal aspects of unemployment into specific policy consequences -- namely, that a safe reduction in unemployment could only be secured if the unemployed themselves also make adjustments to their behaviour -- the NAIRU established an important trend in policy-making which was further expanded in the 1980s.

Two months into its first mandate in 1984, the Conservative government tabled an economic statement (Canada 1984b) and *A New Direction for Canada; An Agenda for Economic Renewal* (Canada 1984a), to frame the economic challenges faced by Canada and how they were to be addressed. These documents reflected the belief that economic goals could only be pursued on a long-term basis: "Economic renewal will not come quickly or easily. This government has resisted politically-appealing *quick-fix* prescriptions" (Canada 1984b, 96). In other words, reducing unemployment was to be achieved over a certain period of time. And not only was unemployment treated as a long term goal, but it was also seen as being mainly an economic indicator, showing whether or not the government had succeeded in achieving its true economic goals in relation to economic growth. In other words, if strong private-led economic growth could be achieved, the main source of Canada's economic ills would be tackled, and the logical outcome of this would be jobs, jobs, jobs.

By being defined as such, a symptom of other economic difficulties, unemployment became evermore distanced from state actors. Even business cycle downturns and the cyclical unemployment it carries with it -- a critical area for state intervention under the Keynesian reign -- was to be left to the guidance of the private sector. In tabling their 1991 and 1992 budgets in the midst of a recession, the Tories kept maintaining that economic problems, including unemployment, were long term in nature and defied temporary and short-term state intervention. For example, Finance Minister Mazankowski warned in 1992 that "[t]he direction we are setting will not appeal to those who believe there are shortcuts to economic success, the same quick fixes that were tried by others in the past and failed" (Canada 1992b, 1). While state actors came to believe that unemployment was not a problem *per se*, but rather, that it emerged as a result of other economic problems, the electorate has remained on a different wave length. Polls have consistently reminded state actors that Canadians are more interested in the end result (jobs, jobs, jobs) than the means of achieving it. And perhaps more importantly, the electorate has had no difficulty in isolating employment from other economic problems, expecting state actions specifically designed to reduce unemployment. In particular, Canadians have invariably placed unemployment as a key electoral issue (Odam 1984; Greenspon 1993); they warned the Tories that protecting jobs was more important than

promoting free trade (Canadian Press 1985a) and more than a decade after governments made deficit cutting their top priority, Canadians continue to believe that employment is more important than fighting the deficit (Canadian Press 1985b; Bryden 1996a).

Consequently, if, from a theoretical point of view, state actors could keep their distance from unemployment as an issue, they have faced more difficulty in keeping their distance from the unemployed themselves. Indeed, conceptualizing economic and employment growth as the end result of a long term strategy provides little comfort to all those who are unemployed now. Also, the breakdown of unemployment into regional, seasonal and structural categories has focused attention to possible mismatches between what employers require and what employees can offer and has thus created expectations that state actors would act to bridge these gaps.

In this context, the way state actors defined unemployment had to include elements which would relate to short-term considerations and which would make sense of the existence of so many Canadians actively looking for a job. After all, there was no lack of recognition on the part of the Tories of the human cost of unemployment. Finance Minister Wilson reminded Canadians in 1984 that when speaking about unemployment, "[w]e are talking here not just of economic failure, but of human tragedy; or real economic hardship

suffered by thousands of families; of the social and emotional suffering caused by the loss of a job" (Canada 1984b, 97).

This attitude, however, did not mean that unemployment was to be defined as a failure of the state to provide a job to "any Canadian, young or old, who wants a job", a political commitment somewhat popular in the past, although never truly implemented (Canada 1963, 4; Campbell 1991). Instead, unemployment came to be associated to a failure of the unemployed individuals to properly compete for the jobs to be created or for those openings which inevitably result from the high turnover in the labour market. In unveiling the *Canadian Jobs Strategy* (CJS) in 1985, the Tories confirmed their belief that unemployment was about the inability to compete, rather than a failure of the state to provide employment. The CJS's objective was not job creation (as was the case with Canada Works and other similar programs implemented in the 1970s), but it was rather about *immediate* action to level the playing field of competition for eventual job opportunities (Canada 1985b; Montgomery 1985). With money being spent on the CJS and actions being taken to foster investment and open new markets, the Tories appeared to be fairly clear about how they saw unemployment. If Finance Minister Wilson could boast in his 1990 budget that "almost 1.6 million more Canadians have a job today than in 1984" and that "there are now 750,000 fewer Canadians exposed to poverty" (Canada 1990, 7), it could

only be a sign that they had a good grasp of what unemployment was all about.

The economic downturn which immediately followed the 1990 budget did more than exacerbate unemployment levels. It presented a Tory government which appeared to have lost its comprehension of what unemployment entailed. In his first budget in 1992, Finance Minister Mazankowski predicted that by the end of 1993, 500,000 jobs would be created in Canada (Canada 1992b, 11). Not even half of this materialized. His economic statement of December 1992 revised the target at 300,000 new jobs for 1993 (Canada 1992a, 14,419). Again, the outcome was barely half, at 143,000 new jobs. His job creation forecast in the April 1993 budget -- the last one for the Tories -- was again, off-target (Canada 1993, 14). All Minister Mazankowski needed to do was to celebrate the fact that since 1984, the "number of full-time Crown corporation employees has been reduced by nearly 90,000" (Canada 1993, 11) to cast growing doubt on just how much the Tories understood what unemployment actually meant. When Prime Minister Kim Campbell announced on Day One of the 1993 electoral campaign that a brighter employment picture would have to wait yet a few more years, Canadians got the blues and went for the "good old days" proposed by the Liberal leader (Greenspon 1993).

In seeking their mandate to govern in 1993, the campaigning Liberals claimed that a fresh viewpoint on job creation could move Canada back to those days of near full-

employment. Promising that "[i]t will be like the old days" in that "Canadians will be working" (Greenspon 1993), the Liberal leader waved a Red Book which committed the Liberals to "not automatically accept the usual remedies for such seemingly intractable problems as stubbornly high unemployment rates". The document added that the Liberals "intend to introduce a number of measure that will challenge the conventional thinking on these and other issues" (Liberal Party 1993, 11). Just how challenging has the thinking of the Liberals been? And perhaps more importantly, just how *unconventional* has it proven to be? In addressing these questions, one ought to use as a backdrop the work of the Organization for Economic Co-operation and Development (OECD) and its *Jobs Study* initiative. The first report related to this study was released in 1994, a few weeks following the Liberals' ascension to power.

In explaining the relationship between Canada and the OECD, the Department of External Affairs has once described the organization as "an invaluable aid to national policy-making" (Canada 1989b, 3), a fact sometimes underestimated since "most agreements are informal and unpublicized" (Canada 1989b, 2). This time, however, the OECD publications related to the *Jobs Study* initiative confirm that, indeed, *invaluable aid* leaves its mark.

As an organization committed to promoting world trade, financial stability and sustainable economic growth and

employment (OECD 1970), the OECD has made no apology for embracing economic goals which may well leave some individuals in a permanent state of unemployment. Before proposing, in its 1994 *Jobs Study*, a number of structural adjustments to labour market policies, the organization warned that "some in society will find it impossible to adapt to the requirement of advancing economies." The OECD added that those excluded must nonetheless benefit in some way from economic progress, since "[t]heir exclusion from the mainstream of society risks creating social tensions that could carry high human and economic costs" (OECD 1994, 8). It must be noted that the OECD did not elaborate on exactly how these permanently unemployed were to benefit from economic progress.

In *A New Framework for Economic Policy*, a document released during the same period as that of the OECD *Jobs Study*, the Liberals embraced the very same premise, stating that "while there will inevitably be individuals who cannot find work despite their best efforts, those fortunate enough to have flexibility run a reasonable chance of landing something amid the constant job turnover, even when economic activity is weak" (Canada 1994a, 23). There can be little doubt, therefore, that through the 1990s, state actors became increasingly blunt about the fact that there would be *permanent losers* in the new job market dynamic. Simply put, state actors could no longer ignore the fact that long term unemployment had come to hit like a fatal economic disease,

discarding those incapable of adjusting to the emerging labour market requirements. As stated in the Liberals' New Framework: "[t]he essence of the problem, therefore, is that an increasing proportion of those who do become unemployed, remain so for a long time" and the document notes that the "long-term jobless have trouble becoming re-employed and can become alienated" (Canada 1994a, 23). Again in 1996, Prime Minister Chrétien argued that "[n]obody can promise that there will be a job for everyone in Canada. There will always be some unemployed people" and he added that "[w]hat is important is that the government has a priority to create jobs and to give everyone an excellent chance to find a job" (Bryden 1996b).

In practical terms, this means that long-term unemployment, which had been a concern for some time, was to assume new political importance in Canada with the Tories and Liberals' extensive commitment to embrace the rules of the free and global market economy. This thinking brings a meaningful point to our understanding of how unemployment is now defined and understood. As the world economy moves into unprecedented integration and specialization, the capacity for the labour force to adapt to change is also unprecedentedly challenged. If, as the Liberals argue, "[t]here are fewer and fewer refuges from the unsentimental test of international market competition" (Canada 1994a, 2), it necessarily implies that a number of individuals will cross this impalpable and

yet devastating point whereby their integration in this *unsentimental* economy becomes, for all intents and purposes, impossible. After having deconstructed unemployment for decades, and argued that cyclical, regional, seasonal or structural considerations could be addressed if well understood, state actors -- while not necessarily losing their commitment to facilitate adjustment -- have come to the conclusion that perhaps the tremendous pace of change is just a little too much for an increasing number of Canadians.

As seemingly harsh and morally objectionable as it is, this vision does not only create so-called economic losers. The long-term or permanently unemployed may represent an increasing group, yet, they are a minority. In the meantime, a majority of citizens appear to enjoy higher standards of living created by technologically advanced and liberalized economies. As stated by one economic observer, the "unemployment problem of the advanced nations has no painless solutions, and we should not expect effective action to solve the problem until or unless it becomes a true crisis" (Krugman 1996, 24). Finally, the Liberal's New Framework added that the "outcome of the jobs conference in Detroit in March 1994 and the conclusions of the G-7 Summit in Naples point to a near universal consensus among industrial country governments regarding both the nature of the jobs problem and the policy directions needed to address it" (Canada 1994a, 37). In fact, what the G-7 leaders did at their *Detroit Jobs Conference* was

to recognize the leading role play by the OECD in relation to unemployment. Therefore, in concluding their meeting, the leaders acknowledged "the danger of overlap with similar efforts already under way in the 24-country Organization of Economic Co-operation and Development" (Marotte 1994).

In this context, how *unconventional* has the thinking of the Liberals been, and to which extent have they rejected the vision of a "seemingly intractable problem of stubbornly high unemployment" are both highly debatable questions. If the OECD has more or less made peace with the existence of significant unemployment levels -- as a trade-off for higher standards of living for the majority -- and if there is indeed a large consensus among industrialized country leaders on what unemployment is and how it needs to be addressed, one may wonder where this would leave a rebellious Canada, if a rebellious Canada there would be?

So far, we saw that the emergence of the NAIRU and the *deconstruction* of unemployment created a policy environment which allowed state actors to question whether workers were doing enough to adapt to emerging economic requirements. In practical terms, this built some distance between state actors and the goal of providing a job to all those who wanted to work. And by discrediting short term state interventions, the Tories kept this momentum and attempted, with limited success, to convince Canadians that unemployment levels were a symptom of more profound economic ills.

Despite their claim to the contrary, the Liberals quickly followed with a strategy based on the same comprehension of the unemployment phenomenon, a view publicly endorsed by the influential, yet unknown to the general public, Organization of Economic Co-operation and Development. Confronted with harsh realities and deceiving employment results, yet, needing to win electoral contest or remain in office, state actors reacted by altering the political meaning of unemployment. Statistics Canada may therefore continue to assess unemployment by asking those without a job whether they are *actively looking for employment*, but all this does is put a million-and-a-half-size-problem in the face of state actors. For the latter, unemployment is no longer about the willingness to work. It is about the willingness to compete and the capacity to meet those requirements set by national and international institutions which, for decades now, have been promoting world trade, sustainable economic growth and price stability. If, during the 1950s and 1960s, it would have been inconceivable to say publicly that indeed, some will never fit the emerging demands of the new economy, this is no longer so, as the Liberals and the OECD have proven. This brings new political meaning to the notion of *long-term unemployment*, but this issue may well belong to the realm of social challenges, rather than that of the labour market.

In the next section, I will turn to the question of how the roles in relation to employment growth have evolved

between the state and the private sector. My task consists in identifying further components of the new paradigm on employment through an analysis of the assumptions used by state actors in shaping their particular role within the job dynamic.

Reshaping the state's role in relation to employment growth

There has never been a lack of political promises around the issue of job creation. Constantly, federal and for that matter, provincial and municipal elections have addressed the need for more and better jobs. In recent experience, the Tories' *Jobs, Jobs, Jobs* electoral slogan and the Liberals' *Jobs and Growth Agenda* have maintained the myth that government can *deliver* on the need for more jobs. In reality, however, politicians have repeatedly stated that the vast majority of new employment opportunities would need to originate from the private sector. What state actors have done, in fact, is to conceptualize their role as one of fostering and attracting investment or of easing the establishment or the expansion of Canadian-based enterprises. This obviously results in the creation of some new jobs, although how many and for how long is often anyone's guess. This fundamental dynamic is applicable to the 1990s, just as it was to the 1950s or 1960s. My task, in such a context, is therefore to examine how, within this broad framework, state

and private economic actors now perceive and define their specific functions in relation to employment growth.

As we have seen, one of the first concerted initiatives of the industrial world following the Second World War was to liberalize free market economies through the laborious removal of trade barriers. This objective has been pursued using, simultaneously, regional free-trade agreements and the General Agreement on Tariffs and Trade (GATT) which broadened its scope on January 1st, 1995 to become the World Trade Organization (WTO 1995b; on regional agreements, see WTO 1995a). By aggressively promoting freer trade among industrial nations, national governments around the world created something immensely powerful, which was condemned to affect national economic sovereignty. As noted by the Tories in 1984, "[t]o an extent that would not have been believed 30 years ago, we have become trading nations linked by interrelated world markets for goods and capital" (Canada 1984a, 12). If the current extent of economic integration was certainly difficult to conceive in its practical manifestation 30 years ago, it was nonetheless a definite goal pursued by governments around the world, including the Canadian government. As Ethan Kapstein argued, "international economic integration is not some uncontrollable fact of life, but has deepened because of a series of policy decisions taken by the major industrial powers over the last 45 years" (Kapstein 1996, 17). However right Kapstein may be, the fact remains

that state actors now conceive the world economic integration as a *de facto* Act of God, something over which individual human beings have no control.

The Tories, for that matter, never missed a chance to remind Canadians that we "must deal with the world as it is, and not as we might wish it to be. We must recognize that globalism is a fact of life [and this] increases our interdependence and our competition." The Liberals have thought no differently and stated in 1994 that "the *free market* philosophies that now hold sway almost everywhere in the aftermath of the Cold War give continuing impetus to this global integration" (Canada 1994a, 1). It is therefore quite remarkable just how much the new paradigm on employment has made little room for the negative impacts of globalization. The Liberals and the Tories have shared this absolute conviction that there are no alternatives to globalization, making a debate on its negative impact largely futile.

State actors have instead turned their attention toward those economic barriers which appear to weaken Canada's competitive position in the world economy, including predominantly the issues of price stability and deficit reduction. While many observers have argued that these issues have supplanted full employment as the state's utmost economic priority since the mid-1970s (Campbell 1991, 5; McBride 1992, 116 and Myles 1996, 16) it must be emphasized that state actors never conceived of employment growth as a question

which could possibly be addressed in isolation from other economic developments. In other words, it never made sense for state actors to talk about job creation or low inflation, job creation or lower deficit levels. In this vein, Finance Minister Michael Wilson reminded Canadians in 1989 that "[n]owhere - not in Canada or in any of the major industrial countries - did forecasters project the rapid growth and inflationary pressures that have emerged" (Canada 1989a, 3) and then sought, a year later, support to "continue to deal firmly with the greatest single threat to our continued fiscal and economic progress: high inflation." He added that experience "supports the need for the kind of firm, inflation-fighting monetary policy that the Bank of Canada has been following" (Canada 1990, 9-10). The inflation rate during the expansionary years of the 1980s varied between 4 and 6 per cent. The Liberals adhered to this vision and argued in 1994 that job growth is "the result of investment, of entrepreneurial vigour, and of consumer confidence" and that it is "undermined by a growing public debt that has led to higher taxes, higher real interest rates and a diminished capacity of the Government of Canada to address the other vital issues of an economic strategy for the future" (Canada 1994a, 71).

In this context, would it be appropriate to argue that since the mid-1970s, state actors have been tossing unemployed Canadians in the monetarism precipice, all in the name of

price stability? Is Stephen McBride accurate in claiming that "far from state policy being dedicated to solving the [unemployment] problem, there is considerable evidence that public policy is one of the causes" (McBride 1992, 28). In assessing how state actors have defined their role in the 1980s and 1990s, one's conclusions are necessarily influenced by the bench mark used for evaluation purposes. For those who see unemployment as a failure on the part of the state to provide employment to out-of-work able-bodies -- and who define able-bodied in the broadest possible sense -- the recent economic policy direction in Canada cannot possibly make sense. One fundamental assumption used by this school of thought is that an electoral commitment to bring about lower unemployment must translate itself into a commitment to use and direct the economy in such a way that will create all the needed jobs. One quickly realizes that this involves a great deal of political and economic sovereignty for one individual nation. It also explains the strong opposition from this group to the free trade agreements (FTA) signed between Canada and the United States and to the North American Free Trade Agreement (NAFTA), which both appear to weaken this sovereignty.

It must be stressed that in comparison to the FTA and NAFTA, which were highly politicized and opposed, the various multilateral agreements which emerged from the GATT rounds have created little political heat. This latter form of trade

has been perceived, for the most part, as being *fairer* for it involves nations sharing many of the same social and economic benefits built during the post-war Keynesian period. In fact, one may wonder how the very principle of economic liberalization could have been convincingly opposed when a large part of the post-war economic growth experienced in Canada derived from its capacity to export more goods and services. As a share of its total economic activity, exports in Canada doubled during the past thirty five years, moving from about 15 to 30 per cent of total GDP (Canada 1994a, 67). By accepting, however tacitly, the concept of an integrated world economy, most social, economic and political actors have placed the Canadian economy in a quasi-permanent position of subordination, being forced to follow international trends. This was true on the eve of the General Agreement on Tariffs and Trade and is as true half a century later. How well the trade-offs between economic sovereignty and globalization served Canada is debatable. Yet, for state actors, a Canada economically located in the margins of the world economy would most certainly not enjoy the current standards of living taken for granted by so many Canadians.

When international events in the 1970s, and for that matter, the very nature of the Canadian economy, rendered demand management policies seemingly unworkable, state actors turned to supply-side policies such as investment-led tax incentives. When it became clear that these corporate tax

favours were not reducing overall unemployment, that they were not even curbing inflation, but that they were causing alarming revenue windfalls leading to high deficit and debt levels, state actors altered their policy direction once again. And in shaping their new role, they chose not to question the validity of the globalization course initiated decades ago with the signature of the GATT. One could argue that, in fact, the control of inflation or the fight against the deficit never replaced the goal of high levels of employment. Rather, the issues of inflation and debt reduction became the cornerstone of yet another political strategy to achieve the everlasting goals of more investment, more economic growth and, hopefully, more jobs, in an environment of incessant global integration.

To recapitulate, it is argued that ever since GATT was initiated, the Canadian state pursued an employment strategy which assumed that the vast majority of new jobs ought to come from an expanding private sector. With 30 per cent of economic activity now linked to exports, Canada has been engaged in a practically irreversible trend toward greater economic integration. Since the large majority of Canadians enjoy relatively high standards of living, economic and social actors would be hard pressed to justify a retreat from globalization in the name of greater political sovereignty.

In this context, the role of state actors has been twofold. First, they have examined how they could assist the

private sector in taking full advantage of economic opportunities or in exploring new economic avenues, which would both result in more investment, more economic growth and more employment. The incentive for state actors to do so is, of course, electoral. Each and every stage of one's life revolves around work, around the need to prepare for it, to remain employed, to earn enough for retirement or to adequately support other members of the family unit who may be providing unpaid work or may be looking for work. This reality has made electoral promises around job creation a sure winner. Whatever the means and policy choices favoured, state actors never questioned the prominent role of the private sector. It could be misleading, therefore, to talk about a Canadian state which abandoned its commitment to high employment levels in favour of price stability or deficit reduction. As I argued, such analysis would be based on the assumptions that high employment once stood on its own and that state actors believed they could achieve this goal on their own. In fact, the only fundamental change which appeared with monetarism in the 1970s is the rejection of short-term state intervention in favour of long-term based policies. This, nonetheless, constitutes little more than a new option on a continuum which began right after the Second World War, with Keynesianism.

The second component of state actors' role has been to manage the social impacts relating to how unemployment has

evolved. On this point, it is important to emphasize that the business and employment strategies of any individual enterprise never includes consideration linked to the national goal of high employment. In other words, private sector enterprises hire according to their internal capacity and not according to what is required to assist state actors in reaching a specific employment goal. Furthermore, this includes very little or at best, short-term considerations for the capacity of current employees to adapt to technological innovations. The practical effect of this dynamic is that employees are hired, fired, or replaced according to the enterprise's business environment, be it local or international, regardless of political and social goals pursued by the state. This has not only forced the state into a reactionary mode, but it has also meant that some social and political goals have been pursued despite the emerging requirements of the new economy. The discussions around Newfoundland's *economic viability* or about the *feasibility* of Québec's sovereignty are about this very contradiction. For example, the movement towards a more integrated world economy continues, despite the tremendous richness, cultural and social, once associated with small-scale fishery in Newfoundland. It led, in this case, to unprecedented clash when hundreds of coastal communities were urged to show more *economic flexibility* in the face of the cod fishery crisis.

In the next section, I will examine debates which have surrounded the adoption of specific policies dealing with employment and unemployment. Here again, my goal is not to assess the efficiency of any specific policy combatting unemployment. Rather, my objective remains to identify more elements of the new policy-making paradigm on employment.

**Confronting unemployment: creating
the opportunity for jobs growth**

The temptation has always been great for state actors, particularly in the early stage of a governing mandate, to present a discourse in which they boost their ability to introduce significant policy changes affecting the level of economic growth. For example, in his first budgetary address to Parliament as Minister of Finance, Michael Wilson urged Canadians in 1984 to "stop acting as if we were helpless in the face of capricious events outside our country" (Canada 1984b, 104). In the same vein, the Liberals stressed, in their 1993 electoral platform, their belief "that government can be a force for good in society. Economic growth is not a matter for market forces alone" (Liberal Party 1993, 10). The positive capacity of the state to set a direction and move towards it without being derailed by external events -- especially events outside national borders -- constituted a key assumption for those advocating Keynesian policies. However, the rough journey which this premise went through in

the 1970s greatly contributed to putting Keynesianism to rest. As we have seen, the 1973 and 1979 international oil price shocks and the stagflation phenomenon which resulted, called for new economic remedies and discredited short-term macroeconomic demand management.

From the evidence presented so far, one realizes that this great conviction to act on unemployment has, in fact, always been tempered -- and now more than ever before -- by perceived external and internal forces. In the eyes of state actors, unemployment never stood on its own and therefore, could not be addressed in isolation. One recent illustration of this came as the unemployment rate climbed to 10 per cent during the summer of 1996. Pressure grew for some positive response from the national government, but what Canadians received, instead, was a reminder from their Prime Minister that we now live in a harsh economic world: "Public opinion would like to see everyone working and every politician would like to see every citizen working. Everyone wants that. But in a market economy, it doesn't work like that" (McCarthy & Ferguson 1996).

How does it work, then, in a free market economy? We have seen so far that the political meaning of being unemployed has greatly evolved during the 1980s and 1990s, and that the state's mandate in relation to unemployment has become increasingly constrained. In addition, massive direct job creation programs have been rejected by state actors.

There were certainly important megaprojects in the 1980s, such as the construction of CF-18 fighter jets and the Hibernia oil project (Corelli 1988) and the Liberals did implement their Infrastructure Works Program, but overall, this has proven to be a declining option. In considering an alternative economic direction, state actors have had, therefore, to consider the two sides of the private-sector-job-growth equation. First, how can private investments be increased so that economic growth and new employment opportunities can be generated? Second, how can the characteristics of the labour force be altered so that it meets the needs of the global economy?

The factors that may lead to the creation of a new business or the expansion of an existing one are numerous. One of them, according to state actors, has been the existence of a *positive environment*, as illustrated by Prime Minister Mulroney who once declared, in claiming credit for the employment growth of the mid-1980s, that it was the business confidence which his government inspired that lead to this level of job creation, not any specific job creation program (Windsor 1985). It may be difficult to delineate exactly what would constitute the *right environment* for economic and job growth, but one of its central components has clearly been the control of the federal deficit and debt. We must first recall that budgetary deficits were once seen as acceptable, if not innovative under Keynesian rules. But during the 1980s and 1990s they became economic evils, to be blamed for almost the

entire misfortune of the country, including unemployment. The logic has been straightforward. Budgetary deficits bring high levels of national debt, which in turn hurt confidence in Canadian government securities which ultimately places upward pressure on interest rates. And since interest rates are seen as critical to investment and economic growth, the fight for deficit has essentially been a fight for employment (Canada 1984a, 19; Canada 1994b, chap. 1).

During their two mandates, the Tories referred to the Liberal debt legacy as the single most damaging barrier to employment, often bringing the issue to a personal level. In 1985, Prime Minister Mulroney set the tone by declaring that the country was bankrupt. "All we've been saying is that the country is broke. We've been trying to tell you for some time this country is bankrupt." He described the state of public finance as a "tragedy" (Canadian Press 1985c). In his budget a few weeks before, Michael Wilson echoed the same message, telling Canadians that if he believed deficits could create jobs, he "would gladly increase the deficit to achieve that goal. But it hasn't worked in the past. It won't work now" (Canada 1985a, 21). Again in 1993, Finance Minister Mazankowski appealed to each and everyone's good judgement: "[Canadians] know that a household can't keep running up credit card bills and borrowing to pay interest. And they have seen what happens when governments act as if they are exempt from the same basic rules of common sense" (Canada

1993, 2). In the mid-1980s, the deficit level was, from an historical perspective, high and it remained so for the entire two mandates of the Tories. Since this fight against the deficit was portrayed as being the fight for employment, every setback in attempting to reduce the deficit implied that Canadians would need to wait a little longer before enjoying better job creation performance.

In their 1993 electoral platform, the Liberals came to the conclusion that "[w]ithout a doubt, one of the greatest failings of the Conservative government has been the tendency to focus obsessively on one problem, such as the deficit or inflation" (Liberal Party 1993, 10). Whether the Liberals actually focused just as *obsessively* on the deficit is a debatable question, but what is not is the prime function they conferred to deficit reduction in their overall vision for economic growth. In their October 1994 economic and fiscal update, they insisted that deficit reduction and the control of the debt "are keys to enhancing consumer and investor confidence, to ensuring durably low real interest rates and to promoting strong, sustained economic growth that translates into jobs of increasing number and quality" (Canada 1994b, 3). Again in July 1996, Prime Minister Chrétien reminded Canadians that "[e]conomic policy has many aspects" and that "[i]f you don't pay attention to the deficit, there is no job creation, but you have to have a priority of job creation" (Greenspon 1996).

Another key component of what contributes to building the *right environment* for employment growth has been the maintenance of low interest rates. But as I have noted, state actors have felt that new investments would only come if governments could also guarantee price stability. In this sense, interest rates came to wear two hats. On the one hand, they have stood as an independent factor, in that low interest rates have been perceived as essential in order to bring about more investments. On the other hand, higher interest rates have also been seen as a tool to be used in achieving another independent factor, price stability. Instead of containing demand-led inflationary pressures through higher taxes for example, governments felt that limiting access to credit would be more effective. Balancing these very contradictory goals has sometimes proven to be impossible. As Craig Riddell explains, the "determined anti-inflationary stance taken in Canada, which played a role in the severity of the recessions of the early 1980s and of the early 1990s, succeeded in winding down the deeply entrenched inflation that built up during the 1960s and 1970s, but also left a great deal of devastation in its wake" (Riddell 1996, 13).

It is worth noting that governments during the 1980s and 1990s have in fact attempted to recreate the economic conditions of the 1950s, 1960s and of the early 1970s when inflation rates were low, deficits were small or nonexistent and the debt level (as a portion of the GDP) was declining

(see charts in Canada 1994a, 13,80). No one could deny that during this period, the actual rate of unemployment was lower than that of today. However, it is also true that it never prevented immense unemployment rate fluctuations and an upward trend from one decade to the next (see chart in Canada 1994a, 19).

In creating the *right environment*, governments in the mid-1980s and 1990s have attempted to attract investment, regardless of where the capital resources would originate from. Those serious concerns which were once expressed around the impact of foreign investments have been discarded by current state actors. After being elected in 1984, the Tories made investment growth one of their prime policy goals, knowing that "[m]uch of this investment must come from foreign sources - both as new investment from abroad, and reinvestment by foreign-owned companies resident in Canada" (Canada 1984a, 41). They followed with the creation of Investment Canada, whose purpose was to "encourage and welcome investment capital from abroad, investment that is creating jobs for Canadians" (Canada 1988, 3). The Liberals under Jean Chrétien did not challenge this course, proposing, for example, that the negative impacts of the "unusually high degree of foreign ownership in Canada" on research and development activities be simply addressed through tax incentive policies (Canada 1994a, 64).

The use of the tax system to generate investment has a long history in Canada. As we have seen in the previous chapter, state actors perceived fiscal policies as being an appropriate tool to address the regional, structural and seasonal aspects of unemployment which emerged during the late 1950s and the 1960s. When Keynesian policies were discredited, governments attempted to increase the supply of goods and services in order to reduce inflation and create employment. This was to be done mostly through supply-side corporate tax incentives. In the 1980s and 1990s, governments came to see corporate tax incentives as part of the problem rather than the solution. Not only were these fiscal measures creating revenue windfalls, but they were blocking the inescapable economic adjustments required to increase competitiveness. Thus, the Tories went on to denounce the fact that "[f]or too long, government has tried to substitute the judgments of politicians and regulator for the judgements of those in the market place" (Canada 1984b, 96). Interestingly enough, the use of fiscal measures to attract and direct investment proved, at times, to be simply irresistible. In his 1985 budget, Finance Minister Michael Wilson did remind Canadians that in "trying to facilitate investment, government too often distorts it" (Canada 1985a, 11-2), but this did not stop him from announcing in the very same budget the implementation of a 10 year tax exemption for all new investment in Cape Breton.

In spite of their tortuous and sometimes contradictory nature, these structural reforms I have reviewed have all attempted to bring Canada back to a period in its history where private-led economic growth was achieving respectable levels of job creation. In pursuing this goal through the 1980s and 1990s with measures imposing less control on the origin of new investments and their location, governments have not been blind to the fact that this would result in severe shocks for some portions of the labour force.

A great deal of attention has therefore been directed toward labour market policies. One may argue that the purpose of these policies has been to limit the state's role to one of facilitating the implementation of a direction for economic growth dictated by the private sector. On the other hand, state actors have also appeared tempted to use their jurisdiction over the labour force to maintain some control over economic growth. If investments can no longer be screened and directed at the source, they continue, nonetheless, to be influenced by the kind of skills that one country can offer (Reich 1991). Whether Canadians are economically flexible enough -- sometimes at the price of social goals -- to respond quickly to the emerging needs of a global economy, is an economic *gamble* which state actors have appeared to be willing to take. To those who believe that, fundamentally, the economy should serve citizens -- not the other way around -- this may appear amazingly unprincipled.

But it may well be how a free market economy works. It is with these questions in mind that I will now examine in more detail some of the recent debates relating to labour market policies.

The notion of social programs or social safety net is commonly understood to be those public programs which offer assistance to Canadians in need of income support, health care services or more specialized programs such as social housing or special care for elderly or people with disability. The category of income support is further divided on the basis of labour market attachment. Maternity leave or regular income support benefits provided through the Unemployment Insurance program (UI) have been associated with out-of-work individuals deemed *able to work*. These recipients are neither children nor elderly and do not have severe mental or physical disabilities. On the other hand, programs such as family allowance, child tax benefits, social assistance or pensions have been associated with individuals who were not *expected* to work, not in the near future at least. More than ever, however, this clear-cut division does not reflect the reality of many Canadians. One example would be the case of individuals who are receiving social assistance benefits and are unemployed in the traditional sense that they are counted in the monthly unemployment statistics and could have received UI benefits under previous eligibility rules.

Clearly, when implemented -- in the 1960s and 1970s for the most part -- social programs were based on the premise that those able to work would eventually find employment and those who are deemed unemployable would receive long-term assistance to look after their basic needs. It also appeared legitimate that social programs performed redistributive functions, ensuring that the Canadian community as a whole could benefit from economic growth. By making family allowance, old age pension or health care universal, a greater level of social solidarity was expected to emerge.

This, perhaps, explains how social programs came to be seen as sacred, forming an integral part of what the Canadian citizenship entails. The Tories quickly proclaimed their "commitment to social justice and the social safety net" in their 1984 budgetary statement (Canada 1984a, 69) and their backtracking on the de-indexing of pensions has since become a classic in policy-making. The Liberals, as well, spared no passion in describing the value of social programs. In their discussion paper *Improving Social Security in Canada* released in October 1994, they claimed that "Canada's social security system is a hallmark of our nation" and added that it "embodies the values of justice, tolerance and compassion that mark our country". They concluded that "[o]verall, our social security system has been a success, and a source of pride in being Canadians" (Canada 1994c, 7). In principle, therefore, the two major parties did not challenge the intrinsic value of

social programs. Only very recently did the devastated two-member Tory party begin to question this premise. The report of its Policy Advisory Committee, tabled at the August 1996 party convention, stated that "[d]uring the postwar period, the scope of social programs grew substantially. The prevailing and mistaken paradigm regards these programs as a significant part of what defines our citizenship and as an inspired representation of the values we espouse as a people" (quoted in Camp 1996).

The value that social programs acquired throughout the post-war period created a somewhat hostile policy environment for any government aiming for substantial changes to their functions or scope. However strong the resistance to change, state actors could hardly reconcile their perception of unemployment with the kinds of programs in place. After all, they had come to the conclusion that *full employment* could never be achieved without painful trade-offs jeopardizing what so many Canadians have taken for granted. In this context -- where the goal of full employment as traditionally understood was permanently discarded -- state actors could not indefinitely look after individuals incapable of meeting the new requirements of the economically integrated world. Moreover, state actors also believed that the longer these programs remained as is, the tougher it would be for them to meet their objectives related to investment growth.

For state actors, an innovative reform of social programs would therefore focus on the two sides of labour market policies. First, the *supply* of labour offered to potential investors within and beyond national borders needed to be made more attractive. If, for example, favourable currency exchange rates and the presence of the health care system had been used in the past to build up American-owned branch plants, the unparalleled volatility of capital established new thresholds in the *comparative advantages* dynamic. The establishment of a better-trained pool of workers was to become one way of responding to this challenge. Second, the *demand* for labour had to be facilitated through structural changes which would reduce wage levels as well as *payroll* taxes so that labour may become a more profitable investment.

Such a vision could hardly justify the maintenance of universality in social programs and a few weeks into its first mandate in 1984, the Tory government got the opportunity to promote this point to representatives of social groups, unions and businesses who attended the National Economic Conference held in Ottawa on March 22nd and 23rd, 1985. While the overall concern at this meeting was jobs and the lack of them, the only consensus which emerged was the "acceptability of altering universal social programs in order to deal with the problems of the truly underprivileged" (McKay 1985, 34; Critchley & Bagnall 1985). Zeroing-in on those most in need quickly became a true characteristic of how state actors

envisioned what the purpose of social programs should be in the 1980s and 1990s. This targeted approach was also based on the belief that government's intervention needed to be more focused and therefore, more efficient.

It could have been argued that in light of the labour market exclusion faced by an increasing number of Canadians, the redistributive functions of social programs should have been enhanced, not reduced through targeted programs for those most in need. But apparently, maintaining universality would have flown in the face of too many realities. State actors could not reconcile the exceptionally open nature of Canada's economy with redistributive functions requiring an extent of social and economic sovereignty that they felt was missing. Moreover, state actors were conceptualizing their prime responsibility as one of ensuring that there is a reasonably level playing field for those who must compete for whatever job may become available. With this frame of mind, targeting social programs, including labour market policies, appeared highly desirable.

This is precisely what the Tory government did with the *Canadian Jobs Strategy*, introduced in June 1985. The six components of this new program shared one central characteristic: they were helping vulnerable groups of Canadians to acquire new job skills. As already mentioned, this initiative was not about job creation. It was about a better opportunity to compete. As reported, "[w]ith the

warning that 100,000 Canadians lost their jobs last year to technological change, Employment Minister Flora MacDonald has made training rather than job creation the priority in Ottawa's \$2-billion-a-year employment spending" (Montgomery 1985). The largest portion of both money and participants were to be directed to the Job Development Program, which was replacing Canada Works -- a direct job creation program -- and which focused on training for the long-term unemployed (Canada 1985b, 18-9).

The usefulness of making training a policy priority was destined to stir passionate debates in Canada. While genuine training programs do appear hard to oppose in principle, their effectiveness in moving individuals back into employment is much more debatable. In reviewing federal training programs, Hum and Simpson warned that "[o]ur knowledge of the benefits and costs of training the unemployed is meagre at best" (Hum & Simpson 1996, 62; Krugman 1996, 22). Along the same line, a review of a number of Commissions' reports on economic matters, including the Macdonald and Forget commissions, emphasized that "[i]nterestingly, none of the reports saw training as a major solution to the high levels of unemployment existing in the middle of the [1980s]" (Hunter 1993, 337).

When pushing for training initiatives, the expectations of state actors had therefore to be limited. Their primary goal could not be an incremental increase in employment

opportunities. Again, all they could logically hope for was to give new opportunities to vulnerable groups of unemployed to better compete, in addition to offering short-term remedies in what was essentially a long-term plan for economic growth.

One other highly controversial assumption of state actors has related to the Unemployment Insurance (UI) program, the access to and the level of benefits offered by the program. Extensive changes implemented in 1990, 1993, 1994 and 1996 resulted in less people receiving UI benefits and less support for those still receiving those benefits. Scholar Paul Krugman summarized, rather bluntly, the issue at stake: "Theory, experience and econometric evidence all suggest that unemployment can be cut by reducing both the generosity and duration of benefits to the unemployed, thereby increasing the desperation with which the unemployed must search for jobs" (Krugman 1996, 22-3).

Many have pointed to the changes implemented in 1971 -- which extended benefits and addressed more specifically regional unemployment -- as the one policy which in fact created more unemployment. A research paper prepared for the Federal Reserve Bank of New York and which examined the differential in the unemployment rates between Canada and the States concluded that the "thrust of our findings is that more generous UI benefits account in part for the growing gap" (Moorthy 1989, 6). In its 1995 survey of Canada, the OECD also argued that a "number of macroeconomic studies have found

[that] the change in the UI system in 1971 (...) led to a significant increase in the non-accelerating inflation rate of unemployment (NAIRU) of the order of 2 percentage points." The report added that "further reforms, particularly to reduce the regional differentiation in the generosity of the UI programme, may need to be considered in the future" (OECD 1995a, 57,62).

The case of the 1971 UI reform provides a good illustration of a situation where social goals were pursued despite what the free market dynamic would have normally required. From a purely economic point of view, it would have made sense for unemployed individuals living in economically destitute areas to actually move to more prosperous regions. But there were plenty of personal, cultural and social reasons why individuals preferred staying in their hometown, and this is what these changes were attempting to facilitate. This vision was later rejected by state actors when they implemented, in the late 1980s and 1990s, reforms which clearly moved on the side of market requirements.

Reducing the access to an income support program as critical as UI can hardly be done in a way which would avoid creating serious human hardship, while possibly accomplishing little in the way of reducing unemployment. State actors may indeed decide to cut income support so that unemployed individuals are truly desperate to find a job -- and this assumes that those individuals will continue to search for

legal means of earning revenues -- but little is being actually achieved until these unemployed individuals receive that ultimate phone call handing out a job offer.

For this reason, the *demand* for labour has been the focus of a great deal of attention, particularly from the OECD. As mentioned, no business will hire new employees on the ground that it will contribute to the national goal of lower unemployment. Businesses hire and fire according to what they can sell while maintaining high levels of productivity. Based on this premise, just how much can the *demand* for labour be influenced by labour market policies? Are these policies simply made to ensure that employers' labour needs can be met promptly? Or can they produce an actual incremental increase in job opportunities? In other words, can labour market policies -- on their own -- ignite new job openings? Absolutely, argued scholar Richard Layard in his comments on the unemployment problem in England. "This assumption that the number of jobs is somehow fixed is one of the most dangerous fallacies. If there is an increase in Britain in the number of people who are attractive to employers, the number of jobs will grow" (Layard 1996, 47). Not so sure, argued John Myles who noted that "[i]ntervention on the demand side - altering employer behaviour - is decidedly more difficult in the current political environment even when, in the aggregate, it may be in everyone's best interests" (Myles 1996, 19).

For its part, the OECD has invested great hopes in the assumption that labour market policies can indeed lead to a greater demand for labour. More specifically, the OECD has recommended, in its 1995 economic survey on Canada, measures to ease the burden of employers, rather than pushing for active measures such as training. "The case for using the savings from reform of the UI system to increase overall expenditure on active labour market measures needs to be carefully weighed against the evidence of the likely gains from a reduction in payroll taxes" (OECD 1995a, 62).

Cutting payroll taxes is one of many recommendations found in the 1994 OECD Jobs Study report, which includes a number of guidances on ways to reduce the cost of labour. For example, the report contains a no-less controversial proposal to cut minimum wages: "It may be necessary today, in the context of high and persistent unemployment, to give more weight to the market-clearing role of wages, while pursuing equity objectives through other instruments" (OECD 1994, 36). In its 1995 follow-up report, the OECD noted that some "countries, such as Canada, Mexico and the United States, by not automatically indexing minimum wages, have allowed increases in average wages and inflation to erode their relative importance" (OECD 1995b, 19). In the same vein, the OECD urged member countries to review their employment protection law and any regulations and controls that discourage new and expanding enterprises (OECD 1994, 35-6).

Although payroll taxes were cut in Canada and minimum wages not indexed, one can easily understand the resistance to a widespread diminution of labour protection. This trade-off is not appealing to many who already lost their faith in the market dynamic. Also, the OECD's approach raises serious doubt as to the quality of jobs which these changes to labour market policies could bring. On this point, the OECD argues that "[a]ccess to a job is just as much an equity issue as relative income levels and it is important to note that participation in paid employment, even a low-paid job, helps improve lifetime incomes" (OECD 1996, 20).

To sum up, is working in a dead-end job better than not working at all? If this is the case, few countries have succeeded in promoting the idea. At least, this is the impression which the 1996 OECD report, *Pushing ahead with the strategy*, leaves. In it, the organization's Secretary did not hide his impatience and noted that "progress in implementing the strategy has been slow and, in the Secretariat's view, insufficient" (OECD 1996, 21). These comments necessarily have a broad context. The barriers faced by governments in Europe to a reduction in labour protection are much stronger than those faced in Canada or the United States. In this sense, Canada has proven to be a rather good disciple of the OECD doctrine. Even the actions undertaken by provincial governments to lower labour and environmental protection and reduce social assistance benefits, all meet the expectations

of the OECD. These measures affect the *supply* of labour by increasing the desperation with which unemployed individuals are looking for jobs, and they facilitate the *demand* for labour by reducing its costs and by facilitating the hiring and firing of employees. Whether this will result in an incremental expansion of job opportunities and if so, at what social cost, are questions completely open for debate.

What are we to learn, then, from recent labour market policies about state actors' premises and assumptions related to unemployment? We saw that these policies are among the few areas related to unemployment where state actors may claim some level of sovereignty. The issue for state actors has been to determine how to apply their authority in a way which reflects their vision of the problem and the role they should play in the employment dynamic. I mentioned the unique policy environment surrounding labour market policies and social programs in general. Their contribution to the Canadian identity was emphasized -- at least in principle -- by state actors during the entire period of the 1980s and up to the mid-1990s. How could it be explained, therefore, that in practice, governments were able to put an end to the principle of universality, substantially reduce protection under the Unemployment Insurance program and generally, confer new benefits to employers, rather than increasing employees' protection?

We would argue that a number of assumptions about what a *credible* policy option is and about the global environment in which all industrial nations are now located in, allowed these policy reforms to be implemented. The First World War, the 1929 Depression, the Second World War and the ensuing Cold War, have all created an environment which encouraged a plurality of views about fundamental economic directions to be considered by state actors. Nations had little choice but to adapt their course of action to these dramatic events. The 1980s and 1990s, on the other hand, carry a long history of economic integration and unprecedented standards of living taken for granted by a majority of Canadians. This period is also characterized by a half-a-century-history of state intervention which failed to halt the overall increase in unemployment from one decade to the next.

The *credible* policy direction has therefore become one of responding to the requirements of the integrated economy, rather than trying to pursue social goals *despite* these requirements. In so doing, state actors aim for an equity objective which is to allow those who are perceived as disadvantaged, to better *compete* for job openings. This also means that state actors can offer programs such as wage subsidies or training, which, contrary to traditional job creation programs, actually suit their long-term plan to build-up a labour force capable of attracting what they see as the *right kind* of investment.

One may very well argue that this will lead to a new degree of marginalization, affecting thousands of Canadians who will end-up on the wrong side of the equation. But what were the options? Turning the page on 50 years of economic integration or adjusting to it, yet again, in an attempt to protect current standards of living, however partial and deficient they may be. I argue that this is how state actors formulated their political challenge. And they responded accordingly.

Just as Canadians witnessed an ever increasing average rate of unemployment through the post-war period, instant remedies emerged to address this economic evil. Some have argued in favour of spending programs to immediately stimulate employment opportunities. Others have called for a long term strategy to create an environment more conducive to investments. In both cases, an economic plan was proposed to reassure Canadians that they could look forward to brighter days. Essentially, these days have yet to come and many now perceive unemployment as a permanent feature of their society. Such resignation would have most certainly enraged Keynesian disciples who believed that there was nothing natural, nothing inescapable about unemployment in a free market economy. Over a period of almost half a century, however, economic and social conditions have dramatically changed and so did the expectations in relation to unemployment.

In these circumstances, how are we to perceive unemployment now? Does it remain fundamentally wrong or has its seemingly permanent condition made it any more acceptable? In other words, for a problem to be considered as such, does it first require that some kind of solution be in sight? Could it be that in facing a problem for which there appears to be no solution, a society could eventually come to justify its existence, if not making some sense of it? These are the

questions which prompted this thesis and in order to structure my study of unemployment, I opted for an analysis of the policy-making paradigm on unemployment. In practical terms, this meant exploring how state actors have defined, perceived and articulated the notion of unemployment. More specifically, I attempted to identify those components of the policy-making paradigm on unemployment which have evolved over the post-war period. By addressing the unemployment issue from the angle of a paradigm shift, I recognized and, in fact, emphasized the notion's subjective nature. Indeed, beyond the rigorous formulas for calculating monthly fluctuations in the unemployment rate lies a political process which establishes the meaning to be attributed to these numbers.

The study of paradigms has a long history in both social and pure sciences. Its strength is to permit an examination and, more importantly, a questioning of the premises used in forming opinions or decisions. In this sense, it could be said that the very idea of studying the policy-making paradigm on unemployment is, itself, based on a number of assumptions. For one thing, I perceive unemployment negatively, believing that it creates social and human distress. Also, I assume that unemployment is not essential in order for the economy to function efficiently. Finally, by looking at the sum of the unemployed -- which forms the unemployment problem -- I assume that there is a structural aspect to this issue which goes beyond the individual decisions made by each unemployed

person. For many, these assumptions could appear so obvious that they would see no use in discussing them. But it must be remembered that not so long ago, as economic activities were based on agriculture and staples, there was no such concept as "unemployment". While the notion of not being engaged in a gainful occupation, that is being "unemployed", was first registered in the english language early in the 17th century, the collective notion of "unemployment" will itself only be registered late in the 19th century (Merriam-Webster 1986).

Since unemployment is made of a number of evolving components relating both to the nature of the economy and to the labour force's characteristics, its meaning too continually evolves. By focusing on the "policy-making" paradigm, I studied the premises and assumptions used by state actors in approaching and defining unemployment, politically. This exercise could in fact be illustrated using the glasses analogy. When state actors look at unemployment, they necessarily wear analytical glasses (made of a number of assumptions which they hold in relation to the issue at hand), and the question becomes one of determining what the glasses will allow them to see and, by extension, what will be blocked. By better understanding how the policy-making paradigm on unemployment has evolved, we thus unfold one critical component of the whole policy-making process.

This thesis has focused on the post-war period in Canada. I surveyed three important phases, first comprised of the

Keynesian era which lasted from WW II, up to the end of the 1960s and during which international economic and political stability was given a high priority. As for the 1970s and the first half of the 1980s, they have been marked by the rejection of Keynesianism and the commanding role of monetarism. The last decade, from the mid-1980s to the mid-1990s, has witnessed an unprecedented level of globalization which has considerably weakened the role of national governments and national institutions. During each of these three critical periods, the policy-making paradigm on unemployment has had to adapt to new policy priorities and a transformed economic environment. I will now summarize the main conclusions emerging from this examination.

Distributing economic responsibilities. There can be little doubt that the release of Keynes's *General Theory* in 1936 reshaped the economic role played by the state. Keynes urged for a greater level of state intervention in the economy, believing that state actors possessed both the economic sovereignty and the competency to carry on the job. On this point, the *General Theory's* timing could have hardly been better. Just as the book gained momentum, the world engaged in a second world war during which governments, including the Canadian one, had little choice but to intervene more directly in the economy in order to meet the war's requirements.

As we have seen, however, the interventionist approach in Canada faded very rapidly. The main goal of the so-called post-war "reconstruction" strategy led by C.D. Howe was to efficiently hand back to the private sector a large portion of the economic leverages. After the gigantesque fiasco of the Depression years, one may wonder what induced state actors to behave in this manner? This is probably where the complex legacy left by Keynes comes into play. Canada had few of the basic characteristics which were required to fully implement Keynes's economic prescriptions. As a young nation, the Canada of the 1940s had little experience with the economic sovereignty considered essential to fully implement Keynesianism. The country's experience before the war had been one of responding to demands placed by other and bigger nations. In this sense, the war years were no different as Canada placed itself strategically to provide some of the goods and artillery required to engage in war activities. In addition, Canada's federal nature meant that the country lacked the centralized fiscal leverages needed to stimulate aggregate demands to the extent advocated by Keynes.

In this context, Keynesianism probably emerged as an awkward fit for Canada. Nonetheless, I argue that rejecting this new theory was a luxury state actors in Canada could hardly afford. As the whole industrialized world moved away from classical economic theories, Canada had little choice but to adjust accordingly. In doing so, Canadian state actors

came to the conclusion that their challenge was not necessarily to do more in terms of economic intervention, but rather to assume their role differently and to maintain the predominant role which had historically been played by the private sector in relation to Canada's economic development.

As inflation became a prevalent policy concern in Canada at the end of the 1960s, the counter-cyclical policies associated with Keynesianism came under attack. The component of Keynes's theory which remained predominant, however, was the belief among state actors that they could, yet again, maintain some kind of short-term intervention in the economy while maintaining a leading role for the private sector. Thus, the strategy adopted by state actors became more focused on the aggregate supply of goods and services, an approach which was intended to reduce both unemployment and inflation. In the meanwhile, the long term development of the Canadian economy was, again, to be directed by the private sector.

When the Conservatives came to power in 1984, this fundamental distribution of roles between the state (short term intervention) and the private sector (long term direction) was rejected. Perhaps more importantly, the view that governments could design, in a national context, policies to stimulate aggregate demand or supply, was also discarded. An unprecedented degree of economic globalization, combined with high levels of debt and deficit as well as a precarious employment record, forced state actors to carve a new economic

direction. Their role would become one of ensuring an orderly retreat from short-term economic interventions and a movement towards a greater reliance on private -- and now more than ever globalized -- free market principles. The economic task undertaken by state actors was one of easing the structural adjustments required by the new economic context.

In sum, I argue that where state actors locate themselves in relation to Canada's overall economic development has a direct impact on how they conceptualize unemployment. Thus, it is only during the last period which began in the mid-1980s that a complete shift occurred in relation to this component of the policy-making paradigm on unemployment. Before the mid-1980s, state actors continually assumed that they could, to some limited extent and on a short term basis, influence the economic direction of the country. This is no longer so as state actors now target their attention towards assisting the private sector in building those areas of the economy where the country can successfully compete in the globalized economic environment.

The employment target. One of the most remarkable episodes of the post-war period in relation to labour market issues has been the reshaping of the full employment concept. Inspired by Keynes, state actors and observers all through the industrialized world conceptualized the notion in a way which blended powerful economic, political and social dimensions. Essentially, it was argued that public policies could be used

to influence economic growth in such a way as to produce full employment and thus, as to achieve the social goal of allowing all citizens to collect some of the dividends of the free market economy.

This is not to say that the notion of full employment only emerged after the second World War. In fact, early in the 20th century, classical economists argued that full employment was the natural state of the economy. Using the supply and demand analysis, the proponents of this view maintained that structural rigidities, such as the increase in trade unions and the rise in wage levels, explained the existence of unemployment and that a downward correction in wages was thus required in order to increase the demand for labour. This perspective had the effect of attributing a negative connotation to the concept of full employment. It was, in other words, creating a lose-lose situation by forcing a society to choose between decreasing standards of living or a permanent level of unemployment. In addition, the classical approach to full employment left no role for the state, concentrating the entire adjustment process within the realm of the private market. It was, in essence, all these parameters that were challenged by the Keynesian movement. Instead of being a pretext for disciplining workers, the concept of full employment became a societal goal that could catch the imagination of those who believed that a gentler society was within reach.

As we have seen, Canada took an ambiguous stand in relation to the full employment objective. At the very outset of the post-war period, the federal government refused to commit itself to achieving full employment and opted rather for the goal of maintaining a high and stable level of employment. Referring to fluctuations in international trade and a significant presence of seasonal employment, state actors argued that their employment target was not any less ambitious than full employment, but was rather more reflective of the Canadian reality. As we have already seen, Keynesianism was anything but a perfect fit for Canada, and since the full employment objective was largely associated to the implementation of Keynesian policies, it is hardly surprising that state actors opted for a qualified commitment.

Initially, this position did not appear to be problematic, primarily in light of the fact that the immediate post-war downturn, feared by many, failed to materialized. As unemployment climbed to 8 percent at the end of the 1950s, however, the full employment notion came back to haunt state actors. This marked the onset of a period during which successive governments, while maintaining high level of employment as a policy goal, began scrutinizing the various components of the unemployment rate.

What I have referred to as the "deconstruction" strategy led to a renewed interest in notions such as cyclical, frictional, structural, seasonal, regional and voluntary

unemployment, a trend which had a tremendous impact on the policy-making paradigm on unemployment. Interestingly, the attention given to these various categories of unemployment could have been perceived as a natural extension of Keynes's theory. Indeed, one central theme included in the *General Theory* was that unemployment was essentially a technical problem for which there was technical solutions and hence, deconstructing unemployment was simply another application of the Keynesian approach to economics. From a policy point of view, however, the deconstruction of unemployment signalled an uneasiness with the view that employment growth was fundamentally a macro-economic issue that could be dealt with through aggregate demand policies. Playing with the levels of consumption and investment, as advocated by Keynes, could address the cyclical component of the unemployment rate, but what about the regional, seasonal or structural portions of it? I would argue that, to a certain extent, Keynesianism became a victim of its own analytical approach to economics.

It must also be noted that the post-war Canadian scene was marked by a sharp increase in the size of the labour force. This was largely prompted by the movement of baby-boomers into the labour force and by the rise in the labour market participation rate among women. Beyond the absolute number of new jobs created, the question became one of determining whether governments could possibly accommodate the expectations of all those Canadians who wanted to work.

While governments tackled the various dimensions of the unemployment rate and were attempting to manage the increase in the labour force size, the social policy field expanded in a way which also influenced the policy-making paradigm on unemployment. The creation of a number of income support programs in Canada significantly transformed how unemployment was perceived. Instead of the harsh images of the Great Depression, joblessness became essentially associated with a reduced level of income.

By the time the 1973 oil crisis -- and the inflation it triggered -- struck Canada, full employment had become history. The country espoused monetarism, forcing unemployment to share the spotlight with inflation. The challenge became one of balancing employment growth with price stability. What must be kept in mind, however, is that while aggregate demand policies were rejected as a credible economic avenue during the 1970s, much of the Keynesian philosophy remained part of the policy-making paradigm on unemployment. State actors continued to perceive economic issues on a cyclical basis and designed short-term policies that could assist Canadians getting through the downturn of business cycles. A telling illustration in this regard came at the end of the 1970s as state actors began referring to a shortage of workers that could well hit Canada by the beginning of the 1980s. It was argued that the economy would soon move into high gear and that the growth in the size of the labour force

would stall as adjustments to the participation rates of the baby boomers and women were completed. As well, state actors remained committed to maintaining a somewhat comprehensive social safety net as only limited and incremental changes would be made to most of the programs under federal jurisdiction.

I argue that it is rather during the last period which began in the mid-1980s, that the policy-making paradigm most drastically changed in relation to the employment target. State actors have restructured their role to focus mainly on the task of assisting Canadians to acquire the labour market skills they might require to compete for an eventual employment opportunity. More importantly, state actors have publicly warned that some individuals -- who would have been considered "employable" during the Keynesian era -- may now be permanently excluded from the labour market and that they should not expect to receive long term assistance from the state. This view suggests that state actors no longer perceive themselves as enjoying the economic sovereignty needed to implement countercyclical policies that would be specific to Canada.

The essential paradigm shift that has occurred since the mid-1980s in relation to the employment target is that state actors' commitment is now directed towards the labour market process, rather than the actual outcome of that process. State actors' attention has been directed towards an economic

strategy focused on building an economic climate conducive to investments and on making the available labour as attractive as it can be, by enhancing its skills and limiting its cost. This approach has transformed the function of the unemployment rate, which has become a vague economic barometers instead of a specific employment target.

Continuity or change? In light of these observations, what are we to conclude on the evolution of the policy-making paradigm on unemployment in Canada? Should we be surprised by the trajectory it took over the past 50 years? To sum up, have we faced continuity or change in how state actors have defined unemployment politically?

This thesis has surely detected elements of continuity. Over the entire post-war period, Canada's approach to employment growth has been shaped within parameters over which state actors had little control. The open nature of the Canadian economy has rendered the country continually vulnerable to international trends in economic development. And from the moment the industrialized world signed the first GATT agreement, it also became apparent that any full employment strategy designed in a national economic framework -- such as the one advocated by Keynes -- would be facing a turbulent journey. In this context, state actors in Canada have continually been reluctant to commit themselves to a specific result in employment growth. Between the tabling of the *White Paper on Employment and Income* in 1945 and that of

the *New Framework for Economic Policy* in 1994, Canada has marched to the drums of freer trade and globalization, a strategy which has provided a large portion of Canadians with high standards of living, but which has also left others in the margins of the labour market.

Beyond this aspect of continuity, however, other components of the policy-making paradigm on unemployment have changed over the post-war period. As previously noted, many observers have argued that the central shift in relation to employment occurred in the mid-1970s as Canada focused on inflation and embraced monetarism. This period was indeed characterized by a rejection of countercyclical policies based on the management of aggregate demand and by a redesign of monetary and fiscal policies in an attempt to cope with the emerging phenomena of stagflation.

Although I recognize that this was indeed a significant departure, I would nonetheless argue that the pivotal change in relation to the policy-making paradigm occurred in the mid-1980s. It is during this last period that state actors have so decisively abandoned the view that unemployment could be addressed on a cyclical basis. Never before have state actors been as blunt about the fact that many Canadians -- who are "employable" in the traditional sense of the word -- might be permanently excluded from the labour market. It is also since the mid-1980s that state actors have so clearly refrained themselves from pursuing social objectives that would run

counter to the requirements of the globalized free market economy. In this sense, changes made over the past ten years to labour market policies have demonstrated that state actors are undoubtedly more interested in accommodating the requirements of the free market economy than compensating for its negative impact. In advocating ever greater levels of free trade and a tighter management of fiscal policies to eliminate budgetary deficits, state actors are assuming that there are no valid motives, including the persistent level of unemployment, to justify a fundamental shift in economic direction. Since the mid-1980s, there are no talks of an eventual shortage of workers or of a full employment objective. Instead, the language is said to be more pragmatic, focusing on a long term strategy to accommodate the globalized economy and the electoral promise is now that of providing Canadians with a fair chance to compete for available jobs.

As this is still a relatively new trend in the evolution of the policy-making paradigm on unemployment, many questions remain open. In the introduction, I mentioned that my central objective was to describe the current policy-making paradigm on unemployment and discuss how it differs from that of other periods. The task was thus to describe the new paradigm and not to explain what accounts for the changes. Since this new paradigm incorporates elements which are clearly worrisome from a social and human point of view, it is my hope that

other students will pursue the task of exploring where we collectively, through our elected representatives, locate ourselves in relation to one of the most significant institutions of our society, its labour market. Just as it is the case with any minority group, the faith of many unemployed Canadians and especially those who face long term unemployment, now rests on the willingness of the majority to recreate a *projet de société* that is genuinely inclusive.

Will we ever be in a position to quote John Maynard Keynes to say that indeed, "*the economic problem is not - if we look into the future - the permanent problem of the human race*"?

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IMAGE EVALUATION TEST TARGET (QA-3)

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