Better Work

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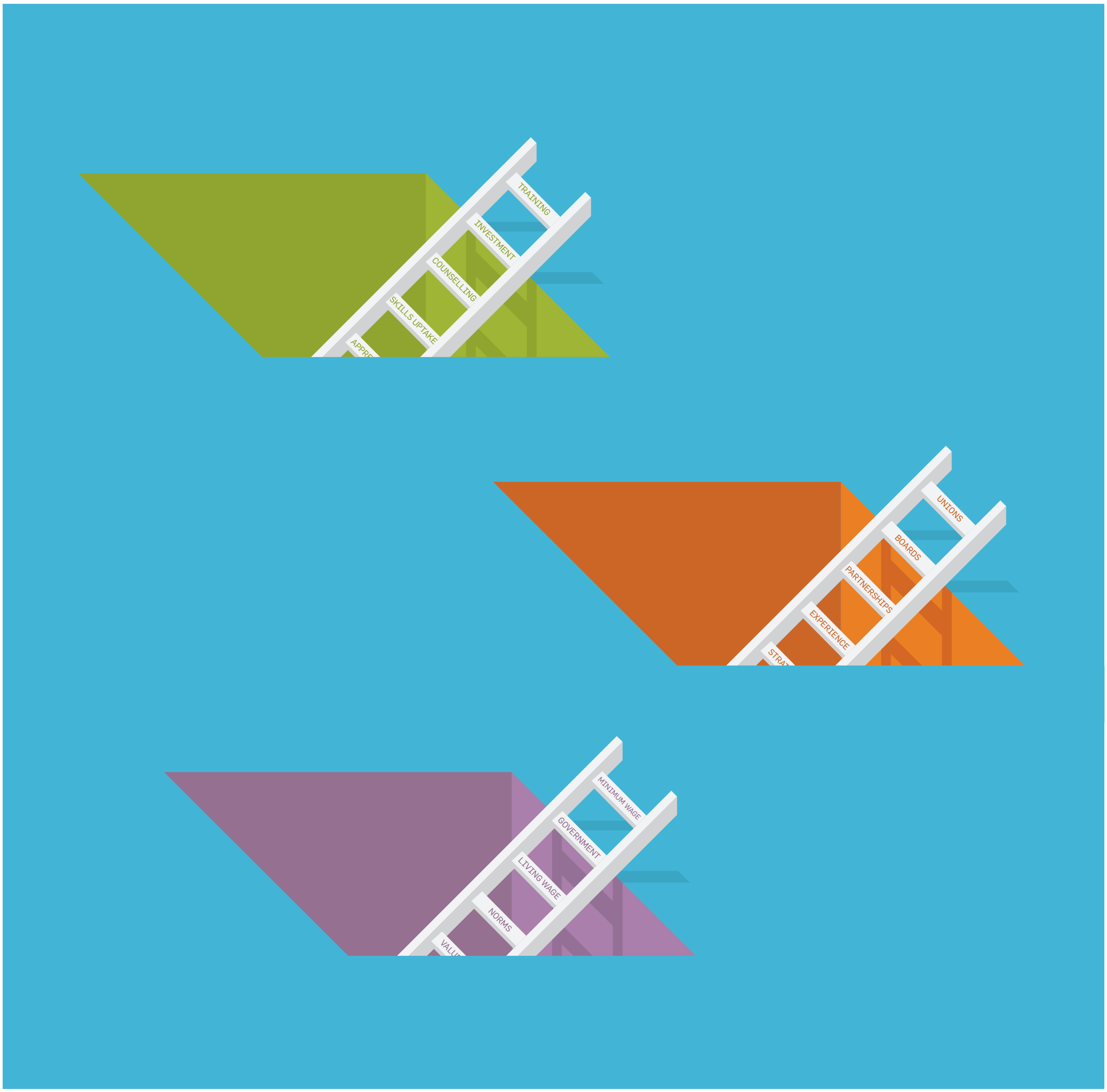
The path to good jobs is through employers

by Tom Zizys



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Tom Zizys has worked for over 20 years as a policy researcher and project consultant in the community sector, focusing on labour market analysis and designing employment programs. He works regularly with the various workforce planning boards across Ontario and frequently makes presentations to organizations and policymakers regarding labour market trends. Tom previously held a number of senior positions in the Government of Ontario, including Director of Policy, Premier's Office. He has taught several courses at York University and Ryerson University, including program evaluation, public policy, and public law. He has also been involved in numerous international development projects focusing on civil society and poverty alleviation.

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Any errors that remain in this work are my sole responsibility.

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Introduction

For several years now, the media has been cataloguing dysfunctions in our labour market. On the one hand, we have high levels of unemployment among youth, post-graduate degree holders employed in dead-end jobs, and newcomer professionals working in basic survival jobs, all while employers lament the shortage of skilled workers. On the other hand, there is a widening gap between good jobs and precarious jobs, and between employment in the knowledge sector and working in low-wage, entry-level jobs (often in the service sector). This polarization of occupations underpins a disparity in employment incomes and is the source of growing income inequality.

This is a picture of a labour market that is neither efficient in how it operates nor fair in the opportunities and outcomes it produces.

The call for greater attention to education has largely been heeded. Ontario and Canada as a whole have one of the best-educated workforces in the world. Our youth graduate from colleges and universities in growing numbers, while recent waves of immigrants are twice as likely to have a university degree as Canadian-born residents. Yet, among all industrialized countries, we possess the highest proportion of post-secondary degree holders earning poverty-rate incomes.

We offer an extensive range of services to the unemployed. We guide them in their job searches, coach them in resume writing and interviewing skills, and approach employers to find suitable matches. Unfortunately, in many instances, all we are able to do is place these individuals in low-wage jobs.

Our emphasis on promoting education and on employment services is, no doubt, a necessary part of addressing our labour market challenges. But it is clearly not a sufficient response and the solution is not simply to do more of the same. It is time to bolster our approach with new thinking and more sophisticated strategies.

Over the past few decades, our labour market practices have changed considerably. For a variety of reasons, a broadly embraced system of permanent lifetime employment with one or two employers, supported by on-the-job grooming that made career advancement possible, gave way to more tenuous arrangements. Hiring was more often done "just-in-time" to meet the immediate skill need, and entry-level jobs experienced wage cuts and less permanence.

It was not only because work became more complex in the knowledge economy that education grew in importance. It was also because employers, now less personally familiar with job candidates, required credentials to establish a person's abilities. Meanwhile, with fewer career ladders and greater turnover, employment services focused on helping the unemployed navigate the hiring process, while temp agencies proliferated to meet the mushrooming reliance on jobs without commitments.

It is striking to consider the common complaints of today's employers: job candidates who lack experience, who don't understand the corporate culture, who are weak on soft skills such as teamwork or interpersonal communications, or who don't have the requisite commitment to the job. We blame schools for not preparing students better for the workplace. We allege students make poor choices when choosing fields of study or careers. We cite intergenerational differences for the attitudes of youth. We point to the diversities of custom and culture to explain the poorer job outcomes of newcomers.

No doubt, we could improve those programs that support the transition from school to work, that offer career advice, that help match the unemployed to jobs, or that assist newcomers to integrate into our workforce. But certainly, many of these current labour market shortcomings would be better addressed in the workplace. Indeed, that is where they *were* addressed until our labour market practices changed drastically. Whatever else one might say about the old labour market paradigm, it produced a steady stream of workers with experience.

The simple answer would be to encourage employers to undertake more training in the workplace, but the reality is more complex. There are practical barriers that sometimes prevent employers from doing so. We also often lack the supporting infrastructure that can match the right training to an employer's needs at an acceptable cost. And finally, sometimes the issue is one of attitudes, such as the value we place on the contribution of employees or our appetite for collaborative solutions to market failures.

This is where the story comes full circle. The transformation of labour market practices in the 1980s and 1990s did not simply involve changing the patterns of hiring and promotion. Such a break from past practices depended on loosening regulatory constraints on employers, altering the career expectations of employees, and on recalibrating the role of governments. The end result has been that our current labour market practices, our weakened labour market institutions, and our own norms and values about the workplace and what constitutes a good job limit our ability to address our labour market deficiencies properly.

There are two points here. First, almost all of our current responses to our labour market challenges involve supply-side interventions; that is, improving the ability of workers to access jobs (through education, better employment search techniques, more polished resumes). But the demand side of the equation (at its crudest, what jobs are offered) clearly sets the boundaries for the opportunities available to job seekers. Indeed, how work is organized, including the extent of workplace training and the potential for career advancement, defines not only what job seekers are required to bring to the table but also their prospects for adequate earnings and sustainable careers.

Second, demand-side interventions are not a matter of getting one or two programs properly designed. To do it right will involve a deliberate strategy that needs to be both wide in its reach and deep in its affect and that engages a broad set of stakeholders — namely employers, workers, governments, educators/trainers — and services for the unemployed. It will require a coordinated three-dimensional approach that includes:

1) strategies that assist **individual employers to overcome barriers** to training in their workplaces;
2) strategies that enhance the capacity of **labour market intermediaries** to better promote, refine, and **deliver workforce development** on a broader, more effective and efficient scale, and that focus on demand-side approaches; and
3) strategies that advance **norms and values** that make it more likely that employers will undertake workplace training and view **employees as an asset** meriting investment, **not as a cost** to be constrained.

COMPONENTS OF A STRONG LABOUR MARKET

In **Part One** of this paper, we review data and trends that illustrate the labour market challenges experienced by different subgroups in Ontario. **Part Two** chronicles the economic and political changes that transformed our labour market over the last several decades. **Part Three** demonstrates the case for workforce development for both businesses and society.

The balance of the paper addresses pragmatic solutions for creating and sustaining a healthy labour market — what I call an *enabling environment*. **Part Four** outlines barriers that often inhibit employers from investing in their workforce and explores ways to overcome them. **Part Five** promotes strengthening the supportive structures and processes necessary to facilitate the uptake of workforce development. **Part Six** addresses norms and values needed to advance workforce development and ensure equitable labour market outcomes.

Part One: The Current State of our Labour Market

Since the 2008 recession, the economy has consistently dominated the news, intermittently displaced by reports about the latest bout of extreme weather. Dig deeper and one finds that the aspect of the economy that has garnered the most discussion is the labour market. And while the latest unemployment figures always draw headlines, what should worry us more are the long-term trends. Consider these four: youth unemployment, newcomer unemployment, poor job outcomes for post-secondary degree holders, and the rise in temporary employment.

Youth unemployment

The unemployment rate in Ontario for youth (15- to 24-year-olds) has consistently stood at around two and a half times the unemployment rate for adults (25 years and older) since the late 1990s. It is the recent overall increase in unemployment that has made the youth figures appear especially high, hovering above 16% for the last five years.

Newcomer unemployment

For two decades now, newcomers to Canada have been experiencing progressively worse labour market outcomes. Unemployment rates decline the longer one resides in Canada, but during the last recession, newcomers bore a substantial part of the unemployment load. Indeed, new entrants to the Canadian labour market (youth and newcomers), while making up around 18.5% of the labour force in Ontario, represent double that proportion of the unemployed (36.8%).[1]

Job outcomes for post-secondary degree holders

The rise in the knowledge economy explains the push to promote post-secondary education. If job growth and better incomes are to be found among occupations that require a post-secondary degree, then it only makes sense to earn the credential that will help secure a viable career. Using the broadest

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[1] This calculation combines the labour force data for all youth together with the data for immigrants in Canada for less than five years, but only those aged 25 to 54 years of age, so as not to double count the youth.

definition of a post-secondary education, 70% of Ontario residents aged 25 to 34 years of age have achieved this mark.[2]

By standardized international measurements, Canada easily ranks first among industrialized countries with the highest proportion of residents aged 25 to 64 years old with a "tertiary" education.[3] But among this advanced group, Canada also garners the dubious distinction of having the highest rates of post-secondary degree holders working in jobs where they earn half the median income or less — the commonly accepted cut-off point for the poverty level.

Among college graduates in Canada, 13% make twice the median income or more. This puts Canada in the middle of the pack among all 34 Organisation for Economic Co-operation and Development (OECD) countries. But Canada's 23% of college graduates who make half the median income or less is only surpassed by Japan. Among Canadian university graduates, the success rate (twice the median income or more) is greater than the OECD average, yet the proportion of those making half the median income or less (almost 18% of all university graduates) is by far the highest in the OECD.[4]

Temporary employment

Much has been made of the growing decline of permanent, full-time employment and the rise of precarious work. One indicator tracks the percentage of employees working in temporary jobs, which has increased over the last fifteen years in Ontario.[5] The brunt of this increase has been absorbed by youth: for the last four years, roughly one out of three employed youth was working in a temporary job, compared to one out of four in the late 1990s. Among adults, the proportion in temporary jobs is around 9%.

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[2] A post-secondary education in this instance is defined as an apprenticeship or trades certificate or diploma, or a college or university certificate, diploma, or degree. The data is derived from the 2011 National Household Survey, "Highest certificate, diploma, or degree," Statistics Canada catalogue no. 99-012-X2011040.

[3] A tertiary education refers to university (three to four years) or college (minimum two years) programs. Canada's numbers are higher because of a large proportion of college graduates. Data is from Organisation for Economic Co-operation and Development (OECD), *Education at a Glance 2013*, OECD Publishing, 2013, Table A1.3a.

[4] OECD, *Education at a Glance 2012*, Table A4.4a.

[5] Temporary jobs are defined as jobs that have a predetermined end date or that will end as soon as a specified project is completed. These include seasonal jobs; temporary, term, or contract jobs, including work done through a temporary help agency; casual jobs; and other temporary work. Since the recession, temporary work has grown at more than triple the pace than permanent employment — up 14.2% for temp work between 2009 and 2012, compared to 3.8% for permanent. Tavia Grant, "Canada's shift to a nation of temporary workers," *The Globe and Mail*, May 6, 2013.

These statistics describe outcomes. More significant are insights into the actual dynamics behind these trends that are shaping our labour market. These include:

- The hourglass labour market
- Future threats to jobs
- Fallout for the lesser skilled
- Skills/experience shortages
- Income inequality

The hourglass labour market

The shape of the labour market is changing: there has been substantial growth in jobs at the high end of the occupation spectrum (knowledge-sector jobs) as well as at the low-end (entry-level jobs). Among middle-sector jobs, there is muted growth. This trend has been characterized as an *hourglass labour market*.[6]

The phenomenon of the hourglass labour market is widespread among industrialized countries. The leading proponent of this perspective, David Autor, has applied this analysis to the United States,[7] with the International Monetary Fund (IMF) verifying the same outcomes across the Euro-area, Japan, and the United Kingdom.[8] In Canada, the hourglass effect is reflected mostly strongly in Ontario.[9]

Not surprisingly, wage earnings in Ontario for the three categories of occupations — knowledge, middle, entry-level — reflect different qualifications and skill requirements. Between 1996 and 2006, however, earnings increased

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[6] "Over the last two decades, Ontario's labour market has moved towards an hourglass shape, with an increasing proportion of jobs at both ends of the labour market spectrum." Tom Zizys, *An Economy Out of Shape: Changing the Hourglass*, Toronto Workforce Innovation Group, 2010, p. 4. This study details the methodology for classifying occupations into these three categories:

1) Knowledge work: an occupation requiring a university degree, a three-year college diploma, or a highly specialized skill
2) Middle jobs: does not require a university degree or three-year college diploma but may require a two-year college diploma, an apprenticeship certificate, or the accumulation of several years' experience in the workplace
3) Entry-level jobs: at most a high school diploma and/or some brief on-the-job training.

This phenomenon was explored further in Tom Zizys, *Working Better: Creating a High-Performing Labour Market in Ontario*, Metcalf Foundation, 2011.

[7] David Autor, *The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings*, The Center for American Progress and The Hamilton Project, 2010.

[8] International Monetary Fund, *World Economic Outlook 2011: Slowing Growth, Rising Risks*, 2011: "Middle income jobs declined significantly in other advanced economies between 1993 and 2006," (p. 41) and the accompanying chart (p. 42).

[9] Derek Burleton, Sonya Guliati, Connor McDonald, et al., *Jobs in Canada: Where, What and For Whom?* TD Economics, October 22, 2013, p. 12, in particular Chart 7.

at a much higher rate for knowledge jobs and hardly changed at all for entry-level jobs.[10]

The primary hypothesis explaining the hourglass labour market points to the loss of jobs involving routine tasks, where “routine” is defined as carrying out a limited and well-defined set of cognitive and manual activities that can be accomplished by following explicit rules.[11] Thus,

> non-routine cognitive occupations include managerial, professional and technical workers, such as physicians, public relations managers, financial analysts, computer programmers, and economists. Routine cognitive occupations are those in sales, and office and administrative support; examples include secretaries, bank tellers, retail salespeople, travel agents, mail clerks, and data entry keyers. Routine manual occupations are “blue collar" jobs, such as machine operators and tenders, mechanics, dressmakers, fabricators and assemblers, cement masons, and meat processing workers. Non-routine manual occupations are service jobs, including janitors, gardeners, manicurists, bartenders, and home health aides.
>
> Non-routine cognitive occupations tend to be high-skill occupations and non-routine manual occupations low-skilled. Routine occupations — both cognitive and manual — tend to be middle-skill occupations.[12]

Essentially, computerization replaces human workers performing routine tasks and enhances the function of those performing non-routine, cognitive work.[13] In addition, those routine tasks can also more easily be offshored to lower-wage countries, whose workers can undertake these functions, and low-cost transportation and communication channels can deliver the resulting product (manufactured goods) or service (call centres) to customers in advanced economies.[14]

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[10] The rate of increase has been particularly pronounced for Toronto male residents employed in knowledge work occupations. And within that category, it has been particularly pronounced among Toronto male residents employed as senior business managers, professionals in business and finance, and lawyers. Occupation, gender and geography make a huge difference in the wages sweepstakes. See Tom Zizys, *Sifting Through the Sands: Unpacking The Hourglass*, Toronto Workforce Innovation Group, 2011, p. 35.
[11] David Autor, Frank Levy, and Richard Murnane, “The skill content of recent technological change: An empirical exploration,” *Quarterly Journal of Economics*, 118(4), November 2003, p. 1.
[12] Nir Jaimovich and Henry E. Siu, “The trend is the cycle: Job polarization and jobless recoveries,” *Working Paper No. 18334*, National Bureau of Economic Research, August 2012, p. 8.
[13] Autor, Levy, and Murnane, *op. cit.*
[14] Nicole Fortin, David A. Green, Thomas Lemieux, et al., “Canadian inequality: Recent developments and policy options,” *Canadian Public Policy*, 38(2), 2012, pp. 130–131.

Future threats to jobs

As if all this wasn't enough, the success enjoyed by those employed in knowledge work is also under threat. Just as routine work became displaced by technology and off-shoring, so cognitive non-routine work may be similarly vulnerable. On the one hand, there are those who claim that the advance of computers in pattern matching, communication, perception, and other non-routine, cognitive skills will spread the downward job spiral to high-skilled work.[15] On the other hand, there is a view that the significant advance in education and the application of technology in the developing world will result in the ability of countries such as India and China to compete for their share of knowledge work. With their lower standards of living, this will bring a "high-skilled, low-wage" workforce into direct competition with the developed countries.[16]

Fallout for the lesser-skilled

Those post-secondary degree holders earning lower wages are typically doing so in entry-level jobs. Consider the proportion of adults of prime working age (25 to 54 years old) who have a college or university education and are employed in the following entry-level occupations in Ontario in 2011:[17]

- Roughly one in four light duty cleaners and labourers in manufacturing;
- One in three cashiers and food counter attendants; and
- 40% of food and beverage servers and 45% of retail salespersons.

This influx of individuals with post-secondary degrees into entry-level jobs makes it more difficult for those whose educational attainment is lower to compete for these positions. At the same time, the skills needed to meet the expectations of these entry-level occupations is also rising, further challenging the less-qualified. This means the increase in entry-level jobs is not necessarily good news for those whose qualifications have typically matched this niche of occupations in the past. As one report highlighted:

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[15] Erik Brynjolfsson and Andrew McAfee, *Race Against the Machine: How the Digital Revolution is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy*, Digital Frontier Press, 2012.
[16] Philip Brown, Hugh Lauder, and David Ashton, *The Global Auction: The Broken Promise of Education, Jobs, and Incomes*, Oxford University Press, 2011.
[17] Statistics Canada, *2011 National Household Survey*, catalogue no. 99-012-X2011056.

> From the mine workers in Northern Ontario, to the food processing plants in Malton and the room attendants in Toronto's downtown hotels, *the jobs that for generations were described as menial, are menial no more* [...] The direct result of companies keeping pace with technological advancements has meant that positions previously requiring low skills now demand digital skills: the ability to access, use, and interpret digital information in the workplace.[18]

The end result is that those with fewer educational credentials are dropping out of the labour force. While the participation rate for males aged 25 to 54 years old with a post-secondary certificate has dropped around 2.5 percentage points between 1990 and 2013, for those with only a high school diploma it has dropped 7 points, and for those with no high school diploma, 13 points.

Skills/experience shortages

Are we experiencing a labour shortage, a skills shortage, or a skills mismatch? Are students choosing the wrong programs of study or are employers being too picky? The cacophony of disparate headlines emphasizing a different problem says more about our inability to diagnose the illness than it does about the ailment itself.[19]

A recent TD Economics report convincingly argues that there is little evidence of actual shortages of skills, although there is some evidence of a skills mismatch across certain occupations and provinces.[20] While the tone of a recent background paper to the federal budget suggests that skills mismatches are a significant problem, the evidence it offers leans more to the TD Economics

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[18] Essential Skills Ontario, *Menial No More: A Discussion Paper on Advancing our Workforce through Digital Skills*, 2011, p. 2.

[19] A scan of recent headlines and reports: Rick Miner, *People Without Jobs, Jobs Without People,* Milner Management Consultants, 2010; Certified General Accountants Association of Canada, *Labour Shortages in Skilled Trades — The Best Guesstimate?* July 2012; Wallace Immen, "Few employers provide training to help workers advance, survey shows," *The Globe and Mail,* September 7, 2012; Benjamin Tal, "Assessing labour market mismatch," *Economic Insights,* November 29, 2012; Tavia Grant, "Why Canada's labour mismatch is getting worse," *The Globe and Mail,* November 29, 2012; Andrew Jackson, "Does Canada have a labour shortage or a skills shortage?" *The Globe and Mail,* December 5, 2012; Mike Moffatt, "Canada's unemployed: Bad training, or bad choices?" *The Globe and Mail,* March 11, 2013; Alex Usher, "Really, a skilled-labour shortage? In truth, we need arts grads," *The Globe and Mail,* March 21, 2013; Tavia Grant "Canada's labour pain: 1.3 million unemployed, but not enough skills," The Globe and Mail, March 31, 2013; Joe Castaldo, "What national skills shortage? Evidence doesn't support claims of politicians and employers," *Canadian Business,* May 13, 2013.

[20] Burleton, Guliati, McDonald, et al., *op. cit.* See also Kevin McQuillan, "All the workers we need: Debunking Canada's labour-shortage fallacy," *SPP Research Papers*, 6(16), May 2013. The federal budget paper was eventually debunked by the Office of the Parliamentary Budget Officer, *Labour Market Assessment 2014*, which revealed that the budget paper used unreliable *Kijiji* job board data to draw inferences about the job vacancy rate.

findings, citing higher job vacancies among occupations related to natural and applied sciences, and among the skilled trades in Saskatchewan and Alberta.[21]

What the federal paper does establish, however, is the widespread *perception* of skills shortages as reported by employers, citing nearly a dozen recent industry surveys and reports. That there should be such a disconnect between what the data tells us (shortages isolated to a limited number of occupations and jurisdictions) and what employers perceive (shortages across numerous industries, limiting competitiveness and growth), suggests we may be talking about different things. What is more likely happening in the majority of cases is that employers are seeking those skills that are acquired over the course of several years of work, the know-how that is ascribed to work experience. And this is what they find lacking among new entrants to the labour force. In other words, what is expressed as a skills shortage may more likely be an experience shortage.[22]

Income inequality

The growth of jobs at the two ends of the labour market spectrum together with the unequal rates of increase in employment earnings exacerbate the disparity in wages across different categories of workers.

This polarization of incomes is a major contributor to increased economic inequality — an issue that has been receiving broad attention recently, from the world-wide street protests of the Occupy Movement to the workshops of the 2014 World Economic Forum in Davos, Switzerland.

Over the last 30 years, Ontario has experienced the largest increase in the market income Gini coefficient[23] of all the provinces. Ontario currently has the second-highest market income[24] Gini coefficient (Newfoundland has the highest) and it also has the second-highest after-tax income Gini coefficient (British Columbia has the highest). However, the offsetting effect of

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[21] Department of Finance Canada, *Jobs Report: The State of the Canadian Labour Market*, 2014, p. 31.
[22] A review of job advertisements in the "entry-level" sections of three major Canadian career websites showed that, even for these jobs, most employers demand two, three, or even five years of work experience. Josh Dehaas, "'Entry-level' jobs are getting harder to find," *Maclean's*, April 5, 2014.
[23] A commonly accepted measurement of the degree of income inequality is the Gini coefficient. The Gini coefficient calculation results in a number between zero and one that measures the relative degree of inequality in the distribution of income. A "0" represents minimum inequality, where everyone has exactly the same income, and a "1" signifies maximum inequality, where one person holds all the income and everyone else has none.
[24] *Market income* refers to all earnings, including employment income as well as income from investments, private retirement funds, and other sources. *After-tax income* refers to market income after income taxes have been deducted as well as after government transfers have been factored in.

government transfers and taxes was highest in Ontario, mitigating some of the inequality caused as a result of diverging market incomes.[25]

Many of the major world economies have seen their market income Gini coefficients increase over the last few decades. To a large extent, this reflects the growth of the knowledge economy, the decline of well-paying manufacturing jobs, and the increase in low-skilled service-sector jobs.[26]

Recap

New entrants to the labour market, whether they be youth or newcomers, are having a harder time not only finding employment but also finding jobs commensurate with their higher levels of education. The labour market is becoming increasingly polarized between well-paid knowledge-sector jobs and low-paid entry-level jobs. Those with post-secondary degrees are experiencing better labour market outcomes on average, but there is a significant minority of degree holders who find themselves in low-paying, entry-level jobs. Despite these increased levels of education, employers complain that they cannot find skilled job candidates. Meanwhile, individuals whose education and work experience is more limited and who typically would have qualified for entry-level jobs in the past now face higher skill expectations for these jobs and greater competition from more credentialed workers who are unable to find work more suited to their education. The growing divergence between these two ends of the labour market is what is fuelling growing income inequality in our society.

The broader context

These outcomes are the direct by-products of transformations in our labour market over the past three decades. These transformations, in turn, were largely a consequence of accelerating technological changes, globalization, and increased competitiveness that swept over our economy starting in the 1970s. But it was how we reacted to these changes that produced the outcomes we currently experience.

Consider the labour market paradigm in place before these upheavals: many individuals typically worked for no more than one or two employers during their lifetime. People were hired into entry-level jobs and, through formal and informal training, could expect to advance to progressively more demanding jobs. Clearly not everyone rose to the top, but many were promoted to middle-level positions, and a striking proportion of CEOs during that time had actually

[25] Rankings taken from Andrew Sharpe and Evan Capeluck, *The Impact of Redistribution on Income Inequality in Canada and the Provinces, 1981–2010*, Centre for the Study of Living Standards, 2012, pp. 10–14.
[26] International Monetary Fund, *op. cit.*, p. 41.

started in unskilled or semi-skilled occupations. This was a system whose purpose was to generate skilled workers through the acquisition of work experience.

Our response to the tumultuous changes that began in the 1970s redefined the work equation. First came the demise of permanent employment and the associated predictable process of career advancement within individual firms. Second, a growing compulsion emerged on the part of employers to reduce costs, with many choosing to focus on wage costs. Cutting the wage bill was also accomplished through freezing wages, greater reliance on part-time or temporary staff, reducing the provision of benefits, or eliminating direct employment through contracting out, offshoring, or automating the work.[27]

Employers now hire less for the long-term and more just-in-time. Entry-level jobs are less frequently used as the first step in a career ladder and instead are often dead-end positions, both more precarious and attracting lower pay. Meanwhile, in the drive to reduce costs, even higher-skilled jobs become open to displacement through outsourcing and technology.

The next section chronicles the changes in economic thinking that took place starting in the 1970s that affected the practices, institutions, and norms and values that shape our labour market. These changes unravelled our reliance on permanent employment and career progression within individual firms and laid the groundwork for everything from greater income inequality to the recent recession.

[27] Eileen Applebaum and Richard J. Murnane (eds.), *Low-Wage America: How Employers Are Reshaping Opportunity in the Workplace*, Russell Sage Foundation, 2003, pp. 10–14.

Part Two: The Big Picture — How Did We Get Here?

There is a tendency, when our attention is so focused on last month's unemployment figures or an upcoming government budget, to lose sight of some of the broader economic theories and shifts that we may be barely conscious of but that permeate our thinking and how we view the world. The fact is, economic beliefs do change and, as a result, so do government policies and business practices. Our norms and values also adjust, reflecting different expectations about the role of government and the role of the marketplace.

Over the last century, there were two seismic changes in political and economic thinking that defined the workings of the marketplace and the functions of government. One was the near-revolutionary response to the calamity of the Great Depression in the 1930s, premised on the view that markets sometimes fail and it is the role of government to set things right. The other was the more evolutionary emergence of the view, during the 1970s and 1980s, that markets must be allowed to function with far fewer constraints and that government too often and unnecessarily gets in the way.[28]

The Great Depression — Enter Keynes

Prior to the Great Depression, economics taught that the marketplace was self-correcting. As economic times flourish, individuals amass income and spend more. Companies increase production, but once they cannot keep up with growing demand, prices start rising. The growth in economic activity raises the price of money — that is, interest rates rise. Eventually, people stop buying because prices have risen too high, companies find they are over-producing and stop investing (some may collapse), production goes down, and a recession results. With a recession, unemployment rises, wages decrease, prices drop, interest rates fall, the low cost of money causes companies to start investing again, workers get hired, people start spending, and the economy begins humming along once more.

[28] The discussion in this section draws on a number of sources: Tony Judt, *Ill Fares the Land*, Penguin, 2010; Paul Krugman, "How did economists get it so wrong?" *The New York Times Magazine*, September 6, 2009; Jeff Madrick, *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present*, Vintage, 2011; Robert Reich, *The Next American Frontier: A Provocative Program for Economic Renewal*, Crown, 1983; Robert Reich, *Aftershock: The Next Economy and America's Future*, Vintage, 2011; Robert Skidelsky, *Keynes: The Return of the Master*, PublicAffairs, 2010; Nicholas Wapshott, *Keynes Hayek: The Clash That Defined Modern Economics*, W.W. Norton & Company, 2011.

With the Great Depression, this self-correction did not happen. Even with high unemployment, low wages, low prices, and low interest rates, companies did not invest in greater production because with high unemployment there was not enough consumer purchasing power to convince companies to produce more. Without greater production, employment levels stayed low and the economy found itself in a prolonged funk.

It would be hard to overestimate the impact of John Maynard Keynes. In 1936, he published his seminal work, *The General Theory of Employment, Interest, and Money*, which proposes that, during recessions, government spending must increase. Keynes points out that markets are not self-correcting and maintains that a market economy cannot always be counted on to produce the right level of employment. Moreover, even in the best of times, markets left to their own devices produce inequitable distributions of income and of wealth.

According to Keynes, government is needed to correct these imbalances in the following ways:

1. In times of recession, government should borrow money and increase public spending to stimulate aggregate demand in the economy and pay down the public debt when the economy resumes growth.
2. Government should develop taxation and social programs to provide safety nets for individuals affected by the rise and fall of business cycles as well as provide “stabilizers” for the economy by ensuring that individuals have money to spend even when unemployed.
3. Government should regulate various parts of the economy, including the financial sector (to promote sound investment rather than risky speculation) and labour markets (to create fairness and to ensure workers benefit from economic growth).

Beginning in the 1930s, but particularly following the end of the Second World War, governments in all industrialized countries implemented these policies. The post-war period was characterized by solid economic growth, low unemployment, relatively stable prices, and an expanding array of government programs, providing support and investment for income security, health care, education, and physical infrastructure. Individuals could count on a secure job, often tied to a career ladder. While various social issues were just starting to find their way into the public consciousness, on the economic front, this was an era of more equally shared prosperity with low rates of income inequality. Economic policy supported full employment. Wages grew as productivity increased, maintaining robust consumer demand and encouraging employers to invest in expansion and productivity improvements. This created a virtuous cycle of employment, higher wages, strong demand, and increased investment.[29]

Counter-reactions

There is no simple explanation for how the widely accepted consensus that underpinned this fortuitous circle of growth unravelled. But to begin with, economic circumstances changed.

Changes in global tariff regimes, the cost of transportation, and the cost of communications made distant countries attractive venues for low-cost manufacturing. Together with the dispersion of technology, this enabled low-skilled, low-wage countries to enter the global marketplace, usually at the low end of the value chain (clothing, footwear, toys and basic electronic assembly) but also in key industries such as steel and auto manufacturing. So began the first steps towards what we now know as economic globalization.

On the economic front, the Keynesian consensus encountered a puzzling challenge with the appearance of stagflation in the late 1960s and early 1970s. *Stagflation* was the term applied to the economic phenomenon characterized by high inflation, high unemployment, and low economic growth. An event that significantly exacerbated this circumstance was the oil price shock of 1973, when oil-producing countries restricted the supply, leading to dramatic increases in prices generally.

The conundrum of stagflation was significant because of the degree to which government policies were guided by the prevailing economic paradigm. While Keynesian thinking was paramount, there always remained that cadre of economists who advocated classical economic prescriptions; namely that markets function best when they are least directed by government actions. Their view was that government stimulus during recessionary times was wrong-headed and that government should limit itself to control of the supply of money (monetarism).

These two opposing camps reflected a deep philosophical divide. On the one side were those who felt that markets were unpredictable, necessitating safety measures from government, with the goal of full-employment. On the other side were those who felt government intervention not only usually got it wrong, but that a growing reliance on government ultimately restricted political as well as economic freedom. Their measure of success was stable prices.

This economic debate thus also encapsulated a political debate. With rising inflation and government deficits, the effectiveness of government policies began to be more widely questioned. A sense of a growing tax burden and concern about value for tax dollars fuelled a backlash against government.

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[29] From Skidelsky, *op. cit.*, p. 125.

It was in this climate of economic difficulty, uncertainty about economic policies, and an emerging scepticism about the efficacy of government that a conservative reaction took hold. That reaction was made deeper and more far-reaching due to the unique attributes of its most prominent political champions: the folksy communication abilities of Ronald Reagan and the formidable certitude of Margaret Thatcher.

This surge in populist sentiment was partly aided by the economic insecurity that befell individuals as the economy faltered, prices increased, and unemployment rose. But it was further fanned by a counterreaction expressed by the business community, which complained not only about its tax burden but also about regulatory strictures. Not only were governments managing the economy and setting conditions of employment (collective bargaining, health and safety, employment standards, minimum wage, and so on); their ambit also embraced marketplace fairness (for example, consumer protection), social concerns (employment equity), environmental protection, and other fields whose cumulative impact increased the paper burden on companies.

The business reaction was a conscious strategy to counter the mentality of an activist government. Whereas, before, business largely mobilized its voice on behalf of specific-industry interests (tax breaks for a specific sector), in the early 1970s, business put far greater effort into advancing a broader political agenda. In the United States, the Business Roundtable was formed in 1972 to engage the CEOs of the major corporations in advancing pro-business public policy, business owners invested in foundations and think tanks that promoted a private-sector perspective, and business became more focused in strategically directing campaign contributions, all of which influenced the tone and direction of public discourse about the role of government in the marketplace. In short, a more organized response from the business sector nurtured the intellectual counter-reaction.[30]

This confluence of events and interests explains the emergence of supply-side economics (sometimes called “Reaganomics”). By removing the barriers to producing goods and services such as taxes and regulations, argued the supply-siders, the economy can be more efficient and productive and the economic benefits will “trickle down” to everyone. Thus emerged the impetus to begin deregulating sectors of the economy. In the U.S., this included the transportation, communications, energy, and financial sectors. It also meant limiting collective bargaining rights as well as cutting corporate and personal

[30] Jacob Hacker and Paul Pierson, *Winner-Take-All-Politics: How Washington Made the Rich Richer — And Turned Its Back on the Middle Class*, Simon & Schuster, 2010, pp. 116–123. In Canada, a similar pattern unfolded. For example, the Fraser Institute, a pro-“competitive markets” think tank, was founded in 1974. The Business Council on National Issues, the Canadian equivalent of the U.S. Business Roundtable, was founded in 1976 (since renamed the Canadian Council of Chief Executives).

income tax rates, especially for those with higher incomes; the idea being that higher-earning individuals were the entrepreneurs and investors who created jobs, so leaving more income in their hands should lead to the creation of more jobs.

These tax cuts, however, resulted in larger government deficits, as the expected economic stimulus was not sufficient to offset the reduction in revenues. In short order, deficits were seen as a problem created by the over-spending of governments (to which there was some truth), contributing to the view that governments had to be reduced in terms of the services they deliver, the income transfers they support, and the regulations they enforce.

BOX 1: Pushing down costs and mastering the supply chain — The case of Walmart

How these various economic and business trends came together are epitomized in the rise of Walmart,[31] the world's largest retailer and largest private employer.

Walmart's focus on low prices has been part of its corporate culture from the very start. The secret to Walmart's success has been on the input side: find cheaper products, move those products more cheaply, and keep internal costs low. This has involved several strategies.

First and foremost is an obsession with keeping its own costs as low as possible, from the wages of its employees to the expenses of its operations. That frugality can appear almost eccentric: the office furniture of its headquarters is made up of samples provided by suppliers for evaluation, and vendors are expected to provide toll-free numbers or accept collect calls to keep Walmart's telephone bills to a minimum. On the employee front, this includes an aggressively anti-union attitude, so much so that when two Walmart operations in Quebec formed unions, Walmart promptly closed those stores.

Walmart employees on average earn much less than employees working for other retailers, so much so that, in many U.S. states, Walmart tops the list of companies with employees on public assistance. Their aggressive cost-cutting

[31] References for Box 2: Charles Fishman, *The Wal-Mart Effect: How the World's Most Powerful Company Really Works — And How It's Transforming the American Economy*, Penguin, 2006; Anita Chan (ed.), *Walmart in China*, Cornell University Press, 2011; Eunice Hyunhye Cho, Anastasia Christman, Maurice Emsellem, et al., *Chain of Greed: How Walmart's Domestic Outsourcing Produces Everyday Low Wages and Poor Working Conditions for Warehouse Workers*, National Employment Law Project, June 2012.

has a significant ripple effect, resulting in Walmart's suppliers restraining wages and forcing competitors to exert downward pressure on the wages of their own employees.

On the purchasing side, Walmart eliminated the middle person (wholesalers and brokers) and dealt with suppliers directly. It developed its own logistics operations (warehousing and shipping) and tracked the flow of goods at the cash register in order to manage its inventories better. Lower inventories and just-in-time shipment meant lower storage costs.

As Walmart grew into a dominant retailer, it leveraged its direct relationship with suppliers to not only pressure them on cost, but also on choices about their operations and products. As Walmart came to represent an increasing proportion of a supplier's business, it was harder for suppliers to resist Walmart's constant push to lower prices. Pressure was so severe that the more a company sold its products through Walmart, the lower its profit margins.

That kind of pressure, together with the growing ease of off-shoring, greatly accelerated the shift of manufacturing jobs to China by domestic suppliers to Walmart seeking cheaper manufacturing costs and by Walmart directly seeking out Chinese suppliers. Walmart reportedly imports approximately 70% of its merchandise from China. If Walmart were a country, it would be China's sixth largest market, right after Germany, buying some $18 billion of goods a year.

Financial markets and shareholder value

What underpinned the change in the set of beliefs that guided economic policy was the notion that markets are the most efficient means by which to allocate resources, and the way markets do this is through pricing. This view holds that individuals in a market are rational and have access to the full range of information to make decisions about buying and selling. Thus, the price of an asset is a reflection of its true worth because buyers and sellers, acting rationally, will settle on a fair price.

It is not a great leap from these assumptions to the view that the performance of a company is best judged in terms of the value of its shares, and that the primary obligation of managers is to increase the value of their company's shares. This view has come to be known as *shareholder value maximization*.

The period of stagflation in the 1970s not only reduced economic growth and increased unemployment, it also caused a severe drop in the stock market. It was a small group of enterprising lawyers and investment bankers seeking a new source of business who turned convention on its head by promoting takeovers as a sanctioned form of business practice.

> A company claimed it was taking over another because it believed the whole would be bigger than the sum of its parts — that operations could be merged to reduce costs or to optimize management. Time and again, the prospects for "synergy" due to combining operations were exaggerated.
>
> To wring adequate cash flow from companies to meet the high levels of debt taken on by the acquirers to buy the companies, expenses were generally cut sharply, including R&D and especially payrolls.
>
> The mere threat of takeovers changed corporate values. Vulnerable companies were desperate to raise the value of their stock to make them less attractive and avoid a takeover, which usually required focusing on improving profits in the short run, often by cutting wages and jobs, just as if they had been taken over.[32]

The emergence of shareholder value maximization provided a compelling intellectual justification for hostile takeovers and leveraged buy-outs (the latter being purchases of companies being made possible by loans that are secured by the cash flow of the target company).[33] If the primary goal was the maximization of shareholder value, then other considerations fell in importance. If part of a company had to be divested or if employees had to be laid off in order to financially support the takeover, then the rationale of shareholder value trumped any obligations to employees or to the community where the company was located.

The problem with shareholder value was not only that it privileged one objective above all else, but that it resulted in managers focusing their energies and decisions on the expectations of the future performance of their company as opposed to the actual operations of their business. Rather than asking "How do we produce a better product or service?" the question became, "What can we do to boost expectations so that our stock price will increase?"[34]

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[32] Madrick, *op.cit.*, pp. 73–74 and 81.

[33] Just how widespread this takeover mania became is reflected in the estimate that almost half of all U.S. publically traded corporations experienced a takeover attempt in the 1980s. Eileen Applebaum and Rosemary Batt, *Private Equity at Work: When Wall Street Manages Main Street*, Russell Sage Foundation, 2014, p. 27.

[34] Steve Denning, "The dumbest idea in the world: Maximizing shareholder value," *Forbes*, November 28, 2011, relying in large measure on analysis presented by Roger Martin, Dean of the Rotman School of Management, University of Toronto.

Layoffs

There was an inevitability to the march of layoffs in the 1970s and 1980s. Justification lay either in an inability of a domestic company to compete against a lower-wage foreign competitor or the need to severely reduce costs, either as a result of or to reduce the likelihood of a takeover.[35]

The logic of the market supposed that individuals who lost their jobs could be retrained or could move to where there was greater labour demand. But the ability of individuals to do so was often exaggerated. Even when transfers occurred, it often meant to a lower-paying job. The loss in income was real and long-lasting:

- Canadian studies show that workers with a least five years of tenure who lost their jobs experienced an earning loss of around 25% to 30% after five years, while those with less tenure experienced a loss of between 10% and 20%.
- These studies also indicate that training for workers with longer term job tenure who have lost their jobs have had results on earnings that are modest to poor.
- Poor economic outcomes can also lead to poor health outcomes, not only for the worker concerned but for the entire family.[36]

Some CEOs made a virtue of this new approach by publicizing layoffs as a demonstration of strong management, boosting their companies' stock prices in the process. A celebrity status arose for those CEOs who could exercise the requisite toughness, confirming their notoriety through nicknames such as "Chainsaw Al" Dunlap, CEO of Scott Paper Company and of Sunbeam, or "Neutron Jack" Welch, CEO of General Electric (so-called because, like a neutron bomb, he left the buildings standing but eliminated the people).[37]

This was the extreme face of an aggressive form of market economics, a muscular capitalism. Its hard-nosed realism and fatalistic acceptance of economic pain for the sake of long-term economic viability, induced an

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[35] "Increasingly, layoffs today are ways of restructuring and not simply responses to the business cycle," Paul Osterman, *The Truth About Middle Managers: Who They Are, How They Work, Why They Matter*, Harvard Business Review Press, 2008, p. 45. Osterman goes on to cite research that analyzed all layoffs reported in the *Wall Street Journal* for Fortune 500 companies between 1970 and 2000, which found a near tripling of layoffs due to restructuring, from 9.6% in the 1970s to 24.2% in the 1990s (from Kevin Hallock, "A descriptive analysis of layoffs in large U.S. firms using archival data over three decades and interviews with senior managers," working paper, Cornell University, School of Industrial and Labor Relations, August 2005).

[36] Aneta Bonikowska and René Morisette, "Earnings losses of displaced workers with stable labour market attachment: Recent evidence from Canada," *Analytical Studies Branch Research Paper Series*, Statistics Canada, 2012, p. 40; Stephen R.G. Jones, *The Effectiveness of Training for Displaced Workers with Long Prior Job Tenure*, Mowat Centre for Policy Innovation, 2011, pp. 3 and 16; Lauren Appelbaum, "Economic and psychological consequences of long-term unemployment," *Employment Research*, January 2013, p. 4.

[37] Louis Uchitelle, *The Disposable American: Layoffs and Their Consequences*, Vintage, 2006, pp. 133–134 and 152. Jack Welch laid off 130,000 workers in six years, a quarter of GE's workforce. In 1999, *Fortune* magazine named Welch "Manager of the Century."

eventual acquiescence through a sense that there was no alternative. At the same time, the immediate rewards of reduced costs and increased share prices offered both the motivation and validation of the strategy.

The retrospective verdict is that downsizing seldom works and is often done incorrectly.

> Downsizing has a negative effect on corporate memory and employee morale, disrupts social networks, causes a loss of knowledge, and disrupts learning networks [...] In fact, an increasingly growing body of research is indicating that downsizing does not even reduce costs. The reason for this is that sometimes the wrong people leave and the company has to later bring back laid-off employees as contractors.[38]

From another analysis:

> Corporate downsizing remains the most pervasive yet unsuccessful organizational improvement strategy in the 1990s business world [...] Evidence suggests [...] that quality, productivity, and customer service often decline over time [...] Whereas most firms enjoy an immediate increase in stock price after a downsizing or restructuring announcement, but no more than one year later those gains have eroded compared to industry averages.[39]

When the downsizing trend first took hold, there was both disbelief and considerable anger. But the spirit of the times subdued opposition and made alternative approaches appear impractical. The economic paradigm of previous decades was in question. Governments were suspect, global competition was rising, and individuals felt vulnerable in the face of rising prices and falling employment. A new perspective was fast taking hold: the marketplace could not function properly with unrealistic constraints, governments were bloated and too often made things worse, and employees were costs to be constrained and not assets to be nurtured and invested in.

Reducing social protections and regulations

So began a steady unravelling of many accepted policies. Measures that constrained companies were often rolled back, resulting in the weakening of collective bargaining rights and of employment standards provisions. For long stretches of time, the minimum wage was not increased. Meanwhile, access to income support was made conditional on proof of active pursuit of

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[38] Henry Horstein, "Downsizing isn't what it's cracked up to be," *Ivey Business Journal*, May/June 2009, 73(3), pp. 9–14, citing various studies.
[39] Kim Cameron, "Downsizing and the new work covenant," *Exchange*, Spring 1997, p. 7.

employment, adding an extra pressure on individuals to adjust to this new reality. The promise of reduced taxes was the payoff for limiting the role of government.

The effort to reduce what was characterized as the heavy regulatory hand of government was applied to numerous industries, including a far more permissive environment for the financial sector in the United States. This is in sharp contrast to the stricter rules and more prudent attitudes that continued to prevail in Canada.

The financial crisis and the recession of 2008–09

This is not the place for an extended analysis of the dynamics that led to the recent financial crisis.

The following is a succinct summary:

> A global inverted pyramid of household debt and bank debt was built on a narrow range of underlying assets — American house prices. When they started to fall, the debt balloon started to deflate, at first slowly, ultimately with devastating speed. Many of the bank loans had been made to "subprime" mortgage borrowers — borrowers with poor prospects of repayment. Securities based on sub-prime debt entered the balance sheets of banks around the world. When house prices started to fall, the banks suddenly found these securities falling in value; fearing insolvency, with their investments impaired by an unknown amount, they stopped lending to each other and to their customers. This caused a "credit crunch."
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> Expectations of significantly lower future demand pricked the commodity bubble.
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> The collapse of bank shares and community prices dragged down the stock market.
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> Before the slump hit, consumption had been maintained by an increase in paper wealth through the rise in house prices and stock-market prices. The reversal of this process led to a decline in consumer spending and therefore a decline in firms' profit expectations. Faced with weakening final demand, firms found themselves with excess inventories, and unable to finance them. To preserve cash, they cut dividends, employment, capital spending and output.[40]

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[40] Skidelsky, *op. cit.*, pp. 4–5 and 12–14.

As has been amply demonstrated elsewhere, this was not simply complex financial instruments being misunderstood or a boom hitting its inevitable bust. The conclusions of the commission appointed by the United States government to examine the causes of the crisis are unequivocal: the financial crisis was not a mere accident, it was the result of reckless behaviour undertaken by financial institutions and lax regulatory oversight by the appointed financial watchdogs. The notion that the market would self-correct such misbehaviour was entirely misplaced.[41]

Failures were the direct result of the deregulation mentality that overtook the policy environment in the period preceding the collapse.[42] And deregulation was a direct result of the broader adaption of policies and economic theories that have proven to be fundamentally wrong.

Alan Greenspan, the Chairman of the Federal Reserve of the United States from 1987 to 2006 and a prominent supporter of monetarism and reduced regulation, conceded, "Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief."[43]

Jack Welch, the former CEO of GE and prominent proponent of shareholder value maximization, stated in 2009:

> On the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy [...] your main constituencies are your employees, your customers and your products. Managers and investors should not set share price increases as their overarching goal. Short-term profits should be allied with an increase in the long-term value of the company.[44]

The cost of the 2008–09 crisis is hard to fathom. In the U.S., nearly $11 trillion in household wealth vanished (a drop in home and stock prices).[45] Worldwide, the increase in unemployment was at least 20 to 30 million

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[41] Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial Crisis and Economic Crisis in the United States*, PublicAffairs, 2011, pp. xvii–xviii.

[42] A typical observation: "The global financial crisis that began in 2008 and the ongoing crisis of the euro are both products of the model of lightly regulated financial capitalism that emerged over the last three decades." Francis Fukuyama, "The future of history: Can liberal democracy survive the decline of the middle class?" *Foreign Affairs*, January/February 2012, p. 53.

[43] Edmund Andrews, "Greenspan concedes error on regulation," *The New York Times*, October 23, 2008, reporting on testimony before the U.S. House Committee on Oversight and Government Reform.

[44] Steve Denning, "Is the tyranny of shareholder value finally ending?" *Forbes*, August 29, 2012, quoting an interview that was reported in Francesco Guerrera, "Welch condemns share price focus," *Financial Times*, March 12, 2009.

[45] Financial Crisis Inquiry Commission, *op. cit.*, p. xv. One analysis estimated that, between July 2008 and March 2009, the average American household lost $30,300 in the value of their home and $66,200 in the value of the stocks they owned. Phillip Swagel, *The Cost of the Financial Crisis: The Impact of the September 2008 Economic Collapse*, The Pew Charitable Trusts, 2009, p. 15.

individuals.[46] In Canada, unemployment rose sharply as a result of the crisis, particularly for youth and newcomers. The loss in assets was not as great, in large measure because, in the financial sector, Canada held to a far stricter regulatory regime.[47] Nevertheless, the crisis still had a great impact, including on the retirement plans of Canadians.[48]

In many ways, the 2008 crisis was simply the oversized exclamation point on a series of trends that came to a head, in particular the push for a reduced role for government and, in its place, greater reliance on market forces. The fallout from that crisis should give us reason to reexamine the economic policies and thinking that not only led to the financial collapse but that have also contributed to a number of our labour market ills.

The great labour market transformation

The shift that took place in the face of globalization, technological change, and increasing competition created the desire to cut costs and to ensure flexibility at the expense of lifelong employment and predictable career paths. Instead, the expectation was that individuals could rely on self-guided, lifelong learning to succeed in perpetual competition for shorter-term work. By individuals becoming more nimble and adaptable, the economy could become more innovative and more productive.

The transition meant more than simply changing human resources practices. It required overcoming entrenched institutions as well as long-accepted norms. The ability of unions to impede such an upheaval was bypassed through contracting out work or relocating the company. Paternalistic executives who viewed the company as one big family were replaced by those who could enforce difficult layoffs. Access to income support was made dependent on proof of active job search, to motivate individuals to sign up for jobs that were both precarious and had limited career prospects.

This transformation has unleashed a slew of problems.

First, moving to a relatively unstructured environment where employees are expected to take more responsibility for their own skill development results in a number of challenges. Prospective employees need to know what skills are in demand, which credentials are most marketable, how to acquire elusive work

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[46] Mai Dao and Prakash Loungani, *IMF Staff Position Note —The Human Cost of Recessions: Assessing It, Reducing It*, International Monetary Fund, November 11, 2010, p. 3. The 20 million estimate is from the International Monetary Fund and the 30 million is from the International Labour Organization.

[47] "Canada's banks were not too big to fail, but too boring to fail." Skidelsky, *op. cit.*, p. 173.

[48] Sun Life Financial, *2013 Canadian Unretirement Index Report*, 2013, pp. 3–4. The number of Canadians who expect to be retired at the age of 66 has dropped by nearly half since 2008 (from 51% to 27%), while the proportion who think they will be working full-time at age 66 has risen during the same time frame by over 50% (from 16% to 26%). The main reason cited is to earn enough money to pay for basic living expenses.

experience, and how to navigate through the labour market to advance one's career. The potential for market failure is high: too many graduates, or too many graduates in the wrong fields, or job candidates lacking a particular skill or work experience. When the marketplace is seen as the solution to all problems, a clear-cut market failure becomes more difficult to remedy where government is viewed as having less legitimacy or where alternative institutions are weaker or non-existent.

Second, because of the limited number of truly rewarding jobs, everyone is vying for the same advantage. Thus, getting a degree becomes important. Getting a further degree may also be required. Getting into the right university may help more, as might getting admitted into the right program (law, M.B.A., etc.). The consequence? Greater competition for professional schools and increased anxiety about marks. Indeed, the growing reliance on unpaid internships is a direct consequence of this positional competition.[49]

The surplus of post-secondary degree holders also creates credential inflation.[50] As employers wade through the many resumes for job openings, their task becomes easier if they set the bar a little higher by increasing the educational requirements for that job, thus reducing the number of applications they need to review. The credential becomes, at most, proof that the individual can complete a task, not a demonstration of the skills needed for that position.

Finally, such competition for positions results in few winners and many losers. It breeds a sense of entitlement among those who are successful, and it privileges high talent while accepting that paid work may not generate a living wage. Thus, these changes have not only led to more income inequality but they also generate a mentality more tolerant of it as well.

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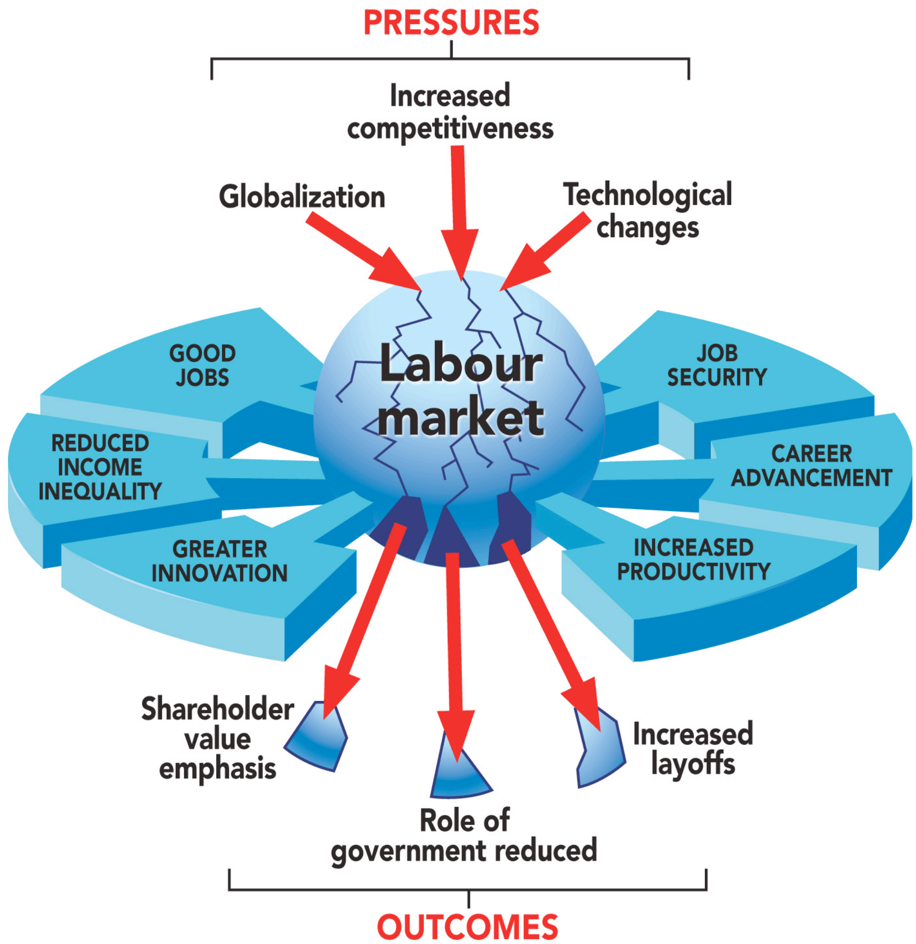
[49] Unpaid internships are unfair when participants receive no educational/training value from the work or where their work provides economic value to their employer. For background on this practice see Ross Perlin, *Intern Nation: How to Earn Nothing and Learn Little in the Brave New Economy*, Verso, 2011. For illustrations of the abuse of this practice: Steven Greenhouse, "Jobs few, grads flock to unpaid internships," *The New York Times*, May 5, 2012; Teddy Wayne, "The no-limits job," *The New York Times*, March 1, 2013. For the Canadian perspective, see Andrew Langille's very useful blog, *Youth and Work*, www.youthandwork.ca, as well as Greig de Peuter, Nicole Cohen, and Edna Brophy, "Interns unite! (You have nothing to lose — literally!)," *Briarpatch Magazine*, November 9, 2012.

[50] Philip Brown, Hugh Lauder, and David Ashton, *The Global Auction: The Broken Promise of Education, Jobs, and Incomes*, Oxford University Press, 2011, p. 139. Over a short period of time, jobs that previously expected only a high school diploma now required a bachelor's degree: Catherine Rampell, "It takes a B.A. to find a job as a file clerk," *The New York Times*, February 20, 2013.

LABOUR MARKET PRESSURES AND OUTCOMES



In the last 80 years or so, North America has witnessed three significant economic dislocations: the Great Depression, the period of stagflation, and now the great recession. In the aftermath of each, public policy and private actions were reconsidered and realigned to focus on a specific challenge. After the Great Depression, it was employment. As a consequence of stagflation, attention shifted to fighting inflation and cutting costs.

It remains to be seen what might be the policy aftermath of the great recession, but one issue looms larger than most. The growth in economic inequality is a consequence of the transformations that took place in our economy and in our labour market. There is reason to consider anew what kind of labour market would best serve our needs and address economic inequality.

Part Three: The Case for Workforce Development

Prior to the transformation that started in the 1970s, entry-level workers were the primary source of an employer's future cadre of supervisors, managers, and other higher-level positions. Training was an obvious means by which employees could be groomed for further advancement. Much of the training was informal; the absorption of skills through trial and error (acquiring experience), tips from a co-worker, mentoring by a veteran worker, or receiving directions from a supervisor. The expectation was that skills would be acquired in the workplace, both for the career progression of the employee and to meet the workforce needs of the employer.

In the current paradigm, there is far greater expectation placed on the job candidate for his or her own work readiness. This includes employability skills (familiarity with the demands of the workplace as well as soft skills) and also technical, work-related skills (credentialed learning and vocational skills). Hiring is done on a just-in-time basis, while entry-level workers are less likely to eventually form the candidate pool for more senior positions in their workplace. The demise of permanent employment undercuts the rationale for investing in one's workforce. The need for someone with five years of work experience is no longer fulfilled through long-term investment in training, grooming, and career advancement within the firm. Instead it is met by going to the job market with a just-in-time approach to find someone currently possessing precisely the qualifications needed.

This dynamic further erodes the desire to train because without the promise of permanent employment, employees no longer feel beholden to their bosses. Employees are constantly on the lookout for a better deal in terms of pay, status, and/or perks. With a footloose workforce, employers are even less inclined to train workers, as this would only increase their appeal to other employers.

The business case for workforce development

The business case for employer investment in workforce development is a critical consideration.[51] In the last few years, several reviews of literature have

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[51] A study that highlights the methodological challenges of assessing the business impact of workforce training is Ewart Keep, Ken Mayhew, SKOPE, et al., *Review of the Evidence on the Rate of Return to Employers of Investment in Training and Employer Training Measures: SKOPE Research Paper No. 34 Summer 2002*, SKOPE Publications, 2002. This study also offers a good illustration of

emerged that are both robust in evidence and unequivocal in their conclusions: there is indeed a strong business case to support employer investment in workforce development.

The investment employers make in workplace training raises productivity and firm performance across a range of measures. Firms that train experience a positive impact on sales and profitability; quality of products and services; customer service and satisfaction; occupational health and safety; organizational learning and development; and organizational climate, culture, and practices.[52] They also experience increases in productivity, value-added, net output, return on assets, and net income per employee.[53] In one study, over a six-year period, firms that did not engage in training had a failure rate of 27%, compared to 11% for firms that did train their staff; the gap was particularly marked in manufacturing, construction, and hospitality.[54]

The gains they make in productivity also outweigh the rise in wages for trained workers two- to five-fold, with firms recouping their investments in training many times over in raised productivity and enterprise performance.[55] Other benefits include:

- Improved levels of job satisfaction, which in turn reduce absenteeism and quit rates[56]
- Greater flexibility among employees who can perform a range of tasks
- Reduced overhead costs, with more efficient use of existing facilities, lower consumable costs, and reduced human resource expenses
- Greater ability to innovate in terms of technology and work structures[57]

The major British research on this topic attributes success not simply to the mere act of training, but to the adoption of a range of HR practices and managerial attitudes that use skills more effectively. Adoption of the high-performing workplace approach leads to better business results, as evidenced by the following findings:[58]

- Almost a fifth of the variance between productivity and profitability between firms could be attributed to HR practices.

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the uncertain state of the research as late as ten years ago: "Taken together, what is available within the UK does not yet amount to a body of evidence upon which 'evidence-based policy' can easily be founded, or which would necessarily convince a sceptical employer to change their investment patterns," p. 30.

[52] *Ibid.*, pp. 54–57.

[53] *Ibid.*, pp. 40–42.

[54] Richard Garrett, Mike Campbell, and Geoff Mason, *The Value of Skills: An Evidence Review*, UK Commission for Employment and Skills, 2010, p. 71; Andrew Smith (ed.), *Return on Investment in Training: Research Readings*, National Centre for Vocational Education Research (Australia), 2001, p. 40.

[55] Garrett, Campbell, and Mason, *op. cit.*, p. 5.

[56] *Ibid.*, pp. 44 and 52.

[57] Smith, *op. cit.*, pp. 14 and 49.

[58] UK Commission for Employment and Skills, *Ambition 2020: World Class Skills and Jobs for the UK — The 2009 Report*, 2009, pp. 125–126, including the examples that follow.

- A 10% investment increase in HR, training, and management practices led to increases in operating profits, profit margins and sales growth per employee and the probability of achieving sales from new technology.
- Companies that deploy a greater range of HR practices can double their profit per employee compared to those that use relatively few, and they can reduce their turnover rates by half.
- A 35% improvement in the quality of high-performing workplace strategy implementation resulted in a similar percentage increase in shareholder value.

Reducing staff turnover should be a significant incentive in itself. Not only are the HR costs of recruiting and on-boarding reduced, but businesses that experience high turnover rates are more likely to fail.[59]

Investment in entry-level or lower-skilled workers

Several studies focus specifically on employer investment in entry-level and/or lower-skilled workers.[60] Workforce development for this category of employees often involves a broader range of activities. For example, low-income workers may need other services to assist with enhancing life skills and, so, referrals to social service providers can be of great benefit. As well, career planning and advancement opportunities may need to be made more explicit and, so, formal career ladder programs may need to be designed to help shape expectations, identify training priorities, and guide job progression. Some need basic work readiness or pre-employment programs to prepare them for regular employment.

Some of these interventions may appear beyond what we expect of employers, necessitating reliance on community-based supports typically funded by government or philanthropic sources. Yet these studies indicate that an employer's investment in employee development results in tangible benefits that justify the costs: lower turnover rates, higher productivity, and a better product or service that enhances the company's competitive position.[61] This is

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[59] Clair Brown, John Haltiwanger, and Julia Lane, *Economic Turbulence: Is a Volatile Economy Good for America?* University of Chicago Press, 2006, pp. 50–52.

[60] Jody Heymann, *Profit at the Bottom of the Ladder: Creating Value by Investing in Your Workforce*, Harvard Business Press, 2010; National Network of Sector Partners, *Review and Analysis of the Literature: The Business Benefits of Employee Development*, Center for Community Economic Development, 2010; National Network of Sector Partners, *From Hidden Costs to High Returns: Unlocking the Potential of the Lower-Wage Workforce*, Center for Community Economic Development, 2010; Corporate Voices for Working Families, *Why Companies Invest in "Grow Your Own" Talent Development Models*, 2011.

[61] National Network of Sector Partners, *From Hidden Costs to High Returns*, pp. 3–4. Thus, where a nursing home provides training for its housekeeping, maintenance, and dietary staff — supporting them over time to advance to nurses' aides positions — not only was turnover reduced but the overall

not a matter of companies doing well and thus being able to accommodate a certain category of workers. Rather, it was precisely because they invested in their lower-skilled staff that these companies did better. As described in one study:

> Over the course of our five-year study, we went from believing that it was possible for companies to improve their working conditions while being profitable [...] to realizing that the majority of the companies we studied had increased their profitability by investing in their employees at the bottom of the ladder.[62]

The high road or the low road?

The strategy of seeking competitive advantage through reliance on a lower-paid, low-skilled, and contingent labour force, thus reducing costs and the price of one's products or services, is called a "low-road" approach.[63] The alternative, a "high-road" approach, aims for a high-performing workplace characterized by skilled workers, cutting edge technology, and constant innovation in high-value products and services. Higher productivity results in better returns for employers, which in turn allows for higher wages for employees. Investment in employees through training reduces employee turnover and lowers the cost of recruiting and on-boarding new staff.

Training, either in the classroom or in the workplace, is an important pre-requisite of this strategy, but the approach hardly ends at simply fostering skills. High-performing workplaces require that skills be applied and that innovation emerge from the interplay of constantly improved work processes and regularly upgraded employee skills. Employees who feel engaged and empowered are more likely to innovate and to bolster productivity growth. Raised expectations of both employees and employers drive the dynamic — workers are expected to be skilled and to contribute and managers are expected to fashion workplaces that engage those skills and support workers.

Variations on this high-road theme can be found across many jurisdictions, from Great Britain to Australia, and in the prescriptions of the OECD.[64] The

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quality of service was also improved, resulting in a better quality of life for patients and boosting customer demand for their facility (p. 7).

[62] Heymann, *op. cit.*, p. 9.

[63] Ken Mayhew and Ewart Keep, "Industrial strategy and the future of skills policy — The high road to sustainable growth," *Research Insight*, February 2014, p. 20.

[64] For example, see: UK Commission for Employment and Skills, *op. cit.*; U.K. "Making Bad Jobs Better" policy, www.makingbadjobsbetter.org.uk; Richard Hall and Russell D. Lansbury, "Skills in Australia: Towards workforce development and sustainable skill ecosystems," *Journal of Industrial Relations*, 48(5), 2006, pp. 575–592; Chris Warhurst, Françoise Carré, Patricia Findlay, et al. (eds.), *Are Bad Jobs Inevitable? Trends, Determinants and Responses to Job Quality in the Twenty-First Century*, Palgrave Macmillan, 2012; OECD, *Better Skills, Better Jobs, Better Lives*, OECD Publishing, 2012.

circumstance in Canada is best summarized by the organization representing Canada's largest employers:

> The biggest employers — including large financial institutions, energy and transport companies — tend to have highly developed workforce training systems. But many other Canadian businesses have shown less interest in helping employees to upgrade their skills; a commonly voiced concern is that workers, once trained, will move on to another employer. Collaboration with universities, colleges and governments to set long-term policies and shape curriculums is rare. Training budgets are modest and are typically among the first items to be cut when belts are tightened.[65]

International comparisons show that Canada receives poor to average marks for participation in education and training on the part of working adults. We score in the average range when it comes to high-skilled blue collar workers and high-skilled white collar workers with post-secondary degrees. In most other categories, we perform well below the average.[66]

Canadian literature

There is a solid body of work in Canada highlighting the importance of workplace training and exhorting Canadian employers to invest in their labour force. Leading the pack is the Canadian Council on Learning (CCL), which has produced several important studies documenting the training imperative:

> Many observers place much of the blame for Canada's productivity slide on a relatively weak commitment to training and skills development compared to some of its key trading partners.[67]

> Research has established the link between increased adult learning and training and concrete improvements in business performance and productivity. Employer-supported training also fosters innovation at all business levels, including the application of new technologies or software. Training significantly strengthens corporate culture, morale and the potential to attract and retain high-quality staff.[68]

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[65] Bernard Simon, *Skills Development in Canada: So Much Noise, So Little Action*, Canadian Council of Chief Executives, 2013, p. 12.
[66] OECD, *Education at a Glance 2010*, OECD Publishing, 2010, Table A5.4b (available at http://dx.doi.org/10.1787/888932310168).
[67] Alan Bailey, *Connecting the Dots… Linking Training Investment to Business Outcomes and the Economy*, Canadian Council on Learning, 2007, p. 7.
[68] Canadian Council on Learning, *Unlocking Canada's Potential: The State of Workplace and Adult Learning in Canada*, 2007, p. 6.

Another important voice was Canadian Policy Research Networks (1994–2009). They produced a string of reports describing the state of workplace training, identifying barriers, convening stakeholders, and advocating for change.[69]

The Conference Board of Canada has been a prominent proponent of the workplace training message, generating reports to support the business case for training.[70] A survey of employers, for example, demonstrated that organizations that spent more per employee on training, learning, and development had significantly lower turnover rates (both voluntary and involuntary).[71]

The economic return to employers of investing in apprenticeships has been particularly well documented in Canada. In a review of 15 different trades, a cost–benefit analysis indicates that the revenue generated by an apprentice exceeds the costs to the employer of hosting an apprentice. On average, for every $1 spent on apprenticeship training, the employer receives a return of $1.38. The methodology and the analysis were reviewed and validated through roundtable discussions with employers.[72]

More recently, a highly rigorous study, using random assignment of companies, calculated the value of literacy and essential-skills training for workers in the accommodation and food services sector. Firms that engaged in training earned an average return on investment of 23% through gains in revenue, increased productivity and reductions in hiring costs. Workers experienced higher job retention, governments benefited from higher tax revenues, and customers expressed greater satisfaction and fewer complaints.[73]

Beyond the business benefits

Leaving aside the issue of basic fairness, there are compelling reasons that should motivate the effort to reduce income inequality. For one, public health researchers Richard Wilkinson and Kate Pickett[74] maintain that once societies reach a minimum level of economic development, their health and social

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[69] Some noteworthy publications: Mark Goldenberg, *Employer Investment in Workplace Learning in Canada*, Canadian Policy Research Networks, 2006; Karen Myers and Patrice de Broucker, *Too Many Left Behind: Canada's Adult Education and Training System*, Canadian Policy Research Networks, 2006; Ron Saunders, *Fostering Employer Investment in Workplace Learning: Report on a Series of Regional Roundtables*, Canadian Policy Research Networks, 2009.
[70] An early advocacy piece: Natalie Gagnon, Michael Bloom, and Douglass Watt, *Changing Employers' Behaviour About Training, Issue Statement #1*, Conference Board of Canada, 2005.
[71] Conference Board of Canada, *Learning and Development Outlook: Learning in Tough Times*, 2009, p. 51.
[72] Canadian Apprenticeship Forum, *Apprenticeship — Building a Skilled Workforce for a Strong Bottom Line: Return on Apprenticeship Training Investment for Employers — A Study of 15 Trades*, 2006, p. 36.
[73] David Gyarmati, Norm Leckie, Michael Dowie, et al., *UPSKILL: A Credible Test of Workplace Literacy and Essential Skills Training*, Social Research and Demonstration Corporation, 2014, pp. 3–5.
[74] Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger*, Penguin, 2009; Richard Wilkinson and Kate Pickett, "Income inequality and social dysfunction," *Annual Review of Sociology*, 2009, 35, pp. 493–511.

outcomes are generally not related to their absolute level of income. Instead, it is the degree of income inequality *within* a country that determines their relative standing on a wide range of health and social indicators. For example, as the degree of income inequality increases, life expectancy goes down and the incidence of mental illness increases.

It is not simply that individuals among the lower income classes benefit from reduced income inequality, but rather, the benefits accrue to *all* residents. Thus, mortality rates for infants and for working-age males are lower in Sweden (a more equal society) than in the United Kingdom (a less equal society), and they are lower *across all social classes*.[75]

Inequality also affects the economy in a profound way, one that should concern all businesses. In technical terms, "rising inequality tends to have a dampening effect on aggregate demand and hence on economic growth."[76] That is, more income going to those at the top of the economic pyramid does not stimulate the economy as much as more income going to those at the bottom, where individuals and households are more likely to purchase consumer goods and services as opposed to save, invest, or spend on luxury items, which oftentimes simply drives up the cost of scarce goods (for example, a beachfront house or a rare piece of art). It appears that lower inequality drives faster and more durable economic growth.[77]

Another way of understanding this proposition is the virtuous circle made famous by Henry Ford, the founder of the Ford automobile company, who proposed that his workers should earn enough to be able to afford the cars they were assembling.[78] In fact, Ford offered a wage that was almost three times the going rate for factory workers, a move that caused *The Wall Street Journal* to characterize his actions "an economic crime."[79] But that practice, adopted by other employers and reinforced by income security programs, ensured there was a sufficiently affluent middle class that could spend enough to support a vibrant economy.

A reiteration of Henry Ford's maxim reflects the concern arising from the impact of automation and offshoring on domestic consumer demand:

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75 *Ibid.*, pp. 505–508.
76 United Nations, *World Economic Situation and Prospects 2013: Global Outlook*, 2013, p. 31. An IMF paper proposes a correlation between higher income inequality and lower rates of economic growth: Andrew Berg and Jonathan Ostry, *IMF Staff Discussion Note — Inequality and Unsustainable Growth: Two Sides of the Same Coin*, International Monetary Fund, April 8, 2011.
77 Jonathan Ostry, Andrew Berg, and Charalambos Tsangarides, *IMF Staff Discussion Note — Redistribution, Inequality, and Growth*, International Monetary Fund, February 2014.
78 Hedrick Smith, "When capitalists cared," *The New York Times*, September 2, 2012.
79 Robert Reich, *Aftershock: The Next Economy and America's Future*, Vintage, 2011, p. 28.

> In 1955, Walter Reuther, head of the US car workers' union, told of a visit to a new automatically operated Ford plant. Pointing to all the robots, his host asked: "How are you going to collect union dues from those guys?" Mr. Reuther replied: "And how are you going to get them to buy Fords?"[80]

Thus, there is a strong business case to be made for individual employers to invest in their workforces. As well, there are broader benefits — both economic as well as health and social impacts — which accrue from societies that are less unequal, a goal made more possible by workforce development. The following sections propose practical strategies for making this approach a reality.

BOX 2: Calling a ceasefire in the war for talent

The "war for talent" is a phrase that emerged in the late 1990s.[81] It refers to key performers who carry out those functions most critical to a company's success. This category is usually defined as senior executives and a limited number of higher-skilled occupations. This concept epitomizes how current thinking creates blinkers that blind us from potential solutions.

For one, the notion of a war for talent emphasizes recruiting the absolutely right person. This accentuates the expectation that talent comes through the hiring door perfectly formed. Job openings in the United States are staying unfilled longer (an average of 23 business days in early 2013, compared to 15 in mid-2009), while the interview process expands (doubling in the last few years at employers such as Starbucks, General Mills, and Southwest Airlines).[82]

One take on this phenomenon is that, with the persistent effort to keep costs down, companies are loath to make a job offer unless they are convinced that they have found the right person who is fully ready to "hit the ground running."[83]

The second issue is that it ignores the option of fitting the worker to the position through training. As one commentator notes, "The heart of the problem

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[80] Martin Wolf, "Enslave the robots and free the poor," *The Financial Times*, February 11, 2014.
[81] Elizabeth Chambers, Mark Foulon, Helen Handfield, et al., "The war for talent," *The McKinsey Quarterly*, 3, 1998.
[82] Catherine Rampell, "With positions to fill, employers wait for perfection," *The New York Times*, March 6, 2013.
[83] Peter Cappelli, "Why employers aren't filling their open jobs," *HBR Blog Network — Harvard Business Review*, March 8, 2013; Peter Cappelli, *Why Good People Can't Get Jobs: The Skills Gap and What Companies Can Do About It*, Wharton Digital Press, 2012.

is a shortfall in the kinds of skills that are best learned on the job."[84] The perceived shortage of talent may have less to do with the workforce and more to do with employers expending less effort to groom workers.

The third problem is that, by privileging a small circle of employees, it devalues the actual contribution, let alone the untapped potential value, that resides in the rest of the workforce. By categorizing manual work as second-class labour and by framing vocational streams in high schools as residual programming for those lacking academic abilities, we do both these jobs and our economy a disservice.[85]

Even in the knowledge economy, success depends on far more than the contributions of a tightly defined cadre of talent. The value of innovation lies not in its discovery by lab-coated Ph.D.s, but by its application and diffusion in the workplace.[86] It depends on technologists and technicians, mid-level and semi-skilled workers, together with capable production workers being able to pick up, apply, and adapt new approaches.

Truly innovative firms embrace this mentality across their operations, involving their entire workforce. They promote workforce development that targets all employees because it makes business sense, both in terms of advancing firm-wide productivity as well as grooming individuals to meet workplace skills shortages.

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[84] *Ibid.*, p. 78. Henry Miller's observation about education has similar application to how best to prepare for a job: "Our whole theory of education is based on the absurd notion that we must learn to swim on land before tackling the water." Henry Miller, *The Books in My Life*, New Directions Books, 1962, p. 12.

[85] For an impassioned exposition of the cognitive skills embedded in common, working class occupations and the social and economic problems associated with stereotyping this form of labour, see Mike Rose, *The Mind at Work: Valuing the Intelligence of the American Worker*, Penguin, 2004.

[86] John Stanwick, *Innovation: Its Links With Productivity and Skill Development*, National Centre for Vocational Education Research, 2011, p. 2.

Part Four: Encouraging Employers to Invest in Workforce Development

If the business case for workforce development is so compelling, why aren't more employers doing it? As it turns out, just as the argument for workforce development is extensive (the short summary in Part Three barely does justice to the breadth and depth of the literature), so too are the many reasons that explain why it does not happen. Table 1 catalogues the main barriers to employer-driven workforce development.[87]

Table 1

Barriers to employment investment in workforce development

Information	• Business rationale for workforce investment not reaching employers • Employers sceptical of the evidence regarding the return on investment (ROI) • Employers not aware of appropriate training resources (content, quality)
Risk aversion	• Potential benefits from training are viewed as longer-term and abstract, while the costs are direct and immediate • Employer perception that training increases the likelihood that trained workers find better opportunities elsewhere
Funding	• The monetary cost of training • Current accounting rules require that company investments in training are calculated as costs • Financial lender reluctance to provide loans based on an ROI calculation for training
Inertia	• Training, if done during work time, can involve disruption of work • Staff training may require management to invest time for training or searching for appropriate training resources • Staff reluctance to participate due to concerns of increased workload, minimal commensurate compensation, or fear of failure
Competence	• Limited human resource skills and appreciation of training by management • Stereotypical or prejudicial thinking about workers regarding their worthiness for investment by management • Limited social skills or social networks by management result in limited exposure to training partners or resources

Some of these barriers are entirely within the decision-making scope of an individual employer, such as balancing cost or time concerns, or overcoming inertia. But these, as well as many of the other barriers cited, could more easily

[87] The main sources for Table 1 are three reports from the UK Commission for Employment and Skills: *Ambition 2020: World Class Skills and Jobs for the UK — The 2009 Report*, p. 82–83; *Ambition 2020: World Class Skills and Jobs for the UK — The 2010 Report*, p. 96; *Review of Employer Collective Measures: Empirical Review — Evidence Report 7*, November 2009, pp. 50–51.

be overcome with the right incentives or some other external push, such as organizations that could disseminate the relevant information, connect employers to the right training resources, or coordinate training among several employers. This would reduce costs as well as the potential for poaching.

Attitudes toward training

A Conference Board of Canada report[88] provides a useful illustration of the continuum that defines the attitudes of employers towards training. It is helpful because it offers an understanding of employers' views about training and also makes clear what kind of intervention is appropriate and when. The stages in this continuum are:

1. *Gaining awareness of the importance of skills*. The first stage is getting the attention of employers and having them recognize that productivity, skills, and training are interrelated.[89]
2. *Understanding the significance for their own organization*. Employers do not make decisions based on abstract principles; rather they act for the benefit of their business. They need quantifiable evidence that demonstrates the return on investment for training, as well as case studies and testimonials from peers.
3. *Making choices; to act or not to act*. Having considered the evidence, an employer may find that other considerations forestall the decision to train — issues such as cost, time, convenience, or alternative priorities. The focus of public programs at this stage is to alleviate these concerns.
4. *Taking action and seeking support*. This is the point of implementation. Larger organizations may have extensive HR capabilities that include in-house training programs. But for many firms, especially subject-matter experts, this will require reliance on outside support, such as an intermediary that can link an employer to a range of resources: consultants to carry out training need assessments, HR specialists to design training strategies, training providers to deliver the programs, and evaluators to assess the impact of the training.

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[88] Natalie Gagnon, Michael Bloom, and Douglass Watt, *Changing Employers' Behaviour About Training*, Conference Board of Canada, 2005.

[89] Over the last 15 years, this message has been expounded by numerous governments, academics, and industry associations, to the point that it has become a familiar mantra. But it bears emphasizing that this awareness of the bigger picture serves as a launching point for specific action. It is noteworthy, as well as depressing, that many of the prescriptions being urgently pressed upon governments these days were already part of the menu of recommendations being proposed to governments 15 years ago. See Expert Panel on Skills, *Stepping Up: Skills and Opportunities in the Knowledge Economy*, Federal Advisory Council on Science and Technology, 1999.

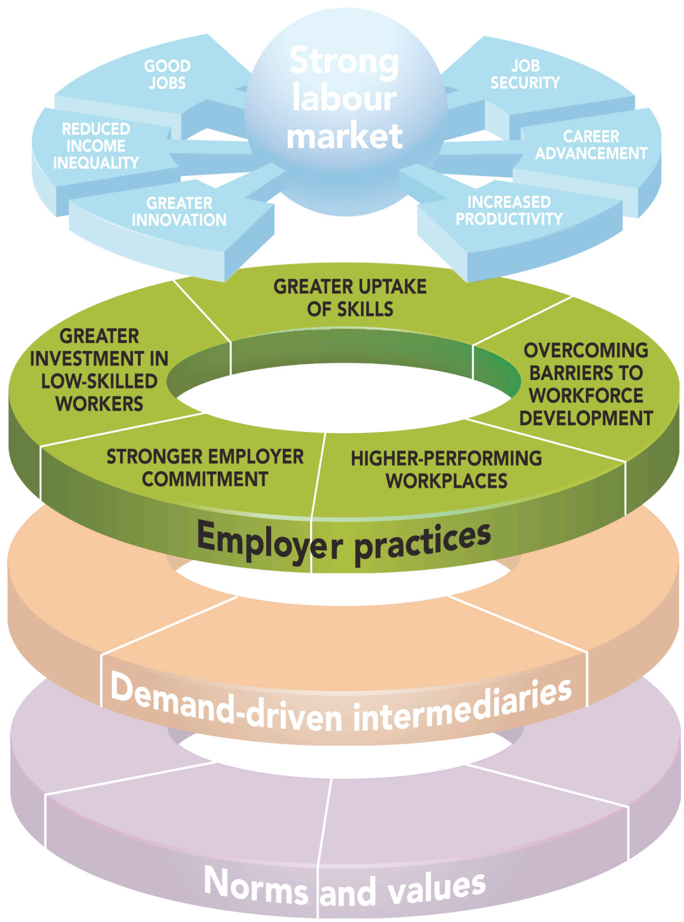
5. *Maintaining or increasing training*. Once training has been undertaken, the employer needs to decide whether that training will be a permanent strategy of the organization. This decision is made easier if appropriate measurements have been put in place to assess the impact of the training on business outcomes. These indicators might include: staff attendance, staff turnover, days lost due to accidents, number of defective products, output per worker, customer complaints, customer satisfaction surveys, and so on. Concrete results are the surest evidence that will convince an employer to embrace a training culture for his or her firm.

For each of these stages, government can rely on a number of policy tools:[90]

- *Information:* Commissioning studies and assembling and publicizing information relating to training, from advocacy materials to return on investment studies, to lists of resources
- *Facilitation:* Supporting intermediary organizations that promote the training/workforce development message and that can assist in making it happen
- *Outreach:* Supporting direct outreach to employers through conferences, workshops, and one-on-one engagement
- *Financial incentives:* Providing grants or tax credits to entice employers to undertake training
- *Financial disincentives:* Creating a training tax (see Box 3 below)
- *Targets:* Establishing or raising skill standards for certain occupations, creating expectations for training as a condition for government contracts, or setting regulatory quotas
- Employer Investment in Workforce Development

[90] Adapted from Gagnon, Bloom, and Watt, *op. cit.*, p. 8.

OUTCOMES OF EMPLOYERS INVESTING IN WORKFORCE DEVELOPMENT



Aligning workforce development with demand for skills

Good jobs are a consequence of both skills and how skills are applied. While supply-side labour market strategies seek to expand the skills base of the workforce, demand-side strategies focus on the uptake of those skills and their further advancement in the workplace. This makes for a prosperous economy through returns to an employer and good jobs for employees. In the same way that we place expectations on job candidates in terms of their work readiness, so too must we place expectations on our employers to engage employees in work that takes full advantage of their skills.

Ontario and Canada could take a lesson from the U.K. Commission for Employment and Skills (UKCES)

The UK Commission for Employment and Skills (UKCES) reviewed the application of policies to advance high-performing workplace strategies across seven countries, Canada included.[91] Two broad approaches were identified. One relied on a climate of collective approaches in the labour market field to accommodate the considerations inherent in high-performing workplace strategies. The other, more embedded in a human resources approach, sought to convince employers of the value of adopting such practices.

Canada certainly fell into the latter camp and, on further examination, the report concluded that Canada still largely pursued human capital and skills development strategies and did not focus directly on the organizational change aspects directed at the workplace. In essence, Canada as a whole maintains a decidedly supply-side-driven labour market policy[92] — that is, encouraging workers to increase their knowledge and skills while largely ignoring the take-up, application, and advancement of those skills in the workplace by employers.

Our labour market policy fixation on supply-side solutions includes focusing on those in school and those looking for work, encouraging higher levels of educational attainment, promoting continuous learning, providing job seekers with tools and resources to make them more attractive to employers. Where employers complain of skills shortages, the response typically has been to focus on that deficiency — on a short-term basis, seeking to quantify the problem and redress it with training interventions or temporary foreign workers and, on a long-term basis, hoping to forecast skill needs and steer career choices in that direction.

BOX 3: Quebec's training tax: A 1% solution

In 1995, Quebec passed a law requiring firms with a payroll of over $250,000 a year to allocate an amount — equivalent to 1% of their payroll — to the training of their workers.[93] Any allocation less than that would result in the firm paying the difference into a provincial workforce fund that would be used to fund training projects among firms meeting their obligations under this law.

This legislation met with no small amount of opposition from employers, and the details of its implementation was guided by negotiations between government, employers and unions. In 2003, the threshold was raised to $1 million in payroll.

[91] Ian Stone, *International Approaches to High Performance Working*, UK Commission for Employment and Skills, 2011.
[92] *Ibid*., pp. ii and 15–20.
[93] Information for Box 4 assembled from: Gagnon, Bloom, and Watt, *op. cit.*; Human Resources and Skills Development Canada, *The Role of Labour Standards in a Human Capital Strategy*, 2006, archived at www.hrsdc.gc.ca/eng/labour/employment_standards/fls/research/research18/page07.shtml.

In a 2002, survey of employers covered by this legislation, 33% said they were investing more in training than before the law was passed. Statistics Canada data showed that employer-supported job training increased 66% between 1997 and 2002, the largest increase of any province during that period.

In 2003, several years after the legislation was implemented, almost nine out of ten large firms achieved at least the 1% level of training investment, as did seven out of ten small firms.

The legislation appears to have had a positive impact on collaborations between management and unions. In the five years following implementation of the law, the proportion of collective agreements with at least one clause covering workforce training rose from about 35% to 50%. Similarly, some 25% of collective agreements in 2003 called for the establishment of a union–management joint committee on training, when that figure did not exceed 10% in the ten years prior to the law.

The tax appears not only to have increased workplace training, but also to have been a catalyst for processes that support workplace training.

Labour market institutions: A missing link

Some employers invest in training their workforce; others require a nudge, either through advocacy that convincingly makes the business case or through financial incentives that reduce the cost barrier. But there is a curious disconnect between the obvious business benefit of workforce development and training and the level of training undertaken by employers, which raises the question: Is something else at play?

One recent study compared average annual growth rates of median wages and per capita GDP in ten countries from 1970 to 2010. It found a disconnect between the pay of workers and a country's general economic performance. The report identifies three separate groups:

- In our first group, the breakdown in relationship is ***chronic***. That is, in the **US**, **Australia** and **Canada** median pay consistently and significantly grew at less than half the rate of economic output.
- In our second group, the breakdown is more recent, but just as severe. In this ***acute*** group of the **UK**, **France** and **Germany**, median pay tracked growth in economic output for long periods, but increased at less than half the rate of GDP per capita in the last decade.
- Finally, in our third group, the breakdown is again recent but in this instance ***mild***. As with the second group of countries, median pay fell

> behind economic output in **Finland**, **Japan**, **Denmark** and **Sweden** in the most recent decade but the gaps that opened up were relatively small.[94]

In large part, what this study determined was that these variations were related to the operations of labour market institutions and the norms and values that underpin expectations of the labour market.

Labour markets, like other markets, do not operate in the abstract. They are affected not only by the bargaining between sellers (workers) and buyers (employers), but also by the rules that shape those negotiations. They can be made more — or less — efficient by processes and organizations that facilitate those interactions. What constitutes a fair bargain is defined not only by rules (set by government) but also by norms (formed by society).

The term "labour market institutions" refers to that set of implicit or explicit rules, norms, contractual arrangements, processes and organizations that govern or influence labour market transactions.[95] What is apparent is that even in a highly integrated global economy, where firms in different advanced economies operate under similar competitive pressures, citizens of these countries experience different labour market outcomes (in terms of employment rates, wage rates, wage distribution, incidence of training, and so on), which are largely a consequence of different labour market institutions.[96] Thus, while most industrialized countries drifted toward an hourglass labour market as far as the distribution of their occupations, changes in the distribution of earnings has been quite different.[97]

In response to the changing economic circumstances that impacted the labour market during the last three decades, U.S. employers were far more likely to engage in cost-cutting measures that particularly affected the pay and working conditions of entry-level workers. However, where employers adopted "high-road" strategies, it was usually as a result of labour market institutions, such as labour market intermediaries (bodies that initiated workforce development strategies), the quality of information available to managers, the

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[94] Jess Bailey, Joe Coward, and Matthew Whittaker, *Painful Separation: An International Study of the Weakening Relationship between Economic Growth and the Pay of Ordinary Workers*, Resolution Foundation, 2011, p. 2.

[95] Richard B. Freeman, "War of the models: Which labour market institutions for the 21st century?" *Labour Economics*, 5, 1998, pp. 1–24 and p. 4.

[96] Eileen Appelbaum, Gerhard Bosch, Jérôme Gautié, et al., "Introduction and Overview," Jérôme Gautié and John Schmitt (eds.), *Low-Wage Work in the Wealthy World*, Russell Sage Foundation, pp. 1–32.

[97] Daron Acemoglu and David Autor, *Skills, Tasks and Technologies: Implications for Employment and Earnings — National Bureau of Economic Research Working Paper 16082*, The National Bureau of Economic Research, 2010, pp. 82–83.

presence of unions and the regulatory environment (employment standards and minimum wage legislation), as well as tighter local labour markets.[98]

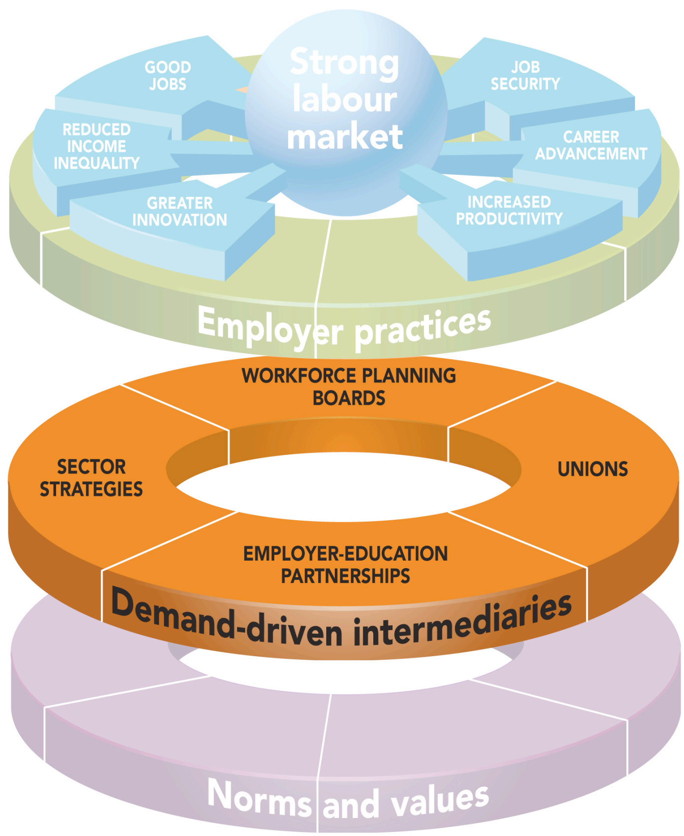
In thinking about our labour market outcomes, we need to focus not only on the human resources practices of employers, but also on two other factors: (1) those processes and institutions that improve the dynamic of our labour market and (2) the norms and values that shape our expectations about jobs and employment outcomes. That is the subject of the next two sections.

[98] Eileen Appelbaum, Annette D. Bernhardt, and Richard J. Murnane, "Low-Wage America: An Overview," Eileen Appelbaum, Annette D. Bernhardt, and Richard J. Murnane, (eds.), *Low-Wage America: How Employers Are Reshaping Opportunity in the Workplace*, Russell Sage Foundation, 2003, pp. 1–29.

Part Five: Systems to Support Workforce Development

Employers may or may not overcome barriers to investing in their workers. But it is more likely they can and will if there are supportive structures and systems in place to encourage and facilitate that happening. This includes organizations that can provide evidence and data about the value and benefits of workforce development and intermediaries — such as workforce planning boards — that foster partnerships between employers, training bodies, and workers.

LABOUR MARKET INTERMEDIARIES



Our labour market is not like a simple bathtub that periodically needs the right tap turned on. Imbalances may occur for a variety of reasons, from inadequate labour market information, to market failures (employers declining to train workers for fear of them being poached is a classic case), to technological innovation making certain functions obsolete. This complexity, amplified and made more dissonant by the choices of a multitude of job seekers and employers, requires policy responses that can accommodate an ever-changing landscape. It depends on a view of the labour market as a complicated, ever-changing system or organism, not a set of linear equations.

The term "skills ecosystem" has been coined to describe the need to address the many facets of the labour market, through supportive networks and partnerships:

> Rather than focusing on short-term training supply strategies to address skill shortages identified by employers, the concept of skill ecosystems directs attention to the interdependency of multiple actors and policies in creating and sustaining the conditions under which appropriate skills can be developed and deployed in clusters of firms in particular regions.[99]

> In short, workforce development, with its emphasis on delivering the skills that employers need when they need them and employees jobs with higher skills, more training and clear career paths, is promoted within systems of not just supply and demand but also industrial relations, training, taxation and welfare. It is an approach that is typically regional and encourages interdependent, collaborative networks and partnerships amongst different agencies and actors, and usually triggered by an external catalyst such as government demand for regional growth or a sector problem that cannot be solved without multi-stakeholder involvement.[100]

When it comes to policy making and promoting workplace training and workforce development, the field in Ontario and in Canada is quite fragmented and, in recent years, has lost some important champions. To begin with, industry sector councils previously received core funding from the federal government and were important catalysts for research and modelling effective human-resources initiatives, often aiming at workforce development. Similarly, other bodies that undertook research and advocacy in relation to training have lost federal government funding, such as the Canadian Council on Learning, the Canadian Policy Research Networks, and the Canadian Apprenticeship Forum. Finally, labour market research that can tell us about skills gaps has also been compromised, with the termination of the Statistics Canada Survey of Labour

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[99] Richard Hall and Russell Lansbury, "Skills in Australia: Towards workforce development and sustainable skill ecosystems," *Journal of Industrial Relations*, 48(5), 2006, p. 577.
[100] Chris Warhurst, "Same minds under different stars: Skill policy, issues and responses in Australia," *Labour Market Research*, December 2010, p. 2.

and Income Dynamics and the elimination of the mandatory long-form questionnaire of the Statistics Canada Census, replaced by a voluntary survey.

If training and workforce development is to be advanced among employers, it is clear that a policy that relies primarily on advertising and financial incentives is not enough to make the difference. The effort requires advocacy and active engagement with employers, in addition to a sound research and analytical base.

It is for this reason that in 1999, the federal Expert Panel on Skills proposed that

- a national Centre for Labour Market Statistics be established under the direction of the joint federal and provincial Forum of Labour Market Ministers;
- a Labour Market Research Fund be created to undertake analyses of trends and development in the labour market; and
- an overarching national body be established that could drive the skills issue, coordinating with business/industry and the education/training sectors, working in concert with the industry sector councils, at a national as well as sub-regional level.[101]

The need for enhanced outreach to employers, not only to deliver the training message but also help them work through their workforce development issues, has also been advanced by the Conference Board of Canada.[102]

The notion of an overarching national body to drive the skills issue also needs its counterpart at a provincial level for customized policies and programs. As well, in order to implement these strategies, one requires agencies or facilitators at the regional or local levels to bring the myriad parties together to identify employer needs, provide training and education programs, and also address challenges faced by employees or the unemployed entering the labour market. This is the function of workforce planning boards.

Workforce planning boards

The labour market is populated by a range of players, each preoccupied with its primary purpose. Schools seek to impart education, employers wish their firms to thrive, individuals want jobs and careers, employment services hope to place the unemployed into jobs, and economic development offices aim to attract new employers. Workforce development is only a secondary consideration.

Workforce planning boards are agencies acting as intermediary catalysts to stimulate workforce development. These organizations operate at a local or regional level, guided by boards that represent the various labour market

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[101] Expert Panel on Skills, *Stepping Up: Skills and Opportunities in the Knowledge Economy*, Federal Advisory Council on Science and Technology, 1999, pp. 43 and 75.
[102] Gagnon, Bloom, and Watt, *op. cit.*, p. 9.

stakeholders in a community (business, labour, government, educators/trainers, service providers, and so on). These boards typically take on a number of functions:

- Gathering, analyzing, and disseminating labour market data on behalf of stakeholders
- Acting as a clearinghouse for information and resources regarding employment, training, and labour market issues
- Anticipating and raising the profile of labour market issues
- Convening stakeholders to identify and propose labour market solutions, from conducting studies to designing and implementing locally targeted projects

In Ontario, it cannot be said that workforce planning boards have been used anywhere near their full potential. Established by the province in 1994, these 25 boards (which cover almost all of the province), are expected to

- engage labour market partners at a local level to identify and respond to key employment and training issues and priorities;
- research employers' labour requirements to gain insights into occupational and skill needs specific to local industry;
- facilitate local planning where community organizations agree to implement joint actions to address local labour market gaps; and
- develop projects that rely on partnerships to respond to local labour market challenges.[103]

Consider the respective budgets administered by various divisions of the Ministry of Training, Colleges and Universities (MTCU), the ministry responsible for workforce planning boards:

Table 2

Comparative size of several programs administered by the Ontario Ministry of Training, Colleges and Universities

Item	Amount[104]
Grants for university operating costs	$ 3,500,000,000
Grants for college operating costs	$ 1,400,000,000
Employment Ontario	$ 1,000,000,000
Employment supports through social assistance (Ontario Disability Support Program and Ontario Works)	$ 200,000,000
Ontario Apprenticeship Tax Credit	$ 200,000,000
Ontario Co-operative Education Tax Credit	$ 30,000,000
Ontario Workforce Planning Boards	$ 6,000,000

[103] This description of functions is taken directly from Ontario Ministry of Finance, *Commission on the Reform of Ontario's Public Services* (the Drummond Report), 2012, p. 284.
[104] Figures from the Drummond report, pp. 279 and 284; and Ontario Ministry of Training, Colleges and Universities, *The Estimates, 2012–13*, Ontario Ministry of Finance, 2010.

The size of the budget matters. First, the total allocation to 25 boards (on average, $240,000) cannot support much in the way of projects after salaries and administration are accounted for. Second, as a miniscule operator, these boards are charged with trying to influence the spending decisions of organizations with budgets multiple orders of magnitude larger, with histories, mandates, and constituencies of their own. Third, one can imagine the limited attention these boards receive from the central decision-makers of the ministry, when they have such considerable other operations with which to concern themselves.

It is to their credit that workforce planning boards have been able to accomplish what they have. All boards have strong links with their communities, and many have creative and broadly inclusive initiatives to address local labour market challenges. However, the fact remains that these boards operate with limited strategic direction, apart from the exhortation to consult, identify local issues, and find ways to address the challenges they do articulate. There is no cohesive vision guiding these boards in addressing the complexities of labour market dynamics, and too much of their work is of too small a scale and operates on too short a time horizon.

Recently, rather than having all the workforce planning boards managed by one provincial administrator, this function has been transferred to MTCU's regional offices, with the rationale that if their focus is local, then their oversight should be local as well. In fact, such a move extinguishes the ability of these boards to act strategically. Not being quite sure how these boards should function, the ministry has delegated that question to be determined locally, ensuring that there will likely be as many answers as there are regional offices. While workforce planning boards should *act* locally, they need to be guided by a common strategy, one that should be articulated by a single provincial body.

For workforce planning boards to be used more effectively, they need

- access to more project money, either through an increase in their budget or leverage over other spending envelopes (for example, the funding that is available to support labour market partnerships, currently administered by MTCU regional offices);
- the development of a strategic plan that includes an analysis of the current labour market challenges and what the specific role is of these boards to address these challenges;
- a build-up of capacity so that they can meet the expectations placed on them by a beefed-up strategic plan and vision;
- to review their board membership, giving consideration to mandating *ex officio* participation for certain local stakeholders (for example, the chamber of commerce, the labour council, economic development

offices, the local community college, school boards, representatives of employment services, and so on); and
- oversight of these boards to be transferred back to a central office charged with workforce development in Ontario.

Employment services

The real essence of what a workforce planning board is supposed to do is brought into sharper relief when compared to employment services. **Employment services** focus primarily on the individual seeking work. Employment services help smooth the operations of the labour market, reducing the time it takes for an unemployed person to find work or an employer to find the right job candidate. In this way, these services reduce unemployment that is a result of a poorly operating labour market, or what is called *frictional unemployment*. *Cyclical unemployment* is that caused by a downswing in business activities, as occurs during a recession, while *structural unemployment* is the result of fundamental changes taking place in the economy, such as those arising from technological innovation or global competition.

Workforce planning boards focus their energies on employers not only to meet their needs but also to encourage them to achieve higher-performing workplaces. This work is typically done with groups of employers (usually in the same industry) as well as with groups of job candidates/employees in designated projects. Ultimately, workforce planning boards seek to address the impact of structural unemployment through training of workers and restructuring of workplaces to support more job advancement.[105]

The following table contrasts employment services and workforce planning boards:

[105] Or at least this is what they *should* be doing. Because Ontario's labour market policy is so skewed toward the supply side, Ontario's workforce planning boards also end up expending much of their efforts on supply-side initiatives.

Table 3

Comparison of employment services and workforce planning boards along several dimensions

Dimension	Employment services	Workforce planning boards
Aspect of unemployment	Frictional unemployment	Structural unemployment
Functions	Counselling, job matching	Researching, convening
Primary client	Job seeker	Employer
Labour market orientation	Supply-side	Demand-side
Time frame	Short-term	Medium-term
Focus of work	Individual one-on-one	Groups of employers and workers
Nature of relationship	Single interaction	Building partnerships
Purpose	Transactional	Transformative
Geographic scale	Local, neighbourhood-based	City- or region-wide

As Table 3 makes clear, employment services and workforce development activities represent two opposite sides of the labour market coin. For a labour market to function properly, both aspects — supply side and demand side — need to be fulsomely addressed. The sharp distinction between the functions and focus of these two approaches also makes clear that these activities need to be undertaken by different types of organizations. That is, one cannot expect employment services to undertake workforce development activities, because it involves switching their focus from the unemployed client to the employer, which involves different skills and time frames.

Currently, in Ontario, the system serving the labour market resembles a fiddler crab, that crustacean with one very oversized claw overshadowing a tiny second claw. Our employment services are the one big claw. The asymmetrically much smaller claw, that is our workforce planning boards, is greatly challenged to undertake broad-scale, effective workforce development, lacking sufficient resources, clout, and direction.[106]

Sector strategies

Employment services measure success one job placement at a time. Workforce development strategies seek to create *systems* that link education, training, and employment services on the one hand with employer needs on the other. Because these approaches are so dependent on employer demand, they almost

[106] The Ontario Chamber of Commerce has made a strong case for a more "client-centred" (read employer-/demand-side) mechanism for directing training dollars, describing the need for a multi-stakeholder intermediary (which resembles a beefed-up workforce planning board). See Ontario Chamber of Commerce, *Protecting Our Most Valuable Resource: The Business Case for Lifelong Learning and Job-based Training*, 2011.

invariably need to be aligned to a specific industry sector, addressing the particular skill needs and dynamics of similarly placed employers.

This approach has been termed "sector strategies" by its U.S. practitioners, defined as "partnerships of employers within one industry that bring government, education, training, economic development, labor, and community organizations together to focus on the workforce development needs of an industry within a regional labor market."[107] The singular focus on one industry sector allows for a deeper understanding of the challenges faced by employers, creates synergies among employers facing similar issues, strengthens relationships that facilitate industry cluster dynamics, and makes it more likely to align public and private resources in a concentrated way. It is estimated that there are approximately 1,000 sector partnerships operating across the United States, with demonstrable benefits for both employers (reduced HR costs, higher quality outputs) and employees (better jobs, higher wages).[108]

Such sector approaches often result in the development of career ladder or career pathway programs, where a well-articulated sequence of education and training supports provide both access to a job as well as continuing career progression, which is more likely to succeed because it is directly linked to an employer's workplace. These programs are also typically complemented by various support services, further contributing to the likelihood of success.[109]

Unions

Among labour market institutions, unions are among the most prominent and certainly attract the greatest controversy. There seems little common ground between those who see unions serving to level the field in wage bargaining versus others who claim they unduly contribute to labour market inflexibility by reducing competitiveness and ultimately increasing unemployment.

A recent review of the worldwide literature on labour market institutions (in this case, unions, minimum wage legislation, and employment protection legislation) claims that the empirical evidence on their impact remains inconclusive, in large part because of the variety and complexity of the institutional arrangements and the difficulty of isolating impacts.[110]

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[107] National Governors Association, *State Sector Strategies Coming of Age: Implications for State Workforce Policymakers*, 2013, p. 2.
[108] *Ibid.*, pp. 2 and 4.
[109] For an excellent short overview of career-ladder approaches — and in particular their value to hard-to-employ populations, — see Alison Gash and Melissa Mack, "Career ladders and pathways for the hard-to-employ," *Issue Brief*, U.S. Department of Labor, Employment and Training Administration, September 2010. For an in-depth examination of this practice, see Joan Fitzgerald, *Moving Up in the New Economy: Career Ladders for U.S. Workers*, The Century Foundation, 2006.
[110] Gordon Betcherman, "Labor market institutions: A review of the literature," *Background Paper for the World Development Report 2013*, World Bank, 2012, p. 2.

The paper nevertheless makes some tentative conclusions:

- Unions, along with minimum wages and employment protection legislation, reduce wage inequality for covered workers.
- Their ultimate effect on the overall distribution of income is less clear because the low-skilled, the young, and women are less likely to be covered.
- It seems likely that these labour market institutions have a modest effect in shifting income from capital to labour.
- The effect of minimum wages, employment protection legislation, and unions on aggregate employment or unemployment is either insignificant or slightly unfavourable.
- Employment protection legislation and unions do not have a significant unidirectional impact on productivity.

On this latter point, the report explains:

> One possibility is that less efficient reallocation of labor across firms and sectors because of job security rules and other institutions are essentially cancelled out by institution-driven workplace gains due to the "voice" effect and longer tenures with greater investments in training.[111]

The impact of unions on wage inequality differs from country to country, because of such factors as the union — non-union wage differential, the wage distribution within unionized firms and the extent of union coverage across different wage categories. In the case of Canada, the consequence is more unequivocal: about 15% of Canada's increase in wage inequality during the 1980s and 1990s has been attributed to declining unionization.[112]

The paradigm shift that began in the 1970s sought to encourage the play of free-market forces and in particular rolled back the countervailing leverage of both government and unions. While the stereotype has been promoted of intransigent unions withholding concessions to save a dwindling number of jobs, the evidence suggests that unions have not had a negative impact on the efficiency of companies, while the drop in membership has had a negative impact on income equality.

Some of the drop in membership has been due to the loss of jobs in manufacturing, a more heavily unionized industry. But another reason for the

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[111] *Ibid.*, p. 40.
[112] Fortin, Green, Lemieux, et al., *op. cit.*, pp. 132–133. The figure was 20% for the U.K. and the U.S., where the drop in union membership was greater.

decline has been the adoption of less union-friendly legislation, in particular the move from a card-check certification process to mandatory votes.[113]

If the desire is to restore some balance and equity to the labour market and to the economy in general, then making it more difficult for unions to form or to act on behalf of their membership is not the way to go. In that light, suggestions that Ontario adopt right-to-work legislation,[114] where employees covered by a union can opt out of paying union dues, would move the goalposts even further in the wrong direction. Rather than enfeeble unions, more effort should be made to engage unions in developing high-performing workplaces. Unions are ideal partners for such a goal because they are active proponents of on-the-job training and career advancement for their members.

Employer–education partnerships

The two main populations of new entrants to the labour market, youth and newcomers, share a common barrier: youth lack work experience and newcomers lack Canadian work experience. Having moved from a system where individuals were hired in entry-level jobs and then groomed for advancement to more demanding positions to one where the expectation is for a new hire to fit the job requirements from day one, it is clear that a key missing ingredient is the acquisition of work experience, even as employers bemoan the lack of skilled workers.

A promising initiative aimed at integrating internationally trained professionals into the Ontario labour market is **bridging programs**. These programs assemble an array of supports such as assessment of a newcomer's credentials and experience, counselling, language training (including vocation-specific), and guidance in understanding Canada's labour market. Significantly, they almost always provide a Canadian workplace experience.

In the case of youth, increased emphasis is currently placed on **experiential learning**, which are opportunities for students to learn by doing. Programs span the secondary and post-secondary levels and include co-op placements, work placements, job shadowing, internships, workplace visits, applied research projects, service learning, and more. These serve not only to develop work-relevant skills among youth, but these programs also allow them to try out different occupations, helping them to zero in on the field of study that best

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[113] Under a card-check certification process, a union would become certified when a sufficient number of workers had signed on to request a union. This was the law in place in the 1970s for the federal and all ten provincial jurisdictions. Since that time, five provinces, including Ontario, have moved to a certification vote procedure. It is claimed that such a process invites interference and unfair labour practices by employers. Gary Sran, *Unions Matter*, Canadian Foundation for Labour Rights, 2013, pp. 30–31.

[114] Ontario Progressive Conservative Caucus, *Paths to Prosperity: Flexible Labour Markets*, 2012, pp. 6–10. This policy has since been rejected by the Progressive Conservative leader. See Richard Brennan, "Tim Hudak renounces anti-union right-to-work plan," *Toronto Star*, February 21, 2014.

serves their career interests. Participating in the workplace also broadens the networks that students can rely upon when looking for a job.

Apprenticeships are also a form of experiential learning. Countries that rely more extensively on apprenticeships and more formalized vocational education and training systems (Germany and Austria in particular) have lower early career unemployment rates among their youth.[115]

There are numerous industry and education sector partnerships in Ontario that focus on building the relationships between employers and educators, which make such activities possible.[116] Various government programs also exist that provide financial incentives to employers to offer experiential learning opportunities in their workplaces.[117]

It is time to take stock of these industry and education sector partnerships — bridging programs, experiential learning, apprenticeships. We need to understand more about what works and efficacy, and identify best practices for engaging employers. The best way to do this would be for the provincial government to sponsor a multi-stakeholder evaluation, covering all levels of experiential learning, to validate what has been achieved and to map a strategy for expanding these opportunities.

What is certain to be a focus of such of a review is the nature of the links between schools and employers. Despite exhortations for more engagement with employers, it is evident that much already is happening: there are numerous co-op and work experience programs throughout secondary and post-secondary institutions in Ontario, together with various other forms of experiential learning. Moreover, there is a significant array of business–education partnerships active across the province.

It is not simply a matter of recruiting more employers into experiential learning programs. The consulting firm McKinsey & Company undertook a review of 100 education-to-employment programs around the globe and surveyed more than 8,000 young people, employers, and education providers in nine countries. Its report found that success was typically the result of the efforts and investments of individual employers and educators. But to achieve broader success, the report proposed three interventions:[118]

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[115] Donnalee Bell and Krista Benes, *Transitioning Graduates to Work: Improving the Labour Market Success of Poorly Integrated New Entrants (PINEs) in Canada*, Canadian Career Development Foundation, 2012, p.16.
[116] The Ontario Business Education Partnership is the provincial umbrella organization.
[117] These include the Ontario Apprenticeship Training Tax Credit, the federal Apprenticeship Job Creation Tax Credit, Ontario Co-operative Education Tax Credit, the Northern Ontario Youth Internship and Co-op Program wage subsidy, Industry Canada's Small Business Internship Program, the federal government's Career Focus program, various R&D, and training grants sponsored by the Natural Sciences and Engineering Research Council of Canada, among others.
[118] Mona Mourshed, Diana Farrell, and Dominic Barton, *Education to Employment: Designing a System That Works*, McKinsey Center for Government, 2012, pp. 85–91.

- **Collect and disseminate data** — This relates to several forms of data: good information about career options and training pathways; best practices for improving student learning outcomes; and publicizing metrics that encourage accountability for labour market outcomes (such as the performance indicators presently in place for Ontario's community colleges and universities).
- **Initiate more sector-wide collaborations** — The most transformative partnerships involve multiple education providers and employers, which contributes to wider recognition of the curriculum, more cost-effective delivery of training, and greater likelihood of more frequent and more intense interactions.
- **Create an education-to-employment system integrator** — Given the diverse range of actors, there is need for an integrating body, one that can coordinate the R&D efforts and disseminate the results as well as catalyze stakeholder actions and monitor outcomes.

As is often the case when it comes to the labour market field, the bottom-line recommendations are the same: the need for quality data, for broad engagement, and for an intermediary to drive the effort.

All these measures — augmenting workforce planning boards to place greater focus on the demand side, promoting sector strategies, reinvigorating unions, intensifying employer-education partnerships — are all ways to support a smoother transition into work and to create more career advancement opportunities. They put in place processes to both facilitate linkages between the various players as well as to mark pathways for individuals navigating the labour market. Instead of the hierarchical, predictable internal career ladders of several decades ago, they provide some structure to a highly flexible and fluid labour market dynamic.

In addition to strengthening the systems that can support workforce development, one also needs to address attitudes by advancing those norms and values that will make good jobs more likely. That is the subject of the next section.

BOX 4: A quick comparison of government job programs

The proposed **Canada Job Grant** program, announced as part of the federal government's Economic Action Plan 2013, seeks to stimulate training by sharing the cost with employers, up to $15,000 per worker. Unfortunately, the program has not been accompanied by any substantial research or analysis to demonstrate how it will help overcome the numerous barriers that employers confront when contemplating training for their workers. In addition, there is little evidence of substantive consultation. Finally, there is no attempt to offer a systemic, strategic approach that might help prioritize the training by industry or by geography or to encourage the networks or partnerships necessary to stimulate continuous cycles of training, recruitment, and advancement. These networks or partnership would, in turn, engage employers, employer's associations, training bodies, unions, and employment services agencies.

Ontario's **Second Career** program — which provides grants to laid-off workers to acquire training, covering tuition and basic living expenses — also suffers from a one-dimensional approach. There is no requirement that an actual employer be onboard and vouch for the need for the proposed training or for their intention to hire the retrained job seeker.

Ontario's Youth **Jobs Strategy** provides wage subsidies and training allowances under its Youth Employment Fund. It seeks to encourage better coordination among business, labour, educators, and youth to identify and solve talent development issues through a Business–Labour Connectivity and Training Fund.

Part Six: Norms and Values to Support Good Jobs

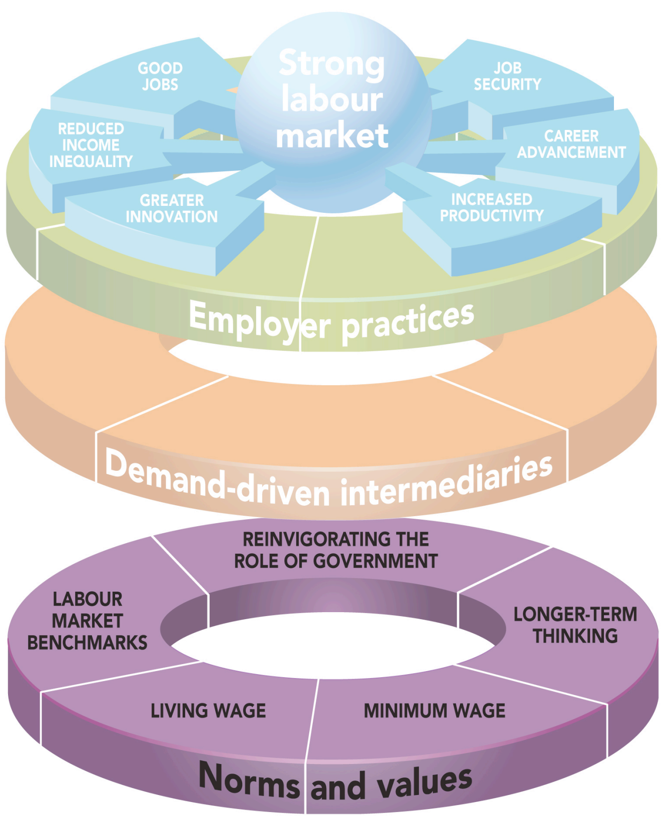
The broader, enabling environment

Policy analyses are most effective when they have a laser-sharp focus and can propose concrete recommendations. When it comes to the labour market, there are specific initiatives that can encourage employers to engage more in workforce development. These proposals are far more likely to succeed with the appropriate institutional supports in place together with advocacy to instil the supportive attitudes to take such steps.

Institutional structures and advocacy require that we strengthen our ability to marshal the right responses. This requires examining our norms and values and being blunt and straightforward about two important considerations:

- The role of government
- Short-term versus long-term thinking

NORMS AND VALUES



Reinvigorating the role of government

There is a longstanding tension between government and the marketplace: the quintessential trade-off between what should be subject to public rules and what should be left to private decisions. The classic case for government's role in the marketplace is

1. ensuring that the marketplace can operate effectively (enforcement of contracts, availability of information, dispute resolution mechanisms); and
2. dealing with market failures (addressing externalities such as pollution, need for public goods, regulation of monopolies).

There is a third rationale for government's role and that is to uphold core values.[119] These values find their definition not in relation to market activities but rather in political and social processes. For example, laws that prohibit the employment of children have nothing to do with ensuring that the marketplace can function efficiently, nor do they address a market failure, in the strict economic sense. Rather, they are an expression of what we as a society deem acceptable.

Keynesian economics would posit a fourth rationale for the involvement of government, that being to smooth out the disruptions caused by the gyrations of the business cycle, to limit the impact of risky speculation, to stimulate aggregate demand when business slumps, and to cushion individuals against the consequences of unemployment.

Finally, in a modern, knowledge-based economy, there is a strong argument in favour of a more active government: one that promotes education and training to build the workforce skills base; one that supports research and development; and one that facilitates innovative networks and cluster strategies that bring producers, suppliers, researchers, academia, and others together to create synergistic economies, investing in the social infrastructure that supports innovation in the same way governments invest in physical infrastructure.[120]

The degree to which governments managed the industrial policies that launched Japan and the four Asian Tigers (Hong Kong, South Korea, Singapore, and Taiwan) onto the global economic stage is well-known. A more telling example of government playing a comparable role comes from that paragon of a free market economy, the United States, where the federal government accounted for more than 50% of national R&D expenditures

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[119] Eliot Spitzer, *Government's Place in the Market*, The MIT Press, p. 29.

[120] For a discussion of the changing focus of economic development and its impact on expectations of government, see Tom Zizys, *Rowing Together: Best Practices for the Regional Coordination of Economic Development in the Toronto Region*, Intergovernmental Committee for Economic and Labour Force Development, 2012.

during the 25 years ending in 1978, exceeding the R&D expenditures of all other OECD governments combined.[121]

The institutional supports necessary for workforce development also require similar partnerships and network building. This is not about government directing how a workforce should be developed, but rather strengthening the foundational elements that allow for workforce challenges to be tackled collectively by the range of players in the labour market.

One way of assuring that government makes sounds decisions and smart interventions is to place greater reliance on evidence-based policy. At one level, this would involve conducting more rigorous evaluations of government programs. These are often not done because they are considered costly or because various stakeholders can sometimes feel threatened. Some may worry that if an evaluation reveals poor outcomes it might jeopardize funding for the program as opposed to being used as a reason to improve a program or replace it with something that is more effective.[122]

In addition to collecting evidence regarding specific programs, governments also need to ensure there is sufficient data relating to the entire population so that appropriate judgments can be made about broader trends in our society and in our economy.[123] In the labour market field, there are considerable gaps in data, both in terms of timeliness and detail. A recent in-depth report commissioned by the Forum of Labour Market Ministers (federal and provincial ministers) recommended significantly broadening the scope of labour market data collected, with the view that good labour market data can help reduce labour shortages as well as cushion unemployment.[124] Since the release of the report, Statistics Canada has begun collecting job vacancy data (by industry but not by occupation); on the other hand, it has been required to discontinue the Survey of Income and Labour Dynamics and change the

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[121] William H. Janeway, *Doing Capitalism in the Innovation Economy*, Cambridge University Press, p. 42. This spending was primarily through the U.S. Department of Defence and the National Institutes of Health.

[122] Using evaluations as a form of learning is critical and needs to be part of the culture around promoting more evaluations of government programs. This is certainly the direction the U.K. Cabinet Office is taking, based on their report Laura Haynes, Owain Service, Ben Goldacre, et al., *Test, Learn, Adapt: Developing Public Policy with Randomised Controlled Trials*, Cabinet Office (U.K.), 2012.

[123] The current federal government's policy to eliminate much data-gathering and analysis across a number of fields — not just labour market information — is highly worrisome, highlighting a movement away from evidence-based policy making. See Chris Turner, *The War on Science: Muzzled Scientists and Wilful Blindness in Stephen Harper's Canada*, Greystone Books, 2013.

[124] Advisory Panel on Labour Market Information, *Working Together to Build a Better Labour Market Information System for Canada*, 2009. The report proposed: increasing the sample sizes for various surveys so that these can be dissected at a regional and occupational level; a job vacancy survey; a labour price index; reinstating the Workplace and Employment Survey; measurements of gross flows of job changes, not only net flows; measurements of job losses through layoffs; sufficient detail to report on disadvantaged groups, such as people with disabilities, Aboriginal peoples, youth, older workers, visible minorities, and immigrants; better data on labour mobility; better information on "local labour markets" to help people find a job themselves.

mandatory long-form census questionnaire into a voluntary survey, thus compromising the validity of the responses.[125]

The presence of more and better data alone is not sufficient; it needs to be analyzed and interpreted. Programs being evaluated need to be assessed in the light of practices in other jurisdictions. The withdrawal of funding from various research and analysis bodies is detrimental. Organizations such as the Canadian Council on Learning, the Canadian Policy Research Networks, and the Canadian Apprenticeship Forum, which have produced a number of very useful studies examining the supply and the demand side of Canada's labour markets, have all lost long-term funding and many have had to close.[126] Similarly, industry sector councils, which have had their core funding withdrawn by the federal government, had been important catalysts not only for research but for modelling effective human resources initiatives, often aiming at workforce development.

For our labour market to function better we need

- more robust evaluations of labour market policies and programs;
- support for pilot projects in the workforce development field to test approaches and build a learning base for what works;
- better data regarding labour market dynamics; and
- funding for research bodies to analyze what is happening in our labour markets.

All this presupposes that government has a role to play in making our marketplace work more efficiently and more equitably. It is a principle that warrants repeating.

Promoting longer-term thinking in the private sector

No one could deny that we live in a fast-paced society, with technology speeding up virtually all aspects of our lives, from the blur of continuous innovation in every product and service on offer, to our attention-deficit-inducing forms of entertainment and communications.

While speed can enhance competitive advantage (being first to bring a product to market or providing a service faster), it does not always serve the

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[125] The federal government recently announced increased spending on surveys related to regional jobs data. Apparently, this increase counters earlier budget cuts affecting Statistics Canada. Bill Curry, "Ottawa to spend $14 million on new labour-market surveys," *The Globe and Mail*, June 12, 2014.

[126] There are labour market analyses conducted in Canada, starting with intermittent reports from Statistics Canada and from various academics and commentators. However, overall, the number of such studies is limited and, more so, rather disjointed. One need only explore the publications of the National Centre for Vocational Education Research (Australia) or the UK Commission for Employment and Skills to see a research effort that is extensive, deep, and reflective of an integrated research agenda.

economy well. An emphasis on faster pay-outs too often shortens what is considered a reasonable time horizon for return on investment.

The dominance of shareholder value maximization resulted in corporate managers being judged by how their quarterly reports matched the expectations of stock traders, increasing the temptation for them to make decisions that resulted in short-term payoffs. While not the only reason, this way of framing success certainly contributed to a view of employees as a cost to be constrained as opposed to an asset to be invested in for the long haul.

This tendency to evaluate the performance of CEOs and senior managers on the basis of meeting stock market expectations becomes amplified by their reward structure, where executive bonuses are not only tied to share price improvements but paid out in stock-purchase options, that is, in the same coin whose value they are trying to enhance. Thus, the shareholder's interest becomes the CEO's personal incentive, with the result being runaway executive compensation where annual bonuses for CEOs typically outweigh their base salary.

At issue here is not simply placing restraints on the most extreme forms of nearsighted profit-taking[127] but also enhancing more long-term thinking in order to privilege investment over speculation. The rationale is to tip the balance from chasing short-term paper value to stewardship of the long-term viability of a company, and to protect the economy from the instability that arises from excessive risk-taking. This view has found particular expression in the United Kingdom under the concept of "responsible capitalism."[128] Notably, the U.K. Labour Party commissioned an independent report[129] on moving toward "long-termism" from the former Director General of the Institute of Directors, a prominent business organization in the U.K.

Some of the specific initiatives being proposed:

- The tax system should be used to provide incentives to long-term investors and to encourage longer-term shareholding.

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[127] The obsession with short-term calculations results in a stock market that seeks to anticipate and get ahead of the slightest variation in the value of a stock, which is often driven more by expectations than by intrinsic worth. This in turn has led to a form of trading based on computer-driven algorithms that scan numerous markets simultaneously and react instantaneously, buying and selling in a matter of milliseconds, thus doing what everyone else appears to be doing, only doing so more quickly. This form of computer-charged, high-frequency trading now accounts for upward of half of all the business transacted on stock markets in the United States. See Nathaniel Popper, "Searching for a speed limit in high-frequency trading," *The New York Times*, September 8, 2012; Charles Duhigg, "Stock traders find speed pays, in milliseconds," *The New York Times*, July 23, 2009; Scott Patterson, *Dark Pools: High-Speed Traders, A.I. Bandits, and the Threat to the Global Financial System*, Crown Business, 2012.

[128] Stephen Hockman, *Legislating for Responsible Capitalism: What It Means in Practice*, Policy Network, 2012.

[129] *Overcoming Short-termism within British Business: The Key to Sustained Economic Growth*, an independent review by Sir George Cox, commissioned by the Labour Party, 2013.

- Investors who buy shares after a takeover bid has commenced should have no voting rights until after the outcome of the bid.
- Quarterly financing reporting should be eliminated.
- Companies should be required to develop, publicize, and track progress on their long-term strategy.
- A significant portion of a CEO's pay should be deferred to the future and tied to long-term performance.
- Two tiers of shares with different voting rights should be created, favouring longer-term investors.
- Shareholders should have more say in executive compensation packages.
- Details of pay packages for top executives should be published, and the ratio of highest paid individuals to the median wage of a company should be tracked.
- Provisions that promote the long-term stewardship of a company should be put in place.

This is not to say that all of these provisions can or need be adapted in Ontario, rather that these suggestions concretely illustrate a broader concept that warrants our consideration. Such matters as stock transactions and executive compensation may appear removed from the nitty-gritty of labour market policy. But to the extent that these considerations affect corporate decisions relating to hiring and job retention, they deserve attention in any discussion about broader labour market policy.

Minimum wage

The debate about minimum wage can be summarized as follows: [130] raising the minimum wage is good because it provides a floor for the wage that can be offered for a job, thus providing some modicum of fairness. The counterargument claims that raising the price of such workers will cause employers to hire fewer of them. In terms of employment, the data can appear contradictory, with studies showing both positive and negative impacts. Perhaps the fairest conclusion drawn from these studies is provided by Betcherman, whose World Bank report concludes that raising the minimum

[130] Sources for this section: Betcherman, *op. cit.*, pp. 9–17; Olivier Blanchard, Florence Jaumotte, and Prakash Loungani, *IMF Staff Discussion Note — Labor Market Policies and IMF Advice in Advanced Economies During the Great Recession*, International Monetary Fund, March 2013, pp. 10–11; Fortin, Green, Lemieux, et al., *op. cit.*, pp. 131–132 and 139–140; Stephen Gordon, "Want to help the poor? Don't waste your time with the minimum wage," *Maclean's: Econowatch*, February 19, 2013; T. William Lester, David Madland, and Nick Bunder, "An increased minimum wage is good policy even during hard times," *Center for American Progress Action Fund*, June 7, 2011, www.americanprogressaction.org/issues/labor/news/2011/06/07/9747/an-increased-minimum-wage-is-good-policy-even-during-hard-times.

wage has a modestly negative or insignificant impact on employment (a view endorsed by the IMF).

The other shortcoming raised about promoting a minimum wage is that it is a blunt instrument: a significant number of people who earn a minimum wage live in households that are not living in poverty (for example, students who are working and living at home). Similarly, working individuals living in poverty hardly all work at the minimum wage.

All that being said, other considerations add weight to the case for raising the minimum wage: for one, it does reduce wage inequality (pre-distribution), particularly at the very bottom of the wage distribution. It provides an important symbolic line in the sand for what is considered decent pay. And there is evidence that not only does it improve job retention but it also creates an incentive to train lower-paid workers to generate productivity increases that can counter the increased cost of the labour.

In Ontario, the minimum wage increased regularly from the mid- to late 1980s through to the mid-1990s. From 1995 to 2004, the minimum wage did not increase. Starting in 2004, there began a series of staged, annual increases, which halted in 2010, with the minimum wage at $10.25. In the summer of 2013, the Ontario government appointed an advisory panel to examine the province's approach to setting the minimum wage and to provide advice on how the province should determine changes to the minimum wage in the future.

With the release of the panel's report in January 2014, the Ontario government announced that the minimum wage would increase in June to $11 an hour and that it would index future increases in the minimum wage to inflation.

Living wage regulations

A minimum wage is true to its label — it designates the bare minimum for what a person should be paid. It hardly ensures that an individual or household can meet its everyday living expenses. Living wage campaigns seek to generate discussion about what level of wage is necessary to meet basic needs, and living wage regulations (in the U.S., ordinances) are ways in which local governments define such pay levels.

In most jurisdictions, governments secure many goods and services through contracts — from the construction of publicly funded buildings and infrastructure to the procurement of various supplies and services — whether for a single item or a continuous contract. The typical competitive process assesses both the capacity of the bidding firm to complete the work in a satisfactory manner as well as the proposed cost. In many instances, a major component of the budget constitutes labour costs. Restraining labour costs improves the competitive chances of the bidder.

The problem is, a race to the bottom when it involves wages is a contest with many losers, including the workers of the winning bid. Living wage regulations establish a standard for wages to be paid by contractors for certain categories of their employees (usually the lowest paid), to ensure that the salaries of these workers are not unduly sacrificed for the sake of competitive gain.

There are some 140 such ordinances in the United States and the impacts of these policies appear similar to that of raising the minimum wage:

> There is an emerging evaluation literature on living wage campaigns. What is striking is that even skeptics concede that the ordinances are successful in raising wages. The debate is over whether there are negative employment effects, but again, even the skeptics accept that, if there is any impact on employment, the wage gains outweigh the costs and as a result there is a net benefit to low-wage employees and their families; in fact, the bulk of the literature finds no negative employment consequences. Studies of the impact on firms do not find major negative effects, and some suggest that turnover is reduced as a result of the higher wages.[131]

In Canada there is a growing movement in support of the living wages concept, and in 2010 the City of New Westminster was the first municipality in the country to adopt a living wage policy for firms contracted or subcontracted by the city to perform services.[132] In Ontario, this approach has been adopted by the Hamilton Wentworth District School Board, applying the standard to its own employees.

Such regulations, brought into being through public campaigns, not only affect the wages of some employees directly but also have a larger ripple effect. They contribute to norms relating to appropriate pay levels and engage employers who seek a level playing field when it comes to standards of pay for low-level earners.

Specific employment strategies for low-skilled individuals

Most commentary about the labour market consists of an endless drumbeat extolling the knowledge economy and emphasizing the need for highly skilled, highly educated workers. Prescriptions for our workforce ills usually involve overcoming skills shortages or skills mismatches.

But our labour market challenges are not only at the top end of the spectrum. How we connect lower-skilled individuals to jobs has a profound impact on our ability to create an equitable labour market.

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[131] Paul Osterman and Beth Shulman, *Good Jobs America: Making Work Better for Everyone*, Russell Sage Foundation, 2011, p. 85.
[132] www.newwestcity.ca/business/living_wage_employer.php.

There is no shortage of lower-skilled jobs. Some 40% of all jobs (part-time and full-time) could be classified as entry-level, requiring no more qualification than a high-school diploma. That being said, employers' expectations for skills such as interpersonal and customer service skills, and familiarity with various forms of technology, have risen and productivity demands have grown.[133]

Competition for these jobs has also increased. A significant proportion of our labour force holds a post-secondary certificate yet cannot find work appropriate to their education. These individuals end up applying for entry-level jobs and, having more credentials, displace less-credentialed individuals otherwise suited for these jobs.[134]

It should therefore come as no surprise that those with the least educational attainment have the poorest labour market outcomes. The following statistics document the evidence:

- In 1990, in Ontario, the employment rate for those without high school attainment was 56%; by 2013, that number had dropped to 31%.
- Nearly half of Ontario Works and over half of Ontario Disability Support Program recipients did not complete high school, compared to just over 20% of Ontario's overall population.
- Almost half of male repeat claimants for Employment Insurance have less than high school attainment.

These individuals have a hard time getting traction in the labour market. They cycle in and out of employment and income support programs. Over 50% of the individuals and families currently receiving Ontario Works in the City of Toronto have been on the program more than once in the last three years.[135]

One further value of workforce development is that it would facilitate the placement of higher-skilled workers in jobs commensurate with their abilities, freeing up entry-level jobs for others who are capable of filling these positions. But many of these latter individuals need additional support to access these jobs. That support certainly needs to focus on basic numeracy and literacy skills, employability or "soft skills," and technical skills.[136]

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[133] Essential Skills Ontario, *Menial No More: A Discussion Paper on Advancing our Workforce through Digital Skills*, 2011.

[134] This phenomenon as it exists in the United States is described in Paul Beaudry, David Green, and Ben Sand, "The great reversal in demand for skill and cognitive tasks," *National Bureau of Economic Research Working Paper*, March 2013.

[135] Information for the second and third bullet points is from Essential Skills Ontario, "Clearer sightlines to employment: What works for job-seekers with low educational attainment," *Becoming State of the Art: Research Brief No. 2*, 2012, pp. 2–3; fourth bullet point, City of Toronto Employment and Social Services, *Working As One: A Workforce Development Strategy for Toronto*, 2012, p. 9.

[136] The insights for the next few paragraphs are drawn from David Devins, Tim Bickerstaffe, Alex Nunn, et al., *The Role of Skills from Worklessness to Sustainable Employment with Progression, Evidence Report 38*, UK Commission for Employment and Skills, 2011; Essential Skills Ontario, "Clearer sightlines to employment," *op.cit.*

However, those who have been unemployed for a longer period of time or who have experienced a continuous cycle of short-term jobs interspaced with unemployment often face multiple other barriers to employment. These can include mental health issues (depression, low self-esteem) or undiagnosed learning disabilities. They may need assistance addressing other challenges (transportation, child care, acting as a caregiver).

The solution is not that these individuals should go back into a classroom. They typically have neither the time, resources, nor willingness to go back into a setting that has not worked for them before. Instead, there is a need for programs that combine technical-skills training with basic literacy- and employability-skills training that are focused on jobs currently in demand. Such programs require the active involvement of employers, ensuring that job demand is present and that the training curriculum is relevant. The direct linkage to existing jobs also strongly enhances the motivation for participants.

These demand-side features are captured in such approaches as career ladder programs, where individuals are prepared initially for entry-level positions but then are provided with training in the workplace that is the pre-condition for advancement to the next occupation in that workplace. Another approach is what are called "transitional jobs," which involves wage-paying but time-limited employment, where the emphasis is on providing participants with a developmental experience so that they can learn, apply, and practice basic work-readiness skills and then move into a permanent job.[137]

Putting this all together, these individual require programs that integrate:

- literacy and essential-skills training;
- technical-skills training;
- work experience;
- linkage with employers (to ensure relevance of curriculum and possible job placement);
- wrap-around services and supports, including counselling;
- assistance with transportation, child care, and other issues; and
- job coaching to assist with job retention and other post-job placement issues as they arise.

Such projects need to be tailored to specific employers or to a given industry sector (with the participation of several employers). This requires considerable outreach and negotiation with employers and adequate investment of support to assist participants, including having sufficient flexibility to accommodate changes on the demand side (employer timing) or difficulties on the supply side (unexpected challenges, problems on the home front, and so on).

[137] Chris Warland, *Ensuring that the Transitional Job is a Developmental Experience*, National Transitional Jobs Network, July 2011.

If Ontario is to address the challenges faced by low-skilled individuals, it will need to design a program that allows for these various elements to be put in place on a project-by-project basis. Currently, the majority of individuals who would benefit from such a holistic approach do not have access to the intensity of assistance they require to obtain and hold onto a job.

Shaping norms about good jobs

Norms represent the broadly accepted set of beliefs that we subscribe to as a society. They set the boundaries not only for public policy, but also for actions taken in the private realm. That is, we are not only governed by what laws may tell us is allowed or not allowed, but also by what public sentiment tells us is acceptable, to the degree that the views of others matter to us.

In the case of private sector employers, public opinion is a growing consideration in business decisions. Trends in the past five years or so indicate that consumers are increasingly seeking products and services that reflect their values, moving from "mindless" consumption to "mindful" consumption. Brand attributes that are attracting much greater attention include "kindness and empathy," "high quality," and "socially responsible."[138]

These preferences, which influence consumer enticement, can be reflected in other business-relevant metrics. One study rated Fortune 100 companies on their performance in relation to employees (best companies to work for), customers (consumer ratings), and corporate responsibility (green ranking, ethical ranking, corporate tax evasion, and incurring regulatory penalties and fines). The finding? Companies in the same industry that "behaved better" (were good to their employees, treated customers well, and ranked high in terms of corporate responsibility) substantially outperformed their peers in the stock market.[139]

Consider the broader Canadian public reaction to revelations that a bank was replacing Canadian workers with outsourced foreign workers. Within a short period of time, after several re-clarifications, the bank announced a new policy that it will never outsource a Canadian job to a foreign worker solely to save money.[140]

Similarly, the consumer shock in response to the egregious disregard for safe working conditions in the Rana Plaza building collapse spurred action on safety regulations affecting the Bangladeshi garment industry. Loblaw — one of the retailers who sourced product from manufacturers who operated in the

[138] "Between 2005 and 2009, U.S. consumers expressed a fourfold increase in their preference for companies that show kindness." From John Gerzema and Michael D'Antonio, "The power of the post-recession consumer," *strategy+business*, 62, Spring 2011, p. 28.
[139] Laurie Bassi, Ed Frauenheim, and Dan McMurrer, *2012 Good Company Index*, Good Company, September 2012.
[140] CBC News, "Royal Bank pledges not to outsource jobs for cash savings," *CBC.ca*, May 24, 2013.

building — has announced it will provide long-term compensation to victims of the building collapse, regardless of the fact that other suppliers have not yet agreed to fund the compensation plan.[141]

Public opinion, when aroused, can exert pressure on corporate behaviour in very direct ways. That opinion can be shaped to promote better societal outcomes, as has been the case with cutting smoking, reducing drunk driving, and promoting healthier eating. Or consider the environmental movement, which took a cause — sustainable development — that was at first seen as an imposition and an unnecessary regulation. Environmentalists converted the concept into a public good and a business asset, to the point where now companies compete with each other for bragging rights about just how green they are.

There is good reason to apply the same logic to promoting good jobs. What constitutes good labour market practices on the part of employers can encompass a wide variety of elements. Such a set of practices could include:

- the percentage of operating costs going to worker training
- the distribution of training across work skill levels
- the degree of career advancement within the organization
- engagement with the educational system, including high schools, community colleges, universities, as well as apprenticeship programs
- participation in work experience programs such as job shadowing, internships, and mentoring
- whether internships are paid
- the ratio of wages for the highest-paid positions to the lowest-paid positions
- comparison of wages by occupation to industry and occupation averages
- the proportion of precarious employment (temporary, casual, contract, and/or part-time) in comparison to industry averages
- track record regarding *Employment Standards Act* violations
- union coverage

Developing a set of benchmarks for these practices would require customization, having regard both for the type of industry and for the size of establishment. But such a set of benchmarks could provide a strong signal of what represents desirable labour market behaviours.

Such a standard could have application by the simple fact of its existence. Employers could be rated and the results made publicly available so that consumers could incorporate these considerations into their purchasing decisions. Corporations that score particularly high in these rankings could

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[141] CBC News, "Bangladesh garment workers to get compensation from Loblaw," *CBC.ca*, October 24, 2013.

receive some special designation, not unlike the “Best Employers to Work For” label.

These practices could become something more than aspirations. They could provide a framework that governments could rely upon to signal what makes up good labour market practices, including forming part of the evaluation criteria used in procurement bids.

One could also consider applying these benchmarks as conditions for receiving government assistance, for example, in the case of certain government grants or permissions. Or the adoption of these practices could facilitate access to such supports.

A three-dimensional approach

Solutions to our labour market challenges are less likely to take hold if they are not are part of a broader strategy. Convincing employers to engage in more workplace training matters little if the structures are not in place to help employers identify the right training or find appropriate training programs with a recognizable (and thus portable) certificate, or if there are no mechanisms to combine the delivery of such training to several workplaces, encouraging economies of scale and discouraging poaching. Engaging them also matters little if employers are not convinced that training will make a difference to their bottom line, either through greater productivity or through customer appreciation of good employment practices.

The three-dimensional approach advanced by this paper seeks to address these challenges on several levels:

- *Overcoming barriers* that prevent individual employers from engaging in workforce development
- *Ensuring structures are in place* that advocate, support, and facilitate workforce development
- *Promoting norms and values* that advance workforce development as well as more equitable labour market outcomes

Conclusion

The way forward

Some 30 years ago, we experienced a significant reconfiguration of our economic thinking, which changed public policies as well as private practices and expectations. On the labour market front, the notion of permanent employment and internal career ladders gave way to more precarious employment relationships, with greater expectations placed directly onto individuals to shape their own careers by pursuing higher levels of education and ongoing self-improvement and promotion. Entry-level occupations, no longer the access points to more senior positions, became a key focal point for cutting costs through practices such as holding down wages, off-shoring, outsourcing, and other actions that increased the precarious nature of these jobs.

These events coincided with, indeed were part and parcel of, a societal shift toward greater reliance on market forces to shape economic decisions and policies, and a reduced role for government. (Cutting back regulations — the paper burden as well as the social safety net — was done for reasons of cost and because of a conviction that, in principle, less government is better.)

Two phenomena have emerged that are particularly problematic:

1. New entrants into the labour market are experiencing worse outcomes (in terms of wages, stability of employment, and matching jobs to abilities).
2. There has arisen a polarization of occupations and a disparity in employment incomes, which are driving the increase in income inequality.

There is no doubt that external factors — technological change, economic globalization, and increased competitiveness — have contributed to these outcomes, but a large part of the story is how we responded to the emergence of these events as opposed to the events themselves. A significant contributor to our current state of affairs is that, to stay competitive, we embraced short-term cost-cutting, in particular labour costs, as opposed to investing more in productivity gains that could be more evenly shared across the entire workforce.

A long-term strategy remains our best hope for the future, but it requires a significant overhaul, one directed at workplace practices, labour market institutions, and the values and norms that govern our thinking about our labour market. The most significant part of that overhaul rests on adopting a simple proposition: that workers in an economy are not a cost to be restrained but an asset to be invested in.

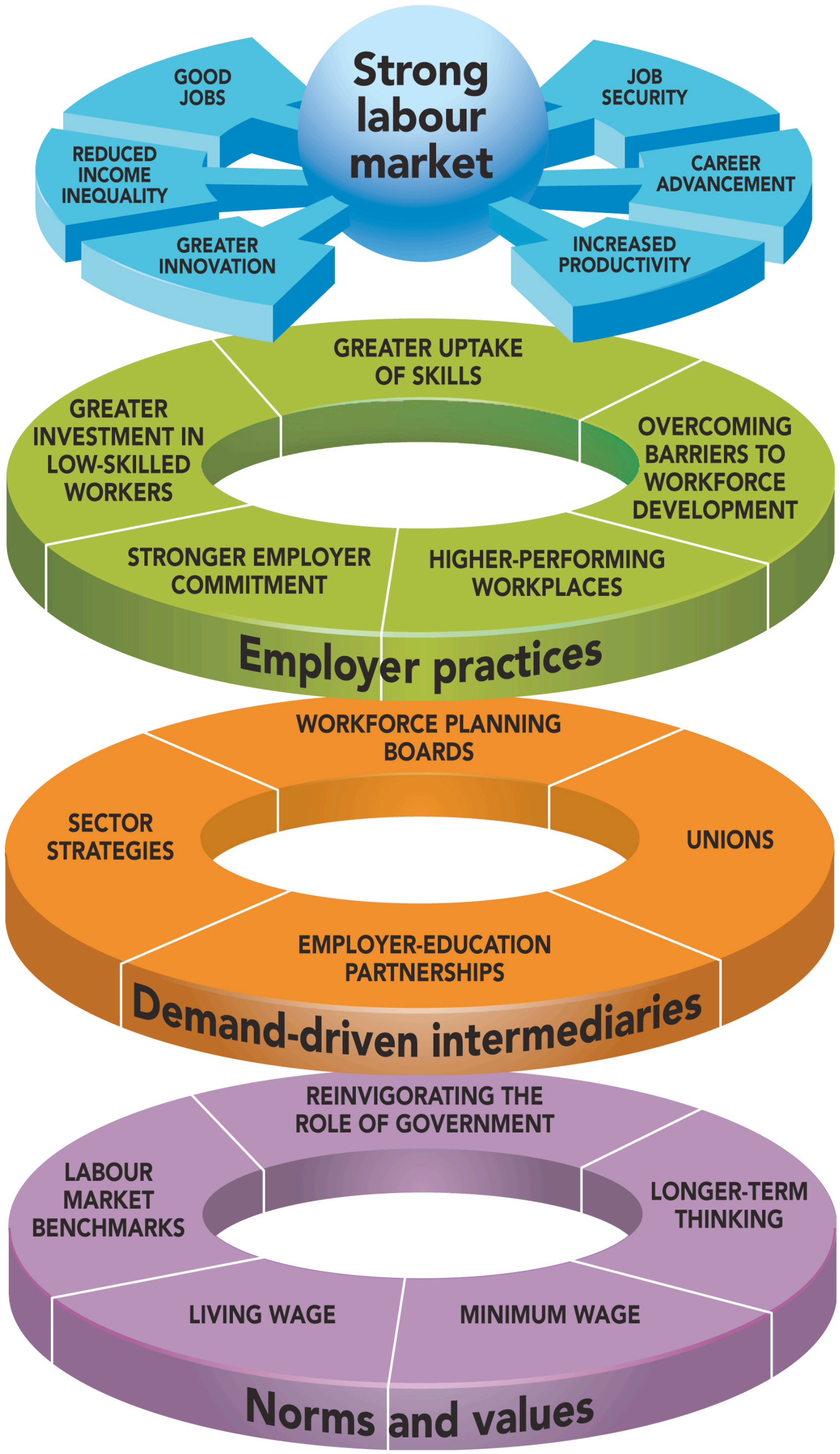
There are several reasons to think that this is a viable proposition. For one, it is embraced by many industrialized countries, in particular in Western and Northern Europe. To think that these ideas are less applicable to Canada is to forget that we had subscribed to many of these approaches only a generation or so ago. Indeed, it would also require ignoring the many employers in Canada who do invest in their employees precisely for reasons of enhanced productivity, lower turnover, and a belief in the long-term business benefits of an engaged and committed workforce.

That being said, it is likely the case that some of the initiatives proposed in this paper relate to potentially contentious economic and political issues and warrant a consultative process engaging the widest array of stakeholders. Such a process, properly designed, could be a productive way to pursue the wider-ranging dialogue needed to overcome the vested-interest inertia that currently paralyzes reform in the labour market arena.

Governments typically avoid wide-ranging consultative processes because they assiduously seek to control outcomes. But a well-designed process, with an appropriate set of guiding principles supported by an adequate research component, is a necessary prerequisite for real movement in this policy field.

The menu of potential initiatives listed in this paper can be the starting point for deliberation. This would not preclude action on the part of different actors in the labour market, from governments (federal, provincial, and municipal) to educators (universities, community colleges, and high schools), from chambers of commerce to district labour councils, to individual employers. But, as heartening as it would be to see individual grassroots efforts emerge, the system as a whole needs a critical mass of movement. For this purpose it would be highly useful for the Ontario government to establish a Workforce Development Office within the Ministry of Training, Colleges and Universities that would be charged with advocating for and stimulating workforce development activities across the multitude of stakeholders in the province. Such an office could compile an annual report card, based on relevant indicators, to track progress toward workforce development goals in the province and could provide oversight to the local efforts of workforce planning boards.

THREE-DIMENSIONAL APPROACH TO DEMAND-SIDE INTERVENTIONS



Epilogue

In a field as complex as that of labour markets, proper policy relies not only on technical details such as getting the right incentives or penalties in place but also on sentiment, fostering the values we wish to have promoted and having them reflected in our labour market practices and corroborated through our labour market outcomes.

The dysfunctions evident in our labour market, from the disappointing opportunities for our many qualified youth and newcomers to entrenched income inequality, reflect a dissonance between what we expect of our labour market and what the current system delivers. We have two choices: we can scale back our expectations, conceding that the necessities of the marketplace require accommodation, or we can demand more of our labour market, aligning its activities to better reflect our values.

The choice represents a set of competing visions not only about how things work in our economy and our society but also about how they *could* work. These visions find their roots in economic theory but they are echoed in the straightforward explanations we find more compelling: is success a function of individual initiative or is it enabled by a supportive environment? Are markets self-regulating or do they perform better with appropriate boundaries? What is the right balance between public policy and private enterprise?

These visions encompass competing narratives, which also find their expression in popular culture.

The Apprentice was an American reality TV show that has spawned an international franchise and a number of imitators (of which the most prominent is *Hell's Kitchen*). The basic premise is that of an extended job interview, where a pool of candidates is judged on a series of assignments. At each stage, the pool is reduced, creating in essence a trial by elimination. Even though the candidates may oftentimes work in teams, the competitive conditions and the ever-present atmosphere of critical scrutiny hardly permit the emergence of teamwork or for learning to take place. Poorly completed tasks are blamed on the personal shortcomings of the job candidates. The dramatic arc, driven by weekly firings, culminates at the end of the season not so much with a winner as with the last-standing survivor.

Undercover Boss was originally a British reality TV show that similarly has generated over half a dozen international franchises, including ones in Canada and the United States. In this instance, the formula relies on a high-ranking executive (usually the CEO) going undercover within his or her company "employed" as a beginning entry-level worker seeking to learn the ropes. Invariably, the boss finds the work more challenging than it appears and discovers how certain company policies create disincentives or disadvantages for workers. At the same time, the boss also witnesses workers displaying dedication and resourcefulness in fulfilling their job responsibilities, often while facing either personal or domestic challenges. In the ending "reveal" of an episode, the various workers are invited to meet the boss at the headquarters and in most cases receive some reward (a promotion, paid education or training, an extra paid holiday, and the like), while the boss also announces a series of improvements to corporate policies.

Reality television typically only provides a caricature of real life, and these two shows are no exception. *The Apprentice* reflects our worst apprehensions about the current labour market: a very competitive and drawn-out hiring process, expectations of complete job-readiness, a highly judgmental and unsupportive boss, and one big winner among many losers. *Undercover Boss*, meanwhile, channels our fondest labour market dream, that employers see the value in each and every worker and can be counted on to support training and career advancement and to fashion workplaces that are both effective and humane.

Between the dysfunctions of our current labour market and an imagined better way lies more than wishful thinking. We have it within our power to create better jobs for more people. It requires a deliberate strategy that promotes workforce development in the workplace, strengthens the supporting systems that make possible such initiatives, and cultivates the corresponding norms and values that motivate and sustain action.

Over the last 30 years, we succumbed to changes in our labour market practices, in part because a turbulent world provoked drastic reactions whose longer-term consequences were less clear. We would do well to consider more deliberate responses and make conscious choices that are more in keeping with our expectations and our values. We need to know that we can choose, and that we can choose better.

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