Dimensions of Inequality in Canada
The Equality, Security, and Community (ESC) project, conducted during a six-year period, was conceived as a multidisciplinary collaborative research project. Its objectives were concisely described in its subtitle: “Explaining and Improving the Distribution of Well-Being in Canada.” Explaining the distribution of well-being requires a concerted multidisciplinary effort that considers the interplay among market behaviour, political and community participation, and policy formation. Improving the distribution requires effective and durable policies, which, in turn, must be based on sound theoretical and empirical foundations. Using a wide range of research methodologies, the ESC project sheds light on these complex issues, while it advances our ability to steer public policies toward improved outcomes.

Numerous journal articles and book chapters have resulted from the ESC project. Another major product is a unique national longitudinal survey of Canadians that covers the economic, political, cultural, and attitudinal bases of inequality. This database was analyzed by project co-investigators and has been posted for research by others (on the website of York University’s Institute for Social Research).

Dimensions of Inequality in Canada is one of three edited volumes stemming from the ESC project. The other two volumes are:

Racing to the Bottom? Provincial Interdependence in the Canadian Federation
Edited by Kathryn Harrison

Social Capital, Diversity, and the Welfare State
Edited by Fiona Kay and Richard Johnston

All three volumes are published by UBC Press.
Dimensions of Inequality in Canada

Edited by David A. Green and Jonathan R. Kesselman
This volume is dedicated to the memories of Ellen Gee and Jim Curtis. Ellen and Jim were leading Canadian sociologists who made substantial contributions to our understanding of inequalities in Canadian society. Fortunately for all those who read this volume, they devoted some of their considerable expertise to it. Our sadness at their parting is tempered by our gratitude for what they left behind.
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Dis-embedding Liberalism? The New Social Policy Paradigm in Canada

Keith G. Banting

If you don’t know where you are going, you may end up somewhere else.

– Yogi Berra

A new paradigm has come to dominate social policy debates in Canada. As in many western nations, the understandings that underpinned the postwar welfare state have given way to new ideas about the social problems facing us in a global era and the appropriate responses to them. The postwar strategy has been described as “embedded liberalism,” because it combined liberalization of the economy with the expansion of social security programs designed to provide economic security for the population as a whole. The new paradigm embraces further waves of economic liberalization but advocates a different approach to economic security. Rather than trying to protect individuals from economic disruptions through a variety of instruments, especially income transfer programs, the new social policy places greater emphasis on providing citizens with the knowledge and skills required to prosper in a knowledge-based, global economy. Wherever possible, we are told, the primary goal of policy reform should be investing in human capital rather than redistributing income.

The pervasiveness of these core ideas in policy-making circles in OECD countries is striking, and Canada has embraced the new discourse with particular enthusiasm. The analysis, assumptions, and priorities of the approach reverberate in policy documents and political speeches in federal and provincial capitals. Canadian social policy is seldom made in large, radical steps (Battle 2001), but the broad directions of incremental change in our social programs parallel this approach.

Whenever a set of ideas gains such predominance, it cries out for critical analysis. The essential question for those interested in such values as equality,
security, and community concerns the impact of this new approach to social policy. Is this strategy simply a new means of pursuing traditional social goals, in effect re-embedding liberalism by deploying instruments better suited to the new economy? Or does this new paradigm dis-embed liberalism by re-treating from the postwar commitment to social protection and economic security for the population as a whole?

This chapter argues that we are in real danger of dis-embedding liberalism. Our current strategy faces two weaknesses. The first weakness is one of execution. In practice, Canadian governments have proven readier to reduce income transfer protections than to reinforce their commitment to education and training, and they are shifting the burden of investing in human capital increasingly to private shoulders. Moreover, they have been guilty of the most common of political weaknesses – impatience. A serious strategy focused on enhancing the human capital of Canadians will take at least a generation, if not more, to bear fruit, and a transition from a redistributive to an investment strategy needs very long time horizons. Reducing transfers first has the historical sequence exactly backwards, and it exposes the unskilled of today, especially older workers, to a harsher world with weakened protection systems.

Even if these failures of execution were overcome, an investment strategy faces deeper challenges. Despite the complexity of some income support programs, people from all social backgrounds can generally access benefits to which they are entitled. In comparison, effective participation in human capital strategies is conditioned by the social context in which a child is born and matures. As much as we would like to believe otherwise, a child’s life chances and educational attainment are strongly influenced by family background and social context. Education and other learning systems do not compensate fully for the problems of poverty and inequality, or for differences in the cultural capital that families bring to their children’s development. Although levels of participation in education are rising among children of all social backgrounds, a stubborn gap persists between the relative educational attainments of children from advantaged and disadvantaged backgrounds. This education gap is not going away. As a result, a strategic shift from income redistribution to human capital involves a shift from an instrument readily accessible to all Canadians to one in which the accidents of birth and family background matter a lot. This is hardly a recipe for a fair society.

What follows from this? Clearly, investing in human capital is central to any viable conception of security in the economy of today, and there is a
critical agenda here, especially in areas where Canada is an international laggard, such as early childhood education and adult retraining. But income transfers will also remain essential to any approach to economic security that responds to the needs of all Canadians. There is no escape from traditional concerns about poverty and the legitimate need for economic security among those who do not possess the magic keys to the modern economy. The chapter therefore concludes that a compelling challenge before us is to integrate investment and redistribution by designing a redistributive complement to a human capital strategy.

This argument unfolds as follows. We begin with a brief discussion of the postwar strategy of embedded liberalism and then highlight the distinctive features of the new paradigm. Next we examine the extent to which the new approach has been implemented in Canada, focusing first on income transfers and then on education and training. Finally we review the main threads of our recent experience and their implications for the patterns of equality, security, and community in the generations to come.

Then and Now: The Postwar Paradigm and the New Social Policy

The basic social and economic strategy of the postwar era has been described by John Ruggie (1983, 1994) as "embedded liberalism." On one side, governments encouraged the liberalization of the economy through deregulation and successive rounds of the GATT, slowly breaking down the regulatory regimes and barriers to trade that were put in place during the Depression and the Second World War. On the other side, the expansion of social programs compensated for the risks inherent in economic liberalization. In Ruggie’s words: “governments asked their publics to embrace the change and dislocation that comes with liberalization in return for the promise of help in containing and socializing the adjustment costs” (Ruggie 1994, 4-5). It is perhaps not surprising in this context that smaller countries with comparatively open economies tended to develop more expansive social programs as a means of cushioning workers and their domestic society more generally from economic shocks originating outside their borders (Cameron 1978; Katzenstein 1983, 1985; Rodrik 1997).

The builders of the postwar welfare state used a full set of tools. The foundation stone for Keynes, Beveridge, Marsh, and the Swedish social democrats alike was full employment, or “high and stable levels of employment,” to use the more cautious language of the federal government’s 1945 white paper on employment and income (Canada 1945). An impressive set of
social programs was built on this foundation. A rapidly growing education system would expand equality of opportunity, and comprehensive health insurance would spread the benefits of health care to the population as a whole. And a full range of income transfer programs – unemployment insurance, workers’ compensation, disability benefits, old age pensions, survivors’ benefits, children’s allowances, and social assistance – would protect citizens from the economic risks associated with modern life.

The fundamental purpose of this postwar social contract was economic security. The touchstone for the builders of the welfare state was the Depression of the 1930s, with its mass dislocation and widespread economic insecurity; and their aim was to protect citizens from what they saw as the universal risks associated with a market economy. This quest for security pervaded the Marsh Report, which laid the intellectual foundations for the welfare state in Canada. Writing at the height of a world war, Marsh summed up the case for the welfare state as follows: “The general sense of security which would result from such programs would provide a better life for the great mass of people and a potent antidote to the fears and worries and uncertainties of the times. The post-war world would not have to be anticipated with fear and trepidation” (Marsh 1943, 17).

The risks, it is important to note, were considered to confront virtually the entire population, not just a specific group labelled “the poor.” As a result, security became associated with the concepts of social rights and universality, and it was embodied in programs such as demogrants and social insurance for health care and income stabilization. The priority was predictability and security for the population as a whole. In contrast, vertical redistribution from the rich to the poor was a secondary goal. Indeed, if anything, the postwar paradigm represented a shift away from vertical redistribution as the primary goal of social policy. Whatever else one might say about the social programs of the interwar years, such as the 1927 Old Age Pension Act, Mothers’ Allowances, and local relief, their primary goal was to redistribute money toward groups of the poor seen as morally worthy. They provided selective, means-tested benefits that were financed from general revenues. In contrast, the universal programs put in place from the 1940s to the 1970s shifted redistribution primarily in a horizontal direction: from the employed to the unemployed, from the healthy to the sick, from the young to the elderly, from the childless to families with children, and so on. As a secondary feature, universal programs financed through progressive taxation did have a
mildly redistributive impact between the rich and poor. However, that was not the primary aim.

By international standards, the Canadian version of the postwar welfare state was a modest enterprise. As Table 13.1 indicates, social expenditures in 1980 represented a smaller proportion of GDP than in other affluent democracies generally, and levels of child poverty and inequality in Canada remained comparatively high. In terms of the typology developed by Gøsta Esping-Andersen (1990), Canada clustered with other “liberal” welfare states, such as Australia, the United Kingdom, and the United States, a group that stood in striking contrast to the more expansive “corporatist” and “social-democratic” welfare states of continental Europe. Nevertheless, the postwar welfare state in Canada did represent an effort to balance economic liberalization and economic security, one that contributed to a relatively broad political consensus underpinning the role of the state for almost half a century.

<table>
<thead>
<tr>
<th>Country</th>
<th>Social expenditures (% of GDP)</th>
<th>Child poverty rate (%)</th>
<th>Inequality (Gini)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>11.3</td>
<td>13.8</td>
<td>0.281</td>
</tr>
<tr>
<td>Austria</td>
<td>23.3</td>
<td>4.8</td>
<td>0.227</td>
</tr>
<tr>
<td>Belgium</td>
<td>24.2</td>
<td>4.0</td>
<td>0.227</td>
</tr>
<tr>
<td>Canada</td>
<td>13.3</td>
<td>14.8</td>
<td>0.284</td>
</tr>
<tr>
<td>Denmark</td>
<td>29.1</td>
<td>4.7</td>
<td>0.254</td>
</tr>
<tr>
<td>Finland</td>
<td>18.5</td>
<td>2.8</td>
<td>0.209</td>
</tr>
<tr>
<td>France</td>
<td>21.1</td>
<td>7.2</td>
<td>0.288</td>
</tr>
<tr>
<td>Germany</td>
<td>20.3</td>
<td>2.8</td>
<td>0.244</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27.3</td>
<td>2.7</td>
<td>0.260</td>
</tr>
<tr>
<td>Norway</td>
<td>18.6</td>
<td>4.8</td>
<td>0.223</td>
</tr>
<tr>
<td>Sweden</td>
<td>29.0</td>
<td>4.8</td>
<td>0.197</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.2</td>
<td>9.0</td>
<td>0.270</td>
</tr>
<tr>
<td>United States</td>
<td>13.1</td>
<td>20.4</td>
<td>0.318</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>20.6</strong></td>
<td><strong>7.4</strong></td>
<td><strong>0.251</strong></td>
</tr>
</tbody>
</table>

**NOTE:** The poverty rate is set at 50 per cent of median adjusted disposable income for all persons. The inequality measure is based on household disposable income.

**SOURCE:** Data on public social expenditures are from OECD SocX data set (http://www.oecd.org); data on child poverty and inequality are from the Luxembourg Income Study (http://www.lisproject.org).
Fast forward to the contemporary period. Beginning in the 1980s and gathering momentum in the 1990s, a new social policy discourse has come to dominate policy debates in western nations. This intellectual transition has been driven by the major economic and political forces of our time. During this period, governments of all persuasions found it increasingly difficult to sustain full employment, and the focus of labour market strategies increasingly shifted from the demand side to the supply side. This trend was reinforced by economic globalization, technological change, and the emergence of a knowledge-based economy, factors which place a premium on flexibility in labour markets and effective adjustment to new forms of production. And at the level of political ideas, neoliberal doctrines called for further deregulation of economic relationships from regulatory constraints and celebrated a culture of greater individual responsibility for meeting social needs.

At its heart, the new paradigm represents a different conception of the sources of security in an insecure world. In policy circles, security no longer means protection from disruption inherent in the market. Such security as is available in the contemporary world is seen as flowing from the capacity to participate in the market and to adapt to a changing global economy. At the level of ideas, the transition is from security as protection from change, to security as the capacity to change; and at the level of policy design, the challenge is to transform social policy into an instrument of change by trimming historic protections, strengthening incentives to adjust, and equipping citizens to cope more effectively with economic transitions.

This paradigm points to a rebalancing of the social policy instruments created in the postwar era, with a reduction in reliance on income transfers and increased investment in human capital. On the first side, the new approach argues that social programs should be employment-friendly, encouraging engagement in the labour force. Restrictive labour legislation and practices should be relaxed; the tax and transfer system should be restructured to reduce welfare dependency; incentives to engage in employment should be strengthened to "make work pay"; support for the unemployed should move from "passive" transfers to "active" programs that encourage re-engagement in the labour force; and in some versions of the argument, family support systems such as child care should also be strengthened to help people, especially women, enter the labour market.

On the second side, this approach insists that education and training are the real source of security in a technological economy. Knowledge workers are likely to enjoy rising incomes, challenging work, mobility on an international
level, and a secure future; low-skill workers are likely to face declining real incomes, precarious employment, and an uncertain future. As a result, a country’s learning systems are critical to both economic competitiveness and social equity. Policy attention, according to this approach, should focus in particular on children, to ensure that they have a rich learning environment, especially in the early childhood years. In addition, young people should be educated to higher levels than in the past, and learning should become a life-long process. Citizens should continually upgrade their skills, and training programs should re-equip older workers who have been displaced by the forces of “creative destruction” inherent in economic growth.

In this new world, traditional concerns with greater equality of outcomes give way to a discourse focused on social inclusion. Even in its centre-left versions, the new paradigm places less emphasis on a more equal distribution of income as such. As Saint-Martin (2000, 43) points out, the dichotomy that orients the new discourse is not equality/inequality, but social inclusion/exclusion; and Giddens (1998, 102) agrees that “the new politics defines equality as inclusion and inequality as exclusion.” The spotlight is thus trained on special barriers confronting vulnerable groups such as single parents, immigrants who have arrived in recent years, Aboriginal peoples, and disabled Canadians. It is important to underscore, however, that the new paradigm assumes that inclusion is achieved through movement into the paid labour force, and that growing inequality among paid workers is of secondary interest.²

As noted earlier, the pervasiveness of these ideas in social policy discourse is striking. At the international level, this approach was led by the OECD, especially through its Jobs Study and the stream of successor documents (OECD 1994a, 1994b, 1994c, 1995, 1996, 1999a). The shift is also central to the politics of the “third way,” the redefinition of the political left in Britain and several other European countries. Authors such as Giddens have articulated a social-democratic version of the argument, suggesting that welfare expenditures should remain at European rather than American levels, but should be switched as far as possible from income redistribution to investment in human capital, replacing the traditional welfare state with a “social investment state” (Giddens 1998, 2000, 2001).

The same themes pervade Canadian policy discourse. In the words of a leading policy economist, “we are presented with a historically unprecedented societal window, since a commitment to a human capital future is emerging as the principal avenue by which to succeed on both the economic competitiveness and social cohesion fronts” (Courchene 2001, 154;
see also Courchene 2002 and Hicks 2002). Government planning documents articulate similar views. In 1994, the federal government launched a major review of income security programs arguing that “the tumultuous social and economic changes of the past decade and a half have left us with a system that is out of date and in need of reform. The system is geared to help people where change was the exception, not the rule, so it does too little to help people to adjust to change” (Human Resources Development Canada 1994, 21). Almost a decade later, the federal innovation strategy placed the spotlight squarely on knowledge and skills development as the key to the economic future for citizens and the country as a whole (Human Resources Development Canada 2002; see also Advisory Council on Science and Technology 2000). At the provincial level, advisory bodies similarly advocate a “human capital society” (Ontario 2004; also Ontario 1990). At the political level, the federal finance minister argued in 1999 that “providing security and opportunity for Canadians in the future means investing in their skills, in their knowledge and their capacity to learn ... In a real sense, good skills are an essential part of the social safety net of the future” (Martin 1999).

Einstein once observed that “everything has changed except our ideas.” In the case of social policy, it is clear that at least some of our ideas have changed. The question is whether our actions have also changed. To what extent has the new approach influenced social programs since the early 1980s? And what have been the results? The next sections pursue these questions by examining the restructuring of income transfer programs and then developments in education and training.

Income Transfers
Canada has emerged as a poster child for the new social policy in the field of income transfers. While pension programs for the elderly have changed little, virtually every program with more direct implications for labour market performance has been restructured in important ways, reducing the levels of economic security provided to beneficiaries. Within this process, the biggest changes were felt in unemployment insurance and social assistance.

In many ways, unemployment insurance was the bellwether program, providing the earliest evidence that the tide of history was turning. A limited unemployment insurance program had originally been introduced in 1940 and then expanded in a long series of incremental steps in the decades that followed, with a particularly significant enrichment coming in 1971. This last step turned out to be one of the last major social policy reforms of the
postwar era. The expanded program quickly came under intense criticism from policy analysts and conservative political voices, who argued that the benefits increased the structural rate of unemployment, especially in poorer regions of the country. Slowly at the beginning and then with increasing force, the expansion of 1971 was rolled back. Cuts in benefit levels proceeded slice by slice, reducing the replacement rate from the high of 66 percent of previous earnings set in 1971 to 60 percent in 1978, 57 percent in 1993, 55 percent for some workers in 1994, and 50 percent for repeat beneficiaries in 1996 (although offset for some recipients by an increased family supplement). In addition, changes in the 1990s tightened eligibility requirements, reduced the duration of benefits, introduced limited experience rating for repeat beneficiaries, and deepened the clawback of benefits through the tax system from beneficiaries with annual incomes above a certain threshold. Some critics were disappointed that the changes did not go further in eliminating the regional differences in the program that created a more generous benefit structure in regions of high unemployment. Nevertheless, the OECD judged these to be “impressive reforms,” which dealt with “nearly all of the concerns expressed by the Jobs Strategy” (OECD 1999b, 57). As Figure 13.1

**Figure 13.1**

Recipients of unemployment insurance benefits as a proportion of unemployed persons, Canada and the US, 1985-99

![Graph showing recipients of unemployment insurance benefits as a proportion of unemployed persons, Canada and the US, 1985-99.](image)

**Source:** Data kindly supplied by Gerard Boychuk.
indicates, the changes contributed to a sharp drop in the portion of the unemployed who receive unemployment benefits, producing a massive convergence on norms in the United States.4 Indeed, given the regional variation in the Canadian program, this overall convergence understates the change in Canada west of the Ottawa River. As Figure 13.2 confirms, by the late 1990s the Canadian unemployment insurance program in those provinces was less generous than were the programs operating in many American states.

Social assistance programs also underwent considerable retrenchment. In most provinces, benefit levels were relatively stable in the second half of the 1980s, and, in the case of Ontario, successive Liberal and NDP governments significantly raised benefits and relaxed eligibility requirements in the early 1990s (Courchene with Telmer 1998). The rest of the decade and the early 2000s, however, witnessed serious retrenchment. The intensity of the changes varied across the provinces, with the steepest and sharpest reductions

**Figure 13.2**

Unemployment insurance generosity index, Canadian provinces and US states, 1995 and 1999

Note: The generosity index multiplies the beneficiary rate (beneficiaries as a proportion of total unemployed) by the replacement rate (average weekly benefits as a proportion of average weekly wages).

Source: Boychuk and Banting (2003).
coming in Ontario when a new Conservative government reversed the increases of its predecessors. Nevertheless, the direction of change was consistent across the country. The real value of benefits fell, in many instances by large amounts. In addition, eligibility rules were tightened in most provinces, especially for new entrants; and administrative procedures were toughened with the employment of additional monitors and the opening of “snitch” lines (Finnie et al. 2004a; National Council of Welfare 2000).

Nor did social assistance recipients benefit from the only significant enrichment in the transfer system during the 1990s. As federal finances came back into balance late in the decade, the government ramped up the Canada Child Tax Benefit, an income-tested payment delivered each month to low-income and middle-income families. The primary goal of the increases was to reduce poverty among working-poor families. In the case of welfare families, however, the increases were largely offset by the provinces as part of a joint federal-provincial strategy to “make work pay.” As noted earlier, making work pay is an integral component of the new social policy paradigm

**Figure 13.3**

**Average welfare income, single parents and one child (2003 constant dollars), 1986-2003**

![Graph showing average welfare income](image)

**Note:** Welfare income includes social assistance and child benefits. Average welfare income is the average of provincial welfare incomes weighted by provincial populations.

**Source:** Data on welfare incomes are from National Council of Welfare (2004). Data on provincial populations are from Statistics Canada, Table 051-00011.2.
The basic federal-provincial strategy was simple. As the federal Child Tax Benefit was increased, most provincial governments reduced the child component of their social assistance benefits by the same amount, leaving welfare families in the same net position. The long-term goal was to “take kids off welfare” completely, and provinces agreed to reinvest the resulting savings in child-related services, such as child care. This restructuring represented an improvement in many ways. It would ensure that social assistance recipients do not lose all their child-related benefits when moving into low-paid work; it would reduce the financial incentive for low-wage workers with children to leave work for welfare; and families would hopefully benefit from enhanced child-related services. What the restructuring could not do, however, was cushion the decline in the income of social assistance recipients relative to that of the wider community.

The decline was dramatic for some welfare recipients. Figure 13.3 tracks the evolution of the average income (social assistance and child benefits) for a single parent with one child. The national average rose in the early 1990s, reflecting the enrichment of the program in Ontario, but then declined...
Dis-embedding Liberalism?

Figure 13.5

Average welfare income as a proportion of average family income, 1989-2002

<table>
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<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single parent, one child</td>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single employable</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
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</table>

NOTE: See note to Figure 13.3. Average provincial family income is for economic families of two or more.


precipitously, falling well below the level prevailing in the mid-1980s. Admittedly, not all categories saw such a dramatic decline. Figure 13.4 provides the same tracking for single employables; here the decline was less pronounced, presumably because support was already very low, representing about $500 a month in 2003 dollars. Figure 13.5 makes the point in another way, showing average welfare incomes for these two groups as a proportion of the average income enjoyed by families generally. By the dawn of the new century, Canada was providing less than in earlier times to those dependent on social assistance.

Other programs were restructured as well. Workers’ compensation and disability benefits were changed to reduce the possibility that they would become a de facto early retirement program, especially for older, low-skilled workers displaced by technological or other economic shocks. Eligibility for disability benefits under the federal Canada Pension Plan and provincial social assistance programs was tightened to reflect more narrowly defined medical
criteria and to de-emphasize the use of socioeconomic factors in allowing benefits (OECD 1999b, 58).

Clearly, the restructuring of income transfers has been pervasive. Indeed, when the OECD assessed the extent to which member countries had embraced their strategy, Canada stood among those who had gone the furthest (OECD 1999a). The cumulative impact of the changes has been a weakening of the redistributive role of the Canadian state. Figure 13.6 tracks the level of inequality among Canadian families from 1980 to 2002 for three definitions of income: market income, which includes earnings and other sources of private income; total income, which includes government income transfer payments; and disposable income, which reflects the impact of both taxes and transfers. As in virtually all western nations, inequality in market incomes has grown over the last two decades in Canada. The Canadian state offset this growth in market inequality until the mid-1990s, when the most significant reductions in income transfers took place. After that, inequality in disposable income began to drift upwards. Moreover, the measure of inequality used here, the Gini coefficient, tends to be particularly sensitive to changes around the mean, and other measures that focus more directly on the top

**Figure 13.6**

Inequality among families, three measures of income, 1980-2002

![Graph showing inequality among families from 1980 to 2002 for market income, total income, and disposable income.](image)

**Source:** Statistics Canada (2004).
and bottom of the income scale point to a greater widening in the gap between rich and poor (Atkinson 2003). The growth in inequality in Canada may not have been as dramatic as it has been in countries such as the United States and the United Kingdom. But the direction of change was the same.

As noted earlier, however, the primary goal of the postwar welfare state was less redistribution from rich to poor than economic security for the population as a whole. The issue from this perspective is therefore whether income security programs continue to protect Canadians from economic reverses resulting from important risks inherent in modern life, such as unemployment, ill health, retirement, and so on. One answer to this question can be derived from the index of economic security developed by Osberg and Sharpe (2002). This measure is based on four specific risks: unemployment, illness, single-female parenthood, and old age. A sub-index is calculated for each of these risks on the basis of both the proportion of the population affected by the risk and the extent to which government transfers offset income losses associated with the risk. For example, the economic risk associated with unemployment is calculated as the product of the risk of unemployment and the extent to which people are protected from income losses during jobless spells by unemployment benefits. The four sub-indices are then integrated into an overall index of economic security. Figure 13.7 tracks changes in the index of economic security between 1989 and 2003, comparing it with changes in two other measures of economic performance, overall consumption and the level of wealth, in the same period. As one can see, in an era in which overall consumption and wealth were growing in Canada, economic security was eroding.5

Thus, Canadian policy-makers have embraced the new discourse in income security programs. The commitment to economic security through income transfers has weakened, and Canadians face the future with a more limited version of the income security system developed by the postwar generation. They will increasingly have to look elsewhere for the well-springs of economic security in an uncertain world. Is investment in human capital filling the gap?

Investing in Human Capital
Education and training are hardly new components of the welfare state. Historically, liberal welfare states saw the expansion of educational systems as enhancing equality of opportunity and supplying the well-educated workforce needed for economic growth. Social-democratic welfare states of northern
Europe went further, seeing educational reform as a pathway to greater equality of condition; raising the skill levels of the bottom third of the labour force increased their productivity, employment opportunities, and wages relative to those of the better educated (Esping-Andersen 1990).

Canada invested heavily in advanced education during the postwar era. The university sector grew rapidly, and participation rates rose dramatically, primarily because of the movement of young women into universities. In addition, Canada created a system of vocationally oriented community colleges, significantly increasing postsecondary educational opportunities for those not bound for university. In this period, Canada became an international leader in educational expenditures. In the mid-1990s, the country was
devoting approximately 7 percent of GDP to education, the highest among the G7 countries and the fourth highest in the OECD, exceeded only by three Scandinavian countries (OECD 2000).

As a result, Canada might seem to be an exemplar of the new social model. Almost half of Canadians have completed a university degree or college program, and Canada leads OECD countries in the number of years of tertiary education that seventeen-year-old women and men complete. Yet, closer inspection does reveal weaknesses. We have a surprisingly large number of students who do not complete high school. Additionally, our impressive completion rates at the tertiary level reflect the size of the college sector rather than university completion, which is closer to the OECD average and significantly below that of the United States. Nevertheless, Canadians perform strongly on direct measures of adult skills. In the International Adult Literacy Survey, conducted in twelve OECD member countries, Canadians, especially young Canadians, performed comparatively well (OECD 1998a, Figure 2.3). In the words of one Canadian study, "by commonly employed measures, recent cohorts of young adults are among the most highly educated in the world" (Riddell and Sweetman 2001, 85). The OECD concurs: "Canada has one of the most highly-educated populations among industrial countries" (OECD 1999b, 60).

Moreover, advanced education does seem to produce greater economic security for those who receive the training. Studies of the returns to education have explored the incomes and employment patterns of skilled and unskilled labour in industrial nations. In general, skilled workers enjoy stronger employment prospects, and in some countries, especially the United States, the wage premium enjoyed by highly educated workers has been rising steadily during the last two decades. In Canada, a significant expansion in the supply of educated workers has meant that the earnings differential between more-educated and less-educated workers has changed only modestly (Riddell and Sweetman 2001; Sweetman 2002). In the longer term, however, the premium to skills seems likely to grow in Canada, as it has elsewhere.

Does this mean that education and training instruments represent a functional equivalent to income transfers in providing economic security for the population as a whole? Are education and training fulfilling the expectations that swirl around them in the current policy debates? Here the difficulties begin to emerge. Although Canada may rank among educational leaders in the OECD, close to half of all young Canadians still do not complete post-secondary education, leaving them facing the future without the keys to the
new economy and with diminished protection from transfer programs. If a human capital strategy is to be meaningful, it must go a lot further. But two types of constraints limit movement forward: weaknesses of execution and weaknesses intrinsic to the strategy itself. Both deserve closer attention.

Execution: The Public/Private Balance

Despite the rhetoric of a knowledge-based society, Canada has not been reinforcing its collective investment in education and training. Financial support for advanced educational institutions weakened on a per student basis during the 1990s. But the real hallmark of the decade was an emphasis on private rather than collective responsibility for the development of human capital. This pattern can be glimpsed from several rungs of the educational ladder.

The pattern starts in the pre-school years. Contemporary research emphasizes the importance of childhood learning as a key to the long-term success of a human-capital strategy. Yet, in the euphemistic words of an OECD review team, Canadian policy on early childhood education is still “in its initial stages” (OECD 2004, 6). Deeply held assumptions define the education and care of young children primarily as a private responsibility of individual families rather than a collective task demanding strong public support. As a result, parents contribute a comparatively high portion of the total costs, perhaps twice the European average. In addition, the “education” and “care” of young children have developed separately. Child care tends to be seen as a means of freeing up parents to work in the paid labour force, and early childhood education is underdeveloped. As Table 13.2 indicates, both the proportion of children in pre-primary education and the level of expenditure on such education are low not only by general international standards but even by the pattern prevailing in the United States. Canada seems a long way from the key policy strategies advanced by the OECD, which emphasize a universal approach to access and substantial public investment (OECD 2001, 2002). Canadian researchers have been in the forefront of research on the importance of early childhood development, but Canadian governments have been laggards in developing appropriate policy responses.

Similarly, post-secondary education has been marked by growing emphasis on private responsibilities. In most provinces (Quebec remains an exception), tuition fees rose significantly during the 1990s. The average increase for an undergraduate arts degree over the decade was about 85 percent, with larger increases in other fields of study, especially in professional
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programs such as medicine, law, and business, where tuition increases often induced sticker shock in even the most stoic of middle-class families. In addition, financial aid to students shifted dramatically from grants to loans in the early 1990s. This trend was led by the federal government’s Canada Student Loans Program, which raised loan limits and required participating provincial governments to provide much larger loans to students. Most provincial governments responded by scaling back or eliminating their grants programs. The combination of higher tuition fees, higher loan limits, and less grant assistance has had a significant impact on the average debt of students who have borrowed over the course of their degree programs (Canadian Millennium Scholarship Foundation 2002; Finnie and Usher 2005).

This emphasis on private rather than collective responsibility is even more evident in adult training. The rhetoric of an “active” labour market policy has not led to the investment of a larger portion of our national

<table>
<thead>
<tr>
<th>Table 13.2</th>
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<tr>
<td>Pre-primary education in selected OECD countries, 2000</td>
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</table>

<table>
<thead>
<tr>
<th>Net enrolment rate (%)</th>
<th>Expenditure % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three-year-olds</td>
<td>Four-year-olds</td>
</tr>
<tr>
<td>Australia</td>
<td>16.4</td>
</tr>
<tr>
<td>Austria</td>
<td>39.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>98.2</td>
</tr>
<tr>
<td>Canada</td>
<td>0</td>
</tr>
<tr>
<td>Denmark</td>
<td>71.8</td>
</tr>
<tr>
<td>Finland</td>
<td>33.9</td>
</tr>
<tr>
<td>France</td>
<td>100.0</td>
</tr>
<tr>
<td>Germany</td>
<td>54.8</td>
</tr>
<tr>
<td>Italy</td>
<td>97.6</td>
</tr>
<tr>
<td>Japan</td>
<td>59.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>80.5</td>
</tr>
<tr>
<td>Norway</td>
<td>70.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>68.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>53.9</td>
</tr>
<tr>
<td>United States</td>
<td>36.0</td>
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</tbody>
</table>

**Note**: Expenditure data are for 1999 and refer to direct and indirect public and private expenditure on educational institutions.

**Source**: OECD (2002, 34).
resources in active labour market programs; indeed, as Figure 13.8 indicates, Canada’s commitment to this type of programming is lower than the OECD average. Moreover, active programs in Canada focus less on basic training and remedial education than on employment readiness and job search. As a result, most serious adult training is employer-sponsored. While these developments may ensure that adult training is more directly relevant to the workplace, they accentuate the polarization of training opportunities. The self-employed and other workers who do not have a long-term attachment to a major employer are increasingly responsible for investing in their own human capital. Moreover, individuals who already possess high levels of human capital get a disproportional amount of training while those with low levels of human capital are under-represented. Canadian experience in this regard is consistent with experience across many OECD countries (de Broucker 1997; OECD 1998b, 209-10; Larsen and Istance 2001). Betcherman and his colleagues spell out the implications: “One segment of the labour force – largely composed of those who already have substantial human capital – is well served by the current state of affairs. This group finds itself in a

Figure 13.8

Expenditures on active labour market programs as a percentage of GDP, 1980-2001

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% GDP</td>
<td>1.0</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0</td>
</tr>
</tbody>
</table>

...Dis-embedding Liberalism?

virtuous circle of a strong skills base, challenging job requirements, and additional human capital investments. However, too many Canadians, including many young people, are in a more vicious circle of skills deficit, underinvestment, and declining employability. If Canada is to avoid creating an underclass of poorly educated people, it will have to give more serious attention to the distribution of training” (Betcherman et al. 1998, 5).

Clearly, the evolving public/private balance raises questions about Canada’s commitment to investing in the human capital of the population as a whole. The contrast with the approach of the postwar generation is striking. That generation sought to establish a social right to security, as they understood it. Our generation is not establishing a comparable right to the sources of security, as we are coming to understand them. The logic of the new paradigm would seem to point to a set of educational rights. However, consolidating such rights in practice, as opposed to rhetoric, would represent a major change in current directions in Canada.

Execution: Timing and Sequence

Failures of timing and sequence have also weakened our commitment to economic security. Whereas the postwar approach to transfers responded directly to disruptions in income, in effect promising security now, human capital strategies hold out the promise of security in the future. Social investment requires long time horizons. As noted earlier, current research suggests that the largest payoffs come from concentrating efforts on early childhood development, and the full benefits of new strategies will therefore take at least a generation to emerge, even if we make the right design choices now. However, assuming we will get it right immediately seems heroic. We are not sure about what works here, and we are still experimenting with different types and levels of intervention. Getting it right is likely to take time. In effect, the transition to a human capital strategy requires that most elusive of commitments, patient capital, on the part of normally impatient governments.

In the meantime, the problems of low-skilled workers remain. It might be argued that cutting transfers now will sharpen the incentives to undertake the painful process of retraining. However, such an argument assumes that the primary barrier to the retraining is the motivation of workers. As we have just seen, however, Canadian governments do not provide serious remedial education for adults, and there are real questions about the effectiveness of the type of training that is provided. Poor evaluation results of many programs have generated considerable skepticism about the potential
for human-capital policies to benefit poorly educated adult workers. (Heckman and Lochner 2000; Heckman et al. 1999; Lefebvre and Merrigan 2003). Retraining, certainly as currently conceived in Canada, seems a slender reed on which to build economic security for older, low-skilled workers in this generation, and income-protection strategies will remain essential in even the most committed of human-capital societies.

In effect, a transition to a social investment strategy that also keeps faith with the commitment to economic security will be a long-term process. If the strategy works, income transfers will decline naturally, as future workers face less unemployment and enjoy stronger earnings. During the transition period, however, we face a “double-funding” problem: the need to invest in future workers but to continue to provide economic security for the low-skilled workers of today and tomorrow. To cut income transfers before investments in human capital come to fruition is a recipe for lower levels of economic security among low-skilled workers in this generation and perhaps several to come. Yet that is precisely the pattern Canada has followed.

Intrinsic Limits: The Social Determinants of Educational Attainment

Problems of implementation are not inevitable. A society might well decide to commit the patient capital needed to make the transition to the new social policy in a meaningful way. But there are also more deeply rooted challenges to a human-capital strategy. Most important is the inescapable fact that the educational attainments and life chances of children are shaped by the social and family context into which they are born. While overall participation rates continue to climb among young people from all social backgrounds, a stubborn gap persists in the relative educational success of children from advantaged and disadvantaged backgrounds.

The gap between rich and poor has always mattered in the educational world. During the twentieth century, Western countries went through remarkable transformations, moving from agricultural to industrial then to post-industrial social structures. In the same period, they dramatically expanded their educational systems, with rising proportions of the population participating at all levels of education. However, when attention shifts to the relative educational attainments of people from different social strata, the picture is one of stability. A recent survey completed for the OECD concluded that “overall the expansion of tertiary education in the OECD appears to have had little impact on the relative prospects of young people from less advantaged backgrounds” (Blöndal et al. 2002, 45). A more in-depth analysis of
the experience of thirteen industrial countries over the course of the entire twentieth century concluded that, despite major expansions and reforms of educational systems, there was no general decline in the impact of social background on relative educational achievement (Shavit and Blossfeld 1993; Ambler and Neathery 1999).

The exceptions to this pattern are revealing. The two countries in which the link between social background and educational attainment loosened over time were Sweden and the Netherlands, a fact that led analysts to speculate that a long-term commitment to socioeconomic equality is important to achieving educational equality as well (Shavit and Blossfeld 1993, 19; also Jonsson et al. 1996). More recent evidence from the International Adult Literacy Survey points in the same direction (OECD and Statistics Canada 2000). Figure 13.9 confirms that there is a relationship between the level of income equality in a country and the extent of inequality in literacy among

Figure 13.9

Economic inequality and literacy inequality

**NOTE:** Economic inequality is the inequality in the distribution of income within countries, as measured by Gini coefficients. Literacy inequality is the inequality in the distribution of literacy scores (prose scale, 1994-98) within countries, as measured by the ratio of the ninth decile to the first decile.

**SOURCE:** OECD and Statistics Canada (2000).
its adult population: societies with high levels of income inequality tend to have high levels of dispersion in literacy levels. The causal relationships between educational equality and income equality likely flow in both directions. Increasing the educational levels of the bottom third of the labour force raises their productivity and income prospects. But reducing the levels of poverty and economic inequality undoubtedly also contributes to equality in educational attainment.

Canadian experience is consistent with the international pattern. Although our record is better than those of many western countries, social factors still matter for educational outcomes. The National Longitudinal Survey of Children and Youth indicates that by the time children enter kindergarten, a significant socioeconomic gradient has emerged in readiness for school, as measured by vocabulary development and other capacities (Ross and Roberts 1999; Duncan et al. 1998). Although the educational system reduces the gradients as children move from level to level (Wanner 1999), differences in participation levels persist right through to the university sector. There is evidence that the gap in university participation rates narrowed during the postwar decades, in contrast to the pattern across OECD countries more generally (Christophides et al. 2001). Nonetheless, significant differences remain, and Table 13.3 provides a hint that the gap between families of low and middle socioeconomic status (SES) actually widened again between 1986 and 1994.

While there is widespread agreement that the SES of families is important, “the mechanism is the subject of intense, heated debate” (Finnie et al. 2005, 300; see also Ma and Klinger 2000; Willms 1999). Economic status is clearly one factor. Poverty in childhood is associated with lack of readiness for primary school, problems with school attendance and marks, anti-social behaviour, and dropping-out. The relationship persists to the post-secondary level. While attendance at college is not associated with family income, children from higher-income families are much more likely to go to university, as Table 13.4 indicates. As one group of analysts asks: “Are particular institutions and particular fields of study – perhaps those more valued in the labour market – the domain of students with higher income backgrounds?” (Corak et al. 2005, 259). This quiet process of social sorting is exacerbated by the urban/rural divide. Increased distance to university is associated with lower attendance and a greater tendency to go to a local community college (Frenette 2004).
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If the social determinants of educational attainment were purely economic, the policy challenges would be simpler. In reality, however, the factors at work go beyond money. The cultural capital that different families bring to their children’s development is key. Many studies from a number of countries confirm that children’s educational attainment and literacy levels are more strongly associated with their parents’ level of education than their parents’ income. Families are critical to cognitive stimulus in early childhood, to the aspirations that are nurtured as children grow, and to the life choices that are supported at critical transition points. By the high school years, the influence of family background can be detected in such things as grades, attitudes toward higher schooling, the number of hours devoted to part-time jobs, and so on. The cumulative effects over a child’s lifetime are

| Table 13.3 |
| University participation of persons aged 18-21 by family socioeconomic status (SES), 1986-94 |

<table>
<thead>
<tr>
<th>Family SES</th>
<th>1986</th>
<th>1994</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest</td>
<td>32.9</td>
<td>40.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Middle</td>
<td>14.5</td>
<td>25.3</td>
<td>10.8</td>
</tr>
<tr>
<td>Lowest</td>
<td>13.7</td>
<td>18.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Total</td>
<td>18.4</td>
<td>26.4</td>
<td>8.0</td>
</tr>
</tbody>
</table>

**Note:** University participation rate: people aged 18-21 with at least some university education as a percentage of all persons aged 18-21. Family socioeconomic status is defined as the Blishen socioeconomic index for father’s occupation when respondents were 15 years old. **Source:** Bouchard and Zhao (2000).

| Table 13.4 |
| Participation in post-secondary education (PSE) of persons aged 18-21, by family income, 1998 |

<table>
<thead>
<tr>
<th>PSE participation (highest level)</th>
<th>Family income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lowest quartile</td>
</tr>
<tr>
<td>All PSE</td>
<td>56.1</td>
</tr>
<tr>
<td>University</td>
<td>18.8</td>
</tr>
<tr>
<td>College</td>
<td>28.8</td>
</tr>
</tbody>
</table>

**Note:** Family income is family income at the time the student was aged 16. **Source:** Statistics Canada (2001).
substantial: de Broucker and Underwood (1998) found that Canadians with highly educated parents are 2.4 times more likely to obtain a post-secondary credential than are those whose parents have not completed high school, and that this polarization of educational achievement appeared to be growing over time, a finding confirmed more recently by Finnie et al. (2004b).10

Unfortunately, political debates about educational inequality have focused almost exclusively on the impact of rising tuition fees on access to post-secondary education. While the jury is still out on this issue, the most recent evidence suggests that, although the association between family income and university participation did get stronger in the early 1990s, when tuition fees first experienced substantial increases, it eased again later in the decade when borrowing limits were raised and other forms of financial assistance were increased. As a result, the relationship was no stronger in 1997 than it had been at the beginning of the decade (Corak et al. 2005). However, such debates distract from the core issues. While it is reassuring that tuition policy in the 1990s may not have actually made things worse, unequal participation at the university level was problematic well before the run-up in fees. Moreover, the focus on the post-secondary level misses the real action. The cumulative impact of social background emerges over the entire life cycle, and the toll exacted by social disadvantage begins much earlier.

Compensating for subtle social influences in the lives of children and young people is a difficult task. As Esping-Andersen observes, “we cannot pass laws that force parents to read to their children,” but we can seek to compensate through a major expansion of early childhood education, giving priority to children from vulnerable families (Esping-Andersen 2002, 49).

As we have seen, Canada has a long way to go in this field. But we also need to have realistic expectations. There has been a long history of compensatory intervention through Head Start in the United States and parallel programs elsewhere, and evaluations of such interventions have been decidedly mixed (Currie 2001). We have even less evidence about what works at later stages of the educational progress. A variety of programs have emerged in different countries to provide information, counselling, and financial incentives designed to encourage young people to stay in school and go on to post-secondary education. But such programs tend to be experimental in nature, and evaluations of them have been difficult and controversial. We are still finding our way here.

The bottom line is clear. The accident of birth still matters in the educational world, and a social policy premised on investment in human capital
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raises the policy salience of the education gap exponentially. Undoubtedly, enriched learning systems can help; equal access to high-quality early childhood education is an obvious place to start. However, effective action to reduce the socioeconomic gradient in educational attainment will require a wider range of policy instruments than purely educational ones. The cross-national relationship between economic and educational inequality suggests that a successful strategy of investing in human capital cannot be divorced from a continuing concern about inequality and poverty, especially child poverty. Here, Canada made no real progress in the last two decades of the twentieth century. The country’s child poverty rate in 2000, as measured by the Luxembourg Income Study, was 14.9 percent, virtually identical to the rate in 1980 (Table 13.1).

Intrinsic Limits: The Narrowness of Human Capital Instruments

Finally, it seems obvious but still important to note that strategies premised on the development of human capital miss many of the social needs of vulnerable groups who face a concentration of disadvantages that limit their participation in the mainstream of society. Single mothers and their children, recently arrived immigrants, people with disabilities, many homeless people with serious problems of substance abuse: these and others face a complex set of hurdles and require services and supports that go well beyond education and training. Most challenging of all, Aboriginal people face a unique set of cultural and economic challenges that are only partially met through educational strategies. An agenda of social inclusion of these marginalized groups will need to lean heavily on diverse sets of strategies and policy instruments.

In sum, the new paradigm in social policy faces formidable constraints. In practice, the transition to a new social policy is weakened by an uncertain collective commitment to human capital and problems of timing and sequence. Moreover, advocates of the new approach pay inadequate attention to the policy implications of the socioeconomic gradient in educational attainment and to the wide range of social problems that lie well beyond the reach of education and training.

Are We Dis-embedding Liberalism?

It is time to return to the questions with which we began. Canada has embraced the new social policy with enthusiasm. Income transfer programs have been restructured, and investment in human capital has been given pride of
place in policy rhetoric, if not in actual budgetary allocations. Is Canada updating its conception of social protection to accord with new economic realities? Or are we retreating from a collective commitment to economic security for the population as a whole? Are we re-embedding or dis-embedding liberalism?

On balance, it is difficult to avoid the conclusion that we have weakened the collective mechanisms of economic security. We have not fashioned adequate replacements, with the result that we are socializing fewer of the costs of adjustment to economic change. Canadian governments have embraced the first side of the new social policy paradigm, cutting and restructuring income-security programs in ways that reduce the levels of economic security assured to working-age Canadians. They have also been guilty of the sin of impatience, cutting transfers long before social investment strategies could possibly bear fruit. But a large question mark lingers over the second side of the contemporary social policy paradigm. Governments have proven readier to reduce income-security protections than to reinforce their commitment to education and training. Despite the heady rhetoric about a human capital society, our commitment to public investment in human capital is faltering, and the responsibility for investing in learning has been shifted in part to private shoulders. While the postwar generation sought to establish a right to economic security, as they understood that concept, our generation is moving away from the idea of a right to the sources of economic security as we have come to understand that concept in our time.

Even if the transition to a social investment strategy was well designed and governments were prepared to be patient investors, deeper problems remain. In contrast to the transfer programs, successful participation in educational and training systems is conditioned by complex social forces. A human-capital strategy is more accessible to families richly endowed with economic and cultural capital, and its advocates need to come to grips with the policy implications of the socioeconomic gradient in educational attainment. Education and training systems on their own cannot compensate fully for poverty, inequality, and the differences in cultural capital that parents bring to their children’s upbringing. On their own, education and training do not represent a pathway to economic security that is equally accessible to all Canadians. On their own, they do not represent the basis of a fair society. Cynics might conclude that the primary role of the new discourse on social policy has been to provide political cover for a stealthy retreat from the aspirations that underpinned Canadian social policy for generations. To dispel
this danger, Canadians need to engage in a much more critical reassessment of where we are going. It is time for a mid-course correction.

Learning remains central to the new economy, and an important agenda remains, especially in early childhood development and adult retraining. But learning is being asked to carry too much weight in the new social discourse. A social policy premised on human capital is likely to fail, even in its own terms, if growing economic inequality is followed by growing educational inequality. We are led inevitably back to a debate about redistribution. A successful strategy of investing in human capital cannot be divorced from a continuing concern for child poverty and inequality, and a coherent social agenda will depend on the integration of income redistribution and investment in human capital. The key challenge is one that is largely being ignored: to design a redistributive complement to a human-capital strategy, one that makes meaningful the promise of education as an instrument of economic security and compensates for its limitations.

In our current trajectory, Canadians are being asked to embrace new waves of economic openness without a coherent, collective approach to the issues of economic security. The transition is far from complete, and the eventual outcome remains contested. But one thing is clear: we’re not quite sure where we’re going. Yogi Berra would have understood.

ACKNOWLEDGMENTS
Earlier versions of this chapter were presented at meetings of the International Political Science Association, the Roundtable on Globalization, Governance, and Social Policy sponsored by Human Resources Development Canada, and the workshop of the Equality, Security and Community Project held at the University of British Columbia. I would like to thank participants in those seminars, as well as Ken Battle, Jane Jensen, Jonathan Kesselman, John Myles, John Richards, and Arthur Sweetman for their comments and insights. In addition, I wish to thank Ian Cummins, Erich Hartmann, and Suzanne Ma for excellent research assistance. A condensed version of this chapter appeared in December 2005 as Keith G. Banting, "Do We Know Where We Are Going? The New Social Policy in Canada," *Canadian Public Policy* 31(4): 421-30.

NOTES
1 In developing his concept of "embedded liberalism," Ruggie drew directly on Karl Polanyi's analysis of the "great transformation" in relations between market and society in the postwar era. Polanyi argued that society sought to protect itself from the insecurities inherent in the market through a "double movement" represented
by two organizing principles: “The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market ... [and] the other was the principle of social protection aiming at the conservation of man and nature” (Polanyi 1944, 131).

2 See Levitas (1996) for a critique of “social exclusion” as a much narrower concept than inequality. Concern over inequality more generally does creep into some versions of the new discourse in the form of a concern with “social cohesion,” and a fear that growing economic inequality will exacerbate major fault-lines in society and generate higher levels of conflict and instability. As Finlayson (1999, 276-77) argues, the ethics of equality in “third way” theory are not derived from concern with equality as a key principle, but, rather, with concern that high levels of inequality might erode the basis for a cohesive society.

3 In contrast to Europe, the new discourse in Canada has focused more on income transfers than employment legislation. According to the OECD, Canadian employment protection – both in the level of protection provided by law and in the prospects of having legal provisions actually enforced – is relatively close to the American pattern (OECD 1994b, 73). While this analysis may understate the importance of legislated notice requirements at the provincial level and consultative requirements that apply in cases of mass dismissals, Canadian employment protection laws are undoubtedly much less demanding than those in a number of European countries (Kuhn 1997). Considerable controversy did surround employment equity legislation during the 1990s, especially in Ontario and a number of other provinces (Bakan and Kobayashi 2000). With this exception, however, the primary political action was in the field of income transfers.

4 The decline in the proportion of unemployed receiving benefits also reflected changes in forms of employment, which decrease eligibility for the program. See Human Resources Development Canada (1998).

5 For a critique of the measure as overly sensitive to changes in unemployment, see Hicks (2002).

6 See Riddell (2001) for a useful summary of the evidence. On the particular problem of the high levels of non-completion of high school in Canada, see Parent (2001).

7 In the words of an OECD official, “Canada seemed to be more focused on child care rather than early development and learning ... It was some place for the children to go while the parents work rather than focusing on the children themselves and what do these children need” (quoted in Philp 2004).

8 I am especially indebted to comments from Jane Jenson and John Myles on the issues of sequence and timing.

9 Remarkably similar findings emerge from comparative studies that focus on the level of social mobility in industrial nations (Erikson and Goldthorpe 1992).
There is a large literature pointing to similar conclusions. See also Drolet 2005; Knighton and Mirza (2002); Finnie and Meng (2002); OECD and Statistics Canada (2000); Butlin (1999, 2000); Ryan and Adams (1999); and de Broucker and Lavallée (1998).

Gøsta Esping-Andersen advances a similar argument that “there is a tendency to rely too much on activation, make-work-pay and lifelong learning” and that a combined strategy of investment and redistribution is essential (2002, 66; also Esping-Andersen 2004). See also Scott (2005, 29-31).

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